

NUVEEN PREFERRED CONVERTIBLE INCOME FUND 2

Form N-Q

May 30, 2006

Table of Contents

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: 3/31/06

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.

TABLE OF CONTENTS

Item 1. Schedule of Investments

Item 2. Controls and Procedures

Item 3. Exhibits

SIGNATURES

Certification

Table of Contents**Item 1. Schedule of Investments****Portfolio of Investments (Unaudited)****Nuveen Preferred and Convertible Income Fund 2 (JQC)***March 31, 2006*

| Shares | Description (1) | Coupon | Ratings (2) | Value |
|---|---------------------------------------|---------------|--------------------|---------------|
| Convertible Preferred Securities - 10.0% (6.8% of Total Investments) | | | | |
| Automobiles - 0.5% | | | | |
| 603,425 | General Motors Corporation | 6.250% | B | \$ 10,469,424 |
| Capital Markets - 0.2% | | | | |
| 65,475 | Affiliated Managers Group | 5.100% | BB | 3,299,744 |
| Chemicals - 0.6% | | | | |
| 227,585 | Celanese Corporation | 4.250% | N/R | 6,941,343 |
| 136,495 | Huntsman Corporation | 5.000% | N/R | 5,872,015 |
| | Total Chemicals | | | 12,813,358 |
| Commercial Banks - 2.1% | | | | |
| 10,400,000 | Fortis Insurance NV, 144A | 7.750% | A+ | 13,759,200 |
| 351,450 | Marshall and Ilsley Corporation | 6.500% | A2 | 9,316,940 |
| 273,600 | National Australia Bank Limited | 7.875% | N/R | 12,052,080 |
| 150,000 | Washington Mutual, Inc., Unit 1 Trust | 5.375% | Baa1 | 8,113,500 |
| | Total Commercial Banks | | | 43,241,720 |
| Construction Materials - 0.3% | | | | |
| 86,900 | TXI Capital Trust I | 6.500% | B2 | 5,218,345 |
| Consumer Finance - 0.7% | | | | |
| 13,400,000 | SLM Corporation | 4.570% | A | 13,583,580 |

Electric Utilities - 0.8%

| | | | | |
|-----------|--------------------------|--------|------|------------|
| 90,550 | Entergy Corporation | 7.625% | BBB | 4,598,129 |
| 2,630,000 | PG&E Corporation | 9.500% | N/R | 7,446,188 |
| 76,430 | PNM Resources Inc. | 6.750% | Baa3 | 3,710,677 |
| | Total Electric Utilities | | | 15,754,994 |

Gas Utilities - 0.1%

| | | | | |
|--------|------------------------|--------|-----|-----------|
| 37,500 | Southern Union Company | 5.000% | BBB | 1,861,875 |
|--------|------------------------|--------|-----|-----------|

Insurance - 3.1%

| | | | | |
|---------|--|--------|------|------------|
| 100,500 | Aspen Insurance Holdings Limited | 5.625% | BBB- | 5,215,950 |
| 276,200 | Chubb Corporation | 7.000% | A | 9,390,800 |
| 503,775 | Genworth Financial Inc. | 6.000% | A | 18,468,391 |
| 85,000 | Hartford Financial Services Group, Inc. | 6.000% | A- | 6,047,750 |
| 188,920 | IPC Holdings Limited | 7.250% | BBB- | 5,242,530 |
| 570,475 | MetLife Inc., Convertible, Series B | 6.375% | BBB+ | 15,305,844 |
| 62,000 | Platinum Underwriters Holdings Limited, Series A | 6.000% | BB+ | 1,822,800 |
| 67,875 | XL Capital Ltd | 6.500% | A2 | 1,505,468 |
| | Total Insurance | | | 62,999,533 |

Media - 0.3%

| | | | | |
|---------|--|--------|------|-----------|
| 137,000 | Emmis Communications Corporation, Series A | 6.250% | CCC+ | 5,487,124 |
|---------|--|--------|------|-----------|

Metals & Mining - 0.2%

| | | | | |
|-------|--------------------------------------|--------|----|-----------|
| 3,200 | Freeport-McMoRan Copper & Gold, Inc. | 5.500% | B- | 4,110,800 |
|-------|--------------------------------------|--------|----|-----------|

Oil, Gas & Consumable Fuels - 0.7%

| | | | | |
|--------|-------------------------------------|--------|----|------------|
| 34,725 | Amerada Hess Corporation | 7.000% | BB | 4,155,020 |
| 48,335 | Chesapeake Energy Corporation, 144A | 5.000% | B | 5,123,510 |
| 51,000 | Chesapeake Energy Corporation | 4.500% | B+ | 4,891,410 |
| | Total Oil, Gas & Consumable Fuels | | | 14,169,940 |

Thriffs & Mortgage Finance - 0.4%

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| | | | | |
|---------|---|--------|------|-------------|
| 86,650 | New York Community Bancorp Inc Capital Trust V | 6.000% | Baa2 | 4,228,520 |
| 140,000 | PMI Group Inc. | 5.875% | A1 | 3,703,000 |
| | Total Thrifts & Mortgage Finance | | | 7,931,520 |
| | Total Convertible Preferred Securities (cost \$187,165,990) | | | 200,941,957 |

Table of Contents

| Shares | Description (1) | Coupon | Ratings (2) | Value |
|--|--|--------|-------------|------------|
| \$25 Par (or similar) Securities - 50.4% (34.5% of Total Investments) | | | | |
| Automobiles - 0.0% | | | | |
| 3,000 | DaimlerChrysler AG (CORTS) | 7.875% | A3 \$ | 74,250 |
| 2,200 | DaimlerChrysler Corp. (PPLUS) | 7.250% | A3 | 54,450 |
| | Total Automobiles | | | 128,700 |
| Capital Markets - 4.5% | | | | |
| 75,083 | Bear Stearns Capital Trust III | 7.800% | A2 | 1,905,607 |
| 27,000 | BNY Capital Trust IV, Series E | 6.875% | A1 | 680,400 |
| 268,611 | BNY Capital Trust V, Series F | 5.950% | A1 | 6,468,153 |
| 218,500 | Compass Capital Trust III | 7.350% | A3 | 5,506,200 |
| 31,600 | CSFB USA, Series 2002-10 (SATURNS) | 7.000% | Aa3 | 803,904 |
| 22,600 | First Union Institutional Capital II (CORTS) | 8.200% | A1 | 621,500 |
| 18,800 | First Union Institutional Capital II, Series III (CORTS) | 7.500% | A1 | 471,880 |
| 5,300 | Goldman Sachs Capital I (CORTS) | 6.000% | A1 | 123,596 |
| 4,400 | Goldman Sachs Capital I, Series A (CORTS) | 6.000% | A1 | 103,664 |
| 4,800 | Goldman Sachs Group Inc., Series 2004-04 (SATURNS) | 6.000% | A1 | 111,120 |
| 1,300 | Goldman Sachs Group Inc., Series 2004-06 (SATURNS) | 6.000% | A1 | 30,329 |
| 11,800 | Goldman Sachs Group Inc., Series GSC-3 (PPLUS) | 6.000% | A1 | 272,816 |
| 8,800 | Goldman Sachs Group Inc., (3) | 6.200% | A2 | 225,632 |
| 198,350 | Lehman Brothers Holdings Inc., Series C, (3) | 5.940% | BBB+ | 10,125,768 |
| 92,800 | Lehman Brothers Holdings Inc., Series D, (3) | 5.670% | A3 | 4,616,800 |
| 422,800 | Lehman Brothers Holdings Inc., Series F, (3) | 6.500% | A- | 10,840,592 |
| 71,500 | Merrill Lynch Capital Trust II | 8.000% | A1 | 1,843,270 |
| 267,200 | Merrill Lynch Preferred Capital Trust III | 7.000% | A1 | 6,776,192 |
| 189,600 | Merrill Lynch Preferred Capital Trust IV | 7.120% | A1 | 4,887,888 |
| 283,400 | Merrill Lynch Preferred Capital Trust V | 7.280% | A1 | 7,266,376 |
| 48,400 | Merrill Lynch Preferred Capital Trust | 7.750% | A1 | 1,228,876 |
| 118,480 | Morgan Stanley (PPLUS) | 7.050% | Aa3 | 2,959,630 |
| 211,850 | Morgan Stanley Capital Trust II | 7.250% | A1 | 5,376,753 |
| 185,370 | Morgan Stanley Capital Trust III | 6.250% | A1 | 4,515,613 |
| 138,400 | Morgan Stanley Capital Trust IV | 6.250% | A1 | 3,357,584 |
| 14,100 | Morgan Stanley Capital Trust V | 5.750% | A+ | 320,916 |
| 327,800 | Morgan Stanley Capital Trust VI | 6.600% | A1 | 8,293,340 |
| 13,400 | UBS Preferred Funding Trust III | 7.250% | AA- | 337,144 |
| | Total Capital Markets | | | 90,071,543 |
| Commercial Banks - 10.9% | | | | |

