# Growth, Income and Diversification from EM Infrastructure

By investing in the provision of essential services in faster growth EM economies, **Salient EM Infrastructure Fund** can help provide investors with stable cash flow streams that drive sustainable long-term **growth** opportunities, **attractive dividend payments,** broad portfolio **diversification**, and active **risk management**.

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. Our investment teams' tenure, expertise and unique perspectives drive our portfolio construction and risk management process.

Salient's investment strategies serve as powerful building blocks for efficient portfolios. Salient EM Infrastructure Fund offers a unique approach to emerging market (EM) investing by capturing the enormous growth opportunity in an under-owned equity sector. Emerging markets can generate meaningful growth in a low growth world, and essential infrastructure investment is central to that phenomenon.

## Access to Undiscovered Growth Stories

**Salient EM Infrastructure Fund** is an all-cap, broad-reaching strategy that invests in physical structures and networks that provide essential services to fast-growing EM societies, such as transportation, communications, utilities, energy storage and social infrastructure. The fund can offer investors:

- **A unique and targeted way to access faster growth EM economies:** EM's share of global infrastructure investment is estimated to increase from about 50% to more than 65% by 2025 as population and urbanization increase. The fund captures this opportunity by targeting specific, idiosyncratic growth opportunities within emerging and frontier markets.
- **Resilient income with low correlation to U.S. interest rates:** Emphasizing companies that pay attractive current yields, consistently generate meaningful positive free cash flow in most economic environments and have ample financial capacity on their balance sheets may benefit investors in a steady-to-rising interest rate environment.
- **Historical outperformance:** S&P EM Infrastructure Index has returned 10.32% annualized since its inception versus the MSCI Emerging Markets Index's return of 8.64% over the same period.[1]
- **Extensive diversification and risk management with little overlap to other portfolio holdings:** As the only current actively-managed mutual fund solely focusing on EM infrastructure, the fund delivers a broader inclusion of infrastructure industries and countries across market caps. With almost a decade of experience investing in EM infrastructure, portfolio manager Aaron Visse has demonstrated an ability to identify a diverse mix of real EM growth stories overlooked in most investors' portfolios.

### Shenzhen, China: Infrastructure Boom

Global growth has been scarce since the financial crisis, but EM infrastructure can generate meaningful growth.


# Implementing EM Infrastructure in a Portfolio

Many investors are looking for a lower risk way to access the projected growth in EM economies. A portfolio of high-quality EM infrastructure companies poised to benefit from long-term trends and short-term catalysts can offer a combination of stability and growth that can enhance current portfolio returns and drive future growth. Investors can implement Salient EM Infrastructure Fund into their portfolios in multiple ways:

- **Replace or complement an EM equity allocation:** The compelling mix of growth and income benefits investors looking for hard asset diversification in their portfolios. As many investors are effectively lacking an EM allocation altogether, this fund offers true diversification to a portfolio in an asset class that has historically outperformed broad EM equities.
- **Complementary diversification to real estate and MLPs:** EM infrastructure provides similar growth along with a resilient and stable source of income and low correlation to MLPs and U.S. real estate.
- **Enhance and diversify yield:** The long-term and enduring nature of infrastructure assets can provide consistent, stable cash flow streams with lower volatility than traditional asset classes. Low correlation to U.S. interest rates and fixed-income asset classes provides investors a more diverse income stream as well.

