2019 Second Quarter Portfolio Review

Investment Objective
Salient International Small Cap Fund seeks long-term growth of capital. The fund employs a bottom-up approach that combines fundamental and quantitative analysis to build a focused portfolio of international small cap companies with strong profitability and growth potential.

Portfolio Management
Sub-advised by
Henry James International Management
James O'Leary, CFA
Chief Investment Officer,
Senior Portfolio Manager
31 Years Experience

Aidan O'Leary
Vice President Equities
7 Years Experience

Inception Date
February 7, 1996

Net Assets
$44.05 M (as of 06/30/19)

Fund Details

Share Class	Inception Date	Ticker
Investor	03/05/02	PISRX
Institutional	02/07/96	PTSCX

Performance

Salient International Small Cap Fund (PTSCX) returned 5.25% during the month of June and 1.86% for the second quarter, while the fund's primary benchmark, the MSCI EAFE Small Cap Index, returned 4.29% for the month of June and 1.92% for the second quarter.

During the quarter, portfolio positions in the Netherlands, United Kingdom, Japan, Hong Kong, Singapore, Sweden and Denmark benefited the fund's performance. However, stock selection and/or country weightings in Norway, France, Ireland, Italy, Luxembourg and Australia hindered performance. In terms of sectors, positions in industrials, consumer staples, communication services and energy aided performance. Sector positions in consumer discretionary, financials and information technology detracted from the fund's return. Total holdings were reduced from 68 global equities to 58 during the quarter.

The top three contributors to performance during the second quarter were: Kobe Bussan Co., Ltd., a Japanese food production and distribution firm that was up 27.93% and contributed 92 basis points (bps) to the total fund return; TKH Group, an information, telecommunication, electronic engineering and industrial production firm that was up 35.80% and contributed 62 bps to the fund's total return; and REA Group Ltd, a firm focused on property and property-related services on websites and mobile apps across Australia and Asia that was up 27.01% and contributed 52 bps to the fund's total return. The three worst performers were: Link Administration Holdings Ltd, an outsourced administration service firm that was down -33.07% and detracted -83 bps from the fund's total return; AEON Delight Co., Ltd, a comprehensive business facility management service company that was down -23.94% and detracted -61 bps from the total portfolio return; and Dalata Hotel Group Plc, an Irish and U.K. hotel holding company that was down -17.88% and detracted -46 bps from the fund's total return.

The table below shows our results for both the quarter and longer term.

	Fund* (PTSCX)[1]	Market (MSCI EAFE Small Cap Index)	Market (MSCI EAFE SMID Cap Index)
Q2 2019 (as of 06/30/19)	1.86%	1.92%	2.65%
1 Year to 06/30/19	-5.60%	-5.97%	-3.86%
3 Years to 06/30/19	8.62%	9.48%	9.35%
5 Years to 06/30/19	4.24%	4.78%	4.34%
10 Years to 06/30/19	8.66%	10.04%	9.19%
Since Inception	7.91%[2]	5.96%	5.99%

Returns for periods greater than one year are annualized. Total Annual Fund Operating Expenses by Share Class as of 05/01/19: Investor Class: **1.90%**; Institutional Class: **1.55%**. Under an expense limitation agreement, the investment advisor has contractually agreed to waive its management fee and/or reimburse or pay operating expenses of the fund to the extent necessary to maintain the fund's total operating expenses at 1.55% for Investor Class and 1.20% for Institutional Class shares, excluding certain expenses, such as taxes, brokerage commissions, interest, short dividend expense, any acquired fund fees and expenses, litigation and extraordinary expenses. This expense limitation agreement expires on April 30, 2020, and may only be modified or terminated by a majority vote of the independent trustees. The advisor is permitted to recover waived expenses for a period of up to three years.

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.

[1] Institutional Class @NAV
[2] Inception Date of 02/07/96

Market Comments

There is a lot of turmoil facing global markets these days, but — despite a shaky May — two quarters into 2019 there is a lot to be positive about. So far this year, we have seen a great deal of drama involving the world's two superpowers on the verge of a bare-knuckle trade war. Despite the many reasons to be pessimistic, year to date (YTD), markets have performed really well: developed market (DM) equities were up a roaring 14.49% as measured by the MSCI EAFE Index; emerging market (EM) equities stiff-armed 2018's woes, up 10.76% as measured by the MSCI Emerging Market (EM) Index; and the MSCI World ex USA Small Cap Index was up an impressive 13.22%. For the second quarter, the MSCI EAFE (+3.97%), the MSCI EM Index (+0.74%) and the MSCI World ex USA Small Cap (+1.97%) all landed in positive territory. Both the YTD and second quarter figures have stellar performance in June to thank for such positive returns, as June clawed back the devastation wreaked by May with the MSCI EAFE up 5.97%, the MSCI EM up 6.32% and the MSCI World ex USA Small Cap up 4.59%.

