

NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND II
Form N-CSR
May 09, 2008

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 811-21338

Nicholas-Applegate Convertible & Income Fund II
(Exact name of registrant as specified in charter)

1345 Avenue of the Americas, New York,
(Address of principal executive offices)

New York 10105
(Zip code)

Lawrence G. Altadonna □ 1345 Avenue of the Americas, New York, New York 10105
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-739-3371

Date of fiscal year end: February 29, 2008

Date of reporting period: February 29, 2008

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget (□OMB□) control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

ITEM 1. REPORT TO SHAREHOLDERS

Nicholas-Applegate Convertible & Income Fund Nicholas-Applegate Convertible & Income Fund II

Annual Report
February 29, 2008

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Nicholas-Applegate Convertible & Income Funds Letter to Shareholders

April 16, 2008

Dear Shareholder:

We are pleased to provide you with the annual reports of the Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (collectively, the Funds) for the fiscal year ended February 29, 2008.

The convertible market finished the reporting period with relatively flat returns, falling 0.58%, as measured by the Merrill Lynch All-Convertible Index. The convertible market outperformed the S&P 500 Index, which returned (3.59)% for the period. It trailed the Dow Jones Industrial Average, which advanced 2.23%.

During February 2008, industry-wide developments in the auction-rate preferred markets caused auctions for the Funds' auction-rate preferred shares (ARPS) to fail, as described in Note 5 in the accompanying notes to Financial Statements. At the time this report is being prepared, it is not possible to predict how and when full or partial liquidity will return, if at all, to the closed-end fund ARPS market. Additional information regarding ARPS, failed auctions and potential solutions to address the unprecedented lack of liquidity of the ARPS due to recent failed auctions can be accessed on the Funds' website <http://www.allianzinvestors.com/closedendfunds>.

Please refer to the following pages for more information on the Funds. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds' shareholder servicing agent at (800) 331-1710. You will also find a wide range of information and resources on our Web site, www.allianzinvestors.com/closedendfunds.

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Nicholas-Applegate Capital Management LLC, the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess

Chairman

Brian S. Shlissel

President & Chief Executive Officer
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Nicholas-Applegate Convertible & Income Fund
Nicholas-Applegate Convertible & Income Fund II
Fund Insights

February 29, 2008 (unaudited)

For the 12-months ended February 29, 2008, Nicholas-Applegate Convertible & Income Fund returned (6.33)% on net asset value and (13.63)% on market price.

For the 12-months ended February 29, 2008, Nicholas-Applegate Convertible & Income II Fund returned (7.13)% on net asset value and (12.08)% on market price.

The convertible and high yield markets followed the broad equity market lower in the period as there were no significant catalysts to drive the market higher. Slowing corporate profits, widening credit spreads, recession fears, high oil prices, and continued negative subprime news were responsible for the broad equity market pull-back.

Industry performance was mixed and driven by broad market themes. Financial issuer underperformance was clearly the most severe of any industry in the broad markets. The consumer sector also performed poorly. The best performing industries during the twelve month period were healthcare, utilities and energy. These sectors performed well because of favorable operating performance as well as an expected flight to quality.

The Funds' convertible positions were helped by many industries during the period. Healthcare companies rallied in response to better-than-expected corporate profits and positive outlooks. Consumer staple companies benefited from record commodity prices as well as an investor rotation into more defensive industries. Material companies were higher on impressive quarterly results despite a slowing economy.

Select sectors within the Funds' the convertible portfolio's hindered performance in the period. Despite positive performance for the year, select technology issuers pulled back during the period on fears of slowing earnings growth. Automotive companies moved lower on concerns that weaker-than-expected consumer spending would cause auto sales to fall below expectations in 2008. Retail companies continued their move lower as the challenging economic backdrop weighed on consumer spending.

Remarkably, with all of the financial chaos and headlines, the fundamentals of the majority of issuers in the high yield market remained intact. The default rate for 2007 was a record setting low.

Throughout the continued volatility, relative high yield performance was driven by stringent credit selection. We continued to have bonds tendered for as well as companies, demonstrated improving fundamentals, upgraded.

There were negative high yield contributors during the period. In the auto industry, bonds traded lower across the board. Other negative movers included certain retail-related issuers.

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Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 29, 2008 (unaudited)

Total Return ⁽¹⁾ :	Market Price	Net Asset Value (NAV)
1 year	(13.63)%	(6.33)%
3 year	4.22%	3.87%
Commencement of Operations (3/31/03) to 2/29/08	8.62%	9.74%

Common Share Market Price/NAV Performance:

Commencement of Operations (3/31/03) to 2/29/08

n Market Price

n NAV

Market Price/NAV:

Market Price	\$	12.50
NAV	\$	12.52
Discount to NAV		(0.16)%
Market Price Yield ⁽²⁾		12.00%

**Moody's Ratings
(as a % of total investments)**

(1) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) with all distributions reinvested. The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods; returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares or changes in Fund distributions.

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An investment in the Fund involves risk, including the loss of principal. Total return, price, market yield and market net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is typically a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is equal to the total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend to common shareholders by the market price per common share at February 29, 2008.

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Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 29, 2008 (unaudited)

Total Return ⁽¹⁾ :	Market Price	Net Asset Value (NAV)
1 year	(12.08)%	(7.13)%
3 year	4.77%	3.69%
Commencement of Operations (7/31/03) to 2/29/08	6.47%	8.07%

Common Share Market Price/NAV Performance:

Commencement of Operations (7/31/03) to 2/29/08

n Market Price

n NAV

Market Price/NAV:

Market Price	\$	12.09
NAV	\$	12.38
Discount to NAV		(2.34)%
Market Price Yield ⁽²⁾		11.79%

**Moody's Ratings
(as a % of total investments)**

(1) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual return.

Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) with all distributions reinvested. The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods; returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares or changes in Fund distributions.

