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Business Address
P O BOX 9011
PRINCETON NJ 08543
6092823319

PROSPECTUS

February 28, 1994

MERRILL LYNCH SHORT-TERM GLOBAL INCOME FUND, INC.

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

Merrill Lynch Short-Term Global Income Fund, Inc. (the "Fund") is a non-diversified mutual fund seeking to provide shareholders with 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 multi-national currency units and having remaining maturities not exceeding three years. Under normal circumstances, the Fund will invest its assets in debt securities denominated in at least three different currencies, including the United States dollar. At times, the Fund may seek to hedge its portfolio against currency risks and, to a lesser extent, interest rate risks through the use of futures, options on futures and currency transactions. Investment on a global basis involves special considerations. See "Special and Risk Considerations". There can be no assurance that the investment objective of the Fund will be realized.

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 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 three 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. Class A shares pay an ongoing account maintenance fee at the annual rate of 0.25% of the Fund's average daily net assets attributable to Class A shares; Class B shares pay an ongoing account maintenance fee and an ongoing distribution fee at the annual rates of 0.25% and 0.50%, respectively, of the Fund's average daily net assets attributable to the 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 and account maintenance fee 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 and ongoing account maintenance fee with respect to Class A shares. See "Alternative Sales Arrangements" on page 3.

Each Class A share and Class B share represents an identical interest in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance and distribution fees and certain other costs resulting from the deferred sales charge arrangement, which will cause Class B shares to have a higher expense ratio and pay lower dividends than Class A shares, which also bear the expense of an account maintenance 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], and other 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 28, 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--INVESTMENT ADVISER
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).......		3.00%(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)		3.0% during the first year, decreasing 1.0% annually to 0.0% after the third year(b)
Exchange Fee...........		None		None
ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS) FOR THE FISCAL YEAR ENDED OCTOBER 31, 1993:				
Management Fees(c).....		0.54%		0.54%
Rule 12b-1 Fees........		0.25%		0.75%(d)
Other Expenses				
Custodial Fees.......	0.03%		0.03%	
Shareholder Servicing Costs(e)...........	0.11%		0.12%	
Other................	0.05%		0.05%	
Total Other Expenses...........		0.19%		0.20%
Total Fund Operating Expenses.............		0.98%		1.49%

</TABLE>

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(a) Reduced for purchases of $100,000 and over, decreasing to 0.50% for purchases of $5,000,000 and over. Certain investors making purchases of $5,000,000 and over may, however, pay a contingent deferred sales charge of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.50% 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 18.

(d) See "Purchase of Shares--Alternative Sales Arrangements--Distribution Plans"--page 22. This amount represents the 0.25% account maintenance fee and the 0.50% distribution fee applicable to Class B shares of the Fund.

(e) See "Management of the Fund--Transfer Agency Services"--page 20.

(f) Certain investors making purchases of $5,000,000 and over may, however, pay a contingent deferred sales charge of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.50% initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 24.

<TABLE>
<CAPTION>

EXAMPLE:	CUMULATIVE EXPENSES PAID FOR THE PERIOD OF: 1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>
An investor would pay the following expenses on a $1,000 investment including, for Class A shares, the maximum $30 front-end sales charge and assuming (1) an operating expense				

ratio of 0.98% for Class A shares and 1.49% for Class B shares, (2) a 5% annual return throughout the periods and (3) redemption at the end of the period:				
Class A......................................	$39.70	$60.28	$82.54	$146.53
Class B......................................	$45.16	$57.10	$81.32	$177.95
An investor would pay the following expenses on the same $1,000 investment assuming no redemption at the end of the period:				
Class A......................................	$39.70	$60.28	$82.54	$146.53
Class B......................................	$15.16	$47.10	$81.32	$177.95

</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 these 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".

ALTERNATIVE SALES ARRANGEMENTS

Shares of the Fund may be purchased at a price equal to the next determined net asset value per share, plus in both cases 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. Class A shares incur a sales charge when they are purchased and are subject to an ongoing account maintenance fee at an annual rate of 0.25% of the Fund's average daily net assets. Class A shares enjoy the benefit, however, of not being subject to the ongoing distribution fee to which Class B shares are subject and any sales charge when they are redeemed. Certain purchases of Class A shares qualify for reduced initial sales charges. See "Purchase of Shares" and "Additional Information--Organization of the Fund".

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 of 0.25% and 0.50%, respectively, of the Fund's average net assets attributable to the Class B shares and a sales charge if they are redeemed within three 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 distribution fee paid by Class B shares will cause such shares to have a higher expense ratio and to pay lower dividends than Class A shares. Both Class A shares and Class B shares pay an ongoing account maintenance fee. 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. Shares acquired under the initial sales charge alternative are subject to an ongoing account maintenance fee that is lower than the sum of the ongoing account maintenance fee and distribution fee on Class B shares. 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 on Class B shares may exceed the initial sales charge and ongoing account maintenance fee on Class A shares. 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. 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 three-year period of time, a contingent deferred sales charge.

The distribution expenses incurred by Merrill Lynch Funds Distributor, Inc. (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 ongoing account maintenance fee, and in the case of the Class B shares, such distribution expenses will be paid from the proceeds of the ongoing account maintenance and distribution fees and the contingent deferred sales charge incurred upon redemption within

three 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 and account maintenance fee 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, and the account maintenance fee relating to Class A 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 AN ONGOING ACCOUNT MAINTENANCE FEE 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 RELEVANT FACTORS IN MAKING SUCH DETERMINATION IS SET FORTH UNDER "PURCHASE OF SHARES--ALTERNATIVE SALES ARRANGEMENTS" ON PAGE 21.

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 DEC. 28, 1990 TO OCT. 31,	FOR THE PERIOD AUG. 3, 1990+ TO DEC. 27,	FOR THE YEAR ENDED OCTOBER 31,		FOR THE PERIOD DEC. 28, 1990 TO OCT. 31,	FOR THE PERIOD AUG. 3, 1990+ TO DEC. 27,
	1993***	1992	1991	1990	1993***	1992	1991	1990
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING								

PERFORMANCE:								
Net asset value, beginning of period....	$ 8.85	$ 9.85	$ 9.92	$ 10.00	$ 8.85	$ 9.84	$ 9.92	$ 10.00
Investment income--net..	.61	.77	.82	.42	.57	.72	.77	.39
Realized and unrealized loss on investments and foreign currency transactions--net......	(.19)	(1.00)	(.07)	(.08)	(.20)	(.99)	(.08)	(.08)
Total from investment operations.............	.42	(.23)	.75	.34	.37	(.27)	.69	.31
LESS DIVIDENDS AND DISTRIBUTIONS:								
Return of capital--net..	(.61)	(.77)	--	--	(.57)	(.72)	--	--
Investment income--net..	--	--	(.82)	(.42)	--	--	(.77)	(.39)
Total dividends and distributions..........	(.61)	(.77)	(.82)	(.42)	(.57)	(.72)	(.77)	(.39)
Net asset value, end of period.................	$ 8.66	$ 8.85	$ 9.85	$ 9.92	$ 8.65	$ 8.85	$ 9.84	$ 9.92
TOTAL INVESTMENT RETURN:**								
Based on net asset value per share.............	5.28%	(2.60%)	7.53%++	3.73%++	4.63%	(3.00%)	6.93%++	3.40%++
RATIOS TO AVERAGE NET ASSETS:								
Expenses, excluding maintenance and/or distribution fees......	.73%	.75%	.76%*	.75%*	.74%	.75%	.77%*	.76%*
Expenses................	.98%	1.00%	.96%*	.75%*	1.49%	1.50%	1.52%*	1.51%*
Investment income--net..	7.24%	8.11%	9.70%*	10.51%*	6.73%	7.60%	9.11%*	9.75%*
SUPPLEMENTAL DATA:								
Net assets, end of period (in thousands).........	$99,037	$188,623	$399,416	$211,006	$1,664,602	$3,182,520	$5,918,769	$2,796,301
Portfolio turnover......	284.62%	120.77%	153.72%	19.40%	284.62%	120.77%	153.72%	19.40%

</TABLE>

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+Commencement of Operations.

++Aggregate total investment returns.

*Annualized.

**Total investment returns exclude the effects of sales loads.

***On February 25, 1993, Merrill Lynch Asset Management U.K. Limited became a sub-adviser to the Fund.

SPECIAL AND RISK 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 consist of stock or securities in foreign corporations. See "Distributions and Taxes--Taxes". Foreign financial markets, while generally growing in volume, have, for the most part, 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. The 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 a portion of the 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 costs associated 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, since the expenses of the Fund, such as custodial costs, are higher.

The Fund may engage in various portfolio strategies to seek to hedge its portfolio against movements in the securities markets and exchange rates between currencies by the use of 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--Hedging Techniques".

The net asset value of the Fund's shares 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 investment objective of the Fund is to seek to provide shareholders with 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 multi-national currency units and having remaining maturities not exceeding three years. The investment objective described in this paragraph is a fundamental policy of the Fund and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities. Under normal circumstances, the Fund will invest its assets in debt securities denominated in at least three different currencies, including the U.S. dollar. The Fund's investments will be rated AA or better by Standard & Poor's Corporation ("S&P") or Aa or better by Moody's Investors Service, Inc. ("Moody's") or A-1 or better by S&P or Prime-1 or better by

Moody's in the case of commercial paper, similarly rated by another internationally recognized rating service, such as IBCA Ltd. ("IBCA"), or determined by the Fund's Board of Directors and investment adviser, Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the "Investment Adviser"), to be of similar creditworthiness, or will be issued or guaranteed by governmental or supragovernmental entities (each as defined below). The Fund may seek to hedge its portfolio securities against currency risks and, to a lesser extent, interest rate risks through the use of futures, options on futures and currency transactions. There can be no assurance that the investment objective of the Fund will be realized.

The Fund is designed for the investor who seeks a higher yield than a money market fund and less fluctuation in net asset value than a longer-term global bond fund. Under normal conditions, debt securities with longer maturities tend to produce higher yields, while debt securities with shorter maturities are subject to less market risk resulting from changes in interest rates. With a maturity limit of three years, the Fund seeks more attractive yields than those offered by the shorter-term money market securities in which money market funds invest (money market funds maintain average maturities of less than 90 days). At the same time, the three-year limitation enables the Fund to avoid the greater market risk inherent in longer term securities.

The Investment Adviser will seek to manage the Fund's portfolio in accordance with a multi-market strategy. Consistent with such a strategy, the Fund may invest in debt securities denominated in any currency or multi-national currency unit. In addition, the Investment Adviser intends to allocate the Fund's investments among securities denominated in the currencies of a number of foreign countries and, within each such country, among different types of debt securities. The Investment Adviser will adjust the Fund's exposure to different currencies based on its perception of the most favorable markets and issuers. In allocating the Fund's assets among multiple markets, the Investment Adviser will assess the relative yield and anticipated direction of interest rates in particular markets, general market and economic conditions and the relationship of currencies of various countries to each other. In its evaluations, the Investment Adviser will utilize its internal financial, economic and credit analysis resources as well as information obtained from other sources. The Fund will not invest more than 25% of its total assets in debt securities denominated in a single currency or currency unit, except that it may invest more than 25% of its total assets in U.S. dollar denominated securities. In addition, the Fund will not invest in countries that are not considered by the Investment Adviser to have stable governments or whose currencies are not convertible into U.S. dollars. As a result of hedging techniques, the Fund's net exposure to any one currency may be different from that of its total assets denominated in such currency. See "Special and Risk Considerations".

The securities in which the Fund may invest include debt obligations issued or guaranteed by U.S. or foreign governments, political subdivisions thereof (including states, provinces and municipalities) or their agencies and instrumentalities ("governmental entities"), or issued or guaranteed by international organizations designated or supported by governmental entities to promote economic reconstruction or development ("supranational entities"), or issued by corporations or financial institutions. Securities issued by supranational entities may be denominated in U.S. dollars, a foreign currency or a multi-national currency unit. Securities of corporations and financial institutions in which the Fund may invest include corporate and commercial obligations, such as medium-term notes and commercial paper, which may be indexed to foreign currency exchange rates.

Indexed notes and commercial paper typically provide that the principal amount is adjusted upwards or downwards (but not below zero) at maturity to reflect fluctuations in the exchange rate between two currencies during the period the obligation is outstanding, depending on the terms of the specific security. In selecting the two currencies, the Investment Adviser will consider the correlation and relative yields of various currencies. The Fund will purchase an indexed obligation using the currency in which it is denominated and, at maturity, will receive interest and principal payments thereon in that currency. The amount of principal payable by the issuer at maturity, however, will vary (i.e., increase or decrease) in response to the change (if any) in the exchange rate between the two specified currencies during the period from the date the instrument is issued to its maturity date. The potential for realizing gains as a result of changes in foreign currency exchange rates may enable the Fund to hedge the currency in which the obligation is denominated (or to effect cross-hedges against other currencies) against a decline in the U.S. dollar value of investments denominated in foreign currencies while providing an attractive money market rate of return. The Fund will purchase such indexed obligations to generate current income or for hedging purposes and will not speculate in such obligations.

The obligations of foreign governmental entities have various kinds of government support and include obligations issued or guaranteed by foreign governmental entities with taxing powers. 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 Investment Adviser, based on its analysis of factors such as general political or economic conditions relating to the government and the likelihood of

expropriation, nationalization, freezes or confiscation of private property. The Investment Adviser 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. Examples of supranational entities include the International Bank for Reconstruction and Development (the "World Bank"), the European Steel and Coal Community, the Asian Development Bank and the Inter-American Development Bank. The governmental members, or "stockholders", usually make initial capital contributions to the supranational entity and in many cases are committed to make additional capital contributions if the supranational entity is unable to repay its borrowings.

As indicated above, the Fund may invest in securities denominated in a multi-national currency unit. An illustration of a multi-national currency unit is the European Currency Unit (the "ECU"), which is a "basket" consisting of specified amounts of the currencies of the member states of the European Community, a Western European economic cooperative organization that includes France, Germany, The Netherlands and the United Kingdom. The specific amounts of currencies comprising the ECU may be adjusted by the Council of Ministers of the European Community to reflect changes in relative values of the underlying currencies. The Investment Adviser does not believe that such adjustments will adversely affect holders of ECU-denominated obligations or the marketability of such securities. European supranational entities, in particular, issue ECU-denominated obligations. The Fund may invest in securities denominated in the currency of one nation although issued by a governmental entity, corporation or financial institution of another nation. For example, the Fund may invest in a British pound sterling-denominated obligation issued by a U.S. corporation. Such investments involve credit risks associated with the issuer and currency risks associated with the currency in which the obligation is denominated.

