

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

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. Allesie, 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.
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2600 One Commerce Square
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Registrant's telephone number, including area code: 212-821 3000

Date of fiscal year end: September 30

Date of reporting period: September 30, 2013

Item 1. Reports to Stockholders.

Closed-end funds

Fort Dearborn Income
Securities, Inc.
Annual Report
September 30, 2013

Fort Dearborn Income Securities, Inc.

November 15, 2013

Dear shareholder,

We present you with the annual report for Fort Dearborn Income Securities, Inc. (the Fund) for the 12 months ended September 30, 2013.

Performance

For the 12 months ended September 30, 2013, the Fund declined 2.82% on a net asset value (NAV) total return basis, and declined 10.77% on a market price total return basis.

During the reporting period, the Fund announced and implemented several adjustments to its investment policies which are discussed in further detail in this shareholder report. One of these adjustments included a change to the Fund s benchmark effective June 1, 2013.

For the 12 months ended September 30, 2013, the Fund s new benchmark, the Barclays US Aggregate Index (the Index¹) declined 1.68%, while the Fund s prior benchmark, the Investment Grade Bond Index² declined

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

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 The Investment Grade Bond Index is an unmanaged index compiled by the Advisor, constructed as follows: 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.

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5.14%. The FDI Fund Index³, an unmanaged index compiled by the Fund's investment advisor which measures the performance of the Fund's prior benchmark until May 31, 2013 and the Fund's new benchmark effective June 1, 2013, declined 2.28% over the 12 months ended September 30, 2013. Over the same time period, the Fund's peer group, the Lipper Corporate Debt Funds BBB-Rated classification, posted a median return of 0.11% on a NAV basis, and a median return of -10.69% on a market price basis. (For more performance information, please refer to "Performance at a glance" on page 15.)

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 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 Fund's Lipper peer group traded at a median discount of 2.6%. As of September 30, 2013, the Fund traded at a 12.1% discount, the same as the 12.1% 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.

³ 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.

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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 2.8% gross domestic product (GDP) growth in the US for the third quarter of 2012, followed by tepid growth of 0.1% in the fourth quarter. Decelerating growth was largely driven by weakening private inventory investment, federal government spending and exports. However, the economy regained some traction, as GDP grew 1.1% and 2.5% during the first and second quarters of 2013, respectively. The Commerce Department's initial estimate for third quarter 2013 GDP growth was 2.8%.⁴

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 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. Looking back, 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 meeting in December 2012, 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 has not materially changed its official policy stance thus far in 2013. However, in his press conference following the

⁴ Based on the Commerce Department's third estimate announced on November 7, 2013, after the Fund's reporting period had ended.

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Fed's meeting in June, Fed Chairman Ben Bernanke said the Committee currently anticipates that it would be appropriate to moderate the monthly pace of purchases later this year; and if the subsequent data remain broadly aligned with our current expectations for the economy, we would continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around midyear. This statement triggered a substantial sell-off in the fixed income market, as Treasury yields rose sharply and bond prices declined. However, at its meeting that concluded on September 18, the Fed chose to delay the tapering of its asset purchases, saying that it decided to await more evidence that progress will be sustained before adjusting the pace of its purchases. At his press conference following the September meeting, Chairman Bernanke also brought up the potential for a partial government shutdown on October 1 and the debt ceiling debate as reasons for maintaining its current policy.

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

- A. US Treasury yields moved higher during the reporting period and negatively impacted the overall bond market (yields and bond prices move in the opposite direction). Yields moved sharply higher from May 2013 through early September, due to expectations that the Fed would begin the tapering of its \$85 billion a month in asset purchases during its meeting on September 18. After peaking on September 5, Treasury yields sharply fell as the Fed chose to not begin the taper at its September meeting. Also driving yields lower in late September were increasing signs that lawmakers in Washington DC would not come up with a budget accord in time to avert a partial government shutdown on October 1. All told, during the 12-month reporting period, the US taxable spread sectors (non-US Treasury fixed income securities) produced mixed results. As mentioned, the overall US bond market, as measured by the Barclays US Aggregate Index, declined 1.68% during the reporting period.

