

NUVEEN PREFERRED CONVERTIBLE INCOME FUND 2  
Form N-CSR  
March 09, 2005

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES

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

Nuveen Investments  
333 West Wacker Drive  
Chicago, IL 60606  
-----

(Address of principal executive offices) (Zip code)

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

(Name and address of agent for service)

Registrant's telephone number, including area code: (312) 917-7700  
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Date of fiscal year end: December 31  
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Date of reporting period: December 31, 2004  
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Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

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

ITEM 1. REPORTS TO STOCKHOLDERS.

Annual Report December 31, 2004

Nuveen Investments  
Closed-End  
Exchange-Traded  
Funds

NUVEEN PREFERRED  
AND CONVERTIBLE  
INCOME FUND  
JPC

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

NUVEEN PREFERRED  
AND CONVERTIBLE  
INCOME FUND 2  
JQC

HIGH CURRENT INCOME  
FROM A PORTFOLIO OF  
PREFERRED AND  
CONVERTIBLE SECURITIES

Logo: NUVEEN Investments

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

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and statements from your financial advisor or brokerage account.

OR

[www.nuveen.com/accountaccess](http://www.nuveen.com/accountaccess)  
if you get your Nuveen Fund dividends and statements directly from Nuveen.

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

Logo: NUVEEN Investments

Photo of: Timothy R. Schwertfeger

Timothy R. Schwertfeger  
Chairman of the Board

Chairman's  
Letter to Shareholders

I am pleased to report that for the year ended December 31, 2004, your Fund continued to provide you with attractive monthly income from a diversified portfolio of quality preferred securities, convertible securities and high-yield debt. The date of this report represents a change that aligns your Fund's fiscal year with the calendar year. We believe this change in your Fund's shareholder reporting cycle will lead to greater efficiencies and other benefits in the management and operation of your Fund.

"We continue to believe that your Fund provides a valuable source of regular monthly income, and that it also may provide an opportunity to reduce the overall risk of your entire investment portfolio."

As you'll see as you review this report, there has been no change in the objectives or management of your Fund. We continue to believe that your Fund provides a valuable source of regular monthly income, and that it also may provide an opportunity to reduce the overall risk of your entire investment portfolio. This is because the price of your Fund's shares may move differently than the prices of other investments that you may own. Your financial advisor can explain the advantages of portfolio diversification in more detail. I urge you to contact him or her soon for more information on this important investment strategy.

I also urge you to consider receiving future Fund reports and other Fund information faster by using e-mail and the Internet. Sign up is quick and easy - see the inside front cover of this report for instructions.

For more than 100 years, Nuveen has specialized in offering quality investments such as your Fund to those seeking to accumulate and preserve wealth. Our mission continues to be to assist you and your financial advisor by offering the investment solutions and services that can help you secure your long-term financial goals. We thank you for choosing us as a partner as you work toward that objective.

Sincerely,

/s/ Timothy R. Schwertfeger

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Timothy R. Schwertfeger  
Chairman of the Board

February 15, 2005

Nuveen Preferred and Convertible Income Funds (JPC, JQC)

Portfolio Managers'  
Perspective

These Funds are subadvised by a team of specialists from Spectrum Asset Management, Inc., Frolely, Revy Investment Co., Inc., and Symphony Asset Management, LLC.

Spectrum, an affiliate of Principal Capital (SM), manages the preferred securities portion of each Fund's portfolio. Mark Lieb, Bernie Sussman and Phil Jacoby, who have more than 50 years of combined experience in the preferred securities markets, lead the team.

Frolely, Revy, one of the oldest firms specializing in convertible securities, manages that portion of each Fund's portfolio. Their investment team is led by Andrea Revy O'Connell and Michael Revy, who each have more than 10 years' experience in convertible securities investing.

The Symphony team managing the high yield securities and other debt instruments in both Funds is led by Gunther Stein and Lenny Mason. Gunther and Lenny have more than 25 years of combined investment management experience, much of it in evaluating and purchasing senior corporate loans and other high-yield debt.

Here representatives from Spectrum, Frolely, Revy and Symphony talk about general economic conditions, their management strategies and the performance of both Funds for the 12-month period ended December 31, 2004.

What were the conditions in the fixed-income markets generally, and the preferred securities, convertible securities and high yield debt markets in particular, during the 12-month period December 31, 2004?

Generally, the U.S. economy presented a slowly improving picture in 2004. The Gross Domestic Product (GDP) grew at a preliminary estimate of 4.4% over the course of the full year. Inflation remained largely in check, as the Consumer Price Index rose 3.3% due primarily to increased energy costs. Corporate profits grew by an average of about 20%, and there was an increase of approximately 2 million jobs with the unemployment rate dropping to 5.4% at the end of 2004 from 5.7% at the beginning of the year. The fourth quarter stock market rally seemed to reflect a belief by some that the economic recovery had become more self-sustaining.

In the fixed-income markets, the Federal Reserve raised the fed funds rate five times between June 30 and December 14. At the close of the year, this benchmark rate stood at 2.25%, compared with 1.00% one year earlier. (On February 2, 2005, after the close of this reporting period, the Federal Reserve raised the fed funds rate by another 0.25% to 2.50%.) At the same time, rates remained essentially unchanged at the long end of the yield curve, with the yield on 10-year U.S. Treasuries standing at 4.22% on December 31, 2004, compared with 4.26% at the beginning of the year.

Despite this significant flattening of the yield curve, longer duration investments such as preferred securities continued to enjoy generally wide yield spreads over money market funds and other short-term instruments. The Merrill Lynch Preferred Stock Hybrid Securities Index returned 5.51% during 2004, one reason why individual investors remained aggressive buyers throughout the year in the \$25 par sector of the market. Within the \$1000 par capital securities sector, buying interest also was strong throughout the year as U.S. and European insurance companies joined other institutional investors who sought to garner incremental yield. Encouraging this demand was the continued improvement in the general credit quality of many issuers, especially among the financial-oriented companies that make up a large proportion of the holdings of these Funds. The ratio of upgrades to downgrades was more favorable over this one-year period than at any time since the Funds' inception.

The Merrill Lynch All U.S. Convertible Index returned 9.61% in 2004. The strong performance of the asset class was due in large part to double digit returns from the underlying equities into which the convertibles potentially convert. Convertibles that were more balanced or more yield sensitive (sensitive to interest rates or to the credit quality of a stable issuer) also performed solidly but did not offer quite as much upside return. In addition, convertible performance was influenced by interest rate movements, the volatilities and dividend policies of the underlying equities, and merger and acquisition activity. Interest rates were a modest negative influence on returns this year as the yield curve flattened. Equity volatilities also were a drag on convertible valuations as short-term volatilities contracted sharply to multi-year lows. Longer-term volatilities, which are more important for convertible valuations, fell more modestly but still had a negative effect on performance.

The CSFB High Yield Index returned 11.96% for the year, aided by an impressive performance during the fourth quarter of 2004. Investor sentiment generally remained upbeat, sustained by a steady flow of positive macroeconomic data. Lower-rated bonds tended to outperform the middle and upper ratings tiers due to the healthier economic environment and some investors' increased tolerance for risk. As the credit markets improved, default rates continued to drop. The 12-month rolling default rate reached 1.27% at the end of

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2004, declining from 2.92% as of year end 2003. New issue volume was in-line with 2003 levels, totaling \$131.0 billion for the year.

What was your overall management strategy for the 12-month period ended December 31, 2004?

In the preferred securities portion of both Funds' portfolios, we continued to maintain a balance between the two major preferred sectors - the \$25 par and the \$1000 par capital securities. While both sectors presented attractive investment opportunities at particular points in time, by the end of 2004 the relative weighting between the two in each Fund was relatively unchanged from the beginning of the period. Over the course of 2004, our investment focus centered on buying high quality, higher coupon preferred issues that usually traded on the basis of their yield-to-call rather than their yield-to-maturity.

Within the \$25 par sector, this meant seeking securities with coupons of 7.00% or more and call dates two or three years in the future. In the \$1000 par capital securities sector, much of our investment focus was on "Yankee step-up" securities. These are \$US-denominated preferreds issued primarily by

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highly-rated European financial institutions. They pay a fixed rate for a period of time and then move to a wide spread above LIBOR (London Interbank Offered Rate) if the issuer does not call the security. This step-up feature makes the exercise of the call option more likely and creates a shorter duration, less interest rate sensitive investment vehicle.

For the convertible securities portion of both portfolios, our overall strategy was to seek yield opportunities while investing in what we thought were undervalued or fairly-valued securities from stable issuers. In practice, this meant trying to find securities having market prices or characteristics that, in our opinion, did not reflect their true value. For instance, we did not find many utility company convertibles particularly attractive during this period. Since the high correlation of many utilities' equity performance with interest rates movements, utility-issued convertible bonds often will move in the same direction as interest rates both from a fixed-income perspective and from an equity perspective. To us, this reduces their attractiveness as convertibles. At the same time, we did invest in utility issues that were mandatory convertible preferreds. These securities tended to

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offer much higher yields than more traditional utility convertibles with only modestly more risk.

For the high yield debt portion of both portfolios, we continued to employ a value-oriented strategy, focusing on relatively higher-quality credits with strong fundamental business models, diversified revenue streams, and relatively low earnings volatility. Investing our assets across a variety of industry sectors and rating tiers also remained a priority. We continued to evaluate the entire group of holdings, eliminating positions that we believed had escalating credit issues, limited upside potential or significant downside risk.

How did the Funds perform over this period?

Each of the Funds performed well during the 12 months ended December 31, 2004. Their performance, as well as the performance of several widely followed market indexes, is shown in the nearby chart.

Total Return on Net Asset Value  
For 12 months ended December 31, 2004

JPC	9.98%
JQC	10.31%
Comparative Benchmark(1)	7.77%

Past performance does not guarantee future results. Returns do not reflect the deduction of taxes that a shareholder may have to pay on Fund distributions or upon the sale of Fund shares.

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

For the 12 months ended December 31, 2004, both Funds outperformed their comparative benchmarks. One of the primary factors benefiting the performance of these Funds relative to that of the benchmark was the Funds' use of financial leverage. While leveraging can add volatility to a Fund's NAV and share price, especially during periods of rising interest rates, this strategy can also

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provide opportunities for additional income and total returns for common shareholders when short-term interest rates remain relatively low and long-term rates fall or remain relatively constant, as they did during this reporting period.

- (1) The Comparative Benchmark performance is a blend consisting: 1) 60% of the return of the Merrill Lynch Preferred Stock Hybrid Securities Index, an unmanaged index of investment-grade, exchange-traded preferred stocks with outstanding market values of at least \$30 million and at least one year to maturity; 2) 30% of the return of the Merrill Lynch All U.S. Convertibles Index, which consists of approximately 575 securities with par value greater than \$50 million that were issued by U.S. companies or non-U.S. based issuers that have a significant business presence in the U.S.; and 3) 10% of the return of the CSFB High Yield Index, which includes approximately \$375 billion of \$US-denominated high yield debt with a minimum of \$75 million in par value and at least one rating below investment-grade.

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Within the preferred securities portions of both Funds' portfolios, individual security selection also played a prominent role in each Fund's strong relative performance for the year. Highly-rated preferreds issued by financial institutions, especially banks, were the mainstays. Over the course of the year, these securities often performed better than lower-rated securities. This was especially true for some of the securities issued by non-US companies that we were able to purchase at attractive yields relative to similarly rated preferreds from U.S. issuers.

Seasoned "repackaged preferreds" also provided some good returns for the Funds. These securities are created when an investment bank buys a specific tranche of bonds or \$1000 par preferred securities of a particular issuer, places them in a trust, and then issues \$25 par preferreds backed by this trust. The repackaged preferreds are often not widely followed in the secondary market, which can produce some very attractive pricing and yields. In addition to their attractive return potential, they also provided the Funds with exposure to some issuers who have little or no other preferreds outstanding, such as IBM, BellSouth and Safeco. This helped improve the overall diversification of each portfolio.

Within the \$1000 par capital securities sector, our increased focus on \$US-denominated preferreds from foreign issuers and on preferreds that trade in the "Euro listed" sector provided good returns to the portfolios as these two areas were among the best performing sectors in the overall corporate market.

Other actions that positively impacted Fund performance over this period included our participation in a tender offer for Safeco preferreds, opportunistic buying of some insurance company securities that we believed was unfairly discounted because of the ongoing investigations of the industry, and the year end purchase of a very attractively priced Fannie Mae floating rate preferred stock that appreciated 12% in two days.

While it was generally a very good year from a credit standpoint, there were a few blemishes in the preferred securities sleeves that hurt overall Fund performance. While we limited the Funds' exposure to the auto sector (and actually reduced it as the year went on), the prices on Ford and GM preferreds and bonds tended to weaken over the period, given concerns over eroding market share and unfunded pension and health care

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obligations. Another position that negatively impacted performance was Converium. The Swiss reinsurance company surprised the markets with a large addition to reserves due to losses in their U.S. operations, and the company was subsequently downgraded to below investment grade. While we liquidated the entire position, the prices we were able to obtain were well below our costs.

In the convertible securities portions of both Funds, the Consumer Discretionary and Telecommunications sectors provided the greatest positive contribution to performance. Both of these areas performed well generally, and the Funds had higher weightings in them over this period than the Merrill Lynch index. In addition, the specific securities we held performed better than their sectors as a whole. Specific standouts from the Consumer Discretionary sector were Carnival Corporation and Royal Caribbean Cruises Ltd. Hotels as a group also performed very well. In the Telecommunications sector, the issues exchangeable into PCS shares were strong contributors to performance. NII Holdings (formerly Nextel International Holdings) and Alltel also performed well.

Other convertible securities which contributed positively to performance of JQC were Comcast into PCS, Lion's Gate Films, and Carnival Corp. In JPC, solid performers included Genentech, Comcast into PCS, and Lion's Gate Films.

At the same time, both Funds were relatively underweighted in energy convertibles at the beginning of the year relative to the Merrill index. As a result, we missed a good portion of the upward stock movements that resulted from the surge in oil prices seen throughout the year. While we increased our energy weightings as the year went along, the lack of earlier participation cost the Funds some return potential.

As noted earlier, we found many Utility sector convertible bonds to be relatively unattractive. Nevertheless, this sector performed well in 2004. While the utility securities we did hold performed well, they did not do as well as the sector as a whole.

Individual convertible securities that hurt performance over this period were General Motors, Nortel and Nextel in JQC, and Allied Waste, Nortel and Delta Airlines in JPC.

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Among each Fund's high yield holdings, strong performance came from the Consumer Products, Housing, and Food/Tobacco sectors. These sectors all outperformed the CSFB Index, posting 12-month returns of 14.73%, 12.80%, and 12.41%, respectively.

Over this twelve-month period, distressed and CCC-rated debt significantly outperformed all other rating tiers. Consequently, industries with many low credit-quality companies, such as the Metals/Minerals, Chemicals, and Utilities sectors, were among the top performing sectors in 2004. The JPC and JQC portfolios had minimal exposure to these volatile industries and negligible exposure to distressed and CCC-rated debt. As a result, the Fund's did not benefit as much from this performance as the CSFB index.

What about dividends and share price?

Both of these Funds use financial leverage in an effort to enhance their dividend-paying capabilities. While this strategy adds volatility to a Fund's net asset value and share price, it generally enhances the amount of income the Fund has to distribute to its common shareholders. The extent of this benefit is



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tied in part to the short-term rates these Funds pay their FundPreferred(TM) shareholders. Even though short-term rates rose through the second half of this 12-month period, the Funds continued to benefit from their leveraging strategy. This is one reason why both Funds were able to maintain stable monthly dividends through the course of 2004.

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

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As of December 31, 2004, JPC was trading at a -6.46% discount to its net asset value, compared with a -4.82% average discount for the entire 12-month period. JQC was trading at an -8.63% discount, compared with an average discount of -5.41% for the full year.

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### Nuveen Preferred and Convertible Income Fund

JPC

#### Performance

Overview As of December 31, 2004

#### Pie Chart:

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

(as a % of total investments)

\$25 Par (or similar) Securities	32.6%
Capital Preferred Securities	22.1%
Convertible Bonds	19.3%
Convertible Preferred Securities	12.8%
Corporate Bonds	12.1%
Common Stocks	0.6%
Repurchase Agreements	0.5%

#### Bar Chart:

##### 2004 MONTHLY DIVIDENDS PER SHARE<sup>2</sup>

Jan	0.1005
Feb	0.1005
Mar	0.1005
Apr	0.1005
May	0.1005
Jun	0.1005
Jul	0.1005
Aug	0.1005
Sep	0.1005
Oct	0.1005

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Nov	0.1005
Dec	0.1005

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

1/1/04	15.52
	15.55
	15.8
	15.77
	15.57
	15.52
	15.56
	15.48
	15.57
	15.4
	15.4
	15.2
	15.15
	15.25
	15.36
	15.28
	15.24
	15.33
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	15.47
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	15.58
	15.6
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	14.92
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14.43  
14.48  
14.45

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	14.46
	14.47
	14.38
	14.19
	14.07
	14.04
	13.97
	13.86
	13.99
	14.06
	14.02
	13.82
	13.89
	14.07
	14.19
12/31/04	14.33

Portfolio Statistics

Share Price	\$14.33
Common Share Net Asset Value	\$15.32
Premium/Discount to NAV	-6.46%
Latest Dividend	\$.1005
Market Yield	8.42%
Net Assets Applicable to Common Shares (\$000)	\$1,533,722

Top Industries(1)  
(as a % of total investments)

Commercial Banks	18.6%
Insurance	10.9%
Capital Markets	7.7%
Diversified Financial Services	7.4%
Real Estate	7.1%
Media	6.4%
Hotels Restaurants & Leisure	4.6%
Automobiles	3.8%
Thrifts & Mortgage Finance	3.7%
Electric Utilities	2.1%
Communications Equipment	2.0%
Oil & Gas	2.0%

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Repurchase Agreements	0.5%
-----	
Other	23.2%
-----	

Top Five Issuers(1)  
(excluding repurchase agreements)  
(as a % of total investments)

Wachovia Corporation	2.1%
-----	
Ford Motor Company	1.8%
-----	
General Motors Corporation	1.8%
-----	
PartnerRe Limited	1.7%
-----	
Citigroup	1.7%
-----	

Annualized Total Return  
(Inception 3/26/03)

	On Share Price	On NAV
-----		
1-Year	0.94%	9.98%
-----		
Since Inception	6.50%	13.17%
-----		

- (1) Excluding common stocks sold short.
- (2) The Fund also paid shareholders capital gains and net ordinary income distributions in December 2004 of \$0.2336 per share.

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Nuveen Preferred and Convertible Income Fund 2

JQC

Performance

Overview As of December 31, 2004

Pie Chart:

PORTFOLIO ALLOCATION<sup>1</sup>

(as a % of total investments)

\$25 Par (or similar) Securities	31.5%
Capital Preferred Securities	23.9%
Convertible Bonds	19.6%
Convertible Preferred Securities	12.4%
Corporate Bonds	11.7%
Repurchase Agreements	0.5%
Common Stocks	0.4%

Bar Chart:

2004 MONTHLY DIVIDENDS PER SHARE<sup>2</sup>

Jan	0.0975
Feb	0.0975
Mar	0.0975

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Apr	0.0975
May	0.0975
Jun	0.0975
Jul	0.0975
Aug	0.0975
Sep	0.0975
Oct	0.0975
Nov	0.0975
Dec	0.0975

Line Chart:

SHARE PRICE PERFORMANCE

Weekly Closing Price

Past performance is not predictive of future results.