The Fund also may invest in participations in, or bonds and notes backed by, pools of mortgage, credit card, automobile or other types of receivables with remaining maturities of three years or less. These structured financings will be supported by sufficient collateral and other credit enhancement, including letters of credit, insurance, reserve funds and guarantees by third parties, to enable such instruments to obtain a high quality rating by a nationally recognized statistical rating agency or be of comparable quality as determined by the Investment Adviser. Generally, the issuers of mortgage-backed and receivable-backed bonds, notes or pass-through certificates are special purpose entities and do not have any significant assets other than the assets securing such obligations. Instruments backed by pools of mortgages and receivables may be subject to unscheduled prepayments of principal prior to maturity. When the obligations are prepaid, the Fund must reinvest the prepaid amounts in securities the yields of which reflect interest rates prevailing at the time. Therefore, the Fund's ability to maintain a portfolio which includes high-yielding asset-backed securities will be adversely affected to the extent that prepayments of principal must be reinvested in securities which have lower yields than the prepaid obligations. Moreover, prepayments of securities purchased at a premium could result in a realized loss. Certain asset-backed and receivable-backed securities may be illiquid. The Fund's investments in asset-backed and receivable-backed securities that are illiquid will be limited, together with all other illiquid investments, to 10% of the Fund's net assets.

To minimize the credit risk of its investments, the Fund will invest only in high quality debt securities. A security may be deemed to be high quality if it is issued or guaranteed by governmental entities or supranational entities which the Investment Adviser, acting under the general supervision of the Board of Directors, has determined to be of high creditworthiness. Securities issued by corporations or financial institutions will be deemed to be high quality if they are rated AA or better by S&P or Aa or better by Moody's, or A-1 or better by S&P or Prime-1 or better by Moody's in the case of commercial paper, or

similarly rated by another internationally recognized rating service, such as IBCA, or obligations of issuers that the Investment Adviser, acting under the general supervision of the Board of Directors, has determined to be of similar creditworthiness.

Under normal conditions, a significant percentage of the shorter-term investments in the Fund's portfolio may be money market securities. Money market securities include short-term obligations issued or guaranteed by the U.S. Government or foreign governments or issued by such governments' respective agencies and instrumentalities, bank money market instruments including certificates of deposit, bankers' acceptances and deposit notes and certain other short-term obligations such as short-term commercial paper. With respect to bank money market instruments, the obligations may be issued by U.S. or foreign depository institutions, foreign branches or subsidiaries of U.S. depository institutions ("Eurodollar" obligations), U.S. branches or subsidiaries of foreign depository institutions ("Yankeedollar" obligations) or foreign branches or subsidiaries of foreign depository institutions. Eurodollar and Yankeedollar obligations and obligations of branches or subsidiaries of foreign depository institutions may be general obligations of the parent bank or may be limited to the issuing branch or subsidiary by the terms of the specific obligations or by government regulation.

It is anticipated that the Fund initially will invest primarily in securities denominated in the currencies of the United States, Japan, Canada, Western European nations, New Zealand or Australia, as well as securities denominated in the ECU described above. Further, it is anticipated that such securities will be issued primarily by entities located in such countries and by supranational entities. Under certain adverse conditions and for the duration of such conditions, the Fund may restrict the financial markets or currencies in which its assets are invested, and it may invest its assets solely in one financial market or in obligations denominated in one currency.

Under normal circumstances, the Fund will invest at least 25% of its total assets in debt instruments issued by U.S. and foreign companies engaged in the banking industry, including bank holding companies. Such investments may include certificates of deposit, time deposits, bankers' acceptances, and obligations issued by bank holding companies, as well as repurchase agreements entered into with banks. For temporary defensive purposes, however, the Fund may reduce its investments in the banking industry to less than 25% of its total assets. The Fund's policy as to concentrating its investments in the banking industry is fundamental and may not be changed without the approval of a majority of the Fund's voting securities.

The Fund's policy of concentrating its investments in the banking industry will cause the Fund to have greater exposure to certain risks associated with the banking industry. In particular, economic or regulatory developments in or related to the banking industry will affect the value of and investment return on the Fund's shares. Sustained increases in interest rates may adversely affect the availability and cost of funds for a bank's lending activities; deterioration in general economic conditions may increase a bank's exposure to credit losses. The banking industry also is subject to the effects of the concentration of loan portfolios in particular businesses that may be adversely affected by economic conditions, such as real estate, energy, agriculture or high technology-related companies. In addition, the banking industry is subject to national and local regulation and competition among banks as well as with other types of financial institutions. Also, the Fund's investments in commercial banks located in several foreign countries are subject to additional risks due to the combination in such banks of commercial banking and diversified securities activities. As discussed above, however, the Fund will seek to minimize its exposure to such risks by investing only in debt securities which are determined by the Investment Adviser, acting under the general supervision of the Board of Directors, to be high quality.

The Fund may purchase securities that are not registered ("restricted securities") under the Securities Act of 1933, as amended (the "Securities Act"), but can be offered and sold to "qualified institutional buyers" under Rule 144A under the Securities Act. However, the Fund will not invest more than 10% of its net assets in illiquid investments, which includes securities for which there is no readily available market, securities subject to contractual restrictions on resale, certain investments in asset-backed and receivable-backed securities and restricted securities, unless the Fund's Board of Directors continuously determines, based on the trading markets for the specific restricted security, that it is liquid. The Board of Directors has determined to treat as liquid Rule 144A securities which are freely tradeable in their primary markets offshore. The Board of Directors may adopt guidelines and delegate to the Investment Adviser the daily function of determining and monitoring liquidity of restricted securities. The Board of Directors, however, will retain sufficient oversight and be ultimately responsible for the determinations.

Since it is not possible to predict with assurance exactly how this market for restricted securities sold and offered under Rule 144A will develop, the Board of Directors will carefully monitor the Fund's investments in these securities, focusing on such factors, among others, as valuation, liquidity and availability of information. This investment practice could have the effect of increasing the level of illiquidity in the Fund to the extent that qualified institutional buyers become for a time uninterested in purchasing these restricted securities.

The return that the Fund provides to investors will be influenced by changes in both exchange rates and prevailing interest rates. The Investment Adviser believes that the use of foreign currency hedging techniques may help protect against declines in the U.S. dollar value of investment income available for distribution to shareholders and declines in the net asset value of the Fund's shares resulting from adverse changes in currency values. In addition, changes in market yields will affect the Fund's net asset value since the prices of portfolio securities generally increase when interest rates decline and decrease when interest rates rise. Prices of shorter-term securities generally fluctuate less in response to interest rate changes than do longer-term securities. As described under "Hedging Techniques", the Fund may enter into hedging transactions to hedge against both interest rate and currency risks.

Non-Diversified Status. The Fund has registered as a "non-diversified" investment company so that it will be able to invest more than 5% of the value of its assets in the obligations of a single issuer subject to the diversification requirements of subchapter M of the Internal Revenue Code of 1986, as amended, applicable to the Fund. To the extent the Fund invests a relatively high percentage of its assets in obligations of a limited number of issuers, the Fund may be more susceptible than a more widely diversified fund to any single economic, political or regulatory occurrence or to changes in an issuer's financial condition or in the market's assessment of the issuers.

HEDGING TECHNIQUES

The Fund may engage in various portfolio strategies to hedge its portfolio against interest rate and currency risks. These strategies include use of options on portfolio positions or currencies, financial and currency futures, options on such futures and forward foreign currency transactions. The Fund may enter into such transactions only in connection with its hedging strategies. 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 may only engage in hedging activities from time to time and may not necessarily be engaging in hedging activities when movements in interest rates or currency exchange rates occur. Reference is made to the Statement of Additional Information for further information concerning these strategies.

Although certain risks are involved in options and futures transactions (as discussed below in "Risk Factors in Options, Futures and Currency Transactions"), the Investment Adviser believes that, because the Fund will only engage in these transactions 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. Tax requirements may limit the Fund's ability to engage in the hedging transactions and strategies described below. See "Distributions and Taxes--Taxes".

The following is a description of the hedging instruments the Fund may utilize with respect to interest rate and currency risks.

Hedging Interest Rate Risks. The Fund may purchase and write (i.e., sell) call options and put options on securities and engage in transactions in financial futures and related options, as described below.

The Fund may write covered call options with respect to securities it owns and enter into closing purchase transactions with respect to such options. A covered call option provides the holder of the option with the right to buy the underlying security covered by the option at the stated exercise price until the option expires. A covered call option is an option where the Fund, in return for a premium, gives another party a right to buy particular securities held by the Fund at a specified price for a certain period of time. In return for the premium income realized from the sale of the option, the Fund gives up the opportunity to profit from a price increase in the underlying security above the option exercise price while the option is in effect. In addition, the Fund's ability to sell the underlying security will be limited until the option is closed or expires. 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. The Fund also 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. There is no percentage limitation with respect to portfolio securities on which the Fund may write call options.

The Fund may purchase put options on portfolio securities. In return for payment of a premium, the purchase of a put option gives the holder thereof the right to sell the security underlying the option to another party at a specified price until the put option is closed out, expires or is exercised. The Fund will purchase put options to seek to reduce the risk of a decline in value of the underlying security owned by the Fund. The total return on the security may be reduced by the amount of the premium paid for the option. The Fund 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 have deposited and maintained with its custodian cash or liquid securities 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 or purchased.

The Fund also may purchase and sell financial futures contracts ("futures contracts") as a hedge against adverse changes in interest rates, 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. The Fund may effect transactions in futures contracts in U.S. and foreign agency and government securities and corporate debt securities. Transactions by the Fund in financial futures are subject to limitation as described below under "Restrictions on Use of Futures Transactions".

The Fund may sell futures contracts in anticipation of an increase in the general level of interest rates. Generally, as interest rates rise, the market value of securities held by the Fund will fall, thus reducing the net asset value of the shares of the Fund. As interest rates rise, however, the value of the Fund's short position in the futures contract also will tend to increase, thus offsetting all or a portion of the depreciation in the market value of the Fund's investments which are being hedged. While the Fund will incur commission expenses in selling and closing out futures positions, these commissions are generally less than the transaction expenses which would have been incurred had the Fund sold portfolio securities in order to reduce its exposure to increases in interest rates.

The Fund may purchase futures contracts in anticipation of a decline in interest rates when it is not fully invested in a particular market in which it intends to make investments to gain market exposure that may in part or entirely offset an increase in the cost of securities it intends to purchase. The Fund does not consider purchases of futures contracts to be a speculative practice under these circumstances. In a substantial majority of these transactions, the Fund will purchase securities upon termination of the futures contract.

The Fund also may purchase and write call and put options on futures contracts 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 rather than selling the underlying futures contract in anticipation of an increase in interest rates. Similarly, the Fund may purchase call options, or write put options on futures contracts, as a substitute for the purchase of such futures to hedge against the increased cost resulting from a decline in interest rates of securities which the Fund intends to purchase. Limitations on transactions in options on futures contracts are described below.

The Fund may engage in options and futures transactions on exchanges and in the over-the-counter ("OTC") markets. 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 transactions are two-party contracts with prices and terms negotiated by the buyer and seller. The Fund will acquire only those OTC 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). The Fund will engage in OTC options 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 (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 (including OTC options on futures contracts) if, as a result of such transactions, 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 net 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 an 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 Commission staff of its position.

Hedging Foreign Currency Risks. The Fund is authorized to deal in forward foreign exchange between currencies of the different countries in which it will invest and multi-national currency units as a hedge against possible variations in the foreign exchange rates between these currencies. This is accomplished through contractual agreements to purchase or sell one specified currency for another currency at a specified future date and price 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 one forward foreign currency for another 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 purchase or sale of one forward foreign currency for another currency with respect to portfolio security positions denominated or quoted in such foreign currency to offset the effect of an anticipated substantial appreciation or depreciation, respectively, in the value of such currency relative to the U.S. dollar. In this situation, the Fund also may, for example, enter into a forward contract to sell or purchase a different foreign currency for a fixed U.S. dollar amount where it is believed that the U.S. dollar value of the currency to be sold or bought pursuant to the forward contract will fall or rise, as the case may be, whenever there is a decline or increase, respectively, in the U.S. dollar value of the currency in which portfolio securities of the Fund are denominated (this practice being referred to as a "cross-hedge").

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 also is authorized to purchase or sell listed or OTC 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 affected with respect to hedges on non-U.S. dollar denominated securities (including securities denominated in the ECU) 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 Japanese 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 dollar relative to the yen 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 also may 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.

Certain differences exist between these foreign currency hedging instruments. Foreign currency options provide the holder thereof the right to buy or to sell a currency at a fixed price on a future date. Listed

options are third-party contracts (i.e., performance of the parties' obligations is guaranteed by an exchange or clearing corporation) which are issued by a clearing corporation, traded on an exchange and have standardized strike prices and expiration dates. OTC options are two-party contracts and have negotiated strike prices and expiration dates. The Fund will engage in OTC options only with member banks of the Federal Reserve System or 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. 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 the securities denominated in such currency which it owns, the expected acquisition price 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. Further, the Fund will segregate at its custodian U.S. Government or other high quality securities having a market value substantially representing any subsequent net decrease in the market value of such hedged positions, including net positions with respect to cross-currency hedges. The Fund may not incur potential net liabilities with respect to currency and securities positions, including net liabilities with respect to cross-currency hedges, of more than 33% of its total assets from foreign currency options, futures, related options and forward currency transactions.

Restrictions on Use of Futures Transactions. Regulations of the Commodity Futures Trading Commission applicable to the Fund provide that the futures trading activities described herein will not result in the Fund being deemed a "commodity pool" 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.

An order has been obtained from the Commission which exempts the Fund from certain provisions of the Investment Company Act in connection with transactions involving futures contracts and options thereon.

Risk Factors in Options, Futures and Currency Transactions. Utilization of futures transactions involves the risk of imperfect correlation in movements in the prices of futures contracts and movements in the prices of the securities and currencies which are subject to the hedges. If the price of a futures contract moves more or less than the price of the security or currency, the Fund will experience a gain or loss which will not be completely offset by movements in the price of the debt securities which are the subject of the hedge. There is also a risk of imperfect correlations where the securities underlying futures contracts have different maturities than the portfolio securities being hedged. Transactions in options on futures contracts involve similar risks.

The Fund intends to enter into options and futures transactions, on an exchange or in the OTC market, only if there appears to be a liquid secondary market for such options or futures or, in the case of OTC transactions, management believes the Fund can receive on each business day at least two independent bids or offers, unless a quotation from only one dealer is available, in which case only that dealer's price will be used, or which can be sold at a formula price provided for in the OTC option agreement. There can be no assurance, however, that a liquid secondary market will exist at any specific time. Thus, it may not be possible to close an options or futures transaction. 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 options on portfolio securities and currencies are traded have generally established limitations governing the maximum number of call or put options on the same underlying security and 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 Investment Adviser 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

Portfolio Transactions. The securities in which the Fund invests are traded primarily in the OTC market. Since portfolio transactions generally will not be effected on foreign securities exchanges, the Fund generally does not expect to incur potential settlement delays which may occur on certain of such exchanges. 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 generally are traded on a net basis and normally do not 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 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 OTC 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 those associated with transactions in U.S. securities, although the Fund will endeavor to achieve the best net results in effecting such transactions.

