

NUVEEN PREFERRED CONVERTIBLE INCOME FUND 2  
Form N-CSR  
October 08, 2004

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 811-21333  
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Nuveen Preferred and Convertible Income Fund 2  
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(Exact name of registrant as specified in charter)

Nuveen Investments  
333 West Wacker Drive  
Chicago, IL 60606  
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(Address of principal executive offices) (Zip code)

Jessica R. Droeger  
Nuveen Investments  
333 West Wacker Drive  
Chicago, IL 60606  
-----

(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 917-7700  
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Date of fiscal year end: July 31  
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Date of reporting period: July 31, 2004  
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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. ss. 3507.

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ITEM 1. REPORTS TO STOCKHOLDERS.

ANNUAL REPORT July 31, 2004

Nuveen Investments  
Closed-End  
Exchange-Traded  
Funds

NUVEEN PREFERRED AND CONVERTIBLE INCOME FUND  
JPC

NUVEEN PREFERRED AND CONVERTIBLE INCOME FUND 2  
JQC

Photo of: Man and woman sitting on porch.  
Photo of: 2 children sitting in the grass.

HIGH CURRENT INCOME  
FROM A PORTFOLIO OF  
PREFERRED AND  
CONVERTIBLE SECURITIES

Logo: NUVEEN Investments

Photo of: Woman  
Photo of: Man and child  
Photo of: Woman

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OR

WWW.NUVEEN.COM/CORPORATE/ENROLLMENT if you get your Nuveen Fund dividends and

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statements directly from Nuveen.

(Be sure to have the address sheet that accompanied this report handy. You'll need it to complete the enrollment process.)

Logo: NUVEEN Investments

Photo of: Timothy R. Schwertfeger

Timothy R. Schwertfeger  
Chairman of the Board

Chairman's  
LETTER TO SHAREHOLDERS

I am very pleased to report that over the fiscal year ended July 31, 2004, your Fund continued to provide you with attractive monthly income through a diversified portfolio of quality preferred securities, convertible securities and high yield debt.

In addition to regular monthly income, we believe that your Fund also may provide an opportunity to reduce the overall risk of your entire investment portfolio. This is because the value of your Fund's holdings may move differently than the prices of the other investments, like common stocks, bonds or mutual funds that you may

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IN ADDITION TO REGULAR MONTHLY INCOME, WE BELIEVE THAT YOUR FUND ALSO MAY PROVIDE AN OPPORTUNITY TO REDUCE THE OVERALL RISK OF YOUR ENTIRE INVESTMENT PORTFOLIO.  
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own. Through adequate diversification, some parts of your portfolio may be going up when others are going down. This potential counterbalancing may reduce your overall risk over time. Your financial advisor can explain the advantages of portfolio diversification in more detail. I urge you to contact him or her soon for more information on this important investment strategy.

I also urge you to consider receiving future Fund reports and other Fund information by e-mail and the Internet. Not only will you be able to receive the information faster, but this also may help lower your Fund's expenses. Sign up is quick and easy - see the inside front cover of this report for step-by-step instructions.

For more than 100 years, Nuveen has specialized in offering quality investments such as your Fund to those seeking to accumulate and preserve wealth. Our commitment to careful research, constant surveillance and judicious trading by seasoned portfolio managers has never been stronger. Our mission continues to be to assist you and your financial advisor by offering the investment solutions and services that can help you secure your long-term financial goals. We thank you for choosing us as a partner as you work toward that objective.

Sincerely,

/s/ Timothy R. Schwertfeger

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Timothy R. Schwertfeger  
Chairman of the Board

September 15, 2004

Nuveen Preferred and Convertible Income Funds (JPC, JQC)

Portfolio Managers'  
PERSPECTIVE

The Funds are managed by Nuveen Institutional Advisory Corp. (NIAC), and subadvised by a team of specialists from Spectrum Asset Management, Inc., Froleys, Revy Investment Co., Inc., and NIAC. Mark Lieb, Bernie Sussman and Phil Jacoby lead the team at Spectrum, an affiliate of Principal CapitalSM, which manages the preferred securities portions of the Funds' portfolios. Andrea Revy O'Connell and Michael Revy lead the team at Froleys, Revy, one of the oldest firms specializing in convertible securities, which manages that portion of both Fund's portfolios. Gunther Stein and Lenny Mason lead the team at NIAC, which manages the high yield securities and other debt instruments in both Funds. Here these managers talk about general economic conditions, Fund performance and their management strategy for the fiscal year ended July 31, 2004.

WHAT WERE THE CONDITIONS IN THE FIXED-INCOME MARKETS GENERALLY, AND THE PREFERRED SECURITIES, CONVERTIBLE SECURITIES AND HIGH YIELD MARKETS IN PARTICULAR, DURING THE FISCAL YEAR ENDED JULY 31, 2004?

While the 10-year U. S. Treasury note yield of 4.45% at the end of the period was virtually unchanged from 12 months earlier, the fiscal year was marked by quite a bit of volatility. Prices in the U. S. Treasury market peaked on March 16, 2004, with the 10-year note yielding 3.68% as a faltering economy, slow employment growth, Federal Reserve and concerns over terrorism combined to keep interest rates near record lows. In early April, an unexpectedly strong employment report brought the bond market rally to an abrupt end. As concerns focused on the possibility that the Federal Reserve might start to raise short-term interest rates, interest rates spiked upward along the entire yield curve and the 10 year U. S. Treasury note reached a high yield of 4.87% on June 14, 2004.

The preferred securities market, as measured by the Merrill Lynch Preferred Stock Hybrid Securities Index, provided a total return of 6.34% for the 12 months ending July 31, 2004, compared with a 4.84% over the same period for the Lehman Aggregate Bond Index (a general measure of the overall bond market). New issuance in the preferred securities market totaled \$36.5 billion over the 12-month period, but the overall growth of the market was constrained by a strong pace of redemptions as issuers called the higher-coupon preferred securities they had issued during the 1990's. As of July 31, 2004, the hybrid preferred securities market had outstanding issues totaling approximately \$225 billion.

The convertible securities market exhibited two very different patterns over the course of the Funds' fiscal years. During the first half of the period, from August 2003 through mid-January 2004, convertible securities generally produced very positive performance.

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Coupled with a positive move in the equity market, the yield spreads between lower-rated and higher-rated fixed-income securities tightened over this period by as much as 25% as lower-rated securities tended to outperform more highly-rated instruments. The combination of tighter credit quality spreads and higher equity values helped to increase the value of the conversion feature of many convertible securities. From July 31, 2003, to January 31, 2004, the Merrill Lynch All U.S. Convertible Index rose 14.5%.

The second six months of the fiscal year had a distinctly different flavor for convertible securities. The equity markets declined as a result of slowing profit growth and credit quality spreads widened as economic uncertainty increased. These and other factors led to a decline of -2.12% from January 31, 2004, to July 31, 2004, in the Merrill Lynch All U.S. Convertible Index. Overall in the convertible securities market, the first six months of the Funds' years outweighed the negative second half and left the full fiscal year returns for the Merrill Lynch Index at 12.13%

The high yield market recorded robust returns during the twelve months ended July 31, 2004. Strong performance was driven by improving credit fundamentals, positive macroeconomic news and decreasing default rates. The CSFB High Yield Index posted a return of 14.09% over the last year. All of the industries that comprise the index registered positive returns. Lower-rated bonds posted a twelve-month return of 21.94%, significantly outperforming the middle and upper rating tiers due to the healthier economic environment and investors' increased tolerance for risk. As the credit markets improved over the last year, default rates have dropped accordingly. New issue volume has tempered slightly in response to moderate outflows from the high yield market during the first half of 2004. New issuances dropped 5% to \$126.9 million during the last year. Despite high petroleum prices, inflation concerns, and the threat of global terrorism, the high yield market has been resilient and economic reports continue to indicate a slow but steady recovery.

DURING THIS PERIOD WHAT WERE YOUR PRIMARY MANAGEMENT STRATEGIES AND FOCUSES?

Over this fiscal year, the focus of our preferred securities investing activities was on finding and owning high quality issues that offered what we judged to be good current yields and yields-to-call. The average credit quality of the preferred securities within each of the

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Funds was maintained at an A3/BBB+/A- level from Moody's, S&P and Fitch, respectively. Given a large number of redemptions in the preferred securities market over this period, much of our trading activity was targeted toward replacing the income of issues that were called out of the portfolios. In addition, we believed that higher coupon preferred securities with call dates in 2006 and 2007 were relatively more attractive than the lower, current coupon issues available during most of the year. These higher coupon securities also helped to keep the duration, or interest rate sensitivity, of the portfolios lower than if we had been more focused on newer issues.

Diversification among issuers and sectors within the preferred securities market also was an important part of our strategy. Each of the Funds now contains over 100 distinct preferred securities issuers. The weightings between \$25 par preferred stock and preferred capital securities were altered slightly over the course of the period, depending on where we felt we could find the best relative value.

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Looking at the convertible securities allocations, we continued to focus on owning issues that we believed would provide attractive income and offer the potential for capital appreciation. Generally, we looked for securities with greater equity-tracking sensitivity when we had strong views on the attractiveness of either a sector or a specific company. As of July 31, 2004, about 10% of both Funds' convertible securities allocations were hedged in an effort to reduce overall risk and increase cash flow.

For the high yield portions of both Funds' portfolios, we continued to employ a value-oriented investment management strategy, focusing on relatively higher-quality credits with strong fundamental business models, diversified revenue streams, and relatively low earnings volatility. We invested across a variety of industry sectors and rating tiers, and continued to evaluate the high yield holdings on an ongoing basis, eliminating positions with what we thought were escalating credit issues, limited upside potential, or significant downside risk.

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### HOW DID THE FUNDS PERFORM OVER THIS PERIOD?

Each of the Funds performed well during the fiscal year ended July 31, 2004. Their performance, as well as the performance of several widely followed market indexes, is shown in the nearby chart.

#### TOTAL RETURN ON NET ASSET VALUE

For 12 months ended July 31, 2004

|   |        |
|---|--------|
| JPC   | 13.44% |
| -----   |        |
| JQC   | 12.25% |
| -----   |        |
| Merrill Lynch Preferred Stock<br>Hybrid Securities Index <sup>1</sup> | 6.34%  |
| -----   |        |
| Merrill Lynch All U.S.<br>Convertible Index <sup>2</sup>              | 12.13% |
| -----   |        |
| CSFB High Yield Index <sup>3</sup>                                    | 14.09% |
| -----   |        |

Past performance does not guarantee future results.

For more information, please see the individual Performance Overview pages in this report.

For the 12 months ended July 31, 2004, the Funds outperformed both the Merrill Lynch Hybrid Preferred and the Merrill Lynch Convertible indexes and underperformed the CFSB High Yield Index. We believe this is to be expected, given the blended nature of the Funds' portfolios. While none of these indexes provides a comprehensive match for the Funds' overall asset allocation and investment strategy, we think they may provide some insight into the performance over the 12-month period of the different assets classes in which the Funds invest.

In our preferred securities holdings, the \$1000 par capital preferred securities held by each Fund were among their best performers during the 12-month reporting period. These issues are not part of the Merrill Lynch preferred stock index.

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These \$1000 par securities benefited from the general tightening of spreads in the corporate market over the reporting period and from the strong demand for yield from insurance companies and other institutional investors. The call protection afforded by these securities also helped their performance during the months when rates were falling. One of the best performers was Centaur Funding. Centaur, a part of Vodafone, was a subordinated issue that we considered to be very undervalued relative to the issuer's senior debt.

- 1 The Merrill Lynch Preferred Stock Hybrid Securities Index is an unmanaged index of investment-grade, exchange-traded preferred stocks with outstanding market values of at least \$30 million and at least one year to maturity.
- 2 The Merrill Lynch All U.S. Convertibles Index consists of approximately 575 securities with par value greater than \$50 million that were issued by U.S. companies or non-U.S. based issuers that have a significant business presence in the U.S.
- 3 The CSFB High Yield Index includes approximately \$375 billion of \$US-denominated high yield debt with a minimum of \$75 million in par value and at least one rating below investment-grade.

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Within the \$25 par market of listed preferred securities, one strategy that worked well during this period was trading to take advantage of what we thought were mispricings of the securities' embedded call options. In many cases we were able to sell issues trading at a premium where the yield-to-call was very low, and then were able to replace these securities with other, higher coupon issues with higher current yields and more attractive yields-to-call at the time of investment.

At the same time, Verizon did not perform as well as we had hoped it would. The Verizon issue was originally a series of \$1000 par securities that were repackaged into exchange-listed \$25 par preferreds that were bought during the first quarter of 2004, just before rates rose significantly. Several other issues in both Funds that happened to be bought in February and early March when interest rates were at their lows for the period also turned out to be relatively weak performers over this reporting period.

Looking at the Funds' convertible securities, the biggest drivers for convertible returns remained the growth prospects of the issuer's underlying business and the valuation of the issuer's equity. Both Funds had positive contributions from larger capitalization issuers like Tyco International, as well as from much smaller issuers like Lions Gate Entertainment Corp. In both companies, continued internal growth and opportunistic acquisitions further improved favorable revenue trends.

On the other side, the performance of both Funds was impacted negatively by some specific securities of issuers whose financial situations weakened over the course of the period. One example was Delta Airlines (held in JPC). As oil prices rose over May, June and July and negotiations with the unions became increasingly difficult, Delta's costs far outstripped their revenues. A significant debt load and limited pricing power in a competitive industry left the company near the brink of filing for Chapter 11 status as of July 31, 2004.

In the high yield portions of the portfolios, strong performance in the manufacturing, transportation and services sectors positively impacted the performance of both Funds. Other sectors within the high yield market showed

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even better performance, but the Funds did not hold significant positions in these areas. For example, industries with many lower credit-quality companies, such as the metals/minerals, chemicals and utilities

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sectors, were among the top performing high yield sectors over the 12 month period. JPC and JQC had minimal exposure to these volatile industries and negligible exposure to distressed and CCC-rated debt generally.

### WHAT ABOUT THE FUNDS' DIVIDENDS AND SHARE PRICES?

With short-term interest rates remaining near historically low levels during this reporting period, the leveraged structures of these Funds continued to support their dividend-paying capabilities. The extent of this benefit is tied in part to the short-term rates the Funds pay their FundPreferred(R) shareholders. During periods of low short-term rates, the Funds generally pay relatively lower dividends to their FundPreferred shareholders, which can leave more earnings to support common share dividends.

As a result, despite losing some of their higher-coupon securities to calls, JPC and JQC made no changes in their monthly dividends over the course of the fiscal year.

Both of these Funds seek to pay stable dividends at rates that reflect each Fund's past results and projected future performance. During certain periods, each Fund may pay dividends at a rate that may be more or less than the amount of net investment income actually earned by the Fund during the period. If a Fund has cumulatively earned more than it has paid in dividends, it holds the excess in reserve as undistributed net investment income (UNII) as part of the Fund's NAV. Conversely, if a Fund has cumulatively paid dividends in excess of its earnings, the excess constitutes negative UNII that is likewise reflected in the Fund's NAV. Each Fund will, over time, pay all of its net investment income as dividends to shareholders. As of July 31, 2004, both JPC and JQC positive UNII balances.

As of July 31, 2004, both Funds were trading at greater discounts to their net asset values than their average discounts over the course of the entire 12-month reporting period.

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Nuveen Preferred and Convertible Income Fund  
JPC

### Performance

OVERVIEW As of July 31, 2004

### Pie Chart:

#### PORTFOLIO ALLOCATION<sup>1</sup>

|                                  |       |
|----------------------------------|-------|
| \$25 Par (or similar) Securities | 33.3% |
| Convertible Bonds                | 18.1% |
| Capital Preferred Securities     | 14.0% |
| Convertible Preferred Securities | 13.5% |
| Corporate Bonds                  | 11.7% |



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|                               |      |
|-------------------------------|------|
| Capital Preferred Euro-Market |      |
| Listed Securities             | 5.2% |
| Other                         | 4.2% |

### Bar Chart:

#### 2003-2004 MONTHLY DIVIDENDS PER SHARE

|     |        |
|-----|--------|
| Aug | 0.1005 |
| Sep | 0.1005 |
| Oct | 0.1005 |
| Nov | 0.1005 |
| Dec | 0.1005 |
| Jan | 0.1005 |
| Feb | 0.1005 |
| Mar | 0.1005 |
| Apr | 0.1005 |
| May | 0.1005 |
| Jun | 0.1005 |
| Jul | 0.1005 |

### Line Chart:

#### SHARE PRICE PERFORMANCE

#### Weekly Closing Price

Past performance is not predictive of future results.

|        |       |
|--------|-------|
| 8/1/03 | 14.47 |
|        | 14.75 |
|        | 14.1  |
|        | 14.01 |
|        | 14.25 |
|        | 14.43 |
|        | 14.42 |
|        | 14.42 |
|        | 14.23 |
|        | 14.66 |
|        | 14.74 |
|        | 14.67 |
|        | 14.85 |
|        | 14.95 |
|        | 14.99 |
|        | 14.76 |
|        | 14.95 |
|        | 15.17 |
|        | 15.05 |
|        | 15.52 |
|        | 15.52 |
|        | 15.4  |
|        | 15.36 |
|        | 15.49 |
|        | 15.58 |
|        | 15.3  |
|        | 15.28 |
|        | 15.33 |
|        | 15.59 |
|        | 15.42 |
|        | 15.55 |
|        | 15.47 |
|        | 15.26 |
|        | 15.03 |
|        | 14.3  |
|        | 13.4  |
|        | 14.08 |
|        | 12.9  |
|        | 13.1  |

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|         |       |
|---------|-------|
|         | 13.39 |
|         | 13.39 |
|         | 13.3  |
|         | 13.3  |
|         | 12.94 |
|         | 13.11 |
|         | 13.6  |
|         | 13.69 |
|         | 13.88 |
|         | 13.83 |
| 7/31/04 | 13.95 |

PORTFOLIO STATISTICS

|   |             |
|---|-------------|
| Share Price                                       | \$13.95     |
| Common Share<br>Net Asset Value                   | \$14.73     |
| Premium/Discount to NAV                           | -5.30%      |
| Latest Dividend                                   | \$.1005     |
| Market Yield                                      | 8.65%       |
| Net Assets Applicable to<br>Common Shares (\$000) | \$1,474,983 |

INDUSTRIES<sup>1</sup>

|                                |       |
|--------------------------------|-------|
| Commercial Banks               | 26.7% |
| Insurance                      | 11.6% |
| Real Estate                    | 11.0% |
| Diversified Financial Services | 6.8%  |
| Media                          | 5.8%  |
| Automobiles                    | 4.5%  |
| Hotels, Restaurants & Leisure  | 4.1%  |
| Electric Utilities             | 2.5%  |
| Communications Equipment       | 2.0%  |
| Other                          | 25.0% |

TOP FIVE ISSUERS<sup>1</sup>  
(EXCLUDING REPURCHASE AGREEMENTS)  
(as a % of total investments)<sup>1</sup>

|                            |      |
|----------------------------|------|
| Wachovia Corporation       | 2.8% |
| General Motors Corporation | 2.2% |
| PartnerRe Limited          | 1.9% |

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|                    |      |
|--------------------|------|
| Ford Motor Company | 1.8% |
| Citigroup          | 1.7% |

AVERAGE ANNUAL TOTAL RETURN  
(Inception 3/26/03)

|                 | ON SHARE PRICE | ON NAV |
|-----------------|----------------|--------|
| 1-Year          | 4.34%          | 13.44% |
| Since Inception | 2.55%          | 10.27% |

1 Excluding common stocks sold short.

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Nuveen Preferred and Convertible Income Fund 2  
JQC

Performance

OVERVIEW As of July 31, 2004

Pie Chart:

Portfolio Allocation<sup>1</sup>

|                                  |       |
|----------------------------------|-------|
| \$25 Par (or similar) Securities | 31.3% |
| Capital Preferred Securities     | 18.4% |
| Convertible Bonds                | 18.0% |
| Convertible Preferred Securities | 13.8% |
| Corporate Bonds                  | 11.4% |
| Capital Preferred Euro-Market    |       |
| Listed Securities                | 5.3%  |
| Other                            | 1.8%  |

Bar Chart

2003-2004 MONTHLY DIVIDENDS PER SHARE

|     |        |
|-----|--------|
| Aug | 0.0975 |
| Sep | 0.0975 |
| Oct | 0.0975 |
| Nov | 0.0975 |
| Dec | 0.0975 |
| Jan | 0.0975 |
| Feb | 0.0975 |
| Mar | 0.0975 |
| Apr | 0.0975 |
| May | 0.0975 |
| Jun | 0.0975 |
| Jul | 0.0975 |

Line Chart:

Share Price Performance

Weekly Closing Price

Past performance is not predictive of future results.

|        |       |
|--------|-------|
| 8/1/03 | 14.69 |
|        | 14.21 |

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|         |       |
|---------|-------|
|         | 14.01 |
|         | 13.73 |
|         | 13.82 |
|         | 14.05 |
|         | 13.99 |
|         | 13.97 |
|         | 13.97 |
|         | 14.33 |
|         | 14.29 |
|         | 14.3  |
|         | 14.35 |
|         | 14.43 |
|         | 14.37 |
|         | 14.37 |
|         | 14.44 |
|         | 14.73 |
|         | 14.35 |
|         | 14.68 |
|         | 14.97 |
|         | 14.83 |
|         | 14.89 |
|         | 14.89 |
|         | 14.99 |
|         | 14.83 |
|         | 14.76 |
|         | 14.89 |
|         | 14.92 |
|         | 14.99 |
|         | 15    |
|         | 15.02 |
|         | 14.91 |
|         | 14.9  |
|         | 14.03 |
|         | 12.99 |
|         | 13.53 |
|         | 12.55 |
|         | 12.82 |
|         | 12.97 |
|         | 13.11 |
|         | 13    |
|         | 13.01 |
|         | 12.69 |
|         | 12.8  |
|         | 13.21 |
|         | 13.35 |
|         | 13.43 |
|         | 13.3  |
| 7/31/04 | 13.54 |

PORTFOLIO STATISTICS

|                         |         |
|-------------------------|---------|
| -----                   |         |
| Share Price             | \$13.54 |
| -----                   |         |
| Common Share            |         |
| Net Asset Value         | \$14.33 |
| -----                   |         |
| Premium/Discount to NAV | -5.51%  |
| -----                   |         |
| Latest Dividend         | \$.0975 |
| -----                   |         |
| Market Yield            | 8.64%   |

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-----  
 Net Assets Applicable to  
 Common Shares (\$000)           \$2,021,258  
 -----

INDUSTRIES<sup>1</sup>

-----  
 Commercial Banks                   29.9%  
 -----  
 Insurance                           11.6%  
 -----  
 Real Estate                         8.7%  
 -----  
 Media                                7.0%  
 -----  
 Diversified Financial Services   5.5%  
 -----  
 Automobiles                        3.5%  
 -----  
 Hotels, Restaurant & Leisure     3.3%  
 -----  
 Communications Equipment        2.1%  
 -----  
 Oil & Gas                           2.1%  
 -----  
 Electric Utilities                 2.0%  
 -----  
 Other                               24.3%  
 -----

TOP FIVE ISSUERS<sup>1</sup>  
 (EXCLUDING REPURCHASE AGREEMENTS)  
 (as a % of total investments)<sup>1</sup>

-----  
 Wachovia Corporation               2.1%  
 -----  
 HBOS Public Limited Company      1.8%  
 -----  
 Citigroup                          1.7%  
 -----  
 General Motors Corporation        1.5%  
 -----  
 INGGroep NV                        1.5%  
 -----

AVERAGE ANNUAL TOTAL RETURN  
 (Inception 6/25/03)

|                 | ON SHARE PRICE | ON NAV |
|-----------------|----------------|--------|
| 1-Year          | 0.10%          | 12.25% |
| Since Inception | -1.79%         | 7.54%  |

-----

<sup>1</sup> Excluding common stocks sold short.

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Report of  
INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM

THE BOARD OF TRUSTEES AND SHAREHOLDERS  
NUVEEN PREFERRED AND CONVERTIBLE INCOME FUND  
NUVEEN PREFERRED AND CONVERTIBLE INCOME FUND 2

We have audited the accompanying statements of assets and liabilities, including the portfolios of investments, of Nuveen Preferred and Convertible Income Fund, and Nuveen Preferred and Convertible Income Fund 2 as of July 31, 2004, and the related statements of operations, changes in net assets and the financial highlights for the periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of investments owned as of July 31, 2004, by correspondence with the custodian and brokers or by other appropriate auditing procedures when replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial positions of Nuveen Preferred and Convertible Income Fund, and Nuveen Preferred and Convertible Income Fund 2 at July 31, 2004, and the results of their operations, the changes in their net assets and the financial highlights for the periods indicated therein in conformity with U.S. generally accepted accounting principles.