1/1/04	14.68
	14.77
	14.84
	14.83
	14.95
	14.97
	14.99
	14.9
	14.9
	14.88
	14.83
	14.8
	14.7
	14.87
	14.89
	14.81
	14.82
	14.87
	14.85
	14.89
	14.89
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12/31/04	13.87

Portfolio Statistics

Share Price	\$13.87
Common Share Net Asset Value	\$15.18
Premium/Discount to NAV	-8.63%
Latest Dividend	\$.0975
Market Yield	8.44%
Net Assets Applicable to Common Shares (\$000)	\$2,140,563

Top Industries(1)  
(as a % of total investments)

Commercial Banks	22.5%
Insurance	10.1%
Diversified Financial Services	7.8%
Capital Markets	7.4%
Media	6.7%
Real Estate	6.5%
Hotels Restaurants & Leisure	3.9%
Oil & Gas	2.8%
Automobiles	2.6%

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Pharmaceuticals	2.1%
Communications Equipment	1.6%
Specialty Retail	1.6%
Repurchase Agreements	0.5%
Other	23.9%

Top Five Issuers(1)  
(excluding repurchase agreements)  
(as a % of total investments)

Wachovia Corporation	2.1%
Citigroup	1.7%
HBOS Public Limited Company	1.7%
ING Groep NV	1.5%
HSBC Holdings Public Limited Company	1.5%

Average Annual Total Return  
(Inception 6/25/03)

	On Share Price	On NAV
1-Year	3.36%	10.31%
Since Inception	2.67%	11.96%

- (1) Excluding common stocks sold short.
- (2) The Fund also paid shareholders capital gains and net ordinary income distributions in December 2004 of \$0.0197 per share.

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Shareholder  
Meeting Report

The Shareholder Meeting was held in the Embassy Room of the Mandarin Oriental Hotel, 222 Sansome Street, San Francisco, California on November 17, 2004.

JPC

JQC

Approval of the board members was reached as follows:

Common and FundPreferred shares voting together	FundPreferred shares voting together	Common and FundPreferred shares voting together	FundPreferred shares voti togeth
--	--	--	--

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	as a class	as a class	as a class	as a class
Robert P. Bremner				
For	97,807,886	--	137,051,727	
Withhold	566,558	--	971,623	
Total	98,374,444	--	138,023,350	
Lawrence H. Brown				
For	97,781,747	--	137,038,732	
Withhold	592,697	--	984,618	
Total	98,374,444	--	138,023,350	
Jack B. Evans				
For	97,788,502	--	137,036,565	
Withhold	585,942	--	986,785	
Total	98,374,444	--	138,023,350	
William C. Hunter				
For	97,799,632	--	137,045,015	
Withhold	574,812	--	978,335	
Total	98,374,444	--	138,023,350	
William J. Schneider				
For	--	20,627	--	33,5
Withhold	--	50	--	1
Total	--	20,677	--	33,7
Timothy R. Schwertfeger				
For	--	20,627	--	33,5
Withhold	--	50	--	1
Total	--	20,677	--	33,7
Judith M. Stockdale				
For	97,782,841	--	137,032,407	
Withhold	591,603	--	990,943	
Total	98,374,444	--	138,023,350	

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Report of  
 Independent Registered  
 Public Accounting Firm

To the Shareholders and Board of Trustees of  
 Nuveen Preferred and Convertible Income Fund  
 Nuveen Preferred and Convertible Income Fund 2

We have audited the accompanying statements of assets and liabilities of Nuveen Preferred and Convertible Income Fund and Nuveen Preferred and Convertible Income Fund 2 (the "Funds"), including the portfolios of investments, as of

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December 31, 2004, and the related statements of operations and changes in net assets, and the financial highlights for the periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Funds' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of December 31, 2004, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. We believe that our audits provide a reasonable basis for our opinion.

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

/s/ Ernst & Young LLP

Chicago, Illinois  
February 17, 2005

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Nuveen Preferred and Convertible Income Fund (JPC)

Portfolio of  
Investments December 31, 2004

Shares	Description(1)
	COMMON STOCKS - 0.9% (0.6% of Total Investments)
	Commercial Services & Supplies - 0.3%
181,397	Cendant Corporation
	Media - 0.3%
240,000	Cablevision Systems Corporation
	Office Electronics - 0.3%

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227,800	Xerox Corporation		
-----			
	Total Common Stocks (cost \$11,425,280)		
-----			
Shares	Description(1)	Coupon	Mood
-----			
	\$25 PAR (or similar) SECURITIES - 47.7% (32.6% of Total Investments)		
	Auto Components - 0.6%		
364,303	Delphi Trust I	8.250%	B
-----			
	Automobiles - 0.9%		
331,800	Ford Motor Company (CORTS)	8.000%	B
131,400	Ford Motor Company, Series F (CORTS)	8.000%	B
28,600	General Motors Corporation	7.375%	B
-----			
	Capital Markets - 4.7%		
22,600	BCH Capital Ltd., Series B	9.430%	
17,900	Bear Stearns Capital Trust III	7.800%	
500	BNY Capital Trust IV, Series E	6.875%	
300,000	BNY Capital Trust V, Series F	5.950%	
80,850	BSCH Finance Ltd., Series Q	8.625%	
129,800	Compass Capital Trust III	7.350%	
9,500	CSFB USA, Series 2002-10 (SATURNS)	7.000%	
26,500	First Union Capital II, Series II (CORTS)	7.500%	
41,500	First Union Institutional Capital II (CORTS)	8.200%	
13,100	Goldman Sachs Group Inc., Series 2003-06 (SATURNS)	6.000%	
526,388	Lehman Brothers Holdings Capital Trust III, Series K	6.375%	
100,000	Merrill Lynch Capital Trust	7.000%	
113,600	Merrill Lynch Preferred Capital Trust IV	7.120%	
225,000	Merrill Lynch Preferred Capital Trust V	7.280%	
29,000	Merrill Lynch Preferred Capital Trust	7.750%	
66,100	Morgan Stanley Capital Trust II	7.250%	
365,739	Morgan Stanley Capital Trust III	6.250%	
717,800	Morgan Stanley Capital Trust IV	6.250%	
23,300	Morgan Stanley (PPLUS)	7.050%	
-----			
	Commercial Banks - 9.2%		
170,000	Abbey National plc	7.375%	
2,000	Abbey National plc, Series B	7.375%	
37,900	ABN AMRO Capital Fund Trust V	5.900%	
69,300	ASBC Capital I	7.625%	B
65,185	BAC Capital Trust I	7.000%	
135,755	BAC Capital Trust II	7.000%	
284,700	BAC Capital Trust III	7.000%	
63,400	Banco Totta & Acores Finance, Series A	8.875%	
186,114	Banesto Holdings, Series A, 144A	10.500%	



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Shares	Description(1)	Coupon	Mood
Commercial Banks (continued)			
81,700	Bank One Capital Trust VI	7.200%	
22,800	Bank One Capital V	8.000%	
34,600	BankNorth Capital Trust II	8.000%	B
62,200	Chittenden Capital Trust I	8.000%	B
59,300	Citigroup Inc., Series H (a)	6.231%	
107,000	Cobank ABC, 144A (a)	7.000%	
80,100	Comerica Capital Trust I	7.600%	
292,579	Fleet Capital Trust VII	7.200%	
337,000	Fleet Capital Trust VIII	7.200%	
15,500	KeyCorp, Series 2001-7 (CORTS)	7.750%	
25,200	KeyCorp, Series B (CORTS)	8.250%	
153,200	National Commerce Capital Trust II	7.700%	
32,900	National Westminster Bank plc, Series A	7.875%	
32,200	PNC Capital Trust	6.125%	
19,400	Regions Finance Trust I	8.000%	
175,000	Royal Bank of Scotland Group plc, Series L	5.750%	
74,800	SunTrust Capital Trust IV	7.125%	
54,300	SunTrust Capital Trust V	7.050%	
69,800	USB Capital Trust III	7.750%	
186,900	USB Capital Trust IV	7.350%	
67,700	USB Capital Trust V	7.250%	
33,400	VNB Capital Trust I	7.750%	B
1,607,345	Wachovia Preferred Funding Corporation	7.250%	
19,600	Washington Mutual Capital Trust I, Series 2001-22, Class A-1 (CORTS)	7.650%	B
9,100	Wells Fargo Capital Trust IV	7.000%	
60,935	Wells Fargo Capital Trust V	7.000%	
14,700	Wells Fargo Capital Trust VI	6.950%	
225,000	Wells Fargo Capital Trust VII	5.850%	
3,800	Wells Fargo Capital Trust VIII	5.625%	
79,600	Zions Capital Trust B	8.000%	B
Computers & Peripherals - 0.1%			
13,100	IBM Inc. (CORTS)	7.125%	
18,900	IBM Inc., Series 2001-1 (SATURNS)	7.125%	
Consumer Finance - 1.5%			
6,900	Household Capital Trust V, Series X	10.000%	
26,900	Household Capital Trust VI	8.250%	
39,200	Household Capital Trust VII	7.500%	
773,900	HSBC Finance Corporation	6.875%	
Diversified Financial Services - 5.0%			
15,100	BBVA Preferred Capital Ltd., Series B	7.750%	
14,200	CIT Group Incorporated (CORTS)	7.750%	
51,600	Citigroup Capital Trust VII	7.125%	
331,300	Citigroup Capital Trust VIII	6.950%	
194,900	Citigroup Capital Trust IX	6.000%	

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33,200	Citigroup Inc., Series F (a)	6.365%
94,000	Citigroup Inc., Series G (a)	6.213%
67,970	Citigroup Inc., Series M (a)	5.864%
33,100	General Electric Capital Corporation	6.625%
756,975	ING Group NV	7.050%
511,518	ING Group NV	7.200%
16,900	ING Group NV	6.200%
29,500	JPM Capital Trust (CORTS)	7.200%
52,000	JPMorgan Chase & Company (PCARS)	7.125%
395,067	JPMorgan Chase Capital Trust X	7.000%
47,200	JPMorgan Chase Trust, Series 2002-6, Class A (SATURNS)	7.125%
26,900	Merrill Lynch Capital Trust II	8.000%

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)

Portfolio of Investments December 31, 2004

Shares	Description(1)	Coupon	Mood
-----			
	Diversified Telecommunication Services - 0.4%		
29,000	BellSouth Corporation, Series 2001-3 (SATURNS)	7.125%	
3,200	BellSouth Corporation	7.125%	
9,200	BellSouth Inc. (CORTS)	7.000%	
15,700	BellSouth Telecommunications (PPLUS)	7.300%	
44,750	Deutsche Telekom International Finance B.V., Series 2001-24, Class A-1 (CORTS)	7.875%	B
15,900	SBC Communications Inc.	7.000%	
15,500	Verizon Communications (CORTS)	7.625%	
19,900	Verizon Communications (CORTS)	7.375%	
11,900	Verizon New England Inc., Series B	7.000%	
40,955	Verizon South Inc., Series F	7.000%	
-----			
	Electric Utilities - 1.1%		
7,000	Consolidated Edison Company of New York Inc.	7.500%	
10,000	Consolidated Edison Company	7.250%	
4,400	Detroit Edison Company	7.375%	B
22,200	DTE Energy Trust I	7.800%	B
33,470	Entergy Louisiana Inc.	7.600%	B
43,570	Georgia Power Capital Trust V	7.125%	
227,000	Georgia Power Company	5.900%	
80,000	National Rural Utilities Cooperative Finance Corporation	6.100%	
113,432	Tennessee Valley Authority, Series D	6.750%	
128,000	Virginia Power Capital Trust	7.375%	B
-----			
	Food Products - 0.4%		
60,000	Dairy Farmers of America Inc., 144A (a)	7.875%	B
-----			
	Gas Utilities - 0.0%		

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23,000	AGL Capital Trust II	8.000%	B
-----			
	Insurance - 9.1%		
5,500	ACE Capital Trust I, Series 1999	8.875%	B
538,010	Ace Ltd., Series C	7.800%	B
273,500	Aetna Incorporated	8.500%	B
52,700	AMBAC Financial Group Inc.	5.950%	
1,216,100	Delphi Financial Group Inc.	8.000%	B
132,305	EverestRe Capital Trust II	6.200%	B
94,600	EverestRe Group Limited	7.850%	B
7,600	Financial Security Assurance Holdings	6.875%	
18,300	Financial Security Assurance Holdings	6.250%	
188,900	Hartford Capital Trust III, Series C	7.450%	B
31,600	Hartford Life Capital Trust II, Series B	7.625%	B
36,800	Lincoln National Capital Trust V, Series E	7.650%	B
1,300	MBIA Inc.	8.000%	
1,428,000	PartnerRe Limited, Series C	6.750%	B
72,000	PartnerRe Limited	7.900%	
81,100	PLC Capital Trust III	7.500%	B
33,300	PLC Capital Trust IV	7.250%	B
5,900	PLC Capital Trust V	6.125%	B
37,400	Prudential plc	6.750%	B
89,000	RenaissanceRe Holdings Ltd., Series A	8.100%	B
325,310	RenaissanceRe Holdings Ltd., Series B	7.300%	B
14,000	Safeco Capital Trust I (CORTS)	8.750%	B
22,500	Safeco Capital Trust I (CORTS)	8.700%	B
9,000	Safeco Capital Trust I, Series 2001-4 (CORTS)	8.750%	B
33,700	Safeco Capital Trust III (CORTS)	8.072%	B
12,800	Safeco Capital Trust IV (CORTS)	8.375%	B
46,200	Safeco Corporation, Series 2001-7 (SATURNS)	8.250%	B
38,000	Safeco Corporation, Series 2002-5 (SATURNS)	8.250%	B
30,800	Torchmark Capital Trust I	7.750%	B
73,900	W.R. Berkley Capital Trust, Series 2002-1 (CBTCS)	8.125%	B
86,700	XL Capital Ltd., Series A	8.000%	B
287,500	XL Capital Ltd., Series B	7.625%	B

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Shares	Description(1)	Coupon	Mood
-----			
	Media - 0.1%		
41,100	Viacom Inc.	7.300%	
-----			
	Multi-Utilities & Unregulated Power - 0.2%		
49,100	Dominion CNG Capital Trust I	7.800%	B
56,100	Energy East Capital Trust I	8.250%	B
-----			
	Oil & Gas - 0.7%		
406,200	Nexen Inc.	7.350%	B
1,000	TransCanada Pipeline	8.250%	

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-----			
Real Estate - 9.1%			
10,700	AvalonBay Communities, Inc., Series H	8.700%	B
3,000	BRE Properties, Series B	8.080%	B
347,125	CarrAmerica Realty Corporation, Series E	7.500%	B
20,600	Developers Diversified Realty Corporation, Series F	8.600%	B
656,785	Developers Diversified Realty Corporation, Series G	8.000%	B
72,000	Developers Diversified Realty Corporation, Series H	7.375%	B
6,100	Equity Residential Properties Trust	9.125%	B
18,700	Equity Residential Properties Trust, Series C	9.125%	B
9,900	Equity Residential Properties Trust, Series D	8.600%	B
110,681	Equity Office Properties Trust, Series G	7.750%	B
610,800	Equity Residential Properties Trust, Series N	6.480%	B
127,408	Gables Residential Trust, Series D	7.500%	B
303,600	HRPT Properties Trust, Series B	8.750%	B
755,483	Kimco Realty Corporation, Series F	6.650%	B
13,693	New Plan Excel Realty Trust, Series D	7.800%	B
972,775	New Plan Excel Realty Trust, Series E	7.625%	B
32,982	Prologis Trust, Series C	8.540%	B
13,600	Prologis Trust, Series G	6.750%	B
159,800	Public Storage Inc., Series R	8.000%	B
28,900	Public Storage Inc., Series S	7.875%	B
28,200	Public Storage Inc., Series T	7.625%	B
27,500	Public Storage Inc., Series U	7.625%	B
32,000	Public Storage Inc., Series V	7.500%	B
186,500	Regency Centers Corporation	7.450%	B
7,000	Simon Property Group, Inc., Series G	7.890%	B
13,800	Vornado Realty Trust	6.625%	B
707,700	Weingarten Realty Trust, Preferred Securities	6.750%	B
-----			
Specialty Retail - 0.0%			
11,900	Sherwin Williams Company, Series III (CORTS)	7.250%	
-----			
Thrifths & Mortgage Finance - 3.9%			
95,700	Countrywide Capital III (PPLUS)	8.050%	B
1,200,200	Countrywide Capital Trust IV	6.750%	B
158,800	Fannie Mae (a)	5.125%	
312,400	Fannie Mae	0.000%	
24,000	Federal Home Loan Mortgage Corporation (a)	5.100%	
10,000	Federal Home Loan Mortgage Corporation (a)	5.000%	
-----			
Wireless Telecommunication Services - 0.7%			
17,400	AT&T Wireless Services Equity, Series 2002-B (SATURNS)	9.250%	B
28,600	AT&T Wireless, Series 2002-7 (CORTS)	8.000%	B
73,100	Telephone and Data Systems Inc.	7.600%	B
34,300	United States Cellular Corporation	8.750%	B
254,800	United States Cellular Corporation	7.500%	B
-----			
Total \$25 Par (or similar) Securities (cost			
\$712,640,262)			
-----			

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Portfolio of Investments December 31, 2004

Shares	Description(1)	Coupon	Mood
-----			
CONVERTIBLE PREFERRED SECURITIES - 18.8% (12.8% of Total Investments)			
Automobiles - 0.9%			
155,000	Ford Motor Company Capital Trust II	6.500%	B
204,000	General Motors Corporation	6.250%	B
-----			
Capital Markets - 1.0%			
296,250	Goldmand Sachs Group Inc., Series EMC	6.125%	
53,200	State Street Corporation	6.750%	
-----			
Commercial Banks - 1.2%			
97,950	HSBC Finance Corporation	8.875%	
164,000	Sovereign Capital Trust IV, Convertible Security	4.375%	
105,800	Washington Mutual Inc., Unit 1 Trust	5.375%	B
-----			
Commercial Services & Supplies - 0.3%			
97,375	Allied Waste Industries Inc.	6.250%	C
-----			
Communications Equipment - 0.8%			
6,010	Lucent Technologies Capital Trust I	7.750%	C
88	Nortel Networks Corp.	7.000%	
-----			
Construction Materials - 0.3%			
85,800	TXI Capital Trust I	6.500%	
-----			
Consumer Finance - 0.3%			
73,000	Capital One Financial Corporation	6.250%	B
-----			
Containers & Packaging - 0.4%			
112,500	Temple Inland Inc.	7.500%	B
-----			
Diversified Financial Services - 0.9%			
217,900	Citigroup Global Markets	2.000%	
154,000	Gabelli Asset Management Inc.	6.950%	B
-----			
Diversified Telecommunication Services - 0.5%			
131,000	Alltel Corporation	7.750%	
-----			
Electric Utilities - 1.8%			
344,500	DTE Energy Company	8.750%	B

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217,900	FPL Group Inc.	8.000%	
1,835,000	PG&E Corporation	9.500%	
-----			
	Electrical Equipment - 0.2%		
46,475	General Cable Corporation, 144A	5.750%	
-----			
	Electronic Equipment & Instruments - 0.6%		
175,000	Pioneer-Standard Financial Trust	6.750%	
-----			
	Energy Equipment & Services - 0.1%		
25,000	Hanover Compressor Capital Trust	7.250%	C
-----			
	Food & Staples Retailing - 0.3%		
178,925	Albertsons Inc.	7.250%	B
-----			
	Gas Utilities - 0.2%		
39,750	Southern Union Company, Series B	5.750%	B
-----			
	Hotels Restaurants & Leisure - 0.9%		
250,000	Host Marriott Financial Trust	6.750%	
-----			
	Household Durables - 0.3%		
106,675	Newell Financial Trust I	5.250%	B
-----			
	Insurance - 3.0%		
100,000	Chubb Corporation	7.000%	
381,000	Genworth Financial Inc.	6.000%	
86,200	Hartford Financial Services Group, Inc.	7.000%	

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Shares	Description(1)	Coupon	Mood
-----			
	Insurance (continued)		
90,000	Phoenix Companies Inc.	7.000%	
206,000	Reinsurance Group of America Inc.	5.750%	B
65,000	UnumProvident Corporation	8.250%	
256,250	XL Capital Limited	6.500%	
-----			
	Media - 0.8%		
185,000	Emmis Communications Corporation, Series A	6.250%	C
53,375	Interpublic Group, Series A	5.375%	
10,000	Sinclair Broadcast Group Inc., Series D	6.000%	C
-----			

