

INSURED MUNICIPAL INCOME FUND INC
Form PRE 14A
May 15, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
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- Definitive Proxy Statement
- Definitive Additional Materials
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Insured Municipal Income Fund Inc.

(Name of Registrant as Specified In Its Charter)

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Insured Municipal Income Fund Inc.

(New York Stock Exchange Trading Symbol: PIF)

Notice of annual meeting of shareholders

August 12, 2009

To the shareholders:

The annual meeting of stockholders (herein referred to as "shareholders") of Insured Municipal Income Fund Inc., a Maryland corporation (the "Fund"), will be held on August 12, 2009 at 10:00 a.m., Eastern time, on the 16th Floor of the CBS Building located at 51 West 52nd Street, New York, New York 10019-6114 for the following purposes:

Matters to be voted upon only by holders of auction preferred shares:

- (1) To elect two directors to serve until the annual meeting of shareholders in 2010 and until their successors are elected and qualify or until they resign or are otherwise removed.

Matters to be voted upon by all shareholders:

- (2) To elect four directors to serve until the annual meeting of shareholders in 2010 and until their successors are elected and qualify or until they resign or are otherwise removed;
- (3) To approve a new investment advisory and administration contract with lower contractual fees between the Fund and UBS Global Asset Management (Americas) Inc. ("UBS Global AM"), the Fund's current investment advisor;
- (4) To approve a change in the Fund's investment policies to address recent market developments and make the Fund more competitive;
- (5) To consider, if properly presented, a shareholder proposal recommending that the board of directors ("Board") take action, subject to market conditions, to afford common and preferred shareholders an opportunity to realize the net asset value of their shares;
- (6) To consider, if properly presented, a shareholder proposal that the investment advisory agreement between the Fund and UBS Global AM be terminated; and
- (7) To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

You are entitled to vote at the meeting and any adjournment or postponement thereof if you owned Fund shares at the close of business on May 15, 2009. If you attend the meeting, you may vote your shares in person. **If you do not expect to attend the meeting, please complete, date, sign and return the enclosed WHITE proxy card in the enclosed postage paid envelope.**

Your vote at this year's meeting is particularly important because a dissident shareholder has indicated its intention to solicit proxies to elect its own nominees to the Board at the meeting and has requested the Fund to include a proposal in this proxy statement (i.e., Proposal 5), and another dissident shareholder has requested the Fund to include its proposal to terminate the investment advisory agreement between the Fund and UBS Global AM in this proxy statement (i.e., Proposal 6). The Board supports Proposal 5 and has been working with UBS Global AM to take actions to further this goal. However, the Board unanimously opposes the dissident

nominees and the shareholder proposal to terminate the investment advisory agreement between the Fund and UBS Global AM (i.e., Proposal 6). The Board believes that its own nominees will best serve the interests of the Fund, and that Proposal 6 is not in the best interests of the Fund.

Please remember: whether or not you plan to attend the meeting, and regardless of the number of shares you own, we urge you to vote FOR Proposals 1, 2, 3, 4 and 5 and AGAINST Proposal 6 by promptly completing, signing, dating and returning the enclosed WHITE proxy card. Your prompt return of the enclosed WHITE proxy card will save the Fund the necessity and expense of further solicitations to ensure a quorum at the Annual Meeting. Please do not sign any other color proxy card that may be provided by a dissident shareholder.

By order of the Board,

Mark F. Kemper
Vice President and Secretary

May [29,] 2009
51 West 52nd Street
New York, New York 10019-6114

Your vote is important no matter how many shares you own

Please indicate your voting instructions on the enclosed WHITE proxy card, date and sign it, and return it in the postage paid envelope provided. If you sign, date and return the proxy card but give no voting instructions, your shares will be voted FOR the nominees for director for which you are entitled to cast a vote named in the attached proxy statement (i.e., Proposals 1 and 2), FOR the proposed new advisory and administration contract (i.e., Proposal 3), FOR the proposed change to the Fund's investment policies (i.e., Proposal 4), FOR the shareholder proposal recommending the Board take action to afford shareholders an opportunity to realize the net asset value of their shares (i.e., Proposal 5), AGAINST the shareholder proposal to terminate the current investment advisory agreement (i.e., Proposal 6), and, in the proxies' discretion, either FOR or AGAINST any other business that may properly arise at the annual meeting. In order to avoid the additional expense to the Fund of further solicitation, we ask your cooperation in mailing in your WHITE proxy card promptly.

Instructions for signing proxy cards

The following general guidelines for signing proxy cards may be of assistance to you and avoid the time and expense to the Fund in validating your vote if you fail to sign your proxy card properly.

