FORT DEARBORN INCOME SECURITIES INC
Form N-CSR
December 07, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-02319

Fort Dearborn Income Securities, Inc.

(Exact name of registrant as specified in charter)

One North Wacker Drive, Chicago, IL 60606-2807

(Address of principal executive offices) (Zip code)

Joseph J. Allessie, Esq.

UBS Global Asset Management (Americas) Inc.

1285 Avenue of the Americas

New York, NY 10019

(Name and address of agent for service)

Copy to:

Bruce Leto, Esq.

Stradley Ronon Stevens & Young, LLP

2600 One Commerce Square

Philadelphia, PA 19103-7098

Registrant s telephone number, including area code: 212-821 3000

Date of fiscal year end: September 30

Date of reporting period: September 30, 2012

Item 1. Reports to Stockholders.

Closed-end funds

Fort Dearborn Income Securities, Inc.

Annual Report
September 30, 2012

Fort Dearborn Income Securities, Inc.

November 15, 2012

Dear shareholder,

We present you with the annual report for Fort Dearborn Income Securities, Inc. (the “Fund”) for the 12 months ended September 30, 2012.

Performance

For the 12 months ended September 30, 2012, the Fund returned 12.23% on a net asset value (“NAV”) basis, and 16.81% on a market price basis. Over the same period, the Fund’s benchmark, the Investment Grade Bond Index (the “Index”), returned 11.72%, while the Fund’s peer group, as measured by the Lipper Corporate Debt Funds BBB-Rated median, posted a return of 12.41% on a NAV basis, and 15.80% on a market price basis.[1] (For more performance information, please refer to “Performance at a glance” on page 9.)

Fort Dearborn Income Securities, Inc.

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

Portfolio managers:
Scott Dolan, John Dugenske, Craig Ellinger and Brian Fehrenbach*
UBS Global Asset Management (Americas) Inc.

Commencement:
December 19, 1972

NYSE symbol:
FDI

Dividend payments:
Quarterly

On a NAV total return basis, the Fund outperformed the Index during the reporting period. Neither the Fund nor the Index used leverage. (Leverage magnifies returns on both the upside and on the downside, creating a wider range of returns.)

The Fund traded at a discount to its NAV throughout the fiscal year, although as the period progressed, the discount moderated. When the period began, the Fund was trading at a 7.1% discount to its NAV, which

* A portfolio management change occurred during the Fund’s fiscal year ended September 30, 2012. Please see page 7 for more details.

[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 US Agency Index (7+ years), 75% Barclays US Credit Index (7+ years), 10% Barclays US Mortgage-Backed Securities Index (all maturities) and 10% Barclays US Treasury Index (7+ years). Investors should note that indices do not reflect the deduction of fees and expenses.

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was larger than the Fund's Lipper peer median discount, which was 5.8% as of the same date. As of September 30, 2012, the Fund traded at a 3.7% discount versus its NAV, compared to a 2.0% discount for its Lipper peer group median.

A fund trades at a discount when the market price at which its shares trade is less than its NAV. Alternately, a fund trades at a premium when the market price at which its shares trade is more than its NAV per share. The market price is the price the market is willing to pay for shares of a fund at a given time, and may be influenced by a range of factors, including supply and demand and market conditions. NAV per share is determined by dividing the value of the Fund's securities, cash and other assets, less all liabilities, by the total number of common shares outstanding.

An interview with the portfolio managers

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

A. While the overall US economy continued to grow, the pace of the expansion decelerated during the reporting period. Looking back, the Commerce Department reported 4.1% gross domestic product ("GDP") growth in the US for the fourth quarter of 2011, followed by figures of 2.0% and 1.3% over the first and second quarters of 2012, respectively. On October 26, 2012, after the Fund's reporting period had ended, the Commerce Department's advance estimate for third quarter 2012 GDP growth was 2.0%.

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

A. Given considerably slower-than-anticipated economic growth, the Fed kept the federal funds rate at an extremely low level of between 0.00% and 0.25% during the period, and announced its intention to maintain this rate through mid-2015. Additionally, in an attempt to stimulate the economy and keep longer term interest rates low, the Fed had previously announced a plan to purchase $400 billion of longer term Treasury securities, and sell an equal amount of shorter term Treasury securities (dubbed "Operation Twist") by June 2012. The Fed then extended this June deadline through the end of 2012. Finally, in

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mid-September, the Fed introduced an anticipated third round of quantitative easing, which involves purchasing $40 billion of agency mortgage-backed securities on an open-ended basis each month. The Fed further noted that it would be willing to buy additional assets if it saw no improvement in the job market.

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

A. While the US taxable spread sectors (non-US Treasury fixed income securities) experienced periods of volatility during the reporting period, they ultimately produced positive returns and, in some cases, outperformed equal-duration Treasuries. Investor risk appetite was generally robust over the first six months of the reporting period, largely due to positive US economic news. In addition, concerns related to the European sovereign debt crisis appeared to move to the back burner. Against this backdrop, high yield bonds and emerging markets debt generated solid results. Risk aversion ruled the fixed income markets in late April and May. However, the spread sectors rallied from June through September as investor sentiment improved, in part given expectations for additional quantitative easing by the Fed. All told, during the 12 months ended September 30, 2012, the overall US bond market, as measured by the Barclays US Aggregate Index, returned 5.16%.

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. While the Fund's duration was often largely neutral to the Index, from March through June 2012 we were both long and short duration, and in the July through September 2012 period we were neutral to short duration versus the Index. For the 12-month period as a whole, duration was a positive for performance, with the largest contributions occurring in the fourth quarter of 2011 and the first quarter of 2012.

During the first half of the reporting period, the Fund's yield curve positioning was largely in line with that of the Index and did not meaningfully impact performance. During the second half of the period we had a flattening bias, as we expected the difference between

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intermediate and long-term yields to decline. However, this portion of the yield curve steepened over that period, with longer-term rates declining less than the intermediate part of the curve. As such, the Funds flattening bias detracted from results. (The yield curve plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates.)

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

A. The key driver of the Funds outperformance versus the Index during the period was its allocation to the spread sectors. In particular, the Funds investment grade corporate bond exposure was positive for results given generally solid corporate fundamentals, low defaults and generally strong demand from investors seeking to generate incremental yield in the low interest rate environment. Within the sector, security selection of higher beta (riskier) financials, such as select US banks, was rewarded given their strong results. This portion of the corporate bond market benefited from continued balance sheet and capital ratio improvement, as well as positive sentiment related to the Feds aggressive monetary actions.

Small allocations to high yield corporate bonds and commercial mortgage-backed securities also added to the Funds performance. In both cases, they were supported from robust demand given investors ongoing search for yield. Elsewhere, the Funds allocation to agency mortgage-backed securities contributed to performance, as it was a beneficiary of the Feds QE3 initiatives, as well as signs of improvement in the housing market.

There was no single strategy that was a significant detractor from performance relative to the Index.

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

A. During the first half of the period we increased the Funds allocation to MBS. As the reporting period progressed, we increased the Funds allocations to both investment grade and high yield corporate bonds.

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These adjustments were beneficial to results given the overall strong results in the spread sectors during the fiscal year.

