

NICHOLAS APPEGATE CONVERTIBLE & INCOME FUND
Form N-CSR
May 06, 2009

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 811-21284

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

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

New York 10105
(Zip code)

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

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

Date of fiscal year end: February 28, 2009

Date of reporting period: February 28, 2009

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

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

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

Annual Report
February 28, 2009

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Nicholas-Applegate Convertible & Income Funds Letter to Shareholders

April 15, 2009

Dear Shareholder:

Please find enclosed the annual reports for the Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (collectively, the Funds) for the fiscal year ended February 28, 2009.

Corporate securities, including convertible bonds and U.S. stocks, fell sharply during the period as tight credit conditions and global economic slowing prompted investors to favor the relative safety of government bonds. In this environment, the Merrill Lynch All-Convertible Index declined 35.69% and the S&P 500 Index dropped 43.32%. The Barclays Global U.S. Treasury Bond Index rose 5.91% for the 12-month period.

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

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

We remain dedicated to serving your financial needs.

Sincerely,

Hans W. Kertess
Chairman

Brian S. Shlissel
President & Chief Executive Officer
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Nicholas-Applegate Convertible & Income Fund
Nicholas-Applegate Convertible & Income Fund II
Fund Insights

February 28, 2009 (unaudited)

For the fiscal 12-month period ended February 28, 2009, Nicholas-Applegate Convertible & Income Fund decreased 55.03% on net asset value and 61.55% on market price.

For the fiscal 12-month period ended February 28, 2009, Nicholas-Applegate Convertible & Income II Fund decreased 58.55% on net asset value and 63.34% on market price.

History books will be written to describe the past year. The simple conclusion was the equity, convertible and debt markets experienced one of the most rapid sell-offs of all time. Investors began 2008 with many questions about different economic scenarios and how the operating performance of issuers would fare. Those generic concerns paled in comparison to the shocking events of 2008.

Most will trace the beginning of the decline to mortgage delinquencies and falling housing prices. The housing downturn led to rapid quality and price declines in collateralized mortgage obligations (CMOs). Price declines in the CMO market led to price declines in all collateralized debt and loan obligations (CDOs, CLOs) which, in turn, cut off demand for loans.

Historically, convertibles have offered downside protection versus equities. During the fiscal year, however, the convertible universe performed roughly in line with the S&P 500 and NASDAQ. While the larger financial sector weighted in the Merrill Lynch All Convertible Index partially explained the convertible performance, rapidly widening corporate bond spreads explained the balance.

All industries posted negative returns during the fiscal year for both equities and convertibles. Consumer discretionary underperformance was the most severe of any industry in the market for the fiscal period. Materials, industrials and energy industries also underperformed as the economic data worsened. The best-performing industries were consumer staples and healthcare. These industries performed well because of favorable operating performance as well as an expected flight to quality.

The high-yield market ended 2008 on a positive note, with a record monthly gain in December. However, the final weeks' positive price move did not make up for the sharp price declines experienced during the fiscal period. For 2008, the high-yield market was down 26.4%, according to the Merrill Lynch High Yield Master II Index, a greater decline than any year in history.

Remarkably, with all of the financial chaos and headlines, the fundamentals of the majority of issuers in the high-yield market did not decline as rapidly as in previous cycles. The default rate ended 2008 at 2.25% according to JPMorgan. The average spread in the Merrill Lynch High Yield Master II Index ended the year at more than 1,800 basis points over comparable duration Treasuries. Spreads did eclipse 2,300 basis points in mid-December. In the last cycle (1990-1991), when spreads peaked near 1,200 basis points, the default rate was in excess of 10%. Defaults, or the expectation of imminent default, are the primary driver of spreads. Therefore, technical pressure and fear had a far greater impact on spreads than the relative credit deterioration.

What seemed like an endless sell-off through mid-December sharply reversed during the last weeks of 2008 and was stable for the first couple of months in 2009. The Funds outperformed in both of the record-setting down months of October and November. The Funds' high quality high yield holdings and avoidance of distressed issues helped during the tumultuous markets. As important to outperforming in poor market conditions, the Funds performed equally well in the record-setting rally in late December.

There were many negative high yield contributors during the fiscal period. Retail, Auto Supply and Chemical issuers all underperformed. Operational performance was lower than expectations and the outlook was tempered for these issuers. All of the issues were considered to be oversold and will continue to be monitored.

Concurrent with the collapsing markets, the VIX (ticker symbol for the Chicago Board Options Volatility Index) first peaked in October and then re-peaked in November at an incredulous level of 80.8. These never-before-seen volatility levels were double previous historic highs. In fact, the average volatility during the past three months was 35.7, outpacing historic averages since initial recordings.

The rapid equity market correction and record spreads and yields experienced will be discussed for a long time. We have reviewed the catalysts for this downfall. But, ultimately, investors lost confidence in the equity and debt markets, and those sellers brought more sellers through forced liquidations (from leverage triggers or withdrawals) or through sheer panic.

Nicholas-Applegate Convertible & Income Fund

Nicholas-Applegate Convertible & Income Fund II

Fund Insights

February 28, 2009 (unaudited)

Have the lows been reached? The answer is more difficult when looking at equities, but relatively easy when looking at corporate defaults. The high-yield market reached nearly double prior-cycle trough spreads without a significant increase in defaults. In this case, we believe the credit markets are oversold. Should there be a credit rally we expect convertibles and high yield issues to participate.

The duration of the economic downturn is still not clear. Corporate earnings have been poor and economic statistics are weak and are not likely to rebound in the short-term. Many eyes are watching the Obama administration. How many more TARP (Troubled Assets Relief Program) and other bailout programs will combine with economic stimulus plans to attempt to foster growth? From an investor's standpoint, it will be just as prudent to focus on credit metrics as well as on corporate profits.

Performance has been volatile as investors balance the uncertain outlook for the economy, corporate profits, and equity valuations versus prior cycles. The delevering of the market continued into early 2009, and it is unclear when the process will end. The tug of war between the deteriorating global economy and the massive and expanding global policy response package continued at the end of the fiscal period.

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Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 28, 2009 (unaudited)

Total Return ⁽¹⁾:	Market Price	Net Asset Value (NAV)
1 year	(61.55)%	(55.03)%
5 year	(13.46)%	(10.95)%
Commencement of Operations (3/31/03) to 2/28/09	(8.87)%	(5.62)%

Market Price/NAV Performance:

Commencement of Operations (3/31/03) to 2/28/09

n Market Price

n NAV

Market Price/NAV:

Market Price	\$	4.05
NAV	\$	4.80
Discount to NAV		(15.63)%
Market Price Yield ⁽²⁾		26.67%

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

(1) **Past performance is no guarantee of future results.** Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) in the period covered. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund distributions.

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

(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend payable to common shareholders by the market price per common share at February 28, 2009.

Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 28, 2009 (unaudited)

Total Return ⁽¹⁾:	Market Price	Net Asset Value (NAV)
1 year	(63.34)%	(58.55)%
5 year	(14.74)%	(12.37)%
Commencement of Operations (7/31/03) to 2/28/09	(12.04)%	(8.98)%

Market Price/NAV Performance:

Commencement of Operations (7/31/03) to 2/28/09

n Market Price

n NAV

Market Price/NAV:

Market Price	\$	3.73
NAV	\$	4.39
Discount to NAV		(15.03%)
Market Price Yield ⁽²⁾		27.35%

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

(1) **Past performance is no guarantee of future results.** Returns are calculated by determining the percentage change in net asset value or market share price (as applicable) in the period covered. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested. Total return does not reflect broker commissions or sales charges. Total return for a period of more than one year represents the average annual total return.

The Fund's performance at market price will differ from its results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in Fund distributions.

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(2) Market Price Yield is determined by dividing the annualized current monthly per share dividend payable to common shareholders by the market price per common share at February 28, 2009.

