

SECURITIES AND EXCHANGE COMMISSION

FORM 485BPOS

Post-effective amendments [Rule 485(b)]

Filing Date: **1995-07-28**
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FILER

MERRILL LYNCH SPECIAL VALUE FUND INC

CIK: **230382** | IRS No.: **132928561** | State of Incorpor.: **NJ** | Fiscal Year End: **0331**
Type: **485BPOS** | Act: **33** | File No.: **002-60836** | Film No.: **95556888**

Mailing Address
P.O. BOX 9066
PRINCETON NJ 08543-9011

Business Address
P O BOX 9066
PRINCETON NJ 08543
6092823319

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 Form N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 [x]
 Pre-Effective Amendment No. []
 Post-Effective Amendment No. 21 [x]
 and/or
 REGISTRATION STATEMENT UNDER THE
 INVESTMENT COMPANY ACT OF 1940 [x]
 Amendment No. 20 [x]
 (Check appropriate box or boxes.)
 Merrill Lynch Special Value Fund, Inc.
 (Exact name of Registrant as specified in charter)

800 Scudders Mill Road
 Plainsboro, New Jersey
 (Address of Principal Executive Offices)

08536
 (Zip Code)

(Registrant's Telephone Number, including Area Code) (609) 282-2800

Arthur Zeikel
 Merrill Lynch Special Value Fund, Inc.
 800 Scudders Mill Road, Plainsboro, New Jersey
 Mailing Address: P.O. Box 9011, Princeton, New Jersey 08543-9011
 (Name and Address of Agent for Service)

Copies to:

Philip L. Kirstein, Esq.	Counsel for the Fund:	Mark B. Goldfus, Esq.
Merrill Lynch	Brown & Wood	Fund Asset Management
Asset Management	One World Trade Center	P.O. Box 9011
P.O. Box 9011	New York, New York 10048-0557	Princeton, New Jersey
Princeton, New Jersey	Attention:	08543-9011
08543-9011	Thomas R. Smith, Jr., Esq.	

It is proposed that this filing will become effective (check appropriate box):

- immediately upon filing pursuant to paragraph (b)
- on (date) pursuant to paragraph (b)
- 60 days after filing pursuant to paragraph (a)(1)
- on (date) pursuant to paragraph (a)(1)
- 75 days after filing pursuant to paragraph (a)(2)
- on (date) pursuant to paragraph (a)(2) of Rule 485.

If appropriate, check the following box:

- this post-effective amendment designates a new effective date for a previously filed post-effective amendment.

The Registrant has registered an indefinite number of its shares of common stock under the Securities Act of 1933 pursuant to Rule 24f-2 under the Investment Company Act of 1940. The notice required by such Rule for the Registrant's most recent fiscal year was filed on May 30, 1995.

MERRILL LYNCH SPECIAL VALUE FUND, INC.
 REGISTRATION STATEMENT ON FORM N-1A
 CROSS REFERENCE SHEET

<TABLE>

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N-1A Item No.

Location

PART A		
Item 1.	Cover Page	Cover Page
Item 2.	Synopsis	Not Applicable
Item 3.	Condensed Financial Information	Financial Highlights; Performance Data
Item 4.	General Description of Registrant	Investment Objective and Policies; Additional Information
Item 5.	Management of the Fund	Fee Table; Management of the Fund; Portfolio Transactions and Brokerage;

Item 5A.	Management's Discussion of Fund Performance	Inside Back Cover Page
Item 6.	Capital Stock and Other Securities	Not Applicable
Item 7.	Purchase of Securities Being Offered	Cover Page; Additional Information
		Cover Page; Fee Table; Merrill Lynch Select Pricing(SM) System; Purchase of Shares; Shareholder Services; Additional Information; Inside Back Cover Page
Item 8.	Redemption or Repurchase	Fee Table; Merrill Lynch Select Pricing(SM) System; Purchase of Shares; Redemption of Shares; Shareholder Services
Item 9.	Pending Legal Proceedings	Not Applicable
PART B		
Item 10.	Cover Page	Cover Page
Item 11.	Table of Contents	Back Cover Page
Item 12.	General Information and History	Not Applicable
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Item 15.	Control Persons and Principal Holders of Securities	Management of the Fund
Item 16.	Investment Advisory and Other Services	Management of the Fund; Purchase of Shares; General Information
Item 17.	Brokerage Allocation and Other Practices	Portfolio Transactions and Brokerage
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Item 19.	Purchase, Redemption and Pricing of Securities Being Offered	Purchase of Shares; Redemption of Shares; Determination of Net Asset Value; Shareholder Services; General Information
Item 20.	Tax Status	Dividends; Distributions and Taxes
Item 21.	Underwriters	Purchase of Shares
Item 22.	Calculation of Performance Data	Performance Data
Item 23.	Financial Statements	Financial Statements