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

A. Economic growth in the US has moderated in recent months. While accommodative monetary policy by the Fed and other central banks should be supportive, it cannot mask the fact that economic conditions around the globe are deteriorating. Within the US fixed income market, we envision a "tug of war" of sorts. On one hand, the financial system is full of liquidity as the Fed's near zero interest rate policy is driving investors to riskier assets in order to generate higher returns. On the other hand, weakening fundamentals could test investors' resolve. Against this backdrop, we expect to see periods of volatility, especially in light of the ongoing European sovereign debt crisis and weaker growth in China, as well as uncertainties surrounding the political landscape post the November election and rapidly approaching "fiscal cliff."

We thank you for your continued support and welcome any comments or questions you may have. For additional information regarding the Fund, please contact your Financial Advisor, or visit us at www.ubs.com/globalam-us.

Sincerely,

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

Scott Dolan
Portfolio Manager
Fort Dearborn Income Securities, Inc.
Managing Director
UBS Global Asset Management (Americas) Inc.

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John Dugenske
Portfolio Manager
Fort Dearborn Income Securities, Inc.
Managing Director
UBS Global Asset Management (Americas) Inc.

Craig Ellinger
Portfolio Manager
Fort Dearborn Income Securities, Inc.
Managing Director
UBS Global Asset Management (Americas) Inc.

Brian Fehrenbach
Portfolio Manager
Fort Dearborn Income Securities, Inc.
Managing Director
UBS Global Asset Management (Americas) Inc.

This letter is intended to assist shareholders in understanding how the Fund performed during the 12 months ended September 30, 2012. The views and opinions in the letter were current as of November 15, 2012. They are not guarantees of future performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.

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Investment policy changes

Since the last shareholder report, there have been some adjustments to the Fund's non-fundamental investment policies. The Fund's Board of Directors approved changing the Fund's permitted weighted average duration range from the current static range of 4 to 10 years to ±2 years of its benchmark index and removing the reference to the average effective maturity range.

The Fund's advisor sought to align the Fund's target duration with its benchmark index rather than utilize a static range. The fixed income markets have undergone some significant changes in the time since the Fund first issued its shares, including the recent 2007-2008 credit crisis and the ensuing period of unprecedented accommodative central bank policy, and the very low interest rate environment. Consequently, certain properties of the Fund's benchmark index have changed, particularly its overall duration profile. Over the past several years, issuance dynamics have varied, with much of the newer corporate debt being offered with longer maturities in order to lock in the favorable low rates for longer. As a result of this extension, the Fund's benchmark duration has increased over the years and has reached the upper limit of the Fund's permitted duration range.

The advisor believes that specifying a maturity range in addition to duration is unnecessary, since duration is the ultimate measure we utilize when managing the Fund's overall interest rate exposure. Utilizing a flexible duration range will provide the portfolio management team with sufficient latitude to adjust the Fund's interest rate exposure relative to its benchmark index, but at the same time sets a specific range within which the Fund will operate.

Portfolio management team expansion

Effective mid-July 2012, the Fund's investment team was expanded from a team-based structure with a single lead portfolio manager to one led by multiple portfolio managers. As announced via press release on July 10, 2012, the following individuals are now managing specific aspects of the Fund:

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Scott Dolan, Managing Director of UBS Global AM
Years of investment industry experience: 23
Mr. Dolan is a member of the Global Fixed Income Investment Committee. He is responsible for overseeing the overall strategy and portfolio management of UBS Global AM’s multi-sector and securitized debt portfolios. Mr. Dolan has been with UBS Global AM since 2008.

John Dugenske, CFA, Managing Director of UBS Global AM
Years of investment industry experience: 23
Mr. Dugenske is a member and the chairman of the Global Fixed Income Investment Committee. As Head of North American Fixed Income, he has overall responsibility across all fixed income investment capabilities at UBS Global AM. Mr. Dugenske has been with the firm since 2009.

Craig Ellinger, CFA, Managing Director of UBS Global AM
Years of investment industry experience: 21
Mr. Ellinger is a member of the Global Fixed Income Investment Committee. He is responsible for managing all aspects of UBS Global AM’s US investment grade and global high yield business. Mr. Ellinger joined the firm in 2000.

Brian Fehrenbach, CFA, Managing Director of UBS Global AM
Years of investment industry experience: 25
Mr. Fehrenbach is a member of the Global Fixed Income Investment Committee. He is responsible for overseeing the overall strategy and portfolio management of multi-sector funds and unconstrained strategies at UBS Global AM. Mr. Fehrenbach has been with the firm since 2006.

As lead portfolio managers, Messrs. Dolan, Dugenske, Ellinger and Fehrenbach will be jointly and primarily responsible for the day-to-day management of the Fund’s portfolio, and for reviewing the overall composition of the portfolio to ensure its compliance with the Fund’s stated investment objective and strategy.

Michael Dow, previously the lead portfolio manager for the Fund, has taken on a new role within UBS Global AM’s fixed income team, overseeing the expansion of the global sovereign research platform that spans developed and emerging markets, and which is leveraged globally by UBS Global AM’s portfolio management teams.

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Performance at a glance (unaudited)

Average annual total returns for periods ended 09/30/2012

Net asset value returns	**1 year**	**5 years**	**10 years**
Fort Dearborn Income Securities, Inc.	12.23%	9.91%	7.71%
Lipper Corporate Debt Funds BBB-Rated median	12.41	6.74	7.03
Market price returns			
Fort Dearborn Income Securities, Inc.	16.81%	12.43%	8.31%
Lipper Corporate Debt Funds BBB-Rated median	15.80	8.62	7.42
Index returns			
Investment Grade Bond Index[1]	11.72%	9.64%	7.57%

Past performance does not predict future performance. The return and value of an investment will fluctuate so that an investor’s shares, when sold, may be worth more or less than their original cost. The Fund’s net asset value (“NAV”) returns assume, for illustration only, that dividends and other distributions, if any, were reinvested at the NAV on the payable dates. The Fund’s market price returns assume that all dividends and other distributions, if any, were reinvested at prices obtained under the Fund’s Dividend Reinvestment Plan. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

Lipper peer group data calculated by Lipper Inc.; used with permission. The Lipper median is the return of the fund that places in the middle of the peer group. Lipper classifies the Fund in its “Corporate Debt Funds BBB-Rated” category, which includes non-leveraged closed-end funds that invest primarily in corporate and government debt issues rated in the top four grades.

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

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Portfolio statistics (unaudited)

Characteristics[1]	09/30/12	03/31/12	09/30/11
Net asset value	$17.87	$16.77	$17.29
Market price	$17.20	$16.17	$16.07
12-month dividends/distributions	$1.4310	$1.4610	$1.3500
Dividend/distribution at period-end	$0.1750	$0.1750	$0.1900
Net assets (mm)	$156.8	$147.2	$151.7
Weighted average maturity (yrs.)	17.5	17.9	16.6
Duration (yrs.)[2]	10.5	9.7	10.0

Credit quality[3]	09/30/12	03/31/12	09/30/11
AAA	0.6%	1.1%	0.9%
US Treasury[4]	15.0	12.2	23.8
US Agency[4,5]	4.8	8.8	1.9
AA	5.2	6.3	5.9
A	28.5	32.1	28.1
BBB	36.3	30.4	32.8
BB	4.7	1.8	1.8
B	0.5	0.1	
CCC and Below	0.7	0.8	0.7
Non-rated	0.6	2.2	1.9
Cash equivalents	2.1	3.2	1.3
Other assets, less liabilities	1.0	1.0	0.9
Total	**100.0%**	**100.0%**	**100.0%**

1 Prices and other characteristics will vary over time.

[2] Duration is a measure of price sensitivity of a fixed income investment or portfolio (expressed as % change in price) to a 1 percentage point (i.e., 100 basis points) change in interest rates, accounting for optionality in bonds such as prepayment risk and call/put features.

