



MUTUAL FUNDS

Fund Commentary

Q1 | 2008

John Hancock Preferred Income Funds

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

MARKET ENVIRONMENT

Despite declining interest rates, preferred shares and utility and financial common stocks struggled during the first quarter of 2008. Although falling interest rates typically favor these income-oriented investments, heavy new issuance hindered preferred stock performance, while the bear that gripped the overall stock market trapped the utilities segment as well. That said, both preferreds and utility commons generally outpaced the stock market as a whole.

PERFORMANCE REVIEW

Interestingly, our Bear Stearns preferred stock holdings were among our best performers during the quarter. Despite the company's well-documented travails, investors bid up Bear Stearns preferred shares in anticipation of the culmination of the company's takeover by JP Morgan. That transaction, in turn, is expected to significantly improve the credit quality of our holdings. Preferred stock holdings in the oil segment — as evidenced by the relatively strong performance of NEXEN and REPSOL — were among our other winners, as the price of oil remained high and supply remained muted. Further boosting the segment was a growing expectation that oil companies would redeem higher-coupon securities, which would likely further reduce supply. In contrast, our holdings in PMN Resources detracted from returns in large measure due to unfavorable regulatory decisions in the New Mexico market it serves.

A WORD ABOUT AUCTION RATE SECURITIES

During the period, disruptions began to emerge in the market for auction rate preferred shares (APS), which are the leveraged funding vehicle for the Fund. An imbalance of buyers and sellers of auction preferred shares caused many auctions to fail, leaving APS holders without liquidity. This industry-wide disruption had no immediate negative impact on the common shareholders during the quarter. John Hancock senior management is dedicating significant resources toward finding a solution that is in the best interests of both our common and preferred shareholders as we strive to restore liquidity to APS holders as soon as possible.

OUTLOOK

In our view, preferred stocks may soon reach a bottom, if they haven't already, especially given our outlook that supply pressures will wane in coming months. Our analysis also indicates that preferred stocks are more attractively valued than they have been in more than a decade. Likewise, we believe utility common stocks, which offer secure businesses and attractive dividends, also represented good value at the end of the period. To the extent investors go hunting for reasonably valued investments in the preferred and utility common stock sectors, they stand to benefit.

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

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

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

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



John Hancock Funds, LLC

MEMBER FINRA

601 Congress Street ■ Boston, MA 02210-2805

■ www.jhfunds.com

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