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An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is typically a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is equal to the total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 29, 2008

Shares (000)		Credit Rating (Moody s/S&P)*	Value
CONVERTIBLE PREFERRED STOCK 43.1%			
Agriculture 1.9%			
	Bunge Ltd.,		
136	4.875%, 12/31/49	Ba1/BB	\$ 18,615,156
8	5.125%, 12/1/10	NR/BB	8,280,000
			26,895,156
Automotive 2.0%			
	General Motors Corp.,		
785	5.25%, 3/6/32, Ser. B	Caa1/B	14,216,350
700	6.25%, 7/15/33, Ser. C	Caa1/B	13,538,000
			27,754,350
Banking 3.7%			
17	Bank of America Corp., 7.25%, 12/31/49, Ser. L	Aa3/A+	18,695,854
315	Washington Mutual Capital Trust, 5.375%, 5/1/41, Ser. UNIT	Baa3/BBB-	11,047,406
181	Wells Fargo Co., 8.00%, 6/1/08, Ser. AAPL (Apple, Inc.) (e)	Aa1/AA+	21,595,110
			51,338,370
Commercial Services 0.7%			
305	United Rentals, Inc., 6.50%, 8/1/28	B3/B-	10,516,014
Electric 4.6%			
441	AES Trust III, 6.75%, 10/15/29	B3/B-	20,891,550
322	Entergy Corp., 7.625%, 2/17/09	NR/BBB	20,051,760
68	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	24,314,800
			65,258,110
Financial Services 11.7%			
366	Citigroup Funding, Inc., 4.583%, 9/27/08, Ser. GNW (Genworth Financial, Inc.) (d) (e)	Aa3/AA- A2/A	8,724,248
35	Citigroup, Inc., 6.50%, 12/31/49, Ser. T		1,733,788
1,216	Eksportfinans A/S, 13.00%, 11/1/08, Ser. TWX (Time Warner, Inc.) (e)	Aaa/A+	19,037,442
830	Goldman Sachs Group, Inc., 9.75%, 12/19/08, Ser. CSCO (Cisco Systems, Inc.) (e)	Aa3/NR	21,088,432
505	20.00%, 3/6/08, Ser. DISH (Echostar Communications Corp.) (e)	Aa3/NR	15,792,188
281	Lazard Ltd., 6.625%, 5/15/08 Lehman Brothers Holdings, Inc.,	Ba1/NR	9,034,635
892	6.00%, 10/12/10, Ser. GIS (General Mills, Inc.) (e)	A1/A+	21,915,528
255	8.50%, 8/25/08, Ser. UTX (United Technologies Corp.) (e)	A1/A+	17,255,893
139	28.00%, 3/6/09, Ser. RIG (Transocean, Inc.) (e) Morgan Stanley,	A1/A+	19,660,570

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36	20.00%, 3/8/08, Ser. GOOG (Google, Inc.) (e)	Aa3/NR	14,866,702
554	20.00%, 3/24/08, Ser. DIS (The Walt Disney Co.) (e)	Aa3/NR	15,155,966
			164,265,392
	Hand/Machine Tools 1.1%		
18	Stanley Works, 5.125%, 5/17/12 (d)	A2/A	15,656,550

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 29, 2008

Shares (000)		Credit Rating (Moody s/S&P)*	Value
Insurance 3.5%			
629	Metlife, Inc., 6.375%, 8/15/08	NR/BBB+	\$ 18,172,320
687	Platinum Underwriters Holdings Ltd., 6.00%, 2/15/09, Ser. A	NR/BB+	21,211,125
687	XL Capital Ltd., 7.00%, 2/15/09	Baa1/A-	9,793,313
			49,176,758
Investment Company 1.7%			
356	Vale Capital Ltd., 5.50%, 6/15/10, Ser. RIO (Companhia Vale do Rio Doce) (e)	NR/NR	23,951,813
Metals & Mining 1.8%			
169	Freeport-McMoRan Copper & Gold, Inc., 6.75%, 5/1/10	NR/B+	24,899,245
Oil & Gas 1.9%			
203	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	26,486,337
Packaging & Containers 0.8%			
201	Owens-Illinois, Inc., 4.75%, 12/31/49	Caa1/B	11,109,968
Pharmaceuticals 1.0%			
71	Schering-Plough Corp., 6.00%, 8/13/10	Baa3/BBB	14,608,388
Real Estate (REIT) 1.2%			
867	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A	B2/B-	17,214,912
Sovereign 3.1%			
511	Svensk Exportkredit AB, 10.00%, 10/20/08, Ser. TEVA (Teva Pharmaceutical Industries Ltd.) (e)	Aa1/AA+	23,547,630
226	12.50%, 12/12/08, Ser. XOM (Exxon Mobil Corp.) (e)	Aa1/AA+	19,463,836
			43,011,466
Telecommunications 1.3%			
330	Crown Castle International Corp., 6.25%, 8/15/12	NR/NR	18,562,500
Waste Disposal 1.1%			
57	Allied Waste Industries, Inc., 6.25%, 3/1/08, Ser. D	B3/B	14,816,182
	Total Convertible Preferred Stock (cost-\$618,771,333)		605,521,511

CORPORATE BONDS & NOTES 40.0%

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Principal Amount (000)				
\$	11,450	Advertising 0.8% Affinion Group, Inc., 11.50%, 10/15/15	Caa1/B-	10,591,250
	3,990	Apparel 0.7% Levi Strauss & Co., 9.75%, 1/15/15	B2/B+	3,980,025
	6,090	Oxford Industries, Inc., 8.875%, 6/1/11	B1/B	5,876,850
				9,856,875

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments
February 29, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
	Automotive 3.1%		
\$ 7,545	Accuride Corp., 8.50%, 2/1/15	B3/B-	\$ 5,922,825
3,615	American Axle & Manufacturing, Inc., 7.875%, 3/1/17	Ba3/BB	3,117,937
14,195	Exide Technologies, 10.50%, 3/15/13, Ser. B	Caa1/CCC+	13,201,350
12,875	General Motors Corp., 8.375%, 7/15/33	Caa1/B-	9,913,750
10,890	Goodyear Tire & Rubber Co., 11.00%, 3/1/11	Ba3/B+	11,488,950
			43,644,812
	Chemicals 0.4%		
6,165	Momentive Performance Materials, Inc. 9.75%, 12/1/14	B3/B-	5,548,500
	Coal 0.4%		
6,280	James River Coal Co., 9.375%, 6/1/12	Ca/CC	5,840,400
	Commercial Services 1.6%		
13,465	Cenveo Corp., 7.875%, 12/1/13	B3/B	11,546,237
11,060	Hertz Corp., 10.50%, 1/1/16	B2/B	10,562,300
			22,108,537
	Computers 0.6%		
10,325	Unisys Corp., 8.00%, 10/15/12	B2/B+	8,982,750
	Electric 1.9%		
13,275	AES Corp., 9.50%, 6/1/09	B1/B	13,806,000
7,560	Energy Future Holdings Corp., 10.875%, 11/1/17 (a) (b)	B3/CCC+	7,488,936
5,400	Texas Competitive Electric Holdings Co. LLC, 10.25%, 11/1/15 (a) (b)	B3/CCC	5,292,000
			26,586,936
	Electronics 0.9%		
12,170	Stoneridge, Inc., 11.50%, 5/1/12	B2/B	12,535,100
	Financial Services 3.0%		
8,725	AMR Holdings Co., 10.00%, 2/15/15	B1/B-	9,292,125
11,230	E*Trade Financial Corp., 8.00%, 6/15/11	Ba3/B	9,798,175
10,795	Ford Motor Credit Co., 7.00%, 10/1/13	B1/B	8,867,715
9,990	KAR Holdings, Inc., 8.75%, 5/1/14 (a) (b)	B3/CCC	8,991,000
3,655	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	3,856,025
3,770	Residential Capital LLC, 8.375%, 6/30/10	B2/B	2,167,750
			42,972,790
	Healthcare 1.2%		

