

*John Hancock*

MUTUAL FUNDS

John Hancock  
Bond Fund



**Semiannual Report**

11.30.09



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### To Our Shareholders,

Financial markets posted strong results during the six months ended November 30, 2009. After outperforming stocks during the height of the financial crisis in 2008 and early 2009, bonds overall produced positive, but more modest, results during the period. Interest rates remained at near historic lows — a product of efforts to lift the economy out of recession — and inflation remained in check. In this environment, investors sought out higher-yielding, riskier investments, to the benefit of high-yield bonds and lower investment-grade corporate securities. During the six months, the broad Barclays Capital U.S. Aggregate Bond Index returned 6.21%.

Equities outpaced bonds by a wide margin. The stock market climbed steadily, continuing its rebound from its March 2009 bottom. Massive government stimulus programs aimed at stabilizing the financial system and signs of an improving economy began to bear fruit, while investors grew more comfortable venturing back into stocks. As a result, the broad S&P 500 Index returned 20.50% during the six-month period ended November 30, 2009.

Despite these improvements and market gains, high unemployment, a housing market still on the mend and an improved, but still slow-growing, economy are factors that we believe could cause the Federal Reserve to keep interest rates low until there are more significant signs of a recovery.

Looking further out, however, the talk is turning to the potential for rising interest rates. Interest rates have been low for several years and are currently at or near historic low levels, and there are rumblings from Fed watchers that the Fed's next move will be to tighten money supply and eventually raise interest rates. That would be a significant shift in market conditions.

Given this potential, it could be time to consult your financial adviser about how to position your portfolio for a rising rate environment. When interest rates rise, bond prices generally fall, which could potentially mean a decline in a bond mutual fund's share price. Of course, there are factors that could keep the share price up even as yields rise, such as an increase in demand for municipal bonds — something that could occur if tax rates rise.

In any event, working with your financial adviser to possibly adjust your portfolio in anticipation of the next interest rate moves could potentially be just the ticket to keeping your investment goals on track.

Sincerely,

*Keith F. Hartstein*

Keith F. Hartstein,  
President and Chief Executive Officer

This commentary reflects the CEO's views as of November 30, 2009. They are subject to change at any time.

**Not part of the semiannual report**

# Your fund at a glance

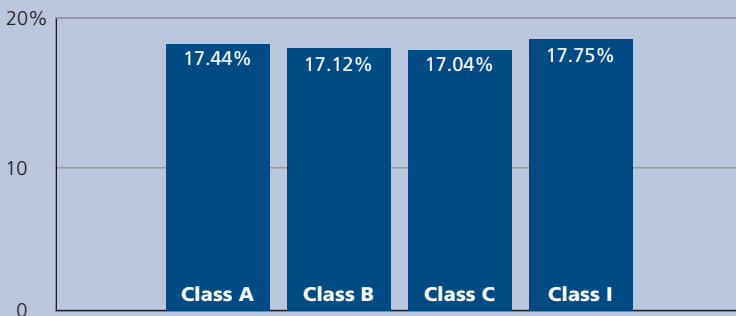
The Fund seeks a high level of current income consistent with prudent investment risk. Under normal market conditions, the Fund invests at least 80% of its net assets (plus any borrowing for investment purposes) in a diversified portfolio of bonds. These may include, but are not limited to, corporate bonds and debentures, as well as U.S. government and agency securities.

## Over the last six months

- U.S. bonds gained ground as economic and credit conditions improved.
- Corporate bonds, both investment-grade and high-yield, generated the best returns, while Treasury bonds lagged.
- The Fund outperformed its benchmark index and peer group average due to a substantial position in corporate bonds.

## John Hancock Bond Fund

Fund performance for the six months ended November 30, 2009.



Total returns for the Fund are at net asset value with all distributions reinvested. These returns do not reflect the deduction of the maximum sales charge, which would reduce the performance shown above.

Past performance is no guarantee of future results.

Class R1 shares converted to Class A shares on August 21, 2009.

## Portfolio Composition

Corporate Bonds	59%	Asset-Backed Securities	3%
U.S. Government & Agency Obligations	18%	Preferred Stocks	1%
Collateralized Mortgage Obligations	16%	Short-Term Investments & Other	3%

As a percentage of net assets on November 30, 2009.

# Managers' report

## John Hancock Bond Fund

### **U.S. bonds advanced during the six months ended November 30,**

**2009.** The Barclays Capital U.S. Aggregate Index, a broad measure of domestic bond market performance, returned 6.21% for the six-month period.

The bond market rally was driven primarily by strong returns for corporate bonds, which benefited from improving economic and credit conditions. A series of programs from the federal government, coupled with historically low short-term interest rates from the Federal Reserve, helped stabilize the U.S. economy following a severe downturn in late 2008 and early 2009. The unemployment rate continued to climb — reaching a 26-year high of 10.2% by the end of the period — but the pace of job losses began to slow. What's more, the manufacturing sector showed signs of expansion and government programs such as "Cash for Clunkers" and tax credits for first-time homebuyers helped buoy auto and home sales. As a result, the economy grew at a 2.8% annual rate in the third quarter of 2009 — its first quarter of positive growth in more than a year.

In this environment, investors' appetite for risk increased, boosting demand for corporate bonds and commercial mortgage-backed securities, both of which posted double-digit gains during the six-month period. High-yield corporate bonds generated the best results, returning more than 20%. Mortgage-backed securities posted modest gains as purchases of these securities by the Federal Reserve to help support the housing market were offset by concerns about increased refinancing activity as mortgage rates declined.

#### INVESTMENT

**Liberty Mutual**

**Vale Capital II**

**Mashantucket  
Western Pequot  
Tribe**

#### PERIOD'S PERFORMANCE ... AND WHAT'S BEHIND THE NUMBERS

- ▲ Insurance firm benefited from better credit conditions and a broad rally in financial assets
- ▲ Preferred stock of Brazilian metals and mining company rallied as commodity prices rose
- ▼ Owner of Foxwoods casino struggled with declining tourism and weak consumer spending



**Portfolio Managers, MFC Global Investment Management (U.S.), LLC  
Howard C. Greene, CFA, Barry H. Evans, CFA and Jeffrey N. Given, CFA**

Treasury bonds posted the smallest gains amid increased issuance to fund a burgeoning federal budget deficit.

### **Fund performance**

For the six months ended November 30, 2009, John Hancock Bond Fund's Class A shares posted a total return of 17.44% at net asset value (NAV). The Fund comfortably outperformed the 6.73% return of its benchmark index, the Barclays Capital Government/Credit Bond Index, and the 9.71% average return of its peer

group, the Morningstar, Inc.<sup>1</sup> intermediate-term bond category. Keep in mind that your NAV return will differ from the Fund's performance if you were not invested in the Fund for the entire period or did not reinvest all distributions. See page one for the NAV results of other share classes during the period and pages six and seven for historical performance information.

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**“The bond market rally was driven primarily by strong returns for corporate bonds, which benefited from improving economic and credit conditions.”**

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### **Corporate bonds boosted performance**

The primary factor behind the Fund's outperformance of both the broad bond market index and its peer group average was its significant exposure to corporate bonds, which comprised more than half of the Fund's portfolio throughout the six-month period. This included a noteworthy position in high-yield corporate bonds, which were the best performers in the fixed-income market during the period.

We continued to increase the Fund's position in corporate securities, expanding its holdings to approximately 60% of the portfolio by the end of the period. Most of our purchases in the corporate market were focused on the financial sector, which had been left behind when corporate bonds began to rebound in early 2009. As a result, we were able to find attractive valuations in this segment of the corporate bond market.

The best contributor among the Fund's corporate bond holdings came from the financial sector — insurance company Liberty Mutual Group, Inc. The Liberty bonds

have relatively long maturities of 25 to 30 years, and these bonds rebounded sharply amid better credit conditions and a broad rally in financial assets. Another top contributor was Vale Capital II, which is a preferred stock of Brazilian metals and mining company Vale SA. Vale benefited from rising prices for metals and other commodities as the global economic environment improved.

On the downside, the Fund's worst performers came from the gaming sector, which was adversely affected by declining tourism and weak consumer spending stemming from the economic downturn. The most notable detractors included Little Traverse Bay Bands of Odawa Indians, a small casino in northern Michigan, and Mashantucket Western Pequot Tribe, which owns the Foxwoods casino in Connecticut.

### Shifting away from mortgage-backed securities

The increase in the Fund's corporate bonds was matched by a corresponding decrease in its holdings of mortgage-backed securities, particularly those issued by government agencies such as Fannie Mae and Freddie Mac. With refinancing activity increasing and many mortgage-backed securities trading at considerable premiums as a result of the Fed's purchases, we viewed the risk/reward trade-off as unfavorable for these securities.

The Fund continued to benefit from its modest position in interest-only mortgage securities, which rallied significantly during the six-month period as prepayments slowed and interest income increased. In addition, the Fund's position in commercial mortgage-backed securities added value as the sector rebounded substantially after a severe decline earlier in 2009.

### Positioning for a steeper yield curve

Throughout the six-month period, the Fund's portfolio was positioned to benefit from a steeper yield curve, which means a widening gap between short- and long-term interest rates. In practice, this involved concentrating the majority of the Fund's investments in intermediate-term bonds, particularly those maturing in five to 10 years. This strategy proved valuable over the past six months as the yield curve grew modestly steeper.

Looking ahead, the most likely situation in which the yield curve would flatten would be if the Fed raises short-term

#### SECTOR COMPOSITION<sup>2</sup>

Financials . . . . .	26%
U.S. Government Agency . . . . .	18%
Mortgage Bonds . . . . .	16%
Consumer Discretionary . . . . .	7%
Utilities . . . . .	6%
Industrials . . . . .	5%
Energy . . . . .	5%
Materials . . . . .	5%
Consumer Staples . . . . .	4%
Telecommunication Services . . . . .	3%
Other . . . . .	5%

interest rates. However, we don't believe this will happen until at least the latter half of 2010, so we intend to maintain our current positioning.

## Outlook

The U.S. economy appears to be on the road to recovery, but we expect it to be a long and gradual journey as the economy faces many obstacles, from consumer deleveraging (i.e., reducing debt levels) to persistently high unemployment. A slow, steady growth environment is ideal for corporate bonds, as is the trend toward

rebuilding balance sheets throughout corporate America. Furthermore, we continue to believe that valuations in this segment of the bond market remain attractive; on a historical basis, the yield spreads between Treasury and corporate bonds are roughly where they should be in the early stages of a recovery. Consequently, we intend to remain heavily weighted in the corporate sector, with limited exposure to the Treasury and mortgage-backed segments of the bond market.

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**“The primary factor behind the Fund’s outperformance of both the broad bond market index and its peer group average was its significant exposure to corporate bonds. . .”**

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This commentary reflects the views of the portfolio managers through the end of the Fund's period discussed in this report. The managers' statements reflect their own opinions. As such, they are in no way guarantees of future events and are not intended to be used as investment advice or a recommendation regarding any specific security. They are also subject to change at any time as market and other conditions warrant.

### **Past performance is no guarantee of future results**

The major factors in this Fund's performance are interest rate and credit risk. When interest rates rise, bond prices usually fall. Generally, an increase in the Fund's average maturity will make it more sensitive to interest-rate risk.

Sector investing is subject to greater risks than the market as a whole. Because the Fund may focus on particular sectors of the economy, its performance may depend on the performance of those sectors.

<sup>1</sup>Figures from Morningstar, Inc. include reinvested dividends and do not take into account sales charges. Actual load-adjusted performance is lower.

<sup>2</sup>As a percentage of net assets on November 30, 2009.

# A look at performance

For the period ended November 30, 2009

Class	Average annual returns (%) with maximum sales charge (POP)			Cumulative total returns (%) with maximum sales charge (POP)				SEC 30- day yield (%) as of 11-30-09
	1-year	5-year	10-year	Six months	1-year	5-year	10-year	
A	24.56	4.11	5.58	12.16	24.56	22.29	72.15	6.80
B	24.52	4.01	5.48	12.12	24.52	21.75	70.51	6.50
C	28.53	4.34	5.33	16.04	28.53	23.69	68.10	6.45
I <sup>1,2</sup>	31.06	5.53	6.53	17.75	31.06	30.89	88.28	7.60

Performance figures assume all distributions are reinvested. Public offering price (POP) figures reflect maximum sales charges on Class A shares of 4.5% and the applicable contingent deferred sales charge (CDSC) on Class B shares and Class C shares. The returns for Class C shares have been adjusted to reflect the elimination of the front-end sales charge effective July 15, 2004. The Class B shares' CDSC declines annually between years 1 to 6 according to the following schedule: 5, 4, 3, 3, 2, 1%. No sales charge will be assessed after the sixth year. Class C shares held for less than one year are subject to a 1% CDSC. Sales charges are not applicable for Class I shares.

The expense ratios of the Fund, both net (including any fee waivers or expense limitations) and gross (excluding any fee waivers or expense limitations), are set forth according to the most recent publicly available prospectuses for the Fund and may differ from the expense ratios disclosed in the Financial Highlights tables in this report. The net expenses equal the gross expenses and are as follows: Class A — 1.11%, Class B — 1.81%, Class C — 1.81 and Class I — 0.65%.

The returns reflect past results and should not be considered indicative of future performance. The return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Due to market volatility, the Fund's current performance may be higher or lower than the performance shown. For current to the most recent month end performance date, please call 1-800-225-5291 or visit the Fund's Web Site at [www.jhfunds.com](http://www.jhfunds.com).

The performance table above and the chart on the next page do not reflect the deduction of taxes that a shareholder may pay on fund distributions or on the redemption of fund shares.

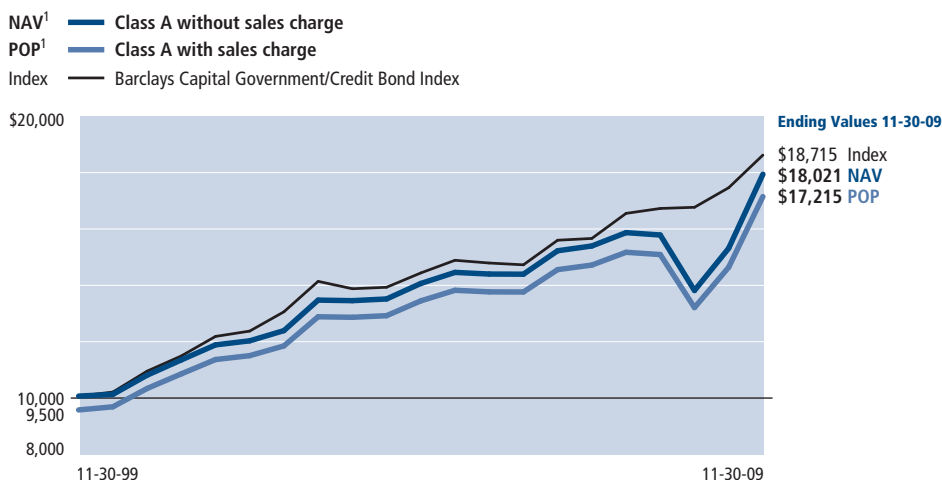
The Fund's performance results reflect any applicable fee waivers or expense reductions, without which the expenses would increase and the results would have been less favorable.

<sup>1</sup>For certain types of investors as described in the Fund's Class I shares prospectus.

<sup>2</sup>November 9, 1973 is the inception date for the oldest class of shares, Class A shares. The inception date for Class I shares is September 4, 2001. The returns prior to this date are those of Class A shares that have been recalculated to apply the gross fees and expenses to Class I shares.

## Growth of \$10,000

This chart shows what happened to a hypothetical \$10,000 investment in John Hancock Bond Fund Class A shares for the period indicated. For comparison, we've shown the same investment in the Barclays Capital Government/Credit Bond Index.



Class	Period beginning	Without sales charge	With maximum sales charge	Index
B <sup>2</sup>	11-30-99	\$17,051	\$17,051	\$18,715
C <sup>2</sup>	11-30-99	16,810	16,810	18,715
I <sup>3,4</sup>	11-30-99	18,828	18,828	18,715

Assuming all distributions were reinvested for the period indicated, the table above shows the value of a \$10,000 investment in the Fund's Class B, Class C and Class I shares, respectively, as of November 30, 2009. The Class C shares investment with maximum sales charges has been adjusted to reflect the elimination of the front-end sales charge effective July 15, 2004. Performance of the classes will vary based on the difference in sales charges paid by shareholders investing in the different classes and the fee structure of those classes.

**Barclays Capital Government/Credit Bond Index** is an unmanaged index of U.S. government, U.S. corporate and Yankee bonds.

It is not possible to invest directly in an index. Index figures do not reflect sales charges or direct expenses, which would have resulted in lower values if they did.

<sup>1</sup> NAV represents net asset value and POP represents public offering price.

<sup>2</sup> No contingent deferred sales charge applicable.

<sup>3</sup> For certain types of investors as described in the Fund's Class I shares prospectus.

<sup>4</sup> November 9, 1973 is the inception date for the oldest class of shares, Class A shares. The inception date for Class I shares is September 4, 2001. The returns prior to this date are those of Class A shares that have been recalculated to apply the gross fees and expenses to Class I shares.

# Your expenses

These examples are intended to help you understand your ongoing operating expenses.