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| | | | | |
|-----------|--|---------|------|-------------|
| 36,200 | Abbey National PLC, Series B | 7.375% | A | 952,784 |
| 40,000 | Abbey National PLC, Series B | 7.250% | A1 | 1,012,000 |
| 303,200 | Abbey National PLC, Series C | 7.375% | A2 | 7,764,952 |
| 755,800 | ABN AMRO Capital Fund Trust V | 5.900% | A | 17,579,908 |
| 79,579 | ABN AMRO Capital Fund Trust VI | 6.250% | A | 1,964,806 |
| 17,021 | ABN AMRO Capital Trust Fund VII | 6.080% | A | 407,653 |
| 115,200 | ASBC Capital I | 7.625% | Baa1 | 2,921,472 |
| 203,410 | BAC Capital Trust I | 7.000% | Aa3 | 5,123,898 |
| 560,200 | BAC Capital Trust II | 7.000% | Aa3 | 14,251,488 |
| 163,900 | BAC Capital Trust III | 7.000% | Aa3 | 4,186,006 |
| 1,010,000 | Banco Santander | 6.410% | A2 | 25,553,000 |
| 71,750 | Banco Totta & Acores Finance, Series A | 8.875% | A3 | 1,831,871 |
| 6,200 | BancorpSouth Capital Trust I | 8.150% | Baa2 | 157,046 |
| 28,800 | Banesto Holdings, Series A, 144A | 10.500% | A2 | 886,501 |
| 167,700 | Bank One Capital Trust VI | 7.200% | A1 | 4,279,704 |
| 53,200 | BankNorth Capital Trust II | 8.000% | A3 | 1,357,132 |
| 9,900,000 | BOI Capital Funding 3, 144A | 6.107% | A2 | 9,566,202 |
| 145,700 | Chittenden Capital Trust I | 8.000% | Baa1 | 3,700,780 |
| 146,500 | Cobank ABC, 144A, (3) | 7.000% | N/R | 7,109,059 |
| 118,600 | Comerica Capital Trust I | 7.600% | A3 | 2,974,488 |
| 512,200 | Fleet Capital Trust VII | 1.800% | Aa3 | 12,871,586 |
| 430,300 | Fleet Capital Trust VIII | 7.200% | Aa3 | 10,877,984 |
| 62,400 | HSBC Finance Corporation | 6.875% | Aa3 | 1,588,080 |
| 37,900 | KeyCorp (PCARS) | 7.500% | A3 | 974,030 |
| 90,467 | KeyCorp Capital Trust V | 5.875% | A3 | 2,127,784 |
| 92,600 | National Commerce Capital Trust II | 7.700% | A1 | 2,351,114 |
| 21,700 | ONB Capital Trust II | 8.000% | Baa2 | 559,860 |
| 27,200 | PNC Capital Trust | 6.125% | A3 | 653,072 |
| 200,749 | Royal Bank of Scotland Group PLC, Series L | 5.750% | A1 | 4,689,497 |
| 124,740 | Royal Bank of Scotland Group PLC, Series N | 6.350% | A1 | 3,140,953 |
| 160,600 | SunTrust Capital Trust IV | 7.125% | A1 | 4,043,908 |
| 110,300 | SunTrust Capital Trust V | 7.050% | A1 | 2,782,869 |
| 664,800 | USB Capital Trust III | 7.750% | Aa3 | 16,872,624 |
| 356,700 | USB Capital Trust IV | 7.350% | Aa3 | 9,074,448 |
| 301,200 | USB Capital Trust V | 7.250% | Aa3 | 7,599,276 |
| 31,800 | USB Capital Trust VI | 5.750% | Aa3 | 722,178 |
| 39,600 | USB Capital Trust VII | 5.875% | Aa3 | 912,384 |
| 39,100 | VNB Capital Trust I | 7.750% | Baa1 | 990,794 |
| 11,000 | Well Fargo Capital Trust IX | 5.625% | Aa2 | 248,380 |
| 40,000 | Wells Fargo Capital Trust IV | 7.000% | Aa2 | 1,008,800 |
| 483,400 | Wells Fargo Capital Trust V | 7.000% | Aa2 | 12,196,182 |
| 115,100 | Wells Fargo Capital Trust VI | 6.950% | Aa2 | 2,887,859 |
| 129,309 | Wells Fargo Capital Trust VII | 5.850% | Aa2 | 3,068,503 |
| 117,800 | Zions Capital Trust B | 8.000% | Baa1 | 3,075,758 |
| | Total Commercial Banks | | | 218,898,673 |

Computers & Peripherals - 0.1%

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| | | | | |
|--------|-----------------------------------|--------|----|-----------|
| 28,700 | IBM Inc., Series 2001-1 (SATURNS) | 7.125% | A+ | 734,433 |
| 14,000 | IBM Trust II (CORTS) | 7.125% | A+ | 348,040 |
| 7,400 | IBM Trust III (CORTS) | 7.200% | A+ | 189,625 |
| 24,800 | IBM Trust IV (CORTS) | 7.000% | A+ | 640,336 |
| | Total Computers & Peripherals | | | 1,912,434 |

Table of Contents**Consumer Finance - 0.6%**

| | | | | |
|---------|--------------------------------|--------|------|------------|
| 99,400 | Household Capital Trust VII | 7.500% | A1 | 2,526,748 |
| 174,000 | SLM Corporation, Series A, (3) | 6.970% | BBB+ | 9,570,000 |
| 14,200 | SLM Corporation | 6.000% | A | 339,380 |
| | Total Consumer Finance | | | 12,436,128 |

Diversified Financial Services - 5.1%

| | | | | |
|-----------|--|--------|------|-------------|
| 13,800 | BBVA Preferred Capital Ltd., Series B | 7.750% | A1 | 346,518 |
| 236,500 | CIT Group Inc., Series A, (3) | 6.350% | BBB+ | 5,983,450 |
| 27,700 | CIT Group Incorporated (CORTS) | 7.750% | A3 | 724,909 |
| 108,280 | Citigroup Capital Trust IX | 6.000% | Aa2 | 2,581,395 |
| 197,400 | Citigroup Capital Trust VII | 7.125% | Aa2 | 4,990,272 |
| 1,138,322 | Citigroup Capital Trust VIII | 6.950% | Aa2 | 28,628,798 |
| 16,400 | Citigroup Inc., Series H, (3) | 6.231% | Aa3 | 827,790 |
| 3,200 | Citigroup, Series CIT (CORTS) | 6.750% | A3 | 80,384 |
| 1,400 | General Electric Capital Corporation (CORTS) | 6.000% | AAA | 33,992 |
| 40,500 | General Electric Capital Corporation | 6.625% | AAA | 1,023,030 |
| 592,320 | ING Group N.V. | 7.200% | A | 15,193,008 |
| 755,475 | ING Group N.V. | 7.050% | A | 19,189,065 |
| 43,200 | JPM Capital Trust (CORTS) | 7.200% | A2 | 1,093,392 |
| 71,965 | JPMorgan Chase & Company (PCARS) | 7.125% | A2 | 1,819,275 |
| 712,420 | JPMorgan Chase Capital Trust X | 7.000% | A1 | 18,059,847 |
| 32,200 | JPMorgan Chase Capital Trust XVI | 6.350% | A1 | 805,000 |
| 73,600 | JPMorgan Chase Trust, Series 2002-6, Class A (SATURNS) | 7.125% | A1 | 1,868,704 |
| | Total Diversified Financial Services | | | 103,248,829 |

Diversified Telecommunication Services - 0.6%

| | | | | |
|--------|--|--------|-----|-----------|
| 68,900 | AT&T Inc. | 7.000% | A | 1,731,457 |
| 37,900 | BellSouth Capital Funding (CORTS) | 7.100% | A | 956,975 |
| 29,900 | BellSouth Corporation (CORTS) | 7.000% | Aa3 | 761,254 |
| 50,600 | BellSouth Corporation, Series 2001-3 (SATURNS) | 7.125% | A | 1,282,710 |
| 32,600 | BellSouth Inc. (CORTS) | 7.000% | A | 826,084 |
| 71,100 | BellSouth Telecommunications (PPLUS) | 7.300% | A | 1,818,738 |
| 60,600 | Deutsche Telekom International Finance B.V., Series 2001-24, Class A-1 (CORTS) | 7.875% | A- | 1,550,754 |
| 27,300 | Verizon Communications (CORTS) | 7.625% | A | 701,610 |
| 48,100 | Verizon Communications (CORTS) | 7.375% | A | 1,231,841 |
| 50,700 | Verizon New England Inc., Series B | 7.000% | A3 | 1,292,850 |

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| | | | | |
|----------------------------------|--|--------|------|------------|
| 30,400 | Verizon South Inc., Series F | 7.000% | A | 767,296 |
| | Total Diversified Telecommunication Services | | | 12,921,569 |
| Electric Utilities - 0.6% | | | | |
| 16,300 | Consolidated Edison Company of New York Inc. | 7.500% | A1 | 409,456 |
| 6,000 | Consolidated Edison, Inc. | 7.250% | A2 | 152,400 |
| 21,100 | DTE Energy Trust I | 7.800% | Baa3 | 537,417 |
| 28,900 | Entergy Louisiana LLC | 7.600% | A- | 730,592 |
| 8,300 | Entergy Mississippi Inc. | 7.250% | A- | 213,310 |
| 3,000 | Georgia Power Capital Trust V | 7.125% | A3 | 75,870 |
| 6,416 | Georgia Power Company | 5.700% | AAA | 154,690 |
| 130,000 | Interstate Power and Light Company, (3) | 7.100% | BBB- | 3,518,450 |
| 11,700 | Mississippi Power Capital Trust II | 7.200% | A2 | 293,670 |
| 4,500 | National Rural Utilities Cooperative Finance Corporation | 7.600% | A3 | 113,220 |
| 5,200 | National Rural Utilities Cooperative Finance Corporation | 7.400% | A3 | 132,288 |
| 1,500 | National Rural Utilities Cooperative Finance Corporation | 6.100% | A3 | 36,000 |
| 1,900 | National Rural Utilities Cooperative Finance Corporation | 5.950% | A3 | 44,726 |
| 33,600 | Northern States Power Company | 8.000% | A3 | 861,840 |
| 15,400 | Southern Company Capital Trust I (CORTS) | 8.190% | BBB+ | 409,794 |
| 34,300 | Southern Company Capital Trust I (CORTS) | 7.375% | BBB+ | 867,104 |
| 13,100 | Southern Company Capital Trust VI | 7.125% | BBB+ | 331,037 |
| 122,500 | Virginia Power Capital Trust | 7.375% | Baa2 | 3,138,450 |
| | Total Electric Utilities | | | 12,020,314 |

Table of Contents**Food Products - 0.4%**

| | | | | |
|--------|--|--------|------|-----------|
| 75,000 | Dairy Farmers of America Inc., 144A, (3) | 7.875% | BBB- | 7,408,598 |
|--------|--|--------|------|-----------|

Gas Utilities - 0.1%

| | | | | |
|--------|----------------------|--------|-----|-----------|
| 75,300 | AGL Capital Trust II | 8.000% | BBB | 1,909,608 |
|--------|----------------------|--------|-----|-----------|

Health Care Providers & Services - 0.7%

| | | | | |
|---------|------------|--------|----|------------|
| 587,500 | Aetna Inc. | 8.500% | A3 | 14,875,500 |
|---------|------------|--------|----|------------|

Industrial Conglomerates - 0.0%

| | | | | |
|-------|---|--------|-----|---------|
| 5,000 | General Electric Company, Series GE (CORTS) | 6.800% | AAA | 126,950 |
|-------|---|--------|-----|---------|

