MORGAN STANLEY
Form 424B2
February 20, 2019

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	*Maximum Aggregate Offering Price*	*Amount of Registration Fee*
Jump Securities with Auto-Callable Feature due 2025	$1,578,000	$191.25

February 2019

Pricing Supplement No. 1,523

Registration Statement Nos. 333-221595; 333-221595-01

Dated February 15, 2019

Filed pursuant to Rule 424(b)(2)

Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. Equities

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The securities are unsecured obligations of Morgan Stanley Finance LLC (“MSFL”), fully and unconditionally guaranteed by Morgan Stanley, and have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The securities do not guarantee the repayment of principal and do not provide for the regular payment of interest. The securities will be automatically redeemed if the index closing value of **each** of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index, which we refer to as the underlying indices, on any of the annual determination dates is greater than or equal to 90% of its respective initial index value, which we refer to as the respective call threshold level, for an early redemption payment that will increase over the term of the securities, as described below. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final index value of each underlying index is **greater than or equal to** its respective call threshold level, investors will receive a fixed positive return, as set forth below. If the securities have not previously been redeemed and the final index value of **any underlying index is less than** its respective call threshold level but the final index value of **each underlying index is greater than or equal to** 70% of its respective initial index value, which we refer to as the respective downside threshold level, investors will receive a payment at maturity of $1,000 per $1,000 security. However, if the securities are not redeemed prior to maturity and the final index value of **any underlying index is** less than its respective downside threshold level, investors will be exposed to the decline in the worst performing underlying index on a 1-to-1 basis, and will receive a payment at maturity that is less than 70% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.** These long-dated securities are for investors who are willing to forego current income and participation in the appreciation of any underlying index in exchange for the possibility of receiving an early redemption payment or payment at maturity greater than the stated principal amount if each underlying index closes at or above the respective call threshold level on an annual determination date or the final determination date, respectively. Because all payments on the securities are based on the worst performing of the underlying indices, a decline beyond the respective downside threshold level of any underlying index will result in a significant loss of your investment, even if the other underlying indices have appreciated or have not declined as much. Investors will not participate in any appreciation of any underlying index. The securities are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

FINAL TERMS

Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Underlying indices:	S&P 500® Index (the "SPX Index"), Dow Jones Industrial Average℠ (the "INDU Index") and Russell 2000® Index (the "RTY Index")
Aggregate principal amount:	$1,578,000
Stated principal amount:	$1,000 per security
Issue price:	$1,000 per security
Pricing date:	February 15, 2019
Original issue date:	February 22, 2019 (4 business days after the pricing date)
Maturity date:	March 12, 2025
Early redemption:	If, on any annual determination date, beginning on March 4, 2020, the index closing value of **each** underlying index is **greater than or equal to** its respective call threshold level, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date.

	The securities will not be redeemed early on any early redemption date if the index closing value of any underlying index is below its respective call threshold level on the related determination date.
Early redemption payment:	The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 7.50% *per annum*) for each annual determination date, as set forth under "Determination Dates and Early Redemption Payments" below. No further payments will be made on the securities once they have been redeemed.
Determination dates:	Annually. See "Determination Dates and Early Redemption Payments" below. The determination dates are subject to postponement for non-index business days and certain market disruption events.
Early redemption dates:	The third business day after the relevant determination date
Downside threshold level:	With respect to the SPX Index, 1,942.92, which is 70% of its initial index value With respect to the INDU Index, 18,118.275, which is 70% of its initial index value With respect to the RTY Index, 1,098.473, which is approximately 70% of its initial index value
Call threshold level:	With respect to the SPX Index, 2,498.04, which is 90% of its initial index value With respect to the INDU Index, 23,294.925, which is 90% of its initial index value

	With respect to the RTY Index, 1,412.322, which is approximately 90% of its initial index value
Payment at maturity:	If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows: · If the final index value of **each underlying index** is **greater than or equal to** its respective call threshold level: $1,450 · If the final index value of **any underlying index is less than** its respective call threshold level but the final index value of **each underlying index is greater than or equal to** its respective downside threshold level: $1,000 · If the final index value of **any underlying index** is **less than** its respective downside threshold level: $1,000 × index performance factor of the worst performing underlying index **Under these circumstances, you will lose more than 30%, and possibly all, of your investment.**

Terms continued on the following page

Agent:	Morgan Stanley & Co. LLC (“MS & Co.”), an affiliate of MSFL and a wholly owned subsidiary of Morgan Stanley. See “Supplemental information regarding plan of distribution; conflicts of interest.”

Estimated value on the pricing date:	$960.40 per security. See "Investment Summary" beginning on page 3.		
Commissions and issue price:	**Price to public**	**Agent's commissions(1)**	**Proceeds to us(2)**
Per security	$1,000	$22.50	$977.50
Total	$1,578,000	$35,505	$1,542,495

We also sold, pursuant to Pricing Supplement No. 1,524, a separate issuance of securities, being sold only to fee-based advisory accounts, with terms similar to those of this issuance but with higher early redemption payment amounts.

(1) Selected dealers and their financial advisors will collectively receive from the agent, Morgan Stanley & Co. LLC, a fixed sales commission of $22.50 for each security they sell. In addition, selected dealers and their financial advisors will receive a structuring fee of $4.00 for each security. See "Supplemental information regarding plan of distribution; conflicts of interest." For additional information, see "Plan of Distribution (Conflicts of Interest)" in the accompanying product supplement.

(2) See "Use of proceeds and hedging" on page 23.

The securities involve risks not associated with an investment in ordinary debt securities. See "Risk Factors" beginning on page 9.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see "Additional Terms of the Securities" and "Additional Information About the Securities" at the end of this document.

As used in this document, "we," "us" and "our" refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Auto-Callable Securities dated November 16, 2017 Index Supplement dated November 16, 2017 Prospectus dated November 16, 2017

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

Terms continued from previous page:

	With respect to the SPX Index, 2,775.60, which is its index closing value on the pricing date
Initial index value:	With respect to the INDU Index, 25,883.25, which is its index closing value on the pricing date
	With respect to the RTY Index, 1,569.247, which is its index closing value on the pricing date
Final index value:	With respect to each underlying index, the respective index closing value on the final determination date
Worst performing underlying index:	The underlying index with the largest percentage decrease from the respective initial index value to the respective final index value
Index performance factor:	With respect to each underlying index, the final index value *divided by* the initial index value
CUSIP / ISIN:	61768DH24 / US61768DH247
Listing:	The securities will not be listed on any securities exchange.

Determination Dates and Early Redemption Payments

Determination Dates	Early Redemption Payments (per $1,000 Security)
1st determination date: 3/4/2020	$1,075
2nd determination date: 3/3/2021	$1,150
3rd determination date: 3/2/2022	$1,225
4th determination date: 3/1/2023	$1,300

5th determination date: 3/6/2024	$1,375
Final determination date: 3/5/2025	See "Payment at maturity" above.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

Investment Summary

Jump Securities with Auto-Callable Feature

Principal at Risk Securities

The Jump Securities with Auto-Callable Feature due March 12, 2025 All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index (the "securities") do not provide for the regular payment of interest. Instead, the securities will be automatically redeemed if the index closing value of **each of** the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index on any annual determination date is greater than or equal to its respective call threshold level, for an early redemption payment that will increase over the term of the securities, as described below. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final index value of each underlying index is **greater than or equal to** its respective call threshold level, investors will receive a fixed positive return, as set forth below. If the securities have not previously been redeemed and the final index value of **any** underlying index is **less than** its respective call threshold level but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level, investors will receive a payment of maturity of $1,000 per $1,000 security. However, if the securities are not redeemed prior to maturity and the final index value of **any underlying index is** less than its respective downside threshold level, investors will be exposed to the decline in the worst performing underlying index on a 1-to-1 basis, and will receive a payment at maturity that is less than 70% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.** Investors will not participate in any appreciation in any underlying index.

Maturity:	Approximately 6 years

Automatic early redemption:	If, on any annual determination date, the index closing value of each underlying index is greater than or equal to its respective call threshold level, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date.
Early redemption payment:	The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 7.50% *per annum*) for each annual determination date, as follows: · 1st determination date: $1,075 · 2nd determination date: $1,150 · 3rd determination date: $1,225 · 4th determination date: $1,300 · 5th determination date: $1,375 No further payments will be made on the securities once they have been redeemed.
Payment at maturity:	If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows: · If the final index value of **each** underlying index is **greater than or equal to** its respective call threshold level: $1,450 · If the final index value of **any** underlying index is **less than** its respective call threshold level but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level: $1,000 · If the final index value of **any** underlying index is **less than** its respective downside threshold level:

$1,000 × index performance factor of the worst performing underlying index

Under these circumstances, investors will lose a significant portion or all of their

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

investment. Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.

The original issue price of each security is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date is less than $1,000. We estimate that the value of each security on the pricing date is $960.40.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying indices. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying indices, instruments based on the underlying indices, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the early redemption payment amounts, the call threshold levels and the downside threshold levels, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities, and, if it once chooses to make a market, may cease doing so at any time.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

Key Investment Rationale

The securities do not provide for the regular payment of interest. Instead, the securities will be automatically redeemed if the index closing value of **each of** the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index on any annual determination date is greater than or equal to its respective call threshold level.

The following scenarios are for illustrative purposes only to demonstrate how an automatic early redemption payment or the payment at maturity (if the securities have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur. Accordingly, the securities may or may not be redeemed prior to maturity and the payment at maturity may be less than 70% of the stated principal amount of the securities and may be zero.

Scenario 1: The securities are redeemed prior to maturity	When each underlying index closes at or above its respective call threshold level on any annual determination date, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date. Investors do not participate in any appreciation in any underlying index.
Scenario 2: The securities are not redeemed prior to maturity, and investors receive a fixed positive return at maturity	This scenario assumes that any underlying index closes below its respective call threshold level on each of the annual determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, each underlying index closes at or above its respective call threshold level. At maturity, investors will receive a cash payment equal to $1,450 per stated principal amount. Investors do not participate in any appreciation in any underlying index.
Scenario 3: The securities are not redeemed prior to maturity, and investors receive the return of	This scenario assumes that any underlying index closes below its respective call threshold level on each of the annual determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, at least one underlying index closes below its respective call threshold level, but the final index value of each underlying index is greater than or equal to its respective downside threshold

principal at maturity	level. At maturity, investors will receive a cash payment equal to $1,000 per $1,000 security.
Scenario 4: The securities are not redeemed prior to maturity, and investors suffer a substantial loss of principal at maturity	This scenario assumes that any underlying index closes below its respective call threshold level on each of the annual determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, any underlying index closes below its respective downside threshold level. At maturity, investors will receive an amount equal to the stated principal amount multiplied by the index performance factor of the worst performing underlying index. Under these circumstances, the payment at maturity will be significantly less than the stated principal amount and could be zero.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples are for illustrative purposes only. Whether the securities are redeemed prior to maturity will be determined by reference to the index closing value of each underlying index on each of the annual determination dates, and the payment at maturity, if any, will be determined by reference to the index closing value of each underlying index on the final determination date. The actual initial index values, call threshold levels and downside threshold levels are set forth on the cover of this document. Some numbers appearing in the examples below have been rounded for ease of analysis. All payments on the securities are subject to our credit risk. The below examples are based on the following terms:

Early Redemption Payment:	The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 7.50% *per annum*) for each annual determination date, as follows: · 1st determination date: \$1,075 · 2nd determination date: \$1,150 · 3rd determination date: \$1,225 · 4th determination date: \$1,300 · 5th determination date: \$1,375 No further payments will be made on the securities once they have been redeemed.
Payment at Maturity	

If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows:

· If the final index value of **each** underlying index is **greater than or equal to** its respective call threshold level:

$1,450

· If the final index value of **any** underlying index is **less than** its respective call threshold level but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level:

$1,000

· If the final index value of **any** underlying index is **less than** its respective downside threshold level:

$1,000 × index performance factor of the worst performing underlying index.

Under these circumstances, you will lose a significant portion or all of your investment.

