

NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND  
Form N-CSRS  
November 02, 2006

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

**FORM N-CSRS**

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

Investment Company Act file number 811-21238

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

1345 Avenue of the Americas, New York, New York 10105  
(Address of principal executive offices) (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, 2007

Date of reporting period: August 31, 2006

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

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ITEM 1. REPORT TO SHAREHOLDERS

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

Semi-Annual Report  
August 31, 2006

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**Nicholas-Applegate Convertible & Income Funds Letter to Shareholders** (unaudited)

October 4, 2006

Dear Shareholder:

We are pleased to provide you with the semi-annual report for Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (the "Funds") for the fiscal six months ended August 31, 2006.

The convertible market finished the six-month fiscal period ended August 31, 2006 on a positive note, as the Merrill Lynch All-Convertible Index increased 2.04%. For this period, the convertible market lagged the S&P 500 Index but outperformed the NASDAQ Composite Index. The Merrill Lynch Master II Index, a gauge for the high yield market, returned 3.55%. For information on how the Funds fared in this environment, please review the following pages.

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. In addition, a wide range of information and resources are available on our Web site, [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds).

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

We remain dedicated to serving your financial needs.

Sincerely,

Robert E. Connor  
*Chairman*

Brian S. Shlissel  
*President & Chief Executive Officer*

**Nicholas-Applegate Convertible & Income Fund Performance & Statistics**

August 31, 2006 (unaudited)

- \* Nicholas-Applegate Convertible & Income Fund had a net asset value (NAV) return of 3.70% and a market price return of 7.39% for the six-month reporting period.
- \* In the convertibles portion of the Fund's portfolio, performance was affected by a broad-based sell-off in the market. In this environment, cyclicals were hit the hardest, particularly airlines and materials. This reflects investor anticipation of a slowing economy, which would likely see less business and leisure travel as well as lower demand for housing-related materials.
- \* The healthcare industry was a positive contributor to Fund performance, based on strong first-quarter earnings and a broad rotation into defensive growth areas such as biotechnology and healthcare services.
- \* Insurance companies aided Fund performance, rising on solid corporate profits and low catastrophe occurrences year-to-date.
- \* High yield bond performance was solid for the period. Investors were drawn to energy, telecommunications and consumer products, reassured by ratings increases in these sectors.
- \* Given investor confidence in the high yield bond market, lower-quality issuers turned in the best performance during the reporting period.

| <b>Total Return<sup>(1)</sup> :</b>             | <b>Market Price</b> | <b>Net Asset Value (NAV)</b> |
|---|---------------------|------------------------------|
| 6 months  | 7.39%               | 3.70%                        |
| 1 year  | 15.30%              | 7.61%                        |
| Commencement of Operations (3/31/03) to 8/31/06 | 15.32%              | 13.48%                       |

**Common Share Market Price/NAV Performance:**

Commencement of Operations (3/31/03) to 8/31/06

**Market Price/NAV:**

|                                   |         |
|-----------------------------------|---------|
| Market Price                      | \$16.03 |
| NAV                               | \$14.47 |
| Premium to NAV                    | 10.78%  |
| Market Price Yield <sup>(2)</sup> | 9.36%   |

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

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

An investment in the Fund involves risk, including the loss of principal. Total return, price, 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 one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is equal to the total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

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(2) Market Price Yield is determined by dividing the annualized current per share dividend to common shareholders by the market price per common share at August 31, 2006.

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

August 31, 2006 (unaudited)

- \* Nicholas-Applegate Convertible & Income Fund II had a net asset value (NAV) return of 3.79% and a market price return of 7.43% for the six months ended August 31, 2006.
- \* In the convertibles portion of the Fund's portfolio, performance was affected by a broad-based sell-off in the market. In this environment cyclicals were hit the hardest, particularly airlines and materials. This reflects investor anticipation of a slowing economy, which would likely see less business and leisure travel as well as lower demand for housing-related materials.
- \* The healthcare industry was a positive contributor to the Fund, based on strong first quarter earnings and a broad rotation into defensive growth areas such as biotechnology and healthcare services.
- \* Insurance companies aided Fund performance, rising on solid corporate profits and low catastrophe occurrences year-to-date.
- \* High yield bond performance was solid for the period. Investors were drawn to energy, telecommunications and consumer products, reassured by ratings increases in these sectors.
- \* Given investor confidence in the high yield bond market, lower-quality issuers turned in the best performance during the reporting period.

| <b>Total Return<sup>(1)</sup> :</b>             | <b>Market Price</b> | <b>Net Asset Value (NAV)</b> |
|---|---------------------|------------------------------|
| 6 months  | 7.43%               | 3.79%                        |
| 1 year  | 13.32%              | 8.11%                        |
| Commencement of Operations (7/31/03) to 8/31/06 | 12.26%              | 11.61%                       |

| <b>Common Share Market Price/NAV Performance:</b> | <b>Market Price/NAV:</b>          |         |
|---|-----------------------------------|---------|
| Commencement of Operations (7/31/03) to 8/31/06   | Market Price                      | \$15.52 |
|   | NAV                               | \$14.55 |
|   | Premium to NAV                    | 6.67%   |
|   | Market Price Yield <sup>(2)</sup> | 8.94%   |

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

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

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 the total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current per share dividend to common shareholders by the market price per common share at August 31, 2006.





**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

| Principal                                |   |                                 |               |
|--|---|---------------------------------|---------------|
| Amount<br>(000)                          |   | Credit Rating<br>(Moody's/S&P)* | Value         |
| <b>CORPORATE BONDS &amp; NOTES 40.7%</b> |   |                                 |               |
| <b>Advertising 0.7%</b>                  |   |                                 |               |
| \$10,700                                 | Affinion Group, Inc., 11.50%, 10/15/15 (a)          | Caa1/B-                         | \$ 10,807,000 |
| <b>Apparel 1.0%</b>                      |   |                                 |               |
| 2,000                                    | Levi Strauss & Co,<br>9.75%, 1/15/15                | B3/B-                           | 2,080,000     |
| 10,295                                   | 12.25%, 12/15/12                                    | B3/B-                           | 11,530,400    |
| 1,975                                    | Oxford Industries, Inc., 8.875%, 6/1/11             | B1/B                            | 1,994,750     |
|  |   |                                 | 15,605,150    |
| <b>Automotive 1.6%</b>                   |   |                                 |               |
| 7,485                                    | General Motors Corp., 8.375%, 7/15/33               | Caa1/B-                         | 6,268,687     |
| 10,890                                   | Goodyear Tire & Rubber Co., 11.25%, 3/1/11          | B3/B-                           | 12,033,450    |
| 8,308                                    | HLI Operating Co., Inc., 10.50%, 6/15/10            | Caa3/CCC                        | 6,397,160     |
|  |   |                                 | 24,699,297    |
| <b>Chemicals 2.7%</b>                    |   |                                 |               |
| 4,703                                    | Huntsman LLC, 11.625%, 10/15/10                     | Ba3/BB-                         | 5,220,330     |
| 5,115                                    | Lyondell Chemical Co.,<br>10.875%, 5/1/09           | B2/B                            | 5,217,300     |
| 5,435                                    | 11.125%, 7/15/12                                    | Ba3/BB                          | 5,924,150     |
| 13,590                                   | Mosaic Global Holdings, Inc., 11.25%, 6/1/11        | Ba3/BB                          | 14,354,438    |
| 5,125                                    | PolyOne Corp., 10.625%, 5/15/10                     | B3/B+                           | 5,496,562     |
| 4,830                                    | Rhodia S.A., 10.25%, 6/1/10                         | B2/B-                           | 5,325,075     |
|  |   |                                 | 41,537,855    |
| <b>Coal 0.9%</b>                         |   |                                 |               |
| 3,595                                    | International Coal Group, Inc., 10.25%, 7/15/14 (a) | B3/CCC+                         | 3,711,837     |
| 10,445                                   | James River Coal Co., 9.375%, 6/1/12                | Caa2/CCC-                       | 9,687,738     |
|  |   |                                 | 13,399,575    |
| <b>Commercial Services 1.8%</b>          |   |                                 |               |
| 3,800                                    | Cenveo Corp., 7.875%, 12/1/13                       | B3/B-                           | 3,591,000     |
| 5,400                                    | Hertz Corp., 10.50%, 1/1/16 (a)                     | B3/B                            | 5,818,500     |
| 4,444                                    | Rent-Way, Inc., 11.875%, 6/15/10                    | B3/NR                           | 4,966,170     |
| 12,335                                   | Vertrue, Inc., 9.25%, 4/1/14                        | B2/B                            | 12,766,725    |
|  |   |                                 | 27,142,395    |
| <b>Computers 0.5%</b>                    |   |                                 |               |
| 8,515                                    | Unisys Corp., 8.00%, 10/15/12                       | B2/B+                           | 7,887,019     |
| <b>Electric 2.7%</b>                     |   |                                 |               |
| 13,025                                   | AES Corp., 9.50%, 6/1/09                            | B/B1                            | 13,936,750    |
| 12,750                                   | Mission Energy Holdings Co., 13.50%, 7/15/08        | B/B-2                           | 14,264,063    |
| 12,630                                   | PSEG Energy Holdings LLC, 10.00%, 10/1/09           | Ba/BB3-                         | 13,640,400    |
|  |   |                                 | 41,841,213    |
| <b>Electronics 1.6%</b>                  |   |                                 |               |
| 13,405                                   | IMAX Corp., 9.625%, 12/1/10                         | B3/B-                           | 12,902,312    |
| 12,170                                   | Stoneridge, Inc., 11.50%, 5/1/12                    | B2/B                            | 11,835,325    |
|  |   |                                 | 24,737,637    |



**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount (000) |   | Credit Rating (Moody's/S&P) | Value         |
|------------------------|---|-----------------------------|---------------|
|                        | <b>Financial Services</b> 2.4%                        |                             |               |
| \$11,080               | Alamosa Delaware, Inc., 11.00%, 7/31/10               | Baa3/BBB+                   | \$ 12,104,900 |
| 8,175                  | AMR Holdings Co., 10.00%, 2/15/15                     | Caa1/B-                     | 8,747,250     |
| 10,795                 | Ford Motor Credit Co., 7.00%, 10/1/13                 | Ba3/B+                      | 10,074,952    |
| 4,945                  | MedCath Holdings Corp., 9.875%, 7/15/12               | Caa1/B-                     | 5,241,700     |
|                        |   |                             | 36,168,802    |
|                        | <b>Food Products</b> 0.9%                             |                             |               |
| 12,805                 | Pilgrim's Pride Corp., 9.625%, 9/15/11                | Ba2/BB-                     | 13,413,237    |
|                        | <b>Healthcare</b> 0.9%                                |                             |               |
| 7,275                  | Alliance Imaging, Inc., 7.25%, 12/15/12               | B/B- 3                      | 6,765,750     |
| 6,475                  | Hanger Orthopedic Group, Inc., 10.25%, 6/1/14         | B3/CCC+                     | 6,491,187     |
|                        |   |                             | 13,256,937    |
|                        | <b>Home Builders</b> 0.7%                             |                             |               |
| 12,160                 | William Lyon Homes, Inc., 10.75%, 4/1/13              | B2/B                        | 11,187,200    |
|                        | <b>Home Furnishings</b> 1.8%                          |                             |               |
| 11,370                 | Central Garden & Pet Co., 9.125%, 2/1/13              | B2/B                        | 11,767,950    |
| 14,600                 | Jarden Corp., 9.75%, 5/1/12                           | B3 /B-                      | 15,111,000    |
|                        |   |                             | 26,878,950    |
|                        | <b>Machinery</b> 0.9%                                 |                             |               |
| 12,940                 | Case New Holland, Inc., 9.25%, 8/1/11                 | Ba3/BB                      | 13,716,400    |
|                        | <b>Manufacturing</b> 0.5%                             |                             |               |
| 6,875                  | Clarke American Corp., 11.75%, 12/15/13               | B2/B-                       | 7,184,375     |
|                        | <b>Metals &amp; Mining</b> 2.2%                       |                             |               |
| 7,710                  | AK Steel Corp., 7.875%, 2/15/09                       | B1/B+                       | 7,661,812     |
| 11,665                 | Freeport-McMoRan Copper & Gold, Inc., 10.125%, 2/1/10 | B1/B+                       | 12,405,728    |
| 13,420                 | United States Steel LLC, 10.75%, 8/1/08               | Ba1/BB                      | 14,460,050    |
|                        |   |                             | 34,527,590    |
|                        | <b>Miscellaneous</b> 1.5%                             |                             |               |
| 22,405                 | Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b)    | NR/NR                       | 22,460,670    |
|                        | <b>Multi-Media</b> 1.7%                               |                             |               |
| 12,870                 | CCH I LLC, 11.00%, 10/1/15                            | Caa3/CCC-                   | 11,486,475    |
| 6,450                  | Lodgenet Entertainment Corp., 9.50%, 6/15/13          | B3/B-                       | 6,917,625     |
| 8,140                  | Sirius Satellite Radio, Inc., 9.625%, 8/1/13          | Caa1/CCC                    | 7,773,700     |
|                        |   |                             | 26,177,800    |
|                        | <b>Office/Business Equipment</b> 0.4%                 |                             |               |
| 5,565                  | Xerox Corp., 9.75%, 1/15/09                           | Ba2 /BB+                    | 6,010,200     |
|                        | <b>Office Furnishings</b> 1.1%                        |                             |               |
|                        | Interface, Inc.,                                      |                             |               |
| 5,375                  | 9.50%, 2/1/14   | Caa1/CCC                    | 5,549,687     |
| 6,490                  | 10.375%, 2/1/10                                       | B2/B-                       | 7,065,988     |
| 3,791                  | Tempur-Pedic, Inc., 10.25%, 8/15/10                   | B2/B                        | 3,971,072     |
|                        |   |                             | 16,586,747    |

