



MUTUAL FUNDS

Fund Commentary

Q4 | 2009

John Hancock Preferred Income Funds

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

MARKET ENVIRONMENT

Preferred stocks continued to post very strong returns during the fourth quarter of 2009, bolstered by the favorable combination of macroeconomic, fundamental and technical factors. On the economic front, home price declines slowed, consumer confidence improved and the number of weekly jobless claims began to shrink. From a fundamental standpoint, corporate cost-cutting helped produce better-than-expected earnings results for many companies. These positive developments helped to shore up investors' confidence and afforded them the comfort to re-deploy cash and move away from U.S. Treasury securities and into dividend-producing investments including preferred stocks. Against this backdrop of greater investor demand, the supply of preferred stocks remained relatively tight as corporations turned to alternative means for financing.

PERFORMANCE REVIEW

Utility preferred stocks were among the Fund's best performers. As investors moved further out on the investment risk spectrum, preferred stocks in industries with a historic reputation for proving "defensive" in challenging economic conditions benefited. Within this category, preferred stocks issued by investment-grade utilities with a solid track record of paying dividends and with natural gas processing businesses (an important benefit as the price of natural gas rose) generally fared best. Specifically, we saw good gains from Southwest Gas, Westar Energy and SCANA. Among preferreds issued

by financial companies, three standouts were JPMorgan Chase, U.S. Bancorp and Morgan Stanley, which were bolstered by their ability to pay back government bailout money. In contrast, holdings in ING Groep detracted from performance. The company's credit rating was downgraded after it was forced to take bailout money from the Dutch government. We continued to maintain the Fund's stake in ING based on our belief that the company will be able to repay most, if not all, of the government aid and return to profitability in the second half of 2010, thanks to its sale of its insurance business and its ability to raise money through an equity offering.

OUTLOOK

By our analysis, it will be virtually impossible for preferred stocks to produce the types of outsized gains in 2010 that they generated during 2009. However, we remain optimistic about their prospects. To the extent that interest rates remain low, we believe that investors — especially those with large cash and U.S. Treasury holdings — will continue to gravitate toward dividend-oriented investments. Furthermore, the overall corporate earnings outlook has improved. We're particularly optimistic about the prospects for preferred stocks issued by financial companies, especially those that came under the most pressure during the financial crisis earlier this year. We believe these companies may be due for a period of catch up as their attractive valuations and improved earnings outlook attract investors' attention.

This commentary reflects the views of the portfolio managers through 12/31/09 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**.



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