Uncommonly High Yield, Rigorously Managed Risk

In today's low-yield environment, investors struggle to replace the yield lost from traditional income asset classes while navigating the changing interest rate environment. Low yields have led investors to reach for income from assets that may expose them to unintended risks, potentially delaying or even derailing the realization of their financial goals. Understanding risks is particularly important in today's ever-changing income landscape.

Salient Adaptive Income Fund offers a potential solution to this "income problem." Salient's approach is to utilize a wide range of traditional and nontraditional stock and bond asset classes to cast a wider net for yield. A wider net not only helps generate an elevated level of current income, it also helps diversify investors' exposure to the risks associated with changes in interest rates. We take the solution one step further by applying a disciplined and systematic approach to managing risk. The combination of unique stock and bond exposures and risk management helps ensure that investors aren't left persuing yield when the reward may not compensate them for the amount of risk they are taking.

At Salient, our mission is to provide investors and advisors with specialized investment strategies to help diversify the core risk factors that dominate conventional portfolios. This approach makes our strategies powerful building blocks for creating efficient portfolios. Our investment teams' tenure, expertise and unique perspectives drive our portfolio construction and risk management process.

Casting a Wider Net

Salient Adaptive Income Fund is a multiasset income strategy that invests in up to 14 different asset classes from a broad universe of mutual funds, exchange-traded funds (ETFs) and cash (*Figure 1)*. Many investors are familiar with asset classes such as Treasurys, U.S. stocks and investment-grade corporate bonds. However, the strategy also allocates to uncommon sources of income, emerging market bonds, preferred stocks and high-yield municipal bonds. These less familiar asset classes typically generate an elevated level of current income. When markets are healthy, these assets make up the bulk of the portfolio and are likely to generate the highest level of current income.

As we have witnessed several times over the past decade however, markets are not always healthy. During these times, a keen focus on risk and diversification may be invaluable to help investors manage their portfolios.

FIGURE 1

Asset Class Universe

FIXED INCOME	STOCKS
Investment-Grade Credit	Preferred Stocks
High-Yield Credit	U.S. Stocks
Treasurys	Foreign Developed Stocks
Emerging Market Bonds	Emerging Market Stocks
Municipal Bonds	U.S. Real Estate
High-Yield Municipal Bonds	Foreign Real Estate
Cash	Utilities

For illustrative purposes only.

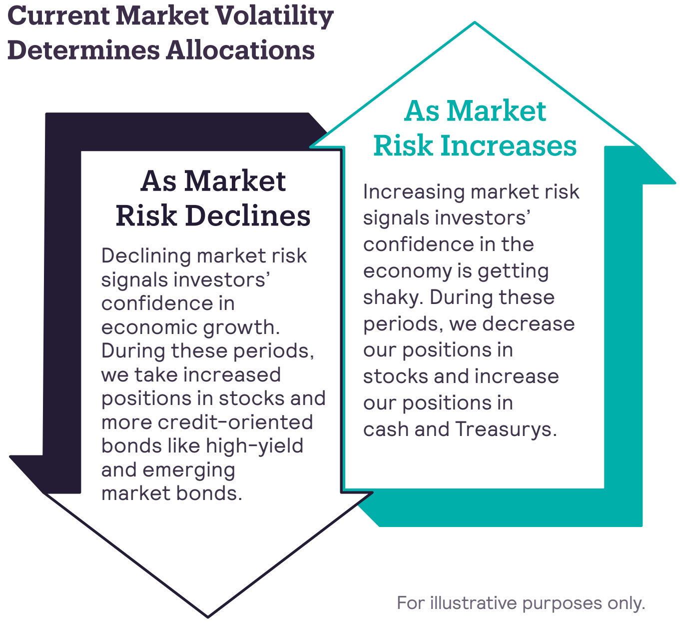
Rest Easy, We've Got This

While the fund's strategy is designed to provide access to asset classes that generate a high level of current income, occasionally these assets can be impacted by broad economic conditions and events such as recessions or changes in liquidity. During these periods of dislocation, these asset classes may experience elevated levels of price volatility and a drawdown in value. This fluctuation in price and value is typically beyond the expectations of income investors and may frighten them away from these high-income asset classes. We attempt to mitigate this volatility by forecasting and monitoring the risk of each asset class every day. As the relationship between the income's reward and its cost to construct a portfolio (its price) changes, we adapt the portfolio to account for current market conditions. We use risk targeting as a means of adapting the portfolio to the current environment, establishing a quantifiable level of risk (as measured by standard deviation) and then rebalance the portfolio periodically to ensure this level of risk is held constant across all market conditions. We use a conservative risk target of 6.5% annualized standard deviation, which is similar to the strategy's benchmark of 15% global stocks and 85% global bonds.

Our process for forecasting risk combines a mathematical model with a more qualitative method for considering market conditions, both in individual stock and bond markets as well as in the global economy. This informed process allows us to scale back or eliminate exposure to stocks or bonds as their risk increases and take advantage of their higher income as their risk declines by either establishing or increasing our exposure to them.