Insurance - 11.8%

| | | | | |
|-----------|--|--------|------|------------|
| 1,127,233 | Ace Ltd., Series C | 7.800% | Baa2 | 29,533,505 |
| 1,398,400 | Aegon N.V. | 6.375% | A- | 34,820,160 |
| 6,500 | Allstate Corporation (PCARS) | 7.150% | A2 | 164,125 |
| 1,500 | AMBAC Financial Group Inc. | 7.000% | AA | 37,605 |
| 36,800 | AMBAC Financial Group Inc. | 5.950% | AA | 868,112 |
| 324,173 | Arch Capital Group Limited | 8.000% | Baa3 | 8,337,341 |
| 676,401 | Delphi Financial Group, Inc. | 8.000% | BBB | 17,627,010 |
| 198,456 | EverestRe Capital Trust II | 6.200% | Baa1 | 4,475,183 |
| 97,100 | EverestRe Group Limited | 7.850% | Baa1 | 2,492,557 |
| 13,300 | Financial Security Assurance Holdings | 6.875% | AA | 334,229 |
| 339,100 | Hartford Capital Trust III, Series C | 7.450% | Baa1 | 8,521,583 |
| 45,700 | Hartford Life Capital Trust II, Series B | 7.625% | Baa1 | 1,159,409 |
| 56,500 | Lincoln National Capital Trust V, Series E | 7.650% | A- | 1,423,800 |
| 1,404,200 | Lincoln National Capital Trust VI | 6.750% | A- | 35,793,058 |
| 827,600 | MetLife Inc., Series B, (3) | 6.500% | Baa1 | 21,170,008 |
| 903,702 | PartnerRe Limited, Series C | 6.750% | BBB+ | 22,601,587 |
| 82,700 | PartnerRe Limited | 7.900% | A3 | 2,083,213 |
| 80,400 | PLC Capital Trust III | 7.500% | BBB+ | 2,038,140 |
| 69,800 | PLC Capital Trust IV | 7.250% | BBB+ | 1,763,148 |
| 23,900 | PLC Capital Trust V | 6.125% | BBB+ | 570,015 |
| 38,800 | Prudential PLC | 6.750% | A | 971,940 |
| 124,700 | RenaissanceRe Holdings Limited, Series B | 7.300% | BBB | 3,152,416 |
| 3,400 | RenaissanceRe Holdings Limited, Series C | 6.080% | BBB+ | 73,100 |
| 115,800 | RenaissanceRe Holdings Ltd., Series A | 8.100% | BBB+ | 2,944,794 |
| 23,400 | Safeco Capital Trust I (CORTS) | 8.750% | Baa2 | 681,759 |

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|---------|---|--------|------|------------|
| 30,200 | Safeco Capital Trust I (CORTS) | 8.700% | Baa2 | 826,574 |
| 47,300 | Safeco Capital Trust III (CORTS) | 8.072% | Baa2 | 1,232,165 |
| 17,200 | Safeco Capital Trust IV (CORTS) | 8.375% | Baa2 | 448,662 |
| 40,000 | Safeco Corporation, Series 2001-7 (SATURNS) | 8.250% | Baa2 | 1,035,800 |
| 38,800 | Safeco Corporation, Series 2002-5 (SATURNS) | 8.250% | Baa2 | 1,010,352 |
| 43,200 | Saint Paul Capital Trust I | 7.600% | Baa1 | 1,101,168 |
| 61,600 | Torchmark Capital Trust I | 7.750% | A- | 1,570,800 |
| | W.R. Berkley Capital Trust, Series 2002-1 | | | |
| 121,900 | (CBTCS) | 8.125% | BBB- | 1,250,694 |
| 709,600 | W.R. Berkley Corporation | 6.750% | BBB- | 18,023,840 |
| 68,800 | XL Capital Ltd, Series A | 8.000% | Baa1 | 1,770,224 |
| 215,640 | XL Capital Ltd, Series B | 7.625% | Baa1 | 5,531,166 |

Total Insurance 237,439,242

IT Services - 0.0%

| | | | | |
|-------|--------------------------------|--------|---|--------|
| 2,500 | Vertex Industries Inc. (PPLUS) | 7.625% | A | 64,375 |
|-------|--------------------------------|--------|---|--------|

Media - 0.1%

| | | | | |
|--------|-----------------------------|--------|------|-----------|
| 52,700 | CBS Corporation | 0.000% | BBB+ | 1,322,770 |
| 2,500 | Walt Disney Company (CORTS) | 6.875% | A- | 63,275 |
| 6,300 | Walt Disney Company | 7.000% | A- | 160,020 |

Total Media 1,546,065

Table of Contents

| Shares | Description (1) | Coupon | Ratings (2) | Value |
|---|---|--------|----------------|------------|
| Multiline Retail - 0.0% | | | | |
| 4,000 | Nordstrom Inc. (CORTS) | 7.625% | A | 100,400 |
| Multi-Utilities - 0.2% | | | | |
| 52,400 | Dominion CNG Capital Trust I | 7.800% | Baa2 | 1,334,104 |
| 30,700 | Dominion Resources Capital Trust II | 8.400% | Baa3 | 778,552 |
| 88,100 | Energy East Capital Trust I | 8.250% | BBB- | 2,243,907 |
| | Total Multi-Utilities | | | 4,356,563 |
| Oil, Gas & Consumable Fuels - 0.9% | | | | |
| 677,900 | Nexen Inc. | 7.350% | Baa3 | 17,930,455 |
| Pharmaceuticals - 0.1% | | | | |
| 50,000 | Bristol Myers Squibb Company (CORTS) | 6.250% | A+ | 1,253,500 |
| Real Estate Investment Trust - 11.5% | | | | |
| 243,757 | AMB Property Corporation, Series O | 7.000% | Baa2 | 6,374,246 |
| 77,100 | AvalonBay Communities, Inc., Series H | 8.700% | BBB | 2,097,120 |
| 220,400 | BRE Properties, Series B | 8.080% | BBB- | 5,606,976 |
| 111,466 | BRE Properties, Series D | 6.750% | BBB- | 2,716,426 |
| 480,908 | CarrAmerica Realty Corporation, Series E | 7.500% | BBB- | 12,109,263 |
| 104,300 | Developers Diversified Realty Corporation, Series G | 8.000% | BBB- | 2,677,381 |
| 1,264,845 | Developers Diversified Realty Corporation, Series H | 7.375% | BBB- | 31,734,961 |
| 125,600 | Duke Realty Corporation, Series L | 6.600% | BBB | 3,114,880 |
| 25,000 | Duke-Weeks Realty Corporation, Series B | 7.990% | BBB | 1,231,250 |
| 82,800 | Duke-Weeks Realty Corporation | 6.950% | BBB | 2,136,240 |
| 98,000 | Duke-Weeks Realty Corporation | 6.625% | BBB | 2,421,580 |
| 193,200 | Equity Office Properties Trust, Series G | 7.750% | BBB- | 4,915,008 |
| 3,200 | Equity Residential Properties Trust, Series C | 9.125% | BBB | 81,440 |
| 15,400 | Equity Residential Properties Trust, Series D | 8.600% | BBB | 403,480 |
| 348,622 | Equity Residential Properties Trust, Series N | 6.480% | BBB | 8,541,239 |
| 140,000 | Federal Realty Investment Trust | 8.500% | BBB- | 3,610,600 |

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| | | | | |
|---------|---|--------|------|------------|
| 10,400 | First Industrial Realty Trust, Inc., Series C | 8.625% | BBB- | 271,960 |
| 460,600 | HRPT Properties Trust, Series B | 8.750% | BBB- | 12,099,962 |
| 532,700 | HRPT Properties Trust, Series C | 7.125% | BBB- | 13,557,215 |
| 99,800 | New Plan Excel Realty Trust, Series E | 7.625% | BBB- | 2,524,940 |
| 3,997 | Prologis Trust, Series C | 8.540% | BBB | 221,209 |
| 96,275 | Prologis Trust, Series G | 6.750% | BBB | 2,406,875 |
| 2,000 | PS Business Parks, Inc., Series F | 8.750% | BBB- | 50,720 |
| 700 | PS Business Parks, Inc., Series K | 7.950% | BBB- | 18,270 |
| 243,000 | PS Business Parks, Inc., Series L | 7.600% | BBB- | 6,123,600 |
| 299,600 | PS Business Parks, Inc. | 7.000% | BBB- | 7,400,120 |
| 149,000 | Public Storage, Inc., Series E | 6.750% | BBB+ | 3,701,160 |
| 18,400 | Public Storage, Inc., Series F | 6.450% | BBB+ | 429,088 |
| 195,600 | Public Storage, Inc., Series H | 6.950% | BBB+ | 4,968,240 |
| 158,950 | Public Storage, Inc., Series R | 8.000% | BBB+ | 4,010,309 |
| 55,860 | Public Storage, Inc., Series S | 7.875% | BBB+ | 1,408,231 |
| 45,000 | Public Storage, Inc., Series T | 7.625% | BBB+ | 1,132,650 |
| 174,000 | Public Storage, Inc., Series U | 7.625% | BBB+ | 4,409,160 |
| 31,500 | Public Storage, Inc., Series V | 7.500% | BBB+ | 798,525 |
| 166,100 | Regency Centers Corporation | 7.450% | BBB- | 4,261,296 |
| 20,500 | Simon Property Group, Inc., Series F | 8.750% | Baa2 | 519,060 |
| 20,650 | Simon Property Group, Inc., Series G | 7.890% | BBB | 1,070,083 |
| 2,600 | United Dominion Realty Trust | 8.600% | BBB- | 67,028 |
| 30,000 | Vornado Realty Trust, Series E | 7.000% | BBB- | 754,500 |
| 1,200 | Vornado Realty Trust, Series F | 6.750% | BBB- | 29,760 |
| 165,000 | Vornado Realty Trust, Series G | 6.625% | BBB- | 3,968,250 |
| 183,000 | Vornado Realty Trust, Series H | 6.750% | BBB- | 4,536,570 |
| 76,776 | Vornado Realty Trust, Series I | 6.625% | BBB- | 1,831,108 |

