

FORT DEARBORN INCOME SECURITIES INC  
Form N-CSR  
December 07, 2012

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: 811-02319

---

Fort Dearborn Income Securities, Inc.

---

(Exact name of registrant as specified in charter)

One North Wacker Drive, Chicago, IL 60606-2807

---

(Address of principal executive offices) (Zip code)

Joseph J. Alessie, Esq.

UBS Global Asset Management (Americas) Inc.

1285 Avenue of the Americas

New York, NY 10019

(Name and address of agent for service)

Copy to:

Bruce Leto, Esq.

Edgar Filing: FORT DEARBORN INCOME SECURITIES INC - Form N-CSR

Stradley Ronon Stevens & Young, LLP

2600 One Commerce Square

Philadelphia, PA 19103-7098

Registrant's telephone number, including area code: 212-821 3000

Date of fiscal year end: September 30

Date of reporting period: September 30, 2012

Item 1. Reports to Stockholders.

Closed-end funds

Fort Dearborn Income  
Securities, Inc.  
Annual Report  
September 30, 2012

# Fort Dearborn Income Securities, Inc.

November 15, 2012

## Dear shareholder,

We present you with the annual report for Fort Dearborn Income Securities, Inc. (the "Fund") for the 12 months ended September 30, 2012.

## Performance

For the 12 months ended September 30, 2012, the Fund returned 12.23% on a net asset value ("NAV") basis, and 16.81% on a market price basis. Over the same period, the Fund's benchmark, the Investment Grade Bond Index (the "Index"), returned 11.72%, while the Fund's peer group, as measured by the Lipper Corporate Debt Funds BBB-Rated median, posted a return of 12.41% on a NAV basis, and 15.80% on a market price basis.<sup>1</sup> (For more performance information, please refer to "Performance at a glance" on page 9.)

## Fort Dearborn Income Securities, Inc.

### Investment goal:

Current income consistent with external interest rate conditions and total return.

### Portfolio managers:

Scott Dolan, John Dugenske, Craig Ellinger and Brian Fehrenbach\*  
UBS Global Asset Management (Americas) Inc.

### Commencement:

December 19, 1972

### NYSE symbol:

FDI

### Dividend payments:

Quarterly

On a NAV total return basis, the Fund outperformed the Index during the reporting period. Neither the Fund nor the Index used leverage. (Leverage magnifies returns on both the upside and on the downside, creating a wider range of returns.)

The Fund traded at a discount to its NAV throughout the fiscal year, although as the period progressed, the discount moderated. When the period began, the Fund was trading at a 7.1% discount to its NAV, which

\* A portfolio management change occurred during the Fund's fiscal year ended September 30, 2012. Please see page 7 for more details.

<sup>1</sup> The Investment Grade Bond Index is an unmanaged index compiled by the Advisor, constructed as follows: From 12/31/81 to present—5% Barclays US Agency Index (7+ years), 75% Barclays US Credit Index (7+ years), 10% Barclays US Mortgage-Backed Securities Index (all maturities) and 10% Barclays US Treasury Index (7+ years). Investors should note that indices do not reflect the deduction of fees and expenses.

## Fort Dearborn Income Securities, Inc.

was larger than the Fund's Lipper peer median discount, which was 5.8% as of the same date. As of September 30, 2012, the Fund traded at a 3.7% discount versus its NAV, compared to a 2.0% discount for its Lipper peer group median.

A fund trades at a discount when the market price at which its shares trade is less than its NAV. Alternately, a fund trades at a premium when the market price at which its shares trade is more than its NAV per share. The market price is the price the market is willing to pay for shares of a fund at a given time, and may be influenced by a range of factors, including supply and demand and market conditions. NAV per share is determined by dividing the value of the Fund's securities, cash and other assets, less all liabilities, by the total number of common shares outstanding.