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	Metals & Mining - 0.9%				
84,700	United States Steel Corporation, Series B		7.000%		
-----					
	Multi-Utilities & Unregulated Power - 0.9%				
64,400	Aquila Inc.		6.750%		
144,800	Dominion Resources Inc.		8.750%	B	
139,500	Sempra Energy		8.500%		
-----					
	Oil & Gas - 0.5%				
6,725	Chesapeake Energy Corporation, 144A		4.125%		
-----					
	Pharmaceuticals - 0.5%				
126,150	Schering-Plough Corporation		6.000%	B	
-----					
	Real Estate - 0.6%				
165,000	Equity Office Properties Trust, Series B		5.250%	B	
-----					
	Thrifths & Mortgage Finance - 0.6%				
59	Fannie Mae		5.375%		
87,475	PMI Group Inc.		5.875%		
-----					
	Total Convertible Preferred Securities (cost \$245,707,021)				
-----					
Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Moody	
-----					
	CONVERTIBLE BONDS - 28.4% (19.3% of Total Investments)				
	Aerospace & Defense - 0.4%				
2,900	AAR Corporation, 144A	2.875%	2/01/24		
2,500	EDO Corporation, Convertible Subordinate Note	5.250%	4/15/07		
-----					
	Airlines - 0.2%				
2,765	Northwest Airlines Corporation Convertible Notes, 144A	6.625%	5/15/23	C	
-----					
	Auto Components - 0.2%				
4,865	Lear Corporation	0.000%	2/20/22	B	
-----					
	Automobiles - 0.8%				
2,750	Fleetwood Enterprises Inc., 144A	5.000%	12/15/23		
185,250	General Motors Corporation, Convertible Notes, Senior Debentures, Series A	4.500%	3/06/32	B	
185,100	General Motors Corporation, Series B	5.250%	3/03/32	B	
-----					
	Biotechnology - 0.9%				

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2,850	Imclone Systems Inc., 144A	1.375%	5/15/24	
4,500	Ivax Corporation, Convertible Note, 144A	1.500%	3/01/24	
6,500	Ivax Corporation, Convertible Senior Subordinated Notes	4.500%	5/15/08	
-----				
Capital Markets - 0.2%				
89,675	Lehman Brothers Holdings Inc., Series GIS	6.250%	10/15/07	
-----				
Chemicals - 0.4%				
52,800	The Mosaic Company	7.500%	7/01/06	

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)

Portfolio of Investments December 31, 2004

Principal Amount (000)/ Shares	Description(1)	Coupon	Maturity	Mood
-----				
Commercial Services & Supplies - 0.4%				
6,435	Electronic Data Systems, Convertible Senior Notes, 144A	3.875%	7/15/23	
-----				
Communications Equipment - 2.2%				
7,057	Ciena Corporation	3.750%	2/01/08	
5,565	Converse Technology Inc., 144A	0.000%	5/15/23	
3,920	Corning Inc.	3.500%	11/01/08	
2,850	Lucent Technologies Inc.	2.750%	6/15/23	
3,355	Powerwave Technologies Inc.	1.825%	11/15/24	
5,475	Skyworks Solutions Inc.	4.750%	11/15/07	
-----				
Computers & Peripherals - 0.7%				
13,215	Hewlett-Packard Company	0.000%	10/14/17	
2,500	Mercury Computer Systems Inc., 144A	2.000%	5/01/24	
-----				
Consumer Finance - 0.5%				
6,900	Providian Financial Corporation, Convertible Senior Notes	3.250%	8/15/05	
-----				
Diversified Financial Services - 0.7%				
3,100	Leucadia National Corporation, 144A	3.750%	4/15/14	
6,400	The Bisys Group Inc.	4.000%	3/15/06	
-----				
Electronic Equipment & Instruments - 0.5%				
7,700	Celestica Inc.	0.000%	8/01/20	
2,720	Vishay Intertechnology Inc.	3.625%	8/01/23	



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Principal Amount (000)/ Shares	Description(1)	Coupon	Maturity	Mood
-----				
Energy Equipment & Services - 1.0%				
6,275	Diamond Offshore Drilling Inc.	1.500%	4/15/31	
7,000	Schlumberger Limited	2.125%	6/01/23	
985	Willbros Group Inc., 144A	2.750%	3/15/24	
-----				
Healthcare Equipment & Supplies - 1.0%				
4,315	Advanced Medical Optics	2.500%	7/15/24	
8,835	Fisher Scientific International Inc.	3.250%	3/01/24	
-----				
Hotels Restaurants & Leisure - 2.9%				
10,500	Carnival Corporation	0.000%	10/24/21	
2,550	Hilton Hotels Corporation	3.375%	4/15/23	B
5,400	Kerzner International Limited, 144A	2.375%	4/15/24	
15,500	Royal Caribbean Cruises Limited, Senior Convertible Liquid Yield Option Notes	0.000%	2/02/21	
3,745	Scientific Games Corporation	0.750%	12/01/24	
3,525	Six Flags Inc.	4.500%	5/15/15	C
5,830	Starwood Hotels and Resorts Worldwide Inc.	3.500%	5/16/23	
-----				
Industrial Conglomerates - 0.4%				
3,350	Tyco International Group Limited, Convertible Notes, 144A	3.125%	1/15/23	
-----				
Insurance - 0.1%				
2,300	American International Group Inc.	0.500%	5/15/07	
-----				
Internet & Catalog Retail - 0.1%				
1,795	Overstock.com Inc.	3.750%	12/01/11	
-----				
IT Services - 0.8%				
2,090	Acxiom Corporation	3.750%	2/15/09	
1,110	BearingPoint Inc.	2.500%	12/15/24	
1,110	BearingPoint Inc.	2.750%	12/15/24	
5,390	Digital River Inc., 144A	1.250%	1/01/24	
800	Euronet Worldwide Inc.	1.625%	12/15/24	
-----				
Leisure Equipment & Products - 1.2%				
3,675	Collegiate Pacific Inc.	5.750%	12/01/09	
5,300	Hasbro Inc.	2.750%	12/01/21	B
6,195	K2 Corporation, Convertible Notes, 144A	5.000%	6/15/10	

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Principal Amount (000)/ Shares	Description(1)	Coupon	Maturity	Mood
-----				

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Media - 4.8%			
2,425	Charter Communications Inc.	5.875%	11/16/09
325,000	Comcast Corporation	2.000%	10/15/29
4,000	Echostar Communications Corporation, Convertible Subordinated Notes	5.750%	5/15/08
3,400	Interpublic Group Companies Inc.	4.500%	3/15/23
5,275	Liberty Media Corporation	0.750%	3/30/23
7,925	Liberty Media Corporation, Senior Debentures, Exchangeable for Motorola Common Stock	3.500%	1/15/31
8,250	Liberty Media Corporation, Senior Debentures, Exchangeable for Class B Viacom Common Stock	3.250%	3/15/31
2,880	Lions Gate Entertainment Corporation, Convertible Bond, 144A	4.875%	12/15/10
2,625	Lions Gate Entertainment Corporation, 144A	2.938%	10/15/24
3,425	Sinclair Broadcast Group, Convertible Senior Subordinated Note, 144A	4.875%	7/15/18
96,000	Tribune Company, Exchangeable Subordinated Debentures	2.000%	5/15/29
6,100	Walt Disney Company, Convertible Senior Notes	2.125%	4/15/23
-----			
Metals & Mining - 0.2%			
3,355	Trizec Hahn Corporation	3.000%	1/29/21
-----			
Oil & Gas - 0.5%			
5,065	McMoran Exploration Corporation, Notes, 144A	6.000%	7/02/08
-----			
Pharmaceuticals - 2.3%			
1,380	Abgenix Inc., Senior Convertible Notes, 144A	1.750%	12/15/11
1,825	Alexion Pharmaceuticals Inc.	5.750%	3/15/07
7,125	Allergan Inc., Convertible Zero Coupon Senior Notes	0.000%	11/06/22
7,050	Alza Corporation	0.000%	7/28/20
1,950	OSI Pharmaceuticals Inc.	3.250%	9/08/23
3,400	Teva Pharmaceutical Finance, Series B	0.250%	2/01/24
3,295	Valeant Pharmaceuticals International, 144A	3.000%	8/16/10
1,940	Valeant Pharmaceuticals International, 144A	4.000%	11/15/13
6,400	Wyeth, 144A	1.000%	1/15/24
-----			
Real Estate - 0.2%			
2,725	Avatar Holdings Inc., 144A	4.500%	4/01/24
-----			
Road & Rail - 0.1%			
585	Yellow Corporation, 144A	3.375%	11/25/23
-----			
Semiconductors & Equipment - 1.7%			
4,620	Advanced Micro Devices Inc.	4.750%	2/01/22
3,100	Agere Systems Inc.	6.500%	12/15/09
4,800	ASM International NV	4.250%	12/06/11
4,890	ASM Lithography Holding NV	5.750%	10/15/06
4,000	FEI Company, Convertible Notes	5.500%	8/15/08
2,500	LSI Logic Corporation	4.000%	5/15/10
-----			
Software - 0.9%			
2,500	Computer Associates International Inc.	5.000%	3/15/07
6,600	Mentor Graphics Corporation, Convertible	6.875%	6/15/07

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Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Moody
3,875	Subordinate Notes Novell Inc., 144A	0.500%	7/15/24	
-----				
Specialty Retail - 1.3%				
7,500	Lowes Companies Inc.	0.861%	10/19/21	
6,000	Sonic Automotive Inc., Convertible Senior Subordinated Notes	5.250%	5/07/09	
6,000	TJX Companies Inc.	0.000%	2/13/21	B
-----				
Textiles & Apparel - 0.3%				
4,575	Reebok International Ltd.	2.000%	5/01/24	B

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)

Portfolio of Investments December 31, 2004

Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Moody
-----				
Wireless Telecommunication Services - 0.5%				
2,225	NII Holdings Inc., 144A	3.500%	9/15/33	
3,125	NII Holdings Inc., 144A	2.875%	2/01/34	
-----				
Total Convertible Bonds (cost \$385,658,679)				
-----				
CORPORATE BONDS 17.7% (12.1% of Total Investments)				
Aerospace & Defense - 0.2%				
3,500	K&F Aquisition Inc.	7.750%	11/15/14	C
-----				
Auto Components - 0.3%				
3,500	Tenneco Auto, Inc.	10.250%	7/15/13	
-----				
Automobiles - 3.0%				
3,500	Ford Motor Company	8.900%	1/15/32	B
10,000	Ford Motor Company, Debentures	7.700%	5/15/97	B
5,590	Ford Motor Company, Debentures	9.980%	2/15/47	B
20,500	General Motors Acceptance Corporation, Notes	8.000%	11/01/31	B
3,560	General Motors Corporation, Senior Debentures	8.375%	7/15/33	B
-----				
Chemicals - 0.4%				
1,335	OM Group Inc.	9.250%	12/15/11	C
3,000	Resolution Performance Products LLC	8.000%	12/15/09	
1,500	Rockwood Specialties Group	7.500%	11/15/14	
-----				

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Commercial Banks - 0.1%				
1,500	Washington Mutual Bank FA	5.125%	1/15/15	
-----				
Commercial Services & Supplies - 0.4%				
1,000	Allied Waste North America	7.875%	4/15/13	
1,000	Allied Waste North America, Series B	9.250%	9/01/12	
3,547	Allied Waste North America, Series B	10.000%	8/01/09	C
-----				
Construction Materials - 0.2%				
2,500	Texas Industries Inc.	10.250%	6/15/11	
-----				
Containers & Packaging - 0.5%				
1,520	Berry Plastics Corporation	10.750%	7/15/12	
2,000	MDP Acquisitions plc, Senior Notes	9.625%	10/01/12	
2,000	Owens-Brockway Glass Containers, Guaranteed Senior Notes	8.250%	5/15/13	
2,000	Owens-Illinois Inc.	7.800%	5/15/18	
-----				
Electric Utilities - 0.2%				
3,000	Midwest Generation LLC	8.750%	5/01/34	
-----				
Food & Staples Retailing - 0.1%				
2,000	Stater Brothers Holdings Inc.	8.125%	6/15/12	
-----				
Food Products - 0.7%				
5,943	Dole Foods Company	7.875%	7/15/13	
1,000	Dole Food Inc.	8.875%	3/15/11	
3,000	Seminis Vegetable Seeds Inc.	10.250%	10/01/13	
-----				
Healthcare Equipment & Supplies - 0.1%				
2,000	Fisher Scientific International Inc.	8.000%	9/01/13	
-----				
Healthcare Providers & Services - 0.4%				
1,500	Quintiles Transitional Corporation	10.000%	10/01/13	
1,000	US Oncology Inc., 144A	9.000%	8/15/12	
2,500	US Oncology Inc., 144A	10.750%	8/15/14	

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Principal Amount (000)/ Shares	Description(1)	Coupon	Maturity	Moody
-----				
Hotels Restaurants & Leisure - 2.9%				
3,000	Affinia Group Inc.	9.000%	11/30/14	C
2,000	Boyd Gaming Corporation	8.750%	4/15/12	

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2,000	Boyd Gaming Corporation	7.750%	12/15/12	
2,552	Dominos Inc.	8.250%	7/01/11	
1,500	Herbst Gaming Inc.	7.000%	11/15/14	
2,900	Intrawest Corporation	7.500%	10/15/13	
3,000	Las Vegas Sands Inc., Venetian Casino Resorts, LLC Mortgage Notes	11.000%	6/15/10	
1,600	Park Place Entertainment	8.125%	5/15/11	
2,500	Park Place Entertainment	7.000%	4/15/13	
4,040	Park Place Entertainment	7.875%	12/15/05	
7,000	Penn National Gaming Inc., Senior Subordinated Notes	8.875%	3/15/10	
750	Pinnacle Entertainment Inc.	8.750%	10/01/13	C
2,000	Pinnacle Entertainment Inc.	8.250%	3/15/12	C
2,000	Town Sports International Inc.	9.625%	4/15/11	
4,000	Universal City Development Partners	11.750%	4/01/10	
-----				
Household Durables - 0.7%				
2,000	K. Hovnanian Enterprises Inc., Senior Subordinate Notes	8.875%	4/01/12	
3,000	KB Home	8.625%	12/15/08	
5,175	Technical Olympic USA Inc., Senior Subordinate Notes	10.375%	7/01/12	
-----				
Insurance - 0.1%				
2,000	Fairfax Financial Holdings Ltd.	7.750%	4/26/12	
-----				
IT Services - 0.2%				
2,500	Global Cash Access LLC	8.750%	3/15/12	C
-----				
Machinery - 0.5%				
1,220	Terex Corporation, Senior Subordinated Notes	10.375%	4/01/11	
6,095	Terex Corporation, Senior Subordinated Notes	9.250%	7/15/11	
-----				
Media - 3.3%				
500	Advertising Directory Solution, Inc.	9.250%	11/15/12	C
4,000	Allbritton Communications Company, Series B	7.750%	12/15/12	
2,000	American Media Operations Inc.	8.875%	1/15/11	
4,180	American Media Operations Inc., Series B	10.250%	5/01/09	
1,000	Cablevision Systems Corporation, Series B	8.125%	8/15/09	
5,000	Cablevision Systems Corporation	7.250%	7/15/08	
2,750	Canwest Media Incorporated	7.625%	4/15/13	
2,000	Charter Communications Operating LLC, 144A	8.000%	4/30/12	
1,500	Loews Cineplex Entertainment Corporation, 144A	9.000%	8/01/14	
5,800	Mail-Well I Corporation, Senior Unsecured Notes, 144A	9.625%	3/15/12	
6,000	Primedia Inc., Senior Notes	8.875%	5/15/11	
6,750	Vertis Inc.	9.750%	4/01/09	
4,000	Young Broadcasting Inc., Senior Subordinate Notes	10.000%	3/01/11	C
-----				
Multiline Retail - 0.3%				
500	Saks Inc.	7.375%	2/15/19	
1,195	Saks Inc.	7.000%	12/01/13	
2,000	Saks Inc., Notes	9.875%	10/01/11	
-----				
Oil & Gas - 0.6%				
2,400	Baytex Energy Ltd.	9.625%	7/15/10	
1,000	Chesapeake Energy Corporation	9.000%	8/15/12	

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2,345	Chesapeake Energy Corporation	7.750%	1/15/15
250	Tesoro Petroleum Corporation	8.000%	4/15/08
2,000	Tesoro Petroleum Corporation, Senior Subordinate Notes, Series B	9.625%	11/01/08

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)

Portfolio of Investments December 31, 2004

Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Moody
	Paper & Forest Products - 0.5%			
2,000	Georgia Pacific Corporation, Debentures	7.700%	6/15/15	
5,000	Georgia Pacific Corporation, Notes	8.125%	5/15/11	
	Real Estate - 0.5%			
1,625	CB Richard Ellis Services Inc.	9.750%	5/15/10	
4,425	LNR Property Corporation	7.625%	7/15/13	C
	Road & Rail - 0.2%			
3,000	Laidlaw International Inc.	10.750%	6/15/11	
	Specialty Retail - 0.8%			
4,100	Asbury Automotive Group Inc.	9.000%	6/15/12	
1,650	Central Garden & Pet Company	9.125%	2/01/13	
5,000	Warnaco Inc., Senior Notes	8.875%	6/15/13	
	Textiles & Apparel - 0.2%			
3,000	Jostens IH Corporation, 144A	7.625%	10/01/12	
	Trading Companies & Distributors - 0.3%			
2,575	Keystone Automotive Operations Inc.	9.750%	11/01/13	
2,000	United Rentals North America Inc.	6.500%	2/15/12	
	Total Corporate Bonds (cost \$256,572,268)			
	CAPITAL PREFERRED SECURITIES - 32.5% (22.1% of Total Investments)			
	Capital Markets - 5.1%			
2,500	ABN AMRO North America, 144A Series L (a)	6.460%	6/15/47	
2,500	Ahmanson Capital Trust I, 144A	8.360%	12/01/26	B
1,000	BT Capital Trust, Series B1	7.900%	1/15/27	
4,850	BT Institutional Capital Trust A, 144A	8.090%	12/01/26	

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3,000	BT Institutional Capital Trust B, 144A	7.750%	12/01/26
1,250	C.A. Preferred Fund Trust II	7.000%	10/30/49
27,500	C.A. Preferred Funding Trust	7.000%	1/30/49
1,000	Mellon Capital II, Series B	7.995%	1/15/27
20,000	M&I Capital Trust A	7.650%	12/01/26
8,300	UBS Preferred Funding Trust I	8.622%	10/29/49

-----  
Commercial Banks - 16.9%

3,000	AB Svensk Exportkredit, 144A	6.375%	10/27/49
13,000	Abbey National Capital Trust I	8.963%	12/30/49
6,800	AgFirst Farm Credit Bank	7.300%	12/15/53
2,600	ANZ Capital Trust I, 144A	5.360%	12/29/49
3,000	Bank One Capital III	8.750%	9/01/30
1,000	BankAmerica Capital II, Series 2	8.000%	12/15/26
6,000	BankBoston Capital Trust I, Series B	8.250%	12/15/26
2,000	BanPonce Trust I, Series A	8.327%	2/01/27
13,030	Barclays Bank plc, 144A	8.550%	6/15/49
15	BBVA Privanza International Gibraltar, 144A (b)	7.764%	9/30/47
3,000	Centura Capital Trust I, 144A	8.845%	6/01/27
1,500	DBS Capital Funding Corporation, 144A	7.657%	3/15/49
3,000	Farm Credit Bank of Texas	7.561%	11/05/49
1,000	First Chicago NBD Institutional Capital, 144A	7.950%	12/01/26
6,200	First Empire Capital Trust I	8.234%	2/01/27
2,000	First Midwest Bancorp Inc.	6.950%	12/01/33
2,400	HSBC Capital Funding LP, 144A	9.547%	12/31/49
5,750	HSBC Capital Funding LP, Debt	10.176%	6/30/50
11,000	KBC Bank Fund Trust III, 144A	9.860%	11/02/49
6,300	KeyCorp Institutional Capital Trust A	7.826%	12/01/26
18,600	Lloyds TSB Bank plc, Subordinate Note	6.900%	11/22/49
5,000	NB Capital Trust IV	8.250%	4/15/27
1,000	North Fork Capital Trust I, Capital Securities	8.700%	12/15/26
12,000	North Fork Capital Trust II	8.000%	12/15/27