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Q. How was the Fund managed from a duration⁵ and yield curve perspective during the reporting period?

A. During the reporting period, the Fund implemented several changes and announced additional adjustments to its investment policies to become effective later this year. The first round of changes the Fund's Board of Directors approved effective June 1, 2013 included the following: 1) changing the Fund's benchmark to the Barclays US Aggregate Index; and 2) adjusting the Fund's portfolio duration range from its prior range of ± 2 years to ± 3 years of the benchmark's duration. With these adjustments, UBS Global Asset Management (Americas) Inc., (UBS Global AM) the Fund's investment advisor, sought to reduce the Fund's sensitivity to potential future changes in interest rates. In addition to reducing the Fund's interest rate risk profile by changing its benchmark to a different index with a lower duration bias, we also expanded the range with which the Fund will typically maintain its duration from ± 2 years, to ± 3 years of the benchmark index to provide more investment flexibility.

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 at historically low levels, we believed that the level of compensation offered for taking interest rate risk was far less compelling than it has been in the past. As such, implementing this first round of adjustments, which became effective in June 2013, should leave the Fund less exposed to the potential negative impact of rising interest rates.

The second round of changes that the Fund has not yet implemented are described in detail later on in the shareholder report and are intended to build on policy adjustments the Fund recently implemented. While changes implemented in June sought to reduce the Fund's interest rate risk sensitivity, these additional changes will attempt to redeploy that risk in other areas of the portfolio. The changes are intended to improve the overall risk adjusted performance; enhance earning potential by widening the investable universe, modernizing policies; and remove outdated limitations while providing the investment team with tools to more efficiently manage portfolio risks and exposures.

⁵ Duration measures a portfolio's sensitivity to interest rate changes.

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A number of adjustments were made to the portfolio during the reporting period, some due to the previously discussed changes approved by the Fund's Board of Directors. The most significant change involved lowering the Fund's duration to reduce its interest rate risk profile. When the reporting period began, the Fund's duration was 10.47 years. This was reduced to 5.6 years at the end of June, by decreasing the Fund's allocation to longer duration but lower-yielding⁶ Treasuries and credit securities (investment grade and high yield corporate bonds). In contrast, we increased the Fund's exposure to commercial mortgage-backed securities (CMBS) and to lower duration but higher-yielding credits. These adjustments were largely implemented toward the end of May and in June. The Fund's duration and yield curve positioning modestly detracted from performance during the reporting period. The majority of this negative impact occurred in June, as we reduced the portfolio's duration. Notably, this was a volatile month for fixed income overall, following more hawkish comments from the Fed.

Q. What other factors impacted the Fund's performance during the reporting period?

A. The Fund's security selection of investment grade and high yield corporate bonds was beneficial for performance for the reporting period as a whole. Within the investment grade corporate bond market, a bias toward financial securities enhanced the Fund's results. Security selection of CMBS also contributed to performance during the reporting period.

Asset allocation, in aggregate, was a modest detractor from performance, largely due to implementing the changes in June. Specifically, we increased the Fund's credit allocation during a period when corporate bond spreads generally widened. However, following the transition, the Fund's credit overweight was beneficial for performance.

⁶ Typically, longer maturity securities offer larger and more attractive coupons. However, the investment team sought to reduce duration while minimizing the impact on the Fund's earnings, and thus, it carefully targeted certain longer-term bonds with relatively lower yields.

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

A. As discussed, we made a number of adjustments to the portfolio in order to reduce its duration and interest rate risk profile, including paring the Fund's exposure to longer duration investment grade and high yield corporate bonds, while increasing its allocation to CMBS and lower duration credits. Throughout the fiscal year, we actively participated in the new issue credit market, purchasing securities that we believed were attractively valued. At the end of the reporting period, the Fund had a strategic underweight versus its new benchmark to mortgage-backed securities and an overweight to investment grade and high yield corporate bonds.

