NUVEEN QUALITY PREFERRED INCOME FUND 2
Form N-CSRS
September 08, 2010

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 811-21137

Nuveen Quality Preferred Income Fund 2
(Exact name of registrant as specified in charter)

Nuveen Investments

333 West Wacker Drive

Chicago, IL 60606
(Address of principal executive offices) (Zip code)

Kevin J. McCarthy

Nuveen Investments

333 West Wacker Drive

Chicago, IL 60606
(Name and address of agent for service)

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

Date of fiscal year end: December 31

Date of reporting period: June 30, 2010

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

ITEM 1. REPORTS TO STOCKHOLDERS.

Closed-End Funds

# Nuveen Investments

# Closed-End Funds

***High Current Income from a Portfolio of Investment-Grade Preferred Securities***

Semi-Annual Report

June 30, 2010

**Nuveen Quality Preferred Income Fund**

**JTP**

**Nuveen Quality Preferred Income Fund 2**

**JPS**

**Nuveen Quality Preferred Income Fund 3**

**JHP**

**NUVEEN INVESTMENTS ANNOUNCES STRATEGIC COMBINATION WITH FAF ADVISORS**

On July 29, 2010, Nuveen Investments, Inc. announced that U.S. Bancorp will receive a 9.5% stake in Nuveen Investments and cash consideration in exchange for the long-term asset business of U.S. Bancorp's FAF Advisors (FAF). Nuveen Investments is the parent of Nuveen Asset Management (NAM), the investment adviser for the Funds included in this report.

FAF Advisors, which currently manages about $25 billion of long-term assets and serves as the advisor of the First American Funds, will be combined with NAM, which currently manages about $75 billion in municipal fixed income assets. Upon completion of the transaction, Nuveen Investments, which currently manages about $150 billion of assets across several high-quality affiliates, will manage a combined total of about $175 billion in institutional and retail assets.

**This combination will not affect the investment objectives, strategies or policies of the Funds in this report.** Over time, Nuveen Investments expects that the combination will provide even more ways to meet the needs of investors who work with financial advisors and consultants by enhancing the multi-boutique model of Nuveen Investments, which also includes highly respected investment teams at NWQ Investment Management, Santa Barbara Asset Management, Symphony Asset Management, Tradewinds Global Investors, Winslow Capital and Nuveen HydePark.

The transaction is expected to close late in 2010, subject to customary conditions.

# Chairman's
# Letter to Shareholders

**Dear Shareholder,**

The economic environment in which your Fund operates reflects continuing but uneven economic recovery. The U.S. and other major industrial countries are experiencing steady but comparatively low levels of economic growth, while emerging market countries are seeing a resumption of relatively strong economic expansion. The potential impact of steps being considered by many governments to counteract the extraordinary governmental spending and credit expansion to deal with the recent financial and economic crisis is injecting uncertainty into global financial markets. The implications for future tax rates, government spending, interest rates and the pace of economic recovery in the U.S. and other leading economies are extremely difficult to predict at the present time. The long term health of the global economy depends on restoring some measure of fiscal discipline around the world, but since all of the corrective steps require economic pain, it is not surprising that governments are reluctant to undertake them.

In the near term, governments remain committed to furthering economic recovery and realizing a meaningful reduction in their national unemployment rates. Such an environment should produce continued economic growth and, consequently, attractive investment opportunities. Over the longer term, the larger uncertainty mentioned earlier carries the risk of unexpected potholes in the road to sustained recovery. For this reason, Nuveen's investment management teams are working hard to balance return and risk by building well-diversified portfolios, among other strategies. I encourage you to read the following commentary on the management of your Fund. As always, I also encourage you to contact your financial consultant if you have any questions about your Nuveen Fund investment. Please consult the Nuveen website for the most recent information on your Nuveen Fund at: www.nuveen.com.

On behalf of the other members of your Fund's Board, we look forward to continuing to earn your trust in the months and years ahead.

Sincerely,

Robert P. Bremner
Chairman of the Board
August 17, 2010

# Portfolio Managers' Comments

**Certain statements in this report are forward-looking statements. Discussions of specific investments are for illustration only and are not intended as recommendations of individual investments. The forward-looking statements and other views expressed herein are those of the portfolio managers as of the date of this report. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements and the views expressed herein are subject to change at any time, due to numerous market and other factors. The Funds disclaim any obligation to update publicly or revise any forward-looking statements or views expressed herein.**

## Nuveen Quality Preferred Income Fund (JTP)
## Nuveen Quality Preferred Income Fund 2 (JPS)
## Nuveen Quality Preferred Income Fund 3 (JHP)

