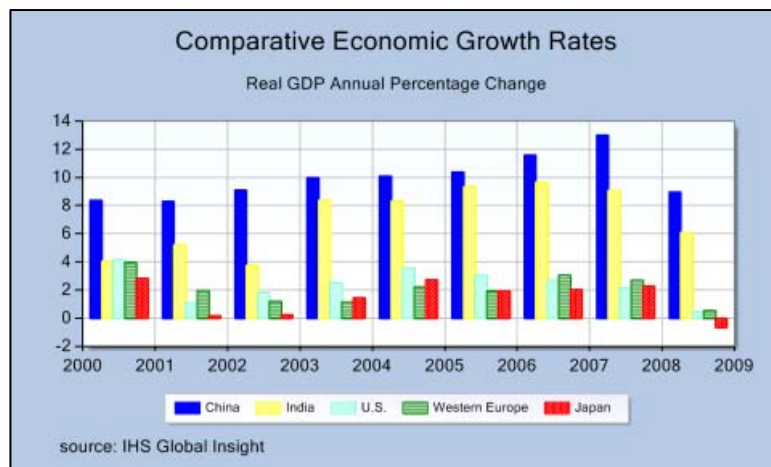


Equity Market Review

(All returns in dollars and include net income unless stated otherwise.)



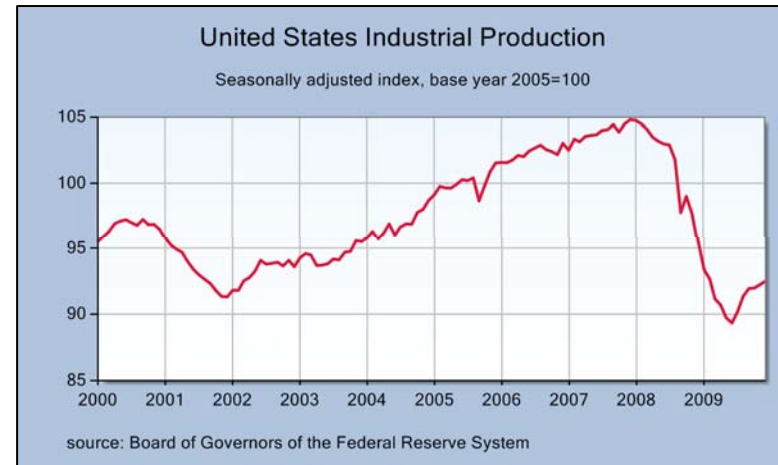
Global economic data evidence a world economy recovering from recession—one that is benefiting from strong public-policy stimulus, pent-up consumer demand and a return of confidence by both businesses and individuals. The current environment contrasts starkly to the first quarter of 2009 when businesses and consumers “battened down the hatches” in anticipation of a stormy economic climate and panicky investors sold equities in an effort to raise cash. The reversal of sentiment helped equities finish strong in the final quarter of 2009, completing the reversal from the first-quarter plunge and propelling the equity indexes to new 15-month highs. Foreign stocks, as measured by the MSCI EAFE Index, advanced 2.18% for the quarter, and 31.78% for the year. The S&P 500, reflecting U.S. stock returns, gained 6.04% and 26.46% for the quarter and year, respectively, and small to mid cap stocks gained +5.08% for the final three months, pushing the annual return to +34.39%. Indeed, the relative performance of the sectors support the idea of improved

investor sentiment towards the economy, as the more economically sensitive sectors provided leadership for the quarter and year. Technology, materials and consumer discretionary equities ranked highest for 2009 returns, while the less cyclical utilities, telecommunications and consumer staples ranked at the bottom.