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 a 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. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. If the other party were to default on its obligation under a repurchase agreement or a purchase and sale contract, and the security were sold for a lesser amount, the Fund would realize a loss. The Fund may not invest more than 10% of its net assets in repurchase agreements and purchase and sale contracts maturing in more than seven days, together with all other illiquid securities. In all instances, the Fund takes possession of the underlying securities when investing in repurchase agreements.

Lending of Portfolio Securities. The Fund is authorized to lend securities from its portfolio, with a value not exceeding 33% of its total assets, to banks, brokers and other financial institutions if it receives collateral in cash or securities issued or guaranteed by the U.S. Government or other high quality securities which will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. During the period of this loan, the Fund receives the income on the loaned securities and a loan fee and may thereby increase its yield.

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 (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). Among its fundamental policies, the Fund may not 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, regarding all such securities, more than 10% of its net assets, taken at market value would be invested in such securities. Other fundamental policies include policies which (i) prohibit investment of more than 25% of the Fund's total assets (taken at market value at the time of each investment) in the securities of issuers in any particular industry (other than securities issued or guaranteed by the U.S. Government, or by its agencies or instrumentalities), except that, under normal circumstances, the Fund will invest more than 25% of its total assets in issuers in the banking industry, (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 total 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 or emergency purposes, including to meet redemptions or to settle securities transactions. The Fund will not purchase securities while borrowings exceed 5% of its total assets, except to honor prior commitments.

Although the Fund has registered as a "non-diversified" investment company under the Investment Company Act, to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the "Code"), the Fund will be subject to certain diversification requirements of the Code. See "Distributions and Taxes--Taxes".

Portfolio Turnover. The Investment Adviser 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, and may increase the percentage of the Fund's distributions which are taxable to shareholders as ordinary income. See "Distributions and Taxes--Taxes".

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 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 Investment Adviser; 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 Investment Adviser, 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 Investment Adviser provides the Fund with investment advisory and management services. The Investment Adviser or an affiliate, Fund Asset Management, L.P. ("FAM"), acts as the investment adviser for more than 90 other registered investment companies. The

Investment Adviser also offers portfolio management and portfolio analysis services to individuals and institutions. As of January 31, 1994, the Investment Adviser and FAM had a total of approximately $167.1 billion in investment company and other portfolio assets under management, including accounts of certain affiliates of the Investment Adviser.

Subject to the direction of the Board of Directors, the Investment Adviser is responsible for the actual management of the Fund's portfolio and constantly reviews the Fund's holdings in light of its own research analysis and that from other relevant sources. The responsibility for making decisions to buy, sell or hold a particular security rests with the Investment Adviser. The Investment Adviser performs certain of the other administrative services and provides all the office space, facilities, equipment and necessary personnel for management of the Fund.

Pursuant to the Fund's investment advisory agreement with the Investment Adviser (the "Investment Advisory Agreement"), the Investment Adviser is entitled to receive compensation at the annual rate of 0.55% of the average daily net assets of the Fund not exceeding $2 billion, 0.525% of the average daily net assets of the Fund in excess of $2 billion but not exceeding $4 billion, 0.50% of the average daily net assets of the Fund in excess of $4 billion but not exceeding $6 billion, 0.475% of the average daily net assets of the Fund in excess of $6 billion but not exceeding $10 billion, 0.45% of the average daily net assets of the Fund in excess of $10 billion but not exceeding $15 billion, and 0.425% of the average daily net assets of the Fund in excess of $15 billion. For the fiscal year ended October 31, 1993, the fee paid by the Fund to the Investment Adviser was $12,966,035 (0.54% of the Fund's average net assets) (based on average net assets of approximately $2.4 billion). At December 31, 1993, the net assets of the Fund aggregated $1.6 billion. At this asset level, the annual management fee would aggregate approximately $8,738,385. Also, the Investment Adviser 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 Investment Adviser, pursuant to which the Investment Adviser pays MLAM U.K. a fee in an amount to be determined from time to time by the Investment Adviser and MLAM U.K. but in no event in excess of the amount that the Investment Adviser actually receives for providing services to the Fund pursuant to the Investment Advisory Agreement. For the fiscal year ended October 31, 1993, the Investment Adviser paid MLAM U.K. a fee of $712,838 (0.03% of the Fund's average net assets) pursuant to the Sub-Advisory Agreement. MLAM U.K. has offices at Ropemaker Place, 25 Ropemaker Street, 1st Floor, London EC24 9LY, England.

The Portfolio Managers for the Fund are Alex V. Bouzakis, Edward F. Gobora, David B. Walter and Stephen Yardley, each of whom are Vice Presidents of the Fund. Mr. Bouzakis is a Vice President and Senior Portfolio Manager of the Investment Adviser and has been associated with the Investment Adviser since 1982. Mr. Gobora has been a Vice President and Portfolio Manager of the Investment Adviser since 1993, and associated therewith since 1988. Mr. Walter has been a Vice President and Portfolio Manager of the Investment Adviser since 1984. Mr. Yardley is a Vice President and Portfolio Manager of MLAM U.K. and has been associated with MLAM U.K. since 1992; prior thereto, he was a Portfolio Manager at Julius Baer Investment Management, Inc. and Bankers Trust.

The Investment Advisory Agreement obligates the Fund to pay certain expenses incurred in the Fund's operations, including, among other things, the investment advisory fee; legal and audit fees; unaffiliated Directors' fees and expenses; registration fees; custodian and transfer agency fees; accounting and pricing costs; 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 Investment Adviser, and the Fund reimburses the Investment Adviser for its costs in connection with such services. For the fiscal year ended October 31, 1993, the Fund reimbursed the Investment Adviser $230,453 for accounting services. For the fiscal year ended October 31, 1993, the ratio of total expenses to average net assets for Class A shares was 0.98%, and the ratio of total expenses to average net assets for Class B shares was 1.49%.

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 Fund pays the Transfer Agent an annual fee of $11.00 per Class A shareholder account and $12.00 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 fee paid by the Fund to the Transfer Agent was $2,914,062. At December 31, 1993, the Fund had 5,864 Class A shareholder accounts and 121,763 Class B shareholder accounts. At this level of accounts, the annual fee payable to the Transfer Agent would aggregate approximately $1,525,660, plus miscellaneous and out-of-pocket expenses.

PURCHASE OF SHARES

The Distributor, a subsidiary of the Investment Adviser and an affiliate of Merrill Lynch, acts as the distributor of shares of the Fund. 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 an interest in the same portfolio of investments of the Fund, have the same rights and are identical in all respects, except that (i) 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, (ii) Class A shares bear the expenses of the account maintenance fee, and (iii) each Class has exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees, in the case of the Class B shares, and the account maintenance fee, in the case of the Class A shares, is 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 by which the sum of the account maintenance and distribution fees and incremental expenses associated with such account maintenance and distribution fees exceeds the account maintenance fee attributable to Class A 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, that are eligible to sell shares.

ALTERNATIVE SALES ARRANGEMENTS

The alternative sales arrangements of the Fund permit investors to choose the method of purchasing shares that is most beneficial given the amount of their 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 an ongoing account maintenance fee, as discussed below, 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.

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. Moreover, shares acquired under the initial sales charge alternative would not be subject to both an ongoing account maintenance fee and a distribution fee, as described below, although the shares are subject to an ongoing account maintenance fee, as discussed below. Also, 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 related to Class B shares may exceed the initial sales charge and ongoing account maintenance fee related to Class A shares. 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 continuing account maintenance and distribution fees and, for a three-year period of time, a contingent deferred sales charge as described below. For example, an investor subject to the 3.0% initial sales charge would have to hold his investment more than six years for the ongoing 0.25% account maintenance fee and 0.50% distribution fee of Class B shares to exceed the initial sales charge plus the accumulated account maintenance fee of Class A shares. This example does not take into account the time value of money which further reduces the impact of the ongoing 0.25% account maintenance fee and 0.50% distribution fee of Class B shares 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.

Distribution Plans. Pursuant to separate distribution plans adopted by the Fund (as of June 12, 1990, with respect to the Class A shares and as of July 7, 1993, with respect to the Class B shares) pursuant to Rule 12b-1 under the Investment Company Act (each a "Distribution Plan"), the Fund pays the Distributor (a) an account maintenance fee relating to Class A shares, accrued daily and paid monthly, at the annual rate of 0.25% of the average daily net assets of the Fund attributable to Class A shares in order to compensate the Distributor and Merrill Lynch (pursuant to a sub-agreement) in connection with account maintenance activities and (b) an account maintenance fee and a distribution fee relating to Class B shares, accrued daily and paid monthly, at the annual rates of 0.25% and 0.50%, respectively, of the average daily net assets of the Fund attributable to Class B shares in order to compensate the Distributor and Merrill Lynch (pursuant to a sub-agreement) for providing account maintenance and distribution services to the Fund, with the ongoing account maintenance fee compensating the Distributor and Merrill Lynch for providing account maintenance services to Class B shareholders and with the ongoing distribution fee compensating 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. See "Additional Information--Organization of the Fund". The Distribution Plan related to Class B shares is 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 and the contingent deferred sales charge are the same as those of the initial sales charge and account maintenance fee with respect to the Class A shares of the Fund in that the deferred sales charges and distribution fee provide for the financing of the distribution of the Fund's Class B shares.

Prior to July 7, 1993, the Fund paid the Distributor an ongoing distribution fee, accrued daily and paid monthly, at the annual rate of 0.75% of average daily net assets of the Class B shares of the Fund under a distribution plan previously adopted by the Fund (the "Prior Class B 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 Class B Plan are identical to the aggregate fee rate payable and the services provided under the Class B 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 $339,199 pursuant to the Class A Distribution Plan (based on average net assets subject to the Class A Distribution Plan of $136.1 million), all of which was paid to Merrill Lynch for providing account maintenance related services. At December 31, 1993, the net assets of the Fund subject to the Class A Distribution Plan aggregated approximately $92.5 million. At this asset level, the annual fee payable pursuant to the Class A Distribution Plan would aggregate approximately $230,528. For the fiscal year ended October 31, 1993, the Fund paid the Distributor $16,801,274 pursuant to the Prior Class B Plan and the Class B Distribution Plan (based on average net assets subject to the Prior Class B Plan and the Class B Distribution Plan of $2.2 billion), all of which was paid to Merrill Lynch for providing distribution related services. At December 31, 1993, the net assets of the Fund subject to the Class B Distribution Plan aggregated approximately $1.5 billion. At this asset level, the annual fee payable pursuant to the Class B Distribution Plan would aggregate approximately $11,317,344. See "Additional Information--Organization of the Fund". Both the Class B Distribution Plan and the Prior Class B Plan were designed to permit an investor to purchase Class B shares through dealers without the assessment of a front-end sales load and at the same time permit the dealer to compensate its financial consultants in connection with the sale of the Class B shares.

The payments under the Class B Distribution Plan, as was the case with the Prior Class B Plan, are based on a percentage of average daily net assets attributable to Class B shares 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 Class B 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, 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, distribution fees and contingent deferred sales charges, and the expenses consist of financial consultant compensation. As of December 31, 1992, the last date for which fully allocated accrual data is available, the fully allocated accrual expenses for the period since August 3, 1990 (commencement of operations) incurred by the Distributor and Merrill Lynch exceeded fully allocated accrual revenues by approximately $38,601,000 (1.44% of Class B net assets at that date). As of December 31, 1992, direct cash revenues for the period since August 3, 1990 (commencement of operations) exceeded direct cash expenses by $49,209,753 (1.83% of Class B net assets at that date).

The Fund has no obligation with respect to distribution and/or account maintenance-related expenses incurred by the Distributor and Merrill Lynch in connection with the Class B and Class A shares, and there is no assurance that the Directors of the Fund will approve the continuance of the Distribution Plans from year to year. However, the Distributor intends to seek annual continuation of the Distribution Plans. In their review of the Distribution Plans, the Directors will be asked to take into consideration expenses incurred in connection with the account maintenance and/or distribution of each Class of shares separately. The account maintenance fee, the distribution fee and the contingent deferred sales charges in the case of Class B shares will not be used to subsidize the sale of Class A shares. Similarly, the initial sales charges and account maintenance fee in the case of Class A shares will not be used to subsidize the sale of Class B shares. Payment of the distribution fee on Class B shares is subject to certain limits as set forth under "Deferred Sales Charge Alternative--Class B Shares".

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 $100,000........	3.00%	3.09%	2.75%
$100,000 but less than $500,000.................	2.50	2.56	2.25

$500,000 but less than $1,000,000..............	2.00	2.04	1.75
$1,000,000 but less than $3,000,000..............	1.50	1.52	1.25
$3,000,000 but less than $5,000,000..............	1.00	1.01	.75
$5,000,000 and over.......	.50	.50	.40

</TABLE>

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* Rounded to the nearest one-hundredth percent.

The Distributor may reallow discounts to such 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. During the fiscal year ended October 31, 1993, the Fund sold 987,673 Class A shares for aggregate net proceeds of $8,606,847. The gross sales charges for the sale of these shares were $83,097, of which $10,009 was received by the Distributor and $73,088 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 Blueprint SM Program. Class A shares are offered to TMA SM Managed Trusts to which Merrill Lynch Trust Company provides discretionary trustee services at net asset value plus a reduced sales charge. Class A shares are offered at net asset value to (i) certain employer sponsored retirement or savings plans, 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", provided such plans meet the required minimum number of eligible employees or required amount of assets advised by the Investment Adviser or any of its affiliates 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 Investment Adviser 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 Investment Adviser 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 Investment Adviser 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.

Initial sales charges will be waived for shareholders purchasing $5 million or more in a single transaction (other than an Employer Sponsored Retirement or Savings Plan), or a purchase by a TMA SM 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 $5 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 of 0.25% of the dollar amount subject to charge if the shares are redeemed within the first year after purchase.

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 above 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 relating to Class B shares 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 sales 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. For the fiscal year ended October 31, 1993, the Distributor received contingent deferred sales charges of $10,977,755 with respect to redemptions of Class B shares, all of which was paid to Merrill Lynch.

Contingent Deferred Sales Charge. Class B shares that are redeemed within three 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.

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	3.0%
1-2	2.0%
2-3	1.0%
3 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 three years or shares acquired pursuant to reinvestment of dividends or distributions and then of shares held longest during the three-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 second 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 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 second 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 is waived on redemptions of shares by certain eligible 401(a) and eligible 401(k) plans and in connection with certain group plans share orders through the Merrill Lynch Blueprint SM 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 and 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.

Limitations on the Payment of Deferred 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 fees. 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 the 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 fees. 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 August 3, 1990 (commencement of operations) to October 31, 1993.

