

FORT DEARBORN INCOME SECURITIES INC
Form N-CSRS
June 08, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-02319

Fort Dearborn Income Securities, Inc.

(Exact name of registrant as specified in charter)

One North Wacker Drive, Chicago, IL 60606-2807

(Address of principal executive offices) (Zip code)

Tammie Lee, Esq.

UBS Global Asset Management (Americas), Inc.

1285 Avenue of the Americas

New York, NY 10019

(Name and address of agent for service)

Copy to:

Bruce Leto, Esq.

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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: March 31, 2015

Item 1. Reports to Stockholders.

Closed-end funds

March 31, 2015

Fort Dearborn Income Securities, Inc.

Semiannual Report

Fort Dearborn Income Securities, Inc.

May 8, 2015

Dear shareholder,

We present you with the semiannual report for Fort Dearborn Income Securities, Inc. (the Fund) for the six months ended March 31, 2015.

Performance

For the six months ended March 31, 2015, the Fund posted a total return on a net asset value (NAV) basis of 2.00%, and 1.95% on a market price basis. Over the same period, the Fund's benchmark, the Barclays US Aggregate Index (the Index) returned 3.43%. The Fund's peer group, as measured by the Lipper Corporate Debt Funds BBB-Rated classification, posted a median total return of 3.11% on a NAV basis, and 2.21% on a market price basis.¹ (For more performance information, please refer to Performance at a glance on page 5.) During the reporting period, neither the Fund nor the Index used leverage. (Leverage magnifies returns both on the upside and on the downside, creating a wider range of returns.)

The Fund traded at a discount to its NAV during the six month reporting period. On the last trading day preceding the reporting period, September 30, 2014, the Fund traded at a discount of 9.5%, versus the

9.0% median discount of the Fund's Lipper peer group. As of March 31, 2015, the Fund traded at a discount of 9.8%, versus the 8.0% median discount of the Fund's Lipper peer group. A fund trades at a discount when the market price at which its shares trade is less than its NAV. Alternately, a fund trades at a premium when the market price at which its shares trade is more than its NAV per share. The market price is the price the market is willing to pay for shares of a fund at a given time and may be influenced by a range of factors, such as supply and demand and market conditions. NAV per share is determined by dividing the value of the Fund's securities, cash and other assets, less all liabilities, by the total number of common shares outstanding.

Market commentary

While the US economy continued to expand, the pace decelerated during the reporting period. For comparison purposes, US gross domestic product (GDP) growth accelerated to a 5.0% seasonally-adjusted annualized rate during the third quarter of 2014, the highest rate since the third quarter of 2003. GDP grew at 2.2% seasonally-adjusted annualized rate during the fourth quarter of 2014, compared with a 5.0% rate during the third quarter, before the beginning of the reporting period. First quarter 2015 GDP growth was 0.2% based on the Commerce Department's initial estimate on April 29, 2015, after the reporting period had ended.² This was partially attributed to severe winter weather in parts of the country.

The US Federal Reserve Board largely maintained its accommodative monetary policy during the reporting period. The central bank continued to hold the fed funds rate at a historically low range between 0% and 0.25%. However, at the Fed's meeting in October 2014, it said that it had concluded its asset purchase program, also known as quantitative easing. At its March 2015 meeting, the Fed said that it anticipates that it will be

Fort Dearborn Income Securities, Inc.

Investment objective:

Current income consistent with external interest rate conditions and total return

Portfolio Managers:

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

Commencement:

December 19, 1972

NYSE symbol:

FDI

Dividend payments:

Quarterly

¹ The Barclays US Aggregate Index is an unmanaged broad based index designed to measure the US-dollar-denominated, investment-grade, taxable bond market. The index includes bonds from the Treasury, government-related, corporate, mortgage-backed, asset-backed and commercial mortgage-backed sectors. Investors should note that indices do not reflect the deduction of fees and expenses.

