

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.
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, 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%. 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.

Fort Dearborn Income Securities, Inc.

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.

Fort Dearborn Income Securities, Inc.

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.

Fort Dearborn Income Securities, Inc.

During the 12 months ended September 30, 2011, the Barclays Capital US Aggregate Index³ 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.

Fort Dearborn Income Securities, Inc.

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

Fort Dearborn Income Securities, Inc.

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.

Fort Dearborn Income Securities, Inc.

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.

Fort Dearborn Income Securities, Inc.

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.

Fort Dearborn Income Securities, Inc.

Portfolio statistics (unaudited)

Characteristics¹	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 quality³	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

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

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.

Fort Dearborn Income Securities, Inc.

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

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

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%

Fort Dearborn Income Securities, Inc.

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

Fort Dearborn Income Securities, Inc.
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%		
Barclays Bank PLC, 5.140%, due 10/14/20	60,000	48,656
BP Capital Markets PLC, 3.875%, due 03/10/15	740,000	784,560
British Telecommunications PLC, 9.875%, due 12/15/30	555,000	802,942
HSBC Bank PLC, 3.100%, due 05/24/16 ¹	215,000	213,747
Vodafone Group PLC, 5.450%, due 06/10/19	325,000	380,997
6.150%, due 02/27/37	340,000	421,399
Total United Kingdom corporate bonds		2,652,301
United States 48.45%		
AEP Texas Central Co., Series E, 6.650%, due 02/15/33	495,000	608,889
Aflac, Inc., 6.450%, due 08/15/40	325,000	322,861

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

Allergan, Inc., 5.750%, due 04/01/16	495,000	573,208
Allstate Corp., 5.350%, due 06/01/33	575,000	593,674
Alltel Corp., 7.875%, due 07/01/32	300,000	427,830

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Altria Group, Inc., 9.700%, due 11/10/18	\$310,000	\$410,809
9.950%, due 11/10/38	480,000	684,040
American International Group, Inc., 4.250%, due 09/15/14	275,000	267,447
5.850%, due 01/16/18	525,000	520,118
Anadarko Petroleum Corp., 6.450%, due 09/15/36	375,000	396,671
Anheuser-Busch Cos., Inc., 6.450%, due 09/01/37	400,000	522,267
Apache Corp., 5.100%, due 09/01/40	625,000	697,246
Archer-Daniels-Midland Co., 4.535%, due 03/26/42 ¹	418,000	430,913
AT&T, Inc., 6.500%, due 09/01/37	2,550,000	2,978,283
AXA Financial, Inc., 7.000%, due 04/01/28	165,000	181,210
Bank of America Corp., 5.420%, due 03/15/17	1,200,000	1,042,516
Bank of America N.A., 6.000%, due 10/15/36	250,000	228,330
Bear Stearns Cos. LLC, 7.250%, due 02/01/18	1,310,000	1,544,215
BorgWarner, Inc., 4.625%, due 09/15/20	750,000	806,665
Burlington Northern Santa Fe LLC,		

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

5.400%, due 06/01/41	480,000	541,772
<hr/>		
Caterpillar, Inc., 3.900%, due 05/27/21	330,000	355,909
<hr/>		
CenterPoint Energy Resources Corp., 6.000%, due 05/15/18	285,000	329,846
<hr/>		
CenturyLink, Inc., Series P, 7.600%, due 09/15/39	200,000	179,904
<hr/>		

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Cisco Systems, Inc., 5.900%, due 02/15/39	\$175,000	\$210,195
Citigroup, Inc., 6.125%, due 05/15/18	810,000	868,809
8.125%, due 07/15/39	775,000	928,986
Comcast Corp., 6.950%, due 08/15/37	2,250,000	2,697,154
ConocoPhillips, 6.500%, due 02/01/39	925,000	1,226,595
Consolidated Edison Co., Inc., 7.125%, due 12/01/18	400,000	510,619
Corning, Inc., 5.750%, due 08/15/40	350,000	398,635
CVS Caremark Corp., 6.125%, due 09/15/39	425,000	498,701
6.250%, due 06/01/27	500,000	608,938
Daimler Finance North America LLC, 8.500%, due 01/18/31	845,000	1,194,942
DirecTV Holdings LLC, 6.000%, due 08/15/40	375,000	400,239
6.375%, due 03/01/41	265,000	296,498
Discover Bank, 8.700%, due 11/18/19	250,000	285,636
Discovery Communications LLC, 3.700%, due 06/01/15	350,000	368,361
Dominion Resources, Inc., Series B, 5.950%, due 06/15/35	495,000	582,819

Dow Chemical Co., 8.550%, due 05/15/19	497,000	636,637
DTE Energy Co., 6.350%, due 06/01/16	500,000	575,817
Duke Energy Carolinas LLC, 6.050%, due 04/15/38	350,000	449,651

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Enterprise Products Operating LLC, 6.125%, due 10/15/39	\$500,000	\$544,389
ERAC USA Finance Co., 7.000%, due 10/15/37 ¹	440,000	512,600
Fidelity National Financial, Inc., 6.600%, due 05/15/17	150,000	158,025
Florida Power Corp., 6.350%, due 09/15/37	215,000	279,472
Ford Motor Co., 7.450%, due 07/16/31	1,000,000	1,128,880
FPL Group Capital, Inc., 6.650%, due 06/15/67 ²	200,000	194,250
Genworth Financial, Inc., 7.625%, due 09/24/21	300,000	258,547
Goldman Sachs Group, Inc., 6.750%, due 10/01/37	570,000	521,404
Harris Corp., 6.375%, due 06/15/19	200,000	238,793
Hasbro, Inc., 6.350%, due 03/15/40	365,000	400,936
HSBC Bank USA N.A., 4.875%, due 08/24/20	250,000	234,466
5.625%, due 08/15/35	855,000	825,030
Intel Corp., 4.800%, due 10/01/41	500,000	537,474
International Lease Finance Corp., 7.125%, due 09/01/18 ¹	750,000	752,812

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

International Paper Co., 7.500%, due 08/15/21	365,000	422,129
--	---------	---------

JP Morgan Chase Capital XXII, Series V, 6.450%, due 02/02/37	475,000	473,188
---	---------	---------

JP Morgan Chase Capital XXV, Series Y, 6.800%, due 10/01/37	1,100,000	1,103,997
--	-----------	-----------

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
JPMorgan Chase & Co., 5.600%, due 07/15/41	\$150,000	\$156,691
Kinder Morgan Energy Partners LP, 5.800%, due 03/15/35	710,000	720,937
Kraft Foods, Inc., 6.875%, due 02/01/38	430,000	542,064
6.875%, due 01/26/39	440,000	555,150
Kroger Co., 6.900%, due 04/15/38	650,000	844,161
Laboratory Corp of America Holdings, 4.625%, due 11/15/20	300,000	320,855
Lehman Brothers Holdings, Inc., 6.750%, due 12/28/17 ^{3,4,5}	585,000	0
6.875%, due 05/02/18 ⁴	785,000	191,344
Life Technologies Corp., 6.000%, due 03/01/20	135,000	149,454
Massachusetts Mutual Life Insurance Co., 8.875%, due 06/01/39 ¹	275,000	414,083
Merck & Co., Inc., 6.400%, due 03/01/28	520,000	682,400
Merrill Lynch & Co., Inc., 5.700%, due 05/02/17	400,000	356,788
6.875%, due 04/25/18	1,015,000	1,015,364
Morgan Stanley, Series F, 5.625%, due 09/23/19	575,000	539,391
6.625%, due 04/01/18	685,000	679,562

Motiva Enterprises LLC, 6.850%, due 01/15/40 ¹	340,000	429,753
National Rural Utilities Cooperative Finance Corp., 10.375%, due 11/01/18	160,000	229,898
Nationwide Mutual Insurance Co., 8.250%, due 12/01/31 ¹	285,000	310,123
9.375%, due 08/15/39 ¹	120,000	139,796

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
News America, Inc., 6.200%, due 12/15/34	\$695,000	\$744,003
7.750%, due 12/01/45	350,000	425,423
Norfolk Southern Corp., 5.590%, due 05/17/25	200,000	230,215
NuStar Logistics LP, 7.650%, due 04/15/18	975,000	1,162,966
Oncor Electric Delivery Co. LLC, 6.800%, due 09/01/18	425,000	516,815
7.000%, due 09/01/22	380,000	478,863
ONEOK Partners LP, 8.625%, due 03/01/19	215,000	276,934
Oracle Corp., 6.500%, due 04/15/38	550,000	721,421
Owens Corning, 6.500%, due 12/01/16	475,000	512,400
Pacific Gas & Electric Co., 6.050%, due 03/01/34	400,000	477,412
8.250%, due 10/15/18	275,000	366,319
Pacific Life Insurance Co., 9.250%, due 06/15/39 ¹	210,000	282,001
Philip Morris International, Inc., 5.650%, due 05/16/18	1,200,000	1,418,008
Principal Financial Group, Inc., 8.875%, due 05/15/19	295,000	375,670
Prudential Financial, Inc., Series C, 5.400%, due 06/13/35	295,000	274,857

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

Series D, 6.100%, due 06/15/17	505,000	550,230
<hr/>		
PSEG Power LLC, 8.625%, due 04/15/31	695,000	963,416
<hr/>		
Qwest Corp., 7.625%, due 06/15/15	340,000	363,800
<hr/>		
Republic Services, Inc., 6.200%, due 03/01/40	425,000	510,710
<hr/>		

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Reynolds American, Inc., 7.250%, due 06/15/37	\$425,000	\$477,185
Safeway, Inc., 7.450%, due 09/15/27	725,000	906,639
SC Johnson & Son, Inc., 4.800%, due 09/01/40 ¹	555,000	613,694
Southern California Edison Co., 6.650%, due 04/01/29	320,000	415,963
Southern Copper Corp., 6.750%, due 04/16/40	250,000	245,625
Southern Natural Gas Co., 8.000%, due 03/01/32	430,000	554,540
Southwestern Electric Power Co., 6.450%, due 01/15/19	500,000	600,127
Sprint Capital Corp., 6.875%, due 11/15/28	200,000	149,500
SunTrust Bank, 7.250%, due 03/15/18	495,000	575,569
Swiss Re Solutions Holding Corp., 7.000%, due 02/15/26	295,000	344,105
Target Corp., 6.350%, due 11/01/32	315,000	388,862
6.500%, due 10/15/37	185,000	241,399
7.000%, due 01/15/38	105,000	143,792
Time Warner Cable, Inc., 6.550%, due 05/01/37	305,000	339,218
7.300%, due 07/01/38	600,000	729,920