*The Nuveen Quality Preferred Income Funds are sub-advised by a team of specialists at Spectrum Asset Management, a wholly-owned subsidiary of Principal Global Investors, LLC.. Mark Lieb and Phil Jacoby, who have more than 40 years of combined experience in the preferred securities markets, lead the team. Here Mark and Phil talk about their management strategy and the performance of each Fund for the six-month period ended June 30, 2010.*

**What was your management strategy during the period?**

The investment objective of each Fund is to earn high current income consistent with capital preservation. Each Fund's secondary objective is to enhance portfolio value. Under normal market conditions, the Funds seek to invest at least 80% of their net assets in preferred securities and up to 20% in debt securities, including convertible debt securities and convertible preferred securities.

As we reported in the last shareholder report, the preferred securities market over the last several years has changed from an investment grade rated market, with more than 75% rated single A or higher, to a market where over 40% of all issues are rated below-investment grade, as measured by using the constituents of the Merrill Lynch Fixed Rated Preferred Index. In addition, the issuer concentration in the index has increased even further, with the largest five issuers now representing 40% of the Index's market value. As noted in the last report, the Funds' Board of Trustees adopted some changes in investment policies and procedures in response to these changing conditions. For much of the Funds' histories, all of their investments had to be rated investment grade at the time of purchase. The new guidelines now allow each Fund to have 20% of its net assets in securities rated below investment grade at the time of purchase. However, no Fund may purchase issues rated Caa1/CCC+ or lower, and if a portfolio holding is downgraded to that rating or below, the manager is required to sell the security as soon as practicable. Addressing the increase in issuer concentration, the new guidelines allow for a slightly greater concentration of higher rated securities from the same issuer within a portfolio, which allows managers more flexibility given the current market conditions.

The Board also expanded the internal duration guidelines followed by the Funds. Duration is a measure of price sensitivity to changes in market interest rates. The purpose of the Funds' duration guidelines is to help control their interest rate risk. This is a complex issue with regards to preferred securities since, depending on the underlying market

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares.

For additional information, see the individual Performance Overview for your Fund in this report.

1 The Barclays Capital U.S. Aggregate Bond Index is an unmanaged index that includes all investment-grade, publicly issued, fixed-rate, dollar denominated, nonconvertible debt issues and commercial mortgage backed securities with maturities of at least one year and outstanding par values of $150 million or more. Index returns do not include the effects of any sales charges or management fees. It is not possible to invest directly in an index.

2 Comparative Benchmark performance is a blended return consisting of: 1) 55% of the Merrill Lynch Preferred Stock Hybrid Securities Index, an unmanaged index of investment-grade, exchange traded preferred stocks with outstanding market values of at least $30 million and at least one year to maturity; and 2) 45% of the Barclays Capital Tier 1 Capital Securities Index, an unmanaged index that includes securities that can generally be viewed as hybrid fixed-income securities that either receive regulatory capital treatment or a degree of "equity credit" from a rating agency. Benchmark returns do not include the effects of any sales charges or management fees. It is not possible to invest directly in this Benchmark.

situation, preferreds could behave at times like equities and at other times like fixed income securities. In cases where preferred securities behave more like equities, interest rates are not drivers of performance and therefore not a significant risk factor. In other times, the market may perceive preferreds more as fixed income securities, making interest rate risk more relevant. The new internal guideline will help the Funds' managers distinguish between time periods when preferreds behave more like equities or fixed income, with specific duration policies implemented primarily during periods when preferred securities perform more like fixed income investments.

Looking at specific portfolio activity during this period, we increased our U.S. banking concentrations in the three Funds by about 2.4%. We also increased the Funds' holdings of real estate investment trusts (REITS) by about 0.6%. Additionally, we sold securities that we believed were trading at relatively attractive prices, and we used the proceeds to buy discounted preferred securities in an effort to preserve the capital of the Funds.

We also sought during this period to re-balance each Fund's foreign concentrations. Specifically, we reduced our Spanish banking concentrations 3% by closing the Banesto and Sovereign Bank positions. We also eliminated our exposure to Italy by closing UniCredito, and we sold the Mitsubishi UFJ Financial Group MUFG holdings to eliminate our Japan exposure. Conversely, we did increase French exposure by 2%. As a result of all these activities, we reduced our overall foreign issuer concentrations to 40% from 41%.

**How did the Funds perform over this six-month period?**

The performance of JTP, JPS and JHP, as well as a comparative index and benchmark, is presented in the accompanying table.

