

NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND
Form N-CSR
May 08, 2007

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21284

Nicholas-Applegate Convertible & Income Fund

(Exact name of registrant as specified in charter)

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

New York 10105
(Zip code)

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

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

Date of fiscal year end: February 28, 2007

Date of reporting period: February 28, 2007

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

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

Item 1. Report to Shareholders

Nicholas-Applegate Convertible & Income Fund

Nicholas-Applegate Convertible & Income Fund II

Annual Report
February 28, 2007

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Nicholas-Applegate Convertible & Income Funds Letter to Shareholders

April 16, 2007

Dear Shareholder:

We are pleased to provide you with the annual report for Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II (collectively, the "Funds") for the fiscal year ended February 28, 2007.

The convertible market finished the twelve-month period ended February 28, 2007 on a positive note, as measured by the Merrill Lynch All-Convertible Index, increasing 11.01%. For the period, the convertible market underperformed both the Dow Jones Industrial Average and the S&P 500 Index, but outperformed the NASDAQ Composite Index. U.S. debt markets, as represented by the Lehman Brothers Aggregate Bond Index, produced positive, though modest, returns during the twelve-month period.

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

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Nicholas-Applegate Capital Management, the Funds' sub-adviser, we thank you for investing with us. We remain dedicated to serving your financial needs.

Sincerely,
Hans W. Kertess
Chairman

Brian S. Shlissel
President & Chief Executive Officer

Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 28, 2007 (unaudited)

- Nicholas-Applegate Convertible & Income Fund had a net asset value (NAV) and market price return of 13.46% and 14.60%, respectively, for the fiscal year ended February 28, 2007. Careful security selection was a key driver of the Fund performance. In the convertible portion of the portfolio, top performers were companies in the consumer discretionary and cyclical categories. In the high-yield portion of the portfolio, performance was attributable to a broad range of sectors with a brisk pace of upgrades fueling relative returns over the reporting period.
- Corporate credit markets generally delivered solid returns for the one-year period ended February 28, 2007. The convertible market finished the period on a positive note, as the Merrill Lynch All-Convertible Corporate Index increased 11.01%. During the same period, this measure of the convertible market slightly lagged the S&P 500, which returned 11.97%. The Merrill Lynch Master II Index, a gauge for the high yield market, returned 3.65%.
- Among high yield bonds, solid market performance was a result of ongoing confidence in the core fundamentals across the issuers in the market. Balance sheets have been healthy. Refinancing over the past three years has generally created lower interest-expense obligations and extended maturities. The default rate remains low and is not expected to change in the near future.
- The new issues calendar for high yield bonds has been significant; in November 2006 the tally for new issues was not only a record \$29 billion, but \$10 billion ahead of the record set in 1998.
- In the high yield portion of the portfolio, we experienced a brisk pace of upgrades in the high yield portion of the portfolio with nine positive rating actions in the fourth quarter of 2006 alone.
- In the convertible market, advancing U.S. equity and debt markets contributed to positive returns. Equities rallied through the period on healthy economic activity, solid corporate profits and the Fed's decision to stop raising interest rates. All sectors posted positive returns in 2006 as companies continued to use strengthened balance sheets to improve shareholder value.
- Investors exhibited a preference for mid- and larger-capitalized convertibles, and convertible securities oriented to total return continued to outperform yield-oriented or busted convertibles.
- Despite a pickup in new issuance of convertible securities toward the end of the period, there was negative net new growth in the convertible market as solid equity market returns and low interest rates continue to drive calls, redemptions and tenders.
- We believe that convertibles remain a compelling investment. The economy is healthy, corporate balance sheets are solid, and defaults are low. The stock market reflects investor confidence in a positive economic outlook. We expect companies to use the high cash levels on their balance sheets and future free cash flow to boost shareholder value. Share buybacks, increased dividends and merger and acquisition activity are possible uses of excess cash issuers may deploy excess cash to fund share buybacks, an increase in dividends as well as merger and acquisition activity. Other catalysts for the equity markets could include such possible events as Fed rate cuts, a cooling of inflation, an expansion of market multiple expansion and healthy corporate profits.

Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 28, 2007 (unaudited)

Total Return (1) :	Market Price	Net Asset Value (NAV)
1 year	14.60%	13.46%
3 year	13.46%	9.96%
Commencement of Operations (3/31/03) to 2/28/07	15.16%	14.27%

Common Share Market Price/NAV Performance:	Market Price/NAV:	
Commencement of Operations (3/31/03) to 2/28/07	Market Price	\$16.08
g Market Price	NAV	\$14.84
g NAV	Premium to NAV	8.36%
	Market Price Yield (2)	9.33%

(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.

(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 February 28, 2007.

Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 28, 2007 (unaudited)

- Nicholas-Applegate Convertible & Income Fund II had a net asset value ("NAV") and market price return of 13.64% and 13.99%, respectively, for the fiscal year ended February 28, 2007. Careful security selection was a key driver of the Fund performance. In the convertible portion of the portfolio, top performers were companies in the consumer discretionary and cyclical categories. In the high-yield portion of the portfolio, performance was attributable to a broad range of sectors with a brisk pace of upgrades fueling relative returns over the reporting period.
- Corporate credit markets generally delivered solid returns for the one-year period ended February 28, 2007. The convertible market finished the period on a positive note, as measured by the Merrill Lynch All-Convertible Corporate Index, increased 11.01%. During the same period, the convertible market slightly lagged the S&P 500, which returned 11.97%. The Merrill Lynch Master II Index, a gauge for the high yield market, returned 3.65%.
- Among high yield bonds, solid market performance was a result of ongoing confidence in the core fundamentals across the issuers in the market. Balance sheets have been healthy. Refinancing over the past three years has generally created lower interest-expense obligations and extended maturities. The default rate remains low and is not expected to change in the near future.
- The new issues calendar for high yield bonds has been significant; in November 2006 the tally for new issues was not only a record \$29 billion, but \$10 billion ahead of the record set in 1998.
- In the high yield portion of the portfolio, we experienced a brisk pace of upgrades in the high yield portion of the portfolio with nine positive rating actions in the fourth quarter of 2006 alone.
- In the convertible market, advancing U.S. equity and debt markets contributed to positive returns. Equities rallied through the period on healthy economic activity, solid corporate profits and the Fed's decision to stop raising interest rates. All sectors posted positive returns in 2006 as companies continued to use strengthened balance sheets to improve shareholder value.
- Investors exhibited a preference for mid- and larger-capitalized convertibles, and convertible securities oriented to total return continued to outperform yield-oriented or busted convertibles.
- Despite a pickup in new issuance of convertible securities toward the end of the period, there was negative net new growth in the convertible market as solid equity market returns and low interest rates continue to drive calls, redemptions and tenders.
- We believe that convertibles remain a compelling investment. The economy is healthy, corporate balance sheets are solid, and defaults are low. The stock market reflects investor confidence in a positive economic outlook. We expect companies to use the high cash levels on their balance sheets and future free cash flow to boost shareholder value. Share buybacks, increased dividends and merger and acquisition activity are possible uses of excess cash issuers may deploy excess cash to fund share buybacks, an increase in dividends as well as merger and acquisition activity. Other catalysts for the equity markets could include such possible events as from Fed rate cuts, a cooling of inflation, an expansion of market multiple expansion and healthy corporate profits.

Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 28, 2007 (unaudited)

Total Return (1) :	Market Price	Net Asset Value (NAV)
1 year	13.99%	13.64%
3 year	11.81%	10.32%
Commencement of Operations (7/31/03) to 2/28/07	12.32%	12.74%

Common Share Market Price/NAV Performance:	Market Price/NAV:	
Commencement of Operations (7/31/03) to 2/28/07	Market Price	\$15.42
g Market Price	NAV	\$14.91
g NAV	Premium to NAV	3.42%
	Market Price Yield (2)	9.00%

(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 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.

(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 February 28, 2007.

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
CORPORATE BONDS & NOTES 40.5%			
Advertising 0.7%			
\$ 10,700	Affinion Group, Inc., 11.50%, 10/15/15	Caa1/B-	\$ 11,609,500
Apparel 1.0%			
2,000	Levi Strauss & Co., 9.75%, 1/15/15	B2/B	2,210,000
12,990	12.25%, 12/15/12	B2/B	14,337,713
			16,547,713
Automotive 1.7%			
5,395	Exide Technologies, 10.50%, 3/15/13	Caa1/CC	5,462,438
10,180	General Motors Corp., 8.375%, 7/15/33	Caa1/B-	9,441,950
10,890	Goodyear Tire & Rubber Co., 11.25%, 3/1/11	B2	12,006,225
			26,910,613
Chemicals 1.8%			
8,090	Georgia Gulf Corp., 10.75%, 10/15/16 (a)	B2/B	7,928,200
4,703	Huntsman LLC, 11.625%, 10/15/10	Ba3/BB-	5,102,755
5,115	Lyondell Chemical Co., 10.875%, 5/1/09	B2/B	5,178,938
5,435	1.125%, 7/15/12	Ba2/BB	5,815,450
5,125	PolyOne Corp., 10.625%, 5/15/10	B2/B+	5,426,094
			29,451,437
Coal 0.4%			
7,090	James River Coal Co., 9.375%, 6/1/12	Caa3/CCC-	6,097,400
Commercial Services 2.0%			
11,785	Cenveo Corp., 7.875%, 12/1/13	B3/B-	11,578,762
9,715	Hertz Corp., 10.50%, 1/1/16	B2/B	11,075,100
9,250	Vertrue, Inc., 9.25%, 4/1/14	Ba3/B	9,943,750
			32,597,612
Computers 0.5%			
8,515	Unisys Corp., 8.00%, 10/15/12	B2/B+	8,600,150
Electric 2.6%			
13,025	AES Corp., 9.50%, 6/1/09	B1/B	13,839,062
12,750	Mission Energy Holdings Co., 13.50%, 7/15/08	B2/B	13,913,438
12,630	PSEG Energy Holdings LLC, 10.00%, 10/1/09	Ba3/BB-	13,782,488
			41,534,988
Electronics 1.3%			
8,375	IMAX Corp., 9.625%, 12/1/10	Caa1/B-	8,008,594
12,170	Stoneridge, Inc., 11.50%, 5/1/12	B2/B	12,915,412
			20,924,006
Financial Services 3.0%			
11,080	Alamosa Delaware, Inc., 11.00%, 7/31/10	Baa3/BBB	11,883,776
8,185	AMR Holdings Co., 10.00%, 2/15/15	B3/B-	9,044,425
10,795	Ford Motor Credit Co., 7.00%, 10/1/13	B1/B	10,355,568

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3,655	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	3,919,987
11,865	Sally Holdings LLC, 10.50%, 11/15/16 (a)	Caa1/CCC+	12,280,275
			47,484,031

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
	Food Products 0.8%		
\$ 12,805	Pilgrim's Pride Corp., 9.625%, 9/15/11	B1/B	\$ 13,413,237
	Healthcare 1.0%		
7,275	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B-	7,074,938
8,475	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa2/CCC+	9,068,250
			16,143,188
	Home Builders 0.8%		
12,160	William Lyon Homes, Inc., 10.75%, 4/1/13	B3/B	12,129,600
	Home Furnishings 0.7%		
11,370	Central Garden & Pet Co., 9.125%, 2/1/13	B2/B	11,824,800
	Machinery 0.9%		
12,940	Case New Holland, Inc., 9.25%, 8/1/11	Ba3/BB	13,651,700
	Manufacturing 0.5%		
6,875	Clarke American Corp., 11.75%, 12/15/13	B3/B-	7,906,250
	Metals & Mining 2.4%		
7,710	AK Steel Corp., 7.875%, 2/15/09	B2/B+	7,690,725
11,665	Freeport-McMoRan Copper & Gold, Inc., 10.125%, 2/1/10	Ba2/BB+	12,160,763
8,310	PNA Group, Inc., 10.75%, 9/1/16 (a)	B3/B-	8,933,250
8,090	RathGibson, Inc., 11.25%, 2/15/14	B3/B-	8,656,300
			37,441,038
	Miscellaneous 0.6%		
9,477	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b)	NR/NR	10,235,161
	Multi-Media 2.1%		
12,870	CCH I LLC, 11.00%, 10/1/15	Caa2/CCC-	13,449,150
8,190	Lodgenet Entertainment Corp., 9.50%, 6/15/13	B3/B-	8,783,775
10,835	Sirius Satellite Radio, Inc., 9.625%, 8/1/13	Caa1/CCC	10,997,525
			33,230,450
	Office Furnishings 0.8%		
	Interface, Inc.,		
5,375	9.50%, 2/1/14	B3/CCC+	5,791,562
6,490	10.375%, 2/1/10	B1/B	7,187,675
			12,979,237
	Packaging & Containers 0.7%		
10,785	Smurfit-Stone Container Enterprises, Inc., 9.75%, 2/1/11	B3/CCC+	11,148,994
	Paper Products 1.3%		
5,096	Buckeye Technologies, Inc., 9.25%, 9/15/08	Caa1/B	5,096,000
1,785	Neenah Paper, Inc., 7.375%, 11/15/14	B2/B+	1,731,450
12,945	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	14,110,050
			20,937,500
	Pharmaceuticals 0.5%		
7,180	Leiner Health Products, Inc., 11.00%, 6/1/12	Caa1/CCC	7,610,800
	Pipelines 0.9%		
13,330	Sonat, Inc., 7.625%, 7/15/11	Ba3/B	14,263,100

