FORT DEARBORN INCOME SECURITIES INC
Form N-CSR
December 09, 2011

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)

Mark F. Kemper, Esq.
UBS Global Asset Management (Americas) Inc.
One North Wacker Drive
Chicago, IL 60606-2807
(Name and address of agent for service)

Copy to:
Bruce Leto, Esq.
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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, 2011

Item 1. Reports to Stockholders.

Closed-end funds

Fort Dearborn Income Securities, Inc.

Annual Report
September 30, 2011

Fort Dearborn Income Securities, Inc.

November 11, 2011

Dear shareholder,

We present you with the annual report for Fort Dearborn Income Securities, Inc. (the Fund) for the 12 months ended September 30, 2011.

Performance

For the 12 months ended September 30, 2011, the Fund returned 8.10% on a net asset value basis, and 8.59% on a market price basis. Over the same period, the Fund s peer group, as measured by the Lipper Corporate Debt Funds BBB-Rated median, posted a return of 3.60% on a net asset value basis, and 0.77% on a market price basis, while the Fund s benchmark, the Investment Grade Bond Index (the Index), returned 7.98%.[1] (For more performance information, please refer to Performance at a glance on page 8.)

Fort Dearborn Income Securities, Inc.

Investment goal:
Current income consistent with external interest rate conditions and total return

Portfolio Manager:
Michael Dow
UBS Global Asset Management (Americas) Inc.

Commencement:
December 19, 1972

NYSE symbol:
FDI

Dividend payments:
Quarterly

On an NAV and market price basis, the Fund outperformed its peer group and its benchmark during the reporting period. During the period, neither the Fund nor the Index used leverage, although some funds in its Lipper peer group may have. (Leverage magnifies returns on both the upside and on the downside, creating a wider range of returns.)

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

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The Fund traded at a discount to its NAV per share during the 12-month reporting period. During that time, the Fund s average discount was 7.2%, which was greater than the median 6.5% discount of its Lipper peer group over the same period, according to data provided by Lipper, Inc.[2] As of September 30, 2011, the Fund was trading at a discount of -7.1%, while the median discount of its Lipper peer group was -7.5%.

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 Portfolio Manager Michael Dow

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

A. Despite increasing concerns that the US may be headed for a double-dip recession, the US economy continued to grow, albeit at a modest pace. Gross domestic product (GDP) growth came in at 2.3% during the fourth quarter of 2010, and then moderated in the first quarter of 2011, coming in at 0.4%. GDP growth then increased to 1.3% in the second quarter. On October 29, 2011, after the Fund s reporting period had ended, the Commerce Department s initial estimate for third quarter 2011 GDP growth was 2.5%.

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

A. High unemployment and moderating economic data caused the Fed to take several actions in an attempt to stimulate the economy. In

[2] The 12-month premium/discount average is based on month-end premium/discount measurements over the period.

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November 2010, the Fed launched a second round of quantitative easing (dubbed QE2) that called for the purchase of $600 billion of longer-term US Treasury securities by the end of the second quarter of 2011.

While QE2 ended on schedule at the end of June, the Fed acknowledged that the economy remained challenged. At its meeting in August, the Fed said economic growth so far this year has been considerably slower than the Committee had expected, and economic conditions...are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013. This led to speculation that a third round of quantitative easing could occur. However, in September, the Fed instead announced its intention to purchase $400 billion of longer-term Treasury securities, and to sell an equal amount of shorter-term Treasury securities by June 2012. Dubbed Operation Twist, the Fed noted that its intention with this program was to put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative.

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

A. The US bond market experienced a significant shift in investor sentiment during the fiscal year. Short- and long-term interest rates initially moved higher given the ongoing economic expansion and amid inflationary concerns due to sharply rising commodity prices. During that time, most US spread sectors (non-Treasuries) produced strong results as investors looked to generate incremental yield in the low interest rate environment. As the reporting period progressed, investor risk appetite was replaced with extreme risk aversion given fears of a double dip recession and the escalating European debt crisis. This caused US Treasury yields to fall sharply and many spread sectors to produce poor results. Following the downgrade of long-term US government debt by Standard and Poor s, there were concerns that investor demand for US Treasuries would diminish, yet they ultimately continued to be viewed as a safe haven.

