

NUVEEN PREFERRED CONVERTIBLE INCOME FUND 2
Form N-Q
November 29, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21333

Nuveen Preferred and Convertible Income Fund 2

(Exact name of registrant as specified in charter)

333 West Wacker Drive, Chicago, Illinois, 60606

Address of principal executive offices) (Zip code)

Jessica R. Droeger Vice President and Secretary

333 West Wacker Drive, Chicago, Illinois, 60606

(Name and address of agent for service)

Registrant's telephone number, including area code: 312-917-7700

Date of fiscal year end: 12/31

Date of reporting period: 09/30/04

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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 the 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. Schedule of Investments

Portfolio of Investments (Unaudited)
Nuveen Preferred and Convertible Income Fund 2 (JQC)
September 30, 2004

Ratings*

Market

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| Shares | Description ⁽¹⁾ | Coupon | Moody's | S&P | Value |
|--|--|--------|---------|------|---------------|
| \$25 PAR (or similar) SECURITIES - 46.1% (31.6% of Total Investments) | | | | | |
| Auto Components - 0.7% | | | | | |
| 557,500 | Delphi Trust I | 8.250% | Baa3 | NR | \$ 14,405,800 |
| Beverages - 0.1% | | | | | |
| 42,500 | Grand Metropolitan Delaware LP | 9.420% | NR | BBB+ | 1,088,000 |
| Commercial Banks - 14.8% | | | | | |
| 53,700 | Abbey National plc | 7.250% | A1 | NR | 1,404,255 |
| 301,600 | Abbey National plc | 7.375% | A2 | A | 8,034,624 |
| 34,200 | Abbey National plc, Series B | 7.375% | A2 | A | 924,768 |
| 863,770 | ABN AMRO Capital Fund Trust V | 5.900% | A2 | A | 20,419,523 |
| 96,400 | ABN AMRO Capital Fund Trust VI | 6.250% | A2 | NR | 2,409,036 |
| 111,600 | ASBC Capital I | 7.625% | Baa1 | BBB- | 2,990,880 |
| 203,410 | BAC Capital Trust I | 7.000% | Aa3 | A- | 5,331,376 |
| 560,200 | BAC Capital Trust II | 7.000% | Aa3 | A- | 14,789,280 |
| 163,900 | BAC Capital Trust III | 7.000% | Aa3 | A- | 4,338,433 |
| 1,150,000 | Banco Santander SA, 144A | 6.410% | A2 | BBB+ | 28,352,100 |
| 71,750 | Banco Totta & Acores Finance, Series A | 8.875% | A3 | NR | 1,917,074 |
| 19,000 | BancWest Capital I | 9.500% | A3 | A- | 516,800 |
| 5,200 | Bank One Capital I | 8.000% | A1 | A- | 131,976 |
| 15,700 | Bank One Capital II | 8.500% | A1 | A- | 414,794 |
| 167,700 | Bank One Capital Trust VI | 7.200% | A1 | A- | 4,460,820 |
| 32,200 | Bank One Capital V | 8.000% | A1 | A- | 858,130 |
| 51,400 | BankNorth Capital Trust II | 8.000% | Baa1 | BB+ | 1,377,520 |
| 5,400 | BBVA Preferred Capital Ltd., Series B | 7.750% | A1 | A- | 142,290 |
| 1,700 | BCH Capital Ltd., Series B | 9.430% | A2 | BBB+ | 45,016 |
| 27,000 | BNY Capital Trust IV, Series E | 6.875% | A1 | A- | 681,750 |
| 306,984 | BNY Capital Trust V, Series F | 5.950% | A1 | A- | 7,557,946 |
| 56,300 | BSCH Finance Ltd., Series Q | 8.625% | A2 | BBB+ | 1,486,320 |
| 145,800 | Chittenden Capital Trust I | 8.000% | Baa1 | BB+ | 3,924,936 |
| 25,500 | CIT Group Incorporated (CORTS) | 7.750% | A3 | BBB+ | 690,795 |
| 268,800 | Citigroup Capital Trust IX | 6.000% | Aa2 | A | 6,666,240 |
| 30,200 | Citigroup Capital Trust VI | 6.875% | Aa2 | A | 762,852 |
| 186,200 | Citigroup Capital Trust VII | 7.125% | Aa2 | A | 4,910,094 |
| 1,006,400 | Citigroup Capital Trust VIII | 6.950% | Aa2 | A | 26,357,616 |
| 24,000 | Citigroup Inc., Series H (a) | 6.231% | Aa3 | NR | 1,318,800 |
| 146,500 | Cobank ABC, 144A (a) | 7.000% | NR | NR | 8,035,818 |
| 108,000 | Comerica Capital Trust I | 7.600% | A3 | BBB+ | 2,814,480 |
| 196,300 | Compass Capital Trust III | 7.350% | A3 | BBB- | 5,209,802 |
| 30,800 | CSFB USA, Series 2002-10 (SATURNS) | 7.000% | Aa3 | A+ | 815,584 |
| 41,700 | Fannie Mae (a) | 5.125% | Aa3 | NR | 1,872,330 |
| 49,000 | First Union Capital II, Series II (CORTS) | 7.500% | A1 | BBB+ | 1,294,090 |
| 22,600 | First Union Institutional Capital II (CORTS) | 8.200% | A1 | BBB+ | 644,100 |
| 18,800 | First Union Institutional Capital II, Series III (CORTS) | 7.500% | A1 | BBB+ | 484,100 |
| 18,900 | Fleet Capital Trust II (CORTS) | 8.000% | Aa3 | A- | 505,008 |
| 4,400 | Fleet Capital Trust VI | 8.800% | Aa3 | A- | 114,840 |
| 512,200 | Fleet Capital Trust VII | 7.200% | Aa3 | A- | 13,445,250 |
| 430,300 | Fleet Capital Trust VIII | 7.200% | Aa3 | A- | 11,329,799 |
| 12,300 | Goldman Sachs Group Inc., Series 2003-06 (SATURNS) | 6.000% | NR | A+ | 297,537 |
| 43,200 | JPM Capital Trust (CORTS) | 7.200% | A2 | A- | 1,135,728 |
| 9,900 | JPM Capital Trust I, Series 2001-1, Class A-1 (CORTS) | 7.850% | A1 | NR | 263,241 |
| 71,965 | JPMorgan Chase & Company (PCARS) | 7.125% | A2 | A- | 1,877,567 |
| 22,000 | JPMorgan Chase Capital Trust IX, Series I | 7.500% | A1 | A- | 583,000 |
| 712,420 | JPMorgan Chase Capital Trust X | 7.000% | A1 | NR | 18,693,901 |
| 73,600 | JPMorgan Chase Trust, Series 2002-6, Class A (SATURNS) | 7.125% | A1 | A- | 1,931,632 |
| 35,000 | KeyCorp (PCARS) | 7.500% | A3 | NR | 943,950 |
| 27,700 | KeyCorp, Series 2001-7 (CORTS) | 7.750% | A3 | BBB | 731,834 |
| 34,300 | KeyCorp, Series B (CORTS) | 8.250% | A3 | BBB | 915,810 |
| 84,900 | National Commerce Capital Trust II | 7.700% | A1 | A- | 2,271,924 |
| 63,900 | National Westminster Bank plc, Series A | 7.875% | Aa2 | A+ | 1,642,230 |
| 21,700 | ONB Capital Trust II | 8.000% | Baa2 | BB+ | 591,325 |
| 53,300 | PNC Capital Trust | 6.125% | A3 | BBB | 1,311,713 |
| 26,000 | Regions Finance Trust I | 8.000% | A2 | BBB+ | 694,200 |
| 300,700 | Royal Bank of Scotland Group plc, Series L | 5.750% | NR | NR | 7,123,583 |

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|---------|--|--------|------|-----|------------|
| 139,200 | SunTrust Capital Trust IV | 7.125% | A1 | A- | 3,655,392 |
| 108,900 | SunTrust Capital Trust V | 7.050% | A1 | A- | 2,845,557 |
| 13,600 | UBS Preferred Funding Trust III | 7.250% | A1 | AA- | 357,952 |
| 662,100 | USB Capital Trust III | 7.750% | A1 | A- | 17,578,755 |
| 328,500 | USB Capital Trust IV | 7.350% | A1 | A- | 8,695,395 |
| 288,200 | USB Capital Trust V | 7.250% | A1 | A- | 7,559,486 |
| 39,100 | VNB Capital Trust I | 7.750% | Baa1 | BBB | 1,039,278 |
| 45,800 | Washington Mutual Capital Trust I, Series 2001-22, Class A-1 (CORTS) | 7.650% | Baa1 | BBB | 1,208,204 |
| 40,000 | Wells Fargo Capital Trust IV | 7.000% | Aa2 | A | 1,056,400 |
| 420,800 | Wells Fargo Capital Trust V | 7.000% | Aa2 | A | 10,974,464 |
| 109,000 | Wells Fargo Capital Trust VI | 6.950% | Aa2 | A- | 2,852,530 |
| 236,550 | Wells Fargo Capital Trust VII | 5.850% | Aa2 | A | 5,752,896 |
| 117,300 | Zions Capital Trust B | 8.000% | Baa1 | BB+ | 3,192,906 |

Computers & Peripherals - 0.1%

| | | | | | |
|--------|-----------------------------------|--------|----|----|---------|
| 16,400 | IBM Inc. (CORTS) | 7.125% | A1 | A+ | 431,976 |
| 27,700 | IBM Inc., Series 2001-1 (SATURNS) | 7.125% | A1 | A+ | 728,787 |
| 10,100 | IBM Trust II (CORTS) | 7.125% | A1 | A+ | 265,075 |
| 18,300 | IBM Trust IV (CORTS) | 7.000% | NR | A+ | 485,865 |

Consumer Finance - 0.8%

| | | | | | |
|---------|-------------------------------------|---------|------|------|-----------|
| 68,400 | Countrywide Capital III (PPLUS) | 8.050% | Baa1 | BBB+ | 1,862,532 |
| 10,800 | Household Capital Trust V, Series X | 10.000% | A3 | BBB+ | 284,580 |
| 40,900 | Household Capital Trust VI | 8.250% | A3 | BBB+ | 1,104,709 |
| 98,100 | Household Capital Trust VII | 7.500% | A3 | BBB+ | 2,628,099 |
| 15,200 | SLM Corporation | 6.000% | A2 | A | 370,728 |
| 174,000 | SLM Corporation, Series A (a) | 6.970% | Baa1 | BBB+ | 9,961,500 |