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6,735	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B-	6,398,250
9,015	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa1/CCC+	9,127,688
1,350	Psychiatric Solutions, Inc., 7.75%, 7/15/15	B3/B-	1,343,250
			16,869,188
	Home Furnishings 1.0%		
10,830	Central Garden & Pet Co., 9.125%, 2/1/13	Caa1/CCC+	8,826,450
7,120	Jarden Corp., 7.50%, 5/1/17	B3/B-	6,274,500
			15,100,950

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments
February 29, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Manufacturing 2.3%			
\$ 13,310	Harland Clarke Holdings Corp., 9.50%, 5/15/15	Caa1/B-	\$ 9,915,950
2,155	Park-Ohio Industries, Inc., 8.375%, 11/15/14	B3/B-	1,740,163
9,710	Polypore, Inc., 8.75%, 5/15/12	Caa1/CCC+	9,273,050
12,115	Sally Holdings LLC, 10.50%, 11/15/16	Caa1/CCC+	11,085,225
			32,014,388
Metals & Mining 1.4%			
8,310	PNA Group, Inc., 10.75%, 9/1/16	B3/B-	7,354,350
12,735	RathGibson, Inc., 11.25%, 2/15/14	B3/B-	12,225,600
			19,579,950
Miscellaneous 0.7%			
9,477	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b) (c)	NR/NR	9,785,003
Multi-Media 1.9%			
14,370	CCH I LLC, 11.00%, 10/1/15	Caa2/CCC	10,059,000
8,220	Mediacom LLC, 9.50%, 1/15/13	B3/B-	7,233,600
10,835	Sirius Satellite Radio, Inc., 9.625%, 8/1/13	Caa2/CCC	8,993,050
			26,285,650
Office Furnishings 0.9%			
5,375	Interface, Inc., 9.50%, 2/1/14	B3/B-	5,563,125
6,600	10.375%, 2/1/10	B1/B+	6,930,000
			12,493,125
Paper Products 1.5%			
10,205	Neenah Paper, Inc., 7.375%, 11/15/14	B2/B+	8,929,375
12,945	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	12,815,550
			21,744,925
Pharmaceuticals 0.1%			
8,530	Leiner Health Products, Inc., 11.00%, 6/1/12	Ca/CC	1,748,650
Pipelines 0.6%			
8,600	Dynegy Holdings, Inc., 7.75%, 6/1/19	B2/B-	8,041,000
Retail 4.8%			
8,250	Bon-Ton Stores, Inc., 10.25%, 3/15/14	Caa1/CCC+	5,568,750
7,550	Burlington Coat Factory Warehouse Corp.,		

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	11.125%, 4/15/14	B3/CCC+	6,153,250
8,405	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa1/CCC	7,858,675
12,825	Michaels Stores, Inc., 10.00%, 11/1/14	B2/CCC	11,269,969
13,355	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B	13,371,694
4,695	R.H. Donnelley, Inc., 8.875%, 1/15/16, Ser. A-3	B3/B	2,817,000
12,785	Rite Aid Corp., 8.625%, 3/1/15	Caa1/CCC+	9,780,525
10,900	Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B	Caa3/CCC	10,954,500
			67,774,363
	Semi-Conductors 0.9%		
3,275	Amkor Technology, Inc., 9.25%, 6/1/16	B1/B	3,199,282
12,405	Freescale Semiconductor, Inc., 10.125%, 12/15/16	B3/B-	8,869,575
			12,068,857
	Software 0.8%		
12,395	First Data Corp., 9.875%, 9/24/15 (a) (b)	B3/B-	10,768,156

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 29, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Telecommunications 6.7%			
\$ 9,705	Centennial Cellular Operating Co., 10.125%, 6/15/13	B2/CCC+	\$ 9,850,575
5,195	Centennial Communications Corp., 10.00%, 1/1/13	Caa1/CCC+	5,039,150
6,060	Cricket Communications, Inc., 9.375%, 11/1/14	Caa1/CCC	5,423,700
13,560	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B	Caa1/CCC	10,509,000
9,925	Intelsat Bermuda Ltd., 11.25%, 6/15/16	Caa2/CCC+	9,937,406
13,555	Level 3 Financing, Inc., 12.25%, 3/15/13	Caa1/CCC+	12,673,925
15,700	Millicom International Cellular S.A., 10.00%, 12/1/13	B1/B+	16,838,250
12,680	Nortel Networks Ltd., 10.75%, 7/15/16	B3/B-	11,982,600
14,220	West Corp., 11.00%, 10/15/16	Caa1/B-	11,980,350
			94,234,956
Theaters 0.9%			
12,940	AMC Entertainment, Inc., 11.00%, 2/1/16	B2/CCC+	12,228,300
Travel Services 0.9%			
14,560	Travelport LLC, 11.875%, 9/1/16	Caa1/CCC+	12,376,000
	Total Corporate Bonds & Notes (cost-\$620,973,420)		561,781,411
CONVERTIBLE BONDS & NOTES 10.6%			
Automotive 1.1%			
15,930	Ford Motor Co., 4.25%, 12/15/36	Caa1/CCC+	15,472,013
Commercial Services 0.6%			
9,100	Bowne & Co., Inc., 5.00%, 10/1/33	B2/B-	8,645,000
Computers 1.3%			
17,355	Maxtor Corp., 6.80%, 4/30/10	Ba1/NR	18,851,869
Electric 0.4%			
1,995	PG&E Corp., 9.50%, 6/30/10	NR/NR	5,276,775
Hotels/Gaming 0.2%			
2,365	Mandalay Resort Group, Inc., 5.66%, 3/21/33 (d) (f)	Ba2/BB	3,346,475
Internet 1.1%			
15,055	Amazon.com, Inc., 4.75%, 2/1/09	Ba2/B+	15,581,925
Oil & Gas 1.5%			
12,755	Devon Energy Corp., 4.95%, 8/15/08	Baa1/BBB	20,694,987
Retail 1.5%			

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21,008	Sonic Automotive, Inc., 5.25%, 5/7/09	B2/B	20,692,880
	Telecommunications 2.9%		
20,550	Level 3 Communications, Inc., 6.00%, 3/15/10	Caa3/CCC	17,570,250
18,885	Nextel Communications, Inc., 5.25%, 1/15/10	Baa3/BBB-	17,657,475
5,567	Nortel Networks Corp., 4.25%, 9/1/08	B3/B-	5,532,206
			40,759,931
	Total Convertible Bonds & Notes (cost-\$149,922,541)		149,321,855