## Understanding fund expenses

As a shareholder of the Fund, you incur two types of costs:

- **Transaction costs** which include sales charges (loads) on purchases or redemptions (varies by share class), minimum account fee charge, etc.
- **Ongoing operating expenses** including management fees, distribution and service fees (if applicable), and other fund expenses.

We are going to present only your ongoing operating expenses here.

## Actual expenses/actual returns

This example is intended to provide information about your fund's actual ongoing operating expenses, and is based on your fund's actual return. It assumes an account value of \$1,000.00 on June 1, 2009 with the same investment held until November 30, 2009.

	Account value on 6-1-09	Ending value on 11-30-09	Expenses paid during period ended 11-30-09 <sup>1</sup>
<b>Class A</b>	\$1,000.00	\$1,174.40	\$6.10
<b>Class B</b>	1,000.00	1,171.20	9.91
<b>Class C</b>	1,000.00	1,170.40	9.90
<b>Class I</b>	1,000.00	1,177.50	3.49

Together with the value of your account, you may use this information to estimate the operating expenses that you paid over the period. Simply divide your account value at November 30, 2009, by \$1,000.00, then multiply it by the "expenses paid" for your share class from the table above. For example, for an account value of \$8,600.00, the operating expenses should be calculated as follows:

### Example

$$\left[ \frac{\text{My account value}}{\$8,600.00} / \$1,000.00 = 8.6 \right] \times \$ \left[ \begin{array}{l} \text{"expenses paid"} \\ \text{from table} \end{array} \right] = \text{My actual expenses}$$

### Hypothetical example for comparison purposes

This table allows you to compare your fund's ongoing operating expenses with those of any other fund. It provides an example of the Fund's hypothetical account values and hypothetical expenses based on each class's actual expense ratio and an assumed 5% annualized return before expenses (which is not your fund's actual return). It assumes an account value of \$1,000.00 on June 1, 2009, with the same investment held until November 30, 2009. Look in any other fund shareholder report to find its hypothetical example and you will be able to compare these expenses.

	Account value on 6-1-09	Ending value on 11-30-09	Expenses paid during period ended 11-30-09 <sup>1</sup>
Class A	\$1,000.00	\$1,019.40	\$5.67
Class B	1,000.00	1,015.90	9.20
Class C	1,000.00	1,015.90	9.20
Class I	1,000.00	1,021.90	3.24

Remember, these examples do not include any transaction costs, therefore, these examples will not help you to determine the relative total costs of owning different funds. If transaction costs were included, your expenses would have been higher. See the prospectus for details regarding transaction costs.

<sup>1</sup>Expenses are equal to the Fund's annualized expense ratio of 1.12%, 1.82%, 1.82% and 0.64% for Class A, Class B, Class C and Class I shares, respectively, multiplied by the average account value over the period, multiplied by 183/365 (to reflect the one-half year period).

# Portfolio summary

## Portfolio Composition<sup>1</sup>

Corporate Bonds	59%	Asset-Backed Securities	3%
U.S. Government & Agency Obligations	18%	Preferred Stocks	1%
Collateralized Mortgage Obligations	16%	Short-Term Investments & Other	3%

## Sector Composition<sup>1,2</sup>

Financials	26%	Energy	5%
U.S. Government Agency	18%	Materials	5%
Mortgage Bonds	16%	Consumer Staples	4%
Consumer Discretionary	7%	Telecommunication Services	3%
Utilities	6%	Other	5%
Industrials	5%		

## Quality Composition<sup>1</sup>

AAA	26%
AA	6%
A	19%
BBB	26%
BB	9%
B	6%
CCC	5%
Short-Term Investments & Other	3%

<sup>1</sup>As a percentage of net assets on November 30, 2009.

<sup>2</sup>Sector investing is subject to greater risks than the market as a whole. Because the Fund may focus on particular sectors of the economy, its performance may depend on the performance of those sectors.

# Fund's investments

As of 11-30-09 (unaudited)

	Rate	Maturity date	Par value	Value
<b>Corporate Bonds 58.38%</b>				<b>\$503,116,725</b>
(Cost \$482,472,159)				
<b>Consumer Discretionary 6.98%</b>				<b>60,166,304</b>
<b>Auto Components 0.77%</b>				
Allison Transmission, Inc., Gtd Sr Note (S)	11.000%	11-01-15	\$1,940,000	2,007,900
Exide Technologies, Sr Sec Note Series B	10.500	03-15-13	1,945,000	1,935,275
Goodyear Tire & Rubber Company, Sr Note	10.500	05-15-16	1,000,000	1,075,000
Tenneco, Inc., Gtd Sr Sub Note	8.625	11-15-14	1,675,000	1,641,500
<b>Hotels, Restaurants &amp; Leisure 1.82%</b>				
Arcos Dorados BV, Gtd Sr Note (S)	7.500	10-01-19	1,075,000	1,075,000
Greektown Holdings LLC, Sr Note (H)(S)	10.750	12-01-13	1,170,000	244,238
HRP Myrtle Beach Operations LLC, Sr Note (H)(S)	Zero	04-01-12	1,075,000	—
Jacobs Entertainment, Inc., Gtd Sr Note	9.750	06-15-14	2,435,000	2,215,850
Little Traverse Bay Bands of Odawa Indians, Sr Note (H)(S)	10.250	02-15-14	2,210,000	552,500
Mashantucket Western Pequot Tribe, Bond Series A (S)	8.500	11-15-15	395,000	94,800
MGM Mirage, Inc., Sr Sec Note (S)	10.375	05-15-14	350,000	373,625
Mohegan Tribal Gaming Authority, Gtd Sr Sub Note	8.000	04-01-12	420,000	331,800
Sr Sub Note	7.125	08-15-14	1,050,000	661,500
MTR Gaming Group, Inc., Gtd Sr Sec Note (S)	12.625	07-15-14	710,000	658,525
Gtd Sr Sub Note Series B	9.000	06-01-12	1,495,000	1,151,150
Pokagon Gaming Authority, Sr Note (S)	10.375	06-15-14	1,190,000	1,240,575

	Rate	Maturity date	Par value	Value
<b>Hotels, Restaurants &amp; Leisure (continued)</b>				
Seminole Tribe of Florida, Bond (S)	6.535%	10-01-20	\$2,260,000	\$2,074,703
Starwood Hotels & Resorts Worldwide, Inc., Sr Note	6.250	02-15-13	1,770,000	1,800,975
Turning Stone Resort Casino Enterprise, Sr Note (S)	9.125	09-15-14	1,890,000	1,838,025
Waterford Gaming LLC, Sr Note (S)	8.625	09-15-14	1,074,000	612,180
Yonkers Racing Corp., Sr Sec Note (S)	11.375	07-15-16	745,000	774,800
<b>Household Durables 0.37%</b>				
Whirlpool Corp., Sr Note	8.600	05-01-14	1,450,000	1,676,832
Sr Note	8.000	05-01-12	1,415,000	1,548,805
<b>Media 3.24%</b>				
AMC Entertainment, Inc., Sr Note	8.750	06-01-19	525,000	534,187
Sr Sub Note	8.000	03-01-14	2,225,000	2,097,063
Cablevision Systems Corp., Sr Note (S)	8.625	09-15-17	550,000	563,750
Charter Communications Holdings II LLC, Gtd Sr Note (H)(S)	10.250	10-01-13	1,680,000	1,948,800
Cinemark USA, Inc., Gtd Sr Note (S)	8.625	06-15-19	725,000	746,750
Comcast Cable Holdings LLC, Sr Note	9.800	02-01-12	3,715,000	4,259,274
Comcast Corp., Gtd Note	6.500	01-15-15	1,295,000	1,455,748
CSC Holdings, Inc., Sr Note	7.875	02-15-18	1,690,000	1,728,025
DirecTV Holdings LLC, Gtd Sr Note	7.625	05-15-16	1,400,000	1,508,500
Gtd Sr Note (S)	4.750	10-01-14	1,110,000	1,145,867
Grupo Televisa SA, Sr Bond (S)	6.625	01-15-40	1,170,000	1,171,412
News America Holdings, Inc., Gtd Sr Note	8.250	08-10-18	2,085,000	2,519,447
News America, Inc., Gtd Sr Note	6.900	03-01-19	830,000	951,317
Regal Cinemas Corp., Gtd Sr Note (S)	8.625	07-15-19	465,000	476,625
Time Warner Cable, Inc., Gtd Sr Note	6.750	07-01-18	1,995,000	2,227,021
Time Warner Entertainment Company LP, Gtd Sr Deb	8.375	03-15-23	1,705,000	2,031,729

	Rate	Maturity date	Par value	Value
<b>Media (continued)</b>				
XM Satellite Radio, Inc., Gtd Sr Note (S)	13.000%	08-01-13	\$2,000,000	\$2,075,000
Sr Sec Note (S)	11.250	06-15-13	415,000	437,825
<b>Multiline Retail 0.19%</b>				
Macy's Retail Holdings, Inc., Gtd Note	8.875	07-15-15	1,540,000	1,636,250
<b>Personal Products 0.07%</b>				
Revlon Consumer Products Corp., Gtd Sec Sr Note (S)	9.750	11-15-15	570,000	578,550
<b>Specialty Retail 0.33%</b>				
Staples, Inc., Sr Note	9.750	01-15-14	1,870,000	2,261,606
Toys R Us Property Company LLC, Sr Sec Note (S)	8.500	12-01-17	570,000	570,000
<b>Textiles, Apparel &amp; Luxury Goods 0.19%</b>				
Burlington Coat Factory Warehouse Corp., Gtd Sr Note	11.125	04-15-14	1,600,000	1,656,000
<b>Consumer Staples 4.16%</b>				<b>35,885,917</b>
<b>Beverages 1.03%</b>				
Anheuser-Busch InBev Worldwide, Inc., Gtd Sr Note (S)	5.375	01-15-20	1,005,000	1,054,704
Gtd Sr Note (S)	4.125	01-15-15	1,655,000	1,704,559
Dr Pepper Snapple Group, Inc., Gtd Sr Note	6.820	05-01-18	1,215,000	1,406,828
Gtd Sr Note	6.120	05-01-13	885,000	979,167
Miller Brewing Company, Gtd Note (S)	5.500	08-15-13	1,580,000	1,712,396
SABMiller PLC, Sr Note (S)	6.500	07-15-18	1,850,000	2,076,631
<b>Food &amp; Staples Retailing 0.55%</b>				
ASG Consolidated LLC-ASG Finance, Inc., Sr Note	11.500	11-01-11	1,670,000	1,624,075
CVS Caremark Corp., Jr Sub Bond (6.302% to 6-1-12 then 3 mth LIBOR + 206.5 bps)	6.302	06-01-37	3,635,000	3,126,100
<b>Food Products 0.96%</b>				
Bunge Ltd. Finance Corp., Gtd Sr Note	8.500	06-15-19	890,000	1,037,317
Gtd Sr Note	5.350	04-15-14	2,100,000	2,171,650
Kraft Foods, Inc., Sr Note	6.000	02-11-13	2,760,000	3,003,714
Smithfield Foods, Inc., Gtd Sr Sec Note (S)	10.000	07-15-14	1,195,000	1,251,763

	Rate	Maturity date	Par value	Value
<b>Food Products (continued)</b>				
Tyson Foods, Inc., Sr Note	10.500%	03-01-14	\$705,000	\$796,650
<b>Household Products 0.23%</b>				
Yankee Acquisition Corp., Gtd Sr Sub Note	8.500	02-15-15	2,005,000	1,954,875
<b>Personal Products 0.07%</b>				
JohnsonDiversey, Inc., Sr Note (S)	8.250	11-15-19	575,000	573,562
<b>Tobacco 1.32%</b>				
Alliance One International, Inc., Gtd Sr Note	8.500	05-15-12	890,000	903,350
Sr Note	10.000	07-15-16	1,640,000	1,722,000
Altria Group, Inc., Gtd Sr Note	8.500	11-10-13	3,355,000	3,932,100
Philip Morris International, Inc., Sr Note	5.650	05-16-18	2,905,000	3,158,952
Reynolds American, Inc., Sr Sec Note	7.250	06-01-13	1,535,000	1,695,524
<b>Energy 5.24%</b>				<b>45,190,457</b>
<b>Energy Equipment &amp; Services 0.61%</b>				
Drummond Company, Inc., Sr Note (S)	7.375	02-15-16	2,130,000	2,007,525
NGPL Pipeco LLC, Sr Note (S)	7.119	12-15-17	2,150,000	2,425,441
Petrobras International Finance Company, Gtd Sr Note	5.750	01-20-20	860,000	876,125
<b>Oil, Gas &amp; Consumable Fuels 4.63%</b>				
Arch Coal, Inc., Sr Note (S)	8.750	08-01-16	410,000	422,300
Buckeye Partners LP, Sr Note	5.125	07-01-17	1,260,000	1,273,061
Cenovus Energy, Inc., Gtd Sr Note (S)	5.700	10-15-19	825,000	874,703
Sr Note (S)	4.500	09-15-14	1,545,000	1,618,956
Energy Transfer Partners LP, Sr Note	9.700	03-15-19	1,445,000	1,804,526
Sr Note	8.500	04-15-14	1,450,000	1,695,649
Enterprise Products Operating LLC, Gtd Jr Sub Note (7.000% to 6-1-17 then 3 mth LIBOR + 277.75 bps)	7.000	06-01-67	2,640,000	2,336,400
Gtd Jr Sub Note (7.034% to 1-15-18 then greater of 3 mth LIBOR + 268 bps or 7.034%)	7.034	01-15-68	2,130,000	1,956,938
Gtd Sr Note Series G	5.600	10-15-14	2,760,000	3,002,996

	Rate	Maturity date	Par value	Value
<b>Oil, Gas &amp; Consumable Fuels (continued)</b>				
Gulf South Pipeline Company LP, Sr Note (S)	5.750%	08-15-12	\$1,460,000	\$1,561,136
Kinder Morgan Energy Partners LP, Sr Bond	7.750	03-15-32	840,000	979,082
Sr Note	9.000	02-01-19	1,430,000	1,763,098
Sr Note	5.125	11-15-14	980,000	1,044,445
MarkWest Energy Partners LP, Gtd Sr Note Series B	8.500	07-15-16	1,745,000	1,758,087
McMoRan Exploration Company, Gtd Sr Note	11.875	11-15-14	1,230,000	1,242,300
Nustar Logistics LP, Gtd Sr Note	7.650	04-15-18	1,390,000	1,563,322
ONEOK Partners LP, Gtd Sr Note	6.150	10-01-16	3,020,000	3,200,469
Sr Note	8.625	03-01-19	1,455,000	1,780,742
Petro-Canada, Sr Note	6.050	05-15-18	1,415,000	1,537,559
Petroleos Mexicanos, Gtd Note (S)	4.875	03-15-15	1,965,000	1,969,912
Regency Energy Partners LP, Sr Note (S)	9.375	06-01-16	1,225,000	1,295,438
Southern Union Company, Jr Sub Note, Series A (7.200% to 11-01-11 then 3 mth LIBOR + 301.75 bps quarterly)	7.200	11-01-66	1,375,000	1,141,250
Spectra Energy Capital LLC, Gtd Sr Note	6.200	04-15-18	1,440,000	1,571,401
Woodside Finance, Ltd., Note (S)	4.500	11-10-14	2,430,000	2,487,596
<b>Financials 21.94%</b>				<b>189,040,773</b>
<b>Capital Markets 3.44%</b>				
Bear Stearns Companies., Inc., Sr Note	7.250	02-01-18	1,950,000	2,255,035
Charles Schwab Corp., Sr Note	4.950	06-01-14	1,475,000	1,597,347
Goldman Sachs Group, Inc., Jr Sub Note	6.750	10-01-37	1,830,000	1,883,504
Sr Note	7.500	02-15-19	2,030,000	2,397,278
Sr Note	5.125	01-15-15	3,045,000	3,232,319
Inmarsat Finance PLC, Gtd Sr Note (S)	7.375	12-01-17	430,000	441,966
Jefferies Group, Inc., Sr Note	6.450	06-08-27	1,115,000	948,995
Macquarie Group, Ltd., Sr Note (S)	7.300	08-01-14	1,085,000	1,185,821