Diversified Financial Services - 4.9%

| | | | | | |
|---------|---|--------|------|------|------------|
| 112,800 | Bear Stearns Capital Trust III | 7.800% | A2 | BBB | 3,010,632 |
| 107,600 | Bear Stearns Companies, Series G (a) | 5.490% | A3 | NR | 5,433,800 |
| 75,900 | Countrywide Capital Trust II, Series II (CORTS) | 8.000% | Baa1 | BBB+ | 2,015,904 |
| 666,500 | Countrywide Capital Trust IV | 6.750% | Baa1 | BBB+ | 16,815,795 |
| 67,100 | Fannie Mae (a) | 4.750% | Aa3 | NR | 2,761,165 |
| 15,000 | Federal Home Loan Mortgage Corporation (a) | 5.000% | Aa3 | AA- | 655,500 |
| 26,000 | Federal Home Loan Mortgage Corporation (a) | 5.100% | Aa3 | AA- | 1,139,320 |
| 40,100 | General Electric Capital Corporation | 6.625% | Aaa | AAA | 1,055,031 |
| 53,000 | Household Finance Corporation | 6.875% | A1 | A | 1,393,900 |
| 101,700 | KeyCorp Capital Trust V | 5.875% | A3 | BBB | 2,457,072 |
| 106,800 | Lehman Brothers Holdings Inc., Series D (a) | 5.670% | A3 | NR | 5,372,040 |
| 198,350 | Lehman Brothers Holdings Inc., Series C (a) | 5.940% | NR | BBB+ | 10,110,891 |
| 425,000 | Lehman Brothers Holdings Inc., Series F (a) | 6.500% | NR | BBB+ | 11,169,000 |
| 231,000 | Merrill Lynch Capital Trust | 7.000% | A1 | A- | 6,063,750 |
| 71,500 | Merrill Lynch Capital Trust II | 8.000% | A1 | A- | 1,957,670 |
| 185,300 | Merrill Lynch Preferred Capital Trust IV | 7.120% | A1 | A- | 4,912,303 |
| 47,800 | Merrill Lynch Preferred Capital Trust | 7.750% | A1 | A- | 1,285,342 |
| 278,400 | Merrill Lynch Preferred Capital Trust V | 7.280% | A1 | A- | 7,516,800 |
| 115,080 | Morgan Stanley (PPLUS) | 7.050% | Aa3 | A+ | 2,948,350 |
| 211,850 | Morgan Stanley Capital Trust II | 7.250% | A1 | A- | 5,567,418 |
| 203,200 | Morgan Stanley Capital Trust III | 6.250% | A1 | A- | 5,045,456 |
| 137,900 | Morgan Stanley Capital Trust IV | 6.250% | A1 | A- | 3,403,372 |

Diversified Telecommunication Services - 0.6%

| | | | | | |
|--------|--|--------|------|------|-----------|
| 55,900 | AT&T Wireless, Series 2002-7 (CORTS) | 8.000% | Baa2 | BBB | 1,475,760 |
| 34,200 | BellSouth Capital Funding (CORTS) | 7.100% | A1 | A | 884,070 |
| 11,900 | BellSouth Corporation (CORTS) | 7.000% | Aa3 | A | 312,078 |
| 17,300 | BellSouth Corporation, CABCO Trust | 9.750% | NR | A | 432,327 |
| 48,600 | BellSouth Corporation, Series 2001-3 (SATURNS) | 7.125% | A1 | NR | 1,257,282 |
| 30,800 | BellSouth Inc. (CORTS) | 7.000% | Aa3 | NR | 810,656 |
| 70,600 | BellSouth Telecommunications | 7.300% | Aa3 | A | 1,881,490 |
| 57,900 | Deutsche Telekom International Finance B.V., Series 2001-24, Class A-1 (CORTS) | 7.875% | Baa2 | BBB+ | 1,531,455 |
| 50,000 | SBC Communications Inc. | 7.000% | A1 | A | 1,302,000 |
| 26,300 | Verizon Communications (CORTS) | 7.625% | A2 | A+ | 716,675 |
| 50,700 | Verizon New England Inc., Series B | 7.000% | Aa3 | NR | 1,329,861 |
| 29,900 | Verizon South Inc., Series F | 7.000% | A1 | A+ | 781,287 |

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|---|--|--------|------|------|------------|
| Electric Utilities - 0.7% | | | | | |
| 5,000 | Consolidated Edison Company | 7.250% | A2 | A- | 133,000 |
| 12,000 | Consolidated Edison Company of New York Inc. | 7.500% | A1 | A | 318,360 |
| 4,000 | Detroit Edison Company | 7.375% | Baa2 | BBB- | 101,360 |
| 50,400 | Dominion CNG Capital Trust I | 7.800% | Baa1 | BBB- | 1,348,200 |
| 30,700 | Dominion Resources Capital Trust II | 8.400% | Baa2 | NR | 827,058 |
| 21,100 | DTE Energy Trust I | 7.800% | Baa3 | BBB- | 560,627 |
| 27,400 | Entergy Louisiana Inc. | 7.600% | Baa1 | A- | 732,128 |
| 6,600 | Entergy Mississippi Inc. | 7.250% | Baa2 | A- | 175,560 |
| 3,000 | Georgia Power Capital Trust V | 7.125% | A3 | BBB+ | 79,020 |
| 130,000 | Interstate Power and Light Company (a) | 7.100% | Baa3 | BBB- | 3,526,250 |
| 11,000 | Mississippi Power Capital Trust II | 7.200% | A2 | BBB+ | 289,300 |
| 33,600 | Northern States Power Company | 8.000% | A3 | BBB- | 912,240 |
| 1,500 | OGE Energy Capital Trust I | 8.375% | Baa2 | BBB- | 38,250 |
| 29,900 | Southern Company Capital Trust I (CORTS) | 7.375% | Baa1 | BBB+ | 778,895 |
| 10,900 | Southern Company Capital Trust I (CORTS) | 8.190% | Baa1 | BBB+ | 305,200 |
| 13,100 | Southern Company Capital Trust VI | 7.125% | Baa1 | BBB+ | 345,185 |
| 122,300 | Virginia Power Capital Trust | 7.375% | Baa1 | BBB | 3,289,870 |
| <hr/> | | | | | |
| Food Products - 0.4% | | | | | |
| 75,000 | Dairy Farmers of America Inc., 144A (a) | 7.875% | Baa3 | NR | 7,800,000 |
| <hr/> | | | | | |
| Gas Utilities - 0.1% | | | | | |
| 75,300 | AGL Capital Trust II | 8.000% | Baa2 | BBB | 2,000,721 |
| <hr/> | | | | | |
| Healthcare Providers & Services - 0.8% | | | | | |
| 587,500 | Aetna Incorporated | 8.500% | Baa2 | BBB | 15,809,625 |
| <hr/> | | | | | |
| Industrial Conglomerates - 0.0% | | | | | |
| 33,900 | Philadelphia Authority for Industrial Development, Pennsylvania, Pension Funding Bonds, Series 1999C | 6.550% | NR | AAA | 850,890 |
| <hr/> | | | | | |
| Insurance - 9.5% | | | | | |
| 157,500 | ACE Capital Trust I, Series 1999 | 8.875% | Baa1 | BBB- | 4,032,000 |
| 1,337,883 | Ace Ltd., Series C | 7.800% | Baa2 | BBB- | 35,989,053 |
| 5,100 | Allstate Corporation (PCARS) | 7.150% | A2 | A- | 133,110 |
| 87,300 | AMBAC Financial Group Inc. | 5.950% | Aa2 | AA | 2,149,326 |
| 674,601 | Delphi Financial Group Inc. | 8.000% | Ba1 | BBB | 17,883,673 |
| 172,556 | EverestRe Capital Trust II | 6.200% | Baa1 | BBB | 4,049,889 |
| 87,500 | EverestRe Group Limited | 7.850% | Baa1 | BBB | 2,397,500 |
| 9,900 | Financial Security Assurance Holdings | 6.875% | Aa2 | AA | 257,697 |
| 20,200 | Great-West L&A Capital Trust I, Series A | 7.250% | A3 | A- | 508,030 |
| 284,500 | Hartford Capital Trust III, Series C | 7.450% | Baa1 | BBB | 7,422,605 |
| 40,400 | Hartford Life Capital Trust II, Series B | 7.625% | Baa1 | BBB | 1,065,348 |
| 5,000 | ING Capital Funding Trust II | 9.200% | A2 | A- | 133,300 |
| 722,775 | ING Group NV | 7.050% | NR | A- | 18,886,111 |
| 584,220 | ING Group NV | 7.200% | A2 | A- | 15,540,252 |
| 53,400 | Lincoln National Capital Trust V, Series E | 7.650% | Baa1 | BBB | 1,415,100 |
| 1,402,300 | Lincoln National Capital Trust VI | 6.750% | Baa1 | BBB | 36,810,375 |
| 3,600 | MBIA Inc. | 8.000% | Aa2 | AA | 96,156 |
| 78,200 | PartnerRe Limited | 7.900% | A3 | BBB+ | 2,103,580 |
| 900,702 | PartnerRe Limited, Series C | 6.750% | Baa1 | NR | 22,904,852 |
| 74,400 | PLC Capital Trust III | 7.500% | Baa1 | BBB+ | 1,953,744 |
| 67,200 | PLC Capital Trust IV | 7.250% | Baa1 | BBB+ | 1,773,408 |
| 13,800 | PLC Capital Trust V | 6.125% | Baa1 | BBB+ | 335,202 |
| 36,200 | Prudential plc | 6.750% | Baa1 | A | 920,566 |
| 113,900 | RenaissanceRe Holdings Ltd., Series A | 8.100% | NR | NR | 3,059,354 |
| 124,700 | RenaissanceRe Holdings Ltd., Series B | 7.300% | Baa2 | NR | 3,298,315 |
| 24,900 | Safeco Capital Trust I (CORTS) | 8.700% | Baa2 | BBB- | 667,818 |
| 20,900 | Safeco Capital Trust I (CORTS) | 8.750% | Baa2 | BBB- | 627,000 |
| 20,100 | Safeco Capital Trust I, Series 2001-4 (CORTS) | 8.750% | Baa2 | BBB- | 537,675 |
| 39,800 | Safeco Capital Trust III (CORTS) | 8.072% | NR | BBB- | 1,062,660 |
| 16,300 | Safeco Capital Trust IV (CORTS) | 8.375% | NR | BBB- | 442,056 |
| 37,300 | Safeco Corporation, Series 2001-7 (SATURNS) | 8.250% | Baa2 | BBB- | 1,005,981 |
| 37,300 | Safeco Corporation, Series 2002-5 (SATURNS) | 8.250% | Baa2 | BBB- | 999,640 |
| 52,300 | Torchmark Capital Trust I | 7.750% | Baa1 | A- | 1,407,916 |
| 118,100 | W.R. Berkley Capital Trust, Series 2002-1 (CBTCS) | 8.125% | Baa3 | BBB- | 1,268,394 |

