FORM 497

Definitive materials filed under paragraph (a), (b), (c), (d), (e) or (f) of Securities Act Rule 497

Filing Date: **1994-03-02**
SEC Accession No. 0000950130-94-000334

FILER

MERRILL LYNCH GLOBAL ALLOCATION FUND INC

CIK:**834237**| State of Incorp.:**NJ** | Fiscal Year End: **1031**
Type: **497** | Act: **33** | File No.: **033-22462** | Film No.: **94514218**

Business Address
P O BOX 9011
PRINCETON NJ 08543
6092822800

PROSPECTUS
FEBRUARY 24, 1994

MERRILL LYNCH GLOBAL ALLOCATION FUND, INC.

BOX 9011, PRINCETON, NEW JERSEY 08543-9011 . PHONE NO. (609) 282-2800

Merrill Lynch Global Allocation Fund, Inc. (the "Fund") is a non-diversified mutual fund seeking high total investment return, consistent with prudent risk, through a fully-managed investment policy utilizing United States and foreign equity, debt and money market securities, the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends. Total investment return is the aggregate of capital value changes and income. There can be no assurance that the Fund's investment objective will be achieved. The Fund may employ a variety of instruments and techniques to enhance income and to hedge against market and currency risk. Investments on an international basis involve special considerations. See "Special Considerations".

The Fund offers two classes of shares which may be purchased at a price equal to the next determined net asset value per share, plus a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares") or (ii) on a deferred basis (the "Class B shares"). The original sales charges to which the Class B shares are subject shall consist of a contingent deferred sales charge which may be imposed on redemptions made within four years of purchase and an ongoing account maintenance fee and distribution fee. These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares, and other circumstances. Investors should understand that the purpose and function of the deferred sales charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Investors should also understand that over time the deferred sales charges related to Class B shares may exceed the initial sales charge with respect to Class A shares. See "Alternative Sales Arrangements" on page 3.

Each Class A share and Class B share represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance fee and distribution fee and certain other costs resulting from the deferred sales charge arrangement, which will cause Class B shares to have a higher expense ratio and to pay lower dividends than Class A shares and that Class B shares have exclusive voting rights with respect to the account maintenance fee and distribution fee. The two classes also have different exchange privileges.

Shares may be purchased directly from Merrill Lynch Funds Distributor, Inc. (the "Distributor"), Box 9011, Princeton, New Jersey 08543-9011 [(609) 282-2800], or from securities dealers which have entered into selected dealers agreements with the Distributor, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"). The minimum initial purchase is $1,000, and the minimum subsequent purchase is $50, except that for retirement plans the minimum initial purchase is $250, and the minimum subsequent purchase is $1. Merrill Lynch may charge its customers a processing fee (presently $4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's transfer agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares".

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Prospectus is a concise statement of information about the Fund that is relevant to making an investment in the Fund. This Prospectus should be retained for future reference. A statement containing additional information about the Fund, dated February 24, 1994 (the "Statement of Additional Information"), has been filed with the Securities and Exchange Commission and is available, without charge, by calling or by writing the Fund at the above telephone number or address. The Statement of Additional Information is hereby incorporated by reference into this Prospectus.

MERRILL LYNCH ASSET MANAGEMENT--MANAGER
MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

FEE TABLE

A general comparison of the sales arrangements and other nonrecurring and recurring expenses applicable to Class A shares and Class B shares follows.

<TABLE>
<CAPTION>

		CLASS A SHARES INITIAL SALES CHARGE ALTERNATIVE		CLASS B SHARES DEFERRED SALES CHARGE ALTERNATIVE
<S>	<C>	<C>	<C>	<C>
SHAREHOLDER TRANSACTION EXPENSES:				
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price).......		6.50%(a)		None
Sales Charge Imposed on Dividend Reinvestments.................		None		None
Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, whichever is lower)............		None(f)		4.0% during the first year, decreasing 1.0% annually to 0.0% after the fourth year(b)
Exchange Fee...........		None		None
ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS):				
Management Fees (after any fee waivers)(c)...		0.74%		0.74%
Rule 12b-1 Fees........		None		1.00%(d)
Other Expenses				
Custodial Fees.......	0.04%		0.04%	
Shareholder Servicing Costs(e)...........	0.08%		0.10%	
Other................	0.07%		0.07%	
	-----		-----	
Total Other Expenses...........		0.19%		0.21%
		----		----
Total Fund Operating Expenses......		0.93%		1.95%
		====		====

</TABLE>

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(a) Reduced for purchases of $10,000 and over, decreasing to 0.75% for purchases of $1,000,000 and over. Certain investors making purchases of $1,000,000 and over may, however, pay a contingent deferred sales charge ranging from a high of 1.00% to a low of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.75% initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 24.

(b) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares"--page 25.

(c) See "Management of the Fund--Management and Advisory Arrangements"--page 21.

(d) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan"--page 27. This amount represents the 0.25% account maintenance fee and the 0.75% distribution fee applicable to Class B shares of the Fund.

(e) See "Management of the Fund--Transfer Agency Services"--page 22.

(f) Certain investors making purchases of $1,000,000 and over may, however, pay a contingent deferred sales charge ranging from a high of 1.00% to a low of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.75% initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 24.

<TABLE>
<CAPTION>

	CUMULATIVE EXPENSES PAID FOR THE PERIOD OF:			
	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>
EXAMPLE:				

An investor would pay the following expenses on a $1,000 investment including, for Class A shares, the maximum $65 front-end sales charge and assuming (1) an operating expense ratio of 0.93% for Class A shares and 1.95% for Class B shares, (2) a 5% annual return throughout the periods and (3) redemption at the end of the period:				
Class A.....................................	$73.87	$92.72	$113.12	$171.87
Class B.....................................	$59.80	$81.22	$105.21	$227.48
An investor would pay the following expenses on the same $1,000 investment assuming no redemption at the end of the period:				
Class A.....................................	$73.87	$92.72	$113.12	$171.87
Class B.....................................	$19.80	$61.22	$105.21	$227.48

</TABLE>

The foregoing Fee Table is intended to assist investors in understanding the costs and expenses that a shareholder in the Fund will bear directly or indirectly. The Example set forth above assumes reinvestment of all dividends and distributions and utilizes a 5% annual rate of return as mandated by Securities and Exchange Commission regulations. THE EXAMPLE SHOULD NOT BE CONSIDERED A REPRESENTATION OF PAST OR FUTURE EXPENSES OR ANNUAL RATES OF RETURN, AND ACTUAL EXPENSES OR ANNUAL RATES OF RETURN MAY BE MORE OR LESS THAN THOSE ASSUMED FOR PURPOSES OF THE EXAMPLE. Class B shareholders who hold their shares for an extended period of time may pay more in Rule 12b-1 distribution fees than the economic equivalent of the maximum front-end sales charges permitted under the Rules of Fair Practice of the National Association of Securities Dealers, Inc. Merrill Lynch may charge its customers a processing fee (presently $4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's transfer agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares". Absent a fee waiver, management fees would have been 0.75%.

ALTERNATIVE SALES ARRANGEMENTS

Shares of the Fund may be purchased at a price equal to the next determined net asset value per share, plus a sales charge which, at the election of the purchaser, may be imposed either (i) at the time of the purchase (the "initial sales charge alternative") or (ii) on a deferred basis (the "deferred sales charge alternative").

Class A Shares. An investor who elects the initial sales charge alternative acquires Class A shares. Although Class A shares incur a sales charge when they are purchased, they enjoy the benefit of not being subject to any ongoing account maintenance fee or distribution fee or any sales charge when they are redeemed. Certain purchases of Class A shares qualify for reduced initial sales charges. See "Purchase of Shares".

Class B Shares. An investor who elects the deferred sales charge alternative acquires Class B shares. Class B shares do not incur a sales charge when they are purchased, but they are subject to ongoing account maintenance and distribution fees and a sales charge if they are redeemed within four years of purchase. Class B shares provide the benefit of permitting all of the investor's dollars to work from the time the investment is made. The ongoing account maintenance and distribution fees paid by Class B shares will cause such shares to have a higher expense ratio and to pay lower dividends than Class A shares. Payment of the distribution fee is subject to certain limits as set forth under "Purchase of Shares -- Deferred Sales Charge Alternative -- Class B Shares".

As an illustration, investors who qualify for significantly reduced sales charges might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to ongoing account maintenance and distribution fees. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially. Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time might also elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred sales charge alternative. However, there can be no assurance as to the return, if any, which will be realized on such additional funds. Certain other investors might determine it to be more advantageous to have all their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge.

The distribution expenses incurred by the Distributor and dealers (primarily Merrill Lynch) in connection with the sale of the shares will be paid, in the case of the Class A shares, from the proceeds of the initial sales charge and, in the case of the Class B shares, from the proceeds of the ongoing account maintenance and distribution fees and the contingent deferred sales charge incurred on redemption within four years of purchase. Sales personnel may receive different compensation for selling Class A or Class B shares. Investors should understand that the purpose and function of the deferred sales charges and account maintenance fee with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares.

Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution fees and any incremental transfer agency costs relating to Class B shares will be borne exclusively by that class. See "Additional Information -- Determination of Net Asset Value". Class A and Class B shareholders of the Fund each have an exchange privilege for Class A and Class B shares, respectively, of certain other mutual funds sponsored by Merrill Lynch. Class A and Class B shareholders of the Fund also may exchange their shares for shares of certain money market funds sponsored by Merrill Lynch. See "Shareholder Services -- Exchange Privilege".

The Directors of the Fund have determined that currently no conflict of interest exists between the Class A and Class B shares. On an ongoing basis, the Directors of the Fund, pursuant to their fiduciary duties under the Investment Company Act of 1940, as amended (the "Investment Company Act"), and state laws, will seek to assure that no such conflict arises.

THE ALTERNATIVE SALES ARRANGEMENTS PERMIT AN INVESTOR TO CHOOSE THE METHOD OF PURCHASING SHARES THAT IS MOST BENEFICIAL GIVEN THE AMOUNT OF THE PURCHASE, THE LENGTH OF TIME THE INVESTOR EXPECTS TO HOLD THE SHARES AND OTHER CIRCUMSTANCES. INVESTORS SHOULD DETERMINE WHETHER UNDER THEIR PARTICULAR CIRCUMSTANCES IT IS MORE ADVANTAGEOUS TO INCUR AN INITIAL SALES CHARGE AND NOT BE SUBJECT TO ONGOING ACCOUNT MAINTENANCE AND DISTRIBUTION FEES OR TO HAVE THE ENTIRE INITIAL PURCHASE PRICE INVESTED IN THE FUND WITH THE INVESTMENT THEREAFTER BEING SUBJECT TO ONGOING ACCOUNT MAINTENANCE AND DISTRIBUTION FEES. TO ASSIST INVESTORS IN MAKING THIS DETERMINATION, THE FEE TABLE ON PAGE 2 SETS FORTH THE CHARGES APPLICABLE TO EACH CLASS OF SHARES, AND A DISCUSSION OF FACTORS RELEVANT TO MAKING SUCH DETERMINATION IS SET FORTH UNDER "PURCHASE OF SHARES -- ALTERNATIVE SALES ARRANGEMENTS" ON PAGE 23.

FINANCIAL HIGHLIGHTS

The financial information in the table below has been audited in conjunction with the annual audits of the financial statements of the Fund by Deloitte & Touche, independent auditors. Financial statements for the fiscal year ended October 31, 1993, and the independent auditors' report thereon are included in the Statement of Additional Information. Further information about the performance of the Fund is contained in the Fund's most recent annual report to shareholders which may be obtained, without charge, by calling or by writing the Fund at the telephone number or address on the front cover of this Prospectus.

The following per share data and ratios have been derived from information provided in the financial statements.

<TABLE>
<CAPTION>

	CLASS A					CLASS B				
	FOR THE YEAR ENDED OCTOBER 31,				FOR THE PERIOD FEB. 3, 1989+ TO OCT. 31,	FOR THE YEAR ENDED OCTOBER 31,				FOR THE PERIOD FEB. 3, 1989+ TO OCT. 31,
	1993	1992	1991	1990	1989	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
INCREASE (DECREASE) IN NET ASSET VALUE:										
PER SHARE OPERATING PERFORMANCE:										
Net asset value, beginning of period.........	$ 11.92	$ 12.16	$ 10.37	$ 10.79	$ 10.00	$ 11.83	$ 12.10	$ 10.33	$ 10.73	$ 10.00
Investment income -- net...................	.39	.36	.55	.60	.45	.28	.22	.44	.49	.38

Realized and unrealized gain (loss) on investments and foreign currency transactions -- net...........	2.14	.89	2.24	(.16)	.48	2.11	.91	2.22	(.16)	.47
Total from investment operations.............	2.53	1.25	2.79	.44	.93	2.39	1.13	2.66	.33	.85
Less dividends and distributions:										
Investment income -- net...................	(.81)	(.89)	(.45)	(.66)	(.14)	(.72)	(.80)	(.34)	(.53)	(.12)
Realized gain on investments -- net.......	(.12)	(.60)	(.55)	(.20)	--	(.12)	(.60)	(.55)	(.20)	--
Total dividends and distributions.............	(.93)	(1.49)	(1.00)	(.86)	(.14)	(.84)	(1.40)	(.89)	(.73)	(.12)
Net asset value, end of period..................	$ 13.52	$ 11.92	$ 12.16	$ 10.37	$ 10.79	$ 13.38	$ 11.83	$ 12.10	$ 10.33	$ 10.73
TOTAL INVESTMENT RETURN**										
Based on net asset value per share...............	22.61%	11.78%	28.89%	3.91%	9.34%++	21.42%	10.64%	27.48%	2.93%	8.50%++
RATIOS TO AVERAGE NET ASSETS:										
Expenses, excluding distribution fees..........	.93%	1.07%	1.29%	1.29%	1.37%*	.95%	1.09%	1.31%	1.31%	1.40%*
Expenses................	.93%	1.07%	1.29%	1.29%	1.37%*	1.95%	2.09%	2.31%	2.31%	2.40%*
Investment income--net..	3.90%	10.82%	8.96%	4.37%	5.31%*	2.87%	11.95%	7.98%	3.35%	4.29%*
SUPPLEMENTAL DATA:										
Net assets, end of period (in thousands).....	$917,806	$245,839	$72,702	$49,691	$47,172	$4,299,545	$958,949	$161,328	$115,682	$113,649
Portfolio turnover......	50.35%	59.56%	81.21%	129.51%	88.59%	50.35%	59.56%	81.21%	129.51%	88.59%

</TABLE>

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+Commencement of Operations.
++Aggregate total investment return.
*Annualized.
**Total investment returns exclude the effects of sales loads.

SPECIAL CONSIDERATIONS

As a global fund, the Fund may invest in U.S. and foreign securities. Investments in securities of foreign entities and securities denominated in foreign currencies involve risks not typically involved in domestic investment, including fluctuations in foreign exchange rates, future foreign political and economic developments, and the possible imposition of exchange controls or other foreign or U.S. governmental laws or restrictions applicable to such investments. Since the Fund may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of investments in the portfolio and the unrealized appreciation or depreciation of investments insofar as U.S. investors are concerned. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of the Fund's assets denominated in those currencies and the Fund's yield on such assets. Foreign currency exchange rates are determined by forces of supply and demand on the foreign exchange markets. These forces are, in turn, affected by the international balance of payments and other economic and financial conditions, government intervention, speculation, and other factors. Moreover, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources, self-sufficiency and balance of payments position.

With respect to certain foreign countries, there is the possibility of expropriation of assets, confiscatory taxation, political or social instability or diplomatic developments which could affect investment in those countries. There may be less publicly available information about a foreign financial instrument than about a U.S. instrument, and foreign entities may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those to which U.S. entities are subject. In addition, certain foreign investments may be subject to foreign withholding taxes. Investors will be able to deduct such taxes in computing their taxable income or to use such amounts as credits against their U.S. income taxes if more than 50% of the Fund's total assets at the close of any taxable year consists of stock or securities in foreign corporations. See "Additional Information -- Taxes". Foreign financial markets, while generally growing in volume, typically have substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies. Foreign markets also have different clearance and settlement procedures and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in temporary periods when assets of the Fund are uninvested and no return is earned thereon. The inability of the Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result either in losses to the Fund due to subsequent declines in value of the portfolio security or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser. Costs associated with transactions in foreign securities are generally higher than with transactions in U.S. securities. There is generally less government supervision and regulation of exchanges, financial institutions and issuers in foreign countries than there is in the U.S.

The operating expense ratio of the Fund can be expected to be higher than that of an investment company investing exclusively in U.S. securities because the expenses of the Fund, such as custodial costs, are higher.

The Fund may engage in various portfolio strategies to seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against movements in the securities markets and exchange rates between currencies by the use of options, futures and options thereon. Utilization of options and futures transactions involves the risk of imperfect correlation in movements in the price of options and futures and movements in the price of the securities or currencies which are the subject of the hedge. There can be no assurance that a liquid secondary market for options and futures contracts will exist at any specific time. See "Investment Objective and Policies -- Portfolio Strategies Involving Options and Futures".

The Fund has established no rating criteria for the fixed income securities in which it may invest. Securities rated in the medium to lower rating categories of nationally recognized statistical rating organizations are predominately speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve a greater volatility of price than securities in higher rating categories. The Fund does not intend to purchase securities that are in default.

The net asset value of the Fund's shares, to the extent the Fund invests in fixed income securities, will be affected by changes in the general level of interest rates. When interest rates decline, the value of a portfolio of fixed income securities can be expected to rise. Conversely, when interest rates rise, the value of a portfolio of fixed income securities can be expected to decline.

As a non-diversified investment company, the Fund may invest a larger percentage of its assets in individual issuers than a diversified investment company. In this regard, the Fund is not subject to the general limitation that it not invest more than 5% of its total assets in the securities of any one issuer. To the extent the Fund makes investments in excess of 5% of its assets in a particular issuer, its exposure to credit and market risks associated with that issuer is increased.

INVESTMENT OBJECTIVE AND POLICIES

The Fund is a non-diversified, open-end management investment company. The Fund's investment objective is to seek a high total investment return, consistent with prudent risk, through a fully-managed investment policy utilizing United States and foreign equity, debt and money market securities the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends. Total investment return is the aggregate of capital value changes and income. This objective is a fundamental policy which the Fund may not change without a vote of a majority of the Fund's outstanding voting securities. There can be no assurance that the Fund's investment objective will be achieved. The Fund may employ a variety of instruments and techniques to enhance income and to hedge against market and currency risk, as described under "Portfolio Strategies Involving Options and Futures" below.

The Fund will invest in a portfolio of U.S. and foreign equity, debt and money market securities. The composition of the portfolio among these securities and markets will be varied from time to time by the Fund's manager, Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset

Management (the "Manager"), in response to changing market and economic trends. This fully managed investment approach provides the Fund with the opportunity to benefit from anticipated shifts in the relative performance of different types of securities and different capital markets. For example, at times the Fund may emphasize investments in equity securities in anticipation of significant advances in stock markets and

at times may emphasize debt securities in anticipation of significant declines in interest rates. Similarly, the Fund may emphasize foreign markets in its security selection when such markets are expected to outperform, in U.S. dollar terms, the U.S. markets. The Fund will seek to identify longer-term structural or cyclical changes in the various economies and markets of the world which are expected to benefit certain capital markets and certain securities in those markets to a greater extent than other investment opportunities.

In determining the allocation of assets among capital markets, the Manager will consider, among other factors, the relative valuation, condition and growth potential of the various economies, including current and anticipated changes in the rates of economic growth, rates of inflation, corporate profits, capital reinvestment, resources, self-sufficiency, balance of payments, governmental deficits or surpluses and other pertinent financial, social and political factors which may affect such markets. In allocating among equity, debt and money market securities within each market, the Manager also will consider the relative opportunity for capital appreciation of equity and debt securities, dividend yields, and the level of interest rates paid on debt securities of various maturities.

In selecting securities denominated in foreign currencies, the Manager will consider, among other factors, the effect of movement in currency exchange rates on the U.S. dollar value of such securities. An increase in the value of a currency will increase the total return to the Fund of securities denominated in such currency. Conversely, a decline in the value of the currency will reduce the total return. The Manager may seek to hedge all or a portion of the Fund's foreign securities through the use of forward foreign currency contracts, currency options, futures contracts and options thereon. See "Portfolio Strategies Involving Options and Futures" below.

While there are no prescribed limits on the geographical allocation of the Fund's assets, the Manager anticipates that it will invest primarily in the securities of corporate and governmental issuers domiciled or located in the U.S., Canada, Western Europe and the Far East. In addition, the Manager anticipates that a portion of the Fund's assets normally will be invested in the U.S. securities markets and the other major capital markets. Under normal conditions, the Fund's investments will be denominated in at least three currencies or multinational currency units. However, the Fund reserves the right to invest substantially all of its assets in U.S. markets or U.S. dollar-denominated obligations when market conditions warrant.

Similarly, there are no prescribed limits on the allocation of the Fund's assets among equity, debt and money market securities. Therefore, at any given time, the Fund's assets may be primarily invested in either equity, debt or money market securities or in any combination thereof. However, the Manager anticipates that the Fund's portfolio generally will include both equity and debt securities.

EQUITY SECURITIES

Within the portion of the Fund's portfolio allocated to equity securities, the Manager will seek to identify the securities of companies and industry sectors which are expected to provide high total return relative to alternative equity investments. The Fund generally will seek to invest in securities the Manager believes to be undervalued. Undervalued issues include securities selling at a discount from the price-to-book value ratios and price/earnings ratios computed with respect to the relevant stock market averages. The Fund may also consider as undervalued, securities selling at a discount from their historic price-to-book value or price/earnings ratios, even though these ratios may be above the ratios for the stock market averages. Securities offering dividend yields higher than the yields for the relevant stock market averages or higher than such securities' historic yield may also be considered to be undervalued. The Fund may also invest in

the securities of small and emerging growth companies when such companies are expected to provide a higher total return than other equity investments. Such companies are characterized by rapid historical growth rates, above-average returns on equity or special investment value in terms of their products or services, research capabilities or other unique attributes. The Manager will seek to identify small and emerging growth companies that possess superior management, marketing ability, research and product development skills and sound balance sheets. Investment in the securities of small and emerging growth companies involves greater risk than investment in larger, more established companies. Such risks include the fact that securities of small or emerging growth companies may be subject to more abrupt or erratic market movements than larger, more established companies or the market average in general. Also, these companies may have limited product lines, markets or financial resources, or they may be dependent on a limited management group.

There may be periods when market and economic conditions exist that favor certain types of tangible assets as compared to other types of investments. For example, the value of precious metals can be expected to benefit from such factors as rising inflationary pressures or other economic, political or financial uncertainty or instability. Real estate values, which are influenced by a variety of economic, financial and local factors, tend to be cyclical in nature. During periods when the Manager believes that conditions favor a particular real asset as compared to other investment opportunities, the Fund may emphasize investments related to that asset such as investments in precious metal-related securities or real estate-related securities as described below. The Fund may invest up to 25% of its total assets in any particular industry sector.

Precious Metal-Related Securities. Precious metal-related securities are equity securities of companies that explore for, extract, process or deal in precious metals, i.e., gold, silver and platinum, and asset-based securities indexed to the value of such metals. Based on historical experience, during periods of economic or financial instability the securities of such companies may be subject to extreme price fluctuations, reflecting the high volatility of precious metal prices during such periods. In addition, the instability of precious metal prices may result in volatile earnings of precious metal-related companies which, in turn, may affect adversely the financial condition of such companies. Asset-based securities are debt securities, preferred stock or convertible securities, the principal amount, redemption terms or conversion terms of which are related to the market price of some precious metal such as gold bullion. The Fund will purchase only asset-based securities which are rated, or are issued by issuers that have outstanding debt obligations rated, BBB or better by Standard & Poor's Corporation ("S&P") or Baa or better by Moody's Investors Service, Inc. ("Moody's") or commercial paper rated A-1 by S&P or Prime-1 by Moody's or of issuers that the Manager has determined to be of similar creditworthiness. Securities rated BBB by S&P or Baa by Moody's, while considered "investment grade", have certain speculative characteristics. If the asset-based security is backed by a bank letter of credit or other similar facility, the Manager may take such backing into account in determining the creditworthiness of the issuer.

Real Estate-Related Securities. The real estate-related securities which will be emphasized are equity securities of real estate investment trusts, which own income-producing properties, and mortgage real estate investment trusts which make various types of mortgage loans often combined with equity features. The securities of such trusts generally pay above average dividends and may offer the potential for capital appreciation. Such securities will be subject to the risks customarily associated with the real estate industry, including declines in the value of the real estate investments of the trusts. Real estate values are affected by numerous factors including (i) governmental regulation (such as zoning and environmental laws) and changes in tax laws; (ii) operating costs; (iii) the location and the attractiveness of the properties; (iv) changes in economic conditions (such as fluctuations in interest and inflation rates and business conditions); and (v) supply and demand for improved real estate. Such trusts also are dependent on management skill and may not be diversified in their investments.

DEBT SECURITIES

The debt securities in which the Fund may invest include securities issued or guaranteed by the U.S. Government and its agencies or instrumentalities, by foreign governments (including foreign states, provinces and municipalities) and agencies or instrumentalities thereof and debt obligations issued by U.S. and foreign corporations. Such securities may include mortgage-backed securities issued or guaranteed by governmental entities or by private issuers. In addition, the Fund may invest in debt securities issued or guaranteed by international organizations designed or supported by multiple governmental entities (which are not obligations of the U.S. Government or foreign governments) to promote economic reconstruction or development ("supranational entities") such as the International Bank for Reconstruction and Development (the "World Bank").

U.S. Government securities include: (i) U.S. Treasury obligations (bills, notes and bonds), which differ in their interest rates, maturities and times of issuance, all of which are backed by the full faith and credit of the U.S.; and (ii) obligations issued or guaranteed by U.S. Government agencies or instrumentalities, including government guaranteed mortgage-related securities, some of which are backed by the full faith and credit of the U.S. Treasury (e.g., direct pass-through certificates of the Government National Mortgage Association), some of which are supported by the right of the issuer to borrow from the U.S. Government (e.g., obligations of Federal Home Loan Banks) and some of which are backed only by the credit of the issuer itself (e.g., obligations of the Student Loan Marketing Association).

In the case of mortgage-related securities, prepayments occur when the holder of an individual mortgage prepays the remaining principal before the mortgage's scheduled maturity date. As a result of the pass-through of prepayments of principal on the underlying securities, a mortgage-related security is often subject to more rapid prepayment of principal than its stated maturity would indicate. Because the prepayment characteristics of the underlying mortgages vary, it is not possible to predict accurately the realized yield or average life of a particular issue of pass-through certificates. Prepayment rates are important because of their effect on the yield and price of the securities. Accelerated prepayments adversely impact yields for pass-through securities purchased at a premium (i.e., a price in excess of principal amount) and may involve additional risk of loss of principal because the premium may not have been fully amortized at the time the obligation is repaid. The opposite is true for pass-through securities purchased at a discount. The Fund may purchase mortgage-related securities at a premium or at a discount.

The obligations of foreign governmental entities have various kinds of government support and include obligations issued or guaranteed by foreign governmental entities with taxing power. These obligations may or may not be supported by the full faith and credit of a foreign government. The Fund will invest in foreign government securities of issuers considered stable by the Manager. The Manager does not believe that the credit risk inherent in the obligations of stable foreign governments is significantly greater than that of U.S. Government securities.

It is expected that the Fund generally will invest the portion of its assets allocated to debt obligations in the securities of governmental issuers and in corporate debt securities, including convertible debt securities, rated BBB or better by S&P or Baa or better by Moody's or which, in the Manager's judgment, possess similar credit characteristics ("investment grade bonds"). Debt securities ranked in the fourth highest rating category, while considered "investment grade", have more speculative characteristics and are more likely to be downgraded than securities rated in the three highest rating categories. See the Statement of Additional Information for more information regarding ratings of debt securities. The Manager considers the ratings

assigned by S&P and Moody's as one of several factors in its independent credit analysis of issuers. If a debt security in the Fund's portfolio is downgraded below investment grade, the Manager will consider factors such as price, credit risk, market conditions and interest rates and will sell such security only if, in the Manager's judgment, it is advantageous to do so.

The Fund is authorized to invest a portion of its debt portfolio in fixed income securities rated below investment grade by a nationally recognized rating agency or in unrated securities which, in the Manager's judgment, possess similar credit characteristics ("high yield bonds"). The Fund's Board of Directors has adopted a policy that the Fund will not invest more than 35% of its assets in obligations rated below Baa or BBB by Moody's or S&P, respectively. Investment in high yield bonds (which are sometimes referred to as "junk" bonds) involves substantial risk. Investments in high yield bonds will be made only when, in the judgment of the Manager, such securities provide attractive total return potential, relative to the risk of such securities, as compared to higher quality debt securities. Securities rated BB or lower by S&P or Ba or lower by Moody's are considered by those rating agencies to have varying degrees of speculative characteristics. Consequently, although high yield bonds can be expected to provide higher yields, such securities may be subject to greater market price fluctuations and risk of loss of principal than lower yielding, higher rated fixed income securities. The Fund will not invest in debt securities in the lowest rating categories (CC or lower for S&P or Ca or lower for Moody's) unless the Manager believes that the financial condition of the issuer or the protection afforded the particular securities is stronger than would otherwise be indicated by such low ratings. See the Statement of Additional Information for additional information regarding high yield bonds.

High yield bonds may be issued by less creditworthy companies or by larger, highly leveraged companies and are frequently issued in corporate restructurings such as mergers and leveraged buyouts. Such securities are particularly vulnerable to adverse changes in the issuer's industry and in general economic conditions. High yield bonds frequently are junior obligations of their issuers, so that in the event of the issuer's bankruptcy, claims of the holders of high yield bonds will be satisfied only after satisfaction of the claims of senior securityholders. While the high yield bonds in which the Fund may invest normally do not include securities which, at the time of investment, are in default or the issuers of which are in bankruptcy, there can be no assurance that such events will not occur after the Fund purchases a particular security, in which case the Fund may experience losses and incur costs.

High yield bonds tend to be more volatile than higher rated fixed income securities so that adverse economic events may have a greater impact on the prices of high yield bonds than on higher rated fixed income securities. Like higher rated fixed income securities, high yield bonds are generally purchased and sold through dealers who make a market in such securities for their own accounts. However, there are fewer dealers in the high yield bond market which may be less liquid than the market for higher rated fixed income securities even under normal economic conditions. Also, there may be significant disparities in the prices quoted for high yield bonds by various dealers. Adverse economic conditions or investor perceptions (whether or not based on economic fundamentals) may impair the liquidity of this market and may cause the prices the Fund receives for its high yield bonds to be reduced, or the Fund may experience difficulty in liquidating a portion of its portfolio. Under such conditions, judgment may play a greater role in valuing certain of the Fund's portfolio securities than in the case of securities trading in a more liquid market.

The average maturity of the Fund's portfolio of debt securities will vary based on the Manager's assessment of pertinent economic market conditions. As with all debt securities, changes in market yields

will affect the value of such securities. Prices generally increase when interest rates decline and decrease when interest rates rise. Prices of longer term securities generally fluctuate more in response to interest rate changes than do shorter term securities.

MONEY MARKET SECURITIES

Money market securities in which the Fund may invest consist of short-term securities issued or guaranteed by the U.S. Government and its agencies and instrumentalities; commercial paper, including variable amount master demand notes, rated at least "A" by S&P or "Prime" by Moody's; and repurchase agreements, purchase and sale contracts, and money market instruments issued by commercial banks, domestic savings banks, and savings and loan associations with total assets of at least one billion dollars. The obligations of commercial banks may be issued by U.S. banks, foreign branches of U.S. banks ("Eurodollar" obligations) or U.S. branches of foreign banks ("Yankeedollar" obligations).

PORTFOLIO STRATEGIES INVOLVING OPTIONS AND FUTURES

The Fund may engage in various portfolio strategies to seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against adverse movements in the equity, debt and currency markets. The Fund has authority to write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and financial futures, and related options on such futures. The Fund may also deal in forward foreign exchange transactions and foreign currency options and futures, and related options on such futures. Each of these portfolio strategies is described below. Although certain risks are involved in options and futures transactions (as discussed below and in "Risk Factors in Options and Futures Transactions" further below), the Manager believes that, because the Fund will (i) write only covered options on portfolio securities and (ii) engage in other options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of its shares, the net asset value of the Fund's shares will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. Furthermore, the Fund will only engage in hedging activities from time to time and may not necessarily be engaging in hedging activities when movements in the equity, debt and currency markets occur. Reference is made to the Statement of Additional Information for further information concerning these strategies.

Writing Covered Options. The Fund is authorized to write (i.e., sell) covered call options on the securities in which it may invest and to enter into closing purchase transactions with respect to certain of such options. A covered call option is an option where the Fund in return for a premium gives another party a right to buy specified securities owned by the Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, the Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, the Fund's ability to sell the underlying security will be limited while the option is in effect unless the Fund effects a closing purchase transaction. A closing purchase transaction cancels out the Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a partial hedge against the price of the underlying security declining.

The Fund also may write put options which give the holder of the option the right to sell the underlying security to the Fund at the stated exercise price. The Fund will receive a premium for writing a put option which increases the Fund's return. The Fund writes only covered put options which means that so long as the Fund is obligated as the writer of the option it will, through its custodian, have deposited and maintained cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies with a securities depository with a value equal to or greater than the exercise price of the underlying securities. By writing a put, the Fund will be obligated to purchase the underlying security at a price that may be higher than the market value of that security at the time of exercise for as long as the option is outstanding. The Fund may engage in closing transactions in order to terminate put options that it has written.

Purchasing Options. The Fund is authorized to purchase put options to hedge against a decline in the market value of its securities. By buying a put option the Fund has a right to sell the underlying security at the stated exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any appreciation in the value of the underlying security will be partially offset by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. In certain circumstances, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase. The Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

Stock Index Options and Futures and Financial Futures. The Fund is authorized to engage in transactions in stock index options and futures and financial futures, and related options on such futures. The Fund may purchase or write put and call options on stock indices to hedge against the risks of market-wide stock price movements in the securities in which the Fund invests. Options on indices are similar to options on securities except that on exercise or assignment, the parties to the contract pay or receive an amount of cash equal to the difference between the closing value of the index and the exercise price of the option times a specified multiple. The Fund may invest in stock index options based on a broad market index, e.g., the S&P 500 Index, or on a narrow index representing an industry or market segment, e.g., the AMEX Oil & Gas Index.

The Fund may also purchase and sell stock index futures contracts and financial futures contracts ("futures contracts") as a hedge against adverse changes in the market value of its portfolio securities as described below. A futures contract is an agreement between two parties which obligates the purchaser of the futures contract to buy and the seller of a futures contract to sell a security for a set price on a future date. Unlike most other futures contracts, a stock index futures contract does not require actual delivery of securities but results in cash settlement based upon the difference in value of the index between the time the contract was entered into and the time of its settlement. The Fund may effect transactions in stock index futures contracts in connection with the equity securities in which it invests and in financial futures contracts in connection with the debt securities in which it invests. Transactions by the Fund in stock index futures and financial futures are subject to limitations as described below under "Restrictions on the Use of Futures Transactions".

The Fund may sell futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the Fund's securities portfolio that might otherwise result. When the Fund is not fully invested in the securities markets and anticipates a significant advance, it may purchase futures in order to gain rapid market exposure that may in part or entirely offset increases in the cost of securities that the Fund intends to purchase. As such purchases are made, an equivalent amount of futures contracts will be terminated by offsetting sales. The Fund does not consider purchases of futures contracts to be a speculative practice under these circumstances. It is anticipated that, in a substantial majority of these transactions, the Fund will purchase such securities upon termination of the long futures position, whether the long position is the purchase of a futures contract or the purchase of a call option or the writing of a put option on a future, but under unusual circumstances (e.g., the Fund experiences a significant amount of redemptions), a long futures position may be terminated without the corresponding purchase of securities.

The Fund also has authority to purchase and write call and put options on futures contracts and stock indices in connection with its hedging activities. Generally, these strategies are utilized under the same market and market sector conditions (i.e., conditions relating to specific types of investments) in which the Fund enters into futures transactions. The Fund may purchase put options or write call options on futures contracts and stock indices rather than selling the underlying futures contract in anticipation of a decrease in the market value of its securities. Similarly, the Fund may purchase call options, or write put options on futures contracts and stock indices, as a substitute for the purchase of such futures to hedge against the increased cost resulting from an increase in the market value of securities which the Fund intends to purchase.

The Fund may engage in options and futures transactions on U.S. and foreign exchanges and in options in the over-the-counter markets ("OTC options"). In general, exchange-traded contracts are third-party contracts (i.e., performance of the parties' obligations is guaranteed by an exchange or clearing corporation) with standardized strike prices and expiration dates. OTC options transactions are two-party contracts with prices and terms negotiated by the buyer and seller. See "Restrictions on OTC Options" below for information as to restrictions on the use of OTC options.

Foreign Currency Hedging. The Fund has authority to deal in forward foreign exchange among currencies of the different countries in which it will invest and multinational currency units as a hedge against possible variations in the foreign exchange rates among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date and price set at the time of the contract. The Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted in such foreign currency. The Fund will not speculate in forward foreign exchange. Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates.

The Fund is also authorized to purchase or sell listed or over-the-counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on

non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund. As an illustration, the Fund may use such techniques to hedge the stated value in U.S. dollars of an investment in a yen denominated security. In such circumstances, for example, the Fund may purchase a foreign currency put option enabling it to sell a specified amount of yen for dollars at a specified price by a future date. To the extent the hedge is successful, a loss in the value of the yen relative to the dollar will tend to be offset by an increase in the value of the put option. To offset, in whole or in part, the cost of acquiring such a put option, the Fund may also sell a call option which, if exercised, requires it to sell a specified amount of yen for dollars at a specified price by a future date (a technique called a "straddle"). By selling such a call option in this illustration, the Fund gives up the opportunity to profit without limit from increases in the relative value of the yen to the dollar. The Manager believes that "straddles" of the type which may be utilized by the Fund constitute hedging transactions and are consistent with the policies described above.

Certain differences exist between these foreign currency hedging instruments. Foreign currency options provide the holder thereof the right to buy or sell a currency at a fixed price on a future date. A futures contract on a foreign currency is an agreement between two parties to buy and sell a specified amount of a currency for a set price on a future date. Futures contracts and options on futures contracts are traded on boards of trade or futures exchanges. The Fund will not speculate in foreign currency options, futures or related options. Accordingly, the Fund will not hedge a currency substantially in excess of the market value of securities which it has committed or anticipates to purchase which are denominated in such currency and, in the case of securities which have been sold by the Fund but not yet delivered, the proceeds thereof in its denominated currency. The Fund may not incur potential net liabilities of more than 20% of its total assets from foreign currency options, futures or related options.

Restrictions on the Use of Futures Transactions. Regulations of the Commodity Futures Trading Commission ("CFTC") applicable to the Fund provide that the futures trading activities described herein will not result in the Fund being deemed a "commodity pool", as defined under such regulations if the Fund adheres to certain restrictions. In particular, the Fund may purchase and sell futures contracts and options thereon (i) for bona fide hedging purposes, and (ii) for non-hedging purposes, if the aggregate initial margin and premiums required to establish positions in such contracts and options does not exceed 5% of the liquidation value of the Fund's portfolio, after taking into account unrealized profits and unrealized losses on any such contracts and options. These restrictions are in addition to other restrictions on the Fund's hedging activities mentioned herein.