Stated Principal Amount:	$1,000
Hypothetical Initial Index Value:	With respect to the SPX Index: 2,500 With respect to the INDU Index: 24,000 With respect to the RTY Index: 1,200
Hypothetical Downside Threshold Level:	With respect to the SPX Index: 1,750, which is 70% of its hypothetical initial index value With respect to the INDU Index: 16,800, which is 70% of its hypothetical initial index value With respect to the RTY Index: 840, which is 70% of its hypothetical initial index value
Hypothetical Call Threshold Level:	With respect to the SPX Index: 2,250, which is 90% of its hypothetical initial index value

With respect to the INDU Index: 21,600, which is 90% of its hypothetical initial index value

With respect to the RTY Index: 1,080, which is 90% of its hypothetical initial index value

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

<u>Automatic Call:</u>

Example 1 — the securities are redeemed following the second determination date

Date	SPX Index Closing Value	INDU Index Closing Value	RTY Index Closing Value	Payment (per Security)
1st Determination Date	2,000 (**below** the call threshold level)	26,000 (**at or above** the call threshold level)	1,400 (**at or above** the call threshold level)	--
2nd Determination Date	2,800 (**at or above** the call threshold level)	27,500 (**at or above** the call threshold level)	1,750 (**at or above** the call threshold level)	$1,150

In this example, on the first determination date, the index closing values of two of the underlying indices are at or above their respective call threshold levels, but the index closing value of the other underlying index is below its respective call threshold level. Therefore, the securities are not redeemed. On the second determination date, the index closing value of each underlying index is at or above the respective call threshold level. Therefore, the securities are automatically redeemed on the second early redemption date. Investors will receive a payment of $1,150 per security on the related early redemption date. No further payments will be made on the securities once they have been redeemed, and investors do not participate in the appreciation in any underlying index.

How to calculate the payment at maturity:

In the following examples, one or more of the underlying indices close below the respective call threshold level(s) on each of the annual determination dates, and, consequently, the securities are not automatically redeemed prior to, and remain outstanding until, maturity.

	SPX Index Final Index Value	INDU Index Final Index Value	RTY Index Final Index Value	Payment at Maturity (per Security)
Example 1:	4,000 (**at or above** its call threshold level)	30,000 (**at or above** its call threshold level)	2,500 (**at or above** its call threshold level)	$1,450
Example 2:	3,000 (**at or above** its call threshold level and downside threshold level)	19,200 (**below** its call threshold level but **at or above** its downside threshold level)	1,320 (**at or above** its call threshold level and downside threshold level)	$1,000
Example 3:	3,000 (**at or above** its call threshold level and downside threshold level)	30,000 (**at or above** its call threshold level and downside threshold level)	480 (**below** its downside threshold level)	$1,000 x (480 / 1,200) = $400
Example 4:	3,000 (**at or above** its call threshold level and downside threshold level)	4,800 (**below** its downside threshold level)	900 (**below** its call threshold level but **at or above** its downside threshold level)	$1,000 x (4,800 / 24,000) = $200
Example 5:	500 (**below** its downside threshold level)	10,800 (**below** its downside threshold level)	600 (**below** its downside threshold level)	$1,000 x (500 / 2,500) = $200

In example 1, the final index value of each underlying index is at or above its respective call threshold level. Therefore, investors receive at maturity a fixed positive return. Investors do not participate in any appreciation in any underlying index.

In example 2, the final index values of two of the underlying indices are at or above their call threshold levels and downside threshold levels, but the final index value of the other underlying index is below its call threshold level and at or above its downside threshold level. The SPX Index has increased 20% from its initial index value to its final index value, the RTY Index has increased 10% from its initial index value to its final index value and the INDU Index has declined 20% from its initial index value to its final index value. Therefore, investors receive $1,000 per security at maturity. Investors do not participate in any appreciation in any underlying index.

In example 3, the final index values of two of the underlying indices are at or above their call threshold levels and downside threshold levels, but the final index value of the other underlying index is below its respective downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying index at maturity. The SPX Index has increased 20% from its initial index value to its final index value, the INDU Index has increased 25% from its initial index value to its final index value and the RTY Index has declined 60% from its initial index value to its final index value. Therefore, investors receive at maturity an amount equal to the stated principal amount times the index performance factor of the RTY Index, which is the worst performing underlying index in this example.

In example 4, the final index value of one of the underlying indices is at or above its call threshold level and downside threshold level, the final index value of one of the underlying indices is below its call threshold level and at or above its downside threshold level, and the final index value of the other underlying index is below its respective downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying index at maturity. The SPX Index has increased 20% from its initial index value to its final index value, the RTY Index has declined 25% from its initial index value to its final index value and the INDU Index has declined 80% from its initial index value to its final index value. Therefore, investors receive at maturity an amount equal to the stated principal amount times the index performance factor of the INDU Index, which is the worst performing underlying index in this example.

In example 5, the final index value of each underlying index is below its respective downside threshold level, and investors receive at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index. The SPX Index has declined 80% from its initial index value to its final index value, the INDU Index has declined 55% from its initial index value to its final index value and the RTY Index has declined 50% from its initial index value to its final index value. Therefore, the payment at maturity equals the stated principal amount *times* the index performance factor of the SPX Index, which is the worst performing underlying index in this example.

If the final index value of any underlying index is below its respective downside threshold level, you will be exposed to the downside performance of the worst performing underlying index at maturity, and your payment at maturity will be less than 70% of the stated principal amount per security and could be zero.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

Risk Factors

The following is a list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement, index supplement and prospectus. We also urge you to consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities do not pay interest or guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that they do not pay interest or guarantee the return of any of the principal amount at maturity. If the securities have not been automatically redeemed prior to maturity and if the final index value of **any underlying index** is less than its respective downside threshold level of 70% of its initial index value, you will be exposed to the decline in the value of the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis, and you will receive for each security that you hold at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index. In this case, the payment at maturity will be less than 70% of the stated principal amount and could be zero.

§ **The appreciation potential of the securities is limited by the fixed early redemption payment or payment at maturity specified for each determination date.** The appreciation potential of the securities is limited to the fixed early redemption payment specified for each determination date if each underlying index closes at or above its respective call threshold level on any annual determination date, or to the fixed upside payment at maturity if the securities have not been redeemed and the final index value of each underlying index is at or above its call threshold level. In all cases, you will not participate in any appreciation of any underlying index, which could be significant.

§ **You are exposed to the price risk of each underlying index.** Your return on the securities is not linked to a basket consisting of each underlying index. Rather, it will be contingent upon the independent performance of each underlying index. Unlike an instrument with a return linked to a basket of underlying assets, in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to each underlying index. Poor performance by **any underlying index** over the term of the securities may negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying indices. To receive an early redemption payment, **each underlying index** must close at or above its respective call threshold level on the applicable determination date. In addition, if the securities have not been redeemed and **any underlying index** has declined to below its respective downside threshold level as of the final determination date, you will be **fully exposed** to the decline in the worst performing underlying index over the term of the securities on a 1-to-1 basis, even if the other underlying indices have appreciated or have not declined as much. Under this scenario, the value of any such payment at maturity will be less than 70% of the stated principal amount and could be zero. Accordingly, your investment is subject to the price risk of each underlying index.

§ **The market price will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. We expect that generally the level of interest rates available in the market and the value of each underlying index on any day, including in relation to its respective call threshold level and downside threshold level, will affect the value of the securities more than any other factors. Other factors that may influence the value of the securities include:

o the volatility (frequency and magnitude of changes in value) of the underlying indices,

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the component stocks of the underlying indices or securities markets generally and which may affect the value of each underlying index,

o dividend rates on the securities underlying the underlying indices,

o the time remaining until the securities mature,

o interest and yield rates in the market,

o the availability of comparable instruments,

- o the composition of the underlying indices and changes in the constituent stocks of such indices, and
- o any actual or anticipated changes in our credit ratings or credit spreads.

Generally, the longer the time remaining to maturity, the more the market price of the securities will be affected by the other factors described above. Some or all of these factors will influence the price that you will receive if you sell your securities prior to maturity. For example, you may have to sell your securities at a substantial discount from the stated principal amount of $1,000 per security if the price of any underlying index at the time of sale is near or below its downside threshold level or if market interest rates rise.

You cannot predict the future performance of any underlying index based on its historical performance. The value(s) of one or more of the underlying indices may decrease so that you will receive no return on your investment and receive a payment at maturity that is less than 70% of the stated principal amount. See "S&P 500® Index Overview," "Dow Jones Industrial Average℠ Overview" and "Russell 2000® Index Overview" below**.**

§ **The securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities.** You are dependent on our ability to pay all amounts due on the securities upon an early redemption or at maturity and therefore you are subject to our credit risk. If we default on our obligations under the securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the securities.

§ **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated *pari passu* with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

§ **The securities are linked to the Russell 2000® Index and are subject to risks associated with small-capitalization companies.** As the Russell 2000® Index is one of the underlying indices, and the Russell 2000® Index consists of stocks issued by companies with relatively small market capitalization, the securities are linked to the value of small-capitalization companies. These companies often have greater stock price volatility, lower trading volume and less liquidity than large-capitalization companies and therefore the Russell 2000® Index may be more volatile than indices that consist of stocks issued by large-capitalization companies. Stock prices of small-capitalization companies are also more vulnerable than those of large-capitalization companies to adverse business and economic developments, and the stocks of small-capitalization companies may be thinly traded. In addition, small capitalization companies are typically less well-established and less stable financially than large-capitalization companies and may depend on a small number of key personnel, making them more vulnerable to loss of personnel. Such companies tend to have smaller revenues, less diverse product lines, smaller shares of their product or service markets, fewer financial resources and less competitive strengths than large-capitalization companies and are more susceptible to adverse developments related to their products.

§ **Not equivalent to investing in the underlying indices.** Investing in the securities is not equivalent to investing in any underlying index or the component stocks of any underlying index. Investors in the securities will not participate in any positive performance of any underlying index, and will not have voting rights or rights to receive dividends or other distributions or any other rights with respect to stocks that constitute any underlying index.

§ **Reinvestment risk.** The term of your investment in the securities may be shortened due to the automatic early redemption feature of the securities. If the securities are redeemed prior to maturity, you will receive no further payments on the securities and may be forced to invest in a lower interest rate environment and may not be able to reinvest at comparable terms or returns.

§ **The securities will not be listed on any securities exchange and secondary trading may be limited, and accordingly, you should be willing to hold your securities for the entire 6-year term of the securities.** The securities will not be listed on any securities exchange. Therefore, there may be little or no secondary market for the securities. MS & Co. may, but is not obligated to, make a market in the securities and, if it once chooses to make a market, may cease doing so at any time. When it does make a market, it will generally do so for transactions of routine secondary market size at prices based on its estimate of the current value of the securities, taking into account its bid/offer spread, our credit spreads, market volatility, the notional size of the proposed sale, the cost of unwinding any related hedging positions, the time remaining to maturity and the likelihood that it will be able to resell the securities. Even if there is a secondary market, it may not provide enough liquidity to allow you to trade or sell the securities easily. Since other broker-dealers may not participate significantly in the secondary market for the securities, the price at which you may be able to trade your securities is likely to depend on the price, if any, at which MS & Co. is willing to transact. If, at any time, MS & Co. were to cease making a market in the securities, it is likely that there would be no secondary market for the securities. Accordingly, you should be willing to hold your securities to maturity.

§ **The rate we are willing to pay for securities of this type, maturity and issuance size is likely to be lower than the rate implied by our secondary market credit spreads and advantageous to us. Both the lower rate and the inclusion of costs associated with issuing, selling, structuring and hedging the securities in the original issue price reduce the economic terms of the securities, cause the estimated value of the securities to be less than the original issue price and will adversely affect secondary market prices.** Assuming no change in market conditions or any other relevant factors, the prices, if any, at which dealers, including MS & Co., may be willing to purchase the securities in secondary market transactions will likely be significantly lower than the original issue price, because secondary market prices will exclude the issuing, selling, structuring and hedging-related costs that are included in the original issue price and borne by you and because the secondary market prices will reflect our secondary market credit spreads and the bid-offer spread that any dealer would charge in a secondary market transaction of this type as well as other factors.

The inclusion of the costs of issuing, selling, structuring and hedging the securities in the original issue price and the lower rate we are willing to pay as issuer make the economic terms of the securities less favorable to you than they otherwise would be.