|       |  |       |           |
|-------|--|-------|-----------|
| 5,000 | <b>Oil &amp; Gas</b> 0.4%<br>Seitel, Inc., 11.75%, 7/15/11 | B3/NR | 5,775,000 |
|-------|--|-------|-----------|

**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount<br>(000) |  | Credit Rating<br>(Moody's/S&P) | Value        |
|---------------------------|--|--------------------------------|--------------|
|                           | <b>Paper Products</b> 1.2%                                   |                                |              |
| \$ 5,096                  | Buckeye Technologies, Inc., 9.25%, 9/15/08                   | Caa1/B                         | \$ 5,096,000 |
| 12,945                    | NewPage Corp., 12.00%, 5/1/13                                | Caa2/CCC+                      | 13,365,713   |
|                           |  |                                | 18,461,713   |
|                           | <b>Pharmaceuticals</b> 0.4%                                  |                                |              |
| 7,180                     | Leiner Health Products, Inc., 11.00%, 6/1/12                 | Caa1/CCC                       | 6,821,000    |
|                           | <b>Pipelines</b> 0.9%  |                                |              |
| 13,330                    | Sonat, Inc., 7.625%, 7/15/11                                 | B2/B                           | 13,629,925   |
|                           | <b>Retail</b> 4.3%   |                                |              |
| 14,420                    | Bon-Ton Stores, Inc., 10.25%, 3/15/14                        | B2/B-                          | 13,572,825   |
| 5,420                     | EPL Finance Corp., 11.75%, 11/15/13 (a)                      | Caa1/CCC+                      | 6,056,850    |
| 4,790                     | GSC Holdings Corp., 8.00%, 10/1/12                           | Ba3/B+                         | 4,891,788    |
| 8,325                     | Mothers Work, Inc., 11.25%, 8/1/10                           | Caa1/B-                        | 8,793,281    |
| 9,710                     | Neiman-Marcus Group, Inc., 10.375%, 10/15/15                 | B/B- 3                         | 10,389,700   |
| 10,000                    | R.H. Donnelley, Inc., 10.875%, 12/15/12                      | B2/B                           | 10,950,000   |
| 10,770                    | Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B              | Caa3/B-                        | 10,985,400   |
|                           |  |                                | 65,639,844   |
|                           | <b>Telecommunications</b> 3.9%                               |                                |              |
| 7,395                     | Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B | Caa1/CCC+                      | 7,561,388    |
| 12,400                    | Intelsat Bermuda Ltd, 11.25%, 6/15/16 (a)                    | Caa1/B                         | 12,849,500   |
| 10,110                    | Level 3 Financing, Inc., 12.25%, 3/15/13 (a)                 | B3/CCC-                        | 11,083,088   |
| 12,990                    | Millicom International Cellular S.A., 10.00%, 12/1/13        | B3/B-                          | 13,931,775   |
| 12,680                    | Nortel Networks Ltd, 10.75%, 7/15/16 (a)                     | B3/B-                          | 13,123,800   |
|                           |  |                                | 58,549,551   |
|                           | <b>Transportation</b> 0.4%                                   |                                |              |
| 5,870                     | PHI, Inc., 7.125%, 4/15/13 (a)                               | B1/BB-                         | 5,591,175    |
|                           | <b>Travel Services</b> 0.7%                                  |                                |              |
| 10,245                    | TDS Investor Corp., 11.875%, 9/1/16 (a)                      | Caa1/B-                        | 9,988,875    |
|                           | Total Corporate Bonds & Notes (cost-\$616,410,371)           |                                | 619,683,132  |
|                           | <b>CONVERTIBLE PREFERRED STOCK</b> 28.9%                     |                                |              |
| Shares<br>(000)           |  |                                |              |
|                           | <b>Automotive</b> 1.3%                                       |                                |              |
| 145                       | Ford Motor Co., Capital Trust II, 6.50%, 1/15/32             | Caa1/CCC+                      | 4,935,800    |
| 785                       | General Motors Corp., 5.25%, 3/6/32                          | Caa1/B-                        | 14,836,500   |
|                           |  |                                | 19,772,300   |
|                           | <b>Banking</b> 1.0%  |                                |              |
| 289                       | Washington Mutual Capital Trust, 5.375%, 5/3/41              |                                | 15,702,022   |
|                           | <b>Commercial Services</b> 1.3%                              |                                |              |

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|     |   |         |            |
|-----|---|---------|------------|
| 463 | United Rentals, Inc., 6.50%, 8/1/28<br><b>Electric</b> 3.1% | Caa1/B- | 20,350,000 |
| 447 | AES Trust III, 6.75%, 10/15/29                              | B3/B    | 21,781,500 |
| 96  | NRG Energy, Inc., 5.75%, 3/16/09                            | B3/CCC+ | 24,664,063 |
|     |   |         | 46,445,563 |

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**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

| Shares<br>(000) |   | Credit Rating<br>(Moody's/S&P)* | Value        |
|-----------------|---|---------------------------------|--------------|
|                 | <b>Financial Services</b> 8.9%                            |                                 |              |
| 230             | Citigroup Funding, Inc., 5.02%, 9/27/08 (c)               | Aa1/AA-                         | \$ 7,560,100 |
| 410             | E*Trade Financial Corp., 6.125%, 11/18/08                 | Ba3/NA                          | 12,658,750   |
|                 | Lehman Brothers Holdings, Inc.,                           |                                 |              |
| 735             | 6.25%, 10/15/07   | A1/A+                           | 19,690,650   |
| 505             | 20.00%, 3/17/07   | A1/A+                           | 16,589,250   |
| 261             | 20.00%, 8/15/07   | A1/A+                           | 16,015,449   |
|                 | Morgan Stanley,   |                                 |              |
| 215             | 20.00%, 12/14/06  | Aa3/A+                          | 14,993,025   |
| 280             | 20.00%, 12/22/06  | Aa3/A+                          | 16,304,632   |
| 590             | 20.00%, 3/9/07  | Aa/A+3                          | 16,275,150   |
| 540             | 20.00%, 6/2/07  | Aa3/A+                          | 15,408,900   |
|                 |   |                                 | 135,495,906  |
|                 | <b>Food</b> 0.7%  |                                 |              |
| 442             | Albertson's, Inc., 7.25%, 5/16/07                         | B2 /B                           | 11,095,392   |
|                 | <b>Insurance</b> 5.7%                                     |                                 |              |
| 425             | Genworth Financial, Inc., 6.00%, 5/16/07                  | A2/A                            | 15,818,500   |
| 714             | Metlife, Inc., 6.375%, 8/15/08                            | NR/BBB+                         | 20,657,372   |
|                 |   |                                 |              |
| 540             | Platinum Underwriters Holdings Ltd, 6.00%, 2/15/09        | NR/BB+                          | 15,997,500   |
| 678             | PMI Group, Inc., 5.875%, 11/15/06                         | A1/A                            | 17,127,075   |
| 785             | XL Capital Ltd, 6.50%, 5/15/07                            | A3/A-                           | 17,136,550   |
|                 |   |                                 | 86,736,997   |
|                 | <b>Oil &amp; Gas</b> 2.1%                                 |                                 |              |
| 153             | Chesapeake Energy Corp., 5.00%, 12/31/49                  | NR/B                            | 16,350,944   |
| 133             | Hess Corp., 7.00%, 12/01/06                               | Ba3/BB                          | 15,378,125   |
|                 |   |                                 | 31,729,069   |
|                 | <b>Pharmaceuticals</b> 1.7%                               |                                 |              |
| 464             | Schering-Plough Corp., 6.00%, 9/14/07                     | Baa3/BBB                        | 25,037,964   |
|                 | <b>Real Estate</b> 1.1%                                   |                                 |              |
| 677             | FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A, REIT | B2/CCC+                         | 16,750,800   |
|                 | <b>Telecommunications</b> 1.1%                            |                                 |              |
| 305             | Crown Castle International Corp., 6.25%, 8/15/12          | NR/NR                           | 17,003,750   |
|                 | <b>Waste Disposal</b> 0.9%                                |                                 |              |
| 45              | Allied Waste Industries, Inc., 6.25%, 3/1/08              | Caa3/B                          | 12,928,500   |
|                 | Total Convertible Preferred Stock (cost-\$428,136,352)    |                                 | 439,048,263  |

**CONVERTIBLE BONDS & NOTES** 24.0%Principal  
Amount  
(000)

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|           |   |           |            |
|-----------|---|-----------|------------|
|           | <b>Airlines</b> 1.3%                      |           |            |
| \$ 20,572 | Continental Airlines, Inc., 4.50%, 2/1/07 | Caa2/CCC+ | 20,443,425 |
|           | <b>Banks</b> 0.6%                         |           |            |
| 9,300     | UBS AG Jersey Branch, 22.00%, 8/15/07 (a) | NR/NR     | 9,265,125  |