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|---|--|--------|------|------|-------------|
| 66,800 | XL Capital Ltd., Series A | 8.000% | A3 | NR | 1,824,976 |
| 101,100 | XL Capital Ltd., Series B | 7.625% | A3 | NR | 2,734,755 |
| <hr/> | | | | | |
| Media - 0.1% | | | | | |
| 52,700 | Viacom Inc. | 7.300% | A3 | A- | 1,380,740 |
| <hr/> | | | | | |
| Multi-Utilities & Unregulated Power - 0.1% | | | | | |
| 85,200 | Energy East Capital Trust I | 8.250% | Baa3 | BBB- | 2,273,988 |
| <hr/> | | | | | |
| Oil & Gas - 0.9% | | | | | |
| 685,000 | Nexen Inc. | 7.350% | Baa3 | BBB- | 18,351,150 |
| <hr/> | | | | | |
| Pharmaceuticals - 0.1% | | | | | |
| 50,000 | Bristol Myers Squibb Company (CORTS) | 6.250% | A1 | NR | 1,272,500 |
| 16,900 | Rhone-Poulenc Overseas, Series A | 8.125% | A3 | BBB | 432,809 |
| <hr/> | | | | | |
| Real Estate - 10.7% | | | | | |
| 318,355 | AMB Property Corporation, Series L | 6.500% | Baa2 | BBB- | 7,892,020 |
| 77,100 | AvalonBay Communities, Inc., Series H | 8.700% | Baa2 | BBB | 2,166,510 |
| 220,400 | BRE Properties, Series B | 8.080% | Baa3 | BBB- | 5,818,560 |
| 1,166,500 | CarrAmerica Realty Corporation, Series E | 7.500% | Baa3 | BBB- | 30,982,240 |
| 1,279,845 | Developers Diversified Realty Corporation, Series H | 7.375% | NR | BBB- | 32,648,846 |
| 104,100 | Developers Diversified Realty Corporation, Series G | 8.000% | NR | BBB- | 2,747,199 |
| 21,100 | Duke Realty Corporation, Series K | 6.500% | Baa2 | BBB | 517,794 |
| 98,000 | Duke-Weeks Realty Corporation | 6.625% | Baa2 | NR | 2,441,180 |
| 25,000 | Duke-Weeks Realty Corporation, Series B | 7.990% | Baa2 | NR | 1,364,845 |
| 5,400 | Duke-Weeks Realty Corporation, Series I | 8.450% | Baa2 | BBB | 142,614 |
| 192,100 | Equity Office Properties Trust, Series G | 7.750% | Baa3 | BBB | 5,134,833 |
| 467,489 | Equity Residential Properties Trust, Series N | 6.480% | NR | BBB | 11,570,353 |
| 15,400 | Equity Residential Properties Trust, Series D | 8.600% | Baa2 | NR | 424,886 |
| 3,200 | Equity Residential Properties Trust, Series C | 9.125% | Baa2 | NR | 87,552 |
| 11,600 | First Industrial Realty Trust, Inc., Series C | 8.625% | Baa3 | NR | 326,888 |
| 93,676 | Gables Residential Trust, Series D | 7.500% | Baa3 | BBB- | 2,440,260 |
| 423,729 | HRPT Properties Trust, Series A | 9.875% | Baa3 | BBB- | 11,559,327 |
| 458,600 | HRPT Properties Trust, Series B | 8.750% | Baa3 | BBB- | 12,506,022 |
| 99,400 | New Plan Excel Realty Trust, Series E | 7.625% | NR | BBB- | 2,582,412 |
| 3,997 | Prologis Trust, Series C | 8.540% | Baa2 | BBB | 238,446 |
| 96,075 | Prologis Trust, Series G | 6.750% | NR | BBB | 2,391,307 |
| 92,600 | PS Business Parks Inc. | 7.000% | Ba1 | BBB- | 2,268,700 |
| 240,000 | PS Business Parks Inc., Series L | 7.600% | Ba1 | BBB- | 6,122,400 |
| 31,000 | Public Storage Inc., Series Q | 8.600% | Baa2 | NR | 827,080 |
| 147,450 | Public Storage Inc., Series R | 8.000% | Baa2 | BBB+ | 3,895,629 |
| 50,060 | Public Storage Inc., Series S | 7.875% | Baa2 | BBB+ | 1,321,083 |
| 42,000 | Public Storage Inc., Series T | 7.625% | Baa2 | BBB+ | 1,093,680 |
| 173,800 | Public Storage Inc., Series U | 7.625% | Baa2 | BBB+ | 4,562,250 |
| 31,500 | Public Storage Inc., Series V | 7.500% | Baa2 | NR | 834,750 |
| 166,100 | Regency Centers Corporation | 7.450% | Baa3 | BBB- | 4,390,023 |
| 20,500 | Simon Property Group, Inc., Series F | 8.750% | Baa2 | BBB- | 553,295 |
| 15,100 | Simon Property Group, Inc., Series G | 7.890% | Baa2 | BBB | 802,112 |
| 4,500 | Vornado Realty Trust, Series C | 8.500% | Ba1 | BBB- | 115,875 |
| 1,987,734 | Wachovia Preferred Funding Corporation | 7.250% | A2 | BBB+ | 54,960,845 |
| 130,000 | Weingarten Realty Trust, Series E | 6.950% | Baa1 | A- | 3,341,000 |
| <hr/> | | | | | |
| Specialty Retail - 0.0% | | | | | |
| 26,400 | Sherwin Williams Company, Series III (CORTS) | 7.250% | A2 | A | 695,640 |
| <hr/> | | | | | |
| Wireless Telecommunication Services - 0.7% | | | | | |
| 28,000 | AT&T Wireless Services Equity, Series 2002-B (SATURNS) | 9.250% | Baa2 | BBB | 772,800 |
| 111,100 | Telephone and Data Systems Inc. | 7.600% | Baa1 | A- | 2,925,263 |
| 340,000 | United States Cellular Corporation | 7.500% | Baa1 | A- | 8,925,000 |
| 48,900 | United States Cellular Corporation | 8.750% | Baa1 | NR | 1,369,689 |
| 47,300 | Verizon Communications (CORTS) | 7.375% | NR | A+ | 1,267,167 |
| <hr/> | | | | | |
| Total \$25 Par (or similar) Securities (cost \$949,716,641) | | | | | 954,641,456 |

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CONVERTIBLE PREFERRED SECURITIES - 18.9% (13.0% of

Total Investments)

Aerospace & Defense - 0.4%

| | | | | | | |
|--------|------------------------------|--------|----------|----|----|-----------|
| 77,800 | Northrop Grumman Corporation | 7.250% | 11/16/04 | NR | NR | 8,048,410 |
|--------|------------------------------|--------|----------|----|----|-----------|

Automobiles - 0.7%

| | | | | | | |
|---------|-------------------------------------|--------|---------|------|----|------------|
| 278,685 | Ford Motor Company Capital Trust II | 6.500% | 1/15/32 | Baa2 | BB | 14,569,652 |
|---------|-------------------------------------|--------|---------|------|----|------------|

Chemicals - 0.5%

| | | | | | | |
|--------|-----------------|--------|---------|------|----|-----------|
| 84,400 | IMC Global Inc. | 7.500% | 7/01/06 | Caa1 | NR | 9,874,800 |
|--------|-----------------|--------|---------|------|----|-----------|

Commercial Banks - 2.2%

| | | | | | | |
|---------|--|--------|----------|------|-----|------------|
| 162,000 | Affiliated Managers Group Inc. | 6.000% | 11/17/04 | NR | NR | 4,115,610 |
| 394,500 | Goldman Sachs Group Inc., Series EMC | 6.125% | 9/29/05 | NR | NR | 4,616,439 |
| 273,600 | National Australia Bank Limited | 7.875% | 12/31/49 | NR | NR | 9,280,512 |
| 45,600 | Provident Financial Group Incorporated | 9.000% | 8/17/05 | NR | NR | 1,716,840 |
| 217,375 | Sovereign Capital Trust IV, Convertible Security | 4.375% | 3/01/34 | Ba1 | BB- | 10,569,859 |
| 29,725 | State Street Corporation | 6.750% | 2/15/06 | NR | BB+ | 5,923,895 |
| 157,500 | Washington Mutual Inc., Unit 1 Trust | 5.375% | 5/01/41 | Baa1 | BBB | 8,656,043 |

Communications Equipment - 1.3%

| | | | | | | |
|---------|-------------------------------------|--------|----------|------|------|------------|
| 9,200 | Lucent Technologies Capital Trust I | 7.750% | 3/15/17 | Caa1 | CCC- | 10,286,796 |
| 200,100 | Motorola Inc. | 7.000% | 11/16/04 | Baa3 | NR | 10,021,008 |
| 115 | Nortel Networks Corp. | 7.000% | 8/15/05 | NR | NR | 7,056,603 |

Construction Materials - 0.5%

| | | | | | | |
|---------|---------------------|--------|---------|----|----|------------|
| 216,700 | TXI Capital Trust I | 6.500% | 6/30/28 | B3 | B- | 10,551,123 |
|---------|---------------------|--------|---------|----|----|------------|

Consumer Finance - 0.1%

| | | | | | | |
|--------|-----------------------------------|--------|---------|------|------|-----------|
| 45,000 | Capital One Financial Corporation | 6.250% | 5/17/05 | Baa3 | BBB- | 2,382,300 |
|--------|-----------------------------------|--------|---------|------|------|-----------|