Just as 2019's second fiscal quarter transitioned to its third, U.S. President Donald Trump was behind the scenes at the G20 summit with his Chinese counterpart President Xi Jinping banging out a shiny new trade truce. The truce was unveiled on July 1st and markets erupted in elation, but, they were brought back down to earth when everyone realized that "trade truce" does not actually mean a sweeping resolution to the damaging trade dispute, nor does it end the costly tariffs both sides have enacted on the other's goods. Moreover, Chinese tech giant Huawei remains a blacklisted company in the U.S. and President Trump has not exactly signaled that he will back down from his desire to see his allies also eradicate Huawei technology from their borders. And yet, there were goodwill overtures galore, including Trump agreeing to ease restrictions on Huawei's U.S. technology purchases and to halt a fresh round of tariffs that would hit another $300 billion worth of Chinese goods. President Xi Jinping responded with positive gestures of his own, promising to purchase an unspecified amount of U.S. farm products and to resume trade talks immediately.

It seems that Trump has frightened Mexico's President Andrés Manuel López Obrador (AMLO) into submission through the threat of quickly escalating tariffs, the new free trade deal known as the United States-Mexico-Canada Agreement (which is agreed to but not yet ratified), notwithstanding. While early June was a worrying period for markets impacted by U.S.-Mexico trade, normality resumed when Trump called off the 5% tariff on all Mexican goods on June 8th. As a result of this spectacle, trade along the southern U.S. borders seems stable for both countries, but one wonders about the impact that such blatant disregard of free trade agreements may have on the way in which other nations (chiefly China) view the value of a trade deal with the U.S.

June saw the U.S. and Iran on the brink of genuine military conflict when on Thursday, June 20, 2019, President Trump called off an air strike on three Iranian targets. It is reported that the mission was aborted at the last moment as the president was advised that the strike would cause upward of 150 casualties, which was deemed a disproportionate response to Iran shooting down a U.S. drone. U.S.-Iranian tensions had already been at boiling point ever since an incident in the Gulf of Oman involving two oil tankers, which the U.S. says were victims of an Iranian mine attack, which the Islamic Republic has vehemently denied. Far from being on the mend, since then U.S.-Iranian relations have only worsened and Iran has taken dramatic steps to put pressure on the rest of the international community to re-embrace it: on Monday, July 1st Iran declared that it breached the 300-kilogram limit for low-enriched uranium that was agreed in the Iran nuclear deal. Iranian President Hassan Rouhani warned on July 3rd that Iran would also be increasing its enrichment capacity to above the pre-agreed limits, too, and the nation would not comply with the agreement unless it received relief from U.S. sanctions provided by the other signatories.

Despite President Trump increasing pressure on the Federal Reserve (Fed) to slash interest rates, Fed Chair Jerome Powell seemed unperturbed and announced that he would keep rates unchanged — between 2.25% and 2.50%. Trump has been a critic of Powell on Twitter and has apparently been privately threatening to fire him for failing to lower interest rates. Trump denies this rumor and Powell says he fully intends to serve his full four-year term as the Federal Reserve's Chair; moreover, the president sacking Powell would be an unprecedented action that almost certainly does not have a legal basis.

In Britain the final two candidates for Conservative Party leader and Theresa May's replacement as prime minister (PM) are Boris Johnson and Jeremy Hunt. While both candidates appear to be lusting after the highest office in Britain, the winner will inherit a government that simply does not have the parliamentary math to resolve the most pressing topic: Brexit. Johnson — who is by far the favorite candidate — says that, while a no-deal Brexit is not ideal, he will push Britain out of the European Union (EU) on October 31, 2019, no matter what. His rival Hunt — who campaigned for Britain remaining in the European Union during the 2016 referendum — said he would deliver Brexit but would be open to extending the deadline if a deal was nearly complete. The EU and its parliament are essentially closed for the summer, which means that when business resumes, it will be very difficult for whoever wins the leadership contest to have the required time to renegotiate a Brexit deal; besides which, the EU has already confirmed that it was Mrs. May's deal or no deal at all.

Investment Outlook

According to James O'Leary, chief investment officer and senior portfolio manager at Henry James International Management (HJIM), the trade sanctions for which President Trump has become so partial have become the greatest headwind to global markets, specifically the uncertainty it forces the U.S. economy and its businesses and consumers to face. "When there is uncertainty, long-term investments are not made. This slows economic growth as investment into the future is not made and decisions are deferred," O'Leary says. Among other items, this has a significant effect on job creation and retention, which subsequently affects the consumer spending power that drives the economy. O'Leary points to two sectors that have been dealt unenviable blows by the tariff uncertainty: agriculture and technology. The former has been a victim of the U.S.-China dispute as Beijing has dramatically reduced its purchases of soybeans and other items in response to U.S. tariffs; the latter, namely Qualcomm and Intel, has seen it coerced to end selling computer parts to China by way of a Trump executive order.