	Rate	Maturity date	Par value	Value
<b>Capital Markets (continued)</b>				
Merrill Lynch & Company, Inc.,				
Jr Sub Bond	7.750%	05-14-38	\$1,770,000	\$1,954,133
MTN	6.875	04-25-18	3,095,000	3,319,787
Morgan Stanley,				
Sr Note	7.300	05-13-19	2,070,000	2,333,343
Sr Note Series MTN	6.625	04-01-18	3,230,000	3,504,272
Northern Trust Company,				
Sr Note	4.625	05-01-14	1,600,000	1,743,294
Sub Note	6.500	08-15-18	920,000	1,071,047
TD Ameritrade Holding Corp.,				
Gtd Note	5.600	12-01-19	1,755,000	1,784,465
<b>Commercial Banks 3.21%</b>				
Allfirst Preferred Capital Trust,				
Gtd Jr Sub Note (P)	1.784	07-15-29	1,305,000	840,890
BPCE SA,				
Sub Bond (12.50% to 9-30-19 then 3 mth LIBOR + 12.98%) (S)	12.500	08-30-49	1,239,000	1,450,026
Chuo Mitsui Trust & Banking Company Ltd.,				
Jr Sub Note (5.506% to 4-15-15 then 3 mth LIBOR + 249 bps quarterly) (S)	5.506	12-15-49	2,530,000	2,310,700
Credit Suisse New York,				
Sr Note	5.300	08-13-19	1,680,000	1,760,443
Lloyds TSB Group PLC,				
Note (P)(S)	6.413	12-31-49	2,410,000	1,301,400
Mizuho Financial Group, Ltd.,				
Gtd Sub Bond	8.375	12-29-49	1,110,000	1,104,450
Regions Financial Corp.,				
Sr Note	7.750	11-10-14	1,825,000	1,833,842
Royal Bank of Scotland Group Plc,				
Jr Sub Bond Series MTN (7.640% to 9-29-17 then variable)	7.640	03-31-49	1,400,000	654,500
Sr Note	6.400	10-21-19	1,530,000	1,550,989
Santander Issuances S.A.,				
Sub Note (6.500% to 11-11-14 then variable) (S)	6.500	08-11-19	3,300,000	3,622,714
Silicon Valley Bank,				
Sub Note	6.050	06-01-17	2,335,000	2,211,754
SMFG Preferred Capital,				
Sub Bond (6.078% to 1-25-17 then variable) (S)	6.078	01-01-49	2,215,000	1,833,954
Sovereign Capital Trust VI,				
Gtd Note	7.908	06-13-36	1,840,000	1,797,700
Wachovia Bank NA,				
Sub Note	5.850	02-01-37	1,665,000	1,617,797
Sub Note Series BKNT	6.600	01-15-38	1,360,000	1,450,293

	Rate	Maturity date	Par value	Value
<b>Commercial Banks (continued)</b>				
Westpac Banking Corp., Sr Note	4.875%	11-19-19	\$2,275,000	\$2,309,773
<b>Consumer Finance 1.70%</b>				
American Express Company, Sr Note	7.000	03-19-18	1,995,000	2,222,169
American Express Credit Company, Sr Note Series C	7.300	08-20-13	2,700,000	3,066,968
Capital One Financial Corp., Sr Note	7.375	05-23-14	2,430,000	2,787,242
Discover Financial Services, Sr Note	10.250	07-15-19	2,400,000	2,818,824
Ford Motor Credit Company LLC, Sr Note	7.500	08-01-12	375,000	371,625
Nelnet, Inc., Note (7.400% to 9-1-11 then 3 mth LIBOR + 337.5 bps)	7.400	09-29-36	2,595,000	1,890,909
SLM Corp., Sr Note Series MTN	8.450	06-15-18	1,650,000	1,490,440
<b>Diversified Financial Services 6.29%</b>				
American Honda Finance Corp., Note (S)	7.625	10-01-18	2,750,000	3,219,472
Astoria Depositor Corp., Series B (S)	8.144	05-01-21	3,590,000	2,872,000
Beaver Valley Funding, Sec Lease Obligation Bond	9.000	06-01-17	3,286,000	3,630,833
Bosphorus Financial Services, Ltd., Sec Note (P)(S)	2.240	02-15-12	1,496,250	1,425,045
Citigroup, Inc., Sr Note	6.375	08-12-14	3,280,000	3,450,219
Sr Note	6.125	11-21-17	2,925,000	2,938,780
Sr Note	5.850	12-11-34	1,275,000	1,108,338
CME Group, Inc., Sr Note	5.750	02-15-14	2,025,000	2,253,531
ERAC USA Finance Company, Gtd Sr Note (S)	6.375	10-15-17	1,730,000	1,795,174
ESI Tractebel Acquisition Corp., Gtd Sec Bond Series B	7.990	12-30-11	2,388,000	2,397,523
General Electric Capital Corp., Sr Note	5.625	05-01-18	1,910,000	1,969,357
Sr Note Series MTN	6.000	08-07-19	1,340,000	1,411,496
Harley-Davidson Funding Corp., Gtd Sr Note (S)	5.750	12-15-14	2,300,000	2,319,297
Hyundai Capital Services, Sr Note (S)	6.000	05-05-15	1,715,000	1,792,573

	Rate	Maturity date	Par value	Value
<b>Diversified Financial Services (continued)</b>				
JPMorgan Chase & Company, Jr Sub Note Series 1 (7.900% to 4-30-18 then 3 mth LIBOR + 347 bps)	7.900%	04-30-18	\$2,470,000	\$2,415,462
Sr Bond	6.000	01-15-18	3,260,000	3,533,899
Sr Note	4.650	06-01-14	2,575,000	2,750,721
PNC Funding Corp., Gtd Sr Note	4.250	09-21-15	2,780,000	2,871,409
Rabobank Nederland NV, Jr Sub Note (11.000% to 6-4-19 then variable) (S)	11.000	06-30-19	3,204,000	3,961,451
USB Realty Corp., Perpetual Bond (6.091% to 1-15-12 then variable) (S)	6.091	12-22-49	2,900,000	2,015,500
Volvo Treasury AB, Note (S)	5.950	04-01-15	2,215,000	2,316,812
Voto-Votorantim Overseas Trading Operations NV, Gtd Sr Note (S)	6.625	09-25-19	1,800,000	1,773,000
<b>Insurance 3.94%</b>				
Aflac, Inc., Sr Note	8.500	05-15-19	1,455,000	1,723,250
AXA SA, Sub Note (6.379% to 12-13-46 then 3 mth LIBOR + 225.6 bps) (S)	6.379	12-14-49	1,170,000	938,925
CNA Financial Corp., Sr Note	7.350	11-15-19	1,280,000	1,300,916
Sr Note	6.500	08-15-16	1,315,000	1,306,305
Genworth Financial, Inc., Jr Sub Note (6.150% to 11-15-16 then 3 mth LIBOR + 200.25 bps)	6.150	11-15-66	1,640,000	1,049,600
Horace Mann Educators Corp., Sr Note	6.850	04-15-16	1,425,000	1,439,296
Liberty Mutual Group, Inc., Bond (S)	7.300	06-15-14	2,330,000	2,364,766
Gtd Bond (S)	7.800	03-15-37	2,635,000	2,081,650
Gtd Bond (S)	7.500	08-15-36	3,070,000	2,762,150
Lincoln National Corp., Jr Sub Bond (6.050% to 4-20-17 then 3 mth LIBOR + 204 bps)	6.050	04-20-67	915,000	654,225
Sr Note	8.750	07-01-19	2,045,000	2,385,660
Massachusetts Mutual Life Insurance Company, Sub Note (S)	8.875	06-01-39	895,000	1,096,658
MetLife, Inc., Sr Note	6.750	06-01-16	1,445,000	1,659,915
New York Life Insurance Company, Sub Note (S)	6.750	11-15-39	2,330,000	2,354,088

	Rate	Maturity date	Par value	Value
<b>Insurance (continued)</b>				
Progressive Corp., Jr Sub Debenture (6.700% to 6-1-17 then 3 mth LIBOR + 201.75 bps)	6.700%	06-15-37	\$1,225,000	\$1,041,250
Prudential Financial, Inc., Sr Note Series D	5.150	01-15-13	2,700,000	2,854,734
Sr Note MTN Series D	7.375	06-15-19	885,000	1,005,241
QBE Insurance Group, Ltd., Sr Note (S)	9.750	03-14-14	1,739,000	2,016,788
Symetra Financial Corp., Jr Sub Bond (8.300% to 10-1-17 then 3 mth LIBOR + 417.7 bps) (S)	8.300	10-15-37	970,000	805,100
Unum Group, Sr Note	7.125	09-30-16	1,570,000	1,651,324
W.R. Berkley Corp., Sr Note	5.600	05-15-15	1,460,000	1,477,911
<b>Real Estate Investment Trusts 3.36%</b>				
AMB Property L.P., Gtd Note	6.625	12-01-19	1,965,000	1,978,401
Boston Properties LP, Sr Note	5.875	10-15-19	1,085,000	1,110,703
Brandywine Operating Partnership LP, Gtd Sr Note	7.500	05-15-15	1,390,000	1,423,923
Dexus Property Group, Gtd Note (S)	7.125	10-15-14	1,985,000	2,035,340
Duke Realty LP, Sr Note	8.250	08-15-19	2,035,000	2,200,897
Health Care REIT, Inc., Sr Note	6.200	06-01-16	1,835,000	1,848,484
Healthcare Realty Trust, Inc., Sr Note	8.125	05-01-11	1,340,000	1,415,938
HRPT Properties Trust, Sr Note	6.650	01-15-18	1,070,000	1,015,166
Mack-Cali Realty Corp., Sr Note	7.750	08-15-19	1,345,000	1,434,463
Nationwide Health Properties, Inc., Sr Note	6.500	07-15-11	1,745,000	1,820,611
Plum Creek Timberlands LP, Gtd Sr Note	5.875	11-15-15	1,740,000	1,824,099
ProLogis, Sr Note	6.625	05-15-18	2,285,000	2,226,024
Sr Note	5.625	11-15-15	1,615,000	1,571,650
Simon Property Group LP, Sr Note	10.350	04-01-19	1,495,000	1,929,245
Sr Note	5.625	08-15-14	2,520,000	2,674,859

	Rate	Maturity date	Par value	Value
<b>Real Estate Investment Trusts (continued)</b>				
WEA Finance LLC, Gtd Sr Note (S)	6.750%	09-02-19	\$1,180,000	\$1,239,923
Gtd Sr Note (S)	5.400	10-01-12	1,095,000	1,147,395
<b>Health Care 0.82%</b>				<b>7,103,053</b>
<b>Health Care Equipment &amp; Supplies 0.14%</b>				
Inverness Medical Innovations, Inc., Sr Note (S)	7.875	02-01-16	1,225,000	1,203,562
<b>Health Care Providers &amp; Services 0.47%</b>				
Medco Health Solutions, Inc., Sr Note	7.250	08-15-13	3,615,000	4,104,941
<b>Pharmaceuticals 0.21%</b>				
Watson Pharmaceuticals, Inc., Sr Note	6.125	08-15-19	1,690,000	1,794,550
<b>Industrials 4.77%</b>				<b>41,117,387</b>
<b>Aerospace &amp; Defense 0.31%</b>				
BE Aerospace, Inc., Sr Note	8.500	07-01-18	1,150,000	1,190,250
Embraer Overseas, Ltd., Gtd Sr Note	6.375	01-15-20	1,535,000	1,488,950
<b>Airlines 1.63%</b>				
Continental Airlines, Inc., Series 1991-1 Class A	6.545	02-02-19	729,897	704,351
Series 2000-2 Class B	8.307	04-02-18	1,157,622	1,099,741
Series 2001-1 Class C	7.033	06-15-11	574,842	540,351
Sr Sec Bond Series 981A	6.648	09-15-17	705,222	662,909
Delta Air Lines, Inc., Collateralized Bond Series 2002-1 Class G2	6.821	08-10-22	2,844,894	2,667,088
Sr Sec Note (S)	6.417	07-02-12	2,955,000	2,807,250
	9.500	09-15-14	1,435,000	1,456,525
Northwest Airlines, Inc., Gtd Note Series 2007-1 Class A	7.027	11-01-19	1,629,295	1,417,487
United Air Lines, Inc., Gtd Note	10.400	11-01-16	795,000	818,850
Gtd Note	9.750	01-15-17	1,825,000	1,852,375
<b>Commercial Services &amp; Supplies 0.23%</b>				
ACCO Brands Corp., Gtd Sr Sec Note (S)	10.625	03-15-15	315,000	339,806
Geo Group, Inc., Gtd Sr Note (S)	7.750	10-15-17	290,000	294,350
Waste Management, Inc., Gtd Sr Note	6.125	11-30-39	1,335,000	1,376,918
<b>Construction Materials 0.12%</b>				
Odebrecht Finance, Ltd., Gtd Sr Note (S)	7.000	04-21-20	1,030,000	1,001,675

	Rate	Maturity date	Par value	Value
<b>Industrial Conglomerates 0.20%</b>				
Hutchison Whampoa International, Ltd., Gtd Note (S)	5.750%	09-11-19	\$1,675,000	\$1,726,476
<b>Machinery 0.66%</b>				
Altra Holdings, Inc., Sr Sec Note (S)	8.125	12-01-16	805,000	809,025
Case New Holland, Inc., Gtd Sr Note (S)	7.750	09-01-13	1,375,000	1,371,563
Ingersoll-Rand Global Holding Company, Ltd., Gtd Note	6.875	08-15-18	2,095,000	2,369,177
Terex Corp., Sr Note	10.875	06-01-16	1,105,000	1,174,062
<b>Marine 0.22%</b>				
Navios Maritime Holdings, Inc., Sr Note	9.500	12-15-14	1,975,000	1,942,906
<b>Road &amp; Rail 0.65%</b>				
CSX Corp., Sr Note	5.500	08-01-13	2,530,000	2,750,720
Kansas City Southern, Sr Note	9.375	05-01-12	1,810,000	1,850,725
RailAmerica, Inc., Gtd Sr Sec Note (S)	9.250	07-01-17	945,000	987,525
<b>Trading Companies &amp; Distributors 0.57%</b>				
GATX Corp., Sr Note	8.750	05-15-14	2,375,000	2,740,444
United Rentals North America, Inc., Gtd Sr Note (S)	10.875	06-15-16	530,000	563,125
Gtd Sr Note	7.000	02-15-14	1,805,000	1,592,913
<b>Transportation Infrastructure 0.18%</b>				
CMA CGM SA, Sr Note (S)	7.250	02-01-13	2,690,000	1,519,850
<b>Information Technology 1.23%</b>				<b>10,585,805</b>
<b>Electronic Equipment, Instruments &amp; Components 0.59%</b>				
Amphenol Corp., Sr Note	4.750	11-15-14	2,160,000	2,200,381
Tyco Electronics Group SA, Gtd Note	6.000	10-01-12	1,760,000	1,891,982
Gtd Sr Note	6.550	10-01-17	970,000	1,034,555
<b>IT Services 0.20%</b>				
Fiserv, Inc., Gtd Sr Note	6.800	11-20-17	1,505,000	1,703,579
<b>Office Electronics 0.44%</b>				
Xerox Corp., Sr Note	8.250	05-15-14	1,160,000	1,349,560
Sr Note	6.750	02-01-17	2,204,000	2,405,748

	Rate	Maturity date	Par value	Value
<b>Materials 4.41%</b>				<b>\$37,966,381</b>
<b>Chemicals 0.75%</b>				
American Pacific Corp., Gtd Sr Note	9.000%	02-01-15	\$2,160,000	2,014,200
Ecolab, Inc., Sr Note	4.875	02-15-15	1,515,000	1,626,365
RPM International, Inc., Sr Note	6.500	02-15-18	1,325,000	1,371,599
Sterling Chemicals, Inc., Gtd Sr Sec Note	10.250	04-01-15	1,490,000	1,415,500
<b>Construction Materials 0.39%</b>				
CRH America, Inc., Gtd Note	8.125	07-15-18	1,930,000	2,260,779
Holcim US Finance Sarl & Cie SCS, Gtd Note (S)	6.000	12-30-19	1,035,000	1,099,166
<b>Containers &amp; Packaging 0.29%</b>				
BWAY Corp., Sr Sub Note (S)	10.000	04-15-14	1,390,000	1,456,025
Graphic Packaging International, Inc., Gtd Sr Note	9.500	06-15-17	495,000	522,225
U.S. Corrugated, Inc., Sr Sec Note	10.000	06-12-13	605,000	526,350
<b>Food Products 0.22%</b>				
Mosaic Co., Sr Note (S)	7.625	12-01-16	1,780,000	1,909,281
<b>Metals &amp; Mining 1.87%</b>				
Allegheny Technologies, Inc., Sr Note	9.375	06-01-19	1,205,000	1,386,614
ArcelorMittal, Sr Note	9.850	06-01-19	2,360,000	2,907,765
CII Carbon LLC, Gtd Sr Sub Note (S)	11.125	11-15-15	1,835,000	1,814,356
Commercial Metals Company, Sr Note	7.350	08-15-18	1,295,000	1,402,866
Gerdau Holdings, Inc., Gtd Sr Note (S)	7.000	01-20-20	1,345,000	1,334,240
Rio Tinto Alcan, Inc., Sr Note	6.125	12-15-33	1,725,000	1,785,760
Rio Tinto Finance USA, Ltd., Gtd Sr Note	8.950	05-01-14	1,455,000	1,749,658
Teck Resources, Ltd., Sr Sec Note	10.750	05-15-19	835,000	974,862
Vale Overseas, Ltd., Gtd Note	6.875	11-10-39	1,290,000	1,333,397

