FORT DEARBORN INCOME SECURITIES INC
Form N-CSR
December 08, 2014

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)

Tammie Lee, 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.

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, 2014

Item 1. Reports to Stockholders.

Closed-end funds Annual Report

Fort Dearborn Income Securities, Inc.

Annual Report

September 30, 2014

Fort Dearborn Income Securities, Inc.

November 10, 2014

Dear shareholder,

We present you with the annual report for Fort Dearborn Income Securities, Inc. (the Fund) for the 12 months ended September 30, 2014.

Performance

For the 12 months ended September 30, 2014, the Fund posted a total return on a net asset value (NAV) basis of 6.77%, and 10.69% on a market price basis. Over the same period, the Fund s benchmark, the Barclays US Aggregate Index (the Index[1]) returned 3.96%, while the Fund s peer group, as measured by the Lipper Corporate Debt Funds BBB-Rated classification, posted a median total return of 6.27% on a NAV basis, and 9.11% on a market price basis. (For more performance information, please refer to Performance at a glance on page 5.) During the reporting period, neither the Fund nor the Index used leverage. (Leverage magnifies returns both on the upside and on the downside, creating a wider range of returns.)

The Fund traded at a discount to its NAV during the 12 months, although the discount narrowed during the reporting period. On the last trading day preceding the reporting period, September 30, 2013, the Fund traded

Fort Dearborn Income Securities, Inc.

Investment goal:

Current income consistent with external interest rate conditions and total return

Portfolio Manager:

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

at a discount of 12.1%, which was the same as the median discount of the Fund s Lipper peer group. As of September 30, 2014, the Fund traded at a discount of 9.5%, which was the same as the median discount of the Fund s Lipper peer group. 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, such as 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.

Market commentary

After three consecutive years of generally modest growth, the overall US economy contracted in the first quarter of 2014. Looking back, gross domestic product (GDP) grew at seasonally-adjusted annualized rates of 4.5% and 3.5% during the third and fourth quarters of 2013, respectively. The Commerce Department then reported that first quarter 2014 GDP contracted at a 2.1% rate. This was the first negative reading since the first quarter of 2011, and the downturn was partially attributed to severe winter weather in parts of the country. However, this proved to be a temporary setback for the economy as GDP growth was 4.6% during the second quarter, the highest rate since the fourth quarter of 2011. The initial estimate for third quarter GDP growth was 3.5%.[2]

In December 2013, the US Federal Reserve (the Fed) announced that it would begin paring its monthly asset purchases (quantitative easing), stating Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a [reduced] pace of $35 billion per month rather than $40 billion per month, and

1 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 mortgage-backed sectors. Investors should note that indices do not reflect the deduction of fees and expenses.

2 Based on the Commerce Department s initial estimate announced on October 30, 2014, after the reporting period had ended.

will add to its holdings of longer-term Treasury securities at a [reduced] pace of $40 billion per month rather than $45 billion per month.

At its meetings in January, March, April, June, July and September 2014, the Fed said it would further taper its asset purchases, in each case paring its total purchases by a total of $10 billion per month. Beginning in October, the Fed will purchase a total of $15 billion per month ($5 billion per month of agency mortgage-backed securities and $10 billion per month of longer-term Treasuries). In the Fed s official statement the central bank said that it, likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee s two percent longer-run goal, and provided that longer-term inflation expectations remain well anchored. Finally, at the Fed s meeting in October, it said it had concluded quantitative easing.

Short-term Treasury yields rose during the reporting period, whereas longer-term yields declined. The overall US bond market, as measured by the Barclays US Aggregate Index, gained 3.96% during the 12 months ended September 30, 2014. High yield bonds were among the best performers, as they were supported by generally strong corporate fundamentals, low defaults and overall robust demand.

Portfolio commentary

What worked

The Fund s spread sector exposure was the largest contributor to the Fund s performance during the reporting period.

