

## 2019 Fourth Quarter Portfolio Review

**Investment Objective**

Salient Select Income Fund seeks high current income and the potential for modest long-term growth of capital by investing in a portfolio of senior securities and high-income equities primarily issued by real estate investment companies. While the fund's focus is on real estate investment trust (REIT) preferred securities, its allocation among preferred stocks, common stocks and bonds may shift in response to market conditions.

**Portfolio Management**

Joel S. Beam  
 Managing Director, Senior Portfolio Manager  
 26 Years Experience

**Inception Date**

March 30, 2001

**Net Assets**

\$460.01M (as of 12/31/19)

**Morningstar Category**

Preferred Stock

**Fund Details**

Share Class	Ticker	Inception
Investor	FFSLX	10/26/11
Institutional	KIFYX	04/28/06
Class A	KIFAX	03/30/01
Class C	KIFCX	03/30/01

**Investment Overview**

The fund offers access to a professionally managed portfolio of preferred shares and senior securities that provide income-oriented investors an opportunity to own the preferred equity and bonds of public real estate companies at attractive yields.

- The fund also invests in high-yielding REIT common stocks and may seek opportunities in small capitalization REITs, as well as utilize portfolio leverage in pursuit of its objectives. While the focus is on preferred/senior securities, the allocation may shift based on market conditions.
- The portfolio employs a rigorous, repeatable, bottom-up investment approach that incorporates both quantitative and qualitative analyses of companies' cash flow, assets and management to identify securities with the most risk-adjusted appreciation potential.
- The portfolio adjusts to changing market fundamentals through sector and geographic rotation, employs active stock selection and leverages the team's experience in real estate security portfolio management.

**Performance (as of 12/31/19)**

Salient Select Income Fund's Class A shares produced a total return of 0.70% for the fourth quarter of 2019. The fund underperformed its benchmark, the ICE BofAML Fixed Rate Preferred Securities (ICE BofAML) Index, which returned 2.00%, as well as the Wells Fargo Hybrid and Preferred Securities REIT (WHPSR) Index, which returned 0.90%.

	Q4 2019	YTD	1 Year	3 Years	5 Years	10 Years	Since Inception (03/30/01)
Fund* (KIFAX)	0.70%	18.12%	18.12%	3.02%	4.19%	8.78%	8.09%
ICE BofAML Index	2.00%	17.71%	17.71%	7.58%	6.51%	7.44%	4.66%
WHPSR Index	0.90%	19.27%	19.27%	7.19%	6.27%	8.76%	8.21%

Gross Expenses/Expense Limitation Agreement: **1.82%** / 1.55%

Returns for periods greater than one year are annualized.

\* Excludes sales charge.

*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](http://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 Review

In the fourth quarter of 2019, we saw generally positive performance throughout the markets, especially for risk assets. For instance, the S&P 500 Index and the NASDAQ Composite Index returned 9.07% and 12.49%, respectively, in the fourth quarter. Real estate companies in developed markets outside the U.S., as represented by the FTSE EPRA/NAREIT Developed ex-U.S. Index, also posted positive results in the fourth quarter, returning 5.68%. However, U.S. REITs, as represented by the FTSE NAREIT Equity REITs Total Return Index, returned -0.76% during that same time period.

It is important to note that REITs continued to pay robust dividends on both common and preferred stocks. At quarter-end, the yield from investing in REIT preferred stocks was approximately 6.39% and the yield available from REIT common stocks was approximately 3.92%. This means that real estate stocks continued to serve one of their primary purposes: providing consistent, enduring, periodic income.

With current yields averaging 6.39%, the REIT preferred universe is priced with about 447 basis points (4.47%) of spread over the 10-Year U.S. Treasury.<sup>1</sup> Given that the 10-Year U.S. Treasury closed the year with a yield of 1.92%, we believe the current spread is wide relative to long-run trends and indicates room for the 10-Year U.S. Treasury to rise by some reasonable amount (perhaps 50–100 basis points) without leading to sustained pricing adjustments in our portfolio. Of course, if interest rates were to rise more than 50–100 basis points or if something disrupts the market for credit-oriented or risk-free instruments generally, including U.S. Treasury securities, we could face price risk in our preferred portfolio. At bottom, and in the context of consistent credit performance, REIT preferred stocks are arguably a good value from a spread point of view, with nominal yield looking attractive as well.

Issuance of new securities (including common stock, bonds and especially preferred stock) continued apace in the fourth quarter, with five new preferred transactions coming to market. We view the momentum in new issuance as a sign of transition, as evidenced by the yield on the 10-year U.S. Treasury moving from 2.41% at year-end 2017 to 3.24% in early November 2018 and back down to 1.92% at December 31, 2019. We believe companies are opportunistically evaluating the capital markets to finance new growth initiatives.

Although most property sectors remain stable overall, the retail landscape continues to face risks (leasing, rent levels, redevelopment of vacant space, etc.) that are being exploited by financially strong and talented operators. Unfortunately, for the less financially strong retail landlords, this is a difficult time.