	Rate	Maturity date	Par value	Value
<b>Metals &amp; Mining (continued)</b>				
Vedanta Resources PLC, Note (S)	8.750%	01-15-14	\$1,445,000	\$1,448,613
<b>Paper &amp; Forest Products 0.89%</b>				
International Paper Company, Sr Note	9.375	05-15-19	1,650,000	2,047,158
Sr Note	7.950	06-15-18	2,130,000	2,465,839
NewPage Corp., Gtd Sr Sec Note (S)	11.375	12-31-14	540,000	531,900
PE Paper Escrow GmbH, Sr Sec Note (S)	12.000	08-01-14	385,000	422,538
Solo Cup Company, Sr Sec Note (S)	10.500	11-01-13	570,000	599,925
Verso Paper Holdings LLC, Gtd Sr Note Series B	9.125	08-01-14	1,695,000	1,559,400
<b>Telecommunication Services 3.12%</b>				<b>26,868,877</b>
<b>Diversified Telecommunication Services 1.77%</b>				
Axtel SAB de CV, Sr Note (S)	9.000	09-22-19	630,000	644,175
CenturyTel, Inc., Sr Note	6.150	09-15-19	1,320,000	1,358,850
Cincinnati Bell, Inc., Gtd Sr Sub Note	8.375	01-15-14	1,825,000	1,813,594
Citizens Communications Company, Sr Note	6.250	01-15-13	2,087,000	2,050,477
Intelsat Jackson Holdings, Ltd., Gtd Sr Note	11.500	06-15-16	1,585,000	1,676,138
Qwest Corp., Sr Note	7.875	09-01-11	1,620,000	1,682,775
Telecom Italia Capital SA, Gtd Sr Note	6.175	06-18-14	1,405,000	1,550,606
Verizon Wireless Capital LLC, Sr Note	7.375	11-15-13	1,470,000	1,712,259
West Corp., Gtd Sr Sub Note	11.000	10-15-16	2,695,000	2,715,213
<b>Wireless Telecommunication Services 1.35%</b>				
America Movil SAB de CV, Sr Sec Note	5.750	01-15-15	1,595,000	1,718,638
American Tower Corp., Sr Note (S)	4.625	04-01-15	1,365,000	1,399,616
Crown Castle International Corp., Sr Note	7.125	11-01-19	710,000	701,125
Digicel Group, Ltd., Sr Note (S)	12.000	04-01-14	1,140,000	1,273,950
Sr Note (S)	8.875	01-15-15	2,115,000	2,051,550

	Rate	Maturity date	Par value	Value
<b>Wireless Telecommunication Services (continued)</b>				
NII Capital Corp., Gtd Sr Note (S)	10.000%	08-15-16	\$940,000	\$996,400
Roger's Communication, Inc., Sr Note	6.750	03-15-15	1,595,000	1,825,911
SBA Telecommunications, Inc., Gtd Sr Note (S)	8.000	08-15-16	545,000	561,350
Sprint Capital Corp., Gtd Note	7.625	01-30-11	1,125,000	1,136,250
				<b>49,191,771</b>
<b>Utilities 5.71%</b>				
<b>Electric Utilities 3.11%</b>				
Allegheny Energy Supply Company LLC, Sr Note (S)	5.750	10-15-19	1,160,000	1,151,218
Aquila, Inc., Sr Note	11.875	07-01-12	1,615,000	1,878,030
BVPS II Funding Corp., Collateralized Lease Bond	8.890	06-01-17	2,163,000	2,488,930
Commonwealth Edison Company, Sec Bond	5.800	03-15-18	2,995,000	3,272,127
Delmarva Power & Light Company, 1st Mtg Bond	6.400	12-01-13	1,475,000	1,673,995
Duke Energy Corp., Sr Note	6.300	02-01-14	1,465,000	1,634,134
FirstEnergy Solutions Corp., Gtd Sr Note (S)	4.800	02-15-15	1,495,000	1,553,698
Israel Electric Corp., Ltd., Sec Note (S)	7.250	01-15-19	2,395,000	2,630,716
ITC Holdings Corp., Sr Note (S)	5.875	09-30-16	745,000	773,476
Monongahela Power Company, Sec Bond (S)	7.950	12-15-13	2,705,000	3,018,637
Nevada Power Company, Mtg Note Series L	5.875	01-15-15	1,540,000	1,690,552
PNPP II Funding Corp., Sec Collateralized Bond	9.120	05-30-16	944,000	1,053,504
Texas Competitive Electric Holdings Company LLC, Gtd Sr Note Series A	10.250	11-01-15	2,505,000	1,778,550
Waterford 3 Funding Corp., Sec Bond	8.090	01-02-17	2,096,292	2,205,509
<b>Gas Utilities 0.49%</b>				
DCP Midstream LLC, Sr Note (S)	9.750	03-15-19	1,705,000	2,079,595
EQT Corp., Sr Note	8.125	06-01-19	1,080,000	1,261,265

	Rate	Maturity date	Par value	Value
<b>Gas Utilities (continued)</b>				
Questar Market Resources, Inc., Sr Note	6.800%	03-01-20	\$835,000	\$898,718
<b>Independent Power Producers &amp; Energy Traders 0.54%</b>				
AES Eastern Energy LP, Sr Pass Thru Ctf Series 1999-A	9.000	01-02-17	3,124,140	3,135,856
IPALCO Enterprises, Inc., Sr Sec Note	8.625	11-14-11	1,405,000	1,454,175
<b>Multi-Utilities 1.12%</b>				
DTE Energy Company, Sr Note	7.625	05-15-14	1,310,000	1,481,499
PG&E Corp., Sr Note	5.750	04-01-14	1,740,000	1,917,463
Sempra Energy, Sr Bond	8.900	11-15-13	1,415,000	1,685,576
Sr Note	6.500	06-01-16	1,745,000	1,945,783
Teco Finance, Inc., Gtd Sr Note	7.000	05-01-12	1,166,000	1,262,253
Gtd Sr Note	6.572	11-01-17	1,304,000	1,366,978
<b>Water Utilities 0.45%</b>				
Indiantown Cogeneration LP, 1st Mtg Note Series A-9	9.260	12-15-10	529,712	533,897
Midwest Generation LLC, Note Series B	8.560	01-02-16	2,483,531	2,508,366
Salton Sea Funding Corp., Sr Sec Bond Series F	7.475	11-30-18	781,098	857,271
<b>U.S. Government &amp; Agency Obligations 17.96%</b>			<b>\$154,785,854</b>	
(Cost \$148,741,656)				
<b>U.S. Government 1.85%</b>			<b>15,964,705</b>	
U.S. Treasury Bonds, Bond	4.500	08-15-39	5,015,000	5,268,884
Bond	4.250	05-15-39	6,250,000	6,297,850
U.S. Treasury Notes, Note	3.375	11-15-19	815,000	826,972
Note	2.375	10-31-14	3,505,000	3,570,999
<b>U.S. Government Agency 16.11%</b>			<b>138,821,149</b>	
Federal Home Loan Bank, Bond	5.375	05-18-16	3,665,000	4,176,454
Federal Home Loan Mortgage Corp., 30 Yr Pass Thru Ctf	5.000	07-01-35	7,224,326	7,597,676
Federal National Mortgage Association, 15 Yr Pass Thru Ctf	4.000	06-01-24	29,367,799	30,214,417
30 Yr Pass Thru Ctf	5.500	05-01-35	17,250,222	18,431,459
30 Yr Pass Thru Ctf (P)	5.308	12-01-38	4,002,705	4,255,842
30 Yr Pass Thru Ctf (P)	5.244	12-01-38	1,898,522	2,011,455
30 Yr Pass Thru Ctf	5.000	11-01-33	3,788,219	3,990,208

	Rate	Maturity date	Par value	Value
<b>U.S. Government Agency (continued)</b>				
30 Yr Pass Thru Ctf	5.000%	03-01-38	\$4,877,480	\$5,123,831
30 Yr Pass Thru Ctf	5.000	03-01-38	15,057,119	15,817,621
30 Yr Pass Thru Ctf	5.000	05-01-38	19,238,115	20,250,116
30 Yr Pass Thru Ctf (P)	4.893	12-01-38	2,931,664	3,095,208
Bond	4.000	07-01-24	18,921,787	19,467,266
Note	1.875	10-29-12	4,360,000	4,389,596
<b>Convertible Bonds 0.12%</b>				<b>\$1,016,863</b>
(Cost \$930,000)				
<b>Industrials 0.12%</b>				<b>1,016,863</b>
<b>Airlines 0.08%</b>				
US Airways Group, Inc., Conv Sr Note	7.250	05-15-14	680,000	674,050
<b>Machinery 0.04%</b>				
Terex Corp., Bond	4.000	06-01-15	250,000	342,813
<b>Municipal Bonds 0.17%</b>				<b>\$1,477,858</b>
(Cost \$1,470,188)				
<b>California 0.17%</b>				<b>1,477,858</b>
State of California, Taxable Various Purposes	6.200	10-01-19	1,455,000	1,477,858
<b>Term Loans 0.16%</b>				<b>\$1,360,935</b>
(Cost \$1,571,891)				
<b>Consumer Discretionary 0.06%</b>				<b>537,335</b>
<b>Hotels, Restaurants &amp; Leisure 0.06%</b>				
East Valley Tourist Development Authority, Tranche	12.00	08-06-12	778,747	537,335
<b>Financials 0.10%</b>				<b>823,600</b>
<b>Real Estate Management &amp; Development 0.10%</b>				
Realty Corp., Tranche	13.500	10-16-17	800,000	823,600
<b>Collateralized Mortgage Obligations 15.60%</b>				<b>\$134,460,907</b>
(Cost \$160,622,723)				
American Home Mortgage Assets, Series 2006-6, Class A1A (P)	0.426	12-25-46	2,598,489	1,264,740
Series 2006-6, Class XP IO	0.647	12-25-46	35,008,898	1,575,400
Series 2007-5, Class XP IO	3.241	06-25-47	33,733,954	1,918,619
American Home Mortgage Investment Trust, Series 2007-1, Class GIOP IO	2.078	05-25-47	28,393,779	1,756,865
American Tower Trust, Series 2007-1A, Class C (S)	5.615	04-15-37	2,875,000	2,918,125
Series 2007-1A, Class D (S)	5.957	04-15-37	3,175,000	3,175,000

	Rate	Maturity date	Par value	Value
<b>Collateralized Mortgage Obligations (continued)</b>				
Banc of America Commercial Mortgage, Inc.,				
Series 2005-6, Class A4 (P)	5.351%	09-10-47	\$2,965,000	\$3,006,785
Series 2006-2, Class A3 (P)	5.900	05-10-45	5,400,000	5,400,962
Series 2006-3, Class A4 (P)	5.889	07-10-44	5,260,000	4,732,353
Series 2006-4, Class A3A	5.600	07-10-46	4,245,000	4,009,041
Banc of America Funding Corp.,				
Series 2006-B, Class 6A1 (P)	5.827	03-20-36	2,829,118	1,892,333
Series 2007-E, Class 4A1 (P)	5.736	07-20-47	1,767,123	1,138,254
Bear Stearns Alt-A Trust,				
Series 2005-3, Class B2 (P)	5.122	04-25-35	1,161,300	70,812
Bear Stearns Commercial Mortgage Securities, Inc.,				
Series 2006-PW14, Class D (S)	5.412	12-11-38	2,480,000	607,701
Bear Stearns Mortgage Funding Trust,				
Series 2006-AR1, Class 2A1 (P)	0.456	08-25-36	1,652,880	814,126
Chaseflex Trust,				
Series 2005-2, Class 4A1	5.000	05-25-20	2,037,617	1,858,689
Citigroup Commercial Mortgage Trust,				
Series 2006-C4, Class A3 (P)	5.913	03-15-49	3,350,000	3,222,812
Citigroup Mortgage Loan Trust, Inc.,				
Series 2005-10, Class 1A5A (P)	5.830	12-25-35	2,076,169	1,301,559
Series 2005-5, Class 2A3	5.000	08-25-35	1,271,283	1,223,212
Citigroup/Deutsche Bank Commercial Mortgage Trust,				
Series 2005-CD1, Class C (P)	5.399	07-15-44	1,030,000	664,053
ContiMortgage Home Equity Loan Trust,				
Series 1995-2 Class A-5	8.100	08-15-25	200,951	174,853
Countrywide Alternative Loan Trust,				
Series 2007-25, Class 1A2	6.500	11-25-37	4,890,639	3,081,866
Series 2005-59, Class 2X IO	2.826	11-20-35	28,855,913	858,463
Series 2006-11CB, Class 3A1	6.500	05-25-36	3,235,453	2,038,841
Crown Castle Towers LLC,				
Series 2006-1A, Class F (S)	6.650	11-15-36	5,065,000	5,140,975
Series 2006-1A, Class E (S)	6.065	11-15-36	2,900,000	2,965,250
DB Master Finance LLC,				
Series 2006-1, Class-M1 (S)	8.285	06-20-31	1,065,000	894,004
DSL A Mortgage Loan Trust,				
Series 2005-AR5, Class X2 IO	2.885	08-19-45	23,321,968	911,014
First Horizon Alternative Mortgage Securities,				
Series 2006-RE1, Class A1	5.500	05-25-35	3,079,125	2,350,719
Series 2004-AA5, Class B1 (P)	2.635	12-25-34	1,173,997	107,650
Global Tower Partners Acquisition Partners LLC,				
Series 2007-1A, Class F (S)	7.050	05-15-37	780,000	697,414

	Rate	Maturity date	Par value	Value
<b>Collateralized Mortgage Obligations (continued)</b>				
GMAC Commercial Mortgage Securities, Inc., Series 2003-C2, Class B (P)				
	5.686%	05-10-40	\$7,495,000	\$7,422,544
GMAC Mortgage Corp. Loan Trust, Series 2006-AR1, Class 2A1 (P)				
	5.628	04-19-36	2,014,723	1,508,888
Greenpoint Mortgage Funding Trust, Series 2005-AR1, Class A3 (P)				
	0.516	06-25-45	551,363	137,090
Series 2005-AR4, Class 4A2 (P)				
	0.596	10-25-45	2,466,308	836,162
Series 2006-AR1, Class A2A (P)				
	0.606	02-25-36	3,952,701	1,084,836
Greenwich Capital Commercial Funding Corp., Series 2007-GG9, Class C (P)				
	5.554	03-10-39	1,810,000	622,497
Series 2007-GG9, Class F (P)				
	5.633	03-10-39	995,000	245,737
Greenwich Capital Commercial Funding Corp., Series 2007-GG9, Class A4				
	5.444	03-10-39	4,670,000	3,985,208
GSR Mortgage Loan Trust, Series 2004-9, Class B1 (P)				
	4.054	08-25-34	1,662,899	668,012
Series 2006-AR1, Class 3A1 (P)				
	5.347	01-25-36	4,481,102	3,295,250
Harborview Mortgage Loan Trust, Series 2005-11, Class X IO				
	2.800	08-19-45	16,025,901	661,068
Series 2005-16, Class 2A1B (P)				
	0.567	01-19-36	1,463,615	386,770
Series 2005-8, Class 1X IO				
	2.672	09-19-35	24,236,769	920,241
Series 2006-SB1, Class A1A (P)				
	1.482	12-19-36	2,978,832	1,074,448
Series 2007-3, Class ES				
	0.350	05-19-47	55,841,334	523,513
Series 2007-4, Class ES (P)				
	0.350	07-19-47	58,363,812	547,161
Series 2007-6, Class ES (S)				
	0.342	08-19-37	43,094,898	404,015
IndyMac Index Mortgage Loan Trust, Series 2004-AR13, Class B1				
	5.296	01-25-35	1,161,480	178,225
Series 2005-AR18, Class 1X IO				
	2.699	10-25-36	39,234,365	1,200,572
Series 2005-AR18, Class 2X IO				
	2.427	10-25-36	66,759,618	2,082,900
Series 2005-AR5, Class B1 (P)				
	4.380	05-25-35	1,631,931	51,762
JPMorgan Chase Commercial Mortgage Securities Corp., Series 2006-LDP7, Class A4 (P)				
	6.065	04-15-45	3,345,000	3,180,986
Series 2005-LDP3, Class A4B (P)				
	4.996	08-15-42	3,635,000	3,160,538
Series 2005-LDP4, Class B (P)				
	5.129	10-15-42	1,646,000	860,995
JPMorgan Mortgage Trust, Series 2006-A7, Class 2A5 (P)				
	5.767	01-25-37	3,614,825	759,359
Series 2005-S2, Class 2A16				
	6.500	09-25-35	2,019,983	1,979,899
Series 2005-S3, Class 2A2				
	5.500	01-25-21	2,339,264	2,247,155
LB-UBS Commercial Mortgage Trust, Series 2006-C4, Class A4 (P)				
	6.080	06-15-38	3,950,000	3,852,954
Merrill Lynch/Countrywide Commercial Mortgage Trust, Series 2006-2, Class A4 (P)				
	6.104	06-12-46	4,535,000	4,405,739

