

FORT DEARBORN INCOME SECURITIES INC  
Form N-CSRS  
June 07, 2013

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

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Fort Dearborn Income Securities, Inc.

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(Exact name of registrant as specified in charter)

One North Wacker Drive, Chicago, IL 60606-2807

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(Address of principal executive offices) (Zip code)

Joseph J. Allesie, Esq.

UBS Global Asset Management

1285 Avenue of the Americas

New York, NY 10019

(Name and address of agent for service)

Copy to:

Bruce Leto, Esq.

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: March 31, 2013

Item 1. Reports to Stockholders.

Closed-end funds

Fort Dearborn Income  
Securities, Inc.  
**Semiannual Report**  
**March 31, 2013**

# Fort Dearborn Income Securities, Inc.

May 15, 2013

## Dear shareholder,

We present you with the semiannual report for Fort Dearborn Income Securities, Inc. (the "Fund") for the six months ended March 31, 2013.

## Performance

For the six months ended March 31, 2013, the Fund returned 0.76% on a net asset value ("NAV") basis, and declined 3.14% on a market price basis. Over the same period, the Fund's benchmark, the Investment Grade Bond Index (the "Index"), declined 0.04%, while the Fund's peer group, as measured by the Lipper Corporate Debt Funds BBB-Rated median, posted a return of 2.13% on a NAV basis, and a median decline of 1.66% on a market price basis. (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 its benchmark during the six months. 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 reporting period. On the last trading day preceding the reporting period, September 28, 2012, the Fund traded at a discount of 3.7% and at the same time, the

<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.

Fund's Lipper peer group traded at a median premium of 2.0%. As of March 28, 2013, the Fund traded at a 7.7% discount versus its NAV, compared to a 6.9% 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 during the reporting period, the pace of the expansion was mixed. The Commerce Department reported 3.1% gross domestic product ("GDP") growth in the US for the third quarter of 2012, followed by growth of 0.4% in the fourth quarter. Decelerating growth was largely driven by weakening private inventory investment, federal government spending and exports. The economy gained some traction during the first quarter of 2013, as the housing market continued to rebound and there was some modest improvement in the labor market. According to the Commerce Department's initial estimate, first quarter 2013 GDP growth was 2.5%.<sup>2</sup> Stronger growth was due, in part, to higher consumer spending, which rose 3.2% during the first quarter, versus a 1.8% increase during the previous quarter.

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

A. The Fed took a number of actions during the reporting period, as it looked to meet its dual mandate of price stability and maximum

<sup>2</sup> Based on the Commerce Department's initial estimate announced on April 26, 2013, after the Fund's reporting period had ended.

## Fort Dearborn Income Securities, Inc.

employment. Throughout the reporting period, the Fed kept the federal funds rate (the federal funds rate, or "fed funds" rate, is the rate banks charge one another for funds they borrow on an overnight basis) at an extremely low level of between 0% and 0.25% and, on several occasions, extended the period it expected to keep the fed funds rate on hold. In September 2012, the Fed launched a third round of quantitative easing ("QE3"), which involved purchasing \$40 billion of agency mortgage-backed securities ("MBS") on an open-ended basis each month. At its final meeting of the year, in December, the Fed said it would continue buying \$40 billion a month of agency MBS, as well as purchase \$45 billion a month of longer-term Treasuries. The Fed also said that it would keep the federal funds rate on hold "...as long as the unemployment rate remains above 6.5%," provided inflation remains well-contained. The Fed did not change its policy stance at its meetings in January and March 2013.

### **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, investors who assumed greater risk were generally rewarded, as most spread sectors outperformed equal-duration Treasuries during the six months ended March 31, 2013. Market volatility was triggered by a number of macro factors, such as moderating global growth, the November elections and uncertainties surrounding the US "fiscal cliff" and sequestration. Regardless, overall demand for the spread sectors was solid as investors looked to generate incremental yield in the low interest rate environment. While the overall US bond market, as measured by the Barclays US Aggregate Index, returned a modest 0.09% during the reporting period, riskier high yield bonds produced superior results.

### **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<sup>3</sup> over the reporting period. Overall, the Fund's duration was shorter than that of the Index, which

<sup>3</sup> Duration measures a portfolio's sensitivity to changes in interest rates.

## Fort Dearborn Income Securities, Inc.

was a positive for performance as rates rose across the Treasury yield curve during the reporting period.

