



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, 2005*

The third quarter proved, once again, to be a strong quarter for investors. Income Trusts, as measured by the Scotia Capital Income Trust Index Overall (SCITI), were the best performing asset class, posting a total return of +14.44%. The S&P TSX, a broad measure of Canadian equity performance, posted a total return of +11.63%. Despite the tumultuous events of the third quarter, including further ratings pressure on Ford, GM and auto suppliers, hurricanes, and the Chapter 11 filings of Delta Air Lines and Northwest Air, the quarter was remarkably calm for high yield investors. The market, as measured by the Merrill Lynch Master II Index, returned +0.92% (in U.S. dollars), tightening 22 bps on average to U.S. Treasuries.

Two inter-locking themes dominated the financial markets in the third quarter: soaring energy prices and a lack of insight into the U.S. Federal Reserve Board's intention on future rate direction. Hurricanes Katrina and Rita devastated the U.S. Gulf Coast, lifting oil and gas prices to record levels. Investors tried to handicap the economic impact of this disaster against the broader inflationary effects of higher energy prices. The Fed raised interest rates twice for a total of 50 bps. The Bank of Canada in turn, resumed its tightening after a one-year hiatus, and increased the bank rate by 25 bps in September. The yield curve for Government of Canada bonds significantly flattened with the 2-30 spread narrowed by 42 bps. Rates rose across the entire U.S. yield curve on concerns about inflation and strong economic conditions.

Outlook & Strategy

Early economic data since Katrina suggests economic activity has remained strong, lowering the likelihood the Bank of Canada and Fed will pause raising rates. Market consensus is for the Fed to raise rates 25 basis points at each of its two remaining meetings this year and futures rates are suggesting the potential for further rate hikes early next year. Canadian central bankers are also in the tightening mode. Markets expect that the Bank of Canada will also continue to raise rates for the balance of the year. In Canada, higher energy prices are a boon for Alberta but eastern manufacturers will be negatively impacted, pressuring valuations. U.S. manufacturers will also be squeezed and bigger issues make us especially cautious on the automakers and automotive suppliers. More risk is anticipated though from the long end of the yield curve as higher inflation rates and additional debt issuance to fund U.S. Gulf Coast reconstruction push yields higher. The Fund is positioned defensively on both a credit quality and duration basis to weather the expected volatility.

FAIRWAY DIVERSIFIED INCOME AND GROWTH TRUST (FDT.UN)

Top 10 Holdings

as of September 30, 2005

	% Of Mkt Value
BCE Inc	4.41%
Petro Canada	3.67%
Toronto Dominion Bank	3.27%
Shiningbank Energy Income Fund	2.70%
BFI Canada Income Fund	2.61%
Bank of Nova Scotia	2.17%
Power Corporation of Canada	2.14%
Royal Bank of Canada	2.13%
Telus Corp	2.00%
Summit Real Estate Inv	1.98%



Portfolio Details

as of September 30, 2005

