

AGIC Convertible & Income Fund  
Form N-CSR  
May 01, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**  
**MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: **811-21284**

**AGIC Convertible & Income Fund**  
(Exact name of registrant as specified in charter)

**1633 Broadway, New York,**  
(Address of principal executive offices)

**NY 10019**  
(Zip code)

**Lawrence G. Altadonna 1633 Broadway, New York, NY 10019**  
(Name and address of agent for service)

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

Date of fiscal year end: February 29, 2012

Date of reporting period: **February 29, 2012**

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Item 1. Report to Shareholders

# Annual Report

February 29, 2012

AGIC Convertible & Income Fund

AGIC Convertible & Income Fund II

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Hans W. Kertess

*Chairman*

Brian S. Shlissel

*President & CEO*

Dear Shareholder:

The U.S. economy gained strength throughout the twelve-month fiscal period ended February 29, 2012. The labor market improved, sparking a rise in consumer sentiment and spending. Many U.S. corporations invested in new plant and equipment and/or increased dividends to shareholders. These welcome and confident developments occurred despite a series of geopolitical problems around the world, including ongoing volatility in the Mideast, an earthquake, tsunami and nuclear disaster in Japan and Europe's worsening sovereign debt crisis. The United States was hardly immune to troubles of its own as housing prices continued to sink on a macro basis and the U.S. government's long-term debt rating was downgraded. This blend of good and not-so-good news at times sparked extraordinary market volatility, though the overall market trend was demonstrably higher, with U.S. stock indexes reaching levels not seen in nearly four years.

**Twelve Months in Review through February 29, 2012**

For the twelve-month fiscal period ended February 29, 2012:

AGIC Convertible & Income Fund rose 1.09% on net asset value ( NAV ) and declined -0.15% on market price.

AGIC Convertible & Income Fund II rose 0.74% on NAV and declined -2.27% on market price.

In comparison, the Standard & Poor's 500 Index, an unmanaged index generally representative of the U.S. stock market, rose 5.12% and the Barclays Capital U.S. Credit Index, an unmanaged index considered representative of publicly issued, Securities & Exchange Commission ( SEC ) registered U.S. corporate and specific foreign debentures and secured notes, advanced 10.41% during the reporting period.

Yet even as stocks and bonds performed well, convertibles, which share characteristics of both stocks and bonds, were caught by a market correction. The BofA Merrill Lynch All Convertibles Index, an unmanaged index generally representative of the convertible securities market, declined -1.10% for the fiscal year ended February 29, 2012. Convertibles were in essence whipsawed over the course of the reporting period. During the run-up in stocks prior to the reporting period, convertibles were highly correlated with stocks, as equities declined during the sharp correction in the third quarter of 2011, convertibles fell as well. However, as convertibles subsequently became more bond-like and defensive, they did not experience much of the ensuing rebound in stocks.

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The fiscal twelve-month period unfolded with U.S. gross domestic product ( GDP ), the value of goods and services produced in the country, the broadest measure of economic activity and the principal indicator of economic

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performance, growing at a 0.4% annual rate between January and March 2011. Growth rates improved steadily from that point, with GDP expanding at annualized rates of 1.3% between April and June 2011, 1.8% between July and September 2011 and 3.0% between October and December 2011. The final two months of the fiscal reporting period signified strength as well, with the latest Beige Book report from the Federal Reserve (the Fed) indicating economic expansion in all but one of twelve banking districts across the country. The central bank described auto manufacturing as vibrant, and mentioned consumer spending was growing more robust. The U.S. unemployment rate decreased during the fiscal year from 9.0% to 8.3%, with the entire decline

occurring in the final six months of the reporting period. U.S. Labor Department data indicated that 3.9 million nonfarm payroll jobs were added to the economy during the past 24 months.

Despite the brightening economic picture, the Fed maintained a cautious stance, indicating it would keep short-term interest rates in the 0.0% to 0.25% range through late 2014. Fed chairman, Ben Bernanke, conveyed to Congress that additional stimulus measures as appropriate to promote a stronger economic recovery in the context of price

stability have not been ruled out.