Containers & Packaging - 0.4%

| | | | | | | |
|---------|--------------------|--------|---------|------|-----|-----------|
| 149,000 | Temple Inland Inc. | 7.500% | 5/17/05 | Baa3 | BBB | 8,430,420 |
|---------|--------------------|--------|---------|------|-----|-----------|

Diversified Financial Services - 0.9%

| | | | | | | |
|---------|-------------------------------|--------|---------|------|-----|------------|
| 281,600 | Citigroup Global Markets | 2.000% | 7/01/06 | Aa1 | NR | 11,273,856 |
| 309,000 | Gabelli Asset Management Inc. | 6.950% | 2/17/05 | Baa2 | BBB | 7,774,440 |

Electric Utilities - 1.9%

| | | | | | | |
|---------|---------------------------------|---------|----------|------|------|------------|
| 86,975 | Aquila Inc. | 6.750% | 9/15/07 | B2 | B- | 2,661,435 |
| 260,000 | Centerpoint Energy Inc. | 2.000% | 9/15/29 | Ba2 | BBB- | 8,580,000 |
| 197,500 | Dominion Resources Inc. | 8.750% | 5/15/06 | Baa1 | BBB+ | 10,684,750 |
| 154,500 | FPL Group Inc. | 8.000% | 2/16/06 | NR | A- | 8,647,365 |
| 151,300 | Public Service Enterprise Group | 10.250% | 11/16/05 | Baa3 | NR | 8,858,615 |

Electronic Equipment & Instruments - 0.7%

| | | | | | | |
|---------|----------------------------------|--------|----------|----|----|------------|
| 60,775 | General Cable Corporation, 144A | 5.750% | 11/24/13 | NR | NR | 4,087,119 |
| 182,200 | Pioneer-Standard Financial Trust | 6.750% | 3/31/28 | B2 | NR | 10,203,200 |

Food & Staples Retailing - 0.3%

| | | | | | | |
|---------|-----------------|--------|---------|------|----|-----------|
| 257,025 | Albertsons Inc. | 7.250% | 5/16/07 | Baa2 | NR | 6,656,948 |
|---------|-----------------|--------|---------|------|----|-----------|

Gas Utilities - 0.5%

| | | | | | | |
|---------|---------------|--------|---------|----|------|-----------|
| 320,750 | Sempra Energy | 8.500% | 5/17/05 | NR | BBB+ | 9,930,420 |
|---------|---------------|--------|---------|----|------|-----------|

Healthcare Equipment & Supplies - 0.6%

| | | | | | | |
|---------|---------------------------|--------|---------|------|----|------------|
| 244,000 | Baxter International Inc. | 7.000% | 2/18/06 | Baa1 | NR | 13,115,000 |
|---------|---------------------------|--------|---------|------|----|------------|

Healthcare Providers & Services - 0.4%

| | | | | | | |
|--------|-------------|--------|----------|----|------|-----------|
| 86,500 | Anthem Inc. | 6.000% | 11/15/04 | NR | BBB- | 8,658,650 |
|--------|-------------|--------|----------|----|------|-----------|

Hotels Restaurants & Leisure - 0.4%

| | | | | | | |
|---------|-------------------------------|--------|----------|----|----|-----------|
| 157,000 | Host Marriott Financial Trust | 6.750% | 12/01/26 | B2 | NR | 8,281,750 |
|---------|-------------------------------|--------|----------|----|----|-----------|

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| | | | | | | |
|---|---|----------|----------|---------|------|-----------------|
| Household Durables - 0.4% | | | | | | |
| 187,325 | Newell Financial Trust I | 5.250% | 12/01/27 | Baa3 | BBB- | 8,195,469 |
| Insurance - 2.9% | | | | | | |
| 147,000 | Chubb Corporation | 7.000% | 11/16/05 | NR | A | 4,116,000 |
| 395,000 | Genworth Financial Inc. | 6.000% | 5/16/07 | A2 | A | 11,534,000 |
| 150,000 | PartnerRe Limited | 8.000% | 12/31/04 | Baa1 | BBB+ | 7,650,000 |
| 140,000 | PMI Group Inc. | 5.875% | 11/15/06 | A1 | A | 3,654,000 |
| 194,100 | Prudential Financial Capital Trust I | 6.750% | 11/15/04 | A3 | A- | 13,552,062 |
| 167,000 | Reinsurance Group of America Inc. | 5.750% | 3/15/51 | Baa2 | BBB | 9,686,000 |
| 100,000 | UnumProvident Corporation | 8.250% | 5/15/06 | Ba1 | BB+ | 3,256,000 |
| 340,650 | XL Capital Limited | 6.500% | 5/15/07 | A2 | A | 8,417,462 |
| Marine - 0.5% | | | | | | |
| 222,100 | Teekay Shipping Corporation | 7.250% | 2/16/06 | NR | BB- | 11,105,000 |
| Media - 1.0% | | | | | | |
| 374,000 | Cablevision Systems Corporation, Trust I | 6.500% | 11/15/04 | NR | NR | 7,805,380 |
| 137,000 | Emmis Communications Corporation, Series A | 6.250% | 12/31/49 | Caa1 | CCC+ | 5,740,300 |
| 70,350 | Interpublic Group, Series A | 5.375% | 12/15/06 | NR | NR | 2,921,636 |
| 97,500 | Sinclair Broadcast Group Inc., Series D | 6.000% | 12/15/49 | Caa1 | B- | 3,922,425 |
| Metals & Mining - 0.2% | | | | | | |
| 24,300 | Phelps Dodge Corporation | 0.000% | 8/15/05 | NR | BB | 4,707,882 |
| Office Electronics - 0.3% | | | | | | |
| 78,350 | Xerox Corporation, 144A | 7.500% | 11/27/21 | Ba3 | B- | 6,121,094 |
| Oil & Gas - 0.7% | | | | | | |
| 50,000 | Amerada Hess Corporation | 7.000% | 12/01/06 | Ba3 | BB | 3,991,000 |
| 8,955 | Chesapeake Energy Corporation, 144A | 4.125% | 12/31/49 | B3 | B- | 10,119,150 |
| Pharmaceuticals - 0.5% | | | | | | |
| 176,425 | Schering-Plough Corporation | 6.000% | 9/14/07 | Baa3 | BBB | 9,341,704 |
| Real Estate - 0.6% | | | | | | |
| 225,250 | Equity Office Properties Trust, Series B | 5.250% | 2/15/08 | Baa2 | NR | 11,470,856 |
| Total Convertible Preferred Securities (cost \$363,557,843) | | | | | | 392,821,278 |
| Principal Amount (000)/ Shares | Description ⁽¹⁾ | Ratings* | | | | Market Value |
| | | Coupon | Maturity | Moody's | S&P | |
| CONVERTIBLE BONDS - 27.2% (18.6% of Total Investments) | | | | | | |
| Aerospace & Defense - 0.6% | | | | | | |
| 3,860 | AAR Corporation, 144A | 2.875% | 2/01/24 | B2 | BB- | 3,527,075 |
| 4,900 | EDO Corporation, Convertible Subordinate Note | 5.250% | 4/15/07 | NR | NR | 5,230,750 |
| 3,250 | Mercury Computer Systems Inc., 144A | 2.000% | 5/01/24 | NR | NR | 3,635,938 |
| Airlines - 0.8% | | | | | | |
| 8,450 | American Airlines Corporation, 144A | 4.250% | 9/23/23 | Caa2 | CCC | 5,608,688 |
| 8,050 | Continental Airlines Inc. | 4.500% | 2/01/07 | Caa2 | CCC+ | 5,755,750 |
| 3,200 | Northwest Airlines Corporation | 6.625% | 5/15/23 | Caa1 | CCC+ | 2,528,000 |
| 2,250 | Northwest Airlines Corporation, Convertible Notes, 144A | 6.625% | 5/15/23 | Caa1 | CCC+ | 1,777,500 |
| Auto Components - 0.2% | | | | | | |
| 6,440 | Lear Corporation | 0.000% | 2/20/22 | Baa3 | BBB- | 3,252,200 |
| Automobiles - 2.1% | | | | | | |
| 3,595 | Fleetwood Enterprises Inc., 144A | 5.000% | 12/15/23 | B2 | B | 5,621,681 |