Table of Contents

| | | | | |
|---|---|--------|------|---------------|
| 1,987,734 | Wachovia Preferred Funding Corporation | 7.250% | A2 | 54,245,261 |
| 130,300 | Weingarten Realty Trust, Series E | 6.950% | A- | 3,309,620 |
| | Total Real Estate Investment Trust | | | 229,896,860 |
| Specialty Retail - 0.0% | | | | |
| 28,200 | Sherwin Williams Company, Series III (CORTS) | 7.250% | A+ | 706,128 |
| Thriffs & Mortgage Finance - 1.1% | | | | |
| 81,500 | Countrywide Capital Trust II, Series II (CORTS) | 8.000% | BBB+ | 2,102,700 |
| 70,800 | Countrywide Capital Trust III (PPLUS) | 8.050% | BBB+ | 1,874,076 |
| 733,343 | Countrywide Capital Trust IV | 6.750% | BBB+ | 18,406,909 |
| 6,600 | Countrywide Financial Corporation Capital Trust I (CORTS) | 8.000% | BBB+ | 170,676 |
| | Total Thriffs & Mortgage Finance | | | 22,554,361 |
| U.S. Agency - 0.4% | | | | |
| 30,000 | Fannie Mae, (3) | 5.810% | AA- | 1,470,000 |
| 6,700 | Fannie Mae, (3) | 4.750% | AA- | 273,695 |
| 59,100 | Federal Home Loan Mortgage Corporation, (3) | 6.000% | AA- | 2,998,143 |
| 23,000 | Federal Home Loan Mortgage Corporation, (3) | 5.300% | AA- | 1,060,875 |
| 48,300 | Federal Home Loan Mortgage Corporation, (3) | 5.100% | AA- | 2,115,540 |
| | Total U.S. Agency | | | 7,918,253 |
| Wireless Telecommunication Services - 0.7% | | | | |
| 60,100 | AT&T Wireless (CORTS) | 8.000% | A | 1,530,146 |
| 28,000 | AT&T Wireless, Series 2002-B (SATURNS) | 9.250% | A | 732,200 |
| 47,685 | Telephone and Data Systems Inc. | 7.600% | A- | 1,192,125 |
| 50,600 | United States Cellular Corporation | 8.750% | A- | 1,343,430 |
| 344,100 | United States Cellular Corporation | 7.500% | A- | 8,729,817 |
| | Total Wireless Telecommunication Services | | | 13,527,718 |
| | Total \$25 Par (or similar) Securities (cost \$1,030,336,555) | | | 1,013,252,766 |

| Principal | | | | | |
|---|--|---------------|-----------------|--------------------|--------------|
| Amount (000) | Description (1) | Coupon | Maturity | Ratings (2) | Value |
| Convertible Bonds - 36.7% (25.0% of Total Investments) | | | | | |
| Aerospace & Defense - 1.8% | | | | | |
| \$ 6,275 | AAR Corporation, 144A | 1.750% | 2/01/26 | BB- | \$ 7,169,188 |
| 7,250 | Armor Holdings Inc. | 2.000% | 11/01/24 | B+ | 8,826,875 |
| 9,450 | L-3 Communications Corporation, Series 144A | 3.000% | 8/01/35 | BB+ | 9,757,125 |
| 8,815 | Lockheed Martin Corporation | 4.491% | 8/15/33 | BBB+ | 10,243,911 |
| 31,790 | Total Aerospace & Defense | | | | 35,997,099 |
| Auto Components - 0.5% | | | | | |
| 9,305 | ArvinMeritor Inc., 144A | 4.625% | 3/01/26 | BB | 9,351,525 |
| Automobiles - 0.1% | | | | | |
| 1,025 | Fleetwood Enterprises Inc., 144A | 5.000% | 12/15/23 | B2 | 1,178,750 |
| Biotechnology - 2.8% | | | | | |
| 16,650 | Amgen Inc., 144A | 0.125% | 2/01/11 | A+ | 16,858,125 |
| 5,000 | Cephalon, Inc. | 0.000% | 6/15/33 | B- | 5,806,250 |
| 3,400 | CV Therapeutics Inc. | 2.750% | 5/16/12 | N/R | 4,692,000 |
| 4,500 | CV Therapeutics Inc. | 3.250% | 8/16/13 | N/R | 4,798,125 |
| 10,700 | Genzyme Corporation | 1.250% | 12/01/23 | BBB | 11,676,375 |
| 8,000 | Invitrogen Corporation | 2.000% | 8/01/23 | N/R | 9,070,000 |
| 3,670 | Medimmune Inc. | 1.000% | 7/15/23 | BBB | 3,633,300 |
| 51,920 | Total Biotechnology | | | | 56,534,175 |
| Capital Markets - 0.3% | | | | | |
| 3,665 | BlackRock Inc. | 2.625% | 2/15/35 | A+ | 5,199,719 |
| Communications Equipment - 2.2% | | | | | |
| 3,570 | ADC Telecommunications Inc. | 1.000% | 6/15/08 | N/R | 3,873,450 |

| | | | | | |
|-------|-----------------------------|--------|---------|-----|-----------|
| 4,785 | ADC Telecommunications Inc. | 5.045% | 6/15/13 | N/R | 5,305,369 |
|-------|-----------------------------|--------|---------|-----|-----------|

Table of Contents

| | | | | | |
|--|--|--------|----------|------|------------|
| 9,200 | Ciena Corporation | 3.750% | 2/01/08 | B | 8,740,000 |
| 6,500 | CommScope Inc. | 1.000% | 3/15/24 | B+ | 8,921,250 |
| 5,595 | Lucent Technologies Inc. | 2.750% | 6/15/23 | B1 | 5,965,669 |
| 3,905 | Nortel Networks Corp. | 4.250% | 9/01/08 | B- | 3,704,869 |
| 1,700 | Powerwave Technologies Inc. | 1.875% | 11/15/24 | N/R | 2,280,125 |
| 4,475 | Powerwave Technologies Inc. | 1.825% | 11/15/24 | N/R | 6,002,094 |
| 39,730 | Total Communications Equipment | | | | 44,792,826 |
| Construction & Engineering - 0.2% | | | | | |
| 3,500 | Quanta Services Incorporated | 4.000% | 7/01/07 | B | 3,399,375 |
| Containers & Packaging - 0.5% | | | | | |
| 9,825 | Sealed Air Corporation, 144A | 3.000% | 6/30/33 | BBB | 9,677,625 |
| Diversified Financial Services - 0.6% | | | | | |
| 10,325 | CapitalSource Inc. | 3.500% | 7/15/34 | BBB- | 10,466,969 |
| 2,650 | JMH Finance Limited | 4.750% | 9/06/07 | N/R | 2,673,198 |
| 12,975 | Total Diversified Financial Services | | | | 13,140,167 |
| Diversified Telecommunication Services - 0.4% | | | | | |
| 3,325 | CenturyTel Inc. | 4.750% | 8/01/32 | BBB+ | 3,528,656 |
| 3,075 | Time Warner Telecom Inc. | 2.375% | 4/01/26 | CCC+ | 3,540,094 |
| 6,400 | Total Diversified Telecommunication Services | | | | 7,068,750 |
| Electronic Equipment & Instruments - 1.3% | | | | | |
| 5,925 | Coherent Inc., 144A | 2.750% | 3/01/11 | N/R | 6,665,625 |
| 7,875 | Flextronics International Limited | 1.000% | 8/01/10 | Ba2 | 7,146,563 |
| 17,940 | Roper Industries Inc. | 1.481% | 1/15/34 | BB- | 11,459,175 |
| 1,035 | Vishay Intertechnology Inc. | 3.625% | 8/01/23 | B+ | 1,038,881 |
| 32,775 | Total Electronic Equipment & Instruments | | | | 26,310,244 |

Energy Equipment & Services - 1.4%

| | | | | | |
|--------|--|--------|----------|-----|------------|
| 1,115 | Cal Dive International Inc. | 3.250% | 12/15/25 | N/R | 1,591,663 |
| 4,200 | Diamond Offshore Drilling, Inc. | 1.500% | 4/15/31 | A- | 7,738,500 |
| 4,375 | Hanover Compressor Company | 4.750% | 1/15/14 | B | 6,026,563 |
| 4,350 | Nabors Industries Inc. | 0.000% | 6/15/23 | N/R | 4,986,188 |
| 2,445 | Oil States International Inc., Series 144A | 2.375% | 7/01/25 | N/R | 3,331,313 |
| 3,325 | Schlumberger Limited | 2.125% | 6/01/23 | A+ | 5,444,688 |
| 19,810 | Total Energy Equipment & Services | | | | 29,118,915 |

Gas Utilities - 0.1%

| | | | | | |
|----|----------------------------------|--------|---------|------|-----------|
| 30 | Southern Union Company, Series B | 5.750% | 8/16/06 | Baa3 | 2,225,070 |
|----|----------------------------------|--------|---------|------|-----------|

Health Care Equipment & Supplies - 1.6%

| | | | | | |
|--------|--|--------|---------|-----|------------|
| 10,825 | Fisher Scientific International Inc. | 3.250% | 3/01/24 | BB+ | 11,677,469 |
| 7,650 | Lincare Holdings Inc. | 3.000% | 6/15/33 | N/R | 7,391,813 |
| 14,025 | Medtronic, Inc. | 1.250% | 9/15/21 | AA- | 13,972,406 |
| 32,500 | Total Health Care Equipment & Supplies | | | | 33,041,688 |

Health Care Providers & Services - 1.5%

| | | | | | |
|--------|--|--------|----------|------|------------|
| 5,745 | Advanced Medical Optics | 2.500% | 7/15/24 | B | 6,254,869 |
| 9,200 | Laboratory Corporation of America Holdings | 0.000% | 9/11/21 | BBB- | 7,417,500 |
| 9,400 | Omnicare, Inc. | 3.250% | 12/15/35 | BB+ | 9,059,250 |
| 8,510 | Roche Holdings Inc., 144A | 0.000% | 7/25/21 | N/R | 6,865,868 |
| 32,855 | Total Health Care Providers & Services | | | | 29,597,487 |

Hotels, Restaurants & Leisure - 2.6%

| | | | | | |
|--------|---|--------|----------|------|------------|
| 7,875 | Caesars Entertainment Inc. | 4.550% | 4/15/24 | BBB- | 10,615,500 |
| 18,365 | Carnival Corporation | 1.132% | 4/29/33 | A- | 12,947,325 |
| 8,535 | Hilton Hotels Corporation | 3.375% | 4/15/23 | BB | 10,402,031 |
| 3,895 | Kerzner International Limited, 144A | 2.375% | 4/15/24 | B | 5,253,381 |
| 6,000 | Scientific Games Corporation | 0.750% | 12/01/24 | B+ | 7,695,000 |
| 3,875 | Starwood Hotels & Resorts Worldwide, Inc. | 3.500% | 5/16/23 | BB+ | 5,279,688 |
| 48,545 | Total Hotels, Restaurants & Leisure | | | | 52,192,925 |