The Fund's yield curve<sup>4</sup> positioning modestly contributed to performance during the six-month period. However, curve management among the spread sectors was a slight negative for results.

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

- A. The key driver of the Fund's outperformance (on a NAV basis) versus the Index during the reporting period was its allocation to the spread sectors. In particular, overweights and security selection of high yield corporate bonds and commercial mortgage-backed securities (CMBS) were beneficial to performance. An overweight and security selection of investment grade corporate financials was also positive for performance.

There were no significant detractors from results during the reporting period from a sector positioning perspective.

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

- A. We continued to add to the Fund's credit exposure, primarily emphasizing higher yielding assets. We also actively adjusted the Fund's corporate bond exposure, capturing profits on some positions and using the proceeds to invest in attractive new opportunities.

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

- A. Overall, we have a positive outlook for the US economy. While the expansion will likely be far from robust, we believe that growth is sustainable, in part due to the rebound in the housing market. This, in turn, should be supportive of consumer spending. Our view for growth outside the US is less encouraging, as Europe's economy remains in a recession and the recent banking crisis in Cyprus illustrates that the region's sovereign debt crisis is far from resolved. Elsewhere, the Bank

<sup>4</sup> The yield curve plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.

## Fort Dearborn Income Securities, Inc.

of Japan has taken aggressive actions to support its economy seeking to end deflation. It remains uncertain whether these initiatives will be successful.

We remain constructive for the US corporate bond market, as corporate fundamentals are solid overall, with balance sheets that are generally flush with cash. Many US companies have also taken advantage of historically low interest rates to refinance their debt and extend maturities. Against this backdrop, we expect default rates to remain below their historical average. Finally, given continued Fed policy accommodation, we believe that investor demand will be strong overall. That said, given the current level of yields, we do not expect to see corporate bond returns to be as robust as they were in 2012. In addition, we are keeping a close eye on event specific risks in the corporate debt space (such as leveraged buyouts) as well as the potential for investors to rotate a portion of their assets from bonds to stocks, in search of higher returns.

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 six months ended March 31, 2013. The views and opinions in the letter were current as of May 15, 2013. 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.*

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## Fort Dearborn Income Securities, Inc.

### Investment policy changes

Since the last shareholder report, there have been two changes to the Fund's investment policies, both effective June 1, 2013. After the March 31, 2013 shareholder reporting period had already ended, the Board of the Fund approved changing the Fund's benchmark from the Investment Grade Bond Index, to the Barclays US Aggregate Index (US Agg).<sup>1</sup> The Board also approved adjusting the Fund's duration range, from the range of  $\pm 2$  years, to  $\pm 3$  years of the benchmark's duration.

The Fund's advisor seeks to reduce the Fund's interest rate risk profile. The fixed income markets have undergone some significant changes since the Fund first issued its shares, including during the 2007-2008 credit crisis, and the ensuing period of unprecedented accommodative central bank policy and a very low interest rate environment. Consequently, certain properties of the Fund's current benchmark index have changed, particularly its overall duration/maturity profile, which has become longer.<sup>2</sup>

As bond yields have continued to decline over the past three decades, the Fund's longer duration bias has been beneficial, allowing the Fund to deliver solid returns. However, with US interest rates now at historically low levels, the advisor believes that the level of compensation offered for taking interest rate risk is far less compelling than it has been in the past. By changing the Fund's benchmark index, from the Investment Grade Bond Index, to the US Agg, which has a lower duration profile of 5.1 years as of April 30, 2013, the advisor is adjusting the Fund's interest rate risk profile and reducing its longer duration bias. This adjustment should leave the Fund less exposed to the potential negative impact of rising interest rates.

- <sup>1</sup> The Barclays US Aggregate Index is an unmanaged broad-based index designed to measure the US dollar-denominated, investment grade, taxable bond market. The index includes bonds from the Treasury, government-related, corporate, mortgage-backed, asset-backed and commercial-backed sectors.
- <sup>2</sup> Duration is a measure of price sensitivity of a fixed income investment or portfolio (expressed as percent change in price) to a one percentage point (i.e., 100 basis points) change in interest rates. For example, when the level of interest rates increases by 1%, the price of a fixed income security or a portfolio of fixed income securities having a duration of 10 years will generally decrease by approximately 10%. Conversely, when the level of interest rates decreases by 1%, the price of a fixed income security or portfolio of fixed income securities having a duration of 10 years will generally increase by approximately 10%.