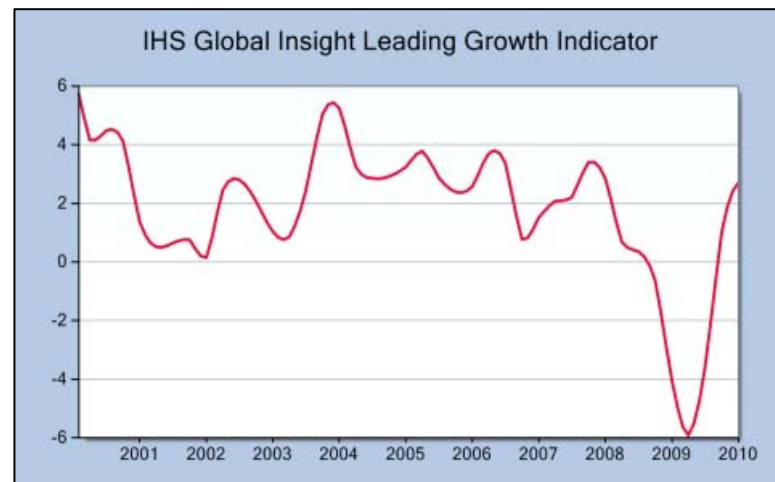
The rate of economic improvement differs markedly throughout the world. In terms of major economies, China and India continue to provide economic leadership and we look for this to continue in 2010. We anticipate the U.S. will lag the faster-growing Chinese economy, but we think the U.S. economy will surprise many with its rebound. In our opinion, Japan and Europe will rebound at a relatively slower pace, while Brazil and selected other emerging market economies will rebound strongly. Equity market performance should broadly follow economic prospects, but we expect emerging equity market performance to be more selective in 2010 versus 2009.

The United States

Although the U.S. has recovered smartly with housing, technology spending and retail sales showing respectable gains in the last three quarters of the year, economists and investors alike can't help worrying about the dreaded "V" or "W" or "double-dip." In other words, they fear the economy will roll over with the winding down of fiscal stimulus, lack of employment growth, overextended consumer balance sheets and possibly higher energy costs which could then cause a major retrenchment in consumer willingness to spend, thus, making the recovery subpar. While a rationale argument, we think this recovery will be more typical, in that a severe downturn is followed by a steep, rapid rebound. Human nature goes a long way towards explaining this phenomenon—when people are scared about their jobs or incomes, naturally they spend less and use less credit. However, as fear subsides, confidence returns, hiring begins, incomes improve and spending resumes, not just back to previous levels but to levels to make up for the temporary belt tightening. The fact that inventory levels have just started to build suggests to us that the most impressive quarters of recovery for the U.S. are ahead of us. Leading data indicators of corporate earnings, jobless claims and temporary help all point to an improving labor market and emboldens our conviction that near-term job growth will be more robust than expected. Moreover, conditions may be developing for a "melt-up." The negative feedback loop of falling home prices and stressed credit has been broken and replaced by ample credit, returning confidence and enormous liquidity.



Western Europe



The eurozone finally emerged from recession in the third quarter of 2009 after suffering through five straight quarters of economic shrinkage. The region, like most of the world, experienced a particularly steep contraction in the fourth quarter of 2008 and the first quarter of 2009, when economic activity and trade took a nosedive and financial turmoil reached a fever pitch after Lehman's failure. Europe's momentum pales compared to the U.S., as evidenced by the relapse in some economic indicators in the fourth quarter. Fourth quarter 2009 economic performance may simply match, not exceed, third quarter levels. The withdrawal of car scrap schemes, employment support and other stimulus measures are already starting to constrain the pace of the recovery, as consumer

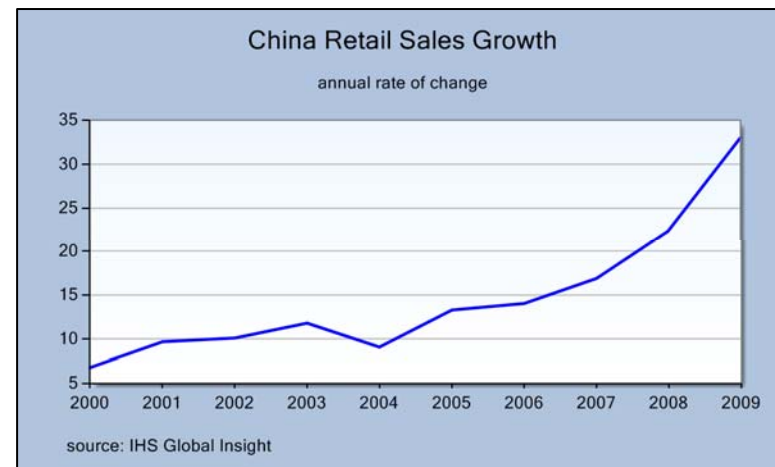
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spending improvement appears to be decelerating. Although not available at the time of this writing, the eurozone economy probably fell nearly 4% in 2009, but should register growth in 2010. Business confidence and sentiment recently achieved new highs for this recovery as production levels increase to boost depleted inventory levels and low inflation induces consumers to spend due to better purchasing power. Also, despite the relatively strong euro, trade numbers continue to improve. Year-over-year exports bottomed at -37.4% in April, but have improved steadily since and registered an impressive double-digit growth rate in November. Germany leads the region in this category, and should score the best 2010 performance compared to most of Europe as the country's leading machinery production positions it well for the anticipated significant rise in 2010 capital spending. The U.K.'s heavier reliance on finance and heavier consumer debt burden intensified the downturn. The road to recovery in the U.K., like most of Europe, will be bumpy. Other countries like Spain and Ireland may continue to languish under the weight of the housing bubble bursting aftershocks.

