

JOHN HANCOCK PREFERRED INCOME FUND III
Form N-Q
December 26, 2012

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

FORM N-Q

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21287

John Hancock Preferred Income Fund III
(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: October 31, 2012

ITEM 1. SCHEDULE OF INVESTMENTS

John Hancock Preferred Income Fund III
As of 10-31-12 (Unaudited)
Portfolio of Investments

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	Shares	Value
Preferred Securities (a) 144.1% (96.6% of Total Investments)		\$879,192,492
<hr/>		
(Cost \$834,161,289)		
Consumer Staples 2.0%		12,360,938
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Food & Staples Retailing 2.0%		
Ocean Spray Cranberries, Inc., Series A, 6.250% (S)	135,000	12,360,938
Energy 6.8%		41,666,210
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Oil, Gas & Consumable Fuels 6.8%		
Apache Corp., Series D, 6.000%	158,500	7,395,610
Nexen, Inc., 7.350%	1,345,000	34,270,600
Financials 88.3%		538,353,248
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Capital Markets 11.1%		
Bank of New York Mellon Corp., 5.200%	45,000	1,132,200
Credit Suisse Guernsey, 7.900% (Z)	455,000	11,807,250
Morgan Stanley Capital Trust III, 6.250%	174,000	4,343,040
Morgan Stanley Capital Trust IV, 6.250%	850,000	21,301,000
Morgan Stanley Capital Trust V, 5.750%	133,000	3,294,410
Morgan Stanley Capital Trust VII, 6.600%	30,000	750,600
State Street Corp., 5.250%	62,000	1,601,460
The Goldman Sachs Group, Inc., 6.125% (Z)	875,500	23,165,730
Commercial Banks 19.4%		
Barclays Bank PLC, Series 3, 7.100% (Z)	355,000	8,956,650
Barclays Bank PLC, Series 5, 8.125% (L)(Z)	515,000	13,312,750
HSBC Holdings PLC, 8.000% (Z)	63,500	1,791,970
HSBC USA, Inc., 6.500%	135,000	3,410,100
PNC Financial Services Group, Inc., 5.375%	12,000	301,680
PNC Financial Services Group, Inc. (6.125% to 05/01/22, then 3 month LIBOR + 4.067%)	210,000	5,880,000
Royal Bank of Scotland Group PLC, Series L, 5.750% (L)(Z)	955,000	22,108,250
Santander Finance Preferred SA Unipersonal, Series 10, 10.500%	313,500	8,542,875
Santander Holdings USA, Inc., Series C, 7.300% (Z)	463,000	11,889,840
U.S. Bancorp (6.000% to 04/15/17, then 3 month LIBOR + 4.861%)	160,000	4,592,000

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U.S. Bancorp (6.500% to 01/15/22, then 3 month LIBOR + 4.468%) (L)(Z)	890,000	26,317,300
Wells Fargo & Company, 8.000% (Z)	374,000	11,365,860
Consumer Finance 3.1%		
HSBC Finance Corp., Depository Shares, Series B, 6.360% (Z)	610,800	15,434,915
SLM Corp., 6.000% (Z)	57,100	1,393,240
SLM Corp., Series A, 6.970% (Z)	44,899	2,150,213
Diversified Financial Services 27.0%		
Citigroup Capital X, 6.100%	580,000	14,523,200
Citigroup Capital XIII (7.875% to 10/30/15, then 3 month LIBOR + 6.370%)	22,000	611,820
Deutsche Bank Capital Funding Trust VIII, 6.375% (Z)	40,000	994,000
Deutsche Bank Capital Funding Trust X, 7.350% (Z)	248,300	6,311,786
Deutsche Bank Contingent Capital Trust II, 6.550% (L)(Z)	396,500	10,265,385
Deutsche Bank Contingent Capital Trust III, 7.600% (Z)	311,000	8,325,470
General Electric Capital Corp., 6.000% (Z)	110,000	2,810,500
General Electric Capital Corp., 6.050% (Z)	75,000	1,940,250
General Electric Capital Corp., 6.100%	20,000	521,200

