



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

First Quarter for the period ending March 31, 2006

The Canadian bond market, as measured by the Scotia Capital Market Universe, fell – 0.43% in the first quarter, outperforming its U.S. counterpart across the yield curve.

Both the Bank of Canada and the Fed raised rates by 50 basis points during the quarter, to 3.75% and 4.75%, respectively. Any further tightening by the Fed will be data-dependent. First-quarter GDP in the United States is expected to be 4.5% – 5.0%, much stronger than the anemic 1.7% growth in the fourth quarter of 2005.

The Fund's bond managers are monitoring developments in global financial markets that could affect the bond portion of the portfolio. The European Central Bank has raised rates, and has indicated that it intends to normalize policy rates. However, only moderate and gradual tightening is expected in coming quarters. The Bank of Japan intends to end its policy of quantitative easing, now that Japan's economic revival finally gaining traction.



FAIRWAY INVESTMENT GRADE INCOME FUND (FGF.UN)

Sovereign Asset Management

First Quarter for the period ending March 31, 2006

The Fairway Investment Grade Trust returned 0.10% for the quarter ending March 31, 2006.

Over the first quarter, investor sentiment concerning treasuries, and by extension preferreds, changed course dramatically. The Treasury market started out the year strong. Although the Fed raised interest rates 25 points in January, investors believed this would be the last rate hike in the current cycle. Additionally, the yield curve was inverted slightly in late January, which is often a signal of an impending economic slowdown, and is a boon for treasuries. In February, a new thirty-year bond was issued for the first time in over five years. Its yield at the time of issue was the lowest on record for the thirty year bond, and demand was strong, further bolstering the treasury market. However, investor sentiment began to change direction in March. The February employment report issued early in the month was stronger than expected, which caused a massive sell off in the treasury market. The weakness continued throughout March, as investors worried that the Fed would continue to raise rates. The yield curve also flattened. At the end of March, the Fed raised rates again and indicated that rates may be raised further, inspiring another sell off.

Utility common stocks tend to be influenced by both the Treasury and energy markets. Energy prices remained high over the quarter, especially among oil and coal producers. Therefore, utilities were strong throughout January and February. The sector weakened towards the end of the quarter, as utilities were adversely affected by the weakness in the Treasury market in March. Additionally, due to the warmer than normal winter, investors are anticipating that earnings for utilities may be lower than expected, which further contributed to the fall in prices.

We anticipate that the Fed will raise rates approximately one or two more times, to 5.25%. The most important factors driving interest rate decisions will likely be employment data, the status of the housing market and oil prices.

The best performing preferreds were the higher coupon, shorter duration securities. The communications sector and international issues also performed well. The worst performing preferreds were in the auto industry. However, the CEO's of both Ford and General Motors have made public statements that they do not intend to file bankruptcy. We feel comfortable with our small level of exposure to the auto preferreds because of their high coupons.





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Portfolio Review



Companies Positively Impacting Performance

- **STRATS Dominion**, a preferred holding originally issued by Dominion Resources and then repackaged by Wachovia, was a solid performer this quarter after recovering from a late 2005 sell-off. The stock was further assisted by its good security rating.
- **Nexen**, a Canadian-based global energy and chemicals company, performed well as oil exploration and production stocks enjoyed a strong quarter overall.
- **Telephone & Datasystems**, a diversified telecommunications company that provides wireless, telephone and broadband services, performed well over the quarter due to overall strength in the communications sector.

Companies Negatively Impacting Performance

- Last quarter, **Florida Power and Light Company** (FPL) made an offer to buy **Baltimore Gas and Electric's** (BGE) parent Constellation Energy. BGE and FPL both declined this quarter as the merger experienced delays.
- **Great Plains Energy**, a regulated provider of electricity to the mid west, negatively impacted the portfolio due to continuing increases in fuel and power costs.

Current Market Outlook & Portfolio Strategy

With the amount of economic uncertainty in the market today, given high oil prices and a slowing economy, we remain optimistic about preferreds, as investors historically have favored preferreds and treasuries during ambiguous times.

We also believe the long-term demographics for the preferred marketplace are favorable, given the potential demand for income generating securities among the first wave of baby boomers about to retire over the next fifteen to twenty years. This desire for lower risk, income oriented investments will drive demand for preferred stocks and bonds.



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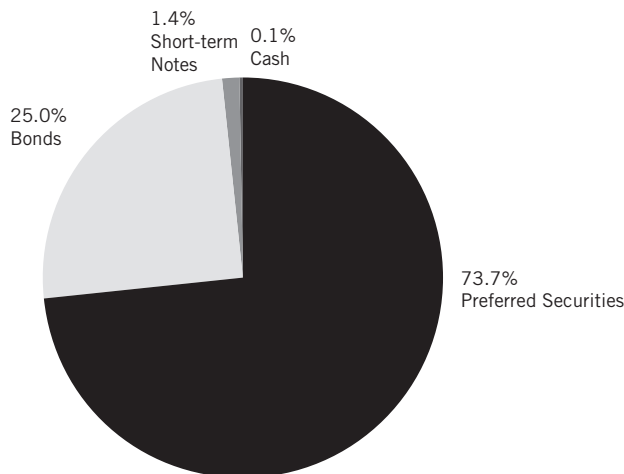
Top 20 Holdings

as of March 31, 2006

	% Of Mkt Value
FPC Capital I 7.10% May 13/39 Series A	3.0%
FPL Group Capital Trust I 5.88% Mar 15/44	2.8%
Great Plains Energy Incorporated 8.00% Feb 16/07	2.4%
Nexen Inc. 7.35% Nov 01/43	2.4%
Virginia Power Capital Trust 7.38% Jul 30/42	2.1%
CU Inc. 5.10% Nov 18/14	2.1%
Bell Canada 5.00% Feb 15/17	2.1%
Telephone & Data Systems, Inc. 6.63% Mar 31/45	2.0%
YPG Holdings Inc. 5.71% Apr 21/14	2.0%
Aegon NV 6.38%	2.0%
Sun Life Assurance of Canada 6.15% Jun 30/22	1.9%
The Thomson Corporation 5.20% Dec 01/14	1.9%
Westcoast Energy 8.30% Dec 20/13	1.9%
The Phoenix Companies, Inc. 7.45% Jan 15/32	1.8%
Morgan Stanley Capital Trust V 5.75% Jul 15/33	1.8%
BNY Capital V 5.95% May 01/33 Series F	1.8%
PLC Capital Trust V 6.13% Jan 27/34	1.7%
SLM Corporation 6.00% Dec 15/43	1.7%
Provident Financial Group Inc. 7.75%	1.7%
Merrill Lynch Capital Trust V 7.28%	1.7%

Portfolio Details

as of March 31, 2006



For more information please contact FAIRWAY CAPITAL MANAGEMENT.
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