DATA CALCULATED AS OF OCTOBER 31, 1993

(IN THOUSANDS)

	ELIGIBLE GROSS SALES(1)	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)
Under NASD Rule As Adopted................	$6,431,695	$401,981	$81,347(2)	$483,328	$104,400	$378,928	$8,323
Under Distributor's Voluntary Waiver.......	$6,431,695	$401,981	$32,158	$434,139	$104,400	$329,739	$8,323

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(1) Purchase price of all eligible Class B shares sold since August 3, 1990 (commencement of operations) 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 Class B Plan at the 0.75% rate, 0.50% 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 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. Redemption requests should not be sent to the Fund. 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 (e.g., cash, Federal funds or certified check drawn on a U.S. bank). The Fund may delay or cause to be delayed the mailing of a redemption check until such time as good payment 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 repurchase arrangements are for the convenience of shareholders and do not involve a charge by the Fund (other than the 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 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 of 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. However, a shareholder whose order for repurchase is rejected by the Fund may redeem Fund 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 Blueprint SM Program. Full details as to each of such services and instructions as to how to participate in the various services or plans, 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 monthly 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 reinvestments 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 also may 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 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 also may 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 Distributions. All dividends and capital gains distributions are reinvested automatically in full and fractional shares of the Fund, without a sales charge, at the net asset value per share at the close of business on the monthly payment date for such dividends and distributions. 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 both dividends and capital gains distributions paid in cash, rather than reinvested, in which event payment will be mailed monthly. No contingent deferred sales charge will be imposed on 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 pre-arranged 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).

DISTRIBUTIONS AND TAXES

DISTRIBUTIONS

The net investment income of the Fund is declared as dividends as of the close of trading on the New York Stock Exchange (currently 4:00 p.m., New York time) prior to the determination of the net asset value on that day. The net investment income of the Fund for dividend purposes consists of interest earned on portfolio securities, less expenses, in each case computed since the most recent determination of the net asset value. Expenses of the Fund, including the investment advisory fees, distribution and account maintenance fees with respect to Class B shares, and account maintenance fees with respect to Class A shares, are accrued daily. Dividends of net investment income are declared daily and reinvested monthly in the form of additional full and fractional shares of the Fund at net asset value unless the shareholder elects to receive such dividends in cash. Shares will accrue dividends as long as they are issued and outstanding. Shares are issued and outstanding from the settlement date of a purchase order to the day prior to settlement date of a redemption order.

All net realized long- or short-term capital gains, if any, are declared and distributed to the Fund's shareholders annually. Capital gains distributions will be reinvested automatically in shares unless the shareholder elects to receive such distributions 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 effect of the distribution and higher transfer agency fees applicable with respect to the Class B shares. See "Additional Information--Determination of Net Asset Value".

See "Shareholder Services" for information as to how to elect either dividend reinvestment or cash payments. Portions of dividends and distributions which are taxable to shareholders as described below are subject to income tax whether they are reinvested in shares of the Fund or received in cash.

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,

in any taxable year in which it distributes at least 90% of its taxable net income, 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. Distributions by the Fund, whether from ordinary income or capital gains, will not be eligible for the dividends received deduction allowed to corporations under the Code. If the Fund pays a dividend in January which 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 share of such withholding taxes in their U.S. income tax returns as gross income, treat such proportionate share as taxes paid by them, and deduct such proportionate share 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 ordinary income dividends, capital gain dividends and 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 forward contracts, from futures contracts that are not "regulated futures contracts", and from unlisted options generally will 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 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.

PERFORMANCE DATA

From time to time, the Fund may include its average annual total return and yield for various specified time periods in advertisements or information furnished to present or prospective shareholders. Average annual total return and yield are computed separately for Class A and Class B shares in accordance with formulas specified by the 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 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 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 Class B shares, and the account maintenance fee relating to Class A shares will be borne exclusively by Class A shares. 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 annual or 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 distributed 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), the 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 is 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 such total return on a hypothetical $1,000 investment in the Fund at the beginning of each specified period.

Yield quotations will be computed based on a 30-day period by dividing (a) the net income based on the yield of each security earned during the period by (b) the average daily number of shares outstanding during the period that were entitled to receive dividends multiplied by (c) the maximum offering price per share on the last day of the period. The yield for the 30-day period ending October 31, 1993, was 5.34% for Class A shares and 5.00% for Class B shares.

Total return and yield figures are based on the Fund's historical performance and are not intended to indicate future performance. The Fund's total return and yield 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 gain 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 to 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

DETERMINATION OF NET ASSET VALUE

The net asset value of the Fund is determined by the Investment Adviser 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. The net asset value per share is computed by dividing the sum of the value of the securities held by the Fund plus any cash or other assets minus all liabilities by the total number of shares outstanding at such time, rounded to the nearest cent. Expenses, including the fees payable to the Investment Adviser and the Distributor, are accrued daily.

The net asset value per share of the Class A and Class B shares are expected to be equivalent. Under certain circumstances, however, the per share net asset value of the Class B shares may be lower than the per share net asset value of the Class A shares reflecting the higher sum of account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares, as compared with the account maintenance fee applicable to the Class A shares. Even under those circumstances, the per share net asset value of the two classes eventually will tend to converge immediately after the payment of dividends, which will differ by approximately the amount of the expense accrual differential between the classes.

ORGANIZATION OF THE FUND

The Fund was incorporated under Maryland law on April 18, 1990. It has authorized capital of 2,000,000,000 shares of Common Stock, par value $0.10 per share, divided into two classes, designated Class A and Class B Common Stock, each of which consists of 1,000,000,000 shares. Both Class A and Class B shares represent an interest in the same assets of the Fund and have identical voting, dividend, liquidation and other rights and the same terms and conditions except that expenses related to the account maintenance fee related to the Class A shares and the account maintenance fee and distribution fee related to the Class B shares are borne solely by each respective class, and Class A and Class B shares have respective exclusive voting rights with respect to matters relating to such account maintenance and/or distribution expenditures. See "Purchase of Shares". The Fund has received an order from the Commission permitting the issuance and sale of two classes of shares, and the issuance and sale of any additional classes would require an additional order from the Commission. There is no assurance that such an additional order would be granted.

Shareholders are entitled to one vote for each full share held and to fractional votes for fractional shares held in the election of Directors (to the extent hereafter provided) and on other matters submitted to the vote of shareholders. All shares of the Fund have equal voting rights, except, as noted above, a class of shares will have exclusive voting rights with respect to matters relating to the distribution expenses being borne solely by such class. There normally will be no meeting of shareholders for the purpose of electing Directors unless and until such time as less than a majority of the Directors holding office have been elected by the shareholders, at which time the Directors then in office will call a shareholders' meeting for the election of

Directors. Shareholders may, in accordance with the terms of the Articles of Incorporation, cause a meeting of shareholders to be held for the purpose of voting on the removal of Directors. Also, the Fund will be required to call a special meeting of shareholders in accordance with the requirements of the Investment Company Act to seek approval of new management and advisory arrangements, of a material increase in distribution or account maintenance fees or of a change in fundamental policies, objective or restrictions. Except as set forth above, the Directors shall continue to hold office and appoint successor Directors. Each issued and outstanding share is entitled to participate equally in dividends and distributions declared and in net assets upon liquidation or dissolution remaining after satisfaction of outstanding liabilities except that, as noted above, expenses related to the distribution of the shares of a class will be borne solely by such class. Shares issued are fully-paid and nonassessable by the Fund.

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 communications 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.

PENDING LITIGATION

The Fund, the Investment Adviser and the Distributor, and certain of their affiliates have been named as defendants in an amended complaint filed in September 1993 in an action pending in the United States District Court for the Southern District of California. The action was filed as a purported class action on behalf of investors who purchased shares of the Fund during the period from September 15, 1990, through October 31, 1992. The plaintiffs allege, among other matters, that the defendants made material misrepresentations and omitted material facts concerning the risks involved in investing in the Fund and that the Investment Adviser negligently invested the assets of the Fund. The plaintiffs seek damages from the various defendants aggregating in excess of $600 million and other specified relief.

The Fund believes that the allegations against it are totally without merit, and it intends to contest the action. The Investment Adviser has agreed to indemnify the Fund for any liability or expense that it may incur in connection with this litigation.

MERRILL LYNCH SHORT-TERM GLOBAL INCOME FUND, INC.--AUTHORIZATION FORM

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

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1. SHARE PURCHASE APPLICATION

I, being of legal age, wish to purchase ...... Class A shares or ...... Class B shares (choose one) of Merrill Lynch Short-Term Global Income 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 One /_/ reinvest dividends /_/ pay dividends in cash	Elect One /_/ reinvest gains /_/ pay 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

.... 19.....
Date

Address.............................

....
(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 "Distributions and Taxes--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 Purchase

Gentlemen:

Although I am not obligated to do so, I intend to purchase shares of Merrill Lynch Short-Term Global Income 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:

/_/ $100,000 /_/ $500,000 /_/ $1,000,000 /_/ $3,000,000 /_/ $5,000,000

Each purchase will be made at the then reduced offering price applicable to the amount checked above, as described in the Merrill Lynch Short-Term Global Income 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 Short-Term Global Income 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 SHORT-TERM GLOBAL INCOME 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 Short-Term Global Income 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

Draw checks payable

(check one)

[_] as indicated in Item 1.

[_] to the order of ....

Mail to (check one)

[_] the address indicated in Item 1.

[_] Name (Please Print)........

(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.

Specify type of account (check one): [_] checking [_] savings

I agree that this authorization will remain in effect until I provide written notification to Financial Data Services, Inc. amending or terminating this service.

Name on your Account............

Bank............................

Bank #........ Account #.........

Bank Address....................

Signature of Depositor..........

Date..

Signature of Depositor (if joint account)........................

Address..........................

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 Owner...............

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 described below each month to purchase .... Class A shares or .... Class B shares (choose one) of Merrill Lynch Short-Term Global Income Fund, Inc., subject to the terms set forth below.

FINANCIAL DATA SERVICES, INC.

You are hereby authorized to draw a check or an ACH debit each month on my bank account for investment in Merrill Lynch Short-Term Global Income 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)

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

To .... Bank

(Investor's Bank)

Bank Address ....

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

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

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.

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

INVESTMENT ADVISER

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

The Chase Manhattan Bank, N.A. Global Securities Services Chase MetroTech Center Brooklyn, New York 11245

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 INVESTMENT ADVISER 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

[ARTWORK]

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MERRILL LYNCH SHORT-TERM GLOBAL INCOME FUND, INC.

February 28, 1994 Distributor: Merrill Lynch Funds Distributor, Inc. This prospectus should be retained for future reference.

STATEMENT OF ADDITIONAL INFORMATION
- -----------------------------------

MERRILL LYNCH SHORT-TERM GLOBAL INCOME FUND, INC.
BOX 9011, PRINCETON, NEW JERSEY 08543-9011 . PHONE NO. (609) 282-2800

Merrill Lynch Short-Term Global Income Fund, Inc. (the "Fund") is a non-diversified mutual fund seeking to provide shareholders with 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 multi-national currency units and having remaining maturities not exceeding three years. Under normal circumstances, the Fund will invest its assets in debt securities denominated in at least three different currencies, including the U.S. dollar. At times, the Fund may seek to hedge its portfolio against interest rate and currency risks through the use of futures, options on futures and currency transactions. There can be no assurance that the investment objective of the Fund will be realized.

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 in both cases 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 and the ongoing account maintenance fee with respect to the Class A shares. See "General Information--Description of Shares". Each Class A share and Class B share represents an identical interest in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance and distribution fees and certain other costs resulting from the deferred sales charge arrangement and Class A shares bear the expenses of the account maintenance fee. 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 28, 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--INVESTMENT ADVISER

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

The date of this Statement of Additional Information is February 28, 1994.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to seek to provide shareholders with 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 multi-national currency units and having remaining maturities not exceeding three years. Under normal circumstances, the Fund will invest its assets in debt securities denominated in at least three different currencies, including the U.S. dollar. There can be no assurance that the investment objective of the Fund will be realized. Reference is made to "Investment Objective and Policies" in the Prospectus for a discussion of the investment objective and policies of the Fund.

The Fund will effect portfolio transactions without regard to holding period if, in the judgment of the Fund's investment adviser, Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the "Investment Adviser"), such transactions are advisable in light of a change in circumstances of a particular issuer or within a particular industry or in 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 all 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. For the fiscal years ended October 31, 1992 and 1993, the Fund's portfolio turnover rates were 120.77% and 284.62%, respectively.

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 an 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.

HEDGING TECHNIQUES

Reference is made to the discussion concerning hedging techniques under the caption "Hedging Techniques" in the Prospectus.

The Fund may engage in various portfolio strategies to hedge its portfolio against interest rate and currency risks. These strategies include use of options on its portfolio securities, financial and currency futures and options on such futures and forward foreign currency 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.

Although certain risks are involved in options and futures transactions (as discussed below in "Risk Factors in Options and Futures Transactions"), the Investment Adviser believes that, because the Fund will engage in these 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.

The following information relates to the hedging instruments that the Fund may utilize with respect to interest rate and currency risks.

The Fund may purchase and write (i.e., sell) call options and put options on securities, enter into closing purchase transactions with respect to such options and engage in transactions in financial futures as described below.

Writing Options. The Fund will receive a premium from writing a call option, which increases the Fund's return on the underlying security in the event the option expires unexercised or is closed out at a profit. The amount of the premium will reflect, among other factors, the current market price of the underlying security, the relationship of the exercise price to the market price, interest rates and the time period until the expiration of the option. By writing a call, the Fund limits its opportunity to profit from an increase in the market value of the underlying security above the exercise price of the option for as long as the Fund's obligation as a writer continues. Thus, in some periods the Fund will receive less total return and in other periods greater total return from its hedged positions than it would have received from its underlying securities unhedged. To facilitate closing transactions, as described below, the Fund will ordinarily write only options for which a secondary market exists.

The Fund may engage in closing transactions in order to terminate outstanding exchange-traded options that it has written. To effect a closing transaction, the Fund purchases, prior to the exercise of an outstanding option that it has written, an option of the same series as that on which it desires to terminate its obligation. Profit or loss from a closing purchase transaction will depend on whether the cost of such transaction is more or less than the premium received on the sale of the option plus the related transaction costs.

The Fund may also enter into over-the-counter ("OTC") put and call option transactions, which are two party contracts with prices and terms negotiated between the buyer and seller. The Fund will enter into OTC option transactions only with respect to portfolio securities 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).

Purchase of Put Options. The Fund may purchase put options in connection with its hedging activities. By buying a put, the Fund has the right to sell the underlying securities 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 expires.

Futures Contracts. The Fund may purchase and sell financial futures contracts ("futures contracts") as a hedge against adverse changes in interest rates. A futures contract is an agreement between two parties to buy and sell a security, respectively, for a set price on a future date. The Fund may effect transactions in futures contracts in U.S. and foreign agency and government securities and corporate debt securities traded on U.S. and foreign exchanges, as well as on OTC markets.