Our focus on preferred stock has been tailored in recent years toward specific credits and unique structures. We continue to believe this is the right approach for our preferred stock and bond holdings: make smart credit bets and source unique transactions as interest rates, spreads and return opportunities return to a more normalized landscape.

We also invest in common stocks because over time we expect they will give us income, value, dividend growth and protection against duration risk. Further, we want to own those companies that give us exposure to a growing economy and that are run by talented people who can protect and build value.

## Dividend Income

We are happy to report that the fund continues to meet its income objective in a low-yield environment, delivering income in the context

of total return. We remain in great shape to take advantage of opportunities as they might develop. Through the use of the fund's resources and the fund's footprint in the business, we believe we can continue to achieve attractive income and total return.

## Return Comparison (as of 12/31/19)

The tables below demonstrate how the portfolio's components performed for the fourth quarter and for the full year. While both our common and preferred stocks underperformed for the quarter, preferred securities outperformed their benchmark for the full year period (as shown in the second table below).

Q4 2019	Fund (KIFAX) <sup>2</sup>	Market <sup>3</sup>
Common Stocks	-0.24%	-0.76%
Senior Securities	1.27%	2.00%

Full Year 2019	Fund (KIFAX) <sup>4</sup>	Market <sup>5</sup>
Common Stocks	15.22%	26.00%
Senior Securities	23.04%	17.71%

*Past performance does not guarantee future results.*

## Fund Exposures (as of 12/31/19)

Long	94.5%
Short	0.0%
Gross	94.5%
Net	94.5%
Cash	5.5%

## Security Exposures (as of 12/31/19)

Preferred	62.0%
Common (Long)	29.7%
Common (Short)	0.0%
Bonds	2.8%
Options	0.0%
Net	94.5%

*These holdings may not reflect the current or future positions in the portfolio. Current or future portfolio holdings are subject to risk. Portfolio holdings are subject to change.*

<sup>1</sup> Wells Fargo Securities, December 31, 2019

<sup>2</sup> Viewed as an independent portfolio comprised of various long positions and short positions. Before fund expenses.

<sup>3</sup> Common stocks: FTSE NAREIT Equity REITs Total Return Index USD (FNRETR); Senior securities: ICE BofAML Index (POP1)

<sup>4</sup> Viewed as an independent portfolio comprised of various long positions and short positions. Before fund expenses.

<sup>5</sup> Common stocks: FTSE NAREIT Equity REITs Total Return Index USD (FNRETR); Senior securities: ICE BofAML Index (POP1)

## Positioning

Of our net exposures, we had 64.8% in senior securities (almost all in preferred stocks, but about 2.8% of the portfolio was in bonds) at quarter-end. Our senior securities performed well from a credit point of view as our issuers have generally enjoyed growing earnings and stable leverage levels. We remain keen on managing call risk and reinvestment risk while simultaneously looking for new transactions that we think make sense.

Our common stock position has increased to 29.7% (all long) at quarter-end. We had 18 common stocks with a weighted average yield of 6.4% and an attractive valuation profile. We continue to look for common stocks that meet our yield mandate and represent good value for a portion of the fund's assets.

As of December 31, 2019, our net exposure for the overall portfolio was approximately 94.5%. We also ended the quarter with 5.5% net

cash and equivalents. Having both cash on hand and a credit line increases our likelihood of sourcing attractive investments.

## Investment Outlook

After strong performance in 2019, our cash balance should give us the opportunity to deploy capital when the right opportunities come along. Further, the fund's income component is strong and opportunities for gains from price performance and good stewardship decisions are robust. We are very excited about our prospects for success.

We remain confident of the fund's future and welcome any questions or comments. As always, thank you for your confidence and trust.

## Performance (%) as of 12/31/19

	Q4	YTD	1 YR	3 YR	5 YR	10 YR	Since Inception
Investor	0.71	18.18	18.18	3.04	4.23	-	7.77
Institutional	0.81	18.64	18.64	3.39	4.59	9.18	5.76
Class A @NAV*	0.70	18.12	18.12	3.02	4.19	8.78	8.09
Class A @MOP**	-5.09	11.32	11.32	1.00	2.96	8.14	7.75
Class C @NAV†	0.58	17.51	17.51	2.36	3.57	8.11	7.35
Class C @MOP‡	-0.42	16.51	16.51	2.36	3.57	8.11	7.35
ICE BofAML Fixed Rate Preferred Securities Index	2.00	17.71	17.71	7.58	6.51	7.44	4.66

Returns for periods greater than one year are annualized.

\* Excludes sales charge. \*\* Reflects effects of the fund's maximum sales charge of 5.75%.

† Excludes the effects of the 1% contingent deferred sales charge. ‡ Includes the effects of the 1% contingent deferred sales charge.

*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](http://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.*

Total Annual Fund Operating Expenses by Share Class as of 05/01/19: Investor Class: **1.77%**; Institutional Class: **1.42%**; Class A: **1.82%**; Class C: **2.37%**. The fund's investment advisor is contractually obligated to waive 0.25% of the fund's management fee so that until April 30, 2020, the fund's management fee will be 0.75%. Additionally, 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 1.50% for Investor Class, 1.15% for Institutional Class, 1.55% for Class A and 2.10% for Class C 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.