### **An interview with the portfolio managers**

#### **Q. How would you describe the economic environment during the reporting period?**

A. While the overall US economy continued to grow, the pace of the expansion decelerated during the reporting period. Looking back, the Commerce Department reported 4.1% gross domestic product ("GDP") growth in the US for the fourth quarter of 2011, followed by figures of 2.0% and 1.3% over the first and second quarters of 2012, respectively. On October 26, 2012, after the Fund's reporting period had ended, the Commerce Department's advance estimate for third quarter 2012 GDP growth was 2.0%.

#### **Q. How did the Federal Reserve Board (the "Fed") react to the economic environment?**

A. Given considerably slower-than-anticipated economic growth, the Fed kept the federal funds rate at an extremely low level of between 0.00% and 0.25% during the period, and announced its intention to maintain this rate through mid-2015. Additionally, in an attempt to stimulate the economy and keep longer term interest rates low, the Fed had previously announced a plan to purchase \$400 billion of longer term Treasury securities, and sell an equal amount of shorter term Treasury securities (dubbed "Operation Twist") by June 2012. The Fed then extended this June deadline through the end of 2012. Finally, in

## Fort Dearborn Income Securities, Inc.

mid-September, the Fed introduced an anticipated third round of quantitative easing, which involves purchasing \$40 billion of agency mortgage-backed securities on an open-ended basis each month. The Fed further noted that it would be willing to buy additional assets if it saw no improvement in the job market.

**Q. How did the bond market perform during the reporting period?**

- A. While the US taxable spread sectors (non-US Treasury fixed income securities) experienced periods of volatility during the reporting period, they ultimately produced positive returns and, in some cases, outperformed equal-duration Treasuries. Investor risk appetite was generally robust over the first six months of the reporting period, largely due to positive US economic news. In addition, concerns related to the European sovereign debt crisis appeared to move to the back burner. Against this backdrop, high yield bonds and emerging markets debt generated solid results. Risk aversion ruled the fixed income markets in late April and May. However, the spread sectors rallied from June through September as investor sentiment improved, in part given expectations for additional quantitative easing by the Fed. All told, during the 12 months ended September 30, 2012, the overall US bond market, as measured by the Barclays US Aggregate Index, returned 5.16%.

**Q. How was the Fund managed from a duration and yield curve perspective during the reporting period?**

- A. We tactically adjusted the Fund's duration, which measures a portfolio's sensitivity to changes in interest rates, over the reporting period. While the Fund's duration was often largely neutral to the Index, from March through June 2012 we were both long and short duration, and in the July through September 2012 period we were neutral to short duration versus the Index. For the 12-month period as a whole, duration was a positive for performance, with the largest contributions occurring in the fourth quarter of 2011 and the first quarter of 2012.

During the first half of the reporting period, the Fund's yield curve positioning was largely in line with that of the Index and did not meaningfully impact performance. During the second half of the period we had a flattening bias, as we expected the difference between

## Fort Dearborn Income Securities, Inc.

intermediate and long-term yields to decline. However, this portion of the yield curve steepened over that period, with longer-term rates declining less than the intermediate part of the curve. As such, the Fund's flattening bias detracted from results. (The yield curve plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.)

### **Q. How did you manage the Fund's portfolio during the reporting period?**

- A. The key driver of the Fund's outperformance versus the Index during the period was its allocation to the spread sectors. In particular, the Fund's investment grade corporate bond exposure was positive for results given generally solid corporate fundamentals, low defaults and generally strong demand from investors seeking to generate incremental yield in the low interest rate environment. Within the sector, security selection of higher beta (riskier) financials, such as select US banks, was rewarded given their strong results. This portion of the corporate bond market benefited from continued balance sheet and capital ratio improvement, as well as positive sentiment related to the Fed's aggressive monetary actions.