/S/Ernst & Young LLP

Chicago, Illinois  
September 15, 2004

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Nuveen Preferred and Convertible Income Fund (JPC)  
Portfolio of  
INVESTMENTS July 31, 2004

SHARES      DESCRIPTION(1)

-----  
COMMON STOCKS - 1.1% (0.7% OF TOTAL INVESTMENTS)

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|         |   |
|---------|---|
|         | BIOTECHNOLOGY - 0.3%  |
| 86,344  | Genentech Inc.  |
| -----   |   |
|         | SPECIALTY RETAIL - 0.5%   |
| 295,141 | Foot Locker Inc.  |
| -----   |   |
|         | INSURANCE - 0.3%  |
| 160,000 | Genworth Financial Inc.   |
| -----   |   |
|         | Total Common Stocks (cost \$12,793,240)                               |
| -----   |   |
|         | \$25 PAR (OR SIMILAR) SECURITIES - 49.1% (33.3% OF TOTAL INVESTMENTS) |
|         | AUTO COMPONENTS - 0.7%  |
| 19,800  | Magna International Inc., Series B, 8.875%                            |
| 401,633 | Delphi Trust I, 8.250%  |
| -----   |   |
|         | AUTOMOBILES - 1.8%  |
| 331,800 | Ford Motor Company, 8.000% (CORTS)                                    |
| 131,400 | Ford Motor Company, Series F, 8.000% (CORTS)                          |
| 39,400  | General Motors Acceptance Corporation, 7.350%                         |
| 520,000 | General Motors Corporation, 7.375%                                    |
| -----   |   |
|         | BEVERAGES - 0.2%  |
| 126,500 | Grand Metropolitan Delaware LP, 9.420%                                |
| -----   |   |
|         | COMMERCIAL BANKS - 9.7%   |
| 40,000  | Abbey National plc, 7.375%  |
| 30,000  | ABN AMRO Capital Fund Trust V, 5.900%                                 |
| 51,900  | ASBC Capital I, 7.625%  |
| 65,185  | BAC Capital Trust I, 7.000%   |
| 135,755 | BAC Capital Trust II, 7.000%  |
| 284,700 | BAC Capital Trust III, 7.000%   |
| 63,400  | Banco Totta & Acores Finance, Series A, 8.875%                        |
| 186,114 | Banesto Holdings, Series A-144A, 10.500%                              |

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|         |   |
|---------|---|
| 81,700  | Bank One Capital Trust VI, 7.200%             |
| 22,800  | Bank One Capital V, 8.000%                    |
| 32,100  | BankNorth Capital Trust II, 8.000%            |
| 15,100  | BBVA Preferred Capital Ltd., Series B, 7.750% |
| 22,600  | BCH Capital Ltd., Series B, 9.430%            |
| 500     | BNY Capital Trust IV, Series E, 6.875%        |
| 300,000 | BNY Capital Trust V, Series F, 5.950%         |
| 80,850  | BSCH Finance Ltd., Series Q, 8.625%           |
| 62,200  | Chittenden Capital Trust I, 8.000%            |
| 11,000  | CIT Group Incorporated, 7.750% (CORTS)        |
| 192,000 | Citigroup Capital Trust IX, 6.000%            |

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| SHARES | DESCRIPTION(1) |
|--------|----------------|
|--------|----------------|

---

| SHARES  | DESCRIPTION(1)                                       |
|---------|--|
|         | COMMERCIAL BANKS (continued)                         |
| 32,500  | Citigroup Capital Trust VI, 6.875%                   |
| 49,800  | Citigroup Capital Trust VII, 7.125%                  |
| 331,300 | Citigroup Capital Trust VIII, 6.950%                 |
| 59,300  | Citigroup Inc., Series H, 6.231% (a)                 |
| 107,000 | Cobank ABC, 144A, 7.000% (a)                         |
| 77,000  | Comerica Capital Trust I, 7.600%                     |
| 125,000 | Compass Capital Trust III, 7.350%                    |
| 9,300   | CSFB USA, Series 2002-10, 7.000% (SATURNS)           |
| 47,100  | Espirito Santo Overseas, 8.500%                      |
| 176,300 | Fannie Mae, 5.125% (a)                               |
| 22,500  | First Union Capital II, Series II, 7.500% (CORTS)    |
| 41,500  | First Union Institutional Capital II, 8.200% (CORTS) |
| 292,579 | Fleet Capital Trust VII, 7.200%                      |



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|         |  |
|---------|--|
| 337,000 | Fleet Capital Trust VIII, 7.200%   |
| 13,100  | Goldman Sachs Group Inc., Series 2003-06, 6.000% (SATURNS)                   |
| 28,900  | JPM Capital Trust, 7.200% (CORTS)  |
| 51,900  | JPMorgan Chase & Company, 7.125% (PCARS)                                     |
| 395,067 | JPMorgan Chase Capital Trust X, 7.000%                                       |
| 47,200  | JPMorgan Chase Trust, Series 2002-6, Class A, 7.125% (SATURNS)               |
| 14,400  | KeyCorp, Series 2001-7, 7.750% (CORTS)                                       |
| 25,000  | KeyCorp, Series B, 8.250% (CORTS)  |
| 153,200 | National Commerce Capital Trust II, 7.700%                                   |
| 32,900  | National Westminster Bank plc, Series A, 7.875%                              |
| 18,900  | PNC Capital Trust, 6.125%  |
| 19,400  | Regions Finance Trust I, 8.000%  |
| 175,000 | Royal Bank of Scotland Group plc, 5.750%                                     |
| 74,300  | SunTrust Capital Trust IV, 7.125%  |
| 51,500  | SunTrust Capital Trust V, 7.050%   |
| 66,400  | USB Capital Trust III, 7.750%  |
| 168,000 | USB Capital Trust IV, 7.350%   |
| 54,100  | USB Capital Trust V, 7.250%  |
| 24,300  | VNB Capital Trust I, 7.750%  |
| 15,700  | Washington Mutual Capital Trust I, Series 2001-22, Class A-1, 7.650% (CORTS) |
| 9,100   | Wells Fargo Capital Trust IV, 7.000%   |
| 60,735  | Wells Fargo Capital Trust V, 7.000%  |
| 14,700  | Wells Fargo Capital Trust VI, 6.950%   |
| 225,000 | Wells Fargo Capital Trust VII, 5.850%  |
| 79,600  | Zions Capital Trust B, 8.000%  |

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COMPUTERS & PERIPHERALS - 0.0%

|        |   |
|--------|---|
| 11,600 | IBM Inc., 7.125% (CORTS)                  |
| 13,500 | IBM Inc., Series 2001-1, 7.125% (SATURNS) |

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| SHARES    | DESCRIPTION(1)   |
|-----------|--|
|           | CONSUMER FINANCE - 0.3%                                      |
| 95,700    | Countrywide Capital III, 8.050% (PPLUS)                      |
| 6,900     | Household Capital Trust V, Series X, 10.000%                 |
| 26,900    | Household Capital Trust VI, 8.250%                           |
| 39,200    | Household Capital Trust VII, 7.500%                          |
|           | DIVERSIFIED FINANCIAL SERVICES - 7.9%                        |
| 17,100    | Bear Stearns Capital Trust III, 7.800%                       |
| 33,200    | Citigroup Inc., Series F, 6.365% (a)                         |
| 94,000    | Citigroup Inc., Series G, 6.213% (a)                         |
| 67,970    | Citigroup Inc., Series M, 5.864% (a)                         |
| 1,200,200 | Countrywide Capital Trust IV, 6.750%                         |
| 10,000    | Federal Home Loan Mortgage Corporation, 5.000% (a)           |
| 33,100    | General Electric Capital Corporation, 6.625%                 |
| 773,900   | Household Finance Corporation, 6.875%                        |
| 526,388   | Lehman Brothers Holdings Capital Trust III, Series K, 6.375% |
| 26,900    | Merrill Lynch Capital Trust II, 8.000%                       |
| 100,000   | Merrill Lynch Capital Trust, 7.000%                          |
| 113,600   | Merrill Lynch Preferred Capital Trust IV, 7.120%             |
| 225,000   | Merrill Lynch Preferred Capital Trust V, 7.280%              |
| 29,000    | Merrill Lynch Preferred Capital Trust, 7.750%                |
| 66,100    | Morgan Stanley Capital Trust II, 7.250%                      |
| 365,739   | Morgan Stanley Capital Trust III, 6.250%                     |
| 717,800   | Morgan Stanley Capital Trust IV, 6.250%                      |
| 21,400    | Morgan Stanley, 7.050% (PPLUS)                               |
|           | DIVERSIFIED TELECOMMUNICATION SERVICES - 0.4%                |
| 25,500    | AT&T Wireless, Series 2002-7, 8.000% (CORTS)                 |

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|        |  |
|--------|--|
| 29,000 | BellSouth Corporation, Series 2001-3, 7.125% (SATURNS)                             |
| 8,800  | BellSouth Inc., 7.000% (CORTS)   |
| 15,000 | BellSouth Telecommunications, 7.300% (PPLUS)                                       |
| 13,100 | Citizens Communications, 8.375% (PPLUS)  |
| 36,350 | Deutsche Telekom International Finance B.V., Series 2001-24, Class A-1, 7.875% (C) |
| 15,900 | SBC Communications Inc., 7.000%  |
| 14,800 | Verizon Communications, 7.625% (CORTS)   |
| 11,900 | Verizon New England Inc., Series B, 7.000%   |
| 40,955 | Verizon South Inc., Series F, 7.000%   |

---

ELECTRIC UTILITIES - 1.1%

|         |  |
|---------|--|
| 7,000   | Consolidated Edison Company of New York Inc., 7.500% |
| 10,000  | Consolidated Edison Company, 7.250%                  |
| 4,400   | Detroit Edison Company, 7.375%                       |
| 39,100  | Dominion CNG Capital Trust I, 7.800%                 |
| 22,200  | DTE Energy Trust I, 7.800%                           |
| 33,470  | Entergy Louisiana Inc., 7.600%                       |
| 43,570  | Georgia Power Capital Trust V, 7.125%                |
| 226,900 | Georgia Power Company, 5.900%                        |

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| SHARES | DESCRIPTION(1) |
|--------|----------------|
|--------|----------------|

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ELECTRIC UTILITIES (continued)

|         |  |
|---------|--|
| 113,432 | Tennessee Valley Authority, Series D, 6.750% |
| 124,000 | Virginia Power Capital Trust, 7.375%         |

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FOOD PRODUCTS - 0.4%

|        |   |
|--------|---|
| 60,000 | Dairy Farmers of America Inc., 144A, 7.875% (a) |
|--------|---|

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|        |                              |
|--------|------------------------------|
|        | GAS UTILITIES - 0.0%         |
| 23,000 | AGL Capital Trust II, 8.000% |
| 1,000  | TransCanada Pipeline, 8.250% |

---

|         |  |
|---------|--|
|         | HEALTHCARE PROVIDERS & SERVICES - 0.5% |
| 273,500 | Aetna Incorporated, 8.500%             |

---

|           |   |
|-----------|---|
|           | INSURANCE - 11.2%                                 |
| 5,500     | ACE Capital Trust I, Series 1999, 8.875%          |
| 514,010   | Ace Ltd., Series C, 7.800%                        |
| 52,700    | AMBAC Financial Group Inc., 5.950%                |
| 237,760   | Converium Finance, 8.250%                         |
| 1,216,000 | Delphi Financial Group Inc, 8.000%                |
| 41,900    | Everest Re Capital Trust II, 6.200%               |
| 93,500    | Everest Re Group Limited, 7.850%                  |
| 7,200     | Financial Security Assurance Holdings, 6.875%     |
| 18,000    | Financial Security Assurance Holdings, 6.250%     |
| 11,000    | Great-West L&A Capital Trust I, Series A, 7.250%  |
| 188,900   | Hartford Capital Trust III, Series C, 7.450%      |
| 27,800    | Hartford Life Capital Trust II, Series B, 7.625%  |
| 747,975   | ING Group NV, 7.050%                              |
| 506,518   | ING Group NV, 7.200%                              |
| 36,800    | Lincoln National Capital Trust V, Series E 7.650% |
| 1,300     | MBIA Inc., 8.000%                                 |
| 1,550,312 | PartnerRe Limited, Series C, 6.750%               |
| 72,000    | PartnerRe Limited, 7.900%                         |
| 79,600    | PLC Capital Trust III, 7.500%                     |
| 31,100    | PLC Capital Trust IV, 7.250%                      |
| 2,900     | PLC Capital Trust V, 6.125%                       |
| 88,800    | RenaissanceRe Holdings Ltd., Series A, 8.100%     |
| 325,310   | RenaissanceRe Holdings Ltd., Series B, 7.300%     |

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|         |   |
|---------|---|
| 13,200  | Safeco Capital Trust I, 8.750% (CORTS)                    |
| 21,700  | Safeco Capital Trust I, 8.700% (CORTS)                    |
| 4,800   | Safeco Capital Trust I, Series 2001-4, 8.750% (CORTS)     |
| 33,000  | Safeco Capital Trust III, 8.072% (CORTS)                  |
| 10,700  | Safeco Capital Trust IV, 8.375% (CORTS)                   |
| 44,500  | Safeco Corporation, Series 2001-7, 8.250% (SATURNS)       |
| 36,100  | Safeco Corporation, Series 2002-5, 8.250% (SATURNS)       |
| 25,400  | Torchmark Capital Trust I, 7.750%                         |
| 60,600  | W.R. Berkley Capital Trust, Series 2002-1, 8.125% (CBTCS) |
| 86,700  | XL Capital Ltd., Series A, 8.000%                         |
| 235,200 | XL Capital Ltd., Series B, 7.625%                         |

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| SHARES  | DESCRIPTION(1)                                |
|---------|---|
|         | MEDIA - 0.1%                                  |
| 37,600  | Viacom Inc., 7.300%                           |
|         | MULTI-UTILITIES & UNREGULATED POWER - 0.1%    |
| 49,500  | Energy East Capital Trust I, 8.250%           |
|         | OIL & GAS - 0.7%                              |
| 18,300  | EnCana Corporation, 9.500%                    |
| 372,500 | Nexen Inc., 7.350%                            |
|         | PHARMACEUTICALS - 0.0%                        |
| 7,300   | Rhone-Poulenc Overseas, Series A, 8.125%      |
|         | REAL ESTATE - 13.6%                           |
| 60,000  | AMB Property Corporation, Series L, 6.500%    |
| 10,700  | AvalonBay Communities, Inc., Series H, 8.700% |
| 3,000   | BRE Properties, Series B, 8.080%              |

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|           |   |
|-----------|---|
| 347,125   | CarrAmerica Realty Corporation, Series E, 7.500%            |
| 72,000    | Developers Diversified Realty Corporation, Series H, 7.375% |
| 656,785   | Developers Diversified Realty Corporation, Series G, 8.000% |
| 17,400    | Developers Diversified Realty Corporation, Series F, 8.600% |
| 109,081   | Equity Office Properties Trust, Series G, 7.750%            |
| 18,700    | Equity Residential Properties Trust, Series C, 9.125%       |
| 9,900     | Equity Residential Properties Trust, Series D, 8.600%       |
| 610,800   | Equity Residential Properties Trust, Series N, 6.480%       |
| 6,100     | Equity Residential Properties Trust, 9.125%                 |
| 708,634   | Gables Residential Trust, Series D, 7.500%                  |
| 30,900    | HRPT Properties Trust, Series A, 9.875%                     |
| 303,600   | HRPT Properties Trust, Series B, 8.750%                     |
| 943,483   | Kimco Realty Corporation, Series F, 6.650%                  |
| 13,693    | New Plan Excel Realty Trust, Series D, 7.800%               |
| 972,775   | New Plan Excel Realty Trust, Series E, 7.625%               |
| 32,982    | Prologis Trust, Series C, 8.540%                            |
| 13,600    | Prologis Trust, Series G, 6.750%                            |
| 159,400   | Public Storage Inc., Series R, 8.000%                       |
| 28,900    | Public Storage Inc., Series S, 7.875%                       |
| 26,500    | Public Storage Inc., Series T, 7.625%                       |
| 27,500    | Public Storage Inc., Series U, 7.625%                       |
| 32,000    | Public Storage Inc., Series V, 7.500%                       |
| 187,000   | Regency Centers Corporation, 7.450%                         |
| 7,000     | Simon Property Group, Inc., Series G, 7.890%                |
| 1,607,345 | Wachovia Preferred Funding Corporation, 7.250%              |
| 707,700   | Weingarten Realty Trust, Preferred Securities, 6.750%       |

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SPECIALTY RETAIL - 0.0%

|        |  |
|--------|--|
| 11,400 | Sherwin Williams Company, Series III, 7.250% (CORTS) |
|--------|--|

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WIRELESS TELECOMMUNICATION SERVICES - 0.4%

|        |  |
|--------|--|
| 17,400 | AT&T Wireless Services Equity, Series 2002-B, 9.250% (SATURNS) |
|--------|--|

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72,800 Telephone and Data Systems Inc., 7.600%

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| SHARES  | DESCRIPTION(1)  |
|---------|---|
| -----   |   |
|         | WIRELESS TELECOMMUNICATION SERVICES (continued)                       |
| 33,800  | United States Cellular Corporation, 8.750%                            |
| 100,000 | United States Cellular Corporation, 7.500%                            |
| 19,900  | Verizon Communications, 7.375% (CORTS)                                |
| -----   |   |
|         | Total \$25 Par (or similar) Securities (cost \$728,412,540)           |
| -----   |   |
|         | CONVERTIBLE PREFERRED SECURITIES - 19.8% (13.5% OF TOTAL INVESTMENTS) |
|         | AEROSPACE & DEFENSE - 0.5%  |
| 75,611  | Northrop Grumman Corporation, 7.250%                                  |
| -----   |   |
|         | AUTOMOBILES - 0.6%  |
| 155,000 | Ford Motor Company Capital Trust II, 6.500%                           |
| -----   |   |
|         | CHEMICALS - 0.2%  |
| 35,000  | IMC Global Inc., 7.500%   |
| -----   |   |
|         | COMMERCIAL BANKS - 2.1%   |
| 200,000 | Affiliated Managers Group Inc., 6.000%                                |
| 164,000 | Sovereign Capital Trust IV, Convertible Security, 4.375%              |
| 53,200  | State Street Corporation, 6.750%                                      |
| 144,000 | Washington Mutual Inc, Unit 1 Trust, 5.375%                           |
| -----   |   |
|         | COMMERCIAL SERVICES & SUPPLIES - 0.9%                                 |
| 97,375  | Allied Waste Industries Inc., 6.250%                                  |
| 173,150 | Cendant Corporation, 7.750%   |
| -----   |   |

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COMMUNICATIONS EQUIPMENT - 0.8%

6,010 Lucent Technologies Capital Trust I, 7.750%  
 80 Nortel Networks Corp, 7.000%

-----  
 CONSTRUCTION MATERIALS - 0.3%

85,800 TXI Capital Trust I, 6.500%

-----  
 CONSUMER FINANCE - 0.4%

118,000 Capital One Financial Corporation, 6.250%

-----  
 CONTAINERS & PACKAGING - 0.4%

112,500 Temple Inland Inc, 7.500%

-----  
 DIVERSIFIED FINANCIAL SERVICES - 1.1%

217,900 Citigroup Global Markets, 2.000%  
 154,000 Gabelli Asset Management Inc., 6.950%  
 140,000 Phoenix Companies Inc., 7.000%

-----  
 DIVERSIFIED TELECOMMUNICATION SERVICES - 0.4%

131,000 Alltel Corporation, 7.750%

-----  
 ELECTRIC UTILITIES - 2.5%

157,000 Cinergy Corporation, 9.500%  
 144,800 Dominion Resources Inc., 8.750%  
 344,500 DTE Energy Company, 8.750%  
 217,900 FPL Group Inc., 8.000%

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SHARES DESCRIPTION(1)

-----  
 ELECTRONIC EQUIPMENT & INSTRUMENTS - 0.8%

46,475 General Cable Corporation, 144A, 5.750%  
 175,000 Pioneer-Standard Financial Trust, 6.750%



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|        |  |
|--------|--|
|        | ENERGY EQUIPMENT & SERVICES - 0.1%       |
| 25,000 | Hanover Compressor Capital Trust, 7.250% |

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|         |                                 |
|---------|---------------------------------|
|         | FOOD & STAPLES RETAILING - 0.3% |
| 178,925 | Albertsons Inc., 7.250%         |

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|         |                       |
|---------|-----------------------|
|         | GAS UTILITIES - 0.4%  |
| 185,000 | Sempra Energy, 8.500% |

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|        |  |
|--------|--|
|        | HEALTHCARE PROVIDERS & SERVICES - 0.3% |
| 41,000 | Anthem Inc., 6.000%                    |

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|         |                                       |
|---------|---------------------------------------|
|         | HOTELS, RESTAURANTS & LEISURE - 0.9%  |
| 250,000 | Host Marriott Financial Trust, 6.750% |

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|         |                                  |
|---------|----------------------------------|
|         | HOUSEHOLD DURABLES - 0.3%        |
| 106,675 | Newell Financial Trust I, 5.250% |

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|         |   |
|---------|---|
|         | INSURANCE - 2.5%                                |
| 100,000 | Chubb Corporation, 7.000%                       |
| 86,200  | Hartford Financial Services Group, Inc., 7.000% |
| 51,525  | PMI Group Inc., 5.875%                          |
| 98,000  | Prudential Financial Capital Trust I, 6.750%    |
| 206,000 | Reinsurance Group of America Inc., 5.750%       |
| 65,000  | UnumProvident Corporation, 8.250%               |
| 256,250 | XL Capital Limited, 6.500%                      |

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|         |  |
|---------|--|
|         | MEDIA - 1.4%                                       |
| 508,250 | Cablevision Systems Corporation, Trust I, 6.500%   |
| 185,000 | Emmis Communications Corporation, Series A, 6.250% |
| 53,375  | Interpublic Group, Series A, 5.375%                |
| 10,000  | Sinclair Broadcast Group Inc., Series D, 6.000%    |

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|        |   |
|--------|---|
|        | METALS & MINING - 0.7%                            |
| 84,700 | United States Steel Corporation, Series B, 7.000% |

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|         |   |
|---------|---|
|         | OFFICE ELECTRONICS - 0.1%   |
| 10,150  | Xerox Corporation, 144A, 7.500%   |
|         | OIL & GAS - 1.0%  |
| 50,000  | Amerada Hess Corporation, 7.000%  |
| 6,725   | Chesapeake Energy Corporation, 144A, 4.125%                                       |
| 68,250  | Kerr-McGee Corporation, 5.500%  |
|         | REAL ESTATE 0.6%  |
| 165,000 | Equity Office Properties Trust, Series B, 5.250%                                  |
|         | SPECIALTY RETAIL 0.2%   |
| 53,000  | United Rentals Trust I, Convertible Quarterly Income Preferred Securities, 6.500% |
|         | Total Convertible Preferred Securities (cost \$267,084,948)                       |

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| SHARES | DESCRIPTION(1)   |
|--------|--|
|        | CAPITAL PREFERRED - HYBRID SECURITIES - 4.1% (2.8% OF TOTAL INVESTMENTS) |
|        | COMMERCIAL BANKS - 3.2%  |
| 15     | BBVA Privanza International Gibraltar, 144A, 7.764%                      |
| 300    | Union Planters Preferred Fund, Series, 144A, 7.750%                      |
|        | DIVERSIFIED TELECOMMUNICATION SERVICES - 0.9%                            |
| 10,957 | Centaur Funding Corporation, 144A, Series B, 9.080% 4/21/20              |
|        | Total Capital Preferred - Hybrid Securities (cost \$56,345,872)          |

| PRINCIPAL<br>AMOUNT (000) /<br>SHARES | DESCRIPTION |
|---------------------------------------|-------------|
|---------------------------------------|-------------|

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CONVERTIBLE BONDS - 26.6% (18.1% OF TOTAL INVESTMENTS)

AEROSPACE & DEFENSE - 0.6%

\$ 3,425 AAR Corporation, 144A, 2.875%, 2/01/24  
 2,500 EDO Corporation, Convertible Subordinate Note, 5.250%, 4/15/07  
 2,500 Mercury Computer Systems Inc., 144A, 2.000%, 5/01/24

-----  
 AIRLINES - 0.3%

3,825 Delta Air Lines Incorporated, 144A, 8.000%, 6/03/23  
 2,765 Northwest Airlines Corporation, Convertible Notes, 144A, 6.625%, 5/15/23