1. **Individual accounts:** Sign your name exactly as it appears in the registration on the proxy card.
2. **Joint accounts:** Either party may sign, but the name of the party signing should conform exactly to the name shown in the registration on the proxy card.
3. **All other accounts:** The capacity of the individual signing the proxy card should be indicated unless it is reflected in the form of registration. For example:

Registration

Corporate accounts

- (1) ABC Corp.
- (2) ABC Corp.
- (3) ABC Corp. c/o John Doe, treasurer
- (4) ABC Corp. profit sharing plan

Valid signature

- ABC Corp.
John Doe, treasurer
John Doe, treasurer
John Doe
John Doe, trustee

Partnership accounts

- (1) The XYZ partnership
- (2) Smith and Jones, limited partnership

- Jane B. Smith, partner
Jane B. Smith, general partner

Trust accounts

- (1) ABC trust account
- (2) Jane B. Doe, trustee u/t/d 12/18/78

- Jane B. Doe, trustee
Jane B. Doe

Custodial or estate accounts

- (1) John B. Smith, Cust. f/b/o
John B. Smith, Jr. UGMA/UTMA
- (2) Estate of John B. Smith

- John B. Smith
John B. Smith, Jr., executor

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Insured Municipal Income Fund Inc.

51 West 52nd Street
New York, New York 10019-6114

Introduction

Annual meeting of shareholders to be held on August 12, 2009

This proxy statement is furnished to the stockholders (herein referred to as "shareholders") of Insured Municipal Income Fund Inc. (the "Fund") in connection with the solicitation by the board of directors ("Board") of proxies to be used at the annual meeting of the shareholders of the Fund to be held on August 12, 2009, at 10:00 a.m., Eastern time, on the 16th Floor of the CBS Building located at 51 West 52nd Street, New York, New York 10019-6114, or any adjournment or postponement thereof. This proxy statement and the related proxy card will first be mailed to shareholders on or about May 29, 2009.

Quorum. The presence, in person or by proxy, of shareholders entitled to cast a majority of the votes entitled to be cast at the meeting (i.e., the presence of a majority of the shares outstanding on May 15, 2009) is necessary to constitute a quorum for the transaction of business. In the event that a quorum is not present at the annual meeting (including a quorum of the Fund's auction preferred shares ("APS") with respect to the election of the two directors to be elected solely by the APS), or if a quorum is present at the annual meeting but sufficient votes to approve any of the proposals are not received, the chairman of the meeting may adjourn the meeting, or the persons named as proxies may propose one or more adjournments of the annual meeting to permit further solicitation of proxies. If submitted to shareholders, any such adjournment will require the affirmative vote of holders of a majority of those shares represented at the annual meeting in person or by proxy (or a majority of votes cast if a quorum is present). A shareholder vote may be taken on one or more of the proposals in this proxy statement prior to any such adjournment if sufficient votes have been received and it is otherwise appropriate.

Required vote for adoption of proposals. Proposal 1 (to elect two directors) and Proposal 2 (to elect four directors) each require the affirmative vote of a plurality of the votes cast at the meeting, provided a quorum is present. The holders of the outstanding APS voting as a separate class are entitled to vote on Proposal 1. The holders of both the outstanding common stock and APS voting together as a single class are entitled to vote on Proposal 2.

Proposal 3 (to approve a new investment advisory and administration contract), Proposal 4 (to approve a change in the Fund's investment policies) and Proposal 6 (to consider, if properly presented, a shareholder proposal that the investment advisory agreement be terminated) each require the affirmative vote of a "majority of the outstanding voting securities" of the Fund. Under the Investment Company Act of 1940, as amended ("1940 Act"), the vote of a "majority of the outstanding voting securities" means the affirmative vote of the lesser of (a) 67% or more of the shares present at the meeting or represented by proxy if the holders of 50% of the outstanding shares are present or represented by proxy or (b) more than 50% of the outstanding voting shares.

Proposal 5 (to consider, if properly presented, a shareholder proposal recommending the Board take action to afford shareholders an opportunity to realize the net asset value of their shares) requires the affirmative vote of a majority of the votes cast at the meeting on the proposal, provided a quorum is present.

Except as otherwise indicated herein, all of the outstanding shares of the Fund's common stock and APS will vote together as a single class. Each full share of the Fund's common stock or APS is entitled to one vote, and each fractional share of the Fund's common stock or APS is entitled to a proportionate share of one vote. However, as discussed in connection with Proposals 1 and 2, the holders of the APS, voting as a separate class, are entitled to elect two of the Fund's directors.

A broker non-vote occurs when the broker returns a properly executed proxy for shares held by the broker for a customer but does not vote on a matter because the broker does not have discretionary voting authority and has not received instructions from the beneficial owner. Abstentions and broker non-votes, if any, will be counted as shares present for purposes of determining whether a quorum is present but will not be voted for or against any proposal. Abstentions and broker non-votes will have no effect on Proposals 1, 2 and 5; however, they will have the effect of a vote against Proposals 3, 4 and 6.

The individuals named as proxies on the enclosed WHITE proxy card will vote in accordance with your direction as indicated thereon if your proxy card is received properly executed by you or by your duly appointed agent or attorney-in-fact. With respect to the holders of the APS, if you give no voting instructions, your shares will be voted FOR Proposals 1, 2, 3, 4 and 5 and AGAINST Proposal 6, and, in the proxies' discretion, either FOR or AGAINST any other business that may properly be presented at the annual meeting (e.g., adjourning the meeting if a shareholder vote is called). With respect to the holders of the Fund's common stock, if you give no voting instructions, your shares will be voted FOR Proposals 2, 3, 4 and 5 and AGAINST Proposal 6, and, in the proxies' discretion, either FOR or AGAINST any other business that may properly be presented at the annual meeting (e.g., adjourning the meeting if a shareholder vote is called).