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
Retail 4.7%			
\$ 14,420	Bon-Ton Stores, Inc., 10.25%, 3/15/14	B3/B-	\$ 15,285,200
5,420	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa1/CCC+	6,016,200
9,705	Michaels Stores, Inc., 10.00%, 11/1/14 (a)	B2/CCC	10,384,350
6,290	Mothers Work, Inc., 11.25%, 8/1/10	B3/B	6,604,500
9,710	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B-	10,875,200
10,000	R.H. Donnelley, Inc., 10.875%, 12/15/12	B2/B	10,850,000
2,700	Rite Aid Corp., 8.625%, 3/1/15	Caa2/B-	2,625,750
10,900	Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B	Caa3/CCC	11,608,500
			74,249,700
Semi-Conductors 0.8%			
12,405	Freescale Semiconductor, Inc., 10.125%, 12/15/16 (a)	B2/B	12,699,619
Telecommunications 5.0%			
8,475	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B	B3/CCC+	9,513,187
12,400	Intelsat Bermuda Ltd, 11.25%, 6/15/16 (a)	Caa1/B	14,043,000
12,805	Level 3 Financing, Inc., 12.25%, 3/15/13	B3/CCC+	14,949,837
13,800	Millicom International Cellular S.A., 10.00%, 12/1/13	B2/B-	15,145,500
12,680	Nortel Networks Ltd, 10.75%, 7/15/16 (a)	B3/B-	14,138,200
11,100	West Corp., 11.00%, 10/15/16 (a)	Caa1/B-	12,015,750
			79,805,474
Travel Services 1.0%			
14,560	TDS Investor Corp., 11.875%, 9/1/16 (a)	Caa1/B-	16,125,200
	Total Corporate Bonds & Notes (cost-\$617,779,232)		647,552,498
CONVERTIBLE PREFERRED STOCK 35.9%			
Shares (000)			
Agriculture 1.2%			
165	Bunge Ltd, 4.875%, 12/31/49	Ba1	18,571,863
Automotive 2.9%			
511	Ford Motor Co., Capital Trust II, 6.50%, 1/15/32	Caa2/CCC-	18,849,368
785	General Motors Corp., 5.25%, 3/6/32, Ser. B	Caa1/B-	16,665,550
450	6.25%, 7/15/33	Caa1/B-	10,458,000
			45,972,918
Banking 1.0%			
289	Washington Mutual Capital Trust, 5.375%, 5/1/41, Ser. UNIT	A3	16,106,639
Commercial Services 0.9%			
305	United Rentals, Inc., 6.50%, 8/1/28	B3	15,011,991
Electric 4.7%			
445	AES Trust III, 6.75%, 10/15/29	B3	21,629,430
342	Entergy Corp., 7.625%, 2/17/09	NR/BBB	21,124,544

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110 NRG Energy, Inc., 5.75%, 3/16/09

B2

33,377,719

76,131,693

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Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

Shares (000)		Credit Rating (Moody's/S&P)*	Value
Financial Services [13.7%			
560	Citigroup Funding, Inc., 4.583%, 9/27/08, Ser. GNW (c)	Aa1 /AA	\$ 18,586,400
585	E*Trade Financial Corp., 6.125%, 11/18/08	Ba3 /NR	17,623,125
	Goldman Sachs Group, Inc.,		
684	12.00%, 12/12/07, Ser. CSCO (Cisco Systems, Inc.) (d)	NR/NR	17,442,807
794	20.00%, 12/31/07 (Time Warner, Inc.) (d)	NR/NR	15,832,791
450	20.00%, 3/6/08 (EchoStar Communications Corp.) (d)	Aa3 /NR	18,447,480
325	Lazard Ltd, 6.625%, 5/15/08	Ba1 /NR	14,528,272
	Lehman Brothers Holdings, Inc.,		
610	6.25%, 10/15/07, Ser. GIS (General Mills, Inc.) (d)	A1 /A+	16,628,600
261	20.00%, 8/15/07, Ser. UTX (United Technologies Corp.) (d)	A1 /A+	15,394,857
434	20.00%, 2/24/08 (Hewlett-Packard Co.) (d)	A1 /A+	17,566,470
	Morgan Stanley,		
540	20.00%, 6/2/07 (The Walt Disney Co.) (d)	Aa3 /A+	15,792,300
243	20.00%, 12/15/07 (Exxon Mobil Corp.) (d)	Aa3 /A+	16,915,779
517	20.00%, 1/31/08 (AT&T, Inc.) (d)	Aa3 /A+	18,511,026
36	20.00%, 3/8/08 (Google, Inc.) (d)	NR/NR	16,316,478
			219,586,385
Insurance [5.0%			
425	Genworth Financial, Inc., 6.00%, 5/16/07	A2 /A	16,018,250
614	Metlife, Inc., 6.375%, 8/15/08	NR/BBB+	19,623,186
687	Platinum Underwriters Holdings Ltd, 6.00%, 2/15/09, Ser. A	NR/BB+	21,297,000
967	XL Capital Ltd, 6.50%, 5/15/07	A3 /A-	22,674,090
			79,612,526
Oil & Gas [1.3%			
203	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	21,758,450
Pharmaceuticals [1.1%			
306	Schering-Plough Corp., 6.00%, 9/14/07	Baa3/BBB	17,016,426
Real Estate [1.1%			
677	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A, REIT	B2 /B-	17,173,800
Retail [0.7%			
7	Blockbuster, Inc., 7.50%, 12/31/49	NR/NR	10,937,500
Telecommunications [1.2%			
330	Crown Castle International Corp., 6.25%, 8/15/12	NR/NR	18,892,500
Waste Disposal [1.1%			
51	Allied Waste Industries, Inc., 6.25%, 3/1/08, Ser. D	B3 /B	17,250,675
	Total Convertible Preferred Stock (cost-\$557,112,738)		574,023,366

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
CONVERTIBLE BONDS & NOTES 16.3%			
Banking 1.0%			
\$ 16,000	UBS AG Jersey Branch, 22.00%, 8/15/07 (a)	NR/NR	\$ 15,720,000
Commercial Services 3.0%			
9,100	Bowne & Co., Inc., 5.00%, 10/1/33	B2 /B-	9,586,850
13,440	Memberworks, Inc., 5.50%, 10/1/10	NR/B-	17,337,600
20,614	Quebecor World USA, Inc., 6.00%, 10/1/07	Caa1/B-	20,510,930
			47,435,380
Computers 1.1%			
16,400	Maxtor Corp., 6.80%, 4/30/10	Ba1 /NR	18,532,000
Electric 1.3%			
6,075	PG&E Corp., 9.50%, 6/30/10	NR/NR	20,366,438
Oil & Gas 1.2%			
14,100	Devon Energy Corp., 4.95%, 8/15/08	Baa2/BBB	18,594,375
Retail 1.3%			
21,008	Sonic Automotive, Inc., 5.25%, 5/7/09	B2 /B	20,692,880
Semi-Conductors 1.0%			
4,363	Amkor Technology, Inc., 5.00%, 3/15/07, Ser. AMKR	NR/CCC	4,379,361
12,250	Fairchild Semiconductor Corp., 5.00%, 11/1/08	NR/B	12,173,438
			16,552,799
Telecommunications 6.4%			
15,900	CenturyTel, Inc., 4.75%, 8/1/32	Baa2/BBB	18,287,385
3,200	Ciena Corp., 3.75%, 2/1/08	B2 /B	3,144,000
20,550	Level 3 Communications, Inc., 6.00%, 3/15/10	Caa3/CCC	19,650,937
24,600	Lucent Technologies, Inc., 8.00%, 8/1/31	B2 /B	24,846,000
20,500	Nextel Communications, Inc., 5.25%, 1/15/10	Baa3/BBB	20,448,750
16,845	Nortel Networks Corp., 4.25%, 9/1/08	B3 /B-	16,529,156
			102,906,228
	Total Convertible Bonds & Notes (cost-\$250,772,731)		260,800,100
U.S. GOVERNMENT SECURITIES 3.3%			
	United States Treasury Notes,		
33,890	10.375%, 11/15/12		35,127,798
16,275	12.00%, 8/15/13		17,939,379
	Total U.S. Government Securities (cost-\$56,233,703)		53,067,177
SHORT-TERM INVESTMENTS 4.0%			
Corporate Bonds & Notes 0.7%			
Hotels/Gaming 0.7%			
10,500	Mandalay Resort Group, Inc., 10.25%, 8/1/07, Ser. B (cost-\$10,640,779)	B1 /B+	10,683,750
Time Deposit 3.3%			