When the Fund purchases a futures contract, or writes a put option or purchases a call option thereon, an amount of cash and cash equivalents will be deposited in a segregated account with the Fund's custodian so that the amount so segregated, plus the amount of initial and variation margin held in the account of its broker, equals the market value of the futures contract, thereby ensuring that the use of such futures contract is unleveraged.

Restrictions on OTC Options. The Fund will engage in OTC options, including over-the-counter stock index options, over-the-counter foreign currency options and options on foreign currency futures, only with member banks of the Federal Reserve System and primary dealers in U.S. Government securities or with affiliates of such banks or dealers which have capital of at least $50 million or whose obligations are guaranteed by an entity having capital of at least $50 million.

The staff of the Securities and Exchange Commission has taken the position that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. Therefore, the Fund has adopted

an investment policy pursuant to which it will not purchase or sell OTC options (including OTC options on futures contracts) if, as a result of such transaction, the sum of the market value of OTC options currently outstanding which are held by the Fund, the market value of the underlying securities covered by OTC call options currently outstanding which were sold by the Fund and margin deposits on the Fund's existing OTC options on futures contracts exceeds 10% of the total assets of the Fund, taken at market value, together with all other assets of the Fund which are illiquid or are not otherwise readily marketable. However, if the OTC option is sold by the Fund to a primary U.S. Government securities dealer recognized by the Federal Reserve Bank of New York and if the Fund has the unconditional contractual right to repurchase such OTC option from the dealer at a predetermined price, then the Fund will treat as illiquid such amount of the underlying securities as is equal to the repurchase price less the amount by which the option is "in-the-money" (i.e., current market value of the underlying security minus the option's strike price). The repurchase price with the primary dealers is typically a formula price which is generally based on a multiple of the premium received for the option, plus the amount by which the option is "in-the-money". This policy as to OTC options is not a fundamental policy of the Fund and may be amended by the Directors of the Fund without the approval of the Fund's shareholders. However, the Fund will not change or modify this policy prior to the change or modification by the Securities and Exchange Commission staff of its position.

Risk Factors in Options and Futures Transactions. Utilization of options and futures transactions to hedge the portfolio involves the risk of imperfect correlation in movements in the price of options and futures and movements in the price of the securities or currencies which are the subject of the hedge. If the price of the options or futures moves more or less than the price of the hedged securities or currencies, the Fund will experience a gain or loss which will not be completely offset by movements in the price of the subject of the hedge. The successful use of options and futures also depends on the Manager's ability to correctly predict price movements in the market involved in a particular options or futures transaction. To compensate for imperfect correlations, the Fund may purchase or sell stock index options or futures contracts in a greater dollar amount than the hedged securities if the volatility of the hedged securities is historically greater than the volatility of the stock index options or futures contracts. Conversely, the Fund may purchase or sell fewer stock index options or futures contracts if the volatility of the price of the hedged securities is historically less than that of the stock index options or futures contracts. The risk of imperfect correlation generally tends to diminish as the maturity date of the stock index option or futures contract approaches.

The Fund intends to enter into options and futures transactions, on an exchange or in the over-the-counter market, only if there appears to be a liquid secondary market for such options or futures or, in the case of over-the-counter transactions, the Manager believes the Fund can receive on each business day at least two independent bids or offers. However, there can be no assurance that a liquid secondary market will exist at any specific time. Thus, it may not be possible to close an options or futures position. The inability to close options and futures positions also could have an adverse impact on the Fund's ability to hedge effectively its portfolio. There is also the risk of loss by the Fund of margin deposits or collateral in the event of bankruptcy of a broker with whom the Fund has an open position in an option, a futures contract or related option.

The exchanges on which the Fund intends to conduct options transactions have generally established limitations governing the maximum number of call or put options on the same underlying security or currency (whether or not covered) which may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). "Trading limits" are imposed on

the maximum number of contracts which any person may trade on a particular trading day. The Manager does not believe that these trading and position limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

OTHER INVESTMENT POLICIES AND PRACTICES

Non-Diversified Status. The Fund is classified as non-diversified within the meaning of the Investment Company Act, which means that the Fund is not limited by such Act in the proportion of its assets that it may invest in securities of a single issuer. However, the Fund's investments will be limited so as to qualify as a "regulated investment company" for purposes of the Internal Revenue Code of 1986, as amended. See "Additional Information -- Taxes". To qualify, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer, and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. A fund which elects to be classified as "diversified" under the Investment Company Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the Fund assumes large positions in the securities of a small number of issuers, the Fund's yield may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers.

Portfolio Transactions. Since portfolio transactions may be effected on foreign securities exchanges, the Fund may incur settlement delays on certain of such exchanges. See "Special Considerations" above. Where possible, the Fund will deal directly with the dealers who make a market in the securities involved except in those circumstances where better prices and execution are available elsewhere. Such dealers usually are acting as principal for their own account. On occasion, securities may be purchased directly from the issuer. Such portfolio securities are generally traded on a net basis and do not normally involve either brokerage commissions or transfer taxes. Securities firms may receive brokerage commissions on certain portfolio transactions, including options, futures and options on futures transactions and the purchase and sale of underlying securities upon exercise of options. The Fund has no obligation to deal with any broker in the execution of transactions in portfolio securities. Under the Investment Company Act, persons affiliated with the Fund, including Merrill Lynch, are prohibited from dealing with the Fund as a principal in the purchase and sale of securities unless a permissive order allowing such transactions is obtained from the Securities and Exchange Commission. Affiliated persons of the Fund, and affiliated persons of such affiliated persons, may serve as its broker in transactions conducted on an exchange and in over-the-counter transactions conducted on an agency basis. In addition, consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., the Fund may consider sales of shares of the Fund as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund. It is expected that the majority of the shares of the Fund will be sold by Merrill Lynch. Costs associated with transactions in foreign securities are generally higher than with transactions in U.S. securities, although the Fund will endeavor to achieve the best net results in effecting such transactions.

When-Issued Securities and Delayed Delivery Transactions. The Fund may purchase securities on a when-issued basis, and it may purchase or sell securities for delayed delivery. These transactions occur when securities are purchased or sold by the Fund with payment and delivery taking place in the future to secure what is considered an advantageous yield and price to the Fund at the time of entering into the transaction. Although the Fund has not established any limit on the percentage of its assets that may be committed in

connection with such transactions, the Fund will maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the amount of its commitment in connection with such purchase transactions.

Standby Commitment Agreements. The Fund may from time to time enter into standby commitment agreements. Such agreements commit the Fund, for a stated period of time, to purchase a stated amount of a fixed income security which may be issued and sold to the Fund at the option of the issuer. The price and coupon of the security is fixed at the time of the commitment. At the time of entering into the agreement, the Fund is paid a commitment fee, regardless of whether or not the security is ultimately issued, which is typically approximately 0.5% of the aggregate purchase price of the security which the Fund has committed to purchase. The Fund will enter into such agreements only for the purpose of investing in the security underlying the commitment at a yield and price which is considered advantageous to the Fund. The Fund will not enter into a standby commitment with a remaining term in excess of 90 days and will limit its investment in such commitments so that the aggregate purchase price of the securities subject to such commitments, together with the value of portfolio securities subject to legal restrictions on resale, will not exceed 10% of its assets taken at the time of acquisition of such commitment or security. The Fund will at all times maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the purchase price of the securities underlying the commitment.

There can be no assurance that the securities subject to a standby commitment will be issued and the value of the security, if issued, on the delivery date may be more or less than its purchase price. Since the issuance of the security underlying the commitment is at the option of the issuer, the Fund may bear the risk of a decline in the value of such security and may not benefit from an appreciation in the value of the security during the commitment period.

The purchase of a security subject to a standby commitment agreement and the related commitment fee will be recorded on the date on which the security can reasonably be expected to be issued, and the value of the security will thereafter be reflected in the calculation of the Fund's net asset value. The cost basis of the security will be adjusted by the amount of the commitment fee. In the event the security is not issued, the commitment fee will be recorded as income on the expiration date of the standby commitment.

Repurchase Agreements and Purchase and Sale Contracts. The Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Purchase and sale contracts may be entered into only with financial institutions which have capital of at least $50 million or whose obligations are guaranteed by an entity having capital of at least $50 million. Under such agreements, the other party agrees, upon entering into the contract with the Fund, to repurchase the security at a mutually agreed upon time and price in a specified currency, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period although it may be affected by currency fluctuations. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect accrued interest on the underlying obligation; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, such as under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, as a purchaser, the Fund will require the seller to provide additional

collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but only constitute collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate, the rate of return to the Fund would be dependent upon intervening fluctuations of the market values of such securities and the accrued interest on the securities. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest more than 10% of its net assets in repurchase agreements or purchase and sale contracts maturing in more than seven days.

Lending of Portfolio Securities. The Fund may from time to time lend securities from its portfolio with a value not exceeding 33 1/3 of its total assets, to banks, brokers and other financial institutions and receive collateral in cash or securities issued or guaranteed by the U.S. Government. Such collateral will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. This limitation is a fundamental policy, and it may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the Investment Company Act. During the period of such a loan, the Fund receives the income on the loaned securities and either receives the income on the collateral or other compensation, i.e., negotiated loan premium or fee, for entering into the loan and thereby increases its yield. In the event that the borrower defaults on its obligation to return borrowed securities, because of insolvency or otherwise, the Fund could experience delays and costs in gaining access to the collateral and could suffer a loss to the extent that the value of the collateral falls below the market value of the borrowed securities.

Investment Restrictions. The Fund's investment activities are subject to further restrictions that are described in the Statement of Additional Information. Investment restrictions and policies which are fundamental policies may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the Investment Company Act means the lesser of (a) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (b) more than 50% of the outstanding shares). Among its fundamental policies, the Fund may not invest more than 25% of its total assets, taken at market value at the time of each investment, in the securities of issuers of any particular industry (excluding the U.S. Government and its agencies or instrumentalities). Other fundamental policies include policies which (i) limit investments in securities which cannot be readily resold because of legal or contractual restrictions or which are not otherwise readily marketable, including repurchase agreements and purchase and sale contracts maturing in more than seven days, if, regarding all such securities, more than 10% of its net assets, taken at market value, would be invested in such securities, (ii) limit investments in securities of other investment companies, except in connection with certain specified transactions and with respect to investments of up to 10% of the Fund's assets in securities of closed-end investment companies and (iii) restrict the issuance of senior securities and limit bank borrowings except that the Fund may borrow amounts of up to 10% of its assets for extraordinary purposes or to meet redemptions. The Fund will not purchase securities while borrowings exceed 5% of its total assets. The Fund has no present intention to borrow money in amounts exceeding 5% of its total assets. Although not a fundamental policy, the Fund will include OTC options and the securities underlying such

options in calculating the amount of its total assets subject to the limitation set forth in clause (i) above. However, as discussed above, the Fund may treat the securities it uses as cover for written OTC options as liquid, and, therefore, will be excluded from this restriction, provided it follows a specified procedure. The Fund will not change or modify this policy prior to the change or modification by the Securities and Exchange Commission staff of its position regarding OTC options, as discussed above.

Portfolio Turnover. The Manager will effect portfolio transactions without regard to holding period, if, in its judgment, such transactions are advisable in light of a change in circumstance in general market, economic or financial conditions. As a result of its investment policies, the Fund may engage in a substantial number of portfolio transactions. Accordingly, while the Fund anticipates that its annual portfolio turnover rate should not exceed 200% under normal conditions, it is impossible to predict portfolio turnover rates. The portfolio turnover rate is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of securities whose maturities at the time of acquisition were one year or less) by the monthly average value of the securities in the portfolio during the year. High portfolio turnover involves correspondingly greater transaction costs in the form of dealer spreads and brokerage commissions, which are borne directly by the Fund.

MANAGEMENT OF THE FUND

BOARD OF DIRECTORS

The Board of Directors of the Fund consists of five individuals, four of whom are not "interested persons" of the Fund as defined in the Investment Company Act. The Board of Directors of the Fund is responsible for the overall supervision of the operations of the Fund and performs the various duties imposed on the directors of investment companies by the Investment Company Act.

The Directors of the Fund are:

Arthur Zeikel* -- President and Chief Investment Officer of the Manager; President and Director of Princeton Services, Inc.; Executive Vice President of Merrill Lynch & Co., Inc.; Executive Vice President of Merrill Lynch; Director of the Distributor.

Donald Cecil -- Special Limited Partner of Cumberland Partners (an investment partnership).

Edward H. Meyer -- Chairman of the Board, President and Chief Executive Officer of Grey Advertising Inc.

Charles C. Reilly -- Self-employed financial consultant; former President and Chief Investment Officer of Verus Capital, Inc.; former Senior Vice President of Arnhold and S. Bleichroeder, Inc.; Adjunct Professor, Columbia University Graduate School of Business.

Richard R. West -- Professor of Finance, and Dean from 1984 to 1993, New York University Leonard N. Stern School of Business Administration.

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* Interested person, as defined in the Investment Company Act, of the Fund.

MANAGEMENT AND ADVISORY ARRANGEMENTS

The Manager, Merrill Lynch Asset Management, L.P., which does business as Merrill Lynch Asset Management, is owned and controlled by Merrill Lynch & Co., Inc., a financial services holding company and the parent of Merrill Lynch. The Manager provides the Fund with management and investment advisory services. The Manager or an affiliate, Fund Asset Management, L.P. ("FAM"), acts as the manager for more than 90 other registered investment companies. The Manager also offers portfolio management and portfolio analysis services to individuals and institutions. As of December 31, 1993, the Manager and FAM had a total of approximately $159.9 billion in investment company and other portfolio assets under management, including accounts of certain affiliates of the Manager.

The management agreement with the Manager (the "Management Agreement") provides that, subject to the direction of the Board of Directors of the Fund, the Manager is responsible for the actual management of the Fund's portfolio. The responsibility for making decisions to buy, sell or hold a particular security rests with the Manager, subject to review by the Board of Directors.

The Manager provides the portfolio manager for the Fund who considers analyses from various sources (including brokerage firms with which the Fund does business), makes the necessary decisions, and places transactions accordingly. The Manager is also obligated to perform certain administrative and management services for the Fund and is obligated to provide all of the office space, facilities, equipment and personnel necessary to perform its duties under the Management Agreement.

The Management Agreement provides that the Fund will pay the Manager a monthly fee at the annual rate of 0.75% of the average daily net assets of the Fund. The Manager has agreed to waive a portion of its management fee payable by the Fund so that such fee is reduced for average daily net assets of the Fund in excess of $2.5 billion from the annual rate of 0.75% to 0.70%, and further reduced from 0.70% to 0.65% for average daily net assets in excess of $5 billion. For the fiscal year ended October 31, 1993, the Fund paid the Manager a fee at the rate of 0.74% of average daily net assets. This fee is higher than that of most mutual funds, but management of the Fund believes this fee, which is typical for a global fund, is justified by the global nature of the Fund. For the fiscal year ended October 31, 1993, the Manager received a fee of $18,984,493 (based on average net assets of $2.6 billion). At December 31, 1993, the net assets of the Fund aggregated approximately $5.9 billion. At this asset level, the annual management fee would aggregate approximately $43.6 million. Also, the Manager has entered into a sub-advisory agreement (the "Sub-Advisory Agreement") with Merrill Lynch Asset Management U.K. Limited ("MLAM U.K."), an indirect, wholly-owned subsidiary of Merrill Lynch & Co., Inc. and an affiliate of the Manager, pursuant to which the Manager pays MLAM U.K. a fee computed at the rate of 0.10% of the average daily net assets of the Fund for providing investment advisory services to the Manager with respect to the Fund. For the fiscal year ended October 31, 1993, the fee paid by the Manager to MLAM U.K. pursuant to such agreement aggregated $2,293,281. At the Fund's December 31, 1993, asset level, the annual fee paid by the Manager to MLAM U.K. would aggregate approximately $5.9 million. MLAM U.K. has offices at Ropemaker Place, 25 Ropemaker Street, 1st Floor, London EC24 9LY, England.

Bryan N. Ison, Vice President of the Fund, is the Fund's Portfolio Manager. Mr. Ison has been a Portfolio Manager of the Manager since 1984 and a Vice President of the Manager since 1985.

The Management Agreement obligates the Fund to pay certain expenses incurred in its operations including, among other things, the investment advisory fee, legal and audit fees, registration fees, unaffiliated Directors' fees and expenses, custodian and transfer agency fees, accounting costs, the costs of issuing and redeeming shares and certain of the costs of printing proxies, shareholder reports, prospectuses and statements of additional information. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services on a semi-annual basis. For the fiscal year ended October 31, 1993, the Fund reimbursed the Manager $213,891 for such accounting services. For the fiscal year ended October 31, 1993, the ratio of total expenses to average net assets was 0.93% for the Class A shares and 1.95% for the Class B shares.

TRANSFER AGENCY SERVICES

Financial Data Services, Inc. (the "Transfer Agent"), which is a wholly-owned subsidiary of Merrill Lynch & Co., Inc., acts as the Fund's transfer agent pursuant to a Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement (the "Transfer Agency Agreement"). Pursuant to the Transfer Agency Agreement, the Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening and maintenance of shareholder accounts. Pursuant to the Transfer Agency Agreement, the Transfer Agent receives an annual fee of $7.00 per Class A shareholder account and $9.00 per Class B shareholder account, nominal miscellaneous fees (e.g., account closing fees) and is entitled to reimbursement for out-of-pocket expenses incurred by it under the Transfer Agency Agreement. For the fiscal year ended October 31, 1993, the Fund paid $2,460,346 to the Transfer Agent pursuant to the Transfer Agency Agreement. At December 31, 1993, the Fund had 73,780 Class A shareholder accounts and 370,254 Class B shareholder accounts. At this level of accounts, the annual fee payable to the Transfer Agent would aggregate approximately $3,848,746, plus miscellaneous and out-of-pocket expenses.

PURCHASE OF SHARES

Merrill Lynch Funds Distributor, Inc. (the "Distributor"), a subsidiary of the Manager and an affiliate of Merrill Lynch, acts as the distributor of shares of the Fund. Shares of the Fund are offered continuously for sale by the Distributor and other eligible securities dealers (including Merrill Lynch). Shares of the Fund may be purchased from securities dealers or by mailing a purchase order directly to the Transfer Agent. The minimum initial purchase is $1,000, and the minimum subsequent purchase is $50, except that for retirement plans, the minimum initial purchase is $250, and the minimum subsequent purchase is $1.

The Fund is offering its shares at a public offering price equal to the next determined net asset value per share plus sales charges which, at the option of the purchaser, may be imposed either at the time of purchase (the "initial sales charge alternative") or on a deferred basis (the "deferred sales charge alternative"), as described below. As to purchase orders received by securities dealers prior to 4:15 p.m., New York time, which includes orders received after the determination of the net asset value on the previous day, the applicable offering price will be based on the net asset value determined as of 4:15 p.m., New York time, on the day the orders are placed with the Distributor, provided the orders are received by the Distributor prior to 4:30 p.m., New York time, on that day. The applicable offering price for purchase orders is based upon the net asset value of the Fund next determined after receipt of the purchase orders by the Distributor. If the purchase orders are not received by the Distributor prior to 4:30 p.m., New York time, such orders shall be deemed received on the next business day. Any order may be rejected by the Distributor or the Fund. The Fund or the Distributor may suspend the continuous offering of the Fund's shares at any time in response to

conditions in the securities markets or otherwise and may thereafter resume such offering from time to time. Neither the Distributor nor the dealers are permitted to withhold placing orders to benefit themselves by a price change. Merrill Lynch may charge its customers a processing fee (presently $4.85) to confirm a sale of shares to such customers. Purchases directly through the Transfer Agent are not subject to the processing fee.

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative, and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares each represent interests in the same portfolio of investments of the Fund, have the same rights and are identical in all respects, except that Class B shares bear the expenses of the deferred sales arrangements, any expenses (including incremental transfer agency costs) resulting from such sales arrangements and the expenses paid by the account maintenance fee and have exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees are paid. The two classes also have different exchange privileges. See "Shareholder Services -- Exchange Privilege". The net income attributable to Class B shares and the dividends payable on Class B shares will be reduced by the amount of the account maintenance and distribution fees and incremental transfer agency costs relating to Class B shares; accordingly, the net asset value of the Class B shares will be reduced by such amount to the extent the Fund has undistributed net income. Sales personnel may receive different compensation for selling Class A or Class B shares. Investors are advised that only Class A shares may be available for purchase through securities dealers, other than Merrill Lynch, which are eligible to sell shares.

ALTERNATIVE SALES ARRANGEMENTS

The alternative sales arrangements of the Fund permit an investor to choose the method of purchasing shares that is most beneficial given the amount of his purchase, the length of time the investor expects to hold his shares and other relevant circumstances. Investors should determine whether under their particular circumstances it is more advantageous to incur an initial sales charge and not be subject to ongoing charges, as discussed below, or to have the entire initial purchase price invested in the Fund with the investment thereafter being subject to ongoing charges.

As an illustration, investors who qualify for significantly reduced sales charges, as described below, might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Shares acquired under the initial sales charge alternative would not be subject to an ongoing account maintenance fee and distribution fee as described below. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially.

Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time might also elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred alternative. Another factor that may be applicable under certain circumstances is that the payment of the Class B distribution fee and contingent deferred sales charge is subject to certain limits as set forth below under "Purchase of Shares -- Deferred Sales Charge Alternative -- Class B Shares".

Certain other investors might determine it to be more advantageous to have all their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge as described below. For example, an investor subject to the 6.50% initial sales charge will have to hold his investment at least 6 1/2 years for the ongoing 0.25% account maintenance fee and 0.75% distribution fee to exceed the initial sales charge. This example does not take into account the time value of money which further reduces the impact of the ongoing account maintenance and distribution fees on the investment, fluctuations in net asset value, the effect of the return on the investment over this period of time or the effect of any limits that may be imposed upon the payment of the distribution fee and the contingent deferred sales charge.

INITIAL SALES CHARGE ALTERNATIVE -- CLASS A SHARES

The public offering price of Class A shares for purchasers choosing the initial sales charge alternative is the next determined net asset value plus varying sales charges (i.e., sales loads), as set forth below.

<TABLE>
<CAPTION>

AMOUNT OF PURCHASE	SALES CHARGE AS PERCENTAGE OF OFFERING PRICE	SALES CHARGE AS PERCENTAGE++ OF THE NET AMOUNT INVESTED	DISCOUNT TO SELECTED DEALERS AS PERCENTAGE OF THE OFFERING PRICE
<S>	<C>	<C>	<C>
Less than $10,000............	6.50%	6.95%	6.25%
$10,000 but less than $25,000.	6.00	6.38	5.75
$25,000 but less than $50,000.	5.00	5.26	4.75
$50,000 but less than $100,000....................	4.00	4.17	3.75
$100,000 but less than $250,000	3.00	3.09	2.75
$250,000 but less than			

$1,000,000..................	2.00	2.04	1.80
$1,000,000 and over..........	.75	.76	.65

</TABLE>

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++ Rounded to the nearest one-hundredth percent.

Initial sales charges will be waived for shareholders purchasing $1 million or more in a single transaction (other than an employer sponsored retirement or savings plan, such as a tax qualified retirement plan under Section 401 of the Internal Revenue Code of 1986, as amended (the "Code"), a deferred compensation plan under Section 403(b) and Section 457 of the Code, other deferred compensation arrangements, VEBA plans and non-qualified After Tax Savings and Investment programs maintained on the Merrill Lynch Group Employee Services system herein referred to as "Employer Sponsored Retirement or Savings Plans"), or a purchase by a TMAsm Managed Trust, of Class A shares of the Fund. In addition, purchases of Class A shares of the Fund made in connection with a single investment of $1 million or more under the Merrill Lynch Mutual Fund Adviser Program will not be subject to an initial sales charge. Purchases described in this paragraph will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates:

<TABLE>
<CAPTION>

AMOUNT OF PURCHASE	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE
<S>	<C>
$1 million up to $2.5 million.........................	1.00%
Over $2.5 million up to $3.5 million..................	0.60%
Over $3.5 million up to $5 million....................	0.40%
Over $5 million.......................................	0.25%

</TABLE>

The Distributor may reallow discounts to selected dealers and retain the balance over such discounts. At times the Distributor may reallow the entire sales charge to such dealers. Since securities dealers selling Class A shares of the Fund will receive a concession equal to most of the sales charge, they may be deemed to be underwriters under the Securities Act of 1933. During the fiscal year ended October 31, 1993, the Fund sold 51,001,581 Class A shares for aggregate net proceeds of $652,336,461. The gross sales charges for the sale of these shares were $13,935,192, of which $861,771 was received by the Distributor and $13,073,421 was received by Merrill Lynch.

Reduced Initial Sales Charges. Sales charges are reduced under a Right of Accumulation and a Letter of Intention. Class A shares of the Fund are offered at net asset value to Directors of the Fund, to directors of Merrill Lynch & Co., Inc., to directors and trustees of certain other Merrill Lynch sponsored investment companies, to participants in certain benefit plans, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase if certain conditions set forth in the Statement of Additional Information are met and to employees of Merrill Lynch & Co., Inc. and its subsidiaries. Class A shares may be offered at net asset value in connection with the acquisition of assets of other investment companies. No initial sales charges are imposed upon Class A shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. Class A shares of the Fund are also offered at net asset value, without sales charge, to an investor who has a business relationship with a Merrill Lynch financial consultant and who has invested in a mutual fund sponsored by a non-Merrill Lynch company for which Merrill Lynch has served as a selected dealer and where Merrill Lynch has either received or given notice that such arrangement will be terminated if the following conditions are satisfied: first, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of such other mutual fund and such fund imposed a sales charge either at the time of purchase or on a deferred basis; second, such purchase of Class A shares must be made within 90 days after such notice of termination. Class A shares are offered with reduced sales charges and, in certain circumstances, at net asset value, to participants in the Merrill Lynch Blueprintsm Program. Class A shares are offered at net asset value to (i) certain retirement plans, including eligible 401(k) plans, provided such plans meet the required minimum number of eligible employees or required amount of assets advised by the Manager or its subsidiary, FAM and (ii) certain Employer Sponsored Retirement or Savings Plans, provided such plans meet the required minimum number of eligible employees or required amount of assets advised by the Manager or any of its affiliates. Class A shares of the Fund are also offered at net asset value to shareholders of certain closed-end funds advised by the Manager or FAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund, provided certain conditions are met. For example, Class A shares of the Fund and certain other mutual funds advised by the Manager or FAM are offered at net asset value to shareholders of Senior Floating Rate Fund (formerly known as Merrill Lynch Prime Fund, Inc.) who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of such funds.

Additional information concerning these reduced initial sales charges is set forth in the Statement of Additional Information.

DEFERRED SALES CHARGE ALTERNATIVE -- CLASS B SHARES

Investors choosing the deferred sales charge alternative purchase Class B shares at net asset value per share without the imposition of a sales charge at the time of purchase. The Class B shares are being sold without an initial sales charge so that the Fund will receive the full amount of the investor's purchase payment. Merrill Lynch compensates its financial consultants for selling Class B shares at the time of

purchase from its own funds. The proceeds of the contingent deferred sales charge and the ongoing distribution fee discussed below are used to defray Merrill Lynch's expenses, including compensating its financial consultants. The proceeds from the ongoing account maintenance fee are used to compensate Merrill Lynch for providing continuing account maintenance activities.

Proceeds from the contingent deferred sales charge are paid to the Distributor and are used in whole or in part by the Distributor to defray the expenses of dealers (including Merrill Lynch) related to providing distribution-related services to the Fund in connection with the sale of the Class B shares, such as the payment of compensation to financial consultants for selling Class B shares. Payments by the Fund to the Distributor of the distribution fee under the distribution plan described below also may be used in whole or in part by the Distributor for this purpose. The combination of the contingent deferred sales charge and the ongoing distribution fee facilitates the ability of the Fund to sell the Class B shares without a sales charge being deducted at the time of purchase. Class B shareholders of the Fund exercising the exchange privilege described under "Shareholder Services--Exchange Privilege" will continue to be subject to the Fund's contingent deferred sale charge schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares acquired as a result of the exchange.

Contingent Deferred Sales Charge. Class B shares which are redeemed within four years of purchase may be subject to a contingent deferred sales charge at the rates set forth below charged as a percentage of the dollar amount subject thereto. The charge will be assessed on an amount equal to the lesser of the current market value or the cost of the shares being redeemed. Accordingly, no sales charge will be imposed on increases in net asset value above the initial purchase price. In addition, no charge will be assessed on shares derived from reinvestment of dividends or capital gains distributions. For the fiscal year ended October 31, 1993, the Distributor received contingent deferred sales charges of $1,701,006 with respect to redemptions of Class B shares, all of which was paid to Merrill Lynch.

The following table sets forth the rates of the contingent deferred sales charge:

<TABLE>
<CAPTION>

YEAR SINCE PURCHASE PAYMENT MADE	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE
<S>	<C>
0-1	4.0%
1-2	3.0%
2-3	2.0%
3-4	1.0%
4 and thereafter	None

</TABLE>

In determining whether a contingent deferred sales charge is applicable to a redemption, the calculation will be determined in the manner that results in the lowest possible rate being charged. Therefore, it will be assumed that the redemption is first of shares held for over four years or shares acquired pursuant to reinvestment of dividends or distributions and then of shares held longest during the four-year period. The charge will not be applied to dollar amounts representing an increase in the net asset value since the time of purchase. A transfer of shares from a shareholder's account to another account will be assumed to be made in the same order as a redemption.

To provide an example, assume an investor purchased 100 shares at $10 per share (at a cost of $1,000) and in the third year after purchase, the net asset value per share is $12, and during such time, the investor

has acquired 10 additional shares through dividend reinvestment. If at such time the investor makes his first redemption of 50 shares (proceeds of $600), 10 shares will not be subject to the charge because of dividend reinvestment. With respect to the remaining 40 shares, the charge is applied only to the original cost of $10 per share and not to the increase in net asset value of $2 per share. Therefore, $400 of the $600 redemption proceeds will be charged at a rate of 2.0% (the applicable rate in the third year after purchase).

The contingent deferred sales charge is waived on redemptions of shares in connection with certain post-retirement withdrawals from an Individual Retirement Account ("IRA") or other retirement plan or following the death or disability (as defined in the Code) of a shareholder. The contingent deferred sales charge also is waived on redemptions of shares by certain eligible 401(a) and eligible 401(k) plans and in connection with certain group plans placing orders through the Merrill Lynch BlueprintSM Program. The contingent deferred sales charge is also waived for any Class B shares which are purchased by an eligible 401(k) or eligible 401(a) plan which are rolled over into a Merrill Lynch or Merrill Lynch Trust Company custodied IRA and held in such account at the time of redemption. Additional information concerning the waiver of the contingent deferred sales charge is set forth in the Statement of Additional Information.

Distribution Plan. Pursuant to a distribution plan (the "Distribution Plan") adopted by the Fund as of July 7, 1993, pursuant to Rule 12b-1 under the Investment Company Act, the Fund pays the Distributor an ongoing account maintenance fee and a distribution fee, which are accrued daily and paid monthly, at the annual rates of 0.25% and 0.75%, respectively, of the average daily net asset of the Class B shares of the Fund. Pursuant to a sub-agreement with the Distributor, Merrill Lynch also provides account maintenance and distribution services to the Fund. The ongoing account maintenance fee compensates the Distributor and Merrill Lynch for providing account maintenance services to Class B shareholders. The ongoing distribution fee compensates the Distributor and Merrill Lynch for providing shareholder and distribution services and bearing certain distribution-related expenses of the Fund, including payments to financial consultants for selling Class B shares of the Fund.

Prior to July 7, 1993, the Fund paid the Distributor an ongoing distribution fee, accrued daily and paid monthly, at the annual rate of 1.00% of average daily net assets of the Class B shares of the Fund under a distribution plan previously adopted by the Fund (the "Prior Plan") to compensate the Distributor and Merrill Lynch for providing account maintenance and distribution-related activities and services to Class B shareholders. The fee rate payable and the services provided under the Prior Plan are identical to the aggregate fee rate payable and the services provided under the Distribution Plan, the difference being that the account maintenance and distribution services have been unbundled. For the fiscal year ended October 31, 1993, the Fund paid the Distributor $20,873,731 pursuant to the Prior Plan and the Distribution Plan (based on average net assets subject to the Prior Plan and the Distribution Plan of $2.6 billion), all of which was paid to Merrill Lynch for providing account maintenance and distribution-related activities and services in connection with Class B shares. At December 31, 1993, the net assets of the Fund subject to the Distribution Plan aggregated approximately $5.9 billion. At this asset level, the annual fee payable pursuant to the Distribution Plan would aggregate approximately $58.9 million. Both the Distribution Plan and the Prior Plan were designed to permit an investor to purchase Class B shares through dealers without the assessment of a front-end sales charge and at the same time permit the dealer to compensate its financial consultants in connection with the sale of the Class B shares. In this regard, the purpose and function of the ongoing account maintenance and distribution fees under either the Distribution Plan or the Prior Plan and the contingent deferred sales charge are the same as those of the initial sales charge with respect to the Class A shares of the Fund in that the deferred sales charges provide for the financing of the distribution of the Fund's Class B shares.

The payments under the Distribution Plan, as was the case with the Prior Plan, are based upon a percentage of average daily net assets regardless of the amount of expenses incurred, and accordingly, distribution-related revenues may be more or less than distribution-related expenses. Information with respect to the distribution-related revenues and expenses is presented to the Directors for their consideration in connection with their deliberations as to the continuance of the Distribution Plan. This information is presented annually as of December 31 of each year on a "fully allocated accrual" basis and quarterly on a "direct expense and revenue/cash" basis. On the fully allocated accrual basis, revenues consist of the account maintenance fees, the distribution fees, the contingent deferred sales charges and certain other related revenues, and expenses consist of financial consultant compensation, branch office and regional operation center selling and transaction processing expenses, advertising, sales promotion and marketing expenses, corporate overhead and interest expense. On the direct expense and revenue/cash basis, revenues consist of the account maintenance fees, the distribution fees and contingent deferred sales charges, and the expenses consist of financial consultant compensation.

At December 31, 1992, the fully allocated accrual expenses incurred by the Distributor and Merrill Lynch for the period since February 3, 1989 (commencement of operations) exceeded fully allocated accrual revenues by approximately $20,995,000 (1.88% of Class B net assets at that date). As of December 31, 1992, direct cash expenses for the period since February 3, 1989 (commencement of operations) exceeded direct cash revenues by $2,809,124 (0.25% of Class B net assets at that date). As of December 31, 1993, direct cash expenses for the period since February 3, 1989 (commencement of operations) exceeded direct cash revenues by $17,461, 314 (0.36% of Class B net assets at that date).

The Fund has no obligation with respect to distribution-related expenses incurred by the Distributor and Merrill Lynch in connection with the Class B shares, and there is no assurance that the Board of Directors of the Fund will approve the continuance of the Distribution Plan from year to year. However, the Distributor intends to seek annual continuation of the Distribution Plan. In their review of the Distribution Plan, the Directors will not be asked to take into consideration expenses incurred in connection with the distribution of Class A shares or of shares of other funds for which the Distributor acts as distributor. The account maintenance fee, the distribution fee and the contingent deferred sales charge in the case of Class B shares will not be used to subsidize the sale of Class A shares.

Limitations on the Payment of Deferred Sales Charges. The maximum sales charge rule in the Rules of Fair Practice of the National Association of Securities Dealers, Inc. ("NASD") imposes a limitation on certain asset-based sales charges such as the Fund's distribution fee and the contingent deferred sales charge but not the account maintenance fee. As applicable to the Fund, the maximum sales charge rule limits the aggregate of distribution fee payments and contingent deferred sales charges payable by the Fund to (1) 6 1/4% of eligible gross sales of Class B shares (defined to exclude shares issued pursuant to dividend reinvestments and exchanges) plus (2) interest on the unpaid balance at the prime rate plus 1% (the unpaid balance being the maximum amount payable minus amounts received from the payment of the distribution fee and the contingent deferred sales charge). The Distributor has voluntarily agreed to waive interest charges on the unpaid balance in excess of 0.50% of eligible gross sales. Consequently, the maximum amount payable to the Distributor (referred to as the "voluntary maximum") is 6.75% of eligible gross sales. The Distributor retains the right to stop waiving interest charges at any time. To the extent payments would exceed the voluntary maximum, the Fund will not make further payments of the distribution fee and any contingent deferred sales charges will be paid to the Fund rather than to the Distributor; however, the Fund will continue to make payments of the account maintenance fee. In certain circumstances the amount payable pursuant to the voluntary maximum may exceed the amount payable under the NASD formula. In such circumstances payment in excess of the amount payable under the NASD formula will not be made.

The following table sets forth comparative information as of October 31, 1993, with respect to the Class B shares of the Fund indicating the maximum allowable payments that can be made under the NASD maximum sales charge rule and the Distributor's voluntary maximum for the fiscal period February 3, 1989 (commencement of operations) to October 31, 1993.

DATA CALCULATED AS OF OCTOBER 31, 1993

(IN THOUSANDS)

<TABLE>
<CAPTION>

	ELIGIBLE GROSS SALES(1)	ALLOWABLE AGGREGATE SALES CHARGES	ALLOWABLE INTEREST ON UNPAID BALANCE	MAXIMUM AMOUNT PAYABLE	AMOUNTS PREVIOUSLY PAID TO DISTRIBUTOR(3)	AGGREGATE UNPAID BALANCE	ANNUAL DISTRIBUTION FEE AT CURRENT NET ASSET LEVEL(4)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Under NASD Rule As Adopted................	$3,290,125	$205,633	$ 9,802(2)	$215,435	$24,128	$191,307	$32,244
Under Distributor's Voluntary Waiver.......	$3,290,125	$205,633	$16,450	$222,083	$24,128	$197,955	$32,244

</TABLE>

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(1) Purchase price of all eligible Class B shares sold since February 3, 1989 other than shares acquired through dividend reinvestment and the exchange privilege.
(2) Interest is computed on a monthly basis based upon the prime rate, as reported in The Wall Street Journal, plus 1%, as permitted under the NASD Rule.
(3) Consists of contingent deferred sales charge payments, distribution fee payments and accruals. Of the distribution fee payments made prior to July 7, 1993, under the Prior Plan at the 1.0% rate, 0.75% of average daily net assets has been treated as a distribution fee and 0.25% of average daily net assets has been deemed to have been a service fee and not subject to the NASD maximum sales charge rule.
(4) Provided to illustrate the extent to which the current level of distribution fee payments (not including any contingent deferred sales charge payments) is amortizing the unpaid balance. No assurance can be given that payments of the distribution fee will reach either the voluntary maximum or the NASD maximum.

REDEMPTION OF SHARES

The Fund is required to redeem for cash all full and fractional shares of the Fund upon receipt of a written request in proper form. The redemption price is the net asset value per share next determined after the initial receipt of proper notice of redemption. Except for any contingent deferred sales charge which may be applicable to Class B shares, there will be no charge for redemption if the redemption request is sent directly to the Transfer Agent. Shareholders liquidating their holdings will receive upon redemption all dividends reinvested through the date of redemption. The value of shares at the time of redemption may be more or less than the shareholder's cost, depending on the market value of the securities held by the Fund at such time.