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
CORPORATE BONDS & NOTES 45.3%			
Advertising 1.0%			
\$11,450	Affinion Group, Inc., 11.50%, 10/15/15	B3/B-	\$ 7,328,000
Aerospace/Defense 0.2%			
1,730	BE Aerospace, Inc., 8.50%, 7/1/18	Ba3/BB+	1,384,000
Apparel 2.0%			
12,295	Levi Strauss & Co., 9.75%, 1/15/15	B2/B+	10,266,324
5,340	Oxford Industries, Inc., 8.875%, 6/1/11	B2/B+	3,978,300
			14,244,624
Automotive 1.9%			
8,545	Accuride Corp., 8.50%, 2/1/15	Caa2/CCC	2,606,225
14,195	Exide Technologies, 10.50%, 3/15/13, Ser. B	B3/B-	8,446,025
7,490	General Motors Corp., 8.375%, 7/15/33	C/C	1,029,875
9,818	Tenneco, Inc., 8.625%, 11/15/14	Caa2/CCC	1,423,610
			13,505,735
Chemicals 0.3%			
4,890	Momentive Performance Materials, Inc. 9.75%, 12/1/14	B3/B-	1,882,650
Commercial Services 1.8%			
13,665	Genveo Corp., 7.875%, 12/1/13	B3/B	7,857,375

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11,810	Hertz Corp., 10.50%, 1/1/16	B2/B	4,487,800
			12,345,175
Computers 0.4%			
10,325	Unisys Corp., 8.00%, 10/15/12	Caa1/B	2,529,625
Electric 0.6%			
7,475	Energy Future Holdings Corp., 10.875%, 11/1/17	B3/B-	4,298,125
Electronics 1.3%			
12,170	Stoneridge, Inc., 11.50%, 5/1/12	B2/B+	8,884,100
Financial Services 4.4%			
12,725	AMR Holdings Co., 10.00%, 2/15/15	B1/B	12,852,250
	Ford Motor Credit Co.,		
10,795	7.00%, 10/1/13	Caa1/CCC+	5,321,255
8,080	9.875%, 8/10/11	Caa1/CCC+	4,698,964
6,456	GMAC LLC, 6.75%, 12/1/14 (a) (b)	NR/CCC	3,138,003
10,090	KAR Holdings, Inc., 8.75%, 5/1/14	B3/CCC+	4,540,500
			30,550,972
Hand/Machine Tools 0.4%			
3,430	Baldor Electric Co., 8.625%, 2/15/17	B3/B	2,735,425
Healthcare 3.8%			
7,275	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B	6,838,500
8,515	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa1/CCC+	8,515,000
8,065	HCA, Inc., 9.25%, 11/15/16	B2/BB-	7,399,637
3,585	Health Net, Inc., 6.375%, 6/1/17	Ba3/BB	2,419,875
1,350	Psychiatric Solutions, Inc., 7.75%, 7/15/15	B3/B-	1,191,375

26,364,387

Holding Company-Diversified 0.3%

2,000	Kansas City Southern Railway, 13.00%, 12/15/13	B2/BB-	2,115,000
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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Home Furnishings 1.1%			
\$ 10,090	Jarden Corp., 7.50%, 5/1/17	B3/B	\$ 7,920,650
Hotels/Gaming 0.4%			
2,385	Mandalay Resort Group, Inc., 2.275%, 3/21/33, FRN (e) (g)	Caa2/CCC	2,575,929
Manufacturing 2.0%			
13,610	Harland Clarke Holdings Corp., 9.50%, 5/15/15	Caa1/B-	6,192,550
2,155	Park-Ohio Industries, Inc., 8.375%, 11/15/14	B3/B-	894,325
9,710	Polypore, Inc., 8.75%, 5/15/12	B3/B-	7,233,950
			14,320,825
Metals & Mining 0.4%			
12,735	RathGibson, Inc., 11.25%, 2/15/14	Caa2/B	2,865,375
Multi-Media 1.0%			
8,330	Mediacom LLC, 9.50%, 1/15/13	B3/B-	7,288,750
Office Furnishings 0.5%			
4,835	Interface Inc., 9.50%, 2/1/14	B3/B-	3,505,375
Oil & Gas 0.8%			
6,510	Chesapeake Energy Corp., 6.875%, 1/15/16	Ba3/BB	5,387,025
1,145	OPTI Canada Inc., 8.25%, 12/15/14	B3/BB	395,025
			5,782,050

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Paper Products 1.1%

11,705	Neenah Paper, Inc., 7.375%, 11/15/14	B2/B+	6,115,863
12,945	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	1,877,025
			7,992,888

Pipelines 0.8%

9,100	Dynegy Holdings, Inc., 7.75%, 6/1/19	B2/B	5,551,000
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Retail 4.3%

7,550	Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/14	Caa1/CCC	2,000,750
8,405	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa2/CCC-	6,513,875
1,000	Inergy L.P., 8.25%, 3/1/16	B1/B+	965,000
12,825	Michaels Stores, Inc., 10.00%, 11/1/14	Caa1/CCC	4,440,656
13,355	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B-	5,625,794
3,309	R.H. Donnelley, Inc., 11.75%, 5/15/15 (a) (b)	B3/CCC-	479,805
11,060	Rite Aid Corp., 8.625%, 3/1/15	Caa3/CCC	2,654,400
9,115	Sally Holdings LLC, 10.50%, 11/15/16	Caa1/B-	7,952,838
			30,633,118

Semi-Conductors 1.1%

13,565	Amkor Technology, Inc., 9.25%, 6/1/16	B2/B+	7,732,050
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Software 1.0%

12,395	First Data Corp., 9.875%, 9/24/15	B3/B	6,879,225
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Telecommunications 10.0%

7,680	Centennial Cellular Operating Co., 10.125%, 6/15/13	B2/B	7,977,600
9,150	Cincinnati Bell, Inc., 8.375%, 1/15/14	B2/B-	8,418,000
5,750	Crown Castle International Corp., 9.00%, 1/15/15	B1/B	5,635,000
13,540	Hawaiian Telcom Communications, Inc.,		

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	12.50%, 5/1/15, Ser. B (f)	WR/NR	203,100
5,895	Intelsat Jackson Holdings Ltd. 9.50%, 6/15/16 (a) (b)	B3/BB-	5,482,350
13,555	Level 3 Financing, Inc., 12.25%, 3/15/13	Caa1/CCC+	9,420,725

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Telecommunications 10.0% (continued)			
\$ 11,735	MasTec, Inc., 7.625%, 2/1/17	B1/B+	\$ 9,505,350
14,200	Millicom International Cellular S.A., 10.00%, 12/1/13	B1/NR	13,827,250
1,300	Nextel Communications, Inc., 7.375%, 8/1/15	Ba2/BB	598,263
5,385	Sprint Capital Corp., 8.75%, 3/15/32	Ba2/BB	3,250,025
9,750	West Corp., 11.00%, 10/15/16	Caa1/B-	6,288,750
			70,606,413
Theaters 1.7%			
12,940	AMC Entertainment, Inc., 11.00%, 2/1/16	B2/CCC+	11,710,700
Travel Services 0.7%			
14,560	Travelport LLC, 11.875%, 9/1/16	Caa1/CCC+	4,877,600
	Total Corporate Bonds & Notes (cost-\$522,907,301)		318,409,766
CONVERTIBLE BONDS & NOTES 28.0%			
Advertising 0.7%			
6,920	Interpublic Group Cos., 4.25%, 3/15/23	Ba3/B+	4,766,150
Aerospace/Defense 0.3%			
2,100	Orbital Sciences Corp., 2.438%, 1/15/27	NR/BB-	1,729,875
Automotive 0.5%			

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15,930	Ford Motor Co., 4.25%, 12/15/36	Ca/CCC-	3,643,988
Biotechnology 0.9%			
6,900	Life Technologies Corp., 3.25%, 6/15/25	NR/BB+	6,468,750
Coal 0.7%			
7,600	Peabody Energy Corp., 4.75%, 12/15/41	Ba3/B+	5,187,000
Commercial Services 0.1%			
510	Bowne & Co., Inc., 5.00%, 10/1/33	B3/CCC+	480,675
Computers 1.1%			
8,055	Maxtor Corp., 6.80%, 4/30/10	Ba2/NR	7,561,632
Electrical Components & Equipment 2.6%			
7,740	EnerSys, 3.375%, 6/1/38 (c)	B2/BB	4,653,674
7,730	General Cable Corp., 0.875%, 11/15/13	B1/B+	5,082,475
21,200	JA Solar Holdings Co. Ltd., 4.50%, 5/15/13	NR/NR	8,798,000
			18,534,149
Energy-Alternate Sources 0.8%			
6,680	Covanta Holding Corp., 1.00%, 2/1/27	B1/B	5,469,250
Entertainment 1.3%			
9,970	Regal Entertainment Group, 6.25%, 3/15/11 (a) (b)	NR/NR	9,097,625
Financial Services 1.5%			
10,950	Prudential Financial, Inc. 0.366%, 12/15/37, FRN	A3/A	10,594,125
Internet 0.7%			
6,570	Equinix, Inc., 2.50%, 04/15/12	NR/B-	5,165,663
Machinery-Diversified 0.5%			

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4,625	AGCO Corp., 1.25%, 12/15/36	NR/BB	3,358,906
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Media 0.8%