**Average Annual Total Returns on Common Share Net Asset Value**

For periods ended 6/30/10

| | 6-Month | 1-Year | 5-Year |
|---|---|---|---|
| JTP | 8.80% | 40.90% | -4.36% |
| JPS | 7.11% | 39.63% | -3.53% |
| JHP | 6.14% | 36.69% | -3.90% |
| Barclays Capital U.S. Aggregate Bond Index[1] | 5.33% | 9.50% | 5.54% |
| Comparative Benchmark[2] | 5.03% | 21.10% | 1.35% |

*Six-month returns are cumulative; all other returns are annualized.*

For this six-month period, all three Funds outperformed the general market and comparative benchmark indexes.

Among our largest positive contributors to the Funds' returns over the six-month reporting period were Agfirst Farm Credit, CoBank, Kimco Realty, CapitalOne and Wachovia. In general, the U.S. bank trust preferred sector benefited performance as many of these securities gained in price because some market observers believed they are likely to be gradually redeemed in response to certain provisions in the recently enacted financial sector reform bill.

Proactively, we closed out all of the Funds' Euro currency denominated issues in advance of the protracted currency weakness during the period. As a result, the Funds benefited from their reduced exposure.

While we were able to close out of the Euro currency dominated issues, the Funds' remaining holdings of foreign preferred securities constrained performance due to concerns over slow growth and the commensurate fiscal challenges of many Eurozone countries.

Our insurance holdings also detracted from performance. Investors sold insurance-related names in May, right at the same time that many dealers were looking to sell. This caused securities issued by companies like XL, Aegon and Hartford to underperform.

**IMPACT OF THE FUNDS' CAPITAL STRUCTURES AND LEVERAGE STRATEGIES ON PERFORMANCE**

One important factor impacting the returns of these Funds relative to the market and comparative indexes was the Funds' use of financial leverage, achieved primarily through the use of bank borrowings. The Funds use leverage because their managers believe that, over time, leveraging provides opportunities for additional income and total return for common shareholders. However, use of leverage also can expose common shareholders to additional risk especially when market conditions are unfavorable. For example, as the prices of securities held by a Fund decline, the negative impact of these valuation changes on common share net asset value and common shareholder total return is magnified by the use of leverage. Conversely, leverage may enhance common share returns during periods when the prices of portfolio holdings generally are rising.

Over the course of this six-month reporting period, leverage proved to be a net benefit for the performance of all three Funds.

**RECENT EVENTS CONCERNING THE FUNDS' REDEMPTION OF AUCTION RATE PREFERRED SHARES**

Shortly after their inceptions, each Fund issued auction rate preferred shares (ARPS) to create financial leverage. As noted in past shareholder reports, the weekly auctions for those ARPS shares began in February 2008 to consistently fail, causing the Funds to pay the so-called "maximum rate" to ARPS shareholders under the terms of the ARPS in the Funds' charter documents. With the goal of lowering the relative cost of leverage over time for common shareholders and providing liquidity at par for preferred shareholders, the Funds sought to refinance all of their outstanding ARPS beginning shortly thereafter. The Funds completed this refinancing process during 2009 and since then have relied upon bank borrowings to create financial leverage.

In April and May 2010, 30 Nuveen leveraged closed-end funds, including these Funds, received a demand letter from a law firm on behalf of purported holders of common shares of each fund, alleging that Nuveen and the funds' officers and Board of Directors/Trustees breached their fiduciary duties related to the redemption at par of the funds' ARPS. In response, the Board established an ad hoc Demand Committee consisting of disinterested and independent Board members to investigate the claims.

The Demand Committee retained independent counsel to assist it in conducting an extensive investigation.

Upon completion of its review, the Demand Committee found that it was not in the best interests of the Funds or its shareholders to take the actions suggested in the demand letters and recommended that the full Board reject the demands made in the demand letter. After reviewing the findings and recommendations of the Demand Committee, the Board of Trustees for the Funds unanimously adopted the Demand Committee's recommendation to reject the demands contained in the letters. At the time this report was produced, lawsuits pursuing claims made in the demand letter had been filed on behalf of shareholders of several funds, including these Funds, against Nuveen Asset Management, the Nuveen holding company, the majority owner of the holding company, the lone interested trustee, and current and former officers of the various funds. Nuveen Investments and other named defendants believe these lawsuits to be without merit, and all named parties intend to defend themselves vigorously. The Funds believe that these lawsuits will not have a material effect on the Funds or on Nuveen Investment Management's ability to serve as investment adviser to the Funds.

# Common Share Distribution and Share Price Information

The following information regarding your Fund's distributions is current as of June 30, 2010, and likely will vary over time based on each Fund's investment activities and portfolio investment value changes.

