

NUVEEN PREFERRED CONVERTIBLE INCOME FUND 2

Form N-Q

November 28, 2006

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM N-Q
QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED MANAGEMENT
INVESTMENT COMPANY

Investment Company Act file number 811-21333

Nuveen Preferred and Convertible Income Fund 2

(Exact name of registrant as specified in charter)

333 West Wacker Drive, Chicago, Illinois 60606

(Address of principal executive offices) (Zip code)

Jessica R. Droeger Vice President and Secretary

333 West Wacker Drive, Chicago, Illinois 60606

(Name and address of agent for service)

Registrant's telephone number, including area code: 312-917-7700

Date of fiscal year end: 12/31

Date of reporting period: 9/30/2006

Form N-Q is to be used by management investment companies, other than small business investment companies registered on Form N-5 (§§ 239.24 and 274.5 of this chapter), to file reports with the Commission, not later than 60 days after the close of the first and third fiscal quarters, pursuant to rule 30b1-5 under the Investment Company Act of 1940 (17 CFR 270.30b1-5). The Commission may use the information provided on Form N-Q in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-Q, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-Q 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 the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. § 3507.

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| Shares | Description (1) | Value |
|-------------------------------------------------------|-----------------------------------|--------------|
| Common Stocks 9.4% (6.3% of Total Investments) | | |
| Aerospace & Defense 0.2% | | |
| 25,202 | Lockheed Martin Corporation | \$ 2,168,884 |
| 9,050 | Orbital Sciences Corporation, (2) | 169,869 |
| 7,972 | Precision Castparts Corporation | 503,512 |
| | Total Aerospace & Defense | 2,842,265 |
| Air Freight & Logistics 0.2% | | |
| 31,192 | FedEx Corporation | 3,389,947 |
| 16,017 | Ryder System Inc. | 827,759 |
| | Total Air Freight & Logistics | 4,217,706 |
| Airlines 0.0% | | |
| 26,321 | Southwest Airlines Co. | 438,508 |
| Beverages 0.2% | | |
| 37,570 | Coca-Cola Company | 1,678,628 |
| 49,201 | Pepsi Bottling Group Inc. | 1,746,636 |
| 11,081 | PepsiCo, Inc. | 723,146 |
| | Total Beverages | 4,148,410 |
| Biotechnology 0.2% | | |
| 17,838 | Genentech, Inc., (2) | 1,475,203 |
| 29,607 | Gilead Sciences, Inc., (2) | 2,034,001 |
| | Total Biotechnology | 3,509,204 |

Capital Markets 0.1%

| | | |
|--------|-------------------------------------------|-----------|
| 12,814 | Calamos Asset Management, Inc. Class A | 375,706 |
| 22,930 | Lehman Brothers Holdings Inc. | 1,693,610 |
| 4,947 | OptionsXpress Holdings Inc. | 137,922 |
| | Total Capital Markets | 2,207,238 |

Chemicals 0.1%

| | | |
|--------|-----------------------|-----------|
| 24,678 | Airgas, Inc. | 892,603 |
| 7,000 | Sparetech Corporation | 187,390 |
| | Total Chemicals | 1,079,993 |

Commercial Banks 0.5%

| | | |
|--------|------------------------------------|------------|
| 29,740 | Bank of Hawaii Corporation | 1,432,278 |
| 19,740 | Colonial BancGroup Inc. | 483,630 |
| 10,115 | Greater Bay Bancorp. | 285,344 |
| 14,330 | Marshall and Ilsley Corporation | 690,419 |
| 12,900 | Northern Trust Corporation | 753,747 |
| 42,350 | PNC Financial Services Group, Inc. | 3,067,834 |
| 3,270 | Umpqua Holdings Corporation | 93,522 |
| 25,796 | Washington Mutual, Inc. | 1,121,352 |
| 23,432 | Whitney Holding Corporation | 838,163 |
| 16,047 | Zions Bancorporation | 1,280,711 |
| | Total Commercial Banks | 10,047,000 |

**Commercial Services & Supplies
0.4%**

| | | |
|--------|--------------------------------------|-----------|
| 8,450 | Administaff, Inc. | 284,765 |
| 5,942 | American Ecology Corporation | 117,295 |
| 6,168 | Consolidated Graphics Inc., (2) | 371,129 |
| 10,852 | Corporate Executive Board Company | 975,703 |
| 45,303 | Global Payments Inc. | 1,993,785 |
| 40,630 | Republic Services, Inc. | 1,633,732 |
| 42,570 | SEI Investments Company | 2,392,008 |
| | Total Commercial Services & Supplies | 7,768,417 |

Communications Equipment 0.3%

| | | |
|---------|--------------------------------------------------------|-----------|
| 49,230 | Comverse Technology, Inc., (2) | 1,055,491 |
| 112,780 | Corning Incorporated, (2) | 2,752,960 |
| 4,789 | Harris Corporation | 213,063 |
| 68,770 | QUALCOMM Inc. | 2,499,790 |
| | Total Communications Equipment | 6,521,304 |
| | Computers & Peripherals 0.3% | |
| 29,060 | Apple Computer, Inc., (2) | 2,238,492 |
| 51,590 | Hewlett-Packard Company | 1,892,837 |
| 6,730 | Lexmark International, Inc., (2) | 388,052 |
| 34,234 | Network Appliance Inc., (2) | 1,267,000 |
| | Total Computers & Peripherals | 5,786,381 |
| | Consumer Finance 0.3% | |
| 211,336 | Americredit Corp., (2) | 5,281,287 |
| 17,770 | Capital One Financial Corporation | 1,397,788 |
| | Total Consumer Finance | 6,679,075 |
| | Containers & Packaging 0.0% | |
| 38,880 | Packaging Corp. of America | 902,016 |
| | Distributors - 0.0% | |
| 3,136 | Keystone Automotive Industries Inc., (2) | 119,231 |
| | Diversified Consumer Services 0.0% | |
| 14,134 | Jackson Hewitt Tax Services Inc. | 424,161 |
| | Diversified Financial Services 0.1% | |
| 13,700 | CBOT Holdings, Inc. Class A, (2) | 1,654,823 |
| | Diversified Telecommunication Services 0.2% | |
| 34,390 | AT&T Inc. | 1,119,738 |
| 3,460 | Cbeyond Inc., (2) | 94,977 |

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| | | |
|---------|----------------------------------------------|-----------|
| 8,110 | CT Communications, Inc. | 176,149 |
| 127,040 | Sprint Nextel Corporation | 2,178,736 |
| | Total Diversified Telecommunication Services | 3,569,600 |

Electric Utilities 0.4%

| | | |
|--------|--------------------------|-----------|
| 47,290 | PG&E Corporation | 1,969,629 |
| 82,262 | TXU Corporation | 5,143,020 |
| | Total Electric Utilities | 7,112,649 |

Electrical Equipment 0.2%

| | | |
|--------|----------------------------|-----------|
| 28,232 | Emerson Electric Co. | 2,367,536 |
| 5,756 | Ormat Technologies Inc. | 188,336 |
| 8,388 | Smith AO Corporation | 330,739 |
| | Total Electrical Equipment | 2,886,611 |

Electronic Equipment & Instruments 0.2%

| | | |
|--------|------------------------------------------|-----------|
| 6,434 | Itron Inc., (2) | 359,017 |
| 12,567 | Millipore Corporation, (2) | 770,357 |
| 14,655 | Parker Hannifin Corporation | 1,139,133 |
| 13,951 | Plexus Corporation, (2) | 267,859 |
| 14,051 | Teledyne Technologies Inc., (2) | 556,420 |
| 21,485 | Waters Corporation, (2) | 972,841 |
| | Total Electronic Equipment & Instruments | 4,065,627 |

Energy Equipment & Services 0.0%

| | | |
|--------|-----------------------------------|---------|
| 9,621 | Helix Energy Solutions Group, (2) | 321,341 |
| 10,474 | Unit Corporation, (2) | 481,490 |
| | Total Energy Equipment & Services | 802,831 |

Food & Staples Retailing 0.1%

| | | |
|--------|--------------------------|-----------|
| 31,180 | Whole Foods Market, Inc. | 1,853,027 |
|--------|--------------------------|-----------|

Food Products 0.3%

| | | |
|---------|------------------|-----------|
| 106,390 | Monsanto Company | 5,001,394 |
|---------|------------------|-----------|

Gas Utilities 0.2%

| | | |
|---------|---------------------|-----------|
| 104,653 | Energen Corporation | 4,381,821 |
|---------|---------------------|-----------|

**Health Care Equipment & Supplies
0.4%**

| | | |
|--------|-------------------------------------------------|-----------|
| 16,190 | American Medical Systems Holdings, Inc., (2) | 298,382 |
| 41,140 | Baxter International Inc. | 1,870,224 |
| 22,014 | Dade Behring Holdings Inc. | 884,082 |
| 9,564 | Express Scripts, Inc., (2) | 721,986 |
| 11,470 | Hillenbrand Industries | 653,561 |
| 64,670 | Hospira Inc., (2) | 2,474,921 |
| 14,119 | Surmodics Inc., (2) | 495,859 |

| | | |
|--|-------------------------------------------|-----------|
| | Total Health Care Equipment & Supplies | 7,399,015 |
|--|-------------------------------------------|-----------|

**Health Care Providers & Services
0.4%**

| | | |
|--------|----------------------------------|-----------|
| 13,909 | Healthways Inc., (2) | 620,341 |
| 46,074 | Quest Diagnostics Incorporated | 2,817,886 |
| 52,586 | Sierra Health Services Inc., (2) | 1,989,854 |
| 35,953 | Wellcare Health Plans Inc., (2) | 2,036,018 |

| | | |
|--|----------------------------------------|-----------|
| | Total Health Care Providers & Services | 7,464,099 |
|--|----------------------------------------|-----------|

Hotels, Restaurants & Leisure 0.1%

| | | |
|--------|-----------------------------------|---------|
| 24,016 | Choice Hotels International, Inc. | 982,254 |
| 8,580 | Panera Bread Company, (2) | 499,785 |
| 15,337 | Starbucks Corporation, (2) | 522,225 |

| | | |
|--|-------------------------------------|-----------|
| | Total Hotels, Restaurants & Leisure | 2,004,264 |
|--|-------------------------------------|-----------|

Household Durables 0.2%

| | | |
|---------|------------------------|-----------|
| 139,632 | Newell Rubbermaid Inc. | 3,954,378 |
| 8,600 | Snap-on Incorporated | 383,130 |
| 6,310 | Stanley Works | 314,554 |

| | | |
|---------|----------------------------------------------------|------------|
| | Total Household Durables | 4,652,062 |
| | Household Products 0.2% | |
| 40,300 | Colgate-Palmolive Company | 2,502,630 |
| 17,987 | Kimberly-Clark Corporation | 1,175,630 |
| | Total Household Products | 3,678,260 |
| | Industrial Conglomerates 0.1% | |
| 21,710 | 3M Co. | 1,615,658 |
| 28,590 | General Electric Company | 1,009,227 |
| | Total Industrial Conglomerates | 2,624,885 |
| | Insurance 0.6% | |
| 49,308 | AFLAC Incorporated | 2,256,334 |
| 3,376 | First American Corporation | 142,940 |
| 46,894 | HCC Insurance Holdings Inc. | 1,541,875 |
| 28,084 | Philadelphia Consolidated Holding Corporation, (2) | 1,117,182 |
| 6,940 | Tower Group Inc. | 231,449 |
| 173,210 | W.R. Berkley Corporation | 6,129,902 |
| | Total Insurance | 11,419,682 |
| | Internet & Catalog Retail 0.1% | |
| 18,306 | Coldwater Creek Inc., (2) | 526,481 |
| 11,689 | MSC Industrial Direct Inc., Class A | 476,210 |
| | Total Internet & Catalog Retail | 1,002,691 |
| | Internet Software & Services 0.0% | |
| 1,674 | Google Inc., Class A, (2) | 672,781 |
| 7,018 | j2 Global Communications, Inc., (2) | 190,679 |
| | Total Internet Software & Services | 863,460 |
| | IT Services 0.0% | |