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53,419	Bank of America □ London, 4.64%, 3/1/07 (cost-\$53,418,533)	53,418,533
	Total Short-Term Investments (cost-\$64,059,312)	64,102,283
	Total Investments (cost-\$1,545,957,716) □ 100.0%	\$ 1,599,545,424

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
CORPORATE BONDS & NOTES 39.2%			
Advertising 0.7%			
\$ 9,150	Affinion Group, Inc., 11.50%, 10/15/15	Caa1/B-	\$ 9,927,750
Apparel 1.0%			
2,000	Levi Strauss & Co., 9.75%, 1/15/15	B2/B	2,210,000
11,010	12.25%, 12/15/12	B2/B	12,152,288
			14,362,288
Automotive 1.6%			
4,605	Exide Technologies, 10.50%, 3/15/13	Caa1/CC	4,662,563
8,735	General Motors Corp., 8.375%, 7/15/33	Caa1/B-	8,101,713
9,260	Goodyear Tire & Rubber Co., 11.25%, 3/1/11	B2/B-	10,209,150
			22,973,426
Chemicals 1.8%			
6,910	Georgia Gulf Corp., 10.75%, 10/15/16 (a)	B2/B	6,771,800
3,998	Huntsman LLC, 11.625%, 10/15/10	Ba3/BB-	4,337,830
4,315	Lyondell Chemical Co., 10.875%, 5/1/09	B2/B	4,368,937
4,565	11.125%, 7/15/12	Ba2/BB	4,884,550
4,765	PolyOne Corp., 10.625%, 5/15/10	B2/B+	5,044,944
			25,408,061
Coal 0.4%			
6,270	James River Coal Co., 9.375%, 6/1/12	Caa3/CCC-	5,392,200
Commercial Services 2.0%			
10,090	Cenveo Corp., 7.875%, 12/1/13	B3/B-	9,913,425
8,285	Hertz Corp., 10.50%, 1/1/16 (a)	B2/B	9,444,900
8,280	Vertrue, Inc., 9.25%, 4/1/14	Ba3/B	8,901,000
			28,259,325
Computers 0.5%			
7,235	Unisys Corp., 8.00%, 10/15/12	B2/B+	7,307,350
Electric 2.4%			
10,645	AES Corp., 9.50%, 6/1/09	B1/B	11,310,312
10,250	Mission Energy Holdings Co., 13.50%, 7/15/08	B2/B	11,185,313
10,570	PSEG Energy Holdings LLC, 10.00%, 10/1/09	Ba3/BB-	11,534,512
			34,030,137
Electronics 1.3%			
7,505	IMAX Corp., 9.625%, 12/1/10	Caa1/B-	7,176,656
10,335	Stoneridge, Inc., 11.50%, 5/1/12	B2/B	10,968,019
			18,144,675
Financial Services 2.8%			
9,400	Alamosa Delaware, Inc., 11.00%, 7/31/10	Baa3/BBB	10,081,904
6,295	AMR Holdings Co., 10.00%, 2/15/15	B3/B-	6,955,975
9,205	Ford Motor Credit Co., 7.00%, 10/1/13	B1/B	8,830,292

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3,223	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	3,456,667
10,135	Sally Holdings LLC, 10.50%, 11/15/16 (a)	Caa1/CCC+	10,489,725
			39,814,563

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
	Food Products 0.8%		
\$ 10,815	Pilgrim's Pride Corp., 9.625%, 9/15/11	B1/B	\$ 11,328,713
	Healthcare 1.0%		
6,325	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B-	6,151,062
7,525	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa2/CCC+	8,051,750
			14,202,812
	Home Builders 0.7%		
10,260	William Lyon Homes, Inc., 10.75%, 4/1/13	B3/B	10,234,350
	Home Furnishings 0.7%		
9,670	Central Garden & Pet Co., 9.125%, 2/1/13	B2/B	10,056,800
	Machinery 0.8%		
10,730	Case New Holland, Inc., 9.25%, 8/1/11	Ba3/BB	11,320,150
	Manufacturing 0.5%		
5,825	Clarke American Corp., 11.75%, 12/15/13	B3/B-	6,698,750
	Metals & Mining 2.3%		
6,490	AK Steel Corp., 7.875%, 2/15/09	B2/B+	6,473,775
9,835	Freeport-McMoRan Copper & Gold, Inc., 10.125%, 2/1/10	Ba2/BB+	10,252,988
7,090	PNA Group, Inc., 10.75%, 9/1/16 (a)	B3/B-	7,621,750
6,910	RathGibson, Inc., 11.25%, 2/15/14	B3/B-	7,393,700
			31,742,213
	Miscellaneous 0.5%		
6,723	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b)	NR/NR	7,260,839
	Multi-Media 2.1%		
12,291	CCH I LLC, 11.00%, 10/1/15	Caa2/CCC-	12,844,095
6,985	Lodgenet Entertainment Corp., 9.50%, 6/15/13	B3/B-	7,491,412
9,165	Sirius Satellite Radio, Inc., 9.625%, 8/1/13	Caa1/CCC	9,302,475
			29,637,982
	Office Furnishings 0.8%		
	Interface, Inc.,		
4,625	9.50%, 2/1/14	B3/CCC+	4,983,438
5,625	10.375%, 2/1/10	B1/B	6,229,688
			11,213,126
	Packaging & Containers 0.7%		
9,215	Smurfit-Stone Container Enterprises, Inc., 9.75%, 2/1/11	B3/CCC+	9,526,006
	Paper Products 1.1%		
4,013	Buckeye Technologies, Inc., 9.25%, 9/15/08	Caa1/B	4,013,000
11,055	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	12,049,950
			16,062,950
	Pharmaceuticals 0.5%		
6,085	Leiner Health Products, Inc., 11.00%, 6/1/12	Caa1/CCC	6,450,100
	Pipelines 0.9%		
12,240	Sonat, Inc., 7.625%, 7/15/11	Ba3/B	13,096,800

