

NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND  
Form N-CSRS  
November 04, 2008

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

**FORM N-CSRS**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-21284

Nicholas-Applegate Convertible & Income Fund  
(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 28, 2009

Date of reporting period: August 31, 2008

Form N-CSRS 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-CSRS 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-CSRS 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.

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

Semi-Annual Report  
August 31, 2008

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**Nicholas-Applegate Convertible & Income Funds**

**Letter to Shareholders**

October 17, 2008

Dear Shareholder:

We are pleased to provide you with the semi-annual reports for the Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (collectively, the Funds ) for the fiscal six-month period ended August 31, 2008.

Convertible bonds declined along with U.S. stocks during the period. The Merrill Lynch All-Convertible Index posted a (5.13)% return for the six-month reporting period, underperforming the S&P 500 Index, which returned (2.57)% and the Dow Jones Industrial Average, which posted a (4.65)% return.

On October 9, 2008, the Funds Board of Trustees approved the redemption at par of a portion of each Fund s Auction Rate Preferred Shares ( ARPS ) beginning October 27, 2008. The decision to partially redeem the Funds ARPS was made due in part to the current market environment of unparalleled liquidity constraints and resulting market imbalances. The press release that includes further information on the Funds planned partial redemptions is available at [www.allianzinvestors.com/closedendfunds](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](http://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 financial needs.

Sincerely,

Hans W. Kertess

*Chairman*

Brian S. Shlissel

*President & Chief Executive Officer*

## Nicholas-Applegate Convertible & Income Funds

## Fund Insights

August 31, 2008 (unaudited)

For the six-months ended August 31, 2008, Nicholas-Applegate Convertible & Income Fund returned (5.29)% on net asset value ( NAV ) and (1.39)% on market price.

For the six-months ended August 31, 2008, Nicholas-Applegate Convertible & Income II Fund returned (5.90)% on net asset value ( NAV ) and (4.63)% on market price.

The convertible and high yield markets were volatile during the reporting period.

In April and May, the convertible market rallied as first quarter earnings came in better than expected and investors believed the worst of the financial crisis was behind them. Another calming factor in the rebounding investor confidence was that the Federal Reserve (the Fed ) had finally become aggressive in easing monetary policy.

By June, in fairly abrupt fashion, the Fed had done enough inflation-talking that the easing sentiment turned to tightening. Therefore, from a monetary policy perspective, investors had little time to regroup. Most equity-related asset classes were lower in June, and sentiment closed the month on a sour note.

In July and August, the equity markets were volatile, but for the most part, finished higher as crude oil closed much lower. However, the housing market showed little signs of recovery and the financial system continued to be under considerable stress.

Industry performance was mixed during the reporting period and driven by broad market themes. The financial issuer underperformance was the most severe of any industry in the broad markets. The consumer sector was also negatively affected. The best-performing industries during the period were healthcare and consumer staples. These industries performed well because of both favorable operating performance and an expected flight to quality.

The Funds' convertible positions were aided by select industries during the period. Healthcare companies rallied in response to better-than-expected corporate profits and positive outlooks. Consumer staple companies advanced from record commodity prices as well as an investor rotation into more defensive industries.

Select industries hindered the Funds' convertible performance during the reporting period. 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. Defaults remain low, industry concentration is limited, and refinancing has created lower interest expense obligations and extended maturities.

Throughout the continued volatility, the relative high yield performance was driven by stringent credit selection. The Funds continued to have bonds tendered for. In addition, companies demonstrated improving fundamentals.

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, which are being monitored closely.

In general, first- and second-quarter earnings were very good for the companies held by the Funds, with most companies meeting or beating earnings expectations.

Historically, high-yield has offered a compelling total return for long-term investors. Spreads have widened far in 2008. Issuers in the high-yield market remain fundamentally sound. There are issuers that would clearly be impaired by a deep U.S. recession. However, the average spread has widened to approximately 70% of the peak spread seen in both the last two recessions / peak in default periods.



**Nicholas-Applegate Convertible & Income Fund**

August 31, 2008 (unaudited)

**Performance & Statistics**

<b>Total Return <sup>(1)</sup> :</b>	<b>Market Price</b>	<b>Net Asset Value ( NAV )</b>
Six months	(1.39)%	(5.29)%
1 year	(5.35)%	(11.96)%
5 year	7.87%	6.14%
Commencement of Operations (3/31/03) to 8/31/08	7.51%	7.71%

**Market Price/NAV Performance:**

Commencement of Operations (3/31/03) to 8/31/08

**Market Price/NAV:**

Market Price	\$ 11.58
NAV	\$ 11.14
Premium to NAV	3.95%
Market Price Yield <sup>(2)</sup>	12.95%

**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.

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.

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(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 August 31, 2008.

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

August 31, 2008 (unaudited)

**Performance & Statistics**

<b>Total Return <sup>(1)</sup> :</b>	<b>Market Price</b>	<b>Net Asset Value ( NAV )</b>
Six months	(4.63)%	(5.90)%
1 year	(10.53)%	(13.07)%
5 year	4.91%	5.66%
Commencement of Operations (7/31/03) to 8/31/08	4.83%	5.96%

**Market Price/NAV Performance:**

Commencement of Operations (7/31/03) to 8/31/08

**Market Price/NAV:**

Market Price	\$ 10.85
NAV	\$ 10.97
Discount to NAV	(1.09)%
Market Price Yield <sup>(2)</sup>	13.13%

**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.

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.



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(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 August 31, 2008.