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

8.750%, due 02/14/19	410,000	524,666
<hr/>		
Time Warner, Inc., 7.625%, due 04/15/31	1,030,000	1,285,694
<hr/>		
Tupperware Brands Corp., 4.750%, due 06/01/21 ¹	355,000	355,579
<hr/>		
Union Electric Co., 6.700%, due 02/01/19	340,000	417,660
<hr/>		

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Union Pacific Corp., 5.780%, due 07/15/40	\$180,000	\$219,968
United Technologies Corp., 5.700%, due 04/15/40	500,000	609,702
UnitedHealth Group, Inc., 6.875%, due 02/15/38	865,000	1,131,769
Valero Energy Corp., 6.625%, due 06/15/37	130,000	139,669
7.500%, due 04/15/32	400,000	462,471
Verizon Communications, Inc., 6.900%, due 04/15/38	195,000	251,509
Verizon New York, Inc., Series B, 7.375%, due 04/01/32	1,085,000	1,340,871
Virginia Electric & Power Co., 6.350%, due 11/30/37	165,000	216,856
Wal-Mart Stores, Inc., 6.500%, due 08/15/37	600,000	795,660
Washington Mutual Bank, 5.500%, due 01/15/13 ⁴	750,000	750
Washington Mutual Preferred Funding LLC, 9.750%, due 12/15/17 ^{1,2,4,5,6,7}	1,300,000	19,500
Waste Management, Inc., 6.100%, due 03/15/18	700,000	806,877
Wells Fargo Bank N.A., 5.950%, due 08/26/36	750,000	797,527
Wells Fargo Capital X, 5.950%, due 12/15/36	475,000	462,860

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

Williams Cos., Inc., 8.750%, due 03/15/32	285,000	372,549
--	---------	---------

Williams Partners LP, 6.300%, due 04/15/40	275,000	304,360
---	---------	---------

Wisconsin Power & Light Co., 7.600%, due 10/01/38	175,000	266,699
--	---------	---------

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

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (concluded)		
United States (concluded)		
WM Wrigley Jr. Co., 3.700%, due 06/30/14 ¹	\$465,000	\$480,678
Xerox Corp., 6.350%, due 05/15/18	540,000	613,792
Total United States corporate bonds		73,503,328
Total corporate bonds (cost \$84,329,550)		90,897,667
Asset-backed securities 0.60%		
United States 0.60%		
Ameritrust Mortgage Securities, Inc., Series 2005-R6, Class A2, 0.435%, due 08/25/35 ²	91,988	86,223
Citibank Credit Card Issuance Trust, Series 2007-A3, Class A3, 6.150%, due 06/15/39	390,000	530,442
Continental Airlines, Inc., Series 2009-2, Class A, 7.250%, due 11/10/19	285,575	296,998
Total asset-backed securities (cost \$745,105)		913,663
Commercial mortgage-backed securities 0.88%		
United States 0.88%		
Banc of America Commercial Mortgage, Inc., Series 2007-2, Class AM, 5.831%, due 04/10/49 ²	475,000	402,477
Greenwich Capital Commercial Funding Corp., Series 2007-GG9, Class AM, 5.475%, due 03/10/39	1,100,000	927,094
Total commercial mortgage-backed securities (cost \$890,438)		1,329,571

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

Security description	Face amount	Value
Bonds (continued)		
Mortgage & agency debt securities 2.88%		
United States 2.88%		
Federal Home Loan Mortgage Corp., ⁸ 5.000%, due 01/30/14	\$30,000	\$33,109
Federal Home Loan Mortgage Corp. Gold Pools, ⁸ #E01127, 6.500%, due 02/01/17	48,785	53,292
Federal National Mortgage Association Pools, ⁸ #AE1568, 4.000%, due 09/01/40	971,969	1,020,051
#688066, 5.500%, due 03/01/33	187,993	207,066
#793666, 5.500%, due 09/01/34	945,227	1,040,547
#802481, 5.500%, due 11/01/34	161,366	177,638
#596124, 6.000%, due 11/01/28	126,396	140,465
#253824, 7.000%, due 03/01/31	67,555	77,256
Federal National Mortgage Association Re-REMIC, ⁸ Series 1993-106, Class Z, 7.000%, due 06/25/13	12,698	13,251
Government National Mortgage Association Pools, #781029, 6.500%, due 05/15/29	38,954	44,963
GSR Mortgage Loan Trust, Series 2006-2F, Class 3A4, 6.000%, due 02/25/36	1,263,485	1,110,161
Wells Fargo Mortgage Backed Securities Trust, Series 2003-18, Class A2, 5.250%, due 12/25/33	439,639	452,050
Total mortgage & agency debt securities (cost \$4,262,493)		4,369,849
Municipal bonds 6.01%		
California 1.27%		
Los Angeles Unified School District,		

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

6.758%, due 07/01/34	150,000	188,920
<hr/>		
State of California, GO, 6.650%, due 03/01/22	300,000	364,329
<hr/>		
7.300%, due 10/01/39	570,000	686,776
<hr/>		
7.550%, due 04/01/39	365,000	451,684
<hr/>		

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

Security description	Face amount	Value
Bonds (continued)		
Municipal bonds (concluded)		
California (concluded)		
University of California Revenue Bonds, Series 2009, 5.770%, due 05/15/43	\$195,000	\$225,954
		1,917,663
Illinois 1.42%		
Illinois State Taxable Pension, 5.100%, due 06/01/33	2,350,000	2,158,663
New Jersey 2.66%		
New Jersey Economic Development Authority Revenue Bonds, Series B, 4.537%, due 02/15/18 ⁹	5,000,000	3,835,650
New Jersey State Turnpike Authority Revenue Bonds, Series F, 7.414%, due 01/01/40	140,000	199,069
		4,034,719
New York 0.21%		
New York State Urban Development Corp. Revenue Bonds, 5.770%, due 03/15/39	265,000	315,949
Pennsylvania 0.22%		
Commonwealth of Pennsylvania, GO, 5.350%, due 05/01/30	300,000	332,625
Tennessee 0.23%		
Metropolitan Government of Nashville & Davidson County Convention Center Authority Revenue Bonds, 6.731%, due 07/01/43	300,000	351,495
Total municipal bonds (cost \$7,907,453)		9,111,114
US government obligations 23.81%		
US Treasury Bond,		

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

4.375%, due 05/15/41	9,120,000	11,781,946
<hr/>		
US Treasury Notes, 0.125%, due 08/31/13	2,585,000	2,578,638
<hr/>		
0.750%, due 06/15/14	1,615,000	1,630,646
<hr/>		
1.000%, due 08/31/16	90,000	90,225
<hr/>		
1.000%, due 09/30/16	1,720,000	1,722,546
<hr/>		
2.125%, due 08/15/21	17,990,000	18,307,703
<hr/>		
Total US government obligations (cost \$34,904,415)		36,111,704
<hr/>		

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

Security description	Face amount	Value
Bonds (concluded)		
Non-US government obligations 3.76%		
Brazil 1.49%		
Brazilian Government International Bond, 8.250%, due 01/20/34	\$900,000	\$1,264,500
8.875%, due 04/15/24	700,000	999,250
		2,263,750
Israel 1.52%		
Israel Government AID Bond, 1.630%, due 02/15/17 ⁹	2,500,000	2,305,488
Mexico 0.75%		
United Mexican States, 8.300%, due 08/15/31	800,000	1,140,000
Total Non-US government obligations (cost \$5,135,743)		5,709,238
Total bonds (cost \$138,175,197)		148,442,806
Shares		
Preferred stock 0.02%		
United States 0.02%		
Ally Financial, Inc. ^{1,10} (cost \$34,713)	42	28,126
Short-term investment 1.26%		
Investment company 1.26%		
UBS Cash Management Prime Relationship Fund ¹¹ (cost \$1,913,431)	1,913,431	1,913,431
Total investments 99.14% (cost \$140,123,341)		150,384,363
Cash and other assets, less liabilities 0.86%		1,310,190

Net assets 100.00%	\$151,694,553
--------------------	---------------

Notes to portfolio of investments

Aggregate cost for federal income tax purposes was \$140,124,195; and net unrealized appreciation consisted of:

Gross unrealized appreciation	\$14,433,642
Gross unrealized depreciation	(4,173,474)
Net unrealized appreciation of investments	\$10,260,168

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2011

For a listing of defined portfolio acronyms that are used throughout the Portfolio of investments, please refer to page 28.

¹ Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities are considered liquid, unless noted otherwise, and may be resold in transactions exempt from registration, normally to qualified institutional buyers. At September 30, 2011, the value of these securities amounted to \$8,128,631 or 5.36% of net assets.

² Variable or floating rate security The interest rate shown is the current rate as of September 30, 2011 and changes periodically.

³ Security is being fair valued by a valuation committee under the direction of the Board of Trustees. At September 30, 2011, the value of this security amounted to \$0 or 0.00% of net assets.

⁴ Security is in default.

⁵ Security is illiquid. At September 30, 2011, the value of these securities amounted to \$19,500 or 0.01% of net assets.

⁶ This security, which represents 0.01% of net assets as of September 30, 2011, is considered restricted. (See restricted security table below for more information.)

Restricted security	Acquisition date	Acquisition cost	Acquisition cost as a percentage of net assets	Value 09/30/11	Value as a percentage of net assets
Washington Mutual Preferred Funding LLC, 9.750%, due 12/15/17	10/19/07-11/02/07	\$1,299,750	0.86%	\$19,500	0.01%

⁷ Perpetual bond security. The maturity date reflects the next call date.

⁸ On September 7, 2008, the Federal Housing Finance Agency placed the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association into conservatorship, and the US Treasury guaranteed the debt issued by those organizations.

⁹ Rate shown reflects annualized yield at September 30, 2011 on zero coupon bond.

¹⁰ This security is subject to a perpetual call and may be called in full or partially on or anytime after December 31, 2011.

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2011

¹¹ The table below details the Fund's investments in a fund that is advised by the same advisor as the Fund. The advisor does not earn a management fee from the affiliated UBS Relationship Fund.

Security description	Value 09/30/10	Purchases during the Year ended 09/30/11	Sales during the Year ended 09/30/11	Value 09/30/11	Income earned from affiliate for the year ended 09/30/11
UBS Cash Management Prime Relationship Fund	\$3,298,054	\$47,734,941	\$49,119,564	\$1,913,431	\$4,640

The following is a summary of the inputs used as of September 30, 2011 in valuing the Fund's investments:

Description	Unadjusted quoted prices in active markets for identical investments (Level 1)	Other significant observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
Corporate bonds	\$	\$ 90,878,167	\$ 19,500	\$ 90,897,667
Asset-backed securities		913,663		913,663
Commercial mortgage-backed securities		1,329,571		1,329,571
Mortgage & agency debt securities		4,369,849		4,369,849
Municipal bonds		9,111,114		9,111,114
US government obligations		36,111,704		36,111,704
Non-US government obligations		5,709,238		5,709,238
Preferred stock		28,126		28,126
Short-term investment		1,913,431		1,913,431
Total	\$	\$ 150,364,863	\$ 19,500	\$ 150,384,363

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2011

Level 3 rollforward disclosure

The following is a rollforward of the Fund's investments that were valued using unobservable inputs for the period:

	Corporate bonds	Total
Assets		
Beginning balance	\$ 94,250	\$ 94,250
Purchases		
Issuances		
Sales		
Settlements		
Accrued discounts (premiums)	(3,311)	(3,311)
Total realized gain (loss)		
Net change in unrealized appreciation/depreciation	(71,439)	(71,439)
Net transfers into Level 3		
Net transfers out of Level 3		
Ending balance	\$ 19,500	\$ 19,500

The change in unrealized appreciation/depreciation relating to the Level 3 investments held at September 30, 2011 was \$(71,439).