-----  
 AUTO COMPONENTS - 0.2%

4,865 Lear Corporation, 0.000%, 2/20/22

-----  
 AUTOMOBILES - 1.3%

2,750 Fleetwood Enterprises Inc., 144A, 5.000%, 12/15/23  
 185 General Motors Corporation, Convertible Notes, Senior Debentures Series A, 4.500%  
 185 General Motors Corporation, Series B, 5.250%, 3/03/32  
 6,000 Sonic Automotive Inc, Convertible Senior Subordinated Notes, 5.250%, 5/07/09

-----  
 BIOTECHNOLOGY - 1.3%

5,115 Chiron Corporation, 2.750%, 6/30/34  
 2,850 Imclone Systems Inc., 144A, 1.375%, 5/15/24  
 4,500 Ivax Corporation, Convertible Note, 144A, 1.500%, 3/01/24  
 6,500 Ivax Corporation, Convertible Senior Subordinated Notes, 4.500%, 5/15/08

-----  
 COMMERCIAL SERVICES & SUPPLIES - 0.5%

6,700 Bowne and Company Incorporated, 144A, 5.000%, 10/01/33

-----  
 COMMUNICATIONS EQUIPMENT - 2.0%

7,057 Ciena Corporation, 3.750%, 2/01/08  
 5,565 Converse Technology Inc., 144A, 0.000%, 5/15/23  
 8,625 Liberty Media Corporation, Senior Debentures Exchangeable for Motorola 3.500%, 1/  
 2,850 Lucent Technologies Inc., 2.750%, 6/15/23  
 5,000 Skyworks Solutions Inc., 4.750%, 11/15/07

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|        |               |  |
|--------|---------------|--|
| -----  |               |  |
|        |               | COMPUTERS & PERIPHERALS - 0.7%   |
| 17,675 |               | Hewlett-Packard Company, 0.000%, 10/14/17                                  |
| -----  |               |  |
|        |               | CONSUMER FINANCE - 0.5%  |
| 6,900  |               | Providian Financial Corporation, Convertible Senior Notes, 3.250%, 8/15/05 |
| -----  |               |  |
|        |               | 20   |
| -----  |               |  |
|        | PRINCIPAL     |  |
|        | AMOUNT (000)/ |  |
|        | SHARES        | DESCRIPTION(1)   |
| -----  |               |  |
|        |               | DIVERSIFIED FINANCIAL SERVICES - 0.5%                                      |
| \$     | 4,950         | Capitalsource Inc., 144A, 3.500%, 7/15/34                                  |
|        | 3,100         | Leucadia National Corporation, 144A, 3.750%, 4/15/14                       |
| -----  |               |  |
|        |               | ELECTRONIC EQUIPMENT & INSTRUMENTS - 1.7%                                  |
| 20,750 |               | Arrow Electronics Inc., 0.000%, 2/21/21                                    |
|        | 7,700         | Celestica Inc., 0.000%, 8/01/20  |
|        | 8,835         | Fisher Scientific International Inc., 3.250%, 3/01/24                      |
| -----  |               |  |
|        |               | ENERGY EQUIPMENT & SERVICES - 0.6%   |
| 7,000  |               | Schlumberger Limited, 2.125%, 6/01/23                                      |
|        | 985           | Willbros Group Inc., 144A, 2.750%, 3/15/24                                 |
| -----  |               |  |
|        |               | GAS UTILITIES - 0.2%   |
| 40     |               | Southern Union Company, Series B, 5.750%, 8/16/06                          |
| -----  |               |  |
|        |               | HEALTHCARE EQUIPMENT & SUPPLIES - 0.4%                                     |
| 7,050  |               | Alza Corporation, 0.000%, 7/28/20  |
| -----  |               |  |
|        |               | HEALTHCARE PROVIDERS & SERVICES - 0.4%                                     |
| 4,200  |               | Province Healthcare Inc, Convertible Subordinated Notes, 4.500%, 11/20/05  |
| 1,145  |               | PSS World Medical Inc., Senior Convertible Note, 144A, 2.250%, 3/15/24     |
| -----  |               |  |
|        |               | HOTELS, RESTAURANTS & LEISURE - 2.4%                                       |

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|        |   |
|--------|---|
| 9,500  | Brinker International Inc., 0.000%, 10/10/21  |
| 10,500 | Carnival Corporation, 0.000%, 10/24/21  |
| 6,035  | Fairmont Hotels and Resorts Inc., Convertible Note, 144A, 3.750%, 12/01/23              |
| 2,550  | Hilton Hotels Corporation, 3.375%, 4/15/23  |
| 5,400  | Kerzner International Limited, 144A, 2.375%, 4/15/24                                    |
| 15,500 | Royal Caribbean Cruises Limited, Senior Convertible Liquid Yield, 0.000%, 2/02/21       |
| -----  |   |
|        | INDUSTRIAL CONGLOMERATES - 0.3%   |
| 3,350  | Tyco International Group Limited, Convertible Notes, 144A, 3.125%, 1/15/23              |
| -----  |   |
|        | INSURANCE - 0.2%  |
| 2,300  | American International Group Inc., 0.500%, 5/15/07                                      |
| -----  |   |
|        | IT SERVICES - 1.0%  |
| 2,090  | Acxiom Corporation, 3.750%, 2/15/09   |
| 5,390  | Digital River Inc., 144A, 1.250%, 1/01/24   |
| 6,435  | Electronic Data Systems, Convertible Senior Notes, 144A, 3.875%, 7/15/23                |
| -----  |   |
|        | LEISURE EQUIPMENT & PRODUCTS - 0.9%   |
| 5,300  | Hasbro Inc., 2.750%, 12/01/21   |
| 6,195  | K2 Corporation, Convertible Notes, 144A, 5.000%, 6/15/10                                |
| -----  |   |
|        | MEDIA - 3.9%  |
| 4,725  | Citadel Broadcasting Corporation, Convertible Subordinate Note, 144A, 1.875%, 2/15/10   |
| 325    | Comcast Corporation, 2.000%, 10/15/29   |
| 4,000  | Echostar Communications Corporation, Convertible Subordinated Notes, 5.750%, 5/15/10    |
| 9,900  | Liberty Media Corporation, Senior Debentures, Exchangeable for Class B, 3.250%, 3/30/23 |
| 5,275  | Liberty Media Corporation, 0.750%, 3/30/23  |
| 3,200  | Lions Gate Entertainment Corporation 144A, Convertible Bond, 4.875%, 12/15/10           |

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| PRINCIPAL<br>AMOUNT (000)/<br>SHARES | DESCRIPTION(1)   |
|--------------------------------------|--|
|                                      | MEDIA (continued)  |
| \$ 3,425                             | Sinclair Broadcast Group, Convertible Step Coupon 144A Senior, 4.875%, 7/15/18 |
| 96                                   | Tribune Company, Exchangeable Subordinated Debentures, 2.000%, 5/15/29         |
| 6,100                                | Walt Disney Company, Convertible Senior Notes, 2.125%, 4/15/23                 |
|                                      | OIL & GAS - 0.5%   |
| 5,065                                | McMoran Exploration Corporation, 144A, Notes, 6.000%, 7/02/08                  |
|                                      | PHARMACEUTICALS - 1.5%   |
| 1,825                                | Alexion Pharmaceuticals Inc., 5.750%, 3/15/07                                  |
| 3,065                                | Connectics Corporation, 144A, 2.250%, 5/30/08                                  |
| 2,300                                | CV Therapeutics Inc., 144A, 2.750%, 5/16/12                                    |
| 3,400                                | Teva Pharmaceutical Finance, Series B, 0.250%, 2/01/24                         |
| 3,295                                | Valeant Pharmaceuticals International, 144A, 3.000%, 8/16/10                   |
| 1,940                                | Valeant Pharmaceuticals International, 144A, 4.000%, 11/15/13                  |
| 6,400                                | Wyeth, 144A, 1.360%, 1/15/24   |
|                                      | REAL ESTATE - 1.2%   |
| 2,725                                | Avatar Holdings Inc., 144A, 4.500%, 4/01/24                                    |
| 11,850                               | EOP Operating LP, Convertible Notes, 7.250%, 11/15/08                          |
| 3,355                                | Trizec Hahn Corporation, 3.000%, 1/29/21                                       |
|                                      | ROAD & RAIL - 0.0%   |
| 585                                  | Yellow Corporation, 144A, 3.375%, 11/25/23                                     |
|                                      | SEMICONDUCTORS & EQUIPMENT - 1.1%  |
| 4,890                                | ASM Lithography Holding NV, 5.750%, 10/15/06                                   |
| 4,000                                | FEI Company, Convertible Notes, 5.500%, 8/15/08                                |
| 2,500                                | LSI Logic Corporation, 4.000%, 5/15/10   |
| 4,100                                | Teradyne Inc, Convertible Senior Notes, 3.750%, 10/15/06                       |

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|       |  |   |
|-------|--|---|
|       |  | SOFTWARE - 0.8%   |
| 2,500 |  | Computer Associates International Inc., 5.000%, 3/15/07                     |
| 6,600 |  | Mentor Graphics Corporation, Convertible Subordinate Notes, 6.875%, 6/15/07 |
| 2,275 |  | Novell Inc., 144A, 0.500%, 7/15/24  |
| ----- |  |   |
|       |  | SPECIALTY RETAIL - 0.8%   |
| 7,500 |  | Lowes Companies Inc., 0.861%, 10/19/21                                      |
| 6,000 |  | TJX Companies Inc., 0.000%, 2/13/21   |
| ----- |  |   |
|       |  | TEXTILES & APPAREL - 0.3%   |
| 4,575 |  | Reebok International Ltd., 144A, 2.000%, 5/01/24                            |
| ----- |  |   |
|       |  | WIRELESS TELECOMMUNICATION SERVICES - 0.5%                                  |
| 2,225 |  | NII Holdings Inc., 144A, 3.500%, 9/15/33                                    |
| 3,125 |  | NII Holdings Inc., 144A, 2.875%, 2/01/34                                    |
| ----- |  |   |
|       |  | Total Convertible Bonds (cost \$375,238,699)                                |
| ----- |  |   |
|       |  | CORPORATE BONDS - 17.3% (11.7% OF TOTAL INVESTMENTS)                        |
|       |  | AUTO COMPONENTS - 0.8%  |
| 4,100 |  | Asbury Automotive Group Inc., 9.000%, 6/15/12                               |
| 3,875 |  | Keystone Automotive Operations Inc., 9.750%, 11/01/13                       |
| 3,500 |  | Tenneco Auto, Inc., 10.250%, 7/15/13  |

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| PRINCIPAL<br>AMOUNT (000)/<br>SHARES | DESCRIPTION(1)   |
|--------------------------------------|--|
|                                      | AUTOMOBILES - 3.1%   |
| \$ 10,000                            | Ford Motor Company, Debentures, 7.700%, 5/15/97                |
| 5,590                                | Ford Motor Company, Debentures, 9.980%, 2/15/47                |
| 3,500                                | Ford Motor Company, 8.900%, 1/15/32                            |
| 3,560                                | General Motors Corporation, Senior Debentures, 8.375%, 7/15/33 |
| 20,500                               | General Motors Acceptance Corporation, Notes, 8.000%, 11/01/31 |

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|       |                                 |
|-------|---------------------------------|
|       | CHEMICALS - 0.1%                |
| 1,335 | OM Group Inc., 9.250%, 12/15/11 |

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|       |  |
|-------|--|
|       | COMMERCIAL SERVICES & SUPPLIES - 0.5%                  |
| 4,891 | Allied Waste North America, Series B, 10.000%, 8/01/09 |
| 1,000 | Allied Waste North America, Series B, 9.250%, 9/01/12  |
| 1,000 | Allied Waste North America, 7.875%, 4/15/13            |

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|       |                                 |
|-------|---------------------------------|
|       | COMMUNICATIONS EQUIPMENT - 0.2% |
| 2,275 | Avaya Inc., 11.125%, 4/01/09    |

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|       |  |
|-------|--|
|       | CONSTRUCTION MATERIALS - 0.3%  |
| 2,000 | K. Hovnanian Enterprises Inc., Senior Subordinate Notes, 8.875%, 4/01/12 |
| 2,500 | Texas Industries Inc., 10.250%, 6/15/11                                  |

---

|       |  |
|-------|--|
|       | CONTAINERS & PACKAGING - 0.4%  |
| 1,520 | Berry Plastics Corporation, 10.750%, 7/15/12                             |
| 2,000 | Owens-Brockway Glass Containers, Guaranteed Senior Note, 8.250%, 5/15/13 |
| 2,000 | Owens-Illinois Inc., 7.800%, 5/15/18                                     |

---

|       |  |
|-------|--|
|       | DIVERSIFIED FINANCIAL SERVICES - 0.2%                |
| 2,000 | MDP Acquisitions plc, Senior Notes, 9.625%, 10/01/12 |

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|       |   |
|-------|---|
|       | ELECTRONIC EQUIPMENT & INSTRUMENTS - 0.1%             |
| 2,000 | Fisher Scientific International Inc., 8.000%, 9/01/13 |

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|       |  |
|-------|--|
|       | FOOD & STAPLES RETAILING - 0.1%                      |
| 2,000 | Stater Brothers Holdings Inc., 144A, 8.125%, 6/15/12 |

---

|       |   |
|-------|---|
|       | FOOD PRODUCTS - 0.7%                            |
| 1,000 | Dole Food Inc., 8.875%, 3/15/11                 |
| 5,943 | Dole Foods Company, 8.750%, 7/15/13             |
| 3,000 | Seminis Vegetable Seeds Inc., 10.250%, 10/01/13 |

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|  |                      |
|--|----------------------|
|  | GAS UTILITIES - 0.1% |
|--|----------------------|



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2,000 Suburban Propane Partners LP, 6.875%, 12/15/13

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HOTELS, RESTAURANTS & LEISURE - 2.6%

2,000 Boyd Gaming Corporation, 8.750%, 4/15/12

2,000 Boyd Gaming Corporation, 7.750%, 12/15/12

2,552 Dominos Inc., 8.250%, 7/01/11

4,000 Intrawest Corporation, Senior Notes, 10.500%, 2/01/10

2,900 Intrawest Corporation, 7.500%, 10/15/13

3,000 Las Vegas Sands Inc., Venetian Casino Resorts, LLC Mortgage Notes, 11.000%, 6/15/10

2,500 Park Place Entertainment, 7.000%, 4/15/13

4,040 Park Place Entertainment, 7.875%, 12/15/05

1,600 Park Place Entertainment, 8.125%, 5/15/11

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

PRINCIPAL  
AMOUNT (000)/  
SHARES

DESCRIPTION(1)

---

HOTELS, RESTAURANTS & LEISURE (continued)

\$ 7,000 PennNational Gaming Inc., Senior Subordinated Notes, 8.875%, 3/15/10

750 Pinnacle Entertainment Inc., 8.750%, 10/01/13

2,000 Pinnacle Entertainment Inc., 8.250%, 3/15/12

2,000 Town Sports International Inc., 9.625%, 4/15/11

---

HOUSEHOLD DURABLES - 0.9%

3,000 KB Home, 8.625%, 12/15/08

5,175 Technical Olympic USA Inc, Senior Subordinate Notes, 10.375%, 7/01/12

2,500 William Lyon Homes Inc, Unsecured Senior Note, 10.750%, 4/01/13

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IT SERVICES - 0.2%

3,500 Global Cash Access LLC, Senior Subordinate Note, 144A, 8.750%, 3/15/12

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### MACHINERY - 0.6%

1,220 Terex Corporation, Senior Subordinated Notes, 10.375%, 4/01/11  
6,095 Terex Corporation, Senior Subordinated Notes, 9.250%, 7/15/11

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### MEDIA - 3.2%

4,000 Allbritton Communications Company, Series B, 7.750%, 12/15/12  
2,000 American Media Operations Inc., Series 8.875%, 1/15/11  
4,180 American Media Operations Inc., Series B, 10.250%, 5/01/09  
1,000 Cablevision Systems Corporation, Series B, 8.125%, 8/15/09  
5,000 Cablevision Systems Corporation, 7.250%, 7/15/08  
2,750 Canwest Media Incorporated, 7.625%, 4/15/13  
2,000 Charter Communications Operating LLC, 144A, 8.000%, 4/30/12  
1,500 Lowes Cineplex Entertainment Corporation, 144A, 9.000%, 8/01/14  
5,800 Mail-Well I Corporation, Senior Unsecured Note, 144A, 9.625%, 3/15/12  
6,000 Primedia Inc, Senior Notes, 8.875%, 5/15/11  
6,750 Vertis Inc., 9.750%, 4/01/09  
4,000 Young Broadcasting Inc, Senior Subordinate Notes, 10.000%, 3/01/11

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### MULTILINE RETAIL - 0.2%

2,000 Saks Inc., Note. 9.875%, 10/01/11  
1,195 Saks Inc., 7.000%, 12/01/13

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### OIL & GAS - 0.4%

2,400 Baytex Energy Ltd., 9.625%, 7/15/10  
1,000 Chesapeake Energy Corporation, 9.000%, 8/15/12  
2,000 Tesoro Petroleum Corporation, Senior Subordinate Notes, Series B, 9.625%, 11/01/09  
250 Tesoro Petroleum Corporation, 8.000%, 4/15/08

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### PAPER & FOREST PRODUCTS - 0.5%

2,000 Georgia Pacific Corporation, Debentures, 7.700%, 6/15/15  
5,000 Georgia Pacific Corporation, Notes, 8.125%, 5/15/11

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### PHARMACEUTICALS - 0.1%

1,500 Quintiles Transitional Corporation, 10.000%, 10/01/13

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-----  
REAL ESTATE - 0.8%

1,625 CB Richard Ellis Services Inc., 9.750%, 5/15/10  
500 Forest City Enterprises, Senior Notes, 7.625%, 6/01/15  
4,425 LNR Property Corporation, 7.625%, 7/15/13

24

PRINCIPAL  
AMOUNT (000)/  
SHARES DESCRIPTION(1)  
-----

REAL ESTATE (continued)

\$ 4,000 Universal City Development Partners, 11.750%, 4/01/10  
-----

ROAD & RAIL - 0.2%

3,000 Laidlaw International Inc., 10.750%, 6/15/11  
-----

SEMICONDUCTORS & EQUIPMENT - 0.1%

2,000 Amkor Technology Inc., 7.750%, 5/15/13  
-----

SPECIALTY RETAIL - 0.9%

1,650 Central Garden & Pet Company, 9.125%, 2/01/13  
3,500 Saks Inc., 7.375%, 2/15/19  
2,000 United Rentals of North America Inc., 7.750%, 11/15/13  
5,000 Warnaco Inc, Senior Notes, 8.875%, 6/15/13  
-----

Total Corporate Bonds (cost \$247,805,249)  
-----

CAPITAL PREFERRED SECURITIES - 20.5% (14.0% OF TOTAL INVESTMENTS)

COMMERCIAL BANKS - 16.9%

3,000 AB Svensk Exportkredit, 6.375%, 10/27/49  
13,000 Abbey National Capital Trust I, 8.963%, 12/30/49  
6,800 AgFirst Farm Credit Bank, 7.300%, 12/15/53  
2,500 Ahmanson Capital Trust I, 8.360%, 12/01/26  
4,850 BT Institutional Capital Trust A, 144A, 8.090%, 12/01/26

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|        |  |
|--------|--|
| 3,000  | BT Institutional Capital Trust B, 144A, 7.750%, 12/01/26         |
| 3,000  | Bank One Capital III, 8.750%, 9/01/30                            |
| 1,000  | BankAmerica Capital II, Series 2, 8.000%, 12/15/26               |
| 6,000  | BankBoston Capital Trust I, Series B, 8.250%, 12/15/26           |
| 1,500  | BanPonce Trust I, Series A, 8.327%, 2/01/27                      |
| 13,030 | Barclays Bank plc, 144A, 8.550%, 6/15/49                         |
| 1,000  | BT Capital Trust, Series B1, 7.900%, 1/15/27                     |
| 3,000  | Centura Capital Trust I, 144A, 8.845%, 6/01/27                   |
| 18,125 | Chase Capital Trust I, Series A, 7.670%, 12/01/26                |
| 13,500 | Corestates Capital Trust I, 144A, 8.000%, 12/15/26               |
| 12,250 | Dime Capital Trust I, Series A, 9.330%, 5/06/27                  |
| 3,000  | Farm Credit Bank of Texas, 7.561%, 11/05/49                      |
| 1,000  | First Chicago NBD Institutional Capital, 7.950%, 12/01/26        |
| 6,200  | First Empire Capital Trust I, 8.234%, 2/01/27                    |
| 2,000  | First Midwest Bancorp Inc., 6.950%, 12/01/33                     |
| 1,000  | Great Western Financial Trust II, Series A, 8.206%, 2/01/27      |
| 2,400  | HSBC Capital Funding LP, 144A, 9.547%, 12/31/49                  |
| 8,000  | HSBC Capital Funding LP, Debt, 10.176%, 6/30/50                  |
| 4,000  | KBC Bank Fund Trust III, 144A, 9.860%, 11/02/49                  |
| 6,300  | KeyCorp Institutional Capital Trust A, 7.826%, 12/01/26          |
| 20,000 | M&I Capital Trust A, 7.650%, 12/01/26                            |
| 5,000  | NB Capital Trust IV, 8.250%, 4/15/27                             |
| 1,000  | North Fork Capital Trust I, Capital Securities, 8.700%, 12/15/26 |
| 12,000 | North Fork Capital Trust II, 8.000%, 12/15/27                    |
| 100    | Reliance Capital Trust I, Series B, 8.170%, 5/01/28              |
| 5,200  | Royal Bank of Scotland Group plc, 7.648%, 8/31/49                |

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PRINCIPAL  
AMOUNT (000)/  
SHARES

DESCRIPTION(1)

---

COMMERCIAL BANKS (continued)

|    |        |   |
|----|--------|---|
| \$ | 710    | SocGen Real Estate Company LLC, 144A, 7.640%, 12/29/49              |
|    | 8,000  | Sparebanken Rogaland, 144A, Notes, 6.443%, 5/01/49                  |
|    | 10,500 | St. George Funding Company LLC, 8.485%, 6/30/17                     |
|    | 8,300  | UBS Preferred Funding Trust I, 8.622%, 10/29/49                     |
|    | 2,000  | Unicredito Italiano Capital Trust, 144A, 9.200%, 10/05/49           |
|    | 100    | Wachovia Capital Trust I, Capital Securities, 144A, 7.640%, 1/15/27 |
|    | 2,500  | Washington Mutual Capital Trust I, 8.375%, 6/01/27                  |
|    | 5,000  | Zions Institutional Capital Trust, Series A, 8.536%, 12/15/26       |

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GAS UTILITIES - 0.6%

|  |       |   |
|--|-------|---|
|  | 1,200 | KN Capital Trust I, Preferred Securities, 8.560%, 4/15/27 |
|  | 7,110 | KN Capital Trust III, 7.630%, 4/15/28                     |

---

INSURANCE - 3.0%

|  |        |  |
|--|--------|--|
|  | 18,596 | Berkeley Capital Trust, 8.197%, 12/15/45                           |
|  | 5,107  | Safeco Capital Trust I, Capital Securities, 8.072%, 7/15/37        |
|  | 9,500  | Sun Life Canada Capital Trust, Capital Securities, 8.526%, 5/06/47 |
|  | 7,250  | Zurich Capital Trust I, 8.376%, 6/01/37                            |

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Total Capital Preferred Securities (cost \$310,332,652)

---

CAPITAL PREFERRED EURO-MARKET LISTED SECURITIES - 7.6% (5.2% OF TOTAL INVESTMENTS)

COMMERCIAL BANKS - 7.4%

|  |        |   |
|--|--------|---|
|  | 7,000  | BNP Paribas Capital Trust, 7.200%, 12/31/49             |
|  | 27,250 | C.A. Preferred Funding Trust, 7.000%, 1/30/49           |
|  | 1,500  | C.A. Preferred Fund Trust II, 7.000%, 10/30/49          |
|  | 36,000 | HBOS Capital Funding LP, Notes, 6.850%, 3/01/49         |
|  | 18,600 | Lloyds TSB Bank plc, Subordinate Note, 6.900%, 11/22/49 |
|  | 17,750 | RBS Capital Trust B, 6.800%, 12/31/49                   |

---

DIVERSIFIED FINANCIAL SERVICES - 0.2%

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|        |   |
|--------|---|
| 2,800  | Old Mutual Capital Funding, Notes, 8.000%, 6/22/53  |
| -----  |   |
|        | Total Capital Preferred Euro-Market Listed Securities (cost \$115,375,021)  |
| -----  |   |
|        | REPURCHASE AGREEMENTS - 1.0% (0.7% OF TOTAL INVESTMENTS)  |
| 14,926 | State Street Bank, 1.250%, dated 7/30/04, due 8/02/04, repurchase price \$14,927,500, collateralized by \$13,315,000 U.S. Treasury Bonds, 6.250%, due 8/15/23, value \$14,926,000 |
| -----  |   |
|        | Total Repurchase Agreements (cost \$14,926,000)   |
| -----  |   |
|        | TOTAL INVESTMENTS (COST \$2,128,314,221) - 147.1%   |
| =====  |   |

| SHARES    | DESCRIPTION(1)                    |
|-----------|-----------------------------------|
| -----     |                                   |
|           | COMMON STOCKS SOLD SHORT - (3.6%) |
|           | CHEMICALS - (0.2)%                |
| (217,368) | IMC Global Inc.                   |
| -----     |                                   |
|           | COMMERCIAL BANKS - (0.2)%         |
| (65,700)  | Affiliated Managers Group Inc.    |
| -----     |                                   |
|           | CONSUMER FINANCE - (0.3)%         |
| (60,515)  | Capital One Financial Corporation |

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| SHARES   | DESCRIPTION(1)                  |
|----------|---------------------------------|
| -----    |                                 |
|          | FOOD & STAPLES RETAILING (0.1)% |
| (52,500) | Albertson's, Inc.               |
| -----    |                                 |
|          | GAS UTILITIES - (0.3)%          |
| (91,000) | Sempra Energy                   |
| (95,300) | Southern Union Company          |
| -----    |                                 |
|          | INSURANCE - (0.9)%              |
| (25,850) | Chubb Corporation               |

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(142,950) Genworth Financial Inc.  
 (67,725) Hartford Financial Services Group, Inc.  
 (101,200) Hilb, Roga, and Hamilton Companies  
 (110,607) UnumProvident Corporation

-----  
 LEISURE EQUIPMENT & PRODUCTS - (0.1)%

(45,828) K2 Inc.