Table of Contents**Industrial Conglomerates - 0.6%**

| | | | | | |
|--------|------------|--------|----------|-----|------------|
| 14,250 | 3M Company | 0.000% | 11/21/32 | Aa1 | 12,611,250 |
|--------|------------|--------|----------|-----|------------|

Insurance - 0.6%

| | | | | | |
|--------|---|--------|----------|-----|------------|
| 10,315 | American Equity Investment Life Holding Company | 5.250% | 12/06/24 | BB+ | 12,932,431 |
|--------|---|--------|----------|-----|------------|

Internet Software & Services - 0.5%

| | | | | | |
|--------|------------------------------------|--------|---------|-----|-----------|
| 7,885 | Open Solutions Inc., 144A | 1.467% | 2/02/35 | N/R | 4,691,575 |
| 7,800 | Open Solutions Inc. | 1.467% | 2/02/35 | N/R | 4,641,000 |
| 15,685 | Total Internet Software & Services | | | | 9,332,575 |

IT Services - 0.2%

| | | | | | |
|-------|--------------------|--------|---------|-----|-----------|
| 2,900 | Digital River Inc. | 1.250% | 1/01/24 | N/R | 3,371,250 |
|-------|--------------------|--------|---------|-----|-----------|

Leisure Equipment & Products - 0.1%

| | | | | | |
|-------|---|--------|---------|-----|-----------|
| 1,165 | K2 Corporation, Convertible Notes, 144A | 5.000% | 6/15/10 | N/R | 1,288,781 |
|-------|---|--------|---------|-----|-----------|

Media - 4.7%

| | | | | | |
|--------|---|--------|----------|-----|------------|
| 275 | Comcast Corporation | 2.000% | 10/15/29 | BBB | 11,351,027 |
| 3,455 | Lamar Advertising Company, Convertible Notes | 2.875% | 12/31/10 | B | 4,012,119 |
| 14,725 | Liberty Media Corporation, Senior Debentures Exchangeable for Motorola Common Stock | 3.500% | 1/15/31 | BB+ | 14,945,875 |
| 26,800 | Liberty Media Corporation, Senior Debentures, Exchangeable for PCS Common Stock, Series 1 | 4.000% | 11/15/29 | BB+ | 16,482,000 |
| 11,700 | Liberty Media Corporation | 0.750% | 3/30/23 | BB+ | 12,299,625 |
| 2,395 | Lions Gate Entertainment Corporation, 144A | 2.938% | 10/15/24 | N/R | 2,421,944 |
| 3,300 | Lions Gate Entertainment Corporation, 144A | 3.625% | 3/15/25 | N/R | 3,102,000 |
| 4,660 | Omnicom Group Inc. | 0.000% | 6/15/33 | A- | 4,630,875 |
| 3,335 | Shuffle Master Inc. | 1.250% | 4/15/24 | N/R | 4,485,575 |

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| | | | | | |
|--------|---|--------|----------|------|------------|
| 4,140 | Sirius Satellite Radio Inc. | 3.250% | 10/15/11 | CCC | 4,895,550 |
| 8,950 | Walt Disney Company, Convertible Senior Notes | 2.125% | 4/15/23 | A- | 9,654,813 |
| 7,850 | XM Satellite Radio Holdings Inc. | 1.750% | 12/01/09 | CCC- | 6,613,625 |
| 91,585 | Total Media | | | | 94,895,028 |

Metals & Mining - 0.3%

| | | | | | |
|-------|--------------------------|--------|---------|-----|-----------|
| 4,025 | Century Aluminum Company | 1.750% | 8/01/24 | BB- | 5,982,156 |
|-------|--------------------------|--------|---------|-----|-----------|

Multi-Utilities - 0.4%

| | | | | | |
|-------|-----------------------------------|--------|----------|-----|-----------|
| 8,625 | Dominion Resources Inc., Series C | 2.125% | 12/15/23 | BBB | 8,808,281 |
|-------|-----------------------------------|--------|----------|-----|-----------|

Oil, Gas & Consumable Fuels - 0.7%

| | | | | | |
|--------|--------------------------|--------|---------|-----|------------|
| 11,475 | Devon Energy Corporation | 4.900% | 8/15/08 | BBB | 13,368,375 |
|--------|--------------------------|--------|---------|-----|------------|

Pharmaceuticals - 3.4%

| | | | | | |
|--------|---|--------|----------|-----|------------|
| 4,580 | Alexion Pharmaceuticals Inc., 144A | 1.375% | 2/01/12 | N/R | 5,776,525 |
| 4,150 | Alexion Pharmaceuticals Inc. | 1.375% | 2/01/12 | N/R | 5,234,188 |
| 13,055 | Allergan Inc., Convertible Zero Coupon Senior Notes | 0.000% | 11/06/22 | A | 16,220,838 |
| 4,965 | BioMarin Pharmaceutical Inc. | 2.500% | 3/29/13 | N/R | 5,213,250 |
| 5,825 | King Pharmaceuticals Inc. | 2.750% | 11/15/21 | BB- | 5,752,188 |
| 4,080 | Medicis Pharmaceutical Corporation | 2.500% | 6/04/32 | N/R | 4,814,400 |
| 4,925 | Medicis Pharmaceutical Corporation | 1.500% | 6/04/33 | N/R | 4,900,375 |
| 12,000 | Teva Pharmaceutical Finance Company B.V., Series D | 1.750% | 2/01/26 | BBB | 11,925,000 |
| 8,500 | Wyeth, 144A | 1.000% | 1/15/24 | A | 9,094,150 |
| 62,080 | Total Pharmaceuticals | | | | 68,930,914 |

Real Estate Management & Development - 0.1%

| | | | | | |
|-------|----------------------------|--------|---------|-----|-----------|
| 1,465 | Avatar Holdings Inc., 144A | 4.500% | 4/01/24 | N/R | 1,770,819 |
|-------|----------------------------|--------|---------|-----|-----------|

Road & Rail - 0.6%

| | | | | | |
|--------|----------------------------|--------|----------|------|------------|
| 10,500 | CSX Corporation | 0.000% | 10/30/21 | BBB | 11,366,250 |
| 1,490 | Yellow Roadway Corporation | 3.375% | 11/25/23 | BBB- | 1,665,075 |
| 11,990 | Total Road & Rail | | | | 13,031,325 |

Semiconductors & Equipment - 2.2%

| | | | | | |
|--------|-----------------------------|--------|----------|-----|------------|
| 8,325 | Agere Systems Inc. | 6.500% | 12/15/09 | B | 8,241,750 |
| 5,160 | ASM International NV | 4.250% | 12/06/11 | B- | 5,721,150 |
| 3,720 | Conexant Systems Inc., 144A | 4.000% | 3/01/26 | N/R | 3,785,100 |
| 13,625 | Intel Corporation, 144A | 2.950% | 12/15/35 | A- | 11,751,563 |

Table of Contents

| | | | | | |
|--|--|--------|---------|------|-------------|
| 4,610 | LSI Logic Corporation | 4.000% | 5/15/10 | Ba3 | 5,163,200 |
| 7,370 | RF Micro Devices, Inc. | 1.500% | 7/01/10 | B- | 9,148,013 |
| 42,810 | Total Semiconductors & Equipment | | | | 43,810,776 |
| Software - 1.1% | | | | | |
| 10,025 | Amdocs Limited | 0.500% | 3/15/24 | BBB- | 9,987,406 |
| 2,675 | Cadence Design Systems Inc. | 0.000% | 8/15/23 | N/R | 3,276,875 |
| 4,525 | Sybase, Inc., 144A | 1.750% | 2/22/25 | N/R | 4,553,281 |
| 4,880 | Sybase, Inc. | 1.750% | 2/22/25 | N/R | 4,910,500 |
| 22,105 | Total Software | | | | 22,728,062 |
| Specialty Retail - 2.1% | | | | | |
| 4,030 | Best Buy Co., Inc. | 2.250% | 1/15/22 | BBB- | 5,102,988 |
| 3,100 | Charming Shoppes Inc. | 4.750% | 6/01/12 | BB- | 4,855,375 |
| 6,130 | Dick's Sporting Goods Inc. | 1.606% | 2/18/24 | B | 4,720,100 |
| 1,430 | Pier 1 Imports, Inc., 144A | 6.375% | 2/15/36 | B- | 1,546,188 |
| 5,135 | Sonic Automotive Inc., Convertible Senior Subordinated Notes | 5.250% | 5/07/09 | B | 5,077,231 |
| 11,975 | TJX Companies, Inc. | 0.000% | 2/13/21 | A- | 10,073,969 |
| 9,425 | United Auto Group Inc., Series 144A | 3.500% | 4/01/26 | B | 10,214,344 |
| 41,225 | Total Specialty Retail | | | | 41,590,195 |
| Trading Companies & Distributors - 0.2% | | | | | |
| 3,860 | GATX Corporation | 7.500% | 2/01/07 | BBB | 4,911,850 |
| Wireless Telecommunication Services - 1.0% | | | | | |
| 4,755 | American Tower Corporation | 3.000% | 8/15/12 | BB- | 7,518,844 |
| 9,000 | NII Holdings Inc., 144A | 2.750% | 8/15/25 | N/R | 12,003,750 |
| 13,755 | Total Wireless Telecommunication Services | | | | 19,522,594 |
| \$ 695,965 | Total Convertible Bonds (cost \$686,137,203) | | | | 737,713,002 |