The Fund may sell futures contracts in anticipation of an increase in the general level of interest rates. Generally, as interest rates rise, the market value of the securities held by the Fund will fall, thus reducing

the net asset value of the Fund. This interest rate risk can be reduced without employing futures as a hedge by selling long-term securities and either reinvesting the proceeds in securities with shorter maturities or by holding assets in cash. This strategy, however, entails increased transaction costs in the form of dealer spreads and brokerage commissions and typically would reduce the Fund's average yield as a result of the shortening of maturities.

The sale of futures contracts provides an alternative means of hedging against rising interest rates. As rates increase the value of the Fund's short position in the futures contracts will also tend to increase, thus offsetting all or a portion of the depreciation in the market value of the Fund's investments which are being hedged. While the Fund will incur commission expenses in selling and closing out futures positions (which is done by taking an opposite position which operates to terminate the position in the futures contract), commissions on futures transactions are lower than transaction costs incurred in the purchase and sale of portfolio securities.

The Fund may purchase futures contracts in anticipation of a decline in interest rates when it is not fully invested in order to gain rapid market exposure that may in part or entirely offset an increase in the cost of long-term securities it intends to purchase. As such purchases are made, an equivalent amount of futures contracts will be closed out. In a substantial majority of these transactions, the Fund will purchase securities upon termination of the futures contracts. Due to changing market conditions and interest rate forecasts, however, a futures position may be terminated without a corresponding purchase of securities.

Options on Financial Futures. The Fund may purchase and write call and put options on futures contracts in connection with its hedging activities. Generally, these strategies would be employed under the same market and market sector conditions in which the Fund entered into futures contracts. The Fund may purchase put options or write call options on futures contracts rather than selling the underlying futures contracts in anticipation of an increase in interest rates. Similarly, the Fund may purchase call options or write put options on futures contracts as a substitute for the purchase of such futures to hedge against the increased cost resulting from a decline in interest rates of securities which the Fund intends to purchase.

RISK FACTORS IN OPTIONS AND FUTURES TRANSACTIONS

Utilization of futures transactions involves the risk of imperfect correlation in movements in the price of futures contracts and movements in the price of the securities which are the subject of the hedge. If the price of the futures contract moves more or less than the price of the security, the Fund will experience a gain or loss which will not be completely offset by movements in the price of the debt securities which are the subject of the hedge. There is also a risk of imperfect correlation when the securities underlying futures contracts have different maturities than the portfolio securities being hedged. Transactions in currency futures and options on interest rate and currency futures contracts involve similar risks.

Prior to exercise or expiration, an exchange-traded option 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. Similarly, positions in interest rate and currency futures may be closed out only on an exchange which provides a secondary market for such futures. 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 OTC 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 such dealer's price will be used or which can be sold at a formula price provided for in the over-the-counter option agreement. 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 will 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 instruments or currencies underlying futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on the Fund's ability effectively to hedge 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 generally have established limitations governing the maximum number of call or put options on the same underlying security (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 Investment Adviser does not believe that these trading and position limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

FORWARD FOREIGN EXCHANGE TRANSACTIONS

Generally, the foreign exchange transactions of the Fund will be conducted on a spot, i.e., cash, basis at the spot rate for 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 between currencies of the different countries in whose securities it will invest as a hedge against possible variations in the foreign exchange rates between 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 bank will place cash or liquid 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 not enter into a forward contract with a term of more than one year.

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 currency involved, the length of the contract period and the market conditions then prevailing. Since transactions in foreign currency exchange are usually conducted on a principal basis, no fees or commissions are involved.

OTHER INVESTMENT POLICIES AND PRACTICES

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 a 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 obligations; 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, 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 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 an 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, together with all other illiquid investments. 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.

INVESTMENT RESTRICTIONS

The Fund has adopted a number of 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 of 1940, as amended (the "Investment Company Act"), means the lesser of (i) 67% of the Fund's shares present at a meeting at which more than 50% of the outstanding shares of the Fund are represented or (ii) more than 50% of the Fund's outstanding shares). The Fund may not (1) invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any particular industry except that, under normal circumstances, the Fund will invest more than 25% of its total assets in issuers in the banking industry. This restriction will not apply to securities issued or guaranteed by the U.S. Government or by its agencies or instrumentalities, but will apply to obligations of a foreign government unless the Securities and Exchange Commission permits their exclusion; (2) invest more than 5% of its total assets (taken at market value at the time of each investment) in unsecured securities of corporate issuers which, including predecessors, controlling persons, general partners and guarantors, have a record of less than three years' continuous business operation or relevant business experience (provided that such restriction shall not apply to issuers of mortgage-backed and receivable backed bonds, notes or passthrough certificates); (3) make investments for the purpose of exercising control or management; (4) purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization or by purchase of securities of closed-end investment companies and only if immediately thereafter not more than (i) 3% of the total outstanding voting stock of any one 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, or (iii) 10% of the Fund's total assets, taken at market value, would be invested in such companies' securities. Investments by the Fund in wholly-owned investment entities created under the laws of certain countries for purposes of investing in such countries will not be deemed an investment in other investment companies; (5) purchase or sell real estate (provided that such restriction shall not apply to securities secured by real estate or interest therein or issued by companies which invest in real estate or interests therein), commodities or commodity contracts (except that the Fund may deal in forward foreign exchange between currencies and the Fund may purchase and sell interest rate and currency options, futures contracts and related options and indexed notes and commercial paper), or interests or leases in oil, gas or other mineral exploration or development programs (provided that such restriction shall not apply to securities issued by companies which invest in oil, gas or other mineral exploration or development programs); (6) purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities (the deposit or payment by the Fund of initial or variation margin

in connection with futures contracts or options transactions is not considered the purchase of a security on margin); (7) make short sales of securities or maintain a short position or invest in put, call, straddle or spread options (this restriction does not apply to interest rate and currency options and options on futures contracts); (8) make loans to other persons, provided that the purchase of a portion of an issue of bonds, debentures or other debt securities and investment in governmental and supranational 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; (9) borrow amounts in excess of 10% of its total assets taken at market value (including the amount borrowed), and then only from banks as a temporary measure for extraordinary or emergency purposes, including to meet redemptions or to settle securities transactions. Usually only "leveraged" investment companies may borrow in excess of 5% of their assets; however, the Fund will not borrow to increase income but only to meet redemption requests or to settle securities transactions which might otherwise require untimely disposition of portfolio securities. The Fund will not purchase securities while borrowings exceed 5% of total assets except to honor prior commitments. (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); (10) mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of its total assets, taken at market value, or except as may be necessary in connection with options, futures and related options transactions; (11) invest in securities which cannot be readily resold or are illiquid because of legal or contractual restrictions or are not otherwise readily marketable if, regarding all such securities, more than 10% of its net assets (taken at market value), would be invested in such securities; and (12) act as an underwriter of securities, except to the extent that the Fund may technically be deemed an underwriter when engaged in the activities described in (11) above or insofar as the Fund may be deemed an underwriter by virtue of selling portfolio securities.

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. To comply with tax requirements for qualification as a "regulated investment company", however, the Fund's investments will be limited in a manner such that, at the close of each quarter of each fiscal year, (a) no more than 25% of the Fund's total assets are invested in the securities of a single issuer, and (b) with regard to at least 50% of the Fund's total assets, no more than 5% of its total assets are invested in the securities of a single issuer. For purposes of this restriction, the Fund will regard each country and each political subdivision, agency or instrumentality of such country and each multi-national agency of which such country is a member and each public authority which issues securities on behalf of a private entity as a separate issuer, except that if the security is backed only by the assets and revenues of a non-government entity, then the entity with the ultimate responsibility for the payment of interest and principal may be regarded as the sole issuer. In addition, the Fund will regard the issuer of participations in, or bonds and notes backed by, pools of mortgage, credit card, automobile or other types of receivables as being the limited purpose corporation or trust issuing the participation certificates, bonds or notes as well as any other entity that is or may be responsible for providing full payment on the underlying obligations in the pool. These tax-related limitations may be changed by the Board of Directors of the Fund to the extent necessary to comply with changes to the Federal tax requirements. 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 investment company as a result of changes in the financial condition or in the market's assessment of the issuers.

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 net 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.

The Directors have established the policy that the Fund will not purchase or retain the securities of any issuer, if those individual officers and directors of the Fund, the officers and general partner of the Investment Adviser, the directors of such general partner or the directors and officers of the Distributor each owning beneficially more than one-half of 1% of the securities of each issuer own in the aggregate more than 5% of the securities of such issuer. Portfolio securities of the Fund generally may not be purchased from, sold or loaned to the Investment Adviser 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 Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") with the Fund, the Fund is prohibited from engaging in certain transactions involving such firm 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. Included among such restricted transactions will be purchases from or sales to Merrill Lynch of securities in transactions in which it acts as principal. 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 (the "Securities Act"), in which such firm or any of its affiliates participates 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 Director and executive officer is Box 9011, Princeton, New Jersey 08543-9011.

Arthur Zeikel--President and Director(1)(2)--President of the Investment Adviser and its predecessor since 1977 and Chief Investment Officer of the Investment Adviser and its predecessor since 1976; President of Fund Asset Management, L.P. ("FAM") and its predecessor 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. and 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 since 1984, and Dean from 1984 to 1993, of 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 Investment Adviser and FAM and their predecessors since 1983; Executive Vice President and Director of Princeton Services since 1993; President and Director of the Distributor since 1986.

Joseph T. Monagle, Jr.--Senior Vice President(1)(2)--Senior Vice President and Department Head of the Global Short-Term Fixed Income Division of the Investment Adviser and its predecessor and associated therewith since 1977; Senior Vice President of Princeton Services since 1993.

Alex V. Bouzakis--Vice President(1)(2)--Vice President and Senior Portfolio Manager of the Investment Adviser and its predecessor and associated therewith since 1982.

David B. Walter--Vice President(1)(2)--Vice President and Portfolio Manager of the Investment Adviser and its predecessor since 1984.

Stephen Yardley--Vice President(1)(2)--Vice President and Portfolio Manager of Merrill Lynch Asset Management U.K. Limited ("MLAM U.K.") and associated therewith since 1992; Portfolio Manager at Julius Baer Investment Management, Inc. and Bankers Trust prior thereto.

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

Edward F. Gobora--Vice President(1)--Vice President and Portfolio Manager of the Investment Adviser since 1993, and associated therewith and with its predecessor since 1988.

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

Mark B. Goldfus--Secretary(1)(2)--Vice President of the Investment Adviser and FAM and their predecessors since 1985.

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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 certain other investment companies for which the Investment Adviser or its subsidiary, FAM, acts as investment adviser or manager.

At January 31, 1994, the Directors and officers of the Fund as a group (14 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 Investment Adviser 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 the non-affiliated 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 such nonaffiliated Directors aggregated $30,737.

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 may be held by, or be appropriate investments for, the Fund as well as other funds or investment advisory clients of the Investment Adviser or its affiliates. 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 the Investment Adviser purchases or sells securities for the Fund or other funds for which it acts as investment adviser or for its other advisory clients, and such purchases or sales 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 Investment Adviser 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.

Pursuant to an investment advisory agreement between the Fund and the Investment Adviser (the "Investment Advisory Agreement"), the Investment Adviser receives for its services to the Fund monthly compensation at the annual rate of 0.55% of the average daily net assets of the Fund not exceeding $2 billion,

0.525% of the average daily net assets of the Fund in excess of $2 billion but not exceeding $4 billion, 0.50% of the average daily net assets of the Fund in excess of $4 billion but not exceeding $6 billion, 0.475% of the average daily net assets of the Fund in excess of $6 billion but not exceeding $10 billion, 0.45% of the average daily net assets of the Fund in excess of $10 billion but not exceeding $15 billion, and 0.425% of the average daily net assets of the Fund in excess of $15 billion. For the fiscal period August 3, 1990 (commencement of operations) to December 27, 1990, the total investment advisory fees paid by the Fund to the Investment Adviser aggregated $4,874,812. For the fiscal period December 28, 1990, to October 31, 1991, the total investment advisory fees paid by the Fund to the Investment Adviser aggregated $22,482,527. For the fiscal year ended October 31, 1992, the total investment advisory fees paid by the Fund to the Investment Adviser aggregated $30,132,076. For the fiscal year ended October 31, 1993, the total investment advisory fees paid by the Fund to the Investment Adviser aggregated $12,966,035.

The Investment Adviser has also entered into a sub-advisory agreement with MLAM U.K., a wholly-owned, indirect subsidiary of Merrill Lynch & Co., Inc. and an affiliate of the Investment Adviser, pursuant to which the Investment Adviser pays MLAM U.K. a fee in an amount to be determined from time to time by the Investment Adviser and MLAM U.K. but in no event in excess of the amount that the Investment Adviser actually receives for providing services to the Fund pursuant to the Investment Advisory Agreement. For the fiscal year ended October 31, 1993, the Investment Adviser paid MLAM U.K. a fee of $712,838 pursuant to the sub-advisory agreement.

California imposes limitations on the expenses of the Fund. These annual expense limitations require that the Investment Adviser reimburse the Fund in an amount necessary to prevent the aggregate ordinary operating expenses (excluding interest, taxes, brokerage fees and commissions, distribution fees and extraordinary charges such as litigation costs) from exceeding in any fiscal year 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. To date such reimbursement has not been required. The Investment Adviser's obligation to reimburse the Fund is limited to the amount of the investment advisory fee. No fee payment will be made to the Investment Adviser during any fiscal year which will cause such expenses to exceed expense limitations at the time of such payment.

The Investment Advisory Agreement obligates the Investment Adviser 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 Merrill Lynch & Co., Inc. or any of its subsidiaries. The Fund pays all other expenses incurred in its operation including, among other things, redemption expenses, expenses of portfolio transactions, expenses of registering the shares under Federal and state securities laws, pricing costs (including the daily calculation of net asset value), expenses of printing shareholder reports, prospectuses and statements of additional information (except to the extent paid by the Distributor as described below), fees for legal and auditing services, Commission fees, interest, certain taxes, fees and expenses of unaffiliated Directors, state franchise taxes, costs of printing proxies and other expenses related to shareholder meetings, and other expenses properly payable by the Fund. The organizational expenses of the Fund will be paid by the Fund. Accounting services are provided to the Fund by the Investment Adviser and the Fund reimburses the Investment Adviser for its costs in connection with such services. For the fiscal period August 3, 1990 (commencement of operations) to December 27, 1990, the amount of such reimbursement was $25,000. For the period December 28, 1990, to October 31, 1991, the amount of such reimbursement was $108,518. For the fiscal year ended October 31, 1992, the amount of

such reimbursement was $378,904. For the fiscal year ended October 31, 1993, the amount of such reimbursement was $230,453. 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 account maintenance and/or distribution of Class A and Class B shares will be financed by the Fund pursuant to separate distribution plans in compliance with Rule 12b-1 under the Investment Company Act. See "Purchase of Shares--Alternative Sales Arrangements--Distribution Plans".