## Fort Dearborn Income Securities, Inc.

In addition to reducing the Fund's interest rate risk profile by changing its benchmark index, the Fund has also expanded the range within which it will typically maintain its duration from -2 to +2 years, to -3 to +3 years of the benchmark index. The advisor believes that the additional latitude from adjusting the Fund's duration may provide the portfolio management team with further flexibility to manage the Fund's interest rate risk, seek to generate returns from active duration and yield curve management strategies and, when necessary, allow the team to take a more defensive positioning, which may help reduce the volatility of the Fund's returns.

The Fund's asset composition is not expected to materially change as the result of the benchmark change, which is aimed at adjusting the Fund's interest rate risk profile. The additional flexibility with respect to the Fund's duration, however, may result in the Fund having a duration at times that does not closely resemble the duration of the benchmark index. The more the Fund's duration or its asset composition deviates from that of the benchmark index, the less likely the Fund's performance will be similar to the benchmark index. The Fund will continue to principally invest in investment grade fixed income securities, such as corporate, government and securitized debt (e.g. mortgage-backed securities), and other fixed income securities that meet its stated investment policies.

As part of its investments in securitized debt, the Fund also may add investments in interest-only (IO) and principal only (PO) classes of mortgage-backed securities. The Fund may use these investments, particularly IO securities, for purposes of seeking to adjust its overall duration and generate income. While these securities present certain investment opportunities, they also may introduce additional risks. IO and PO classes of collateralized mortgage obligations and other mortgage-backed securities are structured in a manner that makes them extremely sensitive to prepayment rates. IOs are entitled to receive all or a portion of the interest, but none (or only a nominal amount) of the principal payments, from the underlying mortgage assets. PO classes are purchased at substantial discounts from par, and the yield to an investor, such as the Fund, will be reduced if principal payments are slower than expected.

The advisor believes that as the markets evolve, the Fund should adapt to the changing market environment accordingly. The advisor of the Fund also believes that these investment policy changes may help the Fund remain competitive and well-positioned, as market dynamics shift.

## Fort Dearborn Income Securities, Inc.

### Performance at a glance (unaudited)

#### Average annual total returns for periods ended 03/31/2013

Net asset value returns	6 months	1 year	5 years	10 years
Fort Dearborn Income Securities, Inc.	0.76%	9.46%	9.51%	7.22%
Lipper Corporate Debt Funds BBB-Rated median	2.13	9.77	7.83	6.36

  

Market price returns	6 months	1 year	5 years	10 years
Fort Dearborn Income Securities, Inc.	(3.14)%	5.23%	10.18%	7.69%
Lipper Corporate Debt Funds BBB-Rated median	(1.66)	5.81	8.33	6.58

  

Index returns	6 months	1 year	5 years	10 years
Investment Grade Bond Index <sup>1</sup>	(0.04)%	8.35%	8.99%	6.98%

**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. NAV and market price returns for the period of less than one year have not been annualized. 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>	03/31/13	09/30/12	03/31/12
Net asset value	\$16.83	\$17.87	\$16.77
Market price	\$15.53	\$17.20	\$16.17
12-month dividends/distributions	\$1.5230	\$1.4310	\$1.4610
Dividend/distribution at period-end	\$0.1750	\$0.1750	\$0.1750
Net assets (mm)	\$147.7	\$156.8	\$147.2
Weighted average maturity (yrs.)	15.5	17.5	17.9
Duration (yrs.) <sup>2</sup>	9.0	10.5	9.7

Credit quality <sup>3</sup>	03/31/13	09/30/12	03/31/12
AAA	0.4%	0.6%	1.1%
US Treasury <sup>4</sup>	11.1	15.0	12.2
US Agency <sup>4,5</sup>	4.7	4.8	8.8
AA	6.0	5.2	6.3
A	30.0	28.5	32.1
BBB	36.6	36.3	30.4
BB	7.2	4.7	1.8
B	1.1	0.5	0.1
CCC and Below	0.8	0.7	0.8
Non-rated	0.4	0.6	2.2
Cash equivalents	0.9	2.1	3.2
Other assets, less liabilities	0.8	1.0	1.0
<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 March 31, 2013 would include the percentages indicated above for AA, US Treasury and US Agency debt but has been broken out into three separate categories to facilitate understanding.
- <sup>5</sup> Includes agency debentures and agency mortgage-backed securities.
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## Fort Dearborn Income Securities, Inc.