PART C
Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

</TABLE>

PROSPECTUS
July 28, 1995

Merrill Lynch Special Value Fund, Inc.
P.O. Box 9011, Princeton, New Jersey 08543-9011 (bullet) Phone No. (609)
282-2800

Merrill Lynch Special Value Fund, Inc. (the "Fund") is a diversified, open-end investment company seeking long-term growth of capital by investing in a diversified portfolio of securities, primarily common stocks, of relatively small companies which management of the Fund believes have special investment value and emerging growth companies regardless of size. Current income is not a factor in management's selection of companies in which the Fund will invest. For more information on the Fund's investment objective and policies, please see "Investment Objective and Policies" on page 10.

Pursuant to the Merrill Lynch Select Pricing(SM) System, the Fund offers four classes of shares, each with a different combination of sales charges, ongoing fees and other features. The Merrill Lynch Select Pricing System permits an investor to choose the method of purchasing shares that the investor believes is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other relevant circumstances. See "Merrill Lynch Select Pricing(SM) System" on page 4.

Shares may be purchased directly from Merrill Lynch Funds Distributor, Inc. (the "Distributor"), P.O. Box 9011, Princeton, New Jersey 08543-9011 [(609) 282-2800], or from securities dealers which have entered into dealer 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 \$100 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

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 July 28, 1995 (the "Statement of Additional Information"), 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. The Statement of Additional Information is hereby incorporated by reference into this Prospectus.

Fund 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 shares of the Fund follows:

<TABLE>
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	Class A(a)	Class B(b)	Class C	Class D
<S>	<C>	<C>	<C>	<C>
Shareholder Transaction Expenses:				
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price)	5.25% (c)	None	None	5.25% (c)
Sales Charge Imposed on Dividend Reinvestments	None	None	None	None
Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, whichever is lower)	None (d)	4.0% during the first year decreasing 1.0% annually to 0.0% after the fourth year	1% for one year	None (d)
Exchange Fee	None	None	None	None
Annual Fund Operating Expenses (as a percentage of average net assets) (e):				
Investment Advisory Fees (f)	0.75%	0.75%	0.75%	0.75%
Rule 12b-1 Fees (g):				
Account Maintenance Fees	None	0.25%	0.25%	0.25%
Distribution Fees	None	0.75%	0.75%	None
		(Class B shares convert to Class D shares automatically after approximately eight years and cease being subject to distribution fees)		
Other Expenses:				
Custodian Fees	0.02%	0.02%	0.02%	0.02%
Shareholder Servicing Costs (h)	0.20%	0.25%	0.25%	0.20%
Other	0.18%	0.18%	0.18%	0.18%
	-----	-----	-----	-----
Total Other Expenses	0.40%	0.45%	0.45%	0.40%
	-----	-----	-----	-----
Total Fund Operating Expenses	1.15%	2.20%	2.20%	1.40%
	=====	=====	=====	=====

</TABLE>

(a) Class A shares are sold to a limited group of investors, including existing Class A shareholders, certain retirement plans and investment programs. See "Purchase of Shares--Initial Sales Charge Alternatives--Class A and Class D Shares"--page 22.

(b) Class B shares convert to Class D shares automatically approximately eight years after initial purchase. See "Purchase of Shares--Deferred Sales Charge Alternatives--Class B and Class C Shares"--page 23.

(c) Reduced for purchases of \$25,000 and over, and waived for purchases of Class A shares by certain retirement plans in connection with certain investment programs. Class A or Class D purchases of \$1,000,000 or more may not be subject to an initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternatives--Class A and Class D Shares"--page 22.

(d) Class A and Class D shares are not subject to a contingent deferred sales

charge ("CDSC"), except that purchases of \$1,000,000 or more which may not be subject to an initial sales charge but will instead be subject to a CDSC of 1.0% of amounts redeemed within the first year of purchase.

(e) Information for Class A and Class B shares is stated for the fiscal year ended March 31, 1995. Information under "Other Expenses" for Class C and Class D shares is estimated for the fiscal year ending March 31, 1996.

(f) See "Management of the Fund--Management and Advisory Arrangements"--page 18.

(g) See "Purchase of Shares--Distribution Plans" page 27.

(h) See "Management of the Fund--Transfer Agency Services"--page 19.