8,080	Liberty Media LLC, 3.125%, 3/30/23	Ba2/BB+	5,746,900
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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Oil & Gas 2.9%			
\$10,155	Nabors Industries, Inc., 0.94%, 5/15/11	NR/BBB+	\$ 8,796,769
13,000	Transocean, Inc., 1.625%, 12/15/37	Baa2/BBB+	11,651,250
			20,448,019
Pharmaceuticals 3.3%			
6,920	Mylan Inc., 1.25%, 3/15/12	NR/B+	5,856,050
7,900	Omnicare, Inc., 3.25%, 12/15/35	B3/B+	5,352,250
12,700	Watson Pharmaceuticals, Inc., 1.75%, 3/15/23	Ba2/BB+	12,255,500
			23,463,800
Real Estate (REIT) 4.4%			
7,035	Boston Properties, 3.75%, 5/15/36	NR/A-	5,258,663
15,790	Developers Diversified Realty Corp., 3.00%, 3/15/12	NR/BBB-	6,947,600
6,105	Health Care REIT, Inc., 4.75%, 12/1/26	Baa2/BBB-	5,395,294
16,115	Vorando Realty Trust, 3.625, 11/15/26	Baa2/BBB	12,912,143
			30,513,700
Retail 2.2%			
21,008	Sonic Automotive, Inc., 5.25%, 5/7/09 (e)	Caa3/CCC-	15,230,800
Semiconductors 0.8%			
6,010	ON Semiconductor Corp., zero coupon, 4/15/24	NR/B+	5,461,588

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Software 0.2%

2,255	Nuance Communications, Inc., 2.75%, 8/15/27	NR/B-	1,702,525
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Telecommunications 1.7%

1,900	Anixter International Inc., 1.00%, 02/15/13	NR/BB-	1,420,250
5,595	Nextel Communications, Inc., 5.25%, 1/15/10	Ba2/BB	5,287,275
5,855	Qwest Communications International, 3.50%, 11/15/25	B1/B+	5,262,181
			11,969,706

	Total Convertible Bonds & Notes (cost-\$231,135,214)		196,594,826
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CONVERTIBLE PREFERRED STOCK 19.3%

Shares
(000)

Agriculture 1.2%

126	Bunge Ltd., 4.875%, 12/31/49	Ba1/BB	8,283,000
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Banks 1.9%

Wachovia Corp., (d)

546	13.15%, 3/30/09, Ser. GE (General Electric Co.)	Aa3/AA-	4,356,743
390	14.10%, 4/1/09, Ser. JPM (JP Morgan Chase & Co.)	Aa3/AA-	8,303,133
2	Wells Fargo & Co., 7.50%, 12/31/49	A2/A	805,000
			13,464,876

Commercial Services 0.5%

280	United Rentals, Inc., 6.50%, 8/1/28	Caa1/B-	3,690,021
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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2009

Shares (000)		Credit Rating (Moody s/S&P)*	Value
Diversified Financial Services 9.8%			
Bank of America Corp.,			
13	7.25%, 12/31/49, Ser. L	Baa1/BBB	\$ 4,807,800
229	10.00%, 5/11/09, Ser. JNJ (Johnson & Johnson) (d)	A1/AA	11,101,166
113	Citigroup Inc., 6.50%, 12/31/49, Ser. T	Ca/C	1,777,388
Credit Suisse Group (d),			
531	11.00%, 3/16/09, Ser. MSFT (Microsoft Corp.)	Aa1/AA-	10,372,969
201	11.00%, 4/25/09, Ser. KO (Coca-Cola Corp.)	Aa1/AA-	8,989,388
Eksportfinans A/S (d),			
419	10.00%, 3/12/09, Ser. HPQ (Hewlett Packard Co.)	Aaa/AA+	14,334,758
93	10.00%, 6/13/09, Ser. AAPL (Apple, Inc.)	Aa1/AA+	12,643,909
Lehman Brothers Holdings, Inc. (d) (e) (f),			
892	6.00%, 10/12/10, Ser. GIS (General Mills, Inc.)	NR/D	2,869,882
139	28.00%, 3/6/09, Ser. RIG (Transocean, Inc.)	NR/D	1,889,980
2	Preferred Blocker, Inc., 7.00%, 12/31/49 (a) (b)	NR/C	275,691
			69,062,931
Electric 2.2%			
264	AES Trust III, 6.75%, 10/15/29	B3/B-	8,436,000
37	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	7,211,973
			15,647,973
Hand/Machine Tools 1.2%			

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17	Stanley Works, 5.125%, 5/17/12, FRN	A2/A	8,180,525
Metals & Mining 0.4%			
56	Freeport-McMoRan Copper & Gold, Inc., 6.75%, 5/1/10	NR/BB	3,007,620
Oil & Gas 0.9%			
119	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	6,141,375
Pharmaceuticals 0.8%			
31	Schering-Plough Corp., 6.00%, 8/13/10	Baa3/BBB	5,329,500
Real Estate (REIT) 0.4%			
649	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A	B3/CCC	2,739,835
	Total Convertible Preferred Stock (cost-\$283,465,374)		135,547,656

U.S. GOVERNMENT SECURITIES 3.9%

Principal
Amount
(000)

\$ 25,715	United States Treasury Notes, 12.50%, 8/15/14 (cost-\$28,248,108)		27,081,135
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SHORT-TERM INVESTMENTS 3.5%

Corporate Bonds & Notes 0.9%

6,600	Interface Inc., 10.375%, 2/1/10 (cost-\$6,667,361)	B1/BB-	6,171,000
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Time Deposit 2.6%

18,428	Citibank London, 0.08%, 3/2/09 (cost-\$18,428,633)		18,428,633
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	Total Short-Term Investments (cost-\$25,095,994)		24,599,633
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Total Investments (cost-\$1,090,851,991) **100.0%**

\$ 702,233,016

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
CORPORATE BONDS & NOTES 43.2%			
Advertising 1.2%			
\$ 9,900	Affinion Group, Inc., 11.50%, 10/15/15	B3/B-	\$ 6,336,000
Aerospace/Defense 0.2%			
1,270	BE Aerospace, Inc., 8.50%, 7/1/18	Ba3/BB+	1,016,000
Apparel 1.6%			
8,265	Levi Strauss & Co., 9.75%, 1/15/15	B2/B+	6,901,275
2,160	Oxford Industries, Inc., 8.875%, 6/1/11	B2/B+	1,609,200
			8,510,475
Automotive 2.2%			
7,205	Accuride Corp., 8.50%, 2/1/15	Caa2/CCC	2,197,525
12,120	Exide Technologies, 10.50%, 3/15/13, Ser. B	B3/B-	7,211,400
6,425	General Motors Corp., 8.375%, 7/15/33	C/C	883,438
8,775	Tenneco Inc., 8.625%, 11/15/14	Caa2/CCC	1,272,375
			11,564,738
Chemicals 0.2%			
3,110	Momentive Performance Materials, Inc. 9.75%, 12/1/14	B3/B-	1,197,350
Commercial Services 2.0%			
11,730	Cenveo Corp., 7.875%, 12/1/13	B3/B	6,744,750
10,040	Hertz Corp., 10.50%, 1/1/16	B2/B	3,815,200

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			10,559,950
Computers 0.4%			
8,925	Unisys Corp., 8.00%, 10/15/12	Caa1/B	2,186,625
Electric 0.7%			
6,385	Energy Future Holdings Corp., 10.875%, 11/1/17	B3/B-	3,671,375
Electronics 1.4%			
10,335	Stoneridge, Inc., 11.50%, 5/1/12	B2/B+	7,544,550
Financial Services 4.9%			
10,755	AMR Holdings Co., 10.00%, 2/15/15	B1/B	10,862,550
	Ford Motor Credit Co.,		
9,205	7.00%, 10/1/13	Caa1/CCC+	4,537,485
6,920	9.875%, 8/10/11	Caa1/CCC+	4,024,361
5,544	GMAC LLC, 6.75%, 12/1/14 (a) (b)	NR/CCC	2,694,717
8,710	KAR Holdings, Inc., 8.75%, 5/1/14	B3/CCC+	3,919,500
			26,038,613
Hand/Machine Tools 0.4%			
2,570	Baldor Electric Co., 8.625%, 2/15/17	B3/B	2,049,575
Healthcare 3.8%			
6,325	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B	5,945,500
6,985	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa1/CCC+	6,985,000
5,935	HCA, Inc., 9.25%, 11/15/16	B2/BB-	5,445,363
3,075	Health Net, Inc., 6.375%, 6/1/17	Ba3/BB	2,075,625
			20,451,488

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Home Furnishings 0.6%

4,200	Jarden Corp., 7.50%, 5/1/17	B3/B	3,297,000
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Hotels/Gaming 0.4%