REDEMPTION

A shareholder wishing to redeem shares may do so without charge by tendering the shares directly to the Transfer Agent, Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, P.O. Box 45289, Jacksonville, Florida 32232-5289. Redemption requests delivered other than by mail should be delivered to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484. Proper notice of redemption in the case of shares deposited with the Transfer Agent may be accomplished by a written letter requesting redemption. Proper notice of redemption

in the case of shares for which certificates have been issued may be accomplished by a written letter as noted above accompanied by certificates for the shares to be redeemed. The notice in either event requires the signatures of all persons in whose names the shares are registered, signed exactly as their names appear on the Transfer Agent's register or on the certificate, as the case may be. The signature(s) on the notice must be guaranteed by an "eligible guarantor institution" (including, for example, Merrill Lynch branch offices and certain other financial institutions) as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the Transfer Agent through the use of industry publications. Notarized signatures are not sufficient. In certain instances, the Transfer Agent may require additional documents, such as, but not limited to, trust instruments, death certificates, appointments as executor or administrator, or certificates of corporate authority. For shareholders redeeming directly with the Transfer Agent, payment will be mailed within seven days of receipt of a proper notice of redemption.

At various times the Fund may be requested to redeem shares for which it has not yet received good payment. The Fund may delay or cause to be delayed the mailing of a redemption check until such time as good payment (e.g., cash or certified check drawn on a U.S. bank) has been collected for the purchase of such shares. Normally, this delay will not exceed 10 days.

REPURCHASE

The Fund also will repurchase shares through a shareholder's listed securities dealer. The Fund normally will accept orders to repurchase shares by wire or telephone from dealers for their customers at the net asset value next computed after receipt of the order by the dealer, provided that the request for repurchase is received by the dealer prior to the close of business on the New York Stock Exchange on the day received and that such request is received by the Fund from such dealer not later than 4:30 p.m., New York time, on the same day. Dealers have the responsibility of submitting such repurchase requests to the Fund not later than 4:30 p.m., New York time, in order to obtain that day's closing price.

The foregoing repurchase arrangements are for the convenience of shareholders and do not involve a charge by the Fund (other than any applicable contingent deferred sales charge in the case of Class B shares). Securities firms which do not have selected dealer agreements with the Distributor, however, may impose a transaction charge on the shareholder for transmitting the notice of repurchase to the Fund. Merrill Lynch may charge its customers a processing fee (presently $4.85) to confirm a repurchase of shares to such customers. Redemptions directly through the Transfer Agent are not subject to the processing fee. The Fund reserves the right to reject any order for repurchase, which right of rejection might adversely affect shareholders seeking redemption through the repurchase procedure. A shareholder whose order for repurchase is rejected by the Fund, however, may redeem shares as set forth above.

REINSTATEMENT PRIVILEGE -- CLASS A SHARES

Shareholders who have redeemed their Class A shares have a one-time privilege to reinstate their accounts by purchasing Class A shares of the Fund at net asset value without a sales charge up to the dollar amount redeemed. The reinstatement privilege may be exercised by sending a notice of exercise along with a check for the amount to be reinstated to the Transfer Agent within 30 days after the date the request for redemption was accepted by the Transfer Agent or the Distributor. The reinstatement will be made at the net asset value per share next determined after the notice of reinstatement is received and cannot exceed the amount of the redemption proceeds. The reinstatement privilege is a one-time privilege and may be exercised by the Class A shareholder only the first time such shareholder makes a redemption.

SHAREHOLDER SERVICES

The Fund offers a number of shareholder services and investment plans described below which are designed to facilitate investment in its shares. Certain of such services are not available to investors who place purchase orders for the Fund's shares through the Merrill Lynch BlueprintSM Program. Full details as to each of such services, copies of the various plans described below and instructions as to how to participate in the various plans and services, or to change options with respect thereto, can be obtained from the Fund by calling the telephone number on the cover page hereof or from the Distributor or Merrill Lynch. Certain of these services are available only to U.S. investors.

Investment Account. Each shareholder whose account is maintained at the Transfer Agent has an Investment Account and will receive semi-annual statements from the Transfer Agent showing any reinvestments or dividends and capital gains distributions and any other activity in the account since the preceding statement. Shareholders also will receive separate confirmations for each purchase or sale transaction other than reinvestment of dividends and capital gains distributions. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the Transfer Agent. Shareholders may also maintain their accounts through Merrill Lynch. Upon the transfer of shares out of a Merrill Lynch brokerage account, an Investment Account in the transferring shareholder's name will be opened automatically, without charge, at the Transfer Agent. Shareholders considering transferring their Class A shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm or such shareholder must continue to maintain an Investment Account at the Transfer Agent for those Class A shares. Shareholders interested in transferring their Class B shares from Merrill Lynch and who do not wish to have an Investment Account maintained for such shares at the Transfer Agent may request their new brokerage firm to maintain such shares in an account registered in the name of the brokerage firm for the benefit of the shareholder. If the new brokerage firm is willing to accommodate the shareholder in this manner, the shareholder must request that he be issued certificates for his shares and then must turn the certificates over to the new firm for re-registration as described in the preceding sentence. Shareholders considering transferring a tax-deferred retirement account such as an individual retirement account from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the retirement account is to be transferred will not take delivery of shares of the Fund, a shareholder must either redeem the shares (paying any applicable contingent deferred sales charge) so that the cash proceeds can be transferred to the account at the new firm, or such shareholder must continue to maintain a retirement account at Merrill Lynch for those shares.

Exchange Privilege. U.S. Class A and Class B shareholders of the Fund each have an exchange privilege with certain other mutual funds sponsored by Merrill Lynch. There is currently no limitation on the number of times a shareholder may exercise the exchange privilege. The exchange privilege may be modified or terminated in accordance with the rules of the Securities and Exchange Commission. Class A shareholders of the Fund may exchange their shares ("outstanding Class A shares") for Class A shares of another fund ("new Class A shares") on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. The Fund's exchange privilege is modified with respect to purchases of Class A shares under the Merrill Lynch Mutual Fund Adviser program. First, the initial allocation of assets is made under the program. Then, any subsequent exchange under the

program of Class A shares of a fund for Class A shares of the Fund will be made solely on the basis of the relative net asset values of the shares being exchanged. Therefore, there will not be a charge for any difference between the sales charge previously paid on the shares of the other fund and the sales charge payable on the shares of the Fund being acquired in the exchange under this program.

Class B shareholders of the Fund may exchange their shares ("outstanding Class B shares") for Class B shares of another fund ("new Class B shares") on the basis of relative net asset value per share without the payment of any contingent deferred sales charge that might otherwise be due on redemption of the outstanding Class B shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the new Class B shares. In addition, Class B shares of the Fund acquired through use of the exchange privilege will be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the contingent deferred sales charge that may be payable upon a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to the holding period of the new Class B shares. Class A and Class B shareholders of the Fund may also exchange their shares for shares of certain money market funds, but in the case of an exchange from Class B shares, the period of time that shares are held in a money market fund will not count toward satisfaction of the holding period requirement for purposes of reducing the contingent deferred sales charge. Exercise of the exchange privilege is treated as a sale for Federal income tax purposes. For further information, see "Shareholder Services -- Exchange Privilege" in the Statement of Additional Information.

Automatic Reinvestment of Dividends and Capital Gains Distributions. All dividends and capital gains distributions are reinvested automatically in full and fractional shares of the Fund at the net asset value per share next determined on the ex-dividend date of such dividend or distribution. A shareholder may at any time, by written notification to Merrill Lynch if the shareholder's account is maintained with Merrill Lynch or by written notification or telephone call (1-800-MER-FUND) to the Transfer Agent if the shareholder's account is maintained with the Transfer Agent, elect to have subsequent dividends or capital gains distributions, or both, paid in cash, rather than reinvested, in which event payment will be mailed on or about the payment date. No contingent deferred sales charge will be imposed upon redemption of shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch other than a CMA(R) account.

Systematic Withdrawal and Automatic Investment Plans. A Class A shareholder may elect to receive systematic withdrawal payments from his Investment Account in the form of payments by check or through automatic payment by direct deposit to his bank account on either a monthly or quarterly basis. A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program, subject to certain conditions. Regular additions of Class A shares may be made to an investor's Investment Account by prearranged charges of $50 or more to his regular bank account. Investors who maintain CMA accounts may arrange to have periodic investments made in the Fund in their CMA accounts or in certain related accounts in amounts of $250 or more through the CMA Automatic Investment Program. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch (other than a CMA account).

PERFORMANCE DATA

From time to time the Fund may include its average annual total return for various specified time periods in advertisements or information furnished to present or prospective shareholders. Average annual total return is computed separately for Class A and Class B shares in accordance with a formula specified by the Securities and Exchange Commission.

Average annual total return quotations for the specified periods will be computed by finding the average annual compounded rates of return (based on net investment income and any capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return will be computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring and nonrecurring expenses, including the maximum sales charge in the case of Class A shares and the contingent deferred sales charge that would be applicable to a complete redemption of the investment at the end of the specified period in the case of Class B shares. Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution fees and any incremental transfer agency costs relating to Class B shares will be borne exclusively by that class. The Fund will include performance data for both Class A and Class B shares of the Fund in any advertisement or information including performance data of the Fund.

The Fund also may quote total return and aggregate total return performance data for various specified time periods. Such data will be calculated substantially as described above, except that (1) the rates of return calculated will not be average annual rates, but rather, actual annual, annualized or aggregate rates of return, and (2) the maximum applicable sales charges will not be included with respect to annualized rates of return calculations. Aside from the impact on the performance data calculations of including or excluding the maximum applicable sales charges, actual annual or annualized total return data generally will be lower than average annual total return data since the average annual rates of return reflect compounding; aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return reflect compounding over longer periods of time. In advertisements directed to investors whose purchases are subject to reduced sales charges in the case of Class A shares or waiver of the contingent deferred sales charge in the case of Class B shares (such as investors in certain retirement plans), performance data may take into account the reduced, and not the maximum, sales charge or may not take into account the contingent deferred sales charge and therefore may reflect greater total return since, due to the reduced sales charges or waiver of the contingent deferred sales charge, a lower amount of expenses may be deducted. See "Purchase of Shares". The Fund's total return may be expressed either as a percentage or as a dollar amount in order to illustrate the effect of such total return on a hypothetical $1,000 investment in the Fund at the beginning of each specified period.

Total return figures are based on the Fund's historical performance and are not intended to indicate future performance. The Fund's total return will vary depending on market conditions, the securities comprising the Fund's portfolio, the Fund's operating expenses and the amount of realized and unrealized net capital gains or losses during the period. The value of an investment in the Fund will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost.

On occasion, the Fund may compare its performance to the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average, or performance data published by Lipper Analytical Services,

Inc., Morningstar Publications, Inc., Money Magazine, U.S. News & World Report, Business Week, CDA Investment Technology, Inc., Forbes Magazine, Fortune Magazine or other industry publications. In addition, from time to time the Fund may include the Fund's risk-adjusted performance ratings assigned by Morningstar Publications, Inc. in advertising or supplemental sales literature. As with other performance data, performance comparisons should not be considered representative of the Fund's relative performance for any future period.

ADDITIONAL INFORMATION

DIVIDENDS AND DISTRIBUTIONS

It is the Fund's intention to distribute all of its net investment income, if any. Dividends from such net investment income are paid at least annually. All net realized long- or short-term capital gains, if any, are distributed to the Fund's shareholders at least annually. The per share dividends and distributions on Class B shares will be lower than the per share dividends and distributions on Class A shares as a result of the account maintenance, distribution and higher transfer agency fees applicable to the Class B shares. See "Additional Information -- Determination of Net Asset Value". Dividends and distributions may be reinvested automatically in shares of the Fund, at net asset value without a sales charge. Shareholders may elect in writing to receive any such dividends or distributions, or both, in cash. Dividends and distributions are taxable to shareholders as described below whether they are reinvested in shares of the Fund or received in cash. From time to time, the Fund may declare a special distribution at or about the end of the calendar year in order to comply with a Federal income tax requirement that certain percentages of its ordinary income and capital gains be distributed during the calendar year.

Certain gains or losses attributable to foreign currency related gains or losses from certain of the Fund's investments may increase or decrease the amount of the Fund's income available for distribution to shareholders. If such losses exceed other income during a taxable year, (a) the Fund would not be able to make any ordinary dividend distributions, and (b) distributions made before the losses were realized would be recharacterized as returns of capital to shareholders, rather than as ordinary dividends, reducing each shareholder's tax basis in his Fund shares for Federal income tax purposes. For a detailed discussion of the Federal tax considerations relevant to foreign currency transactions, see "Additional Information -- Taxes". If in any fiscal year the Fund has net income from certain foreign currency transactions, such income will be distributed annually.

All net realized long- or short-term capital gains, if any, are declared and distributed to the Fund's shareholders annually after the close of the Fund's fiscal year. Capital gains distributions will be automatically reinvested in shares unless the shareholder elects to receive such distributions in cash.

See "Shareholder Services -- Automatic Reinvestment of Dividends and Capital Gains Distributions" for information as to how to elect either dividend reinvestment or cash payments. Dividends and distributions are taxable to shareholders as described below whether they are reinvested in shares of any portfolio or received in cash.

DETERMINATION OF NET ASSET VALUE

Net asset value per share is determined once daily as of 4:15 p.m., New York time, on each day during which the New York Stock Exchange is open for trading. Any assets or liabilities initially expressed in terms

of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation. The net asset value is computed by dividing the market value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time. Expenses, including the fees payable to the Manager and the account maintenance and distribution fees payable to the Distributor, are accrued daily. The per share net asset value of the Class B shares generally will be lower than the per share net asset value of the Class A shares reflecting the daily expense accruals of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares. It is expected, however, that the per share net asset value of the two classes will tend to converge immediately after the payment of dividends or distributions which will differ by approximately the amount of the expense accrual differential between the classes.

Portfolio securities which are traded on U.S. stock exchanges are valued at the last sale price as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Portfolio securities which are traded on European stock exchanges are valued at the closing bid price on such exchange on the day the securities are being valued or, if closing prices are unavailable, at the last traded bid price available prior to the time the Fund's net asset value is determined. On certain European exchanges there may be no separate reporting of bid and asked quotations, and in such instances the Fund will use the closing price on such exchange, or the last reported price if a closing price is unavailable. Securities traded in the over-the-counter market are valued at the last available bid price or yield equivalents obtained from one or more dealers in the over-the-counter market prior to the time of valuation. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market. Other investments, including futures contracts and related options, are stated at market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Board of Directors of the Fund.

TAXES

The Fund intends to continue to qualify for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, the Fund (but not its shareholders) will not be subject to Federal income tax on the part of its net ordinary income and net realized capital gains which it distributes to Class A and Class B shareholders (together, the "shareholders"). The Fund intends to distribute substantially all of such income.

Dividends paid by the Fund from its ordinary income and distributions of the

Fund's net realized short-term capital gains (together referred to hereafter as "ordinary income dividends") are taxable to shareholders as ordinary income. Distributions made from the Fund's net realized long-term capital gains (including long-term gains from certain transactions in futures and options) ("capital gain dividends") are taxable to shareholders as long-term capital gains, regardless of the length of time the shareholder has owned Fund shares. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset).

Dividends are taxable to shareholders even though they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends or capital gain dividends. A portion of the

Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. If the Fund pays a dividend in January that was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% U.S. withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the U.S. withholding tax.

Dividends and interest received by the Fund may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes. Shareholders may be able to claim U.S. foreign tax credits with respect to such taxes, subject to certain conditions and limitations contained in the Code. For example, certain retirement accounts cannot claim foreign tax credits on investments in foreign securities held in the Fund. If more than 50% in value of the Fund's total assets at the close of its taxable year consists of securities of foreign corporations, the Fund will be eligible, and intends, to file an election with the Internal Revenue Service pursuant to which shareholders of the Fund will be required to include their proportionate shares of such withholding taxes in their U.S. income tax returns as gross income, treat such proportionate shares as taxes paid by them, and deduct such proportionate shares in computing their taxable incomes or, alternatively, use them as foreign tax credits against their U.S. income taxes. No deductions for foreign taxes, however, may be claimed by noncorporate shareholders who do not itemize deductions. A shareholder that is a nonresident alien individual or a foreign corporation may be subject to U.S. withholding tax on the income resulting from the Fund's election described in this paragraph but may not be able to claim a credit or deduction against such U.S. tax for the foreign taxes treated as having been paid by such shareholder. The Fund will report annually to its shareholders the amount per share of such withholding taxes.

Under certain provisions of the Code, some shareholders may be subject to a 31% withholding tax on certain ordinary income dividends and capital gain dividends and on redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with the Fund or who, to the Fund's knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding.

Under Code Section 988, foreign currency gains or losses from certain debt instruments, from certain forward contracts, from futures contracts that are not "regulated futures contracts" and from unlisted options will generally be treated as ordinary income or loss. Such Code Section 988 gains or losses will generally increase or decrease the amount of the Fund's investment company taxable income available to be distributed to shareholders as ordinary income. Additionally, if Code Section 988 losses exceed other investment company taxable income during a taxable year, the Fund would not be able to make any ordinary dividend distributions, and any distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to shareholders, thereby reducing the basis of each shareholder's Fund shares.

If a Class A shareholder exercises the exchange privilege within 90 days of acquiring the shares, then the loss the shareholder can recognize on the exchange will be reduced (or the gain increased) to the extent the sales charge paid to the Fund reduces any sales charge the shareholder would have owed upon purchase of the new Class A shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new Class A shares.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative or administrative action either prospectively or retroactively.

Ordinary income dividends and capital gain dividends may also be subject to state and local taxes.

Certain states exempt from state income taxation dividends paid by RICs which are derived from interest on U.S. Government obligations. State law varies as to whether dividend income attributable to U.S. Government obligations is exempt from state income tax.

Shareholders are urged to consult their tax advisers regarding specific questions as to Federal, foreign, state or local taxes. Foreign investors should consider applicable foreign taxes in their evaluation of an investment in the Fund.

ORGANIZATION OF THE FUND

The Fund was incorporated under Maryland law on June 9, 1988. It has an authorized capital of 1,100,000,000 shares of Common Stock, par value $0.10 per share, divided into two classes, designated Class A Common Stock and Class B Common Stock, of which Class A consists of 200,000,000 shares, and Class B consists of 900,000,000 shares. Both Class A Common Stock and Class B Common Stock represent an interest in the same assets of the Fund and are identical in all respects except that the Class B shares bear certain expenses related to the account maintenance and distribution of such shares and have exclusive voting rights with respect to matters relating to such account maintenance and distribution expenditures. See "Purchase of Shares". The Fund has received an order from the Securities and Exchange Commission permitting the issuance and sale of two classes of Common Stock. The Board of Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date. The creation of additional classes would require an additional order from the Securities and Exchange Commission. There is no assurance that such an additional order would be issued.

Shareholders are entitled to one vote for each share held and fractional votes for fractional shares held and will vote on the election of Directors and any other matters submitted to a shareholder vote. The Fund does not intend to hold meetings of shareholders in any year in which the Investment Company Act does not require shareholders to act on any of the following matters: (i) election of Directors; (ii) approval of an investment advisory agreement; (iii) approval of a distribution agreement; and (iv) ratification of selection of independent auditors. Also, the by-laws of the Fund require that a special meeting of stockholders be held upon the written request of at least 10% of the outstanding shares of the Fund entitled to vote at such meeting. Voting rights for Directors are not cumulative. Shares issued are fully paid and non-assessable and have no preemptive or conversion rights. Each share of Class A Common Stock and Class B Common Stock is entitled to participate equally in dividends and distributions declared by the Fund and in the net assets of the Fund on liquidation or dissolution after satisfaction of outstanding liabilities, except as noted above, the Class B shares bear certain expenses related to the distribution of such shares.

SHAREHOLDER REPORTS

Only one copy of each shareholder report and certain shareholder communications will be mailed to each identified shareholder regardless of the number of accounts such shareholder has. If a shareholder wishes to receive separate copies of each report and communication for each of the shareholder's related accounts, the shareholder should notify in writing:

Financial Data Services, Inc.
Attn: Document Evaluation Unit
P.O. Box 45290
Jacksonville, FL 32232-5290

The written notification should include the shareholder's name, address, tax identification number and Merrill Lynch, Pierce, Fenner & Smith Incorporated and/or mutual fund account numbers. If you have any questions regarding this, please call your Merrill Lynch financial consultant or Financial Data Services, Inc. at 1-800-637-3863.

SHAREHOLDER INQUIRIES

Shareholder inquiries may be addressed to the Fund at the address or telephone number set forth on the cover page of this Prospectus.

MERRILL LYNCH GLOBAL ALLOCATION FUND, INC.--AUTHORIZATION FORM

NOTE: THIS FORM MAY NOT BE USED FOR PURCHASES THROUGH THE MERRILL LYNCH BLUEPRINTSM PROGRAM. YOU MAY REQUEST AN APPLICATION FOR PURCHASES THROUGH MERRILL LYNCH BLUEPRINTSM PROGRAM BY CALLING TOLL FREE (800) 637-2434.

1. SHARE PURCHASE APPLICATION

I, being of legal age, wish to purchase .... Class A shares or .... Class B shares (choose one) of Merrill Lynch Global Allocation Fund, Inc. and establish an Investment Account as described in the Prospectus.

Basis for establishing an Investment Account:

A. I enclose a check for $...... payable to Financial Data Services, Inc., as an initial investment (minimum $1,000) (subsequent investments $50 or more). I understand that this purchase will be executed at the applicable offering price next to be determined after this Application is received by you.

B. I already own shares of the following Merrill Lynch mutual funds that would qualify for the right of accumulation as outlined in the Statement of Additional Information:

1. ....   4. ....
2. ....   5. ....
3. ....   6. ....

(Please list all Funds. Use a separate sheet of paper if necessary.)

Until you are notified by me in writing, the following options with respect to dividends and distributions are elected:

Distribution Options

ELECT	[_] reinvest dividends	[_] reinvest capital gains
ONE	[_] pay dividends in cash	[_] pay capital gains in cash

If no election is made, dividends and capital gains will be reinvested automatically at net asset value without a sales charge.

(Please Print)

Name .... [_][_][_][_][_][_][_][_][_]
First Name Initial Last Name — Social Security No. or Taxpayer Identification No.

Name of Co-Owner (if any) ....
First Name Initial Last Name

Address ....

...., 19..
Date

....
(Zip Code)

Occupation............................ Name and Address of Employer...........

....

Under penalty of perjury, I certify (1) that the number set forth above is my correct Social Security No. or Taxpayer Identification No. and (2) that I am not subject to backup withholding (as discussed in the Prospectus under "Additional Information--Taxes") either because I have not been notified that I am subject thereto as a result of a failure to report all interest or dividends, or the Internal Revenue Service ("IRS") has notified me that I am no longer subject thereto.

INSTRUCTION: YOU MUST STRIKE OUT THE LANGUAGE IN (2) ABOVE IF YOU HAVE BEEN NOTIFIED THAT YOU ARE SUBJECT TO BACKUP WITHHOLDING DUE TO UNDER REPORTING AND IF YOU HAVE NOT RECEIVED A NOTICE FROM THE IRS THAT BACKUP WITHHOLDING HAS BEEN TERMINATED. THE UNDERSIGNED AUTHORIZES THE FURNISHING OF THIS CERTIFICATION TO OTHER MERRILL LYNCH SPONSORED MUTUAL FUNDS.

Signature of Owner ....   Signature of Co-Owner (if any) ....

In the case of co-owners, a joint tenancy with right of survivorship will be presumed unless otherwise specified.

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2. LETTER OF INTENTION--CLASS A SHARES ONLY (SEE TERMS AND CONDITIONS IN THE STATEMENT OF ADDITIONAL INFORMATION)

.............., 19......
Date of Initial

GENTLEMEN:

Purchase

Although I am not obligated to do so, I intend to purchase shares of Merrill Lynch Global Allocation Fund, Inc. or any other investment company with an initial sales charge or deferred sales charge for which Merrill Lynch Funds Distributor, Inc. acts as distributor over the next 13 month period which will equal or exceed:

$10,000   [_] $25,000   [_] $50,000   [_] $100,000
[_] $250,000   [_] $1,000,000

Each purchase will be made at the then reduced offering price applicable to the amount checked above, as described in the Merrill Lynch Global Allocation Fund, Inc. prospectus.

I agree to the terms and conditions of the Letter of Intention. I hereby irrevocably constitute and appoint Merrill Lynch Funds Distributor, Inc. my attorney, with full power of substitution, to surrender for redemption any or all shares of Merrill Lynch Global Allocation Fund, Inc. held as security.

By ....
Signature of Owner   Signature of Co-Owner (If registered in joint names, both must sign)

In making purchases under this letter, the following are the related accounts on which reduced offering prices are to apply:

(1) Name .... (2) Name ....

MERRILL LYNCH GLOBAL ALLOCATION FUND, INC.--AUTHORIZATION FORM

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3. SYSTEMATIC WITHDRAWAL PLAN--CLASS A SHARES ONLY (See terms and conditions in the Statement of Additional Information)

Minimum Requirements: $10,000 for monthly disbursements, $5,000 for quarterly, of shares in Merrill Lynch Global Allocation Fund, Inc., at cost or current offering price. Begin systematic withdrawal on ..., 19. . Withdrawals to be made either (check one) [_] Monthly [_] Quarterly*
[Date]

*Quarterly withdrawals are made on the 24th day of March, June, September and December.

Specify withdrawal amount (check one): [_] $....... or [_] .....% of the current value of Class A shares in the account.

Specify withdrawal method: [_] check or [_] direct deposit to bank account (check one and complete part (a) or (b) below:

(A) I HEREBY AUTHORIZE PAYMENT BY CHECK	(B) I HEREBY AUTHORIZE PAYMENT BY DIRECT DEPOSIT TO BANK ACCOUNT AND (IF NECESSARY) DEBIT ENTRIES AND ADJUSTMENTS FOR ANY CREDIT ENTRIES MADE IN ERROR TO MY ACCOUNT.
Draw checks payable (check one)	Specify type of account (check one): [_] checking [_] savings
[_] as indicated in Item 1.	I agree that this authorization will remain in effect until I provide written notification to Financial Data Services, Inc. amending or terminating this service.
[_] to the order of	
Mail to (check one)	Name on your Account................
	Bank................................
[_] the address indicated in Item 1.	Bank #.......... Account #..........
	Bank Address........................
[_] Name (Please Print)..............	Signature of Depositor............. Date......
Address................................	Signature of Depositor (if joint account)...........................
Signature of Owner.....................	NOTE: If Automatic Direct Deposit is elected, your blank, unsigned check marked "VOID" or a deposit slip from your savings account should accompany this Application.
Signature of Co-Owner (if any)..........	

---

4. APPLICATION FOR AUTOMATIC INVESTMENT PLAN

I hereby request that Financial Data Services, Inc. draw a check or an automated clearing house ("ACH") debit on my checking account as described below each month to purchase .... Class A shares or .... Class B shares (choose one) of Merrill Lynch Global Allocation Fund, Inc., subject to the terms set forth below.

FINANCIAL DATA SERVICES, INC.	AUTHORIZATION TO HONOR CHECKS OR ACH DEBITS DRAWN BY FINANCIAL DATA

You are hereby authorized to draw a check or an ACH debit each month on my bank account for investment in Merrill Lynch Global Allocation Fund, Inc., as indicated below:

Amount of each check or ACH debit
$ ....

Account No. ....

Please date and invest checks or draw ACH debits on the 20th of each month beginning ....
(Month)
or as soon thereafter as possible.

I agree that you are preparing these checks or drawing these debits voluntarily at my request and that you shall not be liable for any loss arising from any delay in preparing or failure to prepare any such check or debit. If I change banks or desire to terminate or suspend this program, I agree to notify you promptly in writing.

I further agree that if a check or debit is not honored upon presentation, Financial Data Services, Inc. is authorized to discontinue immediately the Automatic Investment Plan and to liquidate sufficient shares held in my account to offset the purchase made with the returned check or dishonored debit.

....
Date Signature of Depositor

....
Signature of Depositor

(If joint account, both must sign)

SERVICES, INC.

To .... Bank
(Investor's Bank)

Bank Address ....

City .... State Zip Code ....

As a convenience to me, I hereby request and authorize you to pay and charge to my account checks or ACH debits drawn on my account by and payable to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, Jacksonville, Florida 32232-5289. I agree that your rights in respect to each such check or debit shall be the same as if it were a check drawn on you and signed personally by me. This authority is to remain in effect until revoked personally by me in writing. Until you receive such notice, you shall be fully protected in honoring any such check or debit. I further agree that if any such check or debit be dishonored, whether with or without cause and whether intentionally or inadvertently, you shall be under no liability.

....
Date Signature of Depositor

....
Bank Account Number Signature of Depositor

(If joint account, both must sign)

Note: If Automatic Investment Plan is elected, your blank, unsigned check marked "VOID" should accompany this Application.

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5. FOR DEALER ONLY
Branch Office, Address, Stamp

This form when completed should be mailed to:
Merrill Lynch Global Allocation Fund, Inc.
c/o Financial Data Services, Inc.
Transfer Agency Mutual Fund Operations
P.O. Box 45289
Jacksonville, Florida 32232-5289

We hereby authorize Merrill Lynch Funds Distributor, Inc. to act as our agent in connection with transactions under this authorization form and agree to notify the Distributor of any purchases made under a Letter of Intention or Systematic Withdrawal Plan. We guarantee the Shareholder's Signature.

....
Dealer Name and Address

By ....
Authorized Signature of Dealer

[_][_][_] [_][_][_][_] ....
Branch-Code F/C No. F/C Last Name

[_][_][_] [_][_][_][_][_]
Dealer's Customer A/C No.

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MANAGER

Merrill Lynch Asset Management
Administrative Offices:
800 Scudders Mill Road
Plainsboro, New Jersey 08536

Mailing Address:
Box 9011
Princeton, New Jersey 08543-9011

DISTRIBUTOR

Merrill Lynch Funds Distributor, Inc.
Administrative Offices:
800 Scudders Mill Road
Plainsboro, New Jersey 08536

Mailing Address:
Box 9011
Princeton, New Jersey 08543-9011

TRANSFER AGENT

Financial Data Services, Inc.
Administrative Offices:
Transfer Agency Mutual Fund Operations
4800 Deer Lake Drive East
Jacksonville, Florida 32246-6484

Mailing Address:
P.O. Box 45289
Jacksonville, Florida 32232-5289

CUSTODIAN

Brown Brothers Harriman & Co.
40 Water Street
Boston, Massachusetts 02109

INDEPENDENT AUDITORS

Deloitte & Touche
117 Campus Drive
Princeton, New Jersey 08540

COUNSEL

Brown & Wood
One World Trade Center
New York, New York 10048-0557

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS, IN CONNECTION WITH THE OFFER CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND, THE MANAGER OR THE DISTRIBUTOR. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFERING IN ANY STATE IN WHICH SUCH OFFERING MAY NOT LAWFULLY BE MADE.

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PROSPECTUS

MERRILL LYNCH GLOBAL ALLOCATION FUND, INC.

February 24, 1994

Distributor:
Merrill Lynch
Funds Distributor, Inc.

This prospectus should be
retained for future reference.

STATEMENT OF ADDITIONAL INFORMATION

MERRILL LYNCH GLOBAL ALLOCATION FUND, INC.

BOX 9011, PRINCETON, NEW JERSEY 08543-9011 . PHONE NO. (609) 282-2800

Merrill Lynch Global Allocation Fund, Inc. (the "Fund") is a non-diversified mutual fund seeking high total investment return, consistent with prudent risk, through a fully-managed investment policy utilizing United States and foreign equity, debt and money market securities, the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends. Total investment return is the aggregate of capital value changes and income. There can be no assurance that the Fund's investment objective will be achieved. The Fund may employ a variety of instruments and techniques to enhance income and to hedge against market and currency risk.

The Fund offers two classes of shares which may be purchased at a price equal to the next determined net asset value per share, plus a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares") or (ii) on a deferred basis (the "Class B shares"). These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred sales charges and ongoing account maintenance fee with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Each Class A share and Class B share represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance fee and distribution fee and certain other costs resulting from the deferred sales charge arrangement and have exclusive voting rights with respect to the account maintenance and distribution fees. The two classes also have different exchange privileges.

This Statement of Additional Information of the Fund is not a prospectus and should be read in conjunction with the prospectus of the Fund, dated February 24, 1994 (the "Prospectus"), which has been filed with the Securities and Exchange Commission and can be obtained, without charge, by calling or by writing the Fund at the above telephone number or address. This Statement of Additional Information has been incorporated by reference into the Prospectus.

MERRILL LYNCH ASSET MANAGEMENT--MANAGER

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

The date of this Statement of Additional Information is February 24, 1994.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is to seek a high total investment return, consistent with prudent risk, through a fully-managed investment policy utilizing United States and foreign equity, debt and money market securities the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends. Reference is made to "Investment Objective and Policies" in the Prospectus for a discussion of the investment objective and policies of the Fund.

While it is the policy of the Fund generally not to engage in trading for short-term gains, Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the "Manager"), will effect portfolio transactions without regard to holding period if, in its judgment, such transactions are advisable in light of a change in circumstances of a particular company or within a particular industry or due to general market, economic or financial conditions. Accordingly, while the Fund anticipates that its annual turnover rate should not exceed 200% under normal conditions, it is impossible to predict portfolio turnover rates. The portfolio turnover rate is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of securities whose maturities at the time of acquisition were one year or less) by the monthly average value of the securities in the portfolio during the year. The portfolio turnover rates for the fiscal years ending October 31, 1992, and 1993 were 59.56% and 50.35%, respectively. The Fund is subject to the Federal income tax requirement that less than 30% of the Fund's gross income must be derived from gains from the sale or other disposition of securities held for less than three months.

The U.S. Government has from time to time in the past imposed restrictions, through taxation and otherwise, on foreign investments by U.S. investors such as the Fund. If such restrictions should be reinstituted, it might become necessary for the Fund to invest all or substantially all of its assets in U.S. securities. In such event, the Fund would review its investment objective and investment policies to determine whether changes are appropriate. Any changes in the investment objective or fundamental policies set forth under "Investment Restrictions" below would require the approval of the holders of a majority of the Fund's outstanding voting securities.

The Fund's ability and decisions to purchase or sell portfolio securities may be affected by laws or regulations relating to the convertibility and repatriation of assets. Because the shares of the Fund are redeemable on a daily basis on each day the Fund determines its net asset value in U.S. dollars, the Fund intends to manage its portfolio so as to give reasonable assurance that it will be able to obtain U.S. dollars to the extent necessary to meet anticipated redemptions. See "Redemption of Shares". Under present conditions, the Fund does not believe that these considerations will have any significant effect on its portfolio strategy, although there can be no assurance in this regard.

PRECIOUS METAL-RELATED SECURITIES

The Fund may invest in the equity securities of companies that explore for, extract, process or deal in precious metals, i.e., gold, silver and platinum, and in asset-based securities indexed to the value of such metals. Such securities may be purchased when they are believed to be attractively priced in relation to the value of a company's precious metal-related assets or when the value of precious metals are expected to benefit from inflationary pressure or other economic, political or financial uncertainty or instability. The prices of precious metals and of the securities of precious metal-related companies historically have been subject to high volatility. In addition, the earnings of precious metal-related companies may be adversely affected by volatile metals prices which may adversely affect the financial condition of such companies.

The major producers of gold include the Republic of South Africa, the former republics of the Soviet Union, Canada, the United States, Brazil and Australia. Sales of gold by the former republics of the Soviet Union are largely unpredictable and often relate to political and economic considerations rather than to market forces. Economic, social and political developments within South Africa may significantly affect South African gold production.

The Fund presently does not intend to invest in companies the assets of which are located primarily in the Republic of South Africa, which produces approximately 60% of the gold mined in nations outside of what until recently constituted the Communist bloc. This limitation may affect adversely the Fund's ability to invest in gold-related securities and during certain periods may result in the Fund restricting its investments to relatively few companies. This limitation is not a fundamental policy of the Fund and may be changed by the Directors, without a vote of the shareholders, if they determine that such action is warranted. The Fund will notify its shareholders of any change in this policy with respect to South Africa.

The Fund may invest in debt securities, preferred stock or convertible securities, the principal amount, redemption terms or conversion terms of which are related to the market price of some precious metals such as gold bullion. These securities are referred to as "asset-based securities". The Fund will purchase only asset-based securities which are rated, or are issued by issuers that have outstanding debt obligations rated, BBB or better by Standard & Poor's Corporation ("S&P") or Baa or better by Moody's Investors Service, Inc. ("Moody's") or commercial paper rated A-1 by S&P or Prime-1 by Moody's or of issuers that the Manager has determined to be of similar creditworthiness. If the asset-based security is backed by a bank letter of credit or other similar facility, the Manager may take such backing into account in determining the creditworthiness of the issuer. While the market prices for an asset-based security and the related natural resource asset generally are expected to move in the same direction, there may not be perfect correlation in the two price movements. Asset-based securities may not be secured by a security interest in or claim on the underlying natural resource asset. The asset-based securities in which the Fund may invest may bear interest or pay preferred dividends at below market (or even at relatively nominal) rates. As an example, assume gold is selling at a market price of $300 per ounce and an issuer sells a $1,000 face amount gold related note with a seven year maturity, payable at maturity at the greater of either $1,000 in cash or in the then market price of three ounces of gold. If at maturity, the market price of gold is $400 per ounce, the amount payable on the note would be $1,200. Certain asset-based securities may be payable at maturity in cash at the stated principal amount or, at the option of the holder, directly in a stated amount of the asset to which it is related. In such instance, because the Fund presently does not intend to invest directly in natural resource assets, the Fund would sell the asset-based security in the secondary market, to the extent one exists, prior to maturity if the value of the stated amount of the asset exceeds the stated principal amount and thereby realize the appreciation in the underlying asset.

REAL ESTATE-RELATED SECURITIES

The real estate-related securities which will be emphasized by the Fund are equity securities of real estate investment trusts, which own income-producing properties, and mortgage real estate investment trusts which make various types of mortgage loans often combined with equity features. The securities of such trusts generally pay above average dividends and may offer the potential for capital appreciation. Such securities will be subject to the risks customarily associated with the real estate industry, including declines in the value of the real estate investments of the trusts. Real estate values are affected by numerous factors including (i) governmental regulations (such as zoning and environmental laws) and changes in tax laws, (ii) operating costs, (iii) the location and the attractiveness of the properties, (iv) changes in economic conditions (such as

fluctuations in interest and inflation rates and business conditions) and (v) supply and demand for improved real estate. Such trusts also are dependent on management skill and may not be diversified in their investments.

PORTFOLIO STRATEGIES INVOLVING OPTIONS AND FUTURES

Reference is made to the discussion under the caption "Investment Objective and Policies--Portfolio Strategies Involving Options and Futures" in the Prospectus for information with respect to various portfolio strategies involving options and futures. The Fund may seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against movements in the equity, debt and currency markets. The Fund has authority to write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and stock futures and financial futures, and related options on such futures. The Fund may also deal in forward foreign transactions and foreign currency options and futures, and related options on such futures. Each of such portfolio strategies is described in the Prospectus. Although certain risks are involved in options and futures transactions (as discussed in the Prospectus and below), the Manager believes that, because the Fund will (i) write only covered call options on portfolio securities and (ii) engage in other options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of its shares, the net asset value of the Fund's shares will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. The following is further information relating to portfolio strategies involving options and futures that the Fund may utilize.

