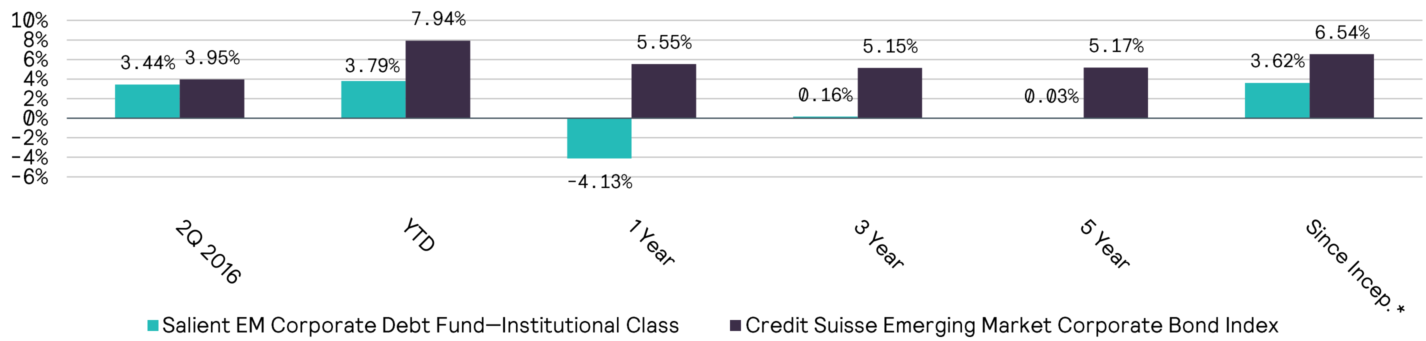
# 2016 Second Quarter Portfolio Review

## Fund Overview

The fund seeks to capitalize on inefficiencies in the emerging market corporate bond market by investing in euro- and U.S.-dollar-denominated securities and securities denominated in other currencies, including currencies of emerging market countries. The fund typically invests in at least 10 emerging market (EM) countries. Portfolio duration is typically within a range of plus or minus three years of the benchmark.




Gross/Net Expenses: **1.39%** / 1.39%

Returns for periods greater than one year are annualized.

* 10/05/07

*The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data quoted. 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.*

## Market Overview

The second quarter of 2016 began with a continuation of a broad market rally that started in mid-February amid less hawkish rhetoric from the Federal Reserve (Fed) and culminated with the historic Brexit referendum vote.

Among U.S. equities, both large caps and small caps, as represented by the S&P 500 and Russell 2000 indices, ended the quarter up 2.46% and 3.79%, respectively. Emerging market equities edged slightly upward to finish the quarter at 0.78%. Commodities largely continued their rally during the quarter, with West Texas Intermediate crude oil up 26.06% and natural gas up 49.26%. Sovereign yields fell nearly across the board, with the U.K. 10-year government bonds down -0.55% and the 10-year U.S. Treasury Note down -0.30%. The high yield market rallied during the quarter, returning 5.18%, and the real estate investment trust market (REITs), as represented by the S&P 500 U.S. REIT Index, jumped 5.98%.

In May, Federal Reserve (Fed) chair Janet Yellen cited continued improvement in the economy as support "to gradually and cautiously increase our overnight interest rate over time, and probably in the coming months such a move would be appropriate." In the short term, these comments were widely anticipated and were accompanied by a strengthening dollar and weakening gold prices as market participants perceived the Fed to be moving toward a more restrictive policy stance. However, by early June, Yellen voiced her concern about several weak jobs reports and the Fed left rates unchanged at the June 15 meeting.

Market volatility climbed significantly immediately following the Brexit decision on June 23. Most asset classes initially retreated then regained most of their losses over the course of the following week. Sovereign debt represented the one notable exception to the overall retracement of the pre-referendum trading levels. Following the vote, sovereign debt yields in the U.S., U.K., Germany and Japan all continued to decline through the end of the month.

## Portfolio Overview

Salient EM Corporate Debt Fund Institutional shares returned 3.44% during the quarter versus a return of 3.95% for the Credit Suisse EM Corporate Bond Index. The fund's relative performance was negatively impacted by security selection within the energy sector, within non-rated securities and within the countries of Colombia, Mexico and Russia. Contributing to relative performance was security selection within the basic materials and communications sectors. Underweighting financials and overweighting high-yield bonds, as well as Argentine and Venezuelan credits, added to relative performance. The fund's largest detractors were Tristan Oil (Kazakhstan, energy), Odebrecht (Brazil, construction), Grupo Famso (Mexico, retail/banking), Latina Offshore (Mexico, energy) and Bantrab (Guatemala, banking). The fund's five best performers were Gol Luxco (Brazil, airlines), Trilogy (Bolivia, telecommunications), BCP Singapore (China, software), First Quantum (Zambia, mining) and Petrobras (Brazil, energy).

Although currency hedges (short EM currency/long U.S. dollar) added to performance, the fund's direct non-U.S. dollar currency exposure was less than 5% for most of the quarter. In addition to the U.S. dollar, the fund held euro- and Russian ruble-denominated positions. Some of the fund's holdings are indirectly exposed to currency movements since more of our companies' expenses are denominated in U.S. dollars than revenues. The fund's U.S. dollar-denominated bond holdings were 97.90% at the end of the quarter.