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| | | |
|---------------------------------|--------------------------------------------|------------|
| 11,836 | Websense Inc., (2) | 255,776 |
| | | |
| Machinery 0.1% | | |
| 7,440 | Flow International Corporation, (2) | 96,497 |
| 14,210 | FlowsERVE Corporation, (2) | 718,884 |
| 2,946 | Freightcar America Inc. | 156,138 |
| 13,354 | Harsco Corporation | 1,036,938 |
| 9,645 | Joy Global Inc. | 362,748 |
| 7,740 | Paccar Inc. | 441,335 |
| 3,630 | Robbins & Myers, Inc. | 112,240 |
| Total Machinery | | 2,924,780 |
| | | |
| Media 0.6% | | |
| 25,810 | Cablevision Systems Corporation, (2) | 586,145 |
| 12,825 | Comcast Corporation, Class A, (2) | 472,601 |
| 68,790 | DIRECTV Group, Inc., (2) | 1,353,787 |
| 26,024 | John Wiley and Sons Inc., Class A | 937,124 |
| 20,660 | Liberty Global Inc, A Shares, (2) | 531,788 |
| 20,668 | Liberty Global Inc., Class C, (2) | 517,940 |
| 7,844 | Lodgenet Entertainment Corporation, (2) | 148,095 |
| 59,320 | McGraw-Hill Companies, Inc. | 3,442,340 |
| 181,230 | Time Warner Inc. | 3,303,823 |
| Total Media | | 11,293,643 |
| | | |
| Metals & Mining 0.0% | | |
| 7,470 | Compass Minerals International, Inc. | 211,476 |
| 3,160 | Olympic Steel Inc. | 78,558 |
| 2,988 | Phelps Dodge Corporation | 253,084 |
| Total Metals & Mining | | 543,118 |
| | | |
| Multiline Retail 0.2% | | |
| 13,670 | Big Lots Inc., (2) | 270,803 |
| 8,937 | Casey's General Stores, Inc. | 199,027 |
| 41,020 | Dollar Tree Stores Inc., (2) | 1,269,979 |
| 47,060 | Kohl's Corporation, (2) | 3,055,135 |
| Total Multiline Retail | | 4,794,944 |

Oil, Gas & Consumable Fuels 0.4%

| | | |
|--------|-------------------------------------|-----------|
| 9,320 | Cabot Oil & Gas Corporation | 446,708 |
| 33,180 | EOG Resources, Inc. | 2,158,359 |
| 5,138 | Frontier Oil Corporation | 136,568 |
| 6,142 | Houston Exploration Company, (2) | 338,731 |
| 6,756 | Parallel Petroleum Corporation, (2) | 135,525 |
| 10,177 | Pioneer Drilling Company, (2) | 130,673 |
| 27,571 | Sunoco, Inc. | 1,714,640 |
| 15,522 | Valero Energy Corporation | 798,917 |
| 48,872 | W&T Offshore Inc. | 1,427,551 |
| | Total Oil, Gas & Consumable Fuels | 7,287,672 |

Paper & Forest Products 0.0%

| | | |
|--------|---------------------------|---------|
| 25,150 | Plum Creek Timber Company | 856,106 |
|--------|---------------------------|---------|

Pharmaceuticals 0.1%

| | | |
|--------|-------------------------------------|-----------|
| 13,437 | Allergan Inc. | 1,513,141 |
| 9,894 | Alpharma Inc. | 231,421 |
| 5,370 | New River Pharmaceuticals Inc., (2) | 138,170 |
| | Total Pharmaceuticals | 1,882,732 |

Real Estate 0.3%

| | | |
|--------|-----------------------------------------|-----------|
| 4,123 | American Home Mortgage Investment Corp. | 143,769 |
| 7,880 | Camden Property Trust | 598,959 |
| 12,443 | Equity Inns Inc. | 198,093 |
| 11,070 | Health Care Property Investors Inc. | 343,724 |
| 26,920 | Host Marriott Corporation | 617,276 |
| 8,597 | LaSalle Hotel Properties | 372,594 |
| 11,081 | Public Storage, Inc. | 952,855 |
| 8,074 | SL Green Realty Corporation | 901,866 |
| 18,567 | Tanger Factory Outlet Centers | 661,357 |
| 2,614 | Taubman Centers Inc. | 116,114 |
| 13,134 | United Dominion Realty Trust | 396,647 |
| | Total Real Estate | 5,303,254 |

Semiconductors & Equipment 0.2%

| | | |
|--------|-----------------------------------|---------|
| 30,390 | Advanced Micro Devices, Inc., (2) | 755,192 |
| 30,247 | Entegris Inc., (2) | 329,995 |

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| | | |
|--------|---------------------------------------------|------------------|
| 34,020 | Micron Technology, Inc., (2) | 591,948 |
| 93,220 | National Semiconductor Corporation | 2,193,467 |
| 3,876 | Netlogic Microsystems Inc., (2) | 98,334 |
| 40,610 | QLogic Corporation, (2) | 767,529 |
| 3,950 | Trident Microsystems Inc., (2) | 91,877 |
| | Total Semiconductors & Equipment | 4,828,342 |

Software 0.4%

| | | |
|--------|----------------------------|------------------|
| 10,955 | Aspen Technology Inc., (2) | 119,629 |
| 45,871 | Autodesk, Inc., (2) | 1,595,393 |
| 11,444 | Blackbaud, Inc. | 251,654 |
| 90,490 | BMC Software Inc., (2) | 2,463,138 |
| 47,360 | Intuit Inc., (2) | 1,519,782 |
| 66,651 | Salesforce.com, Inc., (2) | 2,391,438 |
| | Total Software | 8,341,034 |

Specialty Retail 0.3%

| | | |
|--------|-----------------------------------------|------------------|
| 60,376 | Ann Taylor Stores Corporation, (2) | 2,527,339 |
| 7,114 | Build-A-Bear-Workshop, Inc., (2) | 161,986 |
| 5,313 | Childrens Place Retail Stores Inc., (2) | 340,191 |
| 35,907 | Circuit City Stores, Inc. | 901,625 |
| 16,851 | Claire s Stores, Inc. | 491,375 |
| 4,420 | Gymboree Corporation, (2) | 186,436 |
| 24,758 | Select Comfort Corporation, (2) | 541,705 |
| 34,161 | Staples, Inc. | 831,137 |
| | Total Specialty Retail | 5,981,794 |

**Textile, Apparel & Luxury Goods
0.0%**

| | | |
|--------|-----------------|---------|
| 14,249 | Guess Inc., (2) | 691,504 |
|--------|-----------------|---------|

Thriffs & Mortgage Finance 0.0%

| | | |
|--------|-------------------------|---------|
| 19,420 | Washington Federal Inc. | 435,785 |
|--------|-------------------------|---------|

Tobacco 0.2%

| | | |
|--------|---------------------------|---------|
| 11,470 | Loews Corp Carolina Group | 635,323 |
| 12,900 | UST Inc. | 707,307 |

| | |
|---------------|-----------|
| Total Tobacco | 1,342,630 |
|---------------|-----------|

Trading Companies & Distributors
0.0%

| | |
|------------------------|---------|
| 7,154 GATX Corporation | 295,961 |
|------------------------|---------|

| | |
|-------------------------------------------------|--------------------|
| Total Common Stocks (cost \$182,379,887) | 186,186,785 |
|-------------------------------------------------|--------------------|

| Shares | Description (1) | Coupon | Ratings (3) | Value |
|-----------------------------------------|----------------------------------------------------------------------------|--------|-------------|---------------|
| Convertible Preferred Securities | | | | |
| 9.0% (6.0% of Total Investments) | | | | |
| Automobiles 1.2% | | | | |
| 374,450 | Ford Motor Company Capital Trust II | 6.500% | Caa2 | \$ 12,577,776 |
| 351,700 | General Motors Corporation, Convertible Notes, Senior Debentures, Series B | 5.250% | B- | 7,076,204 |
| 214,800 | General Motors Corporation | 6.250% | B- | 4,933,956 |
| | Total Automobiles | | | 24,587,936 |
| Capital Markets 0.2% | | | | |
| 72,000 | Affiliated Managers Group Inc. | 5.100% | BB | 3,744,000 |
| Chemicals 0.3% | | | | |
| 217,275 | Celanese Corporation | 4.250% | N/R | 6,014,172 |
| Commercial Banks 0.7% | | | | |
| 9,800,000 | Fortis Insurance NV, 144A | 7.750% | A+ | 13,729,800 |
| Consumer Finance 0.7% | | | | |
| 13,400,000 | SLM Corporation | 5.435% | A | 13,499,160 |
| Electric Utilities 0.5% | | | | |

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| | | | | |
|---------|--------------------------------------------------------------|--------|------|------------|
| 108,860 | Entergy Corporation | 7.625% | BBB | 5,924,161 |
| 76,430 | PNM Resources Inc. | 6.750% | Baa3 | 3,824,557 |
| | Total Electric Utilities | | | 9,748,718 |
| | Energy Equipment & Services 0.2% | | | |
| 54,050 | Bristow Group Inc., Preferred Stock, Convertible | 5.500% | N/R | 2,651,153 |
| | Gas Utilities 0.1% | | | |
| 37,500 | Southern Union Company | 5.000% | BBB | 1,976,250 |
| | Independent Power Producers & Energy Traders 0.1% | | | |
| 5,500 | NRG Energy Inc., Preferred Convertible | 5.750% | B2 | 1,298,275 |
| | Insurance 2.6% | | | |
| 71,500 | Aspen Insurance Holdings Limited | 5.625% | BBB- | 3,744,813 |
| 503,775 | Genworth Financial Inc. | 6.000% | A | 19,042,695 |
| 85,000 | Hartford Financial Services Group, Inc. | 6.000% | A2 | 6,465,950 |
| 470,000 | MetLife Inc., Convertible, Series B | 6.375% | BBB+ | 13,963,700 |
| 357,270 | Travelers Property Casualty Corporation, Subordinate Notes | 4.500% | Baa1 | 8,795,987 |
| | Total Insurance | | | 52,013,145 |
| | Media 0.8% | | | |
| 274,810 | Comcast Corporation | 2.000% | BBB | 11,129,805 |
| 135,700 | Interpublic Group Companies Inc., Series A | 5.375% | N/R | 5,046,683 |
| | Total Media | | | 16,176,488 |
| | Metals & Mining 0.3% | | | |
| 5,010 | Freeport McMoran Copper & Gold, Inc. | 5.500% | B- | 6,306,338 |

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Oil, Gas & Consumable Fuels 0.2%

| | | | | |
|--------|-------------------------------|--------|----|-----------|
| 46,600 | Chesapeake Energy Corporation | 5.000% | B+ | 4,805,625 |
|--------|-------------------------------|--------|----|-----------|

Pharmaceuticals 0.7%

| | | | | |
|---------|-----------------------------------------------------------|--------|-----|------------|
| 253,450 | Schering-Plough Corporation (WI/DD, Settling 10/02/06) | 6.000% | BBB | 14,089,286 |
|---------|-----------------------------------------------------------|--------|-----|------------|

U.S. Agency 0.4%

| | | | | |
|----|---------------------------------------|--------|-----|-----------|
| 74 | Federal National Mortgage Association | 5.375% | AA- | 7,142,665 |
|----|---------------------------------------|--------|-----|-----------|

| | | | | |
|--------------------------------------------------------------------|--|--|--|--------------------|
| Total Convertible Preferred Securities (cost \$161,230,015) | | | | 177,783,011 |
|--------------------------------------------------------------------|--|--|--|--------------------|

Table of Contents

| Shares | Description (1) | Coupon | Ratings (3) | Value |
|--------------------------------------------------------------------------------------|----------------------------------------------------|--------|----------------|------------|
| \$25 Par (or similar) Preferred Securities 44.8% (30.1% of Total Investments) | | | | |
| Automobiles - 0.0% | | | | |
| 3,000 | DaimlerChrysler AG (CORTS) | 7.875% | Baa1 | \$ 75,390 |
| 2,200 | DaimlerChrysler Corp. (PPLUS) | 7.250% | A3 | 54,780 |
| | Total Automobiles | | | 130,170 |
| Capital Markets 3.1% | | | | |
| 269,511 | BNY Capital Trust V, Series F | 5.950% | A1 | 6,495,215 |
| 219,600 | Compass Capital Trust III | 7.350% | A3 | 5,505,372 |
| 31,600 | CSFB USA, Series 2002-10 (SATURNS) | 7.000% | AA- | 810,540 |
| 22,600 | First Union Institutional Capital II (CORTS) | 8.200% | A1 | 615,850 |
| 5,300 | Goldman Sachs Capital I (CORTS) | 6.000% | A1 | 125,398 |
| 4,900 | Goldman Sachs Capital I, Series A (CORTS) | 6.000% | A1 | 113,925 |
| 4,800 | Goldman Sachs Group Inc., Series 2004-04 (SATURNS) | 6.000% | A1 | 113,472 |
| 2,100 | Goldman Sachs Group Inc., Series 2004-06 (SATURNS) | 6.000% | A1 | 48,552 |
| 11,800 | Goldman Sachs Group Inc., Series GSC-3 (PPLUS) | 6.000% | A1 | 273,996 |
| 1,800 | Goldman Sachs Group Inc., Series GSG-1 (PPLUS) | 6.000% | Aa3 | 42,264 |
| 71,500 | Merrill Lynch Capital Trust II | 8.000% | A1 | 1,838,265 |
| 423,200 | Merrill Lynch Preferred Capital Trust III | 7.000% | A1 | 10,732,352 |
| 189,600 | Merrill Lynch Preferred Capital Trust IV | 7.120% | A1 | 4,831,008 |
| 283,400 | Merrill Lynch Preferred Capital Trust V | 7.280% | A1 | 7,263,542 |
| 48,400 | Merrill Lynch Preferred Capital Trust | 7.750% | A1 | 1,225,972 |
| 211,850 | Morgan Stanley Capital Trust II | 7.250% | A1 | 5,380,990 |
| 185,370 | Morgan Stanley Capital Trust III | 6.250% | A1 | 4,571,224 |
| 138,400 | Morgan Stanley Capital Trust IV | 6.250% | A1 | 3,390,800 |
| 14,100 | Morgan Stanley Capital Trust V | 5.750% | A+ | 328,248 |
| 310,300 | Morgan Stanley Capital Trust VI | 6.600% | A1 | 7,844,384 |
| | Total Capital Markets | | | 61,551,369 |