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EXAMPLE:

<TABLE>
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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, the maximum \$52.50 initial sales charge (Class A and Class D shares only) and assuming (1) the Total Fund Operating Expenses for each class set forth above; (2) a 5% annual return throughout the periods and (3) redemption at the end of the period:				
Class A	\$64	\$87	\$112	\$ 185
Class B	\$62	\$89	\$118	\$234*
Class C	\$32	\$69	\$118	\$ 253
Class D	\$66	\$94	\$125	\$ 212
An investor would pay the following expenses on the same \$1,000 investment assuming no redemption at the end of the period:				
Class A	\$64	\$87	\$112	\$ 185
Class B	\$22	\$69	\$118	\$234*
Class C	\$22	\$69	\$118	\$ 253
Class D	\$66	\$94	\$125	\$ 212

</TABLE>

* Assumes conversion to Class D shares approximately eight years after purchase.

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 ("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 and Class C shareholders who hold their shares for an extended period of time may pay more in Rule 12b-1 distribution fees than the economic equivalent of the maximum front-end sales charges permitted under the Rules of Fair Practice of the National Association of Securities Dealers, Inc. ("NASD"). Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and redemptions. Purchases and redemptions directly through the Fund's transfer agent are not subject to the processing fee. See "Purchase of Shares|P|P" and "Redemption of Shares".

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MERRILL LYNCH SELECT PRICING(SM) SYSTEM

The Fund offers four classes of shares under the Merrill Lynch Select Pricing(SM) System. The shares of each class may be purchased at a price equal to the next determined net asset value per share subject to the sales charges and ongoing fee arrangements described below. Shares of Class A and Class D are sold to investors choosing the initial sales charge alternatives, and shares of Class B and Class C are sold to investors choosing the deferred sales charge alternatives. The Merrill Lynch Select Pricing System is used by more than 60 mutual funds advised by Merrill Lynch Asset Management, L.P. ("MLAM") or Fund Asset Management, L.P. ("FAM" or the "Investment Adviser"), an affiliate of MLAM. Funds advised by MLAM or FAM are referred to herein as "MLAM-advised mutual funds".

Each Class A, Class B, Class C or Class D share of the Fund represents an identical interest in the investment portfolio of the Fund and has the same rights, except that Class B, Class C and Class D shares bear the expenses of the ongoing account maintenance fees and Class B and Class C shares bear the expenses of the ongoing distribution fees and the additional incremental transfer agency costs resulting from the deferred sales charge arrangements. The deferred sales charges and account maintenance fees that are imposed on Class B and Class C shares, as well as the account maintenance fees that are imposed on the Class D shares, are imposed directly against those classes and not against all assets of the Fund and, accordingly, such charges will not affect the net asset value of any other class or have any impact on investors choosing another sales charge option. Dividends paid by the Fund for each class of shares are calculated in the same manner at the same time and will differ only to the extent that account maintenance and distribution fees and any incremental transfer agency costs relating to a particular class are borne exclusively by that class. Each class has different exchange privileges. See "Shareholder Services-- Exchange Privilege".

Investors should understand that the purpose and function of the initial sales charges with respect to the Class A and Class D shares are the same as those of the deferred sales charges with respect to the Class B and Class C shares in that the sales charges applicable to each class provide for the financing of the distribution of the shares of the Fund. The distribution-related revenues paid with respect to a class will not be used to finance the distribution expenditures of another class. Sales personnel may receive different compensation for selling different classes of shares.

The following table sets forth a summary of the distribution arrangements for each class of shares under the Merrill Lynch Select Pricing (SM) System, followed by a more detailed description of each class and a discussion of the factors that investors should consider in determining the method of purchasing shares under the Merrill Lynch Select Pricing System that the investor believes is most beneficial under his particular circumstances. More detailed information as to each class of shares is set forth under "Purchase of Shares".

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<TABLE>
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Class <S>	Sales Charge (1) <C>	Account		Conversion Feature <C>
		Maintenance Fee <C>	Distribution Fee <C>	
A	Maximum 5.25% initial sales charge (2) (3)	No	No	No
B	CDSC for a period of 4 years, at a rate of 4.0% during the first year, decreasing 1.0% annually to 0.0%	0.25%	0.75%	B shares convert to D shares automatically after approximately eight years (4)
C	1.0% CDSC for one year	0.25%	0.75%	No
D	Maximum 5.25% initial sales charge (3)	0.25%	No	No

</TABLE>

(1) Initial sales charges are imposed at the time of purchase as a percentage of the offering price. Contingent deferred sales charges ("CDSCs") are imposed if the redemption occurs within the applicable CDSC time period. The charge will be assessed on an amount equal to the lesser of the proceeds of redemption or the cost of the shares being redeemed.

(2) Offered only to eligible investors. See "Purchase of Shares--Initial Sales Charge Alternatives--Class A and Class D Shares--Eligible Class A Investors".

