



## FAIRWAY INVESTMENT GRADE INCOME FUND

### Investment Objective

The Investment Objective of the fund are to provide Unitholders with stable monthly distributions, while mitigating the impact of significant interest rate increases on the value of the portfolio, and preserving and enhancing the NAV per Unit.

### MFC Global Investment Management

#### Monthly Market Commentary for the period ending January 31, 2007

The Canadian bond market, as measured by the Scotia Capital Market Universe, produced a return of 0.12% in January. The Government of Canada yield curve shifted up during the month. The yield on two-year bonds moved up by eight basis points, to 4.11%, while 30-year bond yields also increased by eight basis points, ending the month at 4.22%. The Canadian government bond market modestly outperformed its U.S. counterpart along the yield curve, with yield differentials widening by two basis points.

The Bank of Canada (BoC) kept overnight rates unchanged, at 4.25%, at its January 16 meeting. GDP growth for the month of November, at 0.2%, followed a very anemic rate of 0.0% for October. These monthly data have set the stage for the fourth-quarter growth rate to remain well below potential. Second- and third-quarter GDP growth rates, of 2.0% and 1.7% respectively, were also below potential. December core CPI, at 2.0%, is at the midpoint of the BoC's target range of 1.0% to 3.0%. The bright spot in the Canadian economic landscape in December, however, was clearly the net employment gain of 52,500. The fund managers expect Canadian GDP to grow at a moderate pace of 1.5% to 2.5% over the next two quarters, with the BoC keeping rates unchanged until inflation declines and stays below the midpoint of its target range.

At its January 31 meeting, the U.S. Federal Reserve Open Market Committee also kept rates unchanged. The Fed's statement indicated that the governors perceive a lingering inflation risk, due to high resource utilization, but they expect inflationary pressures to moderate (hence their slightly less hawkish position). The Fed also indicated that the American economy is likely to expand "at a moderate pace." Economic activity in the U.S. picked up in the fourth quarter, with a fourth-quarter GDP growth rate of 3.5%.

The Total Rate of Return Universe mandates currently have a 0.25-year-long duration exposure. The managers are maintaining a slightly long duration posture, with a flattening bias in the very short end of the curve.



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### Sovereign Asset Management

Monthly Market Commentary for the period ending January 31, 2007

The beginning of 2007 saw utilities long upward trend finally subside with a minor sell-off in early January. Treasuries continued their December slide in the New Year, starting off with a 4.70 yield and ending with a 4.83. Weather fervently reversed its record warm temperatures of December into one of the coldest January's to date. The resulting effect had pushed light crude back up to \$59/barrel by January end and with it, energy and utility stocks. Previously fueled speculation for a warm winter has been erased and replaced with a bullish approach to the energy sector.

The Merrill Lynch Hybrid preferred index moved higher in the first quarter by 0.56% while the Merrill Lynch DRD index was up 1.05%. QDI and DRD tax-advantaged preferreds continued to be recognized for their value and relatively strong performance versus fully taxables in lieu of the continued treasuries sell-off. We continue to support our conviction that the growing number of retiring baby-boomers will look for strong yield, particularly if the number of new issues grows in 2007 and with it, the strong performance of longer duration preferreds.

Duke Realty holdings were strong contributors to earnings for the Fund. Southwest Gas was a solid performer as gas and oil stocks rebounded in the cold weather. And Royal Bank of Scotland continued to show positive returns. On the downside, Dominion paid its quarterly dividend at the end of the month, causing a relative reduction in the NAV. The same occurred for Nexen, which paid its dividend earlier in the month and Verizon which paid at the end of the month. The majority of preferreds were flat for the quarter.