**Top Contributors & Detractors by Holding (as of 12/31/19)**

	<b>Top Contributors</b>	<b>Contribution</b>	<b>Top Detractors</b>	<b>Contribution</b>
<b>Senior Securities</b>	RPT 7.25% Conv Series D Pfd	0.29%	BHR 5.50% Conv Series b Pfd	-0.18%
	RLJ 1.95% Conv Series A Pfd	0.27%	EPR 5.75% Conv Series C Pfd	-0.08%
	FPI 6.00% Participating Series B Pfd	0.20%	WPG 6.88% Series I Pfd	-0.04%
	VER 6.70% Series F Pfd	0.14%	INN 6.25% Series E Pfd	-0.04%
	QTS 6.50% Conv Series B Pfd	0.13%	PEI 6.88% Series D Pfd	-0.03%
<b>Common Stocks</b>	Weyerhaeuser Company (WY)	0.24%	Colony Capital, Inc. (CLNY)	-0.39%
	Extantas Capital Corp. (XAN)	0.12%	Taubman Centers, Inc. (TCO)	-0.22%
	STAG Industrial, Inc. (STAG)	0.11%	Brookfield Property Partners (BPY)	-0.15%
	Clipper Realty, Inc. (CLPR)	0.11%	Sabra Health Care REIT (SBRA)	-0.13%
	Chatham Lodging Trust (CLDT)	0.08%	Healthpeak Properties, Inc. (PEAK)	-0.05%

Past performance does not guarantee future results. These holdings may not reflect the current or future positions in the portfolio.

**Top Contributors & Detractors by Sector (as of 12/31/19)**

	<b>Top Contributors</b>	<b>Contribution</b>	<b>Top Detractors</b>	<b>Contribution</b>
<b>Senior Securities</b>	Shopping Centers	0.38%	Regional Malls	-0.07%
	Diversified	0.37%	Div. Real Estate Activities	-0.06%
	Data Centers	0.13%	N/A	-
	Specialty	0.12%	N/A	-
	Health Care	0.07%	N/A	-
<b>Common Stocks</b>	Mortgage	0.12%	Regional Malls	-0.27%
	Industrial	0.11%	Health Care	-0.18%
	Lodging/Resorts	0.08%	REOCs	-0.15%
	Lodging C-Corp.	0.05%	Shopping Centers	-0.03%
	Self-Storage	0.04%	Diversified	-0.01%

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*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](http://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.

Concentration in a particular industry will involve a greater degree of risk than a more diversified portfolio.

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 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.

Mortgage and asset-backed securities are debt instruments that are secured by interests in pools of mortgage loans or other financial instruments. Mortgage-backed securities are subject to, among other things, prepayment and extension risks.

Investing in the real estate industry or in real estate-related securities involves the risks associated with direct ownership of real estate which include, among other things, changes in economic conditions (e.g., interest rates), the macro real estate development market, government intervention (e.g., property taxes) or environmental disasters. These risks may also affect the value of equities that service the real estate sector.

Short selling involves additional 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.

There is no guarantee the companies in our portfolio will continue to pay dividends.

#### Definition of Terms

**10-year U.S. Treasury** is a debt obligation issued by the U.S. Treasury that has a term of more than one year but not more than 10 years.

**Basis point** is a unit that is equal to 1/100th of 1%, used to denote the change in a financial instrument.

**Call risk** is the risk faced by a holder of a callable bond that the bond issuer will take advantage of the callable bond feature and redeem the issue prior to maturity.

**Cash flow** is a revenue or expense stream that changes a cash account over a given period.

**Duration risk** is the risk that the value of an asset or liability may change as a result of changes in interest rates.

**Fixed-rate perpetual preferred stock** is a financial instrument that has characteristics of both debt (fixed dividends) and equity (potential appreciation).

**FTSE EPRA/NAREIT Developed ex-US Index** is designed to track the performance of listed real estate companies and REITs worldwide, excluding U.S. companies.

**FTSE NAREIT Equity REITs Index** is representative of the tax-qualified REITs listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market, excluding timber and infrastructure REITs.

**ICE BofAML Fixed Rate Preferred Securities Index** consists of investment-grade, fixed and fixed-to-floating rate U.S. dollar-denominated preferred securities.

**Leverage** is the use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.

**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.

**Price risk** is the potential for the decline in the price of an asset or security relative to the rest of the market.

**Reinvestment risk** is the chance that an investor will not be able to reinvest cash flows from an investment at a rate equal to the investment's current rate of return.

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

**Spread to Treasury** refers to the difference in yield between a U.S. Treasury security and any other debt security with a similar maturity.

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

**Wells Fargo Hybrid and Preferred Securities REIT Index** is a modified market capitalization-weighted index that tracks the performance of preferred securities issued in the U.S. market by real estate investment trusts.

One cannot invest directly in an index.

Not FDIC Insured | No Bank Guarantee | May Lose Value

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