(3) Reduced for purchases of \$25,000 or more, and waived for purchases of Class A shares by certain retirement plans in connection with certain investment programs. Class A and Class D share purchases of \$1,000,000 or more may not be subject to an initial sales charge, but instead will be subject to a 1.0% CDSC for one year. See "Class A" and "Class D" below.

(4) The conversion period for dividend reinvestment shares and certain retirement plans is modified. Also, Class B shares of certain other MLAM-advised mutual funds into which exchanges may be made have a ten year conversion period. If Class B shares of the Fund are exchanged for Class B shares of another MLAM-advised mutual fund, the conversion period applicable to the Class B shares acquired in the exchange will apply, and the holding period for the shares exchanged will be tacked onto the holding period for the shares acquired.

Class A: Class A shares incur an initial sales charge when they are purchased and bear no ongoing distribution or account maintenance fees. Class A shares are offered to a limited group of investors and also will be issued upon reinvestment of dividends on outstanding Class A shares. Investors that currently own Class A shares in a shareholder account are entitled to purchase additional Class A shares in that account. Other eligible investors include certain retirement plans and participants in certain investment programs. In addition, Class A shares will be offered to directors and employees of Merrill Lynch & Co., Inc. and its subsidiaries (the term "subsidiaries", when used herein with respect to Merrill Lynch & Co., Inc., includes MLAM, the Investment Adviser and certain other entities directly or indirectly wholly-owned and controlled by Merrill Lynch & Co., Inc.), and to members of the Boards of MLAM-advised mutual funds. The maximum initial sales charge is 5.25%, which is reduced for purchases of \$25,000 and over, and waived for purchases by certain retirement plans in connection with certain investment programs. Purchases of \$1,000,000 or more may not be subject to an initial sales charge but if the initial sales charge is waived such purchases will be subject to a 1.0% CDSC if the shares are redeemed within one year after purchase. Sales charges also are reduced under a right of accumulation which takes into account the investor's holdings of all classes of all MLAM-advised mutual funds. See "Purchase of Shares--Initial Sales Charge Alternatives--Class A and Class D Shares".

Class B: Class B shares do not incur a sales charge when they are purchased, but they are subject to an ongoing account maintenance fee of 0.25% and an ongoing distribution fee of 0.75%, of the Fund's average net

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assets attributable to the Class B shares, and a CDSC if they are redeemed within four years of purchase. Approximately eight years after issuance, Class B shares will convert automatically into Class D shares of the Fund, which are subject to an account maintenance fee but no distribution fee; Class B shares of certain other MLAM-advised mutual funds into which exchanges may be made convert into Class D shares automatically after approximately ten years. If Class B shares of the Fund are exchanged for Class B shares of another MLAM-advised mutual fund, the conversion period applicable to the Class B shares acquired in the exchange will apply, and the holding period for the shares exchanged will be tacked onto the holding period for the shares acquired. Automatic conversion of Class B shares into Class D shares will occur at least once a month on the basis of the relative net asset values of the shares of the two classes on the conversion date, without the imposition of any sales load, fee or other charge. Conversion of Class B shares to Class D shares will not be deemed a purchase or sale of the shares for Federal income tax purposes. Shares purchased through reinvestment of dividends on Class B shares also will convert automatically to Class D shares. The conversion period for dividend reinvestment shares, and the conversion and holding periods for certain retirement plans is modified as described under "Purchase of Shares--Deferred Sales Charge Alternatives--Class B and Class C Shares--Conversion of Class B Shares to Class D Shares".

Class C: Class C shares do not incur a sales charge when they are purchased, but they are subject to an ongoing account maintenance fee of 0.25% and an ongoing distribution fee of 0.75% of the Fund's average net assets attributable to Class C shares. Class C shares are also subject to a CDSC if they are redeemed within one year of purchase. Although Class C shares are subject to a 1.0% CDSC for only one year (as compared to four years for Class B), Class C shares have no conversion feature and, accordingly, an investor that purchases Class C shares will be subject to distribution fees that will be imposed on Class C shares for an indefinite period subject to annual approval by the Fund's Board of Directors and regulatory limitations.

Class D: Class D shares incur an initial sales charge when they are purchased and are subject to an ongoing account maintenance fee of 0.25% of the Fund's average net assets attributable to Class D shares. Class D shares are not subject to an ongoing distribution fee or any CDSC when they are redeemed. Purchases of \$1,000,000 or more may not be subject to an initial sales charge but if the initial sales charge is waived such purchases will be subject to a

CDSC of 1.0% if the shares are redeemed within one year after purchase. The schedule of initial sales charges and reductions for Class D shares is the same as the schedule for Class A shares, except that there is no waiver for purchases by retirement plans in connection with certain retirement programs. Class D shares also will be issued upon conversion of Class B shares as described above under "Class B". See "Purchase of Shares--Initial Sales Charge Alternatives--Class A and Class D Shares".