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody/S&P)*	Value
Retail 4.6%			
\$ 12,160	Bon-Ton Stores, Inc., 10.25%, 3/15/14	B3/B-	\$ 12,889,600
4,580	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa1/CCC+	5,083,800
8,295	Michaels Stores, Inc., 10.00%, 11/1/14 (a)	B2/CCC	8,875,650
5,221	Mothers Work, Inc., 11.25%, 8/1/10	B3/B	5,482,050
8,290	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B-	9,284,800
10,000	R.H. Donnelley, Inc., 10.875%, 12/15/12	B2/B	10,850,000
2,300	Rite Aid Corp., 8.625%, 3/1/15	Caa2/B-	2,236,750
9,190	Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B	Caa3/CCC	9,787,350
			64,490,000
Semi-Conductors 0.8%			
10,595	Freescale Semiconductor, Inc., 10.125%, 12/15/16 (a)	B2/B	10,846,631
Telecommunications 4.9%			
7,225	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B	B3/CCC+	8,110,063
10,600	Intelsat Bermuda Ltd, 11.25%, 6/15/16 (a)	Caa1/B	12,004,500
10,948	Level 3 Financing, Inc., 12.25%, 3/15/13	B3/CCC+	12,781,790
12,350	Millicom International Cellular S.A., 10.00%, 12/1/13	B2/B-	13,554,125
10,820	Nortel Networks Ltd, 10.75%, 7/15/16 (a)	B3/B-	12,064,300
9,475	West Corp., 11.00%, 10/15/16 (a)	Caa1/B-	10,256,687
			68,771,465
Travel Services 1.0%			
12,440	TDS Investor Corp., 11.875%, 9/1/16 (a)	Caa1/B-	13,777,300
	Total Corporate Bonds & Notes (cost-\$529,533,786)		552,336,762
CONVERTIBLE PREFERRED STOCK 35.3%			
Shares			
(000)			
Agriculture 1.2%			
148	Bunge Ltd, 4.875%, 12/31/49	Ba1/BB	16,679,763
Automotive 2.3%			
483	Ford Motor Co., Capital Trust II, 6.50%, 1/15/32	Caa2/CCC-	17,809,352
680	General Motors Corp., 5.25%, 3/6/32, Ser. B	Caa1/B-	14,436,400
			32,245,752
Banking 1.0%			
263	Washington Mutual Capital Trust, 5.375%, 5/3/41, Ser. UNIT	A3/BBB	14,629,125
Commercial Services 1.0%			
287	United Rentals, Inc., 6.50%, 8/1/28	B3/B-	14,126,033
Electric 3.7%			
350	AES Trust III, 6.75%, 10/15/29	B3/B	16,992,990
278	Entergy Corp., 7.625%, 2/17/09	NR/BBB	17,191,520
58	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	17,639,250
			51,823,760

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2007

Shares (000)		Credit Rating (Moody's/S&P)*	Value
Financial Services [14.2%			
490	Citigroup Funding, Inc., 4.583%, 9/27/08, Ser. GNW (c)	Aa1/AA	\$ 16,263,100
522	E*Trade Financial Corp., 6.125%, 11/18/08	Ba3/NR	15,738,806
	Goldman Sachs Group, Inc.,		
616	12.00%, 12/12/07, Ser. CSCO (Cisco Systems, Inc.) (d)	NR/NR	15,690,624
716	20.00%, 12/31/07 (Time Warner, Inc.) (d)	NR/NR	14,275,859
404	20.00%, 3/6/08 (EchoStar Communications Corp.) (d)	Aa3/NR	16,578,313
292	Lazard Ltd, 6.625%, 5/15/08	Ba1/NR	13,058,418
	Lehman Brothers Holdings, Inc.,		
650	6.25%, 10/15/07, Ser. GIS (General Mills, Inc.) (d)	A1/A+	17,719,000
235	20.00%, 8/15/07, Ser. UTX (United Technologies Corp.) (d)	A1/A+	13,865,603
390	20.00%, 2/24/08 (Hewlett-Packard Co.) (d)	A1/A+	15,789,938
	Morgan Stanley,		
492	20.00%, 6/2/07 (The Walt Disney) (d)	Aa3/A+	14,391,464
219	20.00%, 12/15/07 (Exxon Mobil Corp.) (d)	Aa3/A+	15,230,283
465	20.00%, 1/31/08 (AT&T, Inc.) (d)	Aa3/A+	16,651,118
32	20.00%, 3/8/08 (Google, Inc.) (d)	NR/NR	14,644,152
			199,896,678
Insurance [5.4%			
508	Genworth Financial, Inc., 6.00%, 5/16/07	A2/A	19,127,675
526	Metlife, Inc., 6.375%, 8/15/08	NR/BBB+	16,800,235
598	Platinum Underwriters Holdings Ltd, 6.00%, 2/15/09, Ser. A	NR/BB+	18,538,000
897	XL Capital Ltd, 6.50%, 5/15/07	A3/A-	21,031,890
			75,497,800
Oil & Gas [1.0%			
138	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	14,744,600
Pharmaceuticals [1.2%			
304	Schering-Plough Corp., 6.00%, 9/14/07	Baa3/BBB	16,945,948
Real Estate [1.1%			
606	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A, REIT	B2/B-	15,364,563
Retail [0.7%			
7	Blockbuster, Inc., 7.50%, 12/31/49	NR/NR	10,546,875
Telecommunications [1.3%			
310	Crown Castle International Corp., 6.25%, 8/15/12	NR/NR	17,747,500
Waste Disposal [1.2%			
51	Allied Waste Industries, Inc., 6.25%, 3/1/08, Ser. D	B3/B	17,182,625
	Total Convertible Preferred Stock (cost-\$482,455,707)		497,431,022

Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2007

Principal Amount (000)		Credit Rating (Moody's/S&P)*	Value
CONVERTIBLE BONDS & NOTES 18.0%			
Banking 1.2%			
\$ 18,000	UBS AG Jersey Branch, 22.00%, 8/15/07	(a) NR/NR	\$ 17,685,000
Commercial Services 3.0%			
10,125	Bowne & Co., Inc., 5.00%, 10/1/33	B2/B-	10,666,688
11,000	Memberworks, Inc., 5.50%, 10/1/10	NR/B-	14,190,000
17,985	Quebecor World USA, Inc., 6.00%, 10/1/07	Caa1/B-	17,895,075
			42,751,763
Computers 1.2%			
14,400	Maxtor Corp., 6.80%, 4/30/10	Ba1/NR	16,272,000
Electric 1.3%			
5,425	PG&E Corp., 9.50%, 6/30/10	NR/NR	18,187,312
Oil & Gas 1.2%			
12,500	Devon Energy Corp., 4.95%, 8/15/08	Baa2/BBB	16,484,375
Retail 1.3%			
18,535	Sonic Automotive, Inc., 5.25%, 5/7/09	B2/B	18,256,975
Semi-Conductors 1.9%			
14,300	Amkor Technology, Inc., 5.00%, 3/15/07, Ser. AMKR	NR/CCC	14,353,625
12,250	Fairchild Semiconductor Corp., 5.00%, 11/1/08	NR/B	12,173,437
			26,527,062
Telecommunications 6.9%			
16,600	CenturyTel, Inc., 4.75%, 8/1/32	Baa2/BBB	19,092,490
2,800	Ciena Corp., 3.75%, 2/1/08	B2/B	2,751,000
20,000	Level 3 Communications, Inc., 6.00%, 3/15/10	Caa3/CCC	19,125,000
21,800	Lucent Technologies, Inc., 8.00%, 8/1/31	B2/B	22,018,000
18,500	Nextel Communications, Inc., 5.25%, 1/15/10	Baa3/BBB	18,453,750
15,440	Nortel Networks Corp., 4.25%, 9/1/08	B3/B-	15,150,500
			96,590,740
	Total Convertible Bonds & Notes (cost-\$245,027,678)		252,755,227
U.S. GOVERNMENT SECURITIES 3.2%			
	United States Treasury Notes,		
28,960	10.375%, 11/15/12		30,017,735
13,725	12.00%, 8/15/13		15,128,601
	Total U.S. Government Securities (cost-\$47,830,703)		45,146,336
SHORT-TERM INVESTMENTS 4.3%			
Corporate Bonds & Notes 0.8%			
Hotels/Gaming 0.8%			
11,080	Mandalay Resort Group, Inc., 10.25%, 8/1/07, Ser. B (cost-\$11,224,216)	B1/B+	11,273,900
Time Deposit 3.5%			

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49,753	JP Morgan □ Grand Cayman, 4.64%, 3/1/07 (cost-\$49,753,843)	49,753,843
	Total Short-Term Investments (cost-\$60,978,059)	61,027,743
	Total Investments (cost-\$1,365,825,933) □ 100.0%	\$ 1,408,697,090

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Nicholas-Applegate Convertible & Income Fund II Schedule of Investments

February 28, 2007

Notes to Schedule of Investments

* Unaudited

(a) 144A-security - Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically 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 February 28, 2007.

(d) Securities exchangeable or convertible into securities of an entity different than the issuer. Such entity is identified in the parenthetical.

Glossary:

NR Not Rated

REIT Real Estate Investment Trust

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

February 28, 2007

	Convertible & Income	Convertible & Income II
Assets:		
Investments, at value (cost □ \$1,545,957,716 and \$1,365,825,933, respectively)	\$ 1,599,545,424	\$ 1,408,697,090
Interest and dividends receivable	22,809,652	19,932,080
Receivable for investments sold	10,441,641	9,414,934
Interest rate cap premium paid	6,580,547	6,329,859
Unrealized appreciation on interest rate caps	3,537,029	3,460,000
Prepaid expenses	79,090	76,557
Total Assets	1,642,993,383	1,447,910,520
Liabilities:		
Payable for investments purchased	57,653,193	55,870,591
Dividends payable to common and preferred shareholders	9,117,785	7,080,670
Investment management fees payable	849,332	746,567
Accrued expenses	223,586	198,853
Total Liabilities	67,843,896	63,896,681
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)	525,000,000	505,000,000
Net Assets Applicable to Common Shareholders	\$ 1,050,149,487	\$ 879,013,839
Composition of Net Assets Applicable to Common Shareholders:		
Common Stock:		
Par value (\$0.00001 per share applicable to 70,746,893 and 58,958,731 shares issued and outstanding, respectively)	\$ 707	\$ 590
Paid-in-capital in excess of par	1,011,018,020	838,368,448
Undistributed (dividends in excess of) net investment income	(1,602,715)	8,330,487
Accumulated net realized loss	(16,391,262)	(14,016,843)
Net unrealized appreciation of investments and interest rate caps	57,124,737	46,331,157
Net Assets Applicable to Common Shareholders	\$ 1,050,149,487	\$ 879,013,839
Net Asset Value Per Common Share	\$ 14.84	\$ 14.91

See accompanying Notes to Financial Statements | 2.28.07 | Nicholas-Applegate Convertible & Income Funds Annual Report

Nicholas-Applegate Convertible & Income Funds Statements of Operations

February 28, 2007

	Convertible & Income	Convertible & Income II
Investment Income:		
Interest	\$ 80,884,334	\$ 69,956,213
Dividends	46,232,631	38,692,313
Other income	1,991,409	1,805,755
Total Investment Income	129,108,374	110,454,281
Expenses:		
Investment management fees	10,825,818	9,524,115
Auction agent fees and commissions	1,338,225	1,291,816
Shareholder communications	184,545	138,440
Custodian and accounting agent fees	174,990	163,900
Audit and tax services	92,350	127,850
Trustees' fees and expenses	74,825	65,350
New York Stock Exchange listing fees	63,940	50,355
Legal fees	40,150	36,295
Insurance expense	38,314	29,860
Transfer agent fees	36,500	32,850
Investor relations	33,560	27,830
Miscellaneous	23,885	16,925
Total expenses	12,927,102	11,505,586
Net Investment Income	116,181,272	98,948,695
Realized and Change in Unrealized Gain:		
Net realized gain on:		
Investments	4,902,384	3,315,194
Interest rate caps	3,953,025	3,802,432
Net change in unrealized appreciation/depreciation of:		
Investments	31,087,661	29,748,172
Interest rate caps	(1,389,798)	(1,279,015)
Net realized and change in unrealized gain on investments and interest rate caps	38,553,272	35,586,783
Net Increase in Net Assets Resulting from Investment Operations	154,734,544	134,535,478
Dividends on Preferred Shares from:		
Net investment income	(24,125,321)	(22,519,793)
Net realized gains	(1,803,699)	(2,416,506)
Total dividends and distributions on Preferred Shares	(25,929,020)	(24,936,299)
Net Increase in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	\$ 128,805,524	\$ 109,599,179

