

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-21338

Nicholas-Applegate Convertible & Income Fund II
(Exact name of registrant as specified in charter)

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

New York 10105
(Zip code)

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

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

Date of fiscal year end: February 28, 2007

Date of reporting period: February 28, 2007

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

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

Item 1. Report to Shareholders

Nicholas-Applegate Convertible & Income Fund

Nicholas-Applegate Convertible & Income Fund II

Annual Report
February 28, 2007

Contents

| | |
|--|-------|
| Letter to Shareholders | 1 |
| Performance & Statistics | 2-5 |
| Schedules of Investments | 6-16 |
| Statements of Assets and Liabilities | 17 |
| Statements of Operations | 18 |
| Statements of Changes in Net Assets | 19 |
| Notes to Financial Statements | 20-25 |
| Financial Highlights | 26-27 |
| Report of Independent Registered Public Accounting Firm | 28 |
| Tax Information/Corporate Changes | 29 |
| Privacy Policy/Proxy Voting | |
| Policies & Procedures | 30 |
| Dividend Reinvestment Plan | 31 |
| Board of Trustees | 32-33 |
| Principal Officers | 34 |

Nicholas-Applegate Convertible & Income Funds Letter to Shareholders

April 16, 2007

Dear Shareholder:

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

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

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

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

Sincerely,
Hans W. Kertess
Chairman

Brian S. Shlissel
President & Chief Executive Officer

Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 28, 2007 (unaudited)

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

Nicholas-Applegate Convertible & Income Fund Performance & Statistics

February 28, 2007 (unaudited)

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

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

(1) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all income dividends and capital gain distributions have been reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual return.

An investment in the Fund involves risk, including the loss of principal. Total return, price, yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is equal to the total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current per share dividend to common shareholders by the market price per common share at February 28, 2007.

Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 28, 2007 (unaudited)

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

Nicholas-Applegate Convertible & Income Fund II Performance & Statistics

February 28, 2007 (unaudited)

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

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

(1) **Past performance is no guarantee of future results.** Total return is calculated by subtracting the value of an investment in the Fund at the beginning of each specified period from the value at the end of the period and dividing the remainder by the value of the investment at the beginning of the period and expressing the result as a percentage. The calculation assumes that all of the Fund's income dividends and capital gain distributions have been reinvested at prices obtained under the dividend reinvestment plan. Total return does not reflect broker commissions or sales charges. Total return for a period of less than one year is not annualized. Total return for a period of more than one year represents the average annual return.

An investment in the Fund involves risk, including the loss of principal. Total return, market price, market yield and net asset value will fluctuate with changes in market conditions. This data is provided for information only and is not intended for trading purposes. Closed-end funds, unlike open-end funds, are not continuously offered. There is a one-time public offering and once issued, shares of closed-end funds are sold in the open market through a stock exchange. Net asset value is equal to the total assets applicable to common shareholders less total liabilities divided by the number of common shares outstanding. Holdings are subject to change daily.

(2) Market Price Yield is determined by dividing the annualized current per share dividend to common shareholders by the market price per common share at February 28, 2007.

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

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

Edgar Filing: NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND II - Form N-CSR

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

6 Nicholas-Applegate Convertible & Income Funds Annual Report | 2.28.07

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

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

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

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

Edgar Filing: NICHOLAS APPLGATE CONVERTIBLE & INCOME FUND II - Form N-CSR

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

B2

33,377,719

76,131,693

8 Nicholas-Applegate Convertible & Income Funds Annual Report | 2.28.07

Nicholas-Applegate Convertible & Income Fund Schedule of Investments

February 28, 2007

| Shares (000) | | Credit Rating (Moody's/S&P)* | Value |
|-----------------|---|---------------------------------|---------------|
| | Financial Services 13.7% | | |
| 560 | Citigroup Funding, Inc., 4.583%, 9/27/08, Ser. GNW (c) | Aa1 /AA | \$ 18,586,400 |
| 585 | E*Trade Financial Corp., 6.125%, 11/18/08 | Ba3 /NR | 17,623,125 |
| | Goldman Sachs Group, Inc., | | |
| 684 | 12.00%, 12/12/07, Ser. CSCO (Cisco Systems, Inc.) (d) | NR/NR | 17,442,807 |
| 794 | 20.00%, 12/31/07 (Time Warner, Inc.) (d) | NR/NR | 15,832,791 |
| 450 | 20.00%, 3/6/08 (EchoStar Communications Corp.) (d) | Aa3 /NR | 18,447,480 |
| 325 | Lazard Ltd, 6.625%, 5/15/08 | Ba1 /NR | 14,528,272 |
| | Lehman Brothers Holdings, Inc., | | |
| 610 | 6.25%, 10/15/07, Ser. GIS (General Mills, Inc.) (d) | A1 /A+ | 16,628,600 |
| 261 | 20.00%, 8/15/07, Ser. UTX (United Technologies Corp.) (d) | A1 /A+ | 15,394,857 |
| 434 | 20.00%, 2/24/08 (Hewlett-Packard Co.) (d) | A1 /A+ | 17,566,470 |
| | Morgan Stanley, | | |
| 540 | 20.00%, 6/2/07 (The Walt Disney Co.) (d) | Aa3 /A+ | 15,792,300 |