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Commercial Banks 9.8%

| | | | | |
|---------|-----------------------------------------------|---------|------|--------------------|
| 36,200 | Abbey National PLC, Series B | 7.375% | A | 949,888 |
| 40,000 | Abbey National PLC, Series B | 7.250% | A1 | 1,010,000 |
| 303,200 | Abbey National PLC, Series C | 7.375% | A2 | 7,731,600 |
| 730,000 | ABN AMRO Capital Fund Trust V | 5.900% | A | 17,374,000 |
| 35,179 | ABN AMRO Capital Fund Trust VI | 6.250% | A | 880,882 |
| 17,021 | ABN AMRO Capital Trust Fund VII | 6.080% | A | 417,355 |
| 115,200 | ASBC Capital I | 7.625% | Baa1 | 2,911,104 |
| 128,410 | BAC Capital Trust I | 7.000% | Aa3 | 3,232,080 |
| 565,500 | BAC Capital Trust II | 7.000% | Aa3 | 14,352,390 |
| 151,300 | BAC Capital Trust III | 7.000% | Aa3 | 3,849,072 |
| 888,611 | Banco Santander | 6.410% | A2 | 22,748,442 |
| 71,750 | Banco Totta & Acores Finance, Series A | 8.875% | A3 | 1,791,511 |
| 6,700 | BancorpSouth Capital Trust I | 8.150% | Baa2 | 168,639 |
| 28,800 | Banesto Holdings, Series A, 144A | 10.500% | A2 | 885,600 |
| 553,100 | Bank of America Corporation, Series D | 6.204% | A1 | 14,115,112 |
| 167,700 | Bank One Capital Trust VI | 7.200% | A1 | 4,259,580 |
| 51,900 | BankNorth Capital Trust II | 8.000% | A3 | 1,312,551 |
| 86,042 | Barclays Bank PLC | 6.625% | Aa3 | 2,229,348 |
| 166,100 | Chittenden Capital Trust I | 8.000% | Baa1 | 4,235,550 |
| 129,600 | Citizens Funding Trust I | 7.500% | Baa2 | 3,263,328 |
| 146,500 | Cobank ABC, 144A, (6) | 7.000% | N/R | 8,010,913 |
| 119,100 | Comerica Capital Trust I | 7.600% | A3 | 2,991,792 |
| 430,300 | Fleet Capital Trust VIII | 7.200% | Aa3 | 10,860,772 |
| 62,400 | HSBC Finance Corporation | 6.875% | AA- | 1,600,560 |
| 38,200 | KeyCorp (PCARS) | 7.500% | A3 | 978,302 |
| 87,267 | KeyCorp Capital Trust V | 5.875% | A3 | 2,050,775 |
| 3,400 | Keycorp Capital VIII | 7.000% | A3 | 87,295 |
| 92,600 | National Commerce Capital Trust II | 7.700% | A1 | 2,327,964 |
| 21,700 | ONB Capital Trust II | 8.000% | Baa2 | 555,737 |
| 27,300 | PNC Capital Trust | 6.125% | A3 | 662,025 |
| 180,674 | Royal Bank of Scotland Group PLC, Series L | 5.750% | A1 | 4,328,949 |
| 124,740 | Royal Bank of Scotland Group PLC, Series N | 6.350% | A1 | 3,155,922 |
| 160,600 | SunTrust Capital Trust IV | 7.125% | A1 | 4,039,090 |
| 110,300 | SunTrust Capital Trust V | 7.050% | A1 | 2,774,045 |
| 356,700 | USB Capital Trust IV | 7.350% | Aa3 | 9,042,345 |
| 301,200 | USB Capital Trust V | 7.250% | Aa3 | 7,581,204 |
| 31,800 | USB Capital Trust VI | 5.750% | Aa3 | 729,174 |
| 40,100 | USB Capital Trust VII | 5.875% | Aa3 | 937,137 |
| 39,300 | VNB Capital Trust I | 7.750% | Baa1 | 988,788 |
| 40,000 | Wells Fargo Capital Trust IV | 7.000% | Aa2 | 1,011,600 |
| 11,000 | Wells Fargo Capital Trust IX | 5.625% | Aa2 | 252,560 |
| 483,400 | Wells Fargo Capital Trust V | 7.000% | Aa2 | 12,181,680 |
| 114,700 | Wells Fargo Capital Trust VI | 6.950% | Aa2 | 2,884,705 |
| 129,309 | Wells Fargo Capital Trust VII | 5.850% | Aa2 | 3,091,778 |
| 117,800 | Zions Capital Trust B | 8.000% | Baa1 | 3,032,172 |
| | Total Commercial Banks | | | 193,875,316 |

Computers & Peripherals 0.1%

| | | | | |
|--------|-----------------------------------|--------|----|-----------|
| 29,900 | IBM Inc., Series 2001-1 (SATURNS) | 7.125% | A+ | 765,291 |
| 14,000 | IBM Trust II (CORTS) | 7.125% | A+ | 358,680 |
| 8,000 | IBM Trust III (CORTS) | 7.200% | A+ | 204,560 |
| 23,200 | IBM Trust IV (CORTS) | 7.000% | A+ | 603,432 |
| | Total Computers & Peripherals | | | 1,931,963 |

Consumer Finance 0.1%

| | | | | |
|--------|-----------------------------|--------|----|-----------|
| 99,400 | Household Capital Trust VII | 7.500% | A1 | 2,512,832 |
| 14,200 | SLM Corporation | 6.000% | A | 342,504 |
| | Total Consumer Finance | | | 2,855,336 |

Diversified Financial Services 3.8%

| | | | | |
|---------|-------------------------------------------------------------|--------|-----|------------|
| 75,000 | BAC Capital Trust XII | 6.875% | Aa3 | 1,934,250 |
| 27,700 | CIT Group Incorporated (CORTS) | 7.750% | A3 | 726,987 |
| 108,880 | Citigroup Capital Trust IX | 6.000% | Aa2 | 2,653,406 |
| 197,400 | Citigroup Capital Trust VII | 7.125% | Aa2 | 4,986,324 |
| 754,422 | Citigroup Capital Trust VIII | 6.950% | Aa2 | 18,951,081 |
| 10,000 | Citigroup Capital XIV | 6.875% | Aa2 | 256,600 |
| 195,150 | Citigroup Capital XV | 6.500% | Aa3 | 4,976,325 |
| 6,100 | Citigroup, Series CIT (CORTS) | 6.750% | A3 | 151,890 |
| 1,400 | General Electric Capital Corporation (CORTS) | 6.000% | AAA | 33,810 |
| 40,500 | General Electric Capital Corporation | 6.625% | AAA | 1,024,650 |
| 592,320 | ING Group N.V. | 7.200% | A | 15,198,931 |
| 755,475 | ING Group N.V. | 7.050% | A | 19,173,956 |
| 43,200 | JPM Capital Trust (CORTS) | 7.200% | A1 | 1,101,168 |
| 71,965 | JPMorgan Chase & Company (PCARS) | 7.125% | A2 | 1,830,790 |
| 73,600 | JPMorgan Chase Trust, Series 2002-6, Class A (SATURNS) | 7.125% | A1 | 1,861,344 |
| 47,000 | Royal Bank of Scotland Public Limited Company, Series 2006Q | 6.750% | A1 | 1,229,050 |
| | Total Diversified Financial Services | | | 76,090,562 |

Diversified Telecommunication Services 0.5%

| | | | | |
|--------|-----------------------------------|--------|-----|-----------|
| 38,500 | BellSouth Capital Funding (CORTS) | 7.100% | A | 968,275 |
| 29,900 | BellSouth Corporation (CORTS) | 7.000% | Aa3 | 757,367 |
| 50,600 | | 7.125% | A | 1,271,831 |

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BellSouth Corporation, Series 2001-3
(SATURNS)

| | | | | |
|--------|----------------------------------------------|--------|----|-----------|
| 32,600 | BellSouth Inc. (CORTS) | 7.000% | A | 827,062 |
| 80,800 | BellSouth Telecommunications (PPLUS) | 7.300% | A | 2,048,280 |
| 27,300 | Verizon Communications (CORTS) | 7.625% | A | 709,800 |
| 48,100 | Verizon Communications (CORTS) | 7.375% | A | 1,233,284 |
| 50,700 | Verizon New England Inc., Series B | 7.000% | A3 | 1,288,287 |
| 30,400 | Verizon South Inc., Series F | 7.000% | A | 770,336 |
| | Total Diversified Telecommunication Services | | | 9,874,522 |

Electric Utilities 0.4%

| | | | | |
|---------|----------------------------------------------------------|--------|------|-----------|
| 16,300 | Consolidated Edison Company of New York Inc. | 7.500% | A1 | 408,152 |
| 6,000 | Consolidated Edison, Inc. | 7.250% | A2 | 151,800 |
| 21,100 | DTE Energy Trust I | 7.800% | Baa3 | 537,839 |
| 28,900 | Entergy Louisiana LLC | 7.600% | A- | 729,725 |
| 8,300 | Entergy Mississippi Inc. | 7.250% | A- | 211,692 |
| 3,000 | Georgia Power Capital Trust V | 7.125% | A3 | 75,600 |
| 11,700 | Mississippi Power Capital Trust II | 7.200% | A2 | 295,425 |
| 5,200 | National Rural Utilities Cooperative Finance Corporation | 7.400% | A3 | 131,820 |
| 1,500 | National Rural Utilities Cooperative Finance Corporation | 6.100% | A3 | 36,600 |
| 1,600 | National Rural Utilities Cooperative Finance Corporation | 5.950% | A3 | 37,056 |
| 33,600 | Northern States Power Company | 8.000% | A3 | 857,136 |
| 1,500 | PPL Energy Supply LLC | 7.000% | BBB | 38,578 |
| 15,400 | Southern Company Capital Trust I (CORTS) | 8.190% | BBB+ | 407,638 |
| 35,700 | Southern Company Capital Trust I (CORTS) | 7.375% | BBB+ | 903,924 |
| 13,100 | Southern Company Capital Trust VI | 7.125% | BBB+ | 332,216 |
| 122,500 | Virginia Power Capital Trust | 7.375% | Baa2 | 3,123,750 |
| | Total Electric Utilities | | | 8,278,951 |

Food Products 0.3%

| | | | | |
|--------|------------------------------------------|--------|------|-----------|
| 54,200 | Dairy Farmers of America Inc., 144A, (6) | 7.875% | BBB- | 5,379,350 |
|--------|------------------------------------------|--------|------|-----------|

Household Durables 0.1%

| | | | | |
|--------|------------------|--------|-----|-----------|
| 72,700 | Pulte Homes Inc. | 7.375% | BBB | 1,879,295 |
|--------|------------------|--------|-----|-----------|

Industrial Conglomerates 0.0%

| | | | | |
|-------|---------------------------------------------|--------|-----|---------|
| 5,000 | General Electric Company, Series GE (CORTS) | 6.800% | AAA | 126,300 |
|-------|---------------------------------------------|--------|-----|---------|