Small allocations to high yield corporate bonds and commercial mortgage-backed securities also added to the Fund's performance. In both cases, they were supported from robust demand given investors' ongoing search for yield. Elsewhere, the Fund's allocation to agency mortgage-backed securities contributed to performance, as it was a beneficiary of the Fed's QE3 initiatives, as well as signs of improvement in the housing market.

There was no single strategy that was a significant detractor from performance relative to the Index.

### **Q. Were there any adjustments made to the Fund's positioning during the reporting period?**

- A. During the first half of the period we increased the Fund's allocation to MBS. As the reporting period progressed, we increased the Fund's allocations to both investment grade and high yield corporate bonds.

## Fort Dearborn Income Securities, Inc.

These adjustments were beneficial to results given the overall strong results in the spread sectors during the fiscal year.

**Q. What factors do you believe will affect the Fund over the coming months?**

- A. Economic growth in the US has moderated in recent months. While accommodative monetary policy by the Fed and other central banks should be supportive, it cannot mask the fact that economic conditions around the globe are deteriorating. Within the US fixed income market, we envision a "tug of war" of sorts. On one hand, the financial system is full of liquidity as the Fed's near zero interest rate policy is driving investors to riskier assets in order to generate higher returns. On the other hand, weakening fundamentals could test investors' resolve. Against this backdrop, we expect to see periods of volatility, especially in light of the ongoing European sovereign debt crisis and weaker growth in China, as well as uncertainties surrounding the political landscape post the November election and rapidly approaching "fiscal cliff."

We thank you for your continued support and welcome any comments or questions you may have. For additional information regarding the Fund, please contact your Financial Advisor, or visit us at [www.ubs.com/globalam-us](http://www.ubs.com/globalam-us).

Sincerely,

Mark E. Carver  
*President*  
Fort Dearborn Income Securities, Inc.  
*Managing Director*  
UBS Global Asset Management (Americas) Inc.

Scott Dolan  
*Portfolio Manager*  
Fort Dearborn Income Securities, Inc.  
*Managing Director*  
UBS Global Asset Management (Americas) Inc.



## Fort Dearborn Income Securities, Inc.

John Dugenske  
*Portfolio Manager*  
Fort Dearborn Income Securities, Inc.  
*Managing Director*  
UBS Global Asset Management (Americas) Inc.

Craig Ellinger  
*Portfolio Manager*  
Fort Dearborn Income Securities, Inc.  
*Managing Director*  
UBS Global Asset Management (Americas) Inc.

Brian Fehrenbach  
*Portfolio Manager*  
Fort Dearborn Income Securities, Inc.  
*Managing Director*  
UBS Global Asset Management (Americas) Inc.

*This letter is intended to assist shareholders in understanding how the Fund performed during the 12 months ended September 30, 2012. The views and opinions in the letter were current as of November 15, 2012. They are not guarantees of future performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.*

---

## Fort Dearborn Income Securities, Inc.

### **Investment policy changes**

Since the last shareholder report, there have been some adjustments to the Fund's non-fundamental investment policies. The Fund's Board of Directors approved changing the Fund's permitted weighted average duration range from the current static range of 4 to 10 years to  $\pm 2$  years of its benchmark index and removing the reference to the average effective maturity range.

The Fund's advisor sought to align the Fund's target duration with its benchmark index rather than utilize a static range. The fixed income markets have undergone some significant changes in the time since the Fund first issued its shares, including the recent 2007-2008 credit crisis and the ensuing period of unprecedented accommodative central bank policy, and the very low interest rate environment. Consequently, certain properties of the Fund's benchmark index have changed, particularly its overall duration profile. Over the past several years, issuance dynamics have varied, with much of the newer corporate debt being offered with longer maturities in order to lock in the favorable low rates for longer. As a result of this extension, the Fund's benchmark duration has increased over the years and has reached the upper limit of the Fund's permitted duration range.