Portfolio acronyms

AID	Agency for International Development
GO	General Obligation
GSR	Goldman Sachs Residential
Re-REMIC	Combined Real Estate Mortgage Investment Conduit

Fort Dearborn Income Securities, Inc.
Statement of assets and liabilities September 30, 2011

Assets:

Investments in securities of unaffiliated issuers, at value (cost \$138,209,910)	\$ 148,470,932
Investments in affiliated issuers, at value (cost \$1,913,431)	1,913,431
Total investments (cost \$140,123,341)	150,384,363
Interest receivable	1,684,991
Receivable for investments sold	2,576,046
Other assets	14,597
Total assets	154,659,997

Liabilities:

Payable for investments purchased	2,498,620
Payable for investment advisory fees	345,195
Directors' fees payable	4,362
Accrued expenses and other liabilities	117,267
Total liabilities	2,965,444

Net assets:

Capital stock \$0.01 par value; 12,000,000 shares authorized; 8,775,665 shares issued and outstanding	135,116,083
Accumulated undistributed net investment income	582,583
Accumulated net realized gain from investment activities	5,734,865
Net unrealized appreciation of investments	10,261,022
Net assets	\$ 151,694,553
Net asset value per share	\$ 17.29

See accompanying notes to financial statements

29

Fort Dearborn Income Securities, Inc.

Statement of operations

	For the year ended September 30, 2011
Investment income:	
Interest	\$ 7,578,945
Affiliated interest	4,640
Dividends	2,932
Total investment income	7,586,517
Expenses:	
Investment advisory fees	683,952
Professional fees	86,342
Reports and notices to shareholders	70,643
Custody and accounting fees	60,388
Transfer agency fees	42,876
Listing fees	23,749
Directors fees	16,535
Franchise taxes	8,757
Insurance expense	8,141
Other expenses	16,576
Total expenses	1,017,959
Net investment income	6,568,558
Realized and unrealized gains (losses) from investment activities:	
Net realized gain on investment activities	6,033,597
Net change in unrealized appreciation/depreciation on investments	(1,301,918)
Net realized and unrealized gain from investment activities	4,731,679
Net increase in net assets resulting from operations	\$ 11,300,237

Fort Dearborn Income Securities, Inc.
Statement of changes in net assets

	For the years ended September 30,	
	2011	2010
From operations:		
Net investment income	\$ 6,568,558	\$ 7,127,124
Net realized gain on investment activities	6,033,597	6,436,117
Net change in unrealized appreciation/depreciation on investments	(1,301,918)	4,383,086
Net increase in net assets resulting from operations	11,300,237	17,946,327
Dividends and distributions to shareholders from:		
Net investment income	(8,091,164)	(7,898,098)
Net realized gains	(3,755,985)	(2,580,046)
Total dividends and distributions to shareholders	(11,847,149)	(10,478,144)
Net increase (decrease) in net assets	(546,912)	7,468,183
Net assets:		
Beginning of year	152,241,465	144,773,282
End of year	\$ 151,694,553	\$ 152,241,465
Accumulated undistributed net investment income	\$ 582,583	\$ 2,096,061

See accompanying notes to financial statements

31

Fort Dearborn Income Securities, Inc.

Financial highlights

Selected data for a share of capital stock outstanding through each year is presented below:

	For the years ended September 30,				
	2011	2010	2009	2008	2007
Net asset value, beginning of year	\$ 17.35	\$ 16.50	\$ 13.81	\$ 15.68	\$ 15.80
Net investment income ¹	0.75	0.81	0.78	0.85	0.82
Net realized and unrealized gains (losses) from investment activities	0.54	1.23	2.63	(1.83)	(0.14)
Net increase (decrease) from investment operations	1.29	2.04	3.41	(0.98)	0.68
Dividends from net investment income	(0.92)	(0.90)	(0.71)	(0.80)	(0.80)
Distributions from net realized gains	(0.43)	(0.29)	(0.01)	(0.09)	
Total dividends and distributions	(1.35)	(1.19)	(0.72)	(0.89)	(0.80)
Net asset value, end of year	\$ 17.29	\$ 17.35	\$ 16.50	\$ 13.81	\$ 15.68
Market price per share, end of year	\$ 16.07	\$ 16.15	\$ 14.85	\$ 12.92	\$ 13.86
Total net asset value return²	8.10%	12.98%	25.29%	(6.60)%	4.40%
Total market price return³	8.59%	17.71%	21.08%	(0.62)%	4.31%
Ratios to average net assets:					
Expenses	0.70%	0.70%	0.85%	0.72%	0.77%
Net investment income	4.50%	4.91%	5.35%	5.45%	5.20%
Supplemental data:					
Net assets, end of year (in millions)	\$ 151.7	\$ 152.2	\$ 144.8	\$ 121.2	\$ 137.6
Portfolio turnover rate	154%	101%	117%	185%	130%
Number of shares outstanding at end of year (in thousands)	8,776	8,776	8,776	8,776	8,776

¹ Calculated using the average shares method.

² Total net asset value return is calculated assuming a \$10,000 purchase of common stock at the current net asset value on the first day of each year reported and a sale at the current net asset value on the last day of each year reported, and assuming reinvestment of dividends and other distributions at the net asset value on the payable dates. Total net asset value return does not reflect the deduction of taxes that a shareholder would pay on Fund dividends/distributions or a sale of Fund shares. Total return based on net asset value is hypothetical as investors

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

cannot purchase or sell Fund shares at the net asset value but only at market prices.

³ Total market price return is calculated assuming a \$10,000 purchase of common stock at the current market price on the first day of each year reported and a sale at the current market price on the last day of each year reported, and assuming reinvestment of dividends and other distributions at prices obtained under the Fund's Dividend Reinvestment Plan. Total market price return does not reflect brokerage commissions or the deduction of taxes that a shareholder would pay on Fund dividends/distributions or a sale of Fund shares.

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

Organization and significant accounting policies

Fort Dearborn Income Securities, Inc. (the Fund) is registered under the Investment Company Act of 1940, as amended, as a diversified closed-end management investment company whose shares trade on the New York Stock Exchange and the Chicago Stock Exchange. The Fund invests principally in investment grade long-term fixed income debt securities. The Fund's primary objective is to provide shareholders with a stable stream of current income consistent with external interest rate conditions and provide a total return over time that is above what they could receive by investing individually in the investment grade and long-term maturity sectors of the bond market. There can be no assurance that the Fund's investment objective will be achieved.

In the normal course of business, the Fund may enter into contracts that contain a variety of representations or that provide indemnification for certain liabilities. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had any prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) is the exclusive reference of authoritative US generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal laws are also sources of authoritative GAAP for SEC registrants. The Fund's financial statements are prepared in accordance with GAAP, which may require the use of management estimates and assumptions. Actual results could differ from those estimates. The following is a summary of significant accounting policies:

Valuation of investments

The Fund calculates its net asset value based on the current market value, where available, for its portfolio securities. The Fund normally obtains market values for its securities and other instruments from independent

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

pricing sources and broker-dealers. Independent pricing sources may use reported last sale prices, official market closing prices, current market quotations or valuations from computerized matrix systems that derive values based on comparable securities or instruments. A matrix system incorporates parameters such as security quality, maturity and coupon, and/or research and evaluations by its staff, including review of broker-dealer market price quotations, if available, in determining the valuation of the portfolio securities or instruments. Securities and other instruments also may be valued based on appraisals derived from information concerning the security or instrument or similar securities or instruments received from recognized dealers in those holdings. Securities and instruments traded in the over-the-counter (OTC) market and listed on The NASDAQ Stock Market, Inc. (NASDAQ) normally are valued at the NASDAQ Official Closing Price. Other OTC securities are valued at the last bid price on the valuation date available prior to valuation. Securities and instruments which are listed on US and foreign stock exchanges normally are valued at the market closing price, the last sale price on the day the securities are valued or, lacking any sales on such day, at the last available bid price. Securities and instruments listed on foreign stock exchanges may be fair valued based on significant events that have occurred subsequent to the close of the foreign markets. In cases where securities or instruments are traded on more than one exchange, the securities or instruments are valued on the exchange designated as the primary market by UBS Global Asset Management (Americas) Inc. (UBS Global AM or the Advisor), the investment advisor of the Fund. UBS Global AM is an indirect wholly owned asset management subsidiary of UBS AG, an internationally diversified organization with headquarters in Zurich and Basel, Switzerland and operations in many areas of the financial services industry. If a market value is not readily available from an independent pricing source for a particular security or instrument, that security or instrument is valued at a fair value determined in good faith by or under the direction of the Fund's Board of Directors (the Board). Various factors may be reviewed in order to make a good faith determination of a security's or instrument's fair value. These factors include, but are not limited to, fundamental analytical data relating to the investment; the nature and duration of

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

restrictions on disposition of the securities or instruments; and the evaluation of forces which influence the market in which the securities or instruments are purchased and sold. Investments in open-end investment companies are valued at the daily closing net asset value of the respective investment company. Pursuant to the Fund's use of the practical expedient within ASC Topic 820, investments in non-registered investment companies are also valued at the daily net asset value.

Certain securities and instruments in which the Fund invests are traded in markets that close before 4:00 p.m. Eastern Time. Normally, developments that occur between the close of the foreign markets and 4:00 p.m. Eastern Time will not be reflected in the Fund's net asset value. However, if the Fund determines that such developments are so significant that they will materially affect the value of the Fund's securities and instruments, the Fund may adjust the previous closing prices to reflect what the Board believes to be the fair value of these securities or instruments as of 4:00 p.m. Eastern Time.

GAAP requires disclosure surrounding the various inputs that are used in determining the value of the Fund's investments. These inputs are summarized into the three broad levels listed below.

Level 1 Unadjusted quoted prices in active markets for identical investments.

Level 2 Other significant observable inputs, including but not limited to, quoted prices for similar investments, interest rates, prepayment speeds and credit risk.

Level 3 Unobservable inputs inclusive of the Fund's own assumptions in determining the fair value of investments.