Insurance 11.6%

| | | | | |
|-----------|---------------------------------------------------|--------|------|------------|
| 1,210,933 | Ace Ltd., Series C | 7.800% | Baa2 | 31,423,711 |
| 2,100 | Aegon N.V. | 6.875% | A- | 54,222 |
| 1,398,400 | Aegon N.V. | 6.375% | A- | 35,365,536 |
| 6,500 | Allstate Corporation (PCARS) | 7.150% | A2 | 163,670 |
| 36,700 | AMBAC Financial Group Inc. | 5.950% | AA | 888,874 |
| 236,713 | Arch Capital Group Limited, Series B | 7.785% | Baa3 | 6,119,031 |
| 389,973 | Arch Capital Group Limited | 8.000% | Baa3 | 10,373,282 |
| 676,401 | Delphi Financial Group, Inc. | 8.000% | BBB | 17,718,324 |
| 200,456 | EverestRe Capital Trust II | 6.200% | Baa1 | 4,542,333 |
| 97,100 | EverestRe Group Limited | 7.850% | Baa1 | 2,499,354 |
| 339,100 | Hartford Capital Trust III, Series C | 7.450% | A3 | 8,491,064 |
| 56,500 | Lincoln National Capital Trust V, Series E | 7.650% | A- | 1,422,670 |
| 1,401,100 | Lincoln National Capital Trust VI | 6.750% | A- | 35,517,885 |
| 109,100 | Markel Corporation | 7.500% | BBB- | 2,778,777 |
| 903,702 | PartnerRe Limited, Series C | 6.750% | BBB+ | 22,719,068 |
| 82,700 | PartnerRe Limited | 7.900% | A3 | 2,073,289 |
| 80,900 | PLC Capital Trust III | 7.500% | BBB+ | 2,047,579 |
| 70,800 | PLC Capital Trust IV | 7.250% | BBB+ | 1,784,868 |
| 24,200 | PLC Capital Trust V | 6.125% | BBB+ | 573,540 |
| 17,500 | Protective Life Corporation | 7.250% | BBB | 450,625 |
| 38,800 | Prudential PLC | 6.750% | A | 988,236 |
| 115,800 | RenaissanceRe Holdings Limited, Series A | 8.100% | BBB+ | 2,925,108 |
| 124,700 | RenaissanceRe Holdings Limited, Series B | 7.300% | BBB | 3,149,922 |
| 3,400 | RenaissanceRe Holdings Limited, Series C | 6.080% | BBB+ | 75,548 |
| 24,600 | Safeco Capital Trust I (CORTS) | 8.750% | Baa2 | 712,539 |
| 48,300 | Safeco Capital Trust III (CORTS) | 8.072% | Baa2 | 1,236,722 |
| 17,400 | Safeco Capital Trust IV (CORTS) | 8.375% | Baa2 | 482,850 |
| 40,200 | Safeco Corporation, Series 2001-7 (SATURNS) | 8.250% | Baa2 | 1,033,542 |
| 38,800 | Safeco Corporation, Series 2002-5 (SATURNS) | 8.250% | Baa2 | 1,002,010 |
| 97,100 | Saint Paul Capital Trust I | 7.600% | Baa1 | 2,469,253 |
| 61,600 | Torchmark Capital Trust I | 7.750% | A- | 1,540,000 |
| 142,800 | W.R. Berkley Capital Trust, Series 2002-1 (CBTCS) | 8.125% | BBB- | 1,459,416 |
| 709,600 | W.R. Berkley Corporation | 6.750% | BBB- | 17,590,984 |
| 68,800 | XL Capital Ltd, Series A | 8.000% | Baa1 | 1,751,648 |
| 248,540 | XL Capital Ltd, Series B | 7.625% | Baa1 | 6,352,682 |

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Total Insurance 229,778,162

IT Services 0.0%

2,500 Vertex Industries Inc. (PPLUS) 7.625% A 64,075

Media 1.4%

52,700 CBS Corporation 7.250% BBB 1,322,770
 1,022,400 Comcast Corporation 7.000% BBB+ 26,007,300
 5,400 Walt Disney Company (CORTS) 6.875% A- 135,648
 6,300 Walt Disney Company 7.000% A- 159,894

Total Media 27,625,612

Multi-Utilities 0.1%

52,400 Dominion CNG Capital Trust I 7.800% Baa2 1,332,532
 27,500 Dominion Resources Capital Trust II 8.400% Baa3 697,400

Total Multi-Utilities 2,029,932

Oil, Gas & Consumable Fuels 0.9%

678,700 Nexen Inc. 7.350% Baa3 17,442,590

Pharmaceuticals 0.1%

50,800 Bristol Myers Squibb Company (CORTS) 6.250% A+ 1,248,156

Real Estate 10.8%

77,100 AvalonBay Communities, Inc., Series H 8.700% BBB 2,111,769
 166,283 BRE Properties, Series B 8.080% BBB- 4,266,822
 3,900 Developers Diversified Realty Corporation, Series F 8.600% BBB- 99,177
 104,300 Developers Diversified Realty Corporation, Series G 8.000% BBB- 2,675,295
 1,264,845 Developers Diversified Realty Corporation, Series H 7.375% BBB- 32,051,172
 125,600 Duke Realty Corporation, Series L 6.600% BBB 3,140,000
 31,700 Duke Realty Corporation, Series N 7.250% BBB 824,200
 25,000 Duke-Weeks Realty Corporation, Series B 7.990% BBB 1,246,875
 82,800 Duke-Weeks Realty Corporation 6.950% BBB 2,109,744

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| | | | | |
|-----------|--------------------------------------------------|--------|------|------------|
| 96,000 | Duke-Weeks Realty Corporation | 6.625% | BBB | 2,374,080 |
| 196,800 | Equity Office Properties Trust, Series G | 7.750% | BBB- | 4,998,720 |
| 15,400 | Equity Residential Properties Trust, Series D | 8.600% | BBB | 391,622 |
| 347,922 | Equity Residential Properties Trust, Series N | 6.480% | BBB | 8,677,175 |
| 140,000 | Federal Realty Investment Trust | 8.500% | BBB- | 3,563,000 |
| 4,900 | First Industrial Realty Trust, Inc., Series C | 8.625% | BBB- | 128,968 |
| 688,600 | HRPT Properties Trust, Series B | 8.750% | BBB- | 17,834,740 |
| 532,700 | HRPT Properties Trust, Series C | 7.125% | BBB- | 13,615,812 |
| 99,800 | New Plan Excel Realty Trust, Series E | 7.625% | BBB- | 2,548,892 |
| 3,997 | Prologis Trust, Series C | 8.540% | BBB | 230,452 |
| 96,275 | Prologis Trust, Series G | 6.750% | BBB | 2,406,875 |
| 2,000 | PS Business Parks, Inc., Series F | 8.750% | BBB- | 50,640 |
| 700 | PS Business Parks, Inc., Series K | 7.950% | BBB- | 18,340 |
| 243,000 | PS Business Parks, Inc., Series L | 7.600% | BBB- | 6,231,735 |
| 130,700 | PS Business Parks, Inc., Series O | 7.375% | BBB- | 3,353,278 |
| 299,600 | PS Business Parks, Inc. | 7.000% | BBB- | 7,490,000 |
| 12,500 | Public Storage, Inc., Series I | 7.250% | BBB+ | 324,000 |
| 149,000 | Public Storage, Inc., Series E | 6.750% | BBB+ | 3,748,840 |
| 18,400 | Public Storage, Inc., Series F | 6.450% | BBB+ | 448,040 |
| 197,600 | Public Storage, Inc., Series H | 6.950% | BBB+ | 5,005,208 |
| 32,800 | Public Storage, Inc., Series K | 7.250% | BBB+ | 854,850 |
| 55,860 | Public Storage, Inc., Series S | 7.875% | BBB+ | 1,399,293 |
| 45,000 | Public Storage, Inc., Series T | 7.625% | BBB+ | 1,131,300 |
| 174,500 | Public Storage, Inc., Series U | 7.625% | BBB+ | 4,399,145 |
| 31,500 | Public Storage, Inc., Series V | 7.500% | BBB+ | 799,785 |
| 166,100 | Regency Centers Corporation | 7.450% | BBB- | 4,265,448 |
| 20,500 | Simon Property Group, Inc., Series F | 8.750% | Baa2 | 512,500 |
| 20,650 | Simon Property Group, Inc., Series G | 7.890% | BBB | 1,065,540 |
| 2,600 | United Dominion Realty Trust | 8.600% | BBB- | 66,820 |
| 30,000 | Vornado Realty Trust, Series E | 7.000% | BBB- | 767,100 |
| 1,200 | Vornado Realty Trust, Series F | 6.750% | BBB- | 29,652 |
| 165,000 | Vornado Realty Trust, Series G | 6.625% | BBB- | 4,009,500 |
| 183,000 | Vornado Realty Trust, Series H | 6.750% | BBB- | 4,531,080 |
| 1,987,734 | Wachovia Preferred Funding Corporation | 7.250% | A2 | 55,517,411 |
| 130,300 | Weingarten Realty Trust, Series E | 6.950% | A- | 3,322,650 |

Total Real Estate 214,637,545

Thriffs & Mortgage Finance 1.1%

| | | | | |
|---------|--------------------------------------------------------------|--------|------|------------|
| 83,600 | Countrywide Capital Trust II, Series II (CORTS) | 8.000% | BBB+ | 2,135,980 |
| 70,800 | Countrywide Capital Trust III (PPLUS) | 8.050% | BBB+ | 1,875,846 |
| 733,343 | Countrywide Capital Trust IV | 6.750% | BBB+ | 18,399,576 |
| 8,200 | Countrywide Financial Corporation Capital Trust I (CORTS) | 8.000% | BBB+ | 209,674 |

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Total Thrifts & Mortgage Finance 22,621,076

Wireless Telecommunication Services
0.6%

| | | | | |
|---------|----------------------------------------|--------|----|-----------|
| 60,200 | AT&T Wireless (CORTS) | 8.000% | A | 1,527,575 |
| 24,200 | AT&T Wireless, Series 2002-B (SATURNS) | 9.250% | A | 649,770 |
| 50,600 | United States Cellular Corporation | 8.750% | A- | 1,350,514 |
| 344,100 | United States Cellular Corporation | 7.500% | A- | 8,874,339 |

Total Wireless Telecommunication Services 12,402,198

Total \$25 Par (or similar) Preferred Securities (cost \$896,865,859) 889,822,480

| Principal Amount (000) | Description (1) | Coupon | Maturity (4) | Ratings (3) | Value |
|-------------------------------|---------------------------------------------------------------------------------|---------------|---------------------|--------------------|--------------|
| | Variable Rate Senior Loan Interests 0.5% (0.4% of Total Investments) (5) | | | | |
| | Building Products 0.1% | | | | |
| \$ 1,000 | Textron Inc. Term Loan | 8.921% | 8/01/13 | B2 | \$ 1,007,500 |
| | Hotels, Restaurants & Leisure 0.1% | | | | |
| 998 | Cedar Fair LP, Term Loan, WI/DD | TBD | TBD | BB- | 1,003,824 |
| | Media 0.1% | | | | |
| 1,000 | Charter Communications Inc., Term Loan B | 8.125% | 4/28/13 | B | 1,005,332 |
| 2,000 | Neilsen Finance LLC, Term Loan B | 8.190% | 8/09/13 | B+ | 1,995,556 |
| 1,521 | Panamsat Corporation, Term Loan | 8.008% | 1/03/14 | B1 | 1,533,042 |
| 998 | Philadelphia Newspapers, Term Loan | 8.120% | 6/29/13 | N/R | 1,003,111 |
| 5,519 | Total Media | | | | 5,537,041 |
| | Paper & Forest Products 0.1% | | | | |
| 345 | | 7.601% | 6/30/13 | BB- | 347,283 |

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| | | | | | |
|-----------|--------------------------------------------------------------------------|--------|----------|-----|-------------------|
| | Bluegrass Container Company, LLC, Delayed Draw Term Loan | | | | |
| 1,155 | Bluegrass Container Company, LLC, Term Loan B | 7.580% | 6/30/13 | BB- | 1,163,565 |
| 997 | Georgia-Pacific Corporation, Term Loan B | 7.390% | 12/20/12 | BB- | 1,000,570 |
| 2,497 | Total Paper & Forest Products | | | | 2,511,418 |
| | Real Estate Management & Development 0.1% | | | | |
| 1,000 | LNR Property Corporation, Term Loan B | 8.220% | 7/12/11 | B2 | 1,007,625 |
| \$ 11,014 | Total Variable Rate Senior Loan Interests (cost \$11,017,865) | | | | 11,067,408 |

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| Principal Amount (000) | Description (1) | Coupon | Maturity | Ratings (3) | Value |
|-------------------------------------------------------------|--------------------------------------------------|---------------|-----------------|------------------------------|--------------|
| Convertible Bonds 34.6% (23.2% of Total Investments) | | | | | |
| Aerospace & Defense 1.7% | | | | | |
| \$ 6,275 | AAR Corporation, 144A (7) | 1.750% | 2/01/26 | BB | \$ 6,502,469 |
| 3,025 | Armor Holdings Inc. | 2.000% | 11/01/24 | B+ | 3,754,781 |
| 4,455 | L-3 Communications Corporation, Convertible Bond | 3.000% | 8/01/35 | BB+ | 4,555,238 |
| 4,670 | L-3 Communications Corporation, Series 144A | 3.000% | 8/01/35 | BB+ | 4,775,075 |
| 8,815 | Lockheed Martin Corporation | 5.155% | 8/15/33 | BBB+ | 11,204,747 |
| 3,050 | Triumph Group Inc, Convertible Bond | 2.625% | 10/01/26 | N/R | 3,172,000 |
| 30,290 | Total Aerospace & Defense | | | | 33,964,310 |
| Airlines 0.3% | | | | | |
| 1,700 | AMR Corporation, Convertible Bonds | 4.500% | 2/15/24 | CCC+ | 2,152,625 |
| 1,400 | Continental Airlines, Inc. | 5.000% | 6/15/23 | CCC+ | 2,278,500 |
| 2,845 | UAL Corporation, Convertible Bond, 144A | 4.500% | 6/30/21 | N/R | 2,968,188 |
| 5,945 | Total Airlines | | | | 7,399,313 |
| Biotechnology 3.0% | | | | | |
| 10,850 | Amgen Inc., 144A | 0.125% | 2/01/11 | A+ | 11,012,750 |
| 12,350 | Amgen Inc., 144A | 0.375% | 2/01/13 | A+ | 12,550,688 |
| 6,165 | Cephalon, Inc. | 0.000% | 6/15/33 | B- | 7,405,706 |
| 12,775 | Genzyme Corporation | 1.250% | 12/01/23 | BBB | 14,052,500 |
| 13,450 | Gilead Sciences Inc., 144A | 0.625% | 5/01/13 | N/R | 14,425,125 |
| 55,590 | Total Biotechnology | | | | 59,446,769 |
| Capital Markets 0.5% | | | | | |
| 9,300 | Goldman Sachs Group, Inc. | 0.125% | 6/28/11 | Aa3 | 9,821,730 |

