# Why Salient Tactical Growth and Why Now?

The global coronavirus pandemic precipitated one of the sharpest stock market declines in history, followed by one of the fastest recoveries ever recorded—all happening within a few months' time. This unprecedented market volatility has resulted in elevated equity valuations, optimistic investor sentiment (negative from a contrary point of view) and widening divergences between the performance of the major stock market averages and the rest of the market. While the accommodative monetary policy of the U.S. Federal Reserve (Fed) has been a positive for stock prices, the stock market is likely to continue to experience increased volatility as the result of the coronavirus and subsequent deep economic contraction. As the Salient Tactical Growth Fund's models have shown deterioration as the market has reached new all-time highs, we suggest that investors now consider a proven strategy like Salient Tactical Growth that is designed to excel in a volatile and risky investment climate.

The Salient Tactical Growth investment process has been successful in recent years, particularly during the early 2020 coronavirus stock market decline and recovery, at preserving and growing investors' capital during difficult times. This tactical approach is designed for exactly these types of uncertain markets characterized by large advances and declines and elevated volatility. The strategy is not dependent on predictions of the future, which no one can do under the best of circumstances much less in a pandemic environment. Rather, the Salient Tactical Growth investment team uses an investment process that is designed to rapidly adapt to the movements of the capital markets with risk management as its most important attribute.

## Where are we now in the stock market cycle?

The Salient Tactical Growth Fund's objective is to produce above-average, risk-adjusted returns, in any market environment, while exhibiting less downside volatility than the S&P 500 Index. The strategy has achieved this goal so far in 2020 during a very difficult and often baffling stock market environment. We believe providing long-term investment returns in line with equities while managing downside risk is even more important today.

The Salient Tactical Growth team's four-pillar process assesses valuations, monetary policy, investor sentiment and market momentum. Here is where the four pillars stand currently:

- **Valuations** have climbed to their highest level in almost a decade. While a rise in price-earnings multiples is normal as earnings contract during a recession, the current overvaluation in equity prices rivals the overvaluation levels reached during the 2000 dot-com stock market bubble. The ratio of stock prices to gross domestic product (sometimes called the "Buffett indicator") is currently higher than at the bubble peaks in 2000 and 1929. The median price-earnings ratio of common stocks in the New York Stock Exchange is at record highs, as are stock prices as compared with forward earnings estimates globally. ***As stock prices have climbed to all-time highs, the team's valuation models indicate that there is significant risk of a market pullback from current levels.***
- **Monetary policy** continues to buttress the market. The Fed has responded to the pandemic by adding massive liquidity to the markets. The size and scope of monetary policy during this time has been far greater than the quantitative easing programs initiated during the 2008-2009 financial crisis. While this expansion of liquidity is positive for the market currently, it is important to remember that the stock market always looks to the future. Any move toward a renormalization of monetary policy, even if it is not an actual tightening but just a tapering, may cause some jitters among investors. ***In the past, these "taper tantrums" have resulted in sharp stock market corrections.***

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- **Investor sentiment** has reflected extreme optimism as the stock market has climbed to new highs. Speculative activity in technology and communication services stocks has propelled these stocks to new highs, outpacing the growth of the rest of the market. Some of the speculative activity in these sectors, such as the active day trading among Robinhood investors (amateur investors with larger appetites for risk than typical investors), is not unlike the dot-com mania in 2000. ***From a contrary point of view, this is an increasingly negative development.***
- **Market momentum** has been generally positive since the March 2020 stock market low. However, negative divergences have arisen as large cap stocks and technology sectors have reached new highs while the broad market lags behind. For example, small cap stocks as well as international and emerging markets indexes are still below the highs set in 2018. The narrowing of the stock market advance can also be seen in the top five stocks in the S&P 500 that now account for almost 25% of the index, which is higher than the 18% recorded for the top five stocks during the dot-com bubble. ***These are significant divergences that can lead to major stock market corrections.***