Notably, that the asset composition of the Fund's new benchmark, Barclays US Aggregate Index, will differ over time when compared to the Fund. The change in the Fund's benchmark was not intended to materially alter the Fund's asset composition; rather, it sought to reduce the Fund's interest rate risk profile by selecting a benchmark with a lower duration profile. Unlike the Barclays US Aggregate Index, which maintains a large allocation to US government debt and agency mortgage-backed securities, the Fund continues to maintain an emphasis on investing in corporate debt. As a result, the Fund will typically maintain a strategic underweight to US Treasury and agency mortgage-backed securities relative to the Barclays US Aggregate Index while maintaining a strategic overweight to corporate debt.

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

A. We maintain our positive outlook for the US economy and believe that growth will continue, albeit at a relatively modest pace. In recent months, we have seen continued improvements in the housing and labor markets. In addition, despite fears of Fed asset purchase tapering this year, we believe that the government shutdown and next round of budget and debt ceiling talks in early 2014 will push the beginning of the taper back to perhaps March. In addition, we believe that the Fed's tapering will be more modest and take longer to complete than previously anticipated.

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Turning to the US fixed income market, we continue to have a positive outlook for corporate bonds, as we believe that the fundamental and technical backdrops bode well for these securities. We see the potential for credit spreads to modestly tighten in the coming months, as defaults are projected to stay low and investor dynamics remain favorable. We believe that risks to the US fixed income market include ongoing fiscal policy uncertainties, questions regarding future Fed monetary policy and a possible rotation out of fixed income due to rates moving higher or the relative risk/reward valuation of fixed income versus equities.

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.

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
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Craig Ellinger
Portfolio Manager
Fort Dearborn Income
Securities, Inc.
Managing Director
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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, 2013. The views and opinions in the letter were current as of November 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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Investment policy changes

Since the last shareholder report, the Fund announced that the Board of Directors of the Fund approved changes to certain investment policies of the Fund, as well as approved and recommended that shareholders approve changes to the Fund's investment policies and restrictions at the Fund's upcoming annual meeting to be held on December 6, 2013. Together, the approved and recommended changes seek to provide additional investment flexibility to more efficiently manage the Fund's exposures, help maintain the distribution rate at competitive levels relative to the market and make sure that the Fund's shares remain attractive to both existing and prospective shareholders.

The Board approved the following, effective December 31, 2013: 1) permitting the Fund to purchase non-US dollar-denominated securities;¹ 2) allowing the Fund to invest up to 10% of its assets in collateralized loan obligations; and 3) clarifying that the Fund may invest up to 25% of its total assets in a combination of (a) below investment grade privately placed debt securities; (b) preferred stock; (c) convertible securities or debt issued with warrants to purchase common stock, provided the market value of all warrants does not exceed 2% of the net asset value of the Fund; and (d) below investment grade obligations of foreign governments or foreign corporations.

Each of the changes highlighted above, combined with the changes outlined below, seek to provide the Fund with a broader array of investment choices, presenting the Fund with the opportunity to improve its overall risk-adjusted returns.

As noted above, the Board approved and recommended that at the annual meeting of shareholders, that shareholders approve changes to the Fund's investment policies and restrictions, as described below. These changes, if approved, will also become effective on December 31, 2013.

At the annual meeting, shareholders will be asked to approve amendments to the Fund's fundamental investment policy of investing at least 75% of the Fund's total assets in investment grade debt (the

¹ The Fund, at this time, intends to hedge foreign currency exposure back to the US dollar.

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75% Policy), in order to modernize and streamline the related language. For example, the current 75% Policy specifies that debt obligations must be rated in the four highest credit rating grades of Moody's Investor Services, Inc. (Moody's) or Standard & Poor's Rating Services (S&P). Notably, the current 75% Policy dates back to 1993. Since then, Fitch Ratings, Inc. (Fitch) has established itself as the third major ratings agency and is widely considered to be as reliable as the other two ratings organizations.