Principal

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| Amount (000) | Description (1) | Coupon | Maturity | Ratings (2) | Value |
|---|--|--------|----------|----------------|--------------|
| Corporate Bonds - 15.0% (10.2% of Total Investments) | | | | | |
| Aerospace & Defense - 0.2% | | | | | |
| \$ 3,500 | K&F Acquisition Inc. | 7.750% | 11/15/14 | B- | \$ 3,561,250 |
| Auto Components - 0.1% | | | | | |
| 1,950 | Affinia Group Inc. | 9.000% | 11/30/14 | CCC+ | 1,686,750 |
| 1,300 | Keystone Automotive Operations Inc. | 9.750% | 11/01/13 | B- | 1,144,000 |
| 3,250 | Total Auto Components | | | | 2,830,750 |
| Building Products - 0.2% | | | | | |
| 4,000 | Jacuzzi Brands, Inc. | 9.625% | 7/01/10 | B | 4,310,000 |
| Chemicals - 0.8% | | | | | |
| 1,800 | Ineos Group Holdings PLC, 144A | 8.500% | 2/15/16 | B2 | 1,719,000 |
| 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- | 6,760,000 |
| 3,500 | Resolution Performance Products LLC | 8.000% | 12/15/09 | B+ | 3,622,500 |
| 3,000 | Rockwood Specialties Group Inc., Series WI | 7.500% | 11/15/14 | B- | 3,030,000 |
| 16,800 | Total Chemicals | | | | 17,126,500 |
| Commercial Banks - 0.2% | | | | | |
| 4,000 | HBOS PLC, Series 144A | 6.413% | 9/29/49 | A1 | 3,819,800 |
| Commercial Services & Supplies - 0.5% | | | | | |
| 5,500 | DST Systems Inc. | 4.125% | 8/15/23 | N/R | 7,081,250 |
| 2,000 | National Mentor Inc. | 9.625% | 12/01/12 | B- | 2,270,000 |
| 7,500 | Total Commercial Services & Supplies | | | | 9,351,250 |

Containers & Packaging - 0.6%

| | | | | | |
|-------|--|---------|----------|----|-----------|
| 2,000 | Berry Plastics Corporation | 10.750% | 7/15/12 | B- | 2,210,000 |
| 3,450 | MDP Acquisitions PLC, Senior Notes | 9.625% | 10/01/12 | B- | 3,665,625 |
| 3,000 | Owens-Brockway Glass Containers, Guaranteed Senior Note | 8.250% | 5/15/13 | B | 3,150,000 |

Table of Contents

| | | | | | |
|--|--|--------|----------|-----|------------|
| 3,000 | Owens-Illinois Inc. | 7.500% | 5/15/10 | B | 3,052,500 |
| 11,450 | Total Containers & Packaging | | | | 12,078,125 |
| Diversified Consumer Services - 0.1% | | | | | |
| 2,000 | Service Corporation International | 7.700% | 4/15/09 | BB | 2,075,000 |
| Diversified Telecommunication Services - 0.1% | | | | | |
| 2,000 | Intelsat Subsidiary Holding Company Limited | 8.500% | 1/15/13 | B+ | 2,045,000 |
| 750 | Syniverse Technologies Inc., Series B | 7.750% | 8/15/13 | B | 754,688 |
| 2,750 | Total Diversified Telecommunication Services | | | | 2,799,688 |
| Electric Utilities - 0.2% | | | | | |
| 2,000 | Midwest Generation LLC | 8.750% | 5/01/34 | B1 | 2,175,000 |
| 500 | Mirant North America LLC., 144A | 7.375% | 12/31/13 | B1 | 512,500 |
| 1,000 | Sierra Pacific Resources, Series 144A | 6.750% | 8/15/17 | B1 | 1,008,750 |
| 3,500 | Total Electric Utilities | | | | 3,696,250 |
| 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 | 2,637,500 |
| 4,300 | Total Energy Equipment & Services | | | | 4,446,500 |
| Food & Staples Retailing - 0.1% | | | | | |
| 3,000 | Stater Brothers Holdings Inc. | 8.125% | 6/15/12 | BB- | 3,011,250 |
| Food Products - 0.8% | | | | | |
| 7,610 | Del Monte Corporation | 8.625% | 12/15/12 | B | 8,076,113 |
| 1,096 | Dole Foods Company | 8.625% | 5/01/09 | B | 1,106,960 |
| 7,000 | Dole Foods Company | 7.875% | 7/15/13 | B | 6,912,500 |

| | | | | | |
|--|--|---------|----------|------|------------|
| 15,706 | Total Food Products | | | | 16,095,573 |
| Health Care Equipment & Supplies - 0.0% | | | | | |
| 700 | Select Medical Corporation | 7.625% | 2/01/15 | B- | 635,250 |
| Health Care Providers & Services - 0.2% | | | | | |
| 3,000 | US Oncology Inc. | 10.750% | 8/15/14 | B- | 3,292,500 |
| Hotels, Restaurants & Leisure - 1.8% | | | | | |
| 5,190 | Aztar Corporation | 9.000% | 8/15/11 | Ba3 | 5,509,185 |
| 2,345 | Boyd Gaming Corporation | 8.750% | 4/15/12 | B+ | 2,515,013 |
| 4,075 | Boyd Gaming Corporation | 7.750% | 12/15/12 | B+ | 4,288,938 |
| 3,172 | Dominos Inc. | 8.250% | 7/01/11 | B | 3,267,160 |
| 1,500 | Herbst Gaming Inc. | 7.000% | 11/15/14 | B- | 1,503,750 |
| 4,100 | Intrawest Corporation | 7.500% | 10/15/13 | B+ | 4,176,875 |
| 2,000 | Landry's Restaurants Inc., Series B | 7.500% | 12/15/14 | B | 1,940,000 |
| 2,000 | MGM Mirage, Inc. | 6.750% | 8/01/07 | BB | 2,027,500 |
| 1,000 | Park Place Entertainment | 9.375% | 2/15/07 | BB+ | 1,033,750 |
| 1,000 | Park Place Entertainment | 7.875% | 3/15/10 | BB+ | 1,067,500 |
| 2,000 | Pinnacle Entertainment Inc. | 8.250% | 3/15/12 | B- | 2,105,000 |
| 3,000 | Pinnacle Entertainment Inc. | 8.750% | 10/01/13 | B- | 3,247,500 |
| 4,000 | Universal City Development Partners | 11.750% | 4/01/10 | B2 | 4,430,000 |
| 35,382 | Total Hotels, Restaurants & Leisure | | | | 37,112,171 |
| Household Durables - 0.8% | | | | | |
| 4,500 | K. Hovnanian Enterprises Inc., Senior Subordinated Notes | 8.875% | 4/01/12 | Ba2 | 4,725,000 |
| 5,000 | KB Home | 8.625% | 12/15/08 | Ba2 | 5,298,725 |
| 5,700 | Stanley Works Capital Trust I, 144A | 5.902% | 12/01/45 | Baa1 | 5,283,940 |
| 15,200 | Total Household Durables | | | | 15,307,665 |
| Independent Power Producers & Energy Traders - 0.1% | | | | | |
| 600 | NRG Energy Inc. | 7.250% | 2/01/14 | B1 | 611,250 |
| 600 | NRG Energy Inc. | 7.375% | 2/01/16 | B1 | 614,250 |
| 1,200 | Total Independent Power Producers & Energy Traders | | | | 1,225,500 |

Insurance - 0.4%

| | | | | | |
|-------|--------------------------------|--------|----------|----|-----------|
| 2,500 | Fairfax Financial Holdings Ltd | 7.750% | 4/26/12 | BB | 2,212,500 |
| 4,300 | ILFC E-Capital Trust I, 144A | 5.900% | 12/21/65 | A | 4,177,446 |
| 2,050 | ILFC E-Capital Trust II, 144A | 6.250% | 12/21/65 | A | 1,968,156 |
| 8,850 | Total Insurance | | | | 8,358,102 |

Table of Contents**IT Services - 0.4%**

| | | | | | |
|-------|--|--------|---------|----|-----------|
| 1,950 | Global Cash Access LLC | 8.750% | 3/15/12 | B- | 2,103,563 |
| 4,750 | SunGard Data Systems Inc., Series 144A | 9.125% | 8/15/13 | B- | 5,046,875 |
| 6,700 | Total IT Services | | | | 7,150,438 |

Machinery - 0.4%

| | | | | | |
|-------|--|---------|---------|----|-----------|
| 1,800 | Greenbrier Companies, Inc. | 8.375% | 5/15/15 | B+ | 1,894,500 |
| 3,000 | Terex Corporation, Senior Subordinated Notes | 10.375% | 4/01/11 | B | 3,180,000 |
| 3,000 | Terex Corporation, Senior Subordinated Notes | 9.250% | 7/15/11 | B | 3,206,250 |
| 7,800 | Total Machinery | | | | 8,280,750 |

Media - 3.5%

| | | | | | |
|--------|--|---------|----------|------|------------|
| 6,900 | Allbritton Communications Company, Series B | 7.750% | 12/15/12 | B- | 6,969,000 |
| 2,000 | AMC Entertainment Inc. | 8.000% | 3/01/14 | B3 | 1,795,000 |
| 4,200 | American Media Operations Inc., Series B | 10.250% | 5/01/09 | Caa1 | 3,822,000 |
| 1,345 | American Media Operations Inc. | 8.875% | 1/15/11 | Caa1 | 1,156,700 |
| 5,000 | Cablevision Systems Corporation, Series B | 8.125% | 8/15/09 | B+ | 5,187,500 |
| 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+ | 2,077,500 |
| 2,000 | Charter Communications Operating LLC, 144A | 8.000% | 4/30/12 | B2 | 2,000,000 |
| 6,000 | Cinemark USA Inc. | 9.000% | 2/01/13 | B- | 6,405,000 |
| 1,000 | Dex Media West LLC | 8.500% | 8/15/10 | B1 | 1,062,500 |
| 2,198 | Dex Media West LLC | 9.875% | 8/15/13 | B | 2,442,528 |
| 3,855 | Mail-Well I Corporation, Senior Unsecured Note, 144A | 9.625% | 3/15/12 | B+ | 4,168,219 |
| 4,000 | Medianews Group Inc. | 6.375% | 4/01/14 | B+ | 3,630,000 |
| 1,950 | Panamsat Corporation | 9.000% | 8/15/14 | B+ | 2,062,125 |
| 7,000 | Primedia Inc., Senior Notes | 8.875% | 5/15/11 | B | 6,860,000 |
| 2,000 | R. H. Donnelley Finance Corp 1 | 10.875% | 12/15/12 | B | 2,227,500 |
| 2,000 | Sun Media Corporation | 7.625% | 2/15/13 | Ba3 | 2,070,000 |
| 6,200 | Vertis Inc. | 9.750% | 4/01/09 | B3 | 6,386,000 |
| 5,500 | Young Broadcasting Inc., Senior Subordinated Note | 10.000% | 3/01/11 | Caa2 | 5,101,250 |
| 2,000 | Young Broadcasting Inc. | 8.750% | 1/15/14 | Caa2 | 1,720,000 |
| 70,148 | Total Media | | | | 70,187,822 |