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**Nicholas-Applegate Convertible & Income Fund**

August 31, 2008 (unaudited)

**Schedule of Investments**

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
<b>CORPORATE BONDS &amp; NOTES 42.8%</b>			
	<b>Advertising 0.9%</b>		
\$ 11,450	Affinion Group, Inc., 11.50%, 10/15/15	B3/B-	\$ 11,221,000
	<b>Apparel 1.3%</b>		
12,295	Levi Strauss & Co., 9.75%, 1/15/15	B2/B+	11,142,344
6,090	Oxford Industries, Inc., 8.875%, 6/1/11	B1/B+	5,952,975
			17,095,319
	<b>Automotive 2.4%</b>		
8,545	Accuride Corp., 8.50%, 2/1/15	Caa1/CCC+	5,554,250
14,195	Exide Technologies, 10.50%, 3/15/13, Ser. B	B3/B-	13,556,225
7,490	General Motors Corp., 8.375%, 7/15/33	Caa2/B-	3,745,000
10,225	Tenneco, Inc., 8.625%, 11/15/14	B3/B	8,742,375
			31,597,850
	<b>Chemicals 0.3%</b>		
4,890	Momentive Performance Materials, Inc. 9.75%, 12/1/14	B3/B	4,437,675
	<b>Commercial Services 1.7%</b>		
13,665	Cenveo Corp., 7.875%, 12/1/13	B3/B	11,324,869
11,810	Hertz Corp., 10.50%, 1/1/16	B2/B	10,481,375
			21,806,244
	<b>Computers 0.7%</b>		
10,325	Unisys Corp., 8.00%, 10/15/12	B2/B+	8,827,875
	<b>Electric 1.1%</b>		
8,820	Energy Future Holdings Corp., 10.875%, 11/1/17 (a) (b)	B3/B-	9,073,575
5,400	Texas Competitive Electric Holdings Co. LLC, 10.25%, 11/1/15 (a) (b)	B3/CCC	5,413,500
			14,487,075
	<b>Electronics 1.0%</b>		
12,170	Stoneridge, Inc., 11.50%, 5/1/12	B2/B+	12,565,525
	<b>Financial Services 3.4%</b>		
12,725	AMR Holdings Co., 10.00%, 2/15/15	B1/B-	13,393,062
10,795	Ford Motor Credit Co., 7.00%, 10/1/13	B1/B-	7,828,761
8,080	9.875%, 8/10/11	B1/B-	6,636,807
8,070	GMAC LLC, 6.75%, 12/1/14	B3/B-	4,386,473
10,090	KAR Holdings, Inc., 8.75%, 5/1/14	B3/CCC+	8,967,487
3,655	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	3,819,475

			45,032,065
	<b>Healthcare 2.0%</b>		
7,275	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B-	6,893,063
9,015	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa1/CCC+	9,443,212
5,385	HCA, Inc., 9.25%, 11/15/16	B2/BB-	5,553,281
3,585	Health Net, Inc., 6.375%, 6/1/17	Ba3/BB+	2,921,775
1,350	Psychiatric Solutions, Inc., 7.75%, 7/15/15	B3/B-	1,316,250
			26,127,581
	<b>Home Furnishings 0.9%</b>		
13,090	Jarden Corp., 7.50%, 5/1/17	B3/B	11,715,550

**Nicholas-Applegate Convertible & Income Fund**

August 31, 2008 (unaudited)

**Schedule of Investments**

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
\$ 2,385	<b>Hotels/Gaming 0.2%</b> Mandalay Resort Group, Inc., 3.551%, 3/21/33, FRN (d)	Ba2/BB	\$ 3,374,943
	<b>Manufacturing 2.6%</b>		
13,610	Harland Clarke Holdings Corp., 9.50%, 5/15/15	Caa1/B-	10,751,900
2,155	Park-Ohio Industries, Inc., 8.375%, 11/15/14	B3/B-	1,788,650
9,710	Polypore, Inc., 8.75%, 5/15/12	B3/B-	9,758,550
12,115	Sally Holdings LLC, 10.50%, 11/15/16	Caa1/CCC+	12,236,150
			34,535,250
	<b>Metals &amp; Mining 0.9%</b>		
12,735	RathGibson, Inc., 11.25%, 2/15/14	B3/B	12,321,112
	<b>Miscellaneous 0.8%</b>		
9,477	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b) (c)	NR/NR	9,856,081
	<b>Multi-Media 1.6%</b>		
11,140	CCH I LLC, 11.00%, 10/1/15	Caa3/CCC	8,605,650
13,330	Mediacom LLC, 9.50%, 1/15/13	B3/B-	12,963,425
			21,569,075
	<b>Office Furnishings 0.9%</b>		
4,835	Interface, Inc., 9.50%, 2/1/14	B3/B-	5,100,925
6,600	10.375%, 2/1/10	B1/BB-	6,963,000
			12,063,925
	<b>Packaging &amp; Containers 0.8%</b>		
11,850	Smurfit-Stone Container Enterprises, Inc., 8.375%, 7/1/12	B3/B-	10,457,625
	<b>Paper Products 1.7%</b>		
11,705	Neenah Paper, Inc., 7.375%, 11/15/14	B2/B+	9,949,250
12,945	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	12,168,300
			22,117,550
	<b>Pipelines 0.6%</b>		
9,100	Dynegy Holdings, Inc., 7.75%, 6/1/19	B2/B	8,440,250
	<b>Retail 4.5%</b>		
1,950	Bon-Ton Stores, Inc., 10.25%, 3/15/14	Caa1/CCC+	931,125
7,550	Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/14	B3/CCC+	5,492,625
8,405	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa1/CCC+	8,194,875
12,825			