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| | | | | | | |
|--|---|--------|----------|------|------|------------|
| 1,046 | General Motors Corporation | 6.250% | 7/15/33 | Baa1 | BBB | 29,450,530 |
| 8,700 | Sonic Automotive Inc., Convertible Senior Subordinated Notes | 5.250% | 5/07/09 | B3 | B+ | 8,536,875 |
| Biotechnology - 1.5% | | | | | | |
| 6,275 | Allergan Inc., Convertible Zero Coupon Senior Notes | 0.000% | 11/06/22 | A3 | A | 5,765,156 |
| 6,775 | Chiron Corporation, 144A | 2.750% | 6/30/34 | NR | A- | 7,113,750 |
| 3,790 | Imclone Systems Inc., 144A | 1.375% | 5/15/24 | NR | NR | 3,671,563 |
| 5,975 | Ivax Corporation, Convertible Note, 144A | 1.500% | 3/01/24 | NR | NR | 6,340,969 |
| 8,500 | Ivax Corporation, Convertible Senior Subordinated Notes | 4.500% | 5/15/08 | NR | NR | 8,457,500 |
| Commercial Services & Supplies - 0.4% | | | | | | |
| 8,900 | Bowne and Company Incorporated, 144A | 5.000% | 10/01/33 | Caa1 | B- | 9,178,125 |
| Communications Equipment - 1.7% | | | | | | |
| 3,700 | Agere Systems Inc. | 6.500% | 12/15/09 | B3 | B | 3,723,125 |
| 7,889 | Ciena Corporation | 3.750% | 2/01/08 | B2 | B | 7,889,000 |
| 11,500 | Liberty Media Corporation, Senior Debentures Exchangeable for Motorola Common Stock | 3.500% | 1/15/31 | Baa3 | BBB- | 10,565,625 |
| 3,775 | Lucent Technologies Inc. | 2.750% | 6/15/23 | B2 | B | 4,704,594 |
| 6,850 | Skyworks Solutions Inc. | 4.750% | 11/15/07 | NR | NR | 8,622,438 |
| Computers & Peripherals - 0.3% | | | | | | |
| 11,635 | Hewlett-Packard Company | 0.000% | 10/14/17 | Baa1 | BBB+ | 6,617,406 |
| Construction & Engineering - 0.4% | | | | | | |
| 8,500 | Quanta Services Incorporated | 4.000% | 7/01/07 | NR | NR | 8,053,750 |
| Consumer Finance - 0.4% | | | | | | |
| 8,000 | Providian Financial Corporation, Convertible Senior Notes | 3.250% | 8/15/05 | B2 | B | 7,920,000 |
| Diversified Financial Services - 0.7% | | | | | | |
| 6,550 | Capitalsource Inc., 144A | 3.500% | 7/15/34 | NR | NR | 6,599,125 |
| 2,650 | JMH Finance Limited | 4.750% | 9/06/07 | NR | NR | 2,775,976 |
| 4,075 | Leucadia National Corporation, 144A | 3.750% | 4/15/14 | Ba3 | B+ | 4,401,000 |
| Electric Utilities - 0.3% | | | | | | |
| 2,630 | PG&E Corporation | 9.500% | 6/30/10 | NR | NR | 6,519,113 |
| Electronic Equipment & Instruments - 1.1% | | | | | | |
| 21,000 | Anixter International Inc. | 0.000% | 6/28/20 | Ba3 | BB+ | 7,455,000 |
| 12,750 | Arrow Electronics Inc. | 0.000% | 2/21/21 | Baa3 | BBB- | 6,821,250 |
| 8,195 | Fisher Scientific International Inc. | 3.250% | 3/01/24 | Ba3 | BB+ | 8,840,356 |
| Energy Equipment & Services - 1.1% | | | | | | |
| 4,000 | Maverick Tube Corporation | 4.000% | 6/15/33 | NR | NR | 5,465,000 |
| 4,500 | Maverick Tube Corporation, Convertible Notes, 144A | 4.000% | 6/15/33 | NR | NR | 6,148,125 |
| 9,250 | Schlumberger Limited | 2.125% | 6/01/23 | A1 | A+ | 9,990,000 |
| 1,210 | Willbros Group Inc., 144A | 2.750% | 3/15/24 | NR | NR | 1,213,025 |
| Healthcare Providers & Services - 0.4% | | | | | | |
| 8,700 | Lifepoint Hospitals Inc., Convertible Subordinate Notes | 4.500% | 6/01/09 | B3 | NR | 8,656,500 |
| Hotels Restaurants & Leisure - 2.0% | | | | | | |
| 10,775 | Carnival Corporation | 2.000% | 4/15/21 | A3 | A- | 14,142,188 |
| 3,425 | Hilton Hotels Corporation | 3.375% | 4/15/23 | Baa3 | BBB- | 3,780,344 |
| 7,125 | Kerzner International Limited, 144A | 2.375% | 4/15/24 | B2 | B | 6,955,781 |
| 16,000 | Royal Caribbean Cruises Limited, Senior Convertible Zero Coupon Liquid Yield Option Notes | 0.000% | 2/02/21 | Ba2 | BB+ | 8,520,000 |
| 7,755 | Starwood Hotels and Resorts Worldwide Inc. | 3.500% | 5/16/23 | Ba1 | BB+ | 8,462,644 |
| Industrial Conglomerates - 1.0% | | | | | | |
| 7,000 | Tyco International Group Limited, Convertible Notes, 144A | 3.125% | 1/15/23 | Baa3 | BBB | 10,517,500 |
| 7,200 | Tyco International Group SA | 3.125% | 1/15/23 | Baa3 | BBB | 10,818,000 |

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| | | | | | | |
|---|--|--------|----------|------|------|-------------|
| IT Services - 0.7% | | | | | | |
| 7,100 | Digital River Inc., 144A | 1.250% | 1/01/24 | NR | NR | 7,206,500 |
| 7,000 | Electronic Data Systems, Convertible Senior Notes, 144A | 3.875% | 7/15/23 | Ba1 | BBB- | 7,008,750 |
| Leisure Equipment & Products - 0.4% | | | | | | |
| 7,000 | Hasbro Inc. | 2.750% | 12/01/21 | Baa3 | BB+ | 7,595,000 |
| 1,165 | K2 Corporation, Convertible Notes, 144A | 5.000% | 6/15/10 | NR | NR | 1,580,031 |
| Media - 4.7% | | | | | | |
| 415 | Comcast Corporation | 2.000% | 10/15/29 | Ba2 | BBB- | 17,803,500 |
| 4,500 | Interpublic Group Companies Inc. | 4.500% | 3/15/23 | Baa3 | BB+ | 5,371,875 |
| 9,100 | Interpublic Group Companies, Convertible Subordinated Notes | 1.870% | 6/01/06 | Ba1 | BB- | 8,679,125 |
| 6,340 | Lamar Advertising Company, Convertible Notes | 2.875% | 12/31/10 | B2 | B | 6,910,600 |
| 6,990 | Liberty Media Corporation | 0.750% | 3/30/23 | Baa3 | BBB- | 7,540,463 |
| 15,750 | Liberty Media Corporation, Senior Debentures, Exchangeable for Class B Viacom Common Stock | 3.250% | 3/15/31 | Baa3 | BBB- | 14,352,188 |
| 26,800 | Liberty Media Corporation, Senior Debentures, Exchangeable for PCS Common Stock, Series 1 | 4.000% | 11/15/29 | Baa3 | BBB- | 19,061,500 |
| 1,050 | Lions Gate Entertainment Corporation, 144A | 2.938% | 10/15/24 | NR | NR | 1,055,250 |
| 4,200 | Lions Gate Entertainment Corporation, Convertible Bond, 144A | 4.875% | 12/15/10 | NR | NR | 7,255,500 |
| 8,050 | Walt Disney Company, Convertible Senior Notes | 2.125% | 4/15/23 | Baa1 | BBB+ | 8,301,563 |
| Office Electronics - 0.4% | | | | | | |
| 8,200 | IOS Capital LLC, Convertible Subordinate Debentures, 144A | 5.000% | 5/01/07 | Ba3 | B+ | 8,497,250 |
| Oil & Gas - 0.7% | | | | | | |
| 8,600 | Kerr-McGee Corporation | 5.250% | 2/15/10 | Ba1 | BBB- | 9,234,250 |
| 4,170 | McMoran Exploration Corporation, Notes, 144A | 6.000% | 7/02/08 | NR | NR | 5,123,888 |
| Pharmaceuticals - 1.5% | | | | | | |
| 2,400 | Alexion Pharmaceuticals Inc. | 5.750% | 3/15/07 | NR | NR | 2,397,000 |
| 1,255 | Atherogenics Inc., 144A | 4.500% | 9/01/08 | NR | NR | 2,921,013 |
| 5,000 | Cephalon Inc., Convertible Subordinate Notes | 0.000% | 6/15/33 | NR | B- | 5,056,250 |
| 5,425 | Teva Pharmaceutical Finance, Series B | 0.250% | 2/01/24 | NR | BBB | 5,187,656 |
| 4,350 | Valeant Pharmaceuticals International, 144A | 3.000% | 8/16/10 | NR | B | 4,594,688 |
| 2,545 | Valeant Pharmaceuticals International, 144A | 4.000% | 11/15/13 | NR | B | 2,742,238 |
| 8,500 | Wyeth, 144A | 1.000% | 1/15/24 | Baa1 | A | 8,390,435 |
| Real Estate - 0.9% | | | | | | |
| 3,625 | Avatar Holdings Inc., 144A | 4.500% | 4/01/24 | NR | NR | 3,797,188 |
| 10,800 | EOP Operating LP, Convertible Notes | 7.250% | 11/15/08 | Baa2 | BBB+ | 10,908,000 |
| 4,510 | Trizec Hahn Corporation | 3.000% | 1/29/21 | Ba1 | NR | 3,292,300 |
| Semiconductors & Equipment - 0.3% | | | | | | |
| 5,500 | ASM Lithography Holding NV | 5.750% | 10/15/06 | B3 | NR | 6,041,750 |
| Software - 0.7% | | | | | | |
| 4,200 | Computer Associates International Inc. | 5.000% | 3/15/07 | Ba1 | BBB- | 4,893,000 |
| 7,100 | Mentor Graphics Corporation, Convertible Subordinate Notes | 6.875% | 6/15/07 | NR | NR | 7,366,250 |
| 3,025 | Novell Inc., 144A | 0.500% | 7/15/24 | NR | NR | 2,801,906 |
| Specialty Retail - 1.1% | | | | | | |
| 7,820 | Charming Shoppes Inc. | 4.750% | 6/01/12 | B2 | BB- | 8,230,550 |
| 11,450 | Lowe's Companies Inc. | 0.000% | 2/16/21 | A2 | A | 10,362,250 |
| 5,900 | TJX Companies Inc. | 0.000% | 2/13/21 | Baa1 | A- | 4,852,750 |
| Textiles & Apparel - 0.3% | | | | | | |
| 6,025 | Reebok International Ltd., 144A | 2.000% | 5/01/24 | Baa3 | BBB | 6,115,375 |
| Wireless Telecommunication Services - 0.5% | | | | | | |
| 4,100 | NII Holdings Inc., 144A | 2.875% | 2/01/34 | NR | NR | 4,504,875 |
| 2,975 | NII Holdings Inc., 144A | 3.500% | 9/15/33 | NR | NR | 5,143,031 |
| Total Convertible Bonds (\$531,727,375) | | | | | | 563,804,653 |

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CORPORATE BONDS - 16.5% (11.3% of Total Investments)

Auto Components - 0.6%

| | | | | | | |
|-------|-------------------------------------|---------|----------|----|----|-----------|
| 6,360 | Asbury Automotive Group Inc. | 9.000% | 6/15/12 | B3 | B | 6,360,000 |
| 2,160 | Keystone Automotive Operations Inc. | 9.750% | 11/01/13 | B3 | B- | 2,160,000 |
| 4,580 | Tenneco Auto, Inc. | 10.250% | 7/15/13 | B2 | B- | 4,580,000 |

Automobiles - 2.3%

| | | | | | | |
|--------|---|--------|---------|------|------|------------|
| 2,000 | Ford Motor Company | 8.900% | 1/15/32 | Baa1 | BBB- | 2,250,360 |
| 7,570 | Ford Motor Company, Debentures | 7.700% | 5/15/97 | Baa1 | BBB- | 7,235,603 |
| 17,095 | Ford Motor Company, Debentures | 9.980% | 2/15/47 | Baa1 | BBB- | 21,107,607 |
| 15,630 | General Motors Corporation, Senior Debentures | 8.375% | 7/15/33 | Baa1 | BBB | 16,642,324 |