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

	Convertible & Income		Convertible & Income II	
	Years ended February 28,		Year Ended	For the period July 1, 2005 through February 28, 2006 *
	2007	2006	2007	
Investment Operations:				
Net investment income	\$ 116,181,272	\$ 103,017,768	\$ 98,948,695	\$ 60,146,487
Net realized gain on investments and interest rate caps	8,855,409	24,039,690	7,117,626	33,513,573
Net change in unrealized appreciation/ depreciation of investments and interest rate caps	29,697,863	(55,836,067)	28,469,157	(862,905)
Net increase in net assets resulting from investment operations	154,734,544	71,221,391	134,535,478	92,797,155
Dividends and Distributions on Preferred Shares from:				
Net investment income	(24,125,321)	(17,331,721)	(22,519,793)	(10,113,694)
Net realized gains	(1,803,699)	(1,272,471)	(2,416,506)	(2,619,976)
Total dividends and distributions on preferred shares	(25,929,020)	(18,604,192)	(24,936,299)	(12,733,670)
Net increase in net assets applicable to common shareholders resulting from investment operations	128,805,524	52,617,199	109,599,179	80,063,485
Dividends and Distributions to Common Shareholders from:				
Net investment income	(105,087,315)	(130,588,596)	(82,967,363)	(60,083,257)
Net realized gains	(13,590,252)	(15,782,779)	(14,356,454)	(15,188,931)
Total dividends and distributions to common shareholders	(118,677,567)	(146,371,375)	(97,323,817)	(75,272,188)
Capital Share Transactions:				
Reinvestment of dividends and distributions	22,242,952	25,531,435	15,969,069	11,068,696
Total increase (decrease) in net assets applicable to common shareholders	32,370,909	(68,222,741)	28,244,431	15,859,993
Net Assets Applicable to Common Shareholders:				
Beginning of period	1,017,778,578	1,086,001,319	850,769,408	834,909,415
End of period (including undistributed (dividends in excess of) net investment income of \$(1,602,715), \$(2,256,453); \$(8,330,487) and \$2,759,510, respectively)	\$ 1,050,149,487	\$ 1,017,778,578	\$ 879,013,839	\$ 850,769,408
Common shares issued in reinvestment				

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of dividends and distributions	1,476,599	1,705,242	1,085,156	744,597
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* 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.

See accompanying Notes to Financial Statements | 2.28.07 | Nicholas-Applegate Convertible & Income Funds Annual Report

Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2007

1. Organization and Significant Accounting Policies

Nicholas-Applegate Convertible & Income Fund (the "Convertible & Income") and Nicholas-Applegate Convertible & Income Fund II (the "Convertible & Income II"), collectively referred to as the "Funds", were organized as Massachusetts business trusts on January 17, 2003 and April 22, 2003, respectively. In December 2005, Convertible & Income II changed its fiscal year end from June 30 to February 28. Prior to commencing operations on March 31, 2003 and July 31, 2003, respectively, the Funds had no operations other than matters relating to their organization and registration as diversified, closed-end management investment companies under the Investment Company Act of 1940 and the rules and regulations thereunder, 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. (the "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 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.

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. On December 22, 2006, the Securities & Exchange Commission announced that it would not object if a fund implements the Interpretation in its NAV calculation as late as its last NAV calculation in the first required financial statement reporting period for its fiscal year beginning after December 15, 2006. Consequently, the Funds will be required to comply with the Interpretation by August 31, 2007.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (the "SFAS") 157, Fair Value Measurements, which clarifies the definition of fair value and requires companies to expand their disclosure about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Adoption of SFAS 157 requires the use of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. At this time, the Funds are in the process of reviewing the SFAS 157 against their current valuation policies to determine future applicability.

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 using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the mean between the last quoted bid and ask price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. 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

Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2007

1. Organization and Significant Accounting Policies (continued)

(a) Valuation of Investments (continued) 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. Each Fund's net asset value is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange ("NYSE") on each day the NYSE is open for business.

(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 and amortized, respectively to interest income over the lives of the respective securities using the effective interest method. Dividend income is recorded on the ex-dividend date, except for certain Convertible Preferred Stock which record these dividends when the information becomes available.

(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.

(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.

(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 distributions 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 caps are 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

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

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Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2007

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, the Funds pay the Investment Manager an annual fee, payable monthly, at the annual rate of 0.70% of the Funds' average daily total managed assets. Total managed assets refer to the total assets of each Fund (including 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 year ended February 28, 2007, purchases and sales of investments, other than short-term securities and U.S. government obligations were:

	Convertible & Income	Convertible & Income II
Purchases	\$ 1,048,776,911	\$ 836,933,986
Sales	1,001,127,381	786,994,761
For the year ended February 28, 2007, purchases and sales of U.S. government obligations were:		
	Convertible & Income	Convertible & Income II
Purchases	\$ 24,145,684	\$ 20,634,347
Sales	5,980,669	4,913,081
(a) Interest rate cap agreements outstanding at February 28, 2007:		

Convertible & Income:

Counterparty	Notional Amount	Termination Date	Premium	Payment received by Fund	Unrealized Appreciation
UBS AG	\$525,000,000	1/15/08	\$6,580,547	1 month LIBOR-BBA over 3% strike price	\$3,537,029

Convertible & Income II:

Counterparty	Notional Amount	Termination Date	Premium	Payment received by Fund	Unrealized Appreciation
UBS AG	\$505,000,000	1/15/08	6,329,859	1 month LIBOR-BBA over 3% strike price	\$3,460,000

LIBOR □ London Interbank Offered Rate

Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2007

4. Income Tax Information

The tax character of dividends and distributions paid were:

Convertible & Income:

	Year ended February 28, 2007	Year ended February 28, 2006
Ordinary Income	\$129,212,623	\$147,920,317
Long-Term Capital Gains	\$15,393,964	\$17,055,250

At February 28, 2007, the tax character of distributable earnings of \$891,877 was comprised of ordinary income.

In accordance with U.S. Treasury regulations, the Portfolio elected to defer realized capital losses of \$65,575, arising after October 31, 2006. Such losses are treated as rising on March 1, 2007.

For the year ended February 28, 2007, permanent differences are primarily attributable to the differing treatment of premium amortization, convertible preferred securities, consent payments, an interest rate cap premium amortization and periodic payments. These adjustments were to decrease dividends in excess of net investment income and to increase accumulated realized loss by \$13,685,102.

The cost basis of portfolio securities for federal income tax purposes is \$1,562,134,836. Aggregated gross unrealized appreciation for securities in which there is an excess value over tax cost is \$64,486,912; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$27,076,324; net unrealized appreciation for federal income tax purposes is \$37,410,588. The difference between book and the tax basis unrealized appreciation is attributable to wash sales, amortization of premium and the differing treatment of convertible preferred securities.

At February 28, 2007, Convertible & Income had a capital loss carryforward of \$1,830,527, which will expire in 2015, available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

The tax character of dividends and distributions paid were:

Convertible & Income II:

	Year ended February 28, 2007	Eight Months ended February 28, 2006
Ordinary Income	\$105,487,674	\$71,532,886
Long-Term Capital Gains	\$16,772,442	\$16,472,972

At February 28, 2007, the tax character of distributable earnings of \$11,729,674 comprised of ordinary income.

For the year ended February 28, 2007, permanent differences are primarily attributable to the differing treatment of premium amortization, convertible preferred securities, consent payments, an interest rate cap premium amortization and periodic payments. These adjustments were to increase undistributed net investment income and to increase accumulated net realized loss of \$12,109,438.

