



## 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 May 31, 2005*

Interest rates continued their steady decline into May across the yield curve. Short rates declined 16 bps, 10-year Canada bonds declined 22 bp, and long Canadas were 21 bp lower. After steepening in April, the yield curve reversed course with the 2's – 30's curve flattening by 5 bp while the 10's – 30 relationship was basically unchanged. The Bank of Canada left rates unchanged at its meeting in May. The Bank has been on hold since October 2004. The Canadian bond market matched the US bond market returns, with the 10 year spread unchanged over the month.

The decline in yields was driven primarily by a general slowdown in economic activity as slightly soft statistics were released mid to late month. Industrial production fell 0.2 %, to its lowest level in 7 months. Labour statistics showed some strength early in the month both in Canada and the US, with a particularly strong US non-farm payrolls but other measures such as US leading indicators remained weak. Inflationary data was mixed with price pressure building at the producer level yet CPI numbers moderated somewhat. Corporate bond spreads in Canada narrowed 3 bp as GM and other auto-related paper rallied off extremely oversold prices.

It is anticipated that the US Federal Reserve will continue with its measured pace of increases over the near-term. Upcoming inflation and employment data will be closely watched, with any signs of a strengthening economy or inflationary pressures leading to potentially higher interest rates.

## John Hancock Advisers LLC

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

During May, the Fairway Investment Grade Income Fund performed well.

For May, preferreds and Treasuries rallied as the markets became optimistic that the Fed might be at the end of its tightening cycle, given investors' belief that the economy is weakening. This rally was also aided by a stronger dollar. In fact, at month end, the 10-year note's yield fell below 4.00% to 3.98%, the lowest level since the 10th of February. The yield curve continued its flattening trend, as the 10-year note fell faster than the 2-year note. This created the flattest yield curve since March 2001.

This rally was despite the Federal Reserve raising short-term interest rates a quarter of a percentage point for the eighth time in the past year, to 3.0%, early in the month. In its statement, the central bank noted that while spending growth had slowed, they remained cautious concerning inflation risk.

We believe preferred prices were also aided by a continued dearth of new issuances, compared to past years. This continued to bode well for price appreciation. In addition, there continues to be a number of call-outs.

During May, financial and auto preferreds performed well, while utility preferreds were flat to slightly lower. We believe the retrenchment of utility preferreds was due to a natural pullback after a very long positive run.

Our auto preferreds bounced back nicely after falling over the last several months as investor concern grew about their future. This bounce followed Standard & Poor's lowering General Motors (GM) and Ford Motor to below investment grade earlier in the month. GM also announced specific plans to decrease its inventory supply, which bodes well for its securities. Our GM 7 3/8% security, in fact, was one of our best performing securities for the month.

Renaissance Re and PFGI Capital, a single A bank, also aided performance. While the securities detracting for the month were somewhat deminimus, they included a few utilities due to the seasonal nature of their earnings.

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

### Top 10 Holdings

as of May 31, 2005

	% Of Mkt Value
FPC Capital I PRF	2.70%
USB Capital VI PRF	2.30%
Virginia Power Capital Trust II PRF	2.10%
FPL Group Capital Turst I PRF	2.00%
HBOS Capital Funding N1 LP	2.00%
CU Inc <i>5.10% Nov/18/2014 MTN</i>	1.90%
Bell Canada <i>5.0% Feb/15/2017 MTN</i>	1.90%
YPG Holdings Inc <i>5.71% Apr/21/2014</i>	1.90%
Great Plains Energy Inc PRF	1.90%
The Phoenix Companies Inc	1.90%

**MFC Global**  
Investment Management

*John Hancock*  
JOHN HANCOCK ADVISERS

### Portfolio Details

as of May 31, 2005