	Rate	Maturity date	Par value	Value
<b>Collateralized Mortgage Obligations (continued)</b>				
MLCC Mortgage Investors, Inc.,				
Series 2007-3, Class M1 (P)	5.915%	09-25-37	\$1,564,541	\$483,469
Series 2007-3, Class M2 (P)	5.915	09-25-37	584,832	228,489
Series 2007-3, Class M3 (P)	5.915	09-25-37	374,896	132,493
Morgan Stanley Capital I,				
Series 2005-HQ7, Class A4 (P)	5.378	11-14-42	3,065,000	3,115,450
Series 2005-IQ10, Class A4A (P)	5.230	09-15-42	2,680,000	2,696,247
Series 2006-IQ12, Class E (P)	5.538	12-15-43	2,430,000	475,120
Provident Funding Mortgage Loan Trust,				
Series 2005-1, Class B1 (P)	4.285	05-25-35	1,564,066	407,035
Residential Accredited Loans, Inc.,				
Series 2005-QA12, Class NB5 (P)	5.945	12-25-35	2,121,214	1,205,174
Series 2005-QO4, Class XIO (P)	2.969	12-25-45	45,995,902	1,782,341
Residential Asset Securitization Trust,				
Series 2006-A7CB, Class 2A1	6.500	07-25-36	3,608,640	2,201,834
Structured Asset Securities Corp.,				
Series 2003-6A, Class B1 (P)	4.323	03-25-33	2,196,063	950,209
Washington Mutual, Inc.,				
Series 2005-AR13, Class X IO	1.961	10-25-45	143,299,548	3,761,613
Series 2005-AR19, Class B1 (P)	0.936	12-25-45	2,346,195	291,768
Series 2005-6, Class 1CB	6.500	08-25-35	1,314,605	959,867
Series 2007-OA5, Class 1XPP IO	0.851	06-25-47	147,423,792	1,704,588
Series 2007-OA6, Class 1XPP IO	0.796	07-25-47	85,175,168	851,752
Series 2005-AR19, Class A1B3 (P)	0.586	12-25-45	1,034,466	387,266
Series 2006-AR4, Class 1A1B (P)	1.572	05-25-46	2,646,600	742,107
Series 2005-AR13, Class B1 (P)	0.836	10-25-45	4,025,651	443,855
Series 2005-AR6, Class B1 (P)	0.836	04-25-45	4,519,123	453,111
Wells Fargo Mortgage Backed Securities Trust,				
Series 2006-AR15, Class A3 (P)	5.665	10-25-36	3,842,255	1,130,105
<b>Asset Backed Securities 3.47%</b>				<b>\$29,945,720</b>
(Cost \$35,717,746)				
Bank of America Auto Trust,				
Series 2009-1A, Class A4 (S)	3.520	06-15-16	2,525,000	2,627,794
Bayview Financial Acquisition Trust,				
Series 2006-A, Class 2A3 (P)	0.593	02-28-41	2,438,269	1,908,356
BMW Vehicle Lease Trust,				
Series 2009-1, Class A4	3.660	08-15-13	2,855,000	2,955,156
Carrington Mortgage Loan Trust,				
Series 2006-NC4, Class A5 (P)	0.296	10-25-36	895,405	769,942
Countrywide Asset-Backed Certificates,				
Series 2006-3, Class 2A2 (P)	0.416	06-25-36	3,877,825	3,115,180
DB Master Finance LLC,				
Series 2006-1, Class-A2 (S)	5.779	06-20-31	4,605,000	4,402,334
Dominos Pizza Master Issuer LLC,				
Series 2007-1, Class M1 (S)	7.629	04-25-37	3,715,000	2,897,700
Series 2007-1, Class A2 (S)	5.261	04-25-37	3,180,000	2,728,380

	Rate	Maturity date	Par value	Value		
<b>Asset Backed Securities (continued)</b>						
Hertz Vehicle Financing LLC, Series 2009-2A, Class A2 (S)	5.290%	03-25-16	\$3,090,000	\$3,151,279		
Lehman XS Trust, Series 2005-5N, Class 3A2 (P)	0.596	11-25-35	2,891,759	967,033		
Series 2005-7N, Class 1A1B (P)	0.536	12-25-35	3,308,523	846,340		
Series 2006-2N, Class 1A2 (P)	0.576	02-25-46	6,372,029	1,287,635		
Renaissance Home Equity Loan Trust, Series 2005-2, Class AF3	4.499	08-25-35	750,678	735,439		
Series 2005-2, Class AF4	4.934	08-25-35	2,365,000	1,553,152		
			<b>Shares</b>	<b>Value</b>		
<b>Preferred Stocks 1.11%</b>				<b>\$9,574,740</b>		
(Cost \$8,867,278)						
<b>Consumer Staples 0.18%</b>				<b>1,511,978</b>		
<b>Food &amp; Staples Retailing 0.18%</b>						
Ocean Spray Cranberries, Inc., 6.250%, Series A (S)			23,250	1,511,978		
<b>Financials 0.23%</b>				<b>2,017,264</b>		
<b>Diversified Financial Services 0.23%</b>						
Bank of America Corp., 8.625%			89,220	2,017,264		
<b>Materials 0.50%</b>				<b>4,329,643</b>		
<b>Metals &amp; Mining 0.50%</b>						
Freeport-McMoRan Copper & Gold, Inc., 6.750%			14,970	1,770,202		
Vale Capital II, 6.750%			30,663	2,559,441		
<b>Telecommunication Services 0.20%</b>				<b>1,715,855</b>		
<b>Wireless Telecommunication Services 0.20%</b>						
Telephone & Data Systems, Inc., 7.600%, Series A			72,953	1,715,855		
	Yield*	Maturity date	Par value	Value		
<b>Short-Term Investments 1.62%</b>				<b>\$14,000,000</b>		
(Cost \$14,000,000)						
<b>U.S. Government Agency 1.62%</b>				<b>14,000,000</b>		
Federal Home Loan Bank, Discount Note			0.020%	12-01-09	\$14,000,000	14,000,000
<b>Total investments (Cost \$854,393,641)† 98.59%</b>				<b>\$849,739,602</b>		
<b>Other assets and liabilities, net 1.41%</b>				<b>\$12,112,217</b>		
<b>Total net assets 100.00%</b>				<b>\$861,851,819</b>		

The percentage shown for each investment category is the total value of that category as a percentage of the net assets applicable to common shareholders.

Gtd Guaranteed

IO Interest Only Security — Interest Tranche of Stripped Mortgage Pool  
REIT Real Estate Investment Trust

(H) Issuer filed for protection under the Federal Bankruptcy Code and/or is in default of interest payment.

- (P) Variable rate obligation. The coupon rate shown represents the rate at period end.
- (S) These securities are exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may be resold, normally to qualified institutional buyers, in transactions exempt from registration. Rule 144A securities amounted to \$183,170,356 or 21.25% of the Fund's net assets as of November 30, 2009.
- \* Yield represents either the annualized yield at the date of purchase, the stated coupon rate or, for floating rate securities, the rate at period end.
- † At November 30, 2009, the aggregate cost of investment securities for federal income tax purposes was \$854,665,398. Net unrealized depreciation aggregated \$4,925,796, of which \$63,475,040 related to appreciated investment securities and \$68,400,836 related to depreciated investment securities.

# Financial statements

## Statement of assets and liabilities 11-30-09 (unaudited)

**This Statement of Assets and Liabilities is the Fund's balance sheet. It shows the value of what the Fund owns, is due and owes. You'll also find the net asset value and the maximum offering price per share.**

<b>Assets</b>	
Investments, at value (Cost \$854,393,641)	\$849,739,602
Cash	58,489
Foreign currency, at value (Cost \$10,699)	10,808
Cash collateral at broker for futures contracts	219,449
Receivable for investments sold	23,344
Receivable for fund shares sold	269,963
Dividends and interest receivable	13,570,679
Receivable from affiliates	17,429
Other receivables and prepaid assets	93,567
<b>Total assets</b>	<b>864,003,330</b>
<b>Liabilities</b>	
Payable for investments purchased	43,400
Payable for fund shares repurchased	273,794
Unrealized depreciation of swap contracts (Note 3)	320,159
Payable for futures variation margin	32,750
Distributions payable	938,751
Payable to affiliates	
Accounting and legal services fees	20,223
Transfer agent fees	335,666
Distribution and service fees	26,061
Other liabilities and accrued expenses	160,707
<b>Total liabilities</b>	<b>2,151,511</b>
<b>Net assets</b>	
Capital paid-in	900,298,505
Distributions in excess of net investment income	(85,916)
Accumulated net realized loss on investments, futures contracts, foreign currency transactions and swap agreements	(33,285,018)
Net unrealized appreciation (depreciation) on investments, futures contracts, translation of assets and liabilities in foreign currencies and swap agreements	(5,075,752)
<b>Net assets</b>	<b>\$861,851,819</b>
<b>Net asset value per share</b>	
Based on net asset values and shares outstanding-the Fund has an unlimited number of shares authorized with no par value	
Class A (\$780,832,117 ÷ 53,107,155 shares)	\$14.70
Class B (\$27,302,971 ÷ 1,857,107 shares) <sup>1</sup>	\$14.70
Class C (\$32,646,146 ÷ 2,220,288 shares) <sup>1</sup>	\$14.70
Class I (\$21,070,585 ÷ 1,433,215 shares)	\$14.70
<b>Maximum offering price per share</b>	
Class A (net asset value per share ÷ 95.5%) <sup>2</sup>	\$15.39

<sup>1</sup> Redemption price per share is equal to the net asset value less any applicable contingent deferred sales charge.

<sup>2</sup> On single retail sales of less than \$50,000. On sales of \$50,000 or more and on group sales the offering price is reduced.

## Statement of operations For the period ended 11-30-09 (unaudited)

This Statement of Operations summarizes the Fund's investment income earned and expenses incurred in operating the Fund. It also shows net gains (losses) for the period stated.

<b>Investment income</b>	
Interest	\$31,938,293
Dividends	370,920
Securities lending	792
Less foreign taxes withheld	(2,021)
<b>Total investment income</b>	<b>32,307,984</b>
<b>Expenses</b>	
Investment management fees (Note 5)	2,056,370
Distribution and service fees (Note 5)	1,400,154
Accounting and legal services fees (Note 5)	80,467
Transfer agent fees (Note 5)	1,035,928
Trustees' fees (Note 6)	20,147
State registration fees (Note 5)	34,182
Printing and postage fees	137,970
Other	73,758
<b>Total expenses</b>	<b>4,838,976</b>
Less expense reductions (Note 5)	(102,362)
<b>Net expenses</b>	<b>4,736,614</b>
<b>Net investment income</b>	<b>27,571,370</b>
<b>Realized and unrealized gain (loss)</b>	
<b>Net realized gain (loss) on</b>	
Investments in unaffiliated issuers	2,356,491
Investments in affiliated issuers	70
Futures contracts (Note 3)	(318,515)
Swap contracts (Note 3)	38,799
Foreign currency transactions	299,005
	<b>2,375,850</b>
<b>Change in net unrealized appreciation (depreciation) of</b>	
Investments	100,446,505
Futures contracts (Note 3)	248,652
Swap contracts (Note 3)	274,603
Translation of assets and liabilities in foreign currencies	5,504
	<b>100,975,264</b>
<b>Net realized and unrealized gain</b>	<b>103,351,114</b>
<b>Increase in net assets from operations</b>	<b>\$130,922,484</b>

## Statements of changes in net assets

These Statements of Changes in Net Assets show how the value of the Fund's net assets has changed during the last two periods. The difference reflects earnings less expenses, any investment gains and losses, distributions, if any, paid to shareholders and the net of Fund share transactions.

	Period ended 11-30-09 <sup>1</sup>	Year ended 5-31-09
<b>Increase (decrease) in net assets</b>		
<b>From operations</b>		
Net investment income	\$27,571,370	\$52,778,739
Net realized gain (loss)	2,375,850	(14,392,036)
Change in net unrealized appreciation (depreciation)	100,975,264	(71,838,760)
<b>Increase (decrease) in net assets resulting from operations</b>	<b>130,922,484</b>	<b>(33,452,057)</b>
<b>Distributions to shareholders</b>		
From net investment income		
Class A <sup>2</sup>	(25,954,337)	(48,395,953)
Class B	(891,123)	(1,985,117)
Class C	(953,659)	(1,498,050)
Class I	(776,468)	(1,353,495)
Class R1 <sup>2</sup>	(12,611)	(61,014)
<b>Total distributions</b>	<b>(28,588,198)</b>	<b>(53,293,629)</b>
<b>From Fund share transactions (Note 7)</b>	<b>(61,135)</b>	<b>(71,142,760)</b>
<b>Total increase (decrease)</b>	<b>102,273,151</b>	<b>(157,888,446)</b>
<b>Net assets</b>		
Beginning of period	759,578,668	917,467,114
<b>End of period</b>	<b>\$861,851,819</b>	<b>\$759,578,668</b>
<b>Undistributed (distributions in excess of) net investment income</b>	<b>(\$85,916)</b>	<b>\$930,912</b>

<sup>1</sup> Semiannual period from 6-1-09 to 11-30-09. Unaudited.

<sup>2</sup> Effective at the close of business on August 21, 2009, Class R1 converted into Class A.

# Financial highlights

The Financial Highlights show how the Fund's net asset value for a share has changed since the end of the previous period.

<b>CLASS A SHARES</b> Period ended	11-30-09 <sup>1</sup>	05-31-09	05-31-08	05-31-07	05-31-06	05-31-05
<b>Per share operating performance</b>						
<b>Net asset value, beginning of period</b>	<b>\$12.96</b>	<b>\$14.31</b>	<b>\$14.75</b>	<b>\$14.51</b>	<b>\$15.30</b>	<b>\$14.98</b>
Net investment income <sup>2</sup>	0.47	0.87	0.81	0.75	0.68	0.67
Net realized and unrealized gain (loss) on investments	1.76	(1.34)	(0.43)	0.26	(0.74)	0.38
<b>Total from investment operations</b>	<b>2.23</b>	<b>(0.47)</b>	<b>0.38</b>	<b>1.01</b>	<b>(0.06)</b>	<b>1.05</b>
<b>Less distributions</b>						
From net investment income	(0.49)	(0.88)	(0.82)	(0.77)	(0.72)	(0.73)
Return of capital	—	—	—	—	(0.01)	—
<b>Total distributions</b>	<b>(0.49)</b>	<b>(0.88)</b>	<b>(0.82)</b>	<b>(0.77)</b>	<b>(0.73)</b>	<b>(0.73)</b>
<b>Net asset value, end of period</b>	<b>\$14.70</b>	<b>\$12.96</b>	<b>\$14.31</b>	<b>\$14.75</b>	<b>\$14.51</b>	<b>\$15.30</b>
<b>Total return (%)<sup>3</sup></b>	<b>17.44<sup>4</sup></b>	<b>(3.02)</b>	<b>2.57</b>	<b>7.08</b>	<b>(0.45)<sup>5</sup></b>	<b>7.11<sup>5</sup></b>
<b>Ratios and supplemental data</b>						
Net assets, end of period (in millions)	\$781	\$686	\$824	\$870	\$899	\$1,012
Ratios (as a percentage of average net assets):						
Expenses before reductions	1.15 <sup>6</sup>	1.16 <sup>7</sup>	1.05	1.05	1.08	1.06
Expenses net of fee waivers	1.12 <sup>6</sup>	1.16 <sup>7</sup>	1.05	1.05	1.07	1.05
Expenses net of fee waivers and credits	1.12 <sup>6</sup>	1.16 <sup>7</sup>	1.05	1.05	1.07	1.05
Net investment income	6.79 <sup>6</sup>	6.71	5.54	5.11	4.56	4.41
Portfolio turnover (%)	46	90	90	106	135	139

<sup>1</sup>Semiannual period from 6-1-09 to 11-30-09. Unaudited.

<sup>2</sup>Based on the average daily shares outstanding.

<sup>3</sup>Assumes dividend reinvestment (if applicable).

<sup>4</sup>Not annualized.

<sup>5</sup>Total returns would have been lower had certain expenses not been reduced during the periods shown.

<sup>6</sup>Annualized.

<sup>7</sup>Includes the impact of proxy expenses, which amounted to 0.03% of average net assets.

<b>CLASS B SHARES</b> Period ended	11-30-09 <sup>1</sup>	05-31-09	05-31-08	05-31-07	05-31-06	05-31-05
<b>Per share operating performance</b>						
<b>Net asset value, beginning of period</b>	<b>\$12.95</b>	<b>\$14.31</b>	<b>\$14.75</b>	<b>\$14.51</b>	<b>\$15.30</b>	<b>\$14.98</b>
Net investment income <sup>2</sup>	0.42	0.77	0.71	0.65	0.58	0.57
Net realized and unrealized gain (loss) on investments	1.77	(1.34)	(0.43)	0.26	(0.74)	0.37
<b>Total from investment operations</b>	<b>2.19</b>	<b>(0.57)</b>	<b>0.28</b>	<b>0.91</b>	<b>(0.16)</b>	<b>0.94</b>
<b>Less distributions</b>						
From net investment income	(0.44)	(0.79)	(0.72)	(0.67)	(0.62)	(0.62)
Return of capital	—	—	—	—	(0.01)	—
<b>Total distributions</b>	<b>(0.44)</b>	<b>(0.79)</b>	<b>(0.72)</b>	<b>(0.67)</b>	<b>(0.63)</b>	<b>(0.62)</b>
<b>Net asset value, end of period</b>	<b>\$14.70</b>	<b>\$12.95</b>	<b>\$14.31</b>	<b>\$14.75</b>	<b>\$14.51</b>	<b>\$15.30</b>
<b>Total return (%)<sup>3</sup></b>	<b>17.12<sup>4</sup></b>	<b>(3.77)</b>	<b>1.86<sup>5</sup></b>	<b>6.33</b>	<b>(1.14)<sup>5</sup></b>	<b>6.37<sup>5</sup></b>
<b>Ratios and supplemental data</b>						
Net assets, end of period (in millions)	\$27	\$28	\$42	\$59	\$87	\$128
Ratios (as a percentage of average net assets):						
Expenses before reductions	1.84 <sup>6</sup>	1.86 <sup>7</sup>	1.76	1.75	1.78	1.76
Expenses net of fee waivers	1.82 <sup>6</sup>	1.86 <sup>7</sup>	1.76	1.75	1.77	1.75
Expenses net of fee waivers and credits	1.82 <sup>6</sup>	1.86 <sup>7</sup>	1.75	1.75	1.77	1.75
Net investment income	6.09 <sup>6</sup>	5.96	4.82	4.40	3.84	3.70
Portfolio turnover (%)	46	90	90	106	135	139

<sup>1</sup>Semiannual period from 6-1-09 to 11-30-09. Unaudited.