A fair value hierarchy has been included near the end of the Fund's Portfolio of investments.

In January 2010, FASB issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires reporting entities to make new

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

disclosures about amounts and reasons for significant transfers in and out of Level 1 and Level 2 fair value measurements as well as inputs and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements that fall in either Level 2 or Level 3, including information on purchases, sales, issuances and settlements on a gross basis in the reconciliation of activity in Level 3 fair value measurements. The new and revised disclosures have been implemented for annual and interim periods beginning after December 15, 2009. The disclosures surrounding purchases, sales, issuances and settlements on a gross basis in the reconciliation of Level 3 fair value measurements have been implemented for annual and interim periods beginning after December 15, 2010.

In May 2011, FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) (ASU 2011-04). ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level 3 of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for all transfers in and out of Level 1 and Level 2 fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. At this time, management is evaluating the implications of ASU 2011-04 and its impact on the financial statements.

Restricted securities

The Fund may invest in securities that are subject to legal or contractual restrictions on resale. These securities generally may be resold in

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

transactions exempt from registration or to the public if the securities are registered. Disposal of these securities may involve time-consuming negotiations and expense, and prompt sale at an acceptable price may be difficult. Information regarding restricted securities, if any, is included in the Fund's Notes to portfolio of investments.

Mortgage-backed securities and other investments

The Fund invests in Mortgage-Backed Securities (MBS), representing interests in pools of mortgage loans. These securities provide shareholders with payments consisting of both principal and interest as the mortgages in the underlying mortgage pools are paid. MBS issued by private entities are not government securities and are not directly guaranteed by any government agency. They are secured by the underlying collateral of the private issuer. Yields on privately issued MBS tend to be higher than those of government backed issues. However, risk of loss due to default and sensitivity to interest rate fluctuations is also higher. Freddie Mac and Fannie Mae historically were agencies sponsored by the US government that were supported only by the credit of the issuing agencies and not backed by the full faith and credit of the United States. However, on September 7, 2008, due to the value of Freddie Mac's and Fannie Mae's securities falling sharply and concerns that the firms did not have sufficient capital to offset losses resulting from the mortgage crisis, the Federal Housing Finance Agency placed Freddie Mac and Fannie Mae into conservatorship. As a result, Fannie Mae and Freddie Mac obligations became guaranteed obligations of the United States. Although the US government or its agencies provide financial support to such entities, no assurance can be given that they will always do so. The US government and its agencies and instrumentalities do not guarantee the market value of their securities; consequently, the value of such securities will fluctuate.

The Fund invests in Collateralized Mortgage Obligations (CMOs). A CMO is a bond, which is collateralized by a pool of MBS. The Fund may also invest in REMICs (Real Estate Mortgage Investment Conduits) which are simply another form of CMO. These MBS pools are divided into classes or tranches with each class having its own characteristics. The

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

different classes are retired in sequence as the underlying mortgages are repaid. For instance, a Planned Amortization Class (PAC) is a specific class of mortgages, which over its life will generally have the most stable cash flows and the lowest prepayment risk. A Graduated Payment Mortgage (GPM) is a negative amortization mortgage where the payment amount gradually increases over the life of the mortgage. The early payment amounts are not sufficient to cover the interest due, and therefore, the unpaid interest is added to the principal, thus increasing the borrower's mortgage balance. Prepayment may shorten the stated maturity of the CMO and can result in a loss of premium, if any has been paid.

The Fund invests in Asset-Backed Securities, representing interests in pools of certain types of underlying installment loans or leases or by revolving lines of credit. They often include credit enhancement that help limit investors' exposure to the underlying credit. These securities are valued on the basis of timing and certainty of cash flows compared to investments with similar durations.

Investment transactions and investment income

Investment transactions are recorded on the trade date. Realized gains and losses from investment transactions and foreign exchange transactions are calculated using the identified cost method. Interest income is recorded on an accrual basis. Discounts are accreted and premiums are amortized as adjustments to interest income and the identified cost of investments.

Dividends and distributions

Dividends and distributions to shareholders are recorded on the ex-dividend date. The amounts of dividends from net investment income and distributions of net realized capital gains and/or return of capital are determined in accordance with income tax regulations, which may differ from GAAP. These book/tax differences are either considered temporary or permanent in nature. To the extent they are permanent in nature, such amounts are reclassified within the capital accounts based

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

on their federal tax-basis treatment; temporary differences do not require reclassification.

Concentration of risk

Investing in securities of foreign issuers and currency transactions may involve certain considerations and risks not typically associated with investments in the United States. These risks include revaluation of currencies, adverse fluctuations in foreign currency values and possible adverse political, social and economic developments, including those particular to a specific industry, country or region, which could cause the securities and their markets to be less liquid and prices more volatile than those of comparable US companies and US government securities. These risks are greater with respect to securities of issuers located in emerging market countries in which the Fund invests. The ability of the issuers of debt securities held by the Fund to meet their obligations may be affected by economic and political developments particular to a specific industry, country, state or region.

Capital stock

At September 30, 2011, there were 12,000,000 shares of \$0.01 par value capital stock authorized, and 8,775,665 shares issued and outstanding. During the year ended September 30, 2011, no new shares were issued as part of the dividend reinvestment plan.

Investment advisory fees and other transactions with affiliates

Under an agreement between the Fund and UBS Global AM, UBS Global AM manages the Fund's investment portfolio, maintains its accounts and records, and furnishes the services of individuals to perform executive functions for the Fund. In return for these services, the Fund pays UBS Global AM 0.50% per annum of the Fund's average weekly net assets up to \$100,000,000 and 0.40% per annum of average weekly net assets in excess of \$100,000,000. At September 30, 2011, the Fund owed UBS Global AM \$345,195 for investment advisory fees.

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

Purchases and sales of securities

Purchases and sales (including maturities) of portfolio securities during the year ended September 30, 2011, were as follows: debt securities, excluding short-term securities and US government debt obligations, \$24,433,152 and \$45,456,290, respectively; and US government debt obligations, \$196,278,272 and \$178,796,495, respectively.

Federal tax status

It is the Fund's policy to comply with all requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. In addition, by distributing during each calendar year substantially all of its net investment income, net realized capital gains and certain other amounts, if any, the Fund intends not to be subject to a federal excise tax. Accordingly, no federal income tax provision was required.

The tax character of distributions paid during the years ended September 30, 2011 and September 30, 2010 were as follows:

Distributions paid from:	2011	2010
Ordinary income	\$ 11,697,962	\$ 10,478,144
Net long-term capital gains	149,187	
	\$ 11,847,149	\$ 10,478,144

At September 30, 2011, the components of accumulated earnings/(deficit) on tax basis were as follows:

Undistributed ordinary income	\$3,365,749
Undistributed long-term capital gains	2,952,553
Net unrealized appreciation of investments	10,260,168
Total accumulated earnings	\$16,578,470

The difference between book-basis and tax-basis net unrealized appreciation of investments is attributable to wash sales.

To reflect reclassifications arising from permanent book/tax differences for the year ended September 30, 2011, the Fund's accumulated undistributed net investment income was increased by \$9,128, and

Fort Dearborn Income Securities, Inc.

Notes to financial statements September 30, 2011

accumulated undistributed net realized gain from investment activities was decreased by \$9,128. These differences are primarily due to paydown losses.

As of and during the year ended September 30, 2011, the Fund did not have any liabilities for any unrecognized tax positions. The Fund recognizes interest and penalties, if any, related to unrecognized tax positions as income tax expense in the Statement of operations. During the year, the Fund did not incur any interest or penalties.

Each of the tax years in the four year period ended September 30, 2011 remains subject to examination by the Internal Revenue Service and state taxing authorities.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the Act) was enacted, which changed various technical rules governing the tax treatment of regulated investment companies. The changes are generally effective for taxable years beginning after the date of enactment. One of the more prominent changes addresses capital loss carryforwards. Under the Act, the Fund will be permitted to carryforward capital losses incurred in taxable years beginning after the date of enactment for an unlimited period. However, any losses incurred during those future taxable years will be required to be utilized prior to the losses incurred in pre-enactment taxable years, which carry an expiration date. As a result of this ordering rule, pre-enactment capital loss carryforwards may be more likely to expire unused. Additionally, post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered all short-term as permitted under previous regulation.

Fort Dearborn Income Securities, Inc.

Report of Ernst & Young LLP, independent registered public accounting firm

The Board of Directors and Shareholders of
Fort Dearborn Income Securities, Inc.

We have audited the accompanying statement of assets and liabilities of Fort Dearborn Income Securities, Inc., (the Fund), including the portfolio of investments, as of September 30, 2011, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of September 30, 2011, by correspondence with the custodian and others or by other appropriate auditing procedures where replies from others were not received. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Fort Dearborn Income Securities, Inc. at September 30, 2011, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with US generally accepted accounting principles.

New York, New York
November 22, 2011

Fort Dearborn Income Securities, Inc.

General information (unaudited)

The Fund

Fort Dearborn Income Securities, Inc. (the Fund) is a diversified, closed-end management investment company whose shares trade on the New York Stock Exchange and the Chicago Stock Exchange. The primary objective of the Fund is to provide its shareholders with a stable stream of current income consistent with external interest rate conditions and provide a total return over time that is above what they could receive by investing individually in the investment grade and long-term maturity sectors of the bond market. There can be no assurance that the Fund's investment objective will be achieved. The Fund's investment advisor is UBS Global Asset Management (Americas) Inc. (UBS Global AM).

Shareholder information

The Fund's NYSE trading symbol is FDI. Net asset value and market price information as well as other information about the Fund is updated each business day on the Web site of the Fund's advisor at the following internet address:
<http://globalam-us.ubs.com/corpweb/closedendedfunds.do>.

Quarterly Form N-Q portfolio schedule

The Fund will file its complete schedule of portfolio holdings with the Securities and Exchange Commission (SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's Web site at <http://www.sec.gov>. The Fund's Forms N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information on the operation of the SEC's Public Reference Room may be obtained by calling 1-800-SEC 0330. Additionally, you may obtain copies of Form N-Q from the Fund upon request by calling 1-888-793 8637.

Proxy voting policies, procedures and record

You may obtain a description of the Fund's (1) proxy voting policies (2) proxy voting procedures, and (3) information regarding how the Fund voted any proxies related to portfolio securities during the most recent 12-month period ended June 30 for which an SEC filing has

Fort Dearborn Income Securities, Inc.

General information (unaudited)

been made, without charge, upon request by contacting the Fund directly at 1-888-793 8637, online on the Fund's Web site: http://www.ubs.com/1/e/globalam/Americas/globalamus/globalamusii/closed_end_funds.html or on the EDGAR Database on the SEC's Web site (<http://www.sec.gov>.)