-----  
 MEDIA - (0.2)%

(194,730) Cablevision Systems Corporation

-----  
 METALS & MINING (0.8)%

(265,593) United States Steel Corporation

-----  
 OIL & GAS - (0.5)%

(38,445) Amerada Hess Corporation

(57,647) Devon Energy Corporation

-----  
 TOTAL COMMON STOCKS SOLD SHORT (PROCEEDS \$42,106,133)

=====

OTHER ASSETS LESS LIABILITIES - 4.5%

=====

FUNDPREFERRED SHARES, AT LIQUIDATION VALUE - (48.0)%

=====

NET ASSETS APPLICABLE TO COMMON SHARES - 100%

=====

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

(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.

(LYONS) Liquid Yield Option Notes.

(PCARS) Public Credit and Repackaged Securities.

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(PPLUS) PreferredPlus Trust.

(SATURNS) Structured Asset Trust Unit Repackaging.

See accompanying notes to financial statements.

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Nuveen Preferred and Convertible Income Fund 2 (JQC)  
Portfolio of  
INVESTMENTS July 31, 2004

| SHARES    | DESCRIPTION(1)  |
|-----------|---|
| -----     |   |
|           | \$25 PAR (OR SIMILAR) SECURITIES - 45.9% (31.3% OF TOTAL INVESTMENTS) |
|           | AUTO COMPONENTS - 0.7%  |
| 557,500   | Delphi Trust I, 8.250%  |
| 28,800    | Magna International Inc., Series B, 8.875%                            |
| -----     |   |
|           | BEVERAGES - 0.1%  |
| 42,500    | Grand Metropolitan Delaware LP, 9.420%                                |
| -----     |   |
|           | COMMERCIAL BANKS - 14.9%  |
| 34,200    | Abbey National plc, Series B, 7.375%                                  |
| 53,700    | Abbey National plc, 7.250%  |
| 301,600   | Abbey National plc, 7.375%  |
| 863,770   | ABN AMRO Capital Fund Trust V, 5.900%                                 |
| 96,400    | ABN AMRO Capital Fund Trust VI, 6.250%                                |
| 111,600   | ASBC Capital I, 7.625%  |
| 203,410   | BAC Capital Trust I, 7.000%   |
| 560,200   | BAC Capital Trust II, 7.000%  |
| 163,900   | BAC Capital Trust III, 7.000%   |
| 1,150,000 | Banco Santander SA, 144A, 6.410%                                      |
| 71,750    | Banco Totta & Acores Finance, Series A, 8.875%                        |
| 19,000    | BancWest Capital I, 9.500%  |
| 5,200     | Bank One Capital I, 8.000%  |



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|           |   |
|-----------|---|
| 15,700    | Bank One Capital II, 8.500%                   |
| 167,700   | Bank One Capital Trust VI, 7.200%             |
| 32,200    | Bank One Capital V, 8.000%                    |
| 51,400    | BankNorth Capital Trust II, 8.000%            |
| 5,400     | BBVA Preferred Capital Ltd., Series B, 7.750% |
| 1,700     | BCH Capital Ltd., Series B, 9.430%            |
| 27,000    | BNY Capital Trust IV, Series E, 6.875%        |
| 306,984   | BNY Capital Trust V, Series F, 5.950%         |
| 56,300    | BSCH Finance Ltd., Series Q, 8.625%           |
| 145,800   | Chittenden Capital Trust I. 8.000%            |
| 25,500    | CIT Group Incorporated, 7.750% (CORTS)        |
| 268,800   | Citigroup Capital Trust IX, 6.000%            |
| 30,200    | Citigroup Capital Trust VI, 6.875%            |
| 186,200   | Citigroup Capital Trust VII, 7.125%           |
| 1,006,400 | Citigroup Capital Trust VIII, 6.950%          |
| 24,000    | Citigroup Inc., Series H, 6.231% (a)          |
| 146,500   | Cobank ABC, 144A, 7.000% (a)                  |
| 106,200   | Comerica Capital Trust I, 7.600%              |
| 196,300   | Compass Capital Trust III, 7.350%             |

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SHARES DESCRIPTION(1)

---

COMMERCIAL BANKS (continued)

|        |  |
|--------|--|
| 30,800 | CSFB USA, Series 2002-10, 7.000% (SATURNS)                       |
| 45,800 | Espirito Santo Overseas, 8.500%                                  |
| 41,700 | Fannie Mae, 5.125% (a)   |
| 49,000 | First Union Capital II, Series II, 7.500% (CORTS)                |
| 16,100 | First Union Institutional Capital II, Series III, 7.500% (CORTS) |
| 22,600 | First Union Institutional Capital II, 8.200% (CORTS)             |

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|         |  |
|---------|--|
| 18,900  | Fleet Capital Trust II, 8.000% (CORTS)                                       |
| 4,400   | Fleet Capital Trust VI, 8.800%   |
| 512,200 | Fleet Capital Trust VII, 7.200%  |
| 430,300 | Fleet Capital Trust VIII, 7.200%   |
| 12,300  | Goldman Sachs Group Inc., Series 2003-06, 6.000% (SATURNS)                   |
| 9,900   | JPM Capital Trust I, Series 2001-1, Class A-1, 7.850% (CORTS)                |
| 43,200  | JPM Capital Trust, 7.200% (CORTS)  |
| 71,965  | JPMorgan Chase & Company, 7.125% (PCARS)                                     |
| 22,000  | JPMorgan Chase Capital Trust IX, Series I, 7.500%                            |
| 712,420 | JPMorgan Chase Capital Trust X, 7.000%                                       |
| 73,600  | JPMorgan Chase Trust, Series 2002-6, Class A, 7.125% (SATURNS)               |
| 35,000  | KeyCorp, 7.500% (PCARS)  |
| 27,700  | KeyCorp, Series 2001-7, 7.750% (CORTS)                                       |
| 33,900  | KeyCorp, Series B, 8.250% (CORTS)  |
| 84,900  | National Commerce Capital Trust II, 7.700%                                   |
| 63,900  | National Westminster Bank PCL, Series A, 7.875%                              |
| 21,700  | ONB Capital Trust II, 8.000%   |
| 53,300  | PNC Capital Trust, 6.125%  |
| 23,700  | Regions Finance Trust I, 8.000%  |
| 305,700 | Royal Bank of Scotland Group plc, 5.750%                                     |
| 139,200 | SunTrust Capital Trust IV, 7.125%  |
| 108,900 | SunTrust Capital Trust V, 7.050%   |
| 662,100 | USB Capital Trust III, 7.750%  |
| 328,500 | USB Capital Trust IV, 7.350%   |
| 288,200 | USB Capital Trust V, 7.250%  |
| 39,100  | VNB Capital Trust I, 7.750%  |
| 43,800  | Washington Mutual Capital Trust I, Series 2001-22, Class A-1, 7.650% (CORTS) |
| 40,000  | Wells Fargo Capital Trust IV, 7.000%   |
| 420,800 | Wells Fargo Capital Trust V, 7.000%  |
| 109,000 | Wells Fargo Capital Trust VI, 6.950%   |
| 236,550 | Wells Fargo Capital Trust VII, 5.850%  |

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117,300 Zions Capital Trust B, 8.000%

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COMPUTERS & PERIPHERALS - 0.1%

16,400 IBM Inc., 7.125% (CORTS)  
 27,700 IBM Inc., Series 2001-1, 7.125% (SATURNS)  
 3,000 IBM Trust II, 7.125% (CORTS)  
 18,300 IBM Trust IV, 7.000% (CORTS)

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
 Portfolio of INVESTMENTS July 31, 2004

SHARES DESCRIPTION(1)

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CONSUMER FINANCE - 0.8%

68,400 Countrywide Capital III, 8.050% (PPLUS)  
 10,800 Household Capital Trust V, Series X, 10.000%  
 40,900 Household Capital Trust VI, 8.250%  
 98,100 Household Capital Trust VII, 7.500%  
 174,000 SLM Corporation, Series A, 6.970% (a)  
 7,500 SLM Corporation, 6.000%

---

DIVERSIFIED FINANCIAL SERVICES - 4.9%

112,800 Bear Stearns Capital Trust III, 7.800%  
 107,600 Bear Stearns Companies, Series G, 5.490% (a)  
 75,900 Countrywide Capital Trust II, Series II, 8.000% (CORTS)  
 666,500 Countrywide Capital Trust IV, 6.750%  
 67,100 Fannie Mae, 4.750% (a)  
 15,000 Federal Home Loan Mortgage Corporation, 5.000% (a), 5.000%  
 40,100 General Electric Capital Corporation, 6.625%  
 53,000 Household Finance Corporation, 6.875%  
 101,700 KeyCorp Capital Trust V, 5.875%  
 198,350 Lehman Brothers Holdings Inc., Series C, 5.940% (a)

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|         |   |
|---------|---|
| 106,800 | Lehman Brothers Holdings Inc., Series D, 5.670% (a) |
| 425,000 | Lehman Brothers Holdings Inc., Series F, 6.500% (a) |
| 71,500  | Merrill Lynch Capital Trust II, 8.000%              |
| 231,000 | Merrill Lynch Capital Trust, 7.000%                 |
| 185,300 | Merrill Lynch Preferred Capital Trust IV, 7.120%    |
| 278,400 | Merrill Lynch Preferred Capital Trust V, 7.280%     |
| 47,800  | Merrill Lynch Preferred Capital Trust, 7.750%       |
| 211,850 | Morgan Stanley Capital Trust II, 7.250%             |
| 203,200 | Morgan Stanley Capital Trust III, 6.250%            |
| 137,900 | Morgan Stanley Capital Trust IV, 6.250%             |
| 115,080 | Morgan Stanley, 7.050% (PPLUS)                      |

---

DIVERSIFIED TELECOMMUNICATION SERVICES - 0.6%

|        |   |
|--------|---|
| 55,900 | AT&T Wireless, Series 2002-7, 8.000% (CORTS)                                      |
| 8,000  | BellSouth Capital Funding Corporation, 7.375%                                     |
| 32,600 | BellSouth Capital Funding, 7.100% (CORTS)   |
| 17,300 | BellSouth Corporation, CABCO Trust, 9.750%  |
| 10,900 | BellSouth Corporation, 7.000% (CORTS)   |
| 48,600 | BellSouth Corporation, Series 2001-3, 7.125% (SATURNS)                            |
| 30,800 | BellSouth Inc., 7.000% (CORTS)  |
| 70,600 | BellSouth Telecommunications, 7.300% (PPLUS)                                      |
| 57,900 | Deutsche Telekom International Finance B.V., Series 2001-24, Class A-1, 7.875 (CO |
| 16,100 | Citizens Communications, 8.375% (PPLUS)   |
| 50,000 | SBC Communications Inc., 7.000%   |
| 26,300 | Verizon Communications, 7.625% (CORTS)  |
| 50,700 | Verizon New England Inc., Series B, 7.000%  |
| 29,900 | Verizon South Inc., Series F, 7.000%  |

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SHARES DESCRIPTION(1)

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|         |  |
|---------|--|
|         | ELECTRIC UTILITIES - 0.7%  |
| 12,000  | Consolidated Edison Company of New York Inc., 7.500%                             |
| 5,000   | Consolidated Edison Company, 7.250%  |
| 4,000   | Detroit Edison Company, 7.375%   |
| 50,000  | Dominion CNG Capital Trust I, 7.800%   |
| 30,700  | Dominion Resources Capital Trust II, 8.400%                                      |
| 21,100  | DTE Energy Trust I, 7.800%   |
| 26,200  | Entergy Louisiana Inc., 7.600%   |
| 3,600   | Entergy Mississippi Inc., 7.250%   |
| 3,000   | Georgia Power Capital Trust V, 7.125%  |
| 130,000 | Interstate Power and Light Company, 7.100% (a)                                   |
| 11,000  | Mississippi Power Capital Trust II, 7.200%                                       |
| 32,600  | Northern States Power Company, 8.000%  |
| 1,500   | OGE Energy Capital Trust I, 8.375%   |
| 29,900  | Southern Company Capital Trust I, 7.375% (CORTS)                                 |
| 10,900  | Southern Company Capital Trust I, 8.190% (CORTS)                                 |
| 13,100  | Southern Company Capital Trust VI, 7.125%  |
| 120,200 | Virginia Power Capital Trust, 7.375%   |
| -----   |  |
|         | FOOD PRODUCTS - 0.4%   |
| 75,000  | Dairy Farmers of America Inc., 144A, 7.875% (a)                                  |
| -----   |  |
|         | GAS UTILITIES - 0.1%   |
| 75,300  | AGL Capital Trust II, 8.000%   |
| -----   |  |
|         | HEALTHCARE PROVIDERS & SERVICES - 0.8%   |
| 587,500 | Aetna Incorporated, 8.500%   |
| -----   |  |
|         | INDUSTRIAL CONGLOMERATES - 0.0%  |
| 33,900  | Philadelphia Authority for Industrial Development, Pennsylvania, Pension, 6.550% |
| -----   |  |
|         | INSURANCE - 9.9%   |
| 157,500 | ACE Capital Trust I, Series 1999, 8.875%   |

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|           |  |
|-----------|--|
| 1,337,883 | Ace Ltd., Series C, 7.800%                       |
| 4,900     | Allstate Corporation, 7.150%, 7.150% (PCARS)     |
| 87,300    | AMBAC Financial Group Inc., 5.950%               |
| 18,600    | American General Capital Trust I, 7.875%         |
| 328,800   | Converium Finance, 8.250%                        |
| 674,601   | Delphi Financial Group Inc., 8.000%              |
| 172,556   | Everest RE Capital Trust II, 6.200%              |
| 85,300    | EverestRe Group Limited, 7.850%                  |
| 9,900     | Financial Security Assurance Holdings, 6.875%    |
| 20,200    | Great-West L&A Capital Trust I, Series A, 7.250% |
| 284,500   | Hartford Capital Trust III, Series C, 7.450%     |
| 40,400    | Hartford Life Capital Trust II, Series B, 7.625% |
| 5,000     | ING Capital Funding Trust II, 9.200%             |
| 722,775   | ING Group NV, 7.050%                             |
| 584,220   | ING Group NV, 7.200%                             |

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| SHARES    | DESCRIPTION(1)                                     |
|-----------|--|
| -----     |  |
|           | INSURANCE (continued)                              |
| 53,400    | Lincoln National Capital Trust V, Series E, 7.650% |
| 1,402,300 | Lincoln National Capital Trust VI, 6.750%          |
| 3,600     | MBIA Inc., 8.000%                                  |
| 900,702   | PartnerRe Limited, Series C, 6.750%                |
| 77,400    | PartnerRe Limited, 7.900%                          |
| 74,400    | PLC Capital Trust III, 7.500%                      |
| 67,200    | PLC Capital Trust IV, 7.250%                       |
| 13,800    | PLC Capital Trust V, 6.125%                        |

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|           |   |
|-----------|---|
| 112,900   | RenaissanceRe Holdings Ltd., Series A, 8.100%             |
| 124,700   | RenaissanceRe Holdings Ltd., Series B, 7.300%             |
| 20,900    | Safeco Capital Trust I, 8.750% (CORTS)                    |
| 24,200    | Safeco Capital Trust I, 8.700% (CORTS)                    |
| 20,100    | Safeco Capital Trust I, Series 2001-4, 8.750% (CORTS)     |
| 37,200    | Safeco Capital Trust III, 8.072% (CORTS)                  |
| 16,300    | Safeco Capital Trust IV, 8.375% (CORTS)                   |
| 36,800    | Safeco Corporation, Series 2001-7, 8.250% (SATURNS)       |
| 36,300    | Safeco Corporation, Series 2002-5, 8.250% (SATURNS)       |
| 52,300    | Torchmark Capital Trust I, 7.750%                         |
| 111,600   | W.R. Berkley Capital Trust, Series 2002-1, 8.125% (CBTCS) |
| 65,200    | XL Capital Ltd., Series A, 8.000%                         |
| 101,100   | XL Capital Ltd., Series B, 7.625%                         |
| -----     |   |
|           | MEDIA - 0.1%  |
| 48,800    | Viacom Inc., 7.300%                                       |
| -----     |   |
|           | MULTI-UTILITIES & UNREGULATED POWER - 0.1%                |
| 85,200    | Energy East Capital Trust I, 8.250%                       |
| -----     |   |
|           | OIL & GAS - 0.9%  |
| 16,400    | EnCana Corporation, 9.500%                                |
| 685,000   | Nexen Inc., 7.350%  |
| -----     |   |
|           | PHARMACEUTICALS - 0.1%                                    |
| 50,000    | Bristol Myers Squibb Company, 6.250% (CORTS)              |
| 16,900    | Rhone-Poulenc Overseas, Series A, 8.125%                  |
| -----     |   |
|           | REAL ESTATE - 10.1%                                       |
| 318,355   | AMB Property Corporation, Series L, 6.500%                |
| 1,200     | Archstone-Smith Trust, Series D, 8.750%                   |
| 77,100    | AvalonBay Communities, Inc., Series H, 8.700%             |
| 220,400   | BRE Properties, Series B, 8.080%                          |
| 1,166,500 | CarrAmerica Realty Corporation, Series E, 7.500%          |

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|           |   |
|-----------|---|
| 1,279,845 | Developers Diversified Realty Corporation, Series H, 7.375% |
| 104,100   | Developers Diversified Realty Corporation, Series G, 8.000% |
| 21,100    | Duke Realty Corporation, Series K, 6.500%                   |
| 98,000    | Duke-Weeks Realty Corporation, 6.625%                       |
| 25,000    | Duke-Weeks Realty Corporation, Series B, 7.990%             |

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| SHARES                  | DESCRIPTION(1)  |
|-------------------------|---|
| -----                   |   |
| REAL ESTATE (continued) |   |
| 5,400                   | Duke-Weeks Realty Corporation, Series I, 8.450%       |
| 137,400                 | Equity Office Properties Trust, Series G, 7.750%      |
| 3,200                   | Equity Residential Properties Trust, Series C, 9.125% |
| 15,400                  | Equity Residential Properties Trust, Series D, 8.600% |
| 467,489                 | Equity Residential Properties Trust, Series N, 6.480% |
| 11,600                  | First Industrial Realty Trust, Inc., Series C, 8.625% |
| 115,300                 | Gables Residential Trust, Series D, 7.500%            |
| 423,729                 | HRPT Properties Trust, Series A, 9.875%               |
| 458,600                 | HRPT Properties Trust, Series B, 8.750%               |
| 96,400                  | New Plan Excel Realty Trust, Series E, 7.625%         |
| 3,997                   | Prologis Trust, Series C, 8.540%                      |
| 96,075                  | Prologis Trust, Series G, 6.750%                      |
| 92,000                  | PS Business Parks Inc., 7.000%                        |
| 6,000                   | Public Storage Inc., Series M, 8.750%                 |
| 31,000                  | Public Storage Inc., Series Q, 8.600%                 |
| 147,450                 | Public Storage Inc., Series R, 8.000%                 |
| 50,060                  | Public Storage Inc., Series S, 7.875%                 |
| 42,000                  | Public Storage Inc., Series T, 7.625%                 |
| 173,800                 | Public Storage Inc., Series U, 7.625%                 |
| 31,500                  | Public Storage Inc., Series V, 7.500%                 |



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|           |  |
|-----------|--|
| 166,100   | Regency Centers Corporation, 7.450%            |
| 20,500    | Simon Property Group, Inc., Series F, 8.750%   |
| 15,100    | Simon Property Group, Inc., Series G, 7.890%   |
| 6,300     | Vornado Realty Trust, Series C, 8.500%         |
| 1,987,734 | Wachovia Preferred Funding Corporation, 7.250% |

---

SPECIALTY RETAIL - 0.0%

|        |  |
|--------|--|
| 26,400 | Sherwin Williams Company, Series III, 7.250% (CORTS) |
|--------|--|

---

WIRELESS TELECOMMUNICATION SERVICES - 0.6%

|         |  |
|---------|--|
| 28,000  | AT&T Wireless Services Equity, Series 2002-B, 9.250% (SATURNS) |
| 111,100 | Telephone and Data Systems Inc., 7.600%                        |
| 48,900  | United States Cellular Corporation, 8.750%                     |
| 240,000 | United States Cellular Corporation, 7.500%                     |
| 47,300  | Verizon Communications, 7.375% (CORTS)                         |

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Total \$25 Par (or similar) Securities (cost \$945,830,658)

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CONVERTIBLE PREFERRED SECURITIES - 20.2% (13.8% OF TOTAL INVESTMENT)

AEROSPACE & DEFENSE - 0.4%

|        |                                      |
|--------|--------------------------------------|
| 77,800 | Northrop Grumman Corporation, 7.250% |
|--------|--------------------------------------|

---

AUTOMOBILES - 2.2%

|           |   |
|-----------|---|
| 278,685   | Ford Motor Company Capital Trust II, 6.500% |
| 1,046,200 | General Motors Corporation, 6.250%          |

---

CHEMICALS - 0.3%

|        |                         |
|--------|-------------------------|
| 60,000 | IMC Global Inc., 7.500% |
|--------|-------------------------|

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

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| SHARES | DESCRIPTION(1) |
|--------|----------------|
|--------|----------------|

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COMMERCIAL BANKS - 1.9%

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|         |  |
|---------|--|
| 162,000 | Affiliated Managers Group Inc., 6.000%                   |
| 273,600 | National Australia Bank Limited, 7.875%                  |
| 45,600  | Provident Financial Group Incorporated, 9.000%           |
| 217,375 | Sovereign Capital Trust IV, Convertible Security, 4.375% |
| 29,725  | State Street Corporation, 6.750%                         |
| 157,500 | Washington Mutual Inc. Unit 1 Trust, 5.375%              |
| -----   |  |
|         | COMMERCIAL SERVICES & SUPPLIES - 0.2%                    |
| 100,500 | Cendant Corporation, 7.750%                              |
| -----   |  |
|         | COMMUNICATIONS EQUIPMENT - 1.3%                          |
| 9,200   | Lucent Technologies Capital Trust I, 7.750%              |
| 200,100 | Motorola Inc., 7.000%                                    |
| 105     | Nortel Networks Corp, 7.000%                             |
| -----   |  |
|         | CONSTRUCTION MATERIALS - 0.5%                            |
| 216,700 | TXI Capital Trust I, 6.500%                              |
| -----   |  |
|         | CONSUMER FINANCE - 0.1%                                  |
| 45,000  | Capital One Financial Corporation, 6.250%                |
| -----   |  |
|         | CONTAINERS & PACKAGING - 0.4%                            |
| 149,000 | Temple Inland Inc., 7.500%                               |
| -----   |  |
|         | DIVERSIFIED FINANCIAL SERVICES - 0.9%                    |
| 281,600 | Citigroup Global Markets, 2.000%                         |
| 309,000 | Gabelli Asset Management Inc., 6.950%                    |
| -----   |  |
|         | DIVERSIFIED TELECOMMUNICATION SERVICES - 0.6%            |
| 245,300 | Alltel Corporation, 7.750%                               |
| -----   |  |
|         | ELECTRIC UTILITIES - 2.3%                                |
| 260,000 | Centerpoint Energy Inc., 2.000%                          |
| 173,000 | Cinergy Corporation, 9.500%                              |
| 197,500 | Dominion Resources Inc., 8.750%                          |

