

JOHN HANCOCK PREFERRED INCOME FUND II
Form N-CSR
October 04, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21202

John Hancock Preferred Income Fund II
(Exact name of registrant as specified in charter)

601 Congress Street, Boston, Massachusetts 02210
(Address of principal executive offices) (Zip code)

Salvatore Schiavone
Treasurer

601 Congress Street

Boston, Massachusetts 02210

(Name and address of agent for service)

Registrant's telephone number, including area code: 617-663-4497

Date of fiscal year end: July 31

Date of reporting period: July 31, 2013

ITEM 1. REPORTS TO STOCKHOLDERS.

Management's discussion of

Fund performance

John Hancock Asset Management a division of Manulife Asset Management (US) LLC

Preferred securities posted modestly positive returns during the 12 months ended July 31, 2013, outpacing U.S. investment-grade bonds, as measured by the Barclays U.S. Aggregate Bond Index's return of -1.90%, but significantly lagging U.S. common stocks, as evidenced by the 25.00% advance of the broad S&P 500 Index. For the 12 months ended July 31, 2013, John Hancock Preferred Income Fund II returned 0.41% at closing net asset value (NAV) and -4.79% at closing market price. The difference in the fund's performance at NAV and its performance at market price stems from the fact that the market price is subject to the dynamics of secondary market trading, which could cause it to trade at a discount or premium to the fund's NAV at any time. For the same 12-month period, the Bank of America Merrill Lynch Hybrid Preferred Securities Index returned 1.81%. These indexes are unleveraged and generally do not invest in below investment grade securities.

The performance of the fund's holdings was driven primarily by the relative attractiveness of their coupons. Some of the worst performers were those with comparatively low coupons—under 6%—including NextEra Energy Capital Holdings, Inc., Southern California Edison Company, and BB&T Corp. The fund had more exposure to such low-coupon holdings than the Bank of America Merrill Lynch Hybrid Preferred Securities Index, and that detracted from the fund's performance relative to that benchmark. In contrast, preferred securities with relatively high coupons performed best. In this category, some of the fund's best performers were MetLife, Inc., PNC Financial Services Group, Inc., and BGE Capital Trust II. The fund also benefited from holdings in foreign financial companies such as ING Groep NV, Deutsche Bank, Santander Finance Preferred SA Unipersonal, and Barclays Bank PLC, which typically offered higher coupons than comparable financial companies in the United States and provided a hedge of sorts against rising U.S. interest rates.

This commentary reflects the views of the portfolio managers through the end of the period discussed in this report. 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.

An investment in the fund is subject to investment and market risks, including the possible loss of the entire principal invested. Fixed-income investments are subject to interest-rate risk; their value will normally decline as interest rates rise. An issuer of securities held by the fund may default, have its credit rating downgraded, or otherwise perform poorly, which may affect fund performance. The fund's use of leverage creates additional risks, including greater volatility of the fund's NAV, market price, and returns. There is no assurance that the fund's leverage strategy will be successful.

The fund normally will invest at least 25% of its total assets in the industries comprising the utilities sector, which includes telecommunications companies, measured at the time of purchase. When the fund's investments focus on one or more sectors of the economy, they are far less diversified than the broad securities markets. This means that the fund may be more volatile than other mutual funds, and the value of its investments may go up and down more rapidly. Specifically, utilities can be hurt by higher interest costs in connection with capital construction programs, costs associated with environmental and other regulations and the effects of economic declines, surplus capacity, and increased competition. In addition, the fund may invest in financial services companies, which can be hurt by economic declines, changes in interest rates, and regulatory and market impacts. The fund's investments in securities of foreign issuers involve special risks, such as political, economic, and currency risks, and differences in accounting standards and financial reporting.