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During the 12 months ended September 30, 2011, the Barclays Capital US Aggregate Index[3] returned 5.26%.

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. During the first half of the reporting period, the Fund s duration was slightly shorter than that of the Index given signs that the economy was expanding and inflation expectations were increasing. We later moved to a neutral duration as economic growth moderated. Overall, duration positioning was a modest negative for performance as interest rates declined during the 12-month reporting period.

The Fund s yield curve positioning was largely in line with that of the Index during the reporting period. (The yield curve plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.) Given the uncertainties in the economy and macro issues overseas, we did not feel it was appropriate to significantly deviate from the Index. The Fund s yield curve positioning slightly detracted from performance over the period.

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

A. Sector positioning, overall, was a positive for performance during the reporting period, although a portion of our gains were given back in the second half of the period due to increased investor risk aversion. In particular, an overweight to investment grade corporate bonds, particularly financials and industrials, was the largest contributor to performance. While it weakened later in the period, the investment

[3] The Barclays Capital US Aggregate Index is an unmanaged broad-based index designed to measure the US dollar-denominated, investment-grade, fixed rate taxable bond market. The index includes bonds from the Treasury, government-related, corporate, mortgage-backed, asset-backed and commercial mortgage-backed sectors. US agency hybrid adjustable rate mortgage (ARM) securities were added to the index on April 1, 2007. Investors should note that indices do not reflect the deduction of fees and expenses.

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grade corporate bond market was supported by corporate profits that often exceeded expectations, falling defaults and generally strong demand from investors seeking to generate incremental yield in the low interest rate environment. An out-of-index exposure to commercial mortgage-backed securities (CMBS) was also beneficial as spreads the difference between the yields paid on these securities versus those paid on US Treasuries in the sector narrowed during the first half of the period due to indications that the commercial real estate market was improving. CMBS spreads then widened over the second half of the period given concerns of a double-dip recession; however, it was not enough to overcome the sector s previous spread narrowing. On the downside, the Fund s underweight to agency mortgage-backed securities was not rewarded, given the sector s solid results, especially during the first half of the period.

Security selection was a modest negative for performance during the reporting period. The largest detractor was the Fund s holdings in the investment grade corporate bond sector, in particular in the financials and industrials subsectors. Within financials, we favored banks and insurance companies. In the industrials space, we emphasized consumer cyclical and communication companies. These holdings were negatively impacted by disappointing economic data in the second half of the period and increasing risk aversion. Security selection of agency government debentures was also not rewarded. Conversely, a small non-US allocation was beneficial, especially our US dollar-denominated holdings from Mexico and Brazil, as they generated solid results.

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

A. We did not significantly adjust the Fund s portfolio during the period as we maintained our overweight to the spread sectors. However, it is important to note that there was an investment policy change to the Fund during the reporting period. The Fund is now permitted to invest up to 15% of its net assets in non-investment grade debt. This change was not intended to significantly change

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how the Fund is managed; rather, it was implemented to expand the Fund s investable universe, with the goal of helping the Fund improve its overall total return. During the period, we introduced a small allocation to BB-rated high yield bonds. While this was initially a positive for performance, these gains were given back in August and September when the high yield market was dragged down by the flight to quality.

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

A. Economic growth in the US has clearly moderated. While the probability for recession has increased, we feel that growth in the US will remain fairly anemic. However, given the uncertainties related to the economy and other macro issues, including the ongoing European sovereign debt crisis, we have taken steps to reduce the Fund s overall risk exposure. In terms of the spread sectors, fundamentals in the investment grade corporate bond market remain solid as profits have been strong, balance sheets are often flush with cash and borrowing costs are extremely low. In addition, valuations in the investment grade corporate bond market have become more attractive given widening spreads in recent months. However, we believe that maintaining a somewhat cautious approach for the portfolio is appropriate given the tenuous macro environment.