The advisor believes that specifying a maturity range in addition to duration is unnecessary, since duration is the ultimate measure we utilize when managing the Fund's overall interest rate exposure. Utilizing a flexible duration range will provide the portfolio management team with sufficient latitude to adjust the Fund's interest rate exposure relative to its benchmark index, but at the same time sets a specific range within which the Fund will operate.

### **Portfolio management team expansion**

Effective mid-July 2012, the Fund's investment team was expanded from a team-based structure with a single lead portfolio manager to one led by multiple portfolio managers. As announced via press release on July 10, 2012, the following individuals are now managing specific aspects of the Fund:

---

## Fort Dearborn Income Securities, Inc.

**Scott Dolan**, Managing Director of UBS Global AM

**Years of investment industry experience:** 23

Mr. Dolan is a member of the Global Fixed Income Investment Committee. He is responsible for overseeing the overall strategy and portfolio management of UBS Global AM's multi-sector and securitized debt portfolios. Mr. Dolan has been with UBS Global AM since 2008.

**John Dugenske**, CFA, Managing Director of UBS Global AM

**Years of investment industry experience:** 23

Mr. Dugenske is a member and the chairman of the Global Fixed Income Investment Committee. As Head of North American Fixed Income, he has overall responsibility across all fixed income investment capabilities at UBS Global AM. Mr. Dugenske has been with the firm since 2009.

**Craig Ellinger**, CFA, Managing Director of UBS Global AM

**Years of investment industry experience:** 21

Mr. Ellinger is a member of the Global Fixed Income Investment Committee. He is responsible for managing all aspects of UBS Global AM's US investment grade and global high yield business. Mr. Ellinger joined the firm in 2000.

**Brian Fehrenbach**, CFA, Managing Director of UBS Global AM

**Years of investment industry experience:** 25

Mr. Fehrenbach is a member of the Global Fixed Income Investment Committee. He is responsible for overseeing the overall strategy and portfolio management of multi-sector funds and unconstrained strategies at UBS Global AM. Mr. Fehrenbach has been with the firm since 2006.

As lead portfolio managers, Messrs. Dolan, Dugenske, Ellinger and Fehrenbach will be jointly and primarily responsible for the day-to-day management of the Fund's portfolio, and for reviewing the overall composition of the portfolio to ensure its compliance with the Fund's stated investment objective and strategy.

Michael Dow, previously the lead portfolio manager for the Fund, has taken on a new role within UBS Global AM's fixed income team, overseeing the expansion of the global sovereign research platform that spans developed and emerging markets, and which is leveraged globally by UBS Global AM's portfolio management teams.

## Fort Dearborn Income Securities, Inc.

### Performance at a glance (unaudited)

#### Average annual total returns for periods ended 09/30/2012

Net asset value returns	1 year	5 years	10 years
Fort Dearborn Income Securities, Inc.	12.23%	9.91%	7.71%
Lipper Corporate Debt Funds BBB-Rated median	12.41	6.74	7.03

#### Market price returns

Fort Dearborn Income Securities, Inc.	16.81%	12.43%	8.31%
Lipper Corporate Debt Funds BBB-Rated median	15.80	8.62	7.42

#### Index returns

Investment Grade Bond Index <sup>1</sup>	11.72%	9.64%	7.57%
--	--------	-------	-------

**Past performance does not predict future performance. The return and value of an investment will fluctuate so that an investor's shares, when sold, may be worth more or less than their original cost. The Fund's net asset value ("NAV") returns assume, for illustration only, that dividends and other distributions, if any, were reinvested at the NAV on the payable dates. The Fund's market price returns assume that all dividends and other distributions, if any, were reinvested at prices obtained under the Fund's Dividend Reinvestment Plan. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund dividends and other distributions, if any, or the sale of Fund shares.**

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper median is the return of the fund that places in the middle of the peer group. Lipper classifies the Fund in its "Corporate Debt Funds BBB-Rated" category, which includes non-leveraged closed-end funds that invest primarily in corporate and government debt issues rated in the top four grades.