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|         |   |
|---------|---|
| 154,500 | FPL Group Inc., 8.000%                    |
| 151,300 | Public Service Enterprise Group, 10.250%  |
| -----   |   |
|         | ELECTRONIC EQUIPMENT & INSTRUMENTS - 0.7% |
| 60,775  | General Cable Corporation, 144A, 5.750%   |
| 182,200 | Pioneer-Standard Financial Trust, 6.750%  |
| -----   |   |
|         | FOOD & STAPLES RETAILING - 0.2%           |
| 137,025 | Albertsons Inc., 7.250%                   |
| -----   |   |
|         | GAS UTILITIES - 0.5%                      |
| 320,750 | Sempra Energy, 8.500%                     |
| -----   |   |
|         | HEALTHCARE EQUIPMENT & SUPPLIES - 0.6%    |
| 244,000 | Baxter International Inc., 7.000%         |
| -----   |   |
|         | HEALTHCARE PROVIDERS & SERVICES - 0.4%    |
| 86,500  | Anthem Inc., 6.000%                       |

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| SHARES  | DESCRIPTION(1)                               |
|---------|--|
| -----   |  |
|         | HOTELS, RESTAURANTS & LEISURE - 0.4%         |
| 157,000 | Host Marriott Financial Trust, 6.750%        |
| -----   |  |
|         | HOUSEHOLD DURABLES - 0.4%                    |
| 187,325 | Newell Financial Trust I, 5.250%             |
| -----   |  |
|         | INSURANCE - 2.6%                             |
| 147,000 | Chubb Corporation, 7.000%                    |
| 100,000 | Genworth Financial Inc., 0.000%              |
| 150,000 | PartnerRe Limited, 8.000%                    |
| 140,000 | PMI Group Inc., 5.875%                       |
| 194,100 | Prudential Financial Capital Trust I, 6.750% |

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|                |  |
|----------------|--|
| 167,000        | Reinsurance Group of America Inc., 5.750%                                |
| 100,000        | UnumProvident Corporation, 8.250%  |
| 340,650        | XL Capital Limited, 6.500%   |
| -----          |  |
|                | MARINE - 0.5%  |
| 222,100        | Teekay Shipping Corporation, 7.250%                                      |
| -----          |  |
|                | MEDIA - 1.0%   |
| 374,000        | Cablevision Systems Corporation, Trust I, 6.500%                         |
| 137,000        | Emmis Communications Corporation, Series A, 6.250%                       |
| 70,350         | Interpublic Group, Series A, 5.375%                                      |
| 97,500         | Sinclair Broadcast Group Inc., Series D, 6.000%                          |
| -----          |  |
|                | METALS & MINING - 0.2%   |
| 24,300         | Phelps Dodge Corporation, 0.000%   |
| -----          |  |
|                | OIL & GAS - 1.0%   |
| 50,000         | Amerada Hess Corporation, 7.000%   |
| 8,955          | Chesapeake Energy Corporation, 144A, 4.125%                              |
| 125,000        | Kerr-McGee Corporation, 5.500%   |
| -----          |  |
|                | REAL ESTATE - 0.6%   |
| 225,250        | Equity Office Properties Trust, Series B, 5.250%                         |
| -----          |  |
|                | Total Convertible Preferred Securities (cost \$385,847,815)              |
| -----          |  |
|                | CAPITAL PREFERRED - HYBRID SECURITIES - 1.5% (1.0% OF TOTAL INVESTMENTS) |
|                | DIVERSIFIED TELECOMMUNICATION SERVICES - 1.5%                            |
| 24,080         | Centaur Funding Corporation, 144A, Series B, 9.080%, 4/21/20             |
| -----          |  |
|                | Total Capital Preferred - Hybrid Securities (cost \$28,808,130)          |
| -----          |  |
| PRINCIPAL      |  |
| AMOUNT (000) / |  |
| SHARES         | DESCRIPTION  |
| -----          |  |
|                | CONVERTIBLE BONDS - 26.4% (18.0% OF TOTAL INVESTMENTS)                   |
|                | AEROSPACE & DEFENSE - 0.6%   |

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|    |       |  |
|----|-------|--|
| \$ | 4,550 | AAR Corporation, 144A, 2.875%, 2/01/24                         |
|    | 4,900 | EDO Corporation, Convertible Subordinate Note, 5.250%, 4/15/07 |
|    | 3,250 | Mercury Computer Systems Inc., 144A, 2.000%, 5/01/24           |

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| PRINCIPAL<br>AMOUNT (000) /<br>SHARES | DESCRIPTION(1)   |
|---------------------------------------|--|
| -----                                 |  |
|                                       | AIRLINES - 0.8%  |
| \$                                    | 8,450 American Airlines Corporation, 144A, 4.250%, 9/23/23                         |
|                                       | 8,050 Continental Airlines Inc., 4.500%, 2/01/07                                   |
|                                       | 2,250 Northwest Airlines Corporation, Convertible Notes, 144A, 6.625%, 5/15/23     |
|                                       | 3,200 Northwest Airlines Corporation, 6.625%, 5/15/23                              |
| -----                                 |  |
|                                       | AUTO COMPONENTS - 0.2%   |
|                                       | 6,440 Lear Corporation, 0.000%, 2/20/22  |
| -----                                 |  |
|                                       | AUTOMOBILES - 0.7%   |
|                                       | 3,595 Fleetwood Enterprises Inc., 144A, 5.000%, 12/15/23                           |
|                                       | 8,700 Sonic Automotive Inc, Convertible Senior Subordinated Notes, 5.250%, 5/07/09 |
| -----                                 |  |
|                                       | BIOTECHNOLOGY - 1.3%   |
|                                       | 6,775 Chiron Corporation, 2.750%, 6/30/34  |
|                                       | 3,790 Imclone Systems Inc., 144A, 1.375%, 5/15/24                                  |
|                                       | 5,975 Ivax Corporation, Convertible Note, 144A, 1.500%, 3/01/24                    |
|                                       | 8,500 Ivax Corporation, Convertible Senior Subordinated Notes, 4.500%, 5/15/08     |
| -----                                 |  |
|                                       | COMMERCIAL SERVICES & SUPPLIES - 0.5%  |
|                                       | 8,900 Bowne and Company Incorporated, 144A, 5.000%, 10/01/33                       |
| -----                                 |  |
|                                       | COMMUNICATIONS EQUIPMENT - 1.6%  |
|                                       | 3,700 Agere Systems Inc., 6.500%, 12/15/09   |
|                                       | 9,200 Ciena Corporation, 3.750%, 2/01/08   |

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|        |   |
|--------|---|
| 11,500 | Liberty Media Corporation, Senior Debentures Exchangeable for Motorola, 3.500%, 1 |
| 3,775  | Lucent Technologies Inc., 2.750%, 6/15/23   |
| 4,295  | Skyworks Solutions Inc., 4.750%, 11/15/07   |
| -----  |   |
|        | COMPUTERS & PERIPHERALS - 0.4%  |
| 15,565 | Hewlett-Packard Company, 0.000%, 10/14/17   |
| -----  |   |
|        | CONSTRUCTION & ENGINEERING - 0.4%   |
| 8,500  | Quanta Services Incorporated, 4.000%, 7/01/07                                     |
| -----  |   |
|        | CONSUMER FINANCE - 0.4%   |
| 8,000  | Providian Financial Corporation, Convertible Senior Notes, 3.250%, 8/15/05        |
| -----  |   |
|        | DIVERSIFIED FINANCIAL SERVICES - 0.7%   |
| 2,650  | JMH Finance Limited, 4.750%, 9/06/07  |
| 6,550  | Capitalsource Inc., 144A, 3.500%, 7/15/34   |
| 4,075  | Leucadia National Corporation, 144A, 3.750%, 4/15/14                              |
| -----  |   |
|        | ELECTRONIC EQUIPMENT & INSTRUMENTS - 1.1%   |
| 21,000 | Anixter International Inc., 0.000%, 6/28/20                                       |
| 12,750 | Arrow Electronics Inc., 0.000%, 2/21/21   |
| 8,195  | Fisher Scientific International Inc., 3.250%, 3/01/24                             |
| -----  |   |
|        | ENERGY EQUIPMENT & SERVICES - 1.1%  |
| 4,500  | Maverick Tube Corporation, Convertible Notes, 144A, 4.000%, 6/15/33               |
| 4,000  | Maverick Tube Corporation, 4.000%, 6/15/33  |
| 9,250  | Schlumberger Limited, 2.125%, 6/01/23   |
| 1,210  | Willbros Group Inc., 144A, 2.750%, 3/15/24  |

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| PRINCIPAL<br>AMOUNT (000)/<br>SHARES | DESCRIPTION(1)                         |
|--------------------------------------|--|
| -----                                |  |
|                                      | HEALTHCARE PROVIDERS & SERVICES - 0.7% |

HEALTHCARE PROVIDERS & SERVICES - 0.7%

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|       |        |   |
|-------|--------|---|
| \$    | 8,700  | Lifepoint Hospitals Inc, Convertible Subordinate Notes, 4.500%, 6/01/09           |
|       | 5,400  | Province Healthcare Inc, Convertible Subordinated Notes, 4.250%, 10/10/08         |
| ----- |        |   |
|       |        | HOTELS, RESTAURANTS & LEISURE - 2.1%  |
|       | 10,775 | Carnival Corporation. 2.000%, 4/15/21   |
|       | 8,025  | Fairmont Hotels and Resorts Inc., Convertible Note, 144A, 3.750%, 12/01/23        |
|       | 3,425  | Hilton Hotels Corporation, 3.375%, 4/15/23  |
|       | 7,125  | Kerzner International Limited, 144A, 2.375%, 4/15/24                              |
|       | 16,000 | Royal Caribbean Cruises Limited, Senior Convertible Liquid Yield, 0.000%, 2/02/21 |
| ----- |        |   |
|       |        | INDUSTRIAL CONGLOMERATES - 1.1%   |
|       | 7,000  | Tyco International Group Limited, Convertible Notes, 144A, 3.125%, 1/15/23        |
|       | 7,200  | Tyco International Group SA, 3.125%, 1/15/23                                      |
| ----- |        |   |
|       |        | IT SERVICES - 0.7%  |
|       | 7,100  | Digital River Inc., 144A, 1.250%, 1/01/24   |
|       | 7,000  | Electronic Data Systems, Convertible Senior Notes, 144A, 3.875%, 7/15/23          |
| ----- |        |   |
|       |        | LEISURE EQUIPMENT & PRODUCTS - 0.5%   |
|       | 7,000  | Hasbro Inc., 2.750%, 12/01/21   |
|       | 1,165  | K2 Corporation, Convertible Notes, 144A, 5.000%, 6/15/10                          |
| ----- |        |   |
|       |        | MEDIA - 5.2%  |
|       | 6,250  | Citadel Broadcasting Corporation, Convertible Subordinate Note, 144A, 1.875%, 2/1 |
|       | 760    | Comcast Corporation, 2.000%, 10/15/29   |
|       | 9,100  | Interpublic Group Companies, Convertible Subordinated Notes, 1.870%, 6/01/06      |
|       | 6,340  | Lamar Advertising Company, Convertible Notes, 2.875%, 12/31/10                    |
|       | 26,800 | Liberty Media Corporation, Senior Debentures, Exchangeable for PCS Common, 4.000% |
|       | 15,750 | Liberty Media Corporation, Senior Debentures, Exchangeable for Class B, 3.250%, 3 |
|       | 6,990  | Liberty Media Corporation, 0.750%, 3/30/23  |
|       | 4,200  | Lions Gate Entertainment Corporation 144A, Convertible Bond, 4.875%, 12/15/10     |
|       | 8,050  | Walt Disney Company, Convertible Senior Notes, 2.125%, 4/15/23                    |
| ----- |        |   |
|       |        | OFFICE ELECTRONICS - 0.4%   |

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8,200 IOS Capital LLC, Convertible Subordinate Debentures, 144A, 5.000%, 5/01/07

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OIL & GAS - 0.7%

8,600 Kerr-McGee Corporation, 5.250%, 2/15/10

4,170 McMoran Exploration Corporation, 144A, Notes, 6.000%, 7/02/08

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PHARMACEUTICALS - 1.4%

2,400 Alexion Pharmaceuticals Inc., 5.750%, 3/15/07

1,755 Atherogenics Inc, 144A, 4.500%, 9/01/08

3,075 CV Therapeutics Inc, 144A, 2.750%, 5/16/12

8,000 Teca Pharmaceutical Finance, Series B, 0.250%, 2/01/24

4,350 Valeant Pharmaceuticals International, 144A, 3.000%, 8/16/10

2,545 Valeant Pharmaceuticals International, 144A, 4.000%, 11/15/13

8,500 Wyeth, 144A, 1.360%, 1/15/24

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

PRINCIPAL  
AMOUNT (000)/  
SHARES

DESCRIPTION(1)

---

REAL ESTATE - 0.9%

\$ 3,625 Avatar Holdings Inc., 144A, 4.500%, 4/01/24

10,800 EOP Operating LP, Convertible Notes, 7.250%, 11/15/08

4,510 Trizec Hahn Corporation, 3.000%, 1/29/21

---

SEMICONDUCTORS & EQUIPMENT - 0.3%

5,500 ASM Lithography Holding NV, 5.750%, 10/15/06

---

SOFTWARE - 0.7%

4,200 Computer Associates International Inc., 5.000%, 3/15/07

7,100 Mentor Graphics Corporation, Convertible Subordinate Notes, 6.875%, 6/15/07

3,025 Novell Inc., 144A, 0.500%, 7/15/24

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SPECIALTY RETAIL - 1.1%

7,820 Charming Shoppes Inc., 4.750%, 6/01/12  
11,450 Lowes Companies Inc., 0.000%, 2/16/21  
5,900 TJX Companies Inc., 0.000%, 2/13/21

-----  
TEXTILES & APPAREL - 0.3%

6,025 Reebok International Ltd, 144A, 2.000%, 5/01/24

-----  
WIRELESS TELECOMMUNICATION SERVICES - 0.5%

2,975 NII Holdings Inc., 144A, 3.500%, 9/15/33  
4,100 NII Holdings Inc., 144A, 2.875%, 2/01/34

-----  
Total Convertible Bonds (cost \$509,842,284)  
-----

CORPORATE BONDS - 16.7% (11.4% OF TOTAL INVESTMENTS)

AUTO COMPONENTS - 0.6%

6,000 Asbury Automotive Group Inc., 9.000%, 6/15/12  
2,000 Keystone Automotive Operations Inc., 9.750%, 11/01/13  
4,000 Tenneco Auto, Inc., 10.250%, 7/15/13

-----  
AUTOMOBILES - 2.3%

7,570 Ford Motor Company, Debentures, 7.700%, 5/15/97  
17,095 Ford Motor Company, Debentures, 9.980%, 2/15/47  
2,000 Ford Motor Company, 8.900%, 1/15/32  
15,630 General Motors Corporation, Senior Debentures, 8.375%, 7/15/33

-----  
CHEMICALS - 0.3%

6,500 OM Group Inc., 9.250%, 12/15/11

-----  
COMMERCIAL SERVICES & SUPPLIES - 0.4%

4,880 Allied Waste North America, Series B, 10.000%, 8/01/09  
2,000 Williams Scotsman Inc., 10.000%, 8/15/08

-----  
COMMUNICATIONS EQUIPMENT - 0.2%

3,250 Avaya Inc., 11.125%, 4/01/09  
-----

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CONSTRUCTION MATERIALS - 0.4%

4,500 K. Hovnanian Enterprises Inc, Senior Subordinate Notes, 8.875%, 4/01/12  
 2,000 Texas Industries Inc., 10.250%, 6/15/11

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PRINCIPAL  
 AMOUNT (000)/  
 SHARES

DESCRIPTION(1)

CONSUMER FINANCE - 0.1%

\$ 1,500 Northern Rock plc, Tranche SR 21, 144A, 5.600%, 4/30/49

CONTAINERS & PACKAGING - 0.5%

2,000 Berry Plastics Corporation, 10.750%, 7/15/12  
 3,000 Owens-Brockway Glass Containers, Guaranteed Senior Note, 8.250%, 5/15/13  
 3,000 Owens-Illinois Inc., 7.500%, 5/15/10  
 2,210 United States Can Corporation, Series B, 10.875%, 7/15/10

DIVERSIFIED FINANCIAL SERVICES - 0.2%

3,450 MDP Acquisitions plc, Senior Notes, 9.625%, 10/01/12

ELECTRONIC EQUIPMENT & INSTRUMENTS - 0.1%

1,500 Fisher Scientific International Inc., 8.000%, 9/01/13

FOOD & STAPLES RETAILING - 0.2%

3,000 Stater Brothers Holdings Inc., 144A, 8.125%, 6/15/12

FOOD PRODUCTS - 1.0%

7,610 Del Monte Corporation, 8.625%, 12/15/12  
 7,000 Dole Foods Company, 7.875%, 7/15/13  
 1,435 Dole Foods Company, 8.625%, 5/01/09  
 3,250 Seminis Vegetable Seeds Inc., 10.250%, 10/01/13

GAS UTILITIES - 0.0%

1,000 Suburban Propane Partners LP, 6.875%, 12/15/13

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HEALTHCARE PROVIDERS & SERVICES - 0.2%

|       |   |
|-------|---|
| 2,000 | Service Corporation International, 7.700%, 4/15/09  |
| 1,000 | Service Corporation International, 8.375%, 12/15/04 |

---

HOTELS, RESTAURANTS & LEISURE - 2.3%

|       |  |
|-------|--|
| 5,190 | Aztar Corporation, 9.000%, 8/15/11   |
| 2,345 | Boyd Gaming Corporation, 8.750%, 4/15/12   |
| 4,075 | Boyd Gaming Corporation, 7.750%, 12/15/12  |
| 3,172 | Dominos Inc., 8.250%, 7/01/11  |
| 3,500 | Intrawest Corporation, Senior Notes, 10.500%, 2/01/10                              |
| 4,100 | Intrawest Corporation, 7.500%, 10/15/13  |
| 3,000 | Las Vegas Sands Inc, Venetian Casino Resorts, LLC Mortgage Notes, 11.000%, 6/15/11 |
| 2,000 | MGM Mirage, Inc., 6.750%, 8/01/07  |
| 3,500 | Park Place Entertainment, 7.875%, 12/15/05   |
| 1,000 | Park Place Entertainment, 9.375%, 2/15/07  |
| 1,000 | Park Place Entertainment, 7.875%, 3/15/10  |
| 500   | Penn National Gaming Inc., Series B, 11.125%, 3/01/08                              |
| 4,000 | PennNational Gaming Inc, Senior Subordinated Notes, 8.875%, 3/15/10                |
| 3,000 | Pinnacle Entertainment Inc., 8.750%, 10/01/13                                      |
| 2,000 | Pinnacle Entertainment Inc., 8.250%, 3/15/12                                       |
| 2,000 | Tricon Golbal Restaurants Incorporated, 8.875%, 4/15/11                            |

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| PRINCIPAL<br>AMOUNT (000) /<br>SHARES | DESCRIPTION(1)  |
|---------------------------------------|---|
|                                       | HOUSEHOLD DURABLES - 0.5%                                       |
| \$ 1,000                              | D.R. Horton, Inc., 10.500%, 4/01/05                             |
| 5,000                                 | KB Home, 8.625%, 12/15/08                                       |
| 3,000                                 | William Lyon Homes Inc, Unsecured Senior Note, 10.750%, 4/01/13 |

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INDUSTRIAL CONGLOMERATES - 0.2%

4,000 Jacuzzi Brands Inc., 9.625%, 7/01/10

---

INTERNET & CATALOG RETAIL - 0.1%

2,000 R H Donnelley Finance Corp 1, 10.875%, 12/15/12

---

IT SERVICES - 0.2%

4,000 Global Cash Access LLC, Senior Subordinate Note, 144A, 8.750%, 3/15/12

---

MACHINERY - 0.3%

3,000 Terex Corporation, Senior Subordinated Notes, 10.375%, 4/01/11

3,000 Terex Corporation, Senior Subordinated Notes, 9.250%, 7/15/11

---

MEDIA - 3.9%

6,900 Allbritton Communications Company, Series B, 7.750%, 12/15/12

2,000 AMC Entertainment Inc., 144A, 8.000%, 3/01/14

2,345 American Media Operations Inc., 8.875%, 1/15/11

6,000 American Media Operations Inc., Series B, 10.250%, 5/01/09

5,000 Cablevision Systems Corporation, Series B, 8.125%, 8/15/09

3,000 Cablevision Systems Corporation, 7.250%, 7/15/08

2,000 Cablevision Systems Corporation, 8.125%, 7/15/09

1,000 Charter Communications Operating LLC., 144A, 8.000%, 4/30/12

6,000 Cinemark USA Inc., 9.000%, 2/01/13

1,000 Dex Media West LLC, 8.500%, 8/15/10

2,250 Dex Media West LLC, 9.875%, 8/15/13

3,000 Lowes Cineplex Entertainment Corporation, 144A, 9.000%, 8/01/14

3,855 Mail-Well I Corporation, Senior Unsecured Note, 144A, 9.625%, 3/15/12

4,000 Media News Group Inc., 6.375%, 4/01/14

8,000 Primedia Inc, Senior Notes, 8.875%, 5/15/11

2,000 Sun Media Corporation, 7.625%, 2/15/13

10,000 Vertis Inc., 9.750%, 4/01/09

5,500 Young Broadcasting Inc., Senior Subordinate Notes, 10.000%, 3/01/11

1,000 Young Broadcasting Inc., 8.500%, 12/15/08

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|                                      |   |
|--------------------------------------|---|
| 2,000                                | Young Broadcasting Inc., 8.750%, 1/15/14  |
| -----                                |   |
|                                      | METALS & MINING - 0.1%  |
| 1,682                                | United States Steel Corporation, 9.750%, 5/15/10                                  |
| -----                                |   |
|                                      | MULTILINE RETAIL - 0.2%   |
| 1,000                                | Saks Inc., Note, 9.875%, 10/01/11   |
| 2,000                                | Saks Inc., Notes, 7.500%, 12/01/10  |
| -----                                |   |
|                                      | OIL & GAS - 0.4%  |
| 2,563                                | Chesapeake Energy Corporation, 9.000%, 8/15/12                                    |
| 2,000                                | Premcor Refining Group Inc., 7.500%, 6/15/15                                      |
| -----                                |   |
| 40                                   |   |
| -----                                |   |
| PRINCIPAL<br>AMOUNT (000)/<br>SHARES | DESCRIPTION(1)  |
| -----                                |   |
|                                      | OIL & GAS (continued)   |
| \$ 1,000                             | Tesoro Petroleum Corporation, Senior Subordinate Notes, Series B, 9.625%, 11/01/0 |
| 1,000                                | Tesoro Petroleum Corporation, 8.000%, 4/15/08                                     |
| -----                                |   |
|                                      | PAPER & FOREST PRODUCTS - 0.4%  |
| 2,000                                | Georgia Pacific Corporation, Debentures, 7.700%, 6/15/15                          |
| 5,000                                | Georgia Pacific Corporation, Notes, 8.125%, 5/15/11                               |
| -----                                |   |
|                                      | PHARMACEUTICALS - 0.2%  |
| 3,000                                | Quintiles Transitional Corporation, 10.000%, 10/01/13                             |
| -----                                |   |
|                                      | REAL ESTATE - 0.2%  |
| 4,000                                | Universal City Development Partners, 11.750%, 4/01/10                             |
| -----                                |   |
|                                      | ROAD & RAIL - 0.2%  |
| 3,000                                | Laidlaw International Inc., 10.750%, 6/15/11                                      |
| -----                                |   |
|                                      | SEMICONDUCTORS & EQUIPMENT - 0.1%   |

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3,500 Amkor Technology Inc., 7.750%, 5/15/13

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SPECIALTY RETAIL - 0.7%

4,000 Saks Inc., 7.375%, 2/15/19

2,000 United Rentals of North America Inc., 7.750%, 11/15/13

8,000 Warnaco Inc., Senior Notes, 8.875%, 6/15/13

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WIRELESS TELECOMMUNICATION SERVICES - 0.2%

4,000 Nextel Communications Inc., 7.375%, 8/01/15

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Total Corporate Bonds (cost \$328,927,475)

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CAPITAL PREFERRED SECURITIES - 27.0% (18.4% OF TOTAL INVESTMENTS)

