



FAIRWAY INVESTMENT GRADE INCOME FUND

Investment Objective

The Investment Objectives of the fund are 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.

MFC Global Investment Management

Monthly Market Commentary for the period ending December 31, 2006

The Canadian bond market, as measured by the Scotia Capital Market Universe, returned 0.70% in the fourth quarter. The Government of Canada yield curve shifted up during the last quarter; two-year bond yields ended the year at 4.07%, while the 30-year bond yield finished the year at 4.14%.

The Bank of Canada kept overnight rates unchanged, at 4.25%, at its December 5 meeting. GDP for October showed 0.0% growth, setting the stage for the fourth-quarter growth rate to remain below potential. (The second- and third-quarter GDP growth rates, at 2.0% and 1.7%, respectively, were also below potential.) November core CPI, at 2.2%, is still above the midpoint in the bank's target range of 1.0% to 3.0%. Canadian GDP is expected to grow at a moderate pace, between 1.5% and 2.5%, over the next two quarters, and the fund managers expect the bank will keep rates unchanged until inflation numbers fall below the midpoint of its target range.

At its December 12 meeting, the U.S. Federal Reserve Open Market Committee also kept rates unchanged. Data released in the U.S. were mixed, but on balance indicated a decelerating economy. The slowdown in the housing sector, which has caused weakness in the overall economy, is beginning to show signs of stability. However, third-quarter GDP growth was 2.0%, pointing to a below-potential growth rate. With November core CPI at 2.6%, the Fed governors are still worried about lingering inflation risk.

The Canadian government bond market outperformed its U.S. counterpart, mostly in the 30-year area, where yield differentials widened by 10 basis points.

The Total Rate of Return Universe mandates currently have 0.15 year long duration exposure. The managers are maintaining a slightly long duration posture with a flattening bias in the very short end of the curve. They also have an overweight exposure to short corporate and long provincial bonds.



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Sovereign Asset Management

Monthly Market Commentary for the period ending December 31, 2006

By the end of the fourth quarter, Utilities' year-long upward trend finally subsided, finishing the month of December relatively flat. Treasuries also ended their fourth quarter rally and began to sell off at the beginning of December, starting with a 4.43 yield and ending with a 4.70. From an energy perspective, weather has proven to be an influential factor significantly affecting electric, natural gas and pipelines utilities. Record high temperatures over the past three months have fueled speculation for another warm winter.

The Merrill Lynch Hybrid preferred index moved up by 2.67% in the fourth quarter, while the Merrill Lynch DRD index was up 3.00%. QDI and DRD tax-advantaged preferreds continued to be recognized for their value and relatively strong performance versus fully taxables in lieu of the late quarter treasuries sell-off. We continue to support our conviction that the growing number of retiring baby-boomers will look for strong yield, and that healthy company fundamentals amongst our credits are likely to withstand the slowdown in the economy. There has been evidence supporting that the growing number of ETF's continue to add utilities to their portfolios in an effort to maximize yield.