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**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount (000) |  | Credit Rating (Moody's/S&P) | Value        |
|------------------------|--|-----------------------------|--------------|
|                        | <b>Commercial Services</b> 3.1%                      |                             |              |
| \$ 9,100               | Bowne & Co., Inc., 5.00%, 10/1/33                    | B2/B-                       | \$ 9,941,750 |
| 13,440                 | Memberworks, Inc., 5.50%, 10/1/10                    | NR/B-                       | 16,212,000   |
| 20,614                 | Quebecor World USA, Inc., 6.00%, 10/1/07             | B2 /B                       | 20,433,627   |
|                        |  |                             | 46,587,377   |
|                        | <b>Computers</b> 1.2%                                |                             |              |
| 16,400                 | Maxtor Corp., 6.80%, 4/30/10                         | Ba1/NR                      | 18,183,500   |
|                        | <b>Electric</b> 1.2%                                 |                             |              |
| 6,075                  | PG&E Corp., 9.50%, 6/30/10                           | NR/NR                       | 18,581,906   |
|                        | <b>Electrical Components &amp; Equipment</b> 0.7%    |                             |              |
| 7,250                  | Artesyn Technologies, Inc., 5.50%, 8/15/10           | NR/NR                       | 9,925,975    |
|                        | <b>Metals &amp; Mining</b> 1.0%                      |                             |              |
| 7,490                  | Freeport-McMoRan Copper & Gold, Inc., 7.00%, 2/11/11 | NR/B+                       | 14,792,750   |
|                        | <b>Multi-Media</b> 1.4%                              |                             |              |
| 20,995                 | EchoStar Communications Corp., 5.75%, 5/15/08        | B2/B                        | 21,099,975   |
|                        | <b>Oil &amp; Gas</b> 1.2%                            |                             |              |
| 14,100                 | Devon Energy Corp., 4.95%, 8/15/08                   | Baa2/BBB                    | 17,713,125   |
|                        | <b>Pharmaceuticals</b> 1.4%                          |                             |              |
| 20,950                 | Sepracor, Inc., 5.00%, 2/15/07                       | NR/B-                       | 20,950,000   |
|                        | <b>Retail</b> 1.3%                                   |                             |              |
| 21,008                 | Sonic Automotive, Inc., 5.25%, 5/7/09                | B/B3                        | 19,931,340   |
|                        | <b>Semi-Conductors</b> 1.2%                          |                             |              |
| 2,363                  | Amkor Technology, Inc., 5.00%, 3/15/07               | Ca/CC                       | 2,274,388    |
| 16,750                 | Fairchild Semiconductor Corp., 5.00%, 11/1/08        | NR/B                        | 16,645,313   |
|                        |  |                             | 18,919,701   |
|                        | <b>Telecommunications</b> 7.1%                       |                             |              |
| 19,000                 | American Tower Corp., 5.00%, 2/15/10                 | B1/BB-                      | 19,023,750   |
| 15,900                 | CenturyTel, Inc., 4.75%, 8/1/32                      | Baa2/BBB                    | 16,734,750   |
| 3,200                  | Ciena Corp., 3.75%, 2/1/08                           | B2 /B                       | 3,100,000    |
| 20,550                 | Level 3 Communications, Inc., 6.00%, 3/15/10         | Ca/CCC-                     | 17,647,313   |
| 19,800                 | Lucent Technologies, Inc., 8.00%, 8/1/31             | B3/CCC+                     | 19,948,500   |
| 20,500                 | Nextel Communications, Inc., 5.25%, 1/15/10          | Baa3/BBB+                   | 20,423,125   |
| 12,345                 | Nortel Networks Corp., 4.25%, 9/1/08                 | B3/B-                       | 11,743,181   |
|                        |  |                             | 108,620,619  |
|                        | <b>Trucking/Leasing</b> 1.3%                         |                             |              |
| 17,500                 | GATX Corp., 7.50%, 2/1/07                            | Baa3/BBB                    | 19,906,250   |
|                        | Total Convertible Bonds & Notes (cost-\$358,487,213) |                             | 364,921,068  |
|                        | <b>U.S. GOVERNMENT SECURITIES</b> 2.0%               |                             |              |
| 10,785                 | United States Treasury Notes, 10.375%, 11/15/12      |                             | 11,469,599   |

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|        |  |            |
|--------|--|------------|
| 16,275 | 12.00%, 8/15/13                                      | 18,463,239 |
|        | Total U.S. Government Securities (cost-\$32,088,019) | 29,932,838 |

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**Nicholas-Applegate Convertible & Income Fund Schedule of Investments**

August 31, 2006 (unaudited)

| Principal<br>Amount<br>(000)            |  | Credit Rating<br>(Moody's/S&P) | Value                   |
|---|--|--------------------------------|-------------------------|
| <b>SHORT-TERM INVESTMENTS</b> 4.4%      |  |                                |                         |
| <b>Corporate Bonds &amp; Notes</b> 1.9% |  |                                |                         |
| <b>Chemicals</b> 0.1%                   |  |                                |                         |
| \$ 965                                  | Lyondell Chemical Co., 9.625%, 5/1/07, Ser. A                      | Ba3/BB                         | \$ 984,300              |
| <b>Hotels/Gaming</b> 0.7%               |  |                                |                         |
| 10,500                                  | Mandalay Resort Group, Inc., 10.25%, 8/1/07, Ser. B                | Ba3/B+                         | 10,867,500              |
| <b>Real Estate</b> 0.2%                 |  |                                |                         |
| 2,715                                   | Host Marriot L.P., 9.50%, 1/15/07, Ser. I, REIT                    | Ba2/BB                         | 2,745,544               |
| <b>Retail</b> 0.9%                      |  |                                |                         |
| 13,575                                  | Rite Aid Corp., 12.50%, 9/15/06                                    | NR/B+                          | 13,575,000              |
|   | Total Corporate Bonds & Notes (cost-\$28,139,149)                  |                                | 28,172,344              |
| <b>Time Deposit</b> 2.5%                |  |                                |                         |
| 38,719                                  | Wachovia Bank (Grand Cayman), 4.61%, 9/1/06<br>(cost-\$38,718,833) |                                | 38,718,833              |
|   | Total Short-Term Investments (cost-\$66,857,982)                   |                                | 66,891,177              |
|   | <b>Total Investments</b> (cost-\$1,501,979,937) 100.0%             |                                | <b>\$ 1,520,476,478</b> |

**Nicholas-Applegate Convertible & Income Fund II Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount<br>(000)                |   | Credit Rating<br>(Moody's/S&P) | Value        |
|--|---|--------------------------------|--------------|
| <b>CORPORATE BONDS &amp; NOTES 39.6%</b> |   |                                |              |
| <b>Advertising 0.7%</b>                  |   |                                |              |
| \$ 9,150                                 | Affinion Group, Inc., 11.50%, 10/15/15 (a)          | Caa1/B-                        | \$ 9,241,500 |
| <b>Apparel 1.0%</b>                      |   |                                |              |
| 2,000                                    | Levi Strauss & Co.,<br>9.75%, 1/15/15               | B3/B-                          | 2,080,000    |
| 8,705                                    | 12.25%, 12/15/12                                    | B3/B-                          | 9,749,600    |
| 1,225                                    | Oxford Industries, Inc., 8.875%, 6/1/11             | B1/B                           | 1,237,250    |
|  |   |                                | 13,066,850   |
| <b>Automotive 1.6%</b>                   |   |                                |              |
| 6,430                                    | General Motors Corp., 8.375%, 7/15/33               | Caa1/B-                        | 5,385,125    |
| 9,260                                    | Goodyear Tire & Rubber Co., 11.25%, 3/1/11          | B3/B-                          | 10,232,300   |
| 7,265                                    | HLI Operating Co., Inc., 10.50%, 6/15/10            | Caa3/CCC                       | 5,594,050    |
|  |   |                                | 21,211,475   |
| <b>Chemicals 2.6%</b>                    |   |                                |              |
| 3,998                                    | Huntsman LLC, 11.625%, 10/15/10                     | Ba3/BB-                        | 4,437,780    |
| 4,315                                    | Lyondell Chemical Co.,<br>10.875%, 5/1/09           | B2/B                           | 4,401,300    |
| 4,565                                    | 11.125%, 7/15/12                                    | Ba3/BB                         | 4,975,850    |
| 11,410                                   | Mosaic Global Holdings, Inc., 11.25%, 6/1/11        | Ba3/BB                         | 12,051,812   |
| 4,765                                    | PolyOne Corp., 10.625%, 5/15/10                     | B3/B+                          | 5,110,463    |
| 3,609                                    | Rhodia S.A., 10.25%, 6/1/10                         | B2 /B-                         | 3,978,923    |
|  |   |                                | 34,956,128   |
| <b>Coal 0.9%</b>                         |   |                                |              |
| 3,405                                    | International Coal Group, Inc., 10.25%, 7/15/14 (a) | B3/CCC+                        | 3,515,662    |
| 8,915                                    | James River Coal Co., 9.375%, 6/1/12                | Caa2/CCC-                      | 8,268,662    |
|  |   |                                | 11,784,324   |
| <b>Commercial Services 1.7%</b>          |   |                                |              |
| 3,250                                    | Cenveo Corp., 7.875%, 12/1/13                       | B3/B-                          | 3,071,250    |
| 4,600                                    | Hertz Corp., 10.50%, 1/1/16 (a)                     | B3/B                           | 4,956,500    |
| 3,795                                    | Rent-Way, Inc., 11.875%, 6/15/10                    | B3NR-                          | 4,240,912    |
| 10,585                                   | Vertrue, Inc., 9.25%, 4/1/14                        | B2/B                           | 10,955,475   |
|  |   |                                | 23,224,137   |
| <b>Computers 0.5%</b>                    |   |                                |              |
| 7,235                                    | Unisys Corp., 8.00%, 10/15/12                       | B2/B+                          | 6,701,419    |
| <b>Electric 2.6%</b>                     |   |                                |              |
| 10,645                                   | AES Corp., 9.50%, 6/1/09                            | B1/B                           | 11,390,150   |
| 10,250                                   | Mission Energy Holdings Co., 13.50%, 7/15/08        | B2/B-                          | 11,467,187   |
| 10,570                                   | PSEG Energy Holdings LLC, 10.00%, 10/1/09           | Ba3/BB-                        | 11,415,600   |
|  |   |                                | 34,272,937   |
| <b>Electronics 1.5%</b>                  |   |                                |              |
| 10,725                                   | IMAX Corp., 9.625%, 12/1/10                         | B3/B-                          | 10,322,812   |
| 10,335                                   | Stoneridge, Inc., 11.50%, 5/1/12                    | B2/B                           | 10,050,788   |



**Nicholas-Applegate Convertible & Income Fund II Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount<br>(000) |   | Credit Rating<br>(Moody's/S&P) | Value         |
|---------------------------|---|--------------------------------|---------------|
|                           | <b>Financial Services</b> 2.3%                        |                                |               |
| \$ 9,400                  | Alamosa Delaware, Inc., 11.00%, 7/31/10               | Baa3/BBB+                      | \$ 10,269,500 |
| 6,755                     | AMR Holdings Co., 10.00%, 2/15/15                     | Caa1/B-                        | 7,227,850     |
| 9,205                     | Ford Motor Credit Co., 7.00%, 10/1/13                 | Ba3/B+                         | 8,591,008     |
| 4,370                     | MedCath Holdings Corp., 9.875%, 7/15/12               | Caa1/B-                        | 4,632,200     |
|                           |   |                                | 30,720,558    |
|                           | <b>Food Products</b> 0.8%                             |                                |               |
| 10,815                    | Pilgrim's Pride Corp., 9.625%, 9/15/11                | Ba2/BB-                        | 11,328,712    |
|                           | <b>Healthcare</b> 0.9%                                |                                |               |
| 6,325                     | Alliance Imaging, Inc., 7.25%, 12/15/12               | B3/B-                          | 5,882,250     |
| 5,525                     | Hanger Orthopedic Group, Inc., 10.25%, 6/1/14         | B3/CCC+                        | 5,538,813     |
|                           |   |                                | 11,421,063    |
|                           | <b>Home Builders</b> 0.7%                             |                                |               |
| 10,260                    | William Lyon Homes, Inc., 10.75%, 4/1/13              | B2/B                           | 9,439,200     |
|                           | <b>Home Furnishings</b> 1.8%                          |                                |               |
| 9,670                     | Central Garden & Pet Co., 9.125%, 2/1/13              | B2/B                           | 10,008,450    |
| 13,400                    | Jarden Corp., 9.75%, 5/1/12                           | B3/B-                          | 13,869,000    |
|                           |   |                                | 23,877,450    |
|                           | <b>Machinery</b> 0.9%                                 |                                |               |
| 10,730                    | Case New Holland, Inc., 9.25%, 8/1/11                 | Ba3/BB                         | 11,373,800    |
|                           | <b>Manufacturing</b> 0.5%                             |                                |               |
| 5,825                     | Clarke American Corp., 11.75%, 12/15/13               | B2/B-                          | 6,087,125     |
|                           | <b>Metals &amp; Mining</b> 2.2%                       |                                |               |
| 6,490                     | AK Steel Corp., 7.875%, 2/15/09                       | B/B+1                          | 6,449,438     |
| 9,835                     | Freeport-McMoRan Copper & Gold, Inc., 10.125%, 2/1/10 | B1/B+                          | 10,459,523    |
| 11,450                    | United States Steel LLC, 10.75%, 8/1/08               | Ba1/BB                         | 12,337,375    |
|                           |   |                                | 29,246,336    |
|                           | <b>Miscellaneous</b> 1.3%                             |                                |               |
| 17,729                    | Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b)    | NR/NR                          | 17,772,982    |
|                           | <b>Multi-Media</b> 1.6%                               |                                |               |
| 12,291                    | CCH I LLC, 11.00%, 10/1/15                            | Caa3/CCC-                      | 10,969,718    |
| 3,725                     | Lodgenet Entertainment Corp., 9.50%, 6/15/13          | B3/B-                          | 3,995,062     |
| 6,860                     | Sirius Satellite Radio, Inc., 9.625%, 8/1/13          | Caa1/CCC                       | 6,551,300     |
|                           |   |                                | 21,516,080    |
|                           | <b>Office/Business Equipment</b> 0.4%                 |                                |               |
| 5,195                     | Xerox Corp., 9.75%, 1/15/09                           | Ba2/BB+                        | 5,610,600     |
|                           | <b>Office Furnishings</b> 1.1%                        |                                |               |
|                           | Interface, Inc.,                                      |                                |               |
| 4,625                     | 9.50%, 2/1/14   | Caa1/CCC                       | 4,775,312     |
| 5,625                     | 10.375%, 2/1/10                                       | B2/B-                          | 6,124,219     |
| 3,199                     | Tempur-Pedic, Inc., 10.25%, 8/15/10                   | B2 /B                          | 3,350,953     |
|                           |   |                                | 14,250,484    |
|                           | <b>Oil &amp; Gas</b> 0.4%                             |                                |               |
| 5,000                     | Seitel, Inc., 11.75%, 7/15/11                         | B3 /NR                         | 5,775,000     |