[3] Weightings represent percentages of net assets as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time. Credit quality ratings shown are based on those assigned by Standard & Poor's, a division of the McGraw-Hill Companies, Inc. ("S&P"), to individual portfolio holdings. S&P is an independent ratings agency. Rating reflected represents S&P individual debt issue credit rating. While S&P may provide a credit rating for a bond issuer (e.g., a specific company or country); certain issues, such as some sovereign debt, may not be covered or rated and therefore are reflected as non-rated for the purposes of this table.

[4] S&P downgraded long-term US government debt on August 5, 2011 to AA+. Other rating agencies continue to rate long-term US government debt in their highest ratings categories. The Fund's aggregate exposure to AA rated debt as of September 30, 2012 would include the percentages indicated above for AA, US Treasury and US Agency debt but has been broken out into three separate categories for further clarity of specific exposure.

[5] Includes agency debentures and agency mortgage-backed securities.

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Industry diversification (unaudited)
As a percentage of net assets
As of September 30, 2012

Bonds	
Corporate bonds	
Aerospace & defense	0.77%
Air freight & logistics	0.22
Automobiles	0.79
Banks	0.31
Beverages	0.50
Biotechnology	0.08
Building products	0.34
Cable TV	0.59
Capital markets	4.42
Chemicals	1.08
Commercial banks	2.81
Commercial services & supplies	0.90
Communications equipment	0.30
Computers & peripherals	0.20
Consumer finance	0.78
Diversified financial services	6.89
Diversified telecommunication services	4.40
Electric utilities	3.63
Electronic equipment, instruments & components	0.17
Energy equipment & services	1.39
Food & staples retailing	1.47
Food products	1.08
Gas utilities	0.61
Health care providers & services	0.31
Household durables	0.24
Independent power producers & energy traders	0.65
Industrial conglomerates	0.06
Insurance	3.47
Leisure equipment & products	0.15
Life sciences tools & services	0.10
Machinery	0.37
Media	4.38
Metals & mining	2.56
Multiline retail	0.54
Multi-utilities	0.73
Office electronics	0.40
Oil, gas & consumable fuels	9.08
Paper & forest products	0.77
Pharmaceuticals	0.09

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Industry diversification (unaudited) (concluded)
As a percentage of net assets
As of September 30, 2012

Bonds (concluded)	
Corporate bonds (concluded)	
Real estate investment trust (REIT)	1.23%
Road & rail	1.11
Software	0.29
Specialty retail	0.16
Tobacco	0.95
Wireless telecommunication services	0.59
Total corporate bonds	61.96%
Asset-backed securities	0.58
Commercial mortgage-backed securities	3.38
Mortgage & agency debt securities	5.76
Municipal bonds	7.59
US government obligations	15.01
Non-US government obligations	2.62
Total bonds	96.90%
Common stocks	0.01
Preferred stock	0.03
Short-term investment	2.07
Total investments	99.01%
Cash and other assets, less liabilities	0.99
Net assets	100.00%

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Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds 96.90%		
Corporate bonds 61.96%		
Australia 0.82%		
Rio Tinto Finance USA Ltd.,		
3.750%, due 09/20/21	$400,000	$426,112
5.200%, due 11/02/40	750,000	865,340
		1,291,452
Bermuda 0.12%		
Validus Holdings Ltd., 8.875%, due 01/26/40	150,000	190,259
Brazil 1.35%		
Petrobras International Finance Co., 5.375%, due 01/27/21	1,130,000	1,269,464
6.875%, due 01/20/40	675,000	841,705
		2,111,169
Canada 2.15%		
Anadarko Finance Co., Series B, 7.500%, due 05/01/31	790,000	1,057,771
Barrick Gold Corp., 3.850%, due 04/01/22	350,000	367,417
Canadian Natural Resources Ltd., 5.850%, due 02/01/35	435,000	526,457
EnCana Corp., 6.625%, due 08/15/37	250,000	302,722
Petro-Canada, 6.800%, due 05/15/38	520,000	708,997
Teck Resources Ltd., 6.250%, due 07/15/41	375,000	408,130

		3,371,494
Cayman Islands 1.73%		
Transocean, Inc., 3.800%, due 10/15/22	340,000	341,760
6.800%, due 03/15/38	535,000	643,336
7.500%, due 04/15/31	575,000	710,191
Vale Overseas Ltd., 4.375%, due 01/11/22	965,000	1,014,370
		2,709,657

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Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
Curacao 0.09%		
Teva Pharmaceutical Finance IV BV, 3.650%, due 11/10/21	$125,000	$135,502
France 0.49%		
Electricite De France, 6.950%, due 01/26/39[1]	300,000	398,189
France Telecom SA, 8.500%, due 03/01/31	75,000	112,947
Vivendi SA, 4.750%, due 04/12/22[1]	250,000	262,250
		773,386
Luxembourg 0.41%		
Enel Finance International SA, 6.000%, due 10/07/39[1]	365,000	328,211
Telecom Italia Capital SA, 6.375%, due 11/15/33	350,000	319,375
		647,586
Mexico 0.79%		
America Movil SAB de CV, 5.000%, due 03/30/20	625,000	731,751
Petroleos Mexicanos, 6.500%, due 06/02/41	410,000	508,400
		1,240,151
Netherlands 0.93%		
EDP Finance BV, 6.000%, due 02/02/18[1]	350,000	349,377

Koninklijke Philips Electronics NV, 5.000%, due 03/15/42	75,000	84,521
LyondellBasell Industries NV, 6.000%, due 11/15/21	500,000	570,000
Siemens Financieringsmaatschappij NV, 6.125%, due 08/17/26[1]	350,000	459,926
		1,463,824

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
Norway 1.14%		
Eksportfinans ASA, 5.500%, due 06/26/17	$1,750,000	$1,785,000
Qatar 0.37%		
Qtel International Finance Ltd., 7.875%, due 06/10/19[1]	455,000	586,950
South Africa 0.29%		
AngloGold Ashanti Holdings PLC, 5.375%, due 04/15/20	430,000	451,500
Sweden 0.15%		
Nordea Bank AB, 4.875%, due 05/13/21[1]	230,000	241,555
United Kingdom 1.18%		
Barclays Bank PLC, 5.140%, due 10/14/20	60,000	61,220
British Telecommunications PLC, 9.625%, due 12/15/30	805,000	1,310,194
HSBC Holdings PLC, 4.000%, due 03/30/22	275,000	295,052
6.100%, due 01/14/42	150,000	197,261
		1,863,727
United States 49.95%		
AEP Texas Central Co., Series E, 6.650%, due 02/15/33	495,000	638,573
Aflac, Inc., 6.450%, due 08/15/40	325,000	400,187