You may revoke any proxy card by giving another proxy or by submitting a written notice of revocation to the Fund's Secretary, care of UBS Global Asset Management (Americas) Inc., at UBS Tower, One North Wacker Drive, Chicago, IL 60606. To be effective, your revocation must be received by the Fund prior to the meeting and must indicate your name and account number. In addition, if you attend the annual meeting in person you may, if you wish, vote in person at the meeting, thereby cancelling any proxy previously given.

If Proposal 1 is not approved, the two nominees named herein entitled to be voted upon solely by the APS holders will continue to serve in their current capacities as directors of the Fund until their successors are elected and qualify, as provided by Maryland law. If Proposal 2 is not approved, the four nominees named herein entitled to be voted upon by all common shareholders and APS holders will continue to serve in their current capacities as directors of the Fund until their successors are elected and qualify, as provided by Maryland law. If Proposal 6 is approved but Proposal 3 is not approved, the existing investment advisory and administration contract between the Fund and UBS Global AM ("Current Contract") will terminate in accordance with its terms and the Board will take such further action regarding the management of the Fund as it deems necessary and appropriate, in accordance with applicable law. If Proposal 3 is approved, regardless of the results of the vote upon Proposal 6, the new investment advisory and administration contract ("Proposed Contract") will become effective as soon as practicable. If Proposal 4 is not approved, UBS Global AM will consider the Fund's investment program in its entirety and determine whether other changes to the Fund's investment policies are appropriate. If Proposal 5 is approved, the Board will consider what actions are appropriate to implement the recommendation, if any.

As of the record date, May 15, 2009, the Fund had outstanding 20,628,363 shares of common stock and 3,100 shares of the APS, representing Series A, Series B, Series C, Series D, Series E and Series F shares. The Fund has made arrangements for assistance with the solicitation of proxies, as described in the section below entitled, "Solicitation of Proxies."

The Fund's annual report containing financial statements for the fiscal year ended March 31, 2009 is being mailed to shareholders concurrently with this proxy statement.

Proposals 1. and 2. Election of directors

Proposals 1 and 2 relate to the election of directors of the Fund. Management proposes the election of the six nominees named in the table below. Each nominee has indicated his or her willingness to serve if elected. If elected, each nominee will hold office until the next annual meeting of shareholders and until his or her successor is elected and qualifies. Each of the nominees was last elected director at an Annual Meeting of Shareholders held on July 19, 2007.

Holders of the outstanding APS, voting as a separate class, are entitled to elect two of the Fund's directors. Meyer Feldberg and Richard R. Burt have been nominated as the directors that are to be elected solely by holders of the APS. The other four directors will be elected by holders of the outstanding common stock and APS, voting together as a single class. Richard Q. Armstrong, Alan S. Bernikow, Bernard H. Garil and Heather R. Higgins have been nominated as the directors who are to be voted on by all holders of common stock and APS. If you properly execute and return the enclosed proxy card, unless you give contrary instructions on the enclosed proxy card, then if you are a holder APS, your APS will be voted FOR the election of all six nominees; and, if you are a holder of the common stock, your shares of common stock will be voted FOR the four nominees who are to be voted upon by all common stock and APS holders. If any of the nominees should withdraw or otherwise become unavailable for election, your shares will be voted FOR such other nominee or nominees as management may recommend.

Directors, including those who are not "interested persons" of the Fund as that term is defined by the 1940 Act ("Independent Directors"), shall be elected by a plurality of the votes cast at the meeting, provided a quorum is present. None of the current directors and executive officers (21 persons) beneficially owned any shares of the Fund's common stock or APS on April 30, 2009.

Listed in the table below, for each nominee, is a brief description of the nominee's experience as a director of the Fund and as a director or trustee of other funds, as well as other recent professional experience.

Name, address and age	Position(s) held with Fund	Term of office* and length of time served	Principal occupation(s) during past 5 years	Number of portfolios in Fund complex overseen by nominee	Other director held by nominee
Interested director: Meyer Feldberg; 67 Morgan Stanley 1585 Broadway 36th Floor New York, NY 10036	Director	Since 1993	Professor Feldberg is Dean Emeritus and Professor of Leadership and Ethics at Columbia Business School, although on an extended leave of absence. He is also a senior advisor to Morgan Stanley (financial services) (since March 2005). Professor Feldberg also serves as President of New York City Global Partners (an organization located in part of the Office of the Mayor of the City of New York that promotes interaction with other cities around the world) (since May 2007). Prior to July 2004, he was Dean and Professor of Leadership and Ethics of the Graduate School of Business at Columbia University (since 1989).	Professor Feldberg is a director or trustee of 29 investment companies (consisting of 61 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Professor Feldberg is also a director of Primedia Inc. (publishing), Media Inc. (operator of department stores), Revlon, Inc. (cosmetics), SAFT (producer of paper) and the New York City Ballet.
Independent directors: Richard Q. Armstrong; 73 c/o Willkie Farr & Gallagher LLP 787 Seventh Avenue New York, NY 10019-6099	Director and Chairman of the Board of Directors	Since 1995 (Director); Since 2004 (Chairman of the Board of Directors)	Mr. Armstrong is chairman and principal of R.Q.A. Enterprises (management consulting firm) (since April 1991 and principal occupation since March 1995).	Mr. Armstrong is a director or trustee of 17 investment companies (consisting of 49 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	None