However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, and to our secondary market credit spreads, it would do so based on values higher than the estimated value, and we expect that those higher values will also be reflected in your brokerage account statements.

§ **The estimated value of the securities is determined by reference to our pricing and valuation models, which may differ from those of other dealers, and is not a maximum or minimum secondary market price.** These pricing and valuation models are proprietary and rely in part on subjective views of certain market inputs and certain assumptions about future events, which may prove to be incorrect. As a result, because there is no market-standard way to value these types of securities, our models may yield a higher estimated value of the securities than those generated by others, including other dealers in the market, if they attempted to value the securities. In addition, the estimated value on the pricing date does not represent a minimum or maximum price at which dealers, including MS & Co., would be willing to purchase your securities in the secondary market (if any exists) at any time. The value of your securities at any time after the date of this document will vary based on many factors that cannot be predicted with accuracy, including our creditworthiness and changes in market conditions. See also “The market price will be influenced by many unpredictable factors” above.

§ **Hedging and trading activity by our affiliates could potentially affect the value of the securities.** One or more of our affiliates and/or third-party dealers have carried out, and will continue to carry out, hedging activities related to the securities (and to other instruments linked to the underlying indices or their component stocks), including trading in the stocks that constitute the underlying indices as well as in other instruments related to the underlying indices. As a

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due March 12, 2025

All Payments on the Securities Based on the Worst Performing of the S&P 500® Index, the Dow Jones Industrial Average℠ and the Russell 2000® Index

Principal at Risk Securities

 D VALIGN=TOP>

Michaels Stores, Inc., 10.00%, 11/1/14	B2/CCC	9,682,875	13,355
Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B	13,087,900	

		3,309
R.H. Donnelley, Inc., 11.75%, 5/15/15 (a) (b)	B1/B+	2,448,660
		12,785
Rite Aid Corp., 8.625%, 3/1/15	Caa1/CCC+	8,310,250
		11,440
Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B	Caa3/CCC	10,810,800

58,959,110

Semi-Conductors 1.7%

13,565	Amkor Technology, Inc., 9.25%. 6/1/16	B1/B+	13,158,050
12,405	Freescale Semiconductor, Inc., 10.125%, 12/15/16	B3/B-	9,582,863

22,740,913

Software 0.8%

		12,395
First Data Corp., 9.875%, 9/24/15 (a) (b)	B3/B	10,706,181

Nicholas-Applegate Convertible & Income Fund **Schedule of Investments**
August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
	Telecommunications 8.1%		
$ 9,705	Centennial Cellular Operating Co., 10.125%, 6/15/13	B2/B	$ 10,165,988
5,195	Centennial Communications Corp., 10.00%, 1/1/13	Caa1/CCC+	5,428,775
9,150	Cincinnati Bell, Inc., 8.375%, 1/15/14	B2/B-	8,703,937
10,365	Cricket Communications, Inc., 9.375%, 11/1/14	B3/B-	10,326,131
13,540	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B	Caa3/CCC-	2,437,200
13,555	Level 3 Financing, Inc., 12.25%, 3/15/13	Caa1/CCC+	13,893,875
11,735	MasTec, Inc., 7.625%, 2/1/17	B1/B+	10,092,100
15,700	Millicom International Cellular S.A., 10.00%, 12/1/13	B1/BB	16,642,000
12,680	Nortel Networks Ltd., 10.75%, 7/15/16	B3/B-	11,792,400
5,385	Sprint Capital Corp., 8.75%, 3/15/32	Baa3/BB	5,249,686
14,220	West Corp., 11.00%, 10/15/16	Caa1/B-	11,198,250
			105,930,342
	Theaters 1.0%		
12,940	AMC Entertainment, Inc., 11.00%, 2/1/16	B2/CCC+	13,198,800
	Travel Services 0.9%		
14,560	Travelport LLC, 11.875%, 9/1/16	Caa1/CCC+	11,029,200
	Total Corporate Bonds & Notes (cost-$620,585,635)		562,214,116

CONVERTIBLE PREFERRED STOCK 40.5%

Shares (000)			
	Agriculture 1.6%		
	Bunge Ltd.,		
125	4.875%, 12/31/49	Ba1/BB	14,212,875
8	5.125%, 12/1/10	NR/BB	6,820,000
			21,032,875
	Automotive 0.5%		
554	General Motors Corp., 5.25%, 3/6/32, Ser. B	Caa2/B-	6,414,162
	Banking 5.7%		
	Bank of America Corp.,		
22	7.25%, 12/31/49, Ser. L	A1/A+	20,428,914
308	10.00%, 5/11/09, Ser. JNJ (Johnson & Johnson) (e)	Aa2/AA	21,245,224
	Wachovia Corp.,		
546	13.15%, 3/30/09, Ser. GE (General Electric Co.) (e)	A1/AA-	15,206,261
440	14.10%, 4/1/09, Ser. JPM (JP Morgan Chase & Co.) (e)	A1/AA-	16,586,159
5	Washington Mutual, Inc., 7.75%, 12/31/49 (f)	C/D	1,807,500

			75,274,058
	Commercial Services 0.7%		
305	United Rentals, Inc., 6.50%, 8/1/28	B3/B-	9,220,563
	Electric 4.4%		
441	AES Trust III, 6.75%, 10/15/29	B3/B-	20,384,688
322	Entergy Corp., 7.625%, 2/17/09	NR/BBB	19,585,440
56	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	17,678,138
			57,648,266

Nicholas-Applegate Convertible & Income Fund **Schedule of Investments**
August 31, 2008 (unaudited)

Shares (000)		Credit Rating (Moody s/S&P)		Value
	Financial Services 13.2%			
419	Citigroup, Inc., 6.50%, 12/31/49, Ser. T	A2/A	$	17,853,518
	Credit Suisse Group,			
714	11.00%, 3/16/09, Ser. MSFT (Microsoft Corp.) (e)	Aa1/AA-		18,453,119
334	11.00%, 4/25/09, Ser. KO (Coca-Cola Corp.) (e)	Aa1/AA-		19,199,935
	Eksportfinans A/S,			
419	10.00%, 3/12/09, Ser. HPQ (Hewlett Packard Co.) (e)	Aaa/AA+		18,178,319
121	10.00%, 6/13/09, Ser. AAPL (Apple, Inc.) (e)	Aaa/AA+		20,693,224
1,216	13.00%, 11/1/08, Ser. TWX (Time Warner, Inc.) (e)	Aaa/A+		18,222,421
830	Goldman Sachs Group, Inc., 9.75%, 12/19/08, Ser. CSCO (Cisco Systems, Inc.) (e)	Aa3/NR		19,163,760
	Lehman Brothers Holdings, Inc.,			
892	6.00%, 10/12/10, Ser. GIS (General Mills, Inc.) (e) (g)	B3/NR		21,077,424
139	28.00%, 3/6/09, Ser. RIG (Transocean, Inc.) (e) (g)	B3/NR		12,984,572
8	SLM Corp., 7.25%, 12/15/10, Ser. C	Ba1/NR		7,035,288
				172,861,580
	Hand/Machine Tools 1.4%			
22	Stanley Works, 5.125%, 5/17/12 (d)	A2/A		18,999,162
	Insurance 2.6%			
985	Metlife, Inc., 6.375%, 2/15/09	NR/BBB+		13,242,870
662	Platinum Underwriters Holdings Ltd., 6.00%, 2/15/09, Ser. A	NR/BB+		20,798,451
				34,041,321
	Investment Company 1.1%			
270	Vale Capital Ltd., 5.50%, 6/15/10, Ser. RIO (Companhia Vale do Rio Doce) (e)	NR/NR		14,055,506
	Metals & Mining 1.1%			
106	Freeport-McMoRan Copper & Gold, Inc., 6.75%, 5/1/10	NR/BB		13,790,949
	Oil & Gas 1.2%			
119	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B		16,322,344
	Pharmaceuticals 1.5%			
110	Schering-Plough Corp., 6.00%, 8/13/10	Baa3/BBB		20,284,875
	Real Estate (REIT) 1.2%			
822	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A	B2/B-		15,357,762
	Sovereign 3.0%			
	Svensk Exportkredit AB,			
511	10.00%, 10/20/08, Ser. TEVA (Teva Pharmaceutical Industries Ltd.) (e)	Aa1/AA+		22,193,878
226	12.50%, 12/12/08, Ser. XOM (Exxon Mobil Corp.) (e)	Aa1/AA+		16,962,669

			39,156,547
	Telecommunications 1.3%		
322	Crown Castle International Corp., 6.25%, 8/15/12	NR/NR	17,710,000
	Total Convertible Preferred Stock (cost-$579,852,407)		532,169,970

Nicholas-Applegate Convertible & Income Fund

Schedule of Investments

August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
CONVERTIBLE BONDS & NOTES 12.5%			
	Automotive 0.8%		
$ 15,930	Ford Motor Co., 4.25%, 12/15/36	Caa1/CCC	$ 10,573,538
	Commercial Services 0.0%		
510	Bowne & Co., Inc., 5.00%, 10/1/33	B1/B	506,812
	Computers 1.4%		
17,355	Maxtor Corp., 6.80%, 4/30/10	Ba1/NR	17,897,344
	Electrical Components & Equipment 1.0%		
14,200	JA Solar Holdings Co Ltd., 4.50%, 5/15/13	NR/NR	12,567,000
	Internet 0.5%		
6,764	Amazon.com, Inc., 4.75%, 2/1/09	Ba2/BB+	7,127,565
	Real Estate (REIT) 1.4%		
21,540	Developers Diversified Realty Corp., 3.00%, 3/15/12	NR/BBB	18,039,750
	Retail 1.6%		
21,008	Sonic Automotive, Inc., 5.25%, 5/7/09	B2/B	20,482,800
	Telecommunications 4.4%		
20,550	Level 3 Communications, Inc., 6.00%, 3/15/10	Caa3/CCC	19,008,750
13,450	Nextel Communications, Inc., 5.25%, 1/15/10	Baa3/BB	12,979,250
17,860	NII Holdings, Inc., 3.125%, 6/15/12	NR/NR	15,426,575
16,305	Nortel Networks Corp., 2.125%, 4/15/14	B3/B-	10,109,100
			57,523,675
	Theaters 1.4%		
18,700	Regal Entertainment Group, 6.25%, 3/15/11 (a) (b)	NR/NR	17,998,750
	Total Convertible Bonds & Notes (cost-$171,708,279)		162,717,234
U.S. GOVERNMENT SECURITIES 3.0%			
	United States Treasury Notes,		
25,715	12.50%, 8/15/14		28,131,824
10,775	13.25%, 5/15/14		11,589,019
	Total U.S. Government Securities (cost-$40,560,229)		39,720,843
SHORT-TERM INVESTMENT 1.2%			
	Time Deposit 1.2%		

15,777	Bank of America London, 1.45%, 9/2/08 (cost-$15,777,014)	15,777,014
	Total Investments (cost-$1,428,483,564) **100.0%**	**$ 1,312,599,177**