Beginning in March, the fund began to tilt industry sector exposures toward industrials and consumer sectors, such as telecom and transportation. The fund remains underweight basic materials while we wait for more balance sheet repairs to align with the present environment. Certain secured first-lien energy project bonds are attractive. However, the fund remains neutral towards the energy sector overall. Financials, which in many countries have been slow to recognize loan problems, remain the fund's largest underweight, especially in Brazilian, Chinese and Middle Eastern banking names. Argentina remains the fund's largest country overweight as political change should continue to spark a renaissance in the country after nearly 15 years of capital investment deprivation. China remains the fund's largest country underweight, as most names are not priced for a possible sharp currency devaluation or growth slowdown. The fund will continue to favor high-yield bonds and de-emphasize those securities more sensitive to U.S. interest rates.

## Investment Outlook

Emerging market countries, and the companies that operate within them, face a number of headwinds. Subdued or recessionary economic conditions, weak currencies and numerous country-specific political situations could restrain EM returns in the near term, especially if commodities begin to retrace some of their recent highs. Unlike most fixed-income sectors, emerging market corporate debt valuations do not appear stretched, even after their strong first-half performance and recent uptick in default rates. In the absence of tail risks, such as a global recession, major currency shock or banking crisis, yields should remain fair compared with developed countries' yields and historical EM valuations. Soft U.S. economic growth, with the possibility of recessionary conditions in 2016, provides little risk for meaningfully higher U.S. Treasury rates. This macrocosmic backdrop is supporting prices for higher quality, dollar-denominated emerging market bonds that exhibit more correlation to U.S. rates. A challenged global environment, a fractured Europe and a dangerous Middle East, will likely combine to keep central banks providing ample liquidity, which is supportive for dollar-denominated bond prices for most emerging market countries.

Similar to 2015 and the first half of 2016, there should be continued meaningful performance divergence among sector and country returns in the second half of 2016. Though many fundamental issues remain unresolved and could temporarily worsen, we believe it is an appropriate time for investors to add to emerging market corporate debt allocations. As investors witnessed this quarter in Argentina and Brazil, which returned 7.53% and 8.47%, respectively, positive performance often precedes any visible improvement in fundamentals. Other than transitional political situations in Argentina and Brazil, the growing numbers of credits transitioning to high yield at large price discounts—so called "fallen angels"—offer the best value, especially quasi-sovereigns. Forced index selling and poor investor sentiment in the early part of the year led to several fallen angels trading down to levels at which many short-term maturity bonds offered yields above 10%. While many credits have recovered sharply from the lows, several still offer attractive yields. At the lower end of the credit spectrum, many single-B-rated bonds with sustainable businesses and compelling long-term growth prospects are yielding above 15%, often with access to viable sources of liquidity. Although the U.S. dollar is beginning to look stretched against some EM currencies, the Fund will remain primarily dollar-denominated. However, the Fund has been adding to cyclicals and consumer discretionary names, which have large local currency/dollar mismatches and stand to benefit the most from a recovery in certain emerging currencies, such as the Brazilian real.



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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.

Salient EM Corporate Debt Fund seeks to achieve high total return (capital appreciation and income).

**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.

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.

Investing in lower-rated ("high yield") debt securities involves special risks in addition to those associated with investments in higher-rated debt securities, including a high degree of credit risk.

Definition of Terms

**Credit Suisse Emerging Market Corporate Bond Index** consists of U.S. dollar-denominated fixed-income issues from Latin America, Eastern Europe and Asia.

**Duration** is a measure of the sensitivity of the price of a fixed-income investment to a change in interest rates and is expressed as a number of years.

**Federal funds rate** is the interest rate at which a depository institution lends immediately available funds to another depository institution overnight.

**Russell 2000 Index** measures the performance of the 2,000 smallest companies in the Russell 3000 Index. The Russell 3000 Index represents approximately 98% of the investable U.S. equity market.

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

**S&P U.S. REIT Index** defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The index was developed with a base level of 10 for the 1941-43 base period. This is a GICS Level 3 Industries.

**Single-B** is a Moody's long-term credit rating that reflects a bond issuer's likelihood of default on contractually promised payments and the expected financial loss suffered in the event of default. A single-B rating indicates obligations are considered speculative and are subject to high credit risk.

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

One cannot invest directly in an index.

Prior to May 1, 2016, Salient EM Corporate Debt Fund was named Forward EM Corporate Debt Fund

Not FDIC Insured | No Bank Guarantee | May Lose Value

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| Security | % of Net Assets | Security | % of Net Assets |
|---|---|---|---|
| Gol LuxCo SA, Sr. Unsec. Notes | 3.84% | Neptuno Finance, Ltd., First Lien Notes | 2.88% |
| PSOS Finance, Ltd., First Lien Notes | 3.43% | Four Finance SA, Sr. Unsec. Notes | 2.74% |
| Tristan Oil, Ltd., Sec. Notes | 3.08% | Latina Offshore, Ltd., First Lien Notes | 2.60% |
| Petrobras Global Finance BV, Sr. Unsec. Notes | 3.05% | Sealane Trade Finance, Series 2015-1, Class A | 2.59% |
| Trilogy International Partners LLC / Trilogy International Finance, Inc. | 3.05% | SAN Miguel Industrias Pet SA, Sr. Unsec. Notes | 2.42% |