These changes, if approved, would make the Fund's investment parameters more consistent with many fixed income funds and would also better align the Fund with the Barclays benchmark indices, which since July 2005, have incorporated Fitch, in addition to Moody's and S&P, into their index rules on credit quality. The Fund's advisor and Board are also proposing these changes to modernize and streamline the language of the Fund's 75% Policy.

The Fund has eliminated the list of types of investment grade, non-convertible debt securities in which the Fund may invest from the fundamental investment policy. The removal of this recitation of investments is not intended to alter the composition of the Fund's portfolio, rather, it is meant to streamline the language while still requiring the Fund to invest at least 75% of its assets in investment grade securities. In removing the recitation of the types of debt securities from the Fund's fundamental policy, the advisor, with the approval of the Fund's Board, have the flexibility to include other types of investment grade non-convertible debt securities for purposes of meeting the 75% investment requirement. The proposed amended 75% Policy, included below, now incorporates Fitch:

The Company may not have less than 75% of the Company's total assets in, non-convertible fixed income securities which at the time of purchase are considered investment grade by being rated in the four highest grades as determined by Moody's, S&P or Fitch or if not rated, are considered by the investment advisor to be of comparable investment quality.

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Currently, the Fund's investments in investment grade, non-convertible fixed income securities may include corporate debt securities of US and non-US issuers, securities of the US government, its agencies and government-sponsored enterprises, securities guaranteed by the US government, obligations of non-US governments or their subdivisions, agencies and government-sponsored enterprises, obligations of international agencies or supranational entities, mortgage-backed securities, asset-backed securities, commercial paper and cash or cash equivalents.

As previously noted, the Fund's offering documents, restrictions and policies have not been updated in almost two decades and, therefore, feature a number of limitations that many modern funds no longer include. Therefore shareholders will be asked at the annual meeting to approve amendments to the Fund's restrictions related to borrowing, senior securities and commodities. These changes will provide the Fund with more modern restrictions that will no longer prevent the Fund from using derivative instruments, such as futures, forwards, swaps and options, to more efficiently manage the Fund's investments. Also, amending the borrowing and senior securities restrictions will remove any ambiguity with respect to the Fund's ability to engage in structural leverage (e.g., as borrowing from a bank for investment purposes), if such leverage would be considered beneficial in the future. Currently, the Fund does not intend to engage in structural leverage, however, Fund shareholders will be notified in writing, should the Board and advisor decide to implement such strategies in the future.

Finally, shareholders will be asked to approve the elimination of four outdated² fundamental investment restrictions that currently prevent the Fund from employing derivative instruments as additional tools to manage the Fund's risk exposures and provide greater flexibility in portfolio construction. The investment restrictions that shareholders are being asked to approve for elimination include restrictions prohibiting:

² Since the time when the Fund was created, certain legal and regulatory requirements applicable to investment companies have changed. As a result, the Fund is currently subject to a number of fundamental investment restrictions that are more restrictive than those required under present conditions or law, or may no longer be required by the securities laws.

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mortgaging, hypothecating or pledging assets, purchasing securities on margin, engaging in short sales or maintaining short positions and employing options.

The Fund's advisor seeks to initiate the use of derivative instruments to more efficiently manage the Fund's exposures. For example, the Fund may utilize interest rate instruments, such as futures, to more precisely manage the Fund's interest rate exposure, while potentially seeking to improve its earnings potential by investing in longer maturity, higher-yielding debt, but reducing overall portfolio interest rate exposure using futures. Furthermore, the Fund intends to utilize currency instruments (e.g., foreign exchange forwards) to hedge any foreign currency exposure back to the US dollar. Overall, the Fund expects to use derivative instruments for both hedging and investment purposes.