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Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	----- Moody
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Commercial Banks (continued)

1,000	Popular North American Capital Trust I	6.564%	9/15/34	B
16,500	RBS Capital Trust B	6.800%	12/31/49	
100	Reliance Capital Trust I, Series B	8.170%	5/01/28	
6,350	Royal Bank of Scotland Group plc	7.648%	8/31/49	
2,365	SocGen Real Estate Company LLC, 144A	7.640%	12/29/49	
8,000	Sparebanken Rogaland, Notes, 144A	6.443%	5/01/49	B
10,500	St. George Funding Company LLC	8.485%	6/30/17	B
2,000	Unicredito Italiano Capital Trust, 144A	9.200%	10/05/49	
300	Union Planters Preferred Fund, 144A	7.750%	7/15/53	
100	Wachovia Capital Trust I, Capital Securities, 144A	7.640%	1/15/27	
2,500	Washington Mutual Capital Trust I	8.375%	6/01/27	B
5,000	Zions Institutional Capital Trust, Series A	8.536%	12/15/26	B

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Diversified Financial Services - 5.4%

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7,750	BNP Paribas Capital Trust	7.200%	12/31/49	
18,125	Chase Capital Trust I, Series A	7.670%	12/01/26	
36,000	HBOS Capital Funding LP, Notes	6.850%	3/01/49	
2,800	Old Mutual Capital Funding, Notes	8.000%	6/22/53	B
10,957	Centaur Funding Corporation, Series B, 144A	9.080%	4/21/20	B
-----				
Insurance - 3.5%				
250	Allstate Financing II	7.830%	12/01/45	
2,300	American General Capital II	8.500%	7/01/30	
18,596	Berkeley Capital Trust	8.197%	12/15/45	B
4,000	Mangrove Bay, Class 3, 144A	6.102%	7/15/33	B
1,000	MIC Financing Trust I	8.375%	2/01/27	
7,250	Prudential plc	6.500%	6/29/49	B
9,500	Sun Life Canada Capital Trust, Capital Securities, 144A	8.526%	5/06/47	
7,250	Zurich Capital Trust I, 144A	8.376%	6/01/37	B
-----				
Oil & Gas - 0.6%				
1,200	KN Capital Trust I, Preferred Securities	8.560%	4/15/27	B
7,110	KN Capital Trust III	7.630%	4/15/28	B
-----				
Thriffts & Mortgage Finance - 1.0%				
12,250	Dime Capital Trust I, Series A	9.330%	5/06/27	B
1,000	Great Western Financial Trust II, Series A	8.206%	2/01/27	B
-----				
Total Capital Preferred Securities (cost \$494,477,944)				
-----				
REPURCHASE AGREEMENTS - 0.8% (0.5% of Total Investments)				
\$ 11,749	State Street Bank, 1.000%, dated 12/31/04, due 1/03/05, repurchase price \$11,749,759, collateralized by \$10,975,000 U.S. Treasury Notes, 7.000%, due 7/15/06, value \$11,984,590			
=====				
-----				
Total Repurchase Agreements (cost \$11,748,780)				
-----				
Total Investments (cost \$2,118,230,234) - 146.8%				
=====				

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Nuveen Preferred and Convertible Income Fund (JPC) (continued)

Portfolio of Investments December 31, 2004

Shares	Description (1)
-----	
COMMON STOCKS SOLD SHORT - (3.9)%	



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	Automobiles - (0.2)%
(64,235)	General Motors Corporation
	Chemicals - (0.4)%
(335,240)	The Mosaic Company
	Consumer Finance - (0.2)%
(34,878)	Capital One Financial Corporation
	Electric Utilities - (0.1)%
(39,110)	PG&E Corporation
	Food & Staples Retailing - (0.1)%
(54,040)	Albertsons, Inc.
	Food Products - (0.1)%
(31,010)	General Mills Inc.
	Gas Utilities - (0.2)%
(99,375)	Southern Union Company
	Insurance - (0.9)%
(27,735)	Chubb Corporation
(142,950)	Genworth Financial Inc.
(60,725)	Hartford Financial Services Group, Inc.
(60,900)	Hilb, Roga and Hamilton Companies
(108,245)	UnumProvident Corporation
	Leisure Equipment & Products - (0.1)%
(50,389)	K2 Inc.
	Media - (0.3)%
(479,775)	Lions Gate Entertainment Corporation, Equity
	Metals & Mining - (0.8)%
(262,868)	United States Steel Corporation
	Multi-Utilities & Unregulated Power - (0.3)%
(504,845)	Aquila Inc.
(94,900)	Sempra Energy
	Pharmaceuticals - (0.1)%
(102,810)	Schering-Plough Corporation
	Thrifts & Mortgage Finance - (0.1)%
(33,461)	PMI Group Inc.
	Total Common Stocks Sold Short (proceeds

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\$43,543,883)

-----  
 Other Assets Less Liabilities - 3.3%  
 -----

FundPreferred Shares, at Liquidation Value - (46.2)%  
 -----

Net Assets Applicable to Common Shares - 100%  
 =====

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Interest Rate Swap Contracts outstanding at December 31, 2004:

Counterparty	Notional Amount	Fixed Rate	Floating Rate**
Royal Bank of Canada	\$71,000,000	1.4300%	2.4131%
JPMorgan	71,000,000	1.9735	2.4131
Morgan Stanley	71,000,000	2.5670	2.4131
JPMorgan	71,000,000	2.9935	2.4131
Morgan Stanley	71,000,000	3.4060	2.4131

Futures Contracts outstanding at December 31, 2004:

Type	Number of Contracts	Contract Expiration	Original Value
U.S. Treasury Bonds	226	3/05	\$ 25,099,125

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

\* Ratings (not covered by the report of independent registered public accounting firm): Below Baa by Moody's Investor Service, Inc. or BBB by Standard and Poor's Group are considered to be below investment grade.

\*\* Based on LIBOR (London Inter-bank Offered Rate).

(a) Security is eligible for the Dividends Received Deduction.

(b) Security valued at fair value using methods determined in good faith by or at the direction of the Board of Trustees.

144A 144A securities are those which are exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These

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securities may only be resold in transactions exempt from registration which are normally those transactions with qualified institutional buyers.

- (CBTCS) Corporate Backed Trust Certificates.
- (CORTS) Corporate Backed Trust Securities.
- (PCARS) Public Credit and Repackaged Securities.
- (PPLUS) PreferredPlus Trust.
- (SATURNS) Structured Asset Trust Unit Repackaging.
- NA Security is not rated.

See accompanying notes to financial statements.

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Nuveen Preferred and Convertible Income Fund 2 (JQC)

Portfolio of  
Investments December 31, 2004

Shares	Description(1)
	COMMON STOCKS - 0.6% (0.4% of Total Investments)
	Insurance - 0.4%
130,440	PartnerRe Limited
	Office Electronics - 0.2%
295,561	Xerox Corporation
	Total Common Stocks (cost \$12,212,709)

Shares	Description(1)	Coupon	Moo
	\$25 Par (or similar) SECURITIES - 45.6% (31.5% of Total Investments)		
	Auto Components - 0.6%		
505,913	Delphi Trust I	8.250%	
	Capital Markets - 4.3%		
1,700	BCH Capital Ltd., Series B	9.430%	

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112,800	Bear Stearns Capital Trust III	7.800%
107,600	Bear Stearns Companies, Series G (a)	5.490%
27,000	BNY Capital Trust IV, Series E	6.875%
306,984	BNY Capital Trust V, Series F	5.950%
56,300	BSCH Finance Ltd., Series Q	8.625%
196,300	Compass Capital Trust III	7.350%
31,000	CSFB USA, Series 2002-10 (SATURNS)	7.000%
49,000	First Union Capital II, Series II (CORTS)	7.500%
22,600	First Union Institutional Capital II (CORTS)	8.200%
18,800	First Union Institutional Capital II, Series III (CORTS)	7.500%
12,300	Goldman Sachs Group Inc., Series 2003-06 (SATURNS)	6.000%
22,000	JPMorgan Chase Capital Trust IX, Series I	7.500%
198,350	Lehman Brothers Holdings Inc., Series C (a)	5.940%
96,800	Lehman Brothers Holdings Inc., Series D (a)	5.670%
425,000	Lehman Brothers Holdings Inc., Series F (a)	6.500%
231,000	Merrill Lynch Capital Trust	7.000%
47,800	Merrill Lynch Preferred Capital Trust	7.750%
186,200	Merrill Lynch Preferred Capital Trust IV	7.120%
278,400	Merrill Lynch Preferred Capital Trust V	7.280%
211,850	Morgan Stanley Capital Trust II	7.250%
203,200	Morgan Stanley Capital Trust III	6.250%
137,900	Morgan Stanley Capital Trust IV	6.250%
117,580	Morgan Stanley (PPLUS)	7.050%
13,600	UBS Preferred Funding Trust III	7.250%

-----  
Commercial Banks - 10.5%

301,600	Abbey National plc	7.375%
53,700	Abbey National plc, Series B	7.250%
34,200	Abbey National plc, Series B	7.375%
863,770	ABN AMRO Capital Fund Trust V	5.900%
96,400	ABN AMRO Capital Fund Trust VI	6.250%
111,600	ASBC Capital I	7.625%
203,410	BAC Capital Trust I	7.000%
560,200	BAC Capital Trust II	7.000%
163,900	BAC Capital Trust III	7.000%
1,010,000	Banco Santander	6.410%
71,750	Banco Totta & Acores Finance, Series A	8.875%

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Shares	Description (1)	Coupon	Mo
-----			
Commercial Banks (continued)			
19,000	BancWest Capital I	9.500%	
15,700	Bank One Capital II	8.500%	
167,700	Bank One Capital Trust VI	7.200%	
32,200	Bank One Capital V	8.000%	
51,900	BankNorth Capital Trust II	8.000%	
145,800	Chittenden Capital Trust I	8.000%	
24,000	Citigroup Inc., Series H (a)	6.231%	
146,500	Cobank ABC, 144A (a)	7.000%	
110,200	Comerica Capital Trust I	7.600%	

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18,900	Fleet Capital Trust II (CORTS)	8.000%
4,400	Fleet Capital Trust VI	8.800%
512,200	Fleet Capital Trust VII	7.200%
430,300	Fleet Capital Trust VIII	7.200%
35,000	KeyCorp (PCARS)	7.500%
103,500	KeyCorp Capital Trust V	5.875%
28,400	KeyCorp, Series 2001-7 (CORTS)	7.750%
34,300	KeyCorp, Series B (CORTS)	8.250%
84,900	National Commerce Capital Trust II	7.700%
63,900	National Westminster Bank plc, Series A	7.875%
21,700	ONB Capital Trust II	8.000%
53,300	PNC Capital Trust	6.125%
26,000	Regions Finance Trust I	8.000%
300,700	Royal Bank of Scotland Group plc, Series L	5.750%
139,200	SunTrust Capital Trust IV	7.125%
108,900	SunTrust Capital Trust V	7.050%
662,100	USB Capital Trust III	7.750%
328,500	USB Capital Trust IV	7.350%
288,700	USB Capital Trust V	7.250%
39,100	VNB Capital Trust I	7.750%
45,800	Washington Mutual Capital Trust I, Series 2001-22, Class A-1 (CORTS)	7.650%
40,000	Wells Fargo Capital Trust IV	7.000%
420,800	Wells Fargo Capital Trust V	7.000%
109,000	Wells Fargo Capital Trust VI	6.950%
236,550	Wells Fargo Capital Trust VII	5.850%
117,300	Zions Capital Trust B	8.000%
-----		
Computers & Peripherals - 0.1%		
16,400	IBM Inc. (CORTS)	7.125%
27,700	IBM Inc., Series 2001-1 (SATURNS)	7.125%
10,500	IBM Trust II (CORTS)	7.125%
18,300	IBM Trust IV (CORTS)	7.000%
-----		
Consumer Finance - 0.7%		
10,800	Household Capital Trust V, Series X	10.000%
40,900	Household Capital Trust VI	8.250%
98,100	Household Capital Trust VII	7.500%
53,000	HSBC Finance Corporation	6.875%
15,200	SLM Corporation	6.000%
174,000	SLM Corporation, Series A (a)	6.970%
-----		
Diversified Financial Services - 4.8%		
7,200	BBVA Preferred Capital Ltd., Series B	7.750%
26,500	CIT Group Incorporated (CORTS)	7.750%
186,200	Citigroup Capital Trust VII	7.125%
1,006,400	Citigroup Capital Trust VIII	6.950%
268,800	Citigroup Capital Trust IX	6.000%
40,100	General Electric Capital Corporation	6.625%
5,000	ING Capital Funding Trust II	9.200%
584,220	ING Group NV	7.200%
722,775	ING Group NV	7.050%
43,200	JPM Capital Trust (CORTS)	7.200%
9,900	JPM Capital Trust I, Series 2001-1, Class A-1 (CORTS)	7.850%

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)

Portfolio of Investments December 31, 2004

Shares	Description(1)	Coupon	Mo
-----			
Diversified Financial Services (continued)			
71,965	JPMorgan Chase & Company (PCARS)	7.125%	
712,420	JPMorgan Chase Capital Trust X	7.000%	
73,600	JPMorgan Chase Trust, Series 2002-6, Class A (SATURNS)	7.125%	
71,500	Merrill Lynch Capital Trust II	8.000%	
-----			
Diversified Telecommunication Services - 0.6%			
36,700	BellSouth Capital Funding (CORTS)	7.100%	
16,000	BellSouth Corporation (CORTS)	7.000%	
17,600	BellSouth Corporation, CABCO Trust	9.750%	
48,600	BellSouth Corporation, Series 2001-3 (SATURNS)	7.125%	
30,800	BellSouth Inc. (CORTS)	7.000%	
70,600	BellSouth Telecommunications (PPLUS)	7.300%	
57,900	Deutsche Telekom International Finance, B.V., Series 2001-24, Class A-1 (CORTS)	7.875%	
50,000	SBC Communications Inc.	7.000%	
26,300	Verizon Communications (CORTS)	7.625%	
47,300	Verizon Communications (CORTS)	7.375%	
50,700	Verizon New England Inc., Series B	7.000%	
29,900	Verizon South Inc., Series F	7.000%	
-----			
Electric Utilities - 0.6%			
5,000	Consolidated Edison Company	7.250%	
12,000	Consolidated Edison Company of New York Inc.	7.500%	
4,000	Detroit Edison Company	7.375%	
21,100	DTE Energy Trust I	7.800%	
27,400	Entergy Louisiana Inc.	7.600%	
6,600	Entergy Mississippi Inc.	7.250%	
3,000	Georgia Power Capital Trust V	7.125%	
130,000	Interstate Power and Light Company (a)	7.100%	
11,000	Mississippi Power Capital Trust II	7.200%	
40,000	National Rural Utilities Cooperative Finance Corporation	6.100%	
33,600	Northern States Power Company	8.000%	
10,900	Southern Company Capital Trust I (CORTS)	8.190%	
30,300	Southern Company Capital Trust I (CORTS)	7.375%	
13,100	Southern Company Capital Trust VI	7.125%	
122,300	Virginia Power Capital Trust	7.375%	
-----			
Food Products - 0.4%			
75,000	Dairy Farmers of America Inc., 144A (a)	7.875%	
-----			
Gas Utilities - 0.1%			
75,300	AGL Capital Trust II	8.000%	
-----			
Insurance - 8.4%			

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157,500	ACE Capital Trust I, Series 1999	8.875%
1,302,383	Ace Ltd., Series C	7.800%
587,500	Aetna Incorporated	8.500%
5,100	Allstate Corporation (PCARS)	7.150%
87,300	AMBAC Financial Group Inc.	5.950%
674,601	Delphi Financial Group Inc.	8.000%
192,956	EverestRe Capital Trust II	6.200%
89,500	EverestRe Group Limited	7.850%
10,700	Financial Security Assurance Holdings	6.875%
284,700	Hartford Capital Trust III, Series C	7.450%
41,100	Hartford Life Capital Trust II, Series B	7.625%
53,400	Lincoln National Capital Trust V, Series E	7.650%
1,402,300	Lincoln National Capital Trust VI	6.750%
3,600	MBIA Inc.	8.000%
78,200	PartnerRe Limited	7.900%
900,702	PartnerRe Limited, Series C	6.750%
80,000	PLC Capital Trust III	7.500%
67,200	PLC Capital Trust IV	7.250%
13,800	PLC Capital Trust V	6.125%

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Shares	Description(1)	Coupon	Mo
-----			
Insurance (continued)			
38,800	Prudential plc	6.750%	
114,400	RenaissanceRe Holdings Ltd., Series A	8.100%	
124,700	RenaissanceRe Holdings Ltd., Series B	7.300%	
24,900	Safeco Capital Trust I (CORTS)	8.700%	
20,900	Safeco Capital Trust I (CORTS)	8.750%	
20,100	Safeco Capital Trust I, Series 2001-4 (CORTS)	8.750%	
45,800	Safeco Capital Trust III (CORTS)	8.072%	
16,600	Safeco Capital Trust IV (CORTS)	8.375%	
37,300	Safeco Corporation, Series 2002-5 (SATURNS)	8.250%	
37,900	Safeco Corporation, Series 2001-7 (SATURNS)	8.250%	
53,700	Torchmark Capital Trust I	7.750%	
118,100	W.R. Berkley Capital Trust, Series 2002-1 (CBTCS)	8.125%	
66,800	XL Capital Ltd., Series A	8.000%	
101,100	XL Capital Ltd., Series B	7.625%	
-----			
Media - 0.1%			
52,700	Viacom Inc.	7.300%	
-----			
Multi-Utilities & Unregulated Power - 0.2%			
51,400	Dominion CNG Capital Trust I	7.800%	
30,700	Dominion Resources Capital Trust II	8.400%	
85,200	Energy East Capital Trust I	8.250%	
-----			
Oil & Gas - 0.9%			

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685,000	Nexen Inc.	7.350%
-----		
	Pharmaceuticals - 0.1%	
50,000	Bristol Myers Squibb Company (CORTS)	6.250%
-----		
	Real Estate - 11.2%	
318,355	AMB Property Corporation, Series L	6.500%
77,100	AvalonBay Communities, Inc., Series H	8.700%
220,400	BRE Properties, Series B	8.080%
80,000	BRE Properties, Series D	6.750%
1,166,500	CarrAmerica Realty Corporation, Series E	7.500%
104,100	Developers Diversified Realty Corporation, Series G	8.000%
1,264,845	Developers Diversified Realty Corporation, Series H	7.375%
21,100	Duke Realty Corporation, Series K	6.500%
120,000	Duke Realty Corporation, Series L	6.600%
98,000	Duke-Weeks Realty Corporation	6.625%
25,000	Duke-Weeks Realty Corporation, Series B	7.990%
5,400	Duke-Weeks Realty Corporation, Series I	8.450%
192,100	Equity Office Properties Trust, Series G	7.750%
3,200	Equity Residential Properties Trust, Series C	9.125%
15,400	Equity Residential Properties Trust, Series D	8.600%
467,489	Equity Residential Properties Trust, Series N	6.480%
140,000	Federal Realty Investment Trust	8.500%
11,600	First Industrial Realty Trust, Inc., Series C	8.625%
44,041	Gables Residential Trust, Series D	7.500%
423,729	HRPT Properties Trust, Series A	9.875%
458,600	HRPT Properties Trust, Series B	8.750%
99,400	New Plan Excel Realty Trust, Series E	7.625%
3,997	Prologis Trust, Series C	8.540%
96,075	Prologis Trust, Series G	6.750%
299,600	PS Business Parks Inc.	7.000%
240,000	PS Business Parks Inc., Series L	7.600%
31,000	Public Storage Inc., Series Q	8.600%
147,450	Public Storage Inc., Series R	8.000%
50,060	Public Storage Inc., Series S	7.875%
42,000	Public Storage Inc., Series T	7.625%
173,800	Public Storage Inc., Series U	7.625%
31,500	Public Storage Inc., Series V	7.500%