Asia/Pacific

Japan's recovery reflects strong fiscal stimulus spending, but also the world's recognition of the country's comparative advantage in manufactured goods. Exports to Asia and the U.S. have recently shown annual growth rates exceeding 30%. However, domestic performance remains troubling: job loss recently measured 200,000, retail sales worsened and business sentiment remains mildly pessimistic. The country continues to face several structural headwinds, including an aging population, an unwillingness to accept a meaningful number of immigrants and overly heavy regulations. We expect Japan's future growth to be substandard to the U.S., and especially to the rest of Asia.

China continues to be at the top of the major economy performance rankings. Consensus expectations peg China 2009 economic growth at 9%, down just marginally from 2008. The latest data, however, points toward acceleration instead of a moderate growth. November industrial output surged to a +19.2% year-over-year growth rate, much of the gain focused on the heavy industrial sector including automotive, cement, steel and chemicals. Exports turned up sharply and imports gained even more impressively, again reflecting China's faster consumption growth relative to the world (China just assumed the number one spot over the U.S. as biggest importer from Brazil). Recent government policy reflects a concern about the economy overheating, as money supply has been rising close to 30%, stoking inflationary worries. The consumer price index recently climbed out of a deflationary territory, ending nine consecutive months of decline. The latest government actions have attempted to cool home price appreciation by stepping up supply and imposing new taxes/fees on home resales and land transfers. New government regulations on the steel industry are designed to close hundreds of mills, or approximately 20% of the country's output, and ease upward pressure on iron ore prices. These efforts will have limited impact on slowing economic activity, as continued infrastructure spending and the renewal of many tax incentive/subsidy programs boost automobile, home appliance, electronic and housing sales keeping China humming in 2010.



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Brazil

Brazil, the largest Latin American country, had a relatively mild economic downturn relative to the rest of the world, but the government responded with stimulus by cutting taxes and boosting public sector spending. The biggest concern appears to be the ability of Brazilian authorities to withdraw the stimuli in time to avoid high inflation and ultra-high deficits. Major 2010 elections will limit any moves to reign in spending, and continued firm commodity prices should support the economy. The strong labor market underpins dynamic domestic demand. We look for gross domestic product (GDP) to exceed 5% in 2010.

Other countries we believe to have generally favorable equity investment climates include Australia, Canada, India, Indonesia, Philippines, Taiwan, Korea and Turkey. Countries which are relatively unfavorable due to balance of payments, inadequate currency reserves, fiscal imbalances or political issues include Russia and most of Eastern Europe.

Portfolio Review

The portfolios provided positive results during the latest quarter and exceeded their comparative indexes. In U.S. Dividend, we purchased Abbott Laboratories (ABT) and Coca Cola (KO), and sold Verizon (VZ). In International and Global Dividend we bought Hang Seng Bank (HSNGY), City Telecom (CTEL) and Ambev (ABV), and sold Vodafone (VOD) and Nintendo (NTDOY). In addition, we sold Fanuc (FANUY) in International Dividend. In the Small/Mid version of the portfolio, we purchased Anixter International (AXE), and sold CEC Entertainment (CEC) and Cryptologic (CRYP).