Nicholas-Applegate Convertible & Income Fund II **Schedule of Investments**
August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
CORPORATE BONDS & NOTES 42.1%			
	Advertising 0.8%		
$ 9,900	Affinion Group, Inc., 11.50%, 10/15/15	B3/B-	$ 9,702,000
	Apparel 1.3%		
10,740	Levi Strauss & Co., 9.75%, 1/15/15	B2/B+	9,733,125
5,160	Oxford Industries, Inc., 8.875%, 6/1/11	B1/B+	5,043,900
			14,777,025
	Automotive 2.4%		
7,205	Accuride Corp., 8.50%, 2/1/15	Caa1/CCC+	4,683,250
12,120	Exide Technologies, 10.50%, 3/15/13, Ser. B	B3/B-	11,574,600
6,425	General Motors Corp., 8.375%, 7/15/33	Caa2/B-	3,212,500
8,775	Tenneco Inc., 8.625%, 11/15/14	B3/B	7,502,625
			26,972,975
	Chemicals 0.3%		
4,110	Momentive Performance Materials, Inc. 9.75%, 12/1/14	B3/B	3,729,825
	Commercial Services 1.6%		
11,730	Cenveo Corp., 7.875%, 12/1/13	B3/B	9,721,238
10,040	Hertz Corp., 10.50%, 1/1/16	B2/B	8,910,500
			18,631,738
	Computers 0.7%		
8,925	Unisys Corp., 8.00%, 10/15/12	B2/B+	7,630,875
	Electric 1.1%		
7,540	Energy Future Holdings Corp., 10.875%, 11/1/17 (a) (b)	B3/B-	7,756,775
4,600	Texas Competitive Electric Holdings Co. LLC, 10.25%, 11/1/15 (a) (b)	B3/CCC	4,611,500
			12,368,275
	Electronics 0.9%		
10,335	Stoneridge, Inc., 11.50%, 5/1/12	B2/B+	10,670,887
	Financial Services 3.4%		
10,755	AMR Holdings Co., 10.00%, 2/15/15	B1/B-	11,319,638
	Ford Motor Credit Co.,		
9,205	7.00%, 10/1/13	B1/B-	6,675,659
6,920	9.875%, 8/10/11	B1/B-	5,683,998
6,930	GMAC LLC, 6.75%, 12/1/14	B3/B-	3,766,822
8,710	KAR Holdings, Inc., 8.75%, 5/1/14	B3/CCC+	7,741,013
3,223	MedCath Holdings Corp., 9.875%, 7/15/12	Caa1/B-	3,368,035

			38,555,165
	Healthcare 1.9%		
6,325	Alliance Imaging, Inc., 7.25%, 12/15/12	B3/B-	5,992,937
7,985	Hanger Orthopedic Group, Inc., 10.25%, 6/1/14	Caa1/CCC+	8,364,288
4,615	HCA, Inc., 9.25%, 11/15/16	B2/BB-	4,759,219
3,075	Health Net, Inc., 6.375%, 6/1/17	Ba3/BB+	2,506,125
			21,622,569
	Home Furnishings 0.9%		
11,200	Jarden Corp., 7.50%, 5/1/17	B3/B	10,024,000

Nicholas-Applegate Convertible & Income Fund II **Schedule of Investments**
August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
	Hotels/Gaming 0.3%		
$ 2,143	Mandalay Resort Group, Inc., 3.551%, 3/21/33, FRN (d)	Ba2/BB	$ 3,032,454
	Manufacturing 2.6%		
11,965	Harland Clarke Holdings Corp., 9.50%, 5/15/15	Caa1/B-	9,452,350
1,845	Park-Ohio Industries, Inc., 8.375%, 11/15/14	B3/B-	1,531,350
8,290	Polypore, Inc., 8.75%, 5/15/12	B3/B-	8,331,450
10,385	Sally Holdings LLC, 10.50%, 11/15/16	Caa1/CCC+	10,488,850
			29,804,000
	Metals & Mining 0.9%		
10,875	RathGibson, Inc., 11.25%, 2/15/14	B3/B	10,521,562
	Miscellaneous 0.6%		
6,723	Dow Jones CDX High Yield, 10.50%, 12/29/09 (a) (b) (c)	NR/NR	6,991,919
	Multi-Media 1.6%		
10,021	CCH I LLC, 11.00%, 10/1/15	Caa3/CCC	7,741,222
11,420	Mediacom LLC, 9.50%, 1/15/13	B3/B-	11,105,950
			18,847,172
	Office Furnishings 0.9%		
	Interface, Inc.,		
4,165	9.50%, 2/1/14	B3/B-	4,394,075
5,715	10.375%, 2/1/10	B1/BB-	6,029,325
			10,423,400
	Packaging & Containers 0.8%		
10,150	Smurfit-Stone Container Enterprises, Inc., 8.375%, 7/1/12	B3/B-	8,957,375
	Paper Products 1.7%		
10,030	Neenah Paper, Inc., 7.375%, 11/15/14	B2/B+	8,525,500
11,055	NewPage Corp., 12.00%, 5/1/13	B3/CCC+	10,391,700
			18,917,200
	Pipelines 0.7%		
8,900	Dynegy Holdings, Inc., 7.75%, 6/1/19	B2/B	8,254,750
	Retail 4.4%		
2,050	Bon-Ton Stores, Inc., 10.25%, 3/15/14	Caa1/CCC+	978,875
6,450	Burlington Coat Factory Warehouse Corp., 11.125%, 4/15/14	B3/CCC+	4,692,375
7,125	El Pollo Loco Finance Corp., 11.75%, 11/15/13	Caa1/CCC+	6,946,875
10,975	Michaels Stores, Inc., 10.00%, 11/1/14	B2/CCC	8,286,125
11,420	Neiman-Marcus Group, Inc., 10.375%, 10/15/15	B3/B	11,191,600

2,883	R.H. Donnelley, Inc., 11.75%, 5/15/15 (a) (b)	B1/B+	2,133,420
10,960	Rite Aid Corp., 8.625%, 3/1/15	Caa1/CCC+	7,124,000
9,650	Star Gas Partners L.P., 10.25%, 2/15/13, Ser. B	Caa3/CCC	9,119,250
			50,472,520
	Semi-Conductors 1.7%		
11,570	Amkor Technology, Inc., 9.25%. 6/1/16	B1/B+	11,222,900
10,595	Freescale Semiconductor, Inc., 10.125%, 12/15/16	B3/B-	8,184,638
			19,407,538
	Software 0.8%		
10,605	First Data Corp., 9.875%, 9/24/15 (a) (b)	B3/B	9,160,069

Nicholas-Applegate Convertible & Income Fund II **Schedule of Investments**
August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
	Telecommunications 8.0%		
$ 8,295	Centennial Cellular Operating Co., 10.125%, 6/15/13	B2/B	$ 8,689,012
4,440	Centennial Communications Corp., 10.00%, 1/1/13	Caa1/CCC+	4,639,800
7,850	Cincinnati Bell, Inc., 8.375%, 1/15/14	B2/B-	7,467,313
8,885	Cricket Communications, Inc., 9.375%, 11/1/14	B3/B-	8,851,681
11,640	Hawaiian Telcom Communications, Inc., 12.50%, 5/1/15, Ser. B	Caa3/CCC-	2,095,200
12,198	Level 3 Financing, Inc., 12.25%, 3/15/13	Caa1/CCC+	12,502,950
10,240	MasTec, Inc., 7.625%, 2/1/17	B1/B+	8,806,400
13,510	Millicom International Cellular S.A., 10.00%, 12/1/13	B1/BB	14,320,600
10,820	Nortel Networks Ltd., 10.75%, 7/15/16	B3/B-	10,062,600
4,615	Sprint Capital Corp., 8.75%, 3/15/32	Baa3/BB	4,499,034
12,155	West Corp., 11.00%, 10/15/16	Caa1/B-	9,572,063
			91,506,653
	Theaters 1.0%		
11,060	AMC Entertainment, Inc., 11.00%, 2/1/16	B2/CCC+	11,281,200
	Travel Services 0.8%		
12,440	Travelport LLC, 11.875%, 9/1/16	Caa1/CCC+	9,423,300
	Total Corporate Bonds & Notes (cost-$533,887,456)		481,686,446

CONVERTIBLE PREFERRED STOCK 40.6%

Shares (000)			
	Agriculture 1.7%		
	Bunge Ltd.,		
109	4.875%, 12/31/49	Ba1/BB	12,208,350
8	5.125%, 12/1/10	NR/BB	6,820,000
			19,028,350
	Automotive 0.5%		
511	General Motors Corp., 5.25%, 3/6/32, Ser. B	Caa2/B-	5,918,538
	Banking 5.8%		
	Bank of America Corp.,		
21	7.25%, 12/31/49, Ser. L	A1/A+	19,512,086
273	10.00%, 5/11/09, Ser. JNJ (Johnson & Johnson) (e)	Aa2/AA	18,835,478
	Wachovia Corp.,		
483	13.15%, 3/30/09, Ser. GE (General Electric Co.) (e)	A1/AA-	13,453,908
392	14.10%, 4/1/09, Ser. JPM (JP Morgan Chase & Co.) (e)	A1/AA-	14,769,011

			66,570,483
	Commercial Services 0.7%		
287	United Rentals, Inc., 6.50%, 8/1/28	B3/B-	8,676,395
	Electric 4.2%		
367	AES Trust III, 6.75%, 10/15/29	B3/B-	16,966,813
273	Entergy Corp., 7.625%, 2/17/09	NR/BBB	16,625,700
48	NRG Energy, Inc., 5.75%, 3/16/09	B2/CCC+	15,207,000
			48,799,513

Nicholas-Applegate Convertible & Income Fund II **Schedule of Investments**
August 31, 2008 (unaudited)

Shares (000)		Credit Rating (Moody s/S&P)	Value
	Financial Services 12.9%		
374	Citigroup, Inc., 6.50%, 12/31/49, Ser. T	A2/A	$ 15,920,701
	Credit Suisse Group,		
632	11.00%, 3/16/09, Ser. MSFT (Microsoft Corp.) (e)	Aa1/AA-	16,339,019
298	11.00%, 4/25/09, Ser. KO (Coca-Cola Corp.) (e)	Aa1/AA-	17,121,097
	Eksportfinans A/S,		
371	10.00%, 3/12/09, Ser. HPQ (Hewlett Packard Co.) (e)	Aaa/AA+	16,099,378
107	10.00%, 6/13/09, Ser. AAPL (Apple, Inc.) (e)	Aaa/AA+	18,296,987
1,101	13.00%, 11/1/08, Ser. TWX (Time Warner, Inc.) (e)	Aaa/A+	16,485,490
745	Goldman Sachs Group, Inc., 9.75%, 12/19/08, Ser. CSCO (Cisco Systems, Inc.) (e)	Aa3/NR	17,215,275
	Lehman Brothers Holdings, Inc.,		
801	6.00%, 10/12/10, Ser. GIS (General Mills, Inc.) (e) (g)	B3/NR	18,948,642
123	28.00%, 3/6/09, Ser. RIG (Transocean, Inc.) (e) (g)	B3/NR	11,490,855
			147,917,444
	Hand/Machine Tools 1.5%		
20	Stanley Works, 5.125%, 5/17/12 (d)	A2/A	16,811,900
	Insurance 2.7%		
872	Metlife, Inc., 6.375%, 2/15/09	NR/BBB+	11,732,435
598	Platinum Underwriters Holdings Ltd., 6.00%, 2/15/09, Ser. A	NR/BB+	18,787,725
			30,520,160
	Investment Company 1.1%		
239	Vale Capital Ltd., 5.50%, 6/15/10, Ser. RIO (Companhia Vale do Rio Doce) (e)	NR/NR	12,455,269
	Metals & Mining 1.1%		
94	Freeport-McMoRan Copper & Gold, Inc., 6.75%, 5/1/10	NR/BB	12,197,707
	Oil & Gas 1.2%		
105	Chesapeake Energy Corp., 5.00%, 12/31/49	NR/B	14,419,781
	Pharmaceuticals 1.4%		
87	Schering-Plough Corp., 6.00%, 8/13/10	Baa3/BBB	16,024,125
	Real Estate (REIT) 1.3%		
777	FelCor Lodging Trust, Inc., 1.95%, 12/31/49, Ser. A	B2/B-	14,507,822
	Sovereign 3.1%		
	Svensk Exportkredit AB,		
459	10.00%, 10/20/08, Ser. TEVA (Teva Pharmaceutical Industries Ltd.) (e)	Aa1/AA+	19,954,289
203	12.50%, 12/12/08, Ser. XOM (Exxon Mobil Corp.) (e)	Aa1/AA+	15,239,049
			35,193,338

	Telecommunications 1.4%		
302	Crown Castle International Corp., 6.25%, 8/15/12	NR/NR	16,610,000
	Total Convertible Preferred Stock (cost-$510,985,850)		465,650,825

Nicholas-Applegate Convertible & Income Fund II

Schedule of Investments

August 31, 2008 (unaudited)

