



## 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 April 30, 2006*

The Canadian bond market as measured by Scotia Capital Market Universe (SCMU) produced a negative return of 0.94% in April. The yield curve for government of Canada bonds steepened as the 2 – 30 spread widened by 12 bps. The yield on two-year bonds moved up by 14 bps to 4.13%, while 30-year bond yields increased by 26 bps to 4.52%.

The Bank of Canada (BOC), as expected, raised interest rates by 25 bps on April 25 to 4.00% and in the accompanying statement reflected that modest further tightening may be required to keep risks in balance. The BOC, in its semiannual Monetary Policy Report, suggested that the Canadian economy is operating at or just above its production capacity. The Bank projects close to 3.0% GDP growth through 2008 and a core inflation of 2.0%, on average, over the projection period.

Federal Reserve Chairman Ben Bernanke, in his first semiannual address to the Joint Congressional Finance Committee, pointed out that the Fed may decide to pause in its current tightening cycle and evaluate the impact of the rate hikes that have been administered to date. He reiterated that the Fed will continue to monitor the economy very closely and that future interest rate decisions will be data-dependent. The first quarter GDP growth rate in the US was, as anticipated, quite robust. The overall growth rate was 4.8% and the personal consumption component grew at 5.5%. Our expectation is that, in the second quarter, the economy will slow down from this pace and the Fed will have the opportunity to pause during the quarter. The Fed Funds futures market however, discounts a 100% probability of a 25 bps increase at the next FOMC meeting on May 10, 2006.

The Canadian bond market under-performed its US counterpart at the shorter end of the yield curve. The under-performance in the two and five year areas was 9 and 4 bps respectively. The yields of longer maturity bonds however, moved up in tandem.

This portfolio has a neutral duration exposure, and is positioned to benefit from a flattening in the front end of the curve and steepening further out along the curve.



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### Sovereign Asset Management

*Monthly Market Commentary for the period ending April 30, 2006*



Treasury yields rose across the curve during the month of April on strong economic data, including rising yields on global bonds and general heightened inflation concerns. Yields on the long bond rose by especially large margins. As a result of the treasury sell off, preferred stocks were negatively impacted as spreads began to widen from the rich levels at which they were previously trading.

On the political front, industry watchers are anticipating whether House and Senate negotiators will reach an agreement on legislation to extend the 15% tax rate on dividends until 2010. While expected to pass, a rally may not be forthcoming, although the legislation will nevertheless make taxable-equivalent yields more appealing. The Dow Utility Index rose 2.28% in April while the S&P Utility Index increased 1.59%.

Southwest Gas (SWX B) was the strongest performer in the portfolio. Poor performers included SLM Corp (JSM), as lower coupon, longer duration preferreds were hard hit. And lastly, both BGE Capital (BGE B) and FPL Group (FPL C) experienced weaker prices due to skepticism in the proposed merger, a result of potential problems with the Maryland regulators.



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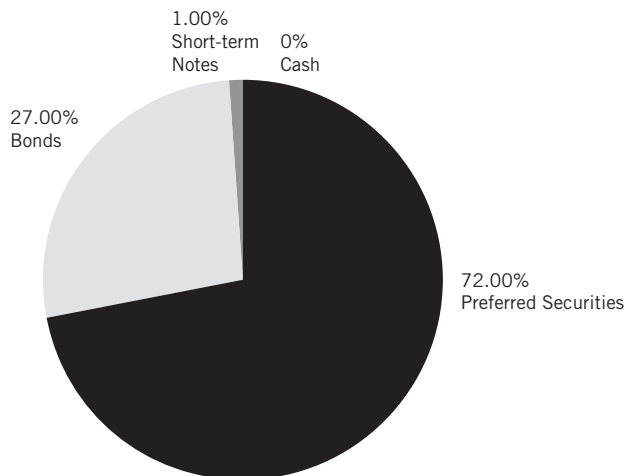
### Top 20 Holdings

as of April 30, 2006

	% Of Mkt Value
FPC Capital I 7.10% May 13/39 Series A	3.1%
FPL Group Capital Trust I 5.88% Mar 15/44	2.7%
Great Plains Energy Incorporated 8.00% Preferred	2.3%
Nexen Inc. 7.35% Nov 01/43	2.3%
CU Inc. 5.10% Nov 18/14	2.2%
Bell Canada 5.00% Feb 15/17	2.1%
YPG Holdings Inc. 5.71% Apr 21/14	2.1%
Virginia Power Capital Trust 7.38% Jul 30/42	2.1%
Sun Life Assurance of Canada 6.15% Jun 30/22	2.0%
The Thomson Corporation 5.20% Dec 01/14	2.0%
Aegon NV 6.38%	2.0%
Westcoast Energy 8.30% Dec 20/13 Preferred	2.0%
The Phoenix Companies, Inc. 7.45% Jan 15/32	1.9%
Morgan Stanley Capital Trust V 5.75% Jul 15/33	1.8%
Provident Financial Group Inc. 7.75%	1.7%
PLC Capital Trust V 6.13% Jan 27/34	1.7%
BNY Capital V 5.95% May 01/33 Series F	1.7%
Hydro One Inc. 5.77% Nov 15/12	1.7%
Merrill Lynch Preferred Capital Trust V 7.28% Preferred	1.7%
SLM Corporation 6.00% Dec 15/43	1.7%

### Portfolio Details

as of April 30, 2006



For more information please contact FAIRWAY CAPITAL MANAGEMENT.  
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