Alltel Corp., 7.875%, due 07/01/32	300,000	474,008
Ally Financial, Inc., 3.738%, due 06/15/15[2]	400,000	352,000
Altria Group, Inc., 9.700%, due 11/10/18	105,000	150,392
9.950%, due 11/10/38	480,000	807,053

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Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
American International Group, Inc., 4.875%, due 06/01/22	$175,000	$197,217
5.850%, due 01/16/18	785,000	910,547
Amgen, Inc., 5.650%, due 06/15/42	100,000	119,364
Anadarko Petroleum Corp., 6.450%, due 09/15/36	375,000	464,603
Anheuser-Busch Cos., Inc., 6.450%, due 09/01/37	400,000	564,340
Apache Corp., 5.100%, due 09/01/40	625,000	749,929
AT&T, Inc., 6.500%, due 09/01/37	1,665,000	2,216,633
AXA Financial, Inc., 7.000%, due 04/01/28	165,000	184,772
Bank of America Corp., 5.875%, due 02/07/42	225,000	263,005
Bear Stearns Cos. LLC, 7.250%, due 02/01/18	2,000,000	2,495,706
Boeing Co., 6.875%, due 03/15/39	400,000	619,856
Burlington Northern Santa Fe LLC, 5.400%, due 06/01/41	480,000	583,129
Case New Holland, Inc., 7.875%, due 12/01/17	500,000	586,250
CenterPoint Energy Resources Corp., 6.000%, due 05/15/18	285,000	346,761

CenturyLink, Inc., Series P, 7.600%, due 09/15/39	200,000	211,525
Cisco Systems, Inc., 5.900%, due 02/15/39	175,000	231,762
CIT Group, Inc., 4.250%, due 08/15/17	750,000	778,364

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Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Citigroup, Inc., 4.500%, due 01/14/22	$200,000	$219,596
5.875%, due 01/30/42	155,000	186,743
6.125%, due 05/15/18	810,000	958,892
6.875%, due 03/05/38	425,000	558,530
8.125%, due 07/15/39	635,000	942,872
Comcast Corp., 6.950%, due 08/15/37	1,750,000	2,382,380
ConocoPhillips, 6.500%, due 02/01/39	925,000	1,331,090
Consolidated Edison Co., Inc., 7.125%, due 12/01/18	400,000	524,714
CSX Corp., 6.220%, due 04/30/40	150,000	196,366
CVS Caremark Corp., 6.250%, due 06/01/27	500,000	655,463
Dell, Inc., 5.400%, due 09/10/40	290,000	314,910
Devon Energy Corp., 4.750%, due 05/15/42	375,000	401,815
DirecTV Holdings LLC, 6.000%, due 08/15/40	445,000	495,924
DISH DBS Corp., 7.875%, due 09/01/19	800,000	930,000
Dominion Resources, Inc., Series B, 5.950%, due 06/15/35	495,000	623,800

Domtar Corp., 6.250%, due 09/01/42	700,000	714,678
Dow Chemical Co., 4.250%, due 11/15/20	750,000	825,188
8.550%, due 05/15/19	222,000	297,694
Duke Energy Carolinas LLC, 6.050%, due 04/15/38	350,000	463,034

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
El Paso Corp., 7.250%, due 06/01/18	$300,000	$345,458
El Paso Natural Gas Co. LLC, 8.625%, due 01/15/22	375,000	505,334
Energy Transfer Partners LP, 5.200%, due 02/01/22	500,000	554,652
Enterprise Products Operating LLC, 6.125%, due 10/15/39	500,000	600,927
ERAC USA Finance Co., 7.000%, due 10/15/37[1]	175,000	218,071
ERP Operating LP, 4.750%, due 07/15/20	485,000	554,717
FedEx Corp., 3.875%, due 08/01/42	350,000	342,641
Fidelity National Financial, Inc., 5.500%, due 09/01/22	250,000	268,002
6.600%, due 05/15/17	150,000	167,879
Florida Power Corp., 6.350%, due 09/15/37	215,000	291,527
FMC Technologies, Inc., 3.450%, due 10/01/22	260,000	263,946
Ford Motor Co., 7.450%, due 07/16/31	1,000,000	1,243,750
Ford Motor Credit Co. LLC, 4.250%, due 09/20/22	320,000	327,923
FPL Group Capital, Inc., 6.650%, due 06/15/67[3]	200,000	214,400

Freeport-McMoRan Copper & Gold, Inc., 3.550%, due 03/01/22	200,000	200,202
General Electric Capital Corp., 4.650%, due 10/17/21	800,000	896,619
5.875%, due 01/14/38	1,000,000	1,191,661
General Motors Financial Co., Inc., 4.750%, due 08/15/17[1]	540,000	553,667

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Genworth Financial, Inc., 7.625%, due 09/24/21	$300,000	$306,190
Goldman Sachs Group, Inc., 3.625%, due 02/07/16	425,000	448,328
5.750%, due 01/24/22	1,355,000	1,560,792
6.750%, due 10/01/37	570,000	610,631
Halliburton Co., 4.500%, due 11/15/41	200,000	224,815
Harris Corp., 6.375%, due 06/15/19	200,000	240,858
Hasbro, Inc., 6.350%, due 03/15/40	200,000	237,845
HSBC Bank USA N.A., 4.875%, due 08/24/20	250,000	269,457
5.625%, due 08/15/35	855,000	932,679
International Lease Finance Corp., 7.125%, due 09/01/18[1]	750,000	873,750
International Paper Co., 7.500%, due 08/15/21	365,000	479,133
JPMorgan Chase & Co., 4.500%, due 01/24/22	185,000	205,211
Kinder Morgan Energy Partners LP, 5.800%, due 03/15/35	710,000	799,947
6.500%, due 09/01/39	75,000	90,702
Kraft Foods, Inc., 6.875%, due 02/01/38	430,000	590,203

6.875%, due 01/26/39	440,000	604,771
Kroger Co., 6.900%, due 04/15/38	650,000	819,701
Lehman Brothers Holdings, Inc., 6.750%, due 12/28/17 (Escrow Lehman Brothers, Inc.)[4,5]	585,000	0
6.875%, due 05/02/18 (Escrow Lehman Brothers, Inc.)[5]	785,000	204,100

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Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Life Technologies Corp., 6.000%, due 03/01/20	$135,000	$160,574
Lowe s Cos., Inc., 4.650%, due 04/15/42	225,000	245,244
Marathon Oil Corp., 6.600%, due 10/01/37	180,000	240,141
Massachusetts Mutual Life Insurance Co., 8.875%, due 06/01/39[1]	275,000	405,747
Merrill Lynch & Co., Inc., 6.875%, due 04/25/18	1,000,000	1,198,114
7.750%, due 05/14/38	1,000,000	1,255,857
MetLife, Inc., 5.875%, due 02/06/41	650,000	814,746
Morgan Stanley, 4.750%, due 03/22/17	360,000	385,978
Series F, 5.625%, due 09/23/19	575,000	628,175
6.625%, due 04/01/18	550,000	631,917
Motiva Enterprises LLC, 6.850%, due 01/15/40[1]	340,000	451,967
National Rural Utilities Cooperative Finance Corp., 10.375%, due 11/01/18	160,000	236,763
News America, Inc., 6.200%, due 12/15/34	695,000	837,016
7.750%, due 12/01/45	350,000	469,053
Norfolk Southern Corp., 5.590%, due 05/17/25	38,000	47,069