During the six-month reporting period, the Funds did not make any changes to their monthly distributions to common shareholders. Some of the important factors affecting the amount and composition of these distributions are summarized below.

The Funds employ financial leverage through the use of bank borrowings. Financial leverage provides the potential for higher earnings (net investment income), total returns and distributions over time, but as noted earlier also increases the variability of common shareholders' net asset value per share in response to changing market conditions. During the current reporting period, each Fund's financial leverage contributed positively to common share income and common share net asset value price return.

During certain periods, the Funds may pay dividends at a rate that may be more or less than the amount of net investment income actually earned by the Funds during the period. If a Fund has cumulatively earned more than it has paid in dividends, it holds excess in reserve as undistributed net investment income (UNII) as part of the Fund's NAV. Conversely, if a Fund has cumulatively paid dividends in excess of earnings, the excess constitutes negative UNII that is likewise reflected in a Funds' NAV. As of June 30, 2010, all three Funds had positive UNII balances, based upon our best estimate, for tax purposes and positive UNII balances for financial statement purposes.

The following table provides estimated information regarding each Fund's common share distributions and total return performance for the six months ended June 30, 2010. The distribution information is presented on a tax basis rather than a generally accepted accounting principles (GAAP) basis. This information is intended to help you better understand whether the Funds' returns for the specified time period were sufficient to meet each Fund's distributions.

| **As of 6/30/10 (Common Shares)** | **JTP** | **JPS** | **JHP** |
|---|---|---|---|
| Inception date | 6/25/02 | 9/24/02 | 12/18/02 |
| Six months ended June 30, 2010: | | | |
| Per share distribution: | | | |
| From net investment income | $ 0.29 | $ 0.32 | $ 0.31 |
| From realized capital gains | 0.00 | 0.00 | 0.00 |
| Return of capital | 0.00 | 0.00 | 0.00 |
| Total per share distribution | $ 0.29 | $ 0.32 | $ 0.31 |
| Annualized distribution rate on NAV | 7.84% | 8.12% | 8.17% |
| Average annual total returns: | | | |
| Six-Month (Cumulative) on NAV | 8.80% | 7.11% | 6.14% |
| 1-Year on NAV | 40.90% | 39.63% | 36.69% |
| 5-Year on NAV | -4.36% | -3.53% | -3.90% |
| Since inception on NAV | 0.59% | 1.65% | 0.61% |

**Common Share Repurchases and Shares Price Information**

Since the inception of the Funds' repurchase program, the Funds have not repurchased any of their outstanding common shares.

As of June 30, 2010, the Funds' common share prices were trading at (-) discounts to their common share NAVs as shown in the accompanying table.

| **Fund** | **6/30/10 (-) Discount** | **Six-Month Average (-) Discount** |
|---|---|---|
| JTP | -3.24% | -6.89% |
| JPS | -4.70% | -5.77% |
| JHP | -3.95% | -5.28% |

**Fund Snapshot**

| | |
|---|---|
| Common Share Price | $ 7.16 |
| Common Share Net Asset Value | $ 7.40 |
| Premium/(Discount) to NAV | -3.24% |
| Current Distribution Rate[1] | 8.04% |
| Net Assets Applicable to Common Shares ($000) | $ 477,980 |

**Average Annual Total Return**

(Inception 6/25/02)

| | On Share Price | On NAV |
|---|---|---|
| 6-Month (Cumulative) | 13.56% | 8.80% |
| 1-Year | 41.59% | 40.90% |
| 5-Year | -3.62% | -4.36% |
| Since Inception | -0.08% | 0.59% |

**Portfolio Composition**

(as a % of total investments)

| | |
|---|---|
| Insurance | 28.1% |
| Commercial Banks | 26.1% |
| Real Estate/Mortgage | 14.1% |
| Media | 6.2% |
| Capital Markets | 5.1% |
| Diversified Financial Services | 4.5% |
| Short-Term Investments | 1.6% |
| Other | 14.3% |

**Top Five Issuers**

(as a % of total investments)[2]

| | |
|---|---|
| Firstar Realty LLC | 3.7% |
| Viacom Inc. | 3.0% |
| Kimco Realty Corporation | 2.7% |
| Comcast Corporation | 2.7% |
| Wells Fargo | 2.6% |

JTP

Performance

# OVERVIEW

## Nuveen Quality Preferred Income Fund

as of June 30, 2010

**Portfolio Allocation** (as a % of total investments)

**2009-2010 Monthly Distributions Per Common Share**

**Common Share Price Performance** **Weekly Closing Price**

1 Current Distribution Rate is based on the Fund's current annualized monthly distribution divided by the Fund's current market price. The Fund's monthly distributions to its shareholders may be comprised of ordinary income, net realized capital gains and, if at the end of the calendar year the Fund's cumulative net ordinary income and net realized gains are less than the amount of the Fund's distributions, a tax return of capital.