Principal Amount (000)		Credit Rating (Moody s/S&P)	Value
CONVERTIBLE BONDS & NOTES 12.9%			
	Automotive 0.8%		
$ 14,260	Ford Motor Co., 4.25%, 12/15/36	Caa1/CCC	$ 9,465,075
	Commercial Services 0.1%		
1,715	Bowne & Co., Inc., 5.00%, 10/1/33	B1/B	1,704,281
	Computers 1.6%		
17,260	Maxtor Corp., 6.80%, 4/30/10	Ba1/NR	17,799,375
	Electrical Components & Equipment 0.9%		
11,650	JA Solar Holdings Co Ltd., 4.50%, 5/15/13	NR/NR	10,310,250
	Internet 0.5%		
5,879	Amazon.com, Inc., 4.75%, 2/1/09	Ba2/BB+	6,194,996
	Real Estate (REIT) 1.3%		
18,000	Developers Diversified Realty Corp., 3.00%, 3/15/12	NR/BBB	15,075,000
	Retail 1.6%		
18,535	Sonic Automotive, Inc., 5.25%, 5/7/09	B2/B	18,071,625
	Telecommunications 4.6%		
20,000	Level 3 Communications, Inc., 6.00%, 3/15/10	Caa3/CCC	18,500,000
12,175	Nextel Communications, Inc., 5.25%, 1/15/10	Baa3/BB	11,748,875
15,720	NII Holdings, Inc., 3.125%, 6/15/12	NR/NR	13,578,150
14,995	Nortel Networks Corp., 2.125%, 4/15/14	B3/B-	9,296,900
			53,123,925
	Theaters 1.5%		
17,100	Regal Entertainment Group, 6.25%, 3/15/11 (a) (b)	NR/NR	16,458,750
	Total Convertible Bonds & Notes (cost-$156,658,377)		148,203,277
U.S. GOVERNMENT SECURITIES 3.0%			
	United States Treasury Notes,		
22,035	12.50%, 8/15/14		24,105,960
9,225	13.25%, 5/15/14		9,921,921
	Total U.S. Government Securities (cost-$34,746,607)		34,027,881
SHORT-TERM INVESTMENT 1.4%			

	Time Deposit 1.4%	
15,986	Bank of America London, 1.45%, 9/2/08 (cost-$15,985,776)	15,985,776
	Total Investments (cost-$1,252,264,066) **100.0%**	**$ 1,145,554,205**

Nicholas-Applegate Convertible & Income Fund
Nicholas-Applegate Convertible & Income Fund II **Schedule of Investments**
August 31, 2008 (unaudited)

Notes to Schedules of Investments:

(a) 144A Security - Security exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, typically to qualified institutional buyers. Unless otherwise indicated, these securities are not considered to be illiquid.
(b) Private Placement - Restricted as to resale and may not have a readily available market. For Convertible & Income and Convertible & Income II, securities with an aggregate market value of $55,496,747 and $47,112,433, representing 4.2% and 4.1% of total investments, respectively, are restricted.
(c) Credit-linked trust certificate.
(d) Fair-valued securities for Convertible & Income and Convertible & Income II, with an aggregate value of $3,374,943 and $3,032,454, representing 0.3% and 0.3%, of total investments, respectively, have been fair valued using methods as described in Note 1 (a) in the Notes to Financial Statements.
(e) Securities exchangeable or convertible into securities of an entity different than the issuer. Such entity is identified in the parenthetical.
(f) Issuer in default as of September 27, 2008.
(g) Issuer in default as of September 16, 2008.

Glossary:

FRN Floating Rate Note. The interest rate disclosed reflects the rate in effect on August 31, 2008.
NR Not Rated
REIT Real Estate Investment Trust

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Statements of Assets and Liabilities

	Convertible & Income	Convertible & Income II
Assets:		
Investments, at value (cost-$1,428,483,564 and $1,252,264,066, respectively)	$ 1,312,599,177	$ 1,145,554,205
Cash	66,690	64,150
Interest and dividends receivable	22,792,158	19,402,104
Receivable for investments sold	9,746,846	7,243,938
Prepaid expenses	29,482	43,921
Total Assets	1,345,234,353	1,172,308,318
Liabilities:		
Dividends payable to common and preferred shareholders	9,279,444	7,349,526
Payable for investments purchased	8,483,523	5,554,073
Investment management fees payable	789,671	689,547
Accrued expenses	263,489	273,052
Total Liabilities	18,816,127	13,866,198
Preferred Shares ($0.00001 par value; $25,000 net asset and liquidation value per share applicable to 21,000 and 20,200 shares issued and outstanding, respectively)	525,000,000	505,000,000
Net Assets Applicable to Common Shareholders	$ 801,418,226	$ 653,442,120
Composition of Net Assets Applicable to Common Shareholders:		
Common Stock:		
Par value ($0.00001 per share)	$ 720	$ 596
Paid-in-capital in excess of par	1,027,734,379	847,108,641
Undistributed (dividends in excess of) net investment income	(8,632,991)	415,001
Accumulated net realized loss	(101,799,495)	(87,372,257)
Net unrealized depreciation of investments	(115,884,387)	(106,709,861)
Net Assets Applicable to Common Shareholders	$ 801,418,226	$ 653,442,120
Common Shares Issued and Outstanding	71,960,104	59,587,332

Net Asset Value Per Common Share	$	11.14	$	10.97

Nicholas-Applegate Convertible & Income Funds **Statements of Operations**

Six months ended August 31, 2008 (unaudited)

	Convertible & Income	Convertible & Income II
Investment Income:		
Interest	$ 37,341,054	$ 32,112,194
Dividends (net of foreign withholding taxes of $28,575 and $25,266, respectively)	31,891,731	26,920,058
Other income	453,759	412,737
Total Investment Income	69,686,544	59,444,989
Expenses:		
Investment management fees	4,894,791	4,274,114
Auction agent fees and commissions	669,511	643,666
Shareholder communications	102,532	90,569
Custodian and accounting agent fees	95,284	83,770
Trustees fees and expenses	54,092	50,890
New York Stock Exchange listing fees	35,368	29,016
Audit and tax services	35,044	35,860
Transfer agent fees	18,112	16,420
Insurance expense	10,148	8,985
Legal fees	6,472	14,752
Miscellaneous	8,477	8,130
Total expenses	5,929,831	5,256,172
Net Investment Income	63,756,713	54,188,817
Realized and Change in Unrealized Loss:		
Net realized loss on investments	(60,570,222)	(50,966,937)
Net change in unrealized appreciation/depreciation of investments	(39,767,097)	(36,494,560)
Net realized and change in unrealized loss on investments	(100,337,319)	(87,461,497)
Net Decrease in Net Assets Resulting from Investment Operations	(36,580,606)	(33,272,680)

Dividends on Preferred Shares from Net Investment Income:	(8,759,752)	(8,426,050)
Net Decrease in Net Assets Applicable to Common Shareholders Resulting from Investment Operations	$ (45,340,358)	$ (41,698,730)

Nicholas-Applegate Convertible & Income Funds

Statements of Changes in Net Assets Applicable to Common Shareholders

	Convertible & Income		Convertible & Income II	
	Six Months ended August 31, 2008 (unaudited)	Year ended February 29, 2008	Six Months ended August 31, 2008 (unaudited)	Year ended February 29, 2008
Investment Operations:				
Net investment income	$ 63,756,713	$ 115,099,932	$ 54,188,817	$ 100,319,284
Net realized loss on investments and interest rate caps	(60,570,222)	(13,662,703)	(50,966,937)	(12,465,904)
Net change in unrealized appreciation/depreciation of investments and interest rate caps	(39,767,097)	(133,242,027)	(36,494,560)	(116,546,458)
Net decrease in net assets resulting from investment operations	(36,580,606)	(31,804,798)	(33,272,680)	(28,693,078)
Dividends on Preferred Shares from Net Investment Income	(8,759,752)	(27,656,266)	(8,426,050)	(26,638,794)
Net decrease in net assets applicable to common shareholders resulting from investment operations	(45,340,358)	(59,461,064)	(41,698,730)	(55,331,872)
Dividends to Common Shareholders from Net Investment Income	(53,768,673)	(106,877,538)	(42,380,952)	(94,900,364)
Capital Share Transactions:				
Reinvestment of dividends	5,484,386	11,231,986	2,162,208	6,577,991
Total decrease in net assets applicable to common shareholders	(93,624,645)	(155,106,616)	(81,917,474)	(143,654,245)
Net Assets Applicable to Common Shareholders:				
Beginning of period	895,042,871	1,050,149,487	735,359,594	879,013,839
End of period (including undistributed (dividends in excess of) net investment income of $(8,632,991), $(9,861,279); $415,001 and $(2,966,814), respectively)	$ 801,418,226	$ 895,042,871	$ 653,442,120	$ 735,359,594
	453,392	759,819	179,609	448,992

Common Shares Issued in Reinvestment of Dividends

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Notes to Financial Statements

1. Organization and Significant Accounting Policies
Nicholas-Applegate Convertible & Income Fund (Convertible & Income) and Nicholas-Applegate Convertible & Income Fund II (Convertible & Income II), collectively referred to as the Funds , were organized as Massachusetts business trusts on January 17, 2003 and April 22, 2003, respectively. In December 2005, Convertible & Income II changed its fiscal year end from June 30 to February 28. Prior to commencing operations on March 31, 2003, and July 31, 2003, respectively, the Funds had no operations other than matters relating to their organization and registration as diversified, closed-end management investment companies under the Investment Company Act of 1940 and the rules and regulations thereunder, as amended. Allianz Global Investors Fund Management LLC (the Investment Manager) serves as the Funds Investment Manager and is an indirect wholly-owned subsidiary of Allianz Global Investors of America L.P. (Allianz Global). Allianz Global is an indirect, majority-owned subsidiary of Allianz SE, of a publicly traded European insurance and financial services company. The Funds have an unlimited amount of $0.00001 par value common stock authorized.

Each Fund s investment objective is to provide total return through a combination of capital appreciation and high current income. The Funds attempt to achieve this objective by investing in a diversified portfolio of convertible securities and non-convertible income-producing securities.

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from these estimates.

In the normal course of business, the Funds enter into contracts that contain a variety of representations which provide general indemnifications. The Funds maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Funds that have not yet been asserted. However, the Funds expect the risk of any loss to be remote.

In July 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109 (the Interpretation). The Interpretation establishes for all entities, including pass-through entities such as the Funds, a minimum threshold for financial statement recognition of the benefit of positions taken in filing tax returns (including whether an entity is taxable in a particular jurisdiction), and requires certain expanded tax disclosures. The Funds management has determined that its evaluation of the Interpretation has resulted in no material impact to the Funds financial statements at August 31, 2008. Each of the Fund s federal tax returns for the prior three fiscal years remain subject to examination by the Internal Revenue Service.

In March 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures about a fund s derivative and hedging activities. The Funds management is currently evaluating the impact the adoption of SFAS 161 will have on the Funds financial statement disclosures.

The following is a summary of significant accounting policies followed by the Funds:

(a) Valuation of Investments
Portfolio securities and other financial instruments for which market quotations are readily available are stated at market value. Market value is generally determined on the basis of last reported sales prices, or if no sales are reported on the basis of quotes obtained from a quotation reporting system, established market makers, or pricing services.

Portfolio securities and other financial instruments for which market quotations are not readily available or for which a development/event occurs that may significantly impact the value of a security, are fair-valued, in good faith, pursuant to procedures established by the Board of Trustees, or persons acting at their discretion pursuant to procedures established by the Board of Trustees. The Funds investments are valued daily using prices supplied by an independent pricing service or dealer quotations, or by using the last sale price on the exchange that is the primary market for such securities, or the last quoted mean price for those securities for which the over-the-counter market is the primary market or for listed securities in which there were no sales. Prices obtained from independent pricing services use information provided by market makers or estimates of market values obtained from yield data relating to investments or securities with similar characteristics. Short-term securities maturing in 60 days or less are valued at amortized cost, if their original term to maturity was 60 days less, or by amortizing their value on the 61st day prior to maturity, if the original term to maturity exceeded 60 days.

The prices used by the Funds to value securities may differ from the value that would be realized if the securities were sold, and these differences could be material to the financial statements. Each Fund s net asset value is normally determined as of the close of regular trading (normally, 4:00 p.m. Eastern time) on the New York Stock Exchange (NYSE) on each day the NYSE is open for business.