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 29, 2008

Shares (000)		Value
COMMON STOCK 0.0%		
	Computers 0.0%	
	** Hewlett-Packard Co. (cost-\$6)	\$ 6
U.S. GOVERNMENT SECURITIES 2.8%		
Principal Amount (000)		
\$ 25,435	United States Treasury Notes, 12.00%, 8/15/13	26,593,488
10,775	13.25%, 5/15/14	12,229,636
	Total U.S. Government Securities (cost-\$41,897,897)	38,823,124
SHORT-TERM INVESTMENT 3.5%		
	Time Deposit 3.5%	
49,212	Wachovia London, 2.39%, 3/3/08	49,211,552
	(cost-\$49,211,552)	
	Total Investments (cost-\$1,480,776,749) 100.0%	\$ 1,404,659,459

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 29, 2008

Shares (000)		Credit Rating (Moody s/S&P)*	Value
CONVERTIBLE PREFERRED STOCK 43.9%			
Agriculture 2.0%			
	Bunge Ltd.,		
122	4.875%, 12/31/49	Ba1/BB	\$ 16,709,238
8	5.125%, 12/1/10	NR/BB	8,280,000
			24,989,238
Automotive 2.2%			
	General Motors Corp.,		
680	5.25%, 3/6/32, Ser. B	Caa1/B-	12,314,800
750	6.25%, 7/15/33, Ser. C	Caa1/B-	14,505,000
			26,819,800
Banking 3.8%			
15	Bank of America Corp., 7.25%, 12/31/49, Ser. L	Aa3/A+	16,539,878
292	Washington Mutual Capital Trust, 5.375%, 5/1/41, Ser. UNIT	Baa3/BBB-	10,230,508
162	Wells Fargo Co., 8.00%, 6/1/08, Ser. AAPL (Apple, Inc.) (e)	Aa1/AA+	19,352,082
			46,122,468
Commercial Services 0.8%			
287	United Rentals, Inc., 6.50%, 8/1/28	B3/B-	9,895,394
Electric 4.2%			
367	AES Trust III, 6.75%, 10/15/29	B3/B-	17,388,690
273	Entergy Corp., 7.625%, 2/17/09	NR/BBB	17,021,550
48	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	17,088,000
			51,498,240
Financial Services 12.1%			
355	Citigroup Funding, Inc., 4.583%, 9/27/08, Ser. GNW (Genworth Financial, Inc.) (d) (e)	Aa3/AA- A2/A	8,459,624 1,532,300
31	Citigroup, Inc., 6.50%, 12/31/49, Ser. T		
1,101	Eksporthfinans A/S, 13.00%, 11/1/08, Ser. TWX (Time Warner, Inc.) (e)	Aaa/A+	17,222,825
745	Goldman Sachs Group, Inc., 9.75%, 12/19/08, Ser. CSCO (Cisco Systems, Inc.) (e)	Aa3/NR	18,944,255
454	20.00%, 3/6/08, Ser. DISH (Echostar Communications Corp.) (e)	Aa3/NR	14,193,906
253	Lazard Ltd., 6.625%, 5/15/08	Ba1/NR	8,124,070
802	Lehman Brothers Holdings, Inc., 6.00%, 10/12/10, Ser. GIS (General Mills, Inc.) (e)	A1/A+	19,702,099
228	8.50%, 8/25/08, Ser. UTX (United Technologies Corp.) (e)	A1/A+	15,450,745
123	28.00%, 3/6/09, Ser. RIG (Transocean, Inc.) (e)	A1/A+	17,398,860

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	Morgan Stanley,		
32	20.00%, 3/8/08, Ser. GOOG (Google, Inc.) (e)	Aa3/NR	13,342,968
496	20.00%, 3/24/08, Ser. DIS (The Walt Disney Co.) (e)	Aa3/NR	13,567,222
			147,938,874
	Hand/Machine Tools 1.2%		
17	Stanley Works, 5.125%, 5/17/12 (d)	A2/A	14,882,325
	Insurance 3.5%		
526	Metlife, Inc., 6.375%, 8/15/08	NR/BBB+	15,186,950
598	Platinum Underwriters Holdings Ltd., 6.00%, 2/15/09, Ser. A	NR/BB+	18,463,250
635	XL Capital Ltd., 7.00%, 2/15/09	Baa1/A-	9,048,750
			42,698,950

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 29, 2008

Shares (000)		Credit Rating (Moody s/S&P)*	Value
	Investment Company 1.7%		
314	Vale Capital Ltd., 5.50%, 6/15/10, Ser. RIO (Companhia Vale do Rio Doce) (e)	NR/NR	\$ 21,172,594
	Metals & Mining 1.8%		
152	Freeport-McMoRan Copper & Gold, Inc., 6.75%, 5/1/10	NR/B+	22,394,543
	Oil & Gas 1.9%		
179	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	23,249,625
	Packaging & Containers 0.7%		
148	Owens-Illinois, Inc., 4.75, 12/31/49	Caa1/B	8,184,260
	Pharmaceuticals 1.1%		
64	Schering-Plough Corp., 6.00%, 8/13/10	Baa3/BBB	13,162,012
	Real Estate (REIT) 1.2%		
777	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A	B2/B-	15,416,502
	Sovereign 3.2%		
459	Svensk Exportkredit AB, 10.00%, 10/20/08, Ser. TEVA (Teva Pharmaceutical Industries Ltd.) (e)	Aa1/AA+	21,171,433
203	12.50%, 12/12/08, Ser. XOM (Exxon Mobil Corp.) (e)	Aa1/AA+	17,486,067
			38,657,500
	Telecommunications 1.4%		
310	Crown Castle International Corp., 6.25%, 8/15/12	NR/NR	17,437,500
	Waste Disposal 1.1%		
51	Allied Waste Industries, Inc., 6.25%, 3/1/08, Ser. D	B3/B	13,219,385
	Total Convertible Preferred Stock (cost-\$551,112,625)		537,739,210

CORPORATE BONDS & NOTES 39.1%

Principal Amount (000)			
\$ 9,900	Advertising 0.7% Affinion Group, Inc., 11.50%, 10/15/15	Caa1/B-	9,157,500

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Apparel 0.7%			
3,545	Levi Strauss & Co., 9.75%, 1/15/15	B2/B+	3,536,137
5,160	Oxford Industries, Inc., 8.875%, 6/1/11	B1/B	4,979,400
			8,515,537
Automotive 3.0%			
6,455	Accuride Corp., 8.50%, 2/1/15	B3/B-	5,067,175
3,385	American Axle & Manufacturing, Inc., 7.875%, 3/1/17	Ba3/BB	2,919,562
12,120	Exide Technologies, 10.50%, 3/15/13, Ser. B	Caa1/CCC+	11,271,600
11,040	General Motors Corp., 8.375%, 7/15/33	Caa1/B-	8,500,800
9,260	Goodyear Tire & Rubber Co., 11.00%, 3/1/11	Ba3/B+	9,769,300
			37,528,437
Chemicals 0.4%			
5,255	Momentive Performance Materials, Inc. 9.75%, 12/1/14	B3/B-	4,729,500
Coal 0.4%			
5,580	James River Coal Co., 9.375%, 6/1/12	Ca/CC	5,189,400