The following is a discussion of the factors that investors should consider in determining the method of purchasing shares under the Merrill Lynch Select Pricing System that the investor believes is most beneficial under his particular circumstances.

Initial Sales Charge Alternatives. Investors who prefer an initial sales charge alternative may elect to purchase Class D shares or, if an eligible investor, Class A shares. Investors choosing the initial sales charge alternative who are eligible to purchase Class A shares should purchase Class A shares rather than Class D shares because there is an account maintenance fee imposed on Class D shares. Investors qualifying for significantly reduced initial sales charges may find the initial sales charge alternative particularly attractive because similar sales

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charge reductions are not available with respect to the deferred sales charges imposed in connection with purchases of Class B or Class C shares. Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time also may elect to purchase Class A or Class D shares, because over time the accumulated ongoing account maintenance and distribution fees on Class B or Class C shares may exceed the initial sales charge and, in the case of Class D shares, the account maintenance fee. Although some investors that previously purchased Class A shares may no longer be eligible to purchase Class A shares of other MLAM-advised mutual funds, those previously purchased Class A shares, together with Class B, Class C and Class D share holdings, will count toward a right of accumulation which may qualify the investor for reduced initial sales charges on new initial sales charge purchases. In addition, the ongoing Class B and Class C account maintenance and distribution fees will cause Class B and Class C shares to have higher expense ratios, pay lower dividends and have lower total returns than the initial sales charge shares. The ongoing Class D account maintenance fees will cause Class D shares to have a higher expense ratio, pay lower dividends and have a lower total return than Class A shares.

Deferred Sales Charge Alternatives. Because no initial sales charges are deducted at the time of purchase, Class B and Class C shares provide the benefit of putting all of the investor's dollars to work from the time the investment is made. The deferred sales charge alternatives may be particularly appealing to investors who do not qualify for a reduction in initial sales charges. Both Class B and Class C shares are subject to ongoing account maintenance fees and distribution fees; however, the ongoing account maintenance and distribution fees potentially may be offset to the extent any return is realized on the additional funds initially invested in Class B or Class C shares. In addition, Class B shares will be converted into Class D shares of the Fund after a conversion period of approximately eight years, and thereafter investors will be subject to lower ongoing fees.

Certain investors may elect to purchase Class B shares if they determine it to be most advantageous to have all their funds invested initially and intend to hold their shares for an extended period of time. Investors in Class B shares should take into account whether they intend to redeem their shares within the CDSC period and, if not, whether they intend to remain invested until the end of the conversion period and thereby take advantage of the reduction in ongoing fees resulting from the conversion into Class D shares. Other investors, however, may elect to purchase Class C shares if they determine that it is advantageous to have all their assets invested initially and they are uncertain as to the length of time they intend to hold their assets in MLAM-advised mutual funds. Although Class C shareholders are subject to a shorter CDSC period at a lower rate, they forgo the Class B conversion feature, making their investment subject to account maintenance and distribution fees for an indefinite period of time. In addition, while both Class B and Class C distribution fees are subject to the limitations on asset-based sales charges imposed by the NASD, the Class B distribution fees are further limited under a voluntary waiver of asset-based sales charges. See "Purchase of Shares--Limitations on the Payment of Deferred Sales Charges".

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FINANCIAL HIGHLIGHTS

The financial information in the table below has been audited in connection with the annual audits of the financial statements of the Fund by Deloitte & Touche LLP, independent auditors. Financial statements for the year ended March 31, 1995 with respect to Class A and Class B shares, and for the fiscal period October 21, 1994 (commencement of operations of Class C and Class D shares) to March 31, 1995 with respect to Class C and Class D shares, and the independent auditors' report thereon are included in the Statement of Additional Information. The following per share data and ratios have been derived from information provided in the Fund's audited financial statements. Financial information is presented for Class B shares for the period October 21, 1988 (commencement of operations of Class B shares) to March 31, 1995 and for Class C and Class D shares for the period October 21, 1994 (commencement of operations of Class C and Class D shares) to March 31, 1995. 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.