Writing Covered Options. The Fund is authorized to write (i.e., sell) covered call options on the securities in which it may invest and to enter into closing purchase transactions with respect to certain of such options. A covered call option is an option where the Fund, in return for a premium, gives another party a right to buy specified securities owned by the Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, the Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, the Fund's ability to sell the underlying security will be limited while the option is in effect unless the Fund effects a closing purchase transaction. A closing purchase transaction cancels out the Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a particular hedge against the price of the underlying security declining.

The writer of a covered call option has no control over when he may be required to sell his securities since he may be assigned an exercise notice at any time prior to the termination of his obligation as a writer. If an option expires unexercised, the writer would realize a gain in the amount of the premium. Such a gain, of course, may be offset by a decline in the market value of the underlying security during the option period. If a call option is exercised, the writer would realize a gain or loss from the sale of the underlying security.

The Fund also may write put options which give the holder of the option the right to sell the underlying security to the Fund at the stated exercise price. The Fund will receive a premium for writing a put option which increases the Fund's return. The Fund writes only covered put options which means that so long as the Fund is obligated as the writer of the option, it will, through its custodian, have deposited and maintained cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities

denominated in U.S. dollars or non-U.S. currencies with a securities depository with a value equal to or greater than the exercise price of the underlying securities. By writing a put, the Fund will be obligated to purchase the underlying security at a price that may be higher than the market value of that security at the time of exercise for as long as the option is outstanding. The Fund may engage in closing transactions in order to terminate put options that it has written.

Options referred to herein and in the Fund's Prospectus may be options issued by The Options Clearing Corporation (the "Clearing Corporation") which are currently traded on the Chicago Board Options Exchange, American Stock Exchange, New York Stock Exchange, Philadelphia Stock Exchange and Pacific Stock Exchange. Options referred to herein and in the Fund's Prospectus may also be options traded on foreign securities exchanges such as the London Stock Exchange and the Amsterdam Stock Exchange. An option position may be closed out only on an exchange which provides a secondary market for an option of the same series. If a secondary market does not exist, it might not be possible to effect a closing transaction in a particular option, with the result, in the case of a covered call option, that the Fund will not be able to sell the underlying security until the option expires or until it delivers the underlying security upon exercise. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Clearing Corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

The Fund may also enter into over-the-counter option transactions ("OTC options"), which are two party contracts with price and terms negotiated between the buyer and seller. The staff of the Securities and Exchange Commission has taken the position that OTC options and the assets used as cover for written OTC options are illiquid securities.

Purchasing Options. The Fund may purchase put options to hedge against a decline in the market value of its equity holdings. By buying a put, the Fund has a right to sell the underlying security at the exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any appreciation in the value of the underlying security will be offset partially by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction; profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction cost. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. In certain circumstances, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase. The Fund may purchase either exchange traded options or OTC options. The Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

Stock Index Options and Futures and Financial Futures. As described in the Prospectus, the Fund is authorized to engage in transactions in stock index options and futures and financial futures, and related options on such futures. Set forth below is further information concerning futures transactions.

A futures contract is an agreement between two parties to buy and sell a security or, in the case of an index-based futures contract, to make and accept a cash settlement for a set price on a future date. A majority of transactions in futures contracts, however, do not result in the actual delivery of the underlying instrument or cash settlement, but are settled through liquidation, i.e., by entering into an offsetting transaction.

The purchase or sale of a futures contract differs from the purchase or sale of a security in that no price or premium is paid or received. Instead, an amount of cash or securities acceptable to the broker and the relevant contract market, which varies, but is generally about 5% of the contract amount, must be deposited with the broker. This amount is known as "initial margin" and represents a "good faith" deposit assuring the performance of both the purchaser and seller under the futures contract. Subsequent payments to and from the broker, called "variation margin", are required to be made on a daily basis as the price of the futures contract fluctuates, making the long and short positions in the futures contract more or less valuable, a process known as "mark to the market". At any time prior to the settlement date of the futures contract, the position may be closed out by taking an opposite position which will operate to terminate the position in the futures contract. A final determination of variation margin is then made, additional cash is required to be paid to or released by the broker and the purchaser realizes a loss or gain. In addition, a nominal commission is paid on each completed sale transaction.

An order has been obtained from the Securities and Exchange Commission exempting the Fund from the provisions of Section 17(f) and Section 18(f) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), in connection with its strategy of investing in futures contracts. Section 17(f) relates to the custody of securities and other assets of an investment company and may be deemed to prohibit certain arrangements between the Fund and commodities brokers with respect to initial and variation margin. Section 18(f) of the Investment Company Act prohibits an open-end investment company such as the Fund from issuing a "senior security" other than a borrowing from a bank.

The staff of the Securities and Exchange Commission has in the past indicated that a futures contract may be a "senior security" under the Investment Company Act.

Foreign Currency Hedging. Generally, the foreign exchange transactions of the Fund will be conducted on a spot, i.e., cash basis at the spot rate of purchasing or selling currency prevailing in the foreign exchange market. This rate under normal market conditions differs from the prevailing exchange rate in an amount generally less than one tenth of one percent due to the costs of converting from one currency to another. However, the Fund has authority to deal in forward foreign exchange among currencies of the different countries in which it will invest as a hedge against possible variations in the foreign exchange rates among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date and price set at the time of the contract. The Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted in such foreign currency. The Fund will not speculate in forward foreign exchange. The Fund may not position hedge with

respect to the currency of a particular country to an extent greater than the aggregate market value (at the time of making such sale) of the securities held in its portfolio denominated or quoted in that particular foreign currency. If the Fund enters into a position hedging transaction, its custodian will place cash or liquid equity or debt securities in a separate account of the Fund in an amount equal to the value of the Fund's total assets committed to the consummation of such forward contract. If the value of the securities placed in the separate account declines, additional cash or securities will be placed in the account so that the value of the account will equal the amount of the Fund's commitment with respect to such contracts. The Fund will enter into such transactions only to the extent, if any, deemed appropriate by the Manager. The Fund will not enter into a forward contract with a term of more than one year.

The Fund is also authorized to purchase or sell listed or over-the-counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund. As an illustration, the Fund may use such techniques to hedge the stated value in U.S. dollars of an investment in a yen denominated security. In such circumstances, for example, the Fund may purchase a foreign currency put option enabling it to sell a specified amount of Japanese yen for dollars at a specified price by a future date. To the extent the hedge is successful, a loss in the value of the yen relative to the dollar will tend to be offset by an increase in the value of the put option. To offset, in whole or part, the cost of acquiring such a put option, the Fund may also sell a call option which, if exercised, requires it to sell a specified amount of yen for dollars at a specified price by a future date (a technique called a "straddle"). By selling such call option in this illustration, the Fund gives up the opportunity to profit without limit from increases in the relative value of the yen to the dollar. The Manager believes that "straddles" of the type which may be utilized by the Fund constitute hedging transactions and are consistent with the policies described above.

Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates. The cost to the Fund of engaging in foreign currency transactions varies with such factors as the currencies involved, the length of the contract period and the market conditions then prevailing. Since transactions in foreign currency exchange usually are conducted on a principal basis, no fees or commissions are involved.

Risk Factors in Options and Futures Transactions. Utilization of options and futures transactions involves the risk of imperfect correlation in movements in the prices of options and futures contracts and movements in the prices of the securities and currencies which are the subject of the hedge. If the price of the options and futures contract moves more or less than the prices of the hedged securities or currencies, the Fund will experience a gain or loss which will not be completely offset by movements in the prices of the securities and currencies which are the subject of the hedge. The successful use of options and futures also depends on the Manager's ability to correctly predict price movements in the market involved in a particular options or futures transaction.

Prior to exercise or expiration, an exchange-traded option or futures position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market on an exchange for call or put options of the same series. The Fund will enter into an option or futures transaction on an exchange

only if there appears to be a liquid secondary market for such options or futures. However, there can be no assurance that a liquid secondary market will exist for any particular call or put option or futures contract at any specific time. Thus, it may not be possible to close an option or futures position. The Fund will acquire only over-the-counter options for which management believes the Fund can receive on each business day at least two independent bids or offers (one of which will be from an entity other than a party to the option), unless there is only one dealer, in which case that dealer's price is used. In the case of a futures position or an option on a futures position written by the Fund in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. In addition, the Fund may be required to take or make delivery of the security or currency underlying futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on the Fund's ability to hedge effectively its portfolio. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in a futures contract or related option. The risk of loss from investing in futures transactions is theoretically unlimited.

The exchanges on which the Fund intends to conduct options transactions have generally established limitations governing the maximum number of call or put options on the same underlying security or currency (whether or not covered) which may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). "Trading limits" are imposed on the maximum number of contracts which any person may trade on a particular trading day. An exchange may order the liquidation of positions found to be in violation of these limits, and it may impose other sanctions or restrictions. The Manager does not believe that these trading and position limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

OTHER INVESTMENT POLICIES AND PRACTICES

Non-Diversified Status. The Fund is classified as non-diversified within the meaning of the Investment Company Act, which means that the Fund is not limited by such Act in the proportion of its assets that it may invest in securities of a single issuer. However, the Fund's investments will be limited so as to qualify as a "regulated investment company" for purposes of the Internal Revenue Code of 1986, as amended. See "Dividends, Distributions and Taxes--Taxes". To qualify, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer, and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. A fund which elects to be classified as "diversified" under the Investment Company Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the Fund assumes large positions in the securities of a small number of issuers, the Fund's net asset value may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers.

When-Issued Securities and Delayed Delivery Transactions. The Fund may purchase securities on a when-issued basis, and it may purchase or sell securities for delayed delivery. These transactions occur when securities are purchased or sold by the Fund with payment and delivery taking place in the future to secure what is considered an advantageous yield and price to the Fund at the time of entering into the transaction.

Although the Fund has not established any limit on the percentage of its assets that may be committed in connection with such transactions, the Fund will maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the amount of its commitment in connection with such purchase transactions.

Standby Commitment Agreements. The Fund may from time to time enter into standby commitment agreements. Such agreements commit the Fund, for a stated period of time, to purchase a stated amount of a fixed income security which may be issued and sold to the Fund at the option of the issuer. The price and coupon of the security is fixed at the time of the commitment. At the time of entering into the agreement, the Fund is paid a commitment fee, regardless of whether or not the security is ultimately issued, which is typically approximately 0.5% of the aggregate purchase price of the security which the Fund has committed to purchase. The Fund will enter into such agreement only for the purpose of investing in the security underlying the commitment at a yield and price which is considered advantageous to the Fund. The Fund will not enter into a standby commitment with a remaining term in excess of 90 days and will limit its investment in such commitments so that the aggregate purchase price of the securities subject to such commitments, together with the value of portfolio securities subject to legal restrictions on resale, will not exceed 10% of its assets taken at the time of acquisition of such commitment or security. The Fund will at all times maintain a segregated account with its custodian of cash, cash equivalents, U.S. Government securities or other high grade liquid debt or equity securities denominated in U.S. dollars or non-U.S. currencies in an aggregate amount equal to the purchase price of the securities underlying the commitment.

There can be no assurance that the securities subject to a standby commitment will be issued, and the value of the security, if issued, on the delivery date may be more or less than its purchase price. Since the issuance of the security underlying the commitment is at the option of the issuer, the Fund may bear the risk of a decline in the value of such security and may not benefit from an appreciation in the value of the security during the commitment period.

The purchase of a security subject to a standby commitment agreement and the related commitment fee will be recorded on the date on which the security can reasonably be expected to be issued, and the value of the security will thereafter be reflected in the calculation of the Fund's net asset value. The cost basis of the security will be adjusted by the amount of the commitment fee. In the event the security is not issued, the commitment fee will be recorded as income on the expiration date of the standby commitment.

Repurchase Agreements; Purchase and Sale Contracts. The Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Purchase and sale contracts may be entered into only with financial institutions which have capital of at least $50 million or whose obligations are guaranteed by an entity having capital of at least $50 million. Under such agreements, the other party agrees, upon entering into the contract with the Fund, to repurchase the security at a mutually agreed upon time and price in a specified currency, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period although it may be affected by currency fluctuations. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect the accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, often under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In

the case of a repurchase agreement, as a purchaser, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but constitute only collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs of possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate of return, the rate of return to the Fund would depend on intervening fluctuations of the market values of such securities and the accrued interest on the securities. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest more than 10% of its net assets in repurchase agreements or purchase and sale contracts maturing in more than seven days. While the substance of purchase and sale contracts is similar to repurchase agreements, because of the different treatment with respect to accrued interest and additional collateral, management believes that purchase and sale contracts are not repurchase agreements as such term is understood in the banking and brokerage community.

Lending of Portfolio Securities. Subject to investment restriction (8) below, the Fund may lend securities from its portfolio to approved borrowers and receive therefor collateral in cash or securities issued or guaranteed by the U.S. Government which are maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The purpose of such loans is to permit the borrower to use such securities for delivery to purchasers when such borrower has sold short. If cash collateral is received by the Fund, it is invested in short-term money market securities, and a portion of the yield received in respect of such investment is retained by the Fund. Alternatively, if securities are delivered to the Fund as collateral, the Fund and the borrower negotiate a rate for the loan premium to be received by the Fund for lending its portfolio securities. In either event, the total yield on the Fund's portfolio is increased by loans of its portfolio securities. The Fund will have the right to regain record ownership of loaned securities to exercise beneficial rights such as voting rights, subscription rights and rights to dividends, interest or other distributions. Such loans are terminable at any time. The Fund may pay reasonable finder's, administrative and custodial fees in connection with such loans. With respect to the lending of portfolio securities, there is the risk of failure by the borrower to return the securities involved in such transactions.

High Yield Bonds. The Fund is authorized to invest a portion of its debt portfolio in fixed income securities rated below investment grade by a nationally recognized statistical rating agency or in unrated bonds which, in the Manager's judgment, possess similar credit characteristics ("high yield bonds"). Issuers of high yield bonds may be highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risks associated with acquiring the securities of such issuers generally is greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, issuers of high yield bonds may be more likely to experience financial stress, especially if such issuers are highly leveraged. During such periods, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer's ability to service its debt obligations also may be adversely affected by specific issuer developments or the issuer's inability to meet specific projected business forecasts or the unavailability of additional financing. The risk of loss due to default by the issuer is significantly greater

for the holder of high yield bonds because such securities may be unsecured and may be subordinated to other creditors of the issuer. The Fund's Board of Directors has adopted a policy that the Fund will not invest more than 35% of its assets in obligations rated below Baa or BBB by Moody's or S&P, respectively.

High yield bonds frequently have call or redemption features which would permit issuers to repurchase such securities from the Fund. If a call were exercised by an issuer during a period of declining interest rates, the Fund likely would have to replace such called security with a lower yielding security, thus decreasing the net investment income to the Fund and dividends to shareholders.

The Fund may have difficulty disposing of certain high yield bonds because there may be a thin trading market for such securities. The secondary trading market for high yield bonds is generally not as liquid as the secondary market for higher rated securities. Reduced secondary market liquidity may have an adverse impact on market price and the Fund's ability to dispose of particular issues when necessary to meet the Fund's liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer.

Adverse publicity and investor perceptions, which may not be based on fundamental analysis, also may decrease the value and liquidity of high yield bonds, particularly in a thinly traded market. Factors adversely affecting the market value of high yield bonds are likely to affect adversely the Fund's net asset value. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default on a portfolio holding or to participate in the restructuring of the obligation.

INVESTMENT RESTRICTIONS

The Fund has adopted the following restrictions and policies relating to the investment of its assets and its activities, which are fundamental policies and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the Investment Company Act means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares). The Fund may not:

1. Invest more than 25% of its assets, taken at market value at the time

of each investment, in the securities of issuers in any particular industry (excluding the U.S. Government and its agencies and instrumentalities).

2. Make investments for the purpose of exercising control or management.

3. Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, or by purchase in the open market of securities of closed-end investment companies where no underwriter or dealer's commission or profit, other than customary broker's commission, is involved and only if immediately thereafter not more than (i) 3% of the total outstanding voting stock of such company is owned by the Fund, (ii) 5% of the Fund's total assets, taken at market value, would be invested in any one such company, (iii) 10% of the Fund's total assets, taken at market value, would be invested in such securities.

4. Purchase or sell real estate (including real estate limited partnerships), except that the Fund may invest in securities secured by real estate or interests therein or issued by companies, including real estate investment trusts, which invest in real estate or interests therein.

5. Purchase any securities on margin, except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities. The payment by the

Fund of initial or variation margin in connection with futures or related options transactions, if applicable, shall not be considered the purchase of a security on margin.

6. Make short sales of securities or maintain a short position.

7. Make loans to other persons, except that the acquisition of bonds, debentures or other corporate debt securities and investment in government obligations, short-term commercial paper, certificates of deposit, bankers' acceptances and repurchase agreements and purchase and sale contracts shall not be deemed to be the making of a loan, and except further that the Fund may lend its portfolio securities as set forth in (8) below.

8. Lend its portfolio securities in excess of 33 1/3% of its total assets, taken at market value; provided that such loans may only be made in accordance with the guidelines set forth above.

9. Issue senior securities, borrow money or pledge its assets except that the Fund may borrow from a bank as a temporary measure for extraordinary or emergency purposes or to meet redemptions in amounts not exceeding 10% (taken at the market value) of its total assets and pledge its assets to secure such borrowings. (For the purpose of this restriction, collateral arrangements with respect to the writing of options, and, if applicable, futures contracts, options on futures contracts, and collateral arrangements with respect to initial and variation margin are not deemed to be a pledge of assets and neither such arrangements nor the purchase or sale of futures or related options are deemed to be the issuance of a senior security.) The Fund will not purchase securities while borrowings exceed 5% (taken at market value) of its total assets.

10. Invest in securities which cannot be readily resold because of legal or contractual restrictions or which are not otherwise readily marketable, including repurchase agreements and purchase and sale contracts maturing in more than seven days, if at the time of acquisition more than 10% of its net assets would be invested in such securities. Asset-backed securities which the Fund has the option to put to the issuer or a stand-by bank or broker and receive the principal amount or redemption price thereof less transaction costs on no more than seven days' notice or when the Fund has the right to convert such securities into a readily marketable security in which it could otherwise invest upon not less than seven days' notice are not subject to this restriction.

11. Underwrite securities of other issuers except insofar as the Fund technically may be deemed an underwriter under the Securities Act of 1933, as amended, in selling portfolio securities.

12. Purchase or sell interests in oil, gas or other mineral exploration or development programs, except that the Fund may invest in securities issued by companies that engage in oil, gas or other mineral exploration or development activities.

Additional investment restrictions adopted by the Fund, which may be changed by the Directors, provide that the Fund may not:

(i) Invest in warrants if at the time of acquisition its investments in warrants, valued at the lower of cost or market value, would exceed 5% of the Fund's net assets; included within such limitation, but not to exceed

2% of the Fund's net assets, are warrants which are not listed on the New York or American Stock Exchange. For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.

(ii) Purchase or sell commodities or commodity contracts, except that the Fund may deal in forward foreign exchange between currencies of the different countries in which it may invest and purchase and sell stock index and currency options, stock index futures, financial futures and currency futures contracts and related options on such futures.

(iii) Invest in securities of corporate issuers having a record, together with predecessors, of less than three years of continuous operation, if more than 5% of its total assets, taken at market value, would be invested in such securities.

(iv) Write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except to the extent described in the Fund's Prospectus and in this Statement of Additional Information, as amended from time to time.

(v) Purchase or retain the securities of any issuer, if those individual officers and directors of the Fund, the officers and general partner of the Manager, the directors of such general partner or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer own in the aggregate more than 5% of the securities of such issuer.

(vi) Invest more than 35% of its assets in obligations rated below Baa or BBB by Moody's or S&P, respectively.

(vii) Purchase oil, gas or other mineral leases.

The staff of the Securities and Exchange Commission (the "Commission") has taken the position that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. Therefore, the Fund has adopted an investment policy pursuant to which it will not purchase or sell OTC options if, as a result of such transaction, the sum of the market value of OTC options currently outstanding which are held by the Fund, the market value of the underlying securities covered by OTC call options currently outstanding which were sold by the Fund and margin deposits on the Fund's existing OTC options on futures contracts exceeds 10% of the total assets of the Fund, taken at market value, together with all other assets of the Fund which are illiquid or are not otherwise readily marketable. However, if the OTC option is sold by the Fund to a primary U.S. Government securities dealer recognized by the Federal Reserve Bank of New York and if the Fund has the unconditional contractual right to repurchase such OTC option from the dealer at a predetermined price, then the Fund will treat as illiquid such amount of the underlying securities as is equal to the repurchase price less the amount by which the option is "in-the-money" (i.e., current market value of the underlying securities minus the option's strike price). The repurchase price with the primary dealers is typically a formula price which is generally based on a multiple of the premium received for the option, plus the amount by which the option is "in-the-money". This policy as to OTC options is not a fundamental policy of the Fund and may be amended by the Directors of the Fund without the approval of the Fund's shareholders. However, the Fund will not change or modify this policy prior to the change or modification by the Commission staff of its position.

Portfolio securities of the Fund generally may not be purchased from, sold or loaned to the Manager or its affiliates or any of their directors, general partners, officers or employees, acting as principal, unless pursuant to a rule or exemptive order under the Investment Company Act.

Because of the affiliation of the Manager with the Fund, the Fund is prohibited from engaging in certain transactions involving the Manager's affiliate, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), or its affiliates except for brokerage transactions permitted under the Investment Company Act involving only usual and customary commissions or transactions pursuant to an exemptive order under the Investment Company Act. See "Portfolio Transactions and Brokerage". Without such an exemptive order, the Fund would be prohibited from engaging in portfolio transactions with Merrill Lynch or its affiliates acting as principal and from purchasing securities in public offerings which are not registered under the Securities Act of 1933, as amended, in which such firm or any of its affiliates participate as an underwriter or dealer.

MANAGEMENT OF THE FUND

DIRECTORS AND OFFICERS

The Directors and executive officers of the Fund and their principal occupations for at least the last five years are set forth below. Unless otherwise noted, the address of each executive officer and Director is Box 9011, Princeton, New Jersey 08543-9011.

Arthur Zeikel--President and Director(1)(2)--President of the Manager since 1977 and Chief Investment Officer of the Manager since 1976; President of Fund Asset Management, L.P. ("FAM") since 1977 and Chief Investment Officer since 1976; President and Director of Princeton Services, Inc. ("Princeton Services") since 1993; Executive Vice President of Merrill Lynch since 1990 and a Senior Vice President thereof from 1985 to 1990; Executive Vice President of Merrill Lynch & Co., Inc. since 1990; Director of the Distributor.

Donald Cecil--Director(2)--1114 Avenue of the Americas, New York, New York 10036. Special Limited Partner of Cumberland Partners (investment partnership) since 1982; Member of Institute of Chartered Financial Analysts; Member and Chairman of Westchester County (N.Y.) Board of Transportation.

Edward H. Meyer--Director(2)--777 Third Avenue, New York, New York 10017. President of Grey Advertising Inc. since 1968, Chief Executive Officer since 1970, and Chairman of the Board of Directors since 1972; Director of The May Department Stores Company, Bowne & Co., Inc. (financial printers), Ethan Allen Interiors Inc., Harman International Industries, Inc.

Charles C. Reilly--Director(2)--9 Hampton Harbor Road, Hampton Bays, N.Y. 11946. Self-employed financial consultant since 1990; President and Chief Investment Officer of Verus Capital, Inc. from 1979 to 1990; former Senior Vice President of Arnhold and S. Bleichroeder, Inc. from 1973 to 1990; Adjunct Professor, Columbia University Graduate School of Business since 1990; Adjunct Professor, Wharton School, University of Pennsylvania, 1990; Director, Harvard Business School Alumni Association.

Richard R. West--Director(2)--482 Tepi Drive, Southbury, Connecticut 06488. Professor of Finance, and Dean from 1984 to 1993, New York University Leonard N. Stern School of Business Administration; Director of Bowne & Co., Inc., (financial printers), Vornado, Inc. (real estate holding company), Smith-Corona Corporation (manufacturer of typewriters and word processors) and Alexander's, Inc.

Terry K. Glenn--Executive Vice President(1)(2)--Executive Vice President of the Manager and FAM since 1983; Executive Vice President and Director of Princeton Services since 1993; President and Director of the Distributor since 1986.

Norman R. Harvey--Senior Vice President(1)(2)--Senior Vice President of the Manager and FAM since 1982; Senior Vice President of Princeton Services since 1993.

Bryan N. Ison--Vice President(1)--Vice President of the Manager since 1985; Portfolio Manager since 1984.

Donald C. Burke--Vice President(1)(2)--Vice President and Director of Taxation of the Manager since 1990; employee of Deloitte & Touche from 1982 to 1990.

Gerald M. Richard--Treasurer (1)(2)--Senior Vice President and Treasurer of the Manager and FAM since 1984; Senior Vice President and Treasurer of Princeton Services since 1993; Vice President of the Distributor since 1981 and Treasurer since 1984.

Michael J. Hennewinkel--Secretary (1)(2)--Vice President of the Manager since 1985; attorney associated with the Manager since 1982.

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(1) Interested person, as defined in the Investment Company Act, of the Fund.
(2) Such Director or officer is a director, trustee or officer of one or more additional investment companies for which the Manager, or its subsidiary FAM, acts as investment adviser or manager.

At January 31, 1994, the officers and Directors of the Fund as a group (11 persons) owned an aggregate of less than 1% of the outstanding shares of the Fund. At such date, Mr. Zeikel, a Director of the Fund, and the other officers of the Fund owned less than 1% of the outstanding shares of common stock of Merrill Lynch & Co., Inc.

The Fund pays each Director not affiliated with the Manager a fee of $3,500 per year plus $500 per meeting attended, together with such Director's actual out-of-pocket expenses relating to attendance at meetings. The Fund also compensates members of its Audit and Nominating Committee, which consists of all of the unaffiliated Directors, at a rate of $500 per meeting attended. The Chairman of the Audit and Nominating Committee receives an additional fee of $250 per meeting attended. For the fiscal year ended October 31, 1993, fees and expenses paid to the unaffiliated Directors aggregated $30,741.

MANAGEMENT AND ADVISORY ARRANGEMENTS

Reference is made to "Management of the Fund--Management and Advisory Arrangements" in the Prospectus for certain information concerning the management and advisory arrangements of the Fund.

Securities held by the Fund may also be held by, or be appropriate investments for, other funds or investment advisory clients for which the Manager or its affiliates act as an adviser. Because of different objectives or other factors, a particular security may be bought for one or more clients when one or more clients are selling the same security. If purchases or sales of securities by the Manager for the Fund or other funds for which it acts as investment adviser or for its other advisory clients arise for consideration at or about the same time, transactions in such securities will be made, insofar as feasible, for the respective funds and clients in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of the Manager or its affiliates during the same period may increase the demand for securities being purchased or the supply of securities being sold, there may be an adverse effect on price.

The Fund has entered into a management agreement with the Manager (the "Management Agreement"). As discussed in the Prospectus, the Management Agreement provides that the Manager is entitled to receive for its services to the Fund monthly compensation at the annual rate of 0.75% of the average daily net assets of the Fund. The Manager has agreed to waive a portion of its management fee payable by the Fund so that such fee is reduced for average daily net assets of the Fund in excess of $2.5 billion from the annual rate of 0.75% to 0.70%, and further reduced from 0.70% to 0.65% for average daily net assets in excess of $5 billion. For the fiscal year ended October 31, 1993, the Fund paid the Manager a fee at the rate of 0.74% of average daily net assets. For the fiscal years ended October 31, 1991, 1992 and 1993, the total management fees paid by the Fund to the Manager aggregated $1,424,907, $3,938,829 and $18,984,493, respectively.

The Manager has also entered into a sub-advisory agreement with Merrill Lynch Asset Management U.K. Limited ("MLAM U.K.") pursuant to which the Manager pays MLAM U.K. a fee computed at the rate of 0.10% of the average daily net assets of the Fund for providing investment advisory services to the Manager with respect to the Fund. For the fiscal years ended October 31, 1991, 1992 and 1993 the fees paid by MLAM to MLAM U.K. pursuant to such arrangement aggregated $189,988, $525,177 and $2,293,281, respectively.

California imposes limitations on the expenses of the Fund. These expense limitations require that the Manager reimburse the Fund in an amount necessary to prevent the ordinary operating expenses of the Fund (excluding interest, taxes, distribution fees, brokerage fees and commissions and extraordinary charges such as litigation costs) from exceeding 2.5% of the Fund's first $30 million of average daily net assets, 2.0% of the next $70 million of average daily net assets and 1.5% of the remaining average daily net assets. The Manager's obligation to reimburse the Fund is limited to the amount of the management fee. No fee payment will be made to the Manager during any fiscal year which will cause such expenses to exceed the most restrictive expense limitation applicable at the time of such payment.

The Fund has received an order from the State of California partially waiving the expense limitations described above. Pursuant to the terms of such order, the expense limitations that would otherwise apply are waived to the extent the Fund's expense for custodial services, management and auditing fees exceeds the average of such fees of a group of funds managed by the Manager or its subsidiary which primarily invest domestically. Since the commencement of operations of the Fund, no reimbursement of expenses has been required pursuant to the applicable expense limitation provisions discussed above.

The Management Agreement obligates the Manager to provide investment advisory services and to pay all compensation of and furnish office space for officers and employees of the Fund connected with investment and economic research, trading and investment management of the Fund, as well as the fees of all Directors of the Fund who are affiliated persons of the Manager or any of their affiliates. The Fund pays all other expenses incurred in its operation, including, among other things, taxes; expenses for legal and auditing services; costs of printing proxies, stock certificates, shareholder reports and prospectuses and statements of additional information (except to the extent paid by the Distributor); charges of the custodian, any sub-custodian and transfer agent; expenses of redemption of shares; Commission fees; expenses of registering the shares under Federal, state or foreign laws; fees and expenses of unaffiliated Directors; accounting and pricing costs (including the daily calculation of net asset value); insurance; interest; brokerage costs; litigation and other extraordinary or non-recurring expenses; and other expenses properly payable by the Fund. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services on a semi-annual basis. For the fiscal year ended

October 31, 1993, the amount of such reimbursement was $213,891. As required by the Fund's distribution agreements, the Distributor will pay certain promotional expenses of the Fund incurred in connection with the offering of its shares. Certain expenses in connection with the distribution of Class B shares will be financed by the Fund pursuant to a distribution plan in compliance with Rule 12b-1 under the Investment Company Act. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan".

Merrill Lynch & Co., Inc., Merrill Lynch Investment Management, Inc. and Princeton Services, Inc. are "controlling persons" of the Manager as defined under the Investment Company Act because of their ownership of its voting securities or their power to exercise a controlling influence over its management or policies.

Duration and Termination. Unless earlier terminated as described below, the Management Agreement and the sub-advisory agreement will remain in effect from year to year if approved annually (a) by the Board of Directors or by a majority of the outstanding shares of the Fund and (b) by a majority of the Directors who are not parties to such contracts or interested persons (as defined in the Investment Company Act) of any such party. Such contracts are not assignable and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by the vote of the shareholders of the Fund.

PURCHASE OF SHARES

Reference is made to "Purchase of Shares" in the Prospectus for certain information as to the purchase of Fund shares.

ALTERNATIVE SALES ARRANGEMENTS

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative, and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares each represent interests in the same portfolio of investments of the Fund, have the same rights and are identical in all respects except that Class B shares bear the expenses of the deferred sales arrangements, any expenses (including incremental transfer agency costs) resulting from such sales arrangements and the expenses of the account maintenance fee and have exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees are paid. The two classes also have different exchange privileges. See "Shareholder Services--Exchange Privilege".

The Fund has entered into separate distribution agreements with the Distributor in connection with the continuous offering of Class A and Class B shares of the Fund (the "Distribution Agreements"). The Distribution Agreements obligate the Distributor to pay certain expenses in connection with the offering of the Class A and Class B shares of the Fund. After the prospectuses, statements of additional information and periodic reports have been prepared, set in type and mailed to shareholders, the Distributor pays for the printing and distribution of copies thereof used in connection with the offering to dealers and investors. The Distributor also pays for other supplementary sales literature and advertising costs. The Distribution Agreements are subject to the same renewal requirements and termination provisions as the Management Agreement described above.

INITIAL SALES CHARGE ALTERNATIVE -- CLASS A SHARES

The Fund commenced the public offering of its Class A shares on February 3, 1989. The gross sales charges for the sale of Class A shares for the fiscal year ended October 31, 1991, were $277,616, of which the Distributor received $12,476 and Merrill Lynch received $265,140. The gross sales charges for the sale of Class A shares for the fiscal year ended October 31, 1992, were $3,517,696, of which the Distributor received $91,712 and Merrill Lynch received $3,425,984. The gross sales charges for the sale of Class A shares for the fiscal year ended October 31, 1993, were $13,935,192, of which the Distributor received $861,771 and Merrill Lynch received $13,073,421.

The term "purchase", as used in the Prospectus and this Statement of Additional Information in connection with an investment in Class A shares of the Fund, refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual,

his spouse and their children under the age of 21 years purchasing shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account (including a pension, profit-sharing or other employee benefit trust created pursuant to a plan qualified under Section 401 of the Code) although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company", as that term is defined in the Investment Company Act, but does not include purchases by any such company which has not been in existence for at least six months or which has no purpose other than the purchase of shares of the Fund or shares of other registered investment companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser. The term "purchase" also includes purchases by employee benefit plans not qualified under Section 401 of the Code, including purchases by employees or by employers on behalf of employees, by means of a payroll deduction plan or otherwise, of shares of the Fund. Purchases by such a company or non-qualified employee benefit plan will qualify for the quantity discounts discussed above only if the Fund and the Distributor are able to realize economies of scale in sales effort and sales related expense by means of the company, employer or plan making the Fund's Prospectus available to individual investors or employees and forwarding investments by such persons to the Fund and by any such employer or plan bearing the expense of any payroll deduction plan.

REDUCED INITIAL SALES CHARGES -- CLASS A SHARES

Right of Accumulation. Reduced sales charges are applicable through a right of accumulation under which eligible investors are permitted to purchase Class A shares of the Fund at the offering price applicable to the total of (a) the dollar amount then being purchased plus (b) an amount equal to the then current net asset value or cost, whichever is higher, of the purchaser's combined holdings of the Class A shares and Class B shares of the Fund and of any other investment company with a sales charge for which the Distributor acts as the distributor. For any such right of accumulation to be made available, the Distributor must be provided at the time of purchase, by the purchaser or the purchaser's securities dealer, with sufficient information to permit confirmation of qualification. Acceptance of the purchase order is subject to such confirmation. The right of accumulation may be amended or terminated at any time.

Letter of Intention. Reduced sales charges are applicable to purchases aggregating $10,000 or more of Class A shares of the Fund or any other investment company with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor made within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. The Letter of Intention is available only to investors whose accounts are maintained at the Fund's transfer agent. The Letter of Intention is not available to employee benefit plans for which Merrill Lynch provides plan-participant record-keeping services. The Letter of Intention is not a binding obligation to purchase any amount of Class A shares; however, its execution will result in the purchaser paying a lower sales charge at the appropriate quantity purchase level. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent Letter of Intention executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. The value of Class A shares of the Fund and of other investment companies with a sales charge for which the Distributor acts as the distributor presently held, at cost or maximum offering price (whichever is higher), on the date of the first purchase under the Letter of Intention, may be included as a credit toward completion of such Letter, but the reduced sales charge applicable to the amount covered by such Letter will be applied only to new purchases. If the

total amount of shares purchased does not equal the amount stated in the Letter of Intention (minimum of $10,000), the investor will be notified and must pay, within 20 days of the expiration of such Letter, the difference between the sales charge on the Class A shares purchased at the reduced rate and the sales charge applicable to the shares actually purchased through the Letter. Class A shares equal to five percent of the intended amount will be held in escrow during the thirteen-month period (while remaining registered in the name of the purchaser) for this purpose. The first purchase under the Letter of Intention must be at least five percent of the dollar amount of such Letter. If a purchase during the term of such Letter would otherwise be subject to a further reduced sales charge based on the right of accumulation, the purchaser will be entitled on that purchase and subsequent purchases to the reduced percentage sales charge which would be applicable to a single purchase equal to the total dollar value of the Class A shares then being purchased under such Letter, but there will be no retroactive reduction of the sales charges on any previous purchase.

The value of any shares redeemed or otherwise disposed of by the purchaser prior to termination or completion of the Letter of Intention will be deducted from the total purchases made under such Letter. An exchange from Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Reserves Money Fund or Merrill Lynch U.S.A. Government Reserves into the Fund that creates a sales charge will count toward completing a new or existing Letter of Intention from the Fund.

Merrill Lynch Blueprint (SM) Program. Class A shares of the Fund are offered to participants in the Merrill Lynch BlueprintSM Program ("Blueprint"). Blueprint is directed to small investors, group IRAs and participants in certain affinity groups such as credit unions, trade associations and benefit plans. Investors placing orders to purchase Class A shares of the Fund through Blueprint will acquire the Class A shares at net asset value plus a sales charge calculated in accordance with the Blueprint sales charge schedule (i.e., up to $300 at 5.50%, $300.01 to $5,000 at 4.50% plus $3.00 and $5,000.01 or more at the standard sales charge rates disclosed in the Prospectus). Class A shares of the Fund are offered at net asset value plus a sales charge of 1/2 of 1% for corporate or group IRA programs placing orders to purchase their Class A shares through Blueprint. Services, including the exchange privilege, available to Class A investors through Blueprint, however, may differ from those available to other investors in Class A shares.

Class A shares are offered at net asset value, with a waiver of the front-end sales charge, to Blueprint participants through the Merrill Lynch Directed IRA Rollover Program ("IRA Rollover Program") available from Merrill Lynch Business Financial Services, a business unit of Merrill Lynch. The IRA Rollover Program is available to custodian rollover assets from Eligible Retirement Plans (as defined below) whose Trustee and/or Plan Sponsor offers the Merrill Lynch Directed IRA Rollover Program. Eligible Retirement Plans include (a) plans qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), with a salary reduction feature offering a menu of investments to plan participants, provided such plan initially has 1,000 or more employees eligible to participate in the plan (employees eligible to participate in retirement plans of the same sponsoring employer or its affiliates may be aggregated); or (b) tax qualified retirement plans within the meaning of Section 401(a) of the Code or deferred compensation plans within the meaning of Section 403(b) of the Code, provided the plan (i) initially invested $5 million or more in existing plan assets in portfolios, mutual funds or trusts advised by the Manager or its subsidiaries or (ii) has accumulated $5 million or more in existing plan assets invested in mutual funds advised by the Manager or its subsidiaries, which charge a front-end sales charge or contingent deferred sales charge (assets of retirement plans with the same sponsor or an affiliated sponsor may be aggregated).

Orders for purchases and redemptions of Class A shares of the Fund may be grouped for execution purposes which, in some circumstances, may involve the execution of such orders two business days following the day such orders are placed. The minimum initial purchase price is $100, with a $50 minimum for

subsequent purchases through Blueprint. There are no minimum initial or subsequent purchase requirements for participants who are part of an automatic investment plan. Additional information concerning purchases through Blueprint, including any annual fees and transaction charges, is available from Merrill Lynch, Pierce, Fenner & Smith Incorporated, The BlueprintSM Program, P.O. Box 30441, New Brunswick, New Jersey 08989-0441.