Portfolio summary

Top 10 Issuers (32.5% of Total Investments on 7-31-13)^{1,2}

PPL Corp.	4.8%	U.S. Bancorp	3.1%
Entergy	3.5%	MetLife, Inc.	3.0%
Public Storage, Inc.	3.2%	United States Cellular Corp.	2.9%
Qwest Corp.	3.1%	Merrill Lynch Preferred Capital Trusts	2.9%
JPMorgan Chase Capital XXIX	3.1%	ING Groep NV	2.9%

Sector Composition^{1,3}

Financials	59.0%	Consumer Staples	2.1%
Utilities	27.4%	Industrials	0.6%
Telecommunication Services	8.1%	Consumer Discretionary	0.1%
Energy	2.6%	Short-Term Investments	0.1%

Country Composition^{1,3,4}

United States	88.7%	Spain	1.2%
Netherlands	5.2%	Bermuda	0.1%
United Kingdom	4.8%		

Quality Composition^{1,5}

A	9.0%
BBB	59.6%

BB	25.4%
B	1.4%
CCC & Below	0.8%
Common Stocks	3.7%
Short-Term Investments	0.1%

¹ As a percentage of the fund's total investments on 7-31-13.

² Cash and cash equivalents not included.

³ Investments focused in one sector may fluctuate more widely than investments diversified across sectors. Because the fund may focus on particular sectors, its performance may depend on the performance of those sectors. The fund's investments in securities of foreign issuers involve special risks such as political, economic and currency risks and differences in account standards and financial reporting.

⁴ Each security trades in U.S. dollars.

⁵ Ratings are from Moody's Investors Service, Inc. If not available, we have used Standard & Poor's Ratings Services. In the absence of ratings from these agencies, we have used Fitch Ratings, Inc. All ratings are as of 7-31-13 and do not reflect subsequent downgrades or upgrades, if any.

Fund's investments

As of 7-31-13

	Shares	Value
Preferred Securities (a) 143.3% (92.7% of Total Investments)		\$622,088,941
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(Cost \$625,160,325)		
Consumer Discretionary 0.1%		543,150

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Media 0.1%

Comcast Corp., 5.000%	22,500	543,150
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Consumer Staples 3.3%

14,435,008

Food & Staples Retailing 3.3%

Ocean Spray Cranberries, Inc., Series A, 6.250% (S)	160,000	14,435,008
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Energy 1.7%

7,266,300

Oil, Gas & Consumable Fuels 1.7%

Apache Corp., Series D, 6.000%	159,000	7,266,300
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Financials 91.2%

395,734,937

Capital Markets 8.5%

Morgan Stanley Capital Trust III, 6.250% (Z)	272,000	6,805,440
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Morgan Stanley Capital Trust IV, 6.250% (Z)	155,000	3,879,650
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Morgan Stanley Capital Trust V, 5.750% (Z)	285,000	7,045,200
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Morgan Stanley Capital Trust VII, 6.600%	52,400	1,318,384
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State Street Corp., 5.250%	62,000	1,476,840
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The Goldman Sachs Group, Inc., 6.125% (L)(Z)	655,200	16,550,352
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Commercial Banks 21.9%

Barclays Bank PLC, Series 3, 7.100% (L)(Z)	345,000	8,694,000
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Barclays Bank PLC, Series 5, 8.125% (L)(Z)	330,000	8,395,200
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BB&T Corp., 5.200%	320,000	7,203,200
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BB&T Corp., 5.625% (Z)	392,500	9,200,200
HSBC USA, Inc., 6.500% (Z)	50,000	1,254,500
PNC Financial Services Group, Inc., 5.375%	70,000	1,654,800
PNC Financial Services Group, Inc. (6.125% to 5-1-22, then 3 month LIBOR + 4.067%)	145,000	3,806,250
Royal Bank of Scotland Group PLC, Series L, 5.750% (Z)	480,000	9,283,200
Santander Finance Preferred SA Unipersonal, Series 10, 10.500% (Z)	329,000	8,767,850
U.S. Bancorp (6.000% to 4-15-17, then 3 month LIBOR + 4.861%) (Z)	200,000	5,330,000
U.S. Bancorp (6.500% to 1-15-22, then 3 month LIBOR + 4.468%) (L)(Z)	570,000	15,355,800
Wells Fargo & Company, 8.000% (L)(Z)	560,000	15,898,400
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	Shares	Value
Consumer Finance 5.8%		
HSBC Finance Corp., Depositary Shares, Series B, 6.360% (L)(Z)	725,000	\$18,023,500
SLM Corp., 6.000% (Z)	177,500	3,974,225
SLM Corp., Series A, 6.970%	64,000	3,120,000
Diversified Financial Services 22.3%		

