



MUTUAL FUNDS

Fund Commentary

Q4 | 2011

John Hancock Preferred Income Funds

FROM THE JOHN HANCOCK ASSET MANAGEMENT PORTFOLIO MANAGEMENT TEAM

MARKET ENVIRONMENT

Preferred securities posted solid gains for the fourth quarter of 2011, outpacing U.S. investment-grade bonds as measured by the Barclays Capital U.S. Aggregate Bond Index but lagging U.S. common stocks as measured by the 11.82% return of the S&P 500 Index. The volatile period began on a rather bleak note amid worries about the worsening sovereign debt crisis in Europe and signs that the U.S. economy was slowing. But by mid-October, investor sentiment began to improve when fresh data suggested that the U.S. economy was somewhat better than expected and this provided a boost for preferred securities. In November, preferred securities were bolstered by resurgent investor demand for income-producing securities in light of renewed worries about Europe's ability to contain its debt crisis, the exposure of U.S. banks to European sovereign debt and the possibility that a potential economic recession in Europe would act as a drag on the U.S. economy. In December, preferred securities also rose in response to news that European leaders had agreed to measures designed to put the region on a better path toward resolving its debt crisis.

PERFORMANCE REVIEW

Among the Funds' best performers during the quarter were DTE Energy and Apache. The prices of the newly issued preferred securities of DTE Energy rose during the quarter amid strong demand from investors seeking investment-

grade, well-run utilities that rewarded shareholders with an attractive dividend. The price of Apache rallied as oil prices moved higher. Holdings in the subsidiaries of Entergy — including Entergy Louisiana and Entergy Mississippi — also performed well. These securities, like many other utility preferred securities, were heavily favored among investors seeking attractive-yielding securities with businesses that historically have proven resilient during periods of economic and market uncertainty. The Funds also enjoyed strong performance from holdings in the real estate investment trust (REIT) of Public Storage, which benefited from increased occupancy and rising rents. Detracting from performance were holdings in the preferred securities of European financial companies, including Deutsche Bank and Barclays Bank. Until the very end of the quarter, these investments remained under heavy selling pressure throughout much of the period as investors worried about the companies' exposure to the debt of troubled European nations.

OUTLOOK

Our forecast calls for continued slow U.S. economic growth, continued low interest rates and ongoing uncertainty about the European sovereign debt crisis. If that proves to be the case, we expect that investors will remain risk averse with a preference toward income-producing asset classes including preferred securities and utility common stocks.

This commentary reflects the views of the portfolio managers through 12/31/11 and may include forward-looking statements. The statements may include projections, estimates and descriptions of future events. These statements are subject to a variety of risks and uncertainties, which may cause actual results to differ materially. The managers' views are subject to change as market and other conditions warrant and should not be construed as a recommendation for any securities discussed herein.

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

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

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



John Hancock Funds

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