Name, address and age	Position(s) held with Fund	Term of office* and length of time served	Principal occupation(s) during past 5 years	Number of portfolios in Fund complex overseen by nominee	Other director held by nominee
Alan S. Bernikow; 68 207 Benedict Ave. Staten Island, NY 10314	Director	Since 2006	Mr. Bernikow is retired. He was a consultant on non-management matters for the firm of Deloitte & Touche (international accounting and consulting firm) (from 2003 until 2007). Previously, he was deputy chief executive officer at Deloitte & Touche.	Mr. Bernikow is a director or trustee of 17 investment companies (consisting of 49 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager	Mr. Bernikow is also director of Revlon Inc. (cosmetics), serves as the chair of its audit committee and as a member of its nominating and corporate governance committee), a director of MacLaren Realty Corporation (real estate investment trust) (and serves as chair of its audit committee) and director of the Central Male Retail Group Inc. (menswear) serves as a member of its audit committee and nominating and corporate governance committee).
Richard R. Burt; 62 McLarty Associates 900 17th Street, N.W. Washington, D.C. 20006	Director	Since 1995	Mr. Burt is a senior advisor to McLarty Associates (a consulting firm) (since April 2007) and chairman of IEP Advisors (international investments and consulting firm). Prior to April 2007, he was chairman of Diligence Inc. (information and risk management firm).	Mr. Burt is a director or trustee of 17 investment companies (consisting of 49 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Burt is also director of The Central European Fund, Inc., The Germany Fund, The New Germany Fund, Inc. and IEP Advisors Inc. (provides technology to gaming and wagering industry).
Bernard H. Garil; 68 6754 Casa Grande Way Delray Beach, FL 33446	Director	Since 2006	Mr. Garil is retired (since 2001). He was a managing director at PIMCO Advisory Services (from 1999 to 2001) where he served as president of closed-end funds and vice-president of the variable insurance product funds advised by OpCap Advisors (until 2001).	Mr. Garil is a director or trustee of 17 investment companies (consisting of 49 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	Mr. Garil is also director of OFI Trust Company (commercial trust company) and a trustee for the Brooklyn College Foundation, Inc. (charitable foundation).

Name, address and age	Position(s) held with Fund	Term of office* and length of time served	Principal occupation(s) during past 5 years	Number of portfolios in Fund complex overseen by nominee	Other director held by nominee
Heather R. Higgins; 49 255 E. 49th St., Suite 23D New York, NY 10017	Director	Since 2006	Ms. Higgins is the president and director of The Randolph Foundation (charitable foundation) (since 1991). Ms. Higgins also serves on the boards of several non-profit charitable groups, including the Independent Women's Forum (chairman) and the Philanthropy Roundtable (vice chairman). She also serves on the board of the Hoover Institution (since January 2009).	Ms. Higgins is a director or trustee of 17 investment companies (consisting of 49 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.	None

* Each director holds office until the next annual meeting of shareholders and until his or her successor is elected and qualifies, or until he or she resigns or is otherwise removed. Each director who has attained the age of seventy-five (75) years will be subject to retirement on the last day of the month in which he or she attains such age, unless the Board, including a majority of its Independent Directors, determines to grant a waiver of the retirement policy with respect to a specified individual for a set period of time. The retirement policy has been waived with respect to Mr. Armstrong, the Chairman of the Board, until 2011.

□ Professor Feldberg is deemed an "interested person" of the Fund as defined in the 1940 Act because he is a senior advisor to Morgan Stanley, a financial services firm with which the Fund may conduct transactions.

Information about nominee ownership of fund shares

Nominee	Dollar range of equity securities in Fund	Aggregate dollar range of equity securities in all registered investment companies overseen by nominee for which UBS Global AM or an affiliate serves as investment advisor, sub-advisor or manager
Interested director: Meyer Feldberg	None	Over \$100,000
Independent directors: Richard Q. Armstrong	None	Over \$100,000
Alan S. Bernikow	None	\$50,001 - \$100,000
Richard R. Burt	None	\$50,001 - \$100,000
Bernard H. Garil	None	Over \$100,000
Heather R. Higgins	None	\$50,001 - \$100,000

Information regarding ownership of shares of the Fund and of shares in all registered investment companies overseen by nominee for which UBS Global AM or an affiliate serves as investment advisor, sub-advisor or manager is as of April 30, 2009.

It is the Board's policy that each member invest the equivalent of a minimum of one year's Board member's fees (consisting for this purpose of the annual retainer fee and fees for attending regularly scheduled in-person board meetings), in the aggregate, before changes in market value, in the funds in the New York fund complex. Such investments by a Board member may be dispersed across a number of funds, and may not necessarily be made in any one particular fund.

As of December 31, 2008, the Independent Directors or their immediate family members did not own any securities issued by UBS Global AM or any company controlling, controlled by or under common control with UBS Global AM.

Important note:

The Fund has received notice from a dissident shareholder, Full Value Offshore Partners, L.P., of that shareholder's intent to nominate its own slate of individuals for election to the Board at the meeting. On April 29, 2009, an affiliate of the dissident shareholder, Bulldog Investors General Partnership ("BIGP"), filed a preliminary proxy statement with the Securities and Exchange Commission (the "SEC") with respect to the meeting. Shareholders are urged not to respond to BIGP's proxy solicitation efforts.