2,143	Mandalay Resort Group, Inc., 2.275%, 3/21/33, FRN (e) (g)	Caa2/CCC	2,314,523
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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Manufacturing 2.3%			
\$ 11,965	Harland Clarke Holdings Corp., 9.50%, 5/15/15	Caa1/B-	\$ 5,444,075
1,845	Park-Ohio Industries, Inc., 8.375%, 11/15/14	B3/B-	765,675
8,290	Polypore, Inc., 8.75%, 5/15/12	B3/B-	6,176,050
			12,385,800
Metals & Mining 0.4%			
10,875	RathGibson, Inc., 11.25%, 2/15/14	Caa2/B	2,446,875
Multi-Media 0.8%			
1,000	Echostar DBS Corp., 7.125%, 2/1/16	Ba3/BB-	907,500
4,225	Mediacom LLC, 9.50%, 1/15/13	B3/B-	3,696,875
			4,604,375
Office Furnishings 0.6%			
4,165	Interface Inc., 9.50%, 2/1/14	B3/B-	3,019,625
Oil & Gas 0.8%			
4,740	Chesapeake Energy Corp., 6.875%, 1/15/16	Ba3/BB	3,922,350
855	OPTI Canada, Inc., 8.25%, 12/15/14	B3/BB	294,975
			4,217,325
Paper Products 1.3%			
10,030	Neenah Paper, Inc., 7.375%, 11/15/14	B2/B+	5,240,675

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11,055	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	1,602,975
			6,843,650
Pipelines 1.0%			
8,900	Dynegy Holdings, Inc., 7.75%, 6/1/19	B2/B	5,429,000
Retail 2.5%			
6,450	Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/14	Caa1/CCC	1,709,250
2,125	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa2/CCC-	1,646,875
4,975	Michaels Stores, Inc., 10.00%, 11/1/14	Caa1/CCC	1,722,594
11,420	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B-	4,810,675
2,850	R.H. Donnelley, Inc., 11.75%, 5/15/15 (a) (b)	B3/CCC-	413,250
9,685	Rite Aid Corp., 8.625%, 3/1/15	Caa3/CCC	2,324,400
885	Sally Holdings LLC, 10.50%, 11/15/16	Caa1/B-	772,162
			13,399,206
Semi-Conductors 0.7%			
6,570	Amkor Technology, Inc., 9.25%, 6/1/16	B2/B+	3,744,900
Software 1.1%			
10,605	First Data Corp., 9.875%, 9/24/15	B3/B	5,885,775
Telecommunications 9.0%			
3,150	Centennial Cellular Operating Co., 10.125%, 6/15/13	B2/B	3,272,063
7,850	Cincinnati Bell, Inc., 8.375%, 1/15/14	B2/B-	7,222,000
4,250	Crown Castel International Corp., 9.00%, 1/15/15	B1/B	4,165,000
11,640	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B (f)	WR/NR	174,600
4,455	Intesat Jackson Holdings Ltd., 9.50%, 6/15/16 (a) (b)	B3/BB-	4,143,150
4,698	Level 3 Financing, Inc., 12.25%, 3/15/13	Caa1/CCC+	3,265,110
10,240	MasTec, Inc., 7.625%, 2/1/17	B1/B+	8,294,400

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10,010	Millicom International Cellular S.A., 10.00%, 12/1/13	B1/NR	9,747,237
1,050	Nextel Communications, Inc., 7.375%, 8/1/15	Ba2/BB	483,212

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Telecommunications 9.0% (continued)			
\$ 4,615	Sprint Capital Corp., 8.75%, 3/15/32	Ba2/BB	\$ 2,785,305
7,000	West Corp., 11.00%, 10/15/16	Caa1/B-	4,515,000
			48,067,077
Theaters 1.9%			
11,060	AMC Entertainment, Inc., 11.00%, 2/1/16	B2/CCC+	10,009,300
Travel Services 0.8%			
12,440	Travelport LLC, 11.875%, 9/1/16	Caa1/CCC+	4,167,400
	Total Corporate Bonds & Notes (cost-\$393,039,169)		230,958,570
CONVERTIBLE BONDS & NOTES 28.8%			
Advertising 0.7%			
5,480	Interpublic Group Cos., 4.25%, 3/15/23	Ba3/B+	3,774,350
Aerospace/Defense 0.3%			
1,660	Orbital Sciences Corp., 2.438%, 1/15/27	NR/BB-	1,367,425
Automotive 0.6%			
14,260	Ford Motor Co., 4.25%, 12/15/36	Ca/CCC-	3,261,975
Biotechnology 0.9%			

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5,100	Life Technologies Corp., 3.25%, 6/15/25	NR/BB+	4,781,250
Coal 0.8%			
6,325	Peabody Energy Corp., 4.75%, 12/15/41	Ba3/B+	4,316,813
Commercial Services 0.3%			
1,715	Bowne & Co., Inc., 5.00%, 10/1/33	B3/CCC+	1,616,388
Computers 1.1%			
6,060	Maxtor Corp., 6.80%, 4/30/10	Ba2/NR	5,688,825
Electrical Components & Equipment 2.9%			
6,200	EnerSys, 3.375%, 6/10/38 (c)	B2/BB	3,727,750
6,310	General Cable Corp., 0.875%, 11/15/13	B1/B+	4,148,825
18,350	JA Solar Holdings Co. Ltd., 4.50%, 5/15/13	NR/NR	7,615,250
			15,491,825
Energy-Alternate Sources 0.8%			
5,280	Covanta Holding Corp., 1.00%, 2/1/27	B1/B	4,323,000
Entertainment 1.3%			
7,670	Regal Entertainment Group, 6.25%, 3/15/11 (a) (b)	NR/NR	6,998,875
Financial Services 1.7%			
9,300	Prudential Financial, Inc. 0.366%, 12/15/37, FRN	A3/A	8,997,750
Internet 0.8%			
5,230	Equinix, Inc., 2.50%, 4/15/12	NR/B-	4,112,088
Machinery-Diversified 0.5%			
3,820	AGCO Corp., 1.25%, 12/15/36	NR/BB	2,774,275
Media 0.9%			

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6,420	Liberty Media LLC, 3.125%, 3/30/23	Ba2/BB+	4,566,225
Oil & Gas 2.7%			
6,900	Nabors Industries, Inc., 0.94%, 5/15/11	NR/BBB+	5,977,125
9,500	Transocean, Inc., 1.625%, 12/15/37	Baa2/BBB+	8,514,375
			14,491,500

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2009

Principal Amount (000)		Credit Rating (Moody s/S&P)*	Value
Pharmaceuticals 3.1%			
5,595	Mylan Inc., 1.25%, 3/15/12	NR/B+	\$ 4,734,769
6,260	Omnicare, Inc., 3.25%, 12/15/35	B3/B+	4,241,150
8,005	Watson Pharmaceuticals, Inc., 1.75%, 3/15/23	Ba2/BB+	7,724,825
			16,700,744
Real Estate (REIT) 4.2%			
3,665	Boston Properties, 3.75%, 5/15/36	NR/A-	2,739,587
11,975	Developers Diversified Realty Corp., 3.00%, 3/15/12	NR/BBB-	5,269,000
4,855	Health Care REIT, Inc., 4.75%, 12/1/26	Baa2/BBB-	4,290,606
12,750	Vorando Realty Trust, 3.625%, 11/15/26	Baa2/BBB	10,215,937
			22,515,130
Retail 2.4%			
17,785	Sonic Automotive, Inc., 5.25%, 5/7/09 (e)	Caa3/CCC-	12,894,124
Semiconductors 0.8%			
4,790	ON Semiconductor Corp., zero coupon, 4/15/24	NR/B+	4,352,913
Software 0.2%			
1,745	Nuance Communications, Inc., 2.75%, 8/15/27	NR/B-	1,317,475
Telecommunications 1.8%			
1,725	Anixter International Inc., 1.00%, 02/15/13	NR/BB-	1,289,437

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4,430	Nextel Communications, Inc., 5.25%, 1/15/10	Ba2/BB	4,186,350
4,640	Qwest Communications International, 3.50%, 11/15/25	B1/B+	4,170,200
			9,645,987
	Total Convertible Bonds & Notes (cost-\$185,457,766)		153,988,937

CONVERTIBLE PREFERRED STOCK 20.5%

Shares
(000)

	Agriculture 1.3%		
108	Bunge Ltd., 4.875%, 12/31/49	Ba1/BB	7,114,800
	Banks 2.1%		
	Wachovia Corp. (d),		
483	13.15%, 3/30/09, Ser. GE (General Electric Co.)	Aa3/AA-	3,854,676
347	14.10%, 4/1/09, Ser. JPM (JP Morgan Chase & Co.)	Aa3/AA-	7,397,883
			11,252,559
	Commercial Services 0.4%		
162	United Rentals, Inc., 6.50%, 8/1/28	Caa1/B-	2,134,041
	Diversified Financial Services 10.6%		
	Bank of America Corp.,		
10	7.25%, 12/31/49, Ser. L	Baa1/BBB	3,490,200
202	10.00%, 5/11/09, Ser. JNJ (Johnson & Johnson) (d)	A1/AA	9,797,727
57	Citigroup, Inc., 6.50%, 12/31/49, Ser. T	Ca/C	892,238
	Credit Suisse Group (d),		
415	11.00%, 3/16/09, Ser. MSFT (Microsoft Corp.)	Aa1/AA-	8,111,102

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158 11.00%, 4/25/09, Ser. KO (Coca-Cola Corp.)

