



## 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.

### Market Review

[Market Commentary for the period ending September 30, 2006.](#)

During September, the S&P/TSX Index, a broad measure of Canadian equity performance, posted a total return of 2.32%. Income trusts, as measured by the Scotia Capital Income Trust Index, posted a total return of 5.10%. High yield, as measured by the Constrained Merrill Lynch Master II High Yield Index returned 1.32%, in U.S. dollar terms, for the month. High-yield spreads tightened modestly, by five basis points (bps) on average, against U.S. Treasuries.

Economic growth in the U.S. has moderated from its strong pace earlier this year, partly reflecting a gradual cooling of the housing market and the lagged effects of increases in interest rates and energy prices. The moderating economic environment was further substantiated by the decisions of both the Canadian and U.S. central banks during the third quarter to hold their respective overnight rates constant. As long as inflation expectations remain contained and economic growth moderates slowly, the current stance could well prove to produce satisfactory economic performance in the near term. However, the U.S. yield curve is now inverted, and the fixed-income market appears to believe the U.S. Federal Reserve will eventually have to counter economic weakness by cutting interest rates, starting in early 2007.

Bond prices rallied throughout the third quarter, causing the yield on 10-year Canadian and U.S. government bonds to fall by over 50 bps. The yield of the current U.S. 10-year bond decreased by 10 bps to end the month at 4.63%. In the high-yield market, higher-quality (and more interest-rate-sensitive) BB bonds returned 1.20%, tightening six bps against Treasuries. At the other end of the high-yield spectrum, CCC-rated bonds widened by three bps, generating a positive return of 1.31%. Year-to-date, lower-quality bonds have dramatically outperformed those of higher quality. Defaults are expected to increase slightly later this year, but still remain well below historical average.

During the month, the fund's equity portfolio was positively impacted by an underweight position in the energy sector. Few major changes were made to the portfolio during the month.

During the quarter, no material alteration was made to the fund's asset mix. The risk profile of the fund, therefore, has not changed significantly from that which is detailed in the prospectus.

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

### Top 20 Holdings

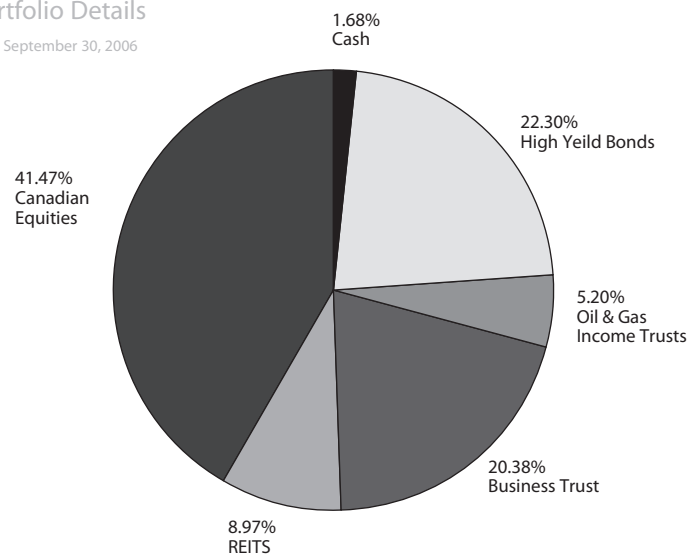
as of September 30, 2006

	% Of Mkt Value
TORONTO DOMINION BANK	3.99
TELUS CORP	3.41
PETRO CANADA	3.41
BFI CANADA INCOME FUND	3.30
B C E INC NEW	3.19
ROYAL BANK OF CANADA	2.96
LIVINGSTON INTL INCOME FUND	2.57
BANK OF NOVA SCOTIA	2.42
SUMMIT REAL ESTATE INV TR-UT	2.40
BROOKFIELD ASSET MAN CL A	2.35
ARC ENERGY TRUST UNIT	2.34
POWER CORPORATION OF CANADA SV	2.26
SUN LIFE FINANCIAL SVCS CAN	2.15
DAVIS & HENDERSON INCOME TRUST UNITS	2.04
CDN IMPERIAL BANK COMMERCE	2.02
NORTHERN REIT	1.78
BONAVISTA ENERGY TRUST	1.69
POWER FINANCIAL CORP COM	1.63
TRANSCANADA CORP	1.56
RIOCAN REAL ESTATE INVST TR	1.48



### Portfolio Details

as of September 30, 2006



For more information please contact F AIRWAY CAPITAL MANAGEMENT.

1-866-299-7929 [www.fairwaycapital.com](http://www.fairwaycapital.com)