FIGURE 2

Current Market Volatility Determines Allocations



For illustrative purposes only.

Reducing the Risk From Interest Rate Changes

Barring the occasional recession, interest rates have mostly been declining since December 1981 and hit an all-time low in July of 2016. This lengthy history of declining interest rates has been a boon for bond investors. In fact, the Bloomberg Barclays U.S. Aggregate Bond Index gained 8.19% annually during this period, rivaling stock gains during the same period. The long-term trend for rates and the recent historic lows means now is the time for investors to consider how to protect their income portfolio from rising rates. *Figure 3* illustrates two different types of bonds and the hypothetical impact from a 1% increase in interest rates.

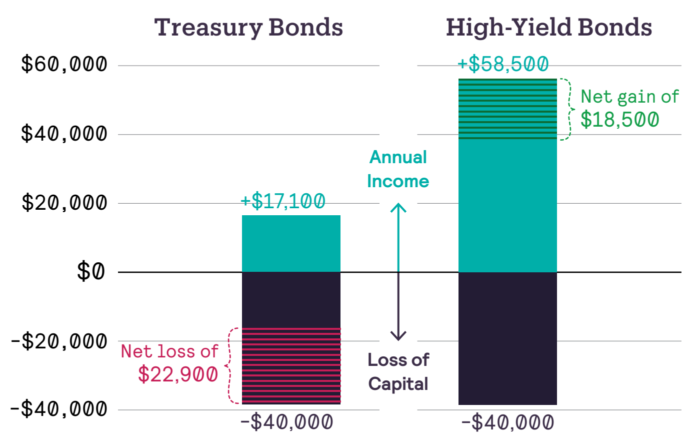
There are essentially two ways to mitigate the impact of interest rates. The first is to change the duration of your bond portfolio, usually by increasing the amount of cash in the portfolio. However, adding cash may equate to lower income. The second way that the impact of interest rates can be reduced is through exposure to higher-income assets,as seen in *Figure 3* where the income from investing in high yield compensates the loss of capital.

Next, *Figure 4* illustrates what happens to the risk of traditional bond portfolios when we add a 50% allocation to risk-targeted yield sleeve—a portfolio model using asset classes that provide the highest yield per unit of risk (as measured by a 6.5% standard deviation).

FIGURE 3

High-Yielding Assets Can Offset the Loss From a 1% Rise in Rates

December 1981 – December 2016



For illustrative purposes only.

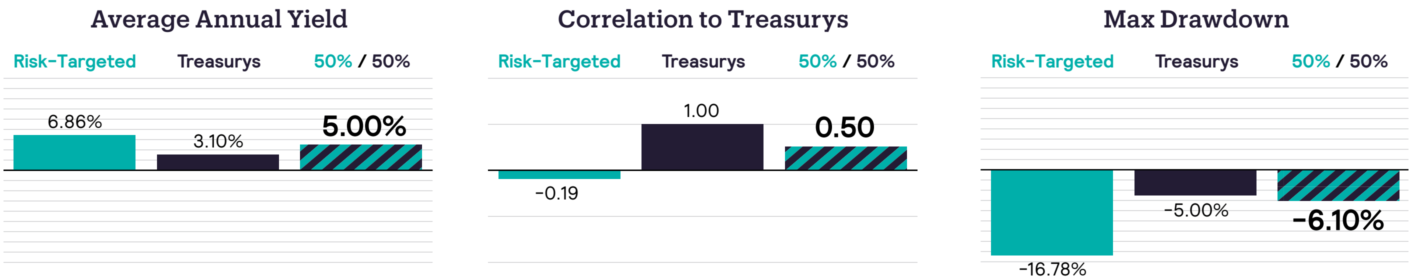
Source: Salient, as of 12/31/16

Asset classes in the chart are represented by the following indices: Treasury Bonds: Bloomberg Barclays U.S. Treasury Index; High-Yield Bonds: Bloomberg Barclays U.S. Corporate High Yield Bond Index

FIGURE 4

Adding Risk-Targeted Yield May Increase Yield and Reduce Correlation to Rates Without Dramatically Increasing Risk

December 1981 – December 2016



For illustrative purposes only.