**Nicholas-Applegate Convertible & Income Fund II Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount (000) |  | Credit Rating (Moody's/S&P) | Value        |
|------------------------|--|-----------------------------|--------------|
|                        | <b>Paper Products</b> 1.2%                                   |                             |              |
| \$ 4,013               | Buckeye Technologies, Inc., 9.25%, 9/15/08                   | Caa1/B                      | \$ 4,013,000 |
| 11,055                 | NewPage Corp., 12.00%, 5/1/13                                | Caa2/CCC+                   | 11,414,288   |
|                        |  |                             | 15,427,288   |
|                        | <b>Pharmaceuticals</b> 0.4%                                  |                             |              |
| 6,085                  | Leiner Health Products, Inc., 11.00%, 6/1/12                 | Caa1/CCC                    | 5,780,750    |
|                        | <b>Pipelines</b> 0.9%  |                             |              |
| 12,240                 | Sonat, Inc., 7.625%, 7/15/11                                 | B2/B                        | 12,515,400   |
|                        | <b>Retail</b> 4.3%   |                             |              |
| 12,160                 | Bon-Ton Stores, Inc., 10.25%, 3/15/14                        | B2/B-                       | 11,445,600   |
| 4,580                  | EPL Finance Corp., 11.75%, 11/15/13 (a)                      | Caa1/CCC+                   | 5,118,150    |
| 4,210                  | GSC Holdings Corp., 8.00%, 10/1/12                           | Ba3/B+                      | 4,299,462    |
| 6,910                  | Mothers Work, Inc., 11.25%, 8/1/10                           | Caa1/B-                     | 7,298,688    |
| 8,290                  | Neiman-Marcus Group, Inc., 10.375%, 10/15/15                 | B3/B-                       | 8,870,300    |
| 10,000                 | R.H. Donnelley, Inc., 10.875%, 12/15/12                      | B2/B                        | 10,950,000   |
| 9,230                  | Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B              | Caa3/B-                     | 9,414,600    |
|                        |  |                             | 57,396,800   |
|                        | <b>Telecommunications</b> 3.8%                               |                             |              |
| 6,305                  | Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B | Caa1/CCC+                   | 6,446,862    |
| 10,600                 | Intelsat Bermuda Ltd, 11.25%, 6/15/16 (a)                    | Caa1/B                      | 10,984,250   |
| 8,643                  | Level 3 Financing, Inc., 12.25%, 3/15/13 (a)                 | B3/CCC-                     | 9,474,889    |
| 11,660                 | Millicom International Cellular S.A., 10.00%, 12/1/13        | B3/B-                       | 12,505,350   |
| 10,820                 | Nortel Networks Ltd, 10.75%, 7/15/16 (a)                     | B3/B-                       | 11,198,700   |
|                        |  |                             | 50,610,051   |
|                        | <b>Transportation</b> 0.4%                                   |                             |              |
| 5,210                  | PHI, Inc., 7.125%, 4/15/13 (a)                               | B1/BB-                      | 4,962,525    |
|                        | <b>Travel Services</b> 0.6%                                  |                             |              |
| 8,755                  | TDS Investor Corp., 11.875%, 9/1/16 (a)                      | Caa1/B-                     | 8,536,125    |
|                        | Total Corporate Bonds & Notes (cost-\$528,105,237)           |                             | 528,480,699  |
|                        | <b>CONVERTIBLE PREFERRED STOCK</b> 29.4%                     |                             |              |
| Shares (000)           |  |                             |              |
|                        | <b>Automotive</b> 1.3%                                       |                             |              |
| 130                    | Ford Motor Co., Capital Trust II, 6.50%, 1/15/32             | Caa1/CCC+                   | 4,425,200    |
| 680                    | General Motors Corp., 5.25%, 3/6/32                          | Caa1/B-                     | 12,852,000   |
|                        |  |                             | 17,277,200   |
|                        | <b>Banking</b> 1.1%  |                             |              |
| 263                    | Washington Mutual Capital Trust, 5.375%, 5/1/41              | Baa1/BBB                    | 14,261,625   |
|                        | <b>Commercial Services</b> 1.4%                              |                             |              |
| 436                    | United Rentals, Inc., 6.50%, 8/1/28                          | Caa1/B-                     | 19,184,000   |
|                        | <b>Electric</b> 2.9%   |                             |              |
| 344                    | AES Trust III, 6.75%, 10/15/29                               | B3/B                        | 16,789,500   |



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|    |                                  |         |            |
|----|----------------------------------|---------|------------|
| 87 | NRG Energy, Inc., 5.75%, 3/16/09 | B3/CCC+ | 22,293,750 |
|    |                                  |         | 39,083,250 |

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**Nicholas-Applegate Convertible & Income Fund II Schedule of Investments**

August 31, 2006 (unaudited)

| Shares<br>(000) |   | Credit Rating<br>(Moody's/S&P) | Value        |
|-----------------|---|--------------------------------|--------------|
|                 | <b>Financial Services</b> 9.2%                            |                                |              |
| 220             | Citigroup Funding, Inc., 5.02%, 9/27/08 (c)               | Aa1 /AA-                       | \$ 7,231,400 |
| 370             | E*Trade Financial Corp., 6.125%, 11/18/08                 | Ba3/NA                         | 11,437,644   |
|                 | Lehman Brothers Holdings, Inc.,                           |                                |              |
| 675             | 6.25%, 10/15/07   | A1 /A+                         | 18,083,250   |
| 455             | 20.00%, 3/17/07   | A1/A+                          | 14,946,750   |
| 235             | 20.00%, 8/15/07   | A1/A+                          | 14,424,548   |
|                 | Morgan Stanley,   |                                |              |
| 190             | 20.00%, 12/14/06  | Aa3 /A+                        | 13,249,650   |
| 250             | 20.00%, 12/22/06  | Aa3/A+                         | 14,607,084   |
| 535             | 20.00%, 3/9/07  | Aa3/A+                         | 14,757,975   |
| 492             | 20.00%, 6/2/07  | Aa3/A+                         | 14,042,074   |
|                 |   |                                | 122,780,375  |
|                 | <b>Food</b> 0.7%  |                                |              |
| 371             | Albertson's, Inc., 7.25%, 5/16/07                         | B2/B                           | 9,294,648    |
|                 | <b>Insurance</b> 5.8%                                     |                                |              |
| 408             | Genworth Financial, Inc., 6.00%, 5/16/07                  | A2/A                           | 15,167,150   |
| 636             | Metlife, Inc., 6.375%, 8/15/08                            | NR/BBB+                        | 18,391,370   |
| 470             | Platinum Underwriters Holdings Ltd, 6.00%, 2/15/09        | NR/BB+                         | 13,923,750   |
| 580             | PMI Group, Inc., 5.875%, 11/15/06                         | A1/A                           | 14,645,000   |
| 702             | XL Capital Ltd, 6.50%, 5/15/07                            | A3/A-                          | 15,324,660   |
|                 |   |                                | 77,451,930   |
|                 | <b>Oil &amp; Gas</b> 2.1%                                 |                                |              |
| 138             | Chesapeake Energy Corp., 5.00%, 12/31/49                  | NR/B                           | 14,692,925   |
| 119             | Hess Corp., 7.00%, 12/01/06                               | Ba3/BB                         | 13,759,375   |
|                 |   |                                | 28,452,300   |
|                 | <b>Pharmaceuticals</b> 1.7%                               |                                |              |
| 416             | Schering-Plough Corp., 6.00%, 9/14/07                     | Baa3/BBB                       | 22,485,600   |
|                 | <b>Real Estate</b> 1.1%                                   |                                |              |
| 606             | FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A, REIT | B2/CCC+                        | 14,986,125   |
|                 | <b>Telecommunications</b> 1.2%                            |                                |              |
| 285             | Crown Castle International Corp., 6.25%, 8/15/12          | NR/NR                          | 15,888,750   |
|                 | <b>Waste Disposal</b> 0.9%                                |                                |              |
| 40              | Allied Waste Industries, Inc., 6.25%, 3/1/08              | Caa3/B                         | 11,405,810   |
|                 | Total Convertible Preferred Stock (cost-\$382,070,205)    |                                | 392,551,613  |
|                 | <b>CONVERTIBLE BONDS &amp; NOTES</b> 24.8%                |                                |              |
|                 | Principal Amount (000)                                    |                                |              |
|                 | <b>Airlines</b> 1.2%                                      |                                |              |
| \$16,300        | Continental Airlines, Inc., 4.50%, 2/1/07                 | Caa2/CCC+                      | 16,198,125   |

|       |  |       |           |
|-------|--|-------|-----------|
| 5,700 | <b>Banking</b> 0.4%<br>UBS AG Jersey Branch, 22.00%, 8/15/07 (a) | NR/NR | 5,678,625 |
|-------|--|-------|-----------|