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John Hancock Preferred Income Fund III

As of 10-31-12 (Unaudited)

Portfolio of Investments

	Shares	Value
Financials (continued)		
General Electric Capital Corp., 6.625% (Z)	43,000	\$1,147,240
ING Groep NV, 7.050% (L)(Z)	598,970	15,076,075
ING Groep NV, 7.200% (L)(Z)	765,000	19,300,950
JPMorgan Chase & Company, 8.625% (Z)	395,000	10,356,900
JPMorgan Chase Capital XXIX, 6.700% (Z)	687,500	18,088,125
Merrill Lynch Preferred Capital Trust III, 7.000% (Z)	510,000	12,846,900
Merrill Lynch Preferred Capital Trust IV, 7.120%	415,000	10,449,700
Merrill Lynch Preferred Capital Trust V, 7.280% (Z)	430,000	10,840,300
RBS Capital Funding Trust V, 5.900%	725,000	13,332,750
RBS Capital Funding Trust VI, 6.250%	340,000	6,630,000

Insurance 12.8%

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Aegon NV, 6.375% (Z)	276,000	7,142,880
Aegon NV, 6.500% (Z)	270,000	6,771,600
American Financial Group, Inc., 7.000% (Z)	484,000	13,155,120
MetLife, Inc., Series B, 6.500% (L)(Z)	1,002,000	25,691,280
Phoenix Companies, Inc., 7.450%	574,500	14,000,565
PLC Capital Trust V, 6.125% (Z)	192,279	4,853,122
Prudential PLC, 6.500% (Z)	129,638	3,288,916
RenaissanceRe Holdings Ltd., Series C, 6.080% (Z)	122,300	3,086,852

Real Estate Investment Trusts 14.9%

Duke Realty Corp., Depositary Shares, Series J, 6.625%	638,100	16,194,978
Duke Realty Corp., Depositary Shares, Series K, 6.500% (Z)	151,600	3,830,932
Duke Realty Corp., Depositary Shares, Series L, 6.600% (Z)	118,500	3,009,900
Kimco Realty Corp., 6.000%	870,000	22,393,800
Public Storage, Inc., 5.750%	257,000	6,872,180
Public Storage, Inc., 6.350%	199,000	5,496,380
Public Storage, Inc., Depositary Shares, Series Q, 6.500%	121,700	3,440,459
Public Storage, Inc., Series P, 6.500% (Z)	123,000	3,361,590
Senior Housing Properties Trust, 5.625%	253,000	6,216,210
Wachovia Preferred Funding Corp., Series A, 7.250% (L)(Z)	740,000	20,194,600

Thriffs & Mortgage Finance 0.0%

Federal National Mortgage Association, Series S, 8.250%	80,000	136,000
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Industrials 0.8%

4,567,915

Machinery 0.8%

Stanley Black & Decker, Inc., 5.750%	172,700	4,567,915
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Telecommunication Services 11.9%

72,870,110

Diversified Telecommunication Services 4.5%

Qwest Corp., 7.000%	60,000	1,597,800
Qwest Corp., 7.375% (L)(Z)	777,500	21,179,100
Qwest Corp., 7.500%	174,500	4,784,790

Wireless Telecommunication Services 7.4%

Telephone & Data Systems, Inc., 6.875% (L)(Z)	468,000	12,987,000
Telephone & Data Systems, Inc., 7.000% (Z)	415,000	11,686,400
United States Cellular Corp., 6.950% (L)(Z)	742,000	20,635,020

Utilities 34.3%

209,374,071

Electric Utilities 21.8%

Alabama Power Company, 5.200% (L)(Z)	414,000	10,759,860
Entergy Arkansas, Inc., 5.750%	105,100	2,957,514