The purpose of the proposed changes is to broaden the Fund's investable universe of portfolio securities, diversify sources of return and provide the Fund's investment team with more flexibility to efficiently manage the portfolio. The Fund's advisor believes that as the markets evolve, the Fund needs to adapt to the changing market environment, in order to meet investor objectives and remain competitive.

Additional risk considerations

While the changes discussed above present attractive investment opportunities, they may potentially introduce additional risks, which are further outlined below.

Derivatives risk: The value of derivatives so called because their value derives from the value of an underlying asset, reference rate or index may rise or fall more rapidly than other investments. When using derivatives for non-hedging purposes, it is possible for the Fund to lose more than the amount it invested in the derivative. The risks of investing in derivative instruments also include market and management risks. Derivatives relating to fixed income markets are especially susceptible to interest rate risk and credit risk. In addition, many types of swaps and other non-exchange traded derivatives

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may be subject to liquidity risk, credit risk and mispricing or valuation complexity. These derivatives risks are different from, and may be greater than, the risks associated with investing directly in securities and other instruments.

Leverage risk associated with financial instruments: The use of financial instruments to increase potential returns, including derivatives used for investment (nonhedging) purposes, may cause the Fund to be more volatile than if it had not been leveraged. The use of leverage may also accelerate the velocity of losses and can result in losses to the Fund that exceed the amount originally invested.

Collateralized Loan Obligations (CLOs): A CLO is a trust typically collateralized by a pool of loans, which may include, among others, domestic and foreign senior secured loans, senior unsecured loans, and subordinate corporate loans, including loans that may be rated below investment grade or equivalent unrated loans. CLOs may charge management fees and administrative expenses. In addition to the normal risks associated with debt securities (e.g., interest rate risk, credit risk and default risk), CLOs carry additional risks including, but not limited to: (i) the possibility that distributions will not be adequate to make interest or other payments; (ii) the collateral may decline in value or quality or go into default; (iii) the Fund may invest in tranches of a CLO that are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer, difficulty in valuing the security or unexpected investment results.

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Performance at a glance (unaudited)**Average annual total returns for periods ended 09/30/2013**

Net asset value returns	1 year	5 years	10 years
Fort Dearborn Income Securities, Inc.	(2.82)%	10.79%	6.31%
Lipper Corporate Debt Funds BBB-Rated median	0.11%	8.37%	5.30%
Market price returns			
Fort Dearborn Income Securities, Inc.	(10.77)%	10.04%	6.74%
Lipper Corporate Debt Funds BBB-Rated median	(10.69)%	8.31%	5.59%
Index returns			
FDI Fund Index ^{1,4}	(2.28)%	10.05%	6.24%
Barclays US Aggregate Index ^{2,4}	(1.68)%	5.41%	4.59%
Investment Grade Bond Index ³	(5.14)%	9.39%	5.92%

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.

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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.

³ The Investment Grade Bond Index is an unmanaged index compiled by the Advisor, constructed as follows: 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.

⁴ Effective June 1, 2013, Fort Dearborn Income Securities, Inc. changed the Fund's benchmark from the Investment Grade Bond Index to Barclays US Aggregate Index. The FDI Fund Index, an unmanaged index compiled by the Advisor, measures the combined performance of the Fund's prior benchmark until May 31, 2013 and the Fund's new benchmark effective June 1, 2013.

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. 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.