<TABLE>

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	Class A				
	----- For the year ended March 31, -----				
Increase (Decrease) in Net Asset Value:	1995++	1994++	1993	1992	1991
	-----	-----	-----	-----	-----
Per Share					
Operating Performance:					
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of year	\$ 15.88	\$15.32	\$13.86	\$10.84	\$11.36
Investment income-- net	.16	.10	.05	.10	.12
Realized and unrealized gain (loss) on investments--net	1.09	1.87	1.43	3.00	(.49)
Total from investment operations	1.25	1.97	1.48	3.10	(.37)
Less dividends and distributions:					
Investment income-- net	(.10)	--	(.02)	(.08)	(.15)
Realized gain on investments--net	(1.40)	(1.41)	--	--	--
Total dividends and distributions	(1.50)	(1.41)	(.02)	(.08)	(.15)
Net asset value, end of year	\$ 15.63	\$15.88	\$15.32	\$13.86	\$10.84
Total Investment Return:***					
Based on net asset value per share	8.85%	13.14%	10.69%	28.71%	(3.15)%
Ratios to Average Net Assets:					
Expenses, net of reimbursement	1.15%	1.17%	1.28%	1.55%	1.88%
Expenses	1.15%	1.17%	1.28%	1.55%	1.88%
Investment income -- net	1.04%	.62%	.37%	.83%	1.13%
Supplemental Data:					
Net assets, end of year (in thousands)	\$106,506	\$78,804	\$70,920	\$57,056	\$44,818
Portfolio turnover	59.79%	68.70%	42.25%	98.76%	73.06%

</TABLE>
Footnotes on next page. (continued)

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Class A

For the year ended March 31,

<TABLE>

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	1990	1989	1988	1987	1986
Increase (Decrease) in Net Asset Value:					
Per Share Operating Performance:					
Net asset value, beginning of year	\$ 12.20	\$ 11.77	\$ 15.99	\$ 16.34	\$ 12.48
Investment income-- net	.22	.22	.17	.07	.08
Realized and unrealized gain (loss) on investments--net	(.82)	.46	(3.17)	.25	4.21
Total from investment operations	(.60)	.68	(3.00)	.32	4.29
Less dividends and distributions:					
Investment income--net	(.24)	(.23)	(.14)	(.05)	(.09)
Realized gain on investments--net	--	(.02)	(1.08)	(.62)	(.34)
Total dividends and distributions	(.24)	(.25)	(1.22)	(.67)	(.43)
Net asset value, end of year	\$ 11.36	\$ 12.20	\$ 11.77	\$ 15.99	\$ 16.34
Total Investment Return:***					
Based on net asset value per share	(5.05)%	5.85%	(18.82)%	1.99%	35.40%
Ratios to Average Net Assets:					
Expenses, net of reimbursement	1.45%	1.20%	1.17%	1.19%	1.19%
Expenses	1.45%	1.35%	1.20%	1.22%	1.19%
Investment income -- net	1.62%	1.78%	1.30%	.46%	.56%
Supplemental Data:					
Net assets, end of year (in thousands)	\$57,800	\$87,167	\$108,830	\$107,521	\$107,527
Portfolio turnover	44.66%	75.11%	60.47%	50.63%	40.01%

</TABLE>

Footnotes on next page. (continued) 8

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Class B

For the year ended March 31,

	1995++	1994++	1993++	1992++	1991++	1990	1989+
Increase (Decrease) in Net Asset Value:							
Per Share Operating Performance:							
Net asset value, beginning of period	\$ 15.49	\$ 15.01	\$ 13.70	\$ 10.77	\$ 11.29	\$ 12.15	\$12.01

Investment income (loss) -- net	--	(.06)	(.09)	(.03)	--	.07	.03
Realized and unrealized gain (loss) on investments--net	1.06	1.83	1.40	2.98	(.47)	(.79)	.22
Total from investment operations	1.06	1.77	1.31	2.95	(.47)	(.72)	.25
Less dividends and distributions:							
Investment income--net	--	--	--	(.02)	(.05)	(.14)	(.09)
Realized gain on investments--net	(1.39)	(1.29)	--	--	--	--	(.02)
Total dividends and distributions	(1.39)	(1.29)	--	(.02)	(.05)	(.14)	(.11)
Net asset value, end of period	\$ 15.16	\$ 15.49	\$ 15.01	\$ 13.70	\$ 10.77	\$ 11.29	\$ 12.15
Total Investment Return:***							
Based on net asset value per share	7.70%	12.03%	9.56%	27.41%	(4.16)%	(6.00)%	2.75%+++
Ratios to Average Net Assets:							
Expenses, net of reimbursement and excluding distribution fees	1.20%	1.19%	1.28%	1.51%	1.95%	1.49%	1.23%**
Expenses	2.20%	2.19%	2.28%	2.51%	2.95%	2.49%	2.45%**
Investment income (loss)--net	.02%	(.41)%	(.65)%	(.27)%	(.04)%	.59%	.63%**
Supplemental Data:							
Net assets, end of period (in thousands)	\$237,359	\$112,768	\$76,182	\$29,534	\$3,783	\$1,456	\$906
Portfolio turnover	59.79%	68.70%	42.25%	98.76%	73.06%	44.66%	75.11%

</TABLE>

+ Class B Shares commenced operations on October 21, 1988.