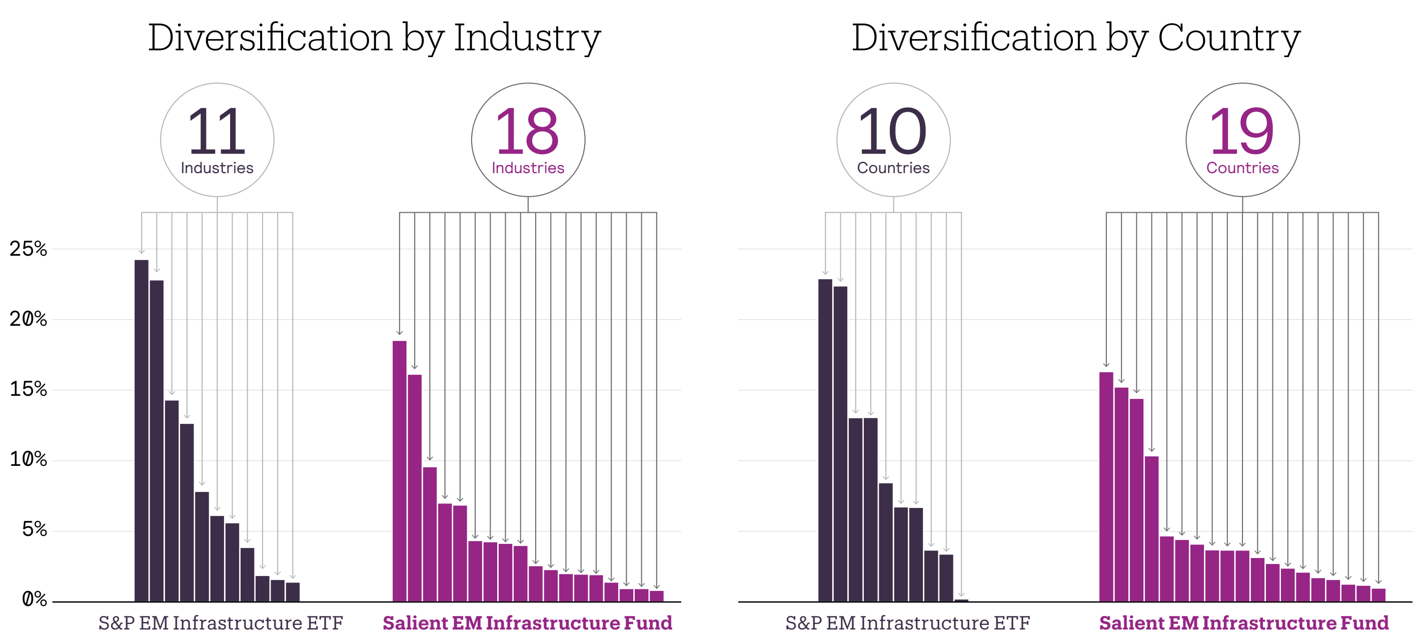
# Broad Inclusion for True Diversification

Salient EM Infrastructure Fund combines quantitative and qualitative methods to produce a broadly diversified blend of attractively valued infrastructure companies. After screening for companies based on dividends and positive free cash flow, extensive fundamental research identifies attractive companies that offer total return potential with the ability to generate positive free cash flow in difficult economic environments. Active management and expertise provide risk-managed access to the companies supporting the rapid growth and urbanization in the emerging world.

By including a broader range of high-quality companies across countries, regions, industries and market caps, there is **less reliance on any one risk factor**. The fund delivers a diversification benefit that is unlikely to overlap with other holdings in an investor's portfolio.

FIGURE 1

**Salient EM Infrastructure Fund Offers Broader Access**




Source: Bloomberg, as of 07/31/17

# Pure, Unparalleled Exposure to Emerging Markets Megatrends...

Powerful long-term trends in conjunction with short-term catalysts provide a compelling multi-decade investment opportunity in EM infrastructure. The UN identified two global megatrends that will impact emerging markets acutely: **demographics** and **urbanization**. EM infrastructure investment is uniquely positioned to benefit from these global shifts.

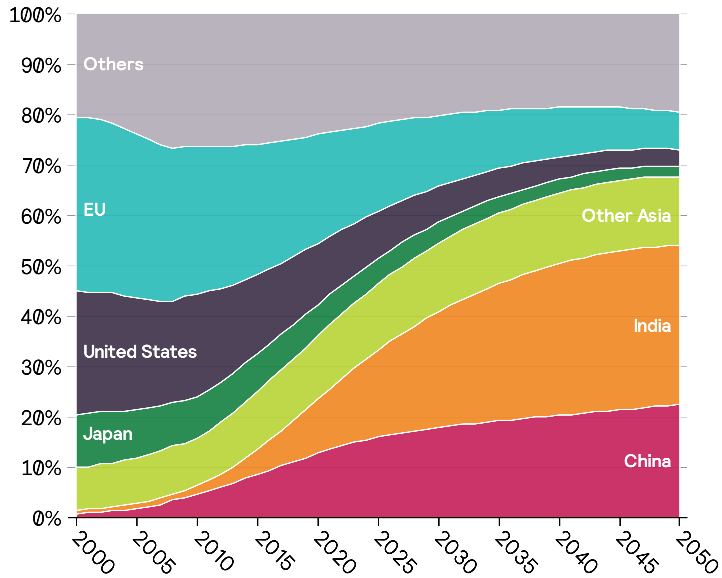
Emerging markets represent the epicenter of these trends, fueling a significant wave of **new infrastructure investment**. Infrastructure spending worldwide is projected to grow from $4 trillion per year in 2012 to more than $9 trillion per year by 2025.[2] Between now and 2050, the world's population will increase by 2.5 billion people and continue to urbanize, with the percentage of the world living in urban areas increasing from 54% to 66%.[3]