Commercial Banks 0.5%

| | | | | | |
|-------|-----------------------------------------|--------|---------|-----|-----------|
| 9,300 | Wells Fargo & Company, Convertible Bond | 5.718% | 5/01/33 | Aa1 | 9,442,290 |
|-------|-----------------------------------------|--------|---------|-----|-----------|

Communications Equipment 2.4%

| | | | | | |
|--------|------------------------------------|--------|----------|-----|------------|
| 9,200 | Ciena Corporation | 3.750% | 2/01/08 | B | 8,924,000 |
| 5,150 | CommScope Inc. | 1.000% | 3/15/24 | B+ | 8,162,750 |
| 7,800 | Comverse Technology, Inc. | 0.000% | 5/15/23 | BB- | 10,062,000 |
| 1,360 | Finisar Corporation, Series 144A | 2.500% | 10/15/10 | N/R | 1,720,400 |
| 9,150 | Lucent Technologies Inc., Series B | 2.750% | 6/15/25 | B1 | 9,172,875 |
| 9,200 | Lucent Technologies Inc. | 2.750% | 6/15/23 | B1 | 9,142,500 |
| 41,860 | Total Communications Equipment | | | | 47,184,525 |

Computers & Peripherals 0.7%

| | | | | | |
|--------|---------------------------------------|--------|---------|-----|------------|
| 13,750 | Sandisk Corporation, Convertible Bond | 1.000% | 5/15/13 | BB- | 13,165,625 |
|--------|---------------------------------------|--------|---------|-----|------------|

Construction & Engineering 0.4%

| | | | | | |
|-------|-----------------------------------|--------|---------|-----|-----------|
| 4,545 | Quanta Services Inc., Series 144A | 3.750% | 4/30/26 | N/R | 4,732,481 |
| 3,500 | Quanta Services Incorporated | 4.000% | 7/01/07 | B | 3,465,000 |
| 8,045 | Total Construction & Engineering | | | | 8,197,481 |

Consumer Finance 0.7%

| | | | | | |
|--------|--------------------------------------------|--------|----------|----|------------|
| 13,475 | American Express Company, Convertible Bond | 1.850% | 12/01/33 | A+ | 13,693,969 |
|--------|--------------------------------------------|--------|----------|----|------------|

Diversified Financial Services 1.5%

| | | | | | |
|--------|--------------------------------------------|--------|---------|------|------------|
| 3,500 | CapitalSource Inc. | 3.500% | 7/15/34 | BBB- | 3,766,875 |
| 14,900 | Citigroup Funding Inc, Convertible Bond | 0.125% | 9/07/11 | Aa1 | 14,062,620 |
| 2,650 | JMH Finance Limited | 4.750% | 9/06/07 | N/R | 2,696,264 |
| 8,025 | Merrill Lynch & Co. Inc., Convertible Bond | 0.000% | 3/13/32 | Aa3 | 9,418,140 |
| 29,075 | Total Diversified Financial Services | | | | 29,943,899 |

Diversified Telecommunication Services 0.8%

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| | | | | | |
|--------|-----------------------------------------------------------|--------|----------|------|------------|
| 3,690 | CenturyTel Inc. | 4.750% | 8/01/32 | BBB | 3,911,400 |
| 3,065 | Level 3 Communications Inc., Convertible Bond | 2.875% | 7/15/10 | Caa2 | 3,107,144 |
| 2,200 | Qwest Communications International Inc., Convertible Bond | 3.500% | 11/15/25 | B | 3,591,500 |
| 4,210 | Time Warner Telecom Inc. | 2.375% | 4/01/26 | CCC+ | 5,230,925 |
| 13,165 | Total Diversified Telecommunication Services | | | | 15,840,969 |

Electric Utilities 0.1%

| | | | | | |
|-------|-----------------------------------------|--------|---------|-----|-----------|
| 1,015 | PPL Energy Supply LLC, Convertible Bond | 2.625% | 5/15/23 | BBB | 1,346,144 |
|-------|-----------------------------------------|--------|---------|-----|-----------|

Electronic Equipment & Instruments 1.0%

| | | | | | |
|--------|------------------------------------------|--------|---------|-----|------------|
| 5,925 | Coherent Inc., 144A | 2.750% | 3/01/11 | N/R | 6,702,656 |
| 17,940 | Roper Industries Inc. | 1.481% | 1/15/34 | BB- | 10,651,875 |
| 2,000 | SCI Systems Inc. | 3.000% | 3/15/07 | B1 | 1,970,000 |
| 25,865 | Total Electronic Equipment & Instruments | | | | 19,324,531 |

Energy Equipment & Services 2.0%

| | | | | | |
|--------|-----------------------------------------------------------|--------|---------|------|------------|
| 8,950 | Cameron International Corporation, 144A Convertible Bonds | 2.500% | 6/15/26 | BBB+ | 9,330,375 |
| 500 | Halliburton Company, Convertible Bond | 3.125% | 7/15/23 | BBB+ | 790,000 |
| 4,375 | Hanover Compressor Company | 4.750% | 1/15/14 | B | 6,125,000 |
| 13,415 | Nabors Industries Inc., Convertible Bond Series 144A | 0.940% | 5/15/11 | A- | 12,844,863 |
| 4,350 | Nabors Industries Inc. | 0.000% | 6/15/23 | N/R | 4,556,625 |
| 3,325 | Schlumberger Limited | 2.125% | 6/01/23 | A+ | 5,411,438 |
| 34,915 | Total Energy Equipment & Services | | | | 39,058,301 |

Health Care Equipment & Supplies 1.4%

| | | | | | |
|--------|-----------------------------------------------------|--------|---------|-----|------------|
| 4,025 | American Medical Systems Holdings, Convertible Bond | 3.250% | 7/01/36 | B | 4,719,313 |
| 23,350 | Medtronic Inc., Convertible Bond | 1.500% | 4/15/11 | AA- | 22,970,563 |
| 250 | Medtronic, Inc. | 1.500% | 4/15/11 | AA- | 245,938 |
| 27,625 | Total Health Care Equipment & Supplies | | | | 27,935,814 |

Health Care Providers & Services**1.1%**

| | | | | | |
|--------|---------------------------------------------------------------------|--------|---------|------|------------|
| 250 | Health Management Associates Inc. | 1.500% | 8/01/23 | BBB | 255,937 |
| 5,050 | Laboratory Corporation of America Holdings | 0.000% | 9/11/21 | BBB- | 4,494,500 |
| 500 | LifePoint Hospitals Inc., Convertible Bond | 3.250% | 8/15/25 | B+ | 455,000 |
| 3,700 | Manor Care, Inc. | 2.125% | 8/01/35 | BBB | 4,555,625 |
| 455 | Polymedica Corporation, Convertible Bond, 144A | 1.000% | 9/15/11 | N/R | 470,072 |
| 3,550 | PSS World Medical Inc., Convertible Bond (WI/DD, Settling 10/02/06) | 2.250% | 3/15/24 | B+ | 4,512,938 |
| 8,510 | Roche Holdings Inc., 144A | 0.000% | 7/25/21 | N/R | 7,868,346 |
| 22,015 | Total Health Care Providers & Services | | | | 22,612,418 |

Hotels, Restaurants & Leisure 1.3%

| | | | | | |
|--------|-------------------------------------|--------|----------|------|------------|
| 6,185 | Caesars Entertainment Inc. | 5.510% | 4/15/24 | Baa3 | 7,425,711 |
| 7,970 | Carnival Corporation | 2.000% | 4/15/21 | A- | 9,902,725 |
| 2,170 | Four Seasons Hotel Inc. | 1.875% | 7/30/24 | BBB- | 2,416,838 |
| 3,600 | Hilton Hotels Corporation | 3.375% | 4/15/23 | BB | 4,725,000 |
| 1,500 | Scientific Games Corporation | 0.750% | 12/01/24 | B+ | 1,796,250 |
| 21,425 | Total Hotels, Restaurants & Leisure | | | | 26,266,524 |

Insurance 1.2%

| | | | | | |
|--------|-----------------------------------------|--------|----------|------|------------|
| 20 | Alleghany Corporation, Convertible Bond | 5.750% | 6/15/09 | BBB- | 5,844,173 |
| 6,925 | American Financial Group Inc. | 1.486% | 6/02/33 | BBB | 3,834,719 |
| 14,200 | Prudential Financial Inc. | 2.666% | 11/15/35 | A | 14,148,880 |
| 21,145 | Total Insurance | | | | 23,827,772 |

Internet & Catalog Retail 0.1%

| | | | | | |
|-------|-------------------------------------------|--------|---------|---|-----------|
| 2,380 | Priceline.com Inc., Convertible Bond 144A | 0.500% | 9/30/11 | B | 2,549,575 |
|-------|-------------------------------------------|--------|---------|---|-----------|

IT Services 0.3%

| | | | | | |
|-------|--------------------|--------|---------|-----|-----------|
| 2,090 | Digital River Inc. | 1.250% | 1/01/24 | N/R | 2,740,513 |
| 3,500 | DST Systems Inc. | 4.125% | 8/15/23 | N/R | 4,838,750 |
| 5,590 | Total IT Services | | | | 7,579,263 |

Leisure Equipment & Products 0.1%

| | | | | | |
|-------|-----------------------------------------|--------|---------|-----|-----------|
| 1,165 | K2 Corporation, Convertible Notes, 144A | 5.000% | 6/15/10 | N/R | 1,255,288 |
|-------|-----------------------------------------|--------|---------|-----|-----------|

Media 3.4%

| | | | | | |
|--------|-------------------------------------------------------------------------------------------|--------|----------|-----|------------|
| 5,200 | Grey Global Group Inc. | 5.000% | 10/15/33 | N/R | 6,558,500 |
| 14,725 | Liberty Media Corporation, Senior Debentures Exchangeable for Motorola Common Stock | 3.500% | 1/15/31 | BB+ | 16,326,344 |
| 21,800 | Liberty Media Corporation, Senior Debentures, Exchangeable for PCS Common Stock, Series 1 | 4.000% | 11/15/29 | BB+ | 14,578,750 |
| 2,240 | Liberty Media Corporation | 0.750% | 3/30/23 | BB+ | 2,478,000 |
| 2,395 | Lions Gate Entertainment Corporation, 144A | 2.938% | 10/15/24 | N/R | 2,505,769 |
| 3,300 | Lions Gate Entertainment Corporation, 144A | 3.625% | 3/15/25 | N/R | 3,196,875 |
| 4,660 | Omnicom Group Inc. | 0.000% | 7/01/38 | A- | 4,759,025 |
| 1,525 | Shuffle Master Inc. | 1.250% | 4/15/24 | N/R | 1,717,531 |
| 3,155 | Sirius Satellite Radio Inc. | 3.250% | 10/15/11 | CCC | 3,261,481 |
| 10,250 | Walt Disney Company, Convertible Senior Notes | 2.125% | 4/15/23 | A- | 11,582,500 |
| 69,250 | Total Media | | | | 66,964,775 |

Metals & Mining 0.2%

| | | | | | |
|-------|---------------------------------------------------|--------|----------|----|-----------|
| 700 | Coeur d Alene Mines Corporation, Convertible Bond | 1.250% | 1/15/24 | B- | 654,500 |
| 3,375 | Placer Dome Inc. | 2.750% | 10/15/23 | A- | 4,674,375 |
| 4,075 | Total Metals & Mining | | | | 5,328,875 |

Multi-Utilities 0.6%

| | | | | | |
|--------|-------------------------------------------|--------|----------|------|------------|
| 1,700 | Centerpoint Energy Inc., Convertible Bond | 2.875% | 1/15/24 | BBB- | 1,952,875 |
| 8,625 | Dominion Resources Inc., Series C | 2.125% | 12/15/23 | BBB | 9,196,406 |
| 10,325 | Total Multi-Utilities | | | | 11,149,281 |

Oil, Gas & Consumable Fuels 0.6%

| | | | | | |
|-------|-------------------------------------|--------|----------|----|-----------|
| 2,250 | Chesapeake Energy Corporation, 144A | 2.750% | 11/15/35 | BB | 2,311,875 |
|-------|-------------------------------------|--------|----------|----|-----------|

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| | | | | | |
|-------|-----------------------------------|--------|---------|-----|------------|
| 6,825 | Devon Energy Corporation | 4.900% | 8/15/08 | BBB | 8,608,031 |
| 9,075 | Total Oil, Gas & Consumable Fuels | | | | 10,919,906 |