Oncor Electric Delivery Co. LLC, 6.800%, due 09/01/18	425,000	524,516
7.000%, due 09/01/22	270,000	338,576
ONEOK Partners LP, 8.625%, due 03/01/19	215,000	282,302

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face Amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Oracle Corp., 6.500%, due 04/15/38	$320,000	$458,664
Owens Corning, 6.500%, due 12/01/16	475,000	533,385
Pacific Gas & Electric Co., 6.050%, due 03/01/34	400,000	525,718
Pacific Life Insurance Co., 9.250%, due 06/15/39[1]	210,000	278,208
Penske Truck Leasing Co. LP, 3.375%, due 03/15/18[1]	700,000	700,453
Petrohawk Energy Corp., 6.250%, due 06/01/19	500,000	563,125
Phillips 66, 4.300%, due 04/01/22[1]	225,000	246,343
Progress Energy, Inc., 7.750%, due 03/01/31	95,000	133,874
Prudential Financial, Inc., 5.625%, due 05/12/41	110,000	123,736
Series B, 5.750%, due 07/15/33	40,000	44,869
6.625%, due 12/01/37	780,000	971,194
PSEG Power LLC, 8.625%, due 04/15/31	695,000	1,022,647
Republic Services, Inc., 6.200%, due 03/01/40	425,000	532,947
Reynolds American, Inc., 7.250%, due 06/15/37	425,000	537,258
SABMiller Holdings, Inc.,		

3.750%, due 01/15/22[1]	200,000	217,187
Safeway, Inc., 7.450%, due 09/15/27	725,000	836,600
Sanmina-SCI Corp., 7.000%, due 05/15/19[1]	270,000	272,700
Simon Property Group LP, 6.750%, due 02/01/40	325,000	451,196

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (continued)		
United States (continued)		
Southern California Edison Co., 6.650%, due 04/01/29	$320,000	$425,570
Southern Copper Corp., 6.750%, due 04/16/40	250,000	287,552
Southern Natural Gas Co., 8.000%, due 03/01/32	430,000	608,246
Sprint Capital Corp., 6.875%, due 11/15/28	200,000	184,000
SunTrust Bank, 7.250%, due 03/15/18	495,000	598,044
Swiss Re Solutions Holding Corp., 7.000%, due 02/15/26	295,000	365,522
Target Corp., 6.350%, due 11/01/32	315,000	416,703
6.500%, due 10/15/37	185,000	259,715
7.000%, due 01/15/38	105,000	154,024
Time Warner Cable, Inc., 7.300%, due 07/01/38	600,000	816,302
8.750%, due 02/14/19	410,000	558,232
Time Warner, Inc., 7.625%, due 04/15/31	710,000	991,810
Tupperware Brands Corp., 4.750%, due 06/01/21	355,000	378,675
Union Pacific Corp., 5.780%, due 07/15/40	180,000	227,544
United Technologies Corp., 5.700%, due 04/15/40	290,000	376,693

6.700%, due 08/01/28	160,000	218,828
UnitedHealth Group, Inc., 5.800%, due 03/15/36	50,000	60,456
6.875%, due 02/15/38	300,000	416,475
US Bancorp, 2.950%, due 07/15/22	150,000	151,427

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Corporate bonds (concluded)		
United States (concluded)		
Valero Energy Corp., 6.625%, due 06/15/37	$150,000	$181,045
7.500%, due 04/15/32	465,000	590,786
Verizon New York, Inc., Series B, 7.375%, due 04/01/32	1,085,000	1,438,495
Viacom, Inc., 4.500%, due 02/27/42	300,000	310,151
Virginia Electric & Power Co., 6.350%, due 11/30/37	165,000	230,548
Vornado Realty LP, REIT, 4.250%, due 04/01/15	880,000	929,972
Washington Mutual Bank, 5.500%, due 01/15/13[4,5]	750,000	75
Wells Fargo Bank N.A., 5.950%, due 08/26/36	700,000	901,629
Wells Fargo Capital X, 5.950%, due 12/15/36	475,000	482,125
Williams Cos., Inc., 8.750%, due 03/15/32	177,000	245,546
Williams Partners LP, 6.300%, due 04/15/40	275,000	344,251
Wisconsin Power & Light Co., 7.600%, due 10/01/38	175,000	281,554
WM Wrigley Jr. Co., 3.700%, due 06/30/14[1]	465,000	479,586
Xcel Energy, Inc., 4.800%, due 09/15/41	475,000	547,326

Xerox Corp., 6.350%, due 05/15/18	540,000	634,004
		78,306,924
Total corporate bonds (cost $86,232,726)		97,170,136

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Asset-backed securities 0.58%		
United States 0.58%		
Ameriquest Mortgage Securities, Inc., Series 2005-R6, Class A2, 0.416%, due 08/25/35[3]	$64,365	$62,358
Citibank Credit Card Issuance Trust, Series 2007-A3, Class A3, 6.150%, due 06/15/39	390,000	537,255
Continental Airlines, Inc., Series 2009-2, Class A, 7.250%, due 11/10/19	270,524	309,073
Total asset-backed securities (cost $708,888)		908,686
Commercial mortgage-backed securities 3.38%		
United States 3.38%		
Banc of America Commercial Mortgage, Inc., Series 2007-2, Class AM, 5.813%, due 04/10/49[3]	475,000	509,000
JP Morgan Chase Commercial Mortgage Securities Corp., Series 2007-LD11, Class A4, 6.003%, due 06/15/49[3]	2,100,000	2,430,700
Wachovia Bank Commercial Mortgage Trust, Series 2007-C33, Class A4, 6.122%, due 02/15/51[3]	2,000,000	2,357,540
Total commercial mortgage-backed securities (cost $5,018,508)		5,297,240
Mortgage & agency debt securities 5.76%		
United States 5.76%		
Federal Home Loan Mortgage Corp.,[6] 5.000%, due 01/30/14	30,000	31,894
Federal Home Loan Mortgage Corp. Gold Pools,[6]		

#E01127, 6.500%, due 02/01/17	33,657	36,331
Federal National Mortgage Association Pools,[6] #AE1568, 4.000%, due 09/01/40	658,521	710,394
#688066, 5.500%, due 03/01/33	146,607	166,956
#793666, 5.500%, due 09/01/34	693,539	774,202
#802481, 5.500%, due 11/01/34	132,709	148,144