**Nicholas-Applegate Convertible & Income Fund II Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount<br>(000) |  | Credit Rating<br>(Moody's/S&P)* | Value         |
|---------------------------|--|---------------------------------|---------------|
|                           | <b>Commercial Services</b> 3.2%                      |                                 |               |
| \$10,125                  | Bowne & Co., Inc., 5.00%, 10/1/33                    | B2/B-                           | \$ 11,061,563 |
| 11,000                    | Memberworks, Inc., 5.50%, 10/1/10                    | NR/B-                           | 13,268,750    |
| 17,985                    | Quebecor World USA, Inc., 6.00%, 10/1/07             | B2/B                            | 17,827,631    |
|                           |  |                                 | 42,157,944    |
|                           | <b>Computers</b> 1.2%                                |                                 |               |
| 14,400                    | Maxtor Corp., 6.80%, 4/30/10                         | Ba1/NR                          | 15,966,000    |
|                           | <b>Electric</b> 1.2%                                 |                                 |               |
| 5,425                     | PG&E Corp., 9.50%, 6/30/10                           | NR/NR                           | 16,593,719    |
|                           | <b>Electrical Components &amp; Equipment</b> 0.8%    |                                 |               |
| 8,150                     | Artesyn Technologies, Inc., 5.50%, 8/15/10           | NR/NR                           | 11,158,165    |
|                           | <b>Metals &amp; Mining</b> 1.0%                      |                                 |               |
| 6,725                     | Freeport-McMoRan Copper & Gold, Inc., 7.00%, 2/11/11 | NR/B+                           | 13,281,875    |
|                           | <b>Multi-Media</b> 1.4%                              |                                 |               |
| 18,500                    | EchoStar Communications Corp., 5.75%, 5/15/08        | B2/B                            | 18,592,500    |
|                           | <b>Oil &amp; Gas</b> 1.2%                            |                                 |               |
| 12,500                    | Devon Energy Corp., 4.95%, 8/15/08                   | Baa2/BBB                        | 15,703,125    |
|                           | <b>Pharmaceuticals</b> 1.4%                          |                                 |               |
| 18,550                    | Sepracor, Inc., 5.00%, 2/15/07                       | NR/B-                           | 18,550,000    |
|                           | <b>Retail</b> 1.3%                                   |                                 |               |
| 18,535                    | Sonic Automotive, Inc., 5.25%, 5/7/09                | B3/B                            | 17,585,081    |
|                           | <b>Semi-Conductors</b> 2.2%                          |                                 |               |
| 14,300                    | Amkor Technology, Inc., 5.00%, 3/15/07               | Ca/CC                           | 13,763,750    |
| 15,000                    | Fairchild Semiconductor Corp., 5.00%, 11/1/08        | NR/B                            | 14,906,250    |
|                           |  |                                 | 28,670,000    |
|                           | <b>Telecommunications</b> 7.0%                       |                                 |               |
| 16,250                    | American Tower Corp., 5.00%, 2/15/10                 | B1/BB-                          | 16,270,312    |
| 13,600                    | CenturyTel, Inc., 4.75%, 8/1/32                      | Baa2/BBB                        | 14,314,000    |
| 2,800                     | Ciena Corp., 3.75%, 2/1/08                           | B2/B                            | 2,712,500     |
| 17,500                    | Level 3 Communications, Inc., 6.00%, 3/15/10         | Ca/CCC-                         | 15,028,125    |
| 17,500                    | Lucent Technologies, Inc., 8.00%, 8/1/31             | B3/CCC+                         | 17,631,250    |
| 18,500                    | Nextel Communications, Inc., 5.25%, 1/15/10          | Baa3/BBB+                       | 18,430,625    |
| 9,940                     | Nortel Networks Corp., 4.25%, 9/1/08                 | B3/B-                           | 9,455,425     |
|                           |  |                                 | 93,842,237    |
|                           | <b>Trucking/Leasing</b> 1.3%                         |                                 |               |
| 15,150                    | GATX Corp., 7.50%, 2/1/07                            | Baa3/BBB                        | 17,233,125    |

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|  |             |
|--|-------------|
| Total Convertible Bonds & Notes (cost-\$326,469,838) | 331,210,521 |
|--|-------------|

**U.S. GOVERNMENT SECURITIES** 1.9%

|  |                   |            |
|--|-------------------|------------|
| United States Treasury Notes,                        |                   |            |
| 9,215  | 10.375%, 11/15/12 | 9,799,941  |
| 13,725   | 12.00%, 8/15/13   | 15,570,381 |
| Total U.S. Government Securities (cost-\$27,196,356) |                   | 25,370,322 |

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**Nicholas-Applegate Convertible & Income Fund II Schedule of Investments**

August 31, 2006 (unaudited)

| Principal Amount (000)                  |  | Credit Rating (Moody's/S&P) | Value                   |
|---|--|-----------------------------|-------------------------|
| <b>SHORT-TERM INVESTMENTS 4.3%</b>      |  |                             |                         |
| <b>Corporate Bonds &amp; Notes 2.1%</b> |  |                             |                         |
| <b>Chemicals 0.2%</b>                   |  |                             |                         |
| \$ 2,590                                | Lyondell Chemical Co., 9.625%, 5/1/07, Ser. A                  | Ba3/BB                      | \$ 2,641,800            |
| <b>Hotels/Gaming 0.9%</b>               |  |                             |                         |
| 11,080                                  | Mandalay Resort Group, Inc., 10.25%, 8/1/07, Ser. B            | Ba3/B+                      | 11,467,800              |
| <b>Real Estate 0.2%</b>                 |  |                             |                         |
| 2,285                                   | Host Marriot L.P., 9.50%, 1/15/07, Ser. I, REIT                | Ba2/BB                      | 2,310,706               |
| <b>Retail 0.8%</b>                      |  |                             |                         |
| 11,460                                  | Rite Aid Corp., 12.50%, 9/15/06                                | NR/B+                       | 11,460,000              |
|   | Total Corporate Bonds & Notes (cost-\$27,783,916)              |                             | 27,880,306              |
| <b>Time Deposit 2.2%</b>                |  |                             |                         |
| 28,618                                  | Bank of America - London, 4.61%, 9/1/06<br>(cost-\$28,617,512) |                             | 28,617,512              |
|   | Total Short-Term Investments (cost-\$56,401,428)               |                             | 56,497,818              |
|   | <b>Total Investments</b> (cost-\$1,320,243,064) 100.0%         |                             | <b>\$ 1,334,110,973</b> |

**Notes to Schedule of Investments**

- (a) 144A-security - Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically only to qualified institutional buyers. Unless otherwise indicated these securities are not considered to be illiquid.
- (b) Credit-linked trust certificate.
- (c) Variable rate security. Interest rate disclosed reflects the rate in effect on August 31, 2006.

**Glossary:**

NR □ Not Rated

REIT □ Real Estate Investment Trust

**See accompanying Notes to Financial Statements | 8.31.06 | Nicholas-Applegate Convertible & Income Funds Semi-Annual Report 15**

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

August 31, 2006 (unaudited)

|   | <b>Convertible &amp;<br/>Income</b> | <b>Convertible &amp;<br/>Income II</b> |
|---|-------------------------------------|--|
| <b>Assets:</b>  |                                     |  |
| Investments, at value (cost \$1,501,979,937 and \$1,320,243,064, respectively)  | \$ 1,520,476,478                    | \$ 1,334,110,973                       |
| Interest and dividends receivable   | 22,302,045                          | 19,551,716                             |
| Interest rate cap premium paid  | 15,041,250                          | 14,468,250                             |
| Receivable for investments sold   | 3,507,156                           | 3,000,658                              |
| Unrealized appreciation on interest rate cap  | 737,750                             | 709,750                                |
| Prepaid expenses  | 76,135                              | 47,622                                 |
| <b>Total Assets</b>   | <b>1,562,140,814</b>                | <b>1,371,888,969</b>                   |
| <b>Liabilities:</b>   |                                     |  |
| Payable for investments purchased   | 14,720,118                          | 10,309,631                             |
| Dividends payable to common and preferred shareholders  | 8,990,909                           | 6,981,060                              |
| Investment management fees payable  | 911,599                             | 802,746                                |
| Accrued expenses  | 246,996                             | 190,119                                |
| <b>Total Liabilities</b>  | <b>24,869,622</b>                   | <b>18,283,556</b>                      |
| <b>Preferred Shares (\$0.00001 par value; \$25,000 net asset and liquidation value per share applicable to 21,000 and 20,200 shares issued and outstanding, respectively)</b> | <b>525,000,000</b>                  | <b>505,000,000</b>                     |
| <b>Net Assets Applicable to Common Shareholders</b>   | <b>\$ 1,012,271,192</b>             | <b>\$ 848,605,413</b>                  |
| <b>Composition of Net Assets Applicable to Common Shareholders:</b>   |                                     |  |
| Common Stock:   |                                     |  |
| Par value (\$0.00001 per share applicable to 69,936,824 and 58,330,604 shares issued and outstanding, respectively)   | \$ 699                              | \$ 583                                 |
| Paid-in-capital in excess of par  | 1,000,297,998                       | 829,750,603                            |
| Dividends in excess of net investment income  | (12,818,033)                        | (3,165,212)                            |
| Accumulated net realized gain   | 5,556,237                           | 7,441,780                              |
| Net unrealized appreciation of investments and interest rate caps   | 19,234,291                          | 14,577,659                             |
| <b>Net Assets Applicable to Common Shareholders</b>   | <b>\$ 1,012,271,192</b>             | <b>\$ 848,605,413</b>                  |
| <b>Net Asset Value Per Common Share</b>   | <b>\$14.47</b>                      | <b>\$14.55</b>                         |

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**Nicholas-Applegate Convertible & Income Funds Statements of Operations**

For the six months ended August 31,2006 (unaudited)

|  | <b>Convertible &amp;<br/>Income</b> | <b>Convertible &amp;<br/>Income II</b> |
|--|-------------------------------------|--|
| <b>Investment Income:</b>  |                                     |  |
| Interest   | \$ 39,226,164                       | \$ 33,605,589                          |
| Dividends  | 20,577,662                          | 17,832,487                             |
| Consent and other fee income   | 1,060,011                           | 928,715                                |
| Total Investment Income  | 60,863,837                          | 52,366,791                             |
| <b>Expenses:</b>   |                                     |  |
| Investment management fees   | 5,430,534                           | 4,777,957                              |
| Auction agent fees and commissions   | 672,571                             | 653,726                                |
| Custodian and accounting agent fees  | 96,784                              | 84,640                                 |
| Shareholder communications   | 88,072                              | 73,904                                 |
| Audit and tax services   | 57,960                              | 54,960                                 |
| Trustees' fees and expenses  | 37,720                              | 34,960                                 |
| New York Stock Exchange listing fees   | 36,922                              | 29,032                                 |
| Insurance expense  | 20,796                              | 14,540                                 |
| Legal fees   | 20,240                              | 15,272                                 |
| Transfer agent fees  | 18,400                              | 16,560                                 |
| Investor relations   | 8,096                               | 7,728                                  |
| Miscellaneous  | 9,016                               | 8,280                                  |
| Total expenses   | 6,497,111                           | 5,771,559                              |
| <b>Net Investment Income</b>   | <b>54,366,726</b>                   | <b>46,595,232</b>                      |
| <b>Realized and Change in Unrealized Gain (Loss):</b>  |                                     |  |
| Net realized gain (loss) on:   |                                     |  |
| Investments  | (2,860,336)                         | (4,715,704)                            |
| Interest rate caps   | 4,584,191                           | 4,409,555                              |
| Net change in unrealized appreciation/depreciation of:   |                                     |  |
| Investments  | (4,003,506)                         | 744,924                                |
| Interest rate caps   | (4,189,077)                         | (4,029,265)                            |
| Net realized and change in unrealized loss<br>on investments and interest rate caps                              | (6,468,728)                         | (3,590,490)                            |
| <b>Net Increase in Net Assets Resulting from<br/>Investment Operations</b>                                       | <b>47,897,998</b>                   | <b>43,004,742</b>                      |
| <b>Dividends on Preferred Shares from net investment income:</b>   | <b>(12,681,172)</b>                 | <b>(12,183,317)</b>                    |
| <b>Net Increase in Net Assets Applicable to<br/>Common Shareholders Resulting from<br/>Investment Operations</b> | <b>\$ 35,216,826</b>                | <b>\$ 30,821,425</b>                   |

See accompanying Notes to Financial Statements | 8.31.06 | Nicholas-Applegate Convertible & Income Funds Semi-Annual Report **17**



