



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 June 30, 2006

The Canadian bond market, as measured by the Scotia Capital Market Universe, returned 1.45% for the first half of 2006, due to higher interest rates throughout the yield curve. The curve for government of Canada bonds had a dramatic shift up: two-year bond yields moved up 53 basis points, to 4.40%, and 30-year bond yields rose 57 basis points, to 4.61%.

The Bank of Canada continued tightening in the first half. Four 25-basis point increases brought the benchmark rate to 4.25%. In the May 24 statement accompanying the latest rate hike, the Bank signalled to the market that it intends to pause at its next meeting, on July 11. However, recent economic indicators suggest a stronger-than-anticipated economy with inflationary potential. The Bank will have to deal with more challenging circumstances than previously anticipated. Growth is expected to moderate in the second and third quarters from the robust 3.8% pace of the first quarter, and the Bank is likely at, or very close to, its last rate hike.

The U.S. Federal Reserve also made four 25-basis point increases, taking the rate to 5.25%. The Fed's June 29 statement, accompanying the most recent rate hike, was more dovish than its May 10 statement. This was taken as signalling a pause, pushing bond prices up. Economic reports in the U.S., especially concerning the housing market, point to deceleration from the torrid first-quarter GDP growth rate of 5.6%. Although North American economies are decelerating and their central banks may be near the end of their tightening cycle, Japan and Europe have found some traction, and their central banks are beginning a tightening cycle. This will most likely have a negative impact on fixed-income markets worldwide.

Canadian investment-grade credit was slightly weaker during the first half, as supply from both domestic and foreign issuers remained robust. The market also remains concerned about the possibility of a second-half slowdown and the negative impact it might have on corporate earnings.

The Canadian bond market outperformed its U.S. counterpart across the yield curve, leading in the two-, five-, 10-, and 30-year areas by 23, 20, 15, and eight basis points, respectively.

The Fund will continue to be managed to duration that is less sensitive than the Scotia Capital Universe. It will also maintain its diversified and defensive posture toward credit. The Fund will benefit from a stable credit environment, earning a higher yield than comparable government bonds.

FAIRWAY INVESTMENT GRADE INCOME FUND (FGF.UN)

Sovereign Asset Management

Monthly Market Commentary for the period ending June 30, 2006

During the first half of 2006, treasury yields rose across the curve on strong economic data and generally heightened inflation concerns. There were more new issues in the second quarter (the first two months exceeded the first quarter by over \$1 Billion) and this weighed heavily on the existing outstanding preferreds. On the political front, the recently approved 2 year extension on the 15% federal tax qualified preferreds made fully taxable preferreds (the majority of Fairway's portfolio) slightly lower valued. As a result, fully taxable preferred stocks were hardest hit and spreads began to widen from the rich levels at which they were previously trading.

The treasury market as a whole has had reduced volatility so far this year, and the expectation is for mid-term yields to hold steady. This lower volatility generally lends support to prices of callable securities, such as preferreds. The ten year note was down -5.80% YTD at the end of June, the sell-off fueling the significant rise in treasury yields. Furthermore, the Federal Reserve has raised rates 17 times since June 2004 (25 bp consecutively) from 1% to 5.25%. As these funds are leveraged, higher borrowing costs have significantly reduced the spread on earnings.

Telephone & Data Systems preferreds were decent performers, primarily in March. Communication business revenues, as a whole, are expected to grow beyond 2008 as rates in existing long distance contracts converge with market rates. Southwest Gas (SWX B) was a decent performer for both funds. Renaissancere Hlds was a top performer for Fairway Global, as reinsurance companies continued to recover from last year's hurricane and insurance claims. SLM Corp (JSM) was a poor performer, as lower coupon, longer duration preferreds were hard hit. And lastly, both BGE Capital (BGE B) and FPL Group (FPL C) experienced weaker prices during the year due primarily to skepticism on the proposed merger - a result of potential problems with the Maryland regulators.

Both Fairway Global and Fairway Investment Grade experienced very strong appreciation in the CAD dollar hedge, and the short treasury hedge helped offset lowered preferred and bond prices. Year to date performance on a total fund basis was -1.84 for Fairway Global and -3.72 for Fairway Investment Grade. The ML Hybrid Index was down -0.94 YTD.

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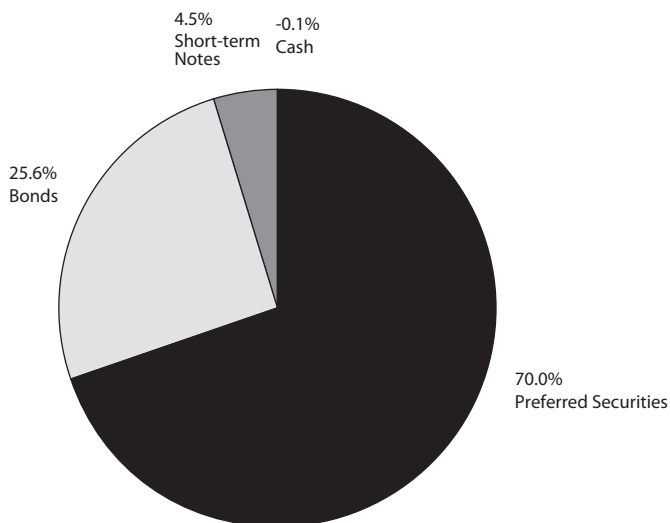
Top 20 Holdings

as of June 30, 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	2.6
Great Plains Energy Incorporated 8.00%	2.3
Nexen Inc. 7.35% Nov 01/43	2.2
CU Inc. 5.10% Nov 18/14	2.1
YPG Holdings Inc. 5.71% Apr 21/14	2.1
Bell Canada 5.00 Feb 15/17	2.1
Virginia Power Capital Trust 7.38% Jul 30/42	2.1
The Thomson Corporation 5.20% Dec 01/14	2.0
Westcoast Energy 8.30% Dec 20/13	1.9
Aegon NV 6.38%	1.9
The Phoenix Companies, Inc. 7.45% Jan 15/32	1.8
Sun Life Assurance of Canada 6.15% Jun 30/22	1.7
Provident Financial Group, Inc. 7.75% Aug 17/09	1.7
Morgan Stanley Capital Trust V 5.75% Jul 15/33	1.7
BNY Capital V 5.95% May 01/33 Series F	1.7
Merrill Lynch Capital Trust V 7.28%	1.6
PLC Capital Trust V 6.13% Jan 27/34	1.6
Hydro One Inc. 5.77% Nov 15/12	1.6
Telephone & Data Systems, Inc. 6.63% Mar 31/45	1.6

Portfolio Details

as of June 30, 2006



For more information please contact FAIRWAY CAPITAL MANAGEMENT.

1-866-299-7929 www.fairwaycapital.com

