



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

Monthly Commentary for the Period Ending December 31, 2005

Canadian financial markets handily beat their American counterparts in 2005 due in no small part to rising energy commodity prices. Both central banks raised interest rates during the year, with the Bank of Canada holding off until September. Longer maturity bonds rallied however with the yield on the 30-year Government of Canada bond falling 79 bp to end the year at 4.04%, and the 30-year U.S. Treasury bond declining 28 bp to 4.54%. A glut in global savings, the recycling of Asian trade surpluses into U.S. treasuries and tame inflation data are all believed to have contributed to flattening yield curves which may have been the financial story of 2005 if not for hurricanes, the troubles at GM and Ford or legislative uncertainty in the income trust market. We weathered these storms or opportunities well, and all three of the Trust's targeted asset classes posted positive returns in 2005. Particular strength in energy prices in the third quarter and resolution of tax treatment issues in the fourth quarter boosted Income Trusts, as measured by the Scotia Capital Income Trust Index Overall (SCITI), to their position as the best performing asset class, posting a total return of +29.40%. The S&P/TSX, a broad measure of Canadian equity performance, posted a total return of +24.13%. Corporate bonds modestly under-performed the broader market return of 6.46% as spreads widened by 3 bp and the yield curve for Government of Canada bonds flattened significantly. High yield bonds returned 2.74% (in US\$) as measured by the Merrill Lynch Master II Index as spreads widened 65 bp.

Performance Analysis

Exposure to the financials, utilities and telecom sectors was pared while weights in the health care, food production and energy sectors were increased. Oil and gas exposure in particular rose to 35% from 28%, aided by robust market value appreciation. There were a few changes to the equity portion of the Trust during the year. New additions to the portfolio included Canexus, Spinrite and Sir Royalty Income Fund. The Trust continues to be well diversified with about 39% of the portfolio in equities, 35% in Income Trusts the remainder, in the High Yield bonds. The Trust continues to favour the Business Trust sector due its ability to grow distributions through a potential period of rising interest rates.

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Outlook & Strategy

The North American economy is expected to grow at a slower pace in 2006, led by a softer housing market and less robust consumer spending. As a result, both central banks have hinted their tightening cycles are close to an end. The themes that dominated the credit markets in 2005 – deteriorating automakers and leveraged buyout event risk – remain significant challenges as we begin 2006. Also, the direction of energy commodity prices will have a significant effect on the markets. In general, we expect an upbeat tone to the markets in the first half of the year and some weakness in the second half as the effects of central bank tightening begin to take hold. Given robust valuations, we expect trading levels to remain Treasury-sensitive, with some modest spread widening tied to the risks referenced above. In 2006, we will stay the course with our defensive strategy, reaping the benefits of prudent credit selection and portfolio construction.

Top 20 Holdings

as of December 31, 2005

	% Of Mkt Value
BCE Inc	3.85%
Petro Canada	3.54%
Toronto Dominion Bank	3.49%
Shiningbank Income Fund	3.04%
BFI Canada Income Fund	2.54%
Bank of Nova Scotia	2.31%
Royal Bank of Canada	2.30%
ARC Energy Trust Unit	2.17%
Power Corporation of Canada	2.14%
Summit Real Estate Inv TR-UT	2.14%
Sun Life Financial Svcs Can	2.10%
Telus Corporation	1.98%
Livingston Intl Income Fund	1.93%
Western Financial Bank	1.93%
Davis & Henderson	1.88%
Teck Corp CL B	1.82%
Riocan Real Estate Invst TR	1.80%
Brookfield Asset Management	1.77%
Bonavista Energy Trust	1.71%
CDN Imperial Bank Commerce	1.69%

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Portfolio Details

as of December 31, 2005