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)

Portfolio of Investments December 31, 2004

Shares	Description(1)	Coupon	Moo
-----			
	Real Estate (continued)		
166,100	Regency Centers Corporation	7.450%	
20,500	Simon Property Group, Inc., Series F	8.750%	
15,100	Simon Property Group, Inc., Series G	7.890%	



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165,000	Vornado Realty Trust	6.625%
3,370	Vornado Realty Trust, Series C	8.500%
1,987,734	Wachovia Preferred Funding Corporation	7.250%
130,000	Weingarten Realty Trust, Series E	6.950%
-----		
	Specialty Retail - 0.0%	
26,400	Sherwin Williams Company, Series III (CORTS)	7.250%
-----		
	Thrifths & Mortgage Finance - 1.3%	
68,400	Countrywide Capital III (PPLUS)	8.050%
75,900	Countrywide Capital Trust II, Series II (CORTS)	8.000%
666,500	Countrywide Capital Trust IV	6.750%
14,800	Fannie Mae (a)	3.780%
33,000	Fannie Mae (a)	5.125%
11,600	Fannie Mae (a)	4.750%
52,000	Fannie Mae	0.000%
26,000	Federal Home Loan Mortgage Corporation (a)	5.100%
15,000	Federal Home Loan Mortgage Corporation (a)	5.000%
-----		
	Wireless Telecommunication Services - 0.7%	
28,000	AT&T Wireless Services Equity, Series 2002-B (SATURNS)	9.250%
55,900	AT&T Wireless, Series 2002-7 (CORTS)	8.000%
112,000	Telephone and Data Systems Inc.	7.600%
340,000	United States Cellular Corporation	7.500%
48,900	United States Cellular Corporation	8.750%
-----		
	Total \$25 Par (or similar) Securities (cost \$957,306,520)	
-----		
	CONVERTIBLE PREFERRED SECURITIES -17.9% (12.4% of Total Investments)	
	Automobiles - 1.3%	
96,885	Ford Motor Company Capital Trust II	6.500%
835,200	General Motors Corporation	6.250%
-----		
	Capital Markets - 1.1%	
309,000	Gabelli Asset Management Inc.	6.950%
394,500	Goldmand Sachs Group Inc., Series EMC	6.125%
143,200	Lehman Brothers Holdings Inc., Series GIS	6.250%
29,725	State Street Corporation	6.750%
-----		
	Chemicals - 0.4%	
84,400	The Mosaic Company	7.500%
-----		
	Commercial Banks - 1.6%	
130,500	HSBC Finance Corporation	8.875%
273,600	National Australia Bank Limited	7.875%
217,375	Sovereign Capital Trust IV, Convertible Security	4.375%
115,725	Washington Mutual Inc., Unit 1 Trust	5.375%
-----		
	Communications Equipment - 0.8%	
9,200	Lucent Technologies Capital Trust I	7.750%
115	Nortel Networks Corp.	7.000%

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	Construction Materials - 0.5%	
216,700	TXI Capital Trust I	6.500%
	Consumer Finance - 0.1%	
45,000	Capital One Financial Corporation	6.250%
	Containers & Packaging - 0.4%	
149,000	Temple Inland Inc.	7.500%

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Shares	Description(1)	Coupon	Mo
	Diversified Financial Services - 0.6%		
281,600	Citigroup Global Markets	2.000%	
	Electric Utilities - 1.2%		
260,000	Centerpoint Energy Inc.	2.000%	
154,500	FPL Group Inc.	8.000%	
2,630,000	PG&E Corporation	9.500%	
	Electrical Equipment - 0.2%		
60,775	General Cable Corporation, 144A	5.750%	
	Electronic Equipment & Instruments - 0.5%		
182,200	Pioneer-Standard Financial Trust	6.750%	
	Food & Staples Retailing - 0.4%		
357,025	Albertsons Inc.	7.250%	
	Gas Utilities - 0.1%		
30,150	Southern Union Company, Series B	5.750%	
	Healthcare Equipment & Supplies - 0.3%		
124,000	Baxter International Inc.	7.000%	
	Hotels Restaurants & Leisure - 0.4%		
157,000	Host Marriott Financial Trust	6.750%	
	Household Durables - 0.4%		
187,325	Newell Financial Trust I	5.250%	

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-----		
	Insurance - 1.9%	
147,000	Chubb Corporation	7.000%
395,000	Genworth Financial Inc.	6.000%
167,000	Reinsurance Group of America Inc.	5.750%
100,000	UnumProvident Corporation	8.250%
340,650	XL Capital Limited	6.500%
-----		
	Media - 0.7%	
137,000	Emmis Communications Corporation, Series A	6.250%
70,350	Interpublic Group, Series A	5.375%
97,500	Sinclair Broadcast Group Inc., Series D	6.000%
-----		
	Metals & Mining - 0.5%	
24,300	Phelps Dodge Corporation	0.000%
36,000	United States Steel Corporation, Series B	7.000%
-----		
	Multi-Utilities & Unregulated Power - 1.8%	
86,975	Aquila Inc.	6.750%
197,500	Dominion Resources Inc.	8.750%
151,300	Public Service Enterprise Group	10.250%
442,550	Sempra Energy	8.500%
-----		
	Oil & Gas - 1.0%	
8,955	Chesapeake Energy Corporation, 144A	4.125%
222,100	Teekay Shipping Corporation	7.250%
-----		
	Pharmaceuticals - 0.6%	
217,875	Schering-Plough Corporation	6.000%
-----		
	Real Estate - 0.5%	
225,250	Equity Office Properties Trust, Series B	5.250%
-----		
	Thrifths & Mortgage Finance - 0.6%	
77	Fannie Mae	5.375%
140,000	PMI Group Inc.	5.875%
-----		
	Total Convertible Preferred Securities (cost \$340,265,576)	
-----		

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)

Portfolio of Investments December 31, 2004

Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Mo
--------------------------------------	-----------------	--------	----------	----

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-----			
CONVERTIBLE BONDS - 28.4% (19.6% of Total Investments)			
Aerospace & Defense - 0.4%			
3,860	AAR Corporation, 144A	2.875%	2/01/24
4,900	EDO Corporation, Convertible Subordinate Note	5.250%	4/15/07
-----			
Airlines - 0.9%			
8,450	American Airlines Corporation, 144A	4.250%	9/23/23
8,050	Continental Airlines Inc.	4.500%	2/01/07
3,200	Northwest Airlines Corporation	6.625%	5/15/23
2,250	Northwest Airlines Corporation, Convertible Notes, 144A	6.625%	5/15/23
-----			
Auto Components - 0.2%			
6,440	Lear Corporation	0.000%	2/20/22
-----			
Automobiles - 0.2%			
3,595	Fleetwood Enterprises Inc., 144A	5.000%	12/15/23
-----			
Biotechnology - 1.1%			
5,000	Cephalon Inc.	0.000%	6/15/33
3,790	Imclone Systems Inc., 144A	1.375%	5/15/24
5,975	Ivax Corporation, Convertible Note, 144A	1.500%	3/01/24
8,500	Ivax Corporation, Convertible Senior Subordinated Notes	4.500%	5/15/08
-----			
Commercial Services & Supplies - 0.7%			
7,000	Electronic Data Systems, Convertible Senior Notes, 144A	3.875%	7/15/23
8,200	IOS Capital LLC, Convertible Subordinate Debentures, 144A	5.000%	5/01/07
-----			
Communications Equipment - 1.5%			
9,200	Ciena Corporation	3.750%	2/01/08
5,245	Corning Inc.	3.500%	11/01/08
3,775	Lucent Technologies Inc.	2.750%	6/15/23
4,475	Powerwave Technologies Inc.	1.825%	11/15/24
6,850	Skyworks Solutions Inc.	4.750%	11/15/07
-----			
Computers & Peripherals - 0.5%			
11,635	Hewlett-Packard Company	0.000%	10/14/17
3,250	Mercury Computer Systems Inc., 144A	2.000%	5/01/24
-----			
Construction & Engineering - 0.4%			
8,500	Quanta Services Incorporated	4.000%	7/01/07
-----			
Consumer Finance - 0.4%			
8,000	Providian Financial Corporation, Convertible Senior Notes	3.250%	8/15/05
-----			

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Diversified Financial Services - 0.4%			
2,650	JMH Finance Limited	4.750%	9/06/07
4,075	Leucadia National Corporation, 144A	3.750%	4/15/14
-----			
Electronic Equipment & Instruments - 0.7%			
21,000	Anixter International Inc.	0.000%	6/28/20
7,020	Vishay Intertechnology Inc.	3.625%	8/01/23
-----			
Energy Equipment & Services - 1.5%			
8,400	Diamond Offshore Drilling Inc.	1.500%	4/15/31
8,500	Maverick Tube Corporation	4.000%	6/15/33
9,250	Schlumberger Limited	2.125%	6/01/23
1,210	Willbros Group Inc., 144A	2.750%	3/15/24
-----			
Healthcare Equipment & Supplies - 1.1%			
5,745	Advanced Medical Optics	2.500%	7/15/24
8,195	Fisher Scientific International Inc.	3.250%	3/01/24
8,700	Lifepoint Hospitals Inc.	4.500%	6/01/09

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Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Mo
-----				
Hotels Restaurants & Leisure - 3.0%				
10,775	Carnival Corporation	2.000%	4/15/21	
7,500	Hilton Hotels Corporation	3.375%	4/15/23	
7,125	Kerzner International Limited, 144A	2.375%	4/15/24	
16,000	Royal Caribbean Cruises Limited, Senior Convertible Zero Coupon Liquid Yield Option Notes	0.000%	2/02/21	
4,985	Scientific Games Corporation	0.750%	12/01/24	
4,750	Six Flags Inc.	4.500%	5/15/15	
7,755	Starwood Hotels and Resorts Worldwide Inc.	3.500%	5/16/23	
-----				
Industrial Conglomerates - 0.9%				
4,650	Tyco International Group Limited, Convertible Notes, 144A	3.125%	1/15/23	
7,200	Tyco International Group SA	3.125%	1/15/23	
-----				
Internet & Catalog Retail - 0.1%				
2,395	Overstock.com Inc.	3.750%	12/01/11	
-----				
IT Services - 0.6%				
1,470	BearingPoint Inc.	2.500%	12/15/24	
1,470	BearingPoint Inc.	2.750%	12/15/24	
7,100	Digital River Inc., 144A	1.250%	1/01/24	
1,070	Euronet Worldwide Inc.	1.625%	12/15/24	

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Leisure Equipment & Products - 0.7%			
4,850	Collegiate Pacific Inc.	5.750%	12/01/09
7,000	Hasbro Inc.	2.750%	12/01/21
1,165	K2 Corporation, Convertible Notes, 144A	5.000%	6/15/10
Media - 5.1%			
3,210	Charter Communications Inc.	5.875%	11/16/09
415,000	Comcast Corporation	2.000%	10/15/29
4,500	Interpublic Group Companies Inc.	4.500%	3/15/23
6,340	Lamar Advertising Company, Convertible Notes	2.875%	12/31/10
6,990	Liberty Media Corporation	0.750%	3/30/23
11,000	Liberty Media Corporation, Senior Debentures, Exchangeable for Class B Viacom Common Stock	3.250%	3/15/31
10,565	Liberty Media Corporation, Senior Debentures, Exchangeable for Motorola Common Stock	3.500%	1/15/31
26,800	Liberty Media Corporation, Senior Debentures, Exchangeable for PCS Common Stock, Series 1	4.000%	11/15/29
890,000	Lions Gate Entertainment Corporation	4.875%	12/15/10
3,780,000	Lions Gate Entertainment Corporation, Convertible Bond, 144A	4.875%	12/15/10
3,540	Lions Gate Entertainment Corporation, 144A	2.938%	10/15/24
8,050	Walt Disney Company, Convertible Senior Notes	2.125%	4/15/23
Metals & Mining - 0.2%			
4,510	Trizec Hahn Corporation	3.000%	1/29/21
Oil & Gas - 0.7%			
8,600	Kerr-McGee Corporation	5.250%	2/15/10
4,170	McMoran Exploration Corporation, Notes, 144A	6.000%	7/02/08
Pharmaceuticals - 2.3%			
1,845	Abgenix Inc., Senior Convertible Note, 144A	1.750%	12/15/11
2,400	Alexion Pharmaceuticals Inc.	5.750%	3/15/07
9,530	Allergan Inc., Convertible Zero Coupon Senior Notes	0.000%	11/06/22
1,255	Atherogenics Inc., 144A	4.500%	9/01/08
7,000	OSI Pharmaceuticals Inc.	3.250%	9/08/23
5,425	Teva Pharmaceutical Finance, Series B	0.250%	2/01/24
4,350	Valeant Pharmaceuticals International, 144A	3.000%	8/16/10
2,545	Valeant Pharmaceuticals International, 144A	4.000%	11/15/13
8,500	Wyeth, 144A	1.000%	1/15/24

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)

Portfolio of Investments December 31, 2004

Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Mo
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	Real Estate - 0.2%		
3,625	Avatar Holdings Inc., 144A	4.500%	4/01/24
	-----		
	Semiconductors & Equipment - 1.4%		
6,180	Advanced Micro Devices Inc.	4.750%	2/01/22
8,325	Agere Systems Inc.	6.500%	12/15/09
6,400	ASM International NV	4.250%	12/06/11
5,500	ASM Lithography Holding NV	5.750%	10/15/06
	-----		
	Software - 0.8%		
4,200	Computer Associates International Inc.	5.000%	3/15/07
7,100	Mentor Graphics Corporation, Convertible Subordinate Notes	6.875%	6/15/07
5,105	Novell Inc., 144A	0.500%	7/15/24
	-----		
	Specialty Retail - 1.6%		
7,820	Charming Shoppes Inc.	4.750%	6/01/12
11,450	Lowes Companies Inc.	0.000%	2/16/21
8,700	Sonic Automotive Inc., Convertible Senior Subordinated Notes	5.250%	5/07/09
5,900	TJX Companies Inc.	0.000%	2/13/21
	-----		
	Textiles & Apparel - 0.3%		
6,025	Reebok International Ltd.	2.000%	5/01/24
	-----		
	Wireless Telecommunication Services - 0.5%		
2,975	NII Holdings Inc., 144A	3.500%	9/15/33
4,100	NII Holdings Inc., 144A	2.875%	2/01/34
	-----		
	Total Convertible Bonds (cost \$545,132,216)		
	-----		
	CORPORATE BONDS - 16.9% (11.7% of Total Investments)		
	Aerospace & Defense - 0.2%		
3,500	K&F Aquisition Inc.	7.750%	11/15/14
	-----		
	Auto Components - 0.4%		
3,550	Affinia Group Inc.	9.000%	11/30/14
4,000	Tenneco Auto, Inc.	10.250%	7/15/13
	-----		
	Automobiles - 2.2%		
2,000	Ford Motor Company	8.900%	1/15/32
7,570	Ford Motor Company, Debentures	7.700%	5/15/97
17,095	Ford Motor Company, Debentures	9.980%	2/15/47
15,630	General Motors Corporation, Senior Debentures	8.375%	7/15/33
	-----		
	Building Products - 0.2%		
4,000	Jacuzzi Brands Inc.	9.625%	7/01/10
	-----		

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Chemicals - 0.6%				
6,500	OM Group Inc.		9.250%	12/15/11
3,500	Resolution Performance Products LLC		8.000%	12/15/09
3,000	Rockwood Specialties Group		7.500%	11/15/14
-----				
Commercial Banks - 0.5%				
10,000	Washington Mutual Bank FA		5.125%	1/15/15
-----				
Commercial Services & Supplies - 0.4%				
3,523	Allied Waste North America, Series B		10.000%	8/01/09
1,518	IOS Capital LLC, Senior Notes		7.250%	6/30/08
2,000	Williams Scotsman Inc.		10.000%	8/15/08
-----				
Construction Materials - 0.1%				
2,000	Texas Industries Inc.		10.250%	6/15/11

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Principal Amount (000)/ Shares	Description(1)		Coupon	Maturity	---
-----					
Containers & Packaging - 0.4%					
2,000	Berry Plastics Corporation		10.750%	7/15/12	
3,000	Owens-Brockway Glass Containers, Guaranteed Senior Note		8.250%	5/15/13	
3,000	Owens-Illinois Inc.		7.500%	5/15/10	
-----					
Diversified Financial Services - 0.2%					
3,450	MDP Acquisitions plc, Senior Notes		9.625%	10/01/12	
-----					
Electric Utilities - 0.1%					
2,000	Midwest Generation LLC		8.750%	5/01/34	
-----					
Food & Staples Retailing - 0.1%					
3,000	Stater Brothers Holdings Inc.		8.125%	6/15/12	
-----					
Food Products - 1.0%					
7,610	Del Monte Corporation		8.625%	12/15/12	
7,000	Dole Foods Company		7.875%	7/15/13	
1,435	Dole Foods Company		8.625%	5/01/09	
3,250	Seminis Vegetable Seeds Inc.		10.250%	10/01/13	
-----					
Healthcare Equipment & Supplies - 0.1%					
1,500	Fisher Scientific International Inc.		8.000%	9/01/13	
-----					



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Healthcare Providers & Services - 0.4%			
3,000	Quintiles Transitional Corporation	10.000%	10/01/13
2,000	Service Corporation International	7.700%	4/15/09
3,000	US Oncology Inc., 144A	10.750%	8/15/14
-----			
Hotels Restaurants & Leisure - 2.2%			
5,190	Aztar Corporation	9.000%	8/15/11
2,345	Boyd Gaming Corporation	8.750%	4/15/12
4,075	Boyd Gaming Corporation	7.750%	12/15/12
3,172	Dominos Inc.	8.250%	7/01/11
1,500	Herbst Gaming Inc.	7.000%	11/15/14
4,100	Intrawest Corporation	7.500%	10/15/13
3,000	Las Vegas Sands Inc., Venetian Casino Resorts, LLC Mortgage Notes	11.000%	6/15/10
2,000	MGM Mirage, Inc.	6.750%	8/01/07
3,500	Park Place Entertainment	7.875%	12/15/05
1,000	Park Place Entertainment	9.375%	2/15/07
1,000	Park Place Entertainment	7.875%	3/15/10
4,000	Penn National Gaming Inc., Senior Subordinated Notes	8.875%	3/15/10
500	Penn National Gaming Inc., Series B	11.125%	3/01/08
3,000	Pinnacle Entertainment Inc.	8.750%	10/01/13
2,000	Pinnacle Entertainment Inc.	8.250%	3/15/12
4,000	Universal City Development Partners	11.750%	4/01/10
-----			
Household Durables - 0.5%			
1,000	D.R. Horton, Inc.	10.500%	4/01/05
4,500	K. Hovnanian Enterprises Inc., Senior Subordinate Notes	8.875%	4/01/12
5,000	KB Home	8.625%	12/15/08
-----			
Insurance - 0.1%			
2,500	Fairfax Financial Holdings Ltd.	7.750%	4/26/12
-----			
IT Services - 0.2%			
3,000	Global Cash Access LLC	8.750%	3/15/12
-----			
Machinery - 0.3%			
3,000	Terex Corporation, Senior Subordinated Notes	10.375%	4/01/11
3,000	Terex Corporation, Senior Subordinated Notes	9.250%	7/15/11

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)