Source: Salient, as of 12/31/16

Risk-Targeted Yield Portfolio: Adaptive model that allocates to the highest level of yield per unit of 6.5% standard deviation

Treasury Portfolio: Bloomberg Barclays U.S. Treasury Index

Improving Portfolio Growth in a Low-Yield Environment

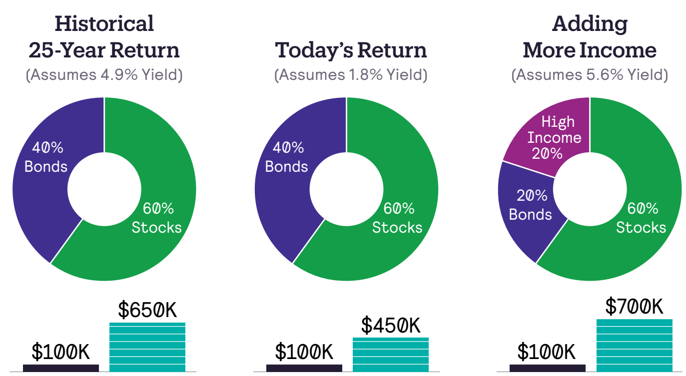
Income plays a vital role in the growth of a portfolio. In a hypothetical portfolio comprised of 60% S&P 500 Index and 40% Bloomberg Barclays U.S. Treasurys, roughly 30% of the portfolio's return over the last 25 years would have been received in the form of income. Over the past 25 years, a Treasury portfolio would have had a yield of 4.9%, but as of December 2016, a Treasury portfolio would have yielded only 1.8%. The decline in yield leads to a reduction in the return of the bond portfolio. This decline occurs because income, which has historically contributed roughly two-thirds of the total return of the Treasury portfolio, is now contributing only one-third of the total return.

Figure 5 shows how lower income can impact the portfolio over time and demonstrates how including nontraditional asset classes with higher income, such as high-yield bonds, high-yield muni bonds and emerging market corporate debt, can make up for this loss of income and improve the portfolio's overall return.

FIGURE 5

Potential Benefit of Higher-Income Investments

December 1981 – December 2016

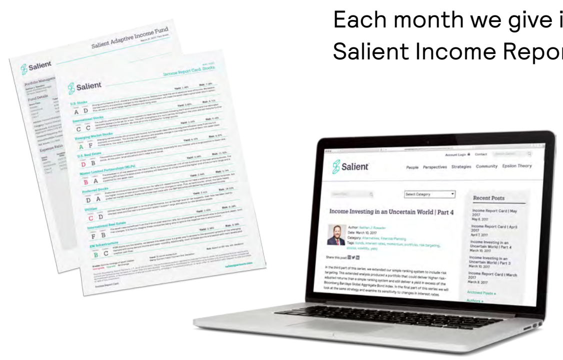


For illustrative purposes only.

Source: Salient, as of 12/31/16

Asset classes in the chart are represented by the following indices: Treasury Bonds: Bloomberg Barclays U.S. Treasury Index; Stocks: S&P 500 Index; High-Income Portfolio: High-Yield Bonds: Bloomberg Barclays U.S. Corporate High Yield Bond Index, High-Yield Muni Bonds: Bloomberg Barclays Municipal High Yield Index, and Emerging Market Corporate Debt: Credit Suisse Emerging Market Corporate Bond Index

Keeping Tabs on Salient Adaptive Income Fund



Each month we give investors a peek into our thought process on the income markets via the Salient Income Report Card, which summarizes the market using easy-to-understand letter grades, just like those used in school. To view or subscribe to our monthly report, visit Salient Income Report Card.

Additionally, investors can track our positioning and performance by reviewing our fact sheet, which includes the fund's current performance, yield, portfolio positions and a variety of useful risk statistics. You can access the fact sheet at www.salientpartners.com.

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.

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.

There is no assurance that the investment process will consistently lead to successful investing.

Each allocation fund is a fund of funds that primarily invests in a mix of underlying Salient Funds and related mutual funds. Shareholders of an allocation fund indirectly bear the expenses of the underlying funds. An allocation fund's allocations may be changed at any time. Asset allocation does not assure profit or protect against risk.

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.

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 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.

Diversification does not assure profit or protect against risk.

Definition of Terms

Beta is a statistical measure of risk that shows the relative volatility of a stock, fund or other security in comparison to the market as a whole.

Bloomberg Barclays U.S. Aggregate Bond Index represents securities that are U.S. domestic, taxable and dollar denominated. The index covers the U.S. investment-grade, fixed-rate bond market, with index components for government and corporate securities, mortgage pass-through securities and asset-backed securities.

Bloomberg Barclays U.S. Corporate High Yield Bond Index covers the USD-denominated, noninvestment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

Bloomberg Barclays U.S. Municipal High Yield Index measures the noninvestment-grade and nonrated U.S. dollar-denominated, fixed-rate, tax-exempt bond market within the 50 United States and four other qualifying regions (Washington D.C., Puerto Rico, Guam and the Virgin Islands).

Bloomberg Barclays U.S. Treasury Index is an unmanaged index of public debt obligations of the U.S. Treasury with maturities of one year or more. The index does not include T-bills (due to the maturity constraint), zero coupon bonds (Strips) or Treasury Inflation-Protected Securities (TIPS).

Correlation is a statistical measure of how two securities move in relation to each other.

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

Drawdown is the gradual decline in the price of a security or other investment between its high and low over a given time.

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

Standard deviation measures the degree to which a fund's return varies from its previous returns or from the average of all similar funds.

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

Yield is the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost or on the U.S. government's debt obligations.

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