# Why Salient Tactical Growth and Why Now?

Since the financial crisis of 2008–2009, U.S. equities have risen with very little downside volatility. Does a risk-managed tactical strategy still make sense in this stock market environment?

## Where are we now in the stock market cycle?

The Salient Tactical Growth Fund's objective is to produce above-average, risk-adjusted returns, in any market environment, while exhibiting less downside volatility than the S&P 500 Index. We believe providing long-term investment returns in line with equities while managing downside risk is even more important today.

- **Valuations** are high by any standards. Remember, the strongest economic numbers and peak earnings historically have occurred near stock market tops.
- **Monetary policy** is changing. The Federal Reserve (Fed) has been raising interest rates for three years and reducing its balance sheet. Eventually this policy of quantitative tightening may bite into the economy. We follow key principles from pioneering market analyst and investor Marty Zweig, including "don't fight the Fed."
- **Investor sentiment** has shown increased optimism. Margin debt, a measure of speculative demand for stocks, is now higher than it was at the 2000 and 2007 market peaks. As contrarians, we are wary when the crowd is optimistic.
- **Market momentum** measures are waning. The market has been led upward by fewer and fewer stocks. Despite the major averages being at or near all-time highs, only a little more than 50% of all stocks are either hitting new highs or above their 200-day moving averages.[1]

We believe that the stock market may be vulnerable to a significant correction at any time, comparable to or exceeding the corrections of the last decade.

## Has this stock market cycle been different?

The Fed's unusually accommodative monetary policy in recent years has had the effect of placing a floor below stock prices, which resulted in a long period of low downside volatility. Nonetheless, we have seen these types of extended market advances many times before. All full market cycles have included market corrections and, in some cases, bear markets. We believe the downside risk mitigation offered by a tactical strategy is an essential component of a strategic portfolio asset allocation.

## Should tactical strategies be adjusted for different environments?

Our investment team continually tests and retests our models to ensure they are still relevant. The challenge with tweaking the models is that our proven, time-tested process has historically worked well and is designed to add value over an entire stock market cycle. We strongly believe that our models are ideally suited to the markets we will see in the near future. As the markets potentially complete a full stock market cycle in coming years, we believe that the Salient Tactical Growth approach is particularly appropriate for multiple reasons:

1. **Market corrections may become more frequent** in coming years—in line with historical precedent. These corrections may no longer be artificially curtailed due to Fed intervention.
2. **Short selling may again become a valuable alpha-generating tool.** Marty Zweig's principle of "don't fight the Fed" has rendered the use of short sales largely ineffective since the 2008–2009 financial crisis. We expect this trend to change with the new Fed tightening policy, potentially increasing the value of Salient Tactical Growth's flexible strategy.
3. **We may see a bumpy ride back to rate normalization.** Increased global debt levels, less liquidity in the fixed-income markets, high-frequency trading, algorithm-based "artificial intelligence" trading models and large inflows into passive investments could all contribute to increased volatility.

©2018 Salient. All rights reserved.
800-994-0755
salientpartners.com

## Why now?

All market declines begin the same way: with a modest decline in stock prices. No one knows whether that shallow decline will be a small correction or the beginning of a major downside move. An investor who has enjoyed strong gains over the last decade may wonder if it even makes sense to adopt a tactical strategy. But investors who experienced the last financial crisis do not want to be subject to those types of risks again, and those close to retirement may not have time to make up a 50% market decline similar to 2008-2009. Keep in mind:

- The 2008–2009 stock market decline wiped out all the gains since 1995.
- The 1973–1974 stock market decline wiped out all the gains since 1958.
- The NASDAQ Composite fell 80% between 2000–2002 during the dot-com bubble. It took 15 years for the index to recover back to even.

The task of the Salient Tactical Growth strategy is to enhance downside risk mitigation, utilizing the investment tools at its disposal, aiming at positive performance during difficult times. The strategy helps investors keep their portfolios prepared for impending market downturns. The Salient Tactical Growth strategy has helped protect portfolios from larger declines that have occurred in recent years.

| S&P 500 Decline Period | Salient Tactical Growth Fund (FTGWX) | S&P 500 | Difference |
|---|---|---|---|
| 07/18/11 - 08/15/11 | -2.08 | -8.33 | **6.24** |
| 07/13/15 - 02/08/16 | -3.02 | -9.65 | **6.63** |
| 01/26/18 - 02/08/18 | -5.61 | -9.03 | **3.42** |

*Past performance does not guarantee future results.*

## Why Salient Tactical Growth?

We believe the Salient Tactical Growth Strategy may benefit long-term investors who want resilient portfolios in any market climate for multiple reasons.

- The Salient Tactical Growth Strategy has been run by the same portfolio manager since 2001, through multiple bull and bear markets.
- The strategy can be allocated up to 100% cash and can also be net short, unlike many other tactical strategies.
- The investment team continually assesses market conditions on a real-time basis with the ability to reallocate the portfolio on an intra-day basis.
- The portfolio invests in only the most liquid major market index ETFs and futures contracts.
- The fund has outperformed its peer group over the long term:

| | 3 Year | 5 Year | 7 Year | Since Inception* |
|---|---|---|---|---|
| **Salient Tactical Growth Fund (FTGWX)** | **4.54** | **4.72** | **4.49** | **3.90** |
| Morningstar Long/Short Equity Index | 1.06 | 2.55 | 2.17 | 2.73 |

*09/14/09. *Annual compounded returns as of 06/30/18.* ***Past performance does not guarantee future results.***

©2018 Salient. All rights reserved.