While there is clearly much lasting damage that a prolonged trade dispute would do to the American economy, the positive news is that the sting will eventually subside as supply chains are moved away from China and to other EM economies like Vietnam, India and Myanmar. While China boasts the ability to manipulate its monetary policy in a way envied by Trump, O'Leary believes that China is in a more precarious situation than the U.S. because once American businesses move their supply chains away from China there will be minimal incentive to move them back, even after a trade deal has been realized. "The problem for China," says O'Leary, "is that there is a chance that these losses will be permanent." He continues: "There is a positive for other EM countries who inherit this manufacturing as it may help increase longer-term economic growth. It is also a positive for the U.S. in that production will have been diversified away from China." Despite this, O'Leary believes that President Xi Jinping will simply wait out the end of the Trump presidency to see if he can get a better deal from a less bellicose Democratic president who may well assume the keys to the White House in 2021, especially since China does not suffer from the inefficiencies of party politics and since Xi Jinping and his party arguably have time on their side.

Despite the market anxiety of the eight-day period during which Mexico faced escalating U.S. tariffs, both countries appear to have emerged on the other side of what could have been a fraught trading relationship. Mexican President “AMLO” came into office on the back of some bold and ambitious economic promises to his electorate; despite this, the economy over which he presides has been doing very poorly. Mexican gross domestic product (GDP) shrank by 0.2% in the first quarter of 2019 from the previous three months, which was below estimates a panel of economists surveyed by Bloomberg predicted. Mexico is in dire straits and the threat of tariffs offered a layer of instability that AMLO could have done without. Consequently, O’Leary believes that AMLO will do anything — within reason — to stay on Trump’s good side to avoid any future tariffs.

According to O’Leary, the industry most affected by the threat of tariffs was the automobile sector, which experienced plenty of equity volatility in June. European, Japanese and even American car manufacturers have opened up factories “south of the border” to take advantage of the reduced cost of doing business in Mexico. While Trump’s tariffs were almost completely political in nature and focused squarely on immigration concerns, O’Leary is fascinated by a certain hypothetical: he imagines a scenario in which tariffs are enforced, which could compel car companies to bring their factories from Mexico to within America’s borders. Such a situation, which would no doubt be beneficial for the U.S. economy, would face Mexico with one issue with which AMLO is not currently dealing: high unemployment. Historically, higher Mexican unemployment means heightened illegal migration through the U.S.-Mexico border so one wonders which political goal is the more salient for Trump: U.S. manufacturing and jobs or thwarting illegal immigration?

Despite the roaring headwinds caused by tariff-induced uncertainty, at HJIM our unbiased and disciplined country allocation system allows us to ignore the noise and focus on the facts with which our data present us. Our research is currently bullish on France, Germany and Sweden, as well as Latin America and Asia. According to O’Leary, our quantitative stock selection process will continue to flow in this direction.

The saber-rattling between the U.S. and Iran has caught our attention, but only in so far as it is increasing our exposure to energy stocks. “The combination of reduced OPEC production and restricted supply from Iran has caused the price of oil to increase,” says O’Leary. He believes that as long as the conflict persists, the price of oil will stay up. While HJIM is happy to enjoy the gains from rising oil prices, we believe the downside is that expensive energy will negatively impact global economic growth and put pressure on consumers and businesses.

Despite O’Leary closely monitoring the Fed’s near-complete about-face when it comes to their projected monetary policy, he says that HJIM has not had to change its own strategy as a result; rather, our quantitative growth strategy and targeted data analysis guides us safely through “bumpy stock market terrain.” According to O’Leary, this remains the case even in recession: “We generally underperform at the initial market drop and recover after a few months as valuations normalize. The portfolio naturally moves to a more defensive posture over time in a bear market while keeping its growth bias.”

