



## 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 July 31, 2006

Preferred securities saw its strongest month of the year as market participants became more convinced that the Fed would pause at the August 8 FOMC meeting, which they did. As a result of both attractive levels and the expected fed policy, prices of fixed-rate preferreds responded to the supportive interest rate environment – the Merrill Lynch Hybrid preferred index moved higher by roughly 2.68%. Additionally, preferreds rebounded on a spread basis, due primarily to investor willingness to extend out on the yield curve as expectations for the end of the tightening cycle moved closer.

The current consensus feels that Treasury yields may have peaked near the 5.25% level and going forward, would allow preferreds to continue to perform well and increase their return prospects. A continuing slowing economy could impact lower-rated securities the most and fixed-rate preferreds are likely to outperform floating-rate preferreds, as market makers look for the tightening cycle to now be complete.

AEH 6.375% was the top performer for both funds. Reuters reported that Aegon's first-half profit rose by two-thirds due to new insurance sales in the US, Britain, and the Netherlands. Also, they've increased its cash payment, introduced formal business targets and resumed its growth profile. The stock was also at an attractive level after a significant sell off in June. Other winners were Morgan Stanley's MWO 5.75% and their MWR 6.25%. And FPL C 5.875%, which experienced weaker prices during the year due to skepticism with the Maryland regulators, bounced back in July as FPL stated it will not allow the value of the deal to be compromised by mitigating political agendas – the merger is solid and both companies are moving forward. Very few poor performers for July, except for RNR C 6.08%, which took a dip from its June rally as hurricane season and potential insurance payouts remain unknown for the year's remainder.

## FAIRWAY INVESTMENT GRADE INCOME FUND (FGF.UN)

### Sovereign Asset Management

Monthly Market Commentary for the period ending July 31, 2006

The Canadian bond market, as measured by the Scotia Capital Market Universe, produced a positive return of 2.05% in July. The yield curve for Government of Canada bonds shifted down and marginally steepened as the two- to 30-year spread widened by four basis points. The yield on two-year bonds moved down by 28 basis points, to 4.12%, while 30-year bond yields declined by 24 basis points, to 4.37%.

The Bank of Canada, after nine 25-basis point rate hikes, finally left the bank rate unchanged, at 4.25%, on July 11. At the time, many market participants questioned the wisdom of pausing at this stage of the economic cycle. However, a flat growth rate for May GDP, following a benign growth rate of 0.1% in both March and April, gave credibility to the Bank's decision. Second-quarter GDP is expected to be significantly weaker than the first quarter's 3.8% growth rate, and may not even pass the 2.0% mark. Inflation numbers, such as core CPI at 0.2% for the month of June and 1.7% for the full year, have calmed investors' concerns about inflation. The fund managers expect Canadian GDP to grow at a moderate pace (2.0% to 3.0%) in the second half of this year, and the Bank of Canada to stay on the sidelines for the next few months.

Economic reports in the United States, most noticeably from the housing market, continue to decelerate. New home sales declined by 3.0% in June. The second-quarter GDP growth rate actually declined, to 2.5%, compared to 5.6% in the first quarter. The Federal Reserve Open Market Committee will meet next on August 8, and the futures market is discounting only a 30% chance of a rate hike.

The Canadian bond market outperformed its U.S. counterpart across the yield curve, ahead of it by nine, nine, 11 and 13 basis points in the two-, five-, 10- and 30-year areas, respectively.

The Total Rate of Return Universe mandates have 0.2 years of long duration exposure. The fund managers invested the cash in portfolios to eliminate the fund's defensive posture, repositioning the fund for a steepening rally in the bond market. The managers continue to maintain a flattening bias in the front end of the curve.

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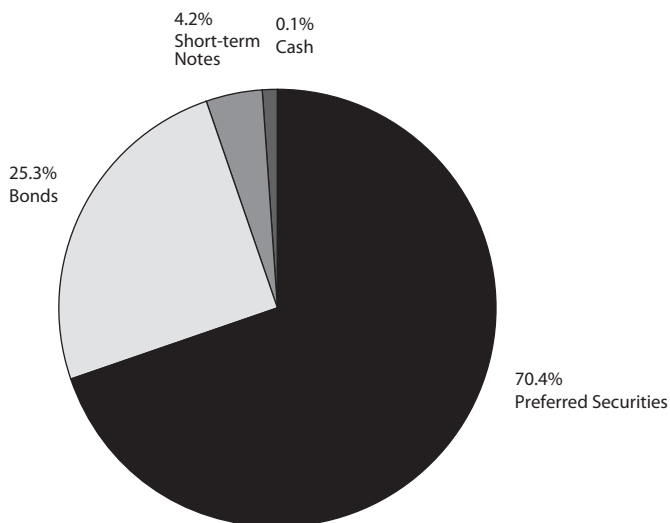
### Top 20 Holdings

as of July 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	2.7
Great Plains Energy Incorporated 8.00% Feb 16/07	2.3
Nexen Inc. 7.35% Nov 01/43	2.2
CU Inc. 5.10% Nov 18/14	2.1
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	2.0
Aegon NV 6.38%	2.0
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	1.7
Sun Life Assurance of Canada 6.15% Jun 30/22	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
Provident Financial Group, Inc. 7.75%	1.7
SLM Corporation 6.00% Dec 15/43	1.6
Telephone & Data Systems, Inc. 6.63% Mar 31/45	1.6
Merrill Lynch Capital Trust V 7.28%	1.6

### Portfolio Details

as of July 31, 2006



For more information please contact FAIRWAY CAPITAL MANAGEMENT.

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