Aa1/AA-

7,058,841

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2009

Shares (000)		Credit Rating (Moody s/S&P)*	Value
Diversified Financial Services 10.6% (continued)			
	Eksportfinans A/S (d),		
371	10.00%, 3/12/09, Ser. HPQ (Hewlett Packard Co.)	Aaa/AA+	\$ 12,695,382
75	10.00%, 6/13/09, Ser. AAPL (Apple, Inc.)	Aa1/AA+	10,199,081
	Lehman Brothers Holdings, Inc. (d) (e) (f),		
802	6.00%, 10/12/10, Ser. GIS (General Mills, Inc.)	NR/D	2,580,029
123	28.00%, 3/6/09, Ser. RIG (Transocean, Inc.)	NR/D	1,672,561
1	Preferred Blocker, Inc., 7.00%, 12/31/49 (a) (b)	NR/C	236,746
			56,733,907
Electric 2.4%			
215	AES Trust III, 6.75%, 10/15/29	B3/B-	6,867,200
30	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	5,721,176
			12,588,376
Hand/Machine Tools 1.1%			
12	Stanley Works, 5.125%, 5/17/12, FRN	A2/A	5,846,600
Metals & Mining 0.4%			
44	Freeport-McMoRan Copper & Gold, Inc., 6.75%, 5/1/10	NR/BB	2,382,380
Oil & Gas 1.0%			
105	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	5,425,525
Pharmaceuticals 0.8%			

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25	Schering-Plough Corp., 6.00%, 8/13/10	Baa3/BBB	4,241,500
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Real Estate (REIT) 0.4%

501	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A	B3/CCC	2,114,853
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Total Convertible Preferred Stock (cost-\$229,918,156)	109,834,541
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U.S. GOVERNMENT SECURITIES 4.3%

Principal
Amount
(000)

\$	22,035	United States Treasury Notes, 12.50%, 8/15/14 (cost-\$24,205,603)	23,205,630
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SHORT-TERM INVESTMENTS 3.2%

Corporate Bonds & Notes 0.2%

	1,415	Interface Inc., 10.375%, 2/1/10 (cost-\$1,405,773)	B1/BB-		1,323,025
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Time Deposit 3.0%

	15,916	Citibank London, 0.08%, 3/2/09 (cost-\$15,915,755)			15,915,755
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Total Short-Term Investments (cost-\$17,321,528)	17,238,780
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Total Investments (cost-\$849,942,222) 100.0%	535,226,458
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Nicholas-Applegate Convertible & Income Fund

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2009

Notes to Schedules of Investments:

- * Unaudited.
- (a) 144A Security-Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
- (b) Private Placement Restricted as to resale and may not have a readily available market. Securities with an aggregate market value of \$18,473,474 and \$14,486,738, representing 2.6% and 2.7% of total investments in Convertible & Income and Convertible & Income II, respectively.
- (c) Step Bond Coupon is a fixed rate for an initial period then resets at a specific date and rate.
- (d) Securities exchangeable or convertible into securities of an entity different than the issuer or structured by the issuer to provide exposure to securities of an entity different than the issuer. Such entity is identified in the parenthetical.
- (e) Fair-Valued Securities with an aggregate value of \$22,566,591 and \$19,461,237, representing 3.2% and 3.6%, of total investments in Convertible & Income and Convertible & Income II, respectively. See Note 1 (a) in the Notes to Financial statements.
- (f) Issuer or security in default.
- (g) Non-income producing.

Glossary:

FRN Floating Rate Note. The interest rate disclosed reflects the rate in effect on February 28, 2009.

NR Not Rated

REIT Real Estate Investment Trust

WR Withdrawn Rating

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

February 28, 2009

	Convertible & Income	Convertible & Income II
Assets:		
Investments, at value (cost-\$1,090,851,991 and \$849,942,222, respectively)	\$702,233,016	\$535,226,458
Cash		6,748
Interest and dividends receivable	17,934,210	13,479,560
Receivable for investments sold	3,400,230	2,998,894
Prepaid expenses	13,385	69,728
Total Assets	723,580,841	551,781,388
Liabilities:		
Payable for investments purchased	10,666,346	8,562,828
Dividends payable to common and preferred shareholders	6,551,400	5,114,631
Investment management fees payable	396,794	305,018
Excise tax payable	243,363	422,505
Payable to custodian for cash overdraft	11,379	
Accrued expenses	168,044	156,844
Total Liabilities	18,037,326	14,561,826
Preferred Shares (\$0.00001 par value; \$25,000 net asset and liquidation value per share applicable to 14,280 and 10,960 shares issued and outstanding, respectively)	357,000,000	274,000,000

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Net Assets Applicable to Common Shareholders	\$348,543,515	\$263,219,562
Composition of Net Assets Applicable to Common Shareholders:		
Common Stock:		
Par value (\$0.00001 per share)	\$726	\$600
Paid-in-capital in excess of par	1,031,337,413	848,539,941
Undistributed (dividends in excess of) net investment income	(3,835,587)	5,821,704
Accumulated net realized loss	(290,340,062)	(276,426,919)
Net unrealized depreciation of investments	(388,618,975)	(314,715,764)
Net Assets Applicable to Common Shareholders	\$348,543,515	\$263,219,562
Common Shares Issued and Outstanding	72,559,997	59,994,092
Net Asset Value Per Common Share	\$4.80	\$4.39

See accompanying Notes to Financial Statements | 2.28.09 | Nicholas-Applegate Convertible & Income Funds Annual Report 17

Nicholas-Applegate Convertible & Income Funds Statements of Operations

Year ended February 28, 2009

	Convertible & Income	Convertible & Income II
Investment Income:		
Interest	\$73,771,986	\$60,787,319
Dividends	48,208,162	40,452,846
Consent fee and other income	512,846	463,002
Total Investment Income	122,492,994	101,703,167
Expenses:		
Investment management fees	8,062,358	6,856,181
Auction agent fees and commissions	1,215,895	1,097,757
Excise tax	243,363	422,505
Shareholder communications	207,630	172,714
Custodian and accounting agent fees	150,421	145,891
Legal fees	149,414	121,039
Trustees fees and expenses	138,064	112,913
Audit and tax services	101,005	136,300
New York Stock Exchange listing fees	59,340	48,681
Transfer agent fees	36,900	36,208
Insurance expense	20,211	17,037

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Miscellaneous	8,529	5,560
Total expenses	10,393,130	9,172,786
Net Investment Income	112,099,864	92,530,381
Realized and Change in Unrealized Loss:		
Net realized loss on investments	(245,263,472)	(235,709,086)
Net change in unrealized appreciation/depreciation of investments	(312,501,685)	(244,500,463)
Net realized and change in unrealized loss on investments	(557,765,157)	(480,209,549)
Net Decrease in Net Assets Resulting from Investment Operations	(445,665,293)	(387,679,168)
Dividends on Preferred Shares from Net Investment Income	(12,382,916)	(11,737,360)
Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	\$(458,048,209)	\$(399,416,528)

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Nicholas-Applegate Convertible & Income Funds

Statements of Changes
in Net Assets Applicable
to Common Shareholders

	Convertible & Income		Convertible & Income II	
	Years ended		Years ended	
	February 28, 2009	February 29, 2008	February 28, 2009	February 29, 2008
Investment Operations:				
Net investment income	\$112,099,864	\$115,099,932	\$92,530,381	\$100,319,284
Net realized loss on investments	(245,263,472)	(13,662,703)	(235,709,086)	(12,465,904)
Net change in unrealized appreciation/ depreciation of investments	(312,501,685)	(133,242,027)	(244,500,463)	(116,546,458)
Net decrease in net assets resulting from investment operations	(445,665,293)	(31,804,798)	(387,679,168)	(28,693,078)
Dividends on Preferred Shares from Net Investment Income	(12,382,916)	(27,656,266)	(11,737,360)	(26,638,794)
Net decrease in net assets applicable to common shareholders resulting from investment operations	(458,048,209)	(59,461,064)	(399,416,528)	(55,331,872)
Dividends to Common Shareholders from Net Investment Income	(97,781,936)	(106,877,538)	(76,827,211)	(94,900,364)
Capital Share Transactions:				
Reinvestment of dividends	9,330,789	11,231,986	4,103,707	6,577,991
Total decrease in net assets applicable to common shareholders	(546,499,356)	(155,106,616)	(472,140,032)	(143,654,245)
Net Assets Applicable to Common Shareholders:				
Beginning of year	895,042,871	1,050,149,487	735,359,594	879,013,839
End of year (including undistributed (dividends in excess of) net investment income of	\$348,543,515	\$895,042,871	\$263,219,562	\$735,359,594

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\$(3,835,587), \$(9,861,279); \$5,821,704 and
\$(2,966,814), respectively)

**Common Shares Issued in Reinvestment
of Dividends**

1,053,285

759,819

586,369

448,992

See accompanying Notes to Financial Statements | 2.28.09 | Nicholas-Applegate Convertible & Income Funds Annual Report 19

Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2009

1. Organization and Significant Accounting Policies

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

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

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

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

The Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (the Interpretation). The Interpretation establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. Fund management has determined that its evaluation of the Interpretation has resulted in no material impact to the Funds' financial statements at February 28, 2009. Each of the Funds' federal tax returns for the prior three fiscal periods remain subject to examination by the Internal Revenue Service.

