



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 May 31, 2007

Market Review

The Canadian bond market, as measured by the Scotia Capital Market Universe (SMU) Index, produced a return of 1.44% in May. The Government of Canada yield curve inverted by 19 basis points during the period. The yield on two-year bonds increased by 44 basis points, to 4.58%, while 30-year bond yields increased by 20 basis points, ending the month at 4.39%. The Canadian Government bond market outperformed its U.S. counterpart, with U.S.-Canada ten-year spreads widening by seven basis points.

At its May 29 meeting, the Bank of Canada kept overnight rates, which have been steady since May 2006, unchanged at 4.25%. However, the Bank's statement sent a clear signal that some increase in interest rates may be required to reduce inflationary pressures. This statement, combined with strong first-quarter GDP growth of 3.7% and higher-than-expected core CPI inflation of 2.5%, contributed to the sell-off in the bond market. The fund managers expect the Bank will raise interest rates by 50 basis points in the second half of 2007 and that the rest of the yield curve will shift up.

At its May 9 meeting, the Federal Reserve Open Market Committee also kept rates unchanged. The Fed continued to indicate more concern about inflation than any housing-induced weakness in the economy. The pace of economic activity in the United States has slowed, with first-quarter GDP growth revised down to a very anemic 0.6%. However, strong May data on manufacturing and non-manufacturing from the Institute for Supply Management, and on retail sales, point to stronger GDP growth in the second quarter of 2007. The managers expect the Fed to hold interest rates steady in the second half of 2007; there is some risk that it will change its bias to a tighter monetary regime if the economy continues to gain strength.

The portfolio is positioned to benefit from an increase in short-term rates, with a duration posture that is slightly shorter than that of 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 Index.

Sovereign Asset Management

Performance in the utility sector was mixed in the month of May. The Dow Jones utility average, while remaining flat for the period, hit another all time high at 535 on May 21st as well as its lowest level (512) since mid-April. Growth came from a combination of higher realized power prices and rate case decisions being finalized from 2006. Also, transmission and distribution investments are on the rise, as is capital spending related to environmental upgrades. Interest rates continue to move the group as treasuries had a very active sell-off period. The yield on the 10 year treasuries began the month at a 4.65% and ended at a 4.89%. Light crude, which saw levels as low as \$53 per barrel in mid January, maintained levels between \$64 and \$66 per barrel during the period.

During the quarter, the Merrill Lynch Hybrid preferred index moved down -0.78% while the Merrill Lynch DRD index was down -0.50%. QDI and DRD tax-advantaged preferreds continued to be recognized for their value and relatively strong. We continue to support our conviction that the growing number of retiring baby-boomers approaching or entering retirement will shift towards higher-yield conservative investments with strong tax-advantaged yield.

We continue to believe the demand for power will continue, and expect use of excess supply to meet this demand. The utility sector should benefit from higher realized commodity prices over the next 2-4 years. Investors will be looking for utilities with strong balance sheets and dividend expansion. The increasing amount of M&A and LBO's could prompt the sector for bullish momentum.

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