Portfolio of Investments December 31, 2004

Principal Amount (000)/ Shares	Description(1)	Coupon	Maturity	Mo
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Media - 4.0%			
6,900	Allbritton Communications Company, Series B	7.750%	12/15/12
2,000	AMC Entertainment Inc.	8.000%	3/01/14
1,345	American Media Operations Inc.	8.875%	1/15/11
6,000	American Media Operations Inc., Series B	10.250%	5/01/09
3,000	Cablevision Systems Corporation	7.250%	7/15/08
2,000	Cablevision Systems Corporation	8.125%	7/15/09
5,000	Cablevision Systems Corporation, Series B	8.125%	8/15/09
2,000	Charter Communications Operating LLC, 144A	8.000%	4/30/12
6,000	Cinemark USA Inc.	9.000%	2/01/13
1,000	Dex Media West LLC	8.500%	8/15/10
2,198	Dex Media West LLC	9.875%	8/15/13
3,000	Loews Cineplex Entertainment Corporation, 144A	9.000%	8/01/14
3,855	Mail-Well I Corporation, Senior Unsecured Note, 144A	9.625%	3/15/12
4,000	Medianews Group Inc.	6.375%	4/01/14
8,000	Primedia Inc., Senior Notes	8.875%	5/15/11
2,000	R H Donnelley Finance Corp 1	10.875%	12/15/12
2,000	Sun Media Corporation	7.625%	2/15/13
10,000	Vertis Inc.	9.750%	4/01/09
1,000	Young Broadcasting Inc.	8.500%	12/15/08
2,000	Young Broadcasting Inc.	8.750%	1/15/14
5,500	Young Broadcasting Inc., Senior Subordinate Notes	10.000%	3/01/11
-----			
Metals & Mining - 0.1%			
1,682	United States Steel Corporation	9.750%	5/15/10
-----			
Multiline Retail - 0.2%			
1,000	Saks Inc.	7.375%	2/15/19
2,000	Saks Inc., Notes	7.500%	12/01/10
1,000	Saks Inc., Notes	9.875%	10/01/11
-----			
Multi-Utilities & Unregulated Power - 0.0%			
500	Northwestern Corporation	5.875%	11/01/14
-----			
Oil & Gas - 0.5%			
2,345	Chesapeake Energy Corporation	7.750%	1/15/15
2,563	Chesapeake Energy Corporation	9.000%	8/15/12
2,000	Premcor Refining Group Inc.	7.500%	6/15/15
1,000	Tesoro Petroleum Corporation	8.000%	4/15/08
1,000	Tesoro Petroleum Corporation, Senior Subordinate Notes, Series B	9.625%	11/01/08
-----			
Paper & Forest Products - 0.4%			
2,000	Georgia Pacific Corporation, Debentures	7.700%	6/15/15
5,000	Georgia Pacific Corporation, Notes	8.125%	5/15/11
-----			
Road & Rail - 0.2%			
3,000	Laidlaw International Inc.	10.750%	6/15/11
-----			
Specialty Retail - 0.7%			
6,000	Asbury Automotive Group Inc.	9.000%	6/15/12
8,000	Warnaco Inc., Senior Notes	8.875%	6/15/13
-----			

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Textiles & Apparel - 0.2%			
4,000	Jostens IH Corporation, 144A	7.625%	10/01/12
-----			
Trading Cos & Distributors - 0.2%			
1,300	Keystone Automotive Operations Inc.	9.750%	11/01/13
2,000	United Rentals North America Inc.	6.500%	2/15/12
-----			
Wireless Telecommunication Services - 0.2%			
4,000	Nextel Communications Inc.	7.375%	8/01/15
-----			
Total Corporate Bonds (cost \$342,622,897)			
-----			

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Principal Amount (000)/ Shares	Description(1)	Coupon	Maturity	Mo
-----				
CAPITAL PREFERRED SECURITIES - 34.5% (23.9% of Total Investments)				
Capital Markets - 5.2%				
6,273	BT Capital Trust, Series B1	7.900%	1/15/27	
15,000	BT Institutional Capital Trust A, 144A	8.090%	12/01/26	
2,000	BT Institutional Capital Trust B, 144A	7.750%	12/01/26	
1,250	C.A. Preferred Fund Trust II	7.000%	10/30/49	
32,750	C.A. Preferred Funding Trust	7.000%	1/30/49	
3,000	Compass Trust I, Series A	8.230%	1/15/27	
3,500	First Union Capital Trust II, Series A	7.950%	11/15/29	
500	First Union Institutional Capital II	7.850%	1/01/27	
2,000	First Union Institutional Capital Securities I	8.040%	12/01/26	
8,300	Goldman Sachs Group Inc.	6.345%	2/15/34	
19,335	Mellon Capital Trust I, Series A	7.720%	12/01/26	
9,000	State Street Institutional Capital Trust, 144A	8.035%	3/15/27	
-----				
Commercial Banks - 17.4%				
2,000	AB Svensk Exportkredit, 144A	6.375%	10/27/49	
20,000	Abbey National Capital Trust I	8.963%	12/30/49	
45,300	AgFirst Farm Credit Bank	7.300%	12/15/53	
2,400	ANZ Capital Trust I, 144A	5.360%	12/29/49	
12,840	Bank One Capital III	8.750%	9/01/30	
1,974	BankAmerica Capital II, Series 2	8.000%	12/15/26	
2,600	BankAmerica Institutional Capital Trust, Series B, 144A	7.700%	12/31/26	
5,000	BankAmerica Institutional Trust, 144A	8.070%	12/31/26	
2,000	BankBoston Capital Trust I, Series B	8.250%	12/15/26	
1,000	BanPonce Trust I, Series A	8.327%	2/01/27	
1,500	Barclays Bank plc, 144A	8.550%	6/15/49	
500	Barnett Capital I	8.060%	12/01/26	
21,000	CBA Capital Trust I, 144A	5.805%	12/30/49	
2,200	DBS Capital Funding Corporation, 144A	7.657%	3/15/49	

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5,000	Farm Credit Bank of Texas	7.561%	11/05/49
2,350	FBS Capital Trust I	8.090%	11/15/26
4,315	First Chicago NBD Institutional Capital Trust, Series B, 144A	7.750%	12/01/26
6,000	First Chicago NBD Institutional Capital, 144A	7.950%	12/01/26
5,750	First Empire Capital Trust I	8.234%	2/01/27
11,550	First Empire Capital Trust II	8.277%	6/01/27
4,250	First Midwest Bancorp Inc.	6.950%	12/01/33
12,838	HSBC Capital Funding LP, 144A	9.547%	12/31/49
14,000	HSBC Capital Funding LP, Debt	10.176%	6/30/50
19,605	KBC Bank Fund Trust III, 144A	9.860%	11/02/49
4,000	KeyCorp Capital III	7.750%	7/15/29
15,000	KeyCorp Institutional Capital Trust A	7.826%	12/01/26
17,000	Lloyds TSB Bank plc, Subordinate Note	6.900%	11/22/49
1,000	Nordbanken AB, 144A	8.950%	11/29/49
18,500	North Fork Capital Trust II	8.000%	12/15/27
500	PNC Institutional Capital Securities, 144A	7.950%	12/15/26
2,000	Popular North American Capital Trust I	6.564%	9/15/34
16,750	RBS Capital Trust B	6.800%	12/31/49
2,000	Reliance Capital Trust I, Series B	8.170%	5/01/28
1,202	Republic New York Capital II, Capital Securities	7.530%	12/04/26
3,400	Royal Bank of Scotland Group plc	7.648%	8/31/49
6,200	Royal Bank of Scotland Group plc	9.118%	3/31/49
4,000	SocGen Real Estate Company LLC, 144A	7.640%	12/29/49
4,472	St. George Funding Company LLC, 144A	8.485%	6/30/47
14,330	Unicredito Italiano Capital Trust, 144A	9.200%	10/05/49
3,800	Union Planters Capital Trust A	8.200%	12/15/26
3,455	Washington Mutual Capital Trust I	8.375%	6/01/27
2,000	Zions Institutional Capital Trust, Series A	8.536%	12/15/26

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Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)

Portfolio of Investments December 31, 2004

Principal Amount (000)/ Shares	Description (1)	Coupon	Maturity	Mo
-----				
Diversified Financial Services - 5.4%				
15,750	BNP Paribas Capital Trust	7.200%	12/31/49	
900	Chase Capital Trust I, Series A	7.670%	12/01/26	
1,000	Citigroup Capital III	7.625%	12/01/36	
51,900	HBOS Capital Funding LP, Notes (DD, settling 1/03/05)	6.850%	3/01/49	
10,000	ING Capital Funding Trust III	8.439%	12/30/49	
2,150	JPM Capital Trust I	7.540%	1/15/27	
3,000	JPM Capital Trust II	7.950%	2/01/27	
23,600	Old Mutual Capital Funding, Notes	8.000%	6/22/53	
-----				
Diversified Telecommunication Services - 1.5%				
24,080	Centaur Funding Corporation, Series B, 144A	9.080%	4/21/20	
-----				
Insurance - 3.8%				

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987	Allstate Financing II	7.830%	12/01/45
10,000	American General Capital II	8.500%	7/01/30
4,980	American General Institutional Capital, 144A	8.125%	3/15/46
612	Berkeley Capital Trust	8.197%	12/15/45
14,250	Mangrove Bay, Class 3, 144A	6.102%	7/15/33
3,750	Prudential plc	6.500%	6/29/49
13,500	Sun Life Canada Capital Trust, Capital Securities, 144A	8.526%	5/06/47
23,513	Zurich Capital Trust I, 144A	8.376%	6/01/37
-----			
	Oil & Gas - 1.0%		
18,855	KN Capital Trust III	7.630%	4/15/28
-----			
	Thrifths & Mortgage Finance - 0.2%		
500	Countrywide Capital Trust I	8.000%	12/15/26
3,365	Great Western Financial Trust II, Series A	8.206%	2/01/27
-----			
	Total Capital Preferred Securities (cost \$733,857,521)		
-----			
	REPURCHASE AGREEMENTS - 0.7% (0.5% of Total Investments)		
\$ 13,980	State Street Bank, 1.000%, dated 12/31/04, due 1/03/05, repurchase price \$13,980,703, collateralized by \$14,200,000 U.S. Treasury Notes, 1.500%, due 2/28/05, value 14,260,691		
=====			
-----			
	Total Repurchase Agreements (cost \$13,979,538)		
-----			
	Total Investments (cost \$2,945,376,977) - 144.6%		
=====			

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Shares	Description(1)
	COMMON STOCKS SOLD SHORT - (3.4)%
	Automobiles - (0.2)%
(102,665)	General Motors Corporation
-----	
	Chemicals - (0.4)%
(535,880)	The Mosaic Company
-----	
	Communications Equipment - (0.2)%
(1,195,000)	Lucent Technologies Inc.
-----	
	Consumer Finance - (0.0)%

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(12,072)	Capital One Financial Corporation
	Electric Utilities - (0.1)%
(62,830)	PG&E Corporation
	Food & Staples Retailing - (0.2)%
(158,510)	Albertsons, Inc.
	Food Products - (0.1)%
(49,530)	General Mills Inc.
	Gas Utilities - (0.1)%
(75,425)	Southern Union Company
	Healthcare Equipment & Supplies - (0.2)%
(149,200)	Baxter International Inc.
	Insurance - (0.4)%
(40,765)	Chubb Corporation
(90,200)	Genworth Financial Inc.
(166,530)	UnumProvident Corporation
	Leisure Equipment & Products - (0.1)%
(74,056)	K2 Inc.
	Media - (0.4)%
(777,950)	Lions Gate Entertainment Corporation, Equity
	Metals & Mining - (0.4)%
(50,042)	Phelps Dodge Corporation
(111,725)	United States Steel Corporation
	Multi-Utilities & Unregulated Power - (0.3)%
(682,255)	Aquila Inc.
(82,825)	Sempra Energy
	Pharmaceuticals - (0.2)%
(163,190)	Schering-Plough Corporation
	Thrifts & Mortgage Finance - (0.1)%
(53,539)	PMI Group Inc.
	Total Common Stocks Sold Short (proceeds \$63,815,481)
	Other Assets Less Liabilities - 3.9%
	FundPreferred Shares, at Liquidation Value - (45.1)%
	Net Assets Applicable to Common Shares - 100%

Nuveen Preferred and Convertible Income Fund 2 (JQC) (continued)

Portfolio of Investments December 31, 2004

Interest Rate Swap Contracts outstanding at December 31, 2004:

Counterparty	Notional Amount	Fixed Rate	Floating Rate**
JPMorgan	\$97,000,000	1.3605%	2.4150%
Morgan Stanley	97,000,000	2.0250	2.4150
Royal Bank of Canada	97,000,000	2.6790	2.4150
Morgan Stanley	97,000,000	3.0480	2.4150
JPMorgan	97,000,000	3.3595	2.4150

Futures Contracts outstanding at December 31, 2004:

Type	Number of Contracts	Contract Expiration	Original Value
U.S. Treasury Bonds	823	3/05	\$ 92,163,000

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

\* Ratings (not covered by the report of independent registered public accounting firm): Below Baa by Moody's Investor Service, Inc. or BBB by Standard and Poor's Group are considered to be below investment grade.

\*\* Based on LIBOR (London Inter-bank Offered Rate).

(a) Security is eligible for the Dividends Received Deduction.

(DD) Portion of security purchased on a delayed delivery basis.

144A 144A securities are those which are exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may only be resold in transactions exempt from registration which are normally those transactions with qualified institutional buyers.

(CBTCS) Corporate Backed Trust Certificates.

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- (CORTS) Corporate Backed Trust Securities.
- (PCARS) Public Credit and Repackaged Securities.
- (PPLUS) PreferredPlus Trust.
- (SATURNS) Structured Asset Trust Unit Repackaging.
- NA Security is not rated.

See accompanying notes to financial statements.

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Statement of  
Assets and Liabilities December 31, 2004

Assets	
Investments, at market value (cost \$2,118,230,234 and \$2,945,376,977, respectively)	\$ 2,
Cash	
Deposits with brokers for securities sold short	
Deposits with brokers for open futures contracts	
Interest rate swaps, at value	
Receivables:	
Dividends	
Interest	
Investments sold	
Reclaims	
Other assets	
Total assets	2,
Liabilities	
Securities sold short, at value (proceeds \$43,543,883 and \$63,815,481, respectively)	
Cash overdraft	
Payable for investments purchased	
Payable for variation margin on futures contracts	
Accrued expenses:	
Management fees	
Other	
Dividends payable:	
FundPreferred shares	
Securities sold short	
Total liabilities	
FundPreferred shares, at liquidation value	
Net assets applicable to Common shares	\$ 1,
Common shares outstanding	



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

Net assets applicable to Common shares consist of:  
 Common shares, \$.01 par value per share \$  
 Paid-in surplus 1,  
 Undistributed (Over-distribution of) net investment income  
 Accumulated net realized gain from investments  
 Net unrealized appreciation (depreciation) of investments, futures and interest rate swaps

-----  
 Net assets applicable to Common shares \$ 1,  
 =====

Authorized shares:  
 Common  
 FundPreferred shares

See accompanying notes to financial statements.

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### Statement of Operations

	Preferred and Convertible Income (JPC)	
	For the Five Months Ended 12/31/04	Year Ended 7/31/04
<hr/>		
Investment Income		
Dividends (net of foreign tax withheld of \$7,090, \$15,423, \$13,759 and \$27,621, respectively)	\$ 31,789,267	\$ 75,590,258
Interest	26,354,522	65,298,892
<hr/>		
Total investment income	58,143,789	140,889,150
<hr/>		
Expenses		
Management fees	7,914,830	18,870,178
Dividend expense on securities sold short	239,184	387,841
FundPreferred shares - auction fees	741,946	1,774,851
FundPreferred shares - dividend disbursing agent fees	15,393	33,428
Shareholders' servicing agent fees and expenses	4,190	10,238
Custodian's fees and expenses	214,130	477,127
Trustees' fees and expenses	18,016	59,851
Professional fees	60,724	121,316
Shareholders' reports - printing and mailing expenses	168,630	338,208
Stock exchange listing fees	34,696	48,302
Investor relations expense	127,711	300,311
Other expenses	19,972	397,116
<hr/>		
Total expenses before custodian fee credit and expense		

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reimbursement	9,559,422	22,818,767
Custodian fee credit	(4,673)	(14,475)
Expense reimbursement	(2,979,998)	(7,048,071)
Net expenses	6,574,751	15,756,221
Net investment income	51,569,038	125,132,929
Realized and Unrealized Gain (Loss)		
Net realized gain from investments	2,985,875	27,972,286
Net realized gain (loss) from interest rate swaps	(974,786)	(2,330,892)
Change in net unrealized appreciation (depreciation) of investments	85,689,077	39,651,341
Change in net unrealized appreciation (depreciation) of futures	(325,875)	--
Change in net unrealized appreciation (depreciation) of interest rate swaps	(989,371)	5,573,214
Net realized and unrealized gain	86,384,920	70,865,949
Distributions to FundPreferred Shareholders		
From net investment income	(4,040,083)	(8,171,424)
From accumulated net realized gains from investments	(1,465,951)	(384,871)
Decrease in net assets applicable to Common shares from distributions to FundPreferred shareholders	(5,506,034)	(8,556,295)
Net increase in net assets applicable to Common shares from operations	\$ 132,447,924	\$ 187,442,583

See accompanying notes to financial statements.

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Statement of  
Changes in Net Assets

	Preferred and Convertible Income (JPC)		
	For the Five Months Ended 12/31/04	Year Ended 7/31/04	Per (c of thro
Operations			
Net investment income	\$ 51,569,038	\$ 125,132,929	\$
Net realized gain (loss) from investments	2,985,875	27,972,286	
Net realized gain (loss) from interest rate swaps	(974,786)	(2,330,892)	
Change in net unrealized appreciation (depreciation) of investments	85,689,077	39,651,341	
Change in net unrealized appreciation (depreciation) of futures	(325,875)	--	

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Change in net unrealized appreciation (depreciation) of interest rate swaps	(989,371)	5,573,214	
Distributions to FundPreferred shareholders:			
From net investment income	(4,040,083)	(8,171,424)	
From accumulated net realized gains from investments	(1,465,951)	(384,871)	
-----			
Net increase (decrease) in net assets applicable to Common shares from operations	132,447,924	187,442,583	
-----			
Distributions to Common Shareholders			
From net investment income	(50,311,897)	(121,827,639)	
From accumulated net realized gains from investments	(23,388,774)	(4,581,333)	
-----			
Decrease in net assets applicable to Common shares from distributions to Common shareholders	(73,700,671)	(126,408,972)	
-----			
Capital Share Transactions			
Common shares:			
Net proceeds from sale of shares	(4,237)	(188,221)	1,
Net proceeds from shares issued to shareholders due to reinvestment of distributions	--	1,175,103	
FundPreferred shares offering costs	(4,237)	(20,355)	
-----			
Net increase (decrease) in net assets applicable to Common shares from capital share transactions	(8,474)	966,527	1,
-----			
Net increase in net assets applicable to Common shares	58,738,779	62,000,138	1,
Net assets applicable to Common shares at the beginning of period	1,474,982,994	1,412,982,856	
-----			
Net assets applicable to Common shares at the end of period	\$ 1,533,721,773	\$ 1,474,982,994	\$ 1,
=====			
Undistributed (Over-distribution of) net investment income at the end of period	\$ (11,275,840)	\$ (5,581,774)	\$
=====			

Preferred and Convertible Income 2 (JQC)

	For the Five Months Ended 12/31/04	Year Ended 7/31/04	Per (c) of thro
Operations			
Net investment income	\$ 72,289,589	\$ 163,337,100	\$
Net realized gain (loss) from investments	8,940,540	8,739,463	
Net realized gain (loss) from interest rate swaps	(1,354,773)	(3,205,449)	
Change in net unrealized appreciation (depreciation) of investments	120,207,237	90,207,632	
Change in net unrealized appreciation (depreciation) of futures	(424,500)	--	
Change in net unrealized appreciation			

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(depreciation) of interest rate swaps	(1,354,625)	7,377,706	
Distributions to FundPreferred shareholders:			
From net investment income	(7,259,855)	(11,296,561)	
From accumulated net realized gains from investments	(211,517)	--	
-----			
Net increase (decrease) in net assets applicable to Common shares from operations	190,832,096	255,159,891	
-----			
Distributions to Common Shareholders			
From net investment income	(68,740,915)	(164,952,618)	
From accumulated net realized gains from investments	(2,777,838)	(25,575)	
-----			
Decrease in net assets applicable to Common shares from distributions to Common shareholders	(71,518,753)	(164,978,193)	
-----			
Capital Share Transactions			
Common shares:			
Net proceeds from sale of shares	(4,047)	176,684	2,
Net proceeds from shares issued to shareholders due to reinvestment of distributions	--	--	
FundPreferred shares offering costs	(4,047)	(19,723,013)	
-----			
Net increase (decrease) in net assets applicable to Common shares from capital share transactions	(8,094)	(19,546,329)	2,
-----			
Net increase in net assets applicable to Common shares	119,305,249	70,635,369	1,
Net assets applicable to Common shares at the beginning of period	2,021,257,857	1,950,622,488	
-----			
Net assets applicable to Common shares at the end of period	\$ 2,140,563,106	\$ 2,021,257,857	\$ 1,
=====			
Undistributed (Over-distribution of) net investment income at the end of period	\$ (14,268,017)	\$ (6,443,674)	\$
=====			

See accompanying notes to financial statements.

