



MUTUAL FUNDS

# Fund Commentary

Q1 | 2008

## John Hancock Investors Trust

FROM THE MFC GLOBAL INVESTMENT MANAGEMENT (U.S.), LLC PORTFOLIO MANAGEMENT TEAM

The Fund returned -2.69% at net asset value for the quarter ended March 31, 2008, versus the 2.53% return of the Lehman Brothers Government/Credit Bond Index and the -1.70% return of the average intermediate-term closed-end bond fund.

### MARKET ENVIRONMENT

The U.S. bond market advanced in the first quarter of 2008. Bonds continued to benefit from a downturn in the economy as job growth slowed sharply, consumer spending weakened and the housing market worsened. In response, the Federal Reserve cut short-term interest rates aggressively, lowering its federal funds rate from 4.25% to a three-year low of 2.25% during the quarter. As the credit crunch deepened, the Fed also provided liquidity and employed other creative methods to prevent a calamity in the financial system.

One victim of the credit crunch was the market for auction rate preferred shares (ARPS), which are the leveraged funding vehicle for this closed-end fund. An imbalance of buyers and sellers caused many of these auctions to fail, leaving ARPS shareholders without liquidity. This disruption has had no negative impact on common shareholders in the period and John Hancock senior management is dedicating significant resources to find a solution that is in the best interest of both our common and preferred shareholders as we strive to restore liquidity to ARPS shareholders as soon as possible.

### PORTFOLIO REVIEW

Sector allocation was a drag on portfolio performance during the quarter. The portfolio's notable exposure to

corporate bonds, especially high-yield securities, and a lack of exposure to Treasury bonds weighed on results. However, we took advantage of the weakness and wider yield spreads in the corporate sector, adding to our holdings of corporate bonds during the quarter.

To increase our corporate exposure, we reduced our position in high-quality, agency-issued mortgage-backed securities, which were among the best performers in the bond market (trailing only Treasury and government agency bonds). Within the mortgage-backed sector, the portfolio continued to benefit from its exposure to interest-only securities backed by "pay-option" mortgages, which rose in value as prepayment activity remained low. On the downside, a mortgage-backed security containing Alt-A mortgages, which require less documentation than conventional loans, plunged as investors priced in expectations of higher delinquencies.

### OUTLOOK

We expect further Fed rate cuts in the coming months as the economy struggles through a downturn. However, our outlook for the credit sector is more optimistic as efforts to strengthen balance sheets and improve liquidity in the financial sector begin to bear fruit, which should help slow the rapid deleveraging of the financial system. More importantly, yields in beaten-down sectors, such as high-yield corporate bonds, are attractive enough that we are being well compensated to own these securities and wait until the market environment improves.

**This commentary reflects the views of the portfolio managers through March and may include forward-looking statements. The statements may include projections, estimates and descriptions of future events. These statements are subject to a variety of risks and uncertainties, which may cause actual results to differ materially. The managers' views are subject to change as market and other conditions warrant and should not be construed as a recommendation for any securities discussed herein.**

**Unlike open-end funds, closed-end funds are not continuously offered. After a one-time public offering, shares of closed-end funds are sold in the secondary market and frequently trade at a discount to net asset value. A closed-end fund cannot predict whether its shares will trade at, below or above net asset value. Specialized funds carry additional risks.**

**Fund-specific information is provided for informational purposes only and is not intended for trading purposes.**

If you are interested in investing in any of the John Hancock closed-end funds, please contact your financial professional. Before investing, prospective investors should consider carefully a fund's objective, risks, charges and expenses. For current fund information or to request closed-end fund literature, call **1-800-843-0090** or visit our Web site at **www.jhfunds.com**.



**John Hancock Funds, LLC**

MEMBER FINRA

601 Congress Street ■ Boston, MA 02210-2805

■ [www.jhfunds.com](http://www.jhfunds.com)

P5MMC 4/08