**Positioned to Face Today's Challenges**

The U.S. economy certainly strengthened during the twelve-month fiscal reporting period. However, the housing market remains weak, energy prices have been on the rise, and unemployment, according to Fed projections, will stay stubbornly high for the near future. These concerns, combined with a slowdown in China, a European Union that is edging closer to, if it is not already in, a recession, and the possibility of military conflict with Iran, are likely to impact future growth.

For specific information on the Funds and their performance, please refer to the following pages. If you have any questions regarding the information provided, we encourage you to contact your financial advisor or call the Funds' shareholder servicing agent at (800) 254-5197. In addition, a wide range of information and resources is available on our website, [www.allianzinvestors.com/closedendfunds](http://www.allianzinvestors.com/closedendfunds).

Together with Allianz Global Investors Fund Management LLC, the Funds' investment manager, and Allianz Global Investors Capital LLC, the Funds' sub-adviser, we thank you for investing with us.

We remain dedicated to serving your investment needs.

Sincerely,

Hans W. Kertess

Chairman

Brian S. Shlissel

President & CEO

Receive this report electronically and eliminate paper mailings. To enroll, go to [www.allianzinvestors.com/edelivery](http://www.allianzinvestors.com/edelivery).



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**AGIC Convertible & Income Funds Fund Insights**

February 29, 2012 (unaudited)

**Performance Overview**

For the fiscal period ended February 29, 2012, AGIC Convertible & Income Fund and AGIC Convertible & Income Fund II returned 1.09% and 0.74% on net asset value ( NAV ) and -0.15% and -2.27% on market price, respectively.

**Market Environment**

Although market sentiment varied significantly throughout the reporting period, the combined net result for the convertible and high yield bond markets was positive. Significant macro events early in the period, including the disaster in Japan, increasing oil prices due to political unrest in the Middle East / North Africa and European sovereign debt woes, were notable headlines, but ultimately had little substantial impact on the markets as a whole.

Mid-period performance was the worst since the 2008 financial crisis. Political headlines and related macroeconomic uncertainty influenced markets. The sell-off in convertibles and high yield bonds was driven by fears of a double dip recession in the U.S., S&P's U.S. credit rating downgrade and the potential for a Greek default. Every macro factor seemed to be inexorably important, and broadly discouraged any buying. Convertibles and high yield bonds were readily for sale regardless of solid second quarter earnings. Additionally, a decline in bond floor valuations had a negative impact on the convertibles market, while the lack of liquidity from the major banks and brokers exacerbated the decline.

Performance over the remaining months of the reporting period reversed and rebounded nicely into the end of February as corporate profits rose, U.S. recession fears waned, monetary policy remained favorable and concerns around Europe's sovereign debt crisis eased. Corporate bond spreads tightened as prices rose to more accurately reflect the lack of balance sheet risk for the average issuer in the market. Besides a positive equity market, an increase in bond floor valuations had a positive impact on the convertibles market.

Based on these observations, it was not surprising that sector level performance was mixed for the period. Within the convertible universe, economically sensitive sectors, such as transportation, energy and materials, underperformed for the reporting period, while counter-cyclical sectors including utilities, health care and telecommunications issuers outperformed.



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Within the high yield universe nearly all industries posted gains. Top performers included food & drug retail, cable/satellite TV and restaurants. In contrast, the publishing/printing and paper industries were the only industries to record a negative return. Airline and transportation (exclusive of air/rail) issuers were higher over the period, but trailed the overall market.

### **Portfolio specifics**

The Funds' convertible positions in utilities, consumer staples and technology were the strongest contributors to performance during the reporting period. Defensive sectors benefited the most when the market abruptly rotated into counter-cyclical stocks during the first half of the reporting period as economic slowdown concerns weighed on investor sentiment. Additionally, select technology companies were higher on M&A activity as well as data suggesting continued strong end demand.

On the other hand, the most economically sensitive holdings, including energy, materials and transportation, were the weakest performers. Energy issuers were lower as weak macro data drove down energy prices earlier in the reporting period and reduced investors' confidence in future earnings. Materials companies came under pressure on fears that the weaker global economic outlook in conjunction with higher input costs would impact future earnings. Transportation underperformance was isolated to the first half of the reporting period when economic slowdown concerns were the most persistent.