The Nominating and Corporate Governance Committee of the Board is empowered by its charter to consider nominees recommended by fund shareholders if a vacancy occurs among those Board members who are Independent Directors. Currently, no vacancy exists. The Nominating and Corporate Governance Committee recommended to the full Board the nomination of the current Board members because of their experience and familiarity with the funds in the New York fund complex, including the Fund, and because having the same Board members serve in such capacity with respect to all of the funds in the New York fund complex assists in the work of the Board, as well as promoting efficiency with respect to Board meetings and minimizing director fees on a per fund basis.

If the dissident's nominees are elected, the Fund's current Board believes that (i) the Fund's investment advisory and administration contract with UBS Global AM could be terminated arbitrarily, stripping the Fund of the resources and expertise of UBS Global AM and potentially leaving the Fund without the ability to adequately manage its portfolio, conduct research, or pursue trades, or (ii) the Fund could be liquidated

or restructured, which the Board believes would not be in the best interests of the Fund and could result in adverse consequences to the Fund and its shareholders, especially in the current market environment.

As a result, the Board intends to vigorously contest the election of the dissident nominees. We urge you to vote FOR the election of the Board's nominees by promptly completing, signing, dating and returning the enclosed WHITE proxy card. The directors believe that the Board's nominees will best serve the interests of the Fund. Please do not return any other proxy card that you may receive from persons other than the Fund and its agents.

Proposal 3. New investment advisory and administration contract

Proposal 3 relates to a new investment advisory and administration contract between the Fund and UBS Global AM which has been proposed by Fund management (the "Proposed Contract").

Overview and related information

On February 11, 2009, the Board, including the Independent Directors, approved the Proposed Contract, subject to shareholder approval, and recommends that you approve the Proposed Contract in the form attached in Exhibit C to this Proxy Statement (the Proposed Contract is marked to show differences with the existing investment advisory and administration contract between the Fund and UBS Global AM (the "Current Contract")).

The Proposed Contract modifies the fee structure paid by the Fund by (1) reducing the contractual advisory and administration fee from an annual rate of 0.90% of the Fund's average weekly net assets to an annual rate of 0.75% of the Fund's average weekly net assets; and (2) applying the fee to average weekly net assets attributable only to common shares, not APS. In addition, it is proposed that certain other changes be made to the Current Contract in order to modernize the contract.

UBS Global AM also believes that the modified fee structure may better align the compensation of UBS Global AM with Fund performance and the interests of common shareholders. Assets attributable to APS remain constant throughout the life of the Fund (unless the Fund's leverage is adjusted), while the Fund's assets attributable to common shares change over time as the market value of the Fund's portfolio of securities fluctuates. With the modified fee structure in the Proposed Contract, advisory and administration fees are calculated based only on assets attributable to common stock that fluctuate due to the performance of underlying Fund securities.

UBS Global AM wishes to bring the Fund's advisory and administration fee more closely in line with those of its peer funds by reducing the fee to be paid under the Proposed Contract. Finally, UBS Global AM believes that the proposed clarifications and modernizing changes in the Proposed Contract will offer additional flexibility in managing the Fund without impacting the quality or nature of services that UBS Global AM provides to the Fund, nor UBS Global AM's duties and standard of care.

Proposed changes in fee structure

It is proposed that the Proposed Contract provide for an advisory and administration fee at an annual rate of 0.75% of the Fund's average weekly net assets attributable only to common shares. The Current Contract provides for an advisory and administration fee at an annual rate of 0.90% of the Fund's average weekly net assets attributable to both common shares and APS. Since August 1, 2006, UBS Global AM has waived the portion of the advisory and administration fee attributable to APS pursuant to fee waiver arrangements. UBS Global AM proposes, however, to make this exclusion from the advisory and administration fee for APS a permanent part of the Proposed Contract.

In addition to the change to the contractual advisory and administration fee, if the Proposed Contract is approved, UBS Global AM would voluntarily waive a significant portion of the new contractual advisory and administration fee for an indefinite period so that the common shareholders' effective fee would be reduced to an annual rate of 0.50% of the Fund's average weekly net assets, calculated only on assets attributable to common shares. This waiver arrangement reducing fees could not be modified without the approval of the Fund's Board. This is identical to the effective advisory and administration fee that the

Fund currently pays to UBS Global AM due to a fee waiver that became effective on August 1, 2008. UBS Global AM and the Fund's Board have agreed to a series of waivers reducing fees over the years. From August 1, 2006 through August 1, 2008, UBS Global AM had agreed to waive a portion of the advisory and administration fees so the Fund's effective fee was 0.83% of average weekly net assets attributable only to common shares. Prior to August 1, 2006, predecessor fee waiver arrangements reduced the amount the Fund paid to UBS Global AM.