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

(a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported, based on quotes obtained from a quotation reporting system, established market makers, or pricing services.

Portfolio securities and other financial instruments for which market quotations are not readily available or if a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to guidelines established by the Board of Trustees or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The Funds' investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Prices obtained from independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Synthetic convertible securities are valued based on quotations obtained from unaffiliated brokers who are the principal market-makers in such securities. Such valuations are derived by the brokers from proprietary models which are generally based on readily available market information including valuations of the common stock underlying the synthetic security and the volatility observed in the market on such common stocks. Short-term securities maturing in 60 days or less are valued at amortized cost which approximates fair value, if their original term to maturity was 60 days less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold and these differences could be material to the financial statements of the Funds. Each Fund's net asset value is normally determined daily as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements
February 28, 2009

1. Organization and Significant Accounting Policies (continued)

(b) Fair Value Measurements

Effective March 1, 2008, the Funds adopted FASB Statement of Financial Accounting Standards No.157, Fair Value Measurements (SFAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of the fair value measurements. Under this standard, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. exit price) in an orderly transaction between market participants. The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1 quoted prices in active markets for identical investments that the Funds have the ability to access.

Level 2 valuations based on other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.) or quotes from inactive exchanges.

Level 3 valuations based on significant unobservable inputs (including the Funds own assumptions in determining the fair value of investments)

The valuation techniques used by the Funds to measure fair value during the year ended February 28, 2009 maximized the use of observable inputs and minimized the use of unobservable inputs. The Funds utilized the following fair value technique on Level 3 investments: estimating the price that would have prevailed in a liquid market for a security given information available at the time of evaluation.

The inputs and methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used at February 28, 2009 in valuing the Funds investments carried at value:

	Convertible & Income	Convertible & Income II
Valuation Inputs	Investments in Securities	Investments in Securities
Level 1 Quoted Prices	\$ 60,685,728	\$ 46,467,259
Level 2 Other Significant Observable Inputs	618,980,697	469,297,962
Level 3 Significant Unobservable Inputs	22,566,591	19,461,237
Total	\$ 702,233,016	\$ 535,226,458

A roll forward of fair value measurements using significant unobservable inputs (Level 3) as of February 28, 2009 was as follows:

	Investments in Securities	Investments in Securities
Beginning balance, February 29, 2008	\$ 3,346,475	\$ 3,006,875
Net purchases (sales) and settlements	20,119	18,076
Accrued discounts (premiums)	(774,981)	(883,203)
Total realized gain (loss)		

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Total change in unrealized appreciation/ depreciation	(15,684)	172,774
Transfer in and/or out of Level 3	19,990,662	17,146,715
Ending balance, February 28, 2009	\$ 22,566,591	\$ 19,461,237
Net change in unrealized appreciation/ depreciation on investments held at February 28, 2009	\$ (15,684)	\$ 172,774

Realized gains/(losses) and change in unrealized appreciation/depreciation are recorded on the statement of operations.

(c) Disclosures about Credit Derivatives

The Funds have adopted FASB Staff Position No. 133-1 and FIN 45-4, Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161 (FSP), which requires enhanced transparency of the effect of credit derivatives and

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Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements
February 28, 2009

1. Organization and Significant Accounting Policies (continued)

guarantees on an issuer's financial position, financial performance and cash flows. FSP is effective for reporting periods after November 15, 2008. FSP applies to certain credit derivatives, hybrid instruments that have embedded credit derivatives (for example, credit-linked notes), and certain guarantees and it guarantees and it requires additional disclosures regarding credit derivatives with sold protection. The Funds' management have determined that the FSP has no impact to the financial statements.

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

(d) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on an identified cost basis. Dividend income is recorded on ex-dividend date. Interest income is recorded on an accrual basis. Discounts or premiums on debt securities purchased are accreted or amortized to interest income over the lives of the respective securities using the effective interest method. Conversion premium is not amortized. Payments received from certain investments may be comprised of dividends, realized gains and return of capital. These payments may initially be recorded as dividend income and may be subsequently be reclassified as realized gains/or return of capital upon receipt of information from the issuer. Payments received on synthetic convertible securities are generally included in dividend income.

(e) Federal Income Taxes

The Funds intend to distribute all of their taxable income and to comply with the other requirements of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required. The Funds may be subject to excise tax based on the extent of distributions to shareholders.

(f) Dividends and Distributions Common Stock

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

(g) Concentration of Risk

It is the Funds' policy to invest a portion of their assets in convertible securities. Although convertible securities do derive part of their value from that of the securities into which they are convertible, they are not considered derivative financial instruments. However, certain of the Funds' investments include features which render them more sensitive to price changes in their underlying securities. The value of structured/synthetic convertible securities can be affected by interest rate changes and credit risks of the issuer. Such securities may be structured in ways that limit their potential for capital appreciation and the entire value of the security may be at a risk of loss depending on the performance of the underlying equity security. Consequently, the Funds are exposed to greater downside risk than traditional convertible securities, but still less than that of the underlying common stock. The Funds are also exposed to the risk that the issuers or counterparties to the agreements may be unable to deliver the stated underlying securities or agreed proceeds on maturity.

During the year ended February 28, 2009, the Funds held synthetic convertible securities with Lehman Brothers Holdings, Inc. as the counterparty. On September 15, 2008, Lehman Brothers Holdings, Inc. filed for protection under Chapter 11 of the United States Bankruptcy Code. The value of the relevant securities have been written down to their estimated recoverable values.

2. Investment Manager/Sub-Adviser

Each Fund has an Investment Management Agreement (the Agreements) with the Investment Manager. Subject to the supervision of the Funds Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds' investment activities, business affairs and administrative matters. Pursuant to the Agreements, the Funds pay the Investment Manager an annual fee, payable on a monthly basis, at the annual rate of 0.70% of the Funds' average daily total managed assets. Total managed assets refer to the total assets of each Fund (including

Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements
February 28, 2009

2. Investment Management/Sub-Adviser (continued)

assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage).

The Investment Manager has retained its affiliate, Nicholas-Applegate Capital Management LLC (the Sub-Adviser), to manage the Funds investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds investment decisions. The Investment Manager, and not the Funds, pays a portion of the fees it receives as Investment Manager to the Sub-Adviser in return for its services.

3. Investment in Securities

For the year ended February 28, 2009, purchases and sales of investments, other than short-term securities and U.S. government obligations were:

	Convertible & Income	Convertible & Income II
Purchases	\$ 638,084,480	\$ 497,365,745
Sales	745,082,908	675,807,567

For the year ended February 28, 2009, purchases and sales of U.S. government obligations were:

	Convertible & Income	Convertible & Income II
Purchases	\$ 42,814,670	\$ 38,772,166
Sales	51,099,676	45,624,699

4. Income Tax Information

Convertible & Income:

For the years ended February 28, 2009 and February 29, 2008, the tax character of dividends paid of \$110,164,852 and \$134,533,804, respectively, were comprised entirely of ordinary income.

At February 28, 2009, the fund had no distributable earnings.

For the year ended February 28, 2009, permanent differences are primarily attributable to the differing treatment of premium amortization, convertible preferred securities, consent payments and excise taxes. These adjustments were to decrease distributions in excess of net investment income by \$4,090,680, increase accumulated net realized loss by \$3,847,317 and decrease paid-in-capital in excess of par by \$243,363.

At February 28, 2009, Convertible & Income had a capital loss carryforward of \$144,134,274 (\$1,830,527 of which will expire in 2015, \$10,961,628 of which will expire in 2016 and \$131,342,119 of which will expire in 2017) available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

In accordance with U.S. Treasury regulations, Convertible & Income elected to defer net realized capital losses of \$137,714,679 arising after October 31, 2008. Such losses are treated as arising on March 1, 2009.