**Nicholas-Applegate Convertible & Income Funds****Statements of Changes in  
Net Assets Applicable to  
Common Shareholders**

|  | <b>Convertible &amp; Income</b>                       |                                 |
|--|---|---------------------------------|
|  | Six Months<br>ended<br>August 31, 2006<br>(unaudited) | Year ended<br>February 28, 2006 |
| <b>Investment Operations:</b>  |   |                                 |
| Net investment income  | \$ 54,366,726   | \$ 103,017,768                  |
| Net realized gain (loss) on investments and interest rate caps   | 1,723,855   | 24,039,690                      |
| Net change in unrealized appreciation/depreciation of<br>investments and interest rate caps  | (8,192,583)   | (55,836,067)                    |
| Net increase in net assets resulting from investment operations  | 47,897,998  | 71,221,391                      |
| <b>Dividends and Distributions on Preferred Shares from:</b>   |   |                                 |
| Net investment income  | (12,681,172)  | (17,331,721)                    |
| Net realized gains   | □   | (1,272,471)                     |
| Total dividends and distributions on preferred shares  | (12,681,172)  | (18,604,192)                    |
| Net increase in net assets applicable to common shareholders<br>resulting from investment operations   | 35,216,826  | 52,617,199                      |
| <b>Dividends and Distributions to Common Shareholders from:</b>  |   |                                 |
| Net investment income  | (52,247,134)  | (130,588,596)                   |
| Net realized gains   | □   | (15,782,779)                    |
| Total dividends and distributions to common shareholders   | (52,247,134)  | (146,371,375)                   |
| <b>Capital Share Transactions:</b>   |   |                                 |
| Reinvestment of dividends and distributions  | 11,522,922  | 25,531,435                      |
| Total increase (decrease) in net assets applicable to common shareholders  | (5,507,386)   | (68,222,741)                    |
| <b>Net Assets Applicable to Common Shareholders:</b>   |   |                                 |
| Beginning of period  | 1,017,778,578   | 1,086,001,319                   |
| End of period (including undistributed (dividends in excess of net<br>investment income) of \$(12,818,033), \$(2,256,453);<br>\$(3,165,212), \$2,759,510 and \$7,077,799 respectively) | \$ 1,012,271,192                                      | \$ 1,017,778,578                |
| <b>Common shares:</b>  |   |                                 |
| Issued in reinvestment of dividends and distributions  | 666,530   | 1,705,242                       |

\* Represents the eight months ended February 28, 2006. During the period, the Fund's fiscal year-end was changed to February 28 from June 30.

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| Six Months<br>ended<br>August 31, 2006<br>(unaudited) | <b>Convertible &amp; Income II</b><br>For the period<br>July 1, 2005<br>through<br>February 28,<br>2006* | Year Ended<br>June 30, 2005 |
|---|--|-----------------------------|
| \$ 46,595,232   | \$ 60,146,487  | \$ 82,903,663               |
| (306,149)   | 33,513,573   | 22,695,873                  |
| (3,284,341)   | (862,905)  | (37,383,669)                |
| 43,004,742  | 92,797,155   | 68,215,867                  |
| (12,183,317)  | (10,113,694)   | (11,768,307)                |
| □   | (2,619,976)  | (75,399)                    |
| (12,183,317)  | (12,733,670)   | (11,843,706)                |
| 30,821,425  | 80,063,485   | 56,372,161                  |
| (40,336,637)  | (60,083,257)   | (81,000,846)                |
| □   | (15,188,931)   | (7,680,066)                 |
| (40,336,637)  | (75,272,188)   | (88,680,912)                |
| 7,351,217   | 11,068,696   | 11,434,945                  |
| (2,163,995)   | 15,859,993   | (20,873,806)                |
| 850,769,408   | 834,909,415  | 855,783,221                 |
| \$ 848,605,413  | \$ 850,769,408   | \$ 834,909,415              |
| 457,029   | 744,597  | 764,611                     |

**See accompanying Notes to Financial Statements** | 8.31.06 | Nicholas-Applegate Convertible & Income Funds Semi-Annual Report **19**

**Nicholas-Applegate Convertible & Income Funds**    **Notes to Financial Statements**  
 August 31, 2006 (unaudited)

## 1. Organization and Significant Accounting Policies

Nicholas-Applegate Convertible & Income Fund (the "Convertible & Income Fund") and Nicholas-Applegate Convertible & Income Fund II (the "Convertible & Income Fund 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 insurance and financial services company. The Funds have an unlimited amount of \$0.00001 par value common stock authorized.

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

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

In July 2006, the Financial Accounting Standards Board issued interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (an Interpretation of FASB Statement No. 109) (the "Interpretation"). The Interpretation establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Interpretation is effective for fiscal years beginning after December 15, 2006, and is to be applied to all open tax years as of the date of effectiveness. The Funds' management has recently begun to evaluate the application of the Interpretation, and is not in a position at this time to estimate the significance of its impact, if any, on the Funds' financial statements.

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

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

### (a) Valuation of Investments

Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Portfolio securities and other financial instruments for which market quotations are not readily available or if a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to guidelines established by the Board of Trustees. The Funds' investments are valued daily by an independent pricing service or dealer quotations, using the last sale price on the exchange that is the primary market for such securities, or the last quoted bid price on corporate bonds and notes or the last quoted mean price on convertible securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days. The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold and the differences could be material to the financial statements. The Funds' net asset values are determined daily as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (the "NYSE") on each day the NYSE is open for business.

### (b) Investment Transactions and Investment Income

Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on the identified cost basis. Interest income is recorded on an accrual basis. Discounts or premiums on corporate bonds and notes purchased are accreted or amortized to interest income over the lives of the respective securities using the effective interest method. Dividend income is recorded on the ex-dividend date.



**Nicholas-Applegate Convertible & Income Funds**      **Notes to Financial Statements**  
 August 31, 2006 (unaudited)

**Organization and Significant Accounting Policies (continued)**

**(c) Federal Income Taxes**

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

**(d) Dividends and Distributions—Common Stock**

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

The Funds treat amounts received under interest rate cap agreements as net realized gain (loss) in accordance with generally accepted accounting principles ("GAAP"). However, these amounts are treated as net income (loss) for federal income tax purposes. By using GAAP, Convertible & Income Fund's net investment income for the six months ended August 31, 2006 was \$15,319,461 lower and net realized and change in unrealized loss, correspondingly lower than if payments received from interest rate cap agreements were treated as net income (loss) in accordance with federal income tax treatment. In addition, interest income for the six months ended August 31, 2006 includes amortization of market premium of \$8,409,269. For tax purposes, Convertible & Income has elected not to amortize market premium. By using GAAP, Convertible & Income II Fund's net investment income for the six months ended August 31, 2006 was \$14,735,862 lower and net realized and change in unrealized loss, correspondingly lower than if payments received from interest rate cap agreements were treated as net income (loss) in accordance with federal income tax treatment. In addition, interest income for the six months ended August 31, 2006 includes amortization of market premium of \$7,375,551. For tax purposes, Convertible & Income II has elected not to amortize market premium.

**(e) Credit-Linked Trust Certificates**

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

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

**(f) Interest Rate Caps**

In an interest rate cap, one party pays a fee while the other party pays the excess, if any, of a floating rate over a specified fixed rate. Interest rate caps are intended to manage the Funds' exposure to changes in short-term interest rates and hedge the auction Preferred Shares. Owning interest rate caps reduces the Funds' duration, making it less sensitive to changes in interest rates from a market value perspective. The effect on income involves protection from rising short-term rates, which the Funds experience primarily in the form of leverage. The Funds are exposed to credit loss in the event of non-performance by the other party to the interest rate cap. Premiums paid by the Funds are recognized as an asset and amortized into realized loss over the life of the interest rate cap. Changes in the value of the interest rate cap is recognized as unrealized appreciation or depreciation. Periodic payments received during periods the floating rate exceeds the specific fixed rate are recognized into realized gain.

**(g) Concentration of Risk**

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



**Nicholas-Applegate Convertible & Income Funds**      **Notes to Financial Statements**  
August 31, 2006 (unaudited)

**2. Investment Manager/Sub-Adviser**

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

The Investment Manager has retained its affiliate, Nicholas-Applegate Capital Management LLC (the "Sub-Adviser"), to manage the Funds' investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds' investment decisions. For its services pursuant to Sub-Advisory agreements, the Investment Manager and not the Funds, pays the Sub-Adviser a monthly fee.

**3. Investment in Securities**

For the six months ended August 31, 2006, purchases and sales of investments, other than short-term securities and U.S. government obligations were:

|           | Convertible & Income | Convertible & Income II |
|-----------|----------------------|-------------------------|
| Purchases | \$510,960,314        | \$437,727,542           |
| Sales     | 352,191,145          | 304,437,444             |

For the six months ended August 31, 2006, purchases and sales of U.S. government obligations were:

|           | Convertible & Income | Convertible & Income II |
|-----------|----------------------|-------------------------|
| Purchases | □                    | □                       |
| Sales     | \$5,980,669          | \$4,913,081             |

(a) Interest rate cap agreements outstanding at August 31, 2006:

Convertible & Income:

| Counterparty | Notional Amount | Termination Date | Premium      | Payment received by Fund               | Unrealized Appreciation |
|--------------|-----------------|------------------|--------------|--|-------------------------|
| UBS AG       | \$525,000,000   | 1/15/08          | \$15,041,250 | 1 month LIBOR-BBA over 3% strike price | \$737,750               |

Convertible & Income II:

| Counterparty | Notional Amount | Termination Date | Premium      | Payment received by Fund               | Unrealized Appreciation |
|--------------|-----------------|------------------|--------------|--|-------------------------|
| UBS AG       | \$505,000,000   | 1/15/08          | \$14,468,250 | 1 month LIBOR-BBA over 3% strike price | \$709,750               |

LIBOR-London Interbank Offered Rate

**4. Income Tax Information**Convertible & Income:

The cost basis of portfolio securities of \$1,501,979,937 is substantially the same for both federal income tax purposes and financial reporting purposes. Aggregated gross unrealized appreciation for securities in which there is an excess value over tax

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cost is \$45,349,233; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$26,852,692; net unrealized appreciation for federal income tax purposes is \$18,496,541.

### Convertible & Income II:

The cost basis of portfolio securities of \$1,320,243,064 is substantially the same for both federal income tax purposes and financial reporting purposes. Aggregated gross unrealized appreciation for securities in which there is an excess value

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**Nicholas-Applegate Convertible & Income Funds**      **Notes to Financial Statements**  
 August 31, 2006 (unaudited)

over tax cost is \$38,511,080; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$24,643,171; net unrealized appreciation for federal income tax purposes is \$13,867,909.

### 5. Auction Preferred Shares

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

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

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

#### Convertible & Income:

For the six months ended August 31, 2006, the annualized dividend rate ranged from:

|          | High  | Low   | At August 31, 2006 |
|----------|-------|-------|--------------------|
| Series A | 5.25% | 4.37% | 5.10%              |
| Series B | 5.25% | 4.37% | 5.10%              |
| Series C | 5.26% | 4.20% | 5.10%              |
| Series D | 5.15% | 4.37% | 5.10%              |
| Series E | 5.25% | 4.30% | 5.05%              |

#### Convertible & Income II:

|          | High  | Low   | At 2/28/06 |
|----------|-------|-------|------------|
| Series A | 5.25% | 4.30% | 5.10%      |
| Series B | 5.25% | 4.21% | 5.10%      |
| Series C | 5.15% | 4.30% | 5.10%      |
| Series D | 5.30% | 4.30% | 5.00%      |
| Series E | 5.30% | 4.37% | 5.00%      |

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

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

### 6. Subsequent Events:

On September 12, 2006, each Fund's Board of Trustees appointed William B. Ogden IV as a Class I Trustee. On October 10, 2006, David C. Flattum, an interested Trustee, resigned as a Class III Trustee of the Funds.