COMMERCIAL BANKS - 20.3%

2,000 AB Svensk Exportkredit, 6.375%, 10/27/49

20,000 Abbey National Capital Trust I, 8.963%, 12/30/49

45,300 AgFirst Farm Credit Bank, 7.300%, 12/15/53

12,840 Bank One Capital III, 8.750%, 9/01/30

1,974 BankAmerica Capital II, Series 2, 8.000%, 12/15/26

2,600 BankAmerica Institutional Capital Trust, 7.700%, 12/31/26

5,000 BankAmerica Institutional Trust, Series B, 8.070%, 12/31/26

2,000 BankBoston Capital Trust I, Series B, 8.250%, 12/15/26

500 Barnett Capital I, 8.060%, 12/01/26

6,273 BT Capital Trust, Series B1, 7.900%, 1/15/27

2,000 BT Institutional Capital Trust B, 144A, 7.750%, 12/01/26

15,000 BT Institutional Capital Trust A, 144A, 8.090%, 12/01/26

21,000 CBA Capital Trust I, 144A, 5.805%, 12/30/49

900 Chase Capital Trust I, Series A, 7.670%, 12/01/26

1,000 Citigroup Capital III, 7.625%, 12/01/36

3,000 Compass Trust I, Series A, 8.230%, 1/15/27

5,000 Farm Credit Bank of Texas, 7.561%, 11/05/49

2,350 FBS Capital Trust I, 8.090%, 11/15/26

4,315 First Chicago NBD Institutional Capital Trust, Series B, 7.750%, 12/01/26

Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
Portfolio of INVESTMENTS July 31, 2004

| PRINCIPAL<br>AMOUNT (000)/<br>SHARES | DESCRIPTION(1)   |
|--------------------------------------|--|
| -----                                |  |
|                                      | COMMERCIAL BANKS (continued)                                       |
| \$ 6,000                             | First Chicago NBD Institutional Capital, 7.950%, 12/01/26          |
| 5,750                                | First Empire Capital Trust I, 8.234%, 2/01/27                      |
| 11,550                               | First Empire Capital Trust II, 8.277%, 6/01/27                     |
| 4,250                                | First Midwest Bancorp Inc., 6.950%, 12/01/33                       |
| 3,500                                | First Union Capital Trust II, Series A, 7.950%, 11/15/29           |
| 2,000                                | First Union Institutional Capital Securities I, 8.040%, 12/01/26   |
| 500                                  | First Union Institutional Capital II, 7.850%, 1/01/27              |
| 8,300                                | Goldman Sachs Group Inc., 6.345%, 2/15/34                          |
| 3,365                                | Great Western Financial Trust II, Series A, 8.206%, 2/01/27        |
| 16,000                               | HSBC Capital Funding LP, Debt, 10.176%, 6/30/50                    |
| 12,838                               | HSBC Capital Funding LP, 144A, 9.547%, 12/31/49                    |
| 2,150                                | JPM Capital Trust I, 7.540%, 1/15/27                               |
| 3,000                                | JPM Capital Trust II, 7.950%, 2/01/27                              |
| 19,105                               | KBC Bank Fund Trust III, 144A, 9.860%, 11/02/49                    |
| 15,000                               | KeyCorp Institutional Capital Trust A, 7.826%, 12/01/26            |
| 19,335                               | Mellon Capital Trust I, Series A, 7.720%, 12/01/26                 |
| 1,000                                | Nordbanken AB, 144A, 8.950%, 11/29/49                              |
| 18,500                               | North Fork Capital Trust II, 8.000%, 12/15/27                      |
| 500                                  | PNC Institutional Capital Securities, 7.950%, 12/15/26             |
| 2,000                                | Reliance Capital Trust I, Series B, 8.170%, 5/01/28                |
| 1,202                                | Republic New York Capital II, Capital Securities, 7.530%, 12/04/26 |
| 6,200                                | Royal Bank of Scotland Group plc, 9.118%, 3/31/49                  |
| 2,250                                | Royal Bank of Scotland Group plc, 7.648%, 8/31/49                  |
| 2,000                                | SocGen Real Estate Company LLC, 144A, 7.640%, 12/29/49             |
| 4,472                                | St. George Funding Company LLC, 8.485%, 6/30/47                    |

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|        |  |
|--------|--|
| 9,000  | State Street Institutional Capital Trust, 144A, 8.035%, 3/15/27    |
| 23,490 | Unicredito Italiano Capital Trust, 144A, 9.200%, 10/05/49          |
| 3,800  | Union Planters Capital Trust A, 8.200%, 12/15/26                   |
| 2,000  | Zions Institutional Capital Trust, Series A, 8.536%, 12/15/26      |
| 500    | Countrywide Capital Trust I, 8.000%, 12/15/26                      |
| -----  |  |
|        | DIVERSIFIED FINANCIAL SERVICES - 0.2%                              |
| 4,000  | Keycorp Capital III, 7.750%, 7/15/29                               |
| -----  |  |
|        | GAS UTILITIES - 1.0%   |
| 18,855 | KN Capital Trust III, 7.630%, 4/15/28                              |
| -----  |  |
|        | INSURANCE - 5.5%   |
| 10,000 | American General Capital II, 8.500%, 7/01/30                       |
| 4,980  | American General Institutional Capital, 8.125%, 3/15/46            |
| 612    | Berkeley Capital Trust, 8.197%, 12/15/45                           |
| 10,000 | ING Capital Funding Trust III, 8.439%, 12/30/49                    |
| 16,260 | Safeco Capital Trust I, Capital Securities, 8.072%, 7/15/37        |
| 13,390 | Sun Life Canada Capital Trust, Capital Securities, 8.526%, 5/06/47 |

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| PRINCIPAL<br>AMOUNT (000)/<br>SHARES | DESCRIPTION(1)   |
|--------------------------------------|--|
|                                      | -----  |
|                                      | INSURANCE (continued)  |
| \$ 23,513                            | Zurich Capital Trust I, 8.376%, 6/01/37  |
| 20,000                               | Mangrove Bay, 144A, Class 3, 6.102%, 7/15/33                                       |
| -----                                |  |
|                                      | Total Capital Preferred Securities (cost \$558,262,955)                            |
| -----                                |  |
|                                      | CAPITAL PREFERRED EURO-MARKET LISTED SECURITIES - 7.8% (5.3% OF TOTAL INVESTMENTS) |
|                                      | COMMERCIAL BANKS - 6.6%  |
| 15,000                               | BNP Paribas Capital Trust, 7.200%, 12/31/49  |
| 27,500                               | CA Preferred Funding Trust, 7.000%, 1/30/49  |



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|        |  |
|--------|--|
| 1,500  | CA Preferred Fund Trust II, 7.000%, 10/30/49   |
| 53,400 | HBOS Capital Funding LP, Notes, 6.850%, 3/01/49  |
| 17,000 | Lloyds TSB Bank plc, Subordinate Note, 6.900%, 11/22/49  |
| 18,000 | RBS Capital Trust B, 6.800%, 12/31/49  |
| -----  |  |
|        | DIVERSIFIED FINANCIAL SERVICES - 1.2%  |
| 23,600 | Old Mutual Capital Funding, Notes, 8.000%, 6/22/53   |
| -----  |  |
|        | Total Capital Preferred Euro-Market Listed Securities (cost \$159,640,244)   |
| -----  |  |
|        | REPURCHASE AGREEMENTS - 1.2% (0.8% OF TOTAL INVESTMENTS)   |
| 23,463 | State Street Bank, 1.250%, dated 7/30/04, due 8/02/04, repurchase price \$23,465,000 collateralized by \$20,880,000 U.S. Treasury Bonds, 9.375%, due 2/15/06, value \$23,462,578 |
| -----  |  |
|        | Total Repurchase Agreements (cost \$23,462,578)  |
| -----  |  |
|        | TOTAL INVESTMENTS (COST \$2,940,622,139) - 146.7%  |
| =====  |  |

| SHARES    | DESCRIPTION(1)                          |
|-----------|---|
| -----     |   |
|           | COMMON STOCKS SOLD SHORT - (3.1)%       |
|           | AEROSPACE & DEFENSE - (0.2)%            |
| (72,500)  | Northrop Gruman Corporation             |
| -----     |   |
|           | AUTOMOBILES - (0.3)%                    |
| (360,000) | Ford Motor Company                      |
| -----     |   |
|           | CHEMICALS - (0.3)%                      |
| (372,632) | IMC Global Inc.                         |
| -----     |   |
|           | COMMERCIAL BANKS - (0.2)%               |
| (52,500)  | Affiliated Managers Group Inc.          |
| (40,617)  | National City Corporation               |
| -----     |   |
|           | COMMERCIAL SERVICES & SUPPLIES - (0.0)% |
| (33,000)  | Cendant Corporation                     |
| -----     |   |
|           | COMMUNICATIONS EQUIPMENT - (0.2)%       |

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(1,375,000) Lucent Technologies Inc.

-----  
 CONSUMER FINANCE - (0.1)%

(16,152) Capital One Financial Corporation

-----  
 HEALTHCARE EQUIPMENT & SUPPLIES - (0.3)%

(267,000) Baxter International Inc.

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)  
 Portfolio of INVESTMENTS July 31, 2004

| SHARES    | DESCRIPTION(1)  |
|-----------|---|
|           | INSURANCE - (0.4)%  |
| (37,650)  | Chubb Corporation   |
| (90,200)  | Genworth Financial Inc.   |
| (63,300)  | PMI Group Inc.  |
| (170,168) | UnumProvident Corporation   |
|           | -----<br>LEISURE EQUIPMENT & PRODUCTS - (0.1)%  |
| (71,827)  | K2 Inc.   |
|           | -----<br>MEDIA - (0.3)%   |
| (349,750) | Cablevision Systems Corporation   |
|           | -----<br>METALS & MINING - (0.2)%   |
| (48,012)  | Phelps Dodge Corporation  |
|           | -----<br>OIL & GAS - (0.5)%   |
| (38,445)  | Amerada Hess Corporation  |
| (105,581) | Devon Energy Corporation  |
|           | -----<br>TOTAL COMMON STOCKS SOLD SHORT (PROCEEDS \$58,176,379)<br>=====<br>OTHER ASSETS LESS OTHER LIABILITIES - 4.1%<br>=====<br>FUNDPREFERRED SHARES, AT LIQUIDATION VALUE - (47.7%)<br>=====<br>NET ASSETS APPLICABLE TO COMMON SHARES - 100% |

- =====
- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
  - (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.
  - (LYONS) Liquid Yield Option Notes.
  - (PCARS) Public Credit and Repackaged Securities.
  - (PPLUS) PreferredPlus Trust.
  - (SATURNS) Structured Asset Trust Unit Repackaging.

See accompanying notes to financial statements.

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Statement of  
ASSETS AND LIABILITIES July 31, 2004

-----  
ASSETS

Investments, at market value (cost \$2,128,314,221 and \$2,940,622,139, respectively)  
Cash  
Deposits with brokers for securities sold short  
Interest rate swaps, at value  
Receivables:  
    Dividends  
    Interest  
    Investments sold  
    Reclaims  
Other assets

-----  
Total assets  
-----

LIABILITIES

Securities sold short, at value (proceeds \$42,106,133 and \$58,176,379, respectively)  
Cash overdraft

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Payable for investments purchased

Accrued expenses:

Management fees

Other

Dividends payable:

FundPreferred shares

Securities sold short

-----  
Total liabilities  
-----

FundPreferred shares, at liquidation value  
-----

Net assets applicable to Common shares  
=====

Common shares outstanding  
=====

Net asset value per Common share outstanding (net assets applicable to  
Common shares, divided by Common shares outstanding)  
=====

NET ASSETS APPLICABLE TO COMMON SHARES CONSIST OF:

Common shares, \$.01 par value per share

Paid-in surplus

Undistributed (Over-distribution of) net investment income

Accumulated net realized gain from investments

Net unrealized appreciation (depreciation) of investments and interest rate swaps transactions  
-----

Net assets applicable to Common shares  
=====

Authorized shares:

Common

FundPreferred shares  
=====

See accompanying notes to financial statements.

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Statement of  
OPERATIONS Year Ended July 31, 2004

-----  
INVESTMENT INCOME

Dividends (net of foreign tax withheld of \$15,423 and \$27,621, respectively)

Interest  
-----

Total investment income  
-----

EXPENSES

Management fees

Dividend expense on securities sold short

FundPreferred shares - auction fees

FundPreferred shares - dividend disbursing agent fees

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|   |
|---|
| Shareholders' servicing agent fees and expenses   |
| Custodian's fees and expenses   |
| Trustees' fees and expenses   |
| Professional fees   |
| Shareholders' reports - printing and mailing expenses   |
| Stock exchange listing fees   |
| Investor relations expense  |
| Other expenses  |
| -----   |
| Total expenses before custodian fee credit and expense reimbursement                              |
| Custodian fee credit  |
| Expense reimbursement   |
| -----   |
| Net expenses  |
| -----   |
| Net investment income   |
| -----   |
| REALIZED AND UNREALIZED GAIN (LOSS) FROM INVESTMENTS  |
| Net realized gain from investments  |
| Net realized gain (loss) from interest rate swap transactions                                     |
| Change in net unrealized appreciation (depreciation) of investments                               |
| Change in net unrealized appreciation (depreciation) of interest rate swap transactions           |
| -----   |
| Net gain from investments   |
| -----   |
| DISTRIBUTIONS TO FUNDPREFERRED SHAREHOLDERS   |
| From net investment income  |
| From accumulated net realized gains from investments  |
| -----   |
| Decrease in net assets applicable to Common shares from distributions to FundPreferred shareholde |
| -----   |
| Net increase in net assets applicable to Common shares from operations                            |
| =====   |

See accompanying notes to financial statements.

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Statement of  
CHANGES IN NET ASSETS

|  | PREFERRED AND<br>CONVERTIBLE INCOME (JPC) |  |
|--|---|--|
|  | YEAR ENDED<br>7/31/04                     | FOR THE<br>PERIOD 3/26/03<br>(COMMENCEMENT<br>OF OPERATIONS<br>THROUGH 7/31/03 |
|  |   |  |
| OPERATIONS   |   |  |
| Net investment income  | \$ 125,132,929                            | \$ 30,420,215  |
| Net realized gain (loss) from investments  | 27,972,286                                | 6,249,317  |
| Net realized gain (loss) from interest rate swap transactions                              | (2,330,892)                               | --   |
| Change in net unrealized appreciation (depreciation)<br>of investments                     | 39,651,341                                | (8,770,714)  |
| Change in net unrealized appreciation (depreciation)<br>of interest rate swap transactions | 5,573,214                                 | --   |

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|   |                 |                 |
|---|-----------------|-----------------|
| Distributions to FundPreferred shareholders:  |                 |                 |
| From net investment income  | (8,171,424)     | (1,781,038)     |
| From accumulated net realized gains from investments  | (384,871)       | --              |
| -----   |                 |                 |
| Net increase (decrease) in net assets applicable to Common shares from operations                 | 187,442,583     | 26,117,780      |
| -----   |                 |                 |
| DISTRIBUTIONS TO COMMON SHAREHOLDERS  |                 |                 |
| From net investment income  | (121,827,639)   | (30,157,634)    |
| From accumulated net realized gains from investments  | (4,581,333)     | --              |
| -----   |                 |                 |
| Decrease in net assets applicable to Common shares from distributions to Common shareholders      | (126,408,972)   | (30,157,634)    |
| -----   |                 |                 |
| CAPITAL SHARE TRANSACTIONS  |                 |                 |
| Common shares:  |                 |                 |
| Net proceeds from sale of shares  | (188,221)       | 1,430,942,591   |
| Net proceeds from shares issued to shareholders due to reinvestment of distributions              | 1,175,103       | 549,331         |
| FundPreferred shares offering costs   | (20,355)        | (14,569,487)    |
| -----   |                 |                 |
| Net increase (decrease) in net assets applicable to Common shares from capital share transactions | 966,527         | 1,416,922,435   |
| -----   |                 |                 |
| Net increase in net assets applicable to Common shares  | 62,000,138      | 1,412,882,581   |
| Net assets applicable to Common shares at the beginning of year                                   | 1,412,982,856   | 100,275         |
| -----   |                 |                 |
| Net assets applicable to Common shares at the end of year   | \$1,474,982,994 | \$1,412,982,856 |
| =====   |                 |                 |
| Undistributed (Over-distribution of) net investment income at the end of year                     | \$ (5,581,774)  | \$ (234,434)    |
| =====   |                 |                 |

See accompanying notes to financial statements.

### Notes to FINANCIAL STATEMENTS

#### 1. GENERAL INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Funds covered in this report and their corresponding Common share New York Stock Exchange symbols are Nuveen Preferred and Convertible Income Fund (JPC) and Nuveen Preferred and Convertible Income Fund 2 (JQC). The Funds are registered under the Investment Company Act of 1940, as amended, as diversified, closed-end management investment companies.

Prior to the commencement of operations of the Funds, each Fund had no operations other than those related to organizational matters, the initial capital contribution of \$100,275 per Fund by Nuveen Institutional Advisory Corp. (the "Adviser"), a wholly owned subsidiary of Nuveen Investments, Inc., and the recording of the organization expenses (\$11,500 per Fund) and their reimbursement by Nuveen Investments, LLC, also a wholly owned subsidiary of Nuveen Investments, Inc.

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Each Fund seeks to provide high current income by investing primarily in a portfolio of preferred securities, convertible securities and, to a lesser degree, high yield securities. Each Fund may also invest in other debt instruments and common stocks acquired upon conversion of a convertible security.

The following is a summary of significant accounting policies followed by the Funds in the preparation of their financial statements in accordance with U.S. generally accepted accounting principles.

### Securities Valuation

Exchange-listed securities are generally valued at the last sales price on the securities exchange on which such securities are primarily traded. Securities traded on a securities exchange for which there are no transactions on a given day or securities not listed on a securities exchange are valued at the mean of the closing bid and asked prices. Securities traded on Nasdaq are valued at the Nasdaq Official Closing Price. The prices of fixed-income securities are generally provided by an independent pricing service approved by the Funds' Board of Trustees and based on the mean between the bid and asked prices. When price quotes are not readily available for fixed-income securities, the pricing service establishes fair market value using a wide range of market data including yields or prices of securities of comparable quality, type of issue, coupon, maturity and rating, indications of value from security dealers, evaluations of anticipated cash flows or collateral, general market conditions and other information and analysis, including the obligor's credit characteristics considered relevant by the pricing service. If it is determined that market prices for a security are unavailable or inappropriate, the Board of Trustees of the Funds, or its designee, may establish a fair value for the security. Short-term securities are valued at amortized cost, which approximates market value.

### Securities Transactions

Securities transactions are recorded on a trade date basis. Realized gains and losses from such transactions are determined on the specific identification method. Securities purchased on a when-issued or delayed delivery basis may have extended settlement periods. Any securities so purchased are subject to market fluctuation during this period. The Funds have instructed the custodian to segregate assets with a current value at least equal to the amount of the when-issued and delayed delivery purchase commitments. At July 31, 2004, there were no such outstanding purchase commitments in either of the Funds.

### Investment Income

Dividend income on securities purchased and dividend expense on securities sold short are recorded on the ex-dividend date. Interest income, which includes the amortization of premiums and accretion of discounts for financial reporting purposes, is recorded on an accrual basis (see Dividends and Distributions to Common Shareholders for REIT income recognition policy).

### Income Taxes

Each Fund is a separate taxpayer for federal income tax purposes. Each Fund intends to distribute all income and capital gains to shareholders and to otherwise comply with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies. Therefore, no federal income tax provision is required.

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### Dividends and Distributions to Common Shareholders

Dividends to Common shareholders are declared monthly. With respect to the REIT securities held in the Funds' Portfolio of Investments, each Fund passes through to its shareholders, each month, substantially all REIT distributions it receives, together with other operating income less operating expenses. REIT distributions received by the Funds are generally comprised of investment income, long-term and short-term capital gains, and a return of REIT capital. The actual character of amounts received during the period is not known until after the fiscal year-end. For the twelve months ended December 31, 2003, the character of distributions to the Funds from the REITs was as follows:

|  | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME<br>(JPC) | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME 2<br>(JQC) |
|--|--|--|
| -----                                  |  |  |
| Ordinary income                        | 84.04%   | 77.85%   |
| Long-term and short-term capital gains | .20  | .17  |
| Return of REIT capital                 | 15.76  | 21.98  |
| =====                                  |  |  |

Each Fund applies a percentage estimate for the breakdown of income type, to its receipts from the REITs and treats as income in the Statement of Operations only the amount of ordinary income so calculated. Each Fund adjusts that estimated breakdown of income type (and consequently its net investment income) as necessary in the following calendar year when the REITs inform their shareholders of the actual breakdown of income type.

Each Fund treats each distribution to its shareholders from the portfolio REITs as being entirely from net investment income. The Funds will recharacterize those distributions as being from ordinary income, long-term and short-term capital gains, and return of capital, if necessary, in the subsequent calendar year, based upon the income type breakdown information conveyed at that time by the REITs whose securities are held in each Fund's portfolio. Consequently, the financial statements may reflect an over-distribution of net investment income that is at least partly attributable to the fact that, as of the date of the financial statements, some of the amounts received by the Funds from the portfolio REITs, but none of the dividends paid by the Fund to shareholders from the portfolio REITs were treated as something other than ordinary income.

Distributions to Common shareholders are recorded on the ex-dividend date. The amount and timing of distributions are determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles.

### FundPreferred Shares

The Funds have issued and outstanding \$25,000 stated value FundPreferred shares as a means of effecting financial leverage. Each Fund's FundPreferred shares are issued in more than one Series. The dividend rate on each Series may change every seven days, as set pursuant to a dutch auction process by the auction agent, and is payable at or near the end of each rate period. The number of shares outstanding, by Series and in total, for each Fund is as follows:

|  | PREFERRED<br>AND<br>CONVERTIBLE | PREFERRED<br>AND<br>CONVERTIBLE |
|--|---------------------------------|---------------------------------|
|--|---------------------------------|---------------------------------|



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|                   | INCOME<br>(JPC) | INCOME 2<br>(JQC) |
|-------------------|-----------------|-------------------|
| -----             |                 |                   |
| Number of shares: |                 |                   |
| Series M          | 4,720           | 3,860             |
| Series M2         | --              | 3,860             |
| Series T          | 4,720           | 3,860             |
| Series T2         | --              | 3,860             |
| Series W          | 4,720           | 3,860             |
| Series W2         | --              | 3,860             |
| Series TH         | 4,720           | 3,860             |
| Series TH2        | --              | 3,860             |
| Series F          | 4,720           | 3,860             |
| Series F2         | 4,720           | 3,860             |
| -----             |                 |                   |
| Total             | 28,320          | 38,600            |
| =====             |                 |                   |

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Notes to  
FINANCIAL STATEMENTS (continued)

Interest Rate Swap Transactions

The Funds may invest in certain derivative financial instruments. The Funds' use of interest rate swap transactions is intended to mitigate the negative impact that an increase in short-term interest rates could have on Common share net earnings as a result of leverage. Interest rate swap transactions involve each Fund's agreement with the counterparty to pay a fixed rate payment in exchange for the counterparty paying the Fund a variable rate payment that is intended to approximate each Fund's variable rate payment obligation on Fund Preferred shares or any variable rate borrowing. The payment obligation is based on the notional amount of the interest rate swap contract. Interest rate swaps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to the swap counterparty on such transactions is limited to the net amount of interest payments that each Fund is to receive. Interest rate swap positions are valued daily. Although there are economic advantages of entering into interest rate swap transactions, there are also additional risks. The Funds help manage the credit risks associated with interest rate swap transactions by entering into agreements only with counterparties the Adviser believes have the financial resources to honor their obligations and by having the Adviser continually monitor the financial stability of the swap counterparties.

Due to recent clarification provided by the SEC to regulated investment companies, effective with the current reporting period, the Funds changed the way they present net interest expense on interest rate swap transactions in the financial statements. In the July 31, 2004, financial statements net interest expense amounts paid are included in "Net realized gain (loss) from interest rate swap transactions". Net interest expense amounts accrued, but not yet paid, at July 31, 2004, are included in "Change in net unrealized appreciation (depreciation) of interest rate swap transactions". Previously, net interest expense was presented in "Expenses" and reported as "Net interest expense on interest rate swap transactions". This reclassification does not alter the tax treatment of interest rate payments on swap transactions which is to include such payments as an operating expense for tax purposes.