Employer Sponsored Retirement and Savings Plans. Class A shares are offered at net asset value to employer sponsored retirement or savings plans, such as tax qualified retirement plans within the meaning of Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), deferred compensation plans within the meaning of Sections 403(b) and 457 of the Code, other deferred compensation arrangements, VEBA plans, and non-qualified After Tax Savings and Investment programs, maintained on the Merrill Lynch Group Employee Services system, herein referred to as "Employer Sponsored Retirement or Savings Plans", provided the plan has $5 million or more in existing plan assets initially invested in portfolios, mutual funds or trusts advised by the Manager either directly or through an affiliate. Class A shares may also be offered at net asset value to Employer Sponsored Retirement or Savings Plans, provided the plan has accumulated $5 million or more in existing plan assets invested in mutual funds advised by the Manager charging a front-end sales charge or contingent deferred sales charge. Assets of Employer Sponsored Retirement or Savings Plans sponsored by the same sponsor or an affiliated sponsor may be aggregated. The Class A share reduced load breakpoints also apply to these aggregated assets. Class A shares may be offered at net asset value to multiple plans sponsored by the same sponsor or an affiliated sponsor provided that the addition of one or more of the multiple plans results in aggregate assets of $5 million or more invested in portfolios, mutual funds or trusts advised by the Manager either directly or through an affiliate. Employer Sponsored Retirement or Savings Plans are also offered Class A shares at net asset value, provided such plan initially has 1,000 or more employees eligible to participate in the plan. Employees eligible to participate in Employer Sponsored Retirement or Savings Plan of the same sponsoring employer or its affiliates may be aggregated. Tax qualified retirement plans within the meaning of Section 401(a) of the Code meeting any of the foregoing requirements and which are provided specialized services (e.g. plans whose participants may direct on a daily basis their plan allocations among a wide range of investments including individual corporate equities and other securities in addition to mutual fund shares) by the Merrill Lynch Blueprint(TM) Program, are offered Class A shares at a price equal to net asset value per share plus a reduced sales charge of 0.50%. Any Employer Sponsored Retirement or Savings Plan which does not meet the above described qualifications to purchase Class A shares at net asset value has the option of purchasing Class A shares at the sales charge schedule disclosed in the Prospectus, or if the Employer Sponsored Retirement or Savings Plan is a qualified retirement plan and meets the specified requirements, then it may purchase Class B shares with a waiver of the contingent deferred sales charge upon redemption. The minimum initial and subsequent purchase requirements are waived in connection with all the above referenced Employer Sponsored Retirement or Savings Plans.

Purchase Privilege of Certain Persons. Directors of the Fund, directors and trustees of certain other Merrill Lynch sponsored investment companies, directors of Merrill Lynch & Co., Inc., employees of Merrill Lynch & Co., Inc. and its subsidiaries and any trust, pension, profit-sharing or other benefit plan for such persons may purchase Class A shares of the Fund at net asset value.

Class A shares of the Fund will be offered at net asset value, without a sales charge, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase by such investor if the following conditions are satisfied.

First, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of a mutual fund that was sponsored by the financial consultant's previous firm and imposed a sales charge either at the time of purchase or on a deferred basis. Second, such redemption must have been made within 60 days prior to the investment in the Fund, and the proceeds from the redemption must have been maintained in the interim in cash or a money market fund.

Class A shares of the Fund are offered at net asset value to shareholders of Senior Floating Rate Fund (formerly known as Merrill Lynch Prime Fund, Inc.) who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of the Fund. In order to exercise this investment option, Senior Floating Rate Fund shareholders must sell their Senior Floating Rate Fund shares to the Senior Floating Rate Fund in connection with a tender offer conducted by the Senior Floating Rate Fund and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Senior Floating Rate Fund shares as to which no Early Withdrawal Charge (as defined in the Senior Floating Rate Fund prospectus) is applicable. Purchase orders from Senior Floating Rate Fund shareholders wishing to exercise this investment option will be accepted only on the day that the related Senior Floating Rate Fund tender offer terminates and will be effected at the net asset value of the Fund at such day.

Class A shares of the Fund are offered at net asset value to shareholders of certain closed-end funds advised by the Manager or FAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund. In order to exercise this investment option, closed-end fund shareholders must (i) sell their closed-end fund shares through Merrill Lynch and reinvest the proceeds immediately in the Fund, (ii) have acquired the shares in the closed-end fund's initial public offering or through reinvestment of dividends earned on shares purchased in such offering, (iii) have maintained their closed-end fund shares continuously in a Merrill Lynch account, and (iv) purchase a minimum of $250 worth of Fund shares.

Class A shares of the Fund are also offered at net asset value, without sales charge, to an investor who has a business relationship with a Merrill Lynch financial consultant and who has invested in a mutual fund sponsored by a non-Merrill Lynch company for which Merrill Lynch has served as a selected dealer and where Merrill Lynch has either received or given notice that such arrangement will be terminated, if the following conditions are satisfied: first, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of such other mutual fund and such fund imposed a sales charge either at the time of purchase or on a deferred basis; second, such purchase of Class A shares must be made within 90 days after such notice of termination.

Acquisition of Certain Investment Companies. The public offering price of Class A shares may be reduced to the net asset value per Class A share in connection with the acquisition of the assets of or merger or consolidation with a public or private investment company. The value of the assets or company acquired in a tax-free transaction may be adjusted in appropriate cases to reduce possible adverse tax consequences to the Fund which might result from an acquisition of assets having net unrealized appreciation which is disproportionately higher at the time of acquisition than the realized or unrealized appreciation of the Fund.

Reductions in or exemptions from the imposition of a sales load are due to the nature of the investors and/or the reduced sales efforts that will be needed in obtaining such investments.

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

Distribution Plan. Reference is made to "Purchase of Shares -- Deferred Sales Charge Alternative --Class B Shares -- Distribution Plan" in the Prospectus for certain information with respect to the distribution plan of the Fund (the "Distribution Plan").

The payment of the account maintenance and distribution fees is subject to the provisions of Rule 12b-1 under the Investment Company Act. Among other things, the Distribution Plan provides that the Distributor shall provide and the Directors shall review quarterly reports of the disbursement of the account maintenance and distribution fees paid to the Distributor. In their consideration of the Distribution Plan, the Directors must consider all factors they deem relevant, including information as to the benefits of the Distribution Plan to the Fund and to its Class B shareholders. The Distribution Plan further provides that, so long as the Distribution Plan remains in effect, the selection and nomination of Directors who are not "interested persons" of the Fund, as defined in the Investment Company Act (the "Independent Directors"), shall be committed to the discretion of the Independent Directors then in office. In approving the Distribution Plan in accordance with Rule 12b-1, the Independent Directors concluded that there is reasonable likelihood that the Distribution Plan will benefit the Fund and its Class B shareholders. The Distribution Plan can be terminated at any time, without penalty, by the vote of a majority of the Independent Directors or by the vote of the holders of a majority of the outstanding Class B voting securities of the Fund. The Distribution Plan cannot be amended to increase materially the amount to be spent by the Fund without Class B shareholder approval, and all material amendments are required to be approved by the vote of Directors, including a majority of the Independent Directors who have no direct or indirect financial interest in the Distribution Plan, cast in person at a meeting called for that purpose. Rule 12b-1 further requires that the Fund preserve copies of the Distribution Plan and any report made pursuant to such plan for a period of not less than six years from the date of the Distribution Plan or such report, the first two years in an easily accessible place.

REDEMPTION OF SHARES

Reference is made to "Redemption of Shares" in the Prospectus for certain information as to the redemption and repurchase of Fund shares.

The right to redeem shares or to receive payment with respect to any such redemption may be suspended only for any period during which trading on the New York Stock Exchange is restricted as determined by the Commission or such Exchange is closed (other than customary weekend and holiday closings), for any period during which an emergency exists as defined by the Commission as a result of which disposal of portfolio securities or determination of the net asset value of the Fund is not reasonably practicable, and for such other periods as the Commission may by order permit for the protection of shareholders of the Fund.

CONTINGENT DEFERRED SALES CHARGE -- CLASS B SHARES

As discussed in the Prospectus under "Purchase of Shares -- Deferred Sales Charge Alternative -- Class B Shares", while Class B shares redeemed within four years of purchase are subject to a contingent deferred sales charge under most circumstances, the charge is waived on redemptions of Class B shares in connection with certain post-retirement withdrawals from an Individual Retirement Account ("IRA") or other retirement plan or following the death or disability of a Class B shareholder. Redemptions for which the waiver applies are: (a) any partial or complete redemption in connection with a tax-free distribution following

retirement under a tax-deferred retirement plan or attaining age 59 1/2 in the case of an IRA or other retirement plan, or any redemption resulting from the tax-free return of an excess contribution to an IRA or (b) any partial or complete redemption following the death or disability (as defined in the Code) of a Class B shareholder (including one who owns the Class B shares as joint tenant with his or her spouse), provided the redemption is requested within one year of the death or initial determination of disability. For the fiscal years ended October 31, 1991, 1992 and 1993, the Distributor received contingent deferred sales charges of $313,780, $301,136 and $1,701,006, respectively, all of which was paid to Merrill Lynch.

Merrill Lynch Blueprintsm Program. Class B shares are offered to certain participants in the Merrill Lynch Blueprintsm Program ("Blueprint"). Blueprint is directed to small investors, group IRAs and participants in certain affinity groups such as trade associations and credit unions. Class B shares of the Fund are offered through Blueprint only to members of certain affinity groups. The contingent deferred sales charge is waived in connection with purchase orders placed through Blueprint. Services, including the exchange privilege, available to Class B investors through Blueprint, however, may differ from those available to other investors in Class B shares. Orders for purchases and redemptions of Class B shares of the Fund will be grouped for execution purposes which, in some circumstances, may involve the execution of such orders two business days following the day such orders are placed. The minimum initial purchase price is $100, with a $50 minimum for subsequent purchases through Blueprint. There is no minimum initial or subsequent purchase requirement for investors who are part of the Blueprint automatic investment plan. Additional information concerning these Blueprint programs, including any annual fees or transaction charges, is available from Merrill Lynch, Pierce, Fenner & Smith Incorporated, The BlueprintSM Program, P.O. Box 30441, New Brunswick, New Jersey 08989-0441.

Retirement Plans. Any Retirement Plan which does not meet the qualifications to purchase Class A shares at net asset value has the option of purchasing Class A shares at the sales charge schedule disclosed in the Prospectus, or if the Retirement Plan meets the following requirements, then it may purchase Class B shares with a waiver of the contingent deferred sales charge upon redemption. The contingent deferred sales charge is waived for any Eligible 401(k) Plan redeeming Class B shares. The contingent deferred sales charge is also waived for redemptions from a 401(a) plan qualified under the Code, provided, however, that each such plan has the same or an affiliated sponsoring employer as an Eligible 401(k) Plan purchasing Class B shares of a mutual fund advised by the Manager or FAM ("Eligible 401(a) Plan"). The contingent deferred sales charge is waived for any Class B shares which are purchased by an Eligible 401(k) Plan or Eligible 401(a) Plan and are rolled over into a Merrill Lynch or Merrill Lynch Trust Company custodied IRA and held in such account at the time of redemption. The minimum initial and subsequent purchase requirements are waived in connection with all the above referenced Retirement Plans.

PORTFOLIO TRANSACTIONS AND BROKERAGE

Reference is made to "Investment Objective and Policies -- Other Investment Policies and Practices -- Portfolio Transactions" in the Prospectus.

Subject to policies established by the Board of Directors of the Fund, the Manager is primarily responsible for the execution of the Fund's portfolio transactions. In executing such transactions, the Manager seeks to obtain the best net results for the Fund, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. Subject to obtaining the

best price and execution, brokers who provide supplemental investment research to the Manager may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by the Manager under the Management Agreement, and the expenses of the Manager will not necessarily be reduced as a result of the receipt of such supplemental information. In addition, consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc. and policies established by the Directors of the Fund, the Manager may consider sales of shares of the Fund as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund. It is possible that certain of the supplementary investment research so received will primarily benefit one or more other investment companies or other accounts for which investment discretion is exercised. Conversely, the Fund may be the primary beneficiary of the research or services received as a result of portfolio transactions effected for such other accounts or investment companies.

For the fiscal year ended October 31, 1991, the Fund paid total brokerage commissions of $306,596, of which $22,617 or 7.38% was paid to Merrill Lynch for effecting 7.03% of the aggregate dollar amount of transactions in which the Fund paid brokerage commissions. For the fiscal year ended October 31, 1992, the Fund paid total brokerage commissions of $1,236,287, of which $72,320 or 5.85% was paid to Merrill Lynch for effecting 2.69% of the aggregate dollar amount of transactions in which the Fund paid brokerage commissions. For the fiscal year ended October 31, 1993, the Fund paid total brokerage commissions of $3,047,988, of which $246,070 or 8.1% was paid to Merrill Lynch for effecting 8.4% of the aggregate dollar amount of transactions in which the Fund paid brokerage commissions.

The Fund anticipates that its brokerage transactions involving securities of companies domiciled in countries other than the United States will be conducted primarily on the principal stock exchanges of such countries. Brokerage commissions and other transaction costs on foreign stock exchange transactions are generally higher than in the United States, although the Fund will endeavor to achieve the best net results in effecting its portfolio transactions. There is generally less governmental supervision and regulation of foreign stock exchanges and brokers than in the United States.

The Fund invests in certain securities traded in the over-the-counter market and, where possible, deals directly with the dealers who make a market in the securities involved except in those circumstances in which better prices and execution are available elsewhere. Under the Investment Company Act, persons affiliated with the Fund and persons who are affiliated with such affiliated persons are prohibited from dealing with the Fund as principal in the purchase and sale of securities unless a permissive order allowing such transactions is obtained from the Commission. Since transactions in the over-the-counter market usually involve transactions with dealers acting as principal for their own accounts, affiliated persons of the Fund, including Merrill Lynch and any of its affiliates, will not serve as the Fund's dealer in such transactions. However, affiliated persons of the Fund may serve as its broker in listed or over-the-counter transactions conducted on an agency basis provided that, among other things, the fee or commission received by such affiliated broker is reasonable and fair compared to the fee or commission received by non-affiliated brokers in connection with comparable transactions.

The Fund's ability and decisions to purchase or sell portfolio securities may be affected by laws or regulations relating to the convertibility and repatriation of assets. Because the shares of the Fund are redeemable on a daily basis in U.S. dollars, the Fund intends to manage its portfolio so as to give reasonable assurance that it will be able to obtain U.S. dollars to the extent necessary to meet anticipated redemptions. Under present conditions, it is not believed that these considerations will have any significant effect on its portfolio strategy.

Section 11(a) of the Securities Exchange Act of 1934, as amended, generally prohibits members of the U.S. national securities exchanges from executing exchange transactions for their affiliates and institutional accounts which they manage unless the member (i) has obtained prior express authorization from the account to effect such transactions, (ii) at least annually furnishes the account with the aggregate compensation received by the member in effecting such transactions, and (iii) complies with any rules the Commission has prescribed with respect to the requirements of clauses (i) and (ii). To the extent Section 11(a) would apply to Merrill Lynch acting as a broker for the Fund in any of its portfolio transactions executed on any such securities exchange of which it is a member, appropriate consents have been obtained from the Fund and annual statements as to aggregate compensation will be provided to the Fund.

The Directors have considered the possibilities of seeking to recapture for the benefit of the Fund brokerage commissions and other expenses of possible portfolio transactions by conducting portfolio transactions through affiliated entities. For example, brokerage commissions received by affiliated brokers could be offset against the advisory fee paid by the Fund. After considering all factors deemed relevant, the Directors made a determination not to seek such recapture. The Directors will reconsider this matter from time to time.

DETERMINATION OF NET ASSET VALUE

Reference is made to "Additional Information -- Determination of Net Asset Value" in the Prospectus concerning the determination of net asset value. The net asset value of the shares of the Fund is determined once daily Monday through Friday as of 4:15 p.m., New York time, on each day the New York Stock Exchange is open for trading. The New York Stock Exchange is not open on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Any assets or liabilities initially expressed in terms of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation. Net asset value is computed by dividing the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time. Expenses, including the fees payable to the Manager and the Distributor, are accrued daily. The per share net asset value of the Class B shares generally will be lower than the per share net asset value of the Class A shares reflecting the daily expense accruals of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares. It is expected, however, that the per share net asset value of the two classes will tend to converge immediately after the payment of dividends or distributions, which will differ by approximately the amount of the expense accrual differential between the classes.

Securities traded in the over-the-counter market are valued at the last available bid price or yield equivalents obtained from one or more dealers in the over-the-counter market prior to the time of valuation. When the Fund writes a call option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based upon the last asked price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last asked price as obtained from one or more dealers. Options purchased by the Fund are valued at their last bid price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average

of the last bid price as obtained from two or more dealers unless there is only one dealer, in which case that dealer's price is used. Portfolio securities which are traded on U.S. stock exchanges are valued at the last sale price on the principal market on which such securities are traded, as of the close of business on the day the securities are being valued, or lacking any sales, at the last available bid price. Portfolio securities which are traded on European stock exchanges are valued at the closing bid price on such an exchange on the day the securities are being valued or, if closing prices are unavailable, at the last traded bid price available prior to the time the Fund's net asset value is determined. On certain European exchanges there may be no separate reporting of bid and asked quotations, and in such instances the Fund will use the closing price on such exchange or the last reported price if a closing price is unavailable. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market. Other investments, including futures contracts and related options, are stated at market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Board of Directors of the Fund. Such valuations and procedures will be reviewed periodically by the Board of Directors.

SHAREHOLDER SERVICES

The Fund offers a number of shareholder services described below which are designed to facilitate investment in its shares. Full details as to each of such services and copies of the various plans described below can be obtained from the Fund, the Distributor or Merrill Lynch. Certain of these services are available only to U.S. investors.

INVESTMENT ACCOUNT

Each shareholder whose account is maintained at the transfer agent has an Investment Account and will receive semi-annual statements from the transfer agent showing any reinvestments of dividends and capital gains distributions and any other activity in the account since the preceding statement. Shareholders also will receive separate confirmations for each purchase or sale transaction other than reinvestment of dividends and capital gains distributions. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the transfer agent.

Share certificates are issued only for full shares and only upon the specific request of the shareholder. Issuance of certificates representing all or only part of the full shares in an Investment Account may be requested by a shareholder directly from the transfer agent.

AUTOMATIC INVESTMENT PLAN

A shareholder may make additions to an Investment Account at any time by purchasing Class A or Class B shares at the applicable public offering price either through the shareholder's securities dealer or by mail directly to the transfer agent, acting as agent for such securities dealer. Voluntary accumulation can also be made through a service known as the Automatic Investment Plan whereby the Fund is authorized through pre-authorized checks of $50 or more to charge the regular bank account of the shareholder on a regular basis to provide systematic additions to the Investment Account of such shareholder. An investor whose shares of the Fund are held within a CMA(R) account may arrange to have periodic investments made in the Fund in amounts of $250 or more through the CMA Automatic Investment Program. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch other than a CMA(R) account.

AUTOMATIC REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

Unless specific instructions to the contrary are given as to the method of payment of dividends and capital gains distributions, dividends and distributions will be reinvested automatically in additional shares of the Fund. Such reinvestment will be at the net asset value of shares of the Fund, without sales charge, as of the close of business on the ex-dividend date of the dividend or distribution. Shareholders may elect in writing to receive either their dividends or capital gains distributions, or both, in cash, in which event payment will be mailed on or about the payment date.

Shareholders may, at any time, notify the transfer agent in writing or by telephone (1-800-MER-FUND) that they no longer wish to have their dividends and/or distributions reinvested in shares of the Fund or vice versa, and commencing ten days after receipt by the transfer agent of such notice, those instructions will be effected.

SYSTEMATIC WITHDRAWAL PLANS--CLASS A SHARES

A Class A shareholder may elect to make withdrawals from an Investment Account on either a monthly or quarterly basis as provided below. Quarterly withdrawals are available for shareholders who have acquired Class A shares of the Fund having a value, based on cost or the current offering price, of $5,000 or more and monthly withdrawals for shareholders with Class A shares with such a value of $10,000 or more.

At the time of each withdrawal payment, sufficient Class A shares are redeemed from those on deposit in the shareholder's account to provide the withdrawal payment specified by the shareholder. The shareholder may specify either a dollar amount or a percentage of the value of his Class A shares. Redemptions will be made at net asset value as determined at the close of business of the New York Stock Exchange on the 24th day of each month or the 24th day of the last month of each quarter, whichever is applicable. If the Exchange is not open for business on such date, the Class A shares will be redeemed at the close of business on the following business day. The check for the withdrawal payment will be mailed, or the direct deposit of the withdrawal payment will be made, on the next business day following redemption. When a shareholder is making systematic withdrawals, dividends and distributions on all Class A shares in the Investment Account are reinvested automatically in Fund Class A shares. A shareholder's Systematic Withdrawal Plan may be terminated at any time, without charge or penalty, by the shareholder, the Fund, the transfer agent or the Distributor.

Withdrawal payments should not be considered as dividends, yield or income. Each withdrawal is a taxable event. If periodic withdrawals continuously exceed reinvested dividends, the shareholder's original investment may be reduced correspondingly. Purchases of additional Class A shares concurrent with withdrawals are ordinarily disadvantageous to the shareholder because of sales charges and tax liabilities. The Fund will not knowingly accept purchase orders for Class A shares of the Fund from investors who maintain a Systematic Withdrawal Plan unless such purchase is equal to at least one year's scheduled withdrawals or $1,200, whichever is greater. Periodic investments may not be made into an Investment Account in which the shareholder has elected to make systematic withdrawals.

A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program. The minimum fixed dollar amount redeemable is $25. The proceeds of

systematic redemptions will be posted to the shareholder's account five business days after the date the shares are redeemed. Monthly systematic redemptions will be made at net asset value on the first Monday of each month, bimonthly systematic redemptions will be made at net asset value on the first Monday of every other month, and quarterly, semiannual or annual redemptions are made at net asset value on the first Monday of months selected at the shareholder's option. If the first Monday of the month is a holiday, the redemption will be processed at net asset value on the next business day. The Systematic Redemption Program is not available if Fund shares are being purchased within the account pursuant to the Automatic Investment Program. For more information on the Systematic Redemption Program, eligible shareholders should contact their Financial Consultant.

EXCHANGE PRIVILEGE

U.S. Class A or Class B shareholders of the Fund may exchange their Class A or Class B shares of the Fund for shares of the same class of Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Arizona Limited Maturity Municipal Bond Fund, Merrill Lynch Arizona Municipal Bond Fund, Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California Insured Municipal Bond Fund, Merrill Lynch California Limited Maturity Municipal Bond Fund, Merrill Lynch California Municipal Bond Fund, Merrill Lynch Capital Fund, Inc., Merrill Lynch Colorado Municipal Bond Fund, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc. (shares of which are deemed Class A shares for purposes of the exchange privilege), Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Federal Securities Trust, Merrill Lynch Florida Limited Maturity Municipal Bond Fund, Merrill Lynch Florida Municipal Bond Fund, Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings (residents of Arizona must meet investor suitability standards), Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc. (residents of Wisconsin must meet investor suitability standards), Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Maryland Municipal Bond Fund, Merrill Lynch Massachusetts Limited Maturity Municipal Bond Fund, Merrill Lynch Massachusetts Municipal Bond Fund, Merrill Lynch Michigan Limited Maturity Municipal Bond Fund, Merrill Lynch Michigan Municipal Bond Fund, Merrill Lynch Minnesota Municipal Bond Fund, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Municipal Intermediate Term Fund, Merrill Lynch New Jersey Limited Maturity Municipal Bond Fund Merrill Lynch New Jersey Municipal Bond Fund, Merrill Lynch New York Limited Maturity Municipal Bond Fund, Merrill Lynch New York Municipal Bond Fund, Merrill Lynch North Carolina Municipal Bond Fund, Merrill Lynch Ohio Municipal Bond Fund, Merrill Lynch Oregon Municipal Bond Fund, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Pennsylvania Limited Maturity Municipal Bond Fund, Merrill Lynch Pennsylvania Municipal Bond Fund, Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch Texas Municipal Bond Fund, Merrill Lynch Utility Income Fund, Inc. and Merrill Lynch World Income Fund, Inc. on the basis described below. In addition, Class A shareholders of the Fund may exchange their Class A shares for shares of Merrill Lynch U.S.A. Government Reserves, Merrill Lynch Ready Assets Trust and Merrill Lynch U.S. Treasury Money Fund (or Merrill Lynch Retirement Reserves Money Fund if the exchange occurs within certain retirement plans) (together, the "Class A money market funds"), and Class B shareholders of the Fund may exchange their Class B shares for shares of Merrill Lynch Government Fund, Merrill Lynch Institutional Fund, Merrill

Lynch Institutional Tax-Exempt Fund and Merrill Lynch Treasury Fund (together, the "Class B money market funds") on the basis described below. Shares with a net asset value of at least $250 are required to qualify for the exchange privilege, and any shares utilized in an exchange must have been held by the shareholder for at least 15 days. Certain funds into which exchanges may be made may impose a redemption fee (not in excess of 2.00% of the amount redeemed) on shares purchased through the exchange privilege when such shares are subsequently redeemed, including redemption through subsequent exchanges. Such redemption fee would be in addition to any contingent deferred sales charge otherwise applicable to a redemption of Class B shares. It is contemplated that the exchange privilege may be applicable to other new mutual funds whose shares may be distributed by the Distributor. The exchange privilege available to participants in the Merrill Lynch Blueprintsm Program may be different than that available to other investors.

Under the exchange privilege, each of the funds with Class A shares outstanding offers to exchange its Class A shares ("new Class A shares") for Class A shares ("outstanding Class A shares") of any of the other funds, on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. With respect to outstanding Class A shares as to which previous exchanges have taken place, the "sales charge previously paid" shall include the aggregate of the sales charges paid with respect to such Class A shares in the initial purchase and any subsequent exchange. Class A shares issued pursuant to dividend reinvestment are sold on a no-load basis in each of the funds offering Class A shares. For purposes of the exchange privilege, Class A shares acquired through dividend reinvestment shall be deemed to have been sold with a sales charge equal to the sales charge previously paid on the Class A shares on which the dividend was paid. Based on this formula, Class A shares of the Fund generally may be exchanged into the Class A shares of the other funds or into shares of the Class A money market funds with a reduced or without a sales charge.

In addition, each of the funds with Class B shares outstanding offers to exchange its Class B shares ("new Class B shares") for Class B shares ("outstanding Class B shares") of any of the other funds on the basis of relative net asset value per Class B share, without the payment of any contingent deferred sales charge that might otherwise be due on redemption of the outstanding shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the new Class B shares acquired through use of the exchange privilege. In addition, Class B shares of the Fund acquired through use of the exchange privilege will be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the sales charge that may be payable on a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to the holding period of the new Class B shares. For example, an investor may exchange Class B shares of the Fund for those of Merrill Lynch Global Resources Trust (formerly Merrill Lynch Natural

Resources Trust) after having held the Fund's Class B shares for two and a half years. The 2% sales charge that generally would apply to a redemption would not apply to the exchange. Three years later the investor may decide to redeem the Class B shares of Merrill Lynch Global Resources Trust and receive cash. There will be no contingent deferred sales charge due on this redemption, since by "tacking" the two and a half year holding period of the Fund's Class B shares to the three year holding period for the Merrill Lynch Global Resources Trust Class B shares, the investor will be deemed to have held the new Class B shares for more than five years.

Shareholders also may exchange Class A shares and Class B shares from any of the funds into shares of the Class A money market funds and Class B money market funds, respectively, but the period of time that Class B shares are held in a Class B money market fund will not count towards satisfaction of the holding

period requirement for purposes of reducing the contingent deferred sales charge. However, shares of a Class B money market fund which were acquired as a result of an exchange for Class B shares of a fund may, in turn, be exchanged back into Class B shares of any fund offering such shares, in which event the holding period for Class B shares of the fund will be aggregated with previous holding periods for purposes of reducing the contingent deferred sales charge. Thus, for example, an investor may exchange Class B shares of the Fund for shares of Merrill Lynch Institutional Fund after having held the Class B shares for two and a half years and three years later decide to redeem the shares of Merrill Lynch Institutional Fund for cash. At the time of this redemption, the 2% contingent deferred sales charge that would have been due had the Class B shares of the Fund been redeemed for cash rather than exchanged for shares of Merrill Lynch Institutional Fund will be payable. If, instead of such redemption the shareholder exchanged such shares for Class B shares of a fund which the shareholder continues to hold for an additional two and a half years, any subsequent redemption will not incur a contingent deferred sales charge.

Below is a description of the investment objectives of the other funds into which exchanges can be made:

Merrill Lynch Adjustable Rate Securities Fund, Inc..........	High current income consistent with a policy of limiting the degree of fluctuation in net asset value by investing primarily in a portfolio of adjustable rate securities, consisting principally of mortgage-backed and asset-backed securities.
Merrill Lynch Americas Income Fund, Inc.....................	A high level of current income, consistent with prudent investment risk, by investing primarily in debt securities denominated in a currency of a country located in the Western Hemisphere (i.e., North and South America and the surrounding waters).
Merrill Lynch Arizona Limited Maturity Municipal Bond Fund..	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Arizona income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Arizona Municipal Bonds.
Merrill Lynch Arizona Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is to provide investors with as high a level of income exempt from Federal and Arizona income taxes as is consistent with prudent investment management.
Merrill Lynch Balanced Fund for Investment and Retirement....................	As high a level of total investment return as is consistent with reasonable risk by investing in common stocks and other types of securities, including fixed income securities and convertible securities.

Merrill Lynch Basic Value Fund, Inc.....................	Capital appreciation and, secondarily, income through investment in securities, primarily equities, that are undervalued and therefore represent basic investment value.
Merrill Lynch California Insured Municipal Bond Fund...	A portfolio of Merrill Lynch California Municipal Series Trust, a series fund, whose objective is to provide shareholders with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management through investment in a portfolio consisting primarily of insured California Municipal Bonds.
Merrill Lynch California Limited Maturity Municipal Bond Fund.....................	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide shareholders with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade California Municipal Bonds.
Merrill Lynch California Municipal Bond Fund...........	A portfolio of Merrill Lynch California Municipal Series Trust, a series fund, who objective is to provide investors with as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management.
Merrill Lynch Capital Fund, Inc...........................	The highest total investment return consistent with prudent risk through a fully managed investment policy utilizing equity, debt and convertible securities.
Merrill Lynch Colorado Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Colorado income taxes as is consistent with prudent investment management.
Merrill Lynch Corporate Bond Fund, Inc.....................	Current income from three separate diversified portfolios of fixed income securities.

Merrill Lynch Developing Capital Markets Fund, Inc.....	Long-term appreciation through investment in securities, principally equities, of issuers in countries having smaller capital markets.
Merrill Lynch Dragon Fund, Inc...........................	Capital appreciation primarily through investment in equity and debt securities of issuers domiciled in developing countries located in Asia and the Pacific Basin, other than Japan, Australia and New Zealand.
Merrill Lynch Eurofund.........	Capital appreciation primarily through investment in equity securities of corporations domiciled in Europe.
Merrill Lynch Federal	

Securities Trust.............	High current return through investments in U.S. Government and Government agency securities, including GNMA mortgage-backed certificates and other mortgage-backed Government securities.
Merrill Lynch Florida Limited Maturity Municipal Bond Fund..	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management while serving to offer shareholders the opportunity to own securities exempt from Florida intangible personal property taxes through investment in a portfolio primarily of intermediate-term investment grade Florida Municipal Bonds.
Merrill Lynch Florida Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management, while seeking to offer shareholders the opportunity to own securities exempt from Florida intangible personal property taxes.
Merrill Lynch Fund For Tomorrow, Inc.................	Long-term growth through investment in a portfolio of good quality securities, primarily common stock, potentially positioned to benefit from demographic and cultural changes as they affect consumer markets.
Merrill Lynch Fundamental Growth Fund, Inc..............	Long-term growth through investment in a diversified portfolio of equity securities placing particular emphasis on companies that have exhibited above-average growth rate in earnings.

Merrill Lynch Global Bond Fund for Investment and Retirement....................	High total investment return from investment in a global portfolio of debt instruments denominated in various currencies and multinational currency units.
Merrill Lynch Global Convertible Fund, Inc.........	High total return from investment primarily in an internationally diversified portfolio of convertible debt securities, convertible preferred stock and "synthetic" convertible securities consisting of a combination of debt securities or preferred stock and warrants or options.
Merrill Lynch Global Holdings (residents of Arizona must meet investor suitability standards)....................	The highest total investment return consistent with prudent risk through worldwide investment in an internationally diversified portfolio of securities.
Merrill Lynch Global Resources Trust.........................	Long-term growth and protection of capital from investment in securities of domestic and foreign companies that possess

substantial natural resource assets.

Merrill Lynch Global Utility Fund, Inc....................	Capital appreciation and current income through investment of at least 65% of its total assets in equity and debt securities issued by domestic and foreign companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.
Merrill Lynch Government Fund..	A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and security of principal from investment in securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities and in repurchase agreements secured by such obligations.
Merrill Lynch Growth Fund for Investment and Retirement.....	Growth of capital and, secondarily, income from investment in a diversified portfolio of equity securities placing principal emphasis on those securities which management of the fund believes to be undervalued.

Merrill Lynch Healthcare Fund, Inc. (residents of Wisconsin must meet investor suitability standards)........	Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in healthcare.
Merrill Lynch Institutional Fund..........................	A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide maximum current income consistent with liquidity and the maintenance of a high quality portfolio of money market securities.
Merrill Lynch Institutional Tax-Exempt Fund..............	A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income exempt from Federal income taxes, preservation of capital and liquidity available from investing in a diversified portfolio of short-term, high quality municipal bonds.
Merrill Lynch International Equity Fund..................	Capital appreciation and, secondarily, income by investing in a diversified portfolio of equity securities of issuers located in countries other than the United States.
Merrill Lynch Latin America Fund, Inc....................	Capital appreciation by investing primarily in Latin American equity and debt securities.
Merrill Lynch Maryland Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Maryland income taxes as is consistent with prudent investment management.

Merrill Lynch Massachusetts Limited Maturity Municipal Bond Fund....................	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Massachusetts Municipal Bonds.

Merrill Lynch Massachusetts Municipal Bond Fund..........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management.
Merrill Lynch Michigan Limited Maturity Municipal Bond Fund..	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Michigan income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Michigan Municipal Bonds.
Merrill Lynch Michigan Municipal Bond Fund..........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Michigan income taxes as is consistent with prudent investment management.
Merrill Lynch Minnesota Municipal Bond Fund..........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Minnesota income taxes as is consistent with prudent investment management.
Merrill Lynch Municipal Bond Fund, Inc....................	Tax-exempt income from three separate diversified portfolios of municipal bonds.
Merrill Lynch Municipal Intermediate Term Fund........	Currently the only portfolio of Merrill Lynch Municipal Series Trust, a series fund, whose objective is to provide as high a level as possible of income exempt from Federal income taxes by investing in investment grade obligations with a dollar weighted average maturity of five to twelve years.
Merrill Lynch New Jersey Limited Maturity Municipal Bond Fund....................	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and New Jersey income taxes as is consistent with prudent investment management through a portfolio primarily of intermediate-term investment grade New Jersey Municipal Bonds.

Merrill Lynch New Jersey

Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and New Jersey income taxes as is consistent with prudent investment management.
Merrill Lynch New York Limited Maturity Municipal Bond Fund..	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal, New York State and New York City income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade New York Municipal Bonds.
Merrill Lynch New York Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal, New York State and New York City income taxes as is consistent with prudent investment management.
Merrill Lynch North Carolina Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and North Carolina income taxes as is consistent with prudent investment management.
Merrill Lynch Ohio Municipal Bond Fund.....................	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Ohio income taxes as is consistent with prudent investment management.
Merrill Lynch Oregon Municipal Bond Fund.....................	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Oregon income taxes as is consistent with prudent investment management.
Merrill Lynch Pacific Fund, Inc...........................	Capital appreciation by investing in equity securities of corporations domiciled in Far Eastern and Western Pacific countries, including Japan, Australia, Hong Kong, Singapore and the Philippines.

Merrill Lynch Pennsylvania Limited Maturity Municipal Bond Fund.....................	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent investment management through investment in a portfolio of intermediate-term investment grade Pennsylvania Municipal Bonds.
Merrill Lynch Pennsylvania Municipal Bond Fund...........	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent

	investment management.
Merrill Lynch Phoenix Fund, Inc...........................	Long-term growth of capital by investing in equity and fixed income securities, including tax-exempt securities, of issuers in weak financial condition or experiencing poor operating results believed to be undervalued relative to the current or prospective condition of such issuer.
Merrill Lynch Ready Assets Trust.........................	Preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives from the short-term money market securities in which the Trust invests.
Merrill Lynch Retirement Reserves Money Fund (available only if the exchange occurs within certain retirement plans).....	Currently the only portfolio of Merrill Lynch Retirement Series Trust, a series fund, whose objectives are current income, preservation of capital and liquidity available from investing in a diversified portfolio of short-term money market securities.
Merrill Lynch Short-Term Global Income Fund, Inc.......	As high a level of current income as is consistent with prudent investment management from a global portfolio of high quality debt securities denominated in various currencies and multinational currency units and having remaining maturities not exceeding three years.
Merrill Lynch Special Value Fund, Inc.....................	Long-term growth of capital from investments in securities, primarily common stocks, of relatively small companies believed to have special investment value and emerging growth companies regardless of size.

Merrill Lynch Strategic Dividend Fund.................	Long-term total return from investment in dividend paying common stocks which yield more than Standard & Poor's 500 Composite Stock Price Index.
Merrill Lynch Technology Fund, Inc...........................	Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in technology.
Merrill Lynch Texas Municipal Bond Fund....................	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management by investing primarily in a portfolio of long-term, investment grade obligations issued by the State of Texas, its political subdivisions, agencies and instrumentalities.
Merrill Lynch Treasury Fund....	A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and security of principal from investment in direct obligations of the U.S. Treasury and up to 10% of its total assets in repurchase

agreements secured by such obligations.

Merrill Lynch U.S.A. Government Reserves..........	Preservation of capital, current income and liquidity available from investing in direct obligations of the U.S. Government and repurchase agreements relating to such securities.
Merrill Lynch U.S. Treasury Money Fund....................	Preservation of capital, liquidity and current income through investment exclusively in a diversified portfolio of short-term marketable securities which are direct obligations of the U.S. Treasury.
Merrill Lynch Utility Income Fund, Inc.....................	High current income through investment in equity and debt securities issued by companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.
Merrill Lynch World Income Fund, Inc.....................	High current income by investing in a global portfolio of fixed income securities denominated in various currencies, including multinational currencies.

Before effecting an exchange, shareholders of the Fund should obtain a currently effective prospectus of the fund into which the exchange is to be made. Exercise of the exchange privilege is treated as a sale for Federal income tax purposes and, depending on the circumstances, a short- or long-term capital gain or loss may be realized. In addition, a shareholder exchanging shares of any of the funds may be subject to a backup withholding tax unless such shareholder certifies under penalty of perjury that the taxpayer identification number on file with any such fund is correct and that such shareholder is not otherwise subject to backup withholding. See "Dividends, Distributions and Taxes--Taxes" below.

