



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 September 30, 2006

Canadian bonds, as measured by the Scotia Capital Market Universe, returned 4.85% in the third quarter, outperforming their U.S. counterparts across the yield curve. The yield curve for Government of Canada bonds shifted down dramatically. The only significant change in the shape of the yield curve occurred in the 10-year to 30-year segment, which steepened by 8 basis points (bps). Ten-year bond yields fell 61 bps to 4.00% and 30-year bond yields declined by 53 bps to 4.08%. Corporate and provincial spreads narrowed. New issues of corporate Maples – foreign bonds denominated in Canadian dollars – was below expectations, generating demand for domestic issues. Ontario's report of a \$300 million budget surplus versus an expected \$1.5 billion deficit was bullish and acted as a catalyst for increased investor appetite for provincials.

On July 11, after nine 25-basis-point rate hikes, the Bank of Canada (BOC) left its rate unchanged at 4.25%. Canada's GDP growth rate for July was 0.2% (2.4% annualized), below a potential 3.0% growth trajectory, following a sub-par second-quarter rate of 2.0%. The Fund managers anticipate moderate Canadian GDP growth (2.0% to 3.0%) in the second half of 2006, and expect the BOC to stay on the sidelines in the intermediate term.

On August 8, the U.S. Federal Reserve, after 17 consecutive 25-basis-point hikes, left its rate unchanged at 5.25%. Housing-related statistics decelerated significantly, raising concerns among policymakers that this weakness will spread and cause a larger-than-desired economic slowdown. September's survey of U.S. executives by the Institute for Supply Management showed declines in manufacturing and non-manufacturing activity and highlighted reduced inflationary pressures in both sectors.

The Canadian Government bond market outperformed its U.S. counterpart across the yield curve. The outperformance in the two-, five-, 10- and 30-year areas was 8, 10, 10, and 10 bps respectively.

The Total Rate of Return Universe mandates benefited from a modest long duration. Another benefits was the steepening in the 10-year to 30-year area of the yield curve, since the managers had already begun to move from the 30-year to the 10-year part. Spread compression for corporates and provincials also helped. The managers are maintaining a flattening bias in the front end of the curve and an overall neutral duration exposure.





FAIRWAY INVESTMENT GRADE INCOME FUND (FGF.UN)

Sovereign Asset Management

Monthly Market Commentary for the period ending September 30, 2006

Preferreds made their mark with solid September performance. The rally continues with longer duration preferreds performing better than the overall Treasury market. Lower treasury yields were the prime catalyst driving preferred prices higher as encouraging economic reports helped validate a slowing economy and the continued pause in interest rate hikes. The benchmark 10-year note yield ended the quarter with a 4.63 handle, down from its summer high of 5.15%. The best performing preferreds were tax-advantaged issues, as investors recognized the relative value of Dividends Received Deduction and Qualified Dividend Income securities.

The Merrill Lynch Hybrid preferred index moved higher in the quarter by roughly 5.8% while the Merrill Lynch preferred index was up 6.6%. Preferreds continued to rebound on a spread basis. An overall reduction in risk premiums occurring in both the equity and fixed-income markets also help. Investors continue to be convinced that healthy company fundamentals are likely to withstand the slowdown in the economy. And while these favorable market conditions prompted an above-average supply in the preferred market, it was countered with \$1.3 billion of call-outs during the quarter.



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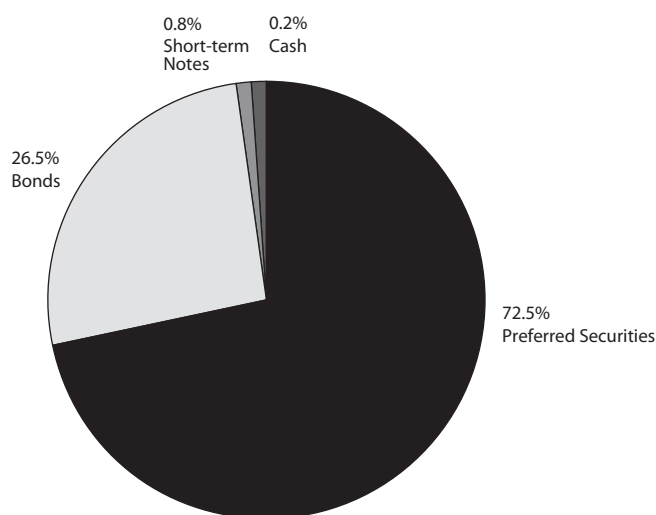
Top 20 Holdings

as of September 30, 2006

| | % Of Mkt Value |
|--|----------------|
| SLM Corporation 6.00% Dec 15/43 | 3.1 |
| Virginia Power Capital Trust 7.38% Jul 30/42 | 3.1 |
| Provident Financial Group, Inc. 7.75% | 3.0 |
| Nexen Inc. 7.35% Nov 01/43 | 2.9 |
| Great Plains Energy Incorporated 8.00% Feb 16/07 | 2.9 |
| BNY Capital V 5.95% May 01/33 Series F | 2.6 |
| Georgia Power Capital Trust VII 5.88% Jan 15/44 | 2.5 |
| ING Groep NV 7.05% | 2.3 |
| Bell Canada 5.00 Feb 15/17 | 2.2 |
| CU Inc. 5.10% Nov 18/14 | 2.2 |
| Household Finance Corporation 6.88% | 2.2 |
| Aegon NV 6.38% | 2.2 |
| The Phoenix Companies, Inc. 7.45% Jan 15/32 | 2.2 |
| YPG Holdings Inc. 5.71% Apr 21/14 | 2.2 |
| Verizon New England Inc. 7.00% May 15/42 Series B | 2.2 |
| BAC Capital Trust IV 5.88% May 03/33 | 2.2 |
| Entergy Mississippi Inc. 7.25% Dec 01/32 | 2.1 |
| Lehman Brothers Holdings Capital Trust V 6.00% Apr 22/53 | 2.1 |
| Telephone & Data Systems, Inc. 6.63% Mar 31/45 | 2.0 |
| The Thomson Corporation 5.20% Dec 01/14 | 2.0 |

Portfolio Details

as of September 30, 2006



For more information please contact FAIRWAY CAPITAL MANAGEMENT.

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