We believe ABT is a rare investment opportunity with a diversified product mix and exceptional long-term growth profile. We look for renewed investor confidence in the company's Humira franchise, improving profitability within the company's diagnostics division and better margins for Xience (the company's drug eluting stent). In addition, we expect the company's proposed acquisition of Solvay's pharmaceutical unit to be successful and be earnings accretive. Humira, a drug for the treatment of rheumatoid arthritis, Crohn's disease and psoriasis, has registered impressive growth and we look for this to accelerate worldwide, with 2010 sales increasing over 20%. Despite the better-than-market earnings growth profile, the stock trades at a discounted earnings multiple to both the market and the healthcare group. We believe Abbott deserves a premium valuation due to its growth profile and insulation from generic drug competition. In our view, the current debate regarding healthcare reform has shifted investor sentiment to negative representing an opportunity. The company is a consistent dividend payer, regularly incrementing the dividend, with an attractive 3% dividend yield.

We anticipate KO will benefit from accelerating emerging market economies with 35% of sales coming from developing markets. As mentioned above, major world population centers, like Brazil, China and India have much faster per capita consumption. We also look for improvement in the company's North American operations through improved bottler relationships. A key structural positive is the establishment of an incidence-based pricing model, better aligning the interest of Coke with their bottlers. This should result in significant cost savings over the next several years, as both Coke and its bottlers, put greater emphasis on system cost savings and improved efficiencies. Coke is using its cash, marketing muscle and unmatched global distribution system to take market share from rivals, while strengthening their core business and launching new products. We think investors have generally underestimated the future benefits of

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these investments given the stock is trading at a 20-year low as measured by price/earnings valuation. The dividend has increased for 47 consecutive years and the stock's dividend yield nears a 20-year high at 3%.

Although both VOD and VZ have attractive dividend yields, we have multiple concerns regarding their telecommunication franchises and ability to not only grow free cash flow but also to support the current dividend level. Not the least of our worries is VoIP (voice over Internet protocol), which essentially enables phone calls to be routed over the Internet at practically zero cost. Skype, a key provider in this space, has an 8% international call market share and is growing 40% per year. Google, Hutchinson, Skype and others either already offer or plan to offer a mobile Skype-type service. Moreover, the competing technology will keep downward pressure not only on fixed land lines but mobile rates as well. We're also concerned about the huge growth in data services by smart phones and its effect on network capacity. For instance, data usage in Europe is growing 75% per year, yet mobile data prices are falling 50% per year. Data is becoming a larger proportion of revenues, suggesting that margins are coming under pressure. Also, these kinds of data demand growth rates suggest network traffic will be 13x current levels in five years. Given the falling prices for smart phones, air cards and other devices, it's not a stretch to think that there could be a massive wave in consumer purchases of these devices and a huge surge in network traffic. Current network capacity is woefully inadequate, yet current capital spending forecasts are flat. Renewing customer contracts will hurt pricing as many of these contracts were initiated before the recession. In both cases, the companies' earnings will not cover their dividend and their return on assets will continue to sink. We don't see these trends reversing.

Hang Seng Bank is one of Hong Kong's largest listed companies in terms of market capitalization, providing a full range of banking services to customers in Hong Kong and China. HSBC owns 62.1% of Hang Seng Bank. Despite investor concern regarding the sustainability of the company's rich dividend yield, currently 5.5%, we believe HSNGY's earnings will surprise investors this year and comfortably cover the dividend. We believe investors may be underestimating the expansion in the bank's net interest margin and believe the bank brand image engenders meaningful recovery in wealth management, brokerage, insurance and personal banking. Deposits have grown consistently and market share continues to expand. Investors worry about the company's credit costs, but given the strength in China's economic environment and improvement in the Hong Kong property market, we think it's possible that credit cost improvement could accelerate. Although the stock is not as attractive from a valuation standpoint as a typical new position for our portfolios we look for respectable price appreciation combined with the dividend yield to provide a competitive return over the next three years.