*You should consider the investment objectives, risks, charges and expenses of any mutual fund carefully before investing. The prospectus contains this and other information and is available, along with information about the series of funds under the Forward Funds trust ("Salient Funds"), by downloading one from www.salientfunds.com or calling 800-999-6809. The prospectus should be read carefully before investing.*

The series of funds under the Forward Funds trust ("Salient Funds") are distributed by Forward Securities, LLC. Forward Management, LLC d/b/a Salient is the investment advisor to the Salient Funds.

Performance as of 06/30/18. Gross/Net Expenses as of 05/01/2018: **1.60%**/1.60%

| | Q2 | YTD | 1 YR | 3 YR | 5 YR | Since Inception* |
|---|---|---|---|---|---|---|
| Salient Tactical Growth Fund (FTGWX) | 0.48 | -0.80 | 5.38 | 4.54 | 4.72 | 3.90 |
| S&P 500 Index | 3.43 | 2.65 | 14.37 | 11.93 | 13.42 | 13.79 |
| Morningstar Long/Short Equity Index | 0.09 | -0.63 | 4.00 | 1.06 | 2.55 | 2.73 |

* 09/14/09. Returns for periods greater than one year are annualized.

*The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data quoted. The return metrics are for the Salient Tactical Growth Fund Institutional Class Shares (FTGWX). The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month-end may be obtained at www.salientfunds.com. Investment performance may reflect fee waivers in effect. In the absence of fee waivers, total return would be lower. Total return is based on NAV, assuming reinvestment of all distributions. Performance does not reflect the deduction of taxes that a shareholder would pay on fund distributions or the redemption of fund shares.*

Index performance is shown for illustrative purposes only and does not reflect the payment of advisory fees and other expenses associated with an investment in a mutual fund. Investors cannot directly invest in an index. The performance shown is for the stated time period only; due to market volatility, each account's performance may be different.

**RISKS**

There are risks involved with investing, including loss of principal. Past performance does not guarantee future results, share prices will fluctuate and you may have a gain or loss when you redeem shares.

Borrowing for investment purposes creates leverage, which can increase the risk and volatility of a fund.

The fund will hold at times a portion of its assets in cash/cash equivalents. During a rising stock market, this strategy could have a negative effect on the fund's ability to achieve its investment objective. The fund will indirectly bear a share of a money market fund's expenses if utilized, in addition to the operating expenses of the fund, which are borne directly by fund shareholders.

Debt securities are subject to interest rate risk. If interest rates increase, the value of debt securities generally declines. Debt securities with longer durations tend to be more sensitive to changes in interest rates and more volatile than securities with shorter durations.

Derivative instruments involve risks different from those associated with investing directly in securities and may cause, among other things, increased volatility and transaction costs or a fund to lose more than the amount invested.

Investing in exchange-traded funds (ETFs) will subject a fund to substantially the same risks as those associated with the direct ownership of the securities or other property held by the ETFs.

Foreign securities, especially emerging or frontier markets, will involve additional risks including exchange rate fluctuations, social and political instability, less liquidity, greater volatility and less regulation.

To the extent that the fund makes investments on a shorter-term basis the fund may as a result trade more frequently and incur higher levels of brokerage fees and commissions.

Short selling involves additional investment risks and transaction costs, and creates leverage, which can increase the risk and volatility of a fund.

Investing in smaller companies generally will present greater investment risks, including greater price volatility, greater sensitivity to changing economic conditions and less liquidity than investing in larger, more mature companies.

Alternative strategies typically are subject to increased risk and loss of principal. Consequently, investments such as mutual funds which focus on alternative strategies are not suitable for all investors.

Diversification does not assure profit or protect against risk.

Definition of terms

**Alpha** is a technical risk ratio that shows a fund's excess return relative to the performance of its benchmark index.

**High-frequency trading (HFT)** is a program trading platform that uses powerful computers to transact a large number of orders at fractions of a second using complex algorithms to analyze multiple markets and execute orders based on market conditions.

**Morningstar Long/Short Equity Index** is an equal-weighted index that measures the average performance of all funds in Morningstar's long/short equity category.

**NASDAQ Composite Index** is a capitalization-weighted index designed to measure the performance of 3,000 stocks listed on the Nasdaq exchange, which includes large technology and biotech companies.

**S&P 500 Index** is an unmanaged index of 500 common stocks chosen to reflect the industries in the U.S. economy.

**Valuation** is the process of determining the value of an asset or company based on earnings and the market value of assets.

**Volatility** is a statistical measure of the dispersion of returns for a given security or market index.

Not FDIC Insured | No Bank Guarantee | May Lose Value

FSD003061 063019

[1] Source: Ned Davis, as of 07/31/18.

©2018 Salient. All rights reserved.