Stock repurchase plan

On July 28, 1988, the Board of Directors of the Fund approved a resolution to repurchase up to 700,000 of its common shares. The Fund may repurchase shares, at a price not in excess of market and at a discount from net asset value, if and when such repurchases are deemed appropriate and in the shareholder's best interest. Any repurchases will be made in compliance with applicable requirements of the federal securities law.

Dividend reinvestment plan

The Fund has established a dividend reinvestment plan (the Plan) under which all shareholders whose shares are registered in their own names, or in the name of a participating broker or its nominee, may elect to have all dividends and other distributions automatically reinvested in additional Fund shares. Shareholders who elect to hold their shares in the name of a broker or nominee should contact such broker or nominee to determine whether, or how, they may participate in the Plan. The ability of such shareholders to participate in the Plan may change if their shares are transferred into the name of another broker or nominee. More information regarding the Plan is provided below.

The Plan is applicable in each case where the Fund declares a dividend or other distribution payable in cash and simultaneously gives to its shareholders who are participants under the Plan (Participants) the option to receive such dividend or other distribution in Fund shares.

Commencing seven trading days prior to the date of payment of such dividend or other distribution, but only if the market price plus brokerage commissions at the time of purchase is lower than the net asset value as of the close of business on the eighth trading day prior to such date of

Fort Dearborn Income Securities, Inc.

General information (unaudited)

payment (Base Net Asset Value), the agent (the Agent), on behalf of the Participants, will purchase shares in the open market(s) available to it. There can be no assurance that shares will be available in such open market(s) at a cost lower than Base Net Asset Value or in sufficient quantities to permit such purchases by the Agent. These purchases may be made on any securities exchange where such shares are traded, in the over-the-counter market or by negotiated transactions and may be subject to such terms of price, delivery, etc., to which the Agent may agree. If the market price for the shares is greater than the net asset value as of the close of business on the eighth trading day prior to the date of payment, then the Fund will issue shares in payment of the dividend.

On the date of payment of such dividend or other distribution, the Agent will elect to have the Fund pay the dividend or other distribution in cash to the extent of the cost, including brokerage commissions, of the shares to be purchased by the Agent, and will elect to have the Fund pay the balance, if any, of the dividend or other distribution in shares. Such payments will be made by the Fund to Computershare Trust Company, N.A. (Computershare) as administrator of the Plan for the Participants. Computershare, in turn, will immediately settle the open market purchases with the Agent. If shares are distributed in payment of a dividend or distribution because market price exceeded net asset value, a Participant will be required to include in gross income an amount equal to the greater of net asset value or 95% of fair market value (average of the high and low sales price on the date of the distribution) of the shares received by the Participant rather than the amount of such dividend. Distributions of shares will be subject to the right of the Fund to take such actions as may be deemed necessary in order to comply with or conform to the requirements of any applicable law or regulation.

The shares credited to the accounts of Participants at Computershare will be determined on the basis of the amount of dividend or distribution to which each Participant is entitled, whether shares are purchased on

Fort Dearborn Income Securities, Inc.

General information (unaudited)

the open market or issued by the Fund. Each Participant will be furnished with periodic statements.

A Participant will have the right to vote the full shares credited to the Participant's account under the Plan on the record date for a vote. Proxies sent to a Participant by Computershare will include the number of full shares held for the Participant under the Plan.

The investment of dividends and distributions under the Plan does not relieve the Participant of any income tax which may be payable on such dividends or distributions. Annually, each participant will be provided with information for tax purposes with respect to the dividends and distributions on the shares held for the account of the Participant. The Fund strongly recommends that all Participants retain each year's final statement on their Plan participation as a part of their permanent tax record.

Shareholders who wish to elect to participate in the Plan should contact Computershare for further information. A Participant may terminate participation in the Plan at any time by notice in writing to Computershare.

All correspondence concerning the Plan should be directed to Computershare at Computershare Dividend Reinvestment Services, P.O. Box 43078, Providence, RI 02940-3078. You may also contact Computershare directly at 1-800-446 2617. In order to be effective on the payment date of any dividend or distribution, notice of such termination must be received by Computershare before the record date for the payment of such dividend or distribution. If a notice to discontinue is received by Computershare on or after the record date for a dividend payment, such notice to discontinue may not become effective until such dividend has been reinvested and the shares purchased are credited to the Participant's account under the Plan. Computershare, in its sole discretion, may either pay such dividend in cash or reinvest it in shares on behalf of the terminating Participant. Computershare may terminate, for whatever reason at any time as it may determine in its sole discretion, an individual's participation in the

Fort Dearborn Income Securities, Inc.

General information (unaudited)

Plan upon mailing a notice of termination to the Participant at the Participant's address as it appears on Computershare's records.

When an account is terminated, the Participant will receive a certificate for the number of full shares credited to the Participant's account under the Plan, unless the sale of all or part of such shares is requested. Such sale may, but need not, be made by purchase of the shares for the account of other Participants and any such transaction shall be deemed to have been made at the then current market price less any applicable brokerage commissions and any other costs of sale. The terminating Participant's fractional share interest in the Plan will be aggregated with the fractional share interests of other terminating Participants and sold. The net proceeds of such sales will be distributed to the Participants in payment for their fractional share interests.

The Fund may terminate or amend the Plan upon thirty (30) days' notice in writing to each Participant, such termination or amendment to be effective as to all dividends and distributions payable to shareholders of record on any date more than thirty (30) days after mailing of such notice.

There is no direct service charge (other than brokerage commissions) by the Agent to Participants in the Plan. All costs of the Plan, except brokerage commissions, will be paid by the Fund. However, the Fund reserves the right to amend the Plan in the future to include a service charge.

Fort Dearborn Income Securities, Inc.

Board approval of investment advisory agreement (unaudited)

At the meeting of the Board of Directors (the Board) of Fort Dearborn Income Securities, Inc. (the Fund), held on June 9 and 10, 2011 (the Meeting), the Board, consisting entirely of Directors who are not interested persons (as defined in the 1940 Act) of the Fund or UBS Global Asset Management (Americas) Inc. (the Advisor) and its affiliates (together, the Independent Directors), considered the continuation of the investment advisory agreement (the Advisory Agreement) between the Fund and the Advisor. Prior to the Meeting, the Independent Directors' counsel had sent to the Advisor a request detailing the information that the Independent Directors wished to receive in connection with their consideration of the continuation of the Advisory Agreement. The Independent Directors met with their independent counsel, as well as an independent consultant engaged by the Board to assist in the annual Advisory Agreement review process, on May 23, 2011, June 9, 2011 and June 10, 2011, to discuss the materials provided to them in response to the information request, including materials prepared by the Advisor, as well as reports prepared by Lipper Inc. (Lipper Reports), an independent statistical compilation company, providing comparative expense information and comparative performance information for the Fund. The Board also made reference to information and material that had been provided to the Independent Directors throughout the year at quarterly Board meetings.

At the Meeting, the Board considered a number of factors in connection with their deliberations concerning the continuation of the Advisory Agreement for the Fund, including: (i) the nature, extent and quality of the services provided by the Advisor to the Fund; (ii) the performance of the Fund and the Advisor; (iii) the Fund's expenses, costs of the services to be provided and profits to be realized by the Advisor and its affiliates from the relationship with the Fund; and (iv) whether economies of scale are realized by the Advisor with respect to the Fund, as it grows larger, and the extent to which the economies of scale are reflected in the level of the management fees charged.

Nature, extent, and quality of services In considering the nature, extent and quality of the services provided by the Advisor to the Fund,

Fort Dearborn Income Securities, Inc.

Board approval of investment advisory agreement (unaudited)

the Board reviewed the material presented by the Advisor describing the various services provided to the Fund. The Board noted that in addition to investment management services, the Advisor provides the Fund with operational, legal and compliance support. The Board also considered the scope and depth of the Advisor's organization and the experience and expertise of the professionals currently providing investment management and other services to the Fund. The Board considered that the Advisor was a well-established investment management organization employing investment personnel with significant experience in the investment management industry. The Board also considered the Advisor's in-house research capabilities, as well as other research services available to it, including research services available to the Advisor as a result of securities transactions effected for the Fund and the Advisor's other investment management clients, and noted that the Advisor had extensive global research capabilities. The Board also evaluated the Advisor's portfolio management process for the Fund, including the use of risk management techniques and the proprietary technologies utilized to structure the Fund's portfolio. The Board noted that various presentations had been made by investment personnel at Board meetings throughout the year concerning the Fund's investment performance and investment strategies. The Board also discussed the annual written compliance report from the Chief Compliance Officer and noted enhancements undertaken and planned with respect to the compliance program. After analyzing the services provided by the Advisor to the Fund, both quantitatively and qualitatively, including the impact of these services on investment performance, the Board concluded that the nature, extent, and quality of services provided to the Fund were consistent with the operational requirements of the Fund, and met the needs of the Fund's shareholders.

Performance In evaluating the performance of the Fund, the Board analyzed the Lipper Reports, which compared the performance of the Fund with other funds in its respective peer universe over various time periods. The Board noted that the Fund's performance appeared in the second quintile for the one-year performance period and in the top performance quintile for all other periods presented. After analyzing the

Fort Dearborn Income Securities, Inc.

Board approval of investment advisory agreement (unaudited)

performance for the Fund, the Board determined that the performance of the Fund was acceptable as compared with relevant performance standards, given the investment strategies and risk profile of the Fund and the expectations of the shareholder base.

Fund fees and expenses When considering the fees and expenses borne by the Fund, and the reasonableness of the management fees paid to the Advisor in light of the services provided to the Fund, the Board compared the fees charged by the Advisor to the Fund to the fees charged to the funds in its peer group for comparable services, as provided in the Lipper Reports. In examining the Lipper Reports, and in reviewing comparative costs, it was noted that the results of such expense comparisons showed that the management fee of the Fund placed in the first quintile of its Lipper expense group on both an actual and contractual basis, and that the Fund's total expenses placed in the second quintile of its Lipper expense group.

The Board also received and considered information about the fee rates charged to other funds and accounts that are managed by the Advisor. After discussing the information about the other funds and accounts with the Advisor, the Board determined that the fees charged by the Advisor to the Fund were within a reasonable range, giving effect to differences in services performed for such other funds and accounts as compared to such fee rates. The Board, after reviewing all pertinent material, concluded that the management fee payable under the Fund's Advisory Agreement was fair and reasonable, both on an absolute basis and in comparison with the fees of other funds identified in its peer group.

Costs and profitability The Board considered the costs of providing services to the Fund and the profitability of the Fund to the Advisor by reviewing the profitability analysis provided by the Advisor, including information about its fee revenues and expenses. The Board reviewed the profitability of the Fund to the Advisor and the compensation that was received for providing services to the Fund. The profitability analysis, which provided information for the last two calendar years, included schedules

Fort Dearborn Income Securities, Inc.