Pharmaceuticals 1.8%

| | | | | | |
|--------|---------------------------------------|--------|---------|-----|------------|
| 11,960 | Allergan Inc., Convertible Bond, 144A | 1.500% | 4/01/26 | A | 12,647,700 |
| 5,140 | Allergan Inc., Convertible Bond | 1.500% | 4/01/26 | A | 5,435,550 |
| 4,780 | Teva Pharmaceutical Finance, Series A | 0.500% | 2/01/24 | BBB | 5,060,825 |
| 2,100 | Teva Pharmaceutical Finance, Series B | 0.250% | 2/01/24 | BBB | 2,286,375 |
| 8,500 | Wyeth, 144A | 5.109% | 1/15/24 | A | 9,302,400 |
| 32,480 | Total Pharmaceuticals | | | | 34,732,850 |

Real Estate 0.9%

| | | | | | |
|--------|------------------------------------------------------|--------|---------|------|------------|
| 7,765 | Archstone-Smith Trust, Corporate Bond Convertible | 4.000% | 7/15/36 | BBB+ | 8,095,013 |
| 7,465 | Vornado Realty, Convertible Bond | 3.875% | 4/15/25 | BBB | 9,424,563 |
| 15,230 | Total Real Estate | | | | 17,519,576 |

**Real Estate Management &
Development 0.7%**

| | | | | | |
|--------|--------------------------------------------|--------|---------|-----|------------|
| 12,975 | EOP Operating LP, Convertible Bond 144A | 4.000% | 7/15/26 | BBB | 13,899,469 |
|--------|--------------------------------------------|--------|---------|-----|------------|

Semiconductors & Equipment 2.0%

| | | | | | |
|--------|----------------------------------------------------------------------|--------|----------|-----|------------|
| 11,310 | Cypress Semiconductor Corporation, Convertible Notes, Series 144A | 1.250% | 6/15/08 | B- | 14,646,450 |
| 5,650 | Intel Corporation, 144A | 2.950% | 12/15/35 | A- | 5,077,938 |
| 9,985 | Intel Corporation, Convertible Bond | 2.950% | 12/15/35 | A- | 8,974,019 |
| 2,500 | Photronics Inc., Convertible Notes | 2.250% | 4/15/08 | B | 2,721,875 |
| 2,165 | PMC-Sierra Inc., Convertible Subordinate Notes | 2.250% | 10/15/25 | N/R | 2,213,713 |
| 4,250 | RF Micro Devices, Inc. | 1.500% | 7/01/10 | B- | 4,935,313 |
| 500 | Teradyne Inc., Convertible Senior Notes | 3.750% | 10/15/06 | B+ | 501,250 |
| 36,360 | Total Semiconductors & Equipment | | | | 39,070,558 |

Software 2.0%

| | | | | | |
|-------|------------------------------|--------|---------|------|-----------|
| 4,275 | Amdocs Limited | 0.500% | 3/15/24 | BBB- | 4,568,906 |
| 4,170 | Cadence Design Systems, Inc. | 0.000% | 8/15/23 | N/R | 4,800,713 |

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| | | | | | |
|--------|--------------------------------------------------------------------------|--------|----------|-----|------------|
| 1,535 | Computer Associates International Inc., Convertible Bond, Series 144A | 1.625% | 12/15/09 | Ba1 | 1,920,669 |
| 4,725 | Informatica Corporation, 144A | 3.000% | 3/15/26 | N/R | 4,837,219 |
| 1,220 | Macrovision Corporation, Convertible Bonds, 144A | 2.625% | 8/15/11 | N/R | 1,346,575 |
| 3,990 | Red Hat Inc., Convertible Bond | 0.500% | 1/15/24 | B+ | 4,194,488 |
| 3,220 | Sybase, Inc. | 1.750% | 2/22/25 | N/R | 3,574,200 |
| 12,375 | Symantec Corporation, Convertible Bond, 144A | 0.750% | 6/15/11 | N/R | 15,112,969 |
| 35,510 | Total Software | | | | 40,355,739 |

Specialty Retail 1.0%

| | | | | | |
|--------|-----------------------------------------------------------------|--------|----------|----|------------|
| 6,450 | Lowes Companies, Inc. | 0.861% | 10/19/21 | A+ | 6,369,375 |
| 2,665 | Sonic Automotive Inc., Convertible Senior Subordinated Notes | 5.250% | 5/07/09 | B | 2,528,419 |
| 11,975 | TJX Companies, Inc. | 0.000% | 2/13/21 | A- | 11,226,563 |
| 21,090 | Total Specialty Retail | | | | 20,124,357 |

**Wireless Telecommunication Services
0.3%**

| | | | | | |
|-------|----------------------------------------------|--------|---------|-----|-----------|
| 1,275 | American Tower Corporation | 3.000% | 8/15/12 | BB- | 2,397,000 |
| 3,515 | NII Holdings Inc., 144A | 2.750% | 8/15/25 | N/R | 4,986,906 |
| 4,790 | Total Wireless Telecommunication Services | | | | 7,383,906 |

**\$ 644,095 Total Convertible Bonds (cost
\$650,958,740) 687,305,802**

| Principal Amount (000) | Description (1) | Coupon | Maturity | Ratings (3) | Value |
|---------------------------------------|------------------------|---------------|-----------------|------------------------|--------------|
|---------------------------------------|------------------------|---------------|-----------------|------------------------|--------------|

**Corporate Bonds 12.9% (8.6% of Total
Investments)**

Aerospace & Defense 0.2%

| | | | | | |
|----------|-------------------------------|--------|----------|----|------------|
| \$ 1,000 | Hexcel Corporation, Term Loan | 6.750% | 2/01/15 | B | \$ 960,000 |
| 2,500 | K&F Acquisition Inc. | 7.750% | 11/15/14 | B- | 2,518,750 |
| 3,500 | Total Aerospace & Defense | | | | 3,478,750 |

Auto Components 0.2%

| | | | | | |
|-------|-------------------------------------|--------|----------|------|-----------|
| 1,950 | Affinia Group Inc. | 9.000% | 11/30/14 | CCC+ | 1,828,125 |
| 1,300 | Keystone Automotive Operations Inc. | 9.750% | 11/01/13 | B- | 1,228,500 |
| 3,250 | Total Auto Components | | | | 3,056,625 |

Building Products 0.2%

| | | | | | |
|-------|----------------------|--------|---------|---|-----------|
| 4,000 | Jacuzzi Brands, Inc. | 9.625% | 7/01/10 | B | 4,260,000 |
|-------|----------------------|--------|---------|---|-----------|

Chemicals 0.7%

| | | | | | |
|--------|-----------------------------------------------|--------|----------|----|------------|
| 3,000 | Ineos Group Holdings PLC, 144A | 8.500% | 2/15/16 | B2 | 2,872,500 |
| 2,000 | Nell AF Sarl | 8.375% | 8/15/15 | B2 | 1,995,000 |
| 6,500 | OM Group Inc. | 9.250% | 12/15/11 | B- | 6,792,500 |
| 3,000 | Rockwood Specialties Group Inc., Series WI | 7.500% | 11/15/14 | B- | 2,970,000 |
| 14,500 | Total Chemicals | | | | 14,630,000 |

Commercial Services & Supplies 0.0%

| | | | | | |
|-----|------------------------|--------|----------|----|---------|
| 900 | Williams Scotsman Inc. | 8.500% | 10/01/15 | B+ | 924,750 |
|-----|------------------------|--------|----------|----|---------|

Computers & Peripherals 0.1%

| | | | | | |
|-------|--------------------------------|--------|----------|----|-----------|
| 1,000 | GSC Holdings Corporation, 144A | 8.000% | 10/01/12 | B+ | 1,035,000 |
|-------|--------------------------------|--------|----------|----|-----------|

Containers & Packaging 0.5%

| | | | | | |
|-------|------------------------------------------------------------|--------|----------|----|-----------|
| 3,450 | MDP Acquisitions PLC, Senior Notes | 9.625% | 10/01/12 | B- | 3,657,000 |
| 3,000 | Owens-Brockway Glass Containers, Guaranteed Senior Note | 8.250% | 5/15/13 | B | 3,090,000 |
| 3,000 | Owens-Illinois Inc. | 7.500% | 5/15/10 | B | 3,015,000 |
| 9,450 | Total Containers & Packaging | | | | 9,762,000 |

Diversified Consumer Services 0.1%

| | | | | | |
|-------|-----------------------------------|--------|---------|-----|-----------|
| 2,000 | Service Corporation International | 7.700% | 4/15/09 | BB- | 2,062,500 |
|-------|-----------------------------------|--------|---------|-----|-----------|

Diversified Telecommunication Services**0.1%**

| | | | | | |
|-------|----------------------------------------------|--------|---------|----|-----------|
| 2,000 | Intelsat Subsidiary Holding Company Limited | 8.500% | 1/15/13 | B+ | 2,035,000 |
| 750 | Syniverse Technologies Inc., Series B | 7.750% | 8/15/13 | B1 | 725,625 |
| 2,750 | Total Diversified Telecommunication Services | | | | 2,760,625 |

Electric Utilities 0.2%

| | | | | | |
|-------|---------------------------------------|--------|----------|-----|-----------|
| 2,000 | Midwest Generation LLC | 8.750% | 5/01/34 | Ba2 | 2,145,000 |
| 500 | Mirant North America LLC | 7.375% | 12/31/13 | B2 | 503,125 |
| 1,000 | Sierra Pacific Resources, Series 2006 | 6.750% | 8/15/17 | B1 | 1,005,422 |
| 3,500 | Total Electric Utilities | | | | 3,653,547 |

Energy Equipment & Services 0.2%

| | | | | | |
|-------|-----------------------------------|--------|---------|-----|-----------|
| 1,800 | Hanover Compressor Company | 7.500% | 4/15/13 | B | 1,809,000 |
| 2,500 | Pride International Inc. | 7.375% | 7/15/14 | Ba2 | 2,587,500 |
| 4,300 | Total Energy Equipment & Services | | | | 4,396,500 |

Food & Staples Retailing 0.1%

| | | | | | |
|-------|-------------------------------|--------|---------|----|-----------|
| 3,000 | Stater Brothers Holdings Inc. | 8.125% | 6/15/12 | B+ | 3,030,000 |
|-------|-------------------------------|--------|---------|----|-----------|

Food Products 0.4%

| | | | | | |
|-------|-----------------------|--------|----------|---|-----------|
| 4,610 | Del Monte Corporation | 8.625% | 12/15/12 | B | 4,857,788 |
| 1,096 | Dole Foods Company | 8.625% | 5/01/09 | B | 1,076,820 |
| 2,700 | Dole Foods Company | 7.875% | 7/15/13 | B | 2,538,000 |
| 8,406 | Total Food Products | | | | 8,472,608 |

Health Care Equipment & Supplies**0.0%**

| | | | | | |
|-----|----------------------------|--------|---------|----|---------|
| 700 | Select Medical Corporation | 7.625% | 2/01/15 | B2 | 593,250 |
|-----|----------------------------|--------|---------|----|---------|

Health Care Providers & Services**0.2%**

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| | | | | | |
|-------|------------------|---------|---------|----|-----------|
| 3,000 | US Oncology Inc. | 10.750% | 8/15/14 | B- | 3,300,000 |
|-------|------------------|---------|---------|----|-----------|

Hotels, Restaurants & Leisure 1.7%

| | | | | | |
|--------|-------------------------------------|---------|----------|-----|------------|
| 5,190 | Aztar Corporation | 9.000% | 8/15/11 | Ba3 | 5,443,013 |
| 2,345 | Boyd Gaming Corporation | 8.750% | 4/15/12 | Ba3 | 2,473,975 |
| 4,075 | Boyd Gaming Corporation | 7.750% | 12/15/12 | Ba3 | 4,202,344 |
| 1,500 | Herbst Gaming Inc. | 7.000% | 11/15/14 | B- | 1,462,500 |
| 4,100 | Intrawest Corporation | 7.500% | 10/15/13 | B+ | 4,422,875 |
| 800 | Jacob s Entertainment Inc., 144A | 9.750% | 6/15/14 | B- | 796,000 |
| 2,000 | Landry s Restaurants Inc., Series B | 7.500% | 12/15/14 | B1 | 1,925,000 |
| 2,000 | MGM Mirage, Inc. | 6.750% | 8/01/07 | BB | 2,020,000 |
| 1,000 | Park Place Entertainment | 9.375% | 2/15/07 | Ba1 | 1,012,500 |
| 1,000 | Park Place Entertainment | 7.875% | 3/15/10 | Ba1 | 1,045,000 |
| 2,000 | Pinnacle Entertainment Inc. | 8.250% | 3/15/12 | B- | 2,035,000 |
| 3,000 | Pinnacle Entertainment Inc. | 8.750% | 10/01/13 | B- | 3,198,750 |
| 4,000 | Universal City Development Partners | 11.750% | 4/01/10 | B2 | 4,330,000 |
| 33,010 | Total Hotels, Restaurants & Leisure | | | | 34,366,957 |