To exercise the exchange privilege, shareholders should contact their Merrill Lynch financial consultant, who will advise the Fund of the exchange, or if the exchange does not involve a money market fund, shareholders may write to the transfer agent requesting that the exchange be effected. Such letter must be signed exactly as the account is registered with signatures guaranteed by an "eligible guarantor institution" (including, for example, Merrill Lynch branch offices and certain other financial institutions) as such is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the transfer agent through the use of industry publications. Shareholders of the Fund, and shareholders of the other funds described above with shares for which certificates have not been issued, may exercise the exchange privilege by wire through their securities dealers. The Fund reserves the right to require a properly completed Exchange Application. This exchange privilege may be modified or terminated in accordance with the rules of the Commission. The Fund reserves the right to limit the number of times an investor may exercise the exchange privilege. Certain funds may suspend the continuous offering of their shares to the general public at any time and may thereafter resume such offering from time to time. The exchange privilege is available only to U.S. shareholders in states where the exchange legally may be made.

DIVIDENDS, DISTRIBUTIONS AND TAXES

DIVIDENDS AND DISTRIBUTIONS

It is the Fund's intention to distribute all of its net investment income, if any. Dividends from such net investment income are paid at least annually. All net realized long- or short-term capital gains, if any, are distributed to the Fund's shareholders at least annually. From time to time, the Fund may declare a special distribution at or about the end of the calendar year in order to comply with a Federal income tax requirement that certain percentages of its ordinary income and capital gains be distributed during the taxable year. Premiums from expired call options written by the Fund and net gains from closing purchase transactions are treated as short-term capital gains for Federal income tax purposes. See "Shareholder Services--Automatic Reinvestment of Dividends and Capital Gains Distributions" for information concerning the manner in which dividends and distributions may be reinvested automatically in shares of the Fund. Shareholders may elect in writing to receive any such dividends or distributions, or both, in cash. Dividends and distributions are taxable to shareholders as described below whether they are invested in shares of the Fund or received in cash. The per share dividends and distributions on Class B shares will be lower than the per share dividends and distributions on Class A shares as a result of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares. See "Determination of Net Asset Value".

TAXES

The Fund intends to continue to qualify for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, the Fund (but not its shareholders) will not be subject to Federal income tax on the part of its net ordinary income and net realized capital gains which it distributes to Class A and Class B shareholders (together, the "shareholders"). The Fund intends to distribute substantially all of such income.

Dividends paid by the Fund from its ordinary income and distributions of the Fund's net realized short-term capital gains (together referred to hereafter as "ordinary income dividends") are taxable to shareholders as ordinary income. Distributions made from the Fund's net realized long-term capital gains (including long-term gains from certain transactions in futures and options) ("capital gain dividends") are taxable to shareholders as long-term capital gains, regardless of the length of time the shareholder has owned Fund shares. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset). Any loss upon the sale or exchange of Fund shares held for six months or less, however, will be treated as long-term capital loss to the extent of any capital gain dividends received by the shareholder.

Dividends are taxable to shareholders even though they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends or capital gain dividends. A portion of the Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. For this purpose, the Fund will allocate dividends eligible for the dividends received deduction between the Class A and Class B shareholders according to a method (which it believes is consistent with the Securities and Exchange Commission exemptive order permitting the issuance and sale of two classes of stock) that is based on the gross income allocable to Class A and Class B shareholders during the taxable year, or such other method as the Internal Revenue Service may prescribe. If the Fund pays a dividend in January that was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% U.S. withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the U.S. withholding tax.

Under certain provisions of the Code, some shareholders may be subject to a 31% withholding tax on certain ordinary income dividends and capital gain dividends and on redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with the Fund or who, to the Fund's knowledge, have furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding.

Dividends and interest received by the Fund may give rise to withholding and other taxes imposed by foreign countries. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes. Shareholders may be able to claim U.S. foreign tax credits with respect to such taxes, subject to certain conditions and limitations contained in the Code. For example, certain retirement accounts cannot claim foreign tax credits on investments in foreign securities held in the Fund. If more than 50% in value of the Fund's total assets at the close of its taxable year consists of securities of foreign corporations, the Fund will be eligible, and intends, to file an election with the Internal Revenue Service pursuant to which shareholders of the Fund will be required to include their proportionate shares of such withholding taxes in their U.S. income tax returns as gross income, treat such proportionate shares as taxes paid by them, and deduct such proportionate shares in computing their taxable incomes or, alternatively, use them as foreign tax credits against their U.S. income taxes. No deductions for foreign taxes, however, may be claimed by noncorporate shareholders who do not itemize deductions. A shareholder that is a nonresident alien individual or a foreign corporation may be subject to U.S. withholding tax on the income resulting from the Fund's election described in this paragraph but may not be able to claim a credit or deduction against such U.S. tax for the foreign taxes treated as having been paid by such shareholder. The Fund will report annually to its shareholders the amount per share of such withholding taxes. For this purpose, the Fund will allocate foreign taxes and foreign source income between the Class A and Class B shareholders according to a method similar to that described above for the allocation of dividends eligible for the dividends received deduction.

If a Class A shareholder exercises the exchange privilege within 90 days of acquiring the shares, then the loss the shareholder can recognize on the exchange will be reduced (or the gain increased) to the extent the sales charge paid to the Fund reduces any sales charge the shareholder would have owed upon purchase of the new Class A shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new Class A shares.

The Code requires a RIC to pay a nondeductible 4% excise tax to the extent the RIC does not distribute, during each calendar year, 98% of its ordinary income, determined on a calendar year basis, and 98% of its capital gains, determined, in general, on an October 31 year end, plus certain undistributed amounts from previous years. While the Fund intends to distribute its income and capital gains in the manner necessary to avoid imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gains will be distributed to avoid entirely the imposition of the tax. In such event, the Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirements.

Tax Treatment of Options, Futures and Forward Foreign Exchange Transactions. The Fund may write, purchase or sell options, futures or forward foreign exchange contracts. Options and futures contracts that are "Section 1256 contracts" will be "marked to market" for Federal income tax purposes at the end of each taxable year, i.e., each such option or futures contract will be treated as sold for its fair market value on the last day of the taxable year. Unless such contract is a non-equity option or a regulated futures contract for a non-U.S. currency and the Fund elects to have gain or loss in connection with the contract treated as ordinary gain or loss under Code Section 988 (as described below), gain or loss from Section 1256 contracts will be 60% long-term and 40% short-term capital gain or loss. The mark-to-market rules outlined above, however, will not apply to certain transactions entered into by the Fund solely to reduce the risk of changes in price or interest or currency exchange rates with respect to its investments.

A forward foreign exchange contract that is a Section 1256 contract will be marked to market, as described above. However, the character of gain or loss from such a contract will generally be ordinary under Code Section 988. The Fund may, nonetheless, elect to treat the gain or loss from certain forward foreign

exchange contracts as capital. In this case, gain or loss realized in connection with a forward foreign exchange contract that is a Section 1256 contract will be characterized as 60% long-term and 40% short-term capital gain or loss.

Code Section 1092, which applies to certain "straddles", may affect the taxation of the Fund's transactions in options and futures contracts. Under Section 1092, the Fund may be required to postpone recognition for tax purposes of losses incurred in certain closing transactions in options and futures contracts.

One of the requirements for qualification as a RIC is that less than 30% of the Fund's gross income may be derived from gains from the sale or other disposition of securities held for less than three months. Accordingly, the Fund may be restricted in effecting closing transactions within three months after entering into an options or futures contract.

Special Rules for Certain Foreign Currency Transactions. In general, gains from "foreign currencies" and from foreign currency options, foreign currency futures and forward foreign exchange contracts relating to investments in stock, securities or foreign currencies will be qualifying income for purposes of determining whether the Fund qualifies as a RIC. It is currently unclear, however, who will be treated as the issuer of a foreign currency instrument or how foreign currency options, foreign currency futures and forward foreign exchange contracts will be valued for purposes of the RIC diversification requirements applicable to the Fund. The Fund may request a private letter ruling from the Internal Revenue Service on some or all of these issues.

Under Code Section 988, special rules are provided for certain transactions in a currency other than the taxpayer's functional currency (i.e., unless certain special rules apply, currencies other than the U.S. dollar). In general, foreign currency gains or losses from certain debt instruments, from forward contracts, from futures contracts that are not "regulated futures contracts" and from unlisted options will be treated as ordinary income or loss under Code Section 988. In certain circumstances, the Fund may elect capital gain or loss treatment for such transactions. Regulated futures contracts, as described above, will be taxed under Code Section 1256 unless application of Section 988 is elected by the Fund. In general, however, Code Section 988 gains or losses will increase or decrease the amount of the Fund's investment company taxable income available to be distributed to shareholders as ordinary income. Additionally, if Code Section 988 losses exceed other investment company taxable income during a taxable year, the Fund would not be able to make any ordinary dividend distributions, and any distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to shareholders, thereby reducing the basis of each shareholder's Fund shares. These rules and the mark-to-market rules described above, however, will not apply to certain transactions entered into by the Fund solely to reduce the risk of currency fluctuations with respect to its investments.

The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative or administrative action either prospectively or retroactively.

Ordinary income dividends and capital gain dividends may also be subject to state and local taxes.

Certain states exempt from state income taxation dividends paid by RICs which are derived from interest on U.S. Government obligations. State law varies as to whether dividend income attributable to U.S. Government obligations is exempt from state income tax.

Shareholders are urged to consult their own tax advisers regarding specific questions as to Federal, foreign, state or local taxes. Foreign investors should consider applicable foreign taxes in their evaluation of an investment in the Fund.

PERFORMANCE DATA

From time to time the Fund may include its average annual total return and other total return data in advertisements or information furnished to present or prospective shareholders. Total return figures are based on the Fund's historical performance and are not intended to indicate future performance. Average annual total return is determined separately for Class A and Class B shares in accordance with a formula specified by the Commission.

Average annual total return quotations for the specified periods are computed by finding the average annual compounded rates of return (based on net investment income and any realized and unrealized capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return is computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring and nonrecurring expenses, including the maximum sales charge in the case of Class A shares and the contingent deferred sales charge that would be applicable to a complete redemption of the investment at the end of the specified period in the case of Class B shares.

The Fund also may quote annual, average annual and annualized total return and aggregate total return performance data, both as a percentage and as a dollar amount based on a hypothetical $1,000 investment, for various periods other than those noted below. Such data will be computed as described above, except that (i) as required by the periods of the quotations, actual annual, annualized or aggregate data, rather than average annual data, may be quoted, and (ii) the maximum applicable sales charges will not be included. Actual annual or annualized total return data generally will be lower than average annual total return data since the average rates of return reflect compounding of return; aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return reflect compounding over longer periods of time.

Set forth below is total return information for the Class A and Class B shares of the Fund for the periods indicated:

PERIOD	CLASS A SHARES: EXPRESSED AS A PERCENTAGE BASED ON A HYPOTHETICAL $1,000 INVESTMENT	CLASS A SHARES: REDEEMABLE VALUE OF A HYPOTHETICAL $1,000 INVESTMENT AT THE END OF THE PERIOD	CLASS B SHARES: EXPRESSED AS A PERCENTAGE BASED ON A HYPOTHETICAL $1,000 INVESTMENT	CLASS B SHARES: REDEEMABLE VALUE OF A HYPOTHETICAL $1,000 INVESTMENT AT THE END OF THE PERIOD
AVERAGE ANNUAL TOTAL RETURN (INCLUDING MAXIMUM APPLICABLE SALES CHARGES)				
One Year Ended October 31, 1993	14.65%	$1,146.50	17.42%	$1,174.20
Inception (February 3, 1989) to October 31, 1993	14.19%	$1,876.60	14.65%	$1,912.60
ANNUAL TOTAL RETURN (EXCLUDING MAXIMUM APPLICABLE SALES CHARGES)				
Year Ended October 31, 1993	22.61%	$1,226.10	21.42%	$1,214.20
Year Ended October 31, 1992	11.78%	$1,117.80	10.64%	$1,106.40
Year Ended October 31, 1991	28.89%	$1,288.90	27.48%	$1,274.80
Year Ended October 31, 1990	3.91%	$1,039.10	2.93%	$1,029.30
Inception (February 3, 1989) to October 31, 1989	9.34%	$1,093.40	8.50%	$1,085.00
AGGREGATE TOTAL RETURN (INCLUDING MAXIMUM APPLICABLE SALES CHARGES)				
Inception (February 3, 1989) to October 31, 1993	87.66%	$1,876.60	91.26%	$1,912.60

In order to reflect the reduced sales charges, in the case of Class A shares, or the waiver of the contingent deferred sales charge, in the case of Class B shares, applicable to certain investors, as described under "Purchase of Shares" and "Redemption of Shares", respectively, the total return data quoted by the Fund in advertisements directed to such investors may take into account the reduced, and not the maximum, sales charge or may not take into account the contingent deferred sales charge and therefore may reflect greater total return since, due to the reduced sales charges or the waiver of sales charges, a lower amount of expenses may be deducted.

GENERAL INFORMATION

DESCRIPTION OF SHARES

The Fund was incorporated under Maryland law on June 9, 1988. It has an authorized capital of 1,100,000,000 shares of Common Stock, par value $0.10 per share, divided into two classes, designated Class A Common Stock and Class B Common Stock, of which Class A consists of 200,000,000 shares, and Class B consists of 900,000,000 shares. Both Class A Common Stock and Class B Common Stock represent an interest in the same assets of the Fund and are identical in all respects except that the Class B shares bear certain expenses related to the account maintenance and distribution of such shares and that they have exclusive voting rights with respect to matters relating to such account maintenance and distribution expenditures. The Fund has received an order from the Commission permitting the issuance and sale of two classes of Common Stock. The Board of Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date. The creation of additional classes would require an additional order from the Commission. There is no assurance that such an additional order would be issued.

Shareholders are entitled to one vote for each share held and fractional votes for fractional shares held and will vote on the election of Directors and any other matter submitted to a shareholder vote. The Fund does not intend to hold meetings of shareholders in any year in which the Investment Company Act does not require shareholders to act upon any of the following matters: (i) election of Directors; (ii) approval of an investment advisory agreement; (iii) approval of a distribution agreement; and (iv) ratification of selection of independent accountants. Also, the by-laws of the Fund require that a special meeting of stockholders be held upon the written request of at least 10% of the outstanding shares of the Fund entitled to vote at such meeting. Voting rights for Directors are not cumulative. Shares issued are fully paid and non-assessable and have no preemptive or conversion rights. Redemption rights are discussed elsewhere herein and in the Prospectus. Each share is entitled to participate equally in dividends and distributions declared by the Fund and in the net assets of the Fund upon liquidation or dissolution after satisfaction of outstanding liabilities. Stock certificates are issued by the transfer agent only on specific request. Certificates for fractional shares are not issued in any case.

The Manager provided the initial capital for the Fund by purchasing 5,000 shares of each class of stock for an aggregate of $100,000. Such shares were acquired for investment and can only be disposed of by redemption. The organizational expenses of the Fund will be paid by the Fund and amortized over a period not exceeding five years. The proceeds realized by the Manager upon redemption of any of such shares will be reduced by the proportionate amount of the unamortized organizational expenses which the number of shares redeemed bears to the number of shares initially purchased.

COMPUTATION OF OFFERING PRICE PER SHARE

An illustration of the computation of the offering price for Class A and Class B shares of the Fund based on the value of the Fund's net assets on October 31, 1993, and its shares outstanding on that date is as follows:

<TABLE>
<CAPTION>

<S>	CLASS A <C>	CLASS B <C>
Net Assets	$917,805,991	$4,299,544,818
Number of Shares Outstanding	67,887,067	321,429,250
Net Asset Value Per Share (net assets divided by number of shares outstanding)	$ 13.52	$ 13.38
Sales Charge (for Class A shares: 6.50% of offering price (6.99% of net amount invested))*	$ 0.94	**
Offering Price	$ 14.46	$ 13.38

</TABLE>

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* Rounded to the nearest one-hundredth percent; assumes maximum sales charge is applicable.

** Class B shares are not subject to an initial sales charge but may be subject to a contingent deferred sales charge on redemption of shares within four years of purchase. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares" in the Prospectus and "Redemption of Shares--Contingent Deferred Sales Charge--Class B Shares" herein.

INDEPENDENT AUDITORS

Deloitte & Touche, 117 Campus Drive, Princeton, New Jersey 08540, has been selected as the independent auditors of the Fund. The selection of independent auditors is subject to ratification by the shareholders of the Fund. The independent auditors are responsible for auditing the annual financial statements of the Fund.

CUSTODIAN

Brown Brothers Harriman & Co., 40 Water Street, Boston, Massachusetts 02109 (the "Custodian"), acts as the custodian of the Fund's assets. Under its contract with the Fund, the Custodian is authorized to establish separate accounts in foreign currencies and to cause foreign securities owned by the Fund to be held in its offices outside the U.S. and with certain foreign banks and securities depositories. The Custodian is responsible for safeguarding and controlling the Fund's cash and securities, handling the receipt and delivery of securities and collecting interest and dividends on the Fund's investments.

TRANSFER AGENT

Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484 (the "Transfer Agent"), acts as the Fund's transfer agent. The Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening, maintenance and servicing of shareholder accounts. See "Management of the Fund--Transfer Agency Services" in the Prospectus.

LEGAL COUNSEL

Brown & Wood, One World Trade Center, New York, New York 10048-0557, is counsel for the Fund.

REPORTS TO SHAREHOLDERS

The fiscal year of the Fund ends on October 31 of each year. The Fund sends to its shareholders at least semi-annually reports showing the Fund's portfolio and other information. An annual report, containing financial statements audited by independent auditors, is sent to shareholders each year. After the end of each year, shareholders will receive Federal income tax information regarding dividends and capital gains distributions.

ADDITIONAL INFORMATION

The Prospectus and this Statement of Additional Information do not contain all the information set forth in the Registration Statement and the exhibits relating thereto, which the Fund has filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1933 and the Investment Company Act, to which reference is hereby made.

Under a separate agreement, Merrill Lynch has granted the Fund the right to use the "Merrill Lynch" name and has reserved the right to withdraw its consent to the use of such name by the Fund at any time or to grant the use of such name to any other company, and the Fund has granted Merrill Lynch, under certain conditions, the use of any other name it might assume in the future, with respect to any corporation organized by Merrill Lynch.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

To the knowledge of the Fund, no person or entity owned beneficially 5% or more of the Fund's shares on January 31, 1994.

APPENDIX

RATINGS OF FIXED INCOME SECURITIES

DESCRIPTION OF MOODY'S INVESTORS SERVICE, INC.'S ("MOODY'S") CORPORATE RATINGS

<TABLE>

<C>	<S>
Aaa	Bonds which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edge". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.
Aa	Bonds which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risks appear somewhat larger than in Aaa securities.
A	Bonds which are rated A possess many favorable investment attributes and are to be considered as upper-medium grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment sometime in the future.
Baa	Bonds which are rated Baa are considered as medium-grade obligations, (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.
Ba	Bonds which are rated Ba are judged to have speculative elements; their future cannot be considered as well assured. Often the protection of interest and principal payments may be very moderate and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.
B	Bonds which are rated B generally lack characteristics of the desirable

	investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.
Caa	Bonds which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.
Ca	Bonds which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.
C	Bonds which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

</TABLE>

Note: Moody's applies numerical modifiers, 1, 2 and 3 in each generic rating classification from Aa through B in its corporate bond rating system. The modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

DESCRIPTION OF MOODY'S COMMERCIAL PAPER RATINGS

The term "commercial paper" as used by Moody's means promissory obligations not having an original maturity in excess of nine months. Moody's makes no representations as to whether such commercial paper is by any other definition "commercial paper" or is exempt from registration under the Securities Act of 1933, as amended.

Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of nine months. Moody's makes no representation that such obligations are exempt from registration under the Securities Act of 1933, nor does it represent that any specific note is a valid obligation of a rated issuer or issued in conformity with any applicable law. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

PRIME-1. Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

--Leading market positions in well-established industries.

--High rates of return on funds employed.

--Conservative capitalization structure with moderate reliance on debt and ample asset protection.

--Broad margins in earnings coverage of fixed financial charges and high internal cash generation.

--Well-established access to a range of financial markets and assured sources of alternate liquidity.

PRIME-2. Issuers rated Prime-2 (or supporting institutions) have a strong ability for repayment of senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

PRIME-3. Issuers rated Prime-3 (or supporting institutions) have an acceptable ability for repayment of senior short term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

NOT PRIME. Issuers rated Not Prime do not fall within any of the Prime rating categories.

If an issuer represents to Moody's that its commercial paper obligations are supported by the credit of another entity or entities, then the name or names of such supporting entity or entities are listed within the parentheses beneath the name of the issuer, or there is a footnote referring the reader to another page for the name or names of the supporting entity or entities. In assigning ratings to such issuers, Moody's evaluates the financial strength of the affiliated corporations, commercial banks, insurance companies, foreign governments or other entities, but only as one factor in the total rating assessment. Moody's makes no representation and gives no opinion on the legal validity or enforceability of any support arrangement. You are cautioned to review with your counsel any questions regarding particular support arrangements.

DESCRIPTION OF MOODY'S PREFERRED STOCK RATINGS

Because of the fundamental differences between preferred stocks and bonds, a variation of the bond rating symbols is being used in the quality ranking of preferred stock. The symbols, presented below, are designed to avoid comparison with bond quality in absolute terms. It should always be borne in mind that preferred stock occupies a junior position to bonds within a particular capital structure and that these securities are rated within the universe of preferred stocks.

Preferred stock rating symbols and their definitions are as follows:

"aaa" An issue which is rated "aaa" is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.

"aa" An issue which is rated "aa" is considered a high-grade preferred stock. This rating indicates that there is a reasonable assurance the earnings and asset protection will remain relatively well maintained in the foreseeable future.

"a" An issue which is rated "a" is considered to be an upper-medium grade preferred stock. While risks are judged to be somewhat greater than in the "aaa" and "aa" classifications, earnings and asset protections are, nevertheless, expected to be maintained at adequate levels.

"baa" An issue which is rated "baa" is considered to be a medium-grade preferred stock, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present but may be questionable over any great length of time.

"ba" An issue which is rated "ba" is considered to have speculative elements and its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.

"b" An issue which is rated "b" generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.

"caa" An issue which is rated "caa" is likely to be in arrears on dividend payments. This rating designation does not purport to indicate the future status of payments.

"ca" An issue which is rated "ca" is speculative in a high degree and is likely to be in arrears on dividends with little likelihood of eventual payments.

"c" This is the lowest rated class of preferred or preference stock. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Note: Moody's applies numerical modifiers 1, 2 and 3 in each rating classification: the modifier 1 indicates that the security ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates that the issue ranks in the lower end of its generic rating category.

DESCRIPTION OF STANDARD & POOR'S CORPORATION'S ("STANDARD & POOR'S") CORPORATE DEBT RATINGS

A Standard & Poor's corporate or municipal debt rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers, or lessees.

The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform any audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

The ratings are based, in varying degrees, on the following considerations: (1) likelihood of default-capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation; (2) nature of and provisions of the obligation; and (3) protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA	Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.
AA	Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.
A	Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
BBB	Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.
SPECULATIVE GRADE	Debt rated BB, B, CCC, CC and C is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. BB indicates the least degree of speculation and C the highest. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.
BB	Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.
B	Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

CCC	Debt rated CCC has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.
CC	The rating CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.
C	The rating C is typically applied to debt subordinated to senior debt which is assigned an actual or implied CCC- debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.
CI	The rating CI is reserved for income bonds on which no interest is being paid.
D	Debt rated D is in payment default. The D rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition if debt service payments are jeopardized.

Plus (+) or minus (-): The ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major categories.

N.R. indicates that no rating has been requested, that there is insufficient information on which to base a rating or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Debt obligations of issuers outside the United States and its territories are rated on the same basis as domestic corporate and municipal issues. The ratings measure the creditworthiness of the obligor but do not take into account currency exchange and related uncertainties.

Bond Investment Quality Standards: Under present commercial bank regulations issued by the Comptroller of the Currency, bonds rated in the top four categories ("AAA", "AA", "A", "BBB", commonly known as "investment grade" ratings) are generally regarded as eligible for bank investment. In addition, the Legal Investment Laws of various states may impose certain rating or other standards for obligations eligible for investment by savings banks, trust companies, insurance companies and fiduciaries generally.

DESCRIPTION OF STANDARD & POOR'S COMMERCIAL PAPER RATINGS

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A-1" for the highest quality obligations to "D" for the lowest. The four categories are as follows:

A Issues assigned this highest rating are regarded as having the greatest capacity for timely payment. Issues in this category are delineated with the numbers 1, 2, and 3 to indicate the relative degree of safety.

A-1 This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.

A-2 Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated "A-1".

A-3 Issues carrying this designation have a satisfactory capacity for timely payment. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.

B Issues rated "B" are regarded as having only an adequate capacity for timely payment. However, such capacity may be damaged by changing conditions or short-term adversities.

C This rating is assigned to short-term debt obligations with a doubtful capacity for payment.

D Debt rated "D" is in payment default. The "D" rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period.

A commercial paper rating is not a recommendation to purchase or sell a security. The ratings are based on current information furnished to Standard & Poor's by the issuer or obtained from other sources it considers reliable. The ratings may be changed, suspended, or withdrawn as a result of changes in or unavailability of such information.

DESCRIPTION OF STANDARD & POOR'S PREFERRED STOCK RATINGS

A Standard & Poor's preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock dividends and any applicable sinking fund obligations. A preferred stock rating differs from a bond rating inasmuch as it is assigned to an equity issue, which issue is intrinsically different from, and subordinated to, a debt issue. Therefore, to reflect this difference, the preferred stock rating symbol will normally not be higher than the bond rating symbol assigned to, or that would be assigned to, the senior debt of the same issuer.

The preferred stock ratings are based on the following considerations:

I. Likelihood of payment--capacity and willingness of the issuer to meet the timely payment of preferred stock dividends and any applicable sinking fund requirements in accordance with the terms of the obligation.

II. Nature of, and provisions of, the issue.

III. Relative position of the issue in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA This is the highest rating that may be assigned by Standard & Poor's to a preferred stock issue and indicates an extremely strong capacity to pay the preferred stock obligations.

AA A preferred stock issue rated "AA" also qualifies as a high-quality fixed income security. The capacity to pay preferred stock obligations is very strong, although not as overwhelming as for issues rated "AAA".

A An issue rated "A" is backed by a sound capacity to pay the preferred stock obligations, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB An issue rated "BBB" is regarded as backed by an adequate capacity to pay the preferred stock obligations. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to make payments for a preferred stock in this category than for issues in the "A" category.

BB, B, CCC Preferred stock rated "BB", "B", and "CCC" are regarded, on balance, as predominately speculative with respect to the issuer's capacity to pay preferred stock obligations. "BB" indicates the lowest degree of speculation and "CCC" the highest degree of speculation. While such issues will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

CC The rating "CC" is reserved for a preferred stock issue in arrears on dividends or sinking fund payments but that is currently paying.

C A preferred stock rated "C" is a non-paying issue.

D A preferred stock rated "D" is a non-paying issue with the issuer in default on debt instruments.

NR indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Plus (+) or minus (-): To provide more detailed indications of preferred stock quality, the ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

The preferred stock ratings are not a recommendation to purchase or sell a security, inasmuch as market price is not considered in arriving at the rating. Preferred stock ratings are wholly unrelated to Standard & Poor's earnings and dividend rankings for common stocks.

The ratings are based on current information furnished to Standard & Poor's by the issuer, and obtained by Standard & Poor's from other sources it considers reliable. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
Merrill Lynch Global Allocation Fund, Inc.:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Merrill Lynch Global Allocation Fund, Inc. as of October 31, 1993, the related statements of operations for the year then ended and changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the four-year period then ended and the period February 3, 1989 (commencement of operations) to October 31, 1989. These financial statements and the financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and the financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the 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. Our procedures included confirmation of securities owned at October 31, 1993, by correspondence with the custodian, brokers, and affiliated funds. 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, such financial statements and financial highlights present fairly, in all material respects, the financial position of Merrill Lynch Global Allocation Fund, Inc. as of October 31, 1993, the results of its operations, the changes in its net assets, and the financial highlights for the respective stated periods in conformity with generally accepted accounting principles.

Deloitte & Touche
Princeton, New Jersey
December 17, 1993

<TABLE>
SCHEDULE OF INVESTMENTS (in US dollars)

<CAPTION>

Industries	Shares Held	Common Stocks, Notes & Warrants	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<C>	<S>	<C>	<C>	<C>
Australia					
Banking	2,595,293	Westpac Banking Corp.	$ 5,448,334	$ 7,829,947	0.2%
Food	3,500,000	Goodman Fielder Wattie Ltd.	3,602,956	3,706,290	0.1
Insurance	1,026,831	GIO Australia Holdings Ltd.	1,432,775	2,188,382	0.0
Tobacco	1,442,400	Rothmans Holdings, Ltd.	5,941,981	7,300,852	0.1
	1,242,300	WD & HO Wills Holdings, Ltd.	2,092,022	3,019,907	0.1
			8,034,003	10,320,759	0.2
Utilities	37,254	Australian Gas & Light Co.	115,666	110,658	0.0
		Total Common Stocks in Australia	18,633,734	24,156,036	0.5
Austria					
Utilities--Electric	38,650	Energie Versorgung Niederoesterreich AG (EVN)	2,801,675	4,251,828	0.1
	29,150	Oesterreichische Elektrizitats AG (Verbund)	1,223,237	1,765,318	0.0
			4,024,912	6,017,146	0.1
		Total Common Stocks in Austria	4,024,912	6,017,146	0.1
Belgium					
Mining	83,000	Union Miniere N.V.	4,909,492	5,670,055	0.1
		Total Common Stocks in Belgium	4,909,492	5,670,055	0.1
Canada					
Natural Resources	300,000	Canadian Pacific, Ltd.	3,503,161	5,062,500	0.1
Oil & Related	353,000	International Petroleum Corp.	1,000,196	551,563	0.0
Telecommunications	100,000	BCE Telecommunications, Inc.	3,375,484	3,525,000	0.1
		Total Common Stocks in Canada	7,878,841	9,139,063	0.2
Finland					
Paper & Forest Products	325,000	Repola OY S	3,891,635	4,835,300	0.1
		Total Common Stocks in Finland	3,891,635	4,835,300	0.1
France					
Automobiles	38,300	Peugeot S.A.	3,966,996	4,257,369	0.1
Banking	53,900	Compagnie Financiere de Paribas	4,269,897	4,475,202	0.1
	86,500	Societe Generale	9,605,405	10,131,361	0.2
			13,875,302	14,606,563	0.3
Capital Goods	27,695	Compagnie de Fives-Lille	1,444,568	2,040,237	0.0
Insurance	53,860	GAN S.A. (Registered)	3,637,238	5,041,197	0.1
Miscellaneous	31,100	Christian Dior S.A.	1,519,667	1,723,742	0.0

Multi-Industry	14,905	EuraFrance	4,256,713	5,692,132	0.1
Oil & Related	65,000	Societe Nationale Elf Aquitaine	4,402,248	5,043,304	0.1
Publishing	181,000	Matra Hachette	3,698,767	4,323,263	0.1
Retail	50,000	Pinault-Printemps Group	6,380,119	7,169,039	0.1
Utilities	18,600	Compagnie Generale des Eaux	7,970,772	8,644,378	0.2
		Total Common Stocks in France	51,152,390	58,541,224	1.1

</TABLE>

<TABLE>
SCHEDULE OF INVESTMENTS (continued) (in US dollars)

<CAPTION>

Industries	Shares Held	Common Stocks, Notes & Warrants	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<C>	<S>	<C>	<C>	<C>
Germany					
Automobiles	7,670	Volkswagen of America, Inc.	$ 1,633,275	$ 1,804,706	0.0%
Banking	4,400	Bayerische Vereinsbank AG	1,036,492	1,374,261	0.0
	16,500	Deutsche Bank AG	7,560,471	8,329,322	0.2
			--------------	--------------	-----
			8,596,963	9,703,583	0.2
Capital Goods	369,636	Klockner Werke AG	17,229,762	22,074,410	0.4
Chemicals	80,000	Bayer AG	13,403,028	15,273,813	0.3
Construction	6,330	Hochtief AG	3,965,302	4,120,454	0.1
Pharmaceuticals	21,950	Schering AG	11,893,453	14,281,592	0.3
Multi-Industry	49,100	Mannesmann AG	8,195,476	9,984,204	0.2
	6,138	Mannesmann AG (New Shares)	919,688	1,248,127	0.0
	57,600	Veba AG	14,765,678	16,139,695	0.3
			--------------	--------------	-----
			23,880,842	27,372,026	0.5
Steel	85,000	Thyssen AG	10,329,445	12,055,838	0.3
		Total Common Stocks in Germany	90,932,070	106,686,422	2.1
Hong Kong					
Telecommunications	1,180,000	Hong Kong Telecommunications Ltd.	754,179	2,550,113	0.0
Utilities--Electric	564,000	China Light & Power Co., Ltd.	841,166	3,795,277	0.1
		Total Common Stocks in Hong Kong	1,595,345	6,345,390	0.1
Ireland					
Building & Construction	1,065,600	CRH PLC	3,594,241	5,067,991	0.1
Insurance	380,000	Irish Life PLC	1,098,601	1,231,168	0.0
Miscellaneous--Consumer Goods	2,178,000	Waterford Wedgewood Units	1,080,827	1,225,866	0.0
Paper & Forest Products	273,000	Smurfit (Jefferson) Group	1,089,661	914,249	0.0
		Total Common Stocks in Ireland	6,863,330	8,439,274	0.1
Italy					
Multi-Industry	9,295,795	Compagnie Industriali Riunite S.p.A. (CIR)	7,392,425	8,944,859	0.2
Paper & Forest Products	983,100	Cartiere Burgo S.p.A	2,783,820	5,530,844	0.1
Telecommunications	3,000,000	Societa Finanziara Telefonica S.p.A. (STET)	4,365,656	7,654,943	0.1
	11,181,363	Societa Finanziara Telefonica S.p.A. (STET) RISP	20,700,047	21,999,730	0.4
	7,458,000	Societa Italiana Esercizio Telecom S.p.A. (S.I.P.)	6,820,816	16,306,350	0.3

			31,886,519	45,961,023	0.8
Utilities--Gas	1,006,000	Italgas Sud S.p.A.	2,259,850	2,975,197	0.1
		Total Common Stocks in Italy	44,322,614	63,411,923	1.2
Japan					
Automobiles &					
Equipment	1,293,000	Suzuki Motor Corp.	10,914,306	11,215,954	0.2
	197,000	Toyoda Automatic Loom Works, Ltd.	1,787,668	2,966,374	0.1
	154,000	Toyota Motor Corp.	1,661,167	2,674,550	0.0
			14,363,141	16,856,878	0.3
Beverage	265,000	Chukyo Coca-Cola Bottling Co., Ltd.	3,346,988	3,476,212	0.1
	297,000	Hokkaido Coca-Cola Bottling Co., Ltd.	3,649,358	4,883,695	0.1
	379,000	Kinki Coca-Cola Bottling Co., Ltd.	6,078,381	6,827,252	0.1
	172,000	Mikuni Coca-Cola Bottling Co., Ltd.	2,723,642	3,098,383	0.1
	372,000	Sanyo Coca-Cola Bottling Co., Ltd.	5,515,502	5,532,748	0.1
			21,313,871	23,818,290	0.5

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<S>	<C>	<S>	<C>	<C>	<C>
Capital Goods	1,401,000	Mitsubishi Heavy Industries America, Inc.	8,959,190	8,736,028	0.1
Electrical Engineering	227,000	Chudenko Corp.	7,039,991	8,178,291	0.2
	47,000	Kyudenko Corp.	547,117	811,917	0.0
			7,587,108	8,990,208	0.2
Electronics	620,000	Canon, Inc.	7,833,515	8,533,949	0.1
	189,000	Hitachi, Ltd.	1,899,032	1,503,270	0.0
	100,000	Kyocera Corp.	2,680,297	5,681,293	0.1
	750,000	Matsushita Electric Industrial Co., Ltd.	8,302,338	10,184,758	0.2
			20,715,182	25,903,270	0.4
Insurance	962,000	Dai-Tokyo Fire & Marine Insurance Co., Ltd.	5,500,445	7,233,885	0.1
	620,000	Fuji Fire & Marine Insurance Co., Ltd.	3,441,502	4,181,062	0.1
	1,322,000	Koa Fire & Marine Insurance Co., Ltd.	6,884,434	8,670,885	0.2
	1,158,000	Nichido Fire & Marine Insurance Co., Ltd.	6,710,343	8,376,111	0.2
	970,000	Nippon Fire & Marine Insurance Co., Ltd.	4,622,675	7,329,855	0.1
	452,000	Sumitomo Marine & Fire Insurance Co., Ltd.	2,953,549	3,929,164	0.1
	430,000	Tokio Marine & Fire Insurance Co., Ltd.	4,193,919	5,283,141	0.1
			34,306,867	45,004,103	0.9
Metals	188,000	Toyo Seikan Kaisha, Ltd.	4,182,592	5,053,857	0.1
Pharmaceuticals	208,000	Sankyo Company Ltd.	5,597,722	5,399,353	0.1
	126,000	Taisho Pharmaceuticals Co.	2,632,536	2,642,217	0.1
			8,230,258	8,041,570	0.2
Photography	341,000	Fuji Photo Film Co., Ltd.	7,848,972	7,969,792	0.2
Retail Stores	116,000	Ito Yokado Co., Ltd.	3,795,422	5,829,469	0.1
	58,000	Sangetsu Co., Ltd.	1,601,930	2,041,386	0.0
			5,397,352	7,870,855	0.1
		Total Common Stocks in Japan	132,904,533	158,244,851	3.0
Netherlands					
Airlines	901,000	KLM Royal Dutch Airlines	17,486,458	19,026,436	0.4
Banking	268,850	ABN Amro Holding N.V.	8,099,465	10,267,782	0.2
Beverage	23,283	Heineken Holdings	2,129,208	2,229,223	0.0
	23,237	Heineken N.V.	2,268,817	2,491,797	0.1
			4,398,025	4,721,020	0.1
Chemicals	97,650	Akzo N.V.	8,704,846	9,313,109	0.2
Insurance	250,400	Amev N.V.	9,528,450	10,908,383	0.2
	385,965	Internationale Nederlanden Groep N.V.	12,885,006	16,875,704	0.3
			22,413,456	27,784,087	0.5

Mining	97,550	Dutch State Mining	4,519,467	5,297,795	0.1
Miscellaneous--Manufacturing	10,000	Nijverdal Ten Cate N.V.	501,699	456,383	0.0
Paper & Forest Products	300,720	Koninklijke KNP	5,008,146	6,430,289	0.1
		Total Common Stocks in the Netherlands	71,131,562	83,296,901	1.6

</TABLE>

<TABLE>
<CAPTION>
SCHEDULE OF INVESTMENTS (continued) (in US dollars)