++ Based on an average number of shares outstanding during the period.

+++ Aggregate total investment return.

* Commencement of Operations.

** Annualized.

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

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<TABLE>

<CAPTION>

	Class C	Class D
	For the Period October 21, 1994*	For the Period October 21, 1994*
	to March 31, 1995++	to March 31, 1995++
Increase (Decrease) in Net Asset Value:		
Per Share Operating Performance:		
<S>	<C>	<C>
Net asset value, beginning of period	\$ 15.06	\$ 15.52
Investment income (loss) -- net	.01	.07
Realized and unrealized gain (loss) on investments--net	.65	.66
Total from investment operations	.66	.73
Less dividends and		

distributions:		
Investment income--net	(.06)	(.08)
Realized gain on investments--net	(.56)	(.56)
	-----	-----
Total dividends and distributions	(.62)	(.64)
	-----	-----
Net asset value, end of period	\$ 15.10	\$ 15.61
	=====	=====
Total Investment Return:***		
Based on net asset value per share	4.82%+++	5.13%+++
Ratios to Average Net Assets:		
Expenses, net of reimbursement and excluding distribution fees	1.41%**	1.36%**
	=====	=====
Expenses	2.41%**	1.61%**
	=====	=====
Investment income (loss)--net	.14%**	.95%**
	=====	=====
Supplemental Data:		
Net assets, end of period (in thousands)	\$11,434	\$11,037
	=====	=====
Portfolio turnover	59.79%	59.79%
	=====	=====

</TABLE>

+ Class B Shares commenced operations on October 21, 1988.

++ Based on an average number of shares outstanding during the period.

+++ Aggregate total investment return.

* Commencement of Operations.

** Annualized.

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

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INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to seek long-term growth of capital by investing in a diversified portfolio of securities, primarily common stock, of relatively small companies which management of the Fund believes have special investment value and emerging growth companies regardless of size. Current income is not a factor in the selection of securities. The Fund is intended to provide an opportunity for investors who are not ordinarily in a position to perform the specialized type of research or analysis involved in investing in small and emerging growth companies and to invest sufficient assets in such companies to provide wide diversification.

In attempting to achieve its investment objective, the Fund may employ various investment strategies. Management seeks to identify those companies which can show significant and sustained increases in earnings over an extended period of time. This strategy focuses on the long-range view of a company's prospects, primarily through fundamental analysis of its management, financial structure, product development, marketing ability and other relevant factors. Management anticipates employing such a strategy of fundamental analysis to small and emerging growth companies.

Management also may seek to identify companies which can show favorable investment potential through analysis of the economy and the financial markets. This strategy focuses on the long-range view of a company's market valuation, primarily through analysis of economic trends, valuation models, market statistics and other quantitative factors applicable to specific companies, industries or economic sectors.

Additionally, management of the Fund may, from time to time, identify a number of companies that it believes share favorable investment potential. These companies are often in a particular industry or related industries or market segments. At times, the Fund may acquire the securities of such companies together as a "basket" or group in a single transaction. The Fund may subsequently sell such "basket" as a unit or it may sell only selected securities and continue to hold other securities acquired in the "basket".

The Fund may also acquire or dispose of "baskets" of securities as a means of rapidly increasing or decreasing exposure to the markets in response to

the Fund's cash flow (primarily, the effects of net purchases or net redemptions of the Fund's shares). These "baskets" may be comprised of securities selected solely because their aggregate volatility appears to substantially correlate to the volatility of the markets (or a portion of the markets) in which the Fund invests, although the Fund may continue to hold particular securities included in such a "basket" based on their favorable investment potential.

Management believes that while the companies in which it invests present above-average risks, properly selected companies of this type also have the potential to increase their earnings or market valuation at a rate substantially in excess of the general growth of the economy. Full development of these companies and trends frequently takes time and, for this reason, the Fund should be considered as a long-term investment and not as a vehicle for seeking short-term profits.

Small Companies. Management seeks small companies that offer special investment value in terms of their product or service, research capability or other unique attributes, or are relatively undervalued in the marketplace when compared with their favorable investment potential. These companies typically have total market capitalization of up to \$750 million at the time of initial purchase and generally are little known to most individual investors although some may be dominant in their respective industries. Underlying this investment strategy is management's belief that relatively small companies will continue to have the opportunity to develop into significant business enterprises. Some such companies may be in a relatively early stage of development; others may

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manufacture a new product or perform a new service. Such companies may not be counted upon to develop into major industrial companies but management believes that eventual recognition of their special value characteristics by the investment community can provide above-average long-term growth to the portfolio.