Chemicals - 0.3%

| | | | | | | |
|-------|---------------|--------|----------|------|----|-----------|
| 6,809 | OM Group Inc. | 9.250% | 12/15/11 | Caa1 | B- | 6,808,750 |
|-------|---------------|--------|----------|------|----|-----------|

Commercial Services & Supplies - 0.4%

| | | | | | | |
|-------|--------------------------------------|---------|----------|----|----|-----------|
| 5,161 | Allied Waste North America, Series B | 10.000% | 8/01/09 | B3 | B+ | 5,160,600 |
| 1,885 | United Rentals of North America Inc. | 7.750% | 11/15/13 | B2 | B+ | 1,885,000 |
| 2,155 | Williams Scotsman Inc. | 10.000% | 8/15/08 | B2 | B | 2,155,000 |

Communications Equipment - 0.2%

| | | | | | | |
|-------|------------|---------|---------|----|----|-----------|
| 3,762 | Avaya Inc. | 11.125% | 4/01/09 | B1 | B+ | 3,761,875 |
|-------|------------|---------|---------|----|----|-----------|

Construction Materials - 0.1%

| | | | | | | |
|-------|-----------------------|---------|---------|----|-----|-----------|
| 2,310 | Texas Industries Inc. | 10.250% | 6/15/11 | B1 | BB- | 2,310,000 |
|-------|-----------------------|---------|---------|----|-----|-----------|

Containers & Packaging - 0.7%

| | | | | | | |
|-------|---|---------|----------|------|------|-----------|
| 2,270 | Berry Plastics Corporation | 10.750% | 7/15/12 | B3 | B- | 2,270,000 |
| 3,916 | MDP Acquisitions plc, Senior Notes | 9.625% | 10/01/12 | B3 | B | 3,915,750 |
| 3,210 | Owens-Brockway Glass Containers, Guaranteed Senior Note | 8.250% | 5/15/13 | B3 | B | 3,210,000 |
| 3,083 | Owens-Illinois Inc. | 7.500% | 5/15/10 | Caa1 | B | 3,082,500 |
| 2,282 | United States Can Corporation, Series B | 10.875% | 7/15/10 | Caa1 | CCC+ | 2,281,825 |

Diversified/Conglomerate Manufacturing - 0.2%

| | | | | | | |
|-------|---------------------|--------|---------|----|---|-----------|
| 4,440 | Jacuzzi Brands Inc. | 9.625% | 7/01/10 | B3 | B | 4,440,000 |
|-------|---------------------|--------|---------|----|---|-----------|

Electric Utilities - 0.1%

| | | | | | | |
|-------|------------------------|--------|---------|----|----|-----------|
| 2,190 | Midwest Generation LLC | 8.750% | 5/01/34 | B1 | B- | 2,190,000 |
|-------|------------------------|--------|---------|----|----|-----------|

Food & Staples Retailing - 0.2%

| | | | | | | |
|-------|-------------------------------------|--------|---------|----|-----|-----------|
| 3,158 | Stater Brothers Holdings Inc., 144A | 8.125% | 6/15/12 | B1 | BB- | 3,157,500 |
|-------|-------------------------------------|--------|---------|----|-----|-----------|

Food Products - 1.0%

| | | | | | | |
|-------|------------------------------|---------|----------|----|----|-----------|
| 8,504 | Del Monte Corporation | 8.625% | 12/15/12 | B2 | B | 8,504,175 |
| 7,779 | Dole Foods Company | 7.875% | 7/15/13 | B2 | B+ | 7,778,750 |
| 1,571 | Dole Foods Company | 8.625% | 5/01/09 | B2 | B+ | 1,571,325 |
| 3,640 | Seminis Vegetable Seeds Inc. | 10.250% | 10/01/13 | B3 | B- | 3,640,000 |

Healthcare Providers & Services - 0.3%

| | | | | | | |
|-------|-----------------------------------|---------|----------|----|----|-----------|
| 2,165 | Service Corporation International | 7.700% | 4/15/09 | B1 | BB | 2,165,000 |
| 1,015 | Service Corporation International | 8.375% | 12/15/04 | B1 | BB | 1,015,000 |
| 3,098 | US Oncology Inc., 144A | 10.750% | 8/15/14 | B3 | B- | 3,097,500 |

Hotels Restaurants & Leisure - 2.2%

| | | | | | | |
|-------|---|---------|----------|-----|-----|-----------|
| 5,774 | Aztar Corporation | 9.000% | 8/15/11 | Ba3 | B+ | 5,773,875 |
| 4,391 | Boyd Gaming Corporation | 7.750% | 12/15/12 | B1 | B+ | 4,390,813 |
| 2,626 | Boyd Gaming Corporation | 8.750% | 4/15/12 | B1 | B+ | 2,626,400 |
| 3,450 | Dominos Inc. | 8.250% | 7/01/11 | B2 | B- | 3,449,550 |
| 4,269 | Intrawest Corporation | 7.500% | 10/15/13 | B1 | B+ | 4,269,125 |
| 3,798 | Intrawest Corporation, Senior Notes | 10.500% | 2/01/10 | B1 | B+ | 3,797,500 |
| 3,488 | Las Vegas Sands Inc., Venetian Casino Resorts, LLC Mortgage Notes | 11.000% | 6/15/10 | B2 | B | 3,487,500 |
| 2,120 | MGM Mirage, Inc. | 6.750% | 8/01/07 | Ba1 | BB+ | 2,120,000 |

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| | | | | | | |
|---|--|---------|----------|------|------|------------|
| 3,693 | Park Place Entertainment | 7.875% | 12/15/05 | Ba2 | BB- | 3,692,500 |
| 1,135 | Park Place Entertainment | 7.875% | 3/15/10 | Ba2 | BB- | 1,135,000 |
| 1,118 | Park Place Entertainment | 9.375% | 2/15/07 | Ba2 | BB- | 1,117,500 |
| 543 | Penn National Gaming Inc., Series B | 11.125% | 3/01/08 | B2 | B | 542,500 |
| 4,405 | PennNational Gaming Inc., Senior Subordinated Notes | 8.875% | 3/15/10 | B2 | B | 4,405,000 |
| 2,015 | Pinnacle Entertainment Inc. | 8.250% | 3/15/12 | Caa1 | CCC+ | 2,015,000 |
| 3,090 | Pinnacle Entertainment Inc. | 8.750% | 10/01/13 | Caa1 | CCC+ | 3,090,000 |
| IT Services - 0.2% | | | | | | |
| 4,260 | Global Cash Access LLC, Senior Subordinate Note, 144A | 8.750% | 3/15/12 | Caa1 | B- | 4,260,000 |
| Machinery - 0.3% | | | | | | |
| 3,375 | Terex Corporation, Senior Subordinated Notes | 9.250% | 7/15/11 | B3 | B | 3,375,000 |
| 3,405 | Terex Corporation, Senior Subordinated Notes | 10.375% | 4/01/11 | B3 | B | 3,405,000 |
| Media - 4.0% | | | | | | |
| 7,176 | Allbritton Communications Company, Series B | 7.750% | 12/15/12 | B3 | B- | 7,176,000 |
| 1,890 | AMC Entertainment Inc., 144A | 8.000% | 3/01/14 | B3 | CCC+ | 1,890,000 |
| 2,445 | American Media Operations Inc. | 8.875% | 1/15/11 | B2 | B- | 2,444,663 |
| 6,345 | American Media Operations Inc., Series B | 10.250% | 5/01/09 | B2 | B- | 6,345,000 |
| 3,135 | Cablevision Systems Corporation | 7.250% | 7/15/08 | B1 | BB- | 3,135,000 |
| 2,135 | Cablevision Systems Corporation | 8.125% | 7/15/09 | B1 | BB- | 2,135,000 |
| 5,338 | Cablevision Systems Corporation, Series B | 8.125% | 8/15/09 | B1 | BB- | 5,337,500 |
| 1,003 | Charter Communications Operating LLC, 144A | 8.000% | 4/30/12 | B2 | B- | 1,002,500 |
| 6,735 | Cinemark USA Inc. | 9.000% | 2/01/13 | B3 | B- | 6,735,000 |
| 1,140 | Dex Media West LLC | 8.500% | 8/15/10 | B1 | B | 1,140,000 |
| 2,594 | Dex Media West LLC | 9.875% | 8/15/13 | B2 | B | 2,593,640 |
| 3,113 | Lowes Cineplex Entertainment Corporation, 144A | 9.000% | 8/01/14 | B3 | CCC+ | 3,112,500 |
| 4,260 | Mail-Well I Corporation, Senior Unsecured Note, 144A | 9.625% | 3/15/12 | B1 | BB- | 4,259,775 |
| 3,960 | Media News Group Inc. | 6.375% | 4/01/14 | B2 | B+ | 3,960,000 |
| 8,040 | Primedia Inc., Senior Notes | 8.875% | 5/15/11 | B3 | B | 8,040,000 |
| 2,435 | R H Donnelley Finance Corp 1 | 10.875% | 12/15/12 | B2 | B+ | 2,435,000 |
| 2,150 | Sun Media Corporation | 7.625% | 2/15/13 | Ba3 | B | 2,150,000 |
| 10,800 | Vertis Inc. | 9.750% | 4/01/09 | B2 | B- | 10,800,000 |
| 1,068 | Young Broadcasting Inc. | 8.500% | 12/15/08 | B2 | B | 1,067,500 |
| 1,930 | Young Broadcasting Inc. | 8.750% | 1/15/14 | Caa1 | CCC+ | 1,930,000 |
| 5,693 | Young Broadcasting Inc., Senior Subordinate Notes | 10.000% | 3/01/11 | Caa1 | CCC+ | 5,692,500 |
| Metals & Mining - 0.1% | | | | | | |
| 1,934 | United States Steel Corporation | 9.750% | 5/15/10 | B1 | BB- | 1,934,300 |
| Multiline Retail - 0.2% | | | | | | |
| 1,195 | Saks Inc., Notes | 9.875% | 10/01/11 | Ba3 | BB | 1,195,000 |
| 1,005 | Saks Inc. | 7.375% | 2/15/19 | Ba3 | BB | 1,005,000 |
| 2,150 | Saks Inc., Notes | 7.500% | 12/01/10 | Ba3 | BB | 2,150,000 |
| Office Electronics - 0.1% | | | | | | |
| 1,060 | IOS Capital LLC, Senior Notes | 7.250% | 6/30/08 | Ba1 | BB | 1,060,000 |
| Oil & Gas - 0.4% | | | | | | |
| 2,941 | Chesapeake Energy Corporation | 9.000% | 8/15/12 | Ba3 | BB- | 2,941,043 |
| 2,160 | Premcor Refining Group Inc. | 7.500% | 6/15/15 | Ba3 | BB- | 2,160,000 |
| 1,085 | Tesoro Petroleum Corporation | 8.000% | 4/15/08 | Ba2 | BBB- | 1,085,000 |
| 1,105 | Tesoro Petroleum Corporation, Senior Subordinate Notes, Series B | 9.625% | 11/01/08 | B2 | BB- | 1,105,000 |
| Paper & Forest Products - 0.4% | | | | | | |
| 2,290 | Georgia Pacific Corporation, Debentures | 7.700% | 6/15/15 | Ba3 | BB+ | 2,290,000 |
| 5,800 | Georgia Pacific Corporation, Notes | 8.125% | 5/15/11 | Ba3 | BB+ | 5,800,000 |
| Pharmaceuticals - 0.2% | | | | | | |
| 3,195 | Quintiles Transitional Corporation | 10.000% | 10/01/13 | B3 | B | 3,195,000 |
| Real Estate - 1.0% | | | | | | |
| 1,046 | D.R. Horton, Inc. | 10.500% | 4/01/05 | Ba1 | BB+ | 1,046,250 |