Merrill Lynch & Co., Inc., Merrill Lynch Investment Management, Inc. and Princeton Services, Inc. are "controlling persons" of the Investment Adviser 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 Investment Advisory Agreement and the sub-advisory agreement will remain in effect from year to year if approved annually (a) by the Directors of the Fund 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 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 (i) 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 (ii) that the Class A shares bear the expenses of the ongoing account maintenance fee, and (iii) each class has exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees, in the case of the Class B shares, and the account maintenance fee, in the case of the Class A shares, is 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 Investment Advisory Agreement and sub-advisory agreement described above.

Distribution Plans. Reference is made to "Purchase of Shares--Alternative Sales Arrangements--Distribution Plans" in the Prospectus for certain information with respect to the Distribution Plans of the Fund.

The payment of the account maintenance fee and distribution fee with respect to Class B shares and the account maintenance fee with respect to Class A shares is subject to the provisions of Rule 12b-1 under the Investment Company Act. See "General Information--Description of Shares". Among other things, each Distribution Plan provides that the Distributor shall provide and the Directors shall review quarterly reports of the disbursement of the account maintenance and/or distribution fees paid to the Distributor. In their consideration of the Distribution Plans, the Directors must consider all factors they deem relevant, including information as to the benefits of the Distribution Plans to the Fund and its shareholders. Each 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 each 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 respective shareholders. Each 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 A or Class B voting securities of the Fund voting separately by Class. Each Distribution Plan cannot be amended to increase materially the amount to be spent by the Fund without approval by the related class of shareholders, 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 Plans and any reports made pursuant to such plans for a period of not less than six years from the date of the Distribution Plans or such report, the first two years in an easily accessible place.

INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

For the period August 3, 1990 (commencement of operations) to December 27, 1990, $4,201,213 was received by the Distributor as sales charges on Class A shares sold, of which $4,108,675 was paid to Merrill Lynch as selected dealer. The gross sales charges for the sale of Class A shares for the period December 28, 1990, to October 31, 1991, were $3,424,069, of which the Distributor received $379,419 and Merrill Lynch received $3,044,650. The gross sales charges for the sale of Class A shares for the fiscal year ended October 31, 1992, were $816,657, of which the Distributor received $59,176 and Merrill Lynch received $757,481. The gross sales charges for the sale of Class A shares for the fiscal year ended October 31, 1993, were $83,097, of which the Distributor received $10,009 and Merrill Lynch received $73,088. For information as to brokerage commissions received by Merrill Lynch, see "Portfolio Transactions and Brokerage".

The term "purchase" as used in the Prospectus and this Statement of Additional Information 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 Internal Revenue Code of 1986, as amended (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.The term "purchase" 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 $100,000 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 the 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 $100,000), 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 BlueprintSM Program. Class A shares of the Fund are offered to participants in the Merrill Lynch Blueprint SM Program ("Blueprint"). Blueprint is directed to small investors, group IRAs and participants in certain affinity groups such as credit unions and trade associations. 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 $5,000 at 2.75% and $5,000.01 or more at the standard sales charge rates disclosed in the Prospectus). In addition, Class A shares of the Fund are being 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 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 Investment Adviser 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 Blueprint SM Program, P.O. Box 30441, New Brunswick, New Jersey 08989-0441.

TMA/SM/Managed Trusts. Class A shares are offered to TMA/SM/ Managed Trusts to which Merrill Lynch Trust Company provides discretionary trustee services at net asset value plus a reduced sales charge of 0.50% of the offering price, which is 0.50% of the net amount invested.

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 Investment Adviser 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 Investment Adviser 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 Investment Adviser 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 Plans 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 BlueprintSM 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 Senior Floating Rate Fund in connection with a tender offer conducted by 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 Investment Adviser 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.

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 three 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 postretirement 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 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 period August 3, 1990 (commencement of operations) to December 27, 1990, the Distributor received contingent deferred sales charges of $583,227, all of which was paid to Merrill Lynch. For the fiscal period December 28, 1990, to October 31, 1991, the Distributor received contingent deferred sales charges of $4,933,486, all of which was paid to Merrill Lynch. For the fiscal year ended October 31, 1992, the Distributor received contingent deferred sales charges of $26,204,557 with respect to redemptions of Class B shares, all of which was paid to Merrill Lynch. For the fiscal year ended October 31, 1993, the Distributor received contingent deferred sales charges of $10,977,755 with respect to redemptions of Class B shares, all of which was paid to Merrill Lynch.

Merrill Lynch Blueprint Program/SM/. Class B shares are offered to certain participants in the Merrill Lynch Blueprint 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 Blueprint Program/SM/, 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 Investment Adviser 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 Directors of the Fund, the Investment Adviser is primarily responsible for the execution of the Fund's portfolio transactions. In executing such transactions, the Investment Adviser 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 Investment Adviser 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 Investment Adviser under the Investment Advisory Agreement, and the expenses of the Investment Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. Consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., the Investment Adviser 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.

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 investment 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

The net asset value of the Fund is determined by the Investment Adviser once daily, Monday through Friday, as of 4:15 p.m., New York time, on each day during which 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. Net asset value per share is computed by dividing the sum of the value of the securities held by the Fund plus any cash or other assets minus all liabilities by the total number of shares outstanding at such time, rounded to the

nearest cent. Expenses, including the fees payable to the Investment Adviser and Distributor, are accrued daily. The net asset value per share of the Class A and Class B shares is expected to be equivalent. Under certain circumstances, however, the per share net asset value of the Class B shares may be lower than the per share net asset value of the Class A shares reflecting the higher daily expense accruals of the distribution and higher transfer agency fees applicable with respect to the Class B shares. Even under those circumstances, the per share net asset value of the two classes eventually will tend to converge immediately after the payment of dividends, which will differ by approximately the amount of the expense accrual differential between the classes.

Securities traded in the OTC market are valued at the last available bid price or yield equivalents obtained from one or more dealers in the OTC 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 on the last asked price in the case of exchange-traded options or, in the case of options traded in the OTC 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 OTC 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 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. Other investments, including futures contracts and related options, are stated at market value or otherwise at the fair value at which it is expected they may be resold, as determined in good faith by or under the direction of the Board of Directors. Any assets or liabilities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates as obtained from one or more dealers.

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 Directors of the Fund. Such valuations and procedures will be reviewed periodically by the Directors.

SHAREHOLDER SERVICES

The Fund offers a number of shareholder services described below which are designed to facilitate investment in shares of the Fund. Full details as to each of such services 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 monthly statements from the transfer agent showing any reinvestment of dividends and capital gain distributions activity in the account since the previous statement. Shareholders also will receive separate confirmations for each purchase or sale transaction other than reinvestment of dividends and capital gains distributions. Shareholders may make additions to their 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 a shareholder who has an Investment Account. 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 Fund's transfer agent, acting as agent for such securities dealers. Voluntary accumulation also can 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 the shares of the Fund, without sales charges, as of the close of business on the monthly payment date for such dividends and distributions. 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 are available 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 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 and 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 Allocation 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 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 U.S. Treasury Money Fund and Merrill Lynch Ready Assets Trust (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 Treasury Fund and Merrill Lynch Institutional Tax-Exempt 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 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 Blueprint SM Program may be different from 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 1% 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 1% 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 Municipal Bond Fund.........	A portfolio of Merrill Lynch California Municipal Series Trust, a series fund whose 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 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 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 Allocation Fund, Inc.	High total 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 the types of securities and markets in response to changing market and economic trends.
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 multi-national 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 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 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 "Distributions and 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.

DISTRIBUTIONS AND TAXES

The Fund intends to continue to qualify the Fund 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 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. Distributions by the Fund, whether from ordinary income or capital gains, will not be eligible for the dividends received deduction allowed to corporations under the Code. If the Fund pays a dividend in January which was declared in the previous October, November or December to shareholders of record on a specified day 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 ordinary income dividends, capital gain dividends and redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom a certified taxpayer identification number is not 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 share of such withholding taxes in their U.S. income tax returns as gross income, treat such proportionate share as taxes paid by them, and deduct such proportionate share 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 (which it believes is consistent with the Securities and Exchange Commission's 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 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 market 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 must 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 foreign 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 certain 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 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, as well as yield, in advertisements or information furnished to present or prospective shareholders. Total return and yield figures are based on the Fund's historical performance and are not intended to indicate future performance. Average annual total return and yield are determined separately for Class A and Class B shares in accordance with formulas 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 the 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 (1) as required by the periods of the quotations, actual annual, annualized or aggregate data, rather than average annual data, may be quoted, and (2) the maximum applicable sales charges will not be included with respect to annual or 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.

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

<TABLE>
<CAPTION>

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)				
<S>	<C>	<C>	<C>	<C>
One Year Ended October 31, 1993...............	2.12 %	$1,021.20	1.70 %	$1,017.00
August 3, 1990 (Inception) to October 31, 1993.............	3.25 %	$1,109.40	3.62 %	$1,122.30
<CAPTION>				
ANNUAL TOTAL RETURN (EXCLUDING MAXIMUM APPLICABLE SALES CHARGES)				
<S>	<C>	<C>	<C>	<C>
One Year Ended October 31, 1993...............	5.28 %	$1,052.80	4.63 %	$1,046.30
One Year Ended October 31, 1992...............	(2.60)%	$ 974.00	(3.00)%	$ 970.00
One Year Ended October 31, 1991...............	9.36 %	$1,093.60	8.58 %	$1,085.80
August 3, 1990 (Inception) to October 31, 1990.............	1.99 %	$1,019.90	1.83 %	$1,018.30
<CAPTION>				
AGGREGATE TOTAL RETURN (INCLUDING MAXIMUM APPLICABLE SALES CHARGES)				
<S>	<C>	<C>	<C>	<C>
August 3, 1990 (Inception) to October 31, 1993.............	10.94 %	$1,109.40	12.23 %	$1,122.30

</TABLE>

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 charges 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 is deducted.

GENERAL INFORMATION

DESCRIPTION OF SHARES

The Fund was incorporated under Maryland law on April 18, 1990. It has an authorized capital of 2,000,000,000 shares of Common Stock, par value $0.10 per share, divided into two classes, designated Class A and Class B Common Stock, each of which consists of 1,000,000,000 shares. Both Class A and Class B shares represent an interest in the same assets of the Fund and have identical voting, dividend, liquidation and other rights and the same terms and conditions except that expenses related to the account maintenance fee of the Class A shares and the account maintenance and distribution fees of the Class B shares are borne solely by each respective Class, and Class A and Class B shares have respective exclusive voting rights with respect to matters relating to such account maintenance and/or distribution expenditures. See "Purchase of Shares". The Fund has received an order from the Commission permitting the issuance and sale of two classes of Common Stock, and the issuance and sale of any additional classes would require an additional order from the Commission. There is no assurance that such an additional order would be granted.

All shares of the Fund have equal voting rights, except that as noted above, each class of shares will have exclusive voting rights with respect to matters relating to the distribution and/or account maintenance expenses being borne solely by such class. Each issued and outstanding share is entitled to one vote and to participate equally in dividends and distributions declared by the Fund and in the net assets of the Fund remaining after satisfaction of outstanding liabilities upon liquidation or dissolution. There normally will be no meetings of shareholders for the purpose of electing Directors unless and until such time as less than a majority of the Directors holding office have been elected by shareholders, at which time the Directors then in office will call a shareholders' meeting for the election of Directors. Shareholders may, in accordance with the terms of the Articles of Incorporation, cause a meeting of shareholders to be held for the purpose of voting on the removal of Directors. Also, the Fund will be required to call a special meeting of shareholders in accordance with the requirements of the Investment Company Act to seek approval of new management and advisory arrangements, of a material increase in distribution or account maintenance fees or of a change in the fundamental policies, objective or restrictions of the Fund.

Shares issued are fully paid and nonassessable, have no preference, preemptive, conversion, exchange or similar rights, and are freely transferable. Holders of shares are entitled to redeem their shares as set forth elsewhere herein and in the Prospectus. Shares do not have cumulative voting rights, and the holders of more than 50% of the shares of the Fund voting for the election of Directors can elect all of the Directors if they choose to do so, and in such event the holders of the remaining shares would not be able to elect any Directors. No amendments may be made to the Articles of Incorporation without the affirmative vote of a majority of the outstanding shares of the Fund.

The Investment Adviser provided the initial capital for the Fund by purchasing 10,000 shares of the Fund for $100,000. Such shares were acquired for investment and can only be disposed of by redemption.

The organizational expenses of the Fund were paid by the Fund and will be amortized over a period not exceeding five years. The proceeds realized by the Investment Adviser upon the redemption of any of the shares initially purchased by it will be reduced by the proportionate amount of 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>

	CLASS A	CLASS B
<S>	<C>	<C>
Net Assets..	$99,036,733	$1,664,602,279
Number of Shares Outstanding.......................	11,442,594	192,366,028
Net Asset Value Per Share (net assets divided by number of shares outstanding)......................	$ 8.66	$ 8.65
Sales Charge (for Class A shares: 3.00% of offering price (3.09% of net amount invested))*............	$ .27	**
Offering Price.....................................	$ 8.93	$ 8.65

</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 which may be imposed on redemptions made within three 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

The Chase Manhattan Bank, N.A., Global Securities Services, Chase MetroTech Center, Brooklyn, New York 11245 (the "Custodian"), acts as the custodian of the Fund's assets.The Custodian is responsible for safeguarding and controlling the Fund's cash and securities, handling the delivery of securities and collecting interest 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, acts as the Fund's transfer agent (the "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 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.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders,
Merrill Lynch Short-Term Global Income Fund, Inc.:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Merrill Lynch Short-Term Global Income 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 the periods presented. 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 and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and financial highlights present fairly, in all material respects, the financial position of Merrill Lynch Short-Term Global Income 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 10, 1993