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John Hancock Preferred Income Fund III

As of 10-31-12 (Unaudited)

Portfolio of Investments

	Shares	Value
Utilities (continued)		
Entergy Louisiana LLC, 5.250%	240,000	\$6,410,400
Entergy Louisiana LLC, 5.875% (Z)	312,625	8,816,025
Entergy Louisiana LLC, 6.000% (Z)	240,600	6,700,710
Entergy Mississippi, Inc., 6.000%	108,194	2,999,138
Entergy Mississippi, Inc., 6.200% (Z)	148,000	4,186,920
Entergy Texas, Inc., 7.875%	71,986	2,085,434
FPC Capital I, Series A, 7.100% (L)(Z)	810,000	20,979,000
FPL Group Capital Trust I, 5.875% (Z)	301,000	7,928,340
Gulf Power Company, 5.750% (Z)	135,100	3,678,773
HECO Capital Trust III, 6.500% (Z)	228,100	5,880,418
NextEra Energy Capital Holdings, Inc., 5.700% (L)(Z)	644,000	17,130,400
PPL Corp., 9.500%	300,000	16,299,000
SCE Trust I, 5.625%	87,000	2,272,440
Southern California Edison Company, 6.125% (Z)	20,000	2,022,500
Southern California Edison Company, Series C, 6.000% (Z)	120,285	12,081,125
Independent Power Producers & Energy Traders 0.7%		
Constellation Energy Group, Inc., Series A, 8.625%	164,000	4,311,560
Multi-Utilities 11.8%		
BGE Capital Trust II, 6.200% (L)(Z)	720,000	18,648,000
Dominion Resources, Inc., Series A, 8.375% (Z)	249,900	6,997,200
DTE Energy Company, 5.250%	411,000	10,472,280
DTE Energy Company, 6.500%	303,000	8,578,688
Interstate Power & Light Company, Series B, 8.375% (L)(Z)	237,290	6,501,746

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SCANA Corp., 7.700% 756,000 20,676,600

	Rate (%)	Maturity date	Par value	Value
Capital Preferred Securities (b) 2.3% (1.5% of Total Investments)				\$14,010,369

(Cost \$16,331,633)

Financials 1.2% **7,554,600**

Commercial Banks 1.2%

CA Preferred Funding Trust	7.000	01/29/49	\$9,000,000	7,554,600
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Utilities 1.1% **6,455,769**

Multi-Utilities 1.1%

Dominion Resources Capital Trust I (L)(Z)	7.830	12/01/27	6,364,000	6,455,769
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Corporate Bonds 2.6% (1.8% of Total Investments) **\$16,122,675**

(Cost \$17,906,193)

Energy 1.7% **10,626,375**

Oil, Gas & Consumable Fuels 1.7%

Southern Union Company (P)	3.330	11/01/66	12,900,000	10,626,375
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Utilities 0.9% **5,496,300**

Electric Utilities 0.9%

Southern California Edison Company (6.250% to 02/01/22, then 3 month LIBOR + 4.199%) (Q)	6.250	02/01/22	5,000,000	5,496,300
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John Hancock Preferred Income Fund III

As of 10-31-12 (Unaudited)

Portfolio of Investments

	Par value	Value
Short-Term Investments 0.2% (0.1% of Total Investments)		\$1,000,000
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(Cost \$1,000,000)		
Repurchase Agreement 0.2%		1,000,000
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Repurchase Agreement with State Street Corp. dated 10-31-12 at 0.010% to be repurchased at \$1,000,000 on 11-1-12, collateralized by \$750,000 United States Treasury Bonds, 4.625% due 2-15-40 (valued at \$1,026,672, including interest)	1,000,000	1,000,000
Total investments (Cost \$869,399,115)† 149.2%		\$910,325,536
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Other assets and liabilities, net (49.2%)		(\$300,338,008)
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Total net assets 100.0%		\$609,987,528
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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.