Security selection and a significant overweight allocation to investment grade corporate bonds drove the Fund s outperformance versus the Index. In particular, the Fund s overweights and security selection in the metals and mining, banking, energy and lodging sectors were additive for performance.

An out of the benchmark allocation and selection in high yield corporate bonds was beneficial to results during the 12-month reporting period, as spreads narrowed given generally strong demand, largely positive fundamentals and continued low defaults.

Elsewhere, an overweight to, and security selection in, commercial mortgage-backed securities (CMBS) was positive for performance.

The Fund s yield curve positioning was a minor contributor to results.

Our yield curve flattening bias was beneficial, as we had an overweight to the long end of the curve and an underweight to the short end of the curve.

What didn t work

The Fund s duration positioning detracted from results during the reporting period.

We tactically adjusted the Fund s duration during the reporting period, given changing economic and market conditions. When the reporting period began, the Fund s duration was 5.6 years, and duration was reduced to 5.0 years at the end of September 2014. While this positioning added value at times, it detracted from relative performance overall, as yields generally declined during the reporting period.

Portfolio adjustments

There were several minor adjustments made to the portfolio s sector positioning during the reporting period, including the initiation of a position in collateralized loan obligations.

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Fort Dearborn Income Securities, Inc.

We also started to employ certain derivatives.

The Fund utilized US Treasury and Eurodollar futures and options to more effectively manage the Fund s duration and yield curve positioning. Overall, duration and yield curve management strategies generated mixed results during the reporting period.

The Fund also began utilizing credit derivatives, such as credit default swaps, to manage exposure across different fixed income sectors. These instruments were used to help reduce risk in the portfolio, but also to add exposure to areas we found attractive and offered an opportunity to boost the Fund s run rate. As noted earlier, overall credit strategies including the bond securities held in the portfolio were positive contributors to results over the reporting period.

Outlook

In our view, the US economy has enough momentum to continue expanding, although the pace will be far from robust. We expect the Fed to begin the process of normalizing monetary policy in 2015 and we believe it will do so in a gradual and measured fashion. Economic growth in Europe remains weak and the European Central Bank is expected to remain accommodative as it looks to stimulate growth and ward off deflation. Elsewhere, we are closely monitoring China s economy given signs of a more modest expansion.

Turning to the fixed income market, geopolitical and global growth concerns have driven down US Treasury yields and pushed credit spreads wider. We currently have a neutral to somewhat positive outlook for credit markets. In particular, we continue to find attractive opportunities given relatively more attractive spreads.

We wanted to thank you again for voting your shares in late 2013 and continuing to support the Fund, as we sought to adjust its investment policies. With almost a full year of operating under the investment policies that went into effect on December 31, 2013, we are happy to report that the added flexibility has been beneficial in managing the Fund s portfolio. The ability to utilize derivatives has allowed us to manage the Fund s interest rate and credit risk more efficiently. This year, we were able to adjust the Fund s duration more tactically, and although the shorter duration stance was not rewarded over the reporting period, the ability to adjust the portfolio s interest rate sensitivity with lower turnover, less disruption to issuer selection, and often without having to reduce longer duration but higher coupon positions, was advantageous. Furthermore, as noted earlier, the use of derivatives allowed us to add exposure to certain segments of the credit market that we believed presented attractive opportunities. We believe that this additional investment flexibility should help the Fund remain competitive and well positioned as market dynamics shift in the future. We look forward to continuing to serve your future investment needs.

We also 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.

Scott Dolan

Portfolio Manager

Fort Dearborn Income Securities, Inc.

Managing Director

UBS Global Asset Management (Americas) Inc.

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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, 2014. The views and opinions in the letter were current as of November 10, 2014. 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.