Metals & Mining - 0.3%

| | | | | | |
|-------|---------------------------------|---------|---------|-----|-----------|
| 3,000 | Chaparral Steel Company | 10.000% | 7/15/13 | B1 | 3,360,000 |
| 1,682 | United States Steel Corporation | 9.750% | 5/15/10 | Ba1 | 1,824,970 |
| 4,682 | Total Metals & Mining | | | | 5,184,970 |

Multiline Retail - 0.2%

| | | | | | |
|-------|--------------------------------------|---------|---------|----|-----------|
| 3,600 | Bon-Ton Department Stores Inc., 144A | 10.250% | 3/15/14 | B2 | 3,481,200 |
|-------|--------------------------------------|---------|---------|----|-----------|

Multi-Utilities - 0.1%

| | | | | | |
|-------|---|--------|----------|------|-----------|
| 900 | Dynegy Holdings Inc., 144A (WI/DD, Settling 4/12/06) | 8.375% | 5/01/16 | B2 | 900,000 |
| 500 | Northwestern Corporation | 5.875% | 11/01/14 | BBB- | 494,983 |
| 1,400 | Total Multi-Utilities | | | | 1,394,983 |

Oil, Gas & Consumable Fuels - 0.7%

| | | | | | |
|--------|---|--------|----------|------|------------|
| 600 | Chaparral Energy Inc., 144A | 8.500% | 12/01/15 | B | 627,000 |
| 4,345 | Chesapeake Energy Corporation | 7.750% | 1/15/15 | BB | 4,562,250 |
| 300 | Copano Energy LLC, 144A | 8.125% | 3/01/16 | B | 312,000 |
| 2,000 | Hilcorp Energy I LP/Hilcorp Finance Company, Series 144A | 7.750% | 11/01/15 | B | 2,005,000 |
| 2,000 | Premcor Refining Group Inc. | 7.500% | 6/15/15 | BBB- | 2,112,708 |
| 3,000 | SemGroup LP, 144A | 8.750% | 11/15/15 | B1 | 3,075,000 |
| 1,500 | Whiting Petroleum Corporation | 7.000% | 2/01/14 | B2 | 1,492,500 |
| 13,745 | Total Oil, Gas & Consumable Fuels | | | | 14,186,458 |

Table of Contents**Paper & Forest Products - 0.4%**

| | | | | | |
|-------|---|--------|---------|---|-----------|
| 2,000 | Georgia Pacific Corporation, Debentures | 7.700% | 6/15/15 | B | 2,020,000 |
| 5,000 | Georgia Pacific Corporation, Notes | 8.125% | 5/15/11 | B | 5,225,000 |
| 7,000 | Total Paper & Forest Products | | | | 7,245,000 |

Personal Products - 0.1%

| | | | | | |
|-------|----------------------|--------|---------|----|-----------|
| 1,600 | Prestige Brands Inc. | 9.250% | 4/15/12 | B- | 1,624,000 |
|-------|----------------------|--------|---------|----|-----------|

Real Estate Investment Trust - 0.1%

| | | | | | |
|-------|------------------------------------|--------|---------|-----|-----------|
| 1,000 | Truststreet Properties, Inc. | 7.500% | 4/01/15 | B+ | 1,007,500 |
| 500 | Ventas Realty LP, Series WI | 7.125% | 6/01/15 | BB+ | 516,250 |
| 1,500 | Total Real Estate Investment Trust | | | | 1,523,750 |

Semiconductors & Equipment - 0.1%

| | | | | | |
|-------|---|---------|----------|---|-----------|
| 2,400 | Avago Technologies Finance Pte. Ltd., 144A | 10.125% | 12/01/13 | B | 2,589,000 |
|-------|---|---------|----------|---|-----------|

Specialty Retail - 0.8%

| | | | | | |
|--------|--------------------------------|--------|----------|-----|------------|
| 6,000 | Asbury Automotive Group Inc. | 9.000% | 6/15/12 | B | 6,157,500 |
| 1,000 | GSC Holdings Corporation, 144A | 8.000% | 10/01/12 | Ba3 | 997,500 |
| 1,000 | Quiksilver Inc. | 6.875% | 4/15/15 | BB- | 977,500 |
| 8,000 | Warnaco Inc., Senior Notes | 8.875% | 6/15/13 | B+ | 8,540,000 |
| 16,000 | Total Specialty Retail | | | | 16,672,500 |

Textiles Apparel & Luxury Goods - 0.2%

| | | | | | |
|-------|------------------------|--------|----------|----|-----------|
| 4,000 | Jostens IH Corporation | 7.625% | 10/01/12 | B- | 3,970,000 |
|-------|------------------------|--------|----------|----|-----------|

Trading Companies & Distributors - 0.1%

| | | | | | |
|-------|-----------------------------------|--------|---------|----|-----------|
| 2,000 | United Rentals North America Inc. | 6.500% | 2/15/12 | B+ | 1,970,000 |
|-------|-----------------------------------|--------|---------|----|-----------|

Wireless Telecommunication Services - 0.2%

| | | | | | |
|------------|---|--------|---------|----|-------------|
| 4,000 | Nextel Communications, Inc., Series D | 7.375% | 8/01/15 | A- | 4,198,020 |
| \$ 292,663 | Total Corporate Bonds (cost \$302,855,186) | | | | 300,792,015 |

**Principal
Amount
(000)/**

| Shares | Description (1) | Coupon | Maturity | Ratings (2) | Value |
|--------|-----------------|--------|----------|----------------|-------|
|--------|-----------------|--------|----------|----------------|-------|

Capital Preferred Securities - 31.8% (21.7% of Total Investments)**Capital Markets - 5.4%**

| | | | | | |
|--------|--|--------|----------|------|--------------|
| 6,273 | BT Capital Trust, Series B1 | 7.900% | 1/15/27 | A2 | \$ 6,588,494 |
| 15,000 | BT Institutional Capital Trust A, 144A | 8.090% | 12/01/26 | A2 | 15,826,080 |
| 2,000 | BT Institutional Capital Trust B, 144A | 7.750% | 12/01/26 | A2 | 2,102,554 |
| 1,250 | C.A. Preferred Fund Trust II | 7.000% | 10/30/49 | A1 | 1,258,615 |
| 32,750 | C.A. Preferred Funding Trust | 7.000% | 1/30/49 | A1 | 32,996,018 |
| 3,000 | Compass Trust I, Series A | 8.230% | 1/15/27 | A3 | 3,174,933 |
| 3,500 | First Union Capital Trust II, Series A | 7.950% | 11/15/29 | A1 | 4,176,554 |
| 500 | First Union Institutional Capital II | 7.850% | 1/01/27 | A1 | 526,915 |
| 2,000 | First Union Institutional Capital Securities I | 8.040% | 12/01/26 | A1 | 2,105,276 |
| 15,500 | Mellon Capital Trust I, Series A | 7.720% | 12/01/26 | A2 | 16,290,640 |
| 9,000 | State Street Institutional Capital Trust, 144A | 8.035% | 3/15/27 | A1 | 9,523,458 |
| 12,419 | Washington Mutual Capital Trust I | 8.375% | 6/01/27 | Baa1 | 13,240,144 |
| | Total Capital Markets | | | | 107,809,681 |

Commercial Banks - 18.1%

| | | | | | |
|--------|---|--------|----------|------|------------|
| 2,000 | AB Svensk Exportkredit, 144A | 6.375% | 10/27/49 | AA- | 2,022,404 |
| 8,000 | Abbey National Capital Trust I | 8.963% | 6/30/50 | A2 | 10,414,080 |
| 43,100 | AgFirst Farm Credit Bank | 7.300% | 12/15/53 | N/R | 41,640,074 |
| 12,120 | Bank One Capital III | 8.750% | 9/01/30 | A1 | 15,654,204 |
| 1,974 | BankAmerica Capital II, Series 2 | 8.000% | 12/15/26 | Aa3 | 2,080,904 |
| 2,600 | BankAmerica Institutional Capital Trust, Series B, 144A | 7.700% | 12/31/26 | Aa3 | 2,732,475 |
| 5,000 | BankAmerica Institutional Trust, 144A | 8.070% | 12/31/26 | Aa3 | 5,280,130 |
| 2,000 | BankBoston Capital Trust I, Series B | 8.250% | 12/15/26 | Aa3 | 2,114,950 |
| 1,000 | BanPonce Trust I, Series A | 8.327% | 2/01/27 | Baa1 | 1,056,353 |
| 4,000 | Barclays Bank PLC, 144A | 8.550% | 6/15/49 | Aa3 | 4,505,284 |
| 500 | Barnett Capital I | 8.060% | 12/01/26 | Aa3 | 527,167 |

