



## FAIRWAY INVESTMENT GRADE INCOME FUND

### Investment Objective

The Investment Objective of the fund is 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.

### Monthly Market Commentary for the period ending February 28, 2007

#### MFC Global Investment Management

The Canadian bond market as measured by the Scotia Capital Universe (SCU) Bond Index rose 0.87% in February. Also during the month, the Government of Canada yield curve shifted down and flattened by two basis points (bps). The yield on two-year bonds fell 12 bps to 3.98%, while the 30-year bond yield fell 14 bps to 4.08%. The Bank of Canada (BOC) kept overnight rates unchanged at 4.25% at its March 6th meeting. The accompanying statement mentioned that the Canadian and global economies were evolving broadly in line with central bank expectations. The Canadian economy was also judged to have been operating at, or just above, its production capacity. Fourth quarter 2006 GDP growth of 1.4% was below potential and followed two sub-par quarters of 2.0% GDP growth. We expect the BOC to keep interest rates unchanged in the first half of 2007. However, given the current state of the Canadian economy, there is potential for interest rates at the longer end of the yield curve to drift lower. The U.S. bond market was more volatile in February as a partial reversal of the yen carry trade prompted a flight to quality assets such as U.S. treasuries. The Bank of Japan raised its target rate from 0.25% to 0.50%. The higher cost of borrowing yen and the 1.8% appreciation of the currency against the U.S. dollar during the month hurt the profitability of high-beta investments outside Japan for carry trade participants. These two factors helped push global stock markets down and caused the flight-to-quality bid in the U.S. treasury market. As a result, the yield on 10-year treasuries declined by 23 bps and ended the month at 4.57%. The Canadian Government bond market underperformed its U.S. counterpart along the yield curve. For instance, in the 10-year sector, yield differentials narrowed by about 9 bps. The Total Rate of Return Universe mandates currently have a 0.25-year long duration exposure relative to the index. We are maintaining a slightly long duration posture with a flattening bias in the very short end of the curve.

### Sovereign Asset Management

The second month of 2007 was a financial roller coaster of volatility as the Dow Jones utility average hit another all-time high before experiencing a correction at the end of the month. Treasuries, coming off a two month sell-off in January, began to rally back, starting with a 4.83 yield and ending at 4.55. Extremely cold weather in the Northern U.S. continued into February, prompting higher customer usage and generating strong earnings for utilities. The weather continued to push light crude on a see-saw run, ending the month at \$62/barrel, its highest level since the beginning of the year. Previously fueled speculation for a warm winter has been wiped away and replaced with a bullish outlook for energy producing utilities. Overall, U.S. heating degree days in the first quarter of '07 increased 21.7% compared with the first quarter of '06 to date. The Merrill Lynch Hybrid preferred index moved only modestly higher by 0.29% while the Merrill Lynch DRD index was up 1.21%. QDI and DRD tax-advantaged preferreds continued to be recognized for their value and relatively strong performance in conjunction with the recent treasury rally. We continue to support our conviction that the growing number of retiring baby-boomers will look for strong tax-advantaged yield, and we expect an increase in utility capital expenditures and preferred issuance as well, particularly as a result of pollution controls and transmission and distribution build-up. Hawaiian Electric and Dominion were strong contributors to earnings for both Fairway funds. Phoenix Companies was a solid performer with their positive Fitch rating on strong capitalization and the restructuring of their debt profile. Verizon also continued their positive returns. On the downside, AEGON paid its quarterly dividend at the end of the month, causing a relative reduction in the NAV. The same was true for SLM Corp and ING Groep NV. The majority of preferreds were flat for the period.