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.

(L) A portion of the security is a lent security as of 10-31-12, and is part of segregated collateral pursuant to the Committed Facility Agreement. Total value of Lent Securities at 10-31-12 was \$220,941,432.

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

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

(S) This security is exempt from registration under Rule 144A of the Securities Act of 1933. Such a security 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 10-31-12 was \$501,906,643.

† At 10-31-12, the aggregate cost of investment securities for federal income tax purposes was \$869,537,314. Net unrealized appreciation aggregated \$40,788,222, of which \$60,558,633 related to appreciated investment securities and \$19,770,411 related to depreciated investment securities.

The Fund had the following country concentration as a percentage of total investments on 10-31-12.

United States	83.0%
United Kingdom	5.4%
Netherlands	5.3%
Canada	3.8%
Switzerland	1.3%
Spain	0.9%
Bermuda	0.3%

John Hancock Preferred Income Fund III

As of 10-31-12 (Unaudited)

Notes to Portfolio of Investments

Security valuation. Investments are stated at value as of the close of regular trading on the New York Stock Exchange (NYSE), normally at 4:00 P.M., Eastern Time. In order to value the securities, the Fund uses the following valuation techniques: Equity securities held by the Fund are valued at the last sale price or official closing price on the principal securities exchange on which they trade. In the event there were no sales during the day or closing prices are not available, then the securities are valued using the last quoted bid or evaluated price. Debt obligations are valued based on the evaluated prices provided by an independent pricing service, which utilizes both dealer-supplied and electronic data processing techniques, taking 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. Swaps are marked-to-market daily based upon values from third party vendors, which may include a registered commodities exchange, or broker quotations. Foreign securities and currencies are valued in U.S. dollars, based on foreign currency exchange rates supplied by an independent pricing service. Certain 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. Certain short-term securities are valued at amortized cost.

Other portfolio securities and assets, where reliable market quotations are not available, are valued at fair value as determined in good faith by the Fund's Pricing Committee following procedures established by the Board of Trustees, which include price verification procedures. The frequency with which these fair valuation procedures are used cannot be predicted. Generally, trading in non-U.S. securities is substantially completed each day at various times prior to the close of trading on the NYSE. Significant market events that affect the values of non-U.S. securities may occur between the time when the valuation of the securities is generally determined and the close of the NYSE. During significant market events, these securities will be valued at fair value, as determined in good faith, following procedures established by the Board of Trustees. The Fund may use a fair valuation model to value non-U.S. securities in order to adjust for events which may occur between the close of foreign exchanges and the close of the NYSE.

The Fund uses a three-tier hierarchy to prioritize the pricing assumptions, referred to as inputs, used in valuation techniques to measure fair value. Level 1 includes securities valued using quoted prices in active markets for identical securities. Level 2 includes securities valued 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 inputs are received from independent pricing vendors and brokers and are based on an evaluation of the inputs described. Level 3 includes securities valued using significant unobservable inputs when

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market prices are not readily available or reliable, including the Fund's own assumptions in determining the fair value of investments. Factors used in determining value may include market or issuer specific events or trends, changes in interest rates and credit quality. The inputs or methodology used for valuing securities are not necessarily an indication of the risks associated with investing in those securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. Securities with a market value of approximately \$13,816,467 at the beginning of the year were transferred from Level 2 to Level 1 during the period since quoted prices in active markets for identical securities became available.