Board approval of investment advisory agreement (unaudited)

relating to the revenue and expenses attributable to the investment advisory and administration services provided by the Advisor. In discussing the profitability analysis with the Board, the Advisor, as requested by the Board, provided the Board with a presentation on the methodology utilized in the profitability analysis. The Board noted that the methodology used for the profitability analysis provided to the Board for purposes of its annual review of the Advisory Agreement was reasonable. The Board also considered fall-out or ancillary benefits to the Advisor or its affiliates as the result of their relationship with the Fund; for example, the ability to attract other clients due to the Advisor's role as investment advisor to the Fund. Upon closely examining the information provided concerning the Advisor's profitability, the Board concluded that the level of profits realized by the Advisor with respect to the Fund was reasonable in relation to the nature and quality of the services that were provided.

Economies of scale The Board also discussed whether economies of scale are realized by the Advisor with respect to the Fund as it grows larger, and the extent to which this is reflected in the level of management fees charged. The Board noted that as a closed-end fund, which does not continuously offer its shares, asset growth will primarily result from market appreciation, which benefits its shareholders. The Board also noted that the Fund's management fee was one of the lowest in its peer group and that the Advisor was not experiencing a significant profit with respect to the Fund. Based on this analysis, the Board concluded that economies of scale and the reflection of such economies of scale in the level of management fees charged were inapplicable to the Fund at the present time due to the closed-end structure of the Fund, the current level of fees and the profitability of the Fund.

After full consideration of the factors discussed above, with no single factor identified as being of paramount importance, the Board, with the assistance of independent counsel, concluded that the continuation of the Advisory Agreement for the Fund was in the best interests of the Fund and its shareholders.

Fort Dearborn Income Securities, Inc.

Supplemental information (unaudited)

Board of Directors & Officers information

The Fund is governed by a Board of Directors (the Board), which oversees the Fund's operations. Each Director serves until the next annual meeting of shareholders or until his or her successor is elected and qualified or until he or she resigns or is otherwise removed. Officers are appointed by the Directors and serve at the pleasure of the Board.

The table below shows, for each Director and Officer, his or her name, address and age, the position held with the Fund, the length of time served as a Director or Officer of the Fund, the Director's or Officer's principal occupations during the last five years, the number of funds in the UBS fund complex overseen by the Director or for which a person served as an Officer, and other directorships held by the Director.

The Fund's most recent proxy statement for an annual meeting of shareholders contains additional information about the directors and was mailed to shareholders on or about November 4, 2011.

Non-interested Directors

Name, address, and age	Position(s) held with Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years
Adela Cepeda; 53 A.C. Advisory, Inc. 150 North Wacker Drive, Suite 2160 Chicago, Illinois 60601	Director	Since 2000	Ms. Cepeda is founder and president of A.C. Advisory, Inc. (since 1995). Ms. Cepeda is also a director of the Municipal Securities Rule Making Board (since 2010).
Frank K. Reilly; 75 Mendoza College of Business University of Notre Dame, Notre Dame, IN 46556-5649	Chairman and Director	Since 1993	Mr. Reilly is a Professor of Finance at the University of Notre Dame (since 1982).

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

**Number of portfolios in fund complex
overseen by director**

Other directorships held by director

Ms. Cepeda is a director or trustee of four investment companies (consisting of 50 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Reilly is a director or trustee of four investment companies (consisting of 50 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Ms. Cepeda is a director of the MGI Funds (7 portfolios) (since 2005), director of the Morgan Stanley Smith Barney Consulting Group Capital Market Funds (11 portfolios) and director of Amalgamated Bank of Chicago. Ms. Cepeda was a director of Lincoln National Income Fund, Inc. (from 1992 to 2006), a director of Lincoln National Convertible Securities Fund, Inc. (from 1992 to 2006) and a director of Wyndham International, Inc. (from 2004 to 2006).

Mr. Reilly is a director of Discover Bank, a subsidiary of Discover Financial Services.

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

Non-interested Directors (concluded)

Name, address, and age	Position(s) held with Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years
Edward M. Roob; 77 c/o UBS Global AM One North Wacker Drive Chicago, Illinois 60606	Director	Since 1993	Mr. Roob is retired (since 1993).
J. Mikesell Thomas; 60 1353 Astor Place Chicago, Illinois 60610	Director	Since 2002	Mr. Thomas is a principal with the investment firm Castle Creek Capital (since 2008) and President and sole shareholder of Mikesell Advisory Corp. (since 2009). He is the former President and CEO of First Chicago Bancorp (from 2008 to July 2011), the former President and CEO of Federal Home Loan Bank of Chicago (from 2004 to 2008). Mr. Thomas was an independent financial advisor (from 2001 to 2004).

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

Number of portfolios in fund complex overseen by director	Other directorships held by director
Mr. Roob is a director or trustee of four investment companies (consisting of 50 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	None
Mr. Thomas is a director or trustee of four investment companies (consisting of 50 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Thomas is a director and chairman of the Audit Committee for Northshore University Health System. Mr. Thomas was previously a director of First Chicago Bancorp (from 2008 to 2010) and of First Chicago Bank and Trust (2008 to 2010).

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

Officers

Name, address, and age	Position(s) held with the Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
Joseph Allesie*; 46	Vice President and Assistant Secretary	Since 2005	Mr. Allesie is an executive director (since 2007) (prior to which he was a director since 2005) and deputy general counsel (since 2005) at UBS Global Asset Management (US) Inc. and UBS Global AM (collectively, UBS Global AM Americas region). Mr. Allesie is a vice president and assistant secretary of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.
Rose Ann Bubloski*; 43	Vice President and Assistant Treasurer	Since May 2011	Ms. Bubloski is an associate director (from 2003 to 2007 and 2008 to present) and senior manager of the US mutual fund treasury administration department of UBS Global AM Americas region. She was a vice president and assistant treasurer of certain UBS funds. She was vice president at Cohen & Steers Capital Management, Inc. (investment manager) (from 2007 to 2008). She is vice president and assistant treasurer of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM serves as investment advisor or manager.

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

Officers (continued)

Name, address, and age	Position(s) held with the Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
Mark E. Carver*; 48	President	Since 2010	Mr. Carver is a managing director and Head of Product Development and Management Americas for UBS Global AM Americas region (since 2008). In this role, he oversees product development and management for both wholesale and institutional businesses. He is a member of the Americas Management Committee (since 2008) and the Regional Operating Committee (since 2008). Prior to 2008, Mr. Carver held a number of product-related or sales responsibilities with respect to funds, advisory programs and separately managed accounts. Mr. Carver is president of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, or manager.
Thomas Disbrow*; 45	Vice President, Treasurer and Principal Accounting Officer	Since 2004 and 2006, respectively	Mr. Disbrow is a managing director (since March 2011), (prior to which he was an executive director) (since 2007) and head of Fund Treasury North Americas (since March 2011) of UBS Global AM Americas region. Mr. Disbrow is a vice president and treasurer and/or principal accounting officer of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as an investment advisor, or manager.

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

Officers (continued)

Name, address, and age	Position(s) held with the Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
Michael J. Flook*; 46	Vice President and Assistant Treasurer	Since 2006	Mr. Flook is a director (since 2010) (prior to which he was an associate director (from 2006 to 2010)) and a senior manager of the US mutual fund treasury administration department of UBS Global AM Americas region (since 2006). Prior to joining UBS Global AM Americas region, he was a senior manager with The Reserve (asset management firm) (from 2005 to 2006). Mr. Flook is a vice president and assistant treasurer of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.
Mark F. Kemper**; 53	Vice President and Secretary	Since 1999 and 2004, respectively	Mr. Kemper is a managing director (since 2006) and head of the legal department of UBS Global AM Americas region. He has been secretary of UBS Global AM Americas region (since 2004), secretary of UBS Global Asset Management Trust Company (since 1993) and secretary of UBS AM Holdings (USA) Inc. (since 2001). Mr. Kemper is vice president and secretary of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

Officers (continued)

Name, address, and age	Position(s) held with the Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
Joanne M. Kilkeary*; 43	Vice President and Assistant Treasurer	Since 2006	Ms. Kilkeary is a director (since 2008) prior to which she was an associate director (since 2000) and a senior manager (since 2004) of the US mutual fund treasury administration department of UBS Global AM Americas region. Ms. Kilkeary is a vice president and assistant treasurer of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.
Tammie Lee*; 40	Vice President and Assistant Secretary	Since 2005	Ms. Lee is an executive director (since 2010) (prior to which she was a director (since 2005)) and associate general counsel of UBS Global AM Americas region (since 2005). Ms. Lee is a vice president and assistant secretary of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.

Fort Dearborn Income Securities, Inc.
Supplemental information (unaudited)

Officers (continued)

Name, address, and age	Position(s) held with the Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
Joseph McGill*; 49	Vice President and Chief Compliance Officer	Since 2004	Mr. McGill is a managing director (since 2006) and chief compliance officer (since 2003) of UBS Global AM Americas region. Mr. McGill is a vice president and chief compliance officer of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.
Nancy D. Osborn*; 45	Vice President and Assistant Treasurer	Since 2007	Mrs. Osborn is a director (since 2010) (prior to which she was an associate director) and a senior manager of the US mutual fund treasury administration department of UBS Global AM Americas region (since 2006). Mrs. Osborn is a vice president and assistant treasurer of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.
Eric Sanders*; 46	Vice President and Assistant Secretary	Since 2005	Mr. Sanders is a director and associate general counsel of UBS Global AM Americas region (since 2005). Mr. Sanders is a vice president and assistant secretary of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, sub-advisor or manager.

Fort Dearborn Income Securities, Inc.

Supplemental information (unaudited)

Officers (concluded)

Name, address, and age	Position(s) held with the Fund	Term of office ¹ and length of time served	Principal occupation(s) during past 5 years; number of portfolios in fund complex for which person serves as officer
Andrew Shoup*; 55	Vice President and Chief Operating Officer	Since 2006	Mr. Shoup is a managing director and global head of the fund treasury administration department of UBS Global AM Americas region (since 2006). Mr. Shoup is also a director of UBS (IRL) Fund p.l.c. (since 2008). Prior to joining UBS Global AM Americas region, he was chief administrative officer for the Legg Mason Partner Funds (formerly Smith Barney, Salomon Brothers, and CitiFunds mutual funds) (from 2003 to 2006). Mr. Shoup is a vice president and chief operating officer of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.
Keith A. Weller*; 50	Vice President and Assistant Secretary	Since 2004	Mr. Weller is an executive director and senior associate general counsel of UBS Global AM Americas region (since 2005) and has been an attorney with affiliated entities since 1995. Mr. Weller is a vice president and assistant secretary of 17 investment companies (consisting of 100 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor, or manager.