## Why a tactical strategy in the current environment?

Tactical strategies are designed to perform best in uncertain and volatile market environments. These strategies historically outperform when there are wide-swinging trading ranges and elevated volatility. The Salient Tactical Growth investment team believes that their models are ideally suited to the current uncertain and volatile market environment. The team believes that the Salient Tactical Growth approach is particularly appropriate for multiple reasons:

1. **Stock market corrections** may become more frequent in coming years—in line with historical precedent. These corrections usually reflect the gradual but often volatile return of economic activity to more normal levels.
2. **Short selling** may again become a valuable alpha-generating tool. Pioneering market analyst and investor Marty Zweig's principle of "Don't fight the tape" may be more relevant in coming years as the market undergoes large swings up and down. Tactical investment strategies that are able to sell short in declining markets are designed for volatile markets. In this environment, short selling can be a valuable alpha-generating tool.
3. **We may see a bumpy ride back to rate normalization.** The recovery of the global and U.S. economies from the coronavirus pandemic will likely take time and it may be a bumpy road back to normalization. The recovery will also occur amid greatly increased global debt levels, less liquidity and a shift from passive investments to more active and flexible investments. Active risk management is essential to navigating this—and any—period of increased market volatility.

## Why now?

The recent decline in stocks was the steepest decline from an all-time high in stock market history. While the market has recovered in recent months, significant concerns still exist due to the coronavirus and the severe economic downturn that may affect the market in the future. Investors who experienced the last financial crisis do not want to be subject to those types of risks again. Those investors close to retirement may not have time to make up a 50% market decline similar to the one that occurred during 2008-2009. Keep in mind:

- The 2008–2009 stock market decline wiped out all the gains since 1995.
- The 1973–1974 stock market decline wiped out all the gains since 1958.
- The Nasdaq Composite Index fell 80% between 2000–2002 during the dot-com bubble. It took 15 years for the index to recover back to even.
- From the February 19, 2020, high to the March 23, 2020, low, the S&P 500 wiped out three years of gains in 23 trading days.

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The strong stock market rally to new highs in the major market averages since the March 2020 market bottom has exacerbated equity price overvaluation, spurred optimistic investor sentiment (negative from a contrary point of view), and resulted in negative divergences within the market itself. We believe that investors may consider a strategy that can mitigate downside portfolio risk and cushion assets from another major stock market decline.

The task of the Salient Tactical Growth strategy is to enhance downside risk mitigation, utilizing the investment tools at its disposal and aiming at positive performance during difficult times. The strategy helps investors keep their portfolios prepared for impending market downturns. Salient Tactical Growth Fund has helped cushion portfolios from larger declines that have occurred in recent years.

| S&P 500 Decline Period | Salient Tactical Growth Fund (FTGWX) | S&P 500 | Difference |
|---|---|---|---|
| 07/07/11 - 10/03/11 | -5.16 | -18.38 | 13.22 |
| 07/20/15 - 02/11/16 | -3.69 | -12.96 | 9.27 |
| 01/26/18 - 02/08/18 | -6.38 | -10.10 | 3.74 |
| 09/20/18 - 12/24/18 | -7.12 | -19.37 | 12.25 |
| 02/19/20 - 03/23/20 | -4.40 | -33.66 | 29.26 |

## Why Salient Tactical Growth?

We believe the Salient Tactical Growth strategy may benefit long-term investors who want resilient portfolios in any market climate for multiple reasons.

- The Salient Tactical Growth strategy has been run by the same portfolio manager since 2001, through multiple bull and bear markets.
- The strategy can be allocated up to 100% cash and can also be net short, unlike many other tactical strategies.
- The investment team continually assesses market conditions in real time with the ability to reallocate the portfolio on an intraday basis.
- The portfolio invests in only the most liquid major market index ETFs and futures contracts.
- The fund has outperformed its peer groups over the long term:

| | 3 Year | 5 Year | 7 Year | Since Inception* |
|---|---|---|---|---|
| **Salient Tactical Growth Fund (FTGWX)** | 6.26 | 6.04 | 5.25 | 4.43 |
| HFRX Equity Hedge Index | 0.59 | 1.13 | 1.64 | 0.91 |
| Morningstar Long/Short Equity Index | 2.58 | 1.96 | 2.35 | 2.60 |

* 09/14/09. Annual compounded returns as of 08/31/20. Past performance does not guarantee future results.