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Portfolio statistics (unaudited)

Characteristics ¹	09/30/13	03/31/13	09/30/12
Net asset value	\$15.89	\$16.83	\$17.87
Market price	\$13.96	\$15.53	\$17.20
12-month dividends/distributions	\$1.5230	\$1.5230	\$1.4310
Dividend/distribution at period-end	\$0.1750	\$0.1750	\$0.1750
Net assets (mm)	\$139.4	\$147.7	\$156.8
Weighted average maturity (yrs.)	8.1	15.5	17.5
Duration (yrs.) ²	5.6	9.0	10.5
Credit quality³	09/30/13	03/31/13	09/30/12
AAA	%	0.4%	0.6%
US Treasury ⁴	2.2	11.1	15.0
US Agency ^{4,5}	3.1	4.7	4.8
AA	5.6	6.0	5.2
A	17.4	30.0	28.5
BBB	48.8	36.6	36.3
BB	10.3	7.2	4.7
B	2.8	1.1	0.5
CCC and Below	0.7	0.8	0.7
Non-rated	4.8	0.4	0.6
Cash equivalents	2.2	0.9	2.1
Other assets, less liabilities	2.1	0.8	1.0
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 (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.

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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 as of September 30, 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.

⁵ Includes agency debentures and agency mortgage-backed securities.

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Industry diversification (unaudited)*As a percentage of net assets**As of September 30, 2013***Bonds****Corporate bonds**

Automobiles	0.88%
Building products	0.08
Capital markets	5.72
Chemicals	1.95
Commercial banks	13.50
Commercial services & supplies	0.69
Communications equipment	0.40
Construction materials	0.38
Consumer finance	5.41
Diversified financial services	10.96
Diversified telecommunication services	3.75
Electric utilities	0.55
Electronic equipment, instruments & components	1.03
Energy equipment & services	1.10
Food & staples retailing	0.55
Gas utilities	0.59
Health care providers & services	0.46
Hotels, restaurants & leisure	0.48
Insurance	5.78
Leisure equipment & products	0.16
Life sciences tools & services	0.11
Machinery	1.25
Media	2.57
Metals & mining	3.53
Office electronics	0.44
Oil, gas & consumable fuels	9.06
Paper & forest products	1.20
Pharmaceuticals	0.09
Real estate investment trust (REIT)	0.67
Tobacco	2.13
Trading companies & distributors	1.40
Wireless telecommunication services	0.48
Total corporate bonds	77.35%

Fort Dearborn Income Securities, Inc.

Industry diversification (unaudited) (concluded)

As a percentage of net assets

As of September 30, 2013

Bonds (concluded)

Asset-backed security	0.21%
Commercial mortgage-backed securities	4.33
Mortgage & agency debt securities	3.94
Municipal bonds	6.22
US government obligation	2.15
Non-US government obligations	1.38
Total bonds	95.58%
Common stock	0.02
Preferred stocks	0.09
Short-term investment	2.20
Total investments	97.89%
Cash and other assets, less liabilities	2.11
Net assets	100.00%

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Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2013

	Face amount	Value
Bonds 95.58%		
Corporate bonds 77.35%		
Brazil 2.23%		
Caixa Economica Federal, 2.375%, due 11/06/17 ¹	\$ 1,400,000	\$ 1,309,280
Petrobras International Finance Co., 5.375%, due 01/27/21	1,130,000	1,136,351
6.875%, due 01/20/40	675,000	663,187
Total Brazil corporate bonds		3,108,818
Canada 0.46%		
EnCana Corp., 6.625%, due 08/15/37	250,000	277,078
Teck Resources Ltd., 6.250%, due 07/15/41	375,000	363,348
Total Canada corporate bonds		640,426
Cayman Islands 2.11%		
Transocean, Inc., 3.800%, due 10/15/22	340,000	320,141
6.800%, due 03/15/38	535,000	567,984
7.500%, due 04/15/31	575,000	646,150
Vale Overseas Ltd., 4.375%, due 01/11/22	1,465,000	1,411,445
Total Cayman Islands corporate bonds		2,945,720
China 0.19%		
China Oil & Gas Group Ltd., 5.250%, due 04/25/18 ¹	280,000	270,900
Curacao 0.09%		
Teva Pharmaceutical Finance IV BV, 3.650%, due 11/10/21	125,000	124,068
France 1.28%		
Orange SA, 8.750%, due 03/01/31	575,000	765,295
Vivendi SA, 4.750%, due 04/12/22 ¹	1,050,000	1,025,029
Total France corporate bonds		1,790,324