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### Notes to Financial Statements

#### 1. General Information and Significant Accounting Policies

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

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

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("Nuveen") and the recording of the organization expenses (\$11,500 per Fund) and their reimbursement by Nuveen Investments, LLC, also a wholly owned subsidiary of Nuveen.

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

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

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

### Securities Valuation

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

### Securities Transactions

Securities transactions are recorded on a trade date basis. Realized gains and losses from transactions are determined on the specific identification method. Securities purchased on a when-issued or delayed delivery basis may have extended settlement periods. Any securities so purchased are subject to market fluctuation during this period. The Funds have instructed the custodian to segregate assets with a current value at least equal to the amount of the when-issued and delayed delivery purchase commitments. At December 31, 2004, Preferred and Convertible Income 2 (JQC) had an outstanding delayed delivery purchase commitment of \$3,689,904. There were no such outstanding purchase commitments in Preferred and Convertible Income (JPC).

### Investment Income

Dividend income on securities purchased and dividend expense on securities sold short are recorded on the ex-dividend date or, for foreign securities, when information is available. Interest income, which includes the amortization of premiums and accretion of discounts for financial reporting purposes, is recorded on an accrual basis.

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### Income Taxes

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

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### Dividends and Distributions to Common Shareholders

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

Dividends to Common shareholders are declared monthly. With respect to the REIT securities held in the Funds' Portfolio of Investments, distributions received by the Funds are generally comprised of investment income, long-term and short-term capital gains, and a return of REIT capital. The actual character of amounts received during the period is not known until after the fiscal year-end. For the twelve months ended December 31, 2004, the character of distributions to the Funds from the REITs was as follows:

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
2004		
-----		
Ordinary income*	83.15%	83.29%
Long-term and short-term capital gains	14.69	15.13
Return of REIT capital	2.16	1.58
=====		

For the twelve months ended December 31, 2003, the character of distributions to the Funds from the REITs was as follows:

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
2003		
-----		
Ordinary income*	84.04%	77.85%
Long-term and short-term capital gains	.20	.17
Return of REIT capital	15.76	21.98
=====		

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

For the fiscal period ended December 31, 2004, each Fund applied the actual character of distributions reported by the REITs in which the Fund invests to its receipts from the REITs. If a REIT held in the portfolio of investments did not report the actual character of its distributions during the period, the Fund treated the distributions as ordinary income.

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For fiscal periods ended prior to December 31, 2004, each Fund applied a percentage estimate for the breakdown of income type, to its receipts from the REITs and treated as income in the Statement of Operations only the amount of ordinary income so calculated. Each Fund adjusted that estimated breakdown of income type (and consequently its net investment income) as necessary in the following calendar year when the REITs informed their shareholders of the actual breakdown of income type.

For the fiscal period ended December 31, 2004, each Fund applied the actual character of distributions reported by the REITs in which the Fund invests to the distributions paid to each Funds shareholders.

With respect to the portion of each Fund's monthly distribution to its shareholders derived from the Fund's investments in REIT securities for fiscal periods ended prior to December 31, 2004, each Fund treated that portion of its distribution as being entirely from net investment income. The Funds recharacterized those distributions as being from ordinary income, long-term and short-term capital gains, and return of capital, if necessary, in the subsequent calendar year, based upon the income type breakdown information conveyed at that time by the REITs whose securities are held in each Fund's portfolio. Consequently, the financial statements for fiscal periods ended prior to December 31, 2004, may have reflected an over-distribution of net investment income that was at least partly attributable to the fact that, as of the date of the financial statements, some of the amounts received by the Funds from the portfolio REITs, but none of the dividends paid by the Funds to shareholders from the portfolio REITs were treated as something other than ordinary income.

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Notes to  
Financial Statements (continued)

### FundPreferred Shares

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

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
-----		
Number of shares:		
Series M	4,720	3,860
Series M2	--	3,860
Series T	4,720	3,860
Series T2	--	3,860
Series W	4,720	3,860
Series W2	--	3,860
Series TH	4,720	3,860
Series TH2	--	3,860
Series F	4,720	3,860
Series F2	4,720	3,860
-----		
Total	28,320	38,600

=====

Interest Rate Swap Transactions

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

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

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Futures Contracts

Each Fund may use futures contracts to hedge against changes in the values of securities the Fund owns. Each Fund bears the market risk arising from changes in the value of these financial instruments. At the time a Fund enters into a futures contract, the Fund deposits and maintains as collateral an initial margin as required by the exchange on which the transaction is affected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in the value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses on futures contracts. Risk may arise from the potential inability of the counterparty to meet the terms of the contract. When a contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the time it was closed.

Short Sales

The Funds are authorized to make short sales of securities if the Funds own at least an equal amount of such securities or securities convertible into securities of the same issuer. To secure its obligation to deliver securities



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sold short, the Funds have instructed the custodian to segregate assets in an equivalent amount of the securities sold short or securities convertible into or exchangeable for such securities. The Fund is obligated to pay to the party to which the securities were sold short, dividends declared on the stock by the issuer and records such amounts as expense in the Statement of Operations. Short sales are valued daily and the corresponding unrealized gains or losses are included in "Change in net unrealized appreciation (depreciation) of investments."

### Repurchase Agreements

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

### Organization and Offering Costs

Nuveen Investments, LLC has agreed to reimburse all organization expenses (approximately \$11,500 per Fund) and pay all Common share offering costs (other than the sales load) that exceed \$.03 per Common share. Preferred and Convertible Income's (JPC) and Preferred and Convertible Income 2's (JQC) share of Common share offering costs (\$1,749,867 and \$1,766,467, respectively) were recorded as reductions of the proceeds from the sale of Common shares.

Costs incurred by Preferred and Convertible Income (JPC) and Preferred and Convertible Income 2 (JQC) in connection with their offering of Fund Preferred shares (\$14,594,079 and \$19,727,060, respectively) were recorded as reductions to paid-in surplus.

### Custodian Fee Credit

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

### Indemnifications

Under the Funds' organizational documents, its Officers and Trustees are indemnified against certain liabilities arising out of the performance of their duties to the Funds. In addition, in the normal course of business, the Funds enter into contracts that provide general indemnifications to other parties. The Funds' maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet occurred. However, the Funds have not had prior claims or losses pursuant to these contracts and expect the risk of loss to be remote.

### Use of Estimates

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

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Notes to  
Financial Statements (continued)

## 2. Fund Shares

Transactions in Common and FundPreferred shares were as follows:

	Preferred and Convertible Income (JPC)			Convert
	For the Five Months Ended 12/31/04	Year Ended 7/31/04	For the Period 3/26/03 (commencement of operations) through 7/31/03	For the Five Months Ended 12/31/04
Common shares:				
Shares sold	--	--	100,000,000	--
Shares issued to shareholders due to reinvestment of distributions	--	79,185	36,992	--
	--	79,185	100,036,992	--
=====				
FundPreferred shares sold	--	--	28,320	--
=====				

## 3. Securities Transactions

Purchases and sales (including maturities and transactions in securities sold short but excluding short-term investments) of investment securities during the five months ended December 31, 2004, were as follows:

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
Purchases:		
Investment securities	\$276,835,304	\$388,953,897
Sales and maturities:		
Investment securities	287,821,050	389,231,630
=====		

## 4. Income Tax Information

The following information is presented on an income tax basis based on the information currently available to the Funds. Differences between amounts for financial statement and federal income tax purposes are primarily due to the recognition of income on certain securities which are treated as debt securities for income tax purposes and equity securities for financial statement purposes, and timing differences in recognizing certain gains and losses on security transactions.

At December 31, 2004, the cost of investments was as follows:

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Preferred  
and  
Convertible  
Income  
(JPC)

-----  
 Cost of investments (net of proceeds received on securities sold short) \$2,135,341,481  
 =====

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

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
-----		
Gross unrealized:		
Appreciation	\$ 151,312,210	\$ 158,870,119
Depreciation	(35,294,509)	(31,341,565)
-----		
Net unrealized appreciation of investments	\$ 116,017,701	\$ 127,528,554
=====		

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

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
-----		
Undistributed net ordinary income *	\$ 8,790,389	\$ 11,988,764
Undistributed net long-term capital gains	3,341,644	6,828,270
=====		

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

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

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
Five Months Ended December 31, 2004		

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	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
Distributions from net ordinary income *	\$ 82,128,245	\$ 89,938,792
Distributions from net long-term capital gains	7,112,884	2,762,657
=====		
Fiscal Period Ended July 31, 2004		
Distributions from net ordinary income *	\$134,895,598	\$162,336,998
Distributions from net long-term capital gains	--	22,781
=====		
Fiscal Period Ended July 31, 2003		
Distributions from net ordinary income *	\$ 21,811,614	\$ --
Distributions from net long-term capital gains	--	--
=====		

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

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

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Notes to  
Financial Statements (continued)

5. Management Fee and Other Transactions with Affiliates

As approved by the Board of Trustees, effective August 1, 2004, a complex-wide management fee structure was adopted for all funds sponsored by the Adviser and its affiliates. This fee structure separates each fund's management fee into two components - a complex-level component, based on the aggregate amount of all funds assets managed by the Adviser and its affiliates, and a specific fund-level component, based only on the amount of assets within each individual fund. This pricing structure enables Nuveen fund shareholders to benefit from growth in the assets within each individual fund as well as from growth in the amount of complex-wide assets managed by the Adviser and its affiliates. Under

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no circumstances will this pricing structure result in a fund paying management fees at a rate higher than would otherwise have been applicable had the complex-wide management fee structure not been implemented. As a consequence of this new management fee structure, the funds' effective management fees were reduced by approximately .009% as of January 31, 2005.

Effective August 1, 2004, the annual fund-level fee, payable monthly, for each of the Funds is based upon the average daily Managed Assets of each Fund as follows:

Average Daily Managed Assets	Fund-Level Fee Rate
For the first \$500 million	.7000%
For the next \$500 million	.6750
For the next \$500 million	.6500
For the next \$500 million	.6250
For Managed Assets over \$2 billion	.6000

Effective August 1, 2004, the annual complex-level fee, payable monthly, which is additive to the fund-level fee, for all Nuveen sponsored funds in the U.S., is based on the aggregate amount of total fund assets managed as follows:

Complex-Level Assets (1)	Complex-Level Fee Rate
For the first \$55 billion	.2000%
For the next \$1 billion	.1800
For the next \$1 billion	.1600
For the next \$3 billion	.1425
For the next \$3 billion	.1325
For the next \$3 billion	.1250
For the next \$5 billion	.1200
For the next \$5 billion	.1175
For the next \$15 billion	.1150
For Managed Assets over \$91 billion (2)	.1400

- (1) The complex-level fee component of the management fee for the funds is calculated based upon the aggregate Managed Assets ("Managed Assets" means the average daily net assets of each fund including assets attributable to all types of leverage used by the Nuveen funds) of Nuveen-sponsored funds in the U.S.
- (2) With respect to the complex-wide Managed Assets over \$91 billion, the fee rate or rates that will apply to such assets will be determined at a later date. In the unlikely event that complex-wide Managed Assets reach \$91 billion prior to a determination of the complex-level fee rate or rates to be applied to Managed Assets in excess of \$91 billion, the complex-level fee rate for such complex-wide Managed Assets shall be .1400% until such time as a different rate or rates is determined.

Each Fund paid through July 31, 2004, an annual management fee, payable monthly, at the rates set forth below, which were based upon the average daily Managed Assets of each Fund as follows:

Average Daily Managed Assets	Management Fee Rate
For the first \$500 million	.9000%
For the next \$500 million	.8750
For the next \$500 million	.8500
For the next \$500 million	.8250
For Managed Assets over \$2 billion	.8000

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

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

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

Year Ending March 31,		Year Ending March 31,	
2003*	.32%	2008	.32%
2004	.32	2009	.24
2005	.32	2010	.16
2006	.32	2011	.08
2007	.32		

\* From the commencement of operations.

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

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

Year Ending June 30,		Year Ending June 30,	
2003*	.32%	2008	.32%
2004	.32	2009	.24
2005	.32	2010	.16
2006	.32	2011	.08
2007	.32		

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\* From the commencement of operations.

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

## 6. Subsequent Events

### Distributions to Common Shareholders

The Funds declared Common share dividend distributions from their net investment income which were paid on February 1, 2005, to shareholders of record on January 15, 2005, as follows:

	Preferred and Convertible Income (JPC)	Preferred and Convertible Income 2 (JQC)
Dividend per share	\$ .1005	\$ .0975

### Adviser Merger

Effective January 1, 2005, the Adviser and its affiliate, Nuveen Advisory Corp. ("NAC"), were merged into Nuveen Asset Management ("NAM"), also a wholly owned subsidiary of Nuveen. As a result of the merger, NAM is now the adviser to all funds previously advised by either NAC or the Adviser.

### Announcement Regarding Parent Company of Adviser

After the close of trading on the New York Stock Exchange on January 31, 2005, The St. Paul Travelers Companies, Inc. announced that it intended to explore strategic alternatives to divest its equity stake in Nuveen.

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## Financial

### Highlights

Selected data for a Common share outstanding throughout each period:

	Investment Operations						Tot
	Beginning Common Share Net Asset Value	Net Investment Income (a)	Net Realized/ Unrealized Gain (Loss)	Distributions from Net Investment Income to Fund Preferred Share- holders+	Distributions from Capital Gains to Fund Preferred Share- holders+		
Preferred and Convertible Income (JPC)							
8/01/04-12/31/04	\$14.73	\$ .52	\$ .85	\$ (.04)	\$ (.01)	\$ 1.	
8/01/03-7/31/04	14.12	1.25	.71	(.08)	--	1.	

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3/26/03-7/31/03	14.33	.30	(.02)	(.02)	--	
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Preferred and Convertible Income 2 (JQC)

8/01/04-12/31/04	14.33	.51	.90	(.05)	--	1.
8/01/03-7/31/04	13.83	1.16	.73	(.08)	--	1.
6/25/03-7/31/03	14.33	.04	(.53)	--	--	(.

Less Distributions

	Net Investment Income to Common Share- holders	Capital Gains to Common Share- holders	Total	Offering Costs and FundPreferred Share Underwriting Discounts	Ending Common Share Net Asset Value	Ending Market Value	B Ma V
--	---	--	-------	--	---	---------------------------	--------------

Preferred and Convertible Income (JPC)

8/01/04-12/31/04	\$ (.50)	\$ (.23)	\$ (.73)	\$ --	\$15.32	\$14.33
8/01/03-7/31/04	(1.22)	(.05)	(1.27)	--	14.73	13.95
3/26/03-7/31/03	(.30)	--	(.30)	(.17)	14.12	14.57

Preferred and Convertible Income 2 (JQC)

8/01/04-12/31/04	(.49)	(.02)	(.51)	--	15.18	13.87
8/01/03-7/31/04	(1.17)	--	(1.17)	(.14)	14.33	13.54
6/25/03-7/31/03	--	--	--	(.01)	13.83	14.69

Ratios/Supplemental Data

	Before Credit/Reimbursement		After Credit/Reimbursement***		
	Ratio of Expenses to Average Net Assets Applicable to Common Shares (000)	Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares++	Ratio of Expenses to Average Net Assets Applicable to Common Shares++	Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares++	Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares++

Preferred and Convertible Income (JPC)

8/01/04-12/31/04	\$1,533,722	1.51%*	7.66%*	1.04%*	8.13%*
8/01/03-7/31/04	1,474,983	1.53	7.90	1.05	8.37
3/26/03-7/31/03	1,412,983	1.29*	5.67*	.87*	6.09*

Preferred and Convertible Income 2 (JQC)

8/01/04-12/31/04	2,140,563	1.47*	7.81*	1.00*	8.28*
8/01/03-7/31/04	2,021,258	1.47	7.51	1.00	7.98
6/25/03-7/31/03	1,950,622	.97*	2.86*	.65*	3.18*



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FundPreferred Shares at End of Period			
	Aggregate Amount Outstanding (000)	Liquidation and Market Value Per Share	Asset Coverage Per Share
Preferred and Convertible Income (JPC)			
8/01/04-12/31/04	\$ 708,000	\$ 25,000	\$ 79,157
8/01/03-7/31/04	708,000	25,000	77,083
3/26/03-7/31/03	708,000	25,000	74,893
Preferred and Convertible Income 2 (JQC)			
8/01/04-12/31/04	965,000	25,000	80,455
8/01/03-7/31/04	965,000	25,000	77,364
6/25/03-7/31/03	--	--	--

\* Annualized.

\*\* Total Investment Return on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. Total Return on Common Share Net Asset Value is the combination of changes in Common Share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any.

Total returns are not annualized.

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

+ The amounts shown are based on Common share equivalents.

- ++ o Ratios do not reflect the effect of dividend payments to FundPreferred shareholders.
- o Income ratios reflect income earned on assets attributable to FundPreferred shares.
- o Each ratio includes the effect of the dividend expense on securities sold short as follows:

Ratio of  
Dividend  
Expense on  
Securities  
Sold Short to  
Average Net  
Assets Applicable  
to Common Shares  
-----

Preferred and Convertible Income (JPC)	
8/01/04-12/31/04	.04%*
8/01/03-7/31/04	.03
3/26/03-7/31/03	--

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Preferred and Convertible Income 2 (JQC)	
8/01/04-12/31/04	.05*
8/01/03-7/31/04	.03
6/25/03-7/31/03	--

(a) Per share Net Investment Income is calculated using the average daily shares method.

See accompanying notes to financial statements.

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### Board Members and Officers

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

Name, Birthdate and Address	Position(s) Held with the Funds	Year First Elected or Appointed (2)	Principal Occupation(s) Including other Directorships During Past 5 Years
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Board member who is an interested person of the Funds:

Timothy R. Schwertfeger (1) 3/28/49 333 W. Wacker Drive Chicago, IL 60606	Chairman of the Board and Trustee	1994	Chairman and Director (since 2002) of Nuveen Investments, Inc. and Nuveen Investments, LLC; Director and Chairman (since 1996) of Nuveen Advisory Corp. and Nuveen Institutional Advisory Corp. (3); Chairman and Director (since 1997) of Nuveen Management; Director (since 1997) of Institutional Capital Corporation; Chairman and Director (since 2002) of Rittenhouse Asset Management; Chairman of Nuveen Investments, Inc. (since 2002).
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Board members who are not interested persons of the Funds:

Robert P. Bremner 8/22/40 333 W. Wacker Drive Chicago, IL 60606	Board member	1997	Private Investor and Management Consultant.
Lawrence H. Brown 7/29/34 333 W. Wacker Drive Chicago, IL 60606	Board member	1993	Retired (1989) as Senior Vice President of The Northern Trust Company; Chairman of Community Advisory Board for Park and Highwood, United Way

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North Shore (since 2002).