Household Durables 0.5%

| | | | | | |
|-------|----------------------------------------------------------|--------|----------|-----|-----------|
| 4,500 | K. Hovnanian Enterprises Inc., Senior Subordinated Notes | 8.875% | 4/01/12 | Ba2 | 4,432,500 |
| 5,000 | KB Home | 8.625% | 12/15/08 | Ba2 | 5,149,350 |
| 9,500 | Total Household Durables | | | | 9,581,850 |

Independent Power Producers & Energy Traders 0.1%

| | | | | | |
|-------|----------------------------------------------------|--------|---------|----|-----------|
| 600 | NRG Energy Inc. | 7.250% | 2/01/14 | B1 | 597,000 |
| 600 | NRG Energy Inc. | 7.375% | 2/01/16 | B1 | 597,750 |
| 1,200 | Total Independent Power Producers & Energy Traders | | | | 1,194,750 |

IT Services 0.4%

| | | | | | |
|-------|---------------------------|--------|---------|----|-----------|
| 1,950 | Global Cash Access LLC | 8.750% | 3/15/12 | B- | 2,057,250 |
| 4,750 | Sungard Data Systems Inc. | 9.125% | 8/15/13 | B- | 4,940,000 |
| 6,700 | Total IT Services | | | | 6,997,250 |

Machinery 0.3%

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| | | | | | |
|-------|----------------------------------------------|--------|---------|----|-----------|
| 3,000 | Greenbrier Companies, Inc. | 8.375% | 5/15/15 | B+ | 3,060,000 |
| 3,000 | Terex Corporation, Senior Subordinated Notes | 9.250% | 7/15/11 | B+ | 3,176,250 |
| 6,000 | Total Machinery | | | | 6,236,250 |

Media 3.3%

| | | | | | |
|--------|---------------------------------------------------|---------|----------|------|------------|
| 6,900 | Allbritton Communications Company, Series B | 7.750% | 12/15/12 | B1 | 6,986,250 |
| 2,000 | AMC Entertainment Inc. | 8.000% | 3/01/14 | B3 | 1,890,000 |
| 4,200 | American Media Operations Inc., Series B | 10.250% | 5/01/09 | Caa2 | 3,927,000 |
| 1,345 | American Media Operations Inc. | 8.875% | 1/15/11 | Caa2 | 1,186,963 |
| 5,000 | Cablevision Systems Corporation, Series B | 8.125% | 8/15/09 | B+ | 5,206,250 |
| 3,000 | Cablevision Systems Corporation | 7.250% | 7/15/08 | B+ | 3,045,000 |
| 2,000 | Cablevision Systems Corporation | 8.125% | 7/15/09 | B+ | 2,080,000 |
| 2,000 | Charter Communications Operating LLC, 144A | 8.000% | 4/30/12 | B- | 2,025,000 |
| 6,000 | Cinemark USA Inc. | 9.000% | 2/01/13 | B2 | 6,255,000 |
| 1,000 | Dex Media West LLC | 8.500% | 8/15/10 | B1 | 1,037,500 |
| 2,198 | Dex Media West LLC | 9.875% | 8/15/13 | B | 2,384,830 |
| 4,000 | Medianews Group Inc. | 6.375% | 4/01/14 | B | 3,550,000 |
| 1,950 | Panamsat Corporation | 9.000% | 8/15/14 | B | 2,023,125 |
| 7,000 | Primedia Inc., Senior Notes | 8.875% | 5/15/11 | B | 6,877,500 |
| 2,000 | R. H. Donnelley Finance Corp 1 | 10.875% | 12/15/12 | B | 2,210,000 |
| 2,000 | Sun Media Corporation | 7.625% | 2/15/13 | Ba2 | 2,030,000 |
| 6,200 | Vertis Inc. | 9.750% | 4/01/09 | B1 | 6,285,250 |
| 5,500 | Young Broadcasting Inc., Senior Subordinated Note | 10.000% | 3/01/11 | Caa1 | 5,163,125 |
| 2,000 | Young Broadcasting Inc. | 8.750% | 1/15/14 | Caa1 | 1,710,000 |
| 66,293 | Total Media | | | | 65,872,793 |

Metals & Mining 0.3%

| | | | | | |
|-------|---------------------------------|---------|---------|-----|-----------|
| 3,000 | Chaparral Steel Company | 10.000% | 7/15/13 | B | 3,360,000 |
| 1,682 | United States Steel Corporation | 9.750% | 5/15/10 | Ba1 | 1,803,945 |
| 4,682 | Total Metals & Mining | | | | 5,163,945 |

Multi-Utilities 0.3%

| | | | | | |
|-------|--------------------------------|---------|----------|------|-----------|
| 3,600 | Bon-Ton Department Stores Inc. | 10.250% | 3/15/14 | B- | 3,519,000 |
| 2,400 | Dynegy Holdings Inc., 144A | 8.375% | 5/01/16 | B2 | 2,454,000 |
| 500 | Northwestern Corporation | 5.875% | 11/01/14 | BBB- | 494,352 |
| 6,500 | Total Multi-Utilities | | | | 6,467,352 |

Oil, Gas & Consumable Fuels 0.7%

| | | | | | |
|--------|----------------------------------------------------------|--------|----------|------|------------|
| 600 | Chaparral Energy Inc. | 8.500% | 12/01/15 | B3 | 598,500 |
| 4,345 | Chesapeake Energy Corporation | 7.750% | 1/15/15 | BB | 4,453,625 |
| 300 | Copano Energy LLC | 8.125% | 3/01/16 | B | 305,250 |
| 2,000 | Hilcorp Energy I LP/Hilcorp Finance Company, Series 144A | 7.750% | 11/01/15 | B | 1,945,000 |
| 2,000 | Premcor Refining Group Inc. | 7.500% | 6/15/15 | BBB- | 2,091,826 |
| 3,000 | SemGroup LP, 144A | 8.750% | 11/15/15 | B1 | 3,041,250 |
| 1,500 | Whiting Petroleum Corporation | 7.000% | 2/01/14 | B1 | 1,470,000 |
| 13,745 | Total Oil, Gas & Consumable Fuels | | | | 13,905,451 |

Paper & Forest Products 0.4%

| | | | | | |
|-------|-----------------------------------------|--------|---------|---|-----------|
| 2,000 | Georgia Pacific Corporation, Debentures | 7.700% | 6/15/15 | B | 2,000,000 |
| 5,000 | Georgia Pacific Corporation, Notes | 8.125% | 5/15/11 | B | 5,150,000 |
| 7,000 | Total Paper & Forest Products | | | | 7,150,000 |

Personal Products 0.1%

| | | | | | |
|-------|----------------------|--------|---------|----|-----------|
| 1,600 | Prestige Brands Inc. | 9.250% | 4/15/12 | B- | 1,616,000 |
|-------|----------------------|--------|---------|----|-----------|

Pharmaceuticals 0.3%

| | | | | | |
|-------|-------------------------|--------|---------|---|-----------|
| 4,675 | Wyeth, Convertible Bond | 5.109% | 1/15/24 | A | 5,116,320 |
|-------|-------------------------|--------|---------|---|-----------|

Real Estate 0.1%

| | | | | | |
|-------|-----------------------------|---------|---------|-----|-----------|
| 900 | Saxon Capital Inc., 144A | 12.000% | 5/01/14 | B | 1,252,463 |
| 1,000 | Trustreet Properties, Inc. | 7.500% | 4/01/15 | B+ | 997,500 |
| 500 | Ventas Realty LP, Series WI | 7.125% | 6/01/15 | BB+ | 516,875 |
| 2,400 | Total Real Estate | | | | 2,766,838 |

Semiconductors & Equipment 0.1%

| | | | | | |
|-------|-----------------------------------------------------------------------------------------------|---------|----------|---|-----------|
| 2,400 | Avago Technologies Finance Pte. Ltd., Floating Rate Note, 5.500% plus three-month LIBOR, 144A | 10.125% | 12/01/13 | B | 2,556,000 |
|-------|-----------------------------------------------------------------------------------------------|---------|----------|---|-----------|

Specialty Retail 0.8%

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| | | | | | |
|--------|------------------------------|--------|---------|-----|------------|
| 6,000 | Asbury Automotive Group Inc. | 9.000% | 6/15/12 | B | 6,172,500 |
| 1,000 | Quiksilver Inc. | 6.875% | 4/15/15 | BB- | 952,500 |
| 8,000 | Warnaco Inc., Senior Notes | 8.875% | 6/15/13 | B+ | 8,320,000 |
| 15,000 | Total Specialty Retail | | | | 15,445,000 |

Textiles, Apparel & Luxury Goods
0.2%

| | | | | | |
|-------|------------------------|--------|----------|----|-----------|
| 4,000 | Jostens IH Corporation | 7.625% | 10/01/12 | B2 | 4,040,000 |
|-------|------------------------|--------|----------|----|-----------|

Trading Companies & Distributors
0.1%

| | | | | | |
|-------|-----------------------------------|--------|---------|----|-----------|
| 2,000 | United Rentals North America Inc. | 6.500% | 2/15/12 | B+ | 1,940,000 |
|-------|-----------------------------------|--------|---------|----|-----------|

| | | | | | |
|-------------------|------------------------------------|--|--|--|--------------------|
| \$ 250,961 | Total Corporate Bonds (cost | | | | |
| | \$258,991,426) | | | | 255,832,911 |

Table of ContentsPrincipal
Amount
(000)/

| Shares | Description (1) | Coupon | Maturity | Ratings (3) | Value |
|------------------------------------------------------------------------|---------------------------------------------------------------|--------|----------|----------------|--------------|
| Capital Preferred Securities 32.5% (21.8% of Total Investments) | | | | | |
| Capital Markets 5.5% | | | | | |
| 6,273 | BT Capital Trust, Series B1 | 7.900% | 1/15/27 | A2 | \$ 6,519,600 |
| 15,000 | BT Institutional Capital Trust A, 144A | 8.090% | 12/01/26 | A2 | 15,656,500 |
| 2,000 | BT Institutional Capital Trust B, 144A | 7.750% | 12/01/26 | A2 | 2,082,900 |
| 1,250 | C.A. Preferred Fund Trust II | 7.000% | 10/30/49 | A1 | 1,267,800 |
| 32,750 | C.A. Preferred Funding Trust | 7.000% | 1/30/49 | A1 | 33,134,100 |
| 3,000 | Compass Trust I, Series A | 8.230% | 1/15/27 | A3 | 3,140,000 |
| 2,000 | First Hawaiian Capital Trust I, Series B | 8.343% | 7/01/27 | A- | 2,111,500 |
| 3,500 | First Union Capital Trust II, Series A | 7.950% | 11/15/29 | A1 | 4,270,900 |
| 15,500 | Mellon Capital Trust I, Series A | 7.720% | 12/01/26 | A2 | 16,141,400 |
| 2,200 | MUFG Capital Finance 2 | 4.850% | 7/25/56 | BBB | 2,742,800 |
| 9,000 | State Street Institutional Capital Trust, 144A | 8.035% | 3/15/27 | A1 | 9,439,400 |
| 12,419 | Washington Mutual Capital Trust I | 8.375% | 6/01/27 | Baa1 | 13,097,800 |
| Total Capital Markets | | | | | 109,605,500 |
| Commercial Banks 18.0% | | | | | |
| 2,000 | AB Svensk Exportkredit, 144A | 6.375% | 10/27/49 | AA- | 1,990,200 |
| 8,000 | Abbey National Capital Trust I | 8.963% | 6/30/50 | A | 10,603,400 |
| 43,100 | AgFirst Farm Credit Bank | 7.300% | 12/15/53 | N/R | 44,034,500 |
| 12,120 | Bank One Capital III | 8.750% | 9/01/30 | A1 | 15,906,900 |
| 2,600 | BankAmerica Institutional Capital Trust, Series B, 144A | 7.700% | 12/31/26 | Aa3 | 2,706,000 |
| 1,900 | BankBoston Capital Trust I, Series B | 8.250% | 12/15/26 | Aa3 | 1,985,400 |
| 1,000 | BanPonce Trust I, Series A | 8.327% | 2/01/27 | Baa1 | 1,046,800 |
| 4,000 | Barclays Bank PLC, 144A | 8.550% | 6/15/49 | Aa3 | 4,500,300 |
| 700 | Barclays Bank PLC | 6.278% | 12/15/55 | Aa3 | 668,500 |
| 15,200 | BOI Capital Funding 3, 144A | 6.107% | 8/04/56 | A2 | 14,860,200 |
| 2,200 | DBS Capital Funding Corporation, 144A | 7.657% | 3/15/49 | A1 | 2,386,700 |
| 4,315 | First Chicago NBD Institutional Capital Trust, Series B, 144A | 7.750% | 12/01/26 | A1 | 4,490,500 |
| 5,000 | First Chicago NBD Institutional Capital, 144A | 7.950% | 12/01/26 | A1 | 5,205,200 |
| 5,750 | First Empire Capital Trust I | 8.234% | 2/01/27 | Baa1 | 6,021,600 |
| 11,000 | First Empire Capital Trust II | 8.277% | 6/01/27 | Baa1 | 11,597,600 |
| 4,250 | First Midwest Bancorp Inc. | 6.950% | 12/01/33 | Baa2 | 4,508,200 |
| 29,350 | HBOS Capital Funding LP, Notes | 6.850% | 3/23/49 | A1 | 29,436,600 |
| 6,000 | HBOS PLC, Series 144A | 6.413% | 9/29/49 | A1 | 5,809,500 |
| 12,838 | HSBC Capital Funding LP, 144A | 9.547% | 12/31/49 | A1 | 14,582,400 |