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| | | | | | | |
|---|---|---------|----------|-----|-----|-------------|
| 5,051 | K. Hovnanian Enterprises Inc., Senior Subordinate Notes | 8.875% | 4/01/12 | Ba3 | B+ | 5,051,250 |
| 5,650 | KB Home | 8.625% | 12/15/08 | Ba2 | BB- | 5,650,000 |
| 4,680 | Universal City Development Partners | 11.750% | 4/01/10 | B2 | B- | 4,680,000 |
| 3,480 | William Lyon Homes Inc., Unsecured Senior Note | 10.750% | 4/01/13 | B2 | B | 3,480,000 |
| Road & Rail - 0.2% | | | | | | |
| 3,439 | Laidlaw International Inc. | 10.750% | 6/15/11 | B2 | B+ | 3,438,750 |
| Scientific Instruments - 0.1% | | | | | | |
| 1,688 | Fisher Scientific International Inc. | 8.000% | 9/01/13 | Ba3 | BB+ | 1,687,500 |
| Specialty Retail - 0.0% | | | | | | |
| 1,035 | Suburban Propane Partners LP | 6.875% | 12/15/13 | B1 | B | 1,035,000 |
| Textiles & Apparel - 0.5% | | | | | | |
| 1,008 | Jostens IH Corporation, 144A | 7.625% | 10/01/12 | B3 | B- | 1,007,500 |
| 8,940 | Warnaco Inc., Senior Notes | 8.875% | 6/15/13 | B2 | B | 8,940,000 |
| Wireless Telecommunication Services - 0.2% | | | | | | |
| 4,320 | Nextel Communications Inc. | 7.375% | 8/01/15 | Ba3 | BB | 4,320,000 |
| Total Corporate Bonds (cost \$325,700,798) | | | | | | 341,326,878 |

CAPITAL PREFERRED SECURITIES - 35.7% (24.4% of Total Investments)

| | | | | | | |
|---------------------------------|---|---------|----------|------|------|------------|
| Commercial Banks - 27.3% | | | | | | |
| 2,000 | AB Svensk Exportkredit, 144A | 6.375% | 10/27/49 | Aa3 | AA- | 2,022,884 |
| 20,000 | Abbey National Capital Trust I | 8.963% | 12/30/49 | A2 | A- | 27,070,760 |
| 45,300 | AgFirst Farm Credit Bank | 7.300% | 12/15/53 | NR | NR | 45,755,265 |
| 2,400 | ANZ Capital Trust I, 144A | 5.360% | 12/29/49 | A2 | A- | 2,423,395 |
| 12,840 | Bank One Capital III | 8.750% | 9/01/30 | A1 | A- | 17,186,494 |
| 1,974 | BankAmerica Capital II, Series 2 | 8.000% | 12/15/26 | Aa3 | A- | 2,202,589 |
| 2,600 | BankAmerica Institutional Capital Trust, Series B, 144A | 7.700% | 12/31/26 | Aa3 | A- | 2,886,393 |
| 5,000 | BankAmerica Institutional Trust, 144A | 8.070% | 12/31/26 | Aa3 | A- | 5,606,455 |
| 2,000 | BankBoston Capital Trust I, Series B | 8.250% | 12/15/26 | Aa3 | A- | 2,263,026 |
| 1,000 | BanPonce Trust I, Series A | 8.327% | 2/01/27 | Baa1 | BBB- | 1,124,567 |
| 1,500 | Barclays Bank plc, 144A | 8.550% | 6/15/49 | Aa3 | A+ | 1,839,704 |
| 500 | Barnett Capital I | 8.060% | 12/01/26 | Aa3 | A- | 559,396 |
| 15,750 | BNP Paribas Capital Trust | 7.200% | 12/31/49 | NR | A+ | 16,545,706 |
| 6,273 | BT Capital Trust, Series B1 | 7.900% | 1/15/27 | A2 | NR | 7,084,594 |
| 15,000 | BT Institutional Capital Trust A, 144A | 8.090% | 12/01/26 | A2 | A- | 16,979,520 |
| 2,000 | BT Institutional Capital Trust B, 144A | 7.750% | 12/01/26 | A2 | A- | 2,199,514 |
| 1,250 | C.A. Preferred Fund Trust II | 7.000% | 10/30/49 | NR | A | 1,299,810 |
| 32,750 | C.A. Preferred Funding Trust | 7.000% | 1/30/49 | NR | A | 33,971,280 |
| 21,000 | CBA Capital Trust I, 144A | 5.805% | 12/30/49 | A2 | NR | 21,779,457 |
| 900 | Chase Capital Trust I, Series A | 7.670% | 12/01/26 | A1 | A- | 976,240 |
| 1,000 | Citigroup Capital III | 7.625% | 12/01/36 | Aa2 | A | 1,194,885 |
| 3,000 | Compass Trust I, Series A | 8.230% | 1/15/27 | A3 | BBB- | 3,381,138 |
| 2,500 | DBS Capital Funding Corporation, Series 01A, 144A | 7.657% | 3/15/49 | A1 | A- | 2,908,128 |
| 5,000 | Farm Credit Bank of Texas | 7.561% | 11/05/49 | NR | NR | 5,188,815 |
| 2,350 | FBS Capital Trust I | 8.090% | 11/15/26 | A1 | A- | 2,645,475 |
| 4,315 | First Chicago NBD Institutional Capital Trust, Series B, 144A | 7.750% | 12/01/26 | A1 | NR | 4,745,451 |
| 6,000 | First Chicago NBD Institutional Capital, 144A | 7.950% | 12/01/26 | A1 | NR | 6,697,296 |
| 5,750 | First Empire Capital Trust I | 8.234% | 2/01/27 | Baa1 | BBB | 6,483,758 |
| 11,550 | First Empire Capital Trust II | 8.277% | 6/01/27 | Baa1 | BBB | 13,117,196 |
| 4,250 | First Midwest Bancorp Inc. | 6.950% | 12/01/33 | Baa2 | BBB- | 4,547,118 |
| 3,500 | First Union Capital Trust II, Series A | 7.950% | 11/15/29 | A1 | BBB+ | 4,317,968 |
| 2,000 | First Union Institutional Capital Securities I | 8.040% | 12/01/26 | A1 | BBB+ | 2,233,112 |
| 500 | First Union Institutional Capital II | 7.850% | 1/01/27 | A1 | BBB+ | 563,034 |
| 8,300 | Goldman Sachs Group Inc. | 6.345% | 2/15/34 | A1 | A- | 8,353,859 |
| 3,365 | Great Western Financial Trust II, Series A | 8.206% | 2/01/27 | Baa1 | BBB | 3,812,757 |
| 48,400 | HBOS Capital Funding LP, Notes | 6.850% | 3/01/49 | NR | A | 49,639,330 |
| 12,838 | HSBC Capital Funding LP, 144A | 9.547% | 12/31/49 | A1 | A- | 16,187,588 |
| 14,000 | HSBC Capital Funding LP, Debt | 10.176% | 6/30/50 | A1 | A- | 21,445,298 |
| 2,150 | JPM Capital Trust I | 7.540% | 1/15/27 | A1 | A- | 2,300,992 |
| 3,000 | JPM Capital Trust II | 7.950% | 2/01/27 | A1 | A- | 3,349,740 |