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Mortgage & agency debt securities (concluded)		
United States (concluded)		
Federal National Mortgage Association Pools,[6] (concluded) #596124, 6.000%, due 11/01/28	$104,473	$117,427
#253824, 7.000%, due 03/01/31	61,592	72,930
Federal National Mortgage Association Re-REMIC,[6] Series 1993-106, Class Z, 7.000%, due 06/25/13	4,783	4,861
Government National Mortgage Association Pools, #G2 AB2784, 3.500%, due 08/20/42	4,989,048	5,486,615
#781029, 6.500%, due 05/15/29	32,519	38,526
GSR Mortgage Loan Trust, Series 2006-2F, Class 3A4, 6.000%, due 02/25/36	1,197,848	1,163,881
Wells Fargo Mortgage Backed Securities Trust, Series 2003-18, Class A2, 5.250%, due 12/25/33	264,491	275,304
Total mortgage & agency debt securities (cost $8,757,497)		9,027,465
Municipal bonds 7.59%		
California 2.14%		
Los Angeles Unified School District, 6.758%, due 07/01/34	150,000	199,831
State of California, GO, 7.300%, due 10/01/39	1,820,000	2,423,330
7.550%, due 04/01/39	365,000	498,189
University of California Revenue Bonds, Series 2009, 5.770%, due 05/15/43	195,000	240,297
		3,361,647

Georgia 0.11%		
Municipal Electric Authority of Georgia Revenue Bonds, 6.637%, due 04/01/57	150,000	176,115
Illinois 1.46%		
Illinois State Taxable Pension, Series 2003, 5.100%, due 06/01/33	2,350,000	2,279,852
Massachusetts 0.10%		
Commonwealth of Massachusetts, GO, 5.456%, due 12/01/39	125,000	157,161

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (continued)		
Municipal bonds (concluded)		
New Jersey 2.85%		
New Jersey Economic Development Authority Revenue Bonds, Series B, 4.889%, due 02/15/18[2]	$5,000,000	$4,254,750
New Jersey State Turnpike Authority Revenue Bonds, Series F, 7.414%, due 01/01/40	140,000	208,382
		4,463,132
New York 0.49%		
Metropolitan Transportation Authority Revenue Bonds, 6.668%, due 11/15/39	200,000	262,948
Port Authority New York & New Jersey, 4.458%, due 10/01/62	500,000	503,210
		766,158
Pennsylvania 0.21%		
Commonwealth of Pennsylvania, GO, 5.350%, due 05/01/30	300,000	332,700
Tennessee 0.23%		
Metropolitan Government of Nashville & Davidson County Convention Center Authority Revenue Bonds, 6.731%, due 07/01/43	300,000	358,521
Total municipal bonds (cost $10,248,810)		11,895,286
US government obligations 15.01%		
US Treasury Bonds, 2.750%, due 08/15/42	2,300,000	2,261,908
3.000%, due 05/15/42	7,125,000	7,387,734

3.125%, due 11/15/41	5,305,000	5,651,480
US Treasury Notes, 0.625%, due 09/30/17	2,375,000	2,374,630
1.625%, due 08/15/22	5,860,000	5,853,589
Total US government obligations (cost $23,118,501)		23,529,341

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Security description	Face amount	Value
Bonds (concluded)		
Non-US government obligations 2.62%		
Brazil 1.66%		
Brazilian Government International Bond, 8.250%, due 01/20/34	$900,000	$1,480,500
8.875%, due 04/15/24	700,000	1,125,250
		2,605,750
Mexico 0.96%		
United Mexican States, 4.750%, due 03/08/44	1,349,000	1,504,135
Total Non-US government obligations (cost $3,366,122)		4,109,885
Total bonds (cost $137,451,052)		151,938,039
	Shares	
Common stocks 0.01%		
United States 0.01%		
Washington Mutual Funding Tranche III*[4,7]	1,300	13
WMI Holdings Corp.*	25,741	13,128
Total common stocks (cost $14,157)		13,141
Preferred stock 0.03%		
United States 0.03%		
Ally Financial, Inc., 7.000%[1,8] (cost $34,713)	42	39,290
Short-term investment 2.07%		

Investment company 2.07%

UBS Cash Management Prime Relationship Fund[9] (cost $3,251,034)	3,251,034	3,251,034
Total investments 99.01% (cost $140,750,956)		155,241,504
Cash and other assets, less liabilities 0.99%		1,549,581
Net assets 100.00%		$156,791,085

Fort Dearborn Income Securities, Inc.
Portfolio of investments September 30, 2012

Notes to portfolio of investments
Aggregate cost for federal income tax purposes was $140,816,688; and net unrealized appreciation consisted of:

Gross unrealized appreciation	$16,465,061
Gross unrealized depreciation	(2,040,245)
Net unrealized appreciation of investments	$14,424,816

For a listing of defined portfolio acronyms, counterparty abbreviations and currency abbreviations that are used throughout the Portfolio of investments as well as the tables that follow, please refer to page 30. Portfolio footnotes begin on page 30.

The following is a summary of the fair valuations according to the inputs used as of September 30, 2012 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	$	$ 96,965,961	$204,175	$ 97,170,136
Asset-backed securities		908,686		908,686
Commercial mortgage-backed securities		5,297,240		5,297,240
Mortgage & agency debt securities		9,027,465		9,027,465
Municipal bonds		11,895,286		11,895,286
US government obligations		23,529,341		23,529,341
Non-US government obligations		4,109,885		4,109,885
Common stocks	13,128		13	13,141
Preferred stock		39,290		39,290
Short-term investment		3,251,034		3,251,034
Total	$13,128	$155,024,188	$204,188	$155,241,504

Fort Dearborn Income Securities, Inc.
Portfolio of investments   September 30, 2012

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

	Corporate bonds	Common stock	Total
Assets Beginning balance	$ 19,500	$	$ 19,500
Purchases			
Issuances		0	0
Sales	(14,157)		(14,157)
Settlements			
Accrued discounts (premiums)	(823)		(823)
Total realized loss	(1,280,796)		(1,280,796)
Change in net unrealized appreciation/depreciation	1,276,276	13	1,276,289
Net transfers into Level 3[10]	204,175		204,175
Net transfers out of Level 3			
Ending balance	$ 204,175	$ 13	$ 204,188

The change in net unrealized appreciation/depreciation relating to the Level 3 investments held at September 30, 2012 was $12,331.

Fort Dearborn Income Securities, Inc.

Portfolio of investments September 30, 2012

Portfolio footnotes

* Non-income producing security.

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, 2012, the value of these securities amounted to $7,363,427 or 4.70% of net assets.

2 Rate shown reflects annualized yield at September 30, 2012 on zero coupon bond.

3 Variable or floating rate security The interest rate shown is the current rate as of September 30, 2012 and changes periodically.

4 Security is being fair valued by a valuation committee under the direction of the Board of Trustees. At September 30, 2012, the value of these securities amounted to $88 or 0.00% of net assets.

5 Security is in default.

6 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.

7 Security is illiquid. At September 30, 2012, the value of this security amounted to $13 or 0.00% of net assets.

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

9 The table below details the Fund s investment in a fund 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 09/30/11	Purchases during the year ended 09/30/12	Sales during the year ended 09/30/12	Value 09/30/12	Net income earned from affiliate for the year ended 09/30/12
UBS Cash Management Prime Relationship Fund	$1,913,431	$79,955,307	$78,617,704	$3,251,034	$4,528

Portfolio acronyms

GO	General Obligation
GSR	Goldman Sachs Residential
REIT	Real estate investment trust
Re-REMIC	Combined Real Estate Mortgage Investment Conduit

10 Transfers into Level 3 represent the value at the end of the period. At September 30, 2012, securities were transferred from Level 2 to Level 3 as the valuations are based primarily on unobservable inputs.