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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.

Sincerely

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

Michael Dow
Portfolio Manager
Fort Dearborn Income Securities, Inc.
Head of US Long Duration Fixed Income
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, 2011. The views and opinions in the letter were current as of November 11, 2011. 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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Performance at a glance (unaudited)

Average annual total returns for periods ended 09/30/11

Net asset value returns	1 year	5 years	10 years
Fort Dearborn Income Securities, Inc.	8.10%	8.33%	7.07%
Lipper Corporate Debt Funds BBB-Rated median	3.60	6.39	5.97
Market price returns			
Fort Dearborn Income Securities, Inc.	8.59	9.92	7.61
Lipper Corporate Debt Funds BBB-Rated median	0.77	7.02	6.48
Index returns			
Investment Grade Bond Index[1]	7.98	8.03	7.38

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.

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

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Portfolio statistics (unaudited)

Characteristics[1]	09/30/11	03/31/11	09/30/10
Net asset value	$17.29	$16.10	$17.35
Market price	$16.07	$14.61	$16.15
12-month dividends/distributions	$1.3500	$1.4700	$1.1940
Dividend/distribution at period-end	$0.1900	$0.1900	$0.2500
Net assets (mm)	$151.7	$141.3	$152.2
Weighted average maturity (yrs.)	16.6	15.9	16.1
Modified duration (yrs.)[2]	10.0	8.9	9.0

Credit quality[3]	09/30/11	03/31/11	09/30/10
AAA	0.9%	5.4%	5.4%
US Treasuries[4]	23.8	15.3	9.7
AA	5.9	3.9	6.8
A	28.1	32.5	34.3
BBB	32.8	36.4	37.3
BB	1.8	1.5	0.6
B		0.9	0.1
CCC and Below	0.7		
Non-rated	3.8	2.7	2.4
Cash equivalents	1.3	0.4	2.2
Other assets, less liabilities	0.9	1.0	1.2
Total	**100.0%**	**100.0%**	**100.0%**

[1] Prices and other characteristics will vary over time.
[2] Modified duration is the change in price, expressed in years, expected in response to each 1% change in yield of the portfolio s holdings.
[3] 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.

[4] S&P downgraded long-term US government debt (US Treasuries) on August 5, 2011 to AA+. Other rating agencies continue to rate long-term US government debt AAA.

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Industry diversification (unaudited)
As a percentage of net assets
As of September 30, 2011

Bonds	
Corporate bonds	
Aerospace & defense	0.40%
Agriculture	0.28
Auto components	0.53
Automobiles	1.53
Banks	0.31
Beverages	0.34
Biotechnology	0.10
Building products	0.34
Capital markets	2.18
Chemicals	0.42
Commercial banks	3.28
Commercial services & supplies	0.87
Communications equipment	0.56
Diversified financial services	4.65
Diversified telecommunication services	5.15
Electric utilities	5.09
Energy equipment & services	0.80
Food & staples retailing	2.41
Food products	1.04
Health care providers & services	1.27
Household durables	0.64
Insurance	3.28

Leisure equipment & products	0.26
Machinery	0.23
Media	5.15
Metals & mining	2.24
Multiline retail	0.51
Multi-utilities	0.76
Office electronics	0.41
Oil, gas & consumable fuels	8.41
Paper & forest products	0.54
Pharmaceuticals	1.17
Road & rail	0.55
Semiconductors & semiconductor equipment	0.35
Software	0.48
Tobacco	1.97
Transportation	0.36
Wireless telecommunication services	1.06
Total corporate bonds	59.92%

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Industry diversification (unaudited) (concluded)
As a percentage of net assets
As of September 30, 2011

