



## 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 December 31, 2005*

The Canadian bond market, as measured by the Scotia Capital Universe Bond Index, returned 6.46% in 2005. The yield curve for Government of Canada bonds flattened significantly; the yield on two-year bonds rose to 3.85%, while 30-year bond yields fell to 4.04%. In the Canadian equity market, the S&P/TSX Composite Index advanced 24.13%. The best-performing sectors were Energy returning 63.43% and Utilities returning 38.29%, while the poorest-performing sectors were Information Technology returning -15.77% and Health Care returning -2.65%.

Over the year, the Federal Reserve continued to raise rates, to 4.25% at year-end. However, longer-maturity bonds rallied considerably, in what was attributed in part to a glut in global savings. The Bank of Canada resumed tightening in September, raising the bank rate to 3.25% by year-end.

The Fund's bond component benefited from a flattening bias in yield curve positioning; the contribution from duration was mixed. Credit exposure was added to enhance portfolio yield. The Canadian equity component outperformed its benchmark, due predominantly to stock selection, especially in the Materials, Consumer Discretionary, and Energy sectors.

Growth in the North American economy is expected to be slower in 2006, with the housing market leading the slowdown, and the central banks have hinted their tightening cycles will soon end. The Fund managers are reviewing yield curve and duration strategies to position the bond portfolio for such an occurrence. Given the continued pace of profitability and current market valuations in the Canadian equity market, the managers foresee no need to radically change sector exposures in the equity portfolio.

## John Hancock Advisers LLC

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

The Fairway Investment Grade Income Fund returned -3.31% for the quarter ending December 31, 2005.



The fourth quarter was challenging for preferred stocks. October saw a sell off among treasuries, which drove down prices of preferreds, as these two types of securities tend to move in tandem. Heavy new issuance of supply in the early part of the quarter also hurt prices, as new issues tend to drive the prices of existing issues lower. Much of the sell off was due to property and casualty insurance companies selling their higher coupon preferred stocks in order to pay off potential liabilities related to the three major hurricanes that ravaged the Gulf Coast in the fall. Preferreds rebounded somewhat in the later part of the quarter as Treasury prices began to strengthen, the supply of new issues began to slow down, and profit taking, or tax loss selling among investors, came to a close as year end approached.

Trading was weak in common stocks in the later part of the quarter, with utilities experiencing an especially strong sell off. This drove down the small percentage of utility mandatory convertible preferreds that we own.

The Federal Reserve raised rates twice over the quarter, to 4.25%, its thirteenth rate hike in a row since June of 2004. We anticipate that the rate increases are at or very close to their end. We believe that the Fed will raise rates once more, in January. In all likelihood, after the last rate hike, we anticipate that the Fed will not move rates in any direction for some time. It is possible that rates may have to be reduced in the later half of the year. The most important factors driving interest rate decisions will likely be employment data and the status of the housing market.

The yield curve is currently flat or even slightly inverted, with the yield on the ten year treasury a bit ahead of the two year. However, we anticipate that the 10 year treasury could move somewhat lower, and that short term rates could also move somewhat lower, and return the curve to its traditional slope in the next few months.

The best performing preferreds were the higher coupon, shorter duration securities. The worst performing preferreds were in the auto industry. Pricing, innovation, and adaptation to the changing auto industry will be the keys to success for the Detroit based manufacturers. High end imports are taking more and more market share away from Ford and General Motors. One of the major ways that the U.S auto companies may protect their share is through aggressive pricing. However, legacy health care and retirement liabilities continue to be a drag on profitability. We feel comfortable with our small level of exposure to the auto preferreds because of their high coupons.

Our currency hedge in the fourth quarter helped performance, and our profits from this helped us to purchase more preferred securities.

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

### Top 20 Holdings

as of December 31, 2005

**MFC Global  
Investment Management**

*John Hancock*  
JOHN HANCOCK ADVISERS

	% Of Mkt Value
FPC Capital I 7.10% May 13/39 Series A	3.0
FPL Group Capital Trust I 5.88% Mar 15/44	2.8
Great Plains Energy Incorporated 8.00% Feb 16/07	2.4
Nexen Inc. 7.35% Nov 01/43	2.2
Virginia Power Capital Trust 7.38% Jul 30/42	2.1
The Thomson Corporation 5.20% Dec 01/14	2.1
CU Inc. 5.10% Nov 18/14	2.1
Bell Canada 5.00% Feb 15/17	2.1
YPG Holdings Inc. 5.71% Apr 21/14	2.0
Aegon NV 6.38%	2.0
Telephone & Data Systems, Inc. 6.63% Mar 31/45	2.0
Sun Life Assurance of Canada 6.15% Jun 30/22	1.9
Westcoast Energy 8.30% Dec 20/13	1.9
The Phoenix Companies, Inc. 7.45% Jan 15/32	1.8
Morgan Stanley Capital Trust V 5.75% Jul 15/33	1.8
BNY Capital V 5.95% May 01/33 Series F	1.8
Provident Financial Group Inc. 7.75%	1.7
PLC Capital Trust V 6.13% Jan 27/34	1.7
J.P. Morgan Chase Capital X 7.00% Feb 15/32	1.7
Merrill Lynch Capital Trust V 7.28%	1.7

### Portfolio Details

as of December 31, 2005