O’Leary believes that Powell will keep interest rates flat for the rest of 2019 and probably for 2020, too. While Republicans and President Trump may be keen to see interest rates lowered to spark the economy into high gear ahead of the 2020 election, according to O’Leary, to see the effects of compromising the independence of a country’s national bank, one only has to look to Venezuela and Turkey. “There seems to be a power struggle between Trump and the Federal Reserve Board,” says O’Leary. “The Federal Reserve is supposed to be set up to serve the long-term interests of the USA, whereas Trump wants it to serve his interests.” O’Leary says that in 2018 the Fed’s medium-term goal was to increase interest rates steadily so that when the next recession comes, they would have some stimulus tools, such as lowering rates, available to deal with it. However, with such unstable market conditions, mostly due to tariffs and other trade issues, Powell may have to live with the existing cushion of 2.50%. O’Leary adds: “If the economy remains strong there will be an upward interest rate bias to hold inflation down while maintaining orderly growth.” However, if future rising interest rates cause Trump to get into a battle with Powell, the American people will become the big losers, says O’Leary. In the event that rates are maintained at 2.50% — or are even lowered — EM economies may benefit tremendously as low interest rates allow them to borrow in U.S. dollars (USD) at a low borrowing rate. Of course, this comes with a significant risk: a strong USD against a weak EM currency can cause major problems in repaying loans, which can result in defaults and bankruptcies.

Regarding Brexit, O’Leary says that he sees no good solutions on the horizon. “Once uncertainty entered the British economy prior to Brexit our system made us reduce our exposure to the U.K. and it has remained underweight relative to [the MSCI] EAFE,” he says. The U.K. equities to which HJIM has exposed its portfolios receive a greater portion of their revenue from outside the U.K. rather than being orientated to domestic companies. According to O’Leary, in the short term, the question is not whether or not Brexit is a wise move for the U.K. as much as it is the case that it has created raging market uncertainty with dire consequences. He says: “We believe the U.K. will underperform until there is certainty; once there is certainty, U.K. equities will lag until it is clear whether or not the resolution to the mess that is Brexit is determined to be good or bad for the U.K. economy.” In short, we believe difficult days lie ahead for U.K. equities.

In summary, with half of 2019 in the books there are clearly plenty of headwinds to keep investors up at night, but such anxiety belies the many reasons for optimism, not least of which are the markets’ apparent ability to breeze past the geopolitical turmoil that can subdue them. Moreover, we believe that our quantitative strategy for growth gives HJIM the ability to perform well relative to the benchmark in all market conditions.

We welcome any questions or comments. As always, we thank you for your confidence and trust.

Performance (%) as of 06/30/19

	Q2	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception
Investor	1.86	13.96	-5.90	8.24	3.89	8.29	8.28
Institutional¶	1.86	14.12	-5.60	8.62	4.24	8.66	7.91
MSCI EAFE Small Cap Index	1.92	12.88	-5.97	9.48	4.78	10.04	-
MSCI EAFE SMID Cap Index	2.65	13.51	-3.86	9.35	4.34	9.19	-

Returns for periods greater than one year are annualized. Total Annual Fund Operating Expenses by Share Class as of 05/01/19: Investor Class: **1.90%**; Institutional Class: **1.55%**. Under an expense limitation agreement, the investment advisor has contractually agreed to waive its management fee and/or reimburse or pay operating expenses of the fund to the extent necessary to maintain the fund's total operating expenses at 1.55% for Investor Class and 1.20% for Institutional Class shares, excluding certain expenses, such as taxes, brokerage commissions, interest, short dividend expense, any acquired fund fees and expenses, litigation and extraordinary expenses. This expense limitation agreement expires on April 30, 2020, and may only be modified or terminated by a majority vote of the independent trustees. The advisor is permitted to recover waived expenses for a period of up to three years.

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Top 10 Holdings as of 06/30/19

Security	% of Net Assets
Kobe Bussan Co., Ltd.	4.63%
Pan Pacific International Holdings Corp.	3.02%
OZ Minerals, Ltd.	3.00%
Valmet OYJ	2.95%
Kenedix Retail REIT Corp.	2.84%
REA Group Ltd.	2.65%
Coor Service Management Holding AB	2.63%
Husqvarna AB, Class B	2.62%
Japan Hotel REIT Investment Corp.	2.62%
Keppel DC REIT	2.60%

These holdings may not reflect the current or future positions in the portfolio.

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.

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.

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 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.

TERM DEFINITIONS

Basis point (bps) is a unit of measure that is equal to 1/100th of 1% and used to denote a change in the value or rate of a financial instrument.

MSCI EAFE (Europe, Australasia and Far East) Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

MSCI EAFE Small Cap Index is an unmanaged market-weighted index that measures equity market performance of small companies in developed markets, excluding the U.S. and Canada.

MSCI EAFE SMID Cap Index is a market-weighted index that measures equity market performance of small- and mid-sized companies in developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

MSCI World ex USA Small Cap Index is a free float-adjusted market capitalization index designed to measure small cap equity performance of developed markets, excluding the United States.

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

One cannot invest directly in an index.

As of August 31, 2018, Henry James International Management, Inc. became the sub-advisor to Salient International Small Cap Fund.

James O'Leary has earned the right to use the Chartered Financial Analyst designation. CFA Institute marks are trademarks owned by CFA Institute.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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