Fort Dearborn Income Securities, Inc.

Statement of assets and liabilities
September 30, 2012

Assets:	
Investments in securities of unaffiliated issuers, at value (cost $137,499,922)	$151,990,470
Investments in affiliated issuers, at value (cost $3,251,034)	3,251,034
Total investments (cost $140,750,956)	155,241,504
Cash	1,061,256
Interest receivable	1,668,076
Receivable for investments sold	2,595,880
Other assets	29,058
Total assets	160,595,774
Liabilities:	
Payable for investments purchased	3,512,337
Payable for investment advisory fees	181,429
Directors fees payable	5,806
Accrued expenses and other liabilities	105,117
Total liabilities	3,804,689
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	323,039
Accumulated net realized gain	6,861,415
Net unrealized appreciation	14,490,548
Net assets	$156,791,085
Net asset value per share	$ 17.87

See accompanying notes to financial statements

Fort Dearborn Income Securities, Inc.
Statement of operations

	For the year ended September 30, 2012
Investment income:	
Interest	$ 6,889,439
Affiliated interest	4,528
Dividends	2,940
Total investment income	6,896,907
Expenses:	
Investment advisory fees	704,995
Professional fees	90,081
Custody and accounting fees	60,681
Transfer agency fees	40,608
Reports and notices to shareholders	36,902
Listing fees	23,766
Directors fees	22,658
Franchise taxes	11,018
Insurance expense	9,136
Other expenses	19,609
Total expenses	1,019,454
Net investment income	5,877,453
Realized and unrealized gains from investment activities:	
Net realized gain on investment activities	7,547,529
Change in net unrealized appreciation/depreciation on investments	4,229,526
Net realized and unrealized gain from investment activities	11,777,055
Net increase in net assets resulting from operations	$17,654,508

See accompanying notes to financial statements

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

	For the years ended September 30,	
	2012	2011
From operations:		
Net investment income	$ 5,877,453	$ 6,568,558
Net realized gain	7,547,529	6,033,597
Change in net unrealized appreciation/depreciation	4,229,526	(1,301,918)
Net increase in net assets resulting from operations	17,654,508	11,300,237
Dividends and distributions to shareholders from:		
Net investment income	(6,274,600)	(8,091,164)
Net realized gains	(6,283,376)	(3,755,985)
Total dividends and distributions to shareholders	(12,557,976)	(11,847,149)
Net increase (decrease) in net assets	5,096,532	(546,912)
Net assets:		
Beginning of year	151,694,553	152,241,465
End of year	$ 156,791,085	$ 151,694,553
Accumulated undistributed net investment income	$ 323,039	$ 582,583

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,				
	2012	**2011**	**2010**	**2009**	**2008**
Net asset value, beginning of year	$17.29	$17.35	$16.50	$13.81	$15.68
Net investment income[1]	0.67	0.75	0.81	0.78	0.85
Net realized and unrealized gains (losses)	1.34	0.54	1.23	2.63	(1.83)
Net increase (decrease) from investment operations	2.01	1.29	2.04	3.41	(0.98)
Dividends from net investment income	(0.71)	(0.92)	(0.90)	(0.71)	(0.80)
Distributions from net realized gains	(0.72)	(0.43)	(0.29)	(0.01)	(0.09)
Total dividends and distributions	(1.43)	(1.35)	(1.19)	(0.72)	(0.89)
Net asset value, end of year	$17.87	$17.29	$17.35	$16.50	$13.81
Market price, end of year	$17.20	$16.07	$16.15	$14.85	$12.92
Total net asset value return[2]	12.23%	8.10%	12.98%	25.29%	(6.60)%
Total market price return[3]	16.81%	8.59%	17.71%	21.08%	(0.62)%
Ratios to average net assets: Expenses	0.67%	0.70%	0.70%	0.85%	0.72%
Net investment income	3.89%	4.50%	4.91%	5.35%	5.45%
Supplemental data: Net assets, end of year (in millions)	$156.8	$151.7	$152.2	$144.8	$121.2
Portfolio turnover rate	175%	154%	101%	117%	185%
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 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

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 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 (US GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the US Securities and Exchange Commission (SEC) under authority of federal laws are also sources of authoritative US GAAP for SEC registrants. The Fund s financial statements are prepared in accordance with US 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

Fort Dearborn Income Securities, Inc.
Notes to financial statements

independent 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 evaluation systems that derive values based on comparable securities or instruments. An evaluation 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. 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 restrictions on

Fort Dearborn Income Securities, Inc.
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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 is believed to be the fair value of these securities or instruments as of 4:00 p.m., Eastern time.

The Board has delegated to the UBS Global Asset Management Global Valuation Committee (GVC) the responsibility for making fair value determinations with respect to the Fund s portfolio holdings. The GVC is comprised of representatives of management, including members of the investment team.

The GVC provides reports to the Board at each quarterly meeting regarding any securities or instruments that have been fair valued, valued pursuant to standing instructions approved by the GVC, or where non-vendor pricing sources had been used to make fair value determinations when sufficient information exists during the prior quarter. Fair valuation determinations are subject to review at least monthly by the GVC during scheduled meetings. Pricing decisions, processes, and controls over fair value determinations are subject to internal and external reviews, including annual internal compliance reviews and periodic internal audit reviews.

Fort Dearborn Income Securities, Inc.
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The types of securities or instruments for which such fair value pricing may be necessary include, but are not limited to: foreign securities and instruments under some circumstances, as discussed below, securities of an issuer that has entered into a restructuring; securities or instruments whose trading has been halted or suspended; fixed income securities that are in default and for which there is no current market value quotation; and securities or instruments that are restricted as to transfer or resale. The need to fair value a Fund s portfolio securities and other instruments may also result from low trading volume in foreign markets or thinly traded domestic securities or instruments, and when a security is subject to a trading limit or collar on the exchange or market on which it is primarily traded reaches the limit up or limit down price and no trading has taken place at that price. 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 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. Valuing securities and other instruments at fair value involves greater reliance on judgment than valuing securities and other instruments that have readily available market quotations. Fair value determinations can also involve reliance on quantitative models employed by a fair value pricing service.

US GAAP requires disclosure regarding 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.

Fort Dearborn Income Securities, Inc.
Notes to financial statements

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

In May 2011, FASB issued Accounting Standards Update No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US 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 US GAAP and IFRS. ASU 2011-04 requires 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 requires 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 disclosures have been implemented for annual and interim periods beginning after December 15, 2011. At September 30, 2012, there were no transfers between Level 1 and Level 2 for the Fund.

In December 2011, FASB issued Accounting Standards Update No. 2011-11 Disclosures about Offsetting Assets and Liabilities (ASU 2011-11). These disclosure requirements are intended to help investors and other financial statement users to better assess the effect or potential effect of offsetting arrangements on a company s financial position. They also improve transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. In addition, ASU 2011-11 facilitates comparison between those entities that prepare their financial statements on the basis of US GAAP and those entities that prepare their financial statements on the basis of IFRS. ASU 2011-11 requires entities to: disclose both gross and net information about both instruments and transactions eligible for offset in the financial statements; and disclose instruments and transactions subject to an agreement similar to a master netting

Fort Dearborn Income Securities, Inc.
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agreement. ASU 2011-11 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. At this time, management is evaluating the implications of ASU 2011-11 and its impact on the Fund s financial statement disclosures.