Industries	Shares Held	Common Stocks, Notes & Warrants	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<C>	<S>	<C>	<C>	<C>
New Zealand					
Paper & Forest Products	164,330	Carter Holt Harvey, Ltd.	$ 166,358	$ 336,844	0.0%
		Total Common Stocks in New Zealand	166,358	336,844	0.0
Norway					
Energy	1,000	Norsk Hydro (ADR)++	20,685	30,000	0.0
		Total Common Stocks in Norway	20,685	30,000	0.0
Portugal					
Banking	536,520	Banco Commercial Portuguese (ADR)++	6,588,763	7,377,150	0.1
	50,000	Espirito Santo Financial Holding Co. (ADR)++	1,365,500	1,650,000	0.1
			7,954,263	9,027,150	0.2
		Total Common Stocks in Portugal	7,954,263	9,027,150	0.2
South Korea					
Automobiles & Equipment	30,773	+++++Kia Motors (GDS)++++	1,017,000	774,454	0.0
		Total Common Stocks in South Korea	1,017,000	774,454	0.0
Spain					
Banking	61,775	Banco Popular Espano	6,511,311	8,040,190	0.2
	83,000	Bank Intercontinental S.A.	4,607,612	7,214,163	0.1
			11,118,923	15,254,353	0.3
Energy & Petroleum	418,500	Repsol S.A.	10,048,364	12,572,158	0.3
Insurance	30,000	Mapfre S.A.	1,130,029	1,390,980	0.0
Miscellaneous	125,000	Autopista Espana (ACESA)	1,314,565	1,337,123	0.0
	12,500	Autopista Espana (ACESA) (New Shares)	48,560	133,712	0.0
	260,000	Grupo Fosforera Espanola S.A.	2,635,037	1,976,892	0.1
			3,998,162	3,447,727	0.1
Multi-Industry	45,750	Corporacion Financiera Alba S.A.	1,611,658	1,613,101	0.0
Real Estate	205,148	Metrovacesa	4,967,085	6,583,393	0.1
	205,148	Metrovacesa (Rights) (f)	0	35,173	0.0
	281,983	Vallehermoso Espanola S.A.	3,544,817	5,212,954	0.1
			8,511,902	11,831,520	0.2
Telecommunications	645,000	Telefonica Nacional de Espana S.A.	6,527,932	8,438,129	0.2
	184,000	Telefonica Nacional de Espana S.A. (ADR)++	5,492,987	7,153,000	0.1
			12,020,919	15,591,129	0.3
Utilities--Electric	55,000	Empresa Nacional de Electricidad S.A.	1,524,812	2,599,329	0.0
	14,935	Empresa Nacional de Electricidad S.A. (ADR)++	311,466	700,078	0.0
	500,100	Fuerzas Electricidad Cataluna (FECSA) (Series A)	3,268,178	3,034,524	0.1
	1,291,800	Iberdrola I S.A.	7,717,166	8,531,754	0.2
			12,821,622	14,865,685	0.3
		Total Common Stocks in Spain	61,261,579	76,566,653	1.5

Sweden					
Electrical Equipment	120,000	ASEA AB 'B' Free	6,532,086	8,112,002	0.2
Mining	725,725	Trelleborg 'B' Free	5,291,716	5,897,806	0.1
Multi-Industry	245,000	Svedala	3,925,653	4,434,635	0.1
		Total Common Stocks in Sweden	15,749,455	18,444,443	0.4
Switzerland					
Banking	28,500	Schweizerischer Bankverein (Bearer)	7,250,975	9,662,322	0.2
Building & Construction	16,650	Holderbank Financiere Glarus AG (Bearer)	7,108,098	9,265,618	0.2

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<S>	<C>	<S>	<C>	<C>	<C>
Electrical Equipment	29,800	BBC Brown Boveri & Cie (Bearer)	17,422,295	20,165,868	0.4
	14,194	Landis & Gyr AG	5,301,621	5,943,324	0.1
			--------------	--------------	-----
			22,723,916	26,109,192	0.5
Food	20,155	Nestle AG (Registered)	12,443,223	16,143,601	0.3
Insurance	2,460	Baloise Holding Insurance (Registered)	3,018,431	3,871,007	0.1
	20,250	Winterthur (Registered)	7,901,693	10,503,140	0.2
			--------------	--------------	-----
			10,920,124	14,374,147	0.3
Machinery	11,460	Sulzer Gebrueder AG (Registered)	5,277,957	6,160,708	0.1
	7,400	Sulzer Gebrueder AG (Warrants) (a)	0	29,486	0.0
			--------------	--------------	-----
			5,277,957	6,190,194	0.1
Metals	14,983	Alusuisse-Lonza Holdings (Registered)	4,279,146	5,464,186	0.1
Pharmaceuticals	19,800	Ciba-Geigy AG	9,511,983	10,323,226	0.2
	3,427	Roche Holdings, Ltd. Genusschein AG	9,911,136	13,296,492	0.2
	1,460	Sandoz AG (Part. Cert.)	2,573,492	3,598,973	0.1
	6,427	Sandoz AG (Registered)	14,872,369	16,059,904	0.3
			--------------	--------------	-----
			36,868,980	43,278,595	0.8
		Total Common Stocks & Warrants in Switzerland	106,872,419	130,487,855	2.5
United Kingdom					
Aerospace	1,202,500	Rolls Royce PLC	2,979,298	2,716,476	0.1
Airlines	881,875	British Airways PLC	3,984,182	4,941,123	0.1
Banking	428,000	National Westminster Bank PLC	3,096,090	3,523,959	0.1
Beverage	922,600	Grand Metropolitan PLC	6,023,852	5,690,348	0.1
	35,000	Grand Metropolitan PLC (ADR)++	1,031,100	879,375	0.0
			--------------	--------------	-----
			7,054,952	6,569,723	0.1
Conglomerates	510,000	Hanson PLC	1,999,223	2,050,287	0.0
	50,000	Hanson PLC (ADR)++	984,250	1,006,250	0.0
			--------------	--------------	-----
			2,983,473	3,056,537	0.0
Electrical Equipment	367,700	BICC PLC	2,000,812	2,218,692	0.0
	1,499,200	General Electric Co. PLC	6,894,412	7,820,670	0.2
			--------------	--------------	-----
			8,895,224	10,039,362	0.2
Energy & Petroleum	45,000	British Petroleum Co. Ltd. PLC (ADR)++	2,638,675	2,801,250	0.1
Food	600,000	Tate & Lyle PLC	3,660,538	3,388,536	0.1
	350,000	United Biscuit PLC	2,086,198	1,924,629	0.0
			--------------	--------------	-----
			5,746,736	5,313,165	0.1
Insurance	599,000	Commercial Union Assurance Co. PLC	5,354,117	5,777,617	0.1
	297,000	Lloyds Abbey Life PLC	1,915,705	2,034,860	0.0
			--------------	--------------	-----
			7,269,822	7,812,477	0.1
Leisure	715,000	Forte PLC	2,023,903	2,348,419	0.0

	350,000	Thorn EMI PLC (Ordinary)	5,241,890	4,931,212	0.1
			--------------	--------------	-----
			7,265,793	7,279,631	0.1
Multi-Industry	775,000	BTR PLC	3,942,202	4,261,679	0.1
	21,000	BTR PLC (Warrants) (a)	0	44,318	0.0
	253,125	English China Clay Group (ECC)	2,348,459	1,572,492	0.0
			--------------	--------------	-----
			6,290,661	5,878,489	0.1
Newspaper & Publishing	110,000	Reuters Holdings PLC	2,198,582	2,668,026	0.1
Pharmaceuticals	360,000	SmithKline Beecham Corp. PLC (ADR)++	10,280,908	10,215,000	0.2
	1,000,000	Zeneca Group PLC	9,406,370	11,473,464	0.2
			--------------	--------------	-----
			19,687,278	21,688,464	0.4

</TABLE>

<TABLE>
SCHEDULE OF INVESTMENTS (continued) (in US dollars)

<CAPTION>

Industries	Shares Held/ Face Amount	Common Stocks, Notes & Warrants	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<C>	<S>	<C>	<C>	<C>
United Kingdom (concluded)					
Retail Stores	908,700	Boots Company PLC	$ 6,217,049	$ 6,995,641	0.1%
	1,000,000	Dixons Group PLC	3,779,526	3,923,568	0.1
	421,500	Marks & Spencer PLC	2,531,515	2,524,526	0.0
			--------------	--------------	-----
			12,528,090	13,443,735	0.2
Steel	1,500,000	British Steel PLC	1,442,449	2,864,651	0.1
Telecommunications	425,000	British Telecommunications PLC	2,570,211	2,911,837	0.1
Utilities--Gas	546,800	British Gas PLC	2,153,009	2,803,657	0.1
Waste Disposal	83,500	Attwoods PLC (ADR)++	759,800	772,375	0.0
		Total Common Stocks & Warrants in the United Kingdom	99,544,325	107,084,937	2.1
United States					
Aerospace	56,000	Boeing Co.	2,003,133	2,100,000	0.0
Airlines	50,000	UAL Corp.	6,306,722	7,600,000	0.1
	955,900	USAir Group Inc.	12,833,444	13,741,063	0.3
			--------------	--------------	-----
			19,140,166	21,341,063	0.4
Apparel	271,500	Fruit of the Loom, Inc.	8,460,180	9,570,375	0.2
Automobiles	110,300	General Motors Corp.	3,895,971	5,253,037	0.1
Banking	85,000	Albank Financial Corp.	971,875	1,678,750	0.0
	200,000	AmSouth Bancorporation	5,358,151	5,850,000	0.1
	125,000	Anchor Bancorp, Inc.	1,562,500	1,875,000	0.0
	75,000	BankAmerica Corp.	3,219,677	3,131,250	0.1
	129,500	Banknorth Group, Inc.	1,865,422	2,525,250	0.0
	150,000	Bank of New York	8,011,500	7,987,500	0.2
	308,500	Chase Manhattan Corp.	9,370,061	10,180,500	0.2
	1,391	Chase Manhattan Corp. (Warrants) (a)	6,955	11,476	0.0
	369,600	Chemical Banking Corp.	12,428,621	14,784,000	0.3
	1,222,200	City National Corp.	8,488,816	9,319,275	0.2
	1,127,500	Comerica Inc.	30,278,134	29,737,812	0.6
	155,000	Continental Bank Corp.	4,089,050	3,952,500	0.1
	387,700	First American Bank	15,330,321	14,926,450	0.3
	244,200	First Union Corp.	9,833,016	9,920,625	0.2
	199,900	Mellon Bank Corp.	10,557,433	10,769,612	0.2
	20,000	Mercantile Bancorp	445,625	985,000	0.0
	45,000	Premier Bankcorp	708,437	804,375	0.0
	10,000	Trustcompany Bancorp NY	288,320	447,500	0.0
			--------------	--------------	-----
			122,813,914	128,886,875	2.5
Biotechnology	282,536	Applied Immune Sciences, Inc.	5,104,499	3,602,334	0.1
	60,000	Cordis Corp.	1,440,000	2,385,000	0.0
			--------------	--------------	-----
			6,544,499	5,987,334	0.1

Computers	148,500	Boole & Babbage, Inc.	2,962,360	3,823,875	0.1
	27,200	Digital Equipment Corp.	1,553,514	969,000	0.0
	300,000	International Business Machines Corp.	15,067,744	13,800,000	0.3
			--------------	--------------	-----
			19,583,618	18,592,875	0.4
Conglomerates	125,000	ADT Limited	1,434,405	1,125,000	0.0
	20,833	ADT Limited (Warrants) (a)	0	28,645	0.0
			--------------	--------------	-----
			1,434,405	1,153,645	0.0

</TABLE>

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<S>	<C>	<S>	<C>	<C>	<C>
Electronics	110,448	Bell Industries, Inc.	1,028,022	2,029,482	0.1
	28,193	Texas Instruments Inc.	2,111,078	1,850,166	0.0
			--------------	--------------	-----
			3,139,100	3,879,648	0.1
Energy & Petroleum	30,000	Anadarko Petroleum Corp.	570,550	1,410,000	0.0
	163,900	Ashland Coal, Inc.	4,132,919	4,589,200	0.1
	85,000	Brown (Tom), Inc.	366,313	1,211,250	0.0
	49,500	Cabot Oil & Gas Corp. (Class A)	529,030	1,188,000	0.0
	34,600	Coastal Corp.	817,773	947,175	0.0
	153,000	Coho Resources, Inc.	1,662,813	841,500	0.0
	130,000	Helmerich & Payne, Inc.	2,773,422	3,900,000	0.1
	41,400	Mitchell Energy Development Corp. (Class A)	584,792	1,014,300	0.0
	77,850	Mitchell Energy Development Corp. (Class B)	1,132,335	1,664,044	0.0
	50,000	Murphy Oil Corp.	1,899,720	2,250,000	0.0
	1,063,400	Occidental Petroleum Corp.	21,219,009	19,672,900	0.4
	61,200	Pennzoil Co.	3,775,844	3,503,700	0.1
	199,700	Plains Resources, Inc.	2,052,005	1,772,338	0.0
	344,248	Santa Fe Energy Resources, Inc.	3,000,432	3,313,386	0.1
	335,800	USX-Marathon Group	5,949,229	6,212,300	0.1
	138,800	Unocal Corp.	3,272,336	4,059,900	0.1
			--------------	--------------	-----
			53,738,522	57,549,993	1.0
Financial Services	340,000	Student Loan Marketing Association	15,220,014	15,172,500	0.3
Healthcare Services	661,200	Baxter International, Inc.	14,282,787	15,703,500	0.3
	1,463,400	Beverly Enterprises, Inc.	14,866,990	15,914,475	0.3
	2,331,300	Hillhaven Corp.	6,464,152	9,179,494	0.2
	269,200	Manor Care, Inc.	5,230,692	6,057,000	0.1
	30,000	Meditrust SBI	915,726	1,020,000	0.0
	283,000	Regency Health Services, Inc.	2,378,182	3,183,750	0.1
	366,100	US Surgical Corp.	9,597,305	8,694,875	0.2
			--------------	--------------	-----
			53,735,834	59,753,094	1.2
Hospital Management	170,800	Community Psychiatric Centers	1,688,862	2,391,200	0.0
	450,000	Novacare Inc.	5,561,246	5,850,000	0.1
			--------------	--------------	-----
			7,250,108	8,241,200	0.1
Index-Related	US$ 40,800	Republic of Austria Stock Index Growth Notes due 8/15/1996	432,941	515,100	0.0
Information Processing	1,745,000	Amdahl Corp.	7,886,675	8,070,625	0.2
Insurance	60,000	Horace Mann Educators, Inc.	1,518,600	1,560,000	0.0
Leisure	93,700	Handleman Co.	1,044,752	1,147,825	0.0
Metals	277,500	Alcan Aluminum, Ltd.	4,669,221	5,688,750	0.1
	87,700	Aluminum Co. of America	5,801,607	5,963,600	0.1
	132,800	Reynolds Metals Co.	5,801,771	5,610,800	0.1
			--------------	--------------	-----
			16,272,599	17,263,150	0.3
Oil Services	465,000	Arethusa (Off-Shore) Ltd.	4,650,000	6,393,750	0.2
	149,800	Atwood Oceanics, Inc.	1,238,663	1,722,700	0.0
	43,400	Cliffs Drilling Co.	595,425	531,650	0.0
	375,000	Noble Drilling Corp.	3,178,125	3,609,375	0.1
			--------------	--------------	-----
			9,662,213	12,257,475	0.3

</TABLE>

<TABLE>

SCHEDULE OF INVESTMENTS (continued) (in US dollars)

<CAPTION>

Industries	Shares Held	Common Stocks, Notes & Warrants	Cost	Value (Note 1a)	Percent of Net Assets
United States (concluded)					
Paper & Forest Products	425,000	Boise Cascade Corp.	$ 9,431,664	$ 8,712,500	0.2%
	350,000	Bowater, Inc.	7,112,925	6,868,750	0.1
	112,000	Champion International Corp.	3,318,152	3,290,000	0.1
	105,400	International Paper Co.	6,715,285	6,244,950	0.1
			26,578,026	25,116,200	0.5
Pharmaceuticals	600,000	ALZA Corp.	13,048,597	15,450,000	0.3
	121,500	Alteon Inc.	1,205,188	1,123,875	0.0
	139,400	American Home Products	8,256,144	8,712,500	0.2
	58,200	AutoImmune Inc.	385,575	436,500	0.0
	400,000	Bristol-Myers Squibb Co.	22,797,751	23,500,000	0.5
	173,000	Immune Response Corp.	2,272,832	2,119,250	0.0
	200,000	Johnson & Johnson	7,266,450	8,425,000	0.2
	350,000	Lilly (Eli) & Co.	17,982,583	18,943,750	0.4
	496,500	Merck & Co.	16,850,368	15,950,062	0.3
	41,300	Pfizer, Inc.	2,617,082	2,570,925	0.0
	780,500	Syntex Corp.	15,220,206	14,146,563	0.3
			107,902,776	111,378,425	2.2
Pollution Control	85,000	WMX Technologies, Inc.	2,099,075	2,093,125	0.0
Publishing	223,900	Jostens Inc.	4,199,326	4,338,062	0.1
	301,500	New York Times (Class A)	7,158,778	7,122,937	0.1
	410,000	Valassis Communications, Inc.	4,810,850	4,458,750	0.1
			16,168,954	15,919,749	0.3
Real Estate Investment Trust	418,000	Dial REIT, Inc.	4,187,750	4,441,250	0.1
	294,300	Health Equity Properties, Inc.	2,490,300	2,906,212	0.1
	75,000	LTC Properties, Inc.	750,000	1,012,500	0.0
			7,428,050	8,359,962	0.2
Resources	440,000	Horsham Corp.	3,550,742	5,885,000	0.1
Retail Stores	478,500	Baker (J.), Inc.	8,040,414	8,254,125	0.2
	516,900	++++++Buttrey Food & Drug	4,084,486	3,489,075	0.1
	156,700	Dayton Hudson Corp.	10,496,970	10,890,650	0.2
	910,000	Filene's Basement Corp.	8,201,994	9,782,500	0.2
	161,300	Gap Inc. (The)	4,219,217	5,746,312	0.1
	342,000	Hook-SupeRx, Inc.	3,476,715	2,394,000	0.0
	200,000	Jones Apparel Group N.Y.	3,934,504	6,250,000	0.1
	373,900	Liz Claiborne Inc.	8,022,626	7,104,100	0.1
	422,900	Payless Cashways Inc.	5,097,382	5,074,800	0.1
	225,000	Safeway Inc.	2,296,520	4,893,750	0.1
	600,000	Service Merchandise Co., Inc.	6,169,250	6,000,000	0.1
	55,000	Smith Food and Drug	1,082,048	1,100,000	0.0
			65,122,126	70,979,312	1.3
Savings Banks	109,000	Bankers Corp.	1,180,743	3,896,750	0.1
	760,000	++++++Crossland Federal Savings Bank	18,250,000	21,660,000	0.4
	500,000	Dime Savings Bank of New York	3,417,510	4,062,500	0.1
	105,200	Downey Savings & Loan Association	1,295,198	2,774,650	0.1
	1,962,053	Glendale Federal Savings Bank	17,527,227	14,715,398	0.3

</TABLE>

<TABLE>

	770,194	Glendale Federal Savings Bank (Warrants) (a)	0	2,118,034	0.0
	37,500	NS Bancorp, Inc.	300,000	1,157,813	0.0
	119,340	Portsmouth Bank Shares, Inc.	1,215,375	1,939,275	0.0
			43,186,053	52,324,420	1.0
Shoes & Leather	182,300	NIKE, Inc. (Class B)	9,775,784	8,818,762	0.2
Telecommunications	104,500	GTE Corp.	3,514,166	4,153,875	0.1

Textiles	675,000	Burlington Industries	9,694,587	9,956,250	0.2
Tobacco	190,000	Loews Corp.	18,058,755	17,788,750	0.3
	786,100	Philip Morris Companies, Inc.	37,656,262	42,252,875	0.8
			--------------	--------------	-----
			55,715,017	60,041,625	1.1
Utilities--Electric	125,000	CMS Energy Corp.	2,290,025	3,296,875	0.1
	1,500,000	Centerior Energy Corp.	23,810,903	22,500,000	0.4
	100,000	General Public Utilities Corp.	2,784,780	3,287,500	0.1
			--------------	--------------	-----
			28,885,708	29,084,375	0.6
Utilities--Gas	77,100	Atmos Energy Corp.	1,445,257	2,399,737	0.0
	126,900	Pacific Enterprises	2,486,131	3,331,125	0.1
	40,800	South Jersey Industries, Inc.	711,756	1,014,900	0.0
			--------------	--------------	-----
			4,643,144	6,745,762	0.1
		Total Common Stocks, Notes & Warrants in the United States	738,041,452	789,152,656	15.1
		Total Investments in Common Stocks, Notes & Warrants	1,468,867,994	1,666,688,577	32.0

<CAPTION>

		Equity Closed-End Funds			
<S>	<C>	<S>	<C>	<C>	<C>
Portugal					
Financial Services	39,500	Capital Portugal Fund	2,052,116	2,892,087	0.1
		Total Equity Closed-End Funds in Portugal	2,052,116	2,892,087	0.1
United States					
Financial Services	240,000	Austria Fund	2,017,632	2,280,000	0.1
	166,666	European Warrant Fund	1,363,723	2,229,158	0.0
	11,700	Global Yield Fund	89,797	96,525	0.0
	300,100	Growth Fund of Spain, Inc.	2,630,827	3,151,050	0.1
	150,000	Irish Investment Fund, Inc.	1,086,041	1,312,500	0.0
	100,000	Italy Fund	761,520	1,025,000	0.0
	25,600	Jakarta Growth Fund	158,080	256,000	0.0
	40,000	Portugal Fund	360,368	505,000	0.0
		Total Equity Closed-End Funds in the United States	8,467,988	10,855,233	0.2
		Total Investments in Equity Closed-End Funds	10,520,104	13,747,320	0.3

</TABLE>

<TABLE>
SCHEDULE OF INVESTMENTS (continued) (in US dollars)

<CAPTION>

Industries	Shares Held	Preferred Stocks	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<C>	<S>	<C>	<C>	<C>
Germany					
Automobiles	30,150	Volkswagen of America, Inc. (Pfd.)	$ 5,737,121	$ 5,887,758	0.1%
Multi-Industry	37,000	R.W.E. AG (Pfd.)	7,073,579	8,471,663	0.2
		Total Preferred Stocks in Germany	12,810,700	14,359,421	0.3
Spain					
Banking	225,000	Santander Overseas Bank (8% Pfd. Series D) (ADR)++	5,463,250	5,962,500	0.1
		Total Preferred Stocks in Spain	5,463,250	5,962,500	0.1
United Kingdom					
Engineering	750,000	AMEC PLC (6.50% Convertible Pfd.)	968,501	1,114,650	0.0
Retail Stores	545,000	Signet Group (Pfd.) (ADR)++	2,194,907	3,065,625	0.1
Waste Disposal	1,700,000	Attwoods PLC (8.50% Convertible Pfd.)	2,417,796	2,248,621	0.1
		Total Preferred Stocks in the United Kingdom	5,581,204	6,428,896	0.2
United States					
Airlines	100,000	+++++AMR Corp. (Pfd. $3.00)	5,065,500	5,437,500	0.1

	5,000	+++++UAL (6.25% Convertible Pfd.)	471,875	600,000	0.0
	170,000	USAir Group (Pfd. $4.375, Series B)	8,998,950	9,073,750	0.2
			--------------	--------------	-----
			14,536,325	15,111,250	0.3
Automobiles & Equipment	20,000	Ford Motor Co. (8.40% Convertible Pfd., Series A)	1,000,000	2,095,000	0.0
Banking	100,000	Fourth Financial Corp. (Convertible Pfd., Class A)	2,500,000	2,800,000	0.1
	30,300	Marine Midland Banks, Inc. (Adj. Rate Pfd., Series A)	907,425	1,378,650	0.0
	100,000	Onbancorp, Inc. (6.75% Convertible Pfd., Series B)	2,668,750	3,125,000	0.1
	126,512	+++++Riggs National Corp. (Convertible Pfd.)	3,162,800	3,320,940	0.1
			--------------	--------------	-----
			9,238,975	10,624,590	0.3
Energy & Petroleum	150,000	Grant Tensor Corp. (9.75% Convertible Pfd.)	1,853,375	1,406,250	0.0
	64,219	Santa Fe Energy Resources, Inc. (7% Pfd.)	954,075	1,276,353	0.0
	50,000	Tenneco Inc. (Convertible Pfd., Series P)	1,475,000	2,068,750	0.0
			--------------	--------------	-----
			4,282,450	4,751,353	0.0
Financial Services	175,000	A/S Eksportfinans (8.70% Pfd.)	4,377,500	4,878,125	0.1
Natural Resources	200,000	+++++Amax Inc. (Convertible Pfd.)	13,875,125	13,325,000	0.3
	20,000	Echo Bay Finance (Pfd., Series A)	500,000	845,000	0.0
	219,000	Freeport-McMoRan Inc. (Convertible Pfd.)	7,703,330	8,157,750	0.1
			--------------	--------------	-----
			22,078,455	22,327,750	0.4
Oil Services	165,100	Chiles Offshore Corp. (Convertible Pfd.)	4,227,032	4,395,788	0.1
Paper & Forest Products	300,000	Boise Cascade Corp. (Convertible Pfd.)	6,337,500	6,450,000	0.1
Real Estate	500,000	Catellus Development (7.25% Conv. Exchangeable Pfd., Series B)	25,000,000	25,000,000	0.5
	70,000	Catellus Development (7.50% Pfd.)	3,644,600	4,007,500	0.1
			--------------	--------------	-----
			28,644,600	29,007,500	0.6
Savings Banks	1,750	Dime Savings Bank (Convertible Pfd.)	1,750,000	1,846,250	0.0
	600,000	Glendale Federal Savings Bank (Convertible Pfd., Series E)	15,029,337	15,450,000	0.3
			--------------	--------------	-----
			16,779,337	17,296,250	0.3
Utilities--Electric	12,500	Gulf States Utilities (8.52% Pfd.)	1,363,750	1,287,500	0.0
		Total Preferred Stocks in the United States	112,865,924	118,225,106	2.2
		Total Investments in Preferred Stocks	136,721,078	144,975,923	2.8

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<TABLE>
<CAPTION>

		Face Amount	Fixed-Income Securities			
<S>		<C>	<S>	<C>	<C>	<C>
Canada			Domtar, Inc. (2):			
	C$	6,763,000	10.35% due 9/01/2006	4,014,962	4,533,254	0.1
		3,500,000	10% due 4/15/2011	1,938,573	2,346,058	0.0
			Olympia & York (4)+++:			
		29,694,000	Series 1, 10.70% due 11/04/1993	15,563,278	14,843,626	0.3
		29,000,000	Series 2, 11% due 11/04/1998	15,553,595	14,496,705	0.3
		8,275,000	Series 3, 11% due 10/04/1993	4,271,468	4,136,560	0.1
		8,000,000	Talisman Energy, 8.50% due 12/01/2000 (26)	6,119,693	6,104,673	0.1
			Total Fixed-Income Securities in Canada	47,461,569	46,460,876	0.9
Denmark	Dkr	200,000,000	Kingdom of Denmark, 8% due 5/15/2003 (1)	32,615,197	33,009,766	0.6
			Total Fixed-Income Securities in Denmark	32,615,197	33,009,766	0.6
European Currency Units	ECU	9,250,000	Banco Commercial Portuguese, Convertible Bonds, 8.75% due 5/21/2002 (3)	12,192,757	12,665,100	0.2
		2,000,000	Credit Local de France, 8.011% due 10/16/2001 (4)(b)	1,392,919	1,393,161	0.0
		34,000,000	Government of France, 8.25% due 4/25/2022 (1)	41,500,048	44,593,703	0.9
		1,000,000	Investor International Placements, Convertible Bonds, 7.25% due 6/21/2001 (4)	1,001,412	1,146,705	0.0
		7,000,000	SKF--AB Lyons, Convertible Bonds, 8.007% due			

			7/26/2002 (5)(b)	4,409,462	4,073,370	0.1
			Total Fixed-Income Securities in European Currency Units	60,496,598	63,872,039	1.2
Finland	Fim	75,000,000	Republic of Finland, 11% due 1/15/1999 (1)	14,754,836	15,445,552	0.3
			Total Fixed-Income Securities in Finland	14,754,836	15,445,552	0.3
France	Frf	4,500	Compagnie Generale des Eaux, Convertible Bonds, 6% due 1/01/1998 (7)	2,467,248	2,712,045	0.1
		70,000	EuroDisney, S.C.A., Convertible Bonds, 6.75% due 10/01/2001 (6)	1,872,189	1,521,609	0.0
		200,000,000	Government of France, 8.50% due 4/25/2023 (1)	37,695,876	42,342,511	0.8
			Total Fixed-Income Securities in France	42,035,313	46,576,165	0.9
Germany	DM	7,000,000	Bundesrepublik Deutscheland, 6.25% due 2/20/1998 (1)	3,605,438	4,309,943	0.1
		2,310,000	Commerzbank AG, Floating Rate Convertible Bonds, 7% due 12/31/2000 (3)	1,556,456	2,055,479	0.0
			Total Fixed-Income Securities in Germany	5,161,894	6,365,422	0.1
Italy			Softe SA-LUX (8):			
	Lit	2,000,000,000	4.25% due 7/30/1998	1,307,515	1,245,081	0.0
		9,160,000,000	(Cum Warrants), 8.75% due 3/24/1997 (a)	7,123,916	10,165,888	0.2
		6,300,000,000	(Ex-Warrants), 8.75% due 3/24/1997 (a)	4,551,041	3,718,642	0.1
			Total Fixed-Income Securities in Italy	12,982,472	15,129,611	0.3
Japan	Yen	2,850,000,000	Glaxo Holdings PLC, 4.30% due 9/28/1998 (9)	25,735,735	27,644,342	0.5
		807,000,000	Hokkaido Coca-Cola Bottling Co., Ltd., 0.90% due 6/30/1995 (42)	8,386,037	7,902,263	0.2
		445,000,000	Matsushita Electric Works, 2.70% due 5/31/2002 (23)	3,905,187	5,089,238	0.1
		535,000,000	Toyota Motor Corp., Convertible Bonds, 1.20% due 1/28/1998 (10)	3,311,797	5,090,531	0.1
			Total Fixed-Income Securities in Japan	41,338,756	45,726,374	0.9
New Zealand	NZ$	2,000,000	Natural Gas Corp. Holdings, Convertible Bonds, 10.50% due 10/14/1997(7)	1,186,318	2,216,000	0.0
			Total Fixed-Income Securities in New Zealand	1,186,318	2,216,000	0.0

</TABLE>

<TABLE>

SCHEDULE OF INVESTMENTS (continued) (in US dollars)

<CAPTION>

		Face Amount	Fixed-Income Securities	Cost	Value (Note 1a)	Percent of Net Assets
<S>		<C>	<S>	<C>	<C>	<C>
Spain	Pta	605,000,000	Banco de Santander, Convertible Bonds, 9% due 6/24/1994(3)	$ 4,603,421	$ 5,772,643	0.1%
			Government of Spain (1):			
		600,000,000	11.60% due 1/15/1997	5,013,855	4,886,769	0.1
		7,500,000,000	11.30% due 1/15/2002	70,028,259	65,266,493	1.3
		6,500,000,000	10.90% due 8/30/2003	50,389,810	56,108,833	1.1
			Total Fixed-Income Securities in Spain	130,035,345	132,034,738	2.6
Switzerland	CHF	1,500,000	American Medical International, Inc., 5% due 3/18/1996 (11)	493,386	972,513	0.0
		4,155,000	Carter Holt Harvey Financial, Ltd. (Ex-Warrants), 5.875% due 10/16/2001 (2)(a)	2,230,080	2,721,922	0.1
		4,010,000	Chrysler Financial Corp., 5.75% due 6/18/1996 (4)	1,914,011	2,779,404	0.1
		1,401,000	Ciba-Geigy AG, Convertible Bonds, 2% due8/09/1998(1)	1,178,587	1,163,794	0.0
		3,020,000	News International, 5.375% due 4/30/1996 (13)	1,115,703	2,049,774	0.0
			Total Fixed-Income Securities in Switzerland	6,931,767	9,687,407	0.2

United Kingdom Pounds Sterling	3,750,000	Blue Circle, 10.50% due 6/21/2005 (15)	7,147,695	7,217,359	0.1
	13,450,000	Elf Enterprises Finance PLC, Convertible Bonds, 8.75% due 6/27/2006 (4)	23,198,034	21,588,541	0.5
	4,875,000	English China Clays PLC, Convertible Bonds, 6.50% due 9/30/2003 (14)	8,364,034	6,955,416	0.1
	4,000,000	Government of Italy (Euro-Sterling), 10.50% due 4/28/2014 (1)	5,373,493	7,326,966	0.1
	5,250,000	Hanson PLC, Convertible Bonds, 9.50% due 1/31/2006 (5)	9,953,589	9,480,098	0.2
	1,550,000	LASMO, Convertible Bonds, 7.75% due 10/04/2005 (12)	2,042,187	2,188,430	0.0
	500,000	Land Securities PLC, Convertible Bonds, 6.75% due 12/31/2002 (25)	679,603	795,117	0.0
	1,500,000	RMC Capital Ltd., 8.75% due 5/31/2006 (14)	2,621,155	2,831,211	0.1
	3,250,000	Redland Capital PLC, Convertible Bonds, 7.25% due 1/28/2002 (15)	5,382,804	4,950,904	0.1
	5,000,000	Tate & Lyle International, 5.75% 3/21/2001 (19)	6,515,102	6,520,703	0.1
		Total Fixed-Income Securities in the United Kingdom	71,277,696	69,854,745	1.3
United States US$	3,490,000	AEGON N.V., 7% due 9/15/2001 (16)	4,475,299	4,903,450	0.1
	23,905,000	ARA Group, Inc., 12.50% due 7/15/2001 (35)	26,484,638	26,175,975	0.5
	28,845,000	Allnet Communication Services, 9% due 5/15/2003 (8)	28,795,753	29,277,675	0.6
	3,087,500	American Medical International, Inc., 6.50% due 5/30/1997 (11)	2,578,063	2,971,719	0.1
	27,450,000	Baldwin Co., 10.375% due 8/01/2003 (14)	27,352,438	25,254,000	0.5
	14,500,000	+++++Banco de Galicia, 9% due 11/01/2003 (3)	14,459,390	14,471,000	0.3
	35,000,000	Banco Rio de la Plata (Class 3), 8.50% due 7/15/1998 (14)	35,351,875	35,437,500	0.7
	319,000	Bankers Trust Co., Convertible Bonds, 7.625% due 6/01/2033 (3)	7,620,125	8,174,375	0.2
	10,000,000	Big Bear Stores Co., 13.75% due 6/15/1999 (22)	10,950,000	10,825,000	0.2
	15,000,000	Brazil Investment Bonds, 6% due 9/15/2013 (1)	8,437,500	9,487,500	0.2
	34,000,000	Bridge Oil (USA) Inc., 9.50% due 8/15/2000 (12)	34,032,500	34,340,000	0.7
	8,000,000	+++++Card Establishment Services, Inc., 10% due 10/01/2003 (4)	8,000,000	8,280,000	0.2
	7,200,000	Cetus (Chiron) Corp., Convertible Bonds, 5.25% due 5/21/2002 (17)	5,220,250	6,732,000	0.1

</TABLE>

<TABLE>

<S>	<C>	<S>	<C>	<C>	<C>
	30,000,000	+++++Cetus Collateralized Notes VI, 4.50% due 7/01/1994 (25)	30,000,000	30,000,000	0.6
	1,419,300	Charter Medical Corp., 7.50% due 3/25/2001 (18)	1,138,988	1,238,339	0.0
		Ciba-Geigy Corp. (9):			
	4,445,000	5.50% due 10/28/1998 (Warrants) (a)	5,040,775	5,334,000	0.1
	24,945,000	+++++6.25% due 3/15/2016	25,632,050	25,693,350	0.5
	15,000,000	+++++Clark R&M Holdings, 10.50% due 2/15/2000 (12)(b)	7,724,204	7,762,500	0.1
		Columbia Gas System, Inc. (26)+++:			
	6,500,000	7.50% due 6/01/1997	6,808,750	6,825,000	0.1
	4,700,000	10.25% due 8/01/2011	5,340,375	5,640,000	0.1
	10,000,000	10.50% due 6/01/2012	11,225,000	11,850,000	0.2
	5,000,000	10.15% due 11/01/2013	5,562,500	5,925,000	0.1
	4,000,000	9.50% due 10/10/2019	4,310,000	4,600,000	0.1
	17,000,000	+++++Consoltex Group, Inc., 11% due 10/01/2003 (5)	17,030,000	17,255,000	0.3
	8,725,000	Continental Cablevision, Inc., 12.875% due 11/01/2004 (36)	9,793,813	9,815,625	0.2
	24,500,000	Crossland Federal Savings Bank, 9% due 9/01/2003 (3)	25,071,750	25,847,500	0.5
	20,000,000	++++Crown Packaging Ltd., 10.75% due 11/01/2000	20,000,000	20,150,000	0.4
	31,000,000	DalTile International, Inc., 11.60% due 7/15/1998 (15)(b)	17,898,843	18,057,500	0.3
	30,000,000	+++++Dell Computer Corp., 11% due 8/15/2000 (37)	30,000,000	30,000,000	0.6
		Delta Airlines, Inc. (20):			
	8,000,000	Series A2, 9.20% due 9/23/2014	7,370,000	7,840,000	0.2
	8,000,000	10.06% due 1/02/2016	8,005,000	8,400,000	0.2
	416,666	Discovery Card Trust, 1990B, 9.20% due 11/15/1995 (21)	424,479	417,916	0.0
	25,500,000	Dominion Textile, 8.875% due 11/01/2003 (39)	25,374,540	25,404,375	0.5
	25,000,000	Eagle Food Centers, 8.625% due 4/15/2000 (33)	25,034,838	24,812,500	0.5
	17,000,000	El Paso Electric Co., 10.375% due 1/02/2011 (7)+++	14,530,000	14,280,000	0.3
	54,450,000	El Paso Funding Corp., 10.75% due 4/01/2013 (7)+++	46,733,000	45,465,750	0.9
		EUA Power Corp. (7)+++:			
	1,000,000	Series B, 17.50% due 5/15/1993	475,000	260,000	0.0
	3,157,600	Series C, 17.50% due 11/15/1992	1,915,790	820,976	0.0
	30,000,000	First Union Real Estate, 8.875% due 10/01/2003 (32)	29,756,100	30,225,000	0.6
	15,000,000	+++++Four Seasons Hotel, 9.125% due 7/01/2000 (6)	14,951,875	15,150,000	0.3
	15,500,000	+++++Grand Union Co., 11.375% due 2/15/1999 (22)	15,910,000	16,352,500	0.3
		HIH Capital Ltd., Convertible Bonds (14):			
	470,000	(Bearer), 7.50% due 9/25/2006	394,800	418,300	0.0
	2,000,000	+++++7.50% due 9/25/2006	1,665,000	1,780,000	0.1

25,500,000	Harris Chemical, 9.90% due 7/15/2001 (34)(b)	20,439,078	20,846,250	0.4
22,000,000	Hillhaven Corp., 10.125% due 9/01/2001 (5)	22,087,500	22,990,000	0.4
7,750,000	Horace Mann Educators, Inc., 4% due 12/01/1999 (31)	7,682,500	7,905,000	0.2
3,550,000	Hospital Corp. of America, 6.67% due 6/01/1998 (11)(b)	2,363,683	2,627,000	0.0
77,000,000	International Semi-Tech Microelectronics Inc., 11.50% due 8/15/2003 (14)(b)	35,801,611	40,136,250	0.8
29,000,000	K. Hovnanian Enterprises, 9.75% due 6/01/2005 (30)	28,858,500	29,580,000	0.6
11,340,680	Kearny Street Real Estate, 4.15% due 7/15/2000 (32)	11,362,489	11,369,032	0.2
4,000,000	Kroger Co. (The), 8.50% due 6/15/2003 (5)	4,008,750	4,120,000	0.1
7,500,000	LTC Properties, Convertible Bonds, 9.75% due 7/01/2004 (25)	7,500,000	9,787,500	0.2
10,000,000	Lomas Mortgage USA, Inc., 9.75% due 10/01/1997 (25)	10,000,000	10,400,000	0.2
12,500,000	Marcus Cable, 11.875% due 10/01/2005 (8)	12,500,000	13,218,750	0.3
5,500,000	Mark IV Industries, 8.75% due 4/01/2003 (16)	5,497,500	5,692,500	0.1
583,333	Maryland National Bank (MBNA Credit Card Trust 1989-B), 8.50% due 11/30/1994 (21)(e)	602,109	583,916	0.0

