



## 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.

### MFC Global Investment Management *Monthly Commentary for the Period Ending September 30, 2004*

In a reversal of the previous three months, interest rates unexpectedly declined in both Canada and the U.S. in the third quarter. Long Government of Canada yields fell by 25 basis points (bps) while the 30-year U.S. Treasury bond rallied by 41 bps. All of the asset classes held within the Trust posted positive returns. Income Trusts, as measured by the Scotia Capital Income Trust Index (SCITI), was the best performing asset class, with a total return of +10.78%. High Yield Bonds, as measured by the Merrill Lynch Master II Index, posted a total return of +4.63% (in U.S. dollars), tightening 20 bps on average versus U.S. treasuries. The S&P TSX was the laggard with a total return of 1.88%. Trust returns exceeded those of an appropriately weighted index.

### Fund Activity

The Energy and Materials sectors within the income trust, common equity and high yield universes were among the best performing sectors for the quarter. However, the portfolio continues to underweight Energy in all markets, and underweight Materials in equities and income trusts. The decision to underweight these sectors is a result of high valuations, and our focus on preserving capital and producing income with lower volatility. Currently, it is very difficult to find investments in these sectors that satisfy these criteria. During the quarter, the Trust added Canadian Apartment REIT, an income trust that met all of the criteria discussed above and added to existing positions such as BCE. The Trust also added to high yield positions in the Retail, Leisure and Services sectors during the quarter and executed swaps in Health Care and Chemicals to enhance returns. Although CP Ships, one of the larger convertible positions in the portfolio, has been pressured due to accounting restatement news, the convertible bonds have largely held their value. We remain comfortable with the credit strength of this issuer. Contrary to last quarter, fund performance was boosted by the Trust's overweight in BB bonds, as those issues slightly outperformed lower-rated bonds during the quarter. We expect that relationship to hold over the long term and have structured the portfolio accordingly. Additions to the Trust were funded using the leverage that the closed-end trust structure affords us. At quarter-end, approximately 41% of the Trust's assets were invested in Income Trusts, 37% in Dividend-paying Common Equities and 19% in High Yield Bonds. This allocation remains unchanged from the second quarter.

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

### Outlook & Strategy

It is anticipated the U.S. Federal Reserve Board will continue to raise interest rates at a measured pace and that the Bank of Canada will follow suit. Investors seem to have taken this in stride, and despite surging oil prices, there seems to be little volatility and a degree of complacency in the markets heading into earnings season. This suggests that our shorter duration stance and higher credit quality will continue to support high yield returns going forward. Since we anticipate that income trust and equity total returns will be comprised primarily of distributions and dividends (not capital gains), our focus will remain on the preservation of capital.



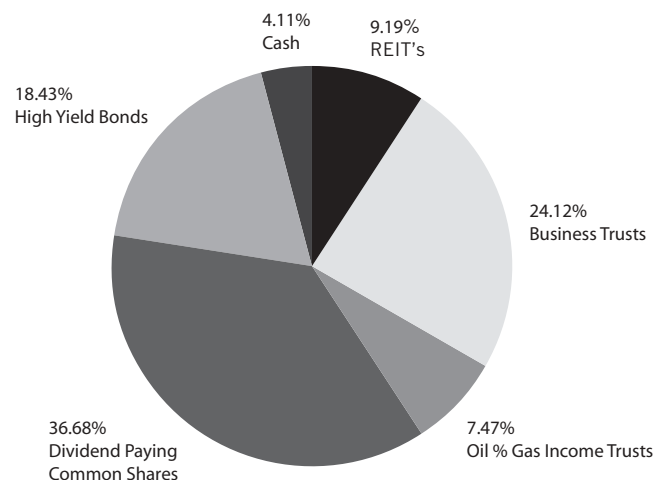
### Top 10 Holdings

as of September 30, 2004

	% Of Mkt Value
B C E Inc	2.84%
Arc Energy Trust Unit	2.43%
Toronto Dominion Bank	2.40%
BFI Canada Income Fund	2.18%
Petro Canada	2.00%
Shiningbank Energy Income Fund	1.91%
Bank Of Nova Scotia	1.85%
Davis & Henderson Income Trust Units	1.75%
Superior Plus Income Fund	1.74%
Alcan Aluminum Limited	1.67%

### Portfolio Details

as of September 30, 2004



For more information please contact FAIRWAY CAPITAL MANAGEMENT.

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