<TABLE>
SCHEDULE OF INVESTMENTS
<CAPTION>

COUNTRIES		Face Amount	Maturity Date	Issue	Interest Rate++	Value (Note 1a)	Percent of Net Assets
<S>	<S>	<C>	<C>	<S>	<C>	<C>	<C>
Australia	A$	67,500,000	3/14/95	Queensland Treasury Corp., Global Notes (3)	8.00%	$ 46,697,006	2.65%
		64,000,000	3/01/96	New South Wales Treasury Corp. (3)	8.50	45,390,515	2.57
				Total Investments in Australia (Cost--$93,105,281)		92,087,521	5.22
Canada	C$	140,946,000	2/01/96	Canadian Government Bonds (1)	6.00	108,407,682	6.15
		122,500,000	6/01/96	Canadian Government Bonds (1)	8.75	100,065,326	5.67
		168,000,000	8/01/96	Canadian Government Bonds (1)	6.50	131,124,744	7.44
				Total Investments in Canada (Cost--$337,093,599)		339,597,752	19.26
Denmark	Dkr	400,000,000	2/10/95	Government of Denmark (1)	9.75	61,281,800	3.47
		142,000,000	8/10/95	Government of Denmark (1)	9.25	22,039,570	1.25
		150,000,000	11/15/95	Government of Denmark (1)	9.00	23,399,234	1.33
				Total Investments in Denmark (Cost--$112,574,158)		106,720,604	6.05
European Currency Unit	ECU	25,000,000	1/24/95	United Kingdom Treasury Bond (1)	8.25	29,124,025	1.65
		18,500,000	3/18/96	Kingdom of Belgium (1)	9.125	22,438,336	1.27
		40,000,000	5/22/96	Kingdom of Spain (1)	9.00	48,583,780	2.76
				Total Investments in European Currency Unit (Cost--$101,444,972)		100,146,141	5.68
Finland	Fim	100,000,000	9/15/96	Finnish Government Bond (1)	6.50	17,515,835	1.00
				Total Investments in Finland (Cost--$17,485,693)		17,515,835	1.00
France	Ffr	108,000,000	10/12/95	French Government "B-TAN" (1)	5.50	18,455,102	1.05
		147,999,960	4/25/96	French Government "OAT" STRIPS (1)	6.53++++	22,138,806	1.25
		140,000,000	10/25/96	French Government "OAT" STRIPS (1)	5.34++++	20,330,548	1.15
				Total Investments in France (Cost--$62,851,484)		60,924,456	3.45
Italy	Lit	29,200,000,000	9/07/94	A/S Eksport Finans (Indexed to Lit/Ffr) (a) (1)	8.00	17,829,882	1.01
		55,000,000,000	1/01/96	Buoni Poliennali del Tesoro (Italian Government Bond) (1)	12.00	35,720,917	2.02

		10,000,000,000	5/01/96	Buoni Poliennali del Tesoro (Italian Government Bond) (1)	11.50	6,502,091	0.37
		58,000,000,000	6/01/96	Buoni Poliennali del Tesoro (Italian Government Bond) (1)	11.00	37,409,001	2.12
		39,900,000,000	8/01/96	Buoni Poliennali del Tesoro (Italian Government Bond) (1)	10.00	22,845,856	1.30
		45,000,000,000	10/01/96	Buoni Poliennali del Tesoro (Italian Government Bond) (1)	9.00	28,019,860	1.59
				Total Investments in Italy (Cost--$151,681,257)		148,327,607	8.41
Mexico	MxN	4,727,583	1/20/94	Mexican Treasury Bills (1)	9.25++++	14,687,576	0.83
		7,432,332	1/27/94	Mexican Treasury Bills (1)	9.22++++	22,965,739	1.30
		4,855,990	3/03/94	Mexican Treasury Bills (1)	9.10++++	14,810,536	0.84
				Total Investments in Mexico (Cost--$52,439,503)		52,463,851	2.97

</TABLE>

<TABLE>
SCHEDULE OF INVESTMENTS (concluded)
<CAPTION>

COUNTRIES		Face Amount	Maturity Date	Issue	Interest Rate++	Value (Note 1a)	Percent of Net Assets
<S>	<S>	<C>	<C>	<S>	<C>	<C>	<C>
New Zealand	NZ$	74,178,000	2/15/95	New Zealand Government Bonds (1)	10.00%	$ 43,403,009	2.46%
		114,285,000	11/15/95	New Zealand Government Bonds (1)	8.00	66,346,625	3.76
		113,650,000	6/15/96	New Zealand Electric Corp. (3)	10.00	69,179,607	3.93
				Total Investments in New Zealand (Cost--$175,014,656)		178,929,241	10.15
Spain	Pta	10,800,000,000	7/15/95	Bonos del Estado (Spanish Government Bonds) (1)	11.40	84,137,756	4.77
		3,000,000,000	4/15/96	Bonos del Estado (Spanish Government Bonds) (1)	13.45	24,856,504	1.41
		2,500,000,000	7/15/96	Bonos del Estado (Spanish Government Bonds) (1)	11.90	20,225,494	1.15
		3,000,000,000	8/30/96	Bonos del Estado (Spanish Government Bonds) (1)	11.85	24,413,716	1.38
				Total Investments in Spain (Cost--$158,791,175)		153,633,470	8.71
Sweden	Skr	625,000,000	9/01/95	Kingdom of Sweden (1)	11.50	83,281,002	4.72
				Total Investments in Sweden (Cost--$86,279,463)		83,281,002	4.72
United Kingdom	Pound Sterling	10,000,000	6/27/94	Swiss Bank Corporation, Medium-Term Notes (2)	10.45	15,272,191	0.87
		3,000,000	11/17/94	European Investment Bank (2)	9.50	4,631,371	0.26
		14,000,000	7/21/95	Treasury Gilt (1)	10.25	22,445,336	1.27
				Total Investments in the United Kingdom (Cost--$45,318,175)		42,348,898	2.40
United States	US$	50,000,000	11/01/93	First Boston Corp. (The), Repurchase Agreement* purchased on 10/29/93 (2)	2.93	50,000,000	2.84
		67,664,809	11/01/93	Lehman Brothers, Repurchase Agreement* purchased on 10/29/93 (2)	3.00	67,664,809	3.84
		45,000,000	12/17/93	CEO Capital Corp., Ltd. (2)+++	5.25	45,000,000	2.55
		89,000,000	10/15/94	PESO Linked Notes (2)+++	7.35	89,667,500	5.08
				Total Investments in the United States (Cost--$251,643,658)		252,332,309	14.31
	Total Investments (Cost--$1,645,723,074)					1,628,308,687	92.33
	Call Options Written (Premium Received--$117,877)**					(96,433)	(0.01)
	Put Options Written (Premiums Received--$451,290)***					(502,700)	(0.03)
	Unrealized Appreciation on Forward Foreign Exchange Contracts****					10,902,015	0.62
	Other Assets Less Liabilities					125,027,443	7.09
	Net Assets					$1,763,639,012	100.00%

<FN>
++Certain Commercial Paper, US Treasury and Foreign Treasury Obligations are traded on a discount basis; the interest rates shown represent the yield-to-maturity at the time of purchase by the Fund. Other securities bear interest at the rates shown, payable at fixed dates or upon maturity. Interest rates on floating rate securities are adjusted periodically based on appropriate indexes. The interest rates shown are those in effect at October 31, 1993.
++++Represents the yield-to-maturity on this zero coupon issue.

Corresponding industry groups for securities (percent of net assets):
(1) Sovereign Government Obligations--67.74%
(2) Financial Services--15.44%
(3) Sovereign/Regional Government Obligations--Agency--9.15%

****Forward Foreign Exchange Contracts as of October 31, 1993 are as follows:

		Expiration Date	Unrealized Appreciation (Depreciation) (Note 1c)
Foreign Currency Purchased			
C$	117,512,600	November 1993	$ (342,584)
DM	879,312,346	November 1993	(10,323,632)
Dkr	141,295,000	November 1993	(123,030)
Pta	4,869,723,836	November 1993	12,188
Lit	33,087,318,095	December 1993	(420,417)

</TABLE>

*Repurchase Agreements are fully collateralized by US Government & Agency Obligations.

**Call Options Written as of October 31, 1993 are as follows:

<TABLE>
<CAPTION>

Par Value Subject to Call	Issue	Premiums Received	(Value) (Notes 1a & 1d)
<C>	<S>	<C>	<C>
$44,900,000	C$ currency call option, strike price 1.3090, expiring 11/02/93	$ 49,390	$ (35,920)
22,400,000	C$ currency call option, strike price 1.31, expiring 11/03/93	32,480	(20,160)
22,400,000	C$ currency call option, strike price 1.31, expiring 11/04/93	24,640	(38,080)
22,733,062	DM currency call option, strike price DM1.6585, expiring 11/01/93	11,367	(2,273)
Total Call Options Written		$117,877	$ (96,433)
		========	=============

***Put Options Written as of October 31, 1993 are as follows:

Par Value Subject to Put	Issue	Premiums Received	(Value) (Notes 1a & 1d)
$22,400,000	A$ currency put option, strike price .6575, expiring 11/03/93	$ 22,400	$ (13,440)
22,400,000	A$ currency put option, strike price .6585, expiring 11/03/93	20,160	(15,680)
22,400,000	C$ currency put option, strike price 1.3360, expiring 11/03/93	17,920	(17,920)
22,400,000	DM currency put option, strike price DM 1.69, expiring 11/01/93	10,080	(48,160)
22,400,000	DM currency put option, strike price DM 1.69, expiring 11/02/93	76,160	(78,400)
22,400,000	DM currency put option, strike price DM 1.70, expiring 11/01/93	31,360	(6,720)
22,400,000	Lit currency put option, strike price Lit 1640, expiring 11/03/93	69,440	(174,720)
22,400,000	Lit currency put option, strike price Lit 1635, expiring 11/02/93	56,000	(73,920)
22,400,000	NZ$ currency put option, strike price .5500, expiring 11/02/93	29,120	(11,200)
26,900,000	NZ$ currency put option, strike price .5500, expiring 11/03/93	34,970	(16,140)
17,600,000	NZ$ currency put option, strike price .5500, expiring 11/03/93	29,920	(10,560)
22,400,000	NZ$ currency put option, strike price .5510, expiring 11/04/93	17,920	(26,880)
22,400,000	Pound Sterling currency put option, strike price 1.46, expiring 11/02/93	35,840	(8,960)
Total Put Options Written		$451,290	$ (502,700)
		========	============

</TABLE>

<TABLE>

<S>	<C>	<C>	<C>
Yen	9,594,175,110	November 1993	(3,052,951)
Skr	259,055,496	November 1993	(970,677)
Total (US$ Commitment--$826,183,871)			$(15,221,103)

Foreign Currency Sold

A$	51,806,249	November 1993	(63,962)
A$	100,074,349	December 1993	429,819
C$	336,668,895	November 1993	(1,171,532)
C$	192,571,121	December 1993	296,884
DM	670,164,598	November 1993	11,893,991
DM	36,616,500	December 1993	704,211
Dkr	605,981,864	November 1993	1,713,814
Dkr	302,847,500	December 1993	229,378
ECU	24,482,713	November 1993	1,017,036
ECU	61,287,400	December 1993	1,896,938
Pta	26,487,208,594	November 1993	1,949,956
Fim	100,726,438	November 1993	130,888
Frf	376,703,798	November 1993	1,802,884
Lit	109,777,625,324	November 1993	1,091,001
Lit	171,522,091,100	December 1993	2,360,108
Yen	9,914,032,500	November 1993	1,699,118
Nlg	93,611,118	December 1993	(165,477)
NZ$	134,622,386	November 1993	239,279
NZ$	254,388,074	December 1993	(1,025,399)
Skr	928,738,681	November 1993	771,192
Pound Sterling	31,023,236	November 1993	322,991
Total (US$ Commitment--$2,148,000,999)			$ 26,123,118
Total Unrealized Appreciation--Net, on Forward Foreign Exchange Contracts			$ 10,902,015

+++Restricted security as to resale. The value of the Fund's investment in restricted securities represents 7.6% of net assets.

Issue	Acquisition Date	Cost	Value
CEO Capital Corp. Ltd.	8/06/93	$ 44,978,850	$ 45,000,000
PESO Linked Notes	3/29/93	89,000,000	89,667,500
Total		$133,978,850	$134,667,500

(a) Indexed Instrument for which the principal amount due at maturity is affected by the relative value of the foreign reference rates.

See Notes to Financial Statements.
</TABLE>

<TABLE>
STATEMENT OF ASSETS AND LIABILITIES
<CAPTION>

<S>	As of October 31, 1993 <S>	<C>	<C>
Assets:	Investments, at value (identified cost--$1,645,723,074) (Notes 1a & 1b)		$1,628,308,687
	Unrealized appreciation on forward foreign exchange contracts (Note 1c)		10,902,015
	Foreign demand deposits (Note 1c)		1,030,454
	Cash		479
	Receivables:		
	Securities sold	$ 118,282,243	
	Interest	40,574,459	
	Capital shares sold	487,535	
	Options written	57,287	159,401,524
	Deferred organization expenses (Note 1h)		31,137
	Prepaid registration fees and other assets (Note 1h)		164,449
	Total assets		1,799,838,745
Liabilities:	Put options written, at value (premiums received--$451,290) (Notes 1a & 1d)		502,700
	Call options written, at value (premiums received--$117,877) (Notes 1a & 1d)		96,433
	Payables:		
	Capital shares redeemed	14,727,171	
	Securities purchased	9,581,566	
	Forward foreign exchange contracts (Note 1c)	4,918,893	
	Distributions to shareholders (Note 1i)	3,178,868	
	Distributor (Note 2)	1,111,336	
	Investment adviser (Note 2)	847,991	34,365,825
	Accrued expenses and other liabilities		1,234,775

	Total liabilities		36,199,733
Net Assets:	Net assets		$1,763,639,012
Net Assets Consist of:	Class A Shares of Common Stock, $.10 par value, 1,000,000,000 shares authorized		$ 1,144,259
	Class B Shares of Common Stock, $.10 par value, 1,000,000,000 shares authorized		19,236,603
	Paid-in capital in excess of par		1,805,627,632
	Accumulated realized capital losses from investments and foreign currency transactions--net (Note 5)		(55,233,511)
	Unrealized appreciation on investments and foreign currency transactions--net		(7,135,971)
	Net assets		$1,763,639,012
Net Asset Value:	Class A--Based on net assets of $99,036,733 and 11,442,594 shares outstanding		$ 8.66
	Class B--Based on net assets of $1,664,602,279 and 192,366,028 shares outstanding		$ 8.65

See Notes to Financial Statements.

</TABLE>

<TABLE>

STATEMENT OF OPERATIONS

<CAPTION>

<S>	For the Year Ended October 31, 1993 <S>	<C>	<C>
Investment Income (Notes 1f & 1g):	Interest and discount earned (net of $1,214,411 foreign withholding tax)		$ 195,128,812
Expenses:	Distribution fees--Class B (Note 2)		16,801,274
	Investment advisory fees (Note 2)		12,966,035
	Transfer agent fees--Class B (Note 2)		2,759,173
	Custodian fees		760,748
	Maintenance fees--Class A (Note 2)		339,199
	Printing and shareholder reports		294,872
	Accounting services (Note 2)		230,453
	Transfer agent fees--Class A (Note 2)		154,889
	Professional fees		123,391
	Registration fees (Note 1h)		84,127
	Directors' fees and expenses		30,737
	Amortization of organization expenses (Note 1h)		17,792
	Pricing fees		1,912
	Other		44,691
	Total expenses		34,609,293
	Investment income--net		160,519,519
Realized & Unrealized Gain (Loss) on Investments & Foreign Currency Transactions--Net (Notes 1c, 1g & 3):	Realized gain (loss) from:		
	Investments--net	$ 10,889,978	
	Foreign currency transactions	(264,132,709)	(253,242,731)
	Change in unrealized appreciation/depreciation on:		
	Investments--net	133,845,886	
	Foreign currency transactions	54,939,062	188,784,948
	Net realized and unrealized loss on investments and foreign currency transactions		(64,457,783)
	Net Increase in Net Assets Resulting from Operations		$ 96,061,736

See Notes to Financial Statements.

