



## FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST

### Investment Objective

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

### Market Review

[Market Commentary for the period ending June 30, 2006.](#)

Income trusts, as measured by the Scotia Capital Income Trust Index, was the leading asset class year-to-date, returning 6.71%. The S&P/TSX Index, a broad measure of Canadian equity performance, returned 4.19%. The high-yield market trailed, returning 2.51%, as measured by the Merrill Lynch Master II Index, Constrained (in U.S. dollar terms). This was a function of spread tightening, offset somewhat by rising interest rates. CCC-rated high-yield paper returned 7.30%, compared to 0.32% for more Treasury-sensitive BB paper. The 10-year U.S. Treasury bond gained 75 basis points, finishing at 5.14%.

The Fed continued to raise rates. Four successive 25-basis-point moves took the rate to 5.25% by late June. This caused the 10-year Treasury bond, which began the year at 4.39%, to rise to 5.14% at the end of June. The rise in market rates was not a smooth process. In early May, with the 10-year Treasury at 5.20%, Fed chairman Ben Bernanke suggested there would be at most one more rate hike, sparking a rally that saw the 10-year bond fall below 5.0%. Subsequent backtracking by the Fed, highlighting inflation concerns, pushed the 10-year bond back up above 5.20% in late June. At month-end, the market was hopeful that inflationary fears would peak this summer, leading the Fed to make just one more increase.

Few major changes were made to the portfolio during the period. The trust managers continued to add to positions in BCE Inc. and Power Financial Corp. The asset mix was altered slightly. The most material change was a slight decrease in the cash component, in favour of high-yield bonds, reflecting the managers' decision to increase exposure to bonds. The risk profile of the fund, however, has not changed significantly from that which is detailed in the Prospectus.

For the first quarter, earnings were in line with expectations. The same is expected for the second quarter. However, fundamentals may not drive valuations in the near term. Market tone appears increasingly technical in nature and data-dependent. In credit, spreads are tight by historical standards, especially for single-Bs, although the underlying economic environment is healthy and expected to remain so in the near term. The managers continue to expect the yield curve will steepen and credit spreads widen, but concede that valuations may be range-bound in the near term. They compare the situation to the mid-cycle correction the Fed engineered in 1994-95, but are aware that rising interest rates and inflation might have more impact than they currently expect.

## FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST (FDT.UN)

### Top 20 Holdings

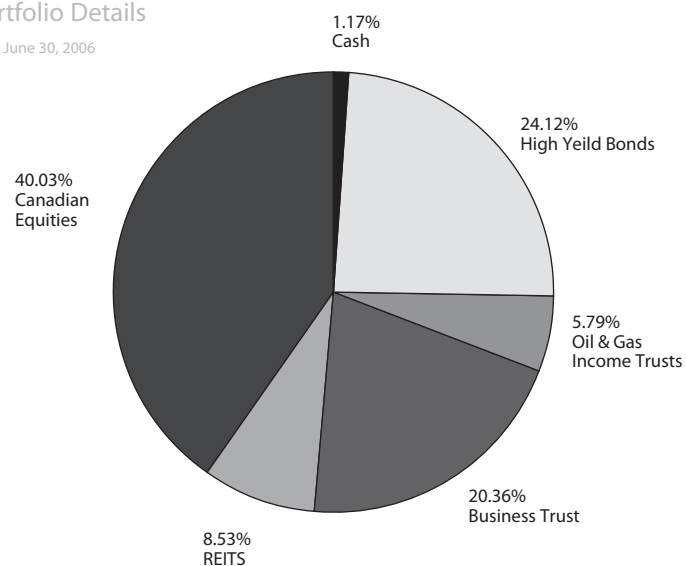
as of June 30, 2006

	% Of Mkt Value
PETRO CANADA	4.11
TORONTO DOMINION BANK	3.49
BFI CANADA INCOME FUND	3.34
B C E INC	3.11
LIVINGSTON INTL INCOME FUND	3.00
ROYAL BANK OF CANADA	2.77
TELUS CORP	2.56
ARC ENERGY TRUST UNIT	2.47
BANK OF NOVA SCOTIA	2.29
SUMMIT REAL ESTATE INV TR-UT	2.21
BROOKFIELD ASSET MAN CL A	2.19
POWER CORPORATION OF CANADA SV	2.14
SUN LIFE FINANCIAL SVCS CAN	2.13
DAVIS & HENDERSON INCOME TRUST UNITS	1.93
BONAVISTA ENERGY TRUST	1.88
CDN IMPERIAL BANK COMMERCE	1.84
NORTHERN REIT	1.71
POWER FINANCIAL CORP COM	1.54
TRANSCANADA CORP	1.45
CRESCENT POINT ENERGY TRUST	1.44



### Portfolio Details

as of June 30, 2006



For more information please contact F AIRWAY CAPITAL MANAGEMENT.

1-866-299-7929 [www.fairwaycapital.com](http://www.fairwaycapital.com)