### 7. Subsequent Common Dividend Declarations:

On September 1, 2006, the following dividends were declared to common shareholders payable October 2, 2006 to shareholders of record on September 11, 2006:

|                         |                             |
|-------------------------|-----------------------------|
| Convertible & Income    | \$0.125 per common share    |
| Convertible & Income II | \$0.115625 per common share |

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On September 15, 2006, the following capital gain dividends were declared to common shareholders payable September 29, 2006 to shareholders of record on September 25, 2006:

|                         |                      |
|-------------------------|----------------------|
| Convertible & Income    | \$0.19403 long-term  |
| Convertible & Income II | \$0.00001 short-term |
|                         | \$0.24580 long-term  |

**Nicholas-Applegate Convertible & Income Funds**      **Notes to Financial Statements**  
 August 31, 2006 (unaudited)

### 7. Subsequent Common Dividend Declarations (continued)

On October 2, 2006, the following dividends were declared to common shareholders payable November 1, 2006 to shareholders of record on October 12, 2006:

|                         |                             |
|-------------------------|-----------------------------|
| Convertible & Income    | \$0.125 per common share    |
| Convertible & Income II | \$0.115625 per common share |

### 8. Legal Proceedings

In June and September 2004, the Investment Manager, certain of its affiliates (including Allianz Global Investors Distributors LLC and PEA Capital LLC) and Allianz Global, agreed to settle, without admitting or denying the allegations, claims brought by the Securities and Exchange Commission (the "Commission"), the New Jersey Attorney General and the California Attorney General alleging violations of federal and state securities laws with respect to certain open-end funds for which the Investment Manager serves as investment adviser. Two settlements (with the Commission and New Jersey) related to an alleged "market timing" arrangement in certain open-end funds sub-advised by PEA Capital LLC.

Two settlements (with the Commission and California) related to the alleged use of cash and fund portfolio commissions to finance "shelf-space" arrangements with broker-dealers for open-end funds. The Investment Manager and its affiliates agreed to pay a total of \$68 million to settle the claims related to market timing and \$20.6 million to settle the claims related to shelf space. The settling parties also agreed to make certain corporate governance, compliance and disclosure reforms, and consented to cease and desist orders and censures. None of the settlements alleged that any inappropriate activity took place with respect to the Funds.

Since February 2004, the Investment Manager and certain of its affiliates and their employees have been named as defendants in fifteen lawsuits filed in various jurisdictions. Eleven of those lawsuits concern market timing and have been transferred to and consolidated for pre-trial proceedings in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland; the other four lawsuits concern revenue sharing and have been consolidated into a single action in the U.S. District Court for the District of Connecticut. The lawsuits generally relate to the same allegations that are the subject of the regulatory proceedings discussed above. The lawsuits seek, among other things, unspecified compensatory damages plus interest and, in some cases, punitive damages, the rescission of investment advisory contracts, the return of fees paid under those contracts, restitution, and waiver of or return of certain sales charges paid by open-end fund shareholders.

The Investment Manager and the Sub-Adviser 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.

**Nicholas-Applegate Convertible & Income Fund Financial Highlights**

For a share of common stock outstanding throughout each period

|  | Six Months<br>ended<br>August 31, 2006<br>(unaudited) | Year ended           |                      | For the Period<br>March 31, 2003*<br>through<br>February 29,<br>2004 |
|--|---|----------------------|----------------------|--|
|  |   | February 28,<br>2006 | February 28,<br>2005 |  |
| Net asset value, beginning of period   | \$ 14.69  | \$ 16.07             | \$ 16.67             | \$ 14.33**   |
| <b>Income from Investment Operations:</b>  |   |                      |                      |  |
| Net investment income  | 0.78  | 1.51                 | 1.48                 | 1.28   |
| Net realized and change in unrealized gain<br>(loss) on investments and interest rate caps               | (0.07)  | (0.48)               | 0.38                 | 2.61   |
| Total from investment operations   | 0.71  | 1.03                 | 1.86                 | 3.89   |
| <b>Dividends and Distributions on<br/>Preferred Shares from:</b>   |   |                      |                      |  |
| Net investment income  | (0.18)  | (0.25)               | (0.12)               | (0.07)   |
| Net realized gains   | □   | (0.02)               | (0.02)               | □  |
| Total dividends and distributions<br>on preferred shares   | (0.18)  | (0.27)               | (0.14)               | (0.07)   |
| Net increase in net assets applicable<br>to common shareholders resulting<br>from investment operations  | 0.53  | 0.76                 | 1.72                 | 3.82   |
| <b>Dividends and Distributions to<br/>Common Shareholders from:</b>                                      |   |                      |                      |  |
| Net investment income  | (0.75)  | (1.91)               | (1.50)               | (1.33)   |
| Net realized gains   | □   | (0.23)               | (0.82)               | (0.03)   |
| Total dividends and distributions<br>to common shareholders  | (0.75)  | (2.14)               | (2.32)               | (1.36)   |
| <b>Capital Share Transactions:</b>   |   |                      |                      |  |
| Common stock offering costs charged<br>to paid-in capital in excess of par                               | □   | □                    | □                    | (0.03)   |
| Preferred shares offering costs/underwriting<br>discounts charged to paid-in capital<br>in excess of par | □   | □                    | □                    | (0.09)   |
| Total capital share transactions   | □   | □                    | □                    | (0.12)   |
| Net asset value, end of period   | \$ 14.47  | \$ 14.69             | \$ 16.07             | \$ 16.67   |
| Market price, end of period  | \$ 16.03  | \$ 15.69             | \$ 15.82             | \$ 16.38   |
| Total Investment Return (1)  | 7.39%   | 14.30%               | 11.53%               | 18.98%   |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>   |   |                      |                      |  |
| Net assets applicable to common<br>shareholders, end of period (000)                                     | \$ 1,012,271  | \$ 1,017,779         | \$ 1,086,001         | \$ 1,101,833   |
| Ratio of expenses to average net assets (2)  | 1.27% (3)   | 1.28% (4)            | 1.24%                | 1.17% (3)  |
| Ratio of net investment income<br>to average net assets (2)  | 10.64% (3)  | 10.03%               | 9.20%                | 8.97% (3)  |
| Preferred shares asset coverage per share  | \$73,181  | \$73,442             | \$76,698             | \$77,460   |
| Portfolio turnover   | 24%   | 52%                  | 70%                  | 86%*   |

\* Commencement of operations

\*\* Initial public offering price of \$15.00 per share less underwriting discount of \$0.675 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 are assumed, for purposes of this calculation, to be reinvested at prices obtained

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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 shares and preferred shares relative to the average net assets of common shareholders.
- (3) Annualized.
- (4) Ratio of expenses, excluding excise tax expense to average net assets is 1.26%.

**See accompanying Notes to Financial Statements** | 8.31.06 | Nicholas-Applegate Convertible & Income Funds Semi-Annual

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

For a share of common stock outstanding throughout each period

|  | Six Months<br>ended<br>August 31,<br>2006<br>(unaudited) | For the Period<br>July 1, 2005<br>through<br>February 28, 2006 | Year ended<br>June 30, 2005 | For the Period<br>July 31, 2003*<br>through<br>June 30, 2004 |
|--|--|--|-----------------------------|--|
| Net asset value, beginning of period   | \$ 14.70   | \$ 14.61   | \$ 15.18                    | \$ 14.33**   |
| <b>Income from Investment Operations:</b>  |  |  |                             |  |
| Net investment income  | 0.80   | 1.04   | 1.59                        | 1.23   |
| Net realized and change in unrealized gain<br>(loss) on investments and interest rate caps               | (0.05)   | 0.58   | (0.39)                      | 1.10   |
| Total from investment operations   | 0.75   | 1.62   | 1.20                        | 2.33   |
| <b>Dividends and Distributions on Preferred Shares from:</b>   |  |  |                             |  |
| Net investment income  | (0.21)   | (0.17)   | (0.21)                      | (0.08)   |
| Net realized gains   | □  | (0.05)   | (0.00)□□                    | □  |
| Total dividends and distributions<br>on preferred shares   | (0.21)   | (0.22)   | (0.21)                      | (0.08)   |
| Net increase in net assets applicable<br>to common shareholders resulting<br>from investment operations  | 0.54   | 1.40   | 0.99                        | 2.25   |
| <b>Dividends and Distributions to Common Shareholders from:</b>  |  |  |                             |  |
| Net investment income  | (0.69)   | (1.05)   | (1.42)                      | (1.24)   |
| Net realized gains   | □  | (0.26)   | (0.14)                      | (0.03)   |
| Total dividends and distributions to<br>common shareholders  | (0.69)   | (1.31)   | (1.56)                      | (1.27)   |
| <b>Capital Share Transactions:</b>   |  |  |                             |  |
| Common stock offering costs charged<br>to paid-in capital in excess of par                               | □  | □  | □                           | (0.03)   |
| Preferred shares offering costs/underwriting<br>discounts charged to paid-in capital<br>in excess of par | □  | □  | □                           | (0.10)   |
| Total capital share transactions   | □  | □  | □                           | (0.13)   |
| Net asset value, end of period   | \$ 14.55   | \$ 14.70   | \$ 14.61                    | \$ 15.18   |
| Market price, end of period  | \$ 15.52   | \$ 15.14   | \$ 14.74                    | \$ 14.05   |
| <b>Total Investment Return (1)</b>   | 7.43%  | 12.10%   | 16.44%                      | 1.88%  |
| <b>RATIOS/SUPPLEMENTAL DATA:</b>   |  |  |                             |  |
| Net assets applicable to common<br>shareholders, end of period (000)                                     | \$ 848,605   | \$ 850,769   | \$ 834,909                  | \$ 855,783   |
| Ratio of expenses to average net assets (2)  | 1.35% (3)  | 1.37% (3)(4)   | 1.35%                       | 1.23% (3)  |
| Ratio of net investment income<br>to average net assets (2)  | 10.89% (3)   | 10.57% (3)   | 9.79%                       | 8.87% (3)  |
| Preferred shares asset coverage per share  | \$66,991   | \$67,096   | \$66,319                    | \$67,359   |
| Portfolio turnover   | 24%  | 33%  | 67%                         | 73%  |

\* 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.

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- (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. 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 shares and preferred shares relative to the average net assets of common shareholders.
- (3) Annualized.
- (4) Ratio of expenses, excluding excise tax expense to average net assets is 1.35%.

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**Nicholas-Applegate Convertible & Income Fund**      **Matters Relating to the Trustees  
Consideration of the Investment  
Management and Portfolio  
Management Agreements**  
(unaudited)

The Investment Company Act of 1940 requires that both the full Board of Trustees (the "Trustees") and a majority of the non-interested ("Independent") Trustees, voting separately, approve the Funds' Management Agreements (the "Management Agreements") with the Investment Manager and Portfolio Management Agreements (the "Sub-Advisory Agreements"), and together with the Advisory Agreements, (the "Agreements") between the Investment Manager and the Sub-Adviser. The Trustees met on June 20 and 21, 2006 (the "Contract Review Meeting") for the specific purpose of considering whether to approve the Advisory Agreements and the Sub-Advisory Agreements. The Independent Trustees were assisted in their evaluation of the Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately from Fund management during the contract review meeting.

Based on their evaluation of factors that they deemed to be material, including those factors described below, the Board of Trustees, including a majority of the Independent Trustees, concluded that the Funds' Advisory Agreements and the Sub-Advisory Agreements should be approved for a one-year period commencing July 1, 2006.

In connection with their deliberations regarding the continuation of the Agreements, the Trustees, including the Independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. As described below, the Trustees considered the nature, quality, and extent of the various investment management, administrative and other services performed by the Investment Manager and the Sub-Adviser under the Agreements.

In connection with their contract review meeting, the Trustees received and relied upon materials provided by the Investment Manager which included, among other items: (i) information provided by Lipper Analytical Services Inc. ("Lipper Inc.") on the total return investment performance (based on net assets) of the Funds for various time periods and the investment performance of a group of funds with substantially similar investment classifications/objectives identified by Lipper Inc., (ii) information provided by Lipper Inc. on the Funds' management fees and other expenses and the management fees and other expenses of comparable funds identified by Lipper Inc., (iii) information regarding the investment performance and management fees of comparable portfolios of other clients of the Sub-Adviser, including institutional separate accounts and other clients, (iv) the profitability to the Investment Manager from its relationship with the Funds for the twelve months ended March 31, 2006, (v) descriptions of various functions performed by the Investment Manager and the Sub-Adviser for the Funds, such as portfolio management, compliance monitoring and portfolio trading practices, and (vi) information regarding the overall organization of the Investment Manager and the Sub-Adviser, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative and other services to the Funds.