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At July 31, 2004, Preferred and Convertible Income (JPC) had open interest rate swap agreements as follows:

| NOTIONAL<br>AMOUNT | FIXED RATE | FLOATING RATE* | TERMINATION<br>DATE | UN<br>APPR<br>(DEPR |
|--------------------|------------|----------------|---------------------|---------------------|
| \$71,000,000       | 1.4300%    | 1.4263%        | 1/22/05             | \$                  |
| 71,000,000         | 1.9735     | 1.4263         | 1/22/06             |                     |
| 71,000,000         | 2.5670     | 1.4263         | 1/22/07             | 1                   |
| 71,000,000         | 2.9935     | 1.4263         | 1/22/08             | 1                   |
| 71,000,000         | 3.4060     | 1.4263         | 1/22/09             | 1                   |

\*Based on LIBOR (London Interbank Offered Rate)

At July 31, 2004, Preferred and Convertible Income 2 (JQC) had open interest rate swap agreements as follows:

| NOTIONAL<br>AMOUNT | FIXED RATE | FLOATING RATE* | TERMINATION<br>DATE | UN<br>APPR<br>(DEPR |
|--------------------|------------|----------------|---------------------|---------------------|
| \$97,000,000       | 1.3605%    | 1.4331%        | 1/23/05             | \$                  |
| 97,000,000         | 2.0250     | 1.4331         | 1/23/06             | 1                   |
| 97,000,000         | 2.6790     | 1.4331         | 1/23/07             | 1                   |
| 97,000,000         | 3.0480     | 1.4331         | 1/23/08             | 2                   |
| 97,000,000         | 3.3595     | 1.4331         | 1/23/09             | 2                   |

\*Based on LIBOR (London Interbank Offered Rate)

### Short Sales

The Funds are authorized to make short sales of securities if the Funds own at least an equal amount of such securities or securities convertible into securities of the same issuer. To secure its obligation to deliver securities sold short, the Funds have instructed the custodian to segregate assets in an equivalent amount of the securities sold short or securities convertible into or exchangeable for such securities. The Fund is obligated to pay to the party to which the securities were sold short, dividends declared on the stock by the issuer and records such amounts as expense in the statement of operations. Short sales are valued daily and the corresponding unrealized gains or losses are included in "Change in net unrealized appreciation (depreciation) of investments."

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### Repurchase Agreements

In connection with transactions in repurchase agreements, it is each Fund's policy that its custodian take possession of the underlying collateral securities, the fair value of which exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. If the seller defaults, and the fair value of the collateral declines, realization of the collateral may be delayed or limited.

### Organization and Offering Costs

Nuveen Investments, LLC has agreed to reimburse all organization expenses (approximately \$11,500 per Fund) and pay all Common share offering costs (other than the sales load) that exceed \$.03 per Common share. Preferred and Convertible Income's (JPC) and Preferred and Convertible Income 2's (JQC) share of Common share offering costs (\$1,745,630 and \$1,762,420, respectively) were recorded as reductions of the proceeds from the sale of Common shares.

Costs incurred by Preferred and Convertible Income (JPC) and Preferred and Convertible Income 2 (JQC) in connection with their offering of FundPreferred shares (\$14,589,842 and \$19,723,013, respectively) were recorded as reductions to paid-in surplus.

### Custodian Fee Credit

Each Fund has an arrangement with the custodian bank whereby certain custodian fees and expenses are reduced by credits earned on each Fund's cash on deposit with the bank. Such deposit arrangements are an alternative to overnight investments.

### Indemnifications

Under the Funds' organizational documents, its Officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Funds. In addition, in the normal course of business, the Funds enter into contracts that provide general indemnifications to other parties. 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 occurred. However, the Funds have not had prior claims or losses pursuant to these contracts and expect the risk of loss to be remote.

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets applicable to Common shares from operations during the reporting period. Actual results may differ from those estimates.

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Transactions in Common and FundPreferred shares were as follows:

|   | PREFERRED AND<br>CONVERTIBLE INCOME (JPC)  | PREF<br>CONVERTIBL       |
|---|--|--------------------------|
|   | -----  | -----                    |
|   | FOR THE<br>PERIOD 3/26/03<br>YEAR (COMMENCEMENT<br>ENDED OF OPERATIONS)<br>7/31/04 THROUGH 7/31/03 | YEAR<br>ENDED<br>7/31/04 |
|   | -----  | -----                    |
| Common shares:  |  |                          |
| Shares sold   | --   | 100,000,000              |
| Shares issued to<br>shareholders due to<br>reinvestment of<br>distributions | 79,185   | 36,992                   |
|   | -----  | -----                    |
|   | 79,185   | 100,036,992              |
|   | -----  | -----                    |
| FundPreferred shares sold   | --   | 28,320                   |
|   | -----  | 38,600                   |
|   | -----  | -----                    |

### 3. SECURITIES TRANSACTIONS

Purchases and sales (including maturities and transactions in securities sold short but excluding short-term investments) of investment securities and U.S. Government and agency obligations during the fiscal year ended July 31, 2004, were as follows:

|  |               | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME<br>(JPC) |
|--|---------------|--|
|  | -----         | -----  |
| Purchases:                             |               |  |
| Investment securities                  | \$594,408,592 | \$1  |
| U.S. Government and agency obligations | 8,554,453     |  |
| Sales and maturities:                  |               |  |
| Investment securities                  | 630,779,939   |  |
| U.S. Government and agency obligations | 8,682,109     |  |
|  | -----         | -----  |

### 4. 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 July 31, 2004, the cost of investments were as follows:

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|   | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME<br>(JPC) |     |
|---|--|-----|
| -----   |  |     |
| Cost of investments (net of proceeds received on securities sold short) | \$2,088,456,348                                    | \$2 |
| =====   |  |     |

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Gross unrealized appreciation and gross unrealized depreciation of investments at July 31, 2004, were as follows:

|  | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME<br>(JPC) |    |
|--|--|----|
| -----                                      |  |    |
| Gross unrealized:                          |  |    |
| Appreciation                               | \$ 85,171,412                                      | \$ |
| Depreciation                               | (56,539,045)                                       | (  |
| -----                                      |  |    |
| Net unrealized appreciation of investments | \$ 28,632,367                                      | \$ |
| =====                                      |  |    |

The tax components of undistributed net ordinary income and net realized gains at July 31, 2004, were as follows:

|   | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME<br>(JPC) |      |
|---|--|------|
| -----                                     |  |      |
| Undistributed net ordinary income *       | \$37,328,510                                       | \$25 |
| Undistributed net long-term capital gains | 7,550,253  | 2    |
| =====                                     |  |      |

\* Net ordinary income consists of net taxable income derived from dividends, interest, and net short-term capital gains, if any.

The tax character of distributions paid during the fiscal years ended July 31, 2004 and July 31, 2003, was designated for purposes of the dividends paid deduction as follows:

| PREFERRED<br>AND |  |
|------------------|--|
|------------------|--|

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|  |                                |     |
|--|--------------------------------|-----|
|  | CONVERTIBLE<br>INCOME<br>(JPC) | CON |
|--|--------------------------------|-----|

2004

|  |               |       |
|--|---------------|-------|
| Distributions from net ordinary income *       | \$134,895,598 | \$162 |
| Distributions from net long-term capital gains | --            |       |

|  |  |          |
|--|--|----------|
|  | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME<br>(JPC) | P<br>CON |
|--|--|----------|

2003

|  |              |  |
|--|--------------|--|
| Distributions from net ordinary income *       | \$21,811,614 |  |
| Distributions from net long-term capital gains | --           |  |

\* Net ordinary income consists of net taxable income derived from dividends, interest, and net short-term capital gains, if any.

Calculation of certain of the amounts presented above (namely, undistributed net ordinary income for tax purposes) involves the application of complex aspects of the Internal Revenue Code to certain securities held by the Funds. In calculating the amount of taxable income derived from these securities, management made assumptions as to the correct tax treatment of certain of those securities and made estimates about the tax characteristics of income received from those securities, based on information currently available to the Funds. The use of these assumptions and estimates will not affect the qualification of the Funds as regulated investment companies under Subchapter M of the Internal Revenue Code, nor is it expected that these assumptions and estimates will be used in computing taxable income for purposes of preparing the federal and state income and excise tax returns.

5. MANAGEMENT FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Under the Funds' investment management agreements with the Adviser, each Fund paid through July 31, 2004, an annual management fee, payable monthly, at the rates set forth below, which were based upon each Fund's average daily managed assets. "Managed Assets" means the average daily net assets of each Fund including assets attributable to leverage as follows:

| AVERAGE DAILY MANAGED ASSETS        | MANAGEMENT FEE RATE |
|-------------------------------------|---------------------|
| For the first \$500 million         | .9000%              |
| For the next \$500 million          | .8750               |
| For the next \$500 million          | .8500               |
| For the next \$500 million          | .8250               |
| For Managed Assets over \$2 billion | .8000               |

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The management fee compensates the Adviser for overall investment advisory and administrative services and general office facilities. The Adviser has entered into Sub-Advisory Agreements with Spectrum Asset Management, Inc. ("Spectrum"), and Froley, Revy Investment Co., Inc. (Froley, Revy). Spectrum manages the portion of the Fund's investment portfolio allocated to preferred securities while Froley, Revy manages the portion of the investment portfolio allocated to convertible securities. Spectrum and Froley, Revy are compensated for their services to the Funds from the management fee paid to the Adviser. Spectrum also receives compensation on certain portfolio transactions for providing brokerage services to the Funds. The Adviser is responsible for the overall strategy and asset allocation decisions as well as managing the portion of the investment portfolio allocated to other debt securities.

The Funds pay no compensation directly to those of its Trustees who are affiliated with the Adviser or to its officers, all of whom receive remuneration for their services to the Funds from the Adviser or its affiliates. The Board of Trustees has adopted a deferred compensation plan for independent Trustees that enables Trustees to elect to defer receipt of all or a portion of the annual compensation they are entitled to receive from certain Nuveen advised Funds. Under the plan, deferred amounts are treated as though equal dollar amounts had been invested in shares of select Nuveen advised Funds.

As approved by the Board of Trustees, a complex-wide management fee structure has been adopted by all funds sponsored by the Adviser and its affiliates effective August 1, 2004. This structure separates each fund's management fee into two components - a complex-level component, based on the aggregate amount of all fund assets managed by the Adviser and its affiliates, and a specific fund-level component, based only on the amount of assets managed within each individual fund. This pricing structure enables Nuveen fund shareholders to benefit from growth in the assets within each individual fund as well as from growth in the amount of complex-wide assets managed by the Adviser and its affiliates. Under no circumstances will this pricing structure result in a fund paying management fees at a rate higher than would otherwise have been applicable had the complex-wide management fee structure not been implemented. As a consequence of this new management fee structure, the funds' effective management fees were reduced by approximately .004% starting August 1, 2004.

The complex-level fee schedule for all funds in the Nuveen fund complex is as follows:

| COMPLEX-LEVEL ASSETS (1)                 | COMPLEX-LEVEL<br>FEE RATE |
|--|---------------------------|
| For the first \$55 billion               | .2000%                    |
| For the next \$1 billion                 | .1800                     |
| For the next \$1 billion                 | .1600                     |
| For the next \$3 billion                 | .1425                     |
| For the next \$3 billion                 | .1325                     |
| For the next \$3 billion                 | .1250                     |
| For the next \$5 billion                 | .1200                     |
| For the next \$5 billion                 | .1175                     |
| For the next \$15 billion                | .1150                     |
| For Managed Assets over \$91 billion (2) | .1400                     |
|  |                           |

- (1) The complex-level fee component of the management fee for the funds is calculated based upon the aggregate Managed Assets (which includes assets attributable to leverage used in the Nuveen fund complex) of all funds sponsored by the Adviser or by its affiliates.

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- (2) With respect to the complex-wide Managed Assets over \$91 billion, the funds (via their Board of Directors/Trustees) and the Adviser intend that the parties will meet, prior to the time when complex-wide Managed Assets reach that level, to consider and negotiate the fee rate or rates that will apply to such assets. The parties agree that, in the unlikely event that complex-wide Managed Assets reach \$91 billion prior to the parties reaching an agreement as to the complex-level fee rate or rates to be applied to Managed Assets in excess of \$91 billion, the complex-level fee rate for such complex-wide Managed Assets shall be .1400% until such time as the parties agree to a different rate or rates.

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For each of the Funds, the fund-level fee, which is additive to the complex-level fee, is based upon the average daily Managed Assets of each Fund as follows:

| AVERAGE DAILY MANAGED ASSETS        | FUND-LEVEL FEE RATE |
|-------------------------------------|---------------------|
| For the first \$500 million         | .7000%              |
| For the next \$500 million          | .6750               |
| For the next \$500 million          | .6500               |
| For the next \$500 million          | .6250               |
| For Managed Assets over \$2 billion | .6000               |

For the first eight years of Preferred and Convertible Income's (JPC) operations, the Adviser has agreed to reimburse the Fund, as a percentage of average daily Managed Assets, for fees and expenses in the amounts and for the time periods set forth below:

| YEAR ENDING<br>MARCH 31, | YEAR ENDING<br>MARCH 31, | YEAR ENDING<br>MARCH 31, | YEAR ENDING<br>MARCH 31, |
|--------------------------|--------------------------|--------------------------|--------------------------|
| 2003*                    | .32%                     | 2008                     | .32%                     |
| 2004                     | .32                      | 2009                     | .24                      |
| 2005                     | .32                      | 2010                     | .16                      |
| 2006                     | .32                      | 2011                     | .08                      |
| 2007                     | .32                      |                          |                          |

\*From the commencement of operations.

The Adviser has not agreed to reimburse Preferred and Convertible Income (JPC) for any portion of its fees and expenses beyond March 31, 2011.

For the first eight years of Preferred and Convertible Income 2's (JQC) operations, the Adviser has agreed to reimburse the Fund, as a percentage of average daily Managed Assets, for fees and expenses in the amounts and for the time periods set forth below:

| YEAR ENDING<br>JUNE 30, | YEAR ENDING<br>JUNE 30, | YEAR ENDING<br>JUNE 30, | YEAR ENDING<br>JUNE 30, |
|-------------------------|-------------------------|-------------------------|-------------------------|
| 2003*                   | .32%                    | 2008                    | .32%                    |
| 2004                    | .32                     | 2009                    | .24                     |
| 2005                    | .32                     | 2010                    | .16                     |
| 2006                    | .32                     | 2011                    | .08                     |



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2007 .32

\*From the commencement of operations.

The Adviser has not agreed to reimburse Preferred and Convertible Income 2 (JQC) for any portion of its fees and expenses beyond June 30, 2011.

6. SUBSEQUENT EVENTS

Distributions to Common Shareholders

The Funds declared Common share dividend distributions from their net investment income which were paid September 1, 2004, to shareholders of record on August 15, 2004, as follows:

|                    | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME<br>(JPC) | PREFERRED<br>AND<br>CONVERTIBLE<br>INCOME 2<br>(JQC) |
|--------------------|--|--|
| Dividend per share | \$ .1005   | \$ .0975   |

Change in Fiscal Year End

The Board of Trustees of the Funds approved a change in the Funds' fiscal year end from July 31 to December 31 upon completion of the Funds' July 31, 2004 fiscal year.

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Financial  
HIGHLIGHTS

Selected data for a Common share outstanding throughout each period:

|   | Investment Operations                              |                                 |   |   |   |      |
|---|--|---------------------------------|---|---|---|------|
|   | Beginning<br>Common<br>Share<br>Net Asset<br>Value | Net<br>Investment<br>Income (a) | Net<br>Realized/<br>Unrealized<br>Investment<br>Gain (Loss) | Distributions<br>from Net<br>Investment<br>Income to<br>FundPreferred<br>Share-<br>holders+ | Distributions<br>from<br>Capital<br>Gains to<br>FundPreferred<br>Share-<br>holders+ | Tot  |
| PREFERRED AND CONVERTIBLE<br>INCOME (JPC) |  |                                 |   |   |   |      |
| Year Ended 7/31:                          |  |                                 |   |   |   |      |
| 2004                                      | \$14.12  | \$1.25                          | \$ .71  | \$ (.08)  | \$ --   | \$1. |
| 2003 (b)                                  | 14.33  | .30                             | (.02)   | (.02)   | --  | .    |

PREFERRED AND CONVERTIBLE

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### INCOME 2 (JQC)

Year Ended 7/31:

|          |       |      |       |       |    |    |
|----------|-------|------|-------|-------|----|----|
| 2004     | 13.83 | 1.16 | .73   | (.08) | -- | 1. |
| 2003 (c) | 14.33 | .04  | (.53) | --    | -- | (. |

### Total Returns

|  | Offering<br>Costs and<br>Fund Preferred<br>Share<br>Underwriting<br>Discounts | Ending<br>Common<br>Share<br>Net Asset<br>Value | Ending<br>Market<br>Value | Based<br>on<br>Market<br>Value** | Based<br>on<br>Common<br>Share<br>Net<br>Asset<br>Value** |
|--|---|---|---------------------------|----------------------------------|---|
|--|---|---|---------------------------|----------------------------------|---|

### PREFERRED AND CONVERTIBLE INCOME (JPC)

Year Ended 7/31:

|          |       |         |         |       |        |
|----------|-------|---------|---------|-------|--------|
| 2004     | \$ -- | \$14.73 | \$13.95 | 4.34% | 13.44% |
| 2003 (b) | (.17) | 14.12   | 14.57   | (.89) | .58    |

### PREFERRED AND CONVERTIBLE INCOME 2 (JQC)

Year Ended 7/31:

|          |       |       |       |        |        |
|----------|-------|-------|-------|--------|--------|
| 2004     | (.14) | 14.33 | 13.54 | .10    | 12.25  |
| 2003 (c) | (.01) | 13.83 | 14.69 | (2.07) | (3.49) |

### Ratios/Supplemental Data

|  | Before Credit/Reimbursement   | After Credit  |
|--|---|---|
| Ending<br>Net<br>Assets<br>Applicable<br>to Common<br>Shares (000) | Ratio of<br>Expenses<br>to Average<br>Net Assets<br>Applicable<br>to Common<br>Shares++                 | Ratio of<br>Expenses<br>to Average<br>Net Assets<br>Applicable<br>to Common<br>Shares++ |
|  | Ratio of Net<br>Investment<br>Income to<br>Average<br>Net Assets<br>Applicable<br>to Common<br>Shares++ |   |

### PREFERRED AND CONVERTIBLE INCOME (JPC)

Year Ended 7/31:

|          |             |       |       |       |
|----------|-------------|-------|-------|-------|
| 2004     | \$1,474,983 | 1.53% | 7.90% | 1.05% |
| 2003 (b) | 1,412,983   | 1.29* | 5.67* | .87*  |

### PREFERRED AND CONVERTIBLE INCOME 2 (JQC)

Year Ended 7/31:

|          |           |      |       |      |
|----------|-----------|------|-------|------|
| 2004     | 2,021,258 | 1.47 | 7.51  | 1.00 |
| 2003 (c) | 1,950,622 | .97* | 2.86* | .65* |

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| FundPreferred Shares at End of Period |   |   |                                |
|---------------------------------------|---|---|--------------------------------|
|                                       | Aggregate<br>Amount<br>Outstanding<br>(000) | Liquidation<br>and Market<br>Value<br>Per Share | Asset<br>Coverage<br>Per Share |

PREFERRED AND CONVERTIBLE  
INCOME (JPC)

| Year Ended 7/31: |           |          |          |
|------------------|-----------|----------|----------|
| 2004             | \$708,000 | \$25,000 | \$77,083 |
| 2003 (b)         | 708,000   | 25,000   | 74,893   |

PREFERRED AND CONVERTIBLE  
INCOME 2 (JQC)

| Year Ended 7/31: |         |        |        |
|------------------|---------|--------|--------|
| 2004             | 965,000 | 25,000 | 77,364 |
| 2003 (c)         | --      | --     | --     |

\* Annualized.

\*\* Total Investment Return on Market Value is the combination of reinvested dividend income, reinvested capital gains distributions, if any, and changes in stock price per share. Total Return on Common Share Net Asset Value is the combination of reinvested dividend income at net asset value, reinvested capital gains distributions at net asset value, if any, and changes in Common share net asset value per share. Total returns are not annualized.

\*\*\* After custodian fee credit and expense reimbursement, where applicable.

+ The amounts shown are based on Common share equivalents.

++ o Ratios do not reflect the effect of dividend payments to FundPreferred shareholders.

o Income ratios reflect income earned on assets attributable to FundPreferred shares.

o Each ratio includes the effect of the dividend expense on securities sold short as follows:

|  | Ratio of<br>Dividend<br>Expense on<br>Securities<br>Sold Short to<br>Average Net<br>Assets Applicable<br>to Common Shares |
|--|---|
| -----                                    |   |
| PREFERRED AND CONVERTIBLE INCOME (JPC)   |   |
| 2004                                     | .03%  |
| 2003 (b)                                 | --  |
|  |   |
| PREFERRED AND CONVERTIBLE INCOME 2 (JQC) |   |
| 2004                                     | .03   |
| 2003 (c)                                 | --  |

- (a) Per share Net Investment Income is calculated using the average daily shares method.
- (b) For the period March 26, 2003 (commencement of operations) through July 31, 2003.
- (c) For the period June 25, 2003 (commencement of operations) through July 31,

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2003.

See accompanying notes to financial statements.

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## Board Members AND OFFICERS

The management of the Funds, including general supervision of the duties performed for the Funds by the Adviser, is the responsibility of the Board Members of the Funds. The number of board members of the Funds is currently set at seven. None of the board members who are not "interested" persons of the Funds has ever been a director or employee of, or consultant to, Nuveen or its affiliates. The names and business addresses of the board members and officers of the Funds, their principal occupations and other affiliations during the past five years, the number of portfolios each oversees and other directorships they hold are set forth below.

| NAME, BIRTHDATE<br>AND ADDRESS   | POSITION(S)<br>HELD WITH<br>THE FUNDS   | YEAR FIRST<br>ELECTED OR<br>APPOINTED (2) | PRINCIPAL OCCUPATION(S)<br>INCLUDING OTHER DIRECTORSHIPS<br>DURING PAST 5 YEARS   |
|--|---|---|---|
| -----  |   |   |   |
| BOARD MEMBER WHO IS AN INTERESTED PERSON OF THE FUNDS:                             |   |   |   |
| -----  | -----                                   | -----                                     | -----   |
| Timothy R. Schwertfeger (1)<br>3/28/49<br>333 W. Wacker Drive<br>Chicago, IL 60606 | Chairman of<br>the Board<br>and Trustee | 1994                                      | Chairman and Director (since 1996) of N<br>Inc. and Nuveen Investments, LLC; Direc<br>Chairman (since 1996) of Nuveen Advisor<br>Institutional Advisory Corp.; Chairman<br>1997) of Nuveen Asset Management, Inc.;<br>1996) of Institutional Capital Corporat<br>Director (since 1999) of Rittenhouse As<br>Chairman of Nuveen Investments Advisers |
| BOARD MEMBERS WHO ARE NOT INTERESTED PERSONS OF THE FUNDS:                         |   |   |   |
| -----  | -----                                   | -----                                     | -----   |
| Robert P. Bremner<br>8/22/40<br>333 W. Wacker Drive<br>Chicago, IL 60606           | Board member                            | 1997                                      | Private Investor and Management Consult   |
| -----  | -----                                   | -----                                     | -----   |
| Lawrence H. Brown<br>7/29/34<br>333 W. Wacker Drive<br>Chicago, IL 60606           | Board member                            | 1993                                      | Retired (1989) as Senior Vice President<br>Trust Company; Director, Community Advi<br>Highland Park and Highwood, United Way<br>Shore (since 2002).   |
| -----  | -----                                   | -----                                     | -----   |
| Jack B. Evans<br>10/22/48<br>333 W. Wacker Drive<br>Chicago, IL 60606              | Board member                            | 1999                                      | President, The Hall-Perrine Foundation,<br>corporation (since 1996); Director and<br>Fire & Casualty Company; formerly Direc<br>Bank of Chicago; formerly, President an<br>Officer, SCI Financial Group, Inc., a r<br>services firm.  |
| -----  | -----                                   | -----                                     | -----   |
| William C. Hunter<br>3/6/48  | Board member                            | 2004                                      | Dean and Distinguished Professor of Fin<br>Business at the University of Connectic  |

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333 W. Wacker Drive  
Chicago, IL 60606

previously Senior Vice President and Director at the Federal Reserve Bank of Chicago; Director, Credit Research Center at Geac; Director of Xerox Corporation (since 2000)

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| NAME, BIRTHDATE<br>AND ADDRESS | POSITION(S)<br>HELD WITH<br>THE FUNDS | YEAR FIRST<br>ELECTED OR<br>APPOINTED (2) | PRINCIPAL OCCUPATION(S)<br>INCLUDING OTHER DIRECTORSHIPS<br>DURING PAST 5 YEARS |
|--------------------------------|---------------------------------------|---|---|
|--------------------------------|---------------------------------------|---|---|