During the fiscal year ended March 31, 2009, the Fund paid or accrued investment advisory and administration fees of \$4,091,499 to UBS Global AM under the Current Contract, of which \$2,422,270 was waived pursuant to the fee waiver agreements. If the Proposed Contract had been in effect for the fiscal year ended March 31, 2009, the investment advisory and administration fee accrued by the Fund to UBS Global AM would have been \$2,030,859, the equivalent of approximately 50% of the investment advisory and administration fee accrued to UBS Global AM under the Current Contract. Please keep in mind, however, that the percentage reduction in the contractual rate does not correspond to a similar percentage reduction in the amount that the Fund is actually currently paying because a significant portion of the current contractual fees are being waived pursuant to the fee waiver arrangements that became effective on August 1, 2008.

Other proposed modernizing changes

In addition to the changes in the fee structure outlined above, UBS Global AM proposes to include certain clarifying provisions in the Proposed Contract and to specifically recognize the right of the Board and UBS Global AM to make certain non-material changes to the Proposed Contract without shareholder approval. The Proposed Contract retains most of the provisions of the Current Contract, including UBS Global AM's duties and standard of care. The changes from the Current Contract are discussed in detail below.

Terms common to the Current and Proposed Contracts

The Current and Proposed Contracts are very similar in most respects. Under each contract, UBS Global AM must provide a continuous investment program for the Fund, including investment research and management, and must determine from time to time what securities and other investments will be purchased, retained or sold by the Fund. UBS Global AM is responsible for placing purchase and sell orders for investments and for other related transactions. UBS Global AM must also provide services in accordance with the Fund's investment objective(s), policies and restrictions. UBS Global AM must maintain all books and records required to be maintained by UBS Global AM pursuant to the 1940 Act and the rules and regulations promulgated thereunder with respect to transactions on behalf of the Fund, and must furnish the Board with such periodic and special reports as the Board reasonably may request.

Under both contracts, UBS Global AM must administer the affairs of the Fund subject to the supervision of the Board. For example, UBS Global AM must: provide the Fund with corporate, administrative and clerical personnel and services as are reasonably deemed necessary or advisable by the Board; arrange, but not pay, for the periodic updating, filing and dissemination (as applicable) of the Fund's Registration Statement, proxy materials, tax returns and required reports; provide the Fund with, or obtain for it, adequate office space and all necessary office equipment and services; and provide the Board, on a regular basis, with economic and investment analyses and reports. During the terms of the contracts, the Fund bears all expenses not specifically assumed by UBS Global AM incurred in its operations and the offering of its shares.

Each contract provides that UBS Global AM is not liable for any error of judgment or mistake of law or for any loss suffered by the Fund or its shareholders in connection with matters to which the contract relates, except a loss resulting from willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or from reckless disregard by it of its obligations and duties under the contract.

Each contract becomes effective only if it has been first been approved (i) by a vote of a majority of those directors of the Fund who are not parties to the contract or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval, and (ii) by vote of a majority of that Fund's outstanding voting securities. Each contract remains effective for successive annual periods of twelve months each, provided that such continuance is specifically approved at least annually (i) by a

vote of a majority of those directors of the Fund who are not parties to the contract or interested persons of any such party, cast in person at a meeting called for the purpose of voting on such approval, and (ii) by the Board or by a vote of a majority of the outstanding voting securities of the Fund. Each contract may be terminated at any time, without the payment of any penalty, by vote of the Board or by a vote of a majority of the outstanding voting securities of the Fund on sixty days' written notice to UBS Global AM and may be terminated by UBS Global AM at any time, without the payment of any penalty, on sixty days' written notice to the Fund. Each contract automatically terminates in the event of its assignment.

Comparison of Current and Proposed Contracts

The Current Contract was entered into on April 1, 2006 between the Fund and UBS Global AM. In connection with an internal reorganization involving UBS Global AM and UBS Global Asset Management (US) Inc. ("UBS Global AM (US)"), the Board approved the transfer of the previous Investment Advisory and Administration Contract ("Previous Contract") to UBS Global AM, effective April 1, 2006. This previous transfer between sister companies did not require shareholder approval. The Previous Contract was entered into on May 26, 1993. The Previous Contract was approved by the sole initial shareholder at that time.

The discussion below provides explanations about material differences to certain provisions between the Current Contract and the Proposed Contract. Each of the provisions below is marked to show changes from the Current Contract. A discussion of the changes follows each provision.

The discussion of the material changes to the Current Contract below is qualified in its entirety by the provisions of the Proposed Contract, a form of which is provided as Exhibit C.

I. Duties as Investment Advisor.

2. Duties as Investment Advisor.

...

- (b) UBS Global ~~Americas~~AM agrees that in placing orders with brokers and dealers, it will attempt to obtain ~~the best net result in terms of price and execution on behalf of the Fund;~~ provided that UBS Global ~~Americas~~AM may, in its discretion, purchase and sell portfolio securities to and from brokers who provide the Fund with research, analysis, advice and similar services, and UBS Global ~~Americas~~AM may pay to those brokers, in return for such services, a higher commission than may be charged by other brokers, subject to UBS Global ~~Americas~~AM determining in good faith that such commission is reasonable in terms either of the particular transaction or of the overall responsibility of UBS Global ~~Americas~~AM to the Fund and its other clients and that the total commissions paid by the Fund will be reasonable in relation to the benefits to the Fund over the long term. In no instance will portfolio securities be purchased from or sold to UBS Global ~~Americas~~AM, or any affiliated person thereof, except in accordance with the federal securities laws ~~and, the rules and regulations thereunder. Whenever UBS Global Americas,~~ or the terms of any exemptive order. To the extent permitted by laws and regulations, and subject to applicable procedures adopted by the Board, UBS Global AM may aggregate sales and purchase orders of the assets of the Fund with similar orders being made simultaneously for other accounts advised by UBS Global AM or its affiliates. Whenever UBS Global AM simultaneously places orders to purchase or sell the same security on behalf of the Fund and one or more other accounts advised by UBS Global ~~Americas~~AM, such orders will be allocated as to price and amount among all such accounts in a manner believed to be equitable to each account and consistent with UBS Global AM's fiduciary obligations to the Fund. The Fund recognizes that in some cases this procedure may adversely affect the results obtained for the Fund.

Discussion of changes to duties as investment advisor. The changes to Section 2(b) are intended to update the language of this section and clearly state that the brokerage activities are conducted in accordance with applicable law and the investment advisor's fiduciary duties.

II. Duties as Administrator

3. Duties as Administrator. UBS Global ~~Americas~~AM will administer the affairs of the Fund subject to the supervision of the Board and the following understandings:

...

(f) UBS Global AM has adopted compliance policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940, as amended, and the rules thereunder, has provided the Fund with a copy of such compliance policies and procedures (and will provide the Fund with any material amendments thereto) and agrees to assist the Fund in complying with the Fund's compliance program adopted pursuant to Rule 38a-1 under the 1940 Act, to the extent applicable.

Discussion of duties as administrator. The changes are intended to explicitly state UBS Global AM's role in assisting with the Fund's compliance obligations pursuant to Rule 38a-1 under the 1940 Act, which was adopted after the Current Contract was drafted and adopted.

III. Expenses.

7. Expenses.

...

(b) Expenses borne by the Fund will include but not be limited to the following (which shall be in addition to the fees payable to and expenses incurred on behalf of the Fund by UBS Global ~~Americas~~AM under this Contract): (1) the costs (including brokerage ~~Commissions~~commissions) of securities purchased or sold by the Fund and any losses incurred in connection therewith; (2) expenses incurred on behalf of the Fund by UBS Global ~~Americas~~AM; (3) organizational and offering expenses of the Fund, whether or not advanced by UBS Global ~~Americas~~AM; (4) filing fees and expenses relating to the registration and qualification of the Fund's Shares under federal and state securities laws; (5) fees and salaries payable to directors who are not interested persons of the Fund ~~or by reason of affiliation with UBS Global AM or any of UBS Global Americas~~AM's affiliates; (6) all expenses incurred in connection with the directors' services, including travel expenses; (7) taxes (including any income or franchise taxes) and governmental fees; (8) costs of any liability, uncollectible items of deposit and any other insurance or fidelity bonds; (9) any costs, expenses or losses arising out of a liability of or claim for damages or other relief asserted against the Fund for violation of any law; (10) legal, accounting and auditing ~~expense~~expenses, including legal fees of special counsel for the ~~independent~~ directors who are not interested persons of the Fund by reason of affiliation with UBS Global AM or any of UBS Global AM's affiliates; (11) charges of custodians, transfer agents and other agents; (12) costs of preparing any share certificates; (13) expenses of printing and distributing reports to shareholders; (14) any extraordinary expenses (including fees and disbursements of counsel) incurred by the Fund; (15) fees, voluntary assessments and other expenses incurred in connection with membership in investment company organizations; (16) costs of mailing and tabulating proxies and costs of meetings of shareholders, the board and any committees thereof; (17) the cost of investment company literature and other publications provided to directors and officers; (18) costs of mailing, stationery and communications equipment; (19) interest charges on borrowings; (20) fees and expenses of listing and maintaining any listing of the Fund's Shares on any national securities exchange; and (21) costs and expenses (including rating agency fees) associated with the issuance of any preferred stock.

...

- (d) UBS Global Americas AM will assume the cost of any compensation for services provided to the Fund received by the officers of the Fund and by those directors who are interested persons of the Fund by reason of affiliation with UBS Global AM.

Discussion of changes to expenses. The changes assign to the Fund fees of Directors who may be interested persons for reasons other than an affiliation with UBS Global AM or one of its affiliates. Currently, one Director is so described and his Director fees have been paid by UBS Global AM since he became an interested person. If the Proposed contract is approved by shareholders, the cost of this Director's fees would be shifted from UBS Global AM to the Fund. The increase in Fund expenses associated with this change is not expected to be a material amount. (Information regarding director compensation is provided below under "Additional information about the Board.")

IV. Compensation

8. Compensation.

- (a) For the services provided and the expenses assumed pursuant to this Contract, the Fund will pay to UBS Global Americas AM a fee, computed weekly and paid monthly, at an annual rate of ~~0.90%~~ 0.75% of the Fund's ~~average weekly~~ previous Friday's net assets of the Fund, or, if the previous Friday is a holiday, the next business day thereafter, calculated only on the net assets attributable to the common shares.

Discussion of changes to compensation. The changes provide for an advisory and administration fee at an annual rate of 0.75% of the Fund's average weekly net assets attributable only to common shares. The Current Contract provides for an advisory and administration fee at an annual rate of 0.90% of the Fund's average weekly net assets attributable to both common shares and APS. UBS Global AM has waived the portion of the advisory and administration fee attributable to the APS pursuant to fee waiver arrangements that first became effective on August 1, 2006. UBS Global AM proposes, however, to make this exclusion from the advisory and administration fee for assets attributable to APS a permanent part of the Proposed Contract. If the APS were modified or replaced with another type of leverage (e.g., variable rate demand preferred shares), the fee would continue to be calculated based on assets attributable only to the common shares, excluding assets attributable to the replacement sources of leverage.

V. Amendment of this Contract.

11. Amendment of This Contract. ~~No provision~~ Provisions of this Contract may be changed, waived, discharged or terminated orally, but only by an instrument signed by the party against which enforcement of the change, waiver, discharge or termination is sought, and no amendment of this Contract shall be effective until approved by vote of a majority of the Fund's outstanding voting securities, amended subject to the provisions of the 1940 Act, as modified or interpreted by an applicable order of the SEC or any regulation adopted by the SEC, or interpretative release or no-action letter of the SEC or its staff. Accordingly, approval of an amendment by shareholders would be necessary only to the extent required by the 1940 Act as so modified or interpreted .

Discussion of changes to amendment of this agreement. The new provision is proposed to be added in order to provide greater flexibility to amend the Proposed Contract without shareholder approval if such approval is not required by law under the 1940 Act, as interpreted by the SEC and its staff. The 1940 Act provides significant protection to shareholders by generally requiring that material changes to investment advisory contracts be subject to the approval of shareholders. In certain circumstances, however, the SEC or its staff permits funds to make changes to investment advisory contracts when such changes are not deemed material and are not expected to change the quality of the investment advisory services provided. These changes remain subject to the approval of the Board, which provides protection to Fund shareholders. The Proposed Contract is drafted to clarify the ability of the Fund to make these changes without shareholder approval. This would avoid the Fund having to seek shareholder approval for all

changes, even if nonmaterial, as, interpreted conservatively, is currently provided under the Current Contract, which may result in significant Fund expenses. Under very limited circumstances, and pursuant to SEC guidance, the Fund also may be able to terminate the Proposed Contract and replace it with a new contract without shareholder approval.

Investment advisory services provided by UBS Global AM would remain the same

As noted above in the section entitled "Terms common to the Current and Proposed Contracts," the services to be provided by UBS Global AM to the Fund under the Proposed Contract would be identical to those services that are currently provided under the Current Contract. UBS Global AM will continue to provide a continuous investment program for the Fund, including investment research and management with respect to all securities and investments and cash equivalents in the Fund.

Information regarding UBS Global AM and UBS AG

UBS Global AM serves as investment advisor and administrator to the Fund. The principal business offices and addresses of UBS Global AM are One North Wacker Drive, Chicago, IL 60606 and 51 West 52nd Street, New York, New York 10019-6114. UBS Global AM is an indirect wholly-owned subsidiary of UBS AG. UBS AG is an internationally diversified organization with headquarters in Zurich and Basel, Switzerland. UBS AG operates in many areas of the financial services industry. The principal business addresses of UBS AG are Bahnhofstrasse 45, Zurich, Switzerland and Aeschenvorstadt 1, Basel, Switzerland.

UBS Global AM currently serves as investment manager, advisor or sub-advisor for a number of other investment companies. Exhibit D to this Proxy Statement sets forth certain information regarding each SEC registered investment company portfolio managed, advised or sub-advised by UBS Global AM with investment objective(s) similar to those of the Fund.

Information regarding the principal executive officers and directors of UBS Global AM is set forth in Exhibit E, and each officer of the Fund who is an officer of UBS Global AM is set forth in Exhibit F.

UBS Financial Services Inc., an affiliate of UBS Global AM, provides certain services to the Fund and certain holders of outstanding APS pursuant to an agreement with Deutsche Bank, the Fund's auction agent for APS. For the fiscal year ended March 31, 2009, UBS Financial Services Inc. received from Deutsche Bank \$168,320 (paid indirectly by the Fund) for these services. The services would continue to be provided after the Proposed Contract is approved.

Basis for the Board's approval of the Proposed Contract

At a meeting of the Board on February 11, 2009, the Directors, including the Independent Directors, considered the Proposed Contract and the other proposals in this Proxy Statement with respect to the Fund. In its consideration of the approval of the Proposed Contract, the Board considered the following factors:

Nature, extent and quality of the services to be provided under the Proposed Contract. The Board considered the nature, extent and quality of management services proposed to be provided to the Fund under the Proposed Contract. The Board took note that UBS Global AM had advised the Board that the investment advisory and administration services to be provided by UBS Global AM to the Fund under the Proposed Contract would be identical to those services provided under the Current Contract and that there is not expected to be any diminution in the nature, extent and quality of services provided to the Fund and its shareholders under the Proposed Contract. The Board's evaluation of the services expected to be provided under the Proposed Contract took into account the Board's knowledge and familiarity gained as board members of funds in the UBS New York fund complex, including the scope and quality of UBS Global AM's investment management and other capabilities and the quality of its administrative and other services. The Board took note that it had extensively reviewed the services provided to the Fund by UBS Global AM at the Board's July 2008 contract renewal meeting, including information with respect to compliance, personnel a