<sup>2</sup>Based on the average daily shares outstanding.

<sup>3</sup>Assumes dividend reinvestment (if applicable).

<sup>4</sup>Not annualized.

<sup>5</sup>Total returns would have been lower had certain expenses not been reduced during the periods shown.

<sup>6</sup>Annualized.

<sup>7</sup>Includes the impact of proxy expenses, which amounted to 0.03% of average net assets.

<b>CLASS C SHARES</b> Period ended	11-30-09 <sup>1</sup>	05-31-09	05-31-08	05-31-07	05-31-06	05-31-05
<b>Per share operating performance</b>						
<b>Net asset value, beginning of period</b>	<b>\$12.96</b>	<b>\$14.31</b>	<b>\$14.75</b>	<b>\$14.51</b>	<b>\$15.30</b>	<b>\$14.98</b>
Net investment income <sup>2</sup>	0.42	0.78	0.71	0.65	0.58	0.57
Net realized and unrealized gain (loss) on investments	1.76	(1.34)	(0.43)	0.26	(0.74)	0.37
<b>Total from investment operations</b>	<b>2.18</b>	<b>(0.56)</b>	<b>0.28</b>	<b>0.91</b>	<b>(0.16)</b>	<b>0.94</b>
<b>Less distributions</b>						
From net investment income	(0.44)	(0.79)	(0.72)	(0.67)	(0.62)	(0.62)
Return of capital	—	—	—	—	(0.01)	—
<b>Total distributions</b>	<b>(0.44)</b>	<b>(0.79)</b>	<b>(0.72)</b>	<b>(0.67)</b>	<b>(0.63)</b>	<b>(0.62)</b>
<b>Net asset value, end of period</b>	<b>\$14.70</b>	<b>\$12.96</b>	<b>\$14.31</b>	<b>\$14.75</b>	<b>\$14.51</b>	<b>\$15.30</b>
<b>Total return (%)<sup>3</sup></b>	<b>17.04<sup>4</sup></b>	<b>(3.70)</b>	<b>1.86</b>	<b>6.33</b>	<b>(1.14)<sup>5</sup></b>	<b>6.37<sup>5</sup></b>
<b>Ratios and supplemental data</b>						
Net assets, end of period (in millions)	\$33	\$26	\$29	\$23	\$24	\$28
Ratios (as a percentage of average net assets):						
Expenses before reductions	1.84 <sup>6</sup>	1.86 <sup>7</sup>	1.75	1.75	1.78	1.76
Expenses net of fee waivers	1.82 <sup>6</sup>	1.86 <sup>7</sup>	1.75	1.75	1.77	1.75
Expenses net of fee waivers and credits	1.82 <sup>6</sup>	1.86 <sup>7</sup>	1.75	1.75	1.77	1.75
Net investment income	6.07 <sup>6</sup>	6.02	4.86	4.41	3.86	3.71
Portfolio turnover (%)	46	90	90	106	135	139

<sup>1</sup>Semiannual period from 6-1-09 to 11-30-09. Unaudited.

<sup>2</sup>Based on the average daily shares outstanding.

<sup>3</sup>Assumes dividend reinvestment (if applicable).

<sup>4</sup>Not annualized.

<sup>5</sup>Total returns would have been lower had certain expenses not been reduced during the periods shown.

<sup>6</sup>Annualized.

<sup>7</sup>Includes the impact of proxy expenses, which amounted to 0.03% of average net assets.

<b>CLASS I SHARES</b> Period ended	11-30-09 <sup>1</sup>	05-31-09	05-31-08	05-31-07	05-31-06	05-31-05
<b>Per share operating performance</b>						
<b>Net asset value, beginning of period</b>	<b>\$12.96</b>	<b>\$14.31</b>	<b>\$14.74</b>	<b>\$14.51</b>	<b>\$15.30</b>	<b>\$14.98</b>
Net investment income <sup>2</sup>	0.51	0.93	0.88	0.81	0.75	0.73
Net realized and unrealized gain (loss) on investments	1.76	(1.35)	(0.43)	0.25	(0.74)	0.38
<b>Total from investment operations</b>	<b>2.27</b>	<b>(0.42)</b>	<b>0.45</b>	<b>1.06</b>	<b>0.01</b>	<b>1.11</b>
<b>Less distributions</b>						
From net investment income	(0.53)	(0.93)	(0.88)	(0.83)	(0.79)	(0.79)
Return of capital	—	—	—	—	(0.01)	—
<b>Total distributions</b>	<b>(0.53)</b>	<b>(0.93)</b>	<b>(0.88)</b>	<b>(0.83)</b>	<b>(0.80)</b>	<b>(0.79)</b>
<b>Net asset value, end of year</b>	<b>\$14.70</b>	<b>\$12.96</b>	<b>\$14.31</b>	<b>\$14.74</b>	<b>\$14.51</b>	<b>\$15.30</b>
<b>Total return (%)<sup>3</sup></b>	<b>17.75<sup>4</sup></b>	<b>(2.60)</b>	<b>3.01</b>	<b>7.53</b>	<b>(0.01)</b>	<b>7.55</b>
<b>Ratios and supplemental data</b>						
Net assets, end of period (in millions)	\$21	\$19	\$22	\$5	\$5	\$5
Ratios (as a percentage of average net assets):						
Expenses before reductions	0.66 <sup>5</sup>	0.70 <sup>6</sup>	0.62	0.62	0.64	0.65
Expenses net of fee waivers	0.64 <sup>5</sup>	0.70 <sup>6</sup>	0.62	0.62	0.64	0.65
Expenses net of fee waivers and credits	0.64 <sup>5</sup>	0.70 <sup>6</sup>	0.62	0.62	0.64	0.65
Net investment income	7.26 <sup>5</sup>	7.22	6.08	5.54	4.99	4.82
Portfolio turnover (%)	46	90	90	106	135	139

<sup>1</sup>Semiannual period from 6-1-09 to 11-30-09. Unaudited.

<sup>2</sup>Based on the average daily shares outstanding.

<sup>3</sup>Assumes dividend reinvestment (if applicable).

<sup>4</sup>Not annualized.

<sup>5</sup>Annualized.

<sup>6</sup>Includes the impact of proxy expenses, which amounted to 0.03% of average net assets.

# Notes to financial statements

## (unaudited)

### Note 1 Organization

John Hancock Bond Fund (the Fund) is a diversified series of John Hancock Sovereign Bond Fund, an open-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The investment objective of the Fund is to seek a high level of current income consistent with prudent investment risk.

John Hancock Advisers, LLC (the Adviser) serves as investment adviser for the Fund. John Hancock Funds, LLC (the Distributor), an affiliate of the Adviser, serves as principal underwriter of the Fund. The Adviser and the Distributor are indirect wholly owned subsidiaries of Manulife Financial Corporation (MFC).

The Board of Trustees has authorized the issuance of multiple classes of shares of the Fund, designated as Class A, Class B, Class C and Class I shares. Class A, Class B and Class C shares are open to all retail investors. Class I shares are offered without any sales charge to various institutional and certain individual investors. Class R1 shares converted into Class A on August 21, 2009. The shares of each class represent an interest in the same portfolio of investments of the Fund and have equal rights as to voting, redemptions, dividends and liquidation, except that certain expenses, subject to the approval of the Trustees, may be applied differently to each class of shares in accordance with current regulations of the Securities and Exchange Commission and the Internal Revenue Service. Shareholders of a class that bears distribution and service expenses under the terms of a distribution plan have exclusive voting rights to that distribution plan. Class B shares will convert to Class A shares eight years after purchase.

### Note 2 Significant accounting policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which require management to make certain estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. Events or transactions occurring after period end through the date that the financial statements were issued, January 25, 2010, have been evaluated in the preparation of the financial statements. The following summarizes the significant accounting policies of the Fund:

#### Security valuation

Investments are stated at value as of the close of the regular trading on the New York Stock Exchange (NYSE), normally at 4:00 P.M., Eastern Time. Debt obligations are valued based on the evaluated prices provided by an independent pricing service, which utilizes both dealer-supplied quotes and electronic data processing techniques, which take into account factors such as institutional-size trading in similar groups of securities, yield, quality, coupon rate, maturity, type of issue, trading characteristics and other market data. Securities traded only in the over-the-counter market are valued at the last bid price quoted by brokers making markets in the securities at the close of trading. Debt obligations, where there are no prices available from an independent pricing service, are valued based on broker quotes or fair valued as described below. Certain short-term debt investments are valued at amortized cost. Investment in John Hancock Collateral Investment Trust (JHCIT), an affiliated registered investment company managed by MFC Global Investment Management (U.S.), LLC, a subsidiary of MFC, are valued at its net asset value each business day. JHCIT is a floating rate fund investing in high quality money market instruments.

Other assets and securities where market quotations are not readily available are valued at fair value as determined in good faith by the Fund's Pricing Committee in accordance with procedures adopted by the Board of Trustees. Generally, trading in non-U.S. securities is substantially completed each day at various times prior to the close of trading on the NYSE. The values of such securities used in computing the net asset value of the Fund's shares are generally determined as of such times. Occasionally, significant events that affect the values of such securities may occur between the times at which such values are generally determined and the close of the NYSE. Upon such an occurrence, these securities will be valued at fair value as determined in good faith under consistently applied procedures established by and under the general supervision of the Board of Trustees.

#### **Fair Value Measurements**

The Fund uses a three-tier hierarchy to prioritize the assumptions, referred to as inputs, used in valuation techniques to measure fair value. The three-tier hierarchy of inputs and the valuation techniques used are summarized below:

Level 1 — Exchange-traded prices in active markets for identical securities. This technique is used for exchange-traded domestic common and preferred equities, certain foreign equities, warrants and rights.

Level 2 — Prices determined using significant observable inputs. Observable inputs may include quoted prices for similar securities, interest rates, prepayment speeds and credit risk. Prices for securities valued using these techniques are received from independent pricing vendors and are based on an evaluation of the inputs described. These techniques are used for certain domestic preferred equities, certain foreign equities, unlisted rights and warrants, and fixed income securities.

Level 3 — Prices determined using significant unobservable inputs. In situations where quoted prices or observable inputs are unavailable, such as when there is little or no market activity for an investment, unobservable inputs may be used. Unobservable inputs reflect the Fund's Pricing Committee's own assumptions about the factors that market participants would use in pricing an investment and would be based on the best information available. Securities using this technique are generally thinly traded or privately placed, and may be valued using broker quotes, which may include the use of the brokers' own judgments about the assumptions that market participants would use.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used to value the Fund's investments as of November 30, 2009, by major security category or security type:

	TOTAL MARKET VALUE AT 11/30/2009	LEVEL 1 QUOTED PRICE	LEVEL 2 SIGNIFICANT OBSERVABLE INPUTS	LEVEL 3 SIGNIFICANT UNOBSERVABLE INPUTS
U.S. Government & Agency Obligations	\$154,785,854	—	\$154,785,854	—
Corporate Bonds	503,116,725	—	499,718,375	\$3,398,350
Convertible Bonds	1,016,863	—	1,016,863	—
Municipal Bonds	1,477,858	—	1,477,858	—
Term Loans	1,360,935	—	1,360,935	—
Collateralized Mortgage Obligations	134,460,907	—	113,000,782	21,460,125
Asset Backed Securities	29,945,720	—	27,048,020	2,897,700
Preferred Stocks				
Consumer Staples	1,511,978	—	1,511,978	—
Financials	2,017,264	\$2,017,264	—	—
Materials	4,329,643	1,770,202	2,559,441	—
Telecommunication Services	1,715,855	1,715,855	—	—
Short-Term Investments	14,000,000	—	14,000,000	—
<b>Total investments in securities</b>	<b>\$849,739,602</b>	<b>\$5,503,321</b>	<b>\$816,480,106</b>	<b>\$27,756,175</b>
<b>Other Financial Instruments</b>	<b>(\$421,822)</b>	<b>(\$101,663)</b>	<b>(\$320,159)</b>	<b>—</b>
<b>Totals</b>	<b>\$849,317,780</b>	<b>\$5,401,658</b>	<b>\$816,159,947</b>	<b>\$27,756,175</b>

The following is a reconciliation of Level 3 assets for which significant unobservable inputs were used to determine fair value:

	COLLATERALIZED MORTGAGE OBLIGATIONS	CORPORATE BONDS	ASSET BACKED SECURITIES	TOTAL
Balance as of 5-31-09	\$18,353,377	\$3,073,250	\$1,414,600	\$22,841,227
Accrued discounts/premiums	—	655	88	743
Realized gain (loss)	1,878,944	—	—	1,878,944
Change in unrealized appreciation (depreciation)	11,998,878	313,695	1,093,012	13,405,585
Net purchases (sales)	(9,146,481)	—	390,000	(8,756,481)
Net transfers in and/or out of Level 3	(1,624,593)	10,750	—	(1,613,843)
<b>Balance as of 11-30-09</b>	<b>\$21,460,125</b>	<b>\$3,398,350</b>	<b>\$2,897,700</b>	<b>\$27,756,175</b>

### Security transactions and related investment income

Investment security transactions are accounted for on a trade date plus one basis for daily net asset value calculations. However, for financial reporting purposes, investment transactions are reported on trade date. Interest income is accrued as earned. Dividend income is recorded on the ex-dividend date. Discounts/premiums are accreted/amortized for financial reporting purposes. Non-cash dividends are recorded at the fair market value of the securities received. Debt obligations may be placed in a non-accrual

status and related interest income may be reduced by ceasing current accruals and writing off interest receivables when the collection of all or a portion of interest has become doubtful. The Fund uses the identified cost method for determining realized gain or loss on investments for both financial statement and federal income tax reporting purposes.

### Securities lending

The Fund may lend portfolio securities from time to time in order to earn additional income. The Fund retains beneficial

ownership of the securities it has loaned and continues to receive interest and dividends associated with securities and to participate in any changes in their value. On the settlement date of the loan, the Fund receives cash collateral against the loaned securities and maintains the cash collateral in an amount no less than the market value of the loaned securities.

The market value of the loaned securities is determined at the close of business of the Fund. Any additional required cash collateral is delivered to the Fund or excess collateral is returned to the borrower on the next business day. Cash collateral received is invested in JHCIT. JHCIT is not a stable value fund and thus the Fund receives the benefit of any gains and bears any losses generated by JHCIT.

The Fund may receive compensation for lending its securities either in the form of fees, and/or by retaining a portion of interest on the investment of any cash received as collateral. If the borrower defaults on its obligation to return the securities loaned because of insolvency or other reasons, the Fund could experience delays and costs in recovering the securities loaned or in gaining access to the collateral. The Fund bears the risk in the event that invested collateral is not sufficient to meet obligations due on loans.

#### **Line of credit**

The Fund and other affiliated funds have entered into an agreement which enables them to participate in a \$150 million unsecured committed line of credit with the Fund's custodian. The Fund is permitted to have bank borrowings for temporary or emergency purposes, including the meeting of redemption requests that otherwise might require the untimely disposition of securities. Interest is charged to each participating fund based on its borrowings at a rate per annum equal to the Federal Funds rate plus 0.50%. In addition, a commitment fee of 0.08% per annum, payable at the end of each calendar quarter, based on the average daily-unused portion of the line of credit, is charged to each participating fund on a prorated basis

based on average net assets. For the six-months ended November 30, 2009, there were no borrowings under the line of credit by the Fund.

Pursuant to the custodian agreement, the Fund's custodian may, in its discretion, advance funds to the Fund to make properly authorized payments. When such payments result in an overdraft, the Fund is obligated to repay the custodian for any overdraft, including any costs or expenses associated with the overdraft. The custodian has a lien, security interest or security entitlement in any Fund property that is not segregated, to the maximum extent permitted by law to the extent of any overdraft.

#### **Expenses**

The majority of expenses are directly identifiable to an individual fund. Trust expenses that are not readily identifiable to a specific fund are allocated in such a manner as deemed equitable, taking into consideration, among other things, the nature and type of expense and the relative size of the funds. Expense estimates are accrued in the period to which they relate and adjustments are made when actual amounts are known.

#### **Class allocations**

Income, common expenses and realized and unrealized gains (losses) are determined at the fund level and allocated daily to each class of shares based on the appropriate net asset value of the respective classes. Distribution and service fees, if any, and transfer agent fees, for all classes are calculated daily at the class level based on the appropriate net asset value of each class and the specific expense rate(s) applicable to each class.

#### **When-issued/delayed delivery securities**

The Fund may purchase or sell debt securities on a when-issued or delayed-delivery basis. These transactions involve a commitment by the Fund to purchase or sell securities for a predetermined price or yield, with payment and delivery taking place beyond the customary settlement period. When delayed delivery purchases are outstanding, the Fund is required to have sufficient cash

and/or liquid securities to cover its commitments on these transactions. When purchasing a security on a delayed-delivery basis, the Fund assumes the rights and risks of ownership of the security, including the risk of price and yield fluctuations, and takes such fluctuations into account when determining its NAV. The Fund may dispose of or renegotiate a delayed-delivery transaction after it is entered into, and may sell delayed-delivery securities before they are delivered, which may result in a capital gain or loss. When the Fund has sold a security on a delayed-delivery basis, the Fund does not participate in future gains and losses with respect to the security. The Fund may receive compensation for interest forgone in the purchase of delayed-delivery securities. The market values of the securities purchased on a forward-delivery basis are identified in the Portfolio of Investments.