<sup>1</sup> The Investment Grade Bond Index is an unmanaged index compiled by the Advisor, constructed as follows: From 12/31/81 to present—5% Barclays US Agency Index (7+ years), 75% Barclays US Credit Index (7+ years), 10% Barclays US Mortgage-Backed Securities Index (all maturities) and 10% Barclays US Treasury Index (7+ years). Investors should note that indices do not reflect the deduction of fees and expenses.

# Fort Dearborn Income Securities, Inc.

## Portfolio statistics (unaudited)

Characteristics <sup>1</sup>	09/30/12	03/31/12	09/30/11
Net asset value	\$17.87	\$16.77	\$17.29
Market price	\$17.20	\$16.17	\$16.07
12-month dividends/distributions	\$1.4310	\$1.4610	\$1.3500
Dividend/distribution at period-end	\$0.1750	\$0.1750	\$0.1900
Net assets (mm)	\$156.8	\$147.2	\$151.7
Weighted average maturity (yrs.)	17.5	17.9	16.6
Duration (yrs.) <sup>2</sup>	10.5	9.7	10.0
<b>Credit quality<sup>3</sup></b>	<b>09/30/12</b>	<b>03/31/12</b>	<b>09/30/11</b>
AAA	0.6%	1.1%	0.9%
US Treasury <sup>4</sup>	15.0	12.2	23.8
US Agency <sup>4,5</sup>	4.8	8.8	1.9
AA	5.2	6.3	5.9
A	28.5	32.1	28.1
BBB	36.3	30.4	32.8
BB	4.7	1.8	1.8
B	0.5	0.1	
CCC and Below	0.7	0.8	0.7
Non-rated	0.6	2.2	1.9
Cash equivalents	2.1	3.2	1.3
Other assets, less liabilities	1.0	1.0	0.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>1</sup> Prices and other characteristics will vary over time.

- <sup>2</sup> Duration is a measure of price sensitivity of a fixed income investment or portfolio (expressed as % change in price) to a 1 percentage point (i.e., 100 basis points) change in interest rates, accounting for optionality in bonds such as prepayment risk and call/put features.
- <sup>3</sup> Weightings represent percentages of net assets as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time. Credit quality ratings shown are based on those assigned by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. (S&P), to individual portfolio holdings. S&P is an independent ratings agency. Rating reflected represents S&P individual debt issue credit rating. While S&P may provide a credit rating for a bond issuer (e.g., a specific company or country); certain issues, such as some sovereign debt, may not be covered or rated and therefore are reflected as non-rated for the purposes of this table.
- <sup>4</sup> S&P downgraded long-term US government debt on August 5, 2011 to AA+. Other rating agencies continue to rate long-term US government debt in their highest ratings categories. The Fund's aggregate exposure to AA rated debt as of September 30, 2012 would include the percentages indicated above for AA, US Treasury and US Agency debt but has been broken out into three separate categories for further clarity of specific exposure.
- <sup>5</sup> Includes agency debentures and agency mortgage-backed securities.
-

## Fort Dearborn Income Securities, Inc.

### Industry diversification (unaudited)

As a percentage of net assets

As of September 30, 2012

---

#### Bonds

##### Corporate bonds

Aerospace & defense	0.77%
Air freight & logistics	0.22
Automobiles	0.79
Banks	0.31
Beverages	0.50
Biotechnology	0.08
Building products	0.34
Cable TV	0.59
Capital markets	4.42
Chemicals	1.08
Commercial banks	2.81
Commercial services & supplies	0.90
Communications equipment	0.30
Computers & peripherals	0.20
Consumer finance	0.78
Diversified financial services	6.89
Diversified telecommunication services	4.40
Electric utilities	3.63
Electronic equipment, instruments & components	0.17
Energy equipment & services	1.39
Food & staples retailing	1.47
Food products	1.08
Gas utilities	0.61
Health care providers & services	0.31
Household durables	0.24
Independent power producers & energy traders	0.65
Industrial conglomerates	0.06
Insurance	3.47
Leisure equipment & products	0.15
Life sciences tools & services	0.10
Machinery	0.37
Media	4.38
Metals & mining	2.56
Multiline retail	0.54
Multi-utilities	0.73
Office electronics	0.40
Oil, gas & consumable fuels	9.08
Paper & forest products	0.77
Pharmaceuticals	0.09