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 29, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
	Commercial Services 1.5%		
\$ 11,580	Cenveo Corp., 7.875%, 12/1/13	B3/B	\$ 9,929,850
9,440	Hertz Corp., 10.50%, 1/1/16	B2/B	9,015,200
			18,945,050
	Computers 0.6%		
8,925	Unisys Corp., 8.00%, 10/15/12	B2/B+	7,764,750
	Electric 1.8%		
10,895	AES Corp., 9.50%, 6/1/09	B1/B	11,330,800
6,440	Energy Future Holdings Corp., 10.875%, 11/1/17 (a) (b)	B3/CCC+	6,379,464
4,600	Texas Competitive Electric Holdings Co. LLC, 10.25%, 11/1/15 (a) (b)	B3/CCC	4,508,000
			22,218,264
	Electronics 0.9%		
10,335	Stoneridge, Inc., 11.50%, 5/1/12	B2/B	10,645,050
	Financial Services 2.9%		
6,755	AMR Holdings Co., 10.00%, 2/15/15	B1/B-	7,194,075
9,345	E*Trade Financial Corp., 8.00%, 6/15/11	Ba3/B	8,153,512
9,205	Ford Motor Credit Co., 7.00%, 10/1/13	B1/B	7,561,585
8,710	KAR Holdings, Inc., 8.75%, 5/1/14 (a) (b)	B3/CCC	7,839,000
3,223	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	3,400,265
3,230	Residential Capital LLC, 8.375%, 6/30/10	B2/B	1,857,250
			36,005,687
	Healthcare 1.1%		
5,865	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B-	5,571,750
7,985	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa1/CCC+	8,084,813
			13,656,563
	Home Furnishings 1.0%		
9,210	Central Garden & Pet Co., 9.125%, 2/1/13	Caa1/CCC+	7,506,150
6,030	Jarden Corp., 7.50%, 5/1/17	B3/B-	5,313,938
			12,820,088
	Manufacturing 2.2%		
11,265	Harland Clarke Holdings Corp., 9.50%, 5/15/15	Caa1/B-	8,392,425
1,845	Park-Ohio Industries, Inc., 8.375%, 11/15/14	B3/B-	1,489,838
8,290	Polypore, Inc., 8.75%, 5/15/12	Caa1/CCC+	7,916,950

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10,385	Sally Holdings LLC, 10.50%, 11/15/16	Caa1/CCC+	9,502,275
			27,301,488
	Metals & Mining 1.4%		
7,090	PNA Group, Inc., 10.75%, 9/1/16	B3/B-	6,274,650
10,875	RathGibson, Inc., 11.25%, 2/15/14	B3/B-	10,440,000
			16,714,650
	Miscellaneous 0.6%		
6,723	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b) (c)	NR/NR	6,941,497
	Multi-Media 1.9%		
12,791	CCH I LLC, 11.00%, 10/1/15	Caa2/CCC	8,953,700
7,030	Mediacom LLC, 9.50%, 1/15/13	B3/B-	6,186,400
9,165	Sirius Satellite Radio, Inc., 9.625%, 8/1/13	Caa2/CCC	7,606,950
			22,747,050

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 29, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
	Office Furnishings 0.9%		
\$ 4,625	Interface, Inc., 9.50%, 2/1/14	B3/B-	\$ 4,786,875
5,715	10.375%, 2/1/10	B1/B+	6,000,750
			10,787,625
	Paper Products 1.5%		
8,730	Neenah Paper, Inc., 7.375%, 11/15/14	B2/B+	7,638,750
11,055	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	10,944,450
			18,583,200
	Pharmaceuticals 0.1%		
7,235	Leiner Health Products, Inc., 11.00%, 6/1/12	Ca/CC	1,483,175
	Pipelines 0.7%		
8,650	Dynegy Holdings, Inc., 7.75%, 6/1/19	B2/B-	8,087,750
	Retail 4.7%		
7,550	Bon-Ton Stores, Inc., 10.25%, 3/15/14	Caa1/CCC+	5,096,250
6,450	Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/14	B3/CCC+	5,256,750
7,125	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa1/CCC	6,661,875
10,975	Michaels Stores, Inc., 10.00%, 11/1/14	B2/CCC	9,644,281
11,295	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B	11,309,119
4,090	R.H. Donnelley, Inc., 8.875%, 1/15/16, Ser. A-3	B3/B	2,454,000
10,960	Rite Aid Corp., 8.625%, 3/1/15	Caa1/CCC+	8,384,400
9,190	Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B	Caa3/CCC	9,235,950
			58,042,625
	Semi-Conductors 0.9%		
2,925	Amkor Technology, Inc., 9.25%, 6/1/16	B1/B	2,857,374
10,595	Freescale Semiconductor, Inc., 10.125%, 12/15/16	B3/B-	7,575,425
			10,432,799
	Software 0.8%		
10,605	First Data Corp., 9.875%, 9/24/15 (a) (b)	B3/B-	9,213,094
	Telecommunications 6.6%		
8,295	Centennial Cellular Operating Co., 10.125%, 6/15/13	B2/CCC+	8,419,425
4,440	Centennial Communications Corp., 10.00%, 1/1/13	Caa1/CCC+	4,306,800
5,190	Cricket Communications, Inc., 9.375%, 11/1/14	Caa1/CCC	4,645,050
11,640	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15,		

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	Ser. B	Caa1/CCC	9,021,000
8,575	Intelsat Bermuda Ltd., 11.25%, 6/15/16	Caa2/CCC+	8,585,719
12,198	Level 3 Financing, Inc., 12.25%, 3/15/13	Caa1/CCC+	11,405,130
13,510	Millicom International Cellular S.A., 10.00%, 12/1/13	B1/B+	14,489,475
10,820	Nortel Networks Ltd., 10.75%, 7/15/16	B3/B-	10,224,900
12,155	West Corp., 11.00%, 10/15/16	Caa1/B-	10,240,587
			81,338,086
	Theaters 0.9%		
11,060	AMC Entertainment, Inc., 11.00%, 2/1/16	B2/CCC+	10,451,700
	Travel Services 0.9%		
12,440	Travelport LLC, 11.875%, 9/1/16	Caa1/CCC+	10,574,000
	Total Corporate Bonds & Notes (cost-\$532,908,396)		479,874,565