² Based on the Commerce Department's initial estimate announced on April 29, 2015, after the reporting period had ended.

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appropriate to raise the target range for the federal funds rate when it has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term. Finally, at the central bank's meeting that concluded on April 29, 2015, after the reporting period had ended, it said even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.

Both short- and long-term Treasury yields declined during the reporting period, and the yield curve flattened.³ The overall US bond market, as measured by the Barclays US Aggregate Index, gained 3.43% during the six months ended March 31, 2015. Most US spread sectors posted positive total returns during the reporting period, as they were supported by overall solid demand and declining Treasury yields.⁴ Over the six month period ended March 31, 2015, the Fund underperformed the Index on a net asset total return basis. The commentary below describes factors that impacted the Fund's performance relative to the Index.

Portfolio commentary

What worked

Certain of the Fund's spread sector allocations contributed to performance during the reporting period.

Overweights and security selection of commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs) were additive for results.

A large underweight to agency mortgage-backed securities (MBS) was beneficial, as the sector lagged the Index during the reporting period.

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

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

What didn't work

The Fund's credit exposure was the largest detractor from results.

Overweight allocations to investment grade and high yield corporate bonds were negative for performance, as they lagged the Index.

Security selection of investment grade and high yield corporate bonds detracted from results. In particular, the Fund's industrial credits, including those in the energy sector, weighed on performance.

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

We tactically adjusted the Fund's duration during the reporting period, but it was shorter than that of the Index. This was not rewarded given the declining interest rate environment.

Portfolio adjustments

There were only minor adjustments made to the Fund's sector positioning during the reporting period.

³ When the yield curve flattens, the difference in yields between long-term bonds and short-term bonds decreases, either as a result of longer-term bond yields declining or shorter-term bond yields increasing.

⁴ A spread sector refers to non-government fixed income sectors, such as investment grade or high yield bonds, commercial mortgage-backed securities (CMBS), etc.

Fort Dearborn Income Securities, Inc.

We continued to employ certain derivatives.

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

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

The use of currency instruments, such as foreign exchange forward positions, was quite limited during the period. Given that the Fund does not currently seek active currency risk, these instruments were effectively used to hedge the Fund's foreign currency-denominated bond positions back to US dollars.

Outlook

Economic data in the US has recently pointed to a slowdown in economic activity, including disappointing retail sales and manufacturing numbers. We believe moderating growth was partially due to severe winter weather in parts of the country. In our view, the US economy will gain some momentum as the year progresses. That said, we do not expect to see robust growth given continued slack in some areas of the economy, generally weak growth overseas and the impact from the stronger US dollar. We believe the Fed will start raising rates later in 2015, but that its approach to policy normalization will be very gradual.

Turning to the fixed income market, the potential for higher rates is a headwind for bond prices. However, we do not expect to see a sharp rise in rates given the global economic environment and the cautious Fed. We believe credit fundamentals are generally sound, with large cash balances on many corporate balance sheets and low defaults. We are keeping a close eye on market technicals, as investor demand could be challenged at times given numerous geopolitical issues and if the Fed takes a more aggressive stance in terms of rate hikes.

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

Scott Dolan

Portfolio Manager

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Fort Dearborn Income Securities, Inc.

Fort Dearborn Income Securities, Inc.

Managing Director

Managing Director

UBS Global Asset Management (Americas) Inc.

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Fort Dearborn Income Securities, Inc.

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 six months ended March 31, 2015. The views and opinions in the letter were current as of May 8, 2015. They are not guarantees of future performance or investment results and should not be taken as investment advice. Investment decisions reflect a variety of factors, and we reserve the right to change our views about individual securities, sectors and markets at any time. As a result, the views expressed should not be relied upon as a forecast of the Fund's future investment intent. We encourage you to consult your financial advisor regarding your personal investment program.

Fort Dearborn Income Securities, Inc.