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Deutsche Bank Capital Funding Trust X, 7.350%	155,722	3,967,797
Deutsche Bank Contingent Capital Trust II, 6.550% (Z)	167,500	4,221,000
Deutsche Bank Contingent Capital Trust III, 7.600% (L)(Z)	392,500	10,464,050
General Electric Capital Corp., 4.700% (Z)	375,000	7,920,000
ING Groep NV, 7.050% (L)(Z)	775,700	19,283,902
JPMorgan Chase Capital XXIX, 6.700% (L)(Z)	802,500	20,720,550
Merrill Lynch Preferred Capital Trust III, 7.000%	340,000	8,636,000
Merrill Lynch Preferred Capital Trust IV, 7.120%	180,000	4,572,000
Merrill Lynch Preferred Capital Trust V, 7.280%	250,000	6,345,000
RBS Capital Funding Trust V, 5.900%	398,000	7,904,280
RBS Capital Funding Trust VII, 6.080%	145,000	2,876,800
Insurance 15.9%		
Aegon NV, 6.375% (L)(Z)	420,000	10,357,200
Aegon NV, 6.500%	205,000	5,063,500
American Financial Group, Inc., 7.000% (Z)	274,000	7,332,240
MetLife, Inc., Series B, 6.500% (L)(Z)	805,547	20,291,729
Phoenix Companies, Inc., 7.450%	216,500	5,193,835
Prudential Financial, Inc., 5.750%	125,000	2,950,000

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Prudential PLC, 6.500% (Z)	103,000	2,544,100
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RenaissanceRe Holdings, Ltd., Series C, 6.080%	16,250	403,325
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W.R. Berkley Corp., 5.625%	700,000	14,896,000
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Real Estate Investment Trusts 16.7%		
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Duke Realty Corp., Depositary Shares, Series J, 6.625% (L)(Z)	449,400	11,266,458
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Duke Realty Corp., Depositary Shares, Series K, 6.500% (Z)	110,000	2,750,000
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Duke Realty Corp., Depositary Shares, Series L, 6.600% (Z)	109,840	2,744,902
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Kimco Realty Corp., 6.000% (L)(Z)	680,000	16,503,600
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Public Storage, Inc., 5.200% (Z)	255,000	5,556,450
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Public Storage, Inc., 5.750%	313,000	7,371,150
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Public Storage, Inc., 6.350% (Z)	163,000	4,109,230
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Public Storage, Inc., Depositary Shares, Series Q, 6.500%	119,800	3,030,940
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Public Storage, Inc., Series P, 6.500%	56,000	1,417,360
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Senior Housing Properties Trust, 5.625%	390,000	8,498,100
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Ventas Realty LP, 5.450%	210,000	4,665,948
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Wachovia Preferred Funding Corp., Series A, 7.250% (Z)	170,000	4,462,500