Jack B. Evans 10/22/48 333 W. Wacker Drive Chicago, IL 60606	Board member	1999	President, The Hall-Perrine a private philanthropic corporation (since 1996); Director and Chairman, United Fire Group held company; Adjunct Faculty, University of Iowa; Director, Companies; Life Trustee of Director, Iowa College Foundation, formerly, Director, Federal Reserve Bank of Chicago; formerly, President, Chief Operating Officer, SO Group, Inc., a regional financial services firm.
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William C. Hunter 3/6/48 333 W. Wacker Drive Chicago, IL 60606	Board member	2004	Dean and Distinguished Professor of Finance, School of Business, University of Connecticut (previously Senior Vice President, Director of Research at the Federal Reserve Bank of Chicago (1998-2004); Director, Credit Research Center, Georgetown University; Director, Corporation (since 2004).
---	--------------	------	---

David J. Kundert 10/28/42 333 W. Wacker Drive Chicago, IL 60606	Board member	2005	Retired (2004) as Chairman, Fleming Asset Management, P.C., CEO, Banc One Investment Advisors Corporation, and President, Mutual Funds; prior thereto Vice President, Banc One Corporation; Chairman and CEO, Banc One Management Group; Board of Directors, Luther College; currently a member of the American and Wisconsin Associations.
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Name, Birthdate and Address	Position(s) Held with the Funds	Year First Elected or Appointed (2)	Principal Occupation(s) Including other Directorships During Past 5 Years
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Board members who are not interested persons of the Funds (continued):

William J. Schneider 9/24/44 333 W. Wacker Drive Chicago, IL 60606	Board member	1997	Chairman, formerly, Senior Chief Operating Officer, Miller-Valentine Partners L.P., estate investment company; Vice President, Miller-Valentine, a construction company; Director of the Finance Committee and the Audit Committee of Premier Partners, the not-for-profit
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company of Miami Valley Hos  
 President of the Dayton Phi  
 Orchestra Association; Dire  
 Immediate Past Chair, Dayto  
 Coalition; formerly, Member  
 Advisory Board, National Ci  
 Dayton, Ohio and Business A  
 Council, Cleveland Federal

Judith M. Stockdale 12/29/47 333 W. Wacker Drive Chicago, IL 60606	Board member	1997	Executive Director, Gaylord Donnelley Foundation (since thereto, Executive Director Protection Fund (from 1990
Eugene S. Sunshine 1/22/50 333 W. Wacker Drive Chicago, IL 60606	Board member	2005	Senior Vice President for B Finance (since 1997), North University; Director (since Chicago Board of Options Ex Director (since 2003), Nati Holdings, a privately-held, provider of home and commun services; Chairman (since 1 of Directors, Rubicon, an i company owned by Northwest University; Director (since Evanston Chamber of Commer Evanston Inventure, a busin development organization.

Name, Birthdate and Address	Position(s) Held with the Funds	Year First Elected or Appointed (4)	Principal Occupation(s) During Past 5 Years
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Officers of the Funds:

Gifford R. Zimmerman 9/9/56 333 W. Wacker Drive Chicago, IL 60606	Chief Administrative Officer	1988	Managing Director (since 20 Assistant Secretary and Ass General Counsel, formerly, President and Assistant Gen of Nuveen Investments, LLC; Director (since 2002), Gene and Assistant Secretary, fo President of Nuveen Adviso Nuveen Institutional Adviso Managing Director (since 20 Assistant Secretary and Ass General Counsel, formerly, President (since 2000), of Management; Managing Direct 2004) and Assistant Secreta 1994) of Nuveen Investments Assistant Secretary of NWQ Management Company, LLC (si Vice President and Assistan of Nuveen Investments Advis (since 2002); Managing Dire Associate General Counsel a Secretary of Rittenhouse As Management, Inc. (since 200 Financial Analyst.
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Board Members  
and Officers (continued)

Name, Birthdate and Address	Position(s) Held with the Funds	Year First Elected or Appointed (3)	Principal Occupation(s) During Past 5 Years
----- Officers of the Funds (continued): -----			
Julia L. Antonatos 9/22/63 333 W. Wacker Drive Chicago, IL 60606	Vice President	2004	Managing Director (since 2004); previously, Vice President of Nuveen Investments, LLC formerly, Assistant Vice President (since 1999) of Nuveen Investments, Chartered Financial Analyst
Michael T. Atkinson 2/3/66 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	2000	Vice President (since 2002); Assistant Vice President (since 2000); previously, Associate of Nuveen Investments, LLC.
Peter H. D'Arrigo 11/28/67 333 W. Wacker Drive Chicago, IL 60606	Vice President and Treasurer	1999	Vice President of Nuveen Investments, LLC (since 1999), prior to that time Assistant Vice President (since 1999) of Nuveen Investments, Inc. (since 1999); Vice President and Treasurer of Nuveen Investments, Inc. (since 1999); President and Treasurer of Nuveen Advisory Corp. and Nuveen Institutional Advisory Corp (since 1999); President and Treasurer of Nuveen Management (since 2002) and Nuveen Investments Advisers Inc. (since 2002); Assistant Treasurer of Nuveen Management Company, LLC (since 2002); Vice President and Treasurer of Rittenhouse Asset Management (since 2003); Chartered Financial Analyst.
Jessica R. Droeger 9/24/64 333 W. Wacker Drive Chicago, IL 60606	Vice President and Secretary	2000	Vice President (since 2002); Assistant General Counsel (since 2002); previously, Assistant Vice President (since 1998) of Nuveen Investments, LLC; Vice President (since 2002) of Nuveen Investments, Assistant Secretary (since 2002); previously, Assistant Vice President of Nuveen Advisory Corp. and Nuveen Institutional Advisory Corp (since 2002); President and Assistant Secretary (since 2002) of Nuveen Asset Management
Lorna C. Ferguson 10/24/45 333 W. Wacker Drive	Vice President	1998	Managing Director (since 2004); Vice President of Nuveen Investments, LLC; Managing Director (since 1998)

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Chicago, IL 60606

formerly, Vice President (s  
Nuveen Advisory Corp. and N  
Institutional Advisory Corp  
Managing Director (since 20  
Asset Management.

William M. Fitzgerald 3/2/64 333 W. Wacker Drive Chicago, IL 60606	Vice President	1995	Managing Director (since 20 Investments, LLC; Managing (since 2001), formerly Vice Nuveen Advisory Corp. and N Institutional Advisory Corp 1995) (3); Managing Directo Asset Management (3) (since President of Nuveen Investm Inc. (since 2002); Chartere Analyst.
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Stephen D. Foy 5/31/54 333 W. Wacker Drive Chicago, IL 60606	Vice President and Controller	1998	Vice President (since 1993) Controller (since 1998) of Investments, LLC and, forme President and Funds Control 1998) of Nuveen Investments Certified Public Accountant
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Name, Birthdate and Address	Position(s) Held with the Funds	Year First Elected or Appointed (3)	Principal Occupation(s) During Past 5 Years
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Officers of the Funds (continued):

David J. Lamb 3/22/63 333 W. Wacker Drive Chicago, IL 60606	Vice President	2000	Vice President (since 2000) Investments, LLC, previousl Vice President (since 1999) thereto, Associate of Nuvee Investments, LLC; Certified Accountant.
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Tina M. Lazar 8/27/61 333 W. Wacker Drive Chicago, IL 60606	Vice President	2002	Vice President (since 1999) Assistant Vice President (s Nuveen Investments, LLC.
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Larry W. Martin 7/27/51 333 W. Wacker Drive Chicago, IL 60606	Vice President and Assistant Secretary	1988	Vice President, Assistant S Assistant General Counsel o Investments, LLC; Vice Pres Assistant Secretary of Nuve Corp. and Nuveen Institutio Corp. (3); Assistant Secret Investments, Inc. and (sinc Nuveen Asset Management, Vi (since 2000), Assistant Sec Assistant General Counsel (o of Rittenhouse Asset Manage
--	--	------	--

Vice President and Assistant  
of Nuveen Investments Adviser  
(since 2002); Assistant Secretary  
Investment Management Company  
(since 2002).

- (1) Mr. Schwertfeger is an "interested person" of the Funds, as defined in the Investment Company Act of 1940, because he is an officer and board member of the Adviser.
- (2) Board members serve an indefinite term until his/her successor is elected. The year first elected or appointed represents the year in which the board member was first elected or appointed to any fund in the Nuveen Complex.
- (3) Nuveen Advisory Corp. and Nuveen Institutional Advisory Corp. were reorganized into Nuveen Asset Management, effective January 1, 2005.
- (4) Officers serve one year terms through July of each year. The year first elected or appointed represents the year in which the Officer was first elected or appointed to any fund in the Nuveen Complex.

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Reinvest Automatically  
Easily and Conveniently

Sidebar text: Nuveen makes reinvesting easy. A phone call is all it takes to set up your reinvestment account.

#### Nuveen Closed-End Exchange-Traded Funds Dividend Reinvestment Plan

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

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

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

#### Easy and convenient

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

#### How shares are purchased

The shares you acquire by reinvesting will either be purchased on the open market or newly issued by the Fund. If the shares are trading at or above net asset value at the time of valuation, the Fund will issue new shares at the greater of the net asset value or 95% of the then-current market price. If the shares are trading at less than net asset value, shares for your account will be purchased on the open market. Dividends and distributions received to purchase shares in the open market will normally be invested shortly after the dividend payment date. No interest will be paid on dividends and distributions awaiting reinvestment. Because the market price of the shares may increase before

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purchases are completed, the average purchase price per share may exceed the market price at the time of valuation, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Fund. A pro rata portion of any applicable brokerage commissions on open market purchases will be paid by Plan participants. These commissions usually will be lower than those charged on individual transactions.

### Flexible

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

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

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

Call today to start reinvesting dividends and/or distributions

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

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### Other Useful Information

Effective Jan. 1, 2005, the asset management services and operations of Nuveen Advisory Corp. (NAC) and Nuveen Institutional Advisory Corp (NIAC) became part of Nuveen Asset Management (NAM). This internal consolidation is intended to simplify the delivery of services to the investment management clients of Nuveen Investments. It does not affect the investment objectives or portfolio management of any Fund.

### Quarterly Portfolio of Investments and Proxy voting information

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

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



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Reference Section at 450 Fifth Street NW, Washington, D.C. 20549.

### Dividend Information

The Nuveen Preferred and Convertible Income Fund and Nuveen Preferred and Convertible Income Fund 2 designates 7.93% and 7.73% respectively, of dividends declared from net investment income as dividends qualifying for the 70% dividends received deduction for corporations and 10.82% and 9.86% respectively, as qualified dividend income for individuals under the Jobs and Growth Tax Relief Reconciliation Act of 2003.

### Glossary of Terms Used in this Report

**Average Annual Total Return:** This is a commonly used method to express an investment's performance over a particular, usually multi-year time period. It expresses the return that would have been necessary each year to equal the investment's actual cumulative performance (including change in NAV or market price and reinvested dividends and capital gains distributions, if any) over the time period being considered.

**Market Yield (also known as Dividend Yield or Current Yield):** An investment's current annualized dividend divided by its current market price.

**Net Asset Value (NAV):** A Fund's common share NAV per share is calculated by subtracting the liabilities of the Fund (including any MuniPreferred shares issued in order to leverage the Fund) from its total assets and then dividing the remainder by the number of shares outstanding. Fund NAVs are calculated at the end of each business day.

### Board of Trustees

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

### Fund Manager

Nuveen Asset Management  
333 West Wacker Drive  
Chicago, IL 60606

### Custodian

State Street Bank & Trust  
Boston, MA

### Transfer Agent and Shareholder Services

State Street Bank & Trust  
Nuveen Funds  
P.O. Box 43071  
Providence, RI 02940-3071

(800) 257-8787

### Legal Counsel

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Chapman and Cutler LLP  
Chicago, IL

Independent Registered Public Accounting Firm

Ernst & Young LLP  
Chicago, IL

Each Fund intends to repurchase shares of its own common or preferred stock in the future at such times and in such amounts as is deemed advisable. No shares were repurchased during the period covered by this report. Any future repurchases will be reported to shareholders in the next annual or semiannual report.

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Nuveen Investments:  
SERVING Investors  
For GENERATIONS

Photo of: 2 women looking at a photo album.

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

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

We offer many different investing solutions for our clients' different needs.

Managing more than \$115 billion in assets, Nuveen Investments offers access to a number of different asset classes and investing solutions through a variety of products. Nuveen Investments markets its capabilities under four distinct brands: Nuveen, a leader in fixed-income investments; NWQ, a leader in value-style equities; Rittenhouse, a leader in growth-style equities; and Symphony, a leading institutional manager of market-neutral alternative investment portfolios.

Find out how we can help you reach your financial goals.

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

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

Learn more 

- o Share prices
- o Fund details

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about Nuveen Funds at	o	Daily financial news
<a href="http://www.nuveen.com/etf">www.nuveen.com/etf</a>	o	Investor education
	o	Interactive planning tools

Logo: NUVEEN Investments

EAN-F-1204D

### ITEM 2. CODE OF ETHICS.

As of the end of the period covered by this report, the registrant has adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. There were no amendments to or waivers from the Code during the period covered by this report. The registrant has posted the code of ethics on its website at [www.nuveen.com/etf](http://www.nuveen.com/etf). (To view the code, click on the Investor Resources drop down menu box, click on Fund Governance and then click on Code of Conduct.)

### ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The registrant's Board of Directors or Trustees determined that the registrant has at least one "audit committee financial expert" (as defined in Item 3 of Form N-CSR) serving on its Audit Committee. The registrant's audit committee financial expert is Jack B. Evans, Chairman of the Audit Committee, who is "independent" for purposes of Item 3 of Form N-CSR. Mr. Evans has served as the registrant's audit committee financial expert from July 26, 2004 to the end of the reporting period on December 31, 2004.

Prior to July 26, 2004, William E. Bennett, who was "independent" for purposes of Item 3 of Form N-CSR, served as the audit committee financial expert. Mr. Bennett unexpectedly resigned from the Board effective April 30, 2004. Accordingly for this reporting period, the registrant did not have a designated "audit committee financial expert" from July 1, 2004 to July 26, 2004.

Mr. Evans was formerly President and Chief Operating Officer of SCI Financial Group, Inc., a full service registered broker-dealer and registered investment adviser ("SCI"). As part of his role as President and Chief Operating Officer, Mr. Evans actively supervised the Chief Financial Officer (the "CFO") and actively supervised the CFO's preparation of financial statements and other filings with various regulatory authorities. In such capacity, Mr. Evans was actively involved in the preparation of SCI's financial statements and the resolution of issues raised in connection therewith. Mr. Evans has also served on the audit committee of various reporting companies. At such companies, Mr. Evans was involved in the oversight of audits, audit plans, and the preparation of financial statements. Mr. Evans also formerly chaired the audit committee of the Federal Reserve Bank of Chicago.

Mr. Bennett was formerly Executive Vice President and Chief Credit Officer of First Chicago Corporation and its principal subsidiary, The First National Bank of Chicago. As part of his role as Chief Credit Officer, Mr. Bennett set policy as to accrual of assets/loans; designated performing/non-performing assets; set the level of reserves against the credit portfolio; and determined the carrying value of credit related assets and exposure. Among other things, Mr. Bennett was also responsible for the oversight of the internal analysis function including setting ground rules for the review and preparation of financial analysis and financial statements for use in making credit and risk decisions for clients.

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Mr. Bennett has significant experience reviewing, analyzing and evaluating financial statements of domestic and international companies in a variety of industries with complex accounting issues.

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

#### Nuveen Preferred and Convertible Income Fund 2

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

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

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

FISCAL YEAR ENDED	AUDIT FEES BILLED TO FUND	AUDIT-RELATED FEES BILLED TO FUND	T BILL
December 31, 2004 *	\$ 21,861	\$ 0	
Percentage approved pursuant to pre-approval exception	N/A	0%	
July 31, 2004	\$ 28,361	\$ 0	\$
Percentage approved pursuant to pre-approval exception	N/A	0%	
July 31, 2003	\$ 12,800	\$ 0	\$
Percentage approved pursuant to pre-approval exception	N/A	0%	

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\*Nuveen Preferred and Convertible Fund 2 changed its fiscal year end from July 31 to December 31, therefore, these numbers represent the period 08/01/04 - 12/31/04.

The above "All Other Fees" are fees paid to audit firms to perform agreed upon procedures required by the rating agencies to rate fund preferred shares. The above "Tax Fees" were billed for professional services for tax advice, tax compliance and tax planning.

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

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

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

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

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exception

\*Nuveen Preferred and Convertible Fund 2 changed its fiscal year end from July 31 to December 31, therefore, these numbers represent the period 08/01/04 - 12/31/04.

## NON-AUDIT SERVICES

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

FISCAL YEAR ENDED	TOTAL NON-AUDIT FEES BILLED TO FUND	TOTAL NON-AUDIT FEES BILLED TO ADVISER AND AFFILIATED FUND SERVICE PROVIDERS (ENGAGEMENTS RELATED DIRECTLY TO THE OPERATIONS AND FINANCIAL REPORTING OF THE FUND)	TOTAL BILL AFFIL PROV
December 31, 2004 *	\$ 2,694	\$ 0	
July 31, 2004	\$ 12,896	\$ 0	
July 31, 2003	\$ 0	\$ 0	

\*Nuveen Preferred and Convertible Fund 2 changed its fiscal year end from July 31 to December 31, therefore, these numbers represent the period 08/01/04 - 12/31/04.

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

## ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The registrant's Board of Directors or Trustees has a separately designated audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (15 U.S.C.

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78c(a) (58) (A)). The members of the audit committee are Robert P. Bremner, Lawrence H. Brown, Jack B. Evans and William J. Schneider.

### ITEM 6. SCHEDULE OF INVESTMENTS.

See Schedule I in Item 1.

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

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

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

Not applicable at this time.

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

Not applicable.

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

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

### ITEM 11. CONTROLS AND PROCEDURES.

- (a) The registrant's principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "1940 Act") (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of this report that includes the disclosure required by this paragraph, based on their evaluation of the controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (17 CFR 240.13a-15(b) or 240.15d-15(b)).
- (b) There were no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or

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is reasonably likely to materially affect, the registrant's internal control over financial reporting.

ITEM 12. EXHIBITS.

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

(a)(1) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit: Not applicable because the code is posted on registrant's website at www.nuveen.com/etf. and there were no amendments during the period covered by this report (To view the code, click on the Investor Resources drop down menu box, click on Fund Governance and then Code of Conduct.).

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

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

(b) If the report is filed under Section 13(a) or 15(d) of the Exchange Act, provide the certifications required by Rule 30a-2(b) under the 1940 Act (17 CFR 270.30a-2(b)); Rule 13a-14(b) or Rule 15d-14(b) under the Exchange Act (17 CFR 240.13a-14(b) or 240.15d-14(b)), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) as an exhibit. A certification furnished pursuant to this paragraph will not be deemed "filed" for purposes of Section 18 of the Exchange Act (15 U.S.C. 78r), or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference. Ex-99.906 CERT attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) Nuveen Preferred and Convertible Income Fund 2

By (Signature and Title)\* /s/ Jessica R. Droeger

Jessica R. Droeger
Vice President and Secretary

Date: March 9, 2005

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.



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By (Signature and Title)\* /s/ Gifford R. Zimmerman

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Gifford R. Zimmerman  
Chief Administrative Officer  
(principal executive officer)

Date: March 9, 2005

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

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Stephen D. Foy  
Vice President and Controller  
(principal financial officer)

Date: March 9, 2005

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