Performance at a glance (unaudited)

Average annual total returns for periods ended 03/31/2015

Net asset value returns	6 months	1 year	5 years	10 years
Fort Dearborn Income Securities, Inc.	2.00%	4.10%	7.17%	6.55%
Lipper Corporate Debt Funds BBB-Rated median	3.11	5.59	7.23	6.34
Market price returns				
Fort Dearborn Income Securities, Inc.	1.95%	4.48%	7.74%	7.28%
Lipper Corporate Debt Funds BBB-Rated median	2.21	5.24	4.87	6.20
Index returns				
FDI Fund Index ¹	3.43%	5.72%	7.09%	6.28%
Barclays US Aggregate Index ²	3.43	5.72	4.41	4.93

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. NAV and market price returns for the period of less than one year have not been annualized. Returns do not reflect the deduction of taxes that a shareholder would pay on Fund dividends and other distributions, if any, or the sale of Fund shares.

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

¹ The FDI Fund Index is an unmanaged index compiled by the Advisor, constructed as follows: From 12/31/81 to 5/31/2013 5% Barclays US Agency Index (7+ years), 75% Barclays US Credit Index (7+ years), 10% Barclays US Mortgage-Backed Securities Index (all maturities) and 10% Barclays US Treasury Index (7+ years). From 6/1/2013 to present 100% Barclays US Aggregate Index. Investors should note that indices do not reflect the deduction of fees and expenses.

² The Barclays US Aggregate Index is an unmanaged broad based index designed to measure the US-dollar-denominated, investment-grade, taxable bond market. The index includes bonds from the Treasury, government-related, corporate, mortgage backed, asset-backed and commercial mortgage-backed sectors. Investors should note that indices do not reflect the deduction of fees and expenses.

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

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

Fort Dearborn Income Securities, Inc.

Portfolio statistics (unaudited)

Characteristics¹	03/31/15	09/30/14	03/31/14
Net asset value	\$ 15.93	\$ 15.99	\$ 15.95
Market price	\$ 14.37	\$ 14.47	\$ 14.41
12-month dividends/distributions	\$ 0.6747	\$ 0.9402	\$ 0.9902
Dividend/distribution at period-end	\$ 0.1600	\$ 0.1500	\$ 0.1500
Net assets (mm)	\$ 139.7	\$ 140.3	\$ 140.0
Weighted average maturity (yrs.)	10.1	10.0	8.8
Duration (yrs.) ²	4.6	5.0	4.6
Credit quality³	03/31/15	09/30/14	03/31/14
US Treasury ⁴	2.4%	1.7%	0.2%
US Agency ^{4,5}	1.8	2.1	3.0
AA	0.6	2.5	2.5
A	14.3	12.8	10.9
BBB	58.4	56.8	58.4
BB	10.3	12.4	12.4
B	2.3	1.5	2.3
CCC and Below	0.7	0.9	0.6
Non-rated	7.3	7.6	8.0
Cash equivalents	0.0 ⁶	1.9	1.1
Other assets, less liabilities	1.9	(0.2)	0.6
Total	100.0%	100.0%	100.0%

¹ Prices and other characteristics will vary over time.

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

³ Weightings represent percentages of net assets as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time. Credit quality ratings shown are based on those assigned by Standard & Poor's Financial Services LLC, a part of McGraw-Hill Financial ("S&P"), to individual portfolio holdings. S&P is an independent ratings agency. Rating reflected represents S&P individual debt issue credit rating. While S&P may provide a credit rating for a bond issuer (e.g., a specific company or country); certain issues, such as some sovereign debt, may not be covered or rated and therefore are reflected as non-rated for the purposes of this table. Credit ratings range from AAA, being the highest, to D, being the lowest, based on S&P's measures; ratings of BBB or higher are considered to be investment grade quality. Unrated securities do not necessarily indicate low quality. Further information regarding S&P's rating methodology may be found on its website at www.standardandpoors.com. Please note that references to credit quality made in the commentary above reflect ratings based on multiple providers (not just S&P) and thus may not align with the data represented in this table.