See notes to financial statements

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	Shares	Value
Thriffs & Mortgage Finance 0.1%		
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Federal National Mortgage Association, Series S, 8.250% (I)	75,000	\$378,000
Industrials 1.0%		4,249,000
Machinery 1.0%		
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Stanley Black & Decker, Inc., 5.750% (Z)	175,000	4,249,000
Telecommunication Services 12.5%		54,214,120
Diversified Telecommunication Services 4.8%		
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Qwest Corp., 6.125%	30,000	676,200
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Qwest Corp., 7.000%	60,000	1,510,200
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Qwest Corp., 7.375% (Z)	567,500	14,386,125
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Qwest Corp., 7.500%	172,500	4,422,900
Wireless Telecommunication Services 7.7%		
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Telephone & Data Systems, Inc., 6.625% (Z)	161,300	4,040,565
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Telephone & Data Systems, Inc., 6.875%	85,000	2,175,150
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Telephone & Data Systems, Inc., 7.000% (Z)	283,000	7,304,230
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United States Cellular Corp., 6.950% (L)(Z)	772,500	19,698,750
Utilities 33.5%		145,646,426
Electric Utilities 24.6%		
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Baltimore Gas & Electric Company, Series 1995, 6.990% (Z)	39,870	4,055,529

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Duke Energy Corp., 5.125%	680,000	15,687,600
Duquesne Light Company, 6.500%	98,450	5,030,795
Entergy Arkansas, Inc., 5.750% (Z)	66,400	1,610,200
Entergy Louisiana LLC, 5.250%	220,000	4,868,600
Entergy Louisiana LLC, 5.875% (Z)	186,750	4,579,110
Entergy Louisiana LLC, 6.000% (Z)	185,000	4,634,250
Entergy Mississippi, Inc., 6.000%	182,025	4,517,861
Entergy Mississippi, Inc., 6.200%	99,000	2,499,750
Entergy Texas, Inc., 7.875%	37,400	1,000,076
FPL Group Capital Trust I, 5.875% (Z)	267,800	6,727,136
Gulf Power Company, 5.750% (Z)	141,000	3,634,980
HECO Capital Trust III, 6.500% (L)(Z)	187,750	4,956,600
NextEra Energy Capital Holdings, Inc., 5.125%	73,000	1,569,500
NextEra Energy Capital Holdings, Inc., 5.700% (L)(Z)	635,000	14,897,100
NSTAR Electric Company, 4.780%	15,143	1,506,729
PPL Capital Funding, Inc., 5.900% (Z)	700,000	16,093,000
SCE Trust I, 5.625%	60,000	1,367,400
SCE Trust II, 5.100%	360,000	7,642,800
Multi-Utilities 8.9%		

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BGE Capital Trust II, 6.200% (Z)	488,000	12,268,320
DTE Energy Company, 5.250%	270,000	6,301,800
DTE Energy Company, 6.500%	221,050	5,700,880
SCANA Corp., 7.700% (Z)	538,900	14,496,410

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See notes to financial statements

	Shares	Value
Common Stocks 5.8% (3.7% of Total Investments)		\$25,034,230
(Cost \$25,090,975)		
Energy 0.1%		414,400
Oil, Gas & Consumable Fuels 0.1%		
BP PLC, ADR	10,000	414,400
Utilities 5.7%		24,619,830
Electric Utilities 4.8%		
FirstEnergy Corp.	128,000	4,872,960
PPL Corp.	501,000	15,916,770
Multi-Utilities 0.9%		
National Grid PLC, ADR	45,000	2,681,550
TECO Energy, Inc.	65,000	1,148,550

Rate (%)	Maturity date	Par value	Value
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Capital Preferred Securities (b) 1.1% (0.8% of Total Investments) \$5,039,945

(Cost \$5,574,000)

Utilities 1.1% 5,039,945**Multi-Utilities 1.1%**

Dominion Resources Capital Trust III (L)(Z)	8.400	1-15-31	\$5,000,000	5,039,945
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Corporate Bonds 4.2% (2.7% of Total Investments) \$18,081,372

(Cost \$17,396,578)

Energy 2.2% 9,521,372**Oil, Gas & Consumable Fuels 2.2%**

Energy Transfer Partners LP (P)(S)	3.283	11-01-66	10,550,000	9,521,372
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Utilities 2.0% 8,560,000**Electric Utilities 2.0%**