The Funds' high yield positions in automotive & auto parts, food & drug retail and restaurants rose by the greatest magnitude during the reporting period. Auto-related issuers benefited as demand for automobiles trended above expectations and production increased. Improving sales helped lift the aforementioned retail and restaurant industries.

On the downside, the paper, utilities and chemical industries were among the Funds' weakest performers. Macro factors played a much greater role in the negative performance of said industries than company-specific information.

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**AGIC Convertible & Income Funds Fund Insights**

February 29, 2012 (unaudited) (continued)

**Outlook**

The outlook for the U.S. high yield and convertible markets is unchanged and constructive.

Leverage ratios and interest coverage ratios are near or better than levels seen in the past twenty years, while cash levels remain high. Default rates are low and will likely stay low for an extended period. The past earnings season has provided greater visibility and confirmation that companies can meet or beat expectations and provide reasonable future earnings visibility.

High yield spreads ended February 2012 at approximately 600 basis points over comparable Treasuries. The historical average spread remains inside of this level, specifically at this point in the credit cycle. The high yield market has priced in a default rate forecast that is far higher than the current 1-2%. The yield generated by high yield issues relative to the risk associated with the asset class is clearly attractive. Given these dynamics, convertible bond floors should hold, diminishing their downside participation rate.

While credit spread volatility should continue to impact convertible performance, we believe equity market volatility will also be a driver of future convertible returns. In 2012, companies are expected to use the high cash levels on their balance sheets and future free cash flow to boost shareholder value. Share buybacks, increased dividends and merger and acquisition activity are possible uses of excess cash. These factors can benefit equity and convertible investors.

Our disciplined approach of focusing on companies that are exceeding expectations and improving their credit statistics should be rewarded as those companies differentiate themselves from their peer group. In this environment, we believe companies that have reasonable earnings visibility should command premium valuations relative to other companies.

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**AGIC Convertible & Income Fund Performance & Statistics**

February 29, 2012 (unaudited)

Total Return <sup>(1)</sup> :	Market Price	NAV
1 Year	0.15%	1.09%
5 Year	3.35%	2.81%
Commencement of Operations (3/31/03) to 2/29/12	8.38%	7.69%

Market Price/NAV Performance:

Commencement of Operations (3/31/03) to 2/29/12

Market Price/NAV:

Market Price	\$9.70
NAV	\$8.65
Premium to NAV	12.14%
Market Price Yield <sup>(2)</sup>	11.13%
Leverage Ratio <sup>(3)</sup>	35.33%

Moody's Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return.

Performance at market price will differ from results at NAV. Although market price returns typically reflect investment results over time, during shorter periods returns at market price can also be influenced by factors such as changing views about the Fund, market conditions, supply and demand for the Fund's shares, or changes in the Fund's dividends.

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

(2) Market Price Yield is determined by dividing the annualized current monthly dividend per common share (comprised of net investment income) by the market price per common share at February 29, 2012.

(3) Represents Preferred Shares outstanding as a percentage of total managed assets. Total managed assets refer to the total assets of the Fund (including assets attributable to Preferred Shares or other forms of leverage that may be outstanding) minus accrued liabilities (other than liabilities representing leverage).



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**AGIC Convertible & Income Fund II Performance & Statistics**

February 29, 2012 (unaudited)

Total Return <sup>(1)</sup> :	Market Price	NAV
1 Year	2.27%	0.74%
5 Year	2.82%	1.28%
Commencement of Operations (7/31/03) to 2/29/12	6.68%	5.91%

Market Price/NAV Performance:

Commencement of Operations (7/31/03) to 2/29/12

Market Price/NAV:

Market Price	\$8.84
NAV	\$7.86
Premium to NAV	12.47%
Market Price Yield <sup>(2)</sup>	11.54%
Leverage Ratio <sup>(3)</sup>	35.72%

Moody's Ratings

(as a % of total investments)

(1) **Past performance is no guarantee of future results.** Total return is calculated by determining the percentage change in NAV or market price (as applicable) in the specified period. The calculation assumes that all income dividends, capital gain and return of capital distributions, if any, have been reinvested. Total return does not reflect broker commissions or sales charges in connection with the purchase or sale of Fund shares. Total return for a period of more than one year represents the average annual total return.