The cost basis of portfolio securities for federal income tax purposes is \$1,100,316,065. Aggregate gross unrealized appreciation for securities in which there is an excess value over tax cost is \$6,132,778; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$404,215,827; net unrealized depreciation for federal income tax purposes is \$398,083,049. The difference between book and tax basis unrealized is attributable to wash sales, and the differing treatment of convertible preferred securities.

The Fund was not able to declare or pay monthly dividends to common shareholders in November and December of 2008 because the Fund's auction rate preferred shares did not have the required minimum asset coverage. This contributed to the Fund's incurring excise tax.

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Convertible & Income II:

For the years ended February 28, 2009 and February 29, 2008, the tax character of dividends paid of \$88,564,571 and \$121,539,158, respectively, were comprised entirely of ordinary income.

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Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2009

4. Income Tax Information (continued)

At February 28, 2009, the tax character of distributable earnings of \$7,371,380 was comprised entirely of ordinary income.

For the year ended February 28, 2009, permanent differences are primarily attributable to the differing treatment of premium amortization, convertible preferred securities, consent payments and excise taxes. These adjustments were to increase undistributed net investment income by \$4,822,708, increase accumulated net realized loss by \$4,312,513 and decrease paid-in-capital in excess of par by \$510,195.

At February 28, 2009, Convertible & Income II had a capital loss carryforward of \$143,888,261 (\$1,751,653 of which will expire in 2015, \$11,338,190 of which will expire in 2016 and \$130,798,418 of which will expire in 2017) available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

In accordance with U.S. Treasury regulations, Convertible & Income II elected to defer net realized capital losses of \$127,587,602 arising after October 31, 2008. Such losses are treated as arising on March 1, 2009.

The cost basis of portfolio securities for federal income tax purposes is \$856,017,726. Aggregate gross unrealized appreciation for securities in which there is an excess value over tax cost is \$3,132,279; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$323,923,547; net unrealized depreciation for federal income tax purposes is \$320,791,268. The difference between book and tax basis unrealized is attributable to wash sales and the differing treatment of convertible preferred securities.

The Fund was not able to declare or pay monthly dividends to common shareholders in November and December of 2008 because the Fund's auction rate preferred shares did not have the required minimum asset coverage. This contributed to the Fund's incurring excise tax.

5. Auction-Rate Preferred Shares

Convertible & Income has 2,856 shares of Preferred Shares Series A, 2,856 shares of Preferred Shares Series B, 2,856 shares of Preferred Shares Series C, 2,856 shares of Preferred Shares Series D, and 2,856 shares of Preferred Shares Series E outstanding, each with a net asset and liquidation value of \$25,000 per share plus any accumulated, unpaid dividends.

Convertible & Income II has 2,192 shares of Preferred Shares Series A, 2,192 shares of Preferred Shares Series B, 2,192 shares of Preferred Shares Series C, 2,192 shares of Preferred Shares Series D, and 2,192 shares of Preferred Shares Series E outstanding, each with a net asset and liquidation value of \$25,000 per share plus any accumulated, unpaid dividends.

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

For the year ended February 28, 2009, the annualized dividend rates for the Funds ranged from:

	High	Low	At February 28, 2009
Series A	4.413%	0.135%	0.377%
Series B	4.383%	0.135%	0.377%
Series C	4.398%	0.150%	0.362%
Series D	4.713%	0.105%	0.377%
Series E	4.473%	0.075%	0.377%

The Funds are subject to certain limitations and restrictions while preferred shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of preferred shares at a price equal to liquidation value plus any accumulated unpaid dividends.

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

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds have been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation s closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated auction failures have affected the liquidity for ARPS, they do not constitute a default or automatically alter the credit quality of the ARPS, and

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Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2009

5. Auction-Rate Preferred Shares (continued)

ARPS holders have continued to receive dividends at the defined maximum rate, the 7-day AA Composite Commercial Paper Rate multiplied by 150% (which is a function of short-term interest rates and typically higher than the rate that would have otherwise been set through a successful auction).

These developments with respect to ARPS have not affected the management or investment policies of the Funds, and the Funds' outstanding common shares continue to trade on the NYSE without any change. If the Funds' ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds' common shareholders could be adversely affected.

During the fiscal year ended February 28, 2009, the Funds redeemed, at par, a portion of their ARPS on three separate occasions. In each case, the decision to redeem a portion of the Funds' ARPS was made by the Funds' Board of Trustees at the recommendation of the Funds' Investment Manager and Sub-Adviser with the intention of increasing asset coverage of the Funds' ARPS above the 200% Level (subject to future market conditions), permitting the Funds to pay/declare common share dividends. The Funds redeemed the ARPS, at the full liquidation preference of \$25,000 per share plus accumulated but unpaid dividends, across each Fund's five series on their respective dates of redemption as follows:

	Convertible & Income	Convertible & Income II	Dates of Redemptions
Beginning balance, 2/29/08	\$ 525,000,000	\$ 505,000,000	
Redemption	(25,000,000)	(105,000,000)	10/27/08-10/31/08
Redemption	(60,000,000)	(60,000,000)	11/24/08-11/28/08
Redemption	(83,000,000)	(66,000,000)	12/26/08-12/31/08
Ending balance, 2/28/09	\$ 357,000,000	\$ 274,000,000	

6. Subsequent Common Dividend Declarations

	Amount Per Common Share	Declaration Date	Payable Date	Record Date
Convertible & Income	\$ 0.09	3/24/09	4/17/09	4/13/09
Convertible & Income	\$ 0.09	4/1/09	5/1/09	4/13/09
Convertible & Income II	\$ 0.085	3/24/09	4/17/09	4/13/09
Convertible & Income II	\$ 0.085	4/1/09	5/1/09	4/13/09

See Subsequent Event Note.

7. Legal Proceedings

In June and September 2004, the Investment Manager, and certain of its affiliates (including PEA Capital LLC (PEA), Allianz Global Investors Distributors LLC (AGID) and Allianz Global Investors of America, L.P.) agreed to settle, without admitting or denying the allegations, claims brought by the SEC, and the New Jersey Attorney General alleging violations of federal and state securities laws with respect to certain open-end

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funds for which the Investment Manager serves as investment adviser. The settlements related to an alleged market timing arrangement in certain open-end funds formerly sub-advised by PEA. The Investment Manager and its affiliates agreed to pay a total of \$68 million to settle the claims. In addition to monetary payments, the settling parties agreed to undertake certain corporate governance, compliance and disclosure reforms related to market timing and consented to cease and desist orders and censures. Subsequent to these events, PEA Capital LLC deregistered as an investment adviser and dissolved. None of the settlements alleged that any inappropriate activity took place with respect to the Funds.

Since February 2004, the Investment Manager, the Sub-Adviser, and certain of their affiliates and their employees have been named as defendants in a number of pending lawsuits concerning market timing, which allege the same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits have been consolidated in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland. Any potential resolution of these matters may include, but not be limited to, judgments or settlements for damages against the Investment Manager, the Sub-Adviser, or their affiliates or related injunctions.

The Investment Manager and the Sub-Advisers believe that these matters are not likely to have a material adverse effect on the Funds or on their ability to perform their respective investment advisory activities relating to the Funds.

The foregoing speaks only as of the date hereof.

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Nicholas-Applegate Convertible & Income Fund Financial Highlights

For a share of common stock outstanding throughout each period:

	Year ended				
	February 28, 2009	February 29, 2008	February 28, 2007	February 28, 2006	February 28, 2005
Net asset value, beginning of year	\$ 12.52	\$ 14.84	\$ 14.69	\$ 16.07	\$ 16.67
Income from Investment Operations:					
Net investment income	1.56	1.62	1.66	1.51	1.48
Net realized and change in unrealized gain (loss) on investments and interest rate caps	(7.75)	(2.05)	0.55	(0.48)	0.38
Total from investment operations	(6.19)	(0.43)	2.21	1.03	1.86
Dividends and Distributions on Preferred Shares from:					
Net investment income	(0.17)	(0.39)	(0.34)	(0.25)	(0.12)
Net realized gains			(0.03)	(0.02)	(0.02)
Total dividends and distributions on preferred shares	(0.17)	(0.39)	(0.37)	(0.27)	(0.14)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(6.36)	(0.82)	1.84	0.76	1.72
Dividends and Distributions to Common Shareholders from:					
Net investment income	(1.36)	(1.50)	(1.50)	(1.91)	(1.50)
Net realized gains			(0.19)	(0.23)	(0.82)
Total dividends and distributions to common shareholders	(1.36)	(1.50)	(1.69)	(2.14)	(2.32)
Net asset value, end of year	\$ 4.80	\$ 12.52	\$ 14.84	\$ 14.69	\$ 16.07
Market price, end of year	\$ 4.05	\$ 12.50	\$ 16.08	\$ 15.69	\$ 15.82

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Total Investment Return (1)	(61.55)%	(13.63)%	14.60%	14.30%	11.53%
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RATIOS/SUPPLEMENTAL DATA:

Net assets applicable to common shareholders, end of year (000)	\$ 348,544	\$ 895,043	\$ 1,050,149	\$ 1,017,779	\$ 1,086,001
Ratio of expenses to average net assets (2)	1.56%(3)	1.26%	1.27%	1.28%(3)	1.24%
Ratio of net investment income to average net assets (2)	16.87%	11.26%	11.37%	10.03%	9.20%
Preferred shares asset coverage per share	\$ 49,406	\$ 67,626	\$ 74,981	\$ 73,442	\$ 76,698
Portfolio turnover	62%	33%	67%	52%	70%

(1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of the period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges.