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

(b) Fair Value Measurements
Effective March 1, 2008, the Funds adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). This standard clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value and requires additional disclosures about the use of the fair value measurements. The three levels of the fair value hierarchy under FAS 157 are described below:

Level 1 quoted prices in active markets for identical investments
Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
Level 3 significant unobservable inputs (including the Funds own assumptions in determining the fair value of investments)

The valuation techniques used by the Funds to measure fair value during the period ended August 31, 2008 maximized the use of observable inputs and minimized the use of unobservable inputs. The Funds utilized the following fair value techniques: multi-dimensional relational pricing model and option adjusted spread pricing.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the inputs used at August 31, 2008 in valuing the Funds investments carried at value:

	Convertible & Income	Convertible & Income II
Valuation Inputs	**Investments in Securities**	**Investments in Securities**
Level 1 Quoted Prices	$ 269,825,242	$ 230,074,526
Level 2 Other Significant Observable Inputs	1,039,398,992	912,447,225
Level 3 Significant Unobservable Inputs	3,374,943	3,032,454
Total	$ 1,312,599,177	$ 1,145,554,205

A roll forward of fair value measurements using significant unobservable inputs (Level 3) at August 31, 2008, was as follows:

	Investments in Securities	**Investments in Securities**
Beginning balance, February 29, 2008	$ 3,346,475	$ 3,006,875
Net purchases (sales) and settlements	(9,787,057)	(8,363,658)
Accrued discounts (premiums)		
Total realized and unrealized gain (loss)	2,461,175	2,114,587
Transfers in and/or out of Level 3	7,354,350	6,274,650
Ending balance, August 31, 2008	$ 3,374,943	$ 3,032,454

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Notes to Financial Statements

1. Organization and Significant Accounting Policies (continued)

(c) Investment Transactions and Investment Income
Investment transactions are accounted for on the trade date. Realized gains and losses on investments are determined on the identified cost basis. Interest income is recorded on an accrual basis. Discounts or premiums on corporate bonds and notes purchased are accreted or amortized, respectively to interest income over the lives of the respective securities using the effective interest method. Payments received from certain investments may be comprised of dividends, realized gains and return of capital. These payments may initially be recorded as dividend income and may be subsequently be reclassified as realized gains/or return of capital upon receipt of information from the issuer. Dividend income is recorded on the ex-dividend date, except for certain convertible preferred stock which record these dividends when the information becomes available.

(d) Federal Income Taxes
The Funds intend to distribute all of their taxable income and to comply with the other requirements of the U.S. Internal Revenue Code of 1986, as amended, applicable to regulated investment companies. Accordingly, no provision for U.S. federal income taxes is required.

(e) Dividends and Distributions Common Stock
The Funds declare dividends from net investment income monthly to common shareholders. Distributions of net realized capital gains, if any, are paid at least annually. The Funds record dividends and distributions to its shareholders on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. These book-tax differences are considered either temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal income tax treatment; temporary differences do not require reclassification. To the extent dividends and/or distributions exceed current and accumulated earnings and profits for federal income tax purposes, they are reported as dividends and/or distributions of paid-in capital in excess of par.

(f) Credit-Linked Trust Certificates
Credit-linked trust certificates are investments in a limited purpose trust or other vehicle formed under state law which, in turn, invests in a basket of derivative instruments, such as credit default swaps, interest rate swaps and other securities, in order to provide exposure to the high yield or another fixed income market.

Similar to an investment in a bond, investments in these credit-linked trust certificates represent the right to receive periodic income payments (in the form of distributions) and payment of principal at the end of the term of the certificate. However, these payments are conditioned on the trusts receipt of payments from, and the trusts potential obligations to, the counterparties to the derivative instruments and other securities in which the trusts invest.

(g) Interest Rate Caps
In an interest rate cap, one party pays a fee while the other party pays the excess, if any, of a floating rate over a specified fixed rate. Interest rate caps are intended to manage the Funds exposure to changes in short-term interest rates and hedge the Auction Rate Preferred Shares. Owning interest rate caps reduces the Funds duration, making them less sensitive to changes in interest rates from a market value perspective. The effect on distributions involves protection from rising short-term rates, which the Funds experience primarily in the form of leverage. The Funds are exposed to credit loss in the event of non-performance by the other party to the interest rate cap. Premiums paid by the Funds are recognized as an asset and amortized into realized loss over the life of the interest rate cap. Changes in the value of the interest rate caps are recognized as unrealized appreciation or depreciation. Periodic payments received during periods the floating rate exceeds the specific fixed rate are recognized into realized gain.

(h) Concentration of Risk
It is the Funds policy to invest a portion of their assets in convertible securities. Convertible securities generally entail less risk than its common stock but more risk than its test obligations. However, certain of the convertible securities held by the Funds include features that render them more sensitive to price changes in the underlying securities. Such convertible securities are subject to increased risks, including risks associated with investing in derivatives.

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Notes to Financial Statements

2. Investment Manager/Sub-Adviser
The Funds have Investment Management Agreements (the Agreements) with the Investment Manager. Subject to the supervision of the Funds Board of Trustees, the Investment Manager is responsible for managing, either directly or through others selected by it, the Funds investment activities, business affairs and administrative matters. Pursuant to the Agreements, the Funds pay the Investment Manager an annual fee, payable on a monthly basis, at the annual rate of 0.70% of the Funds average daily total managed assets. Total managed assets means the total assets of each Fund (including assets attributable to any preferred shares or other forms of leverage of the Fund that may be outstanding) minus accrued liabilities (other than liabilities representing leverage).

The Investment Manager has retained its affiliate, Nicholas-Applegate Capital Management LLC (the Sub-Adviser), to manage the Funds investments. Subject to the supervision of the Investment Manager, the Sub-Adviser is responsible for making all of the Funds investment decisions. For its services pursuant to Sub-Advisory Agreement with each of the Funds, the Investment Manager and not the Funds, pay the Sub-Adviser a portion of the fees the Investment Manager receives from the Fund as an annual fee payable on a monthly fee.

3. Investment in Securities
For the six months ended August 31, 2008, purchases and sales of investments, other than short-term securities and U.S. government obligations were:

	Convertible & Income	Convertible & Income II
Purchases	$ 439,699,509	$ 343,257,362
Sales	402,245,233	314,850,973

For the six months ended August 31, 2008, purchases and sales of U.S. government obligations were:

	Convertible & Income	Convertible & Income II
Purchases	$28,248,108	$24,205,603
Sales	25,435,000	21,565,000

4. Income Tax Information
The Funds cost of investments for federal income tax purposes and gross unrealized appreciation and gross unrealized depreciation of investments at August 31, 2008 were:

	Cost of Investments	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Depreciation
Convertible & Income	$ 1,433,461,470	$ 19,493,041	$ (140,355,334)	$ (120,862,293)
Convertible & Income II	1,256,557,682	17,723,410	(128,726,887)	(111,003,477)

5. Auction-Rate Preferred Shares
Convertible & Income has issued 4,200 shares of Preferred Shares Series A, 4,200 shares of Preferred Shares Series B, 4,200 shares of Preferred Shares Series C, 4,200 shares of Preferred Shares Series D, and 4,200 shares of Preferred Shares Series E each with a liquidation preference of $25,000 per share plus any accumulated, unpaid dividends.

Convertible & Income II has issued 4,040 shares of Preferred Shares Series A, 4,040 shares of Preferred Shares Series B, 4,040 shares of Preferred Shares Series C, 4,040 shares of Preferred Shares Series D, and 4,040 shares of Preferred Shares Series E each with a liquidation preference of $25,000 per share plus any accumulated, unpaid dividends.

Dividends are accumulated daily at an annual rate (typically re-set every seven days) through auction procedures. Distributions of net realized long-term gains, if any, are paid annually.

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Notes to Financial Statements

5. Auction-Rate Preferred Shares (continued)

For the six months ended August 31, 2008, the annualized dividend rates ranged from:

	High	Low	At August 31, 2008
Convertible & Income:			
Series A	4.413%	2.912%	2.987%
Series B	4.383%	2.927%	3.227%
Series C	4.398%	2.927%	3.062%
Series D	4.398%	2.957%	3.257%
Series E	4.473%	2.927%	3.062%
Convertible & Income II:			
Series A	4.413%	2.912%	2.987%
Series B	4.383%	2.927%	3.227%
Series C	4.398%	2.927%	3.062%
Series D	4.398%	2.957%	3.257%
Series E	4.473%	2.927%	3.062%

The Funds are subject to certain limitations and restrictions while preferred shares are outstanding. Failure to comply with these limitations and restrictions could preclude the Funds from declaring any dividends or distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of preferred shares at a price equal to liquidation preference plus any accumulated, unpaid dividends.

Preferred shares, which are entitled to one vote per share, generally vote with the common stock but vote separately as a class to elect two Trustees and on any matters affecting the rights of the preferred shares.

Since mid-February 2008, holders of auction-rate preferred shares (ARPS) issued by the Funds have been directly impacted by an unprecedented lack of liquidity, which has similarly affected ARPS holders in many of the nation s closed-end funds. Since then, regularly scheduled auctions for ARPS issued by the Funds have consistently failed because of insufficient demand (bids to buy shares) to meet the supply (shares offered for sale) at each auction. In a failed auction, ARPS holders cannot sell all, and may not be able to sell any, of their shares tendered for sale. While repeated action failures have affected the liquidity for ARPS, they do not constitute a default or alter the credit quality of the ARPS, and ARPS holders have continued to receive dividends at the defined maximum rate the 7-day AA Composite Commercial Paper Rate multiplied by 150% (which is a function of short-term interest rates and typically higher than the rate that would have otherwise been set through a successful auction).

These developments with respect to ARPS have not affected the management or investment policies of the Funds, and the Funds outstanding common shares continue to trade on the NYSE. If the Funds ARPS auctions continue to fail and the maximum rate payable on the ARPS rises as a result of changes in short-term interest rates, returns for the Funds common shareholders could be adversely affected.

6. Subsequent Common Dividend Declarations
On September 2, 2008, the following dividends were declared to common shareholders payable October 1, 2008 to shareholders of record on September 12, 2008:

Convertible & Income	$0.125 per common share
Convertible & Income II	$0.11875 per common share

On October 1, 2008 the following dividends were declared to common shareholders payable November 3, 2008 of record on October 11, 2008:

Convertible & Income	$0.125 per common share

Convertible & Income II	$0.11875 per common share

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Notes to Financial Statements

7. Legal Proceedings
In June and September 2004, the Investment Manager, and certain of its affiliates (including PEA Capital LLC (PEA), Allianz Global Investors Distributors LLC and Allianz Global Investors of America, L.P.) agreed to settle, without admitting or denying the allegations, claims brought by the SEC and the New Jersey Attorney General alleging violations of federal and state securities laws with respect to certain open-end funds for which the Investment Manager serves as investment adviser. The settlements related to an alleged market timing arrangement in certain open-end funds formerly sub-advised by PEA. The Investment Manager and its affiliates agreed to pay a total of $68 million to settle the claims. In addition to monetary payments, the settling parties agreed to undertake certain corporate governance, compliance and disclosure reforms related to market timing and consented to cease and desist orders and censures. Subsequent to these events, PEA deregistered as an investment adviser and dissolved. None of the settlements alleged that any inappropriate activity took place with respect to the Funds.

Since February 2004, the Investment Manager and certain of its affiliates and their employees have been named as defendants in a number of pending lawsuits concerning market timing , which allege the same or similar conduct underlying the regulatory settlements discussed above. The market timing lawsuits have been consolidated in a multi-district litigation proceeding in the U.S. District Court for the District of Maryland. Any potential resolution of these matters may include, but not be limited to, judgments or settlements for damages against the Investment Manager or its affiliates or related injunctions.

The Investment Manager and the Sub-Advisers believe that these matters are not likely to have a material adverse effect on the Funds or on their ability to perform their respective investment advisory activities relating to the Funds.

The foregoing speaks only as of the date hereof.