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 29, 2008

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
CONVERTIBLE BONDS & NOTES 10.9%			
	Automotive 1.1%		
\$ 14,260	Ford Motor Co., 4.25%, 12/15/36	Caa1/CCC+	\$ 13,850,025
	Commercial Services 0.8%		
10,125	Bowne & Co., Inc., 5.00%, 10/1/33	B2/B-	9,618,750
	Computers 1.5%		
17,260	Maxtor Corp., 6.80%, 4/30/10	Ba1/NR	18,748,675
	Hotels/Gaming 0.2%		
2,125	Mandalay Resort Group, Inc., 5.66%, 3/21/33 (d) (f)	Ba2/BB	3,006,875
	Internet 1.1%		
13,320	Amazon.com, Inc., 4.75%, 2/1/09	Ba2/B+	13,786,200
	Oil & Gas 1.5%		
11,305	Devon Energy Corp., 4.95%, 8/15/08	Baa1/BBB	18,342,363
	Retail 1.5%		
18,535	Sonic Automotive, Inc., 5.25%, 5/7/09	B2/B	18,256,975
	Telecommunications 3.2%		
20,000	Level 3 Communications, Inc., 6.00%, 3/15/10	Caa3/CCC	17,100,000
16,885	Nextel Communications, Inc., 5.25%, 1/15/10	Baa3/BBB-	15,787,475
5,790	Nortel Networks Corp., 4.25%, 9/1/08	B3/B-	5,753,812
			38,641,287
	Total Convertible Bonds & Notes (cost-\$135,463,145)		134,251,150

COMMON STOCK 0.0%

Shares (000)

	Computers 0.0%		
**	Hewlett-Packard Co. (cost-\$13)		13

U.S. GOVERNMENT SECURITIES 2.7%

Principal Amount (000)

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		United States Treasury Notes,	
\$	21,565	12.00%, 8/15/13	22,547,221
	9,225	13.25%, 5/15/14	10,470,384
		Total U.S. Government Securities (cost-\$35,613,665)	33,017,605

SHORT-TERM INVESTMENT 3.4%

		Time Deposit 3.4%	
	41,086	Wachovia London, 2.39%, 3/3/08 (cost-\$41,085,961)	41,085,961

Total Investments (cost-\$1,296,183,805) **100.0%** **\$1,225,968,504**

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Nicholas-Applegate Convertible & Income Funds Schedule of Investments

February 29, 2008

Notes to Schedules of Investments:

* Unaudited

** Less than 1 share

- (a) 144A Security-Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (b) Private Placement. Restricted as to resale and may not have a readily available market; aggregating \$42,325,095 and \$34,881,055, representing 3.01% and 2.84% of total investments, for Convertible & Income and Convertible & Income II, respectively.
- (c) Credit-linked trust certificate.
- (d) Variable Rate Notes - Instruments whose interest rates change on specified date (such as a coupon date or interest payment date) and/or whose interest rates vary with changes in a designated base rate (such as the prime interest rate.). The interest rate disclosed reflects the rate in effect on February 29, 2008.
- (e) Securities exchangeable or convertible into securities of an entity different than the issuer. Such entity is identified in the parenthetical.
- (f) Fair-valued security Securities with an aggregate value of \$3,346,475, representing 0.24% of total investments, have been fair-valued for Nicholas-Applegate Convertible & Income. Securities with an aggregate value of \$3,006,875, representing 0.25% of total investments, have been fair-valued for Nicholas-Applegate Convertible & Income II.

Glossary:

NR Not Rated

REIT Real Estate Investment Trust

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Nicholas-Applegate Convertible & Income Funds Statements of Assets and Liabilities

February 29, 2008

	Convertible & Income	Convertible & Income II
Assets:		
Investments, at value (cost \$1,480,776,749 and \$1,296,183,805 respectively)	\$ 1,404,659,459	\$ 1,225,968,504
Cash	95,712	85,266
Receivable for investments sold	24,190,207	21,524,633
Interest and dividends receivable	22,811,656	19,823,308
Prepaid expenses	17,539	34,600
Total Assets	1,451,774,573	1,267,436,311
Liabilities:		
Payable for investments purchased	21,468,422	18,846,522
Dividends payable to common and preferred shareholders	9,215,641	7,321,347
Investment management fees payable	788,387	688,703
Accrued expenses	259,252	220,145
Total Liabilities	31,731,702	27,076,717
Preferred Shares (\$0.00001 par value; \$25,000 net asset and liquidation value per share applicable to 21,000 and 20,200 shares issued and outstanding, respectively)	525,000,000	505,000,000
Net Assets Applicable to Common Shareholders	\$ 895,042,871	\$ 735,359,594
Composition of Net Assets Applicable to Common Shareholders:		
Common Stock:		
Par value (\$0.00001 per share applicable to 71,506,712 and 59,407,723 shares issued and outstanding, respectively)	\$ 715	\$ 594
Paid-in-capital in excess of par	1,022,249,998	844,946,435
Dividends in excess of net investment income	(9,861,279)	(2,966,814)
Accumulated net realized loss	(41,229,273)	(36,405,320)
Net unrealized depreciation of investments	(76,117,290)	(70,215,301)

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Net Assets Applicable to Common Shareholders	\$ 895,042,871	\$ 735,359,594
Net Asset Value Per Common Share	\$12.52	\$12.38

See accompanying Notes to Financial Statements | 2.29.08 | Nicholas-Applegate Convertible & Income Funds Annual Report 17

Nicholas-Applegate Convertible & Income Funds Statements of Operations
 For the year ended February 29, 2008

	Convertible & Income	Convertible & Income II
Investment Income:		
Interest	\$ 77,378,012	\$ 66,395,904
Dividends	48,754,095	43,890,258
Other income	1,886,925	1,591,290
Total Investment Income	128,019,032	111,877,452
Expenses:		
Investment management fees	10,827,915	9,509,838
Auction agent fees and commissions	1,341,750	1,284,794
Shareholder communications	211,182	182,268
Custodian and accounting agent fees	192,516	168,360
Excise tax expense		89,476
Trustees fees and expenses	93,030	86,040
Audit and tax services	69,540	69,540
New York Stock Exchange listing fees	59,750	48,816
Legal fees	30,260	30,378
Insurance expense	28,623	25,248
Transfer agent fees	28,600	34,940
Miscellaneous	35,934	28,470
Total expenses	12,919,100	11,558,168
Net Investment Income	115,099,932	100,319,284
Realized and Change in Unrealized Gain (Loss):		
Net realized gain (loss) on:		
Investments	(18,160,351)	(16,792,214)

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Interest rate caps	4,497,648	4,326,310
Net change in unrealized appreciation/depreciation of investments	(133,242,027)	(116,546,458)
Net realized and change in unrealized loss on investments and interest rate caps	(146,904,730)	(129,012,362)
Net Decrease in Net Assets Resulting from Investment Operations	(31,804,798)	(28,693,078)
Dividends on Preferred Shares from Net Investment Income	(27,656,266)	(26,638,794)
Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	\$ (59,461,064)	\$ (55,331,872)

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Nicholas-Applegate Convertible & Income Funds

