



## 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 August 31, 2006

Canadian bonds, as measured by the Scotia Capital Market Universe, returned 1.67% in August. The yield curve for Government of Canada bonds shifted down and flattened. Two-year bond yields fell 12 basis points, to 4.00%, while 30-year bond yields fell 17 basis points, to 4.20%. Corporate and provincial spreads also narrowed.

Flat GDP growth for June, following benign 0.1% growth in both May and April, provided below-potential second-quarter GDP growth of 2.0%. The Bank of Canada is expected to stay put at its September meeting; inflation numbers have calmed both the Bank's and investors' inflation concerns. Canadian GDP is expected to grow at a moderate pace (2.0% to 3.0%) in the second half of the year, and the Bank should remain on the sidelines in the intermediate term.

On August 8, the U.S. Federal Reserve, after 17 consecutive 25-basis-point rate hikes, left its rate unchanged at 5.25%. Policy makers are concerned that weakness in the real estate market will creep into other segments of the economy causing a larger-than-desired slowdown. Housing-related statistics continued to decelerate in July.

Canadian Government bonds underperformed their U.S. counterparts across the yield curve, except in the 30-year area, lagging in the two-, five-, and 10-year areas by three, three, and five basis points, respectively. Long bonds fell 17 basis points in the Canadian market and 19 basis points in the U.S. market.

The Total Rate of Return Universe mandates currently have a neutral duration exposure. The fund managers benefited from the rally and crystallized partial gains by raising cash at mid-month, and also benefited from spread compression in the corporate and provincial sectors. They are maintaining a flattening bias in the front end of the curve.

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

### Sovereign Asset Management

Monthly Market Commentary for the period ending August 31, 2006

On the wings of a hotter than normal summer, the utility industry and preferred stocks have continued their forward run during the month of August; with energy, communication and water companies reaching new highs. The benchmark 10-year note yield went back under 5%, priming the sector for continued success, primarily with expected solid third quarter results. One risk in the forecast is the possibility of November mid-term elections bringing a worsening of regulatory conditions for some utilities.

The Merrill Lynch Hybrid preferred index moved higher in August by roughly 2.22%. Preferreds continued to rebound on a spread basis, due to investor willingness to extend out on the yield curve as expectations for the end of the tightening cycle moved closer. The Fed has paused once since ending 17 straight rate hikes and 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.

AEH 6.375% continues to be a solid performer for both funds. For Aegon, sales growth resumed in the second half, sales margins widened and profits (both actual and underlying) were better than expected and the dividend was increased by 9%. In addition to increasing its cash payment, they introduced formal business targets and resumed its growth profile. Other winners were JSM 6%, Morgan Stanley's MWO 5.75%, MWR 6.25% and DRE K 6.5%, which continued its July rally into August after a REIT sell off in the second quarter. Almost all the preferreds were up for the month, although IND 7.05% dropped due to going ex-dividend at the end of the month.

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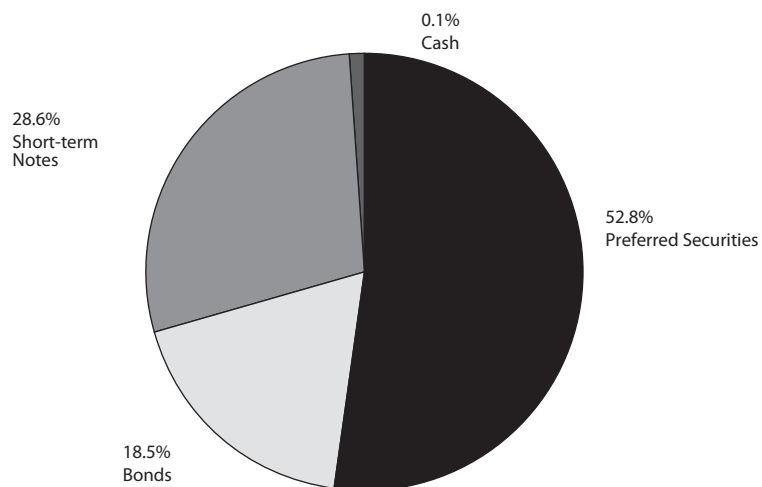
### Top 20 Holdings

as of August 31, 2006

	% Of Mkt Value
BNY Capital V 5.95% May 01/33 Series F	2.2
SLM Corporation 6.00% Dec 15/43	2.1
Virginia Power Capital Trust 7.38% Jul 30/42	2.1
Provident Financial Group, Inc. 7.75%	2.1
Nexen Inc. 7.35% Nov 01/43	2.0
Great Plains Energy Incorporated 8.00% Feb 16/07	2.0
Telephone & Data Systems, Inc. 6.63% Mar 31/45	1.8
Georgia Power Capital Trust VII 5.88% Jan 15/44	1.7
BAC Capital Trust IV 5.88% May 03/33	1.6
ING Groep NV 7.05%	1.6
Bell Canada 5.00 Feb 15/17	1.5
CU Inc. 5.10% Nov 18/14	1.5
The Phoenix Companies, Inc. 7.45% Jan 15/32	1.5
Household Finance Corporation 6.88%	1.5
YPG Holdings Inc. 5.71% Apr 21/14	1.5
Aegon NV 6.38%	1.5
Verizon New England Inc. 7.00% May 15/42 Series B	1.5
Entergy Mississippi Inc. 7.25% Dec 01/32	1.5
Lehman Brothers Holdings Capital Trust V 6.00% Apr 22/53	1.4
Heco Capital Trust III 6.50% Mar 18/34	1.4

### Portfolio Details

as of August 31, 2006



For more information please contact FAIRWAY CAPITAL MANAGEMENT.

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