The following is a summary of the values by input classification of the Fund's investments as of October 31, 2012, by major security category or type:

	Total Market		Level 2	Level 3
	Value at	Level 1 Quoted	Significant	Significant
	10/31/12	Price	Observable	Unobservable
			Inputs	Inputs
Preferred Securities				
Consumer Staples	\$12,360,938	—	\$12,360,938	—
Energy	41,666,210	\$41,666,210	—	—
Financials	538,353,248	538,353,248	—	—
Industrials	4,567,915	4,567,915	—	—
Telecommunication Services	72,870,110	72,870,110	—	—
Utilities	209,374,071	163,150,958	46,223,113	—
Capital Preferred Securities				
Financials	7,554,600	—	7,554,600	—
Utilities	6,455,769	—	6,455,769	—
Corporate Bonds				
Energy	10,626,375	—	10,626,375	—
Utilities	5,496,300	—	5,496,300	—
Short-Term Investments				
	1,000,000	—	1,000,000	—
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Total investments in Securities	\$910,325,536	\$820,608,441	\$89,717,095	—
Other Financial Instruments				
Interest Rate Swaps	(\$3,118,492)	—	(\$3,118,492)	—

Repurchase agreements. The Fund may enter into repurchase agreements. When the Fund enters into a repurchase agreement, it receives collateral which is held in a segregated account by the Fund's custodian. The collateral amount is marked-to-market and monitored on a daily basis to ensure that the collateral held is in an amount not less than the principal amount of the repurchase agreement plus any accrued interest. In the event of a default by the counterparty, realization of the collateral proceeds could be delayed, during which time the collateral value may decline.

Real estate investment trusts. The Fund may invest in real estate investment trusts (REITs) and, as a result, will estimate the components of distributions from these securities. Such estimates are revised when actual components of distributions are known. Distributions from REITs received in excess of income may be recorded as a reduction of cost of investments and/or as a realized gain.

Interest rate swaps. Interest rate swaps represent an agreement between a Fund and counterparty to exchange cash flows based on the difference between two interest rates applied to a notional amount. The payment flows are usually netted against each other, with the difference being paid by one party to the other. The Fund settles accrued net interest receivable or payable under the swap contracts at specified, future intervals. Swaps are marked-to-market daily based upon values from third party vendors or broker quotations, and the change in value is recorded as unrealized appreciation/depreciation of swap contracts. A termination payment by the counterparty or the Fund is recorded as realized gain or loss, as well as the net periodic payments received or paid by the Fund.

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During the period ended October 31, 2012, the Fund used interest rate swaps in anticipation of rising interest rates. The following table summarizes the interest rate swap contracts held as of October 31, 2012.

COUNTERPARTY	USD	PAYMENTS		MATURITY DATE	MARKET VALUE
	NOTIONAL AMOUNT	PAYMENTS MADE BY FUND	RECEIVED BY FUND		
Morgan Stanley Capital Services	\$72,000,000	Fixed 1.4625%	3 Month LIBOR (a)	Aug 2016	(\$2,533,954)
Morgan Stanley Capital Services	72,000,000	Fixed 0.875%	3 Month LIBOR (a)	Jul 2017	(584,538)
	\$144,000,000				(\$3,118,492)

(a) At October 31, 2012, the 3 Month LIBOR rate was 0.31275%.

For additional information on the Fund's significant accounting policies, please refer to the Fund's most recent semiannual or annual shareholder report.

ITEM 2. CONTROLS AND PROCEDURES.

(a) Based upon their evaluation of the registrant's disclosure controls and procedures as conducted within 90 days of the filing date of this Form N-Q, the registrant's principal executive officer and principal accounting officer have concluded that those disclosure controls and procedures provide reasonable assurance that the material information required to be disclosed by the registrant on this report is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

(b) There were no changes in the registrant's internal control over financial reporting that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 3. EXHIBITS.

Separate certifications for the registrant's principal executive officer and principal accounting officer, as required by Rule 30a-2(a) under the Investment Company Act of 1940, are attached.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

John Hancock Preferred Income Fund III

By: /s/ Hugh McHaffie

Hugh McHaffie
President

Date: December 20, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Hugh McHaffie

Hugh McHaffie
President

Date: December 20, 2012

By: /s/ Charles A. Rizzo

Charles A. Rizzo
Chief Financial Officer

Date: December 20, 2012