Performance at a glance (unaudited)

Average annual total returns for periods ended 09/30/2014

Net asset value returns	1 year	5 years	10 years
Fort Dearborn Income Securities, Inc.	6.77%	7.30%	6.47%
Lipper Corporate Debt Funds BBB-Rated median	6.27	7.52	5.82
Market price returns			
Fort Dearborn Income Securities, Inc.	10.69%	8.08%	7.15%
Lipper Corporate Debt Funds BBB-Rated median	9.11	4.31	5.41
Index returns			
FDI Fund Index[1]	3.96%	6.81%	6.05%
Barclays US Aggregate Index[2]	3.96	4.12	4.62

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.

1 The FDI Fund Index is an unmanaged index compiled by the Advisor, constructed as follows: From 12/31/81 to 5/31/2013 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). From 6/1/2013 to present 100% Barclays US Aggregate Index. Investors should note that indices do not reflect the deduction of fees and expenses.

2 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 mortgage-backed sectors. Investors should note that indices do not reflect the deduction of fees and expenses.

Performance information reflects the deduction of the Fund s fees and expenses, as indicated in the Statement of operations included in its shareholder reports, such as investment advisory and administration fees, custody fees, exchange listing fees, etc. It does not reflect any transaction charges that a shareholder may incur when (s)he buys or sells shares (e.g., a shareholder s brokerage commissions).

Investing in the Fund entails specific risks, such as interest rate, credit and US government securities risks as well as derivatives risk. Further detailed information regarding the Fund, including a discussion of investment objectives, principal investment strategies and principal risks, may be found in the fund overview located at http://www.ubs.com/closedendfundsinfo. You may also request copies of the fund overview by calling the Closed-End Funds Desk at 888-793 8637.

Fort Dearborn Income Securities, Inc.

Portfolio statistics (unaudited)

Characteristics[1]	**09/30/14**	**03/31/14**	**09/30/13**
Net asset value	$ 15.99	$ 15.95	$ 15.89
Market price	$ 14.47	$ 14.41	$ 13.96
12-month dividends/distributions	$ 0.9402	$ 0.9902	$ 1.5230
Dividend/distribution at period-end	$ 0.1500	$ 0.1500	$ 0.1750
Net assets (mm)	$ 140.3	$ 140.0	$ 139.4
Weighted average maturity (yrs.)	10.0	8.8	8.1
Duration (yrs.)[2]	5.0	4.6	5.6
Credit quality[3]	**09/30/14**	**03/31/14**	**09/30/13**
US Treasury[4]	1.7%	0.2%	2.2%
US Agency[4,5]	2.1	3.0	3.1
AA	2.5	2.5	5.6
A	12.8	10.9	17.4
BBB	56.8	58.4	48.8
BB	12.4	12.4	10.3
B	1.5	2.3	2.8
CCC and Below	0.9	0.6	0.7
Non-rated	7.6	8.0	4.8
Cash equivalents	1.9	1.1	2.2
Other assets, less lliabilities	(0.2)	0.6	2.1
Total	**100.0%**	**100.0%**	**100.0%**

1 Prices and other characteristics will vary over time.

2 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.

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 Financial Services LLC, a part of McGraw-Hill Financial (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.

4 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 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.

5 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 September 30, 2014

Bonds	
Corporate bonds	
Automobiles	1.60%
Banks	22.55
Building products	0.08
Capital markets	3.24
Chemicals	2.76
Commercial services & supplies	0.70
Communications equipment	0.40
Construction materials	0.69
Consumer finance	0.99
Diversified financial services	3.69
Diversified telecommunication services	1.52
Electric utilities	0.82
Electronic equipment, instruments & components	0.56
Energy equipment & services	1.01
Food & staples retailing	0.59
Gas utilities	0.59
Hotels, restaurants & leisure	1.16
Insurance	7.35
Internet & catalog retail	0.22
IT services	0.44
Leisure products	0.17
Life sciences tools & services	0.11
Machinery	1.48
Media	2.80
Metals & mining	3.95
Oil, gas & consumable fuels	12.20
Paper & forest products	1.24
Pharmaceuticals	0.09
Real estate investment trust (REIT)	0.69
Technology hardware, storage & peripherals	0.76
Tobacco	2.80
Trading companies & distributors	1.40
Wireless telecommunication services	0.49
Total corporate bonds	**79.14**