Subsequent Event Market Conditions
Recent events in the financial sector have resulted in an unusually high degree of volatility in the financial markets and the net asset value of many investment companies, including to some extent the Funds. Such events occurring subsequent to the period covered by this report have included, but are not limited to, the seizure of the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation by U.S. banking regulators, the bankruptcy filing of Lehman Brothers, the announced sales of (or agreements to sell) Merrill Lynch to Bank of America, Washington Mutual to J.P. Morgan Chase, Wachovia to Wells Fargo and the U.S. government bailout of AIG Corp. These companies represent financial institutions with which the Funds may conduct business, and/or whose securities are or may be held by the Funds. The Funds exposure to these issuers, and the financial sector in general, as reflected in the Funds Schedules of Investments, subjects investors to the potential for an unusually high degree of volatility in the Funds performance resulting from these and other events.

Subsequent Event Auction Rate Preferred Shares (ARPS) Redemptions
On October 9, 2008, each of the Funds announced its intent to redeem at par a portion of its ARPS beginning October 27, 2008. Each Fund intends to partially redeem its ARPS on a pro rata basis by series. A copy of the press release that includes further information on the planned partial redemptions is available at www.allianzinvestors.com/closedendfunds.

Subsequent Event Funds May Postpone Next Monthly Common Share Dividends
On October 24, 2008, the Funds announced that due to the unprecedented market conditions over the last few weeks, the Funds may be required to delay the payment of declared dividends and the declaration of the next scheduled dividend on the Funds common shares.

In accordance with the Investment Company Act of 1940, as amended and the Funds By-laws, the Funds are not permitted to declare or pay common share dividends unless the Funds ARPS have asset coverage of 200% after payment of the common share dividend (200% Level). Additionally, in accordance with the Funds By-laws, the Funds must maintain asset coverage in line with the requirements of the rating agencies that rate the ARPS (Rating Agency Level) in order to declare and pay common share dividends. Due to the unprecedented market conditions, recently the Funds asset coverage ratios (after taking into account the partial ARPS redemption) have declined below the 200% Level and in the case of Convertible & Income, below the Rating Agency Level. Depending on market conditions, these coverage ratios may increase or decrease further. In the event that the 200% Level or the Rating Agency Level is not met at the time of the scheduled payment of common share dividends on November 3, 2008, the Funds that do not meet these coverage tests would have

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Notes to Financial Statements

to postpone the payment of the previously declared dividends. This same date is also planned as the declaration date for the December common share dividends, and any Fund that does not meet the coverage tests would have to postpone the declaration of the December common share dividend on its previously planned declaration date, until the situation is corrected.

The Funds ability to earn sufficient income to pay the previously declared dividend was not impacted by this decline in the asset coverage ratios or market conditions. Therefore, if market conditions improve and the values of the Funds assets increase to a point where the Funds have adequate asset coverage on the respective dividend payment and declaration dates, the Funds intend to pay the common share dividend on the payment date and declare the December dividend. The Funds will make a subsequent public announcement on or before the dividend payment and declaration date to confirm whether or not the November common share dividend will be paid and the December common share dividends declared on the scheduled payment and declaration date.

Nicholas-Applegate Convertible & Income Fund

Financial Highlights

For a share of common stock outstanding throughout each period:

	Six Months ended August 31, 2008 (unaudited)	Year ended February 29, 2008	February 28, 2007	February 28, 2006	February 28, 2005	For the Period March 31, 2003* through February 29, 2004
Net asset value, beginning of period	$12.52	$14.84	$14.69	$16.07	$16.67	$14.33**
Income from Investment Operations:						
Net investment income	0.89	1.62	1.66	1.51	1.48	1.28
Net realized and change in unrealized gain (loss) on investments and interest rate caps	(1.40)	(2.05)	0.55	(0.48)	0.38	2.61
Total from investment operations	(0.51)	(0.43)	2.21	1.03	1.86	3.89
Dividends and Distributions on Preferred Shares from:						
Net investment income	(0.12)	(0.39)	(0.34)	(0.25)	(0.12)	(0.07)
Net realized gains			(0.03)	(0.02)	(0.02)	
Total dividends and distributions on preferred shares	(0.12)	(0.39)	(0.37)	(0.27)	(0.14)	(0.07)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(0.63)	(0.82)	1.84	0.76	1.72	3.82
Dividends and Distributions to Common Shareholders from:						
Net investment income	(0.75)	(1.50)	(1.50)	(1.91)	(1.50)	(1.33)
Net realized gains			(0.19)	(0.23)	(0.82)	(0.03)
Total dividends and distributions to common shareholders	(0.75)	(1.50)	(1.69)	(2.14)	(2.32)	(1.36)
Capital Share Transactions:						
Common stock offering costs charged to paid-in capital in excess of par						(0.03)
Preferred shares offering costs/underwriting discounts charged to paid-in capital in excess of par						(0.09)

Total capital share transactions						(0.12)
Net asset value, end of period	$11.14	$12.52	$14.84	$14.69	$16.07	$16.67
Market price, end of period	$11.58	$12.50	$16.08	$15.69	$15.82	$16.38
Total Investment Return (1)	(1.39)%	(13.63)%	14.60%	14.30%	11.53%	18.98%
RATIOS/SUPPLEMENTAL DATA:						
Net assets applicable to common shareholders, end of period (000)	$801,418	$895,043	$1,050,149	$1,017,779	$1,086,001	$1,101,833
Ratio of expenses to average net assets (2)	% 1.36(3)	1.26%	1.27%	% 1.28(4)	1.24%	% 1.17(3)
Ratio of net investment income to average net assets (2)	% 14.67(3)	11.26%	11.37%	10.03%	9.20%	% 8.97(3)
Preferred shares asset coverage per share	$63,142	$67,626	$74,981	$73,442	$76,698	$77,460
Portfolio turnover	32%	33%	67%	52%	70%	86%

* Commencement of operations

** Initial public offering price of $15.00 per share less underwriting discount of $0.675 per share.

(1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of the period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.

(2) Calculated on the basis of income and expenses applicable to both common shares and preferred shares relative to the average net assets of common shareholders.

(3) Annualized.

(4) Ratio of expenses to average net assets, excluding excise tax expense was 1.26%.

Nicholas-Applegate Convertible & Income Fund II **Financial Highlights**

For a share of common stock outstanding throughout each period:

	Six Months ended August 31, 2008 (unaudited)	Year ended February 29, 2008	Year ended February 28, 2007	For the Period July 1, 2005 through February 28, 2006	Year ended June 30, 2005	For the Period July 31, 2003* through June 30, 2004
Net asset value, beginning of period	$12.38	$14.91	$14.70	$14.61	$15.18	$14.33**
Income from Investment Operations:						
Net investment income	0.91	1.70	1.69	1.04	1.59	1.23
Net realized and change in unrealized gain (loss) on investments and interest rate caps	(1.47)	(2.17)	0.61	0.58	(0.39)	1.10
Total from investment operations	(0.56)	(0.47)	2.30	1.62	1.20	2.33
Dividends and Distributions on Preferred Shares from:						
Net investment income	(0.14)	(0.45)	(0.38)	(0.17)	(0.21)	(0.08)
Net realized gains			(0.04)	(0.05)	(0.00)	
Total dividends and distributions on preferred shares	(0.14)	(0.45)	(0.42)	(0.22)	(0.21)	(0.08)
Net increase (decrease) in net assets applicable to common shareholders resulting from investment operations	(0.70)	(0.92)	1.88	1.40	0.99	2.25
Dividends and Distributions to Common Shareholders from:						
Net investment income	(0.71)	(1.61)	(1.42)	(1.05)	(1.42)	(1.24)
Net realized gains			(0.25)	(0.26)	(0.14)	(0.03)
Total dividends and distributions to common shareholders	(0.71)	(1.61)	(1.67)	(1.31)	(1.56)	(1.27)
Capital Share Transactions:						
Common stock offering costs charged to paid-in capital in excess of par						(0.03)
Preferred shares offering costs/underwriting discounts charged to paid-in capital in						(0.10)

excess of par						
Total capital share transactions						(0.13)
Net asset value, end of period	$10.97	$12.38	$14.91	$14.70	$14.61	$15.18
Market price, end of period	$10.85	$12.09	$15.42	$15.14	$14.74	$14.05
Total Investment Return (1)	(4.63)%	(12.08)%	13.99%	12.10%	16.44%	1.88%
RATIOS/SUPPLEMENTAL DATA:						
Net assets applicable to common shareholders, end of period (000)	$653,442	$735,359	$879,014	$850,769	$834,909	$855,783
Ratio of expenses to average net assets (2)	% 1.48(3)	1.35% (4)	1.34%	1.37% (3)(4)	1.35%	% 1.23(3)
Ratio of net investment income to average net assets (2)	% 15.22(3)	11.75%	11.56%	10.57% (3)	9.79%	% 8.87(3)
Preferred shares asset coverage per share	$57,331	$61,410	$68,493	$67,096	$66,319	$67,359
Portfolio turnover	29%	34%	60%	33%	67%	73%

* Commencement of operations

** Initial public offering price of $15.00 per share less underwriting discount of $0.675 per share.

During the period the Fund s fiscal year-end changed from June 30 to February 28.

Less than $0.005 per share.

(1) Total investment return is calculated assuming a purchase of a share of common stock at the current market price on the first day of the period and a sale of a share of common stock at the current market price on the last day of each period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total investment return does not reflect brokerage commissions or sales charges. Total investment return for a period of less than one year is not annualized.

(2) Calculated on the basis of income and expenses applicable to both common shares and preferred shares relative to the average net assets of common shareholders.

(3) Annualized.

(4) Ratio of expenses to average net assets, excluding excise tax expense was 1.34% for the year ended February 29, 2008 and 1.35% for the period July 1, 2005 through February 28, 2006.

Nicholas-Applegate Convertible & Income Funds
August 31, 2008 (unaudited)

Annual Shareholder Meetings Results/ Proxy Voting Policies & Procedures

Annual Shareholder Meeting Results:

The Funds held their annual meetings of shareholders on July 23, 2008. Common/Preferred shareholders voted as indicated below:

	Affirmative	Withheld Authority
Convertible & Income		
Re-election of John J. Dalessandro II* Class II to serve until 2011	14,643	1,889
Re-election of R. Peter Sullivan III Class II to serve until 2011	59,856,541	1,425,376
Election of Diana L. Taylor Class II to serve until 2011	59,876,793	1,405,124
Convertible & Income II		
Re-election of John J. Dalessandro II* Class II to serve until 2011	14,703	1,052
Re-election of R. Peter Sullivan III Class II to serve until 2011	50,576,096	1,019,046
Election of Diana L. Taylor Class II to serve until 2011	50,591,181	1,003,961

Messrs. Paul Belica, Robert E. Connor*, Hans W. Kertess and William B. Ogden, IV continue to serve as Trustees. Mr. John J. Dalessandro II served as a Class II Trustee of the Funds until his death on September 14, 2008.

* Preferred Shares Trustee

Proxy Voting Policies & Procedures:

A description of the policies and procedures that the Funds have adopted to determine how to vote proxies relating to portfolio securities and information about how the Funds voted proxies relating to portfolio securities held during the most recent twelve month period ended June 30 is available (i) without charge, upon request, by calling the Funds shareholder servicing agent at (800) 331-1710; (ii) on the Funds website at www.allianzinvestors.com/closedendfunds, and (iii) on the Securities and Exchange Commission s website at www.sec.gov.

Nicholas-Applegate Convertible & Income Funds

Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements
(unaudited)

The Investment Company Act of 1940 requires that both the full Board of Trustees (the Trustees) and a majority of the non-interested (Independent) Trustees, voting separately, approve the Funds Management Agreements (the Advisory Agreements) with the Investment Manager and Portfolio Management Agreements (the Sub-Advisory Agreements , and together with the Advisory Agreements, the Agreements) between the Investment Manager and the Sub-Adviser. The Trustees met on June 10-11, 2008 (the contract review meeting) for the specific purpose of considering whether to approve the Advisory Agreements and the Sub-Advisory Agreements. The Independent Trustees were assisted in their evaluation of the Agreements by independent legal counsel, from whom they received separate legal advice and with whom they met separately from Fund management during the contract review meeting.

Based on their evaluation of factors that they deemed to be material, including those factors described below, the Board of Trustees, including a majority of the Independent Trustees, concluded that the continuation of the Funds Advisory Agreements and the Sub-Advisory Agreements should be approved for a one-year period commencing July 1, 2008.