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

into three separate categories to facilitate understanding.

⁵ Includes agency debentures and agency mortgage-backed securities.

⁶ Amount represents less than 0.05% of net assets.

Fort Dearborn Income Securities, Inc.

Industry diversification (unaudited)*As a percentage of net assets As of March 31, 2015***Bonds****Corporate bonds**

Automobiles	1.68%
Banks	22.80
Capital markets	3.37
Chemicals	3.64
Commercial services & supplies	0.74
Communications equipment	0.42
Construction materials	0.96
Consumer finance	1.01
Diversified financial services	3.54
Diversified telecommunication services	1.55
Electric utilities	0.86
Electronic equipment, instruments & components	0.22
Energy equipment & services	0.43
Food & staples retailing	0.64
Gas utilities	0.58
Hotels, restaurants & leisure	1.21
Insurance	6.66
Internet & catalog retail	0.22
IT services	0.44
Leisure products	0.17
Life sciences tools & services	0.11
Machinery	1.50
Media	3.80
Metals & mining	3.94
Oil, gas & consumable fuels	10.91
Paper & forest products	1.23
Pharmaceuticals	0.04
Real estate investment trust (REIT)	0.71
Technology hardware, storage & peripherals	1.05
Tobacco	2.89
Trading companies & distributors	1.41
Wireless telecommunication services	0.51
Total corporate bonds	79.24

Asset-backed securities	0.47%
Collateralized debt obligations	3.37
Commercial mortgage-backed securities	6.62
Mortgage & agency debt securities	1.83
Residential mortgage-backed securities	0.50
Municipal bonds	2.69
US government obligations	2.38
Non-US government obligation	0.85
Total bonds	97.95
Common stock	0.04
Preferred stocks	0.10
Short-term investment	0.05
Total investments	98.14
Cash and other assets, less liabilities	1.86
Net assets	100.00%

Fort Dearborn Income Securities, Inc.

Portfolio of investments March 31, 2015

(unaudited)

	Face amount	Value
Bonds: 97.95%		
Corporate bonds: 79.24%		
Brazil: 4.13%		
Banco do Brasil SA, 9.000%, due 06/18/24 ^{1,2,3}	\$ 585,000	\$ 501,637
Caixa Economica Federal, 2.375%, due 11/06/17 ¹	1,400,000	1,321,880
Petrobras Global Finance BV, 5.375%, due 01/27/21	1,130,000	1,013,915
6.250%, due 03/17/24	400,000	374,240
6.875%, due 01/20/40	1,275,000	1,146,021
Vale Overseas Ltd., 4.375%, due 01/11/22	1,465,000	1,408,261
Total Brazil corporate bonds		5,765,954
Canada: 2.79%		
Barrick North America Finance LLC, 5.750%, due 05/01/43	1,450,000	1,503,940
Encana Corp., 6.625%, due 08/15/37	250,000	288,984
NOVA Chemicals Corp., 5.000%, due 05/01/25 ¹	210,000	219,450
5.250%, due 08/01/23 ¹	510,000	532,950
Teck Resources Ltd., 6.250%, due 07/15/41	875,000	847,684
Yamana Gold, Inc., 4.950%, due 07/15/24	510,000	501,438
Total Canada corporate bonds		3,894,446
China: 0.20%		
China Oil & Gas Group Ltd., 5.250%, due 04/25/18 ¹	280,000	278,600
Colombia: 0.16%		
Ecopetrol SA, 4.125%, due 01/16/25	230,000	220,197
France: 0.64%		
Orange SA, 9.000%, due 03/01/31	575,000	887,621
Germany: 1.00%		
	300,000	313,890

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Unitymedia Hessen GmbH & Co. KG,
5.500%, due 01/15/23¹

Unitymedia KabelBW GmbH,
6.125%, due 01/15/25¹

1,020,000

1,078,650

Total Germany corporate bonds