AmBev is the leader in the Brazilian and Latin American beverage markets. ABV is well diversified, not only in terms of geographic presence, but also in terms of seasonally driven revenues, brand portfolio and synergies between the beer and soft drinks market. The Brazilian beverage market is one of the largest worldwide, but still shows low per capita consumption levels. A young population and increasing household income should translate into positive growth prospects. Entry barriers for newcomers include a well-established distribution network, significant brand recognition and talented marketing resources. The company has a sound financial structure, lean/profitable operations, healthy cash generation and an attractive valuation with a single-digit multiple to operating cash flow. AmBev has demonstrated an impressive track record of giving cash back to shareholders, and we expect this to continue, especially since the parent company needs to have a cash dividend stream to deliver after its acquisition of Anheuser-Busch.

We sold Fanuc based on the fact that the company slashed their dividend by 85%. The company's dividend policy is to pay a minimum of 30% of earnings to shareholders. As earnings declined, the company decreased their dividend to the extent of suggesting that

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management does not have as much confidence in their future business prospects as we would like. We require all of our larger-cap investments to pass a portion of earnings through to shareholders in the form of cash, and believe this provides discipline to managers running their businesses—company executives budgeting and planning for a cash dividend are less inclined to make a dilutive acquisition or make ill-advised capital investments. The cash dividend provides the tangible evidence of operational success. We believe large cap companies unwilling to provide this proof generally do not make good investments over the long term.

Nintendo has been a long-term holding and generally executed well during this time period, but lately the company has lost sales momentum relative to competitors. As of late, introduction of new products, and the rollout of online services have been uninspiring and there has been little communication regarding a follow up product to the Wii. We worry that the company's president, a key creative force at the company, may choose to pursue a political career. Recent results suggest the company will need to make a sizable cut to the dividend and the valuation is not as attractive compared to alternatives.

City Telecom is a Hong Kong broadband supplier. We believe the company is ideally positioned for the anticipated huge demand for high-speed Internet services. Hong Kong is one of the richest and most densely populated cities in the world. The company spent over HK\$3.0 billion adding “last mile” fiber to very limited space buildings. This will be extremely difficult and costly for competitors to duplicate. With an unparalleled fiber-to-the-home network offering 100 megabit per second speed to users in place, we look for market share to increase by 59% over the next two years. The impressive subscriber growth, combined with falling capital spending, should generate propitious amounts of free cash flow. The company has an impressive balance sheet with zero net debt and double-digit profitability. The stock currently trades at a single-digit valuation as measured by a multiple to earnings and offers a 4% plus dividend yield.

Anixter is a leading global supplier of communications and security products, electrical and electronic wire and cable, fasteners and other small components. Its market capitalization is \$1.6 billion. The company helps its customers specify solutions and make informed purchasing decisions around technology, applications and relevant standards. With a global customer base, Anixter provides innovative supply chain management services to reduce its customers' total cost of production and implementation. Conceptually, Anixter is a value-added middleman, connecting thousands of suppliers with thousands of customers. By working at a very deep level—down to the design stage—with its customers, AXE enables its clients to optimize products and minimize inventory. The high-volume nature of Anixter's business provides consistent profitability and free cash flow generation. Valuation is attractive, trading at a discount to the market. Well-known real estate investor Sam Zell is Chairman of the Board and owns 14% of the company.

CEC Entertainment (CEC), in our opinion, has limited appreciation potential compared to other names in the portfolio and was a source of cash for the Anixter purchase. We sold Cryptologic due to the lack of an anticipated catalyst for price appreciation. While we continue to believe that the U.S. law banning internet gambling (by preventing funding of accounts) will ultimately be overturned, we have opted to move on.

Market Outlook

The typical reaction early in a market recovery is one of disbelief. Brief equity price drops do little to change the overall direction of the market but add resolve to those convinced the market will embark on another new major bear market. This can last for a few years as investors remember the viciousness of the last bear market. Slowly, however, the bull market advance sways the naysayers, melting away skepticism of the market trend's durability. As indicated above, we believe positive economic performance will transpire globally. Worries about central bank interest rate hikes may cause disruptions in the advance, but we don't look for these in the U.S., Europe or Japan until late 2010, or more probably 2011. In summary, we believe the equity market will be more selective, but the relatively positive economic environment, combined with lower credit costs, improving earnings, attractive valuations and benign inflation, should provide a positive environment for stocks over the next 12 months.

Investing involves risk, including a possible loss of principal. Past performance does not guarantee future results. Portfolio holdings are subject to change at any time.

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