Asset-backed securities	0.47
Collateralized debt obligations	3.73
Commercial mortgage-backed securities	6.53
Mortgage & agency debt securities	2.45
Residential mortgage-backed securities	0.54
Municipal bonds	2.61
US government obligation	1.75
Non-US government obligation	0.86
Total bonds	**98.08**

Common stock	0.05%
Preferred stocks	0.10
Short-term investment	1.93
Options purchased	0.07
Total investments	**100.23**
Liabilities, in excess of cash and other assets	(0.23)
Net assets	**100.00%**

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2014

	Face amount	Value
Bonds: 98.08%		
Corporate bonds: 79.14%		
Brazil: 4.47%		
Banco do Brasil SA,		
9.000%, due 06/18/24[1,2,3]	$ 585,000	$ 567,509
Caixa Economica Federal,		
2.375%, due 11/06/17[1]	1,400,000	1,354,500
Petrobras Global Finance BV,		
6.250%, due 03/17/24	400,000	418,120
Petrobras International Finance Co.,		
5.375%, due 01/27/21	1,130,000	1,141,537
6.875%, due 01/20/40	1,275,000	1,316,871
Vale Overseas Ltd.,		
4.375%, due 01/11/22	1,465,000	1,471,973
Total Brazil corporate bonds		6,270,510
Canada: 1.22%		
Encana Corp.,		
6.625%, due 08/15/37	250,000	312,735
Teck Resources Ltd.,		
6.250%, due 07/15/41	875,000	889,305
Yamana Gold, Inc.,		
4.950%, due 07/15/24[1]	510,000	507,688
Total Canada corporate bonds		1,709,728
Cayman Islands: 1.19%		
Seagate HDD Cayman,		
3.750%, due 11/15/18[1]	1,050,000	1,071,000
Transocean, Inc.,		
7.500%, due 04/15/31	575,000	601,202
Total Cayman Islands corporate bonds		1,672,202
China: 0.20%		
China Oil & Gas Group Ltd.,		
5.250%, due 04/25/18[1]	280,000	286,300
Colombia: 0.16%		
Ecopetrol SA,		
4.125%, due 01/16/25	230,000	222,525
France: 0.60%		
Orange SA,		
9.000%, due 03/01/31	575,000	847,153
Indonesia: 0.32%		

	Face amount	Value
Pertamina Persero PT,		
6.450%, due 05/30/44[1]	450,000	456,097
Israel: 0.09%		
Teva Pharmaceutical Finance IV BV,		
3.650%, due 11/10/21	125,000	127,051
Luxembourg: 0.63%		
Intelsat Jackson Holdings SA,		
7.500%, due 04/01/21	$ 500,000	$ 533,750
Telecom Italia Capital SA,		
6.375%, due 11/15/33	350,000	348,250
Total Luxembourg corporate bonds		882,000
Malaysia: 0.30%		
SSG Resources Ltd.,		
4.250%, due 10/04/22[4]	410,000	415,560
Mexico: 2.91%		
America Movil SAB de CV,		
5.000%, due 03/30/20	625,000	683,944
Cemex SAB de CV,		
5.700%, due 01/11/25[1]	1,000,000	966,000
Petroleos Mexicanos,		
3.500%, due 01/30/23	1,450,000	1,393,450
6.375%, due 01/23/45[1]	500,000	565,400
6.500%, due 06/02/41	410,000	469,245
Total Mexico corporate bonds		4,078,039
Netherlands: 3.05%		
Basell Finance Co. BV,		
8.100%, due 03/15/27[1]	1,425,000	1,895,656
EDP Finance BV,		
4.900%, due 10/01/19[1]	1,000,000	1,032,