Statements of Changes in Net Assets Applicable to Common Shareholders

	Convertible & Income		Convertible & Income II	
	Years ended		Years ended	
	February 29, 2008	February 28, 2007	February 29, 2008	February 28, 2007
Investment Operations:				
Net investment income	\$ 115,099,932	\$ 116,181,272	\$ 100,319,284	\$ 98,948,695
Net realized gain (loss) on investments and interest rate caps	(13,662,703)	8,855,409	(12,465,904)	7,117,626
Net change in unrealized appreciation/ depreciation of investments and interest rate caps	(133,242,027)	29,697,863	(116,546,458)	28,469,157
Net increase (decrease) in net assets resulting from investment operations	(31,804,798)	154,734,544	(28,693,078)	134,535,478
Dividends and Distributions on Preferred Shares from:				
Net investment income	(27,656,266)	(24,125,321)	(26,638,794)	(22,519,793)
Net realized gains		(1,803,699)		(2,416,506)
Total dividends and distributions on preferred shares	(27,656,266)	(25,929,020)	(26,638,794)	(24,936,299)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(59,461,064)	128,805,524	(55,331,872)	109,599,179
Dividends and Distributions to Common Shareholders from:				
Net investment income	(106,877,538)	(105,087,315)	(94,900,364)	(82,967,363)
Net realized gains		(13,590,252)		(14,356,454)
Total dividends and distributions to common shareholders	(106,877,538)	(118,677,567)	(94,900,364)	(97,323,817)
Capital Share Transactions:				
Reinvestment of dividends and distributions	11,231,986	22,242,952	6,577,991	15,969,069
Total increase (decrease) in net assets applicable to common shareholders	(155,106,616)	32,370,909	(143,654,245)	28,244,431

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Net Assets Applicable to Common Shareholders:

Beginning of year	1,050,149,487	1,017,778,578	879,013,839	850,769,408
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End of year (including undistributed (dividends in excess of) net investment income of \$(9,861,279), \$(1,602,715); \$(2,966,814) and \$8,330,487 respectively)

\$ 895,042,871	\$ 1,050,149,487	\$ 735,359,594	\$ 879,013,839
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Common shares issued in reinvestment of dividends and distributions

759,819	1,476,599	448,992	1,085,156
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See accompanying Notes to Financial Statements | 2.29.08 | Nicholas-Applegate Convertible & Income Funds Annual Report 19

1. Organization and Significant Accounting Policies

Nicholas-Applegate Convertible & Income Fund (Convertible & Income) and Nicholas-Applegate Convertible & Income Fund II (Convertible & Income II), collectively referred to as the Funds , were organized as Massachusetts business trusts on January 17, 2003 and April 22, 2003, respectively. In December 2005, Convertible & Income II changed its fiscal year end from June 30 to February 28. Prior to commencing operations on March 31, 2003, and July 31, 2003, respectively, the Funds had no operations other than matters relating to their organization and registration as diversified, closed-end management investment companies under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended. Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the Funds' Investment manager and is an indirect wholly-owned subsidiary of Allianz Global Investors of America L.P. (Allianz Global). Allianz Global is an indirect, majority-owned subsidiary of Allianz SE, a publicly traded European insurance and financial services company. The Funds have an unlimited amount of \$0.00001 par value common stock authorized.

Each Fund's investment objective is to provide total return through a combination of capital appreciation and high current income. The Funds attempt to achieve this objective by investing in a portfolio of convertible securities and non-convertible income-producing securities.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations which provide general indemnifications. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet been asserted. However, the Funds expect the risk of any loss to be remote.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (the Interpretation). The Interpretation establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. Fund management has determined that its evaluation of the Interpretation has resulted in no material impact to the Funds' financial statements at February 29, 2008. Each of the Fund's federal tax returns for the prior three fiscal years remains subject to examination by the Internal Revenue Service.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. At this time, the Funds are in the process of reviewing the SFAS 157 against their current valuation policies to determine future applicability.

In March 2008, the Financial Accounting Standards board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures about Funds' derivative and hedging activities. Management is currently evaluating the impact the adoption of SFAS 161 will have on the Funds' financial statement disclosures.

The following is a summary of significant accounting policies followed by the Funds:

(a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Portfolio securities and other financial instruments for which market quotations are not readily available or if a development/event

occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to guidelines established by the Board of Trustees or persons acting at their discretion pursuant to guidelines approved by the Board of Trustees. The Funds investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar

Nicholas-Applegate Convertible & Income Funds

February 29, 2008

Notes to Financial Statements**1. Organization and Significant Accounting Policies (continued)**

characteristics. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days. The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold and the differences could be material to the financial statements. Each Fund's net asset value is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

(b) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on the identified cost basis. Interest income is recorded on an accrual basis. Discounts or premiums on corporate bonds and notes purchased are accreted or amortized, respectively to interest income over the lives of the respective securities using the effective interest method. Payments received from certain investments may be comprised of dividends, realized gains and return of capital upon receipt of information from the issuer. Dividend income is recorded on the ex-dividend date.

(c) Federal Income Taxes

The Funds intend to distribute all of its taxable income and to comply with the other requirements of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

(d) Dividends and Distributions Common Stock

The Funds declare dividends from net investment income monthly to common shareholders. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions to its shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions of paid-in capital in excess of par.

(e) Credit-Linked Trust Certificates

Credit-linked trust certificates are investments in a limited purpose trust or other vehicle formed under state law which, in turn, invests in a basket of derivative instruments, such as credit default swaps, interest rate swaps and other securities, in order to provide exposure to the high yield or another fixed income market.

Similar to an investment in a bond, investments in these credit-linked trust certificates represent the right to receive periodic income payments (in the form of distributions) and payment of principal at the end of the term of the certificate. However, these payments are conditioned on the trusts' receipt of payments from, and the trusts' potential obligations to, the counterparties to the derivative instruments and other securities in which the trusts invest.

(f) Interest Rate Caps

In an interest rate cap, one party pays a fee while the other party pays the excess, if any, of a floating rate over a specified fixed rate. Interest rate caps are intended to manage the Funds' exposure to changes in short-term interest rates and hedge the Auction Preferred Shares. Owning interest rate caps reduces the Funds' duration, making them less sensitive to changes in interest rates from a market value perspective. The effect on distributions involves protection from rising short-term rates, which the Funds experience primarily in the form of leverage. The Funds are exposed to credit loss in the event of non-performance by the other

party to the interest rate cap. Premiums paid by the Funds are recognized as an asset and amortized into realized loss over the life of the interest rate cap. Changes in the value of the interest rate caps are recognized as unrealized appreciation or depreciation. Periodic payments received during periods the floating rate exceeds the specific fixed rate are recognized into realized gain.