The Trustees' conclusions as to the continuation of the Agreements were based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees' deliberations are described below, although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors.

As part of their review, the Trustees examined the Investment Manager's and the Sub-Adviser's abilities to provide high quality investment management and other services to the Funds. The Trustees considered the investment philosophy and research and decision-making processes of the Sub-Adviser; the experience of key advisory personnel of the Sub-Adviser responsible for portfolio management of the Funds; the ability of the Investment Manager and the Sub-Adviser to attract and retain capable personnel; the capability and integrity of the senior management and staff of the Investment Manager and the Sub-Adviser; and the level of skill required to manage the Funds. In addition, the Trustees reviewed the quality of the Investment Manager's and the Sub-Adviser's services with respect to regulatory compliance and compliance with the investment policies of the Funds; the nature and quality of certain administrative services the Investment Manager is responsible for providing to the Funds; and conditions that might affect the Investment Manager's or the Sub-Adviser's ability to provide high quality services to the Funds in the future under the Agreements, including each organization's respective business reputation, financial condition and operational stability. Based on the foregoing, the Trustees concluded that the Sub-Adviser's investment process, research capabilities and philosophy were well suited to the Funds given their investment objectives and policies, and that the Investment Manager and the Sub-Adviser would be able to continue to meet any reasonably foreseeable obligations under the Agreements.



**Nicholas-Applegate Convertible & Income Fund**   **Matters Relating to the Trustees  
Consideration of the Investment  
Management and Portfolio  
Management Agreements**  
(unaudited) (continued)

Based on information provided by Lipper Inc., the Trustees also reviewed each Fund's total return investment performance as well as the performance of comparable funds identified by Lipper Inc. In the course of their deliberations, the Trustees took into account information provided by the Investment Manager in connection with the contract review meeting, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding each Fund's performance.

In assessing the reasonableness of each Fund's fees under the Agreements, the Trustees considered, among other information, each Fund's management fee and the total expense ratio as a percentage of average net assets attributable to common shares and the management fee and total expense ratios of comparable funds identified by Lipper Inc.

For each of the Funds, the Trustees specifically took note of how each Fund compared to its Lipper Inc. peers as to performance and other expenses. The Trustees noted that while the Funds are not charged a separate administration fee, it was not clear whether the peer funds in the Lipper Inc. categories were charged such a fee by their investment managers. Thus, the Trustees, at the recommendation of the Investment Manager, considered the total expenses of the Funds compared to the total expenses of the peer funds, recognizing that the fees for management and administrative services would be subsumed within the total expense ratio.

The Trustees noted that Nicholas-Applegate Convertible & Income Fund outperformed its peer median and average group for the one-year and three-year periods ended April 30, 2006. The Trustees also noted that Nicholas-Applegate Convertible & Income Fund's expense ratio, including the effect of preferred shares, was significantly below the average and median for its peer group and, excluding the effect of preferred shares, was slightly above the average and median for its peer group.

The Trustees noted that Nicholas-Applegate Convertible & Income Fund II outperformed its peer median and average group for the one-year period ended April 30, 2006. The Trustees also noted that the Nicholas-Applegate Convertible & Income Fund II expense ratio, including the effect of preferred shares, was significantly below the average and median for its peer group and, excluding the effect of preferred shares, was slightly above the average and median for its peer group.

After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the Agreements, that they were satisfied with the Investment Manager's and the Sub-Adviser's responses and efforts relating to investment performance and the comparative positioning of each Fund with respect to the management fee paid to the Investment Manager.

The Trustees also considered the management fees charged by the Sub-Adviser to other clients, including institutional separate accounts with investment strategies similar to those of the Funds. Regarding the institutional separate accounts, they noted that the management fees paid by the Funds are generally higher than the fees paid by other clients of the Sub-Adviser, but were advised that the administrative burden for the Investment Manager and the Sub-Adviser with respect to the Funds is also relatively higher, due in part to the more extensive regulatory regime to which the Funds are subject in comparison to institutional separate accounts. The Trustees noted that the management fees paid by the Funds are generally higher than the fees paid by the open-end funds but were advised that there are additional portfolio management challenges in managing the Funds, such as the use of leverage and meeting a regular dividend.

The Trustees also took into account that the Funds have preferred shares outstanding, which increases the amount of fees received by the Investment Manager and the Sub-Adviser under the Agreements (because the fees are calculated based on each Fund's total managed assets, including assets attributable to preferred shares and other forms of leverage outstanding). In this regard, the Trustees took into account that the Investment Manager and the Sub-Adviser have a financial incentive for the Funds to continue to have preferred shares outstanding, which may create a conflict of interest between the Investment Manager and the Sub-Adviser, on the one hand, and each Fund's common shareholders, on the other. In this regard, the Trustees considered information provided by the Investment Manager and the Sub-Adviser indicating that each Fund's use of leverage through preferred shares continues to be appropriate and in the interests of the Fund's common shareholders.

Based on a profitability analysis provided by the Investment Manager, the Trustees also considered the profitability of the Investment Manager from its relationship with each Fund and determined that such profitability was not excessive.

**Nicholas-Applegate Convertible & Income Fund**   **Matters Relating to the Trustees  
Consideration of the Investment  
Management and Portfolio  
Management Agreements**  
(unaudited) (continued)

The Trustees also took into account that, as closed-end investment companies, the Funds do not currently intend to raise additional assets, so the assets of the Funds will grow (if at all) only through the investment performance of each Fund. Therefore, the Trustees did not consider potential economies of scale as a principal factor in assessing the fee rates payable under the Agreements.

Additionally, the Trustees considered so-called "fall-out benefits" to the Investment Manager and the Sub-Adviser, such as reputational value derived from serving as Investment Manager and Sub-Adviser to the Funds.

After reviewing these and other factors described herein, the Trustees concluded, within the context of their overall conclusions regarding the Agreements, that the fees payable under the Agreements represent reasonable compensation in light of the nature and quality of the services being provided by the Investment Manager and Sub-Adviser to the Funds.

**Nicholas-Applegate Convertible & Income Fund II      Annual Shareholders Meeting Results**  
 August 31, 2006 (unaudited)

The Funds held their annual meetings of shareholders on October 2, 2006. Common/Preferred shareholders of Convertible & Income voted to re-elect Paul Belica and David C. Flattum as Class III Trustees to serve until 2009. Common/Preferred shareholders of Convertible & Income II voted to re-elect Hans W. Kertess and David C. Flattum as Class III Trustees to serve until 2009.

The resulting vote count is indicated below:

|                                    | Affirmative | Withhold Authority |
|------------------------------------|-------------|--------------------|
| <u>Convertible &amp; Income</u>    |             |                    |
| Re-election of Paul Belica         | 63,090,905  | 803,119            |
| Re-election of David C. Flattum    | 63,186,734  | 707,290            |
| <u>Convertible &amp; Income II</u> |             |                    |
| Re-election of Hans W. Kertess     | 52,440,166  | 544,670            |
| Re-election of David C. Flattum    | 52,454,764  | 530,072            |

Messrs. Robert E. Connor\*, John J. Dalessandro\*, William B. Ogden IV and R. Peter Sullivan III continue to serve as Trustees of the Funds.

\*Preferred Shares Trustee

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## Trustees and Principal Officers

Robert E. Connor  
Trustee, Chairman of the Board of Trustees  
Paul Belica  
Trustee  
John J. Dalessandro II  
Trustee  
Hans W. Kertess  
Trustee  
William B. Ogden IV  
Trustee

R. Peter Sullivan III  
Trustee  
Brian S. Shlissel  
President & Chief Executive Officer  
Lawrence G. Altadonna  
Treasurer, Principal Financial & Accounting Officer  
Thomas J. Fuccillo  
Vice President, Secretary & Chief Legal Officer  
Youse Guia  
Chief Compliance Officer

## Investment Manager

Allianz Global Investors Fund Management LLC  
1345 Avenue of the Americas  
New York, NY 10105

## Sub-Adviser

Nicholas-Applegate Capital Management LLC  
600 West Broadway, 30th Fl  
San Diego, California 92101

## Custodian & Accounting Agent

Brown Brothers Harriman & Co.  
40 Water Street  
Boston, MA 02109

## Transfer Agent, Dividend Paying Agent and Registrar

PFPC Inc.  
P.O. Box 43027  
Providence, RI 02940-3027

## Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP  
300 Madison Avenue  
New York, NY 10017

## Legal Counsel

Ropes & Gray LLP  
One International Place  
Boston, MA 02210-2624

*This report, including the financial information herein, is transmitted to the shareholders of Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Funds or any securities mentioned in this report.*

*The financial information included herein is taken from the records of the Funds without examination by an independent registered public accounting firm, who did not express an opinion hereon.*

*Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Funds may purchase shares of their common stock in the open market.*

*The Funds file their complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of their fiscal year on Form N-Q. The Funds' Form N-Q is available on the SEC's website at [www.sec.gov](http://www.sec.gov) and may be reviewed and copied at the SEC's Public Reference Room in Washington D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330.*

*On October 4, 2006, each Fund submitted a CEO annual certification to the New York Stock Exchange (NYSE) on which the Funds' principal executive officer certified that he was not aware, as of the date, of any violation by the Funds of the NYSE's Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, each Fund's principal executive and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Funds' disclosure controls and procedures and internal control over financial reporting, as applicable.*

## Edgar Filing: NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND - Form N-CSRS

*A description of the policies and procedures that the Funds have adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the twelve months ended June 30, 2006 is available (i) without charge, upon request by calling the Funds' shareholder servicing agent at (800) 331-1710; (ii) on the Funds' website at [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds); and (iii) on the Securities and Exchange Commission website at [www.sec.gov](http://www.sec.gov).*

*Information on the Funds is available at [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds) or by calling the Funds' shareholder servicing agent at (800) 331-1710.*

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ITEM 2. CODE OF ETHICS

Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT Not required in this filing  
ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

Not required in this filing

ITEM 6. SCHEDULE OF INVESTMENTS Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

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

Not required in this filing

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES

Not required in this filing

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED COMPANIES.

| <u>Period</u> | <u>Total Number of Shares Purchased</u> | <u>Average Price Paid Per Share</u> | <u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u> | <u>Maximum Number of Shares that May yet Be Purchased Under the Plans or Programs</u> |
|---------------|---|-------------------------------------|---|---|
| March 2006    | N/A                                     | 14.770                              | 80,647  | N/A   |
| April 2006    | N/A                                     | 14.810                              | 76,308  | N/A   |
| May 2006      | N/A                                     | 14.880                              | 74,791  | N/A   |
| June 2006     | N/A                                     | 14.700                              | 75,700  | N/A   |
| July 2006     | N/A                                     | 14.590                              | 74,682  | N/A   |
| August 2006   | N/A                                     | 14.659                              | 74,901  | N/A   |

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund's Board of Trustees since the Fund last provided disclosure in response to this item. The Nominating Committee Charter governing the affairs of the Nominating Committee of the Board is posted on the Allianz Global Investors website at [www.allianzinvestors/closedendfunds.com](http://www.allianzinvestors/closedendfunds.com).

## ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant's President and Chief Executive Officer and Principal Financial Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-2(c) under the Investment Company Act of 1940, as amended are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes in the registrant's internal controls or in factors that could affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

## ITEM 12. EXHIBITS

(a)(1) Exhibit 99.302 Cert. - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 99.906 Cert. - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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Signature

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.

Nicholas-Applegate Convertible & Income Fund II

By /s/ Brian S. Shlissel

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Brian S. Shlissel, President & Chief Executive Officer

Date: November 2, 2006

By /s/ Lawrence G. Altadonna

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Lawrence G. Altadonna, Treasurer, Principal Financial & Accounting Officer

Date: November 2, 2006

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 /s/ Brian S. Shlissel

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Brian S. Shlissel, President & Chief Executive Officer

Date: November 2, 2006

By /s/ Lawrence G. Altadonna

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Lawrence G. Altadonna, Treasurer, Principal Financial & Accounting Officer

Date: November 2, 2006

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