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2013

	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
Luxembourg 0.60%		
Intelsat Jackson Holdings SA, 7.500%, due 04/01/21	\$500,000	\$540,000
Telecom Italia Capital SA, 6.375%, due 11/15/33	350,000	300,623
Total Luxembourg corporate bonds		840,623
Mexico 2.12%		
America Movil SAB de CV, 5.000%, due 03/30/20	625,000	671,983
Cemex Finance LLC, 9.500%, due 12/14/16 ¹	494,000	524,257
Petroleos Mexicanos, 3.500%, due 07/18/18 3.500%, due 01/30/23 6.500%, due 06/02/41	685,000 700,000 410,000	693,563 636,280 429,475
Total Mexico corporate bonds		2,955,558
Netherlands 2.52%		
Basell Finance Co. BV, 8.100%, due 03/15/27 ¹	625,000	789,189
EDP Finance BV, 4.900%, due 10/01/19 ¹ 6.000%, due 02/02/18 ¹	1,000,000 350,000	987,500 362,250
LyondellBasell Industries NV, 6.000%, due 11/15/21	1,200,000	1,369,596
Total Netherlands corporate bonds		3,508,535
Norway 1.58%		
Eksporthfinans ASA, 5.500%, due 05/25/16 5.500%, due 06/26/17	620,000 1,500,000	647,125 1,558,125
Total Norway corporate bonds		2,205,250
Singapore 0.20%		
Flextronics International Ltd., 5.000%, due 02/15/23	300,000	285,000

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2013

	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
South Africa 0.28%		
AngloGold Ashanti Holdings PLC, 5.375%, due 04/15/20	\$430,000	\$384,134
Spain 1.96%		
BBVA US Senior SAU, 4.664%, due 10/09/15	1,700,000	1,770,042
Telefonica Emisiones SAU, 3.192%, due 04/27/18	970,000	957,089
Total Spain corporate bonds		2,727,131
Sweden 1.24%		
Nordea Bank AB, 4.875%, due 05/13/21 ¹	1,230,000	1,276,474
Svenska Handelsbanken AB, 2.500%, due 01/25/19	450,000	451,799
Total Sweden corporate bonds		1,728,273
United Kingdom 5.12%		
Barclays Bank PLC, 2.750%, due 02/23/15	350,000	359,187
5.140%, due 10/14/20	760,000	793,811
6.050%, due 12/04/17 ¹	1,500,000	1,666,191
Lloyds TSB Bank PLC, 6.500%, due 09/14/20 ¹	2,300,000	2,538,991
Royal Bank of Scotland Group PLC, 6.100%, due 06/10/23	1,760,000	1,775,530
Total United Kingdom corporate bonds		7,133,710
United States 55.37%		
ADT Corp., 3.500%, due 07/15/22	1,140,000	963,759
AEP Texas Central Co., Series E, 6.650%, due 02/15/33	495,000	567,291
Allstate Corp., 5.750%, due 08/15/53 ²	1,000,000	975,000
Ally Financial, Inc., 4.055%, due 06/15/15 ³	1,150,000	1,086,750
8.300%, due 02/12/15	550,000	592,625