---

## Fort Dearborn Income Securities, Inc.

### Industry diversification (unaudited) (concluded)

As a percentage of net assets

As of September 30, 2012

#### Bonds (concluded)

##### Corporate bonds (concluded)

Real estate investment trust (REIT)	1.23%
Road & rail	1.11
Software	0.29
Specialty retail	0.16
Tobacco	0.95
Wireless telecommunication services	0.59

Total corporate bonds	61.96%
Asset-backed securities	0.58
Commercial mortgage-backed securities	3.38
Mortgage & agency debt securities	5.76
Municipal bonds	7.59
US government obligations	15.01
Non-US government obligations	2.62

Total bonds	96.90%
Common stocks	0.01
Preferred stock	0.03
Short-term investment	2.07

Total investments	99.01%
Cash and other assets, less liabilities	0.99

Net assets	100.00%
------------	---------



Fort Dearborn Income Securities, Inc.  
**Portfolio of investments September 30, 2012**

Security description	Face amount	Value
<b>Bonds 96.90%</b>		
<b>Corporate bonds 61.96%</b>		
<b>Australia 0.82%</b>		
Rio Tinto Finance USA Ltd.,		
3.750%, due 09/20/21	\$400,000	\$426,112
5.200%, due 11/02/40	750,000	865,340
		1,291,452
<b>Bermuda 0.12%</b>		
Validus Holdings Ltd.,		
8.875%, due 01/26/40	150,000	190,259
<b>Brazil 1.35%</b>		
Petrobras International Finance Co.,		
5.375%, due 01/27/21	1,130,000	1,269,464
6.875%, due 01/20/40	675,000	841,705
		2,111,169
<b>Canada 2.15%</b>		
Anadarko Finance Co.,		
Series B, 7.500%, due 05/01/31	790,000	1,057,771
Barrick Gold Corp.,		
3.850%, due 04/01/22	350,000	367,417
Canadian Natural Resources Ltd.,		
5.850%, due 02/01/35	435,000	526,457
EnCana Corp.,		
6.625%, due 08/15/37	250,000	302,722
Petro-Canada,		
6.800%, due 05/15/38	520,000	708,997
Teck Resources Ltd.,		
6.250%, due 07/15/41	375,000	408,130

---

3,371,494

---

**Cayman Islands 1.73%**

---

Transocean, Inc.,  
3.800%, due 10/15/22 340,000      341,760

---

6.800%, due 03/15/38 535,000      643,336

---

7.500%, due 04/15/31 575,000      710,191

---

Vale Overseas Ltd.,  
4.375%, due 01/11/22 965,000      1,014,370

---

2,709,657

---

Fort Dearborn Income Securities, Inc.  
**Portfolio of investments September 30, 2012**

Security description	Face amount	Value
<b>Bonds (continued)</b>		
<b>Corporate bonds (continued)</b>		
<b>Curacao 0.09%</b>		
Teva Pharmaceutical Finance IV BV, 3.650%, due 11/10/21	\$125,000	\$135,502
<b>France 0.49%</b>		
Electricite De France, 6.950%, due 01/26/39 <sup>1</sup>	300,000	398,189
France Telecom SA, 8.500%, due 03/01/31	75,000	112,947
Vivendi SA, 4.750%, due 04/12/22 <sup>1</sup>	250,000	262,250
		773,386
<b>Luxembourg 0.41%</b>		
Enel Finance International SA, 6.000%, due 10/07/39 <sup>1</sup>		