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 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 Portfolio footnotes.

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

Fort Dearborn Income Securities, Inc.
Notes to financial statements

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 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 enhancements 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. Dividend income is recorded on the ex-dividend date.

Fort Dearborn Income Securities, Inc.
Notes to financial statements

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 US 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 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 US securities. 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. As of September 30, 2012, the Fund had less than 10% of net assets invested in emerging market countries. 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, 2012, 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, 2012, 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

Fort Dearborn Income Securities, Inc.
Notes to financial statements

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, 2012, the Fund owed UBS Global AM $181,429 for investment advisory fees.

Purchases and sales of securities

Purchases and sales (including maturities) of portfolio securities during the year ended September 30, 2012, were as follows: debt securities, excluding short-term securities and US government debt obligations, $99,430,526 and $93,638,112, respectively; and US government debt obligations, $160,907,605 and $174,963,636, 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 fiscal years ended September 30, 2012 and September 30, 2011 were as follows:

Distributions paid from:	**2012**	**2011**
Ordinary income	$9,240,775	$11,697,962
Net long-term capital gains	3,317,201	149,187
	$12,557,976	$11,847,149

At September 30, 2012, the components of accumulated earnings (deficit) on a tax basis were as follows:

Undistributed ordinary income	$3,625,296
Undistributed long-term capital gains	3,624,890
Net unrealized appreciation of investments	14,424,816
Total accumulated earnings	$21,675,002

Fort Dearborn Income Securities, Inc.
Notes to financial statements

The difference between book-basis and tax-basis net unrealized appreciation/(depreciation) of investments is attributed to wash sales.

To reflect reclassifications arising from permanent book/tax differences for the year ended September 30, 2012, the Fund s accumulated undistributed net investment income was increased by $137,603 and accumulated undistributed net realized gain from investment activities was decreased by $137,603. These differences are primarily due to paydown losses.

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 carry forward capital losses incurred in taxable years beginning after the date of enactment for an indefinite 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.

At September 30, 2012, the Fund had no pre-enactment capital loss carryforwards for federal income tax purposes available to offset future capital gains.

During the fiscal year ended September 30, 2012, the Fund did not utilize any capital loss carryforwards to offset current year realized capital gains. The Fund did not have any capital loss carryforwards expire as of September 30, 2012.

Fort Dearborn Income Securities, Inc.
Notes to financial statements

As of and during the year ended September 30, 2012, the Fund did not have any liabilities for any uncertain tax positions. The Fund recognizes interest and penalties, if any, related to uncertain 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, 2012, remains subject to examination by the Internal Revenue Service and state taxing authorities.

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, 2012, 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, 2012, 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, 2012, 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 28, 2012

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 1-202-551-8090. 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 been made, without charge, upon request by contacting the Fund

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

directly at 1-888-793 8637, online on the Fund s Web site: http://www.ubs.com/us/en/asset_management/individual_investors/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 shareholders 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 payment (Base Net Asset Value), the agent (the

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

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

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

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

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

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 7 and 8, 2012 (the Meeting), the Board, including 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 June 4, 2012, June 7, 2012 and June 8, 2012 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, the Board reviewed the material presented by the Advisor describing the

Fort Dearborn Income Securities, Inc.

Board approval of investment advisory agreement (unaudited)

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 top performance quintile for the one-year, five-year and ten-year performance periods and in the second quintile for the three year period. After analyzing the performance for the Fund, the Board determined that the performance of the Fund was acceptable as compared with relevant performance standards, given the investment

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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 top quintile of its Lipper expense group, 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 three calendar years, included schedules 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

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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, including a majority of Independent Directors, 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.

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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 2, 2012.

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; 54 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).

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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 or manager.	Ms. Cepeda is a director (since August 2012) of BMO Financial Corp. (U.S. holding company for BMO Harris Bank N.A.), director of the Mercer Funds (7 portfolios) (since 2005), trustee of the Morgan Stanley Smith Barney Consulting Group Capital Market Funds (11 portfolios) (since 2008) and director of Amalgamated Bank of Chicago (since 2003). 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).

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Non-interested Directors (continued)

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
Frank K. Reilly; 76 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).
Edward M. Roob; 78 c/o UBS Global AM One North Wacker Drive Chicago, Illinois 60606	Director	Since 1993	Mr. Roob is retired (since 1993).
Abbie J. Smith; 59 University of Chicago Booth School of Business 5807 S. Woodlawn Avenue Chicago, IL 60637	Director	Since 2011	Ms. Smith is Boris and Irene Stern Professor of Accounting, University of Chicago Booth School of Business (since 1980). In addition, Ms. Smith is also a co-founding partner and Director of Research of Fundamental Investment Advisors, a hedge fund (co-founded in 2004 commenced operations in 2008) (from 2008 to 2010). Formerly, Ms. Smith was a Marvin Bower Fellow at Harvard Business School (from 2001 to 2002).

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Number of portfolios in fund complex overseen by director	Other directorships held by director
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 or manager.	Mr. Reilly is a director of Discover Bank, a subsidiary of Discover Financial Services and is Chairman of the Audit Committee for the Bank.
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 or manager.	None
Ms. Smith 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 or manager.	Ms. Smith is a director (since 2000) of HNI Corporation (formerly known as HON Industries Inc.) (office furniture) and a director (since 2003) and chair of the audit committee of Ryder System Inc. (transportation, logistics and supply-chain management). In addition, Ms. Smith is a trustee/director (since 2000) and a member of the audit committee and portfolio performance committee) of the Dimensional Funds complex (89 Portfolios).

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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
J. Mikesell Thomas; 61 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 2011), the former President and CEO of Federal Home Loan Bank of Chicago (from 2004 to 2008). Mr. Thomas was an independent financial advisor to several corporate clients (from 2001 to 2004).

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Number of portfolios in fund complex overseen by director	Other directorships held by director
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 or manager.	Mr. Thomas is a director (since 1992) and chairman of the Audit Committee for Northshore University HealthSystem, a not for profit health care organization, and a director (since May 2012) and member of the Audit and Investment and Finance Committees of HCC Insurance Holdings Inc. Mr. Thomas was previously a director of First Chicago Bancorp (from 2008 to 2010) and of First Chicago Bank & Trust (2008 to 2010).

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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 Allessie*; 47	Vice President and Assistant Secretary	Since 2005	Mr. Allessie 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. Allessie is a vice president and assistant secretary of 17 investment companies (consisting of 95 portfolios) for which UBS Global AM Americas region or one of its affiliates serves as investment advisor or manager.
Rose Ann Bubloski*; 44	Vice President and Assistant Treasurer	Since 2011	Ms. Bubloski is a director (since March 2012) (prior to which she was an associate director) 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. (from 2004 to 2007). 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 95 portfolios) for which UBS Global AM serves as investment advisor or manager.

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Officers (continued)

	Term of	Principal occupation(s) during