



## 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 Commentary for the Period Ending March 31, 2005*

The Canadian bond market continued to outperform the U.S. bond market during the first quarter. Ten-year yields in the U.S. increased 27 basis points while the yield on the 10-year Government of Canada bond was up only a modest 2 basis points. Longer-term yields declined, however, with the 30-year U.S. Treasury bond lower by 8 basis points while long Canada bonds declined by 12 basis points. Canadian yields are now lower than U.S. yields right across the curve. The curve flattened in both Canada and the U.S. during the quarter, led by higher rates at the short end and lower rates at the long end. The Bank of Canada left rates unchanged at its two meetings in the quarter while the U.S. Federal Reserve continued with its measured pace of rate increases, raising rates by 25 basis points at each of its two meetings.

Spreads in the corporate market finally began to widen in March. The significant sell-off in GM bonds helped push corporate spreads wider as investors in general became a little more concerned about corporate credit. Spread movements were more dramatic in the U.S. than in Canada.

Although the Federal Reserve stated that even though longer-term inflation expectations remain well contained, pressures on inflation have picked up in recent months and pricing power is more evident. Near-term inflation and employment data in both Canada and the U.S. will be closely watched over the near-term. Any signs of a pick-up in either area could lead to higher yields in the bond market.

## John Hancock Advisers LLC

### *Monthly Commentary for the Period Ending March 31, 2005*

Preferreds sold off during March. In fact, it was the worst sell-off in preferreds since mid-2004. While the economy continued to expand, investors remained concerned about higher interest rates, inflation, oil prices, and the U.S. dollar.

The Federal Reserve raised the Fed Funds Rate again at the end of the month, in its expected “measured” manner, to 2.75%. The Fed has now raised rates a total of seven times since last June. After this latest increase, the Fed warned that inflationary pressures had picked up and that the pricing power of firms had become more evident. This statement sent stock, bond and preferred prices sharply lower. It was the statement about inflation that seemed to be the major catalyst for lower prices.

Late in the month, General Motors missed its earnings significantly. Its management stated they expect the company to generate negative cash flow of \$2 billion this year and cut the company’s earnings per share range from \$4 to \$5 a share to \$1 to \$2 a share.

The Fed’s statement, along with concerns about General Motors’ financial condition and bond rating status, sent the 10-year Treasury note yield to a nine-month peak of 4.69%. The note finished the quarter yielding 4.49%.

Higher Treasury yields and oil prices, along with concerns about General Motors’ financial condition, hurt bond and preferred market sentiment. Retail investors and some dealers bailed out of preferreds near the end of the month, which affected our performance. Auto industry preferreds were particularly hard hit. For the month, the best performing preferreds were the higher yielding securities, ex autos, as investors continued to favor these securities.

We believe the magnitude of the sell-off was a little extreme and that it will be just a matter of time before these securities bounce back.

## FAIRWAY INVESTMENT GRADE INCOME FUND (FGF.UN)

### Top 10 Holdings

as of March 31, 2005

**MFC Global**  
Investment Management

*John Hancock*  
JOHN HANCOCK ADVISERS

	% Of Mkt Value
Bell Canada 5.0% Feb/15/2017 MTN	2.94%
West Coast Energy 8.30% Dec/30/2013	2.94%
CU Inc 5.096% Nov/18/2014 MTN	2.94%
YPG Holdings Inc 5.71% Apr/21/2014	2.93%
Nexen Inc PRF	2.85%
FPC Capital I PRF	2.84%
Sun Life Assurance 6.15% Jun/30/2002	2.78%
JP Morgan Chase Cap X PRF	2.76%
ING Group NV PRF	2.71%
Hydro One Inc 5.77% Nov/15/2012 MTN	2.30%

### Portfolio Details

as of March 31, 2005