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| | | | | | |
|--------|----------------------------------------------------------------|---------|----------|------|----------|
| 14,000 | HSBC Capital Funding LP, Debt | 10.176% | 6/30/50 | A1 | 20,632,7 |
| 19,605 | KBC Bank Fund Trust III, 144A | 9.860% | 5/02/50 | A2 | 21,939,6 |
| 4,000 | KeyCorp Capital III | 7.750% | 7/15/29 | A3 | 4,657,7 |
| 15,000 | KeyCorp Institutional Capital Trust A | 7.826% | 12/01/26 | A3 | 15,629,5 |
| 17,000 | Lloyds TSB Bank PLC, Subordinated Note | 6.900% | 11/22/49 | Aa2 | 17,088,7 |
| 1,000 | Nordbanken AB, 144A | 8.950% | 11/29/49 | A | 1,096,4 |
| 10,000 | North Fork Capital Trust II | 8.000% | 12/15/27 | A3 | 10,619,0 |
| 2,000 | Popular North American Capital Trust I | 6.564% | 9/15/34 | Baa1 | 1,950,7 |
| 14,750 | RBS Capital Trust B | 6.800% | 12/31/49 | A1 | 14,810,2 |
| 2,000 | Reliance Capital Trust I, Series B | 8.170% | 5/01/28 | N/R | 2,142,9 |
| 1,202 | Republic New York Capital II, Capital Securities | 7.530% | 12/04/26 | A1 | 1,249,9 |
| 6,200 | Royal Bank of Scotland Group PLC | 9.118% | 3/31/49 | A1 | 6,925,3 |
| 4,472 | St. George Funding Company LLC, 144A | 8.485% | 12/31/47 | A3 | 4,717,5 |
| 2,250 | Swedbank ForeningsSparbanken AB, 144A | 9.000% | 9/17/50 | A2 | 2,492,7 |
| 13,330 | Unicredito Italiano Capital Trust, 144A | 9.200% | 4/05/51 | A- | 15,068,2 |
| 3,800 | Union Planters Capital Trust A | 8.200% | 12/15/26 | A2 | 3,960,9 |
| 21,300 | Washington Mutual Preferred Funding Cayman, Series A-1, 144A | 7.250% | 3/15/49 | BBB | 21,369,9 |
| 7,200 | Washington Mutual Preferred Funding Delaware, Series A-1, 144A | 6.534% | 3/15/49 | BBB | 7,098,4 |
| 2,000 | Zions Institutional Capital Trust, Series A | 8.536% | 12/15/26 | Baa1 | 2,093,5 |

Total Commercial Banks

357,885,9

Consumer Finance 0.1%

| | | | | | |
|-------|--------------------------|--------|---------|---|---------|
| 1,500 | American Express Company | 6.800% | 9/01/66 | A | 1,586,4 |
|-------|--------------------------|--------|---------|---|---------|

Diversified Financial Services 2.9%

| | | | | | |
|--------|------------------------------------|--------|----------|------|----------|
| 6,200 | BNP Paribas Capital Trust | 7.200% | 12/31/49 | A+ | 6,247,3 |
| 1,000 | Citigroup Capital III | 7.625% | 12/01/36 | Aa2 | 1,210,4 |
| 2,500 | Fulton Capital Trust I | 6.290% | 2/01/36 | A3 | 2,412,0 |
| 3,000 | JPM Capital Trust II | 7.950% | 2/01/27 | A1 | 3,130,2 |
| 18,600 | JPMorgan Chase Capital Trust XVIII | 6.950% | 8/17/36 | A2 | 19,820,8 |
| 23,600 | Old Mutual Capital Funding, Notes | 8.000% | 6/22/53 | Baa2 | 24,643,6 |

Total Diversified Financial Services

57,464,5

Diversified Telecommunication Services 1.1%

| | | | | | |
|--------|---------------------------------------------|--------|---------|-----|----------|
| 19,080 | Centaur Funding Corporation, Series B, 144A | 9.080% | 4/21/20 | BBB | 22,144,7 |
|--------|---------------------------------------------|--------|---------|-----|----------|

Household Durables 0.1%

| | | | | | |
|-------|-------------------------------|--------|----------|------|---------|
| 2,600 | Stanley Works Capital Trust I | 5.902% | 12/01/45 | Baa1 | 2,444,4 |
|-------|-------------------------------|--------|----------|------|---------|

Insurance 3.9%

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| | | | | | |
|-----------------|---------------------------------------------------------|--------|----------|------|----------|
| 10,000 | American General Capital II | 8.500% | 7/01/30 | Aa3 | 12,895,9 |
| 4,980 | American General Institutional Capital, 144A | 8.125% | 3/15/46 | Aa3 | 6,261,3 |
| 1,000 | Great West Life and Annuity Insurance Company | 7.153% | 5/16/46 | A- | 1,040,3 |
| 14,250 | Mangrove Bay, Class 3, 144A | 6.102% | 7/15/33 | BBB+ | 13,811,7 |
| 5,000 | Oil Insurance Limited, 144A | 7.550% | 12/30/49 | Baa1 | 5,127,0 |
| 3,750 | Prudential PLC | 6.500% | 6/29/49 | A | 3,660,0 |
| 13,500 | Sun Life Canada Capital Trust, Capital Securities, 144A | 8.526% | 5/06/47 | AA- | 14,266,2 |
| 18,859 | Zurich Capital Trust I, 144A | 8.376% | 6/01/37 | A- | 19,848,6 |
| Total Insurance | | | | | 76,911,6 |

Oil, Gas & Consumable Fuels 0.6%

| | | | | | |
|--------|----------------------|--------|---------|------|----------|
| 12,355 | KN Capital Trust III | 7.630% | 4/15/28 | Baa3 | 11,599,4 |
|--------|----------------------|--------|---------|------|----------|

Real Estate 0.0%

| | | | | | |
|-------|----------------------------------|--------|---------|------|------|
| 3,000 | PS Business Parks Inc., Series M | 7.200% | 3/30/55 | BBB- | 76,2 |
|-------|----------------------------------|--------|---------|------|------|

Thriffs & Mortgage Finance 0.3%

| | | | | | |
|-------|---------------------------------------------------------|--------|---------|------|---------|
| 2,000 | Caisse Nationale Des Caisses d Epargne et de Prevoyance | 6.750% | 1/27/49 | A+ | 1,985,0 |
| 3,365 | Great Western Financial Trust II, Series A | 8.206% | 2/01/27 | Baa1 | 3,527,1 |

| | | | | | |
|----------------------------------|--|--|--|--|---------|
| Total Thrifts & Mortgage Finance | | | | | 5,512,1 |
|----------------------------------|--|--|--|--|---------|

| | | | | | |
|----------------------------------------------------------------|--|--|--|--|------------------|
| Total Capital Preferred Securities (cost \$667,487,362) | | | | | 645,231,1 |
|----------------------------------------------------------------|--|--|--|--|------------------|

| Shares | Description (1) | | | | Val |
|--------|-----------------|--|--|--|-----|
|--------|-----------------|--|--|--|-----|

Investment Companies 1.2% (0.8% of Total Investments)

| | | | | | |
|--------|----------------------------------------------------------------------|--|--|--|------------|
| 75,139 | Flaherty and Crumrine/Claymore Preferred Securities Income Fund Inc. | | | | \$ 5,687,1 |
| 44,634 | Flaherty and Crumrine/Claymore Total Return Fund Inc. | | | | 2,923,0 |
| 7,548 | John Hancock Preferred Income Fund III | | | | 6,639,9 |
| 99,306 | Preferred and Corporate Strategies Fund Inc. | | | | 2,030,8 |
| 31,648 | Preferred Income Strategies Fund Inc. | | | | 5,632,9 |

| | | | | | |
|-------------------------------------------------------|--|--|--|--|-----------------|
| Total Investment Companies (cost \$21,700,416) | | | | | 22,913,8 |
|-------------------------------------------------------|--|--|--|--|-----------------|

| Principal amount (000) | Description (1) | Coupon | Maturity | Val |
|------------------------|-----------------|--------|----------|-----|
|------------------------|-----------------|--------|----------|-----|

Short-Term Investments 4.2% (2.8% of Total Investments)

83,382 Repurchase Agreement with State Street Bank, dated 9/29/06, repurchase price 4.800% 10/02/06 \$ 83,382,252
 \$83,415,605, collateralized by:
 \$60,410,000 U.S. Treasury Bonds, 7.250%, due 8/15/22, value \$76,944,761
 \$6,135,000 U.S. Treasury Bonds, 7.875%, due 2/15/21, value \$8,105,869,

Total Short-Term Investments (cost \$83,382,252) 83,382,252

Total Investments (cost \$2,934,013,822) 149.1% 2,959,525,600

Other Assets Less Liabilities (0.5%) (9,806,200)

Preferred Shares, at Liquidation Value (48.6%) (965,000,000)

Net Assets Applicable to Common Shares 100% \$ 1,984,719,300

Interest Rate Swaps outstanding at September 30, 2006:

| | Fixed Rate Paid by the Fund | Fixed Rate Payment Frequency | Floating Rate Received by the Fund (8) | Floating Rate Payment Frequency | Termination Date | Unrealized Appreciation (Depreciation) |
|---------------|-----------------------------|------------------------------|----------------------------------------|---------------------------------|------------------|----------------------------------------|
| \$ 97,000,000 | 3.360% | Monthly | 5.330% | Monthly | 1/23/09 | \$ 3,594,555 |
| 97,000,000 | 3.048 | Monthly | 5.330 | Monthly | 1/23/08 | 2,592,167 |
| 97,000,000 | 2.679 | Monthly | 5.330 | Monthly | 1/23/07 | 850,488 |
| | | | | | | \$ 7,037,210 |

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) Non-income producing.
- (3) Ratings: Using the higher of Standard & Poor's or Moody's rating. Ratings below BBB by Standard & Poor's Group or Baa by Moody's Investor Service, Inc. are considered to be below investment grade.
- (4) Senior Loans in the Fund's portfolio generally are subject to mandatory and/or optional prepayment. Because of these mandatory prepayment conditions and because there may be significant economic incentives for a Borrower to prepay, prepayments of Senior Loans in the Fund's portfolio may occur. As a result, the actual remaining maturity of Senior Loans held in the Fund's portfolio may be substantially less than the stated maturities

shown.

- (5) Senior Loans in which the Fund invests generally pay interest at rates which are periodically adjusted by reference to a base short-term, floating lending rate plus an assigned fixed rate. These floating lending rates are generally (i) the lending rate referenced by the London Inter-Bank Offered Rate (LIBOR), or (ii) the prime rate offered by one or more major United States banks. Senior Loans may be considered restricted in that the Fund ordinarily is contractually obligated to receive approval from the Agent Bank and/or Borrower prior to the disposition of a Senior Loan.
- (6) Investment is eligible for the Dividends Received Deduction.
- (7) Non-income producing security, in the case of a bond, generally denotes that the issuer has defaulted on the payment of principal or interest or has filed for bankruptcy.
- (8) Based on USD-LIBOR (United States Dollar-London Interbank Offered Rate).

N/R Not rated.

WI/DD Purchased on a when-issued or delayed delivery basis.

144A Investment is exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These investments 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.

TBD Senior Loan purchased on a when-issued or delayed-delivery basis. Certain details associated with this purchase are not known prior to the settlement date of the transaction. In addition, Senior Loans typically trade without accrued interest and therefore a weighted average coupon rate is not available prior to settlement. At settlement, if still unknown, the borrower or counterparty will provide the Fund with the final weighted average coupon rate and maturity date.

Income Tax Information

The following information is presented on an income tax basis. Differences between amounts for financial statement and federal income tax purposes are primarily due to timing differences in the recognition of income and timing differences in recognizing certain gains and losses on investment transactions.

At September 30, 2006, the cost of investments was \$2,963,361,536.

Gross unrealized appreciation and gross unrealized depreciation of investments at September 30, 2006, were as follows:

| | |
|-----------------------------------------------------------|----------------|
| Gross unrealized: | |
| Appreciation | \$ 84,516,636 |
| Depreciation | (88,352,514) |
| | |
| Net unrealized appreciation (depreciation) of investments | \$ (3,835,878) |

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Item 2. 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 Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934 (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 registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

File as exhibits as part of this Form 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)), exactly as set forth below: EX-99 CERT Attached hereto.

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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 November 28, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ Gifford R. Zimmerman
Gifford R. Zimmerman
Chief Administrative Officer (principal executive officer)

Date November 28, 2006

By (Signature and Title)* /s/ Stephen D. Foy
Stephen D. Foy
Vice President and Controller (principal financial officer)

Date November 28, 2006

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