Southern California Edison Company (6.250% to 2-1-22, then 3 month LIBOR + 4.199%) (L)(Q)(Z)	6.250	2-01-22	8,000,000	8,560,000
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See notes to financial statements

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	Par value	Value
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Short-Term Investments 0.1% (0.1% of Total Investments) \$463,000

(Cost \$463,000)

Repurchase Agreement 0.1% 463,000

Repurchase Agreement with State Street Corp. dated 7-31-13 at 0.010% to be repurchased at \$463,000 on 8-1-13, collateralized by \$475,000 U.S. Treasury Notes, 0.875% due 4-30-17 (valued at

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\$473,961, including interest)	\$463,000	463,000
Total investments (Cost \$673,684,878)†154.5%		\$670,707,488
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Other assets and liabilities, net (54.5%)		(\$236,584,231)
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Total net assets 100.0%		\$434,123,257
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The percentage shown for each investment category is the total value of that category as a percentage of the net assets of the fund.

ADR American Depositary Receipts

LIBOR London Interbank Offered Rate

(a) Includes preferred stocks and hybrid securities with characteristics of both equity and debt that pay dividends on a periodic basis.

(b) Includes hybrid securities with characteristics of both equity and debt that trade with, and pay, interest income.

(I) Non-income producing security.

(L) A portion of this security is a Lent Security as of 7-31-13, and is part of segregated collateral pursuant to the Committed Facility Agreement. Total value of Lent Securities at 7-31-13 was \$197,183,927

(P) Variable rate obligation. The coupon rate shown represents the rate at period end.

(Q) Perpetual bonds have no stated maturity date. Date shown as maturity date is next call date.

(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.

(Z) A portion of this security is segregated as collateral pursuant to the Committed Facility Agreement. Total collateral value at 7-31-13 was \$396,381,439.

† At 7-31-13, the aggregate cost of investment securities for federal income tax purposes was \$673,783,952. Net unrealized depreciation aggregated \$3,076,464, of which \$22,254,406 related to appreciated investment securities and \$25,330,870 related to depreciated investment securities.

The fund had the following country concentration as a percentage of total investments on 7-31-13:

United States	88.7%
Netherlands	5.2%
United Kingdom	4.8%
Spain	1.2%
Bermuda	0.1%
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Total	100.0%

FINANCIAL STATEMENTS

Financial statements

Statement of assets and liabilities 7-31-13

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 for each common share.

Assets

Investments, at value (Cost \$673,684,878)	\$670,707,488
Cash	778,485
Cash segregated at custodian for swap contracts	720,000
Dividends and interest receivable	1,071,515
Swap contracts, at value	566,686
Other receivables and prepaid expenses	40,523

Total assets	673,884,697
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Liabilities

Committed facility agreement payable	238,000,000
Payable for investments purchased	117,226
Swap contracts, at value	1,499,789
Interest payable	11,719
Payable to affiliates	
Accounting and legal services fees	21,087
Trustees' fees	16,435
Other liabilities and accrued expenses	95,184

Total liabilities	239,761,440
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Net assets	\$434,123,257
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Net assets consist of

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Paid-in capital	\$497,593,002
Undistributed net investment income	3,065,168
Accumulated net realized gain (loss) on investments and swap agreements	(62,624,420)
Net unrealized appreciation (depreciation) on investments and swap agreements	(3,910,493)
Net assets	\$434,123,257

Net asset value per share

Based on 21,248,889 shares of beneficial interest outstanding — unlimited number of shares authorized with no par value \$20.43

See notes to financial statements

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FINANCIAL STATEMENTS

Statement of operations For the year ended 7-31-13

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.

Investment income

Dividends	\$42,532,337
Interest	1,731,095
Total investment income	44,263,432

Expenses

Investment management fees