In connection with their deliberations regarding the continuation of the Agreements, the Trustees, including the Independent Trustees, considered such information and factors as they believed, in light of the legal advice furnished to them and their own business judgment, to be relevant. As described below, the Trustees considered the nature, quality, and extent of the various investment management, administrative and other services performed by the Investment Manager or the Sub-Adviser under the applicable Agreements.

In connection with their contract review meeting, the Trustees received and relied upon materials provided by the Investment Manager which included, among other items: (i) information provided by Lipper Inc. (Lipper) on the total return investment performance (based on net assets) of the Funds for various time periods and the investment performance of a group of funds with substantially similar investment classifications/objectives as the Funds identified by Lipper and the performance of applicable benchmark indices, (ii) information provided by Lipper on the Funds management fees and other expenses and the management fees and other expenses of comparable funds identified by Lipper, (iii) information regarding the investment performance and management fees of comparable portfolios of other clients of the Sub-Adviser, including institutional separate accounts and other clients, (iv) the profitability to the Investment Manager and the Sub-Adviser from their relationship with the Funds for the twelve months ended March 31, 2008, (v) descriptions of various functions performed by the Investment Manager and the Sub-Adviser for the Funds, such as portfolio management, compliance monitoring and portfolio trading practices, and (vi) information regarding the overall organization of the Investment Manager and the Sub-Adviser, including information regarding senior management, portfolio managers and other personnel providing investment management, administrative and other services to the Funds.

The Trustees conclusions as to the continuation of the Agreements were based on a comprehensive consideration of all information provided to the Trustees and not the result of any single factor. Some of the factors that figured particularly in the Trustees deliberations (described below), although individual Trustees may have evaluated the information presented differently from one another, giving different weights to various factors.

As part of their review, the Trustees examined the Investment Manager s and the Sub-Advisers abilities to provide high quality investment management and other services to the Funds. The Trustees considered the investment philosophy and research and decision-making processes of the Sub-Adviser; the experience of key advisory personnel of the Sub-Advisers responsible for portfolio management of the Funds; the ability of the Investment Manager and the Sub-Advisers to attract and retain capable personnel; the capability and integrity of the senior management and staff of the Investment Manager and the Sub-Adviser; and the level of skill required to manage the Funds. In addition, the Trustees reviewed the quality of the Investment Manager s and the Sub-Adviser s services with respect to regulatory compliance and compliance with the investment policies of the Funds; the nature and quality of certain administrative services the Investment Manager is responsible for providing to the Funds; and conditions that might affect the Investment Manager s or the Sub-Adviser s ability to provide high quality services to the Funds in the future under the Agreements, including each organization s respective business reputation, financial condition and operational stability. Based on the foregoing, the Trustees concluded that the Sub-Adviser s investment process, research capabilities and philosophy were well suited to the Funds given their investment objectives and policies, and that the Investment Manager and the Sub-Adviser would be able to continue to meet any reasonably foreseeable obligations under the Agreements.

Based on information provided by Lipper, the Trustees also reviewed each Fund s total return investment performance as well as the performance of comparable funds identified by Lipper In the course of their deliberations, the Trustees took into account information provided by the Investment Manager in connection with the contract review meeting, as well as during investment review meetings conducted with portfolio management personnel during the course of the year regarding each Fund s performance.

In assessing the reasonableness of each Fund s fees under the Agreements, the Trustees considered, among other information, each Fund s management fee and the total expense ratio as a percentage of average net assets attributable to common shares and the management fee and total expense ratios of comparable funds identified by Lipper.

For each of the Funds, the Trustees specifically took note of how each Fund compared to its Lipper peers as to performance, management fee expenses and total expenses. The Trustees noted that the Investment Manager had provided a memorandum containing comparative information on the performance and expenses information of the Funds compared to the their Lipper peer categories. The Trustees noted that while the Funds are not charged a separate administration fee, it was not clear whether the peer funds in the Lipper categories were charged such a fee by their investment managers.

Convertible & Income

The Trustees noted that NCV had underperformed the median for its peer group for the one-year and three-year periods ended March 31, 2008. The Trustees also noted that NCV performed in line with the median for its peer group for the five-year period ended March 31, 2008. The Trustees also noted that NCV s expense ratio was in line with the median for its peer group.

Convertible & Income II

The Trustees noted that NCZ had underperformed the median for its peer group for the one-year and three-year periods ended March 31, 2008. The Trustees also noted that NCZ s expense ratio was worse than the median for its peer group.

After reviewing these and related factors, the Trustees concluded, within the context of their overall conclusions regarding the Agreements, that they were satisfied with the Investment Manager s and the Sub-Adviser s responses and efforts relating to investment performance and the comparative positioning of each Fund with respect to the management fee paid to the Investment Manager.

The Trustees also considered the management fees charged by the Sub-Advisers to other clients, including institutional separate accounts with investment strategies similar to those of the Funds. Regarding the institutional separate accounts, they noted that the management fees paid by the Funds are generally higher than the fees paid by these clients of the Sub-Adviser, but were advised that the administrative burden for the Investment Manager and the Sub-Advisers with respect to the Funds are also relatively higher, due in part to the more extensive regulatory regime to which the Funds are subject in comparison to institutional separate accounts. The Trustees noted that the management fees paid by the Funds are generally higher than the fees paid by the open-end funds offered for comparison but were advised that there are additional portfolio management challenges in managing the Funds, such as the use of leverage and meeting a regular dividend.

The Trustees also took into account that the Funds have preferred shares outstanding, which increases the amount of fees received by the Investment Manager and the Sub-Adviser under the Agreements (because the fees are calculated based on either the Fund s net assets or total managed assets, including assets attributable to preferred shares and other forms of leverage outstanding but not deducting any liabilities connected to the leverage). In this regard, the Trustees took into account that the Investment Manager and the Sub-Adviser have a financial incentive for the Funds to continue to have preferred shares outstanding, which may create a conflict of interest between the Investment Manager and the Sub-Adviser, on one hand, and the Fund s common shareholders, on the other. In this regard, the Trustees considered information provided by the Investment Manager and the Sub-Adviser indicating that each Fund s use of leverage through preferred shares continues to be appropriate and in the interests of the respective Fund s common shareholders.

Based on a profitability analysis provided by the Investment Manager, the Trustees also considered the profitability of the Investment Manager and the Sub-Adviser from their relationship with each Fund and determined that such profitability was not excessive.

The Trustees also took into account that, as closed-end investment companies, the Funds do not currently intend to raise additional assets, so the assets of the Funds will grow (if at all) only through the investment performance of each Fund.

Matters Relating to the Trustees Consideration of the Investment Management and Portfolio Management Agreements

(unaudited) (continued)

Therefore, the Trustees did not consider potential economies of scale as a principal factor in assessing the fee rates payable under the Agreements.

Additionally, the Trustees considered so-called fall-out benefits to the Investment Manager and the Sub-Adviser, such as reputational value derived from serving as Investment Manager and Sub-Adviser to the Funds.

After reviewing these and other factors described herein, the Trustees concluded with respect to each Fund, within the context of their overall conclusions regarding the Agreements, that the fees payable under the Agreements represent reasonable compensation in light of the nature and quality of the services being provided by the Investment Manager and Sub-Adviser to the Funds.

Investment Manager

Allianz Global Investors Fund Management LLC
1345 Avenue of the Americas
New York, NY 10105

Sub-Adviser

Nicholas-Applegate Capital Management LLC
600 West Broadway, 30th Floor
San Diego, California 92101

Custodian & Accounting Agent

Brown Brothers Harriman & Co.
40 Water Street
Boston, MA 02109

Transfer Agent, Dividend Paying Agent and Registrar

PNC Global Investment Servicing
P.O. Box 43027
Providence, RI 02940-3027

Independent Registered Public Accounting Firm

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017

Legal Counsel

Ropes & Gray LLP
One International Place
Boston, MA 02110-2624

This report, including the financial information herein, is transmitted to the shareholders of Nicholas-Applegate Convertible & Income Fund and Nicholas-Applegate Convertible & Income Fund II for their information. It is not a prospectus, circular or representation intended for use in the purchase of shares of the Funds or any securities mentioned in this report.

The financial information included herein is taken from the records of the Funds without examination by an independent registered accounting firm, who did not express an opinion thereon.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that from time to time the Funds may purchase shares of their common stock in the open market.

The Funds file their complete schedules of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of their fiscal year on Form N-Q. The Funds Form N-Q s are available on the SEC s website at www.sec.gov and may be reviewed and copied at the SEC s Public Reference Room in Washington D.C. Information on the operation of the Public Reference Room may be obtained by calling (800) SEC-0330. The information on Form N-Q is also available on the Funds website at www.allianzinvestors.com/closedendfunds.

On July 31, 2008, the Funds submitted a CEO annual certification to the New York Stock Exchange (NYSE) on which the Funds principal executive officer certified that he was not aware, as of the date, of any violation by the Funds of the NYSE s Corporate Governance listing standards. In addition, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and related SEC rules, the Funds principal executive and principal financial officer made quarterly certifications, included in filings with the SEC on Forms N-CSR and N-Q relating to, among other things, the Funds disclosure controls and procedures and internal control over financial reporting, as applicable.

Information on the Funds is available at www.allianzinvestors.com/closedendfunds or by calling the Funds shareholder servicing agent at (800) 331-1710.

ITEM 2. CODE OF ETHICS

Not required in this filing.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT

Not required in this filing.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Not required in this filing.

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANT

Not required in this filing.

ITEM 6. SCHEDULE OF INVESTMENTS Schedule of Investments is included as part of the report to shareholders filed under Item 1 of this form.

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

Not required in this filing.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED END MANAGEMENT INVESTMENT COMPANIES

(a) Not required in this filing.

(b) **Nicholas Applegate Capital Management LLC ("NACM" or "Nicholas-Applegate")**

As of November 4, 2008, the following individuals constitute the team that has primary responsibility for the day-to-day implementation of the Nicholas-Applegate Convertible & Income Fund (NCV) and Nicholas-Applegate Convertible & Income Fund II (NCZ), with Mr. Forsyth serving as head of the team:

Douglas G. Forsyth, CFA

Managing Director, Portfolio Manage (since inception), Income and Growth Strategies

Doug Forsyth oversees Nicholas-Applegate's Income and Growth Strategies portfolio management and research teams and is a member of the firm's Executive Committee. Prior to joining Nicholas-Applegate in 1994, Doug was a securities analyst at AEGON USA, where he was responsible for financial and strategic analysis of high yield securities. Doug was previously a research assistant at The University of Iowa, where he earned his B.B.A. in finance. He has sixteen years of investment industry experience.

Justin Kass, CFA

Senior Vice President, Portfolio Manage (since July 2003 of NCV and since inception of NCZ), Income and Growth Strategies

Justin Kass joined the firm in 2000 with responsibilities for portfolio management and research on our Income and Growth Strategies team. He was previously an analyst and interned on the team, where he added significant depth to our proprietary Upgrade Alert Model. He earned his M.B.A. in finance from The UCLA Anderson School of Management and his B.S. from the University of California, Davis. He has ten years of investment industry experience.

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

None

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

There have been no material changes to the procedures by which shareholders may recommend nominees to the Fund s Board of Trustees since the Fund last provided disclosure in response to this item.

ITEM 11. CONTROLS AND PROCEDURES

(a) The registrant s President and Chief Executive Officer and Treasurer, Principal Financial and Accounting Officer have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-2(c) under the Act (17 CFR 270.3a-3(c))), as amended are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.

(b) There were no significant changes over financial reporting (as defined in Rule 30a-3(d)) under the Act (17 CFR 270.3a-3(d))) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's control over financial reporting.

ITEM 12. EXHIBITS

(a) (1) Exhibit 99 Cert. - Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

(b) Exhibit 99.906 Cert. - Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Signature

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) Nicholas-Applegate
Convertible & Income Fund

By /s/ Brian S. Shlissel
President and Chief Executive Officer

Date November 4, 2008

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date November 4, 2008

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 /s/ Brian S. Shlissel
President and Chief Executive Officer

Date November 4, 2008

By /s/ Lawrence G. Altadonna
Treasurer, Principal Financial & Accounting Officer

Date November 4, 2008