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| | | | | | | |
|---|--|--------|----------|------|------|---------------|
| 19,105 | KBC Bank Fund Trust III, 144A | 9.860% | 11/02/49 | A2 | A- | 23,650,385 |
| 15,000 | KeyCorp Institutional Capital Trust A | 7.826% | 12/01/26 | A3 | BBB | 16,625,160 |
| 17,000 | Lloyds TSB Bank plc, Subordinate Note | 6.900% | 11/22/49 | Aa2 | A+ | 17,659,889 |
| 19,335 | Mellon Capital Trust I, Series A | 7.720% | 12/01/26 | A2 | NR | 21,505,972 |
| 1,000 | Nordbanken AB, 144A | 8.950% | 11/29/49 | A2 | A- | 1,206,129 |
| 18,500 | North Fork Capital Trust II | 8.000% | 12/15/27 | A3 | BBB- | 20,914,158 |
| 500 | PNC Institutional Capital Securities, 144A | 7.950% | 12/15/26 | A3 | BBB+ | 555,097 |
| 2,000 | Popular North American Capital Trust I | 6.564% | 9/15/34 | Baa1 | BBB- | 2,039,070 |
| 16,750 | RBS Capital Trust B | 6.800% | 12/31/49 | NR | A | 17,228,481 |
| 2,000 | Reliance Capital Trust I, Series B | 8.170% | 5/01/28 | NR | NR | 2,289,448 |
| 1,202 | Republic New York Capital II, Capital Securities | 7.530% | 12/04/26 | A1 | A- | 1,313,826 |
| 3,400 | Royal Bank of Scotland Group plc | 7.648% | 8/31/49 | A1 | A | 4,068,528 |
| 6,200 | Royal Bank of Scotland Group plc | 9.118% | 3/31/49 | A1 | A | 7,630,693 |
| 2,000 | SocGen Real Estate Company LLC, 144A | 7.640% | 12/29/49 | A2 | A | 2,221,188 |
| 4,472 | St. George Funding Company LLC, 144A | 8.485% | 6/30/47 | Baa1 | NR | 5,150,447 |
| 9,000 | State Street Institutional Capital Trust, 144A | 8.035% | 3/15/27 | A1 | A | 10,365,669 |
| 23,490 | Unicredito Italiano Capital Trust, 144A | 9.200% | 10/05/49 | A1 | A | 28,981,798 |
| 3,800 | Union Planters Capital Trust A | 8.200% | 12/15/26 | A2 | BBB+ | 4,264,778 |
| 2,000 | Zions Institutional Capital Trust, Series A | 8.536% | 12/15/26 | Baa1 | BBB- | 2,311,724 |
| <hr/> | | | | | | |
| Consumer Finance - 0.0% | | | | | | |
| 500 | Countrywide Capital Trust I | 8.000% | 12/15/26 | Baa1 | BBB+ | 540,063 |
| <hr/> | | | | | | |
| Diversified Financial Services - 1.4% | | | | | | |
| 4,000 | KeyCorp Capital III | 7.750% | 7/15/29 | A3 | BBB | 4,713,028 |
| 23,600 | Old Mutual Capital Funding, Notes | 8.000% | 6/22/53 | NR | NR | 24,271,467 |
| <hr/> | | | | | | |
| Diversified Telecommunication Services - 1.5% | | | | | | |
| 24,080 | Centaur Funding Corporation, Series B, 144A | 9.080% | 4/21/20 | Baa1 | BBB+ | 31,161,037 |
| <hr/> | | | | | | |
| Gas Utilities - 1.0% | | | | | | |
| 18,855 | KN Capital Trust III | 7.630% | 4/15/28 | Baa3 | BB+ | 20,758,959 |
| <hr/> | | | | | | |
| Insurance - 3.8% | | | | | | |
| 987 | Allstate Financing II | 7.830% | 12/01/45 | A2 | A- | 1,101,966 |
| 10,000 | American General Capital II | 8.500% | 7/01/30 | Aa1 | AA | 13,408,740 |
| 4,980 | American General Institutional Capital, 144A | 8.125% | 3/15/46 | Aa1 | AA | 6,434,190 |
| 612 | Berkeley Capital Trust | 8.197% | 12/15/45 | Baa3 | BBB- | 664,687 |
| 10,000 | ING Capital Funding Trust III | 8.439% | 12/30/49 | A2 | A- | 12,092,850 |
| 3,750 | Prudential plc | 6.500% | 6/29/49 | Baa1 | A | 3,658,204 |
| 13,390 | Sun Life Canada Capital Trust, Capital Securities, 144A | 8.526% | 5/06/47 | A1 | A+ | 15,461,054 |
| 23,513 | Zurich Capital Trust I, 144A | 8.376% | 6/01/37 | Baa2 | A- | 26,915,702 |
| <hr/> | | | | | | |
| Real Estate - 0.7% | | | | | | |
| 14,250 | Mangrove Bay, Class 3, 144A | 6.102% | 7/15/33 | NR | BBB+ | 14,551,554 |
| <hr/> | | | | | | |
| Total Capital Preferred Securities (cost \$734,526,413) | | | | | | 740,605,928 |
| <hr/> | | | | | | |
| REPURCHASE AGREEMENTS - 1.5% (1.1% of Total Investments) | | | | | | |
| 7,967 | State Street Bank, 1.700%, dated 9/30/04, due 10/01/04, repurchase price \$7,967,654, collateralized by \$7,625,000 U.S. Treasury Bonds, 5.250%, due 11/15/28, value \$8,131,346 | | | | | 7,967,278 |
| 24,000 | State Street Bank, 1.700%, dated 9/30/04, due 10/01/04, repurchase price \$24,001,133, collateralized by \$17,645,000 U.S. Treasury Bonds, 8.125%, due 8/15/19, value \$24,482,438 | | | | | 24,000,000 |
| <hr/> | | | | | | |
| Total Repurchase Agreements (cost \$31,967,278) | | | | | | 31,967,278 |
| <hr/> | | | | | | |
| Total Investments (cost \$2,937,196,348) - 145.9% | | | | | | 3,025,167,471 |
| <hr/> | | | | | | |

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| Shares | Description ⁽¹⁾ | Market Value |
|-------------|--|---------------|
| | COMMON STOCKS SOLD SHORT - (3.4)% | |
| | Aerospace & Defense - (0.2)% | |
| (58,500) | Northrop Gruman Corporation | (3,119,805) |
| | Automobiles - (0.2)% | |
| (335,000) | Ford Motor Company | (4,706,750) |
| | Chemicals - (0.4)% | |
| (526,150) | IMC Global Inc. | (9,149,749) |
| | Commercial Banks - (0.2)% | |
| (49,000) | Affiliated Managers Group Inc. | (2,623,460) |
| (40,617) | National City Corporation | (1,568,629) |
| | Communications Equipment - (0.2)% | |
| (1,300,000) | Lucent Technologies Inc. | (4,121,000) |
| | Consumer Finance - (0.1)% | |
| (15,072) | Capital One Financial Corporation | (1,113,821) |
| | Electric Utilities - (0.2)% | |
| (541,680) | Aquila Inc. | (1,690,042) |
| (61,715) | PG&E Corporation | (1,876,136) |
| | Food & Staples Retailing - (0.1)% | |
| (90,060) | Albertsons, Inc. | (2,155,136) |
| | Healthcare Equipment & Supplies - (0.4)% | |
| (265,000) | Baxter International Inc. | (8,522,400) |
| | Insurance - (0.5)% | |
| (37,650) | Chubb Corporation | (2,646,042) |
| (90,200) | Genworth Financial Inc. | (2,101,660) |
| (53,539) | PMI Group Inc. | (2,172,613) |
| (169,560) | UnumProvident Corporation | (2,660,396) |
| | Leisure Equipment & Products - (0.0)% | |
| (62,765) | K2 Inc. | (898,167) |
| | Media - (0.4)% | |
| (369,000) | Cablevision Systems Corporation | (7,483,320) |
| | Metals & Mining - (0.2)% | |
| (49,762) | Phelps Dodge Corporation | (4,579,597) |
| | Oil & Gas - (0.2)% | |
| (40,187) | Amerada Hess Corporation | (3,576,643) |
| | Pharmaceuticals - (0.1)% | |
| (163,190) | Schering-Plough Corporation | (3,110,401) |
| | Total Common Stocks Sold Short (proceeds \$61,741,127) | (69,875,767) |
| | Other Assets Less Liabilities - 4.0% | 83,870,961 |
| | Fund Preferred Shares, at Liquidation Value - (46.5)% | (965,000,000) |
| | Net Assets Applicable to Common Shares - 100% | |

**Interest Rate Swap Transactions
Outstanding at September 30, 2004:**

| Notional Amount | Fixed Rate | Floating Rate** | Termination Date (Depreciation) | Unrealized Appreciation |
|--------------------|---------------|--------------------|------------------------------------|----------------------------|
| \$97,000,000 | 1.3605% | 1.8325% | 1/23/05 | \$ 231,379 |
| 97,000,000 | 2.0250 | 1.8325 | 1/23/06 | 747,693 |
| 97,000,000 | 2.6790 | 1.8325 | 1/23/07 | 757,049 |
| 97,000,000 | 3.0480 | 1.8325 | 1/23/08 | 934,959 |
| 97,000,000 | 3.3595 | 1.8325 | 1/23/09 | 1,000,909 |
| | | | | \$3,671,989 |

(1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.

* Ratings below Baa by Moody's Investor Service, Inc. or BBB by Standard & Poor's Group are considered to be below investment grade.

** Based on LIBOR (London Interbank Offered Rate)

(a) Security is eligible for the Dividends Received Deduction.

144A 144A securities are those which are exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may only be resold in transactions exempt from registration which are normally those transactions with qualified institutional buyers.

(CBTCS) Corporate Backed Trust Certificates.

(CORTS) Corporate Backed Trust Securities.

(PCARS) Public Credit and Repackaged Securities.

(PPLUS) PreferredPlus Trust.

(SATURNS) Structured Asset Trust Unit Repackaging.

NR Security is not rated.

Income Tax Information

The following information is presented on an income tax basis based on the information currently available to the Funds. Differences between amounts for financial statement and federal income tax purposes are primarily due to the recognition of income on certain securities, which are treated as debt securities for income tax purposes and equity securities for financial statement purposes, and timing differences in recognizing certain gains and losses on security transactions.

At September 30, 2004, the cost of investments (net of proceeds received on securities sold short) was

\$2,879,133,036.

Gross unrealized appreciation and gross unrealized depreciation of investments at September 30, 2004, were as follows:

| | |
|--|---------------|
| Gross unrealized: | |
| Appreciation | \$121,205,695 |
| Depreciation | (45,047,027) |
| <hr/> | |
| Net unrealized appreciation of investments | \$76,158,668 |

Item 2. Controls and Procedures.

a. The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the

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Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c)) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, (17 CFR 240.13a-15(b) or 240.15d-15(b)).

- b. There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) 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.

File as exhibits as part of this Form a separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the Act (17 CFR 270.30a-2(a)), exactly as set forth below: EX-99 CERT Attached hereto.

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.

(Registrant) Nuveen Preferred and Convertible Income Fund 2

By (Signature and Title)* /s/ Jessica R. Droeger--Vice President and Secretary

Date 11/29/04

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 (Signature and Title)* /s/ Gifford R. Zimmerman--Chief Administrative Officer (Principal Executive Officer)

Date 11/29/04

By (Signature and Title)* /s/ Stephen D. Foy--Vice President and Controller (Principal Financial Officer)

Date 11/29/04

* Print the name and title of each signing officer under his or her signature.