The cost basis of portfolio securities for federal income tax purposes is \$1,380,893,851. Aggregated gross unrealized appreciation for securities in which there is an excess value over tax cost is \$52,389,565; aggregate gross unrealized depreciation for securities in which there is an excess of tax cost over value is \$24,586,326; net unrealized appreciation for federal income tax purposes is \$27,803,239. The difference between book and the tax basis unrealized appreciation is attributable to wash sales, amortization of premium and the differing treatment of convertible preferred securities.

At February 28, 2007, Convertible & Income II had a capital loss carryforward of \$1,751,653 which will expire in 2015, available as a reduction, to the extent provided in the regulations, of any future net realized capital gains. To the extent that these losses are used to offset future realized capital gains, such gains will not be distributed.

5. Auction Preferred Shares

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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 liquidation preference value of \$25,000 per share plus accrued dividends.

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Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2007

5. Auction Preferred Shares (continued)

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 gains, if any, are paid annually.

Convertible & Income:

For the year ended February 28, 2007, the annualized dividend rate ranged from:

	High	Low	At 2/28/07
Series A	5.32%	4.37%	5.03%
Series B	5.32%	4.37%	4.97%
Series C	5.30%	4.20%	5.03%
Series D	5.28%	4.37%	5.02%
Series E	5.32%	4.30%	5.01%

Convertible & Income II:

For the year ended February 28, 2007, the annualized dividend rate ranged from:

	High	Low	At 2/28/07
Series A	5.32%	4.30%	5.03%
Series B	5.32%	4.21%	4.97%
Series C	5.30%	4.30%	5.01%
Series D	5.30%	4.30%	5.03%
Series E	5.32%	4.37%	5.02%

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 Common Dividend Declarations

On March 1, 2007, the following dividends were declared to common shareholders payable April 2, 2007 to shareholders of record on March 12, 2007:

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

On April 2, 2007 the following dividends were declared to common shareholders payable May 1, 2007 to shareholders of record on April 12, 2007:

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

Nicholas-Applegate Convertible & Income Funds Notes to Financial Statements

February 28, 2007

7. Legal Proceedings

In June and September 2004, the Investment Manager, certain of its affiliates (including Allianz Global Investors Distributors LLC, 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. In addition to monetary payments, the settling parties agreed to undertake certain corporate governance, compliance and disclosure reforms related to market timing, brokerage commissions, revenue sharing and shelf-space arrangements, 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, the Sub-Adviser and certain of their affiliates and their employees have been named as defendants in a number of pending lawsuits concerning "market timing" and "revenue sharing/shelf-space/directed brokerage," which allege the same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits and have been consolidated in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland, and the revenue sharing/shelf-space/directed brokerage lawsuits have been consolidated in the U.S. District Court for the District of Connecticut. Any potential resolution of these matters may include, but not be limited to, judgments or settlements for damages against the Investment Manager, the Sub-Adviser or their affiliates or related injunctions.

The Investment Manager and the Sub-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:

	February 28, 2007	Year ended February 28, 2006	February 28, 2005	For the Period March 31, 2003* through February 29, 2004
Net asset value, beginning of period	\$ 14.69	\$ 16.07	\$ 16.67	\$ 14.33**
Income from Investment Operations:				
Net investment income	1.66	1.51	1.48	1.28
Net realized and change in unrealized gain (loss) on investments and interest rate caps	0.55	(0.48)	0.38	2.61
Total from investment operations	2.21	1.03	1.86	3.89
Dividends and Distributions on Preferred Shares from:				
Net investment income	(0.34)	(0.25)	(0.12)	(0.07)
Net realized gains	(0.03)	(0.02)	(0.02)	□
Total dividends and distributions on preferred shares	(0.37)	(0.27)	(0.14)	(0.07)
Net increase in net assets applicable to common shareholders resulting from investment operations	1.84	0.76	1.72	3.82
Dividends and Distributions to Common Shareholders from:				
Net investment income	(1.50)	(1.91)	(1.50)	(1.33)
Net realized gains	(0.19)	(0.23)	(0.82)	(0.03)
Total dividends and distributions to common shareholders	(1.69)	(2.14)	(2.32)	(1.36)
Capital Share Transactions:				
Common stock offering costs charged to paid-in capital in excess of par	□	□	□	(0.03)
Preferred shares offering costs/underwriting discounts charged to paid-in capital in excess of par	□	□	□	(0.09)
Total capital share transactions	□	□	□	(0.12)
Net asset value, end of period	\$ 14.84	\$ 14.69	\$ 16.07	\$ 16.67
Market price, end of period	\$ 16.08	\$ 15.69	\$ 15.82	\$ 16.38
Total Investment Return (1)	14.60%	14.30%	11.53%	18.98%
RATIOS/SUPPLEMENTAL DATA:				
Net assets applicable to common shareholders, end of period (000)	\$ 1,050,149	\$ 1,017,779	\$ 1,086,001	\$ 1,101,833
Ratio of expenses to average net assets (2)	1.27%	1.28% (4)	1.24%	1.17% (3)
Ratio of net investment income to average net assets (2)	11.37%	10.03%	9.20%	8.97% (3)
Preferred shares asset coverage per share	\$ 74,981	\$ 73,442	\$ 76,698	\$ 77,460
Portfolio turnover	67%	52%	70%	86%

* Commencement of operations

** Initial public offering price of \$15.00 per share less underwriting discount of \$0.675 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 to average net assets, excluding excise tax expense is 1.26%.

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Nicholas-Applegate Convertible & Income Funds II Financial Highlights

For a share of common stock outstanding throughout each period:

	Year ended February 28, 2007	For the Period July 1, 2005 through February 28, 2006 □	Year ended June 30, 2005	For the Period July 31, 2003* through June 30, 2004
Net asset value, beginning of period	\$ 14.70	\$ 14.61	\$ 15.18	\$ 14.33**
Income from Investment Operations:				
Net investment income	1.69	1.04	1.59	1.23
Net realized and change in unrealized gain (loss) on investments and interest rate caps	0.61	0.58	(0.39)	1.10
Total from investment operations	2.30	1.62	1.20	2.33
Dividends and Distributions on Preferred Shares from:				
Net investment income	(0.38)	(0.17)	(0.21)	(0.08)
Net realized gains	(0.04)	(0.05)	(0.00) □□	□
Total dividends and distributions on preferred shares	(0.42)	(0.22)	(0.21)	(0.08)
Net increase in net assets applicable to common shareholders resulting from investment operations	1.88	1.40	0.99	2.25
Dividends and Distributions to Common Shareholders from:				
Net investment income	(1.42)	(1.05)	(1.42)	(1.24)
Net realized gains	(0.25)	(0.26)	(0.14)	(0.03)
Total dividends and distributions to common shareholders	(1.67)	(1.31)	(1.56)	(1.27)
Capital Share Transactions:				
Common stock offering costs charged to paid-in capital in excess of par	□	□	□	(0.03)
Preferred shares offering costs/underwriting discounts charged to paid-in capital in excess of par	□	□	□	(0.10)
Total capital share transactions	□	□	□	□