Emerging Growth Companies. Management also seeks emerging growth companies that either occupy a dominant position in an emerging industry or sub-industry or have a significant and growing market share in a large, fragmented industry or are relatively undervalued in the marketplace when compared to their favorable market potential. Emphasis is given to companies with rapid historical growth rates and above-average returns on equity. Management of the Fund may also analyze and weigh relevant factors beyond the company itself, such as the level of competition in the industry, the extent of governmental regulation, the nature of labor conditions and other related matters.

While the investment strategies employed by the Fund's management do not, of course, guarantee successful investment results, they do provide ingredients not available to the average individual in making his investments in small and emerging growth companies due to time and cost involved. Careful initial selection is particularly important in this area for new enterprises which have promise but may lack certain of the ingredients necessary to prosper.

It should be apparent that an investment in a fund of this type involves greater risk than is customarily associated with more established companies. The securities of smaller or emerging growth companies may be subject to more abrupt or erratic market movements than larger, more established companies or the market average in general. These companies may have limited product lines, markets or financial resources, or they may be dependent on a limited management group. Because of these factors, the Fund believes that its shares are suitable for investment by persons who can invest without concern for current income and who are in a financial position to assume above-average investment risk in search of above-average long-term reward. As indicated, the Fund is designed for investors whose investment objective is growth rather than income. It is definitely not intended as a complete investment program but is designed for those long-term investors who are prepared to experience above-average fluctuations in net asset value.

Investment emphasis is on equities, primarily common stock and, to a lesser extent, securities convertible into common stock (including synthetic convertible securities consisting of a debt security and a warrant to purchase common stock, either of which security may be sold by the Fund independently of the other) and rights to subscribe for common stock and the Fund will maintain at least 80% of its net assets invested in equity securities of small or emerging growth companies except during defensive periods. The Fund may, during temporary periods as market or economic conditions may

warrant, invest in other types of securities, including non-convertible preferred stocks and debt securities, Government and money market securities, including repurchase agreements, or cash, in such proportions as management may determine.

It is anticipated that in the immediate future, the Fund will invest not more than 30% of its total assets in the securities of foreign issuers. Nevertheless, investors should note that investment in securities of foreign issuers involves risks not typically involved in domestic investment, including fluctuations in foreign exchange rates, future political and economic development 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 United States 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 United States investors are concerned. Changes in foreign currency exchange rates relative to the United States dollar will affect the United States dollar value of the Fund's assets denominated in that currency and the Fund's yield on such assets. With respect to certain foreign countries,

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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 United States instrument, and foreign issuers may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of United States entities. In addition, certain foreign investments may be subject to foreign withholding taxes. Foreign financial markets, while growing in volume, have, for the most part, substantially less volume than United States 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 assets of the Fund are uninvested and no return is earned thereon. The inability of the Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result either in losses to the Fund due to subsequent declines in value of the portfolio security or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser. Costs associated with transactions in foreign securities are generally higher than with transactions in United States securities. There is generally less government supervision and regulation of exchanges, financial institutions and issuers in foreign countries than there is in the United States.

The investment policies of the Fund described in the preceding paragraphs are fundamental policies of the Fund and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the Investment Company Act.

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 15% of its total 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 determines, based on the trading markets for the specific restricted security, that it is liquid. 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.

The Fund's investments in securities purchased pursuant to Rule 144A are monitored, focusing on such factors, among others, as valuation, liquidity and availability of information. Investments in securities purchased pursuant to Rule 144A 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.

Other Investment Policies and Practices

Portfolio Strategies Involving Options and Futures. The Fund may seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against adverse movements in the equity, debt and currency markets through the use of various portfolio strategies. The Fund may write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and financial futures, and related options on such futures. The Fund may deal in forward foreign exchange transactions and foreign currency options and futures, and related options on such

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futures. Each of these portfolio strategies is described below. Although certain risks are involved in options and futures transactions as discussed below, the Investment Adviser believes that, because the Fund will (i) write only covered options on portfolio securities and (ii) engage in other options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of Fund shares, the Fund's net asset value will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. Furthermore, the Fund will only engage in hedging activities from time to time and may not necessarily be engaging in hedging activities when movements in the equity, debt and currency markets occur.

Set forth below is a description of the portfolio strategies involving options and futures that the Fund may utilize.

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

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

The exchanges on which the Fund may conduct options transactions generally have established limitations governing the maximum number of call or put options on the same underlying security or currency (whether or not covered) