

INVESTMENT GRADE MUNICIPAL INCOME FUND
Form N-30D
December 04, 2002

[LOGO] UBS
Global Asset Management

Investment Grade Municipal Income Fund Inc.

Annual Report

September 30, 2002

Investment Grade Municipal Income Fund Inc.

November 14, 2002

DEAR SHAREHOLDER,

We present you with the annual report for Investment Grade Municipal Income Fund Inc. for the fiscal year ended September 30, 2002.

AN INTERVIEW WITH PORTFOLIO MANAGER WILLIAM VERONDA

Q: HOW DID THE FUND PERFORM DURING THE PERIOD RELATIVE TO ITS PEERS?

A: For the fiscal year ended September 30, 2002, the Fund's net asset value grew 8.21% and its market price increased 7.96%, underperforming its competitors as measured by the Lipper General Municipal Debt Fund (Leveraged) Median. The Lipper Median's net asset value and market price rose 10.58% and 12.75%, respectively. The Fund's shorter average duration compared to its peers was the primary contributor to its underperformance versus the benchmark. (For more on the Fund's performance, refer to "Performance At A Glance" on page 4.)

Q: COULD YOU DESCRIBE THE ECONOMIC ENVIRONMENT DURING THE PERIOD?

A: The reporting period began shortly after the September 11 terrorist attacks. At that time, prospects for a rapid economic recovery were unlikely. However, the Federal Reserve Board (the "Fed") moved quickly to stabilize the economy and add liquidity to the financial system. All told, from October 2001 through December 2001, the Fed cut the Fed Funds rate (the rate U.S. banks charge each other for overnight loans) three times, down to 1.75%--its lowest level in several decades. Following a quick renewal in consumer spending, gross domestic product (GDP) rose a surprising 2.7% during the fourth quarter of 2001. As increasing signs of economic growth emerged during the first quarter of 2002, the Fed shifted its bias from one of easing to combat

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economic weakness, to one of neutrality. The change in policy appeared warranted, as the GDP ultimately accelerated to a 5.0% growth rate during this period. However, the uptick proved short-lived. Ongoing threats of terrorism, turmoil in the Middle East, anemic corporate spending, waning consumer confidence in light of the stock market's decline, and corporate accounting scandals all took their toll. The end result: second quarter 2002 GDP growth was a less-

INVESTMENT GRADE MUNICIPAL INCOME FUND INC.

INVESTMENT GOAL:

High level of current income exempt from federal income tax, consistent with preservation of capital.

PORTFOLIO MANAGER:

William Veronda,

UBS Global Asset Management (US) Inc.

COMMENCEMENT:

November 6, 1992

NYSE SYMBOL:

PPM

DIVIDEND PAYMENTS:

Monthly

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Investment Grade Municipal Income Fund Inc.

than-expected 1.3%. Although the third quarter figure came in at 4.0%, as of this writing investors were already focusing on fourth quarter GDP, since it may be an indicator as to whether a sustainable economic recovery is likely.

Q: HOW DID THE BOND MARKET PERFORM DURING THE ONE-YEAR PERIOD?

A: Given the uncertainties regarding the economy, the weak stock market, and geopolitical concerns, the bond market rallied sharply during the period. Investors were drawn to the relative safety and strong performance offered by fixed income securities in general, and the municipal market participated in this upswing.

Q: WHILE THE FUND GENERATED STRONG ABSOLUTE RETURNS, IT LAGGED ITS BENCHMARK DURING THE PERIOD. WHAT WAS THE PRIMARY REASON FOR THE FUND'S RELATIVE UNDERPERFORMANCE?

A: To some extent, our goal of limiting the Fund's capital gains adversely affected its results during the period. Based on the municipal market's strong performance in recent years, nearly every security in the portfolio has risen in price. In an effort to limit locking in capital gains, we've tended to hold on to our positions. Consequently, many of the bonds in the Fund's portfolio have "aged" to the point where they have short maturities. With a shorter duration than the benchmark, the Fund underperformed its peers in the falling interest rate environment.

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Q: HOW ARE YOU CURRENTLY POSITIONING THE FUND'S PORTFOLIO?

A: We are continuing to selectively focus on bonds that have longer durations, typically those with maturities that more accurately reflect the municipal market as a whole. This positioning has increased the Fund's flexibility to purchase what we believe are attractively structured and priced municipal securities. In particular, we're focusing on bonds with maturities in the 15- to 20-year range, as we believe these issues offer a "sweet spot" in terms of their risk/reward characteristics: while we give up a little bit of yield versus 30-year issues, 15- to 20-year bonds are less volatile than their longer-term counterparts.

Q: TO ILLUSTRATE YOUR INVESTMENT STRATEGY, PLEASE DESCRIBE SOME HOLDINGS THAT YOU BOUGHT OR SOLD DURING THIS REPORTING PERIOD?

A: We purchased a block of bonds from the Triborough Bridge and Tunnel Authority of New York that matures in 2022 and provides an attractive 5% coupon. These types of issues tend to have a high degree of stability. We sold out of our position in a small college in California, since it no longer lived up to our expectations. In particular, we were concerned over its deteriorating credit quality due to declining enrollments at the college.

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Investment Grade Municipal Income Fund Inc.

Q: WERE THERE ANY SECTORS OF THE MARKET THAT YOU FOCUSED ON?

A: The Fund's portfolio tends to be highly diversified. When an overweight of a particular sector occurs, it is due to the fact that we view it as being highly attractive.

Q: LASTLY, WHAT IS YOUR SHORT-TERM AND LONG-TERM OUTLOOK FOR THE MARKET?

A: We believe a modest economic expansion will take hold and that a double-dip recession--while possible--is unlikely. Given a subdued growth rate, we feel that interest rates will remain in a trading range--a change from the falling rate environment we've seen in the past few years. As such, we anticipate continuing our strategy of emphasizing longer-term securities at attractive points on the yield curve. We will also continue to stress credit quality in the portfolio to avoid any "contagion" from weakness in the corporate bond markets.

Our ultimate objective in managing your investments is to help you successfully meet your financial goals. We thank you for your continued support and welcome any comments or questions you may have. For additional information on the UBS Funds,* please contact your financial advisor or visit us at www.ubs.com.
Sincerely,

/s/ Brian M. Storms

Brian M. Storms
PRESIDENT

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Investment Grade Municipal Income Fund Inc.
PRESIDENT AND CHIEF EXECUTIVE OFFICER
UBS Global Asset Management (US) Inc.

/s/ William Veronda

William Veronda
PORTFOLIO MANAGER
Investment Grade Municipal Income Fund Inc.
EXECUTIVE DIRECTOR
UBS Global Asset Management (US) Inc.

This letter is intended to assist shareholders in understanding how the Fund performed during the fiscal year ended September 30, 2002, and reflects our views at the time of its writing. Of course, these views may change in response to changing circumstances. We encourage you to consult your financial advisor regarding your personal investment program.

* Mutual funds are sold by prospectus only. The prospectus for the fund contains more complete information regarding risks, charges and expenses, and should be read carefully before investing.

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Investment Grade Municipal Income Fund Inc.

PERFORMANCE AT A GLANCE

AVERAGE ANNUAL RETURNS, PERIODS ENDED 9/30/02

| NET ASSET VALUE RETURNS | FUND | LIPPER MEDIAN* |
|-------------------------|-------|----------------|
| 6 Months | 7.73% | 11.09% |
| 1 Year | 8.21 | 10.58 |
| 3 Years | 7.19 | 9.87 |
| 5 Years | 5.61 | 6.69 |
| Inception (11/6/92) * | 6.93 | 7.44 |

| MARKET PRICE RETURNS | FUND | LIPPER MEDIAN* |
|-----------------------|-------|----------------|
| 6 Months | 7.25% | 12.39% |
| 1 Year | 7.96 | 12.75 |
| 3 Years | 11.34 | 11.05 |
| 5 Years | 7.41 | 6.27 |
| Inception (11/6/92) * | 7.07 | 7.05 |

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* Inception returns for the Lipper General Municipal Debt Funds (Leveraged) Median are shown as of nearest month-end of the Fund's inception: October 31, 1992.

Past performance does not predict future performance. The return and principal value of an investment will fluctuate, so that an investor's shares, when sold, may be worth more or less than their original cost. NAV return assumes, for illustration only, that dividends were reinvested at the net asset value on the ex-dividend dates. NAV and market returns for periods of one year or less have not been annualized.

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.

SHARE PRICE, DIVIDEND AND YIELDS AS OF 9/30/02

| | |
|---|---------|
| Market Price | \$15.60 |
| Net Asset Value (per share applicable to common shareholders) | \$16.46 |
| 12-month Net Investment Income Dividend (ended 9/30/02) | \$0.930 |
| September 2002 Dividend | \$0.080 |
| Market Yield** | 6.15% |
| NAV Yield** | 5.83% |
| IPO Yield** | 6.40% |

** Market yield is calculated by multiplying the September dividend by 12 and by dividing by the month-end market price. NAV yield is calculated by multiplying the September dividend by 12 and by dividing by the month-end net asset value. IPO yield is calculated by multiplying the September dividend by 12 and dividing by the initial public offering price. Prices and yields will vary.

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Investment Grade Municipal Income Fund Inc.

PORTFOLIO STATISTICS

| CHARACTERISTICS (1) | 9/30/02 | 3/31/02 | 9/30/01 |
|---|---------|---------|---------|
| Net Assets Applicable to Common Shareholders (mm) | 70.5 | \$162.9 | \$167.3 |

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| | | | | | |
|---|----------|----------------|----------|--------------|----------|
| Weighted Average Maturity* | 13.7 yrs | | 14.1 yrs | | 14.1 yrs |
| Weighted Average Duration* | 4.7 yrs | | 4.8 yrs | | 3.8 yrs |
| Weighted Average Coupon* | 5.8% | | 6.0% | | 6.1% |
| AMT Paper** | 0% | | 0% | | 0% |
| Leverage** | 31.3% | | 32.7% | | 31.7% |
| Callable/Maturing within Five Years* | 19.1% | | 15.6% | | 22.8% |
| Callable/Maturing beyond Five Years* | 80.9% | | 84.4% | | 77.2% |
| CREDIT QUALITY*** | 9/30/02 | | 3/31/02 | | 9/30/01 |
| AAA/Aaa | 66.6% | | 72.0% | | 64.5% |
| AA/Aa | 30.2 | | 33.6 | | 36.2 |
| A/A | 12.5 | | 13.6 | | 12.2 |
| BBB/Baa | 14.4 | | 13.6 | | 12.5 |
| BB/Ba | 0.4 | | 0.6 | | 0.0 |
| SP-1/MIG-1 | 7.1 | | 1.0 | | 1.0 |
| A1/P1 | 4.3 | | 0.1 | | 3.9 |
| Nonrated | 12.4 | | 13.0 | | 13.0 |
| Liabilities in Excess of Cash and Other Assets | (1.0) | | 1.6 | | (0.5) |
| Liquidation Value of Auction Preferred Shares | (46.9) | | (49.1) | | (47.8) |
| TOTAL | 100.0% | TOTAL | 100.0% | TOTAL | 100.0% |
| TOP TEN STATES*** | 9/30/02 | | 3/31/02 | | 9/30/01 |
| Texas | 30.1% | Texas | 30.2% | Texas | 32.8% |
| Illinois | 19.5 | Indiana | 15.1 | Illinois | 14.0 |
| Indiana | 11.3 | Illinois | 14.0 | Indiana | 13.7 |
| New York | 7.2 | New York | 9.9 | New York | 13.2 |
| California | 6.1 | Washington | 6.6 | Wisconsin | 7.4 |
| North Carolina | 5.7 | California | 5.9 | Virginia | 6.3 |
| Colorado | 5.4 | North Carolina | 5.6 | Pennsylvania | 6.1 |
| Connecticut | 5.2 | Colorado | 5.4 | California | 6.0 |

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| | | | | | |
|--------------|--------|-------------|--------|-------------|--------|
| Washington | 4.8 | Connecticut | 5.4 | Colorado | 5.4 |
| Pennsylvania | 4.7 | Kentucky | 4.9 | Connecticut | 5.4 |
| TOTAL | 100.0% | TOTAL | 103.0% | TOTAL | 110.3% |

| | | | | | |
|---------------------|---------|----------|---------|----------|---------|
| TOP FIVE SECTORS*** | 9/30/02 | | 3/31/02 | | 9/30/01 |
| Lease | 19.7% | Water | 20.4% | Water | 24.9% |
| Hospital | 19.5 | Lease | 20.2 | Hospital | 20.2 |
| Power | 14.2 | Power | 14.6 | Power | 19.1 |
| Water | 11.7 | Hospital | 14.6 | Lease | 16.6 |
| Housing | 8.4 | Housing | 9.4 | Housing | 9.3 |
| TOTAL | 73.5% | TOTAL | 79.2% | TOTAL | 90.1% |

* Weightings represent percentages of portfolio assets as of the dates indicated. The Fund's portfolio is actively managed and its composition will vary over time.

** As a percentage of total assets as of the dates indicated.

*** As a percentage of net assets applicable to common shareholders as of the dates indicated.

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Investment Grade Municipal Income Fund Inc.

Portfolio of Investments -- September 30, 2002

| PRINCIPAL AMOUNT (000) | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|---|----------------------------------|------------------------------|-------------------|-------------------|--------------|
| LONG-TERM MUNICIPAL BONDS--135.82% | | | | | |
| ALABAMA--3.65% | | | | | |
| \$4,600 Jefferson-County Sewer Revenue-Series A (FGIC Insured) | Aaa | AAA | 02/01/27 | 5.375% | \$ 4,751,156 |
| 1,500 Phenix City Industrial Development Board Environmental Improvement Revenue-Series B (Meadwest Vaco Insured) | Baa2 | BBB | 05/15/30 | 6.100 | 1,476,255 |
| | | | | | 6,227,411 |

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ARIZONA--0.66%

| | | | | | | |
|-------|--|-----|-----|----------|-------|-----------|
| 1,000 | Scottsdale Municipal Property Corp. Excise Tax Revenue (a) | Aa1 | AA+ | 07/01/06 | 5.500 | 1,118,210 |
|-------|--|-----|-----|----------|-------|-----------|

ARKANSAS--1.12%

| | | | | | | |
|-------|--|----|----|----------|-------|-----------|
| 1,855 | Little Rock Capital Improvement Revenue Parks & Recreation Projects-Series A | NR | NR | 01/01/18 | 5.700 | 1,915,250 |
|-------|--|----|----|----------|-------|-----------|

CALIFORNIA--6.05%

| | | | | | | |
|-----|---|-----|----|----------|-------|---------|
| 980 | California Educational Facilities Authority L.A. College of Chiropractic Medicine | Ba1 | NR | 11/01/17 | 5.600 | 904,795 |
|-----|---|-----|----|----------|-------|---------|

| | | | | | | |
|-------|--|------|-----|-----------|-------|-----------|
| 3,000 | California Statewide Communities Development Authority Irvine Apartment Communities-Series A-3 | Baa2 | BBB | 05/15/25+ | 5.100 | 3,219,960 |
|-------|--|------|-----|-----------|-------|-----------|

| | | | | | | |
|-------|--|----|-------|----------|-------|-----------|
| 2,150 | Fontana Redevelopment Agency Tax Allocation Jurupa Hills Redevelopment Project A | NR | BBB + | 10/01/17 | 5.500 | 2,307,057 |
|-------|--|----|-------|----------|-------|-----------|

| | | | | | | |
|-------|--|-----|-----|----------|-------|-----------|
| 3,500 | Metropolitan Water District of Southern California Waterworks-Series A | Aaa | AAA | 03/01/18 | 5.250 | 3,877,475 |
|-------|--|-----|-----|----------|-------|-----------|

10,309,287

COLORADO--5.39%

| | | | | | | |
|-------|---|-----|-----|----------|-------|-----------|
| 5,950 | Arapahoe County Capital Improvement Trust Fund Highway Revenue (Pre-refunded with U.S. Government Securities to 08/31/05 @ 103) | Aaa | AAA | 08/31/26 | 7.000 | 7,001,544 |
|-------|---|-----|-----|----------|-------|-----------|

| | | | | | | |
|-------|--|----|----|----------|-------|-----------|
| 2,000 | University of Colorado Participation Interests | NR | A- | 12/01/13 | 6.000 | 2,180,260 |
|-------|--|----|----|----------|-------|-----------|

9,181,804

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| PRINCIPAL AMOUNT (000) | | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|--|---|----------------------------------|------------------------------|-------------------------|--------------------|--------------|
| LONG-TERM MUNICIPAL BONDS--(CONTINUED) | | | | | | |
| CONNECTICUT--5.19% | | | | | | |
| \$8,590 | Connecticut Housing Finance Authority Housing Mortgage Finance Program-Series A & B | Aaa | AAA | 05/15/14 to 11/15/23 | 6.200 to 6.750% | \$ 8,856,212 |
| FLORIDA--1.74% | | | | | | |
| 2,540 | First Governmental Financing Commission Revenue- Series B (AMBAC Insured) | Aaa | NR | 07/01/15 | 5.500 | 2,975,864 |
| GEORGIA--0.30% | | | | | | |
| 500 | Georgia Municipal Electric Authority Power Revenue-Series B | A2 | A | 01/01/16 | 6.375 | 512,975 |
| ILLINOIS--15.36% | | | | | | |
| 7,380 | Chicago Gas Supply Revenue-People's Gas | Aa3 | AA- | 03/01/15 | 6.875 | 7,556,087 |
| 5,000 | Chicago Parking District Parking Facility Revenue | Baa1 | A | 01/01/14 | 6.250 | 5,558,800 |
| 1,890 | Illinois Toll & Highway Authority-Series A (Pre-refunded with U.S. Government Securities to 01/01/03 @ 102) (FGIC Insured) | Aaa | AAA | 01/01/16 | 6.200 | 1,950,272 |
| 250 | Metropolitan Pier & Exposition Authority | Aa3 | AA- | 06/15/27 | 6.500 | 258,978 |
| 6,350 | Metropolitan Pier & Exposition Authority (Pre-refunded with U.S. Government Securities to 06/15/03 @ 102) | Aaa | AAA | 06/15/27 | 6.500 | 6,700,456 |
| 2,875 | Metropolitan Pier & Exposition Authority- Series A (MBIA Insured) | Aaa | AAA | 06/15/42 | 5.250 | 3,028,439 |
| 1,000 | Naperville Electric Revenue (Pre-refunded with U.S. Government Securities to 05/01/06 @ 100) | Aa2 | AA | 05/01/12 | 5.700 | 1,124,080 |
| | | | | | | 26,177,112 |

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INDIANA--11.30%

| | | | | | | |
|-------|--|-----|-----|----------|-------|-----------|
| 1,000 | Clark Pleasant Community School Building Corp. First Mortgage (AMBAC Insured) | Aaa | AAA | 07/15/17 | 5.500 | 1,125,310 |
|-------|--|-----|-----|----------|-------|-----------|

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Investment Grade Municipal Income Fund Inc.

Portfolio of Investments -- September 30, 2002

| PRINCIPAL AMOUNT (000) | | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|------------------------------|--|----------------------------------|------------------------------|-------------------|-------------------|-------|
|------------------------------|--|----------------------------------|------------------------------|-------------------|-------------------|-------|

LONG-TERM MUNICIPAL BONDS--(CONTINUED)

INDIANA--(CONCLUDED)

| | | | | | | |
|---------|---|----|----|-------------------------|--------------------|--------------|
| \$6,735 | Indiana Transportation Financing Authority Airport Facilities Lease Revenue-Series A | A1 | AA | 11/01/12 to 11/01/17 | 5.500 to 6.250% | \$ 7,085,297 |
|---------|---|----|----|-------------------------|--------------------|--------------|

| | | | | | | |
|-------|---|-----|-----|----------|-------|-----------|
| 2,000 | Indianapolis Local Public Improvement Bond Bank-Transportation Revenue (Pre-refunded with U.S. Government Securities to 07/01/03 @ 102) | Aa2 | AA- | 07/01/10 | 6.000 | 2,107,080 |
|-------|---|-----|-----|----------|-------|-----------|

| | | | | | | |
|-------|---|-----|-----|----------|-------|-----------|
| 3,400 | Marion County Convention & Recreational Facilities Authority Excise Tax Revenue-Series A (MBIA Insured) | Aaa | AAA | 06/01/17 | 5.500 | 3,794,060 |
|-------|---|-----|-----|----------|-------|-----------|

| | | | | | | |
|-------|---|-----|----|----------|-------|-----------|
| 1,000 | Purdue University Student Fee Revenue-Series B (Pre-refunded with U.S. Government Securities to 01/01/05 @ 103) | Aa2 | AA | 07/01/15 | 6.700 | 1,137,690 |
|-------|---|-----|----|----------|-------|-----------|

| | | | | | | |
|-------|---|----|----|-------------------------|-------|-----------|
| 3,780 | Wayne Township Marion County School Building Corp.-First Mortgage | NR | A+ | 01/15/15 to 07/15/15 | 5.250 | 4,009,597 |
|-------|---|----|----|-------------------------|-------|-----------|

19,259,034

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KENTUCKY--4.64%

| | | | | | | |
|-------|---|----|-----|----------|-------|-----------|
| 7,750 | Boone County Pollution Control Revenue Dayton Power & Light Co. | A2 | BBB | 11/15/22 | 6.500 | 7,904,690 |
|-------|---|----|-----|----------|-------|-----------|

MASSACHUSETTS--2.47%

| | | | | | | |
|-------|--|-----|-----|----------|-------|-----------|
| 1,450 | Massachusetts State General Obligation-Series D (MBIA Insured) | Aaa | AAA | 08/01/20 | 5.375 | 1,594,638 |
|-------|--|-----|-----|----------|-------|-----------|

| | | | | | | |
|-------|--|-----|-----|----------|-------|-----------|
| 2,250 | Massachusetts State Health & Educational Facilities Authority Revenue Massachusetts Institute of Technology-Series K | Aaa | AAA | 07/01/32 | 5.500 | 2,618,032 |
|-------|--|-----|-----|----------|-------|-----------|

4,212,670

MICHIGAN--1.18%

| | | | | | | |
|-------|---|------|-----|----------|-------|-----------|
| 2,000 | Delta County Economic Development Corp. Environmental Improvement Revenue-Series A | Baa2 | BBB | 04/15/27 | 6.250 | 2,004,340 |
|-------|---|------|-----|----------|-------|-----------|

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Investment Grade Municipal Income Fund Inc.

Portfolio of Investments -- (continued)

| PRINCIPAL AMOUNT (000) | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|------------------------------|----------------------------------|------------------------------|-------------------|-------------------|-------|
|------------------------------|----------------------------------|------------------------------|-------------------|-------------------|-------|

LONG-TERM MUNICIPAL BONDS--(CONTINUED)

NEVADA--4.05%

| | | | | | | |
|---------|--|-----|-----|----------|--------|--------------|
| \$6,750 | Clark County Pollution Control Revenue Nevada Power Co. Project-Series B (FGIC Insured) | Aaa | AAA | 06/01/19 | 6.600% | \$ 6,909,840 |
|---------|--|-----|-----|----------|--------|--------------|

NEW JERSEY--1.37%

| | | | | | | |
|-------|---|-----|----|----------|-------|-----------|
| 2,000 | New Jersey Transportation Trust Fund Authority Transportation System- Series A | Aa3 | AA | 06/15/11 | 5.500 | 2,328,920 |
|-------|---|-----|----|----------|-------|-----------|

NEW YORK--7.21%

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| | | | | | | |
|-----------------------------|---|------|------|----------|-------|------------|
| 5,500 | New York City Transitional Financing Authority Revenue-Future Tax Secured-Series B | Aa2 | AA+ | 11/15/23 | 4.750 | 5,545,210 |
| 1,500 | New York State Medical Care Facilities Finance Agency Revenue-Hospital and Nursing Homes-Series D (Pre-refunded with U.S. Government Securities to 02/15/03 @ 102) (FHA Insured) | NR | NR | 02/15/31 | 6.600 | 1,532,250 |
| 5,000 | Triborough Bridge & Tunnel Authority New York Revenue Refunding- Series B | Aa3 | AA- | 11/15/22 | 5.000 | 5,209,500 |
| | | | | | | 12,286,960 |
| NORTH CAROLINA--5.72% | | | | | | |
| 3,155 | Charlotte Water & Sewer System Revenue-Series | AAa1 | AAA | 07/01/15 | 5.500 | 3,731,545 |
| 2,700 | North Carolina Eastern Municipal Power Agency- Series A (Escrowed to Maturity) | Baa3 | BBB | 01/01/21 | 6.400 | 3,389,634 |
| 1,630 | North Carolina Municipal Power Agency-Catawba Electric Revenue | Baa1 | BBB+ | 01/01/17 | 6.250 | 1,676,520 |
| 920 | North Carolina Municipal Power Agency-Catawba Electric Revenue (Pre-refunded with U.S. Government Securities to 01/01/03 @ 102) | NR | BBB+ | 01/01/17 | 6.250 | 949,357 |
| | | | | | | 9,747,056 |
| UBS Global Asset Management | | | | | | |

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Investment Grade Municipal Income Fund Inc.

Portfolio of Investments -- September 30, 2002

| | | | | |
|---------------------|-------------------|---------------|----------|----------|
| PRINCIPAL AMOUNT | MOODY'S RATING | S&P RATING | MATURITY | INTEREST |
|---------------------|-------------------|---------------|----------|----------|

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| (000) | | (UNAUDITED) | (UNAUDITED) | DATES | RATES | VALUE |
|--|--|-------------|-------------|-------------------------|--------|--------------|
| LONG-TERM MUNICIPAL BONDS--(CONTINUED) | | | | | | |
| OHIO--1.38% | | | | | | |
| \$2,000 | Ohio State Water Development Authority Revenue-Fresh Water- Series B (FSA Insured) | Aaa | AAA | 06/01/16 to 12/01/17 | 5.500% | \$ 2,347,260 |
| PENNSYLVANIA--4.67% | | | | | | |
| 5,000 | Northumberland County Authority-Guaranteed Lease Revenue-Mountain View Manor Project | NR | NR | 10/01/20 | 7.000 | 5,018,150 |
| 2,680 | Philadelphia School District- Series A (MBIA Insured) | Aaa | AAA | 04/01/15 | 5.250 | 2,949,018 |
| | | | | | | 7,967,168 |
| PUERTO RICO--1.63% | | | | | | |
| 2,425 | Puerto Rico Public Buildings Authority Revenue- Guaranteed Government Facilities-Series D | Baa1 | A | 07/01/13 | 5.375 | 2,780,529 |
| RHODE ISLAND--3.70% | | | | | | |
| 6,175 | Rhode Island Housing & Mortgage Finance Corp. Homeownership Opportunity-Series 10-A | Aa2 | AA+ | 04/01/27 | 6.500 | 6,305,169 |
| SOUTH CAROLINA--3.77% | | | | | | |
| 6,290 | Richland County Pollution Control Revenue-Union Camp Corp. Project-Series C | Baa2 | BBB | 11/01/20 | 6.550 | 6,422,027 |
| SOUTH DAKOTA--3.16% | | | | | | |
| 3,860 | Lower Brule Sioux Tribe++ | NR | NR | 08/15/15 | 6.000 | 3,815,768 |
| 1,568 | Standing Rock South Dakota New Public Housing++ | NR | NR | 08/07/13 | 6.000 | 1,566,305 |
| | | | | | | 5,382,073 |
| TENNESSEE--1.55% | | | | | | |
| 2,500 | Memphis-Shelby County Airport Authority-Special Facilities Revenue Federal Express Corp. | Baa2 | BBB | 09/01/09 | 5.000 | 2,643,525 |
| TEXAS--29.53% | | | | | | |
| 2,475 | Alvin Independent School District School House- Series A | Aaa | AAA | 02/15/17 | 5.375 | 2,746,928 |

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Portfolio of Investments -- (continued)

| PRINCIPAL AMOUNT (000) | | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|--|--|----------------------------------|------------------------------|-------------------|-------------------|--------------|
| LONG-TERM MUNICIPAL BONDS--(CONTINUED) | | | | | | |
| TEXAS--(CONCLUDED) | | | | | | |
| \$4,000 | Coastal Bend Health Facilities Development- Incarnate Word Health System (Escrowed to Maturity) (AMBAC Insured) | Aaa | AAA | 01/01/17 | 6.300% | \$ 4,122,120 |
| 10,000 | Colorado River Texas Municipal Water District Water Revenue (AMBAC Insured) | Aaa | AAA | 01/01/21 | 5.150 | 10,015,500 |
| 1,335 | Eagle Mountain & Saginaw Independent School District Unlimited Tax- School Building | Aaa | AAA | 08/15/14 | 5.375 | 1,511,847 |
| 2,825 | Fort Worth Water & Sewer Revenue | Aa2 | AA | 02/15/16 | 5.625 | 3,237,902 |
| 7,530 | Harris County Texas Lease++ | NR | NR | 05/01/20 | 6.750 | 7,547,707 |
| 915 | Harris County Toll Road | Aaa | AAA | 08/15/17 | 6.500 | 936,777 |
| 3,007 | Houston Community College System Certificates of Participation++ | NR | NR | 06/15/25 | 7.875 | 3,070,214 |
| 2,000 | Houston Refunding & Public Improvement-Series A | Aa3 | AA- | 03/01/15 | 5.250 | 2,198,400 |
| 3,000 | Houston Water & Sewer System Revenue-Junior Lien-Series C (FGIC Insured) | Aaa | AAA | 12/01/22 | 5.250 | 3,136,290 |
| 1,000 | Houston Water & Sewer System Revenue-Prior | | | | | |

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| | | | | | | |
|-------|--|------|-----|----------|-------|------------|
| | Lien-Series B (Pre-refunded with U.S. Government Securities to 12/01/02 @ 102) | Aaa | A+ | 12/01/14 | 6.375 | 1,027,990 |
| 2,350 | Port Corpus Christi Industrial Development Corp. Revenue-Valero Energy Corp.-Series C | Baa2 | BBB | 04/01/18 | 5.400 | 2,308,875 |
| 3,200 | San Antonio Electric & Gas-Series A | Aa1 | AA | 02/01/21 | 4.500 | 3,172,224 |
| 5,000 | Texas Health Facilities Development Corp.- All Saints Episcopal Hospital-Series B (Pre-refunded with U.S. Government securities to 8/15/03 @ 102) (MBIA Insured) | Aaa | AAA | 08/15/22 | 6.250 | 5,306,250 |
| | | | | | | 50,339,024 |

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Investment Grade Municipal Income Fund Inc.

Portfolio of Investments -- September 30, 2002

| PRINCIPAL AMOUNT (000) | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|--|----------------------------------|------------------------------|-------------------|-------------------|--------------|
| LONG-TERM MUNICIPAL BONDS-- (CONCLUDED) | | | | | |
| VIRGINIA--4.20% | | | | | |
| \$1,050 Chesapeake Public Improvement | Aa2 | AA | 12/01/14 | 5.500% | \$ 1,214,346 |
| 5,815 Virginia Transportation Board-Transportation Contract Revenue- Route 28 Project | Aa1 | AA+ | 04/01/18 | 6.500 | 5,953,397 |
| | | | | | 7,167,743 |
| WASHINGTON--4.83% | | | | | |
| 3,035 Metropolitan Park District | | | | | |

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| | | | | | | |
|---|--|--------|-----|-------------------------|--------|-------------|
| | Tacoma (AMBAC Insured) | Aaa | AAA | 12/01/14 to 12/01/16 | 6.000 | 3,593,402 |
| 4,500 | Metropolitan Seattle Sewer Revenue-Series W (Pre-refunded with U.S. Government Securities to 01/01/03 @ 102) (MBIA Insured) | Aaa | AAA | 01/01/33 | 6.300 | 4,644,630 |
| | | | | | | 8,238,032 |
| Total Long-Term Municipal Bonds (cost--\$218,705,475) | | | | | | 231,520,185 |
| SHORT-TERM MUNICIPAL NOTES--12.14% | | | | | | |
| ALASKA--2.17% | | | | | | |
| 3,700 | Valdez Alaska Marine Terminal Revenue-Exxon Pipeline Co. Project | P1 | A1+ | 10/01/02 | 2.000* | 3,700,000 |
| FLORIDA--0.18% | | | | | | |
| 300 | Jacksonville Florida Electric Authority Revenue-Electric Systems-Series B | VMIG-1 | A1+ | 10/01/02 | 2.050* | 300,000 |
| GEORGIA--4.16% | | | | | | |
| 7,100 | Municipal Electric Authority of Georgia | VMIG-1 | A1+ | 10/01/02 | 1.750* | 7,100,000 |
| ILLINOIS--4.11% | | | | | | |
| 1,300 | Chicago O'Hare International Airport Revenue American Airlines-Series D | P1 | NR | 10/01/02 | 2.100* | 1,300,000 |
| 2,000 | Illinois Development Finance Authority Revenue YMCA Metropolitan Chicago Project | NR | A1+ | 10/01/02 | 2.000* | 2,000,000 |
| 3,700 | Illinois Health Facilities Authority Revenue- University of Chicago Hospitals Project-Series C (MBIA Insured) | VMIG-1 | A1+ | 10/01/02 | 2.150* | 3,700,000 |
| | | | | | | 7,000,000 |

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Portfolio of Investments -- (continued)

| PRINCIPAL AMOUNT (000) | | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|---|---|----------------------------------|------------------------------|-------------------|-------------------|------------|
| ----- | | | | | | |
| SHORT-TERM MUNICIPAL NOTES--(CONTINUED) | | | | | | |
| ----- | | | | | | |
| MISSOURI--0.93% | | | | | | |
| \$300 | Kansas City Industrial Development Authority Hospital Revenue (MBIA Insured) | VMIG-1 | A1+ | 10/01/0 | 2.100%* | \$ 300,000 |
| ----- | | | | | | |
| 590 | Kansas City Industrial Development Authority Hospital Revenue- Research Health Services Systems (MBIA Insured) | VMIG-1 | A1+ | 10/01/02 | 2.100* | 590,000 |
| ----- | | | | | | |
| 700 | Missouri Development Finance Board Cultural Facilities Revenue-Nelson Gallery Funding-Series B (MBIA Insured) | VMIG-1 | A1+ | 10/01/02 | 2.000* | 700,000 |
| ----- | | | | | | |
| | | | | | | 1,590,000 |
| ----- | | | | | | |
| OHIO--0.06% | | | | | | |
| 100 | Ohio State Water Development Authority Pollution Control Facilities Revenue Refunding-Toledo Edison Co. Project-Series A | VMIG-1 | A1+ | 10/01/02 | 2.100* | 100,000 |
| ----- | | | | | | |
| TEXAS--0.53% | | | | | | |
| 100 | Angelina & Neches River Authority Industrial Development Corp.- Westvaco-Teec, Inc.- Series 1984-D | P1 | NR | 10/01/02 | 2.100* | 100,000 |
| ----- | | | | | | |

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Investment Grade Municipal Income Fund Inc.

Portfolio of Investments -- September 30, 2002

| PRINCIPAL AMOUNT (000) | MOODY'S RATING (UNAUDITED) | S&P RATING (UNAUDITED) | MATURITY DATES | INTEREST RATES | VALUE |
|---|--|------------------------------|-------------------|-------------------|---------------|
| ----- | | | | | |
| SHORT-TERM MUNICIPAL NOTES--(CONCLUDED) | | | | | |
| ----- | | | | | |
| TEXAS--(CONCLUDED) | | | | | |
| \$800 | Harris County Industrial Development Corp. Pollution Control Revenue | Aaa | A1+ | 10/01/02 | 2.000%* |
| | | | | | \$800,000 |
| | | | | | 900,000 |
| ----- | | | | | |
| Total Short-Term Municipal Notes (cost--\$20,690,000) | | | | | 20,690,000 |
| ----- | | | | | |
| Total Investments (cost--\$239,395,475)--147.96% | | | | | 252,210,185 |
| ----- | | | | | |
| Liabilities in excess of other assets--(1.03)% | | | | | (1,756,026) |
| ----- | | | | | |
| Liquidation value of Auction Preferred Shares--(46.93%) | | | | | (80,000,000) |
| ----- | | | | | |
| Net Assets applicable to common shareholders--100.00% | | | | | \$170,454,159 |
| ----- | | | | | |

(a) Security purchased on a when-issued basis.

+ The maturity date reflects the mandatory date bond will be put back to issuer.

++ Illiquid securities representing 9.39% of net assets.

* Variable rate demand notes are payable on demand. The maturity dates shown are the next interest rate reset dates. The interest rates shown are the current rates as of September 30, 2002.

AMBAC -- American Municipal Bond Assurance Corporation

FGIC -- Financial Guaranty Insurance Company

FHA -- Federal Housing Authority

FSA -- Financial Security Assurance Incorporated

MBIA -- Municipal Bond Investors Assurance

See accompanying notes to financial statements

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Statement of Assets and Liabilities-- September 30, 2002

| | |
|--|---------------|
| ASSETS: | |
| Investments in securities, at value (cost--\$239,395,475) | \$252,210,185 |
| Cash | 71,039 |
| Interest receivable | 3,656,806 |
| Other assets | 8,591 |
| Total assets | 255,946,621 |
| LIABILITIES: | |
| Payable for investments purchased | 5,165,660 |
| Payable to investment advisor and administrator | 158,852 |
| Dividends payable to preferred shareholders | 69,243 |
| Accrued expenses and other liabilities | 98,707 |
| Total liabilities | 5,492,462 |
| Auction Preferred Shares Series A & B-1,600 non-participating shares authorized, issued and outstanding; \$0.001 par value; \$50,000 liquidation value per share | 80,000,000 |
| Net assets applicable to common shareholders | \$170,454,159 |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS: | |
| Common Stock--\$0.001 par value; 199,998,400 shares authorized; 10,356,667 shares issued and outstanding | 153,674,147 |
| Undistributed net investment income | 1,868,828 |
| Accumulated net realized gain from investment transactions | 2,096,474 |
| Net unrealized appreciation of investments | 12,814,710 |
| Net assets applicable to common shareholders | \$170,454,159 |
| Net asset value per common share (\$170,454,159 applicable to 10,356,667 common shares outstanding) | \$16.46 |

See accompanying notes to financial statements

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UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

Statement of Operations

| | For the Year Ended September 30, 2002 |
|---|--|
| ----- | ----- |
| INVESTMENT INCOME: | |
| Interest | \$13,915,660 |
| ----- | ----- |
| EXPENSES: | |
| Investment advisory and administration | 2,215,616 |
| ----- | ----- |
| Auction Preferred Shares expenses | 230,459 |
| ----- | ----- |
| Custody and accounting | 147,708 |
| ----- | ----- |
| Professional fees | 58,202 |
| ----- | ----- |
| Reports and notices to shareholders | 47,246 |
| ----- | ----- |
| Transfer agency fees | 21,950 |
| ----- | ----- |
| Directors' fees | 6,273 |
| ----- | ----- |
| Other expenses | 42,222 |
| ----- | ----- |
| | 2,769,676 |
| ----- | ----- |
| Less: Fee waivers from investment advisor | (307,723) |
| ----- | ----- |
| Net expenses | 2,461,953 |
| ----- | ----- |
| Net investment income | 11,453,707 |
| ----- | ----- |
| REALIZED AND UNREALIZED GAINS FROM INVESTMENT ACTIVITIES: | |
| Net realized gain from investment transactions | 2,096,508 |
| ----- | ----- |
| Net change in unrealized appreciation/depreciation of investments | 892,716 |
| ----- | ----- |
| Net realized and unrealized gain from investment activities | 2,989,224 |
| ----- | ----- |
| DIVIDENDS AND DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM: | |
| Net investment income | (1,215,439) |
| ----- | ----- |
| Net realized gain on investments | (85,072) |
| ----- | ----- |
| Total dividends and distributions to preferred shareholders | (1,300,511) |
| ----- | ----- |
| NET INCREASE IN NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS RESULTING FROM OPERATIONS | \$13,142,420 |
| ----- | ----- |

See accompanying notes to financial statements

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Statement of Changes in Net Assets Applicable to
Common Shareholders

| | For the Years Ended September 30, | |
|---|--------------------------------------|---------------|
| | 2002 | 2001 |
| FROM OPERATIONS: | | |
| Net investment income | \$11,453,707 | \$12,125,828 |
| Net realized gains from investment transactions | 2,096,508 | 435,821 |
| Net change in unrealized appreciation/depreciation of investments | 892,716 | 4,249,989 |
| Dividends and distributions to preferred shareholders | (1,300,511) | (3,045,659) |
| Net increase in net assets applicable to common shareholders resulting from operations | 13,142,420 | 13,765,979 |
| DIVIDENDS AND DISTRIBUTIONS TO COMMON SHAREHOLDERS FROM: | | |
| Net investment income | (9,631,700) | (9,321,000) |
| Net realized gains on investments | (351,091) | 1,919,090 |
| Total dividends and distributions to common shareholders | (9,982,791) | (11,240,090) |
| Net increase in net assets applicable to common shareholders | 3,159,629 | 2,525,889 |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS: | | |
| Beginning of year | 167,294,530 | 164,768,641 |
| End of year (including undistributed net investment income of \$1,868,828 and \$1,262,867, respectively) | \$170,454,159 | \$167,294,530 |

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UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

Notes to Financial Statements

ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Investment Grade Municipal Income Fund Inc. (the "Fund") was incorporated in Maryland on August 6, 1992, and is registered with the Securities and Exchange Commission under the Investment Company Act of 1940, as amended, as a closed-end diversified management investment company. The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires Fund management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. 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 from independent pricing sources and broker-dealers. Independent pricing sources may use reported last sale prices, current market quotations or valuations from computerized "matrix" systems that derive values based on comparable securities. If a market value is not available from an independent pricing source for a particular security, that security is valued at fair value as determined in good faith by or under the direction of the Fund's board of directors (the "Board"). The amortized cost method of valuation, which approximates market value, generally is used to value short-term debt instruments with sixty days or less remaining to maturity, unless the Board determines that this does not represent fair value.

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

DIVIDENDS AND DISTRIBUTIONS--The Fund intends to pay monthly dividends to common shareholders at a level rate that over time will result in the distribution of all of the Fund's net investment income remaining after the payment of dividends on any outstanding preferred shares. The dividend rate on the common stock is adjusted as necessary to reflect the performance of the Fund. Dividends and distributions to common shareholders are recorded on the ex-dividend date. Dividends to preferred shareholders are accrued daily. The amount of dividends from net investment income and distributions from net realized capital gains is determined in accordance with federal income tax regulations, which may differ from accounting principles generally accepted in the United States. These "book/tax" differences are either considered temporary or permanent in nature. To the extent these differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis

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treatment; temporary differences do not require reclassification.

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Notes to Financial Statements

CHANGE IN ACCOUNTING PRINCIPLE

Effective as of October 1, 2000, the Fund adopted the classification requirement of EITF D-98, CLASSIFICATION AND MEASUREMENT OF REDEEMABLE SECURITIES. EITF D-98 requires that preferred shares for which redemption is outside of the Fund's control should be presented outside of net assets applicable to common shares in the statement of assets and liabilities. The redemption of the Fund's auction preferred shares is outside of the control of the Fund because they are redeemable upon the occurrence of an event that is not solely within the control of the Fund. In adopting EITF D-98, the Fund's net assets as of October 1, 2000 in the statement of changes in net assets applicable to common shareholders is restated by excluding auction preferred shares valued at \$80,000,000 at that date. The adoption also resulted in dividends on auction preferred shares being reclassified from distributions on the statement of changes in net assets applicable to common shareholders to a separate line item within the statement of operations. This resulted in a decrease of \$3,045,659 in the net increase in net assets applicable to common shareholders resulting from operations for the year ended September 30, 2001. As part of the adoption, per share distributions of dividends on auction preferred shares, if any, were reclassified from distributions to amounts from investment operations for each period presented in the financial highlights.

CONCENTRATION OF RISK

The Fund follows an investment policy of investing primarily in municipal obligations of various states. Economic changes affecting those states and certain of their public bodies and municipalities may affect the ability of the issuers within those states to pay interest on, or repay principal of, municipal obligations held by the Fund.

INVESTMENT ADVISOR AND ADMINISTRATOR

The Board has approved an investment advisory and administration contract ("Advisory Contract") with UBS Global Asset Management (US) Inc. ("UBS Global AM"), under which UBS Global AM serves as investment advisor and administrator 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, Switzerland and operations in many areas of the financial services industry. In accordance with the Advisory Contract, the Fund pays UBS Global AM an investment advisory and administration fee, which is accrued weekly and paid monthly, at the annual rate of 0.90% of the Fund's average weekly net assets. For the year ended September 30, 2002, UBS Global AM voluntarily waived \$307,723 in investment advisory and administration fees from the Fund.

COMMON STOCK

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There are 199,998,400 shares of \$0.001 par value common stock authorized and 10,356,667 common shares outstanding at September 30, 2002.

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Investment Grade Municipal Income Fund Inc.

Notes to Financial Statements

AUCTION PREFERRED SHARES

The Fund has issued 800 shares of Auction Preferred Shares Series A and 800 shares of Auction Preferred Shares Series B, which are referred to herein collectively as the "APS." All shares of each series of APS have a liquidation preference of \$50,000 per share plus an amount equal to accumulated but unpaid dividends upon liquidation.

Dividends, which are cumulative, are generally reset every 28 days for APS Series A and 90 days for APS Series B. Dividend rates ranged from 1.249% to 2.300% for the year ended September 30, 2002. The Fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the Fund from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value.

The APS are entitled to one vote per share and, unless otherwise required by law, will vote with holders of common stock as a single class, except that the preferred shares will vote separately as a class on certain matters, as required by law. The holders of the preferred shares have the right to elect two directors of the Fund.

FEDERAL TAX STATUS

For federal income tax purposes, the components of net unrealized appreciation of investments at September 30, 2002 were as follows:

| | |
|--|--------------|
| Gross appreciation (investments having an excess of value over cost) | \$13,049,042 |
| Gross depreciation (investments having an excess of cost over value) | (234,332) |
| | ----- |
| Net unrealized appreciation of investments | \$12,814,710 |
| | ===== |

For the year ended September 30, 2002, total aggregate purchases and sales of portfolio securities, excluding short-term securities, were \$49,724,763 and \$61,189,897, respectively. The Fund intends to distribute substantially all of its tax-exempt income and any taxable income and to comply with the other requirements of the Internal Revenue Code applicable to regulated investment companies. Accordingly, no provision for federal income taxes is required. 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.

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The tax character of distributions paid during the fiscal years ended September 30, 2002 and September 30, 2001 were as follows:

| Distributions paid from: | 2002 ----- | 2001 ----- |
|-----------------------------------|---------------|---------------|
| Tax-exempt income | \$10,887,019 | \$11,870,353 |
| Net long-term capital gains | 436,163 | 2,501,294 |
| | ----- | ----- |
| Total Distributions | \$11,323,182 | \$14,371,647 |
| | ===== | ===== |

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Notes to Financial Statements

FEDERAL TAX STATUS (CONCLUDED)

Total distributions paid differ from the statement of changes in net assets applicable to common shareholders because for tax purposes dividends are recognized when actually paid.

At September 30, 2002, the components of accumulated earnings on a tax basis were as follows:

| | |
|--|--------------|
| Undistributed tax-exempt income | \$1,938,071 |
| Undistributed long-term capital gains | 2,096,474 |
| | ----- |
| Accumulated earnings | 4,034,545 |
| Net unrealized appreciation of investments | 12,814,710 |
| | ----- |
| Total accumulated earnings | \$16,849,255 |
| | ===== |

To reflect reclassifications arising from permanent "book/tax" differences for the year ended September 30, 2002, the Fund's undistributed net investment income was decreased by \$607 and accumulated net realized gains were increased by \$607.

UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

Financial Highlights

Selected data for a share of common stock outstanding throughout each year is presented below:

| | FOR THE YEARS ENDED SEPTEMBER 30, | | | |
|---|-----------------------------------|----------|----------|----------|
| | 2002 | 2001 | 2000 | 1999 |
| NET ASSET VALUE, BEGINNING OF YEAR | \$ 16.15 | \$ 15.91 | \$ 16.09 | \$ 17.00 |
| Net investment income | 1.11 | 1.17 | 1.18 | 1.18 |
| Net realized and unrealized gains (losses) from investment activities | 0.29 | 0.46 | (0.13) | (1.00) |
| Common share equivalent of dividends and distributions paid to preferred shareholders from: | | | | |
| Net investment income | (0.12) | (0.23) | (0.31) | (0.31) |
| Net realized gains on investments | (0.01) | (0.07) | (0.00) | (1.00) |
| Total dividends and distributions paid to preferred shareholders | (0.13) | (0.30) | (0.31) | (0.31) |
| Net increase (decrease) from investment operations | 1.27 | 1.33 | 0.74 | (0.00) |
| Dividends and distributions paid to common shareholders from: | | | | |
| Net investment income | (0.93) | (0.90) | (0.90) | (0.90) |
| Net realized gains on investments | (0.03) | (0.19) | (0.02) | — |
| Total dividends and distributions to common shareholders | (0.96) | (1.09) | (0.92) | (0.90) |
| NET ASSET VALUE, END OF YEAR | \$ 16.46 | \$ 16.15 | \$ 15.91 | \$ 16.00 |
| MARKET VALUE, END OF YEAR | \$ 15.60 | \$ 15.39 | \$ 13.75 | \$ 13.00 |
| TOTAL INVESTMENT RETURN (2) | 7.96% | 20.59% | 5.90% | (7.00)% |
| RATIO TO AVERAGE NET ASSETS ATTRIBUTABLE TO COMMON SHARES: | | | | |
| Total expenses, net of waivers from advisor | 1.48% | 1.49% | 1.52% | 1.52% |
| Total expenses, before waivers from advisor | 1.67% | 1.68% | 1.71% | 1.71% |
| Net investment income | | | | |

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| | | | | |
|---|------------|------------|------------|------------|
| before preferred stock dividends | 6.89% | 7.30% | 7.48% | 7.48% |
| Preferred stock dividends from net investment income | 0.73% | 1.42% | 1.99% | 1.99% |
| Net investment income available to common shareholders, net of waivers from advisor | 6.16% | 5.88% | 5.49% | 5.49% |
| Net investment income available to common shareholders, before waivers from advisor | 5.97% | 5.69% | 5.30% | 5.30% |
| SUPPLEMENTAL DATA: | | | | |
| Net assets applicable to common shareholders, end of year (000's) | \$ 170,454 | \$ 167,295 | \$ 164,769 | \$ 166,600 |
| Portfolio turnover rate | 21% | 8% | 14% | 14% |
| Asset coverage per share of auction preferred stock, end of year | \$ 156,534 | \$ 154,559 | \$ 152,980 | \$ 154,100 |

(1) Distribution equal to \$0.0042 per share.

(2) Total investment return is calculated assuming a 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 to common shareholders at prices obtained under the Fund's Dividend Reinvestment Plan. Total investment return does not reflect brokerage commissions.

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Report of Ernst & Young LLP, Independent Auditors

To the Board of Directors and Shareholders of
Investment Grade Municipal Income Fund Inc.

We have audited the accompanying statement of assets and liabilities of Investment Grade Municipal Income Fund Inc. (the "Fund"), including the portfolio of investments as of September 30, 2002, the related statement of operations for the year then ended, and the statement of changes in net assets applicable to common shareholders and the financial highlights for each of the two 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

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based on our audits. The financial highlights for each of the three years in the period ended September 30, 2000, were audited by other auditors whose report dated November 22, 2000, expressed an unqualified opinion on those financial highlights.

We conducted our audits in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of securities owned at September 30, 2002 by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above and audited by us, present fairly, in all material respects, the financial position of Investment Grade Municipal Income Fund Inc. at September 30, 2002, and the results of its operations for the year then ended and the changes in its net assets applicable to common shareholders and the financial highlights for each of the two years in the period then ended, in conformity with accounting principles generally accepted in the United States. As discussed in the Notes to Financial Statements, effective as of October 1, 2000 the Fund changed its method of classifying its auction preferred shares and its dividends to preferred shareholders on such auction preferred shares.

/s/ Ernst & Young LLP

New York, New York
October 31, 2002

UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

TAX INFORMATION (UNAUDITED)

We are required by Subchapter M of the Internal Revenue Code of 1986, as amended, to advise you within 60 days of the Fund's fiscal year end (September 30, 2002) as to the federal tax status of distributions received by stockholders during such fiscal year. Accordingly, we are advising you that, with the exception of a net long-term capital gain distribution of \$436,163, net investment income distributions of \$10,887,019 paid during the fiscal year qualified as federal tax-exempt interest dividends.

The Fund did not invest in any securities which paid interest subject to the federal alternative minimum tax for individual taxpayers during its fiscal year. Therefore, none of the dividends paid by the Fund were subject to such tax.

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Because the Fund's fiscal year is not the calendar year, another notification will be sent in respect of calendar year 2002. The second notification, which reflects the amount to be used by calendar year taxpayers on their federal income tax returns, will be made in conjunction with Form 1099 DIV and will be mailed in January 2003. Stockholders are advised to consult their own tax advisors with respect to the tax consequences of their investment in the Fund.

GENERAL INFORMATION (UNAUDITED)

THE FUND

Investment Grade Municipal Income Fund Inc. (the "Fund") is a diversified, closed-end management investment company whose shares trade on the New York Stock Exchange ("NYSE"). The Fund's investment objective is to achieve a high level of current income that is exempt from federal income tax, consistent with the preservation of capital. The Fund's investment advisor and administrator is UBS Global Asset Management (US) Inc. ("UBS Global AM"), an indirect wholly owned asset management subsidiary of UBS AG, which has over \$71.4 billion in assets under management as of October 31, 2002.

Effective May 20, 2002, William Veronda assumed primary responsibility for the day-to-day management of the Fund. Mr. Veronda is an Executive Director and portfolio manager of UBS Global AM. Mr. Veronda joined UBS Global AM in September 1995 and has led its municipal research group since that date. Mr. Veronda previously served as the portfolio manager for PaineWebber Municipal High Income Fund from September 1995 until March 2001.

INVESTMENT POLICY CHANGES

The Fund's board approved modifications to the Fund's investment policies as a result of a new rule promulgated by the Securities and Exchange Commission. This rule generally requires a fund with a name suggesting that it focuses on a particular type of

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

GENERAL INFORMATION (UNAUDITED) (CONTINUED)

INVESTMENT POLICY CHANGES (CONTINUED)

investment to invest at least 80% of its net assets (plus the amount of any borrowing for investment purposes) in the type of investment suggested by its name. The investment policy changes became effective on April 8, 2002. These changes are not expected to affect materially portfolio management.

The new 80% policy has been adopted as a "fundamental" investment policy; the Fund may not deviate from this 80% policy without shareholder approval. Many of the Fund's other investment policies are non-fundamental policies and may be changed by its board without shareholder approval. The Fund will interpret these new policies as if the following phrase appeared immediately after the words "net assets": "(plus the amount of any borrowing for investment purposes)." If subsequent to an investment, the Fund's 80% policy is no longer met (E.G., bonds are called resulting in a large influx of cash), then under normal circumstances, the Fund's future investments would be made in a manner that

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would bring the Fund's investments back in line with the 80% threshold.

In order to place these changes in context, reproduced below are prior policies that were impacted by this change as well as new policies which replace the prior policies:

PRIOR POLICIES IMPACTED BY CHANGE:

The Fund normally invests substantially all of its assets in a diversified portfolio of long-term tax-exempt Municipal Obligations that have been rated investment grade or are unrated but have been determined to be of comparable quality by UBS Global AM. Municipal Obligations rated investment grade are those that, at the time of investment, are rated within the four highest grades by Moody's (Baa or higher) or S&P (BBB or higher) or have an equivalent rating from another nationally recognized statistical rating organization. The Fund may invest up to 20% of its total assets in Municipal Obligations that are unrated but that, at the time of investment, have been determined by UBS Global AM to be of comparable quality to those that are rated investment grade. Under normal circumstances, the Fund invests at least 65% of its total assets in income-producing securities.

UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

GENERAL INFORMATION (UNAUDITED) (CONTINUED)

INVESTMENT POLICY CHANGES (CONCLUDED)

REVISED POLICIES:

The Fund normally invests substantially all of its assets in a diversified portfolio of long-term Municipal Obligations. Under normal circumstances, the Fund invests at least 80% of its net assets in investment grade Municipal Obligations, the income from which is exempt from regular federal income tax. Municipal Obligations rated investment grade are those that, at the time of investment, are rated within the four highest grades by Moody's (Baa or higher) or S&P (BBB or higher) or have an equivalent rating from another nationally recognized statistical rating organization. The Fund may invest up to 20% of its net assets in Municipal Obligations that are unrated but that, at the time of investment, have been determined by UBS Global AM to be of comparable quality to those that are rated investment grade.

SHAREHOLDER INFORMATION

The Fund's NYSE trading symbol is "PPM." Comparative net asset value and market price information about the Fund is published weekly in THE WALLSTREET JOURNAL, THE NEW YORK TIMES and BARRON'S, as well as in numerous other publications.

DIVIDEND REINVESTMENT PLAN

The Fund's Board has established a Dividend Reinvestment Plan (the "Plan") under

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which all common shareholders whose shares are registered in their own names, or in the name of UBS PaineWebber Inc. or its nominee, will have all dividends and other distributions on their shares of common stock automatically reinvested in additional shares of common stock, unless such common shareholders elect to receive cash. Common shareholders who elect to hold their shares in the name of another 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.

A common shareholder may elect not to participate in the Plan or may terminate participation in the Plan at any time without penalty, and common shareholders who have previously terminated participation in the Plan may rejoin it at any time. Changes in elections must be made in writing to the Fund's transfer agent and should include the shareholder's name and address as they appear on that share certificate or in the transfer agent's records. An election to terminate participation in the Plan, until such election is changed, will be deemed an election by a common shareholder to take all subsequent distributions in cash. An election will be effective only for distributions declared and having a record date at least ten days after the date on which the election is received.

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

GENERAL INFORMATION (UNAUDITED) (CONCLUDED)

DIVIDEND REINVESTMENT PLAN (CONCLUDED)

Additional shares of common stock acquired under the Plan will be purchased in the open market, on the NYSE or otherwise, at prices that may be higher or lower than the net asset value per share of the common stock at the time of the purchase. The number of shares of common stock purchased with each dividend will be equal to the result obtained by dividing the amount of the dividend payable to a particular shareholder by the average price per share (including applicable brokerage commissions) that the transfer agent was able to obtain in the open market.

The Fund will not issue any new shares of common stock in connection with the Plan. There currently is no charge to participants for reinvesting dividends or other distributions. The transfer agent's fees for handling the reinvestment of distributions will be paid by the Fund. However, each participant pays a pro rata share of brokerage commissions incurred with respect to the transfer agent's open market purchases of common stock in connection with the reinvestment of distributions. The automatic reinvestment of dividends and other distributions in shares of common stock does not relieve participants of any income tax that may be payable on such distributions.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan with respect to any dividend or other distribution if notice of the change is sent to Plan participants at least 30 days before the record date for such distribution. The Plan also may be amended or terminated by the transfer agent by at least 30 days' written notice to all Plan participants. Additional information regarding the Plan may be obtained from, and all correspondence concerning the Plan should

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be directed to, the transfer agent at PFPC Inc., P.O. Box 43027, Providence, Rhode Island 02940-3027. For further information regarding the Plan, you may also contact the transfer agent directly at 1-800-331-1710.

UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

BOARD OF DIRECTORS & OFFICERS

The Fund is governed by a Board of Directors 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. 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 and 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 Statement of Additional Information contains additional information about the Directors and Officers and is available, without charge, upon request, by calling 1-800-647 1568.

INTERESTED DIRECTORS

| Name, Address, and Age | Position(s) Held with Fund | Term of Office+ and Length of Time Served | Principal Occupation(s) During Past 5 Years |
|----------------------------------|--|---|---|
| Margo N. Alexander*++; 55 | Director | Since 1996 | Mrs. Alexander is an executive vice president of UBS PaineWebber (since March 1984). She was chief executive officer of UBS Global AM from January 1995 to October 2000, a director (from January 1995 to September 2001) and chairman (from March 1999 to September 2001). |
| E. Garrett Bewkes, Jr.*++; 75 | Director and Chairman of the Board of Directors | Since 1996 | Mr. Bewkes serves as a consultant to UBS PaineWebber (since May 1999). Prior to November 2000, he was a Trustee of Paine Webber Group Inc. ("PW Group," |

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formerly the holding company of UBS PaineWebber and UBS Global AM) and prior to 1996, he was a consultant to PW Group. Prior to 1988, he was chairman of the board, president and chief executive officer of American Bakeries Company.

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

| Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director |
|---|---|
| Mrs. Alexander is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. | None |

Mr. Bewkes is a director or trustee of 35 investment companies (consisting of 56 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Bewkes is also a director of Interstate Bakeries Corporation.

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UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

INDEPENDENT DIRECTORS

| Name, Address, and Age | Position(s) Held with Fund | Term of Office+ and Length of Time Served | Principal Occupation(s) During Past 5 Years |
|--|----------------------------------|---|---|
| Richard Q. Armstrong; 67 R.Q.A. Enterprises One Old Church Road - Unit # 6 Greenwich, CT 06830 | Director | Since 1995 | 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 was chairman of the board, chief executive officer and co-owner of Adirondack Beverages (producer and distributor of soft drinks and sparkling/still waters) (October 1993-March 1995). He was a partner of The New England Consulting Group (management consulting firm) (December 1992-September 1993). He was managing director of LVMH U.S. Corporation (U.S. subsidiary of the French luxury goods conglomerate, Louis Vuitton Moet Hennessey Corporation) (1987-1991) and chairman of its wine and spirits subsidiary, Schieffelin & Somerset Company (1987-1991). |
| David J. Beaubien; 68 101 Industrial Road Turners Falls, MA 01376 | Director | Since 2001 | Mr. Beaubien is chairman of Yankee Environmental Systems, Inc., a manufacturer of meteorological measuring systems. Prior to January 1991, he was senior vice president of EG&G, Inc., a company |

which makes and provides a variety of scientific and technically oriented products and services. From 1985 to January 1995, Mr. Beaubien served as a director or trustee on the boards of the Kidder, Peabody & Co. Incorporated mutual funds.

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

| Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director |
|--|---|
| Mr. Armstrong is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. | Mr. Armstrong is also a director of AlFresh Beverages Canada, Inc. (a Canadian Beverage subsidiary of AlFresh Foods Inc.) (since October 2000). |

Mr. Beaubien is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves or as investment advisor, sub-advisor or manager.

Mr. Beaubien is also a director of IEC Electronics, Inc., a manufacturer of electronic assemblies.

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UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

INDEPENDENT DIRECTORS (CONTINUED)

| Name, Address, and Age | Position(s) Held with Fund | Term of Office+ and Length of Time Served | Principal Occupation(s) During Past 5 Years |
|---|----------------------------------|---|---|
| Richard R. Burt; 55 1275 Pennsylvania Ave., N.W. Washington, D.C. 20004 | Director | Since 1995 | Mr. Burt is chairman of Diligence LLC (international information and security firm) and IEP Advisors (international investments and consulting firm). He was the chief negotiator in the Strategic Arms Reduction Talks with the former Soviet Union (1989-1991) and the U.S. Ambassador to the Federal Republic of Germany (1985-1989). From 1991-1994, he served as a partner of McKinsey & Company (management consulting firm). |
| Meyer Feldberg; 60 Columbia University 101 Uris Hall New York, New York 10027 | Director | Since 1992 | Mr. Feldberg is Dean and Professor of Management of the Graduate School of Business, Columbia University. Prior to 1989, he was president of the Illinois Institute of Technology. |
| George W. Gowen; 73 666 Third Avenue New York, New York 10017 | Director | Since 1996 | Mr. Gowen is a partner in the law firm of Dunnington, Bartholow & Miller. Prior to May 1994, he was a partner in the law firm of Fryer, Ross & Gowen. |
| William W. Hewitt, Jr.***; 74 c/o UBS Global Asset Management (US) Inc. 51 West 52nd Street | Director | Since 2001 | Mr. Hewitt is retired. From 1990 to January 1995, Mr. Hewitt served as a director or trustee on the boards of the |

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New York, New York
10019-6114

Kidder, Peabody & Co.
Incorporated mutual
funds. From 1986-1988,
he was an executive vice
president and director
of mutual funds,
insurance and trust
services of Shearson
Lehman Brothers Inc.
From 1976-1986, he was
president of Merrill
Lynch Funds Distributor,
Inc.

Morton L. Janklow; 72
445 Park Avenue
New York, New York
10022

Director

Since 2001

Mr. Janklow is senior
partner of Janklow &
Nesbit Associates, an
international literary
agency representing
leading authors in their
relationships with
publishers and motion
picture, television and
multi-media companies,
and of counsel to the
law firm of Janklow &
Ashley.

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

| Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director |
|--|---|
| Mr. Burt is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. | Mr. Burt is also a director of Hollinger International, Inc. (publishing), The Central European Fund, Inc., The Germany Fund, Inc., IGT, Inc. (provides technology to gaming and wagering industry) (since July 1999) and chairman of Weirton Steel Corp. (makes and finishes steel products) (since April 1996). He is also a director or trustee of funds in the Scudder Mutual Funds Family (consisting of 47 portfolios). |

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Dean Feldberg is a director or trustee of 35 investment companies (consisting of 56 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Dean Feldberg is also a director of Primedia Inc. (publishing), Federated Department Stores, Inc. (operator of department stores), Revlon, Inc. (cosmetics), Select Medical Inc. (healthcare services) and SAPPI, Ltd. (producer of paper).

Mr. Gowen is a director or trustee of 35 investment companies (consisting of 56 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

None

Mr. Hewitt is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

Mr. Hewitt is also a d Guardian Life Insurance Company Mutual Funds (consisting of 19 portfolios).

Mr. Janklow is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

None

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Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

INDEPENDENT DIRECTORS (CONCLUDED)

| Name, Address, and Age | Position(s) Held with Fund | Term of Office+ and Length of Time Served | Principal Occupation(s) During Past 5 Years |
|--|----------------------------------|---|--|
| Frederic V. Malek; 65 1455 Pennsylvania Avenue, N.W. Suite 350 Washington, D.C. 20004 | Director | Since 1996 | Mr. Malek is chairman of Thayer Capital Partners (merchant bank) and chairman of Thayer Hotel Investors III, Thayer Hotel Investors II and |

Lodging Opportunities Fund (hotel investment partnerships). From January 1992 to November 1992, he was campaign manager of Bush-Quayle '92. From 1990 to 1992, he was vice chairman and, from 1989 to 1990, he was president of Northwest Airlines Inc. and NWA Inc. (holding company of Northwest Airlines Inc.). Prior to 1989, he was employed by the Marriott Corporation (hotels, restaurants, airline catering and contract feeding), where he most recently was an executive vice president and president of Marriott Hotels and Resorts.

Carl W. Schafer; 66
66 Witherspoon Street
#1100
Princeton, NJ 08542

Director

Since 1996

Mr. Schafer is president of the Atlantic Foundation (charitable foundation). Prior to January 1993, he was chairman of the Investment Advisory Committee of the Howard Hughes Medical Institute.

William D. White; 68
P.O. Box 199
Upper Black Eddy, PA
18972

Director

Since 2001

Mr. White is retired. From February 1989 through March 1994, he was president of the National League of Professional Baseball Clubs. Prior to 1989, he was a television sportscaster for WPIX-TV, New York. Mr. White served on the Board of Directors of Centel from 1989 to 1993 and until recently on the board of directors of Jefferson Banks Incorporated, Philadelphia, PA.

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Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

| Number of Portfolios in Fund Complex Overseen by Director | Other Directorships Held by Director |
|--|--|
| Mr. Malek is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. | Mr. Malek is also a director of Aegis Communications, Inc. (tele-services), American Management Systems, Inc. (management consulting and computer related services), Automatic Data Processing, Inc. (computing services), CB Richard Ellis, Inc. services), FPL Group, Inc. (elect Manoir Care, Inc. (health care), a Airlines Inc. |
| Mr. Schafer is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. | Mr. Schafer is also a director of Labor Ready, Inc. (temporary employment), Roadway Corp. (trucking), Guardian Life Insurance Company Mutual Funds (consisting of 19 portfolios), the Harding, Loevner Funds (consisting of 4 portfolios), E.I.I. Realty Securities Trust (investment company) and Frontier Oil Corporation. |
| Mr. White is a director or trustee of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. | None |
| UBS Global Asset Management | 35 |

Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

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OFFICERS

| 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 For Which Person Serves as Officer |
|---------------------------|--|---|---|
| Thomas Disbrow**; 36 | Vice President and Assistant Treasurer | Since 2000 | Mr. Disbrow is a director and a senior manager of the mutual fund finance department of UBS Global AM. Prior to November 1999, he was a vice president of Zweig/Glaser Advisers. Mr. Disbrow is a vice president and assistant treasurer of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. |
| Amy R. Doberman**; 40 | Vice President and Secretary | Since 2000 | Ms. Doberman is a managing director and general counsel of UBS Global AM. From December 1997 through July 2000, she was general counsel of Aeltus Investment Management, Inc. Prior to working at Aeltus, Ms. Doberman was assistant chief counsel of the SEC's Division of Investment Management. Ms. Doberman is vice president and secretary of UBS Supplementary Trust and a vice president and secretary of 24 investment companies (consisting of 81 portfolios) and vice president and assistant secretary of one investment company (consisting of 2 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. |

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

OFFICERS (CONTINUED)

| 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 For Which Person Serves as Officer |
|--------------------------------|--|---|--|
| Elbridge T. Gerry III**; 45 | Vice President | Since 1996 | Mr. Gerry is a managing director-- fixed income of UBS Global AM. Mr. Gerry is a vice president of 6 investment companies (consisting of 11 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. |
| David M. Goldenberg**; 36 | Vice President and Assistant Secretary | Since 2002 | Mr. Goldenberg is an executive director and deputy general counsel of UBS Global AM. From 2000-2002 he was director, legal affairs at Lazard Asset Management. Mr. Goldenberg was global director of compliance for SSB Citi Asset Management Group from 1998-2000. He was associate general counsel at Smith Barney Asset Management from 1996-1998. Prior to working at Smith Barney Asset Management, Mr. Goldenberg was branch chief and senior counsel in the SEC's Division of Investment Management. Mr. Goldenberg is a vice president and assistant secretary of UBS Supplementary Trust, vice president and assistant secretary of 24 investment companies |

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(consisting of 81 portfolios) and a vice president and secretary of one investment company (consisting of 2 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

UBS Global Asset Management

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Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

OFFICERS (CONTINUED)

| 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 For Which Person Serves as Officer |
|---------------------------|--|---|---|
| Kevin J. Mahoney**; 37 | Vice President and Assistant Treasurer | Since 1999 | Mr. Mahoney is a director and a senior manager of the mutual fund finance department of UBS Global AM. Prior to April 1999, he was the manager of the mutual fund internal control group of Salomon Smith Barney. Mr. Mahoney is a vice president and assistant treasurer of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. |
| Paul H. Schubert**; 39 | Vice President and Treasurer | Since 1994 | Mr. Schubert is an executive director and head of the mutual fund finance department of UBS Global AM. Mr. Schubert is treasurer and principal accounting officer of UBS |

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Supplementary Trust and two investment companies (consisting of 38 portfolios) and a vice president and treasurer of 22 investment companies (consisting of 43 portfolios) and treasurer and chief financial officer of one investment company (consisting of 2 portfolios) for which UBS Global AM, or one of its affiliates serves as investment advisor, sub-advisor or manager.

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UBS Global Asset Management

Investment Grade Municipal Income Fund Inc.

Supplemental Information (unaudited)

OFFICERS (CONCLUDED)

| 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 For Which Person Serves as Officer |
|------------------------|----------------------------|---|---|
| Brian M. Storms**; 48 | President | Since 2000 | Mr. Storms is chief executive officer (since July 2002), director and president of UBS Global AM (since March 1999). He is also chief executive officer (since July 2002), a member of the board of directors and president of UBS Global AM (Americas) and UBS Global Asset Management (New York) Inc. (since October 2001). Mr. Storms was chief executive officer of UBS Global AM from October 2000 to September 2001 and chief operating officer (2001-2002). He was |

chief operating officer of UBS Global AM (Americas) and UBS Global AM (New York) from September 2001 to July 2002. He was a director or trustee of several investment companies in the UBS Family of Funds (1999-2001). He was president of Prudential Investments (1996-1999). Prior to joining Prudential Investments he was a managing director at Fidelity Investments. Mr. Storms is president and trustee of UBS Supplementary Trust and of two investment companies (consisting of 38 portfolios) and president of 22 investment companies (consisting of 43 portfolios) and trustee and chairman of one investment company (consisting of 2 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager.

| | | | |
|-----------------------|--|------------|--|
| Keith A. Weller**; 41 | Vice President and Assistant Secretary | Since 1995 | Mr. Weller is a director and senior associate general counsel of UBS Global AM. Mr. Weller is a vice president and assistant secretary of 22 investment companies (consisting of 43 portfolios) for which UBS Global AM or one of its affiliates serves as investment advisor, sub-advisor or manager. |
|-----------------------|--|------------|--|

* This person's business address is 1285 Avenue of the Americas, New York, New York 10019-5028.

** This person's business address is 51 West 52nd Street, New York, New York 10019-6114.

*** Address for mailing purposes only.

+ Each Director serves until the next annual meeting of shareholders or until his or her successor is elected or qualified. Officers of the Fund are appointed by the Directors and serve at the pleasure of the Board.

++ Mrs. Alexander and Mr. Bewkes are "interested persons" of the Fund as defined in the Investment Company Act by virtue of their positions with UBS

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Global AM and/or UBS PaineWebber.

UBS Global Asset Management

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DIRECTORS

E. Garrett Bewkes, Jr.
CHAIRMAN
Margo N. Alexander
Richard Q. Armstrong
David J. Beaubien
Richard R. Burt
Meyer Feldberg

George W. Gowen
William W. Hewitt, Jr.
Morton L. Janklow
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