



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 April 30, 2007

Market Review

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

April continued its first quarter run in what can be described as another historic month in utility stocks, as the Dow Jones utility average hit another all time high at 531 before leveling off at 522. Even with signs that the economy might be slowing, utilities' performance continued their equity leadership. Treasuries had a very flat period in April with little change from the start of the month. The regulatory environment for utilities remains positive as more state regulators have been granting mechanisms that automatically adjust rates to offset fluctuations in consumption, an effort that has especially helped gas utilities. Light crude, which saw levels as low as \$53/barrel in mid January, pushed to over \$66/barrel at the end of April – marking a six month high.

During the quarter, the Merrill Lynch Hybrid preferred index moved higher only slightly by .29%, while the Merrill Lynch DRD index was relatively flat, down -.07%. QDI and DRD tax-advantaged preferreds continued to be recognized for their value and relatively strong performance in spite of a bill currently before the House Ways and Means Committee that would remove the favorable QDI tax treatment for certain foreign preferreds. The ultimate price impact, even if it passes, should be minimal as the original QDI benefit was never fully priced into the market. We continue in our conviction that the growing number of baby-boomers approaching or entering retirement will shift towards higher-yield, conservative investments with strong tax-advantaged yield.

Duke Realty Corp was a strong contributor to earnings for both Fairway funds. Aegon continued its positive returns, as did ING Groep and Phoenix Companies. On the downside, SLM Corp was the weakest performer for both funds due to a potential private equity acquisition. Moody's said that its rating review will focus on the credit implications of the substantial debt to be added to SLM's already highly levered balance sheet. Debt protection measures for unsecured bondholders could be significantly impaired.

Our outlook is still the same - the demand for power and the expected use of excess supply is a likely forecast. Investors will be looking for utilities with strong balance sheets and dividend expansion. The increasing amount of M&A and LBO activity further prompts the sector for bullish momentum, and if the Fed makes a move to cut interest rates, it makes these companies' dividend yields much more attractive.