**Rising affluence** is another long-term trend. China's middle class, for example, is estimated to grow from around 10% of the population to over 70% by 2030.[4] Those who invest in the owners and operators of **EM infrastructure investments are poised to benefit** greatly from these trends both now and in the coming decades.

FIGURE 2

**Shares of Asia's Global Middle Class Consumption Rising**

2000 – 2050




Source: OECD Development Centre Working Paper 285

# ...with Significant Near-Term Catalysts

Capital net flows into emerging markets have topped $41.5 billion year-to-date through August 16, 2017.[5] While powerful megatrends indicate a long-term wave of infrastructure investment to come, recent catalysts have signaled the current environment is especially favorable to EM infrastructure investment, especially if positive factors, such as sentiment, commodity prices, currencies and monetary policy, remain stable.

**EM valuations have become historically compelling:** With the U.S. stock market's cyclically adjusted price-earnings (CAPE) ratio hovering at a 28.0x and EM currently at 15.6x, EM stocks are poised to benefit from much lower valuations.[6]

**Leading indicators of global and EM equity growth are advancing:** Global purchasing managers' indices nearly uniformly remain solidly in expansion territory while the global economy is the healthiest and most synchronized it has been since 2010.

**China's Belt and Road initiative promotes infrastructure investment:** By some estimates, Asia will need to invest $26 trillion between 2016–2030 ($1.7 trillion per year) to maintain its growth momentum.[7] Notably advancing these efforts is China's Belt and Road initiative, which seeks to create three overland routes and one maritime route linking China, Africa and Europe.

**Political changes could generate substantial EM infrastructure investment:** Results of upcoming elections and ongoing political processes in emerging markets could provide more stability in certain countries and lead to increased investment in infrastructure to maintain or spur growth momentum. Conversely, political events and divisiveness in Europe and the U.S. may negatively impact investor sentiment toward those markets and their underlying currencies, potentially resulting in flows out of Europe and and the U.S. into EM.

1. Source: Bloomberg, time period 11/20/04 through 07/31/17.
2. PricewaterhouseCoopers LLP, “Capital project and infrastructure spending Outlook to 2025,” January 2014.
3. United Nations Population Fund, “World Population Trends,” October 6, 2015.
4. Homi Kharas and Geoffrey Gertz, “The New Global Middle Class: A Cross-Over from West to East,” , Washington, DC: Brookings Institution Press, 2010.
5. Source: Merrill Lynch
6. Source: Star Capital, as of 06/30/17.
7. Asian Development Bank, “Meeting Asia's Infrastructure Needs,” February 2017.

*You should consider the investment objectives, risks, charges and expenses of the Salient Funds® carefully before investing. A prospectus with this and other information may be obtained by calling 800-999-6809 or by downloading one from www.salientfunds.com. It 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.

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 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.

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**

**Cyclically adjusted price-earnings (CAPE) ratio** measures the value of the S&P 500 equity market and smooths real earnings to eliminate fluctuations.

**Dividend yield** is a financial ratio that shows how much a company pays out in dividends each year relative to its share price.

**Free cash flow** represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base.

**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.

**Purchasing Managers Index (PMI)** measures the health of the manufacturing sector and is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

**S&P Emerging Markets Infrastructure Index** tracks 30 of the largest publicly listed emerging market companies that are active in the infrastructure industry while maintaining liquidity and tradability. The index has balanced weights across three distinct infrastructure clusters: utilities, transportation and energy.

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



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