In a “To Be Announced” (TBA) transaction, the Fund commits to purchasing or selling securities for which all specific information is not yet known at the time of the trade, particularly the face amount and maturity date of the underlying security transactions. Securities purchased on a TBA basis are not settled until they are delivered to the Fund, normally 15 to 45 days later.

### **Stripped securities**

Stripped mortgage-backed securities are financial instruments that derive their value from other instruments so that one class receives most, if not all, of the principal from the underlying mortgage assets (principal only (PO)), while the other class receives most, if not all, of the interest cash flows (interest only (IO)). Both the PO and IO investments represent an interest in the cash flows of an underlying stripped mortgaged-backed security. If the underlying mortgage assets experience greater than anticipated prepayments of principal, the Fund may fail to fully recoup its initial investment in an interest only security. The market value of these securities can be extremely volatile in response to changes in interest rates. Credit risk reflects the risk that the Fund may not receive all or part of its principal because the

issuer or credit enhancer has defaulted on its obligation.

### **Federal income taxes**

The Fund intends to qualify as a regulated investment company by complying with the applicable provisions of the Internal Revenue Code and will not be subject to federal income tax on taxable income that is distributed to shareholders. Therefore, no federal income tax provision is required.

For federal income tax purposes, the Fund has a \$20,576,668 capital loss carryforward available, to the extent provided by regulations, to offset future net realized capital gains. To the extent that such carryforward is used by the Fund, it will reduce the amount of capital gain distribution to be paid. The loss carryforward expires as follows: May 31, 2010 — \$35,777, May 31, 2014 — \$505,866, May 31, 2015 — \$19,095,572 and May 31, 2017 — \$939,453.

As of May 31, 2009, the Fund had no uncertain tax positions that would require financial statement recognition, de-recognition, or disclosure. The Fund's federal tax return is subject to examination by the Internal Revenue Service for a period of three years.

### **Distribution of income and gains**

The Fund records distributions to shareholders from net investment income and net realized gains, if any, on the ex-dividend date. The Fund generally declares dividends daily and pays them monthly. Capital gain distributions, if any, are paid annually. During the year ended May 31, 2009, the tax character of distributions paid ordinary income of \$53,293,629. Distributions paid by the Fund with respect to each class of shares are calculated in the same manner, at the same time and are in the same amount, except for the effect of expenses that may be applied differently to each class.

Such distributions and distributable earnings, on a tax basis, are determined in conformity with income tax regulations, which may differ from accounting principles generally accepted in the United States of America.

Material distributions in excess of tax basis earnings and profits, if any, are reported in the Fund's financial statements as a return of capital.

**Note 3**  
**Financial instruments**  
**Futures**

The Fund may purchase and sell financial futures contracts, including index futures and options on these contracts. A future is a contractual agreement to buy or sell a particular commodity, currency or financial instrument at a pre-determined price in the future. The Fund may use futures contracts to manage against a decline in the value of securities owned by the Fund due to anticipated interest rate, currency or market changes. In addition, the Fund will use futures contracts for duration management or to gain exposure to a securities market.

An index futures contract (index future) is a contract to buy a certain number of units of the relevant index at a fixed price and specific future date. The Fund may invest in index futures as a means of gaining exposure to securities without investing in them directly, thereby allowing the Fund to invest in the underlying securities over time.

The following summarizes the futures held by the fund at November 30, 2009:

OPEN CONTRACTS	NUMBER OF CONTRACTS	POSITION	EXPIRATION DATE	NOTIONAL VALUE	UNREALIZED APPRECIATION/ DEPRECIATION
U.S. Treasury 30-Year Bond Futures	50	Long	March 2010	\$6,135,938	\$91,240
U.S. Treasury 10-Year Bond Futures	89	Short	March 2010	(10,674,438)	(103,202)
U.S. Treasury 5-Year Bond Futures	136	Short	March 2010	(15,948,125)	(89,701)
					<b>(\$101,663)</b>

**Credit default swap agreements**

The Fund may enter credit default swaps to manage its exposure to credit risks, to gain exposure to certain credit markets or to enhance potential gain. Credit default swaps (CDS) involve the exchange of a fixed-rate premium (paid by the "Buyer") for protection against the loss in value of an underlying debt instrument, reference entity or index, in the event of a defined credit event (such as

Investing in index futures also permits the Fund to maintain exposure to common stocks without incurring the brokerage costs associated with investment in individual common stocks.

Futures contracts are valued at the quoted daily settlement prices established by the exchange on which they trade. Upon entering into a futures contract, initial margin deposits, as set by the exchange or broker to the contract, are required and are met by the delivery of specific securities (or cash) as collateral to the broker. Futures contracts are marked to market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Fund. Gains or losses are recognized but not considered realized until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed on the Statements of Assets and Liabilities.

During the six-month period ended November 30, 2009, the Fund held futures contracts with notional values that have ranged from approximately \$13,600,000 to \$29,250,000 and futures were used to manage duration of the portfolio.

default or bankruptcy). Under the terms of the swap, one party acts as a "guarantor" (the "Seller"), receiving a periodic payment that is a fixed percentage applied to a notional principal amount. In return, the Seller agrees to remedies that are specified within the credit default agreement and are dependent on the referenced obligation, entity or credit index. The Fund may enter into CDS in which the Fund may act as the

Buyer or Seller. By acting as the Seller, in circumstances in which the Fund does not hold offsetting cash equivalent positions equaling the notional amount of the swap, the Fund effectively incurs economic leverage because it would be obligated to pay the Buyer such notional amount in the event of a default. The amount of loss in such case would be reduced by any recovery value on the underlying credit.

Swaps are marked to market daily based upon values from third party vendors or quotations from market makers to the extent available, and the change in value, if any, is recorded as unrealized appreciation/depreciation on the Fund's Statement of Assets and Liabilities. If market quotations are not readily available or not deemed reliable, certain swaps may be fair valued in good faith by the Fund's Pricing Committee in accordance with procedures adopted by the Board of Trustees. Upfront payments made/received by the Fund represent payments to compensate for differences between the stated terms of the swap and prevailing market conditions, including credit spreads, currency exchange rates, interest rates and other relevant factors. These payments are amortized or accreted for financial reporting purposes, with the un-amortized/un-accreted portion included in the Statement of Assets and Liabilities. A liquidation payment received or made at the termination of the swap is recorded as realized gain or loss on the Statement of Operations. Net periodic payments received or paid by the Fund are included as part of realized gains or losses on the Statement of Operations. In connection with these agreements, the Fund will hold cash and/or liquid securities equal to the net amount of the Fund's exposure, in order to satisfy the Fund's obligations in the event of default or bankruptcy/insolvency.

Entering into swaps involves, to varying degrees, elements of credit, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that a counterparty may default on its obligation under the swap or disagree

as to the meaning of the swap's terms, and that there may be unfavorable interest rate changes. The Fund may also suffer losses if it is unable to terminate outstanding swaps or reduce its exposure through offsetting transactions.

The Fund is a party to International Swap Dealers Association, Inc., Master Agreements ("ISDA Master Agreements") with select counterparties that govern over the counter derivative transactions, which may include foreign exchange derivative transactions, entered into by the Fund and those counterparties. The ISDA Master Agreements typically include standard representations and warranties, as well as a Credit Support Annex ("CSA") that accompanies a schedule to ISDA master agreements provisions outlining the general obligations of the Fund and counterparties relating to events of default, termination events and other standard provisions. Termination events may include a decline in the Fund's net asset value below a certain point over a certain period of time that is specified in the Schedule to the ISDA Master Agreement; such an event may entitle the counterparty to elect to terminate early and calculate damages based on that termination, with respect to some or all outstanding transactions under the applicable damage calculation provisions of the ISDA Master Agreement. An election by one or more counterparties to terminate ISDA Master Agreements could have a material impact in the financial statements of the Fund.

Implied credit spreads, represented in absolute terms, are utilized in determining the market value of CDS agreements on corporate issues as of period end, and are disclosed in the table below. The implied credit spread generally represents the yield of the instrument above a credit-risk free rate, such as the U.S. Treasury Bond Yield, and may include upfront payments required to be made to enter into the agreement. It also serves as an indicator of the current status of the payment/performance risk and represents the likelihood or risk of default for the credit derivative. Wider credit spreads represent a deterioration of the referenced entity's credit soundness and a greater likelihood of risk of

default or other credit event occurring as defined under the terms of the agreement.

The maximum potential amount of future payments (undiscounted) that the Fund as the Seller could be required to make under a CDS agreement, would be an amount equal to the notional amount of the agreement. Notional amounts of all CDS agreements outstanding as of November 30, 2009, for

which the Fund is the Seller, are disclosed in the table below. These potential amounts would be partially offset by any recovery values of the respective reference obligations, upfront payments received, or net amounts received from the settlement of buy protection CDS agreements entered into by the Fund for the same reference entity or entities.

During the six-month period ended November 30, 2009, the Fund held CDS on certain securities. Notional values are representative of the activity during the period. CDS were used to take a long position in the exposure to the reference credit and enhance potential gain. The following summarizes the contracts that the Fund held to as of November 30, 2009:

COUNTER-PARTY	REFERENCE OBLIGATION	IMPLIED CREDIT SPREAD	CURRENCY	NOTIONAL AMOUNT/ EXPOSURE PURCHASED	PAY / RECEIVE FIXED RATE	MATURITY DATE	UNREALIZED DEPRECIATION	MARKET VALUE
Bank of America	The Goodyear Tire & Rubber Co.	4.33%	USD	5,000,000	1.51%	Jun 2012	(\$320,159)	(\$320,159)

### Fair value of derivative instruments by risk category

The table below summarizes the fair values of derivatives held by the Fund at November 30, 2009 by risk category:

	STATEMENT OF ASSETS AND LIABILITIES LOCATION	FINANCIAL INSTRUMENTS LOCATION	ASSET DERIVATIVES FAIR VALUE	LIABILITY DERIVATIVES FAIR VALUE
Interest rate contracts	Payable for futures variation margin; Net unrealized depreciation on investments, futures contracts, translation of assets and liabilities in foreign currencies and swap agreements	Futures <sup>†</sup>	—	(\$101,663)
Credit contracts	Unrealized depreciation of swap contracts; Net unrealized depreciation on investments, futures contracts, translation of assets and liabilities in foreign currencies and swap agreements	Credit default swaps	—	(\$320,159)
	<b>Total</b>		—	<b>(\$421,822)</b>

<sup>†</sup>Reflects cumulative appreciation/depreciation on Futures as disclosed in Note 3. Only the year end variation margin is separately disclosed on the Statement of Assets and Liabilities.

### Effect of derivative instruments on Statement of Operations

The table below summarizes the realized gain (loss) recognized in the net increase (decrease) in net assets from operations, classified by derivative instrument and risk category for the six-month period ended November 30, 2009:

	FUTURES CONTRACTS	SWAP CONTRACTS	TOTAL
Statement of Operations location -			
Net realized gain (loss) of			
Interest rate contracts	(\$318,515)	—	(\$318,515)
Credit contracts	—	\$38,799	38,799
<b>Total</b>	<b>(\$318,515)</b>	<b>\$38,799</b>	<b>(\$279,716)</b>

The table below summarizes the change in unrealized appreciation (depreciation) recognized in the net increase (decrease) in net assets from operations, classified by derivative instrument and risk category for the six-month period ended November 30, 2009:

	FUTURES CONTRACTS	SWAP CONTRACTS	TOTAL
Statement of Operations location - Change in unrealized appreciation (depreciation) on			
Interest rate contracts	\$248,652	—	\$248,652
Credit contracts	—	\$274,603	274,603
<b>Total</b>	<b>\$248,652</b>	<b>\$274,603</b>	<b>\$523,255</b>

#### Note 4

##### Guarantees and indemnifications

Under the Fund's organizational documents, its Officers and Trustees are indemnified against certain liability arising out of the performance of their duties to the Fund. Additionally, in the normal course of business, the Fund enters into contracts with service providers that contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred.

#### Note 5

##### Management fee and transactions with affiliates and others

The Fund has an investment management contract with the Adviser. Under the investment management contract, the Fund pays a daily management fee to the Adviser equivalent, on an annual basis, to the sum of:

(a) 0.50% of the first \$1,500,000,000 of the Fund's average daily net asset value, (b) 0.45% of the next \$500,000,000, (c) 0.40% of the next \$500,000,000 and (d) 0.35% of the Fund's average daily net asset value in excess of \$2,500,000,000. The Fund has a subadvisory agreement with MFC Global Investment Management (U.S.), LLC, an indirectly owned subsidiary of MFC and an affiliate of the Adviser. The Fund is not responsible for payment of subadvisory fees. The investment management fees incurred for the six-month period ended November 30, 2009, were equivalent to an annual effective rate of 0.50% of the Fund's average daily net assets.

Pursuant to the Advisory Agreement, the Fund reimburses the Adviser for all expenses associated with providing the administrative,

financial, legal, accounting and recordkeeping services of the Fund, including the preparation of all tax returns, annual, semiannual and periodic reports to shareholders and the preparation of all regulatory reports. These expenses are allocated based on the relative share of net assets of each class at the time the expense was incurred. The accounting and legal services fees incurred for the six-month period ended November 30, 2009, were equivalent to an annual effective rate of 0.02% of the Fund's average daily net assets.

The Fund has a Distribution Agreement with the Distributor. The Fund has adopted Distribution Plans with respect to Class A, Class B and Class C shares, pursuant to Rule 12b-1 under the 1940 Act, to pay the Distributor for the services it provides as distributor of shares of the Fund. Accordingly, Class A and B shares make daily payments and Class C shares make monthly payments to the Distributor at an annual rate not to exceed 0.30%, 1.00% and 1.00% of average daily net asset value of Class A, Class B and Class C shares, respectively. A maximum of 0.25% of such payments may be service fees, as defined by the Conduct Rules of the Financial Industry Regulatory Authority. Under the Conduct Rules, curtailment of a portion of the Fund's Rule 12b-1 payments could occur under certain circumstances.

Class A shares are assessed up-front sales charges. During the six-month period ended November 30, 2009, the Distributor received net up-front sales charges of \$278,383 with regard to sales of Class A shares. Of this amount, \$31,523 was retained and used for printing prospectuses, advertising, sales literature and other purposes, \$170,195 was paid as sales commissions to unrelated broker-dealers and \$76,665 was paid as sales commissions to

sales personnel of Signator Investors, Inc. (Signator Investors), a related broker-dealer. Signator Investors is an affiliate of the Adviser.

Class B shares that are redeemed within six years of purchase are subject to a contingent deferred sales charge (CDSC) at declining rates, beginning at 5.00% of the lesser of the current market value at the time of redemption or the original purchase cost of the shares being redeemed. Class C shares that are redeemed within one year of purchase are subject to a CDSC at a rate of 1.00% of the lesser of the current market value at the time of redemption or the original purchase cost of the shares being redeemed. Proceeds from the CDSCs are paid to the Distributor and are used in whole or in part to defray its expenses for providing distribution-related services to the Fund in connection with the sale of Class B and Class C shares. During the six-month period ended November 30, 2009, CDSCs received by the Distributor amounted to \$15,366 and \$1,037 for Class B and Class C shares, respectively.

The Fund has a transfer agent agreement with John Hancock Signature Services, Inc. (Signature Services), an indirect subsidiary of MFC. The transfer agent fees are made up of three components:

- The Fund pays a monthly transfer agent fee at an annual rate of 0.015% for all classes based on each class's average daily net assets.
- All classes of the Fund pay a monthly fee based on an annual rate of \$17.50 per shareholder account.
- In addition, Signature Services is reimbursed for certain out-of-pocket expenses.

Signature Services has voluntarily agreed to waive certain transfer agent expenses. The amount of this waiver for the six-month period ended November 30, 2009 was \$8,624.

Certain investor accounts that maintain small balances are charged an annual small accounts fee by Signature Services. Amounts related to these fees are credited to the Fund and netted against transfer agent expenses.

For the six-month period ended November 30, 2009, these fees totaled \$93,738.

Class level expenses for the six-month period ended November 30, 2009 were as follows:

Share Class	Distribution and Service Fees	Transfer Agent Fees
Class A	\$1,107,123	\$953,172
Class B	140,910	35,816
Class C	150,721	38,970
Class I	—	7,662
Converted Class	1,400	308
<b>Total</b>	<b>\$1,400,154</b>	<b>\$1,035,928</b>

## Note 6 Trustees' Fees

The compensation of independent Trustees is borne by the Fund. The independent Trustees may elect to defer, for tax purposes, their receipt of this compensation under the John Hancock Group of Funds Deferred Compensation Plan. The Fund makes investments into other John Hancock funds, as applicable, to cover its liability for the deferred compensation. Investments to cover the Fund's deferred compensation liability are recorded on the Fund's books as an other asset. The deferred compensation liability and the related other asset are always equal and are marked to market on a periodic basis to reflect any income earned by the investments, as well as any unrealized gains or losses. The Deferred Compensation Plan investments had no impact on the operations of the Fund.