(g) Concentration of Risk

It is the Funds' policy to invest a significant portion of their assets in convertible securities. Although convertible securities do derive part of their value from that of the securities into which they are convertible, they are not considered derivative financial instruments. However, certain of the Funds' investments include features which render them more sensitive to price changes in their underlying securities. Consequently, this exposes the Funds to greater downside risk than traditional convertible securities, but still less than that of the underlying common stock.

Nicholas-Applegate Convertible & Income Funds

February 29, 2008

Notes to Financial Statements**2. Investment Manager/Sub-Adviser**

The Funds have entered into Investment Management Agreements (the Agreements) with the Investment Manager. Subject to the supervision of the Funds Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds investment activities, business affairs and administrative matters. Pursuant to the Agreements, the Funds pay the Investment Manager an annual fee, payable on a monthly basis, at the annual rate of 0.70% of the Funds average daily total managed assets. Total managed assets refer to the total assets of each Fund (including assets attributable to any Preferred Shares and borrowings that may be outstanding) minus accrued liabilities (other than liabilities representing borrowings).

The Investment Manager has retained its affiliate, Nicholas-Applegate Capital Management LLC (the Sub-Adviser), to manage the Funds investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds investment decisions. For its services pursuant to Sub-Advisory Agreements, the Investment Manager, and not the Funds, pay the Sub-Adviser an annual fee payable on a monthly basis.

3. Investment in Securities

For the year ended February 29, 2008, purchases and sales of investments, other than short-term securities and U.S. government obligations were:

	Convertible & Income	Convertible & Income II
Purchases	\$ 745,252,592	\$ 658,587,671
Sales	502,367,676	445,192,815

For the year ended February 29, 2008, purchases and sales of U.S. government obligations were:

	Convertible & Income	Convertible & Income II
Purchases	\$ 22,047,483	\$ 18,873,454
Sales		

4. Income Tax Information

The tax character of dividends and distributions paid were:

Convertible & Income:

	Year ended February 29, 2008	Year ended February 28, 2007
Ordinary Income	\$ 134,533,804	\$ 129,212,623
Long-Term Capital Gains	\$	\$ 15,393,964

At February 29, 2008, the Fund had no distributable earnings.

In accordance with U.S. Treasury regulations, Convertible & Income elected to defer net realized capital losses of \$21,404,788, arising after October 31, 2007. Such losses are treated as arising on March 1, 2008.

For the fiscal year ended February 29, 2008, permanent differences are primarily attributable to the differing treatment of premium amortization, convertible preferred securities, consent payments, interest rate cap premium amortization and periodic payments. These adjustments were to decrease dividends in excess of net investment income and to increase accumulated realized loss by \$11,175,308.

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The cost basis of portfolio securities for federal income tax purposes is \$1,488,598,266. Aggregated gross unrealized appreciation for securities in which there is an excess value over tax cost is \$55,527,035; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$139,465,842; net unrealized depreciation for federal income tax purposes is \$(83,938,807). The difference between book and the tax basis unrealized is attributable to wash sales, amortization of premium and the differing treatment of convertible preferred securities.

At February 29, 2008, Convertible & Income had a capital loss carryforward of \$12,792,155, \$(1,830,527 of which will expire in 2015, and \$10,961,628 of which will expire in 2016) available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

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Nicholas-Applegate Convertible & Income Funds**Notes to Financial Statements**

February 29, 2008

4. Income Tax Information (continued)

The tax character of dividends and distributions paid were:

Convertible & Income II:

	Year ended February 29, 2008	Year ended February 28, 2007
Ordinary Income	\$121,539,158	\$105,487,674
Long-Term Capital Gains	\$	\$ 16,772,442

At February 29, 2008, the Fund had no distributable earnings.

In accordance with U.S. Treasury regulations, Convertible & Income II elected to defer net realized capital losses of \$17,089,344, arising after October 31, 2007. Such losses are treated as arising on March 1, 2008.

For the fiscal year ended February 29, 2008, permanent differences are primarily attributable to the differing treatment of premium amortization, convertible preferred securities, consent payments, an interest rate cap premium amortization and periodic payments. These adjustments were to decrease dividends in excess of net investment income and to increase accumulated net realized loss of \$9,922,573.

The cost basis of portfolio securities for federal income tax purposes is \$1,303,619,100. Aggregated gross unrealized appreciation for securities in which there is an excess value over tax cost is \$48,953,602; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$126,604,198; net unrealized depreciation for federal income tax purposes is \$(77,650,596). The difference between book and the tax basis unrealized is attributable to wash sales, amortization of premium and the differing treatment of convertible preferred securities.

At February 29, 2008, Convertible & Income II had a capital loss carryforward of \$13,089,843 (\$1,751,653 of which will expire in 2015, and \$11,338,190 of which will expire in 2016) available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

5. Auction Preferred Shares

Convertible & Income has issued 4,200 shares of Preferred Shares Series A, 4,200 shares of Preferred Shares Series B, 4,200 shares of Preferred Shares Series C, 4,200 shares of Preferred Shares Series D, and 4,200 shares of Preferred Shares Series E each with a liquidation preference value of \$25,000 per share plus accrued dividends.

Convertible & Income II has issued 4,040 shares of Preferred Shares Series A, 4,040 shares of Preferred Shares Series B, 4,040 shares of Preferred Shares Series C, 4,040 shares of Preferred Shares Series D, and 4,040 shares of Preferred Shares Series E each with a liquidation preference value of \$25,000 per share plus accrued dividends.

Dividends are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures. Distributions of net realized long-term gains, if any, are paid annually.

Convertible & Income:

For the fiscal year ended February 29, 2008, the annualized dividend rate ranged from:

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	High	Low	At February 29, 2008
Series A	6.50%	4.30%	4.338%
Series B	7.75%	4.20%	4.368%
Series C	6.35%	4.278%	4.368%
Series D	6.75%	4.20%	4.368%
Series E	7.00%	4.20%	4.473%

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February 29, 2008

Notes to Financial Statements

5. Auction Preferred Shares (continued)

Convertible & Income II:

For the fiscal year ended February 29, 2008, the annualized dividend rate ranged from:

	High	Low	At February 29, 2008
Series A	6.50%	4.00%	4.338%
Series B	7.75%	4.20%	4.368%
Series C	6.35%	4.278%	4.368%
Series D	6.75%	4.30%	4.368%
Series E	7.00%	4.20%	4.473%

The Funds are subject to certain limitations and restrictions while Preferred Shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of Preferred Shares at their liquidation value.

Preferred Shares, which are entitled to one vote per share, generally vote with the common stock but vote separately as a class to elect two Trustees and on any matters affecting the rights of the Preferred Shares.

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds have been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation's closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or alter the credit quality of the ARPS, and ARPS holders have continued to receive dividends at the defined maximum rate the 7-day AA Composite Commercial Paper Rate multiplied by 150% (which is a function of short-term interest rates and typical