



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.

Market Review - MFC Global Investment Management Monthly Market Commentary for the period ending March 31, 2007

The Canadian bond market, as measured by Scotia Capital Markets Universe (SMU) Index, produced a negative return of 0.25% in March 2007. The SMU Long Term Bond Index registered a negative return of 0.97% during this period. The Government of Canada yield curve steepened by seven basis points (bps). The yield on two-year bonds increased by four bps to 3.98%, while 30-year bond yields increased by 11 bps, ending the month at 4.22%. Market rumors about a potential leveraged buy-out of BCE Inc. caused long Bell Canada spreads to widen by as much as 25 bps. The portfolio's performance was in line with the index for the month. The Bank of Canada (BOC) kept overnight rates, which have been steady since May 2006, unchanged at 4.25% in March. BOC stated that the Canadian and global economies were broadly in line with its expectations. The Canadian economy was also judged to be operating at, or just above, its production capacity. GDP growth for the fourth quarter 2006, at 1.4%, was below potential and followed two consecutive quarters of sub-par performance, each at 2.0%. GDP growth for the month of January, at 0.1%, sets the stage for another benign quarterly performance in Q1 2007. Inflation, however, has been relatively persistent, as the one-year core CPI in February moved up to 2.4%, from 2.1% the month previous. The fund managers expect BOC to keep interest rates unchanged in the first half of 2007. The U.S. Federal Reserve also kept rates unchanged in March. The Fed has toned down its tightening bias, although concerns continue about lingering inflationary pressures. The Fed has given itself some additional flexibility to deal with any potential spillover from the weakness in the housing sector – particularly the sub-prime mortgage market – into the rest of the economy. The pace of U.S. economic activity, as measured by the GDP growth rate in Q4 2006, moderately picked up to 2.5%, from 2.0% in Q3 2006. The Canadian Government bond market had similar performance to its U.S. counterpart during the month.

Portfolio Strategy

The portfolio is positioned to benefit from a decrease in longer-term rates, with a duration posture that is slightly longer than the index. A defensive credit strategy is currently in place, which profits from the relative steepness of the short end of the credit curve and maintains a positive running yield advantage over the SMU. Corporate sector holdings are overweight and Provincials are neutral versus the index on a percentage of market value basis.

Sovereign Asset Management

The first quarter of 2007 was an industry cyclone of growth as the Dow Jones utility average hit another all time high, leveling off at 501 by the end of March. Treasuries had a see-saw run during the quarter, with yields ranging from 4.70 at the beginning of the quarter and ending at 4.55, but hitting levels of 4.88 and 4.48 throughout the period. Cold weather in the Northern and Western U.S. continued through March prompting higher customer usage and generating strong earnings for utilities. Light crude, which saw levels as low as \$53/barrel in mid January, rose to \$66/barrel at the end of March, its highest level since the end of 2006.

During the quarter, the Merrill Lynch Hybrid Preferred index moved higher by 1.67% while the Merrill Lynch DRD index was up 2.55%. QDI and DRD tax-advantaged preferreds continued to be recognized for their value and relatively strong performance. We continue to support our conviction that the growing number of retiring baby boomers will look for strong tax-advantaged yield. We continue to focus on healthy fundamentals amongst our credits, seeking companies that are likely to withstand a slowdown in the economy. We expect an increase in utility capital expenditures and preferred issuance as well.

Hawaiian Electric and US Bancorp were strong contributors to earnings for the fund. FPL Group continued its positive returns and PNM Resources performed well due to their increases in positive cash flow. On the downside, AEGON, Nexen and Southwest Gas all experienced some reduction in value, partly due to payments of their quarterly dividends and the treasury sell-off at the end of the quarter.

Our future outlook remains unchanged. We forecast continued demand for power and use of excess supply. Investors will be looking for utilities with strong balance sheets and dividend expansion. The increasing amount of M&A and LBO's further prompt the sector for bullish momentum. If the Fed makes a move to cut interest rates, dividend yields for utilities companies will be much more attractive.

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