BOARD MEMBERS WHO ARE NOT INTERESTED PERSONS OF THE FUNDS (CONTINUED):

|   |              |      |  |
|---|--------------|------|--|
| William J. Schneider<br>9/24/44<br>333 W. Wacker Drive<br>Chicago, IL 60606 | Board member | 1997 | Senior Partner and Chief Operating Officer of Miller-Valentine Group, Vice President, Miller-Valentine company; Chair, Miami Valley Hospital; Development Coalition; formerly, Member of Advisory Board, National City Bank, Dayton Business Advisory Council, Cleveland Fed |
| Judith M. Stockdale<br>12/29/47<br>333 W. Wacker Drive<br>Chicago, IL 60606 | Board member | 1997 | Executive Director, Gaylord and Dorothy Foundation (since 1994); prior thereto, Great Lakes Protection Fund (from 1990)  |

| NAME, BIRTHDATE<br>AND ADDRESS | POSITION(S)<br>HELD WITH<br>THE FUNDS | YEAR FIRST<br>ELECTED OR<br>APPOINTED (3) | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS |
|--------------------------------|---------------------------------------|---|--|
|--------------------------------|---------------------------------------|---|--|

OFFICERS OF THE FUNDS:

|  |  |      |   |
|--|--|------|---|
| Gifford R. Zimmerman<br>9/9/56<br>333 W. Wacker Drive<br>Chicago, IL 60606 | Chief<br>Administrative<br>Officer           | 1988 | Managing Director (since 2002), Assistant Associate General Counsel, formerly, Vice Assistant General Counsel of Nuveen Investment Management (since 2002), General Assistant Secretary, formerly, Vice President of Nuveen Institutional Management (since 2002), Assistant Associate General Counsel, formerly, Vice President (2000), of Nuveen Asset Management, Inc. Secretary of Nuveen Investments, Inc. (Secretary of NWQ Investment Management (since 2002); Vice President and Assistant Nuveen Investments Advisers Inc. (since 2002), Director, Associate General Counsel and of Rittenhouse Asset Management, Inc. (Chartered Financial Analyst. |
| Michael T. Atkinson<br>2/3/66<br>333 W. Wacker Drive<br>Chicago, IL 60606  | Vice President<br>and Assistant<br>Secretary | 2000 | Vice President (since 2002), formerly, President (since 2000), previously, Assistant Secretary, Nuveen Investments, LLC.  |

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Board Members  
AND OFFICERS (CONTINUED)

| NAME, BIRTHDATE<br>AND ADDRESS  | POSITION(S)<br>HELD WITH<br>THE FUNDS | YEAR FIRST<br>ELECTED OR<br>APPOINTED (3) | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS  |
|---|---------------------------------------|---|---|
| -----<br>OFFICERS OF THE FUNDS (CONTINUED):<br>-----                        |                                       |   |   |
| Peter H. D'Arrigo<br>11/28/67<br>333 W. Wacker Drive<br>Chicago, IL 60606   | Vice President<br>and Treasurer       | 1999                                      | Vice President of Nuveen Investments, L<br>prior thereto, Assistant Vice President<br>President and Treasurer of Nuveen Inves<br>1999); Vice President and Treasurer of<br>and Nuveen Institutional Advisory Corp<br>President and Treasurer of Nuveen Asset<br>(since 2002) and of Nuveen Investments<br>2002); Assistant Treasurer of NWQ Inves<br>Company, LLC (since 2002); Vice Preside<br>Nuveen Rittenhouse Asset Management, In<br>Chartered Financial Analyst. |
| Jessica R. Droeger<br>9/24/64<br>333 W. Wacker Drive<br>Chicago, IL 60606   | Vice President<br>and Secretary       | 2000                                      | Vice President (since 2002) and Assista<br>(since 1998); formerly, Assistant Vice<br>of Nuveen Investments, LLC; Vice Presid<br>and Assistant Secretary (since 1998), f<br>Vice President of Nuveen Advisory Corp.<br>Institutional Advisory Corp.  |
| Lorna C. Ferguson<br>10/24/45<br>333 W. Wacker Drive<br>Chicago, IL 60606   | Vice President                        | 1998                                      | Managing Director (since 2004) formerly<br>Nuveen Investments, LLC; Managing Direc<br>formerly, Vice President (since 1998) o<br>Corp. and Nuveen Institutional Advisory  |
| William M. Fitzgerald<br>3/2/64<br>333 W. Wacker Drive<br>Chicago, IL 60606 | Vice President                        | 1995                                      | Managing Director (since 2002) of Nuvee<br>LLC; Managing Director (since 2001), fo<br>of Nuveen Advisory Corp. and Nuveen Ins<br>Corp. (since 1995); Managing Director o<br>Management, Inc. (since 2001); Vice Pre<br>Investment Advisers Inc. (since 2002);   |
| Stephen D. Foy<br>5/31/54<br>333 W. Wacker Drive<br>Chicago, IL 60606       | Vice President<br>and Controller      | 1998                                      | Vice President (since 1993) and Funds C<br>of Nuveen Investments, LLC and Vice Pre<br>Controller (since 1998) of Nuveen Inves<br>Certified Public Accountant.   |

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| NAME, BIRTHDATE<br>AND ADDRESS  | POSITION(S)<br>HELD WITH<br>THE FUNDS        | YEAR FIRST<br>ELECTED OR<br>APPOINTED (3) | PRINCIPAL OCCUPATION(S)<br>DURING PAST 5 YEARS   |
|---|--|---|--|
| -----   |  |   |  |
| OFFICERS OF THE FUNDS (CONTINUED):  |  |   |  |
| -----   |  |   |  |
| David J. Lamb<br>3/22/63<br>333 W. Wacker Drive<br>Chicago, IL 60606      | Vice President                               | 2000                                      | Vice President (since 2000) of Nuveen I<br>LLC, previously Assistant Vice Presiden<br>prior thereto, Associate of Nuveen Inve<br>Certified Public Accountant.  |
| -----   |  |   |  |
| Tina M. Lazar<br>8/27/61<br>333 W. Wacker Drive<br>Chicago, IL 60606      | Vice President                               | 2002                                      | Vice President (since 1999), previously<br>President (since 1993) of Nuveen Invest   |
| -----   |  |   |  |
| Larry W. Martin<br>7/27/51<br>333 W. Wacker Drive<br>Chicago, IL 60606    | Vice President<br>and Assistant<br>Secretary | 1988                                      | Vice President, Assistant Secretary and<br>Counsel of Nuveen Investments, LLC; Vic<br>Assistant Secretary of Nuveen Advisory<br>Institutional Advisory Corp.; Assistant<br>Investments, Inc. and (since 1997) Nuve<br>Inc.; Vice President (since 2000), Assi<br>Assistant General Counsel (since 1998)<br>Management, Inc.; Vice President and As<br>Nuveen Investments Advisers Inc. (since<br>Secretary of NWQ Investment Management<br>(since 2002). |
| -----   |  |   |  |
| Edward F. Neild, IV<br>7/7/65<br>333 W. Wacker Drive<br>Chicago, IL 60606 | Vice President                               | 1996                                      | Managing Director (since 2002) of Nuveen<br>Managing Director (since 1997), formerl<br>(since 1996) of Nuveen Advisory Corp. a<br>Advisory Corp.; Managing Director of Nu<br>Inc. (since 1999). Chartered Financial  |

- (1) Mr. Schwertfeger is an "interested person" of the Funds, as defined in the Investment Company Act of 1940, because he is an officer and board member of the Adviser.
- (2) Board members serve an indefinite term until his/her successor is elected. The year first elected or appointed represents the year in which the board member was first elected or appointed to any fund in the Nuveen Complex.
- (3) Officers serve one year terms through July of each year. The year first elected or appointed represents the year in which the Officer was first elected or appointed to any fund in the Nuveen Complex.

Reinvest Automatically  
EASILY AND CONVENIENTLY

SIDEBAR TEXT: NUVEEN MAKES REINVESTING EASY. A PHONE CALL IS ALL IT TAKES TO SET UP YOUR REINVESTMENT ACCOUNT.

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### NUVEEN CLOSED-END EXCHANGE-TRADED FUNDS DIVIDEND REINVESTMENT PLAN

Your Nuveen Closed-End Exchange-Traded Fund allows you to conveniently reinvest dividends and/or capital gains distributions in additional fund shares.

By choosing to reinvest, you'll be able to invest money regularly and automatically, and watch your investment grow through the power of compounding.

It is important to note that an automatic reinvestment plan does not ensure a profit, nor does it protect you against loss in a declining market.

### EASY AND CONVENIENT

To make recordkeeping easy and convenient, each month you'll receive a statement showing your total dividends and distributions, the date of investment, the shares acquired and the price per share, and the total number of shares you own.

### HOW SHARES ARE PURCHASED

The shares you acquire by reinvesting will either be purchased on the open market or newly issued by the Fund. If the shares are trading at or above net asset value at the time of valuation, the Fund will issue new shares at the greater of the net asset value or 95% of the then-current market price. If the shares are trading at less than net asset value, shares for your account will be purchased on the open market. Dividends and distributions received to purchase shares in the open market will normally be invested shortly after the dividend payment date. No interest will be paid on dividends and distributions awaiting reinvestment. Because the market price of the shares may increase before purchases are completed, the average purchase price per share may exceed the market price at the time of valuation, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund. A pro rata portion of any applicable brokerage commissions on open market purchases will be paid by Plan participants. These commissions usually will be lower than those charged on individual transactions.

### FLEXIBLE

You may change your distribution option or withdraw from the Plan at any time, should your needs or situation change. Should you withdraw, you can receive a certificate for all whole shares credited to your reinvestment account and cash payment for fractional shares, or cash payment for all reinvestment account shares, less brokerage commissions and a \$2.50 service fee.

You can reinvest whether your shares are registered in your name, or in the name of a brokerage firm, bank, or other nominee. Ask your investment advisor if his or her firm will participate on your behalf. Participants whose shares are registered in the name of one firm may not be able to transfer the shares to another firm and continue to participate in the Plan.

The Fund reserves the right to amend or terminate the Plan at any time. Although the Fund reserves the right to amend the Plan to include a service charge payable by the participants, there is no direct service charge to participants in the Plan at this time.

### CALL TODAY TO START REINVESTING DIVIDENDS AND/OR DISTRIBUTIONS

For more information on the Nuveen Automatic Reinvestment Plan or to enroll in or withdraw from the Plan, speak with your financial advisor or call us at (800) 257-8787.



Other Useful  
INFORMATION

QUARTERLY PORTFOLIO OF INVESTMENTS AND PROXY VOTING INFORMATION

Each Fund's quarterly portfolio of investments and information regarding how the Funds voted proxies relating to portfolio securities held during the most recent 12-month period ended June 30, 2004, are available without charge, upon request, by calling Nuveen Investments toll-free at (800) 257-8787 or on Nuveen's website at [www.nuveen.com](http://www.nuveen.com).

You may also obtain this and other Fund information directly from the Securities and Exchange Commission ("SEC"). The SEC may charge a copying fee for this information. Visit the SEC on-line at <http://www.sec.gov> or in person at the SEC's Public Reference Room in Washington, D.C. Call the SEC at 1-202-942-8090 for room hours and operation. You may also request Fund information by sending an e-mail request to [publicinfo@sec.gov](mailto:publicinfo@sec.gov) or by writing to the SEC's Public Reference Section at 450 Fifth Street NW, Washington, D.C. 20549.

GLOSSARY OF TERMS USED IN THIS REPORT

**AVERAGE ANNUAL TOTAL RETURN:** This is a commonly used method to express an investment's performance over a particular, usually multi-year time period. It expresses the return (including change in NAV and reinvested dividends) that would have been necessary on an annual basis to equal the investment's actual performance over the time period being considered.

**NET ASSET VALUE (NAV):** A fund's NAV is calculated by subtracting the liabilities of the fund from its total assets and then dividing the remainder by the number of shares outstanding. Fund NAVs are calculated at the end of each business day.

UNAUDITED INFORMATION

The Nuveen Preferred and Convertible Income Fund and Nuveen Preferred and Convertible Income Fund 2 designates 8% and 8% respectively, of dividends declared from net investment income as dividends qualifying for the 70% dividends received deduction for corporations and 8% and 8% respectively, as qualified dividend income for individuals under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

BOARD OF TRUSTEES

Robert P. Bremner  
Lawrence H. Brown  
Jack B. Evans  
William C. Hunter  
William J. Schneider  
Timothy R. Schwertfeger  
Judith M. Stockdale

FUND MANAGER

Nuveen Institutional  
Advisory Corp.  
333 West Wacker Drive

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Chicago, IL 60606

CUSTODIAN  
State Street Bank & Trust  
Boston, MA

TRANSFER AGENT AND  
SHAREHOLDER SERVICES  
State Street Bank & Trust  
Nuveen Funds  
P.O. Box 43071  
Providence, RI 02940-3071  
(800) 257-8787

LEGAL COUNSEL  
Chapman and Cutler LLP  
Chicago, IL

INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM  
Ernst & Young LLP  
Chicago, IL

Each Fund intends to repurchase shares of its own common or preferred stock in the future at such times and in such amounts as is deemed advisable. No shares were repurchased during the fiscal year ended July 31, 2004. Any future repurchases will be reported to shareholders in the next annual or semiannual report.

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Nuveen Investments:  
SERVING Investors  
For GENERATIONS

Photo of: 2 women looking at a photo album.

Since 1898, financial advisors and their clients have relied on Nuveen Investments to provide dependable investment solutions. For the past century, Nuveen Investments has adhered to the belief that the best approach to investing is to apply conservative risk-management principles to help minimize volatility.

Building on this tradition, we today offer a range of high quality equity and fixed-income solutions that are integral to a well-diversified core portfolio. Our clients have come to appreciate this diversity, as well as our continued adherence to proven, long-term investing principles.

WE OFFER MANY DIFFERENT INVESTING SOLUTIONS FOR OUR CLIENTS' DIFFERENT NEEDS.

Managing \$100 billion in assets, Nuveen Investments offers access to a number of different asset classes and investing solutions through a variety of products. Nuveen Investments markets its capabilities under four distinct brands: Nuveen, a leader in tax-free investments; NWQ, a leader in value-style equities; Rittenhouse, a leader in growth-style equities; and Symphony, a leading institutional manager of market-neutral alternative investment portfolios.

FIND OUT HOW WE CAN HELP YOU REACH YOUR FINANCIAL GOALS.

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To learn more about the products and services Nuveen Investments offers, talk to your financial advisor, or call us at (800) 257-8787. Please read the information carefully before you invest.

Be sure to obtain a prospectus, where applicable. Investors should consider the investment objective and policies, risk considerations, charges and expenses of the Fund carefully before investing. The prospectus contains this and other information relevant to an investment in the Fund. For a prospectus, please contact your securities representative or Nuveen Investments, 333 W. Wacker Dr., Chicago, IL 60606. Please read the prospectus carefully before you invest or send money.

Learn more  
about Nuveen Funds at  
[WWW.NUVEEN.COM/ETF](http://WWW.NUVEEN.COM/ETF)

- o Share prices
- o Fund details
- o Daily financial news
- o Investor education
- o Interactive planning tools

Logo: NUVEEN Investments

EAN-E-0704D

### ITEM 2. CODE OF ETHICS.

As of the end of the period covered by this report, the registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The registrant has posted such code of ethics on its website at [www.nuveen.com/etf](http://www.nuveen.com/etf).

### ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The registrant's board of directors determined that the registrant had at least one "audit committee financial expert" (as defined in Item 3 of Form N-CSR) serving on its Audit Committee. The registrant's audit committee financial expert was William E. Bennett, who was "independent" for purposes of Item 3 of Form N-CSR.

Although Mr. Bennett served as the audit committee financial expert during the reporting period, he unexpectedly resigned from the Board effective April 30, 2004. Since that time, the Audit Committee determined that Jack B. Evans, the Chairman of the Audit Committee, qualifies as an audit committee financial expert and recommended to the full Board that he be designated as such. On July 26, 2004, the full Board voted to so designate Mr. Evans. Accordingly for this reporting period, the registrant did not have a designated "audit committee financial expert" from April 30, 2004 to July 26, 2004. Mr. Evans, who is independent for purposes of Item 3 of Form N-CSR, served as the registrant's audit committee financial expert from July 26, 2004 to the end of the reporting period on July 31, 2004.

Mr. Bennett was formerly Executive Vice President and Chief Credit Officer of First Chicago Corporation and its principal subsidiary, The First National Bank of Chicago. As part of his role as Chief Credit Officer, Mr. Bennett set policy as to accrual of assets/loans; designated performing/non-performing assets; set

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the level of reserves against the credit portfolio; and determined the carrying value of credit related assets and exposure. Among other things, Mr. Bennett was also responsible for the oversight of the internal analysis function including setting ground rules for the review and preparation of financial analysis and financial statements for use in making credit and risk decisions for clients. Mr. Bennett has significant experience reviewing, analyzing and evaluating financial statements of domestic and international companies in a variety of industries with complex accounting issues.

### ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

#### NUVEEN PREFERRED AND CONVERTIBLE INCOME FUND 2

The following tables show the amount of fees that Ernst & Young LLP, the Fund's auditor, billed to the Fund during the Fund's last two full fiscal years. For engagements with Ernst & Young LLP entered into on or after May 6, 2003, the Audit Committee approved in advance all audit services and non-audit services that Ernst & Young LLP provided to the Fund, except for those non-audit services that were subject to the pre-approval exception under Rule 2-01 of Regulation S-X (the "pre-approval exception"). The pre-approval exception for services provided directly to the Fund waives the pre-approval requirement for services other than audit, review or attest services if: (A) the aggregate amount of all such services provided constitutes no more than 5% of the total amount of revenues paid by the Fund during the fiscal year in which the services are provided; (B) the Fund did not recognize the services as non-audit services at the time of the engagement; and (C) the services are promptly brought to the Audit Committee's attention, and the Committee (or its delegate) approves the services before the audit is completed.

The Audit Committee has delegated certain pre-approval responsibilities to its Chairman (or, in his absence, any other member of the Audit Committee).

#### SERVICES THAT THE FUND'S AUDITOR BILLED TO THE FUND

| FISCAL YEAR ENDED                                      | AUDIT FEES BILLED<br>TO FUND | AUDIT-RELATED FEES<br>BILLED TO FUND | TAX<br>BILLED |
|--|------------------------------|--------------------------------------|---------------|
| July 31, 2004  | \$ 21,861                    | \$ 0                                 | \$ 1          |
| Percentage approved pursuant to pre-approval exception | N/A                          | 0%                                   |               |
| July 31, 2003  | \$ 6,300                     | \$ 0                                 | \$            |
| Percentage approved pursuant to pre-approval exception | N/A                          | 0%                                   |               |

The above "Tax Fees" were billed for professional services for tax advice, tax

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compliance and tax planning.

### SERVICES THAT THE FUND'S AUDITOR BILLED TO THE ADVISER AND AFFILIATED FUND SERVICE PROVIDERS

The following tables show the amount of fees billed by Ernst & Young LLP to Nuveen Institutional Advisory Corp. ("NIAC" or the "Adviser"), and any entity controlling, controlled by or under common control with NIAC ("Control Affiliate") that provides ongoing services to the Fund ("Affiliated Fund Service Provider"), for engagements directly related to the Fund's operations and financial reporting, during the Fund's last two full fiscal years.

The table also shows the percentage of fees subject to the pre-approval exception. The pre-approval exception for services provided to the Adviser and any Affiliated Fund Service Provider (other than audit, review or attest services) waives the pre-approval requirement if: (A) the aggregate amount of all such services provided constitutes no more than 5% of the total amount of revenues paid to Ernst & Young LLP by the Fund, the Adviser and Affiliated Fund Service Providers during the fiscal year in which the services are provided that would have to be pre-approved by the Audit Committee; (B) the Fund did not recognize the services as non-audit services at the time of the engagement; and (C) the services are promptly brought to the Audit Committee's attention, and the Committee (or its delegate) approves the services before the Fund's audit is completed.

| FISCAL YEAR ENDED   | AUDIT-RELATED FEES<br>BILLED TO ADVISER AND<br>AFFILIATED FUND<br>SERVICE PROVIDERS | TAX FEES BILLED<br>ADVISED AND<br>AFFILIATED FUND<br>SERVICE PROVIDERS |
|---|---|--|
| July 31, 2004   | \$ 0  | \$ 0   |
| Percentage approved<br>pursuant to<br>pre-approval<br>exception | 0%  | 0%   |
| July 31, 2003   | \$ 0  | \$ 0   |
| Percentage approved<br>pursuant to<br>pre-approval<br>exception | N/A   | N/A  |

### NON-AUDIT SERVICES

The following table shows the amount of fees that Ernst & Young LLP billed during the Fund's last two full fiscal years for non-audit services. For engagements entered into on or after May 6, 2003, the Audit Committee is required to pre-approve non-audit services that Ernst & Young LLP provides to the Adviser and any Affiliated Fund Services Provider, if the engagement related directly to the Fund's operations and financial reporting (except for those subject to the de minimis exception described above). The Audit Committee requested and received information from Ernst & Young LLP about any non-audit services that Ernst & Young LLP rendered during the Fund's last fiscal year to

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the Adviser and any Affiliated Fund Service Provider. The Committee considered this information in evaluating Ernst & Young LLP independence.

| FISCAL YEAR ENDED | TOTAL NON-AUDIT FEES<br>BILLED TO FUND | TOTAL NON-AUDIT FEES<br>BILLED TO ADVISER AND<br>AFFILIATED FUND SERVICE<br>PROVIDERS (ENGAGEMENTS<br>RELATED DIRECTLY TO THE<br>OPERATIONS AND FINANCIAL<br>REPORTING OF THE FUND) | TOTAL<br>BILLED<br>AFFILIA<br>PROVID<br>EN |
|-------------------|--|---|--|
| July 31, 2004     | \$ 12,896                              | \$ 0  |  |
| July 31, 2003     | \$ 0                                   | \$ 0  |  |

Audit Committee Pre-Approval Policies and Procedures. Generally, the audit committee must approve (i) all non-audit services to be performed for the Fund by the Fund's independent accountants and (ii) all audit and non-audit services to be performed by the Fund's independent accountants for the Affiliated Fund Service Providers with respect to operations and financial reporting of the Fund. Regarding tax and research projects conducted by the independent accountants for the Fund and Affiliated Fund Service Providers (with respect to operations and financial reports of the Fund) such engagements will be (i) pre-approved by the audit committee if they are expected to be for amounts greater than \$10,000; (ii) reported to the audit committee chairman for his verbal approval prior to engagement if they are expected to be for amounts under \$10,000 but greater than \$5,000; and (iii) reported to the audit committee at the next audit committee meeting if they are expected to be for an amount under \$5,000.

#### ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

Not applicable at this time.

#### ITEM 6. SCHEDULE OF INVESTMENTS.

Not applicable at this time.

#### ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

In the rare event that a municipal issuer held by the Fund were to issue a proxy or that the Fund were to receive a proxy issued by a cash management security, the Adviser would either engage an independent third party to determine how the proxy should be voted or vote the proxy with the consent, or based on the instructions, of the Fund's Board of Directors or Trustees or its representative. In the case of a conflict of interest, the proxy would be submitted to the applicable Fund's Board to determine how the proxy should be voted. A member of the Adviser's legal department would oversee the administration of the voting, and ensure that records were maintained in accordance with Rule 204-2(c)(2) under the Investment Advisers Act of 1940 (17 CFR 275.204-2(c)(2)), reports were filed with the SEC on Form N-PX, and the results were provided to the Board of Directors or Trustees and made available to shareholders as required by applicable rules.

#### ITEM 8. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

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Not applicable to this registrant.

### ITEM 9. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

In the event of a vacancy on the Board, the nominating and governance committee receives suggestions from various sources, including shareholders, as to suitable candidates. Suggestions should be sent in writing to Lorna Ferguson, Vice President for Board Relations, Nuveen Investments, 333 West Wacker Drive, Chicago, IL 60606. The nominating and governance committee sets appropriate standards and requirements for nominations for new directors and reserves the right to interview all candidates and to make the final selection of any new directors.

### ITEM 10. 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 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 Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (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 half-year (the registrant's second fiscal half-year in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

### ITEM 11. EXHIBITS.

File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated.

(a)(1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit: Not applicable because posted on registrant's website at [www.nuveen.com/etf](http://www.nuveen.com/etf).

(a)(2) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)) in the exact form set forth below: Ex-99.CERT Attached hereto.

(a)(3) Any written solicitation to purchase securities under Rule 23c-1 under the 1940 Act (17 CFR 270.23c-1) sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons. Not applicable at this time.

(b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the 1940 Act (17 CFR 270.30a-2(b)); Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed "filed" for purposes of Section 18

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of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference. Ex-99.906 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  
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By (Signature and Title)\* /s/ Jessica R. Droeger  
-----

Jessica R. Droeger  
Vice President and Secretary

Date: October 8, 2004  
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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  
-----

Gifford R. Zimmerman  
Chief Administrative Officer  
(Principal Executive Officer)

Date: October 8, 2004  
-----

By (Signature and Title)\* /s/ Stephen D. Foy  
-----

Stephen D. Foy  
Vice President and Controller  
(Principal Financial Officer)

Date: October 8, 2004  
-----

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