¹ Each Director serves until the next annual meeting of shareholders or until his or her successor is elected and qualified or until he or she resigns or is otherwise removed. Officers are appointed by the Directors and serve at the pleasure of the Board.

* This person's business address is 1285 Avenue of the Americas New York, New York 10019-6028.

** This person's business address is One North Wacker Drive, Chicago, Illinois 60606-2807.

(This page has been left blank intentionally)

(This page has been left blank intentionally)

N.B. The following privacy notice applies to closed-end fund shares where the investor's holdings are registered directly with the fund's transfer agent and not held through an intermediary (e.g., in street name).

Privacy Notice

This privacy notice is not a part of the shareholder report.

Funds' privacy notice

This notice describes the privacy policy of the UBS Family of Funds, the PACE Funds and all closed-end funds managed by UBS Global Asset Management (collectively, the Funds). The Funds are committed to protecting the personal information that they collect about individuals who are prospective, current or former investors.

The Funds collect personal information in order to process requests and transactions and to provide customer service. Personal information, which is obtained from applications and other forms or correspondence submitted to the Funds, may include name(s), address, e-mail address, telephone number, date of birth, social security number or other tax identification number, bank account information, information about your transactions and experiences with the Funds, and any affiliation a client has with UBS Financial Services Inc. or its affiliates (Personal Information).

The Funds limit access to Personal Information to those individuals who need to know that information in order to process transactions and service accounts. These individuals are required to maintain and protect the confidentiality of Personal Information and to follow established procedures. The Funds maintain physical, electronic and procedural safeguards to protect Personal Information and to comply with applicable laws and regulations.

The Funds may share Personal Information with their affiliates to facilitate the servicing of accounts and for other business purposes, or as otherwise required or permitted by applicable law. The Funds may also share Personal Information with non-affiliated third parties that perform services for the Funds, such as vendors that provide data or transaction processing, computer software maintenance and development, and other administrative services. When the Funds share Personal Information with a non-affiliated third party, they will do so pursuant to a contract that includes provisions designed to ensure that the third party will uphold and maintain privacy standards when handling Personal Information. In addition to sharing information with non-affiliated third parties to facilitate the servicing of accounts and for other business purposes, the Funds may disclose Personal Information to non-affiliated third parties as otherwise required or permitted by applicable law. For example, the Funds may disclose Personal Information to credit bureaus or regulatory authorities to facilitate or comply with investigations; to protect against or prevent actual or potential fraud, unauthorized transactions, claims or other liabilities; or to respond to judicial or legal process, such as subpoena requests.

Except as described in this privacy notice, the Funds will not use Personal Information for any other purpose unless the Funds describe how such Personal Information will be used and clients are given an opportunity to decline approval of such use of Personal Information relating to them (or affirmatively approve the use of Personal Information, if required by applicable law). The Funds endeavor to keep their customer files complete and accurate. The Funds should be notified if any Personal Information needs to be corrected or updated. Please call 1-800-647 1568 with any questions or concerns regarding your Personal Information or this privacy notice.

Privacy Notice

This privacy notice is not a part of the shareholder report.

Directors

Adela Cepeda

Edward M. Roob

Frank K. Reilly

J. Mikesell Thomas

Principal Officers

Mark E. Carver
President

Thomas Disbrow
Vice President and Treasurer

Mark F. Kemper
Vice President and Secretary

Investment Advisor

UBS Global Asset Management (Americas)
Inc.

One N. Wacker Drive
Chicago, Illinois 60606-2807

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that from time to time the Fund may purchase shares of its common stock in the open market at market prices.

This report is sent to the shareholders of the Fund for their information. It is not a prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

© 2011 All rights reserved. UBS Global Asset Management (Americas) Inc.

©UBS 2011. All rights reserved.
UBS Global Asset Management (Americas) Inc. is a
subsidiary of UBS AG.
Nov. 2011
www.ubs.com/globalam-us

Item 2. Code of Ethics.

The registrant has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions pursuant to Section 406 of the Sarbanes-Oxley Act of 2002. (The registrant has designated the code of ethics adopted pursuant to Sarbanes-Oxley as a Code of Conduct to lessen the risk of confusion with its separate code of ethics adopted pursuant to Rule 17j-1 under the Investment Company Act of 1940, as amended.)

Item 3. Audit Committee Financial Expert.

The registrant's Board of Trustees has determined that the following person serving on the registrant's Audit Committee is an audit committee financial expert as defined in item 3 of Form N-CSR: J. Mikesell Thomas. Mr. Thomas is independent as defined in item 3 of Form N-CSR.

Item 4. Principal Accountant Fees and Services.

(a) **Audit Fees:**

For the fiscal years ended September 30, 2011 and September 30, 2010, the aggregate Ernst & Young LLP (E&Y) audit fees for professional services rendered to the registrant were approximately \$36,800 and \$36,800, respectively.

Fees included in the audit fees category are those associated with the annual audits of financial statements and services that are normally provided in connection with statutory and regulatory filings.

(b) **Audit-Related Fees:**

In each of the fiscal years ended September 30, 2011 and September 30, 2010, the aggregate audit-related fees billed by E&Y for services rendered to the registrant that are reasonably related to the performance of the audits of the financial statements, but not reported as audit fees, were approximately \$2,500 and \$2,500, respectively.

Fees included in the audit-related category are those associated with the reading and providing of comments on the 2011 and 2010 semiannual financial statements.

There were no audit-related fees required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the fiscal years indicated above

(c) **Tax Fees:**

In each of the fiscal years ended September 30, 2011 and September 30, 2010, the aggregate tax fees billed by E&Y for professional services rendered to the registrant were approximately \$4,725 and \$4,625, respectively.

Fees included in the tax fees category comprise all services performed by professional staff in the independent accountant's tax division except those services related to the audits. This

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

category comprises fees for tax return preparation, review of excise tax calculations and FIN 48 review.

There were no tax fees required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the fiscal years indicated above.

(d) All Other Fees:

In each of the fiscal years ended September 30, 2011 and September 30, 2010, there were no fees billed by E&Y for products and services, other than the services reported in Item 4(a)-(c) above, rendered to the registrant.

Fees included in the all other fees category would consist of services related to internal control reviews, strategy and other consulting, financial information systems design and implementation, consulting on other information systems, and other tax services unrelated to the registrant.

There were no all other fees required to be approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X during the fiscal years indicated above.

(e) (1) Audit Committee Pre-Approval Policies and Procedures:

The Audit Committee Charter contains the Audit Committee's pre-approval policies and procedures. Reproduced below is an excerpt from the Audit Committee Charter regarding pre-approval policies and procedures:

To carry out its purposes, the Audit Committee shall have the following duties and powers:

- (a) To pre-approve the engagement of, and to recommend to the Board the engagement, retention or termination of, the independent auditors to provide audit, review or attest services to the Fund, and, in connection therewith, to review and evaluate the capabilities and independence of the auditors, and receive the auditors' specific representations as to their independence. In evaluating the auditor's qualifications, performance and independence, the Committee must, among other things, obtain and review a report by the auditors, at least annually, describing the following items: (i) all relationships between the independent auditors and the Fund, as well as with the Fund's, investment advisor or any control affiliate of the investment advisor that provides ongoing services to the Fund; (ii) any material issues raised by the most recent internal quality control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (iii) the audit firm's internal quality control procedures.
- (b) To pre-approve all non-audit services to be provided to the Fund by the independent auditors when, without such pre-approval, the auditors would not be independent of the Fund under applicable federal securities laws, rules or auditing standards.

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

- (c) To pre-approve all non-audit services to be provided by the Fund's independent auditors to the Fund's investment advisor or to any entity that controls, is controlled by or is under common control with the Fund's investment advisor (advisor affiliate) and that provides ongoing services to the Fund when, without such pre-approval by the Committee, the auditors would not be independent of the Fund under applicable federal securities laws, rules or auditing standards.
 - (d) To establish, if deemed necessary or appropriate as an alternative to Committee pre-approval of services to be provided by the independent auditors as required by paragraphs (b) and (c) above, policies and procedures to permit such services to be pre-approved by other means, such as by action of a designated member or members of the Committee, subject to subsequent Committee review or oversight.
 - (e) To consider whether the non-audit services provided by the Fund's independent auditor to the Fund's investment advisor or any advisor affiliate that provides on-going services to the Fund, which services were not pre-approved by the Committee, are compatible with maintaining the auditors' independence.
- (e) (2) Services approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X:

Audit-Related Fees:

There were no amounts that were approved by the Audit Committee pursuant to the de minimis exception for the fiscal years ended September 30, 2011 and September 30, 2010 on behalf of the registrant.

There were no amounts that were required to be approved by the Audit Committee pursuant to the de minimis exception for the fiscal years ended September 30, 2011 and September 30, 2010 on behalf of the registrant's service providers that relate directly to the operations and financial reporting of the registrant.

Tax Fees:

There were no amounts that were approved by the audit committee pursuant to the de minimis exception for the fiscal years ended September 30, 2011 and September 30, 2010 on behalf of the registrant.

There were no amounts that were required to be approved by the Audit Committee pursuant to the de minimis exception for the fiscal years ended September 30, 2011 and September 30, 2010 on behalf of the registrant's service providers that relate directly to the operations and financial reporting of the registrant.

All Other Fees:

There were no amounts that were approved by the Audit Committee pursuant to the de minimis exception for the fiscal years ended September 30, 2011 and September 30, 2010 on behalf of the registrant.

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

There were no amounts that were required to be approved by the Audit Committee pursuant to the de minimis exception for the fiscal years ended September 30, 2011 and September 30, 2010 on behalf of the registrant's service providers that relate directly to the operations and financial reporting of the registrant.

- (f) According to E&Y, for the fiscal year ended September 30, 2011, the percentage of hours spent on the audit of the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons who are not full-time, permanent employees of E&Y was 0%.
- (g) For the fiscal years ended September 30, 2011 and September 30, 2010, the aggregate fees billed by E&Y of \$185,275 and \$237,125, respectively, for non-audit services rendered on behalf of the registrant (covered), its investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser (non-covered) that provides ongoing services to the registrant for each of the last two fiscal years of the registrant is shown in the table below:

	<u>2011</u>	<u>2010</u>
Covered Services	\$7,225	\$7,125
Non-Covered Services	178,050	230,000

- (h) The registrant's audit committee has considered whether the provision of non-audit services that were rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X is compatible with maintaining the principal accountant's independence.

Item 5. Audit Committee of Listed Registrants.

The registrant has a separately designated standing audit committee (the Audit Committee) established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended. The Audit Committee is comprised of the following board members: Mr. Roob, Mr. Reilly, Mr. Thomas and Ms. Cepeda.

Item 6. Schedule of Investments.