### Industry diversification (unaudited)

As a percentage of net assets

As of March 31, 2013

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#### Bonds

##### Corporate bonds

Aerospace & defense	0.77%
Air freight & logistics	0.22
Automobiles	0.86
Banks	0.33
Beverages	0.14
Biotechnology	0.08
Building products	0.07
Capital markets	5.01
Chemicals	1.67
Commercial banks	3.84
Commercial services & supplies	1.19
Communications equipment	0.31
Consumer finance	1.34
Diversified financial services	7.78
Diversified telecommunication services	4.46
Electric utilities	3.23
Electronic equipment, instruments & components	0.46
Energy equipment & services	1.25
Food & staples retailing	0.98
Food products	0.79
Gas utilities	0.64
Health care providers & services	0.76
Hotels, restaurants & leisure	0.80
Independent power producers & energy traders	0.68
Industrial conglomerates	0.06
Insurance	3.52
IT services	0.42
Leisure equipment & products	0.16
Life sciences tools & services	0.10
Machinery	0.79
Media	4.94
Metals & mining	2.93
Multiline retail	0.55
Multi-utilities	0.84
Office electronics	0.43
Oil, gas & consumable fuels	10.97
Paper & forest products	0.32
Pharmaceuticals	0.09
Real estate investment trust (REIT)	1.29

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## Fort Dearborn Income Securities, Inc.

### Industry diversification (unaudited) (concluded)

As a percentage of net assets

As of March 31, 2013

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#### Bonds (concluded)

##### Corporate bonds (concluded)

Road & rail	0.92%
Software	0.29
Specialty retail	0.16
Tobacco	1.02
Wireless telecommunication services	0.61
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Total corporate bonds	68.07%
Asset-backed securities	0.54
Commercial mortgage-backed securities	2.44
Mortgage & agency debt securities	5.71
Municipal bonds	7.87
US government obligations	11.09
Non-US government obligations	2.52
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Total bonds	98.24%
Common stock	0.01
Preferred stocks	0.03
Short-term investment	0.87
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Total investments	99.15%
Cash and other assets, less liabilities	0.85
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Net assets	100.00%
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Fort Dearborn Income Securities, Inc.  
**Portfolio of investments March 31, 2013**  
**(unaudited)**

	Face amount	Value
<b>Bonds 98.24%</b>		
<b>Corporate bonds 68.07%</b>		
<b>Australia 0.85%</b>		
Rio Tinto Finance USA Ltd., 3.750%, due 09/20/21	\$400,000	\$421,386
5.200%, due 11/02/40	750,000	838,828
Total Australia corporate bonds		1,260,214
<b>Brazil 1.35%</b>		
Petrobras International Finance Co., 5.375%, due 01/27/21	1,130,000	1,219,180
6.875%, due 01/20/40	675,000	771,113
Total Brazil corporate bonds		1,990,293
<b>Canada 2.22%</b>		
Anadarko Finance Co., Series B, 7.500%, due 05/01/31	790,000	1,046,961
Barrick Gold Corp., 3.850%, due 04/01/22	350,000	357,780
Canadian Natural Resources Ltd., 5.850%, due 02/01/35	435,000	503,446
EnCana Corp., 6.625%, due 08/15/37	250,000	298,098
Petro-Canada, 6.800%, due 05/15/38	520,000	678,117
Teck Resources Ltd., 6.250%, due 07/15/41	375,000	396,656
Total Canada corporate bonds		3,281,058
<b>Cayman Islands 1.77%</b>		

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Transocean, Inc., 3.800%, due 10/15/22	340,000	334,940
6.800%, due 03/15/38	535,000	589,250
7.500%, due 04/15/31	575,000	690,658
Vale Overseas Ltd., 4.375%, due 01/11/22	965,000	990,134
Total Cayman Islands corporate bonds		2,604,982
<b>Curacao 0.09%</b>		
Teva Pharmaceutical Finance IV BV, 3.650%, due 11/10/21	125,000	133,025

Fort Dearborn Income Securities, Inc.  
Portfolio of investments March 31, 2013  
(unaudited)

	Face amount	Value
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<b>Bonds (continued)</b>		
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<b>Corporate bonds (continued)</b>		