</TABLE>

<TABLE>
SCHEDULE OF INVESTMENTS (continued) (in US dollars)

<CAPTION>

		Face Amount	Fixed-Income Securities	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<S>	<C>	<S>	<C>	<C>	<C>
United States (concluded)						
	US$	10,500,000	Mediq/PRN Senior Notes, 11.125% due 7/01/1999 (22)	$ 10,925,000	$ 11,025,000	0.2%
			Meditrust, Convertible Bonds (25):			
		6,000,000	7% due 3/01/1998	6,035,000	6,540,000	0.1
		3,000,000	9% due 1/01/2002	3,000,000	3,660,000	0.1
		10,000,000	NL Industries, Inc., 11.75% due 10/15/2003 (34)	10,000,000	10,075,000	0.2
		5,000,000	Navistar Financial, 9.50% due 6/01/1996(4)	4,270,000	5,250,000	0.1
		27,000,000	Nextel Communications Inc., 9.424% due 9/01/2003 (8)(b)	15,620,698	18,697,500	0.4
		8,000,000	Noble Drilling Corp., 9.25% due 10/01/2003 (12)	8,000,000	8,260,000	0.2
		1,000,000	Novacare, Inc., 5.50% due 1/15/2000 (11)	857,500	905,000	0.0
		22,500,000	OMI Corp., 10.25% due 11/01/2003 (20)	22,500,000	22,725,000	0.4
		14,000,000	OSI Specialties Corp., 9.25% due 10/01/2003 (5)	14,000,000	14,385,000	0.3
			PDV America (14):			
		35,000,000	7.25% due 8/01/1998	34,856,150	35,525,000	0.7
		10,000,000	7.75% due 8/01/2000	10,062,500	10,325,000	0.2
		2,500,000	P.T. Indorayon, 5.50% due 10/01/2002 (2)	2,856,250	2,950,000	0.1
		3,900,000	P.T. Pabrik Kertas Tjiwa Kimia, Convertible Bonds, 7.25% due 4/12/2001(2)	2,923,000	3,685,500	0.1
		17,500,000	Paracelsus Healthcare Corp., 9.875% due 10/15/2003 (18)	17,560,000	17,718,750	0.3
		20,400,000	Payless Cashways, 14.50% due 11/01/2000 (38)	21,574,439	21,420,000	0.4
		6,500,000	+++++Petrolera Argentina San Jorge S.A., 11% due 2/09/1998 (26)	6,278,750	6,775,000	0.1
		5,500,000	Plaid Clothing Group, 11% due 8/01/2003 (39)	5,506,250	5,582,500	0.1
		22,500,000	Plastic Specialties, 11.25% due 12/01/2003 (43)	22,500,000	22,500,000	0.4
			+++++Presidio Oil Co. (26):			
		19,562,500	11.50% due 9/15/2000	20,017,500	20,296,094	0.4
		8,750,000	13.25% due 7/15/2002	6,721,500	8,925,000	0.2
		12,000,000	Price Co., Convertible Bonds, 5.50% due 2/28/2012 (14)	11,213,250	12,030,000	0.2
		5,000,000	Primark Corp., 8.75% due 10/15/2000 (18)	4,948,750	5,018,750	0.1
		23,000,000	Public Service of New Mexico, EIP Funding, 10.25% due 10/01/2012 (7)	23,000,000	22,770,000	0.4
		19,000,000	Public Service of New Mexico Lease Obligation, First PV Funding, Convertible Bonds, 10.15% due 1/15/1996(7)	18,058,125	18,240,000	0.3
		10,200,000	Pueblo Xtra, 9.50% due 8/01/2003 (22)	10,210,125	10,429,500	0.2
		4,000,000	Purina Mills, Inc., 10.25% due 9/01/2003 (19)	4,000,000	4,205,000	0.1
		15,000,000	RJR Nabisco Holdings, Inc., 15% due 5/15/2001 (40)(c)	17,600,000	16,725,000	0.3
		24,829,664	RTC Commercial Mortgage, 8.25% due 12/25/2000 (3)	24,449,460	24,643,442	0.5
		5,000,000	Regency Health, Convertible Bonds, 6.50% due 1/15/2003 (18)	5,000,000	5,450,000	0.1
		16,000,000	+++++Republic of Argentina, 4% due 3/31/2023 (1)	12,440,000	12,440,000	0.2
			+++++Resolution Trust Co. (21)(e):			
		2,000,000	Class 2, 6.50% due 3/15/2003	1,931,250	1,980,000	0.0
		8,000,000	Class 3, 9% due 3/15/2003	7,575,000	7,940,000	0.2
		7,500,000	N2 Class 3, 8.75% due 3/15/2003	7,209,375	7,443,750	0.1
		5,000,000	Riverwood International Corp., 10.75% due 6/15/2000 (41)	5,300,000	5,400,000	0.1
		3,000,000	Roosevelt Financial Group, Inc., 9.50% due 8/01/2002 (27)	3,000,000	3,217,500	0.0
		27,882,000	Salant Corp., Secured, 10.50% due 12/31/1998 (39)	27,324,360	27,603,180	0.5
		10,075,000	Sequa Corp., 9.625% due 10/15/1999 (14)	9,874,313	10,427,625	0.2
		30,000,000	Sherritt Gordon Ltd., 9.75% due 4/01/2003 (29)	30,096,250	30,000,000	0.5

</TABLE>

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<S>	<C>	<S>	<C>	<C>	<C>
	5,000,000	Siemens Corp., 8% due 6/24/2002 (9)	6,536,250	7,275,000	0.1
	21,500,000	Sifto Canada, Inc., 8.50% due 7/15/2000 (5)	21,507,500	21,607,500	0.4
	5,500,000	Sizeler Properties, Convertible Bonds, 8% due 7/15/2003 (24)	5,505,000	5,720,000	0.1
	5,000,000	Ssangyong Oil Corp., 3.75% due 12/31/2008 (12)	5,330,750	5,312,500	0.1
	18,500,000	Sweetheart Cup Co., 9.625% due 9/01/2000 (41)	18,500,000	19,286,250	0.4
	3,110,000	Telefonica Nacional de Espana, Convertible Bonds, 4% due 7/28/2003 (8)	3,899,825	4,322,900	0.1
	15,500,000	Texfi Industries, 8.75% due 8/01/1999 (39)	15,323,300	15,035,000	0.3
	12,500,000	Transtexas Gas Corp., 10.50% due 9/01/2000 (12)	12,500,000	13,375,000	0.3
	2,220,000	Tung Ho Steel Enterprise, Convertible Bonds, 4% due 7/26/2001 (24)	2,243,700	2,530,800	0.0
	33,200,000	Turner Broadcasting Co., 12% due 10/15/2001 (14)	36,849,138	36,271,000	0.7
	46,917,000	United Mexican States (Rights) (d)	0	0	0.0
		United Mexican States Discount Notes (1):			
	37,500,000	8.50% due 9/15/2002	38,194,375	39,281,250	0.7
	88,000,000	5% due 3/31/2008	81,643,750	84,150,000	1.6
	30,500,000	4.25% due 12/31/2019	24,947,500	26,420,625	0.5
	8,000,000	USAir, Inc., 10.375% due 3/01/2013 (28)	8,000,000	8,050,000	0.1
	4,000,000	USAir Pass Thru, 9.625% due 9/01/2003 (28)	4,000,000	4,025,000	0.1
	2,000,000	US Trails Senior Secured, 12% due 7/15/1998 (4)	1,587,500	1,670,000	0.0
	6,000,000	USX-Marathon Oil Co., 7% due 6/15/2017 (12)	5,650,000	5,790,000	0.1
	5,875,000	Veba International Finance (Cum Warrants), 6% due 4/06/2000 (4)(a)	7,083,300	8,650,938	0.1
	20,430,700	Vista Properties, 13.75% due 10/31/2001 (25)(c)	10,734,376	9,602,429	0.2
	4,350,000	Wainoco Oil Corp., 12% due 8/01/2002 (26)	4,207,625	4,611,000	0.1
			--------------	--------------	-----
			1,581,117,705	1,619,383,806	31.0
US Government & Agency Obligations	75,000,000	US Treasury Bond, 10.50% due 8/15/1995 (1)	84,257,813	83,449,200	1.6
		Total Fixed-Income Securities in the United States	1,665,375,518	1,702,833,006	32.6
		Total Investments in Fixed-Income Securities	2,131,653,279	2,189,211,701	41.9

<CAPTION>

Short-Term Securities

<S>	<S>	<C>	<S>	<C>	<C>	<C>
United States Commercial Paper*	US$	50,000,000	American Express Co., 3.08% due 11/16/1993	49,927,278	49,927,278	0.9
			Avco Financial Services:			
		15,000,000	3.11% due 11/08/1993	14,988,089	14,988,089	0.3
		45,000,000	3.11% due 11/10/1993	44,957,238	44,957,238	0.8
		20,000,000	3.09% due 12/03/1993	19,941,633	19,941,633	0.4
		30,000,000	Bank One Diversified, 3.09% due 12/09/1993	29,897,000	29,894,000	0.6
		12,549,000	Certificate of Deposit, Time Deposit, 3.156% due 11/12/1993	12,549,000	12,549,000	0.2
			Ciesco L.P.:			
		30,000,000	3.10% due 11/01/1993	29,994,833	29,994,833	0.6
		40,000,000	3.10% due 11/15/1993	39,944,889	39,944,889	0.8
		33,000,000	Cooper Industries, Inc., 3.07% due 11/03/1993	32,988,743	32,988,743	0.6
		50,000,000	Corporate Asset Funding, Inc., 3.08% due 11/04/1993	49,978,611	49,978,611	0.9
		123,483,000	General Electric Capital Corp., 2.93% due 11/01/1993	123,462,900	123,462,900	2.4
		19,000,000	International Lease Finance Corp., 3.10% due 11/03/1993	18,993,456	18,993,456	0.3
			Kmart Corp.:			
		25,000,000	3.09% due 11/02/1993	24,993,563	24,993,563	0.5
		50,000,000	3.07% due 12/02/1993	49,859,292	49,859,292	0.9

</TABLE>

<TABLE>

SCHEDULE OF INVESTMENTS (concluded) (in US dollars)

<CAPTION>

		Face Amount	Short-Term Securities	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<S>	<C>	<S>	<C>	<C>	<C>
United States (concluded)						
			Matterhorn Capital Co.:			
	US$	49,819,000	3.07% due 11/24/1993	$ 49,712,789	$ 49,712,789	1.0%
		22,150,000	3.07% due 12/01/1993	22,089,555	22,089,555	0.4

	Nestle Capital Corp.:			
41,845,000	3.05% due 11/15/1993	41,788,277	41,788,277	0.8
42,000,000	3.05% due 11/16/1993	41,939,508	41,939,508	0.8
	PepsiCo, Inc.:			
50,000,000	3.08% due 11/09/1993	49,957,222	49,957,222	0.9
50,000,000	3.07% due 12/01/1993	49,863,555	49,863,555	0.9
20,000,000	Pfizer Inc., 3.06% due 11/03/1993	19,993,200	19,993,200	0.4
50,000,000	Philip Morris Companies, Inc., 3.08% due 11/05/1993	49,974,333	49,974,333	0.9
	Preferred Receivables Funding Corp.:			
37,800,000	3.12% due 11/16/1993	37,744,308	37,744,308	0.7
50,000,000	3.09% due 12/01/1993	49,862,667	49,862,667	1.0
	Sanwa Business Credit Corp.:			
35,000,000	3.10% due 11/05/1993	34,981,506	34,981,506	0.7
25,000,000	3.12% due 11/23/1993	24,948,000	24,948,000	0.5
50,000,000	Sara Lee Corp., 3.07% due 11/19/1993	49,914,722	49,914,722	1.0
50,000,000	Shell Oil Co., 3.03% due 12/02/1993	49,861,125	49,861,125	1.0
	Siemens Corp.:			
30,000,000	3.06% due 11/16/1993	29,956,650	29,956,650	0.6
50,000,000	3.08% due 11/23/1993	49,897,333	49,897,333	1.0
40,000,000	Xerox Credit Corp., 3.09% due 11/01/1993	39,993,133	39,993,133	0.8
	Total Investments in Short-Term Securities	1,234,954,408	1,234,951,408	23.6
Total Investments		$4,982,716,863	5,249,574,929	100.6
		==============		
Unrealized Appreciation on Forward Foreign Exchange Contracts**			14,024,732	0.3
Variation Margin on Stock Index Futures Contracts***			175,000	0.0
Liabilities in Excess of Other Assets			(46,423,852)	(0.9)
			--------------	-----
Net Assets			$5,217,350,809	100.0%
			==============	=====

<FN>
(a)Warrants entitle the Fund to purchase a predetermined number of shares of stock/face amount of bonds at a predetermined price until the expiration date.
(b)The interest rate shown represents the yield-to-maturity on this zero coupon issue.
(c)Represents a pay-in-kind security.
(d)The rights may be exercised until 12/31/2019.
(e)Subject to principal paydowns as a result of prepayments or refinancings of the underlying mortgage instruments. As a result, the average life may be less than the original maturity.
(f)The rights may be exercised until 11/12/1993.
Corresponding industry groups for fixed-income securities:
(1) Government
(2) Paper & Forest Products
(3) Banking
(4) Financial
(5) Industrial

(23) Electronics
(24) Metals
(25) Real Estate Investment Trust
(26) Energy Related

***Financial futures contracts purchased as of October 31, 1993 were as follows:

Number of Contracts	Issue	Expiration Date	Value (Note 1e)
290	Standard & Poor's 500 Index	December 1993	$ 67,867,250
			============
Total Financial Futures Contracts Purchased (Total Contract Price--$66,845,750)			$ 67,867,250
			============

Financial futures contracts sold as of October 31, 1993 were as follows:

Number of Contracts	Issue	Expiration Date	Value (Note 1e)
700	US Treasury Bonds	December 1993	$(80,565,625)
			============
Total Financial Futures Contracts Sold (Total Contract Price--$80,600,162)			$(80,565,625)
			============

The market value of pledged securities is $103,943,125.
</TABLE>

(6) Leisure
(7) Utilities--Electric

(8) Telecommunications
(9) Pharmaceutical
(10) Automobiles & Equipment
(11) Hospital Management
(12) Oil & Related
(13) Newspaper/Publishing
(14) Multi-Industry
(15) Building Materials
(16) Electrical Equipment
(17) Biotechnology
(18) Healthcare
(19) Food
(20) Transportation
(21) Asset-Backed Security
(22) Supermarkets

(27) Savings Bank
(28) Airlines
(29) Resources
(30) Building & Construction
(31) Insurance
(32) Real Estate
(33) Advertising
(34) Chemicals
(35) Commercial Services
(36) Broadcasting
(37) Computers
(38) Retail
(39) Textiles
(40) Food & Tobacco
(41) Packaging & Containers
(42) Beverages
(43) Plastics

++American Depositary Receipt (ADR).
++++Global Depositary Shares (GDS).
++++++Investment in Companies 5% or more of whose outstanding securities are held by the Fund (such companies are defined as "Affiliated Companies" in section 2(a)(3) of the Investment Company Act of 1940) are as follows:

<TABLE>
<CAPTION>

Industry	Affiliate	Net Share Activity	Net Cost	Dividend Income
<S>	<C>	<C>	<C>	<C>
Retail Stores	Buttrey Food & Drug	274,700	$ 1,980,462	--
Banking	Crossland Federal Savings Bank	760,000	18,250,000	--

</TABLE>

*Commercial Paper is traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund.

**Forward foreign exchange contracts as of October 31, 1993 were as follows:

<TABLE>
<CAPTION>

Foreign Currency Sold		Expiration Date	Unrealized Appreciation (Depreciation)
<S>		<C>	<C>
Chf	109,000,000	November 1993	$ 3,335,278
DM	108,000,000	November 1993	3,035,355
Dkr	100,000,000	November 1993	(12,624)
Dkr	50,000,000	December 1993	(74,167)
ECU	38,000,000	November 1993	557,926
Pta	16,200,000,000	November 1993	1,157,017
Ffr	431,500,000	November 1993	1,178,479
Pound Sterling	27,000,000	November 1993	378,950
Yen	17,350,000,000	December 1993	3,190,988
Nlg	83,000,000	November 1993	1,548,129
Total (US$ Commitment--$656,391,867)			$14,295,331
Foreign Currency Purchased			
Lit	20,000,000,000	November 1993	(270,599)
Total (US$ Commitment--$12,549,650)			$ (270,599)
Total Unrealized Appreciation--Net on Forward Foreign Exchange Contracts			$14,024,732

</TABLE>

+++Non-income producing security.

+++++Restricted securities as to resale. The value of the Fund's investment in restricted securities was approximately $276,152,000, representing 5.3% of net assets.

<TABLE>
<CAPTION>

Issue	Acquisition Date	Cost	Value (Note 1a)
<S>	<C>	<C>	<C>
AMR Corp. (Pfd. $3.00)	6/21/93	$ 5,065,500	$ 5,437,500
Amax Inc. (Convertible Pfd.)	8/05/93	13,875,125	13,325,000
Banco de Galicia, 9% due 11/01/2003	10/29/93	14,459,390	14,471,000
Card Estalishment Services, Inc., 10% due 10/01/2003	10/05/93	8,000,000	8,280,000
Cetus Collateralized Notes VI, 4.50% due 7/01/1994	7/08/93	30,000,000	30,000,000
Ciba-Geigy Corp., 6.25% due 3/15/2016	4/23/93	25,632,050	25,693,350
Clark R&M Holdings, 10.50% due 2/15/2000	5/20/93	7,724,204	7,762,500
Consoltex Group, Inc., 11% due 10/01/2003	9/23/93	17,030,000	17,255,000
Crown Packaging Ltd., 10.75% due 11/01/2000	10/22/93	20,000,000	20,150,000
Dell Computer Corp., 11% due 8/15/2000	8/19/93	30,000,000	30,000,000
Four Seasons Hotel, 9.125% due 7/01/2000	6/23/93	14,951,875	15,150,000
Grand Union Co., 11.375% due 2/15/1999	9/03/93	15,910,000	16,352,500
HIH Capital Ltd., Convertible Bonds, 7.50% due 9/25/2006	7/14/92	1,665,000	1,780,000
Kia Motors (GDS)	11/15/91	1,017,000	774,454
Presidio Oil Co:			
13.25% due 7/15/2002	8/19/92	6,721,500	8,925,000
11.50% due 9/15/2000	8/03/93	20,017,500	20,296,094
Petrolera Argentina San Jorge S.A., 11% due 2/09/1998	3/22/93	6,278,750	6,775,000
Republic of Argentina, 4% due 3/31/2023	10/29/93	12,440,000	12,440,000
Resolution Trust Co.:			
Class 2, 6.50% due 3/15/2003	3/11/93	1,931,250	1,980,000
Class 3, 9% due 3/15/2003	3/11/93	7,575,000	7,940,000
N2 Class 3, 8.75% due 3/15/2003	5/04/93	7,209,375	7,443,750
Riggs National Corp. (Convertible Pfd.)	10/14/93	3,162,800	3,320,940
UAL (6.25% Convertible Pfd.)	2/23/93	471,875	600,000
		-----------	------------
		$271,138,194	$276,152,088
		============	============

</TABLE>
See Notes to Financial Statements.

<TABLE>
STATEMENT OF ASSETS AND LIABILITIES
<CAPTION>

	As of October 31, 1993		
<S>	<S>	<C>	<C>
Assets:	Investments, at value (identified cost--$4,982,716,863) (Note 1a)		$5,249,574,929
	Unrealized appreciation on forward foreign exchange contracts--net (Note 1c)		14,024,732
	Variation margin on stock index futures contracts (Note 1e)		175,000
	Foreign cash (Note 1c)		19,184,776
	Cash		1,562,626
	Receivables:		
	Capital shares sold	$ 86,749,334	
	Securities sold	71,824,111	
	Interest	39,642,037	
	Dividends	2,848,905	
	Forward exchange contract (Note 1c)	1,565,493	202,629,880

	Deferred organization expenses (Note 1h)		4,680
	Prepaid registration fees and other assets (Note 1h)		128,864

	Total assets		5,487,285,487

Liabilities:	Payables:		
	Securities purchased	256,020,905	
	Capital shares redeemed	5,932,910	
	Distributor (Note 2)	3,230,977	
	Investment adviser (Note 2)	2,844,478	268,029,270

	Accrued expenses and other liabilities	1,905,408
	Total liabilities	269,934,678
Net Assets:	Net assets	$5,217,350,809
Net Assets Consist of:	Class A Shares of Common Stock, $0.10 par value, 200,000,000 shares authorized	$ 6,788,707
	Class B Shares of Common Stock, $0.10 par value, 400,000,000 shares authorized	32,142,925
	Paid-in capital in excess of par	4,770,825,824
	Undistributed investment income--net	31,215,711
	Undistributed realized capital gains and foreign currency transaction gains--net	95,392,147
	Unrealized appreciation on investments and foreign currency transactions--net	280,985,495
	Net assets	$5,217,350,809
Net Asset Value:	Class A--Based on net assets of $917,805,991 and 67,887,067 shares outstanding	$ 13.52
	Class B--Based on net assets of $4,299,544,818 and 321,429,250 shares outstanding	$ 13.38

See Notes to Financial Statements.
</TABLE>

<TABLE>
STATEMENT OF OPERATIONS
<CAPTION>

	For the Year Ended October 31, 1993		
<S>	<S>	<C>	<C>
Investment Income (Notes 1f & 1g):	Interest and discount earned		$ 100,272,507
	Dividends (net of $1,726,498 foreign withholding tax)		23,357,953
	Total income		123,630,460
Expenses:	Distribution fees--Class B (Note 2)		20,873,731
	Investment advisory fees (Note 2)		18,984,493
	Transfer agent fees--Class B (Note 2)		2,070,253
	Registration fees (Note 1h)		1,135,102
	Custodian fees		994,262
	Transfer agent fees--Class A (Note 2)		390,093
	Printing and shareholder reports		264,539
	Accounting services (Note 2)		213,891
	Professional fees		56,257
	Directors' fees and expenses		30,741
	Amortization of organization expenses (Note 1h)		17,981
	Other		29,281
	Total expenses		45,060,624
	Investment income--net		78,569,836
Realized & Unrealized Gain (Loss) on Investments & Foreign Currency Transactions--Net (Notes 1c, 1g & 3):	Realized gain (loss) from:		
	Investments--net	$ 99,410,434	
	Foreign currency transactions	(3,312,211)	96,098,223
	Change in unrealized appreciation/depreciation on:		
	Investments--net	287,398,684	
	Foreign currency transactions	16,134,415	303,533,099
	Net realized and unrealized gain on investments and foreign currency transactions		399,631,322
	Net Increase in Net Assets Resulting from Operations		$ 478,201,158

See Notes to Financial Statements.
</TABLE>

<TABLE>
STATEMENTS OF CHANGES IN NET ASSETS
<CAPTION>

		For the Year Ended October 31, 1993	1992
	Increase (Decrease) in Net Assets:		
<S>	<S>	<C>	<C>
Operations:	Investment income--net	$ 78,569,836	$ 18,825,581
	Realized gain on investments and foreign currency transactions--net	96,098,223	56,683,968

	Change in unrealized appreciation/depreciation on investments and foreign currency transactions--net	303,533,099	(36,545,501)
	Net increase in net assets resulting from operations	478,201,158	38,964,048
Dividends & Distributions to Shareholders (Note 1i):	Investment income--net:		
	Class A	(21,579,231)	(6,166,424)
	Class B	(78,516,167)	(12,717,884)
	Realized gain on investments--net:		
	Class A	(2,640,570)	(3,800,726)
	Class B	(10,640,849)	(8,575,567)
	Net decrease in net assets resulting from dividends and distributions to shareholders	(113,376,817)	(31,260,601)
Capital Share Transactions (Note 4):	Net increase in net assets derived from capital share transactions	3,647,738,774	963,054,445
Net Assets:	Total increase in net assets	4,012,563,115	970,757,892
	Beginning of year	1,204,787,694	234,029,802
	End of year*	$5,217,350,809	$1,204,787,694
	*Undistributed investment income--net	$ 31,215,711	$ 52,741,273

See Notes to Financial Statements.
</TABLE>

<TABLE>
FINANCIAL HIGHLIGHTS
<CAPTION>

The following per share data and ratios have been derived from information provided in the financial statements.

Increase (Decrease) in Net Asset Value:		Class A 1993	1992	1991	1990	For the Period Feb. 3, 1989++ to Oct. 31, 1989
		For the Year Ended October 31,				
<S>	<S>	<C>	<C>	<C>	<C>	<C>
Per Share Operating Performance:	Net asset value beginning of period	$ 11.92	$ 12.16	$ 10.37	$ 10.79	$ 10.00
	Investment income--net	.39	.36	.55	.60	.45
	Realized and unrealized gain (loss) on investments and foreign currency transactions--net	2.14	.89	2.24	(.16)	.48
	Total from investment operations	2.53	1.25	2.79	.44	.93

</TABLE>

<TABLE>

<S>	<S>	<C>	<C>	<C>	<C>	<C>
	Less dividends and distributions:					
	Investment income--net	(.81)	(.89)	(.45)	(.66)	(.14)
	Realized gain on investments--net	(.12)	(.60)	(.55)	(.20)	--
	Total dividends and distributions	(.93)	(1.49)	(1.00)	(.86)	(.14)
	Net asset value, end of period	$ 13.52	$ 11.92	$ 12.16	$ 10.37	$ 10.79
Total Investment + Return:**	Based on net asset value per share	22.61%	11.78%	28.89%	3.91%	9.34%++
Ratios to Average Net Assets:	Expenses	.93%	1.07%	1.29%	1.29%	1.37%*
	Investment income--net	3.90%	10.82%	8.96%	4.37%	5.31%*
Supplemental Data:	Net assets, end of period (in thousands)	$ 917,806	$ 245,839	$ 72,702	$ 49,691	$ 47,172
	Portfolio turnover	50.35%	59.56%	81.21%	129.51%	88.59%

<CAPTION>

Class B

The following per share data and ratios have been derived from information provided in the financial statements.

Increase (Decrease) in Net Asset Value:		1993	1992	1991	1990	For the Period Feb. 3, 1989++ to Oct. 31, 1989
		For the Year Ended October 31,				
<S>	<S>	<C>	<C>	<C>	<C>	<C>
Per Share Operating Performance:	Net asset value beginning of period	$ 11.83	$ 12.10	$ 10.33	$ 10.73	$ 10.00
	Investment income--net	.28	.22	.44	.49	.38
	Realized and unrealized gain (loss) on investments and foreign currency transactions--net	2.11	.91	2.22	(.16)	.47
	Total from investment operations	2.39	1.13	2.66	.33	.85
	Less dividends and distributions:					
	Investment income--net	(.72)	(.80)	(.34)	(.53)	(.12)
	Realized gain on investments--net	(.12)	(.60)	(.55)	(.20)	--
	Total dividends and distributions	(.84)	(1.40)	(.89)	(.73)	(.12)
	Net asset value, end of period	$ 13.38	$ 11.83	$ 12.10	$ 10.33	$ 10.73
Total Investment + Return:**	Based on net asset value per share	21.42%	10.64%	27.48%	2.93%	8.50%++
Ratios to Average Net Assets:	Expenses, excluding distribution fees	.95%	1.09%	1.31%	1.31%	1.40%*
	Expenses	1.95%	2.09%	2.31%	2.31%	2.40%*
	Investment income--net	2.87%	11.95%	7.98%	3.35%	4.29%*
Supplemental Data:	Net assets, end of period (in thousands)	$4,299,545	$ 958,949	$ 161,328	$ 115,682	$ 113,649
	Portfolio turnover	50.35%	59.56%	81.21%	129.51%	88.59%

<FN>
++Commencement of Operations.
++++Aggregate total investment return.
*Annualized.
**Total investment returns exclude the effects of sales loads.

See Notes to Financial Statements.
</TABLE>

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:
Merrill Lynch Global Allocation Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a non- diversified, open-end management investment company. The shares of the Fund are divided into Class A Shares and Class B Shares. Class A Shares are sold with a front-end sales charge. Class B Shares may be subject to a contingent deferred sales charge. Both classes of shares have identical voting, dividend, liquidation and other rights and the same terms and conditions, except that Class B Shares bear certain expenses related to the distribution of such shares and have exclusive voting rights with respect to matters relating to such distribution expenditures. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments--Portfolio securities which are traded on US stock exchanges are valued at the last sale price on the principal market on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Securities traded in the over-the-counter market are valued at the last available bid price or yield equivalents obtained from one or more dealers in the over-the-counter market prior to the time of valuation. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market. Portfolio securities which are traded on European stock exchanges are valued at the closing bid price on such exchanges on the day the securities are being valued or, if closing prices are unavailable, at the last traded bid price available prior to the time of valuation. Short-term securities are valued at amortized cost which approximates market.

Options written by the Fund are valued at the last asked price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last asked price as obtained from one or more dealers. Options purchased by the Fund are valued at their last bid price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last bid price as obtained from two or more dealers, unless there is only one dealer, in which case that dealer's price is used.

Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

(b) Repurchase agreements--The Fund invests in US Government securities pursuant to repurchase agreements with a member bank of the Federal Reserve System or a primary dealer in US Government securities. Under such agreements, the bank or primary dealer agrees to repurchase the security at a mutually agreed upon time and price. The Fund takes possession of the underlying securities, marks to income to its shareholders. Therefore, no Federal income tax provision is required. Under the applicable foreign tax law, a withholding tax may be imposed on interest, dividends, and capital gains at various rates.

(g) Security transactions and investment income--Security transactions are recorded on the dates the transactions are entered into (the trade dates). Dividend income is recorded on the ex-dividend dates, except that if the ex-dividend date has passed, certain dividends from foreign securities are recorded as soon as the Fund is informed of the ex-dividend date. Interest income (including amortization of discount) is recognized on the accrual basis. Realized gains and losses on security transactions are determined on the identified cost basis.

(h) Deferred organization expenses and prepaid registration fees--Deferred organization expenses are charged to expense on a straight-line basis over a five-year period. Prepaid registration fees are charged to expense as the related shares are issued.

(i) Dividends and distributions--Dividends and distributions paid by the Fund are recorded on the ex-dividend dates.

(j) Reclassifications--Certain 1992 amounts have been reclassified to conform to the 1993 presentation.

2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Merrill Lynch Asset Management ("MLAM"). MLAM is the name under which Merrill Lynch Investment Management, Inc. ("MLIM") does business. MLIM is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. The Fund has also entered into Distribution Agreements and a Distribution Plan with Merrill Lynch Funds Distributor, Inc. ("MLFD" or "Distributor"), a wholly-owned subsidiary of MLIM.

MLAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. From November 1, 1992 to July 20, 1993, the Fund paid a monthly fee of 0.75%, on an annual basis of the average daily value of the Fund's net assets. From July 21, 1993 to October 18, 1993, the Fund paid 0.70%, on an annual basis on net assets above $2.5 billion. On October 19, 1993, the fee was further reduced on net assets above $5.0 billion to 0.65%. MLAM has entered into a sub-advisory agreement with Merrill Lynch Asset Management U.K., Ltd. ("MLAM U.K."), an affiliate of MLAM, pursuant to which MLAM pays MLAM U.K. a fee computed at the rate of 0.10% of the average daily net assets of the Fund for providing investment advisory services to MLAM with respect to the Fund. For the year ended October 31, 1993, MLAM paid MLAM U.K. a fee of $2,293,281

market such securities and, if necessary, receives additions to such securities daily to ensure that the contract is fully collateralized.

(c) Foreign currency transactions--Transactions denominated in foreign currencies are recorded at the exchange rate prevailing when recognized. Assets and liabilities denominated in foreign currencies are valued at the exchange rate at the end of the period. Foreign currency transactions are the result of settling (realized) or valuing (unrealized) assets or liabilities expressed in foreign currencies into US dollars. Realized and unrealized gains or losses from investments include the effects of foreign exchange rates on investments.

The Fund is authorized to enter into forward foreign exchange contracts as a hedge against either specific transactions or portfolio positions. Such contracts are not entered on the Fund's records. However, the effect on operations is recorded from the date the Fund enters into such contracts.

Premium or discount is amortized over the life of the contracts.

(d) Options--The Fund can write covered call options and purchase put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the current value of the option written.

When a security is sold through an exercise of an option, the related premium received (or paid) is deducted from (or added to) the basis of the security sold. When an option expires (or the fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

(e) Financial futures contracts--The Fund may purchase or sell stock index futures contracts and options on such futures contracts. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

(f) Income taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable

pursuant to such agreement. Certain of the states in which the shares of the Fund are qualified for sale impose limitations on the expenses of the Fund. The most restrictive annual expense limitation requires that the Investment Adviser reimburse the Fund to the extent the Fund's expenses (excluding interest, taxes, distribution fees, brokerage fees and commissions, and extraordinary items) exceed 2.5% of the Fund's first $30 million of average daily net assets, 2.0% of the net $70 million of average daily net assets, and 1.5% of the average daily net assets in excess thereof. MLAM's obligation to reimburse the Fund is limited to the amount of the management fee. No fee payment will be made to MLAM during any fiscal year which will cause such expenses to exceed the most restrictive expense limitation at the time of such payment.

The Fund has adopted a Plan of Distribution (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act of 1940 pursuant to which MLFD receives a fee from the Fund at the end of each month at an annual rate of 1.0% of the average daily net assets of the Class B Shares of the Fund. This fee is to compensate the Distributor for the services it provides and the expenses borne by the Distributor under the Distribution Agreement. As authorized by the Plan, the Distributor has entered into an agreement with Merrill Lynch, Pierce, Fenner & Smith Inc. ("MLPF&S"), an affiliate of MLAM, which provides for the compensation of MLPF&S for providing distribution-related services to the Fund. For the year ended October 31, 1993, MLFD earned $20,873,731 under the Plan, all of which was paid to MLPF&S pursuant to the agreement.

For the year ended October 31, 1993, MLFD earned underwriting discounts of $861,771, and MLPF&S earned dealer concessions of $13,073,421, on sales of the Fund's Class A Shares.

MLPF&S also received contingent deferred sales charges of $1,701,006 relating to transactions in Class B Shares and $246,070 in commissions on the execution of portfolio security transactions for the Fund during the year.

At October 31, 1993 the Fund owed affiliated funds $2,600,141 for securities purchased.

Financial Data Services, Inc. ("FDS"), a wholly-owned subsidiary of Merrill Lynch & Co., Inc., is the Fund's transfer agent.

Accounting services are provided to the Fund by MLAM at cost.

Certain officers and/or directors of the Fund are officers and/or directors of MLIM, MLPF&S, FDS, MLFD, and/or Merrill Lynch & Co., Inc.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended October 31, 1993 were $3,659,033,015 and $973,659,891, respectively.

NOTES TO FINANCIAL STATEMENTS (concluded)

Net realized and unrealized gains (losses) as of October 31, 1993, were as follows:

	Realized Gains (Losses)	Unrealized Gains (Losses)
Long-term investments	$ 95,096,251	$ 266,861,066
Short-term investments	(1,037)	(3,000)
Foreign currency transactions	(8,011,787)	(953,340)
Options written	(3,155,372)	--
Forward foreign exchange contracts	7,854,948	14,024,732
Financial futures contracts	4,315,220	1,056,037
Total	$ 96,098,223	$ 280,985,495

Transactions in put options purchased for the year ended October 31, 1993 were as follows:

	Par Value	Premiums Paid
Outstanding put options purchased at beginning of year	$ 260,000	$ 2,420,659
Options purchased	115,000	1,112,300
Options terminated in closing sale transactions	(80,000)	(818,275)
Options expired	(295,000)	(2,714,684)
Outstanding put options purchased at end of year	$ --	$ --

As of October 31, 1993, net unrealized appreciation for Federal income tax purposes aggregated $266,856,233, of which $317,165,960 related to appreciated securities and $50,309,727 related to depreciated securities. At October 31, 1993, the aggregate cost of investments for Federal income tax purposes was $4,982,718,696.

4. Capital Share Transactions:
Net increase in net assets derived from capital share transactions was $3,647,738,774 and $963,054,445 for the years ended October 31, 1993 and October 31, 1992, respectively.

Transactions in capital shares for Class A and Class B Shares were as follows:

Class A Shares for the Year Ended October 31, 1993	Shares	Dollar Amount
Shares sold	51,001,581	$ 652,336,461
Shares issued to shareholders in reinvestment of dividends and distributions	1,771,977	20,906,783
Total issued	52,773,558	673,243,244
Shares redeemed	(5,508,522)	(70,517,148)
Net increase	47,265,036	$ 602,726,096

Class A Shares for the Year Ended October 31, 1992	Shares	Dollar Amount
Shares sold	15,261,352	$ 179,377,069
Shares issued to shareholders in reinvestment of dividends	798,446	8,607,923
Total issued	16,059,798	187,984,992
Shares redeemed	(1,417,237)	(16,534,197)
Net increase	14,642,561	$ 171,450,795

Class B Shares for the Year Ended October 31, 1993	Shares	Dollar Amount

Shares sold	248,487,181	$3,152,585,403
Shares issued to shareholders in reinvestment of dividends and distributions	6,532,523	76,482,665
Total issued	255,019,704	3,229,068,068
Shares redeemed	(14,631,176)	(184,055,390)
Net increase	240,388,528	$3,045,012,678

Class B Shares for the Year Ended October 31, 1992	Shares	Dollar Amount
Shares sold	69,893,598	$ 818,518,396
Shares issued to shareholders in reinvestment of dividends	1,503,614	16,173,423
Total issued	71,397,212	834,691,819
Shares redeemed	(3,689,687)	(43,088,169)
Net increase	67,707,525	$ 791,603,650

5. Commitments:
At October 31, 1993, the Fund had entered into forward foreign exchange contracts under which it had agreed to purchase and sell various foreign currency with an approximate value of $7,107,000 and $1,133,000, respectively.

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STATEMENT OF ADDITIONAL
INFORMATION

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MERRILL LYNCH
GLOBAL ALLOCATION
FUND, INC.

February 24, 1994

Distributor: Merrill Lynch
Funds Distributor, Inc.

APPENDIX FOR GRAPHIC AND IMAGE MATERIAL

Pursuant to Rule 304 of Regulation S-T, the following table presents fair and accurate narrative descriptions of graphic and image material omitted from this EDGAR Submission File due to ASCII-inncompatibility and cross-references this material to the location of each occurrence in the text.

DESCRIPTION OF OMITTED GRAPHIC OR IMAGE	LOCATION OF GRAPHIC OR IMAGE IN TEXT
Artistic interpretation of earth viewed from space.	Back cover of Prospectus and back cover of Statement of Additional Information