Bonds (concluded)	
Asset-backed securities	0.60%
Commercial mortgage-backed securities	0.88
Mortgage & agency debt securities	2.88
Municipal bonds	6.01
US government obligations	23.81
Non-US government obligations	3.76
Total bonds	97.86%
Preferred stock	0.02
Short-term investment	1.26
Total investments	99.14%
Cash and other assets, less liabilities	0.86
Net assets	100.00%

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2011

Security description	Face amount	Value
Bonds 97.86%		
Corporate bonds 59.92%		
Australia 0.59%		
Rio Tinto Finance USA Ltd., 4.125%, due 05/20/21	$400,000	$411,424
9.000%, due 05/01/19	355,000	477,748
Total Australia corporate bonds		889,172
Austria 0.26%		
PE Paper Escrow GmbH, 12.000%, due 08/01/14[1]	375,000	392,813
Bermuda 0.11%		
Validus Holdings Ltd., 8.875%, due 01/26/40	150,000	166,417
Brazil 0.24%		
Petrobras International Finance Co., 6.875%, due 01/20/40	350,000	367,388
Canada 1.98%		
Anadarko Finance Co., Series B, 7.500%, due 05/01/31	490,000	580,268
Canadian National Railway Co., 6.900%, due 07/15/28	285,000	386,130
Canadian Natural Resources Ltd., 5.850%, due 02/01/35	435,000	492,031
EnCana Corp., 6.500%, due 02/01/38	250,000	285,294
Petro-Canada, 6.800%, due 05/15/38	520,000	628,848
TransCanada PipeLines Ltd., 7.125%, due 01/15/19	500,000	634,743

Total Canada corporate bonds		3,007,314
Cayman Islands 1.89%		
Transocean, Inc., 6.800%, due 03/15/38	535,000	553,736
7.500%, due 04/15/31	575,000	666,130
Vale Overseas Ltd., 4.625%, due 09/15/20	1,700,000	1,649,000
Total Cayman Islands corporate bonds		2,868,866

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Portfolio of investments September 30, 2011

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
France 0.25%		
Electricite De France, 6.950%, due 01/26/39[1]	$300,000	$373,517
Luxembourg 1.12%		
Covidien International Finance SA, 4.200%, due 06/15/20	440,000	477,392
Enel Finance International SA, 6.000%, due 10/07/39[1]	365,000	307,683
Telecom Italia Capital SA, 6.375%, due 11/15/33	1,060,000	906,831
Total Luxembourg corporate bonds		1,691,906
Malaysia 0.12%		
Petronas Capital Ltd., 5.250%, due 08/12/19[1]	175,000	189,731
Mexico 1.20%		
America Movil SAB de CV, 5.000%, due 03/30/20	625,000	660,000
Pemex Project Funding Master Trust, 5.750%, due 03/01/18	685,000	741,513
Petroleos Mexicanos, 6.500%, due 06/02/41[1]	410,000	424,350
Total Mexico corporate bonds		1,825,863
Netherlands 0.47%		
EDP Finance BV, 6.000%, due 02/02/18[1]	350,000	277,372
Siemens Financieringsmaatschappij NV, 6.125%, due 08/17/26[1]	350,000	429,263

Total Netherlands corporate bonds		706,635
Netherlands Antilles 0.35%		
Teva Pharmaceutical Finance II BV, 3.000%, due 06/15/15	500,000	524,125
Qatar 0.36%		
Qtel International Finance Ltd., 7.875%, due 06/10/19[1]	455,000	553,962

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2011

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
South Africa 0.40%		
AngloGold Ashanti Holdings PLC, 5.375%, due 04/15/20	$625,000	$612,326
Sweden 0.13%		
Nordea Bank AB, 4.875%, due 05/13/21[1]	230,000	196,535
Switzerland 0.25%		
Credit Suisse, 6.000%, due 02/15/18	370,000	375,468
United Kingdom 1.75%		