



FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST

Investment Objective

The Trust's investment objective is to provide holders of the units with stable monthly distributions and enhance the total return with capital appreciation.



Market Review - Fairway Capital May 2007 Commentary Market Commentary for the period ending May 31, 2007.

Takeover fever continued in May 2007, causing both the equity and income trust markets to experience strong returns during the month. Speculation surrounding the potential takeover of notable Canadian companies, such as Alcan Inc. and LionOre Mining International Ltd., drove the S&P/TSX higher. Meanwhile the takeover announcements of income trusts such as Versacold and Osprey Media helped propel the income trust sector upward.

During the month, the S&P TSX Index, which represents a broad measure of Canadian equity performance, posted a total return of +4.99%. Income trusts, as measured by the Scotia Capital Income Trust Index, posted a total return of +4.88%. Bonds, as measured by the Scotia Capital Bond Universe, were the laggard asset class, posting a total return of 1.44%.

In the U.S. bond markets, high yield returned 0.67%, as measured by the Merrill Lynch Master II High Yield Index, Constrained, in U.S. dollar terms. High-yield spreads tightened by 28 basis points, on average, against U.S. Treasuries. The current U.S. ten-year bond traded down, rising by 26 basis points of yield to end the month at 4.89%. While expected to gradually increase over the next year, defaults still remain well below the historical average. Higher-quality, more interest rate-sensitive BB bonds returned 0.28%, tightening 19 basis points against Treasuries. At the other end of the high-yield spectrum, CCC-rated bonds tightened 37 basis points to return 1.19%.

Economic growth in the U.S., as measured by the annualized gross domestic product, has moderated to its slowest rate in the past five years. The moderation reflects a gradual cooling of the U.S. housing market and the lagged effects of increases in interest rates and energy prices. Despite this, the U.S. economy is still operating near its production capacity and this high level of resource utilization has the potential to sustain inflation pressures. This means the U.S. Federal Reserve will likely keep its overnight rate constant over the near term.

In Canada, inflation and economic growth have risen faster than the Bank of Canada previously expected. Gross domestic product rose at an annualized rate of 3.7% in the first quarter of 2007, a percentage point faster than anticipated. Also, Statistics Canada reported on May 17th that the core rate of inflation rose to a four-year high of 2.5% annualized. Signs of faster inflation and strong economic growth have led many economists to predict that the Bank of Canada will raise rates later this year.

There were few changes to the portfolio during the month. Given the current economic environment, the fund managers currently favour dividend-paying common equities and income trusts over bonds. Also, the risk profile of the fund has not changed significantly from that which is detailed in the prospectus.

The opinions expressed in the commentary are those of the author (MFC Global Investment Management) and do not necessarily reflect the views and opinions of Fairway Advisors Inc. The views expressed are of a general nature should not be interpreted as investment advice to you in any way. Please consult a qualified financial advisor before making an investment decision. Commissions, trailing commissions, management fees and expenses all may be associated with the Fund. The investment may not be suitable for all investors. Some conditions apply. Investors should carefully review the Fund's prospectus, including the risk factors detailed therein under the heading "Risk Factors", prior to investing in the Fund.



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