(2) Calculated on the basis of income and expenses applicable to both common and preferred shareholders relative to the average net assets of common shareholders.

(3) Ratio of expenses to average net assets, excluding excise tax expense was 1.53% for the year ended February 28, 2009 and 1.26% for the year ended February 28, 2006.

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Nicholas-Applegate Convertible & Income Fund II Financial Highlights

For a share of common stock outstanding throughout each period:

		Year ended			For the Period July 1, 2005 through February 28, 2006	Year ended June 30, 2005	For the Period July 31, 2003* through June 30, 2004
	February 28, 2009	February 29, 2008	February 28, 2007				
Net asset value, beginning of year	\$ 12.38	\$ 14.91	\$ 14.70	\$ 14.61	\$ 15.18	\$ 14.33**	
Income from Investment Operations:							
Net investment income	1.55	1.70	1.69	1.04	1.59	1.23	
Net realized and change in unrealized gain (loss) on investments and interest rate caps	(8.05)	(2.17)	0.61	0.58	(0.39)	1.10	
Total from investment operations	(6.50)	(0.47)	2.30	1.62	1.20	2.33	
Dividends and Distributions on Preferred Shares from:							
Net investment income	(0.20)	(0.45)	(0.38)	(0.17)	(0.21)	(0.08)	
Net realized gains			(0.04)	(0.05)	(0.00)		
Total dividends and distributions on preferred shares	(0.20)	(0.45)	(0.42)	(0.22)	(0.21)	(0.08)	
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(6.70)	(0.92)	1.88	1.40	0.99	2.25	
Dividends and Distributions to Common Shareholders from:							
Net investment income	(1.29)	(1.61)	(1.42)	(1.05)	(1.42)	(1.24)	
Net realized gains			(0.25)	(0.26)	(0.14)	(0.03)	

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Total dividends and distributions to common shareholders	(1.29)	(1.61)	(1.67)	(1.31)	(1.56)	(1.27)
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Capital Share Transactions:

Common stock offering costs charged to paid-in capital in excess of par						(0.03)
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Preferred shares offering costs/underwriting discounts charged to paid-in capital in excess of par						(0.10)
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Total capital share transactions						(0.13)
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Net asset value, end of period	\$ 4.39	\$ 12.38	\$ 14.91	\$ 14.70	\$ 14.61	\$ 15.18
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Market price, end of period	\$ 3.73	\$ 12.09	\$ 15.42	\$ 15.14	\$ 14.74	\$ 14.05
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Total Investment Return (1)	(63.34)%	(12.08)%	13.99%	12.10%	16.44%	1.88%
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RATIOS/SUPPLEMENTAL DATA:

Net assets applicable to common shareholders, end of period (000)	\$ 263,220	\$ 735,359	\$ 879,014	\$ 850,769	\$ 834,909	\$ 855,783
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Ratio of expenses to average net assets (2)	1.71%(4)	1.35%(4)	1.34%	1.37%(3)(4)	1.35%	1.23%(3)
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Ratio of net investment income to average net assets (2)	17.26%	11.75%	11.56%	10.57%(3)	9.79%	8.87%(3)
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Preferred shares asset coverage per share	\$ 49,015	\$ 61,410	\$ 68,493	\$ 67,096	\$ 66,319	\$ 67,359
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Portfolio turnover	57%	34%	60%	33%	67%	73%
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* Commencement of operations

** Initial public offering price of \$15.00 per share less underwriting discount of \$0.675 per share.

During the period the Fund's fiscal year-end changed from June 30 to February 28.

Less than \$0.005 per share.

(1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of the period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions

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are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.

- (2) Calculated on the basis of income and expenses applicable to both common and preferred shareholders relative to the average net assets of common shareholders.
- (3) Annualized.
- (4) Ratio of expenses to average net assets, excluding excise tax expense was 1.63% for the year ended February 28, 2009, 1.34% for the year ended February 29, 2008 and 1.35% for the period July 1, 2005 through February 28, 2006.

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Nicholas-Applegate Convertible & Income Funds Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of:

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

In our opinion, the accompanying statements of assets and liabilities, including the schedules of investments, and the related statements of operations and of changes in net assets applicable to common shareholders and the financial highlights present fairly, in all material respects, the financial position of the Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (the Funds) at February 28, 2009, the results of each of their operations for the year then ended, changes in each of their net assets applicable to common shareholders for the two years in the period then ended and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as financial statements) are the responsibility of the Funds management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements 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 are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at February 28, 2009, by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
New York, New York
April 24, 2009

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Nicholas-Applegate Convertible & Income Funds

Subsequent Events (unaudited)

Subsequent Events Postponement of Payment and Declaration of Common Share Dividends

On March 2, 2009, the Funds announced that due to recent market conditions and requirements under the Funds' By-laws and the Investment Company Act of 1940, as amended (the "1940 Act") it has postponed the payment of the previously declared (February 2, 2009) dividends on the Funds' common shares scheduled for payment on March 2, 2009 and the declaration of the next dividends on the Funds' common shares, which would have been paid in April 2009.

The declared dividends (\$0.09 and \$0.085 per common share for Convertible & Income and Convertible & Income II, respectively) payable on March 2, 2009 to the shareholders of record on February 12, 2009, with an ex-dividend date of February 10, 2009, was not paid on March 2, 2009.

In accordance with the 1940 Act and the Funds' By-laws, the Funds are not permitted to pay or declare common share dividends unless the Funds' ARPS have a minimum asset coverage of 200% ("200% Level") after payment of common share dividends or declaration of the common share dividends.

On March 19, 2009, Convertible & Income announced that the \$0.09 per common share dividend, which was previously declared on February 2, 2009 and postponed on March 2, 2009 will be paid on March 19, 2009 to shareholders of record on February 12, 2009.

On March 24, 2009, Convertible & Income II announced that the \$0.085 per common share dividend, which was previously declared on February 2, 2009 and postponed on March 2, 2009 will be paid on March 24, 2009 to shareholders of record on February 12, 2009.

On March 24, 2009, Convertible & Income and Convertible & Income II declared dividends of \$0.09 and \$0.085 per common share, respectively, which consist of the monthly dividend amounts that were scheduled to have been declared on March 2, 2009, but were previously postponed. The dividends are payable on April 17, 2009 to shareholders of record on April 13, 2009, with an ex-dividend date of April 8, 2009.

Nicholas-Applegate Convertible & Income Funds Tax Information/Annual Shareholder Meeting Results
(unaudited)

Tax Information:

Convertible & Income:

Pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Fund designates qualified dividend income of 27.65% or the maximum allowable amount.

The percentage of ordinary dividends paid by the Fund during the period ended February 28, 2009, which qualified for the Dividends Received Deduction available to corporate shareholders was 20.99% or the maximum allowable amount.

Convertible & Income II:

Pursuant to the Jobs and Growth Tax Relief Reconciliation Act of 2003, the Fund designates qualified dividend income of 30.03% or the maximum allowable amount.

The percentage of ordinary dividends paid by the Fund during the period ended February 28, 2009, which qualified for the Dividends Received Deduction available to corporate shareholders was 22.71% or the maximum allowable amount.

Since the Funds' tax year is not the calendar year, another notification will be sent with respect to calendar year 2009. In January 2010, shareholders will be advised on IRS Form 1099 DIV as to the federal tax status of dividends and distributions received during calendar 2009. The amount that will be reported will be the amount to use on your 2009 federal income tax return and may differ from the amount which must be reported in connection with the Funds' tax year ended February 29, 2009. Shareholders are advised to consult their tax advisers as to the federal, state and local tax status of the dividend income received from the Funds.

Annual Shareholder Meetings Results:

The Funds held their annual meetings of shareholders on July 23, 2008. Common/Preferred shareholders voted as indicated below.

	Affirmative	Withheld Authority
<u>Convertible & Income</u>		
Re-election of John J. Dalessandro II* Class II to serve until 2011	14,643	1,889
Re-election of R. Peter Sullivan III Class II to serve until 2011	59,856,541	1,425,376
Election of Diana L. Taylor** Class II to serve until 2011		