2 Excluding short-term investments.

# JPS

Performance

## OVERVIEW

Nuveen Quality Preferred Income Fund 2

as of June 30, 2010

**Portfolio Allocation** (as a % of total investments)

**2009-2010 Monthly Distributions Per Common Share**

**Common Share Price Performance** **Weekly Closing Price**

1 Current Distribution Rate is based on the Fund's current annualized monthly distribution divided by the Fund's current market price. The Fund's monthly distributions to its shareholders may be comprised of ordinary income, net realized capital gains and, if at the end of the calendar year the Fund's cumulative net ordinary income and net realized gains are less than the amount of the Fund's distributions, a tax return of capital.

2 Excluding short-term investments.

**Fund Snapshot**

| | |
|---|---|
| Common Share Price | $ 7.51 |
| Common Share Net Asset Value | $ 7.88 |
| Premium/(Discount) to NAV | -4.70% |
| Current Distribution Rate[1] | 8.63% |
| Net Assets Applicable to Common Shares ($000) | $ 947,569 |

**Average Annual Total Return**

(Inception 9/24/02)

| | **On Share Price** | **On NAV** |
|---|---|---|
| 6-Month (Cumulative) | 8.09% | 7.11% |

| | | |
|---|---|---|
| 1-Year | 31.84% | 39.63% |
| 5-Year | -2.87% | -3.53% |
| Since Inception | 0.74% | 1.65% |

**Portfolio Composition**

(as a % of total investments)

| | |
|---|---|
| Commercial Banks | 28.1% |
| Insurance | 25.6% |
| Real Estate/Mortgage | 13.9% |
| Media | 6.0% |
| Diversified Financial Services | 5.4% |
| Capital Markets | 4.9% |
| Short-Term Investments | 1.9% |
| Other | 14.2% |

**Top Five Issuers**

(as a % of total investments)[2]

| | |
|---|---|
| Wells Fargo | 5.2% |
| Deutsche Bank AG | 3.1% |
| Credit Agricole, S.A. | 3.0% |
| Vodafone Group, PLC | 2.7% |
| Comcast Corporation | 2.6% |

**Fund Snapshot**

| | |
|---|---|
| Common Share Price | $ 7.29 |
| Common Share Net Asset Value | $ 7.59 |
| Premium/(Discount) to NAV | -3.95% |
| Current Distribution Rate[1] | 8.40% |
| Net Assets Applicable to Common Shares ($000) | $ 179,967 |

**Average Annual Total Return**

(Inception 12/18/02)

| | On Share Price | On NAV |
|---|---|---|
| 6-Month (Cumulative) | 9.35% | 6.14% |
| 1-Year | 33.76% | 36.69% |
| 5-Year | -3.93% | -3.90% |
| Since Inception | -0.27% | 0.61% |

**Portfolio Composition**

(as a % of total investments)

| | |
|---|---|
| Commercial Banks | 30.0% |
| Insurance | 27.6% |
| Real Estate/Mortgage | 12.0% |
| Capital Markets | 5.9% |
| Diversified Financial Services | 5.0% |
| Media | 3.2% |
| Short-Term Investments | 1.6% |
| Other | 14.7% |

**Top Five Issuers**

(as a % of total investments)[2]

| | |
|---|---|
| Wells Fargo | 4.9% |
| Deutsche Bank AG | 3.5% |
| Societe Generale | 3.0% |
| Credit Agricole, S.A. | 2.8% |
| Viacom Inc. | 2.7% |

# JHP

Performance

# OVERVIEW

## Nuveen Quality Preferred Income Fund 3

as of June 30, 2010

**Portfolio Allocation** (as a % of total investments)

**2009-2010 Monthly Distributions Per Common Share**

**Common Share Price Performance** **Weekly Closing Price**

1 Current Distribution Rate is based on the Fund's current annualized monthly distribution divided by the Fund's current market price. The Fund's monthly distributions to its shareholders may be comprised of ordinary income, net realized capital gains and, if at the end of the calendar year the Fund's cumulative net ordinary income and net realized gains are less than the amount of the Fund's distributions, a tax return of capital.

2 Excluding short-term investments.

JTP

JPS

JHP

# Shareholder MEETING REPORT

The annual meeting of shareholders was held in the offices of Nuveen Investments on April 6, 2010; at this meeting the shareholders were asked to vote on the election of Board Members.