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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** 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.

Performance as of 08/31/20 and 06/30/20. Gross/Net Expenses as of 05/01/20: **1.51%**/1.51%

| | August 2020[1] | Q2[2] | YTD[2] | 1 YR[2] | 3 YR[2] | 5 YR[2] | 10 YR[2] | Since Inception[3] |
|---|---|---|---|---|---|---|---|---|
| **Salient Tactical Growth Fund (FTGWX)** | 3.54 | 1.80 | 1.38 | 6.17 | 4.32 | 4.24 | 4.05 | 3.88 |
| HFRX Equity Hedge Index | 2.71 | 8.11 | -6.30 | -2.11 | -0.12 | -0.26 | 0.86 | -0.60 |
| S&P 500 Index | 7.19 | 20.54 | -3.08 | 7.51 | 10.73 | 10.73 | 13.99 | 12.87 |

1. As of 08/31/20 2. As of 06/30/20 3. As of 09/14/09 Returns for periods greater than one year are annualized.

*The performance quoted represents past performance, does not guarantee future results and current performance may be lower or higher than the data quoted. The return metrics are for the Salient Tactical Growth Fund Institutional Class Shares (FTGWX). 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.*

Index performance is shown for illustrative purposes only and does not reflect the payment of advisory fees and other expenses associated with an investment in a mutual fund. Investors cannot directly invest in an index. The performance shown is for the stated time period only; due to market volatility, each account's performance may be different.

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**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.

The fund will hold at times a portion of its assets in cash/cash equivalents. During a rising stock market, this strategy could have a negative effect on the fund's ability to achieve its investment objective. The fund will indirectly bear a share of a money market fund's expenses if utilized, in addition to the operating expenses of the fund, which are borne directly by fund shareholders.

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.

To the extent that the fund makes investments on a shorter-term basis the fund may as a result trade more frequently and incur higher levels of brokerage fees and commissions.

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.

Alternative strategies typically are subject to increased risk and loss of principal. Consequently, investments such as mutual funds which focus on alternative strategies are not suitable for all investors.

Asset allocation does not assure profit or protect against risk. Diversification does not assure profit or protect against risk.

**Definition of terms**

**Alpha** is a technical risk ratio that shows a fund's excess return relative to the performance of its benchmark index.

**Breadth** is a technique used in technical analysis that attempts to gauge the direction of the overall market by analyzing the number of companies advancing relative to the number declining.

**Credit spread** is the spread between Treasury securities and non-Treasury securities that are identical in all respects except for quality rating.

**Forward earnings** are an estimate of the next period's earnings of a company, usually until the completion of the current fiscal year and sometimes to the following fiscal year.

**Futures contracts** are financial contracts that obligate the buyer to purchase an asset (or the seller to sell an asset), such as a physical commodity or a financial instrument, at a predetermined future date and price.

**HFRX Equity Hedge Index** is comprised of private funds with strategies that maintain both long and short positions primarily in equity securities and equity derivatives.

**Momentum** is the rate of acceleration of a security's price or volume.

**Morningstar Long/Short Equity Index** is an equal-weighted index that measures the average performance of all funds in Morningstar's long/short equity category.

**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-earnings (P/E) ratio** is a measure of the price paid for a share of stock relative to the annual income or profit earned by the company per share. A higher P/E ratio means that investors are paying more for each unit of income.

**Quantitative easing** refers to a form of monetary policy used to stimulate an economy where interest rates are either at, or close to, zero.

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

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

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

**Volume** is the number of shares or contracts traded in a security or an entire market during a given period of time.

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