</TABLE>

<TABLE>

STATEMENTS OF CHANGES IN NET ASSETS

<CAPTION>

		For the Year Ended October 31,	
	Increase (Decrease) in Net Assets:	1993	1992
<S>	<S>	<C>	<C>

Operations:	Investment income--net	$ 160,519,519	$ 438,570,229
	Realized loss on investments and foreign currency transactions--net	(253,242,731)	(431,545,207)
	Change in unrealized appreciation/depreciation on investments and foreign currency transactions--net	188,784,948	(156,068,275)
	Net increase (decrease) in net assets resulting from operations	96,061,736	(149,043,253)
Distributions to Shareholders (Note 1i):	Return of capital--net:		
	Class A	(9,820,087)	(26,610,439)
	Class B	(150,699,432)	(411,959,790)
	Net decrease in net assets resulting from dividends and distributions to shareholders	(160,519,519)	(438,570,229)
Capital Share Transactions (Note 4):	Net decrease in net assets derived from capital share transactions	(1,543,047,053)	(2,359,427,543)
Net Assets:	Total decrease in net assets	(1,607,504,836)	(2,947,041,025)
	Beginning of year	3,371,143,848	6,318,184,873
	End of year	$1,763,639,012	$3,371,143,848

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.	Class A			
	Increase (Decrease) in Net Asset Value:	For the Year Ended October 31, 1993	1992	For the Period Dec. 28, 1990 to Oct. 31, 1991	For the Period Aug. 3, 1990++ to Dec. 27, 1990
<S>	<S>	<C>	<C>	<C>	<C>
Per Share Operating Performance:	Net asset value, beginning of period	$ 8.85	$ 9.85	$ 9.92	$ 10.00
	Investment income--net	.61	.77	.82	.42
	Realized and unrealized loss on investments and foreign currency transactions--net	(.19)	(1.00)	(.07)	(.08)
	Total from investment operations	.42	(.23)	.75	.34
	Less dividends and distributions:				
	Return of capital--net	(.61)	(.77)	--	--
	Investment income--net	--	--	(.82)	(.42)

</TABLE>

<TABLE>

<S>	<S>	<C>	<C>	<C>	<C>
	Total dividends and distributions	(.61)	(.77)	(.82)	(.42)
	Net asset value, end of period	$ 8.66	$ 8.85	$ 9.85	$ 9.92
Total Investment Return:**	Based on net asset value per share	5.28%	(2.60%)	7.53%+++	3.73%+++
Ratios to Average Net Assets:	Expenses, excluding maintenance fees	.73%	.75%	.76%*	.75%*
	Expenses	.98%	1.00%	.96%*	.75%*
	Investment income--net	7.24%	8.11%	9.70%*	10.51%*
Supplemental Data:	Net assets, end of period (in thousands)	$ 99,037	$ 188,623	$ 399,416	$ 211,006
	Portfolio turnover	284.62%	120.77%	153.72%	19.40%

<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:	For the Year Ended October 31, 1993	1992	For the Period Dec. 28, 1990 to Oct. 31, 1991	For the Period Aug. 3, 1990++ to Dec. 27, 1990
<S>	<S>	<C>	<C>	<C>	<C>
Per Share Operating Performance:	Net asset value, beginning of period	$ 8.85	$ 9.84	$ 9.92	$ 10.00
	Investment income--net	.57	.72	.77	.39
	Realized and unrealized loss on investments and foreign currency transactions--net	(.20)	(.99)	(.08)	(.08)
	Total from investment operations	.37	(.27)	.69	.31
	Less dividends and distributions:				
	Return of capital--net	(.57)	(.72)	--	--
	Investment income--net	--	--	(.77)	(.39)
	Total dividends and distributions	(.57)	(.72)	(.77)	(.39)
	Net asset value, end of period	$ 8.65	$ 8.85	$ 9.84	$ 9.92
Total Investment Return:**	Based on net asset value per share	4.63%	(3.00%)	6.93%+++	3.40%+++
Ratios to Average Net Assets:	Expenses, excluding maintenance and distribution fees	.74%	.75%	.77%*	.76%*
	Expenses	1.49%	1.50%	1.52%*	1.51%*
	Investment income--net	6.73%	7.60%	9.11%*	9.75%*
Supplemental Data:	Net assets, end of period (in thousands)	$1,664,602	$3,182,520	$5,918,769	$2,796,301
	Portfolio turnover	284.62%	120.77%	153.72%	19.40%

<FN>

++Commencement of Operations.
+++Aggregate total investment returns.
*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 Short-Term Global Income Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a non-diversified, open-end management investment company. The Fund offers both Class A 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 A Shares bear the expenses of the ongoing account maintenance fee and 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 securities--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 on 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. Options traded on exchanges are valued at the last bid price for options purchased and the last asked price as obtained from one or more dealers for options written. Options traded in the over-the-counter market are valued at the average of the last asked price for options written and the average of the last bid price as obtained from two or more dealers for options purchased. Other investments, including futures contracts and related options, are stated at market value or otherwise at the fair value at which it is expected they may be resold, as determined in good faith by or under the direction of the Board of Directors. 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 Fund's Board of Directors.

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

(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 all of its taxable 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 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). 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 over a five-year period. Prepaid registration fees are charged to expense as the related shares are issued.

(i) Dividends and distributions--Dividends from net investment income, excluding transaction gains/losses, are declared daily and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates. Distributions that are Return of Capital for income tax purposes have been reclassified.

(j) Reclassifications--Certain 1992 amounts have been reclassified to conform to the 1993 presentation. Accumulated investment loss--net, has been reclassified to paid in capital and accumulated realized losses, as appropriate.

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 a Distribution Agreement 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. For such services, the Fund pays a monthly fee based upon the average daily value of the Fund's net assets, at the following annual rates: 0.55% of the Fund's average daily net assets not exceeding $2 billion; 0.525% of average daily net assets in excess of $2 billion but not exceeding $4 billion; 0.50% of average daily net assets in excess of $4 billion but not exceeding $6 billion; 0.475% of average daily net

(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) such transactions 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--When the Fund sells 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 is deducted from 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 gain or loss to the extent the cost of the closing transaction is less than or exceeds the premium received).

Written and purchased options are non-income producing investments.

(e) Financial futures contracts--The Fund may purchase or sell financial futures contracts and options on such futures contracts as a hedge against adverse changes in the interest rate. A futures contract is an agreement between two parties to buy and sell a security, respectively, for a set price on a future date. 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 payment 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.

assets in excess of $6 billion but not exceeding $10 billion; 0.45% of average daily net assets in excess of $10 billion but not exceeding $15 billion; and 0.425% of average daily net assets in excess of $15 billion. 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 next $70 million of average daily net assets, and 1.5% of the average daily net assets in excess thereof. The Investment Adviser's obligation to reimburse the Fund is limited to the amount of the investment advisory fee. No fee payment will be made to the Investment Adviser during any fiscal year which will cause such expenses to exceed expense limitations at the time of such payment.

The Fund has adopted separate Plans of Distribution (the "Distribution Plans") pursuant to Rule 12b-1 under the Investment Company Act of 1940 pursuant to which MLFD receives from the Fund at the end of each month (a) an account maintenance fee at an annual rate of 0.25% of the average daily net assets of the Fund's Class A Shares in order to compensate the Distributor in connection with account maintenance activities, and (b) a distribution fee at an annual rate of 0.75% of the average daily net assets of the Fund's Class B Shares in order to compensate the Distributor for the services it provides and the expenses borne by the Distributor under the Distribution Agreement. As authorized by the Distribution Plans, the Distributor has entered into an agreement with Merrill Lynch, Pierce, Fenner & Smith Inc. ("MLPF&S") which provides for the compensation of MLPF&S in connection with account maintenance activities for Class A Shares and for providing distribution-related services to the Fund for Class B Shares. For the year ended October 31, 1993, MLFD earned $339,199 and $16,801,274 for Class A and Class B Shares, respectively, under the Distribution Plans, all of which was paid to MLPF&S pursuant to the agreement.

For the year ended October 31, 1993, MLFD earned underwriting discounts of $10,009, and MLPF&S earned dealer concessions of $73,088 on sales of Class A Shares of the Fund. MLPF&S also received contingent deferred sales charges of $10,977,755 relating to Class B Share transactions.

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.

NOTES TO FINANCIAL STATEMENTS (concluded)

3. Investments:
Purchases and sales of investments, excluding short-term securities, for the year ended October 31, 1993 were $5,652,829,538 and $6,593,936,943, respectively.

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

	Realized Gains (Losses)	Unrealized Gains (Losses)
Investments:		
Long-term	$ 11,934,350	$ (17,438,736)
Short-term	(1,044,372)	24,349
Total investments	10,889,978	(17,414,387)
Currency Transactions:		
Options written	6,919,285	(29,966)
Options purchased	(3,435,364)	--
Foreign currency transactions	(276,096,406)	(593,633)
Forward foreign exchange contracts	8,479,776	10,902,015
Total currency transactions	(264,132,709)	10,278,416
Total	$ (253,242,731)	$ (7,135,971)

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

Call Options Purchased	Par Value	Premiums Paid
Outstanding call options purchased at beginning of year	$ 46,428,571	$ 1,124,037
Options purchased	112,300,000	458,160
Options expired	(158,728,571)	(1,582,197)
Outstanding call options purchased at end of year	$ --	$ --

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

Put Options Purchased	Par Value	Premiums Paid
Outstanding put options purchased at beginning of year	$ --	$ --
Options purchased	484,400,000	2,309,986
Options exercised	(201,900,000)	(1,022,960)
Options expired	(282,500,000)	(1,287,026)
Outstanding put options purchased at end of year	$ --	$ --

Transactions in call options written for the year ended October 31, 1993 were as follows:

As of October 31, 1993, net unrealized depreciation for Federal income tax purposes aggregated $20,678,774, of which $8,436,559 related to appreciated securities and $29,115,333 related to depreciated securities. The aggregate cost of investments at October 31, 1993 for Federal income tax purposes was $1,648,987,461.

4. Capital Share Transactions:
Net decrease in net assets derived from capital share transactions was $1,543,047,053 and $2,359,427,543 for the year ended October 31, 1993 and the year ended 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	987,673	$ 8,606,847

Shares issued to shareholders in reinvestment of dividends and distributions	637,595	5,555,072
Total issued	1,625,268	14,161,919
Shares redeemed	(11,493,409)	(100,105,091)
Net decrease	(9,868,141)	$ (85,943,172)

Class A Shares for the Year Ended October 31, 1992	Shares	Dollar Amount
Shares sold	11,051,269	$ 105,460,370
Shares issued to shareholders in reinvestment of dividends and distributions	1,599,215	15,271,961
Total issued	12,650,484	120,732,331
Shares redeemed	(31,902,417)	(296,545,190)
Net decrease	(19,251,933)	$ (175,812,859)

Class B Shares for the Year Ended October 31, 1993	Shares	Dollar Amount
Shares sold	7,412,975	$ 64,618,337
Shares issued to shareholders in reinvestment of dividends and distributions	9,259,655	80,642,973
Total issued	16,672,630	145,261,310
Shares redeemed	(183,937,694)	(1,602,365,191)
Net decrease	(167,265,064)	$(1,457,103,881)

Call Options Written	Par Value Covered by Written Options	Premiums Received
Outstanding call options written at beginning of year	$ --	$ --
Options written	79,872,557,962	15,285,795
Options repurchased	(137,822,222)	(489,682)
Options exercised	(1,598,800,000)	(2,953,850)
Options closed	(78,023,502,678)	(11,724,386)
Outstanding call options written at end of year	$ 112,433,062	$ 117,877

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

Put Options Written	Par Value Covered by Written Options	Premiums Received
Outstanding put options written at beginning of year	$ 57,000,000	$ 621,300
Options written	11,163,638,044	20,350,536
Options repurchased	(260,000,000)	(1,642,050)
Options exercised	(2,101,845,061)	(3,950,931)
Options closed	(8,567,892,983)	(14,927,565)
Outstanding put options written at end of period	$ 290,900,000	$ 451,290

Class B Shares for the Year Ended October 31, 1992	Shares	Dollar Amount
Shares sold	76,062,499	$ 730,651,534
Shares issued to shareholders in reinvestment of dividends and distributions	23,764,335	226,726,222
Total issued	99,826,834	957,377,756
Shares redeemed	(341,451,358)	(3,140,992,440)

Net decrease	(241,624,524)	$(2,183,614,684)

5. Capital Loss Carryforward:
At October 31, 1993, the Fund had a capital loss carryforward of approximately $32,232,000, all of which expires in 2000 and will be available to offset like amounts of any future taxable gains.

6. Subsequent Event:
On November 1, 1993, the Fund's Board of Directors declared an ordinary income dividend to Common Stock shareholders in the amount of $0.04 per share, payable on November 19, 1993 to shareholders of record as of November 17, 1993.

APPENDIX I

BOND AND COMMERCIAL PAPER RATINGS

STANDARD & POOR'S BOND RATINGS

A Standard & Poor's corporate debt rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong. 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.

The AA rating may be modified by the addition of a plus or minus sign to show relative standing within that major rating category.

MOODY'S BOND RATINGS

Excerpts from Moody's description of its corporate bond ratings: Aaa--judged to be of the best quality, carry the smallest degree of investment risk; and Aa--judged to be of high quality by all standards.

IBCA'S CORPORATE BOND RATINGS

Bonds rated AAA are obligations for which there is a very low expectation of investment risk. Capacity for timely repayment of principal and interest is substantial such that adverse changes in business, economic, or financial conditions may increase investment risk albeit not very significantly. Bonds rated AA are obligations for which there is a low expectation of investment risk. Capacity for timely repayment of principal and interest is strong, although adverse changes in business, economic or financial conditions may lead to increased investment risk.

"+" or "-" may be appended to a long-term rating to denote relative status within major rating categories.

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. The highest category is as follows:

A-1 This highest category 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 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.

MOODY'S COMMERCIAL PAPER RATINGS

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 employs the following designations, judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

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.

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.

IBCA'S COMMERCIAL PAPER RATINGS

Commercial paper rated A1+ are obligations supported by the highest capacity for timely repayment. Commercial paper rated A1 are obligations supported by a very strong capacity for timely repayment. Commercial paper rated A2 are obligations supported by a strong capacity for timely repayment, although such capacity may be susceptible to adverse changes in business, economic, or financial conditions.

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Statement of Additional Information

[ARTWORK]

MERRILL LYNCH SHORT-TERM GLOBAL INCOME FUND, INC.

February 28, 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-incompatibility and cross-references this material to the location of each occurrence in the text.

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