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2013

	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Altria Group, Inc., 9.700%, due 11/10/18	\$ 1,005,000	\$ 1,328,636
American International Group, Inc., 5.850%, due 01/16/18	785,000	892,605
Anadarko Holding Co., 7.500%, due 10/15/26	1,354,000	1,592,844
AT&T, Inc., 4.300%, due 12/15/42	26,000	21,647
AXA Financial, Inc., 7.000%, due 04/01/28	165,000	185,319
Barrick North America Finance LLC, 5.750%, due 05/01/43	750,000	629,314
Boston Properties LP, REIT, 3.800%, due 02/01/24	430,000	413,319
Case New Holland, Inc., 7.875%, due 12/01/17	1,500,000	1,743,750
CenturyLink, Inc., Series P, 7.600%, due 09/15/39	200,000	178,500
Citigroup, Inc., Series D, 5.350%, due 05/15/23 ^{2,4}	1,430,000	1,244,100
5.500%, due 09/13/25	750,000	771,340
8.125%, due 07/15/39	1,435,000	1,992,960
DISH DBS Corp., 7.875%, due 09/01/19	1,300,000	1,482,000
Dow Chemical Co., 8.550%, due 05/15/19	222,000	283,133
El Paso Corp., 7.250%, due 06/01/18	300,000	336,463
Energy Transfer Partners LP, 5.200%, due 02/01/22	500,000	525,648
9.000%, due 04/15/19	900,000	1,136,705
ERP Operating LP, REIT, 4.750%, due 07/15/20	485,000	524,134
Fidelity National Financial, Inc., 5.500%, due 09/01/22	700,000	737,895

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2013

	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Ford Motor Co., 7.450%, due 07/16/31	\$ 1,000,000	\$ 1,220,393
Ford Motor Credit Co. LLC, 8.125%, due 01/15/20	1,175,000	1,461,246
Freeport-McMoRan Copper & Gold, Inc., 3.550%, due 03/01/22	200,000	183,940
General Electric Capital Corp., 0.646%, due 05/05/26 ² Series C, 5.250%, due 06/15/23 ^{2,4}	1,000,000 1,650,000	920,097 1,529,550
General Motors Financial Co., Inc., 4.750%, due 08/15/17 ¹	850,000	879,750
Genworth Holdings, Inc., 7.625%, due 09/24/21	900,000	1,063,721
Georgia-Pacific LLC, 8.000%, due 01/15/24	1,300,000	1,671,495
Glencore Funding LLC, 1.422%, due 05/27/16 ^{1,2}	1,000,000	979,242
Goldman Sachs Group, Inc., 5.750%, due 01/24/22 6.750%, due 10/01/37	1,355,000 570,000	1,502,211 594,873
Harris Corp., 6.375%, due 06/15/19	200,000	229,583
Hasbro, Inc., 6.350%, due 03/15/40	200,000	217,009
HCA, Inc., 7.875%, due 02/15/20	600,000	646,875
HSBC Bank USA N.A., 4.875%, due 08/24/20	250,000	269,336
HSBC Finance Corp., 6.676%, due 01/15/21	2,500,000	2,854,895
International Lease Finance Corp., 7.125%, due 09/01/18 ¹	1,750,000	1,955,625

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Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2013

	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
JPMorgan Chase & Co.,		
3.375%, due 05/01/23	\$360,000	\$326,471
3.700%, due 01/20/15	1,882,000	1,949,180
Series 1, 7.900%, due 04/30/18 ^{2,4}	3,000,000	3,255,001
Kinder Morgan Energy Partners LP,		
5.800%, due 03/15/35	710,000	715,023
6.500%, due 09/01/39	75,000	81,437
Kroger Co.,		
6.900%, due 04/15/38	650,000	762,733
Life Technologies Corp.,		
6.000%, due 03/01/20	135,000	152,021
Massachusetts Mutual Life Insurance Co.,		
8.875%, due 06/01/39 ¹	275,000	398,195
Merrill Lynch & Co., Inc.,		
1.014%, due 09/15/26 ²	1,000,000	845,705
6.875%, due 04/25/18	1,000,000	1,178,505
7.750%, due 05/14/38	1,000,000	1,238,222
MetLife, Inc.,		
6.400%, due 12/15/36	1,130,000	1,141,300
Morgan Stanley,		
4.100%, due 05/22/23	1,000,000	932,718
Series F, 5.625%, due 09/23/19	1,175,000	1,311,211
7.300%, due 05/13/19	310,000	370,929
Motorola Solutions, Inc.,		
3.500%, due 03/01/23	350,000	326,771