

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

Nuveen Preferred and Convertible Income Fund 2

(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

Date of fiscal year end: December 31

Date of reporting period: December 31, 2004

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
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 ALLOCATION¹

(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 SHARE²

| | |
|-----|--------|
| 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 |
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| | 15.33 |
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| | 15.06 |
| | 14.92 |
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| | 15.23 |
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| | 15.49 |
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| | 15.59 |
| | 15.73 |
| | 15.66 |
| | 15.63 |
| | 15.4 |
| | 15.42 |
| | 15.37 |
| | 15.4 |
| | 15.53 |
| | 15.54 |

15.55
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14.01
14.08
13.97
13.89
13.8
13.51
12.9
12.32
13.02
13.04
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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 ALLOCATION¹

(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 SHARE²

| | |
|-----|--------|
| 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.

| | |
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| | 13.77 |
| | 13.7 |
| | 13.65 |
| | 13.56 |
| | 13.5 |
| | 13.7 |
| | 13.81 |
| 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 voting
together

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

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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 |
|--------------------------------------|-----------------|--------|----------|----------------|
|--------------------------------------|-----------------|--------|----------|----------------|

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 |

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 | Moo |
|------------------------------|------------------------------|--------|-----|
| ----- | | | |
| 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% |
| ----- | | |
| | Thrifts & 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

| | | |
|--|--|-------|
| ----- | | Pr |
| 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 |
| ----- | | |
| 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 |
| ----- | | |
| Total investment income | 58,143,789 | 140,889,150 |
| ----- | | |
| 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 |
| ----- | | |
| 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) | -- | . |
|-----------------|-------|-----|-------|-------|----|---|

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++ | |

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 |
|--------------------------------|------------------------------------|--|---|
|--------------------------------|------------------------------------|--|---|

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). |
|--|---|------|--|

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 of 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. |
|---|--------------|------|--|

| | | | |
|---|--------------|------|---|
| 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 |
|-----------------------------|---------------------------------|-------------------------------------|---|
|-----------------------------|---------------------------------|-------------------------------------|---|

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 |
|--------------------------------|------------------------------------|--|--|
|--------------------------------|------------------------------------|--|--|

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. |
|--|------------------------------------|------|---|

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 (since 1999) of Nuveen Investments, LLC; formerly, Assistant Vice President (since 1999) of Nuveen Investments, LLC; 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) of Nuveen Investments, LLC; Assistant Vice President (since 2002) of Nuveen Investments, LLC; 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 the formation of Nuveen Investments, LLC; Assistant Vice President (since 1999) of Nuveen Investments, Inc. (since 1999); 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) of Nuveen Investments, LLC; Assistant General Counsel (since 2002) of Nuveen Investments, LLC; formerly, Assistant Vice President (since 1998) of Nuveen Investments, LLC; Vice President (since 2002) of Nuveen Investments, LLC; Assistant Secretary (since 2002) of Nuveen Investments, LLC; formerly, Assistant Vice President (since 1999) of Nuveen Advisory Corp. and Nuveen Institutional Advisory Corp; President and Assistant Secretary (since 2002) of Nuveen Asset Management, LLC. |
| Lorna C. Ferguson 10/24/45 333 W. Wacker Drive | Vice President | 1998 | Managing Director (since 2004) of Nuveen Investments, LLC; Vice President of Nuveen Investments, LLC; Managing Director (since 1998) of Nuveen Investments, LLC. |

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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. |
|---|----------------|------|--|

| | | | |
|---|----------------------------------|------|---|
| 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 |
|--------------------------------|------------------------------------|--|--|
|--------------------------------|------------------------------------|--|--|

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. |
|--|----------------|------|--|

| | | | |
|--|----------------|------|--|
| 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. |
|--|----------------|------|--|

| | | | |
|--|--|------|--|
| 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.

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 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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| | | |
|--|---|----------------------------|
| about Nuveen Funds at | o | Daily financial news |
| www.nuveen.com/etf | o | Investor education |
| | o | Interactive planning tools |

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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. (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 |
|---|------------------------------|--------------------------------------|-----------|
| <hr style="border-top: 1px dashed black;"/> | | | |
| December 31, 2004 * | \$ 21,861 | \$ 0 | |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Percentage approved pursuant to pre-approval exception | N/A | 0% | |
| <hr style="border-top: 1px dashed black;"/> | | | |
| FISCAL YEAR ENDED | AUDIT FEES BILLED TO FUND | AUDIT-RELATED FEES BILLED TO FUND | T BILL |
| <hr style="border-top: 1px dashed black;"/> | | | |
| July 31, 2004 | \$ 28,361 | \$ 0 | \$ |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Percentage approved pursuant to pre-approval exception | N/A | 0% | |
| <hr style="border-top: 1px dashed black;"/> | | | |
| July 31, 2003 | \$ 12,800 | \$ 0 | \$ |
| <hr style="border-top: 1px dashed black;"/> | | | |
| Percentage approved pursuant to pre-approval exception | N/A | 0% | |
| <hr style="border-top: 1px dashed black;"/> | | | |

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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

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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

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

Date: March 9, 2005

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

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

Date: March 9, 2005

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