Table of Contents

| | | | | | |
|--------|--|---------|----------|------|--------------------|
| 2,200 | DBS Capital Funding Corporation, 144A | 7.657% | 3/15/49 | A1 | 2,379,542 |
| 4,315 | First Chicago NBD Institutional Capital Trust, Series B, 144A | 7.750% | 12/01/26 | A1 | 4,526,465 |
| 5,000 | First Chicago NBD Institutional Capital, 144A | 7.950% | 12/01/26 | A1 | 5,250,870 |
| 5,750 | First Empire Capital Trust I | 8.234% | 2/01/27 | Baa1 | 6,083,149 |
| 11,550 | First Empire Capital Trust II | 8.277% | 6/01/27 | Baa1 | 12,304,769 |
| 4,250 | First Midwest Bancorp Inc. | 6.950% | 12/01/33 | Baa2 | 4,478,301 |
| 41,650 | HBOS Capital Funding LP, Notes | 6.850% | 3/23/49 | A1 | 41,776,408 |
| 12,838 | HSBC Capital Funding LP, 144A | 9.547% | 12/31/49 | A1 | 14,671,010 |
| 14,000 | HSBC Capital Funding LP, Debt | 10.176% | 6/30/50 | A1 | 20,309,590 |
| 19,605 | KBC Bank Fund Trust III, 144A | 9.860% | 5/02/50 | A2 | 22,180,313 |
| 4,000 | KeyCorp Capital III | 7.750% | 7/15/29 | A3 | 4,660,864 |
| 15,000 | KeyCorp Institutional Capital Trust A | 7.826% | 12/01/26 | A3 | 15,759,210 |
| 17,000 | Lloyds TSB Bank PLC, Subordinated Note | 6.900% | 11/22/49 | Aa2 | 17,047,719 |
| 1,000 | Nordbanken AB, 144A | 8.950% | 11/29/49 | A | 1,105,076 |
| 12,500 | North Fork Capital Trust II | 8.000% | 12/15/27 | A3 | 13,365,713 |
| 500 | PNC Institutional Capital Securities, 144A | 7.950% | 12/15/26 | A- | 526,078 |
| 2,000 | Popular North American Capital Trust I | 6.564% | 9/15/34 | Baa1 | 1,951,394 |
| 16,750 | RBS Capital Trust B | 6.800% | 12/31/49 | A1 | 16,777,956 |
| 2,000 | Reliance Capital Trust I, Series B | 8.170% | 5/01/28 | N/R | 2,152,666 |
| 1,202 | Republic New York Capital II, Capital Securities | 7.530% | 12/04/26 | A1 | 1,258,740 |
| 6,200 | Royal Bank of Scotland Group PLC | 9.118% | 3/31/49 | A1 | 6,952,891 |
| 4,000 | SocGen Real Estate Company LLC, 144A | 7.640% | 12/29/49 | A1 | 4,115,300 |
| 4,472 | St. George Funding Company LLC, 144A | 8.485% | 12/31/47 | Baa1 | 4,701,011 |
| 2,250 | Swedbank ForeningsSparbanken AB, 144A | 9.000% | 9/17/50 | A2 | 2,546,489 |
| 13,330 | Unicredito Italiano Capital Trust, 144A | 9.200% | 4/05/51 | A- | 15,107,729 |
| 3,800 | Union Planters Capital Trust A | 8.200% | 12/15/26 | A2 | 4,002,719 |
| 21,300 | Washington Mutual Preferred Funding Cayman, Series A-1, 144A | 7.250% | 3/15/49 | BBB | 20,873,617 |
| 7,200 | Washington Mutual Preferred Funding Delaware, Series A-1, 144A | 6.534% | 3/15/49 | BBB | 7,001,554 |
| 2,000 | Zions Institutional Capital Trust, Series A | 8.536% | 12/15/26 | Baa1 | 2,116,480 |
| | Total Commercial Banks | | | | 364,011,648 |
| | Diversified Financial Services - 2.7% | | | | |
| 9,000 | BNP Paribas Capital Trust | 7.200% | 12/31/49 | A+ | 9,092,142 |
| 1,000 | Citigroup Capital III | 7.625% | 12/01/36 | Aa2 | 1,193,252 |
| 2,500 | Fulton Capital Trust I | 6.290% | 2/01/36 | A3 | 2,381,433 |
| 10,000 | ING Capital Funding Trust III | 8.439% | 12/30/49 | A | 11,121,080 |
| 2,150 | JPM Capital Trust I | 7.540% | 1/15/27 | A1 | 2,254,114 |
| 3,000 | JPM Capital Trust II | 7.950% | 2/01/27 | A1 | 3,168,540 |
| 23,600 | Old Mutual Capital Funding, Notes | 8.000% | 6/22/53 | Baa2 | 24,614,989 |

| | | | | | |
|--------------------------------------|--|--|--|--|------------|
| Total Diversified Financial Services | | | | | 53,825,550 |
|--------------------------------------|--|--|--|--|------------|

Diversified Telecommunication Services - 1.2%

| | | | | | |
|--------|---|--------|---------|----|------------|
| 19,080 | Centaur Funding Corporation, Series B, 144A | 9.080% | 4/21/20 | A- | 23,665,163 |
|--------|---|--------|---------|----|------------|

Insurance - 3.6%

| | | | | | |
|--------|---|--------|---------|------|------------|
| 10,000 | American General Capital II | 8.500% | 7/01/30 | Aa3 | 12,822,914 |
| 4,980 | American General Institutional Capital, 144A | 8.125% | 3/15/46 | Aa3 | 6,147,471 |
| 14,250 | Mangrove Bay, Class 3, 144A | 6.102% | 7/15/33 | BBB+ | 13,808,387 |
| 3,750 | Prudential PLC | 6.500% | 6/29/49 | A | 3,737,479 |
| 13,500 | Sun Life Canada Capital Trust, Capital Securities, 144A | 8.526% | 5/06/47 | A+ | 14,404,062 |
| 20,000 | Zurich Capital Trust I, 144A | 8.376% | 6/01/37 | A- | 21,401,015 |
| | Total Insurance | | | | 72,321,328 |

Oil, Gas & Consumable Fuels - 0.6%

| | | | | | |
|--------|----------------------|--------|---------|------|------------|
| 12,355 | KN Capital Trust III | 7.630% | 4/15/28 | Baa3 | 13,212,103 |
|--------|----------------------|--------|---------|------|------------|

Thriffs & Mortgage Finance - 0.2%

| | | | | | |
|-------|--|--------|----------|------|-----------|
| 500 | Countrywide Capital Trust I | 8.000% | 12/15/26 | BBB+ | 507,127 |
| 3,365 | Great Western Financial Trust II, Series A | 8.206% | 2/01/27 | Baa1 | 3,560,914 |

Table of Contents

| | |
|---|-------------|
| Total Thrifts & Mortgage Finance | 4,068,041 |
| Total Capital Preferred Securities (cost \$664,869,631) | 638,913,514 |

| | | |
|---------------|------------------------|--------------|
| Shares | Description (1) | Value |
|---------------|------------------------|--------------|

Common Stocks - 0.4% (0.3% of Total Investments)**Aerospace & Defense - 0.1%**

| | | |
|--------|-----------------|--------------|
| 80,865 | AAR Corporation | \$ 2,303,035 |
|--------|-----------------|--------------|

Oil, Gas & Consumable Fuels - 0.1%

| | | |
|--------|---------------------------------|---------|
| 52,985 | McMoran Exploration Corporation | 945,252 |
|--------|---------------------------------|---------|

Semiconductors & Equipment - 0.2%

| | | |
|---------|------------------------------|-----------|
| 322,760 | Micron Technology, Inc., (4) | 4,751,027 |
|---------|------------------------------|-----------|

| | | |
|--|--|-----------|
| | Total Common Stocks (cost \$6,202,882) | 7,999,314 |
|--|--|-----------|

| | | |
|---------------|------------------------|--------------|
| Shares | Description (1) | Value |
|---------------|------------------------|--------------|

Investment Companies - 0.2% (0.1% of Total Investments)

| | | |
|--------|--|------------|
| 21,286 | Flaherty and Crumrine/Claymore Preferred Securities Income Fund Inc. | \$ 421,676 |
| 46,476 | Flaherty and Crumrine/Claymore Total Return Fund Inc. | 920,690 |
| 56,516 | John Hancock Preferred Income Fund III | 1,151,231 |
| 5,149 | John Hancock Preferred Income Fund II | 118,015 |
| 15,102 | Preferred and Corporate Strategies Fund Inc. | 307,024 |
| 67,966 | Preferred Income Strategies Fund Inc. | 1,323,978 |

| | | |
|--|---|-----------|
| | Total Investment Companies (cost \$4,312,666) | 4,242,614 |
|--|---|-----------|

**Principal
Amount**

| | | | | |
|--------------|------------------------|---------------|-----------------|--------------|
| (000) | Description (1) | Coupon | Maturity | Value |
|--------------|------------------------|---------------|-----------------|--------------|

Short-Term Investments - 2.1% (1.4% of Total Investments)

Repurchase Agreement with State Street Bank, dated 3/31/06, repurchase price \$42,108,323, collateralized by \$41,335,000, U.S. Treasury Notes,

| | | | | | |
|--|---|--------|---------|----|-----------------|
| \$ 42,093 | 5.500%, due 5/15/09, value \$42,936,731 | 4.250% | 4/03/06 | \$ | 42,093,415 |
| Total Short-Term Investments (cost \$42,093,415) | | | | | 42,093,415 |
| Total Investments (cost \$2,923,973,528) 146.6% | | | | | 2,945,948,597 |
| Other Assets Less Liabilities 1.4% | | | | | 28,327,454 |
| Preferred Shares, at Liquidation Value (48.0)% | | | | | (965,000,000) |
| Net Assets Applicable to Common Shares 100% | | | | | \$2,009,276,051 |

Interest Rate Swaps outstanding at March 31, 2006:

| Counterparty | Notional Amount | Fixed Rate Paid by the Fund | Fixed Rate Frequency | Floating Rate Received by the Fund | Floating Rate Frequency | Termination Date | Unrealized Appreciation (Depreciation) |
|----------------------|-----------------|-----------------------------|----------------------|------------------------------------|-------------------------|------------------|--|
| | | | | | | | |
| JPMorgan | \$97,000,000 | 3.395% | Monthly | 4.661% | Monthly | 7/06/06 | \$ 501,023 |
| JPMorgan | 97,000,000 | 3.360% | Monthly | 4.800% | Monthly | 1/23/09 | 4,715,359 |
| Morgan Stanley | 97,000,000 | 3.048% | Monthly | 4.800% | Monthly | 1/23/08 | 3,659,174 |
| Royal Bank of Canada | 97,000,000 | 2.679% | Monthly | 4.800% | Monthly | 1/23/07 | 2,001,504 |
| | | | | | | | \$ 10,877,060 |

- (1) All percentages shown in the Portfolio of Investments are based on net assets applicable to Common shares unless otherwise noted.
- (2) 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.
- (3) Investment is eligible for the Dividends Received Deduction.
- (4) Non-income producing.

(5) 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.

Table of Contents

Income Tax Information

The following information is presented on an income tax basis based on the information currently available to the Fund. 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 March 31, 2006, the cost of investments was \$2,951,302,404.

Gross unrealized appreciation and gross unrealized depreciation of investments at March 31, 2006, were as follows:

| | |
|---|-------------------|
| Gross unrealized: | |
| Appreciation | \$92,358,447 |
| Depreciation | (97,712,254) |
| | |
| Net unrealized appreciation (depreciation) of investments | \$(5,353,807) |

Table of Contents

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.

Table of Contents

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 May 30, 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 May 30, 2006

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

Date May 30, 2006

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