## Note 7

### Fund share transactions

This listing illustrates the number of Fund shares sold, reinvested and repurchased during the six-month period ended November 30, 2009, and the year ended May 31, 2009, along with the corresponding dollar value.

	Period ended 11-30-09 <sup>1</sup>		Year ended 5-31-09	
	Shares	Amount	Shares	Amount
<b>Class A shares<sup>2</sup></b>				
Sold	2,024,665	\$28,258,230	4,592,147	\$57,927,810
Issued in class	14,793	205,314	—	—
Distributions reinvested	1,508,875	21,251,830	3,152,395	40,387,978
Repurchased	(3,357,738)	(46,796,578)	(12,432,711)	(158,640,619)
<b>Net increase (decrease)</b>	<b>190,595</b>	<b>\$2,918,796</b>	<b>(4,688,169)</b>	<b>(\$60,324,831)</b>
<b>Class B shares</b>				
Sold	263,755	\$3,673,084	352,053	\$4,503,181
Distributions reinvested	44,070	619,882	115,841	1,486,548
Repurchased	(607,346)	(8,491,988)	(1,224,799)	(15,707,024)
<b>Net decrease</b>	<b>(299,521)</b>	<b>(\$4,199,022)</b>	<b>(756,905)</b>	<b>(\$9,717,295)</b>
<b>Class C shares</b>				
Sold	397,652	\$5,497,960	611,213	\$7,703,800
Distributions reinvested	36,246	511,113	86,209	1,103,254
Repurchased	(245,923)	(3,454,857)	(693,368)	(9,067,496)
<b>Net increase (decrease)</b>	<b>187,975</b>	<b>\$2,554,216</b>	<b>4,054</b>	<b>(\$260,442)</b>
<b>Class I shares</b>				
Sold	277,596	\$3,913,236	1,848,899	\$22,570,485
Distributions reinvested	23,887	335,510	89,810	1,152,040
Repurchased	(329,047)	(4,702,832)	(1,984,466)	(24,433,546)
<b>Net decrease</b>	<b>(27,564)</b>	<b>(\$454,086)</b>	<b>(45,757)</b>	<b>(\$711,021)</b>
<b>Class R1 shares<sup>2</sup></b>				
Sold	7,898	\$106,360	35,396	\$467,732
Redeemed in class	(14,793)	(205,314)	—	—
Distributions reinvested	62	811	4,742	60,931
Repurchased	(56,536)	(782,896)	(50,342)	(657,834)
<b>Net decrease</b>	<b>(63,369)</b>	<b>(\$881,039)</b>	<b>(10,204)</b>	<b>(\$129,171)</b>
<b>Net decrease</b>	<b>(11,884)</b>	<b>(\$61,135)</b>	<b>(5,496,981)</b>	<b>(\$71,142,760)</b>

<sup>1</sup>Semiannual period from 6-1-09 to 11-30-09. Unaudited.

<sup>2</sup>Effective at the close of business on August 21, 2009, Class R1 converted into Class A.

## Note 8

### Purchase and sale of securities

Purchases and proceeds from sales or maturities of securities, other than short-term securities and obligations of the U.S. government, during the six-month period ended November 30, 2009, aggregated \$216,494,654 and

\$166,273,440, respectively. Purchases and proceeds from sales or maturities of obligations of the U.S. government aggregated \$157,369,165 and \$199,183,895, respectively, during the six-month period ended November 30, 2009.

## **Board Consideration of and Continuation of Investment Advisory Agreement and Sub-Advisory Agreement: John Hancock Bond Fund**

The Investment Company Act of 1940 (the “1940 Act”) requires the Board of Trustees (the “Board”) of John Hancock Sovereign Bond Fund (the “Trust”), including a majority of the Trustees who have no direct or indirect interest in the investment advisory agreement and are not “interested persons” of the Trust, as defined in the 1940 Act (the “Independent Trustees”), annually to meet in person to review and consider the continuation of existing advisory and sub-advisory agreements. At meetings held on May 6-7 and June 8-9, 2009, the Board considered the renewal of:

- (i) the investment advisory agreement (the “Advisory Agreement”) with John Hancock Advisers, LLC (the “Adviser”) and
- (ii) the investment sub-advisory agreement (the “Sub-Advisory Agreement”) with MFC Global Investment Management (U.S.), LLC (the “Sub-Adviser”) for the John Hancock Bond Fund (the “Fund”).

The Advisory Agreement and the Sub-Advisory Agreement are collectively referred to as the “Advisory Agreements.” The Board considered the factors and reached the conclusions described below relating to the selection of the Adviser and Sub-Adviser and the continuation of the Advisory Agreements. During such meetings, the Board’s Contracts/Operations Committee and the Independent Trustees also met in executive sessions with their independent legal counsel.

In evaluating the Advisory Agreements, the Board, including the Contracts/Operations Committee and its Independent Trustees, reviewed a broad range of information requested for this purpose. The Independent Trustees considered the legal advice of independent legal counsel and relied on their own business judgment in determining the factors to be considered in evaluating the materials that were presented to them and the weight to be given to each such factor. The Board’s review and conclusions were

based on a comprehensive consideration of all information presented to the Board and not the result of any single controlling factor. The key factors considered by the Board and the conclusions reached are described below.

### **Nature, Extent and Quality of Services**

The Board considered the ability of the Adviser and the Sub-Adviser, based on their resources, reputation and other attributes, to attract and retain qualified investment professionals, including research, advisory, and supervisory personnel. It considered the background and experience of senior management and investment professionals responsible for managing the Fund. The Board considered the investment philosophy, research and investment decision-making processes of the Adviser and the Sub-Adviser responsible for the daily investment activities of the Fund. The Board considered the Sub-Adviser’s history and experience with the Fund. The Board considered the Adviser’s execution of its oversight responsibilities. The Board further considered the culture of compliance, resources dedicated to compliance, compliance programs, record of compliance with applicable laws and regulation, with the Fund’s investment policies and restrictions and with the applicable Code of Ethics, and the responsibilities of the Adviser’s and Sub-Adviser’s compliance department. In addition, the Board took into account the administrative and other non-advisory services provided to the Fund by the Adviser and its affiliates.

Based on the above factors, together with those referenced below, the Board concluded that, within the context of its full deliberations, the nature, extent and quality of the investment advisory services provided to the Fund by the Adviser and Sub-Adviser supported renewal of the Advisory Agreements.

### **Fund Performance**

The Board considered the performance results for the Fund over various time periods ended December 31, 2008. The Board also considered these results in comparison to the performance of a category of relevant funds (the “Category”), a peer group of

comparable funds (the “Peer Group”) and a benchmark index. The funds within each Category and Peer Group were selected by Morningstar Inc. (“Morningstar”), an independent provider of investment company data. The Board reviewed the methodology used by Morningstar to select the funds in the Category and the Peer Group. The Board also considered updated performance information at its May and June 2009 meetings. Performance and other information may be quite different as of the date of this shareholders report.

The Board noted that the Fund’s performance for all periods under review was lower than the performance of the Peer Group and Category medians, and its benchmark index, the Barclays Capital Government/Credit Bond Index. The Adviser discussed with the Board factors that contributed to the Fund’s underperformance and discussed its outlook and recommendations with regard to the Fund’s performance. The Adviser noted that the Fund’s performance as of May 2009 was improved. The Board concluded that the Fund’s underperformance was being responsibly addressed by the Adviser and Sub-Adviser.

#### **Investment Advisory Fee and Sub-Advisory Fee Rates and Expenses**

The Board reviewed and considered the contractual investment advisory fee rate payable by the Fund to the Adviser for investment advisory services (the “Advisory Agreement Rate”). The Board received and considered information comparing the Advisory Agreement Rate with the advisory fees for the Category and Peer Group. The Board noted that the Advisory Agreement Rate was equal to the Category median and inline with the Peer Group median.

The Board received and considered expense information regarding the Fund’s various components, including advisory fees, distribution and fees other than advisory and distribution fees, including transfer agent fees, custodian fees, and other miscellaneous fees (e.g., fees for accounting and legal services). The Board considered comparisons of these expenses to the Peer Group median.

The Board also received and considered expense information regarding the Fund’s total operating expense ratio (“Expense Ratio”). The Board received and considered information comparing the Expense Ratio of the Fund to that of the Peer Group and Category medians before the application of fee waivers and reimbursements (“Gross Expense Ratio”) and after the application of such waivers and reimbursement (“Net Expense Ratio”). The Board noted that the Fund’s Net Expense Ratio was higher than the Peer Group and Category medians. The Board also noted that the Fund’s Gross Expense Ratio was inline with the median of its Peer Group and was not appreciably higher than the median of its Category. The Board noted that, unlike the Fund, several funds in the Peer Group employed fee waivers or reimbursements.

The Adviser also discussed the Morningstar data and rankings, and other relevant information, for the Fund. Based on the above-referenced considerations and other factors, the Board concluded that the Fund’s overall performance and expense results supported the re-approval of the Advisory Agreements.

The Board also received information about the investment sub-advisory fee rate (the “Sub-Advisory Agreement Rate”) payable by the Adviser to the Sub-Adviser for investment sub-advisory services. The Board concluded that the Sub-Advisory Agreement Rate was fair and equitable, based on its consideration of the factors described here.

#### **Profitability**

The Board received and considered a detailed profitability analysis of the Adviser based on the Advisory Agreements, as well as on other relationships between the Fund and the Adviser and its affiliates, including the Sub-Adviser. The Board also considered a comparison of the Adviser’s profitability to that of other similar investment advisers whose profitability information is publicly available. The Board concluded that, in light of the costs of providing investment management and other services to the Fund, the profits and other ancillary benefits reported by the Adviser were not unreasonable.

### **Economies of Scale**

The Board received and considered general information regarding economies of scale with respect to the management of the Fund, including the Fund's ability to appropriately benefit from economies of scale under the Fund's fee structure. The Board recognized the inherent limitations of any analysis of economies of scale, stemming largely from the Board's understanding that most of the Adviser's and Sub-Adviser's costs are not specific to individual Funds, but rather are incurred across a variety of products and services. To ensure that any economies are reasonably shared with the Fund as its assets increase, the Adviser and the Board agreed to continue the existing breakpoints to the Advisory Agreement Rate.

### **Information About Services to Other Clients**

The Board also received information about the nature, extent and quality of services and fee rates offered by the Adviser and Sub-Adviser to their other clients, including other registered investment companies, institutional investors and separate accounts. The Board concluded that the Advisory Agreement Rate and the Sub-Advisory Agreement Rate were not unreasonable, taking into account fee rates offered to others by the Adviser and Sub-Adviser, respectively, after giving effect to differences in services.

### **Other Benefits to the Adviser**

The Board received information regarding potential "fall-out" or ancillary benefits received by the Adviser and its affiliates, including the Sub-Adviser, as a result of their relationship with the Fund. Such benefits could include, among others, benefits directly attributable to the relationship of the Adviser and Sub-Adviser with the Fund and benefits potentially derived from an increase in business as a result of their relationship with the Fund (such as the ability to market to shareholders other financial products offered by the Adviser and its affiliates).

### **Other Factors and Broader Review**

As discussed above, the Board reviewed detailed materials received from the Adviser and Sub-Adviser as part of the annual re-

approval process. The Board also regularly reviews and assesses the quality of the services that the Fund receives throughout the year. In this regard, the Board reviews reports of the Adviser and Sub-Adviser at least quarterly, which include, among other things, fund performance reports and compliance reports. In addition, the Board meets with senior investment officers at various times throughout the year.

After considering the above-described factors and based on its deliberations and its evaluation of the information described above, the Board concluded that approval of the continuation of the Advisory Agreements for the Fund was in the best interest of the Fund and its shareholders. Accordingly, the Board unanimously approved the continuation of the Advisory Agreements.

# More information

## Trustees

Patti McGill Peterson, *Chairperson*  
James R. Boyle†  
James F. Carlin  
William H. Cunningham  
Deborah C. Jackson\*  
Charles L. Ladner  
Stanley Martin\*  
Dr. John A. Moore  
Steven R. Pruchansky††  
Gregory A. Russo  
John G. Vrysen†

## Officers

Keith F. Hartstein  
*President and Chief Executive Officer*  
Andrew G. Arnott‡  
*Chief Operating Officer*  
Thomas M. Kinzler  
*Secretary and Chief Legal Officer*  
Francis V. Knox, Jr.  
*Chief Compliance Officer*  
Charles A. Rizzo  
*Chief Financial Officer*  
Michael J. Leary  
*Treasurer*

\*Member of the Audit Committee

††Member of the Audit Committee effective 9-1-09

†Non-Independent Trustee

‡Effective 9-1-09

## Investment adviser

John Hancock Advisers, LLC

## Subadviser

MFC Global Investment  
Management (U.S.), LLC

## Principal distributor

John Hancock Funds, LLC

## Custodian

State Street Bank and Trust Company

## Transfer agent

John Hancock Signature Services, Inc.

## Legal counsel

K&L Gates LLP

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*The report is certified under the Sarbanes-Oxley Act, which requires mutual funds and other public companies to affirm that, to the best of their knowledge, the information in their financial reports is fairly and accurately stated in all material respect.*

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The Fund's proxy voting policies and procedures, as well as the Fund's proxy voting record for the most recent twelve-month period ended June 30, are available free of charge on the Securities and Exchange Commission (SEC) Web site at [www.sec.gov](http://www.sec.gov) or on our Web site.

The Fund's complete list of portfolio holdings, for the first and third fiscal quarters, is filed with the SEC on Form N-Q. The Fund's Form N-Q is available on our Web site and the SEC's Web site, [www.sec.gov](http://www.sec.gov), and can be reviewed and copied (for a fee) at the SEC's Public Reference Room in Washington, DC. Call 1-800-SEC-0330 to receive information on the operation of the SEC's Public Reference Room.

We make this information on your fund, as well as **monthly portfolio holdings**, and other fund details available on our Web site [www.jhfunds.com](http://www.jhfunds.com) or by calling 1-800-225-5291.

You can also contact us:

**1-800-225-5291**

**[jhfunds.com](http://jhfunds.com)**

### Regular mail:

John Hancock Signature Services, Inc.  
P.O. Box 55913  
Boston, MA 02205-5913

### Express mail:

John Hancock Signature Services, Inc.  
Mutual Fund Image Operations  
30 Dan Road  
Canton, MA 02021

**DOMESTIC EQUITY**

Balanced Fund  
 Classic Value Fund  
 Classic Value Mega Cap Fund  
 Disciplined Value Fund  
 Growth Opportunities Fund  
 Large Cap Equity Fund  
 Mid Cap Equity Fund  
 Rainier Growth Fund  
 Small Cap Equity Fund  
 Small Cap Intrinsic Value Fund  
 Small Company Fund  
 Sovereign Investors Fund  
 U.S. Core Fund  
 U.S. Global Leaders Growth Fund  
 Value Opportunities Fund

**ASSET ALLOCATION****TARGET RISK**

Lifestyle Aggressive Portfolio  
 Lifestyle Balanced Portfolio  
 Lifestyle Conservative Portfolio  
 Lifestyle Growth Portfolio  
 Lifestyle Moderate Portfolio

**TARGET DATE**

Lifecycle 2045 Portfolio  
 Lifecycle 2040 Portfolio  
 Lifecycle 2035 Portfolio  
 Lifecycle 2030 Portfolio  
 Lifecycle 2025 Portfolio  
 Lifecycle 2020 Portfolio  
 Lifecycle 2015 Portfolio  
 Lifecycle 2010 Portfolio

**RETIREMENT INCOME**

Retirement Distribution Portfolio  
 Retirement Rising Distribution Portfolio

**GLOBAL/INTERNATIONAL EQUITY**

Global Opportunities Fund  
 Global Shareholder Yield Fund  
 Greater China Opportunities Fund  
 International Allocation Portfolio  
 International Core Fund  
 International Growth Fund

**SPECIALITY**

Financial Industries Fund  
 Natural Resources Fund  
 Regional Bank Fund  
 Technical Opportunities Fund

**INCOME**

Bond Fund  
 Floating Rate Income Fund  
 Government Income Fund  
 High Yield Fund  
 Investment Grade Bond Fund  
 Strategic Income Fund  
 Strategic Income Opportunities Fund

**TAX-FREE INCOME**

California Tax-Free Income Fund  
 High Yield Municipal Bond Fund  
 Massachusetts Tax-Free Income Fund  
 New York Tax-Free Income Fund  
 Tax-Free Bond Fund

**MONEY MARKET**

Money Market Fund

**CLOSED-END**

Bank and Thrift Opportunity Fund  
 Income Securities Trust  
 Investors Trust  
 Patriot Premium Dividend Fund II  
 Preferred Income Fund  
 Preferred Income Fund II  
 Preferred Income Fund III  
 Tax-Advantaged Dividend Income Fund  
 Tax-Advantaged Global Shareholder Yield Fund

The Fund's investment objectives, risks, charges and expenses are included in the prospectus and should be considered carefully before investing. For a prospectus, call your financial professional, call John Hancock Funds at 1-800-225-5291 or visit the Fund's Web site at [www.jhffunds.com](http://www.jhffunds.com). Please read the prospectus carefully before investing or sending money.

**Not part of the semiannual report**



1-800-225-5291

1-800-554-6713 TDD

1-800-338-8080 EASI-Line

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

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