- (a) Included as part of the report to shareholders filed under Item 1 of this form.
- (b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The registrant's Board of Directors believes that the voting of proxies on securities held by the registrant is an important element of the overall investment process. As such, the Board has delegated the responsibility to vote such proxies to the registrant's advisor. Following is a summary of the proxy voting policy of the advisor.

You may obtain information about the Fund's proxy voting decisions, without charge, online on the Fund's website (http://www.ubs.com/1/e/globalam/Americas/globalamus/globalamusii/closed_end_funds.html) or the EDGAR database on the SEC's website (www.sec.gov).

The proxy voting policy of UBS Global AM is based on its belief that voting rights have economic value and should be treated accordingly. Generally, UBS Global AM expects the boards of directors of companies issuing securities held by its clients to act in the service of the shareholders, view themselves as stewards of the company, exercise good judgment and practice diligent oversight of the management of the company. While there is no absolute set of rules that determines appropriate corporate governance under all circumstances and no set of rules will guarantee ethical behavior, there are certain principles which provide evidence of good corporate governance. UBS Global AM may delegate to an independent proxy voting and research service the authority to exercise the voting rights associated with certain client holdings. Any such delegation shall be made with the direction that the votes be exercised in accordance with UBS Global AM's proxy voting policy.

When UBS Global AM's view of a company's management is favorable, UBS Global AM generally supports current management initiatives. When UBS Global AM's view is that changes to the management structure would probably increase shareholder value, UBS Global AM may not support existing management proposals. In general, UBS Global AM (Americas) generally exercises voting rights in accordance with the following principles: (1) with respect to board structure, (a) the roles of chairman and chief executive generally should be separated, (b) board members should have appropriate and diverse experience and be capable of providing good judgment and diligent oversight of management of the company, and (c) the board should include executive and non-executive members and the nonexecutive members should provide a challenging, but generally supportive environment; and (2) with respect to board responsibilities, (a) the whole board should be fully involved in endorsing strategy and in all major strategic decisions, and (b) the board should ensure that, among other things, at all times the interests of executives and shareholders are aligned and the financial audit is independent and accurate. In addition, UBS Global AM (Americas) focuses on the following areas of concern when voting its clients' securities: economic value resulting from acquisitions or disposals; operational performance; quality of management; independent board members not holding management accountable; quality of internal controls; lack of transparency; inadequate succession planning; poor approach to social responsibility; inefficient management structure; and corporate activity designed to frustrate the ability of shareholders to hold the board accountable or realize the maximum value of their investment. UBS Global AM (Americas) exercises its voting rights in accordance with overarching rationales outlined by its proxy voting policies and procedures that are based on the principles described above.

UBS Global AM has implemented procedures designed to identify whether it has a conflict of interest in voting a particular proxy proposal, which may arise as a result of its or its affiliates' client relationships, marketing efforts or banking and broker/dealer activities. To address such conflicts, UBS Global AM has imposed information barriers between it and its affiliates who conduct banking, investment banking and broker/dealer activities and has implemented procedures to prevent business, sales and marketing issues from influencing our proxy votes. Whenever UBS Global AM is aware of a conflict with respect to a particular proxy, the UBS Global AM Corporate Governance Committee is required to review and resolve the manner in which such proxy is voted.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) (2) (i) Portfolio Manager

Michael Dow

(a) (2) (ii) (A) Registered Management Investment Companies

The portfolio manager is responsible for 8 Registered Management Investment Companies totaling approximately \$858 Million.

This number includes assets managed for Funds/vehicles/accounts that are partially invested in other Funds/vehicles/accounts.

(a) (2) (ii) (B) Other Pooled Investment Vehicles

The Portfolio Manager is responsible for 12 additional Other Pooled Investment Companies totaling approximately \$2.4 Billion.

(a) (2) (ii) (C) Other accounts

The Portfolio Manager is responsible for 28 additional accounts totaling approximately \$8.1 Billion.

(a) (2) (iii) Accounts with respect to which an advisory fee is based on the performance of the account.

One account with assets of approximately \$525 million is based on a performance fee.

Portfolio Manager Biography

Michael Dow is the Head of US Long Duration at UBS Global Asset Management. Mr. Dow has been a Managing Director of UBS Global Asset Management and portfolio manager of the Fund since 2008.

The portfolio management team's management of a Fund and other accounts could result in potential conflicts of interest if the Fund and other accounts have different objectives, benchmarks and fees because the portfolio management team must allocate its time and investment expertise across multiple accounts, including the Fund. A portfolio manager and his or her team manage a Fund and other accounts utilizing a model portfolio approach that groups similar accounts within a model portfolio. The Registrant manages accounts according to the appropriate model portfolio, including where possible, those accounts that have specific investment restrictions. Accordingly, portfolio holdings, position sizes and industry and sector exposures tend to be similar across accounts, which may minimize the potential for conflicts of interest.

If a portfolio manager identifies a limited investment opportunity that may be suitable for more than one account or model portfolio, the Fund may not be able to take full advantage of that opportunity due to an allocation of filled purchase or sale orders across all eligible model portfolios and accounts. To deal with these situations, the Registrant has adopted procedures for allocating portfolio trades across multiple accounts to provide fair treatment to all accounts.

The management of personal accounts by a portfolio manager may also give rise to potential conflicts of interest. The Registrant has adopted Codes of Ethics that govern such personal trading but there is no assurance that the Codes will adequately address all such conflicts.

UBS Global Asset Management's compensation and benefits programs are designed to provide its investment professionals with incentives to excel, and to promote an entrepreneurial, performance-oriented culture with clear accountability. They also align the interests of investment professionals with those of our clients.

The total compensation received by the portfolio managers and analysts at UBS Global Asset Management, including the Funds' portfolio managers, has up to three basic components—a fixed component (base salary and benefits), a variable cash component and, over a certain total compensation threshold, a variable deferred component. These are described in more detail below:

The fixed component (base salary and benefits) is set with the aim of being competitive in the industry and is monitored and adjusted periodically with reference to the relevant local labor market in order to remain so. The fixed component is used to recognize the experience, skills and knowledge that portfolio managers and analysts bring to their roles.

Variable compensation is determined annually on a discretionary basis. It is correlated with the individual's financial and non-financial contribution and with the performance of their respective function, UBS Global Asset Management and UBS as a whole. As its name implies, variable compensation can be variable and is delivered in cash and, over a certain total compensation threshold, deferred.

Variable deferred—employees may have a portion of their variable compensation deferred. The main deferral plan is the UBS Global Asset Management Equity Ownership Plan (Global AM EOP) which vests pro rata over a three year period, subject to continued service. Through the Global AM EOP, awards are granted in the form of some combination of vehicles aligned to selected UBS Global Asset Management funds, UBS shares or notional shares. The vehicles aligned to selected UBS Global Asset Management funds are called Alternative Investment Vehicles or AIVs. UBS Global Asset Management believes that not only does this deferral plan reinforce the critical importance of creating long-term business value, it also serves as an effective retention tool.

UBS Global Asset Management strongly believes that aligning portfolio managers' variable compensation to both the short-term and longer-term performance of their portfolios closely aligns the portfolio managers' interests with those of the firm's clients. The total annual variable compensation pool available for distribution is generally dependant upon the overall profitability of UBS Group and UBS Global Asset Management.

The allocation of the variable compensation pool to each portfolio manager is linked to the investment performance of the Fort Dearborn Income Securities, Inc. versus its benchmark, the Investment Grade Bond Index and, where appropriate, peer strategies, over one and three years.

For analysts, variable compensation is, in general, based on the performance of some combination of model and/or client portfolios, generally evaluated over one and three years and coupled with a

qualitative assessment of their contribution. This is coupled with a qualitative assessment of their contribution considering factors such as the quality of their research, stock recommendations and their communication within and between teams and with portfolio managers.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

There were no purchases made by or on behalf of the registrant or any affiliated purchaser, as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended, of shares of the registrant's equity securities made in the period covered by this report.

Item 10. Submission of Matters to a Vote of Security Holders.

The registrant's Board has established a Nominating, Compensation and Governance Committee. The Nominating, Compensation and Governance Committee will consider nominees recommended by Qualifying Fund Shareholders if a vacancy occurs among those board members who are not interested persons as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended. A Qualifying Fund Shareholder is a shareholder that: (i) owns of record, or beneficially through a financial intermediary, 1/2 of 1% or more of the Fund's outstanding shares and (ii) has been a shareholder of at least 1/2 of 1% of the Fund's total outstanding shares for 12 months or more prior to submitting the recommendation to the Nominating, Compensation and Governance Committee. In order to recommend a nominee, a Qualifying Fund Shareholder should send a letter to the chairperson of the Nominating, Compensation and Governance Committee, Ms. Adela Cepeda, care of Mark Kemper, the Secretary of the Fund at UBS Global Asset Management (Americas) Inc., One North Wacker Drive, Chicago, Illinois 60606. The Qualifying Fund Shareholder's letter should include: (i) the name and address of the Qualifying Fund Shareholder making the recommendation; (ii) the number of shares of each class and series of shares of the Fund which are owned of record and beneficially by such Qualifying Fund Shareholder and the length of time that such shares have been so owned by the Qualifying Fund Shareholder; (iii) a description of all arrangements and understandings between such Qualifying Fund Shareholder and any other person or persons (naming such person or persons) pursuant to which the recommendation is being made; (iv) the name and address of the nominee; and (v) the nominee's resume or curriculum vitae. The Qualifying Fund Shareholder's letter must be accompanied by a written consent of the individual to stand for election if nominated for the Board and to serve if elected by shareholders. The Nominating, Compensation and Governance Committee may also seek such additional information about the nominee as it considers appropriate, including information relating to such nominee that is required to be disclosed in solicitations or proxies for the election of board members.

Item 11. Controls and Procedures.

- (a) The registrant's principal executive officer and principal financial officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.
- (b) The registrant's principal executive officer and principal financial officer are aware of no changes in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940, as amended) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a) (1) Code of Ethics as required pursuant to Section 406 of the Sarbanes-Oxley Act of 2002 (and designated by registrant as a Code of Conduct) is filed herewith as Exhibit EX 99 CODE ETH.
- (a) (2) Certifications of principal executive officer and principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit EX-99.CERT.
- (a) (3) Written solicitation to purchase securities under Rule 23c-1 under the Investment Company Act of 1940 sent or given during the period covered by the report by or on behalf of the registrant to 10 or more persons The registrant has not engaged in such a solicitation during the period covered by this report.
- (b) Certifications of principal executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 is attached hereto as Exhibit EX-99.906CERT.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Fort Dearborn Income Securities, Inc.

By: /s/ Mark E. Carver
Mark E. Carver
President

Date: December 9, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Mark E. Carver
Mark E. Carver
President

Date: December 9, 2011

By: /s/ Thomas Disbrow
Thomas Disbrow
Principal Accounting Officer and Treasurer

Date: December 9, 2011