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February 29, 2012

Principal Amount (000s)		Value
<b>CORPORATE BONDS &amp; NOTES 44.9%</b>		
<b>Advertising 0.8%</b>		
\$8,230	Affinion Group, Inc., 11.50%, 10/15/15	\$7,756,775
<b>Aerospace &amp; Defense 0.2%</b>		
1,730	BE Aerospace, Inc., 8.50%, 7/1/18	1,931,113
<b>Airlines 0.7%</b>		
6,250	United Airlines, Inc., 12.00%, 11/1/13 (a)(b)	6,656,250
<b>Auto Manufacturers 0.7%</b>		
7,410	Chrysler Group LLC, 8.25%, 6/15/21	7,521,150
<b>Commercial Services 2.8%</b>		
10,945	Cenveo Corp., 10.50%, 8/15/16 (a)(b)	10,780,825
5,705	DynCorp International, Inc., 10.375%, 7/1/17	5,077,450
11,000	National Money Mart Co., 10.375%, 12/15/16	12,251,250
		28,109,525
<b>Construction &amp; Engineering 1.0%</b>		
9,695	MasTec, Inc., 7.625%, 2/1/17	10,107,037
<b>Consumer Finance 0.4%</b>		
5,775	Springleaf Finance Corp., 6.90%, 12/15/17	4,504,500
<b>Diversified Consumer Services 0.5%</b>		
5,105	Cambium Learning Group, Inc., 9.75%, 2/15/17	5,053,950
<b>Diversified Financial Services 1.4%</b>		
10,085	Community Choice Financial, Inc., 10.75%, 5/1/19 (a)(b)	9,832,875
3,995	International Lease Finance Corp., 6.375%, 3/25/13	4,104,862
		13,937,737
<b>Diversified Telecommunications 1.0%</b>		
10,275	Cincinnati Bell, Inc., 8.75%, 3/15/18	9,838,312
<b>Electric 1.1%</b>		
8,705	Edison Mission Energy, 7.00%, 5/15/17	5,875,875
	Texas Competitive Electric Holdings Co. LLC,	
750	11.50%, 10/1/20 (a)(b)	510,000
10,800	15.00%, 4/1/21	4,590,000
		10,975,875
<b>Electronic Equipment, Instruments &amp; Components 0.9%</b>		
8,785	Kemet Corp., 10.50%, 5/1/18	9,619,575

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<b>Electronics 0.2%</b>		
1,700	NXP BV / NXP Funding LLC, 9.75%, 8/1/18 (a)(b)	1,931,625
<b>Energy Equipment &amp; Services 1.0%</b>		
9,795	Pioneer Drilling Co., 9.875%, 3/15/18	10,529,625
<b>Health Care Providers &amp; Services 1.6%</b>		
8,875	ExamWorks Group, Inc., 9.00%, 7/15/19 (a)(b)	8,697,500
9,910	Rotech Healthcare, Inc., 10.50%, 3/15/18	7,605,925
		16,303,425
<b>Healthcare-Services 0.1%</b>		
1,570	Alliance HealthCare Services, Inc., 8.00%, 12/1/16	1,134,325



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**AGIC Convertible & Income Fund Schedule of Investments**

February 29, 2012 (continued)

Principal Amount (000s)		Value
<b>Home Builders 0.9%</b>		
	K Hovnanian Enterprises, Inc.,	
\$7,360	2.00%, 11/1/21 (a)(b)	\$4,011,200
5,575	10.625%, 10/15/16	5,219,594
		9,230,794
<b>Hotels, Restaurants &amp; Leisure 1.7%</b>		
6,270	DineEquity, Inc., 9.50%, 10/30/18	6,944,025
8,405	MGM Resorts International, 11.375%, 3/1/18	9,959,925
		16,903,950
<b>Household Durables 0.9%</b>		
5,045	Beazer Homes USA, Inc., 9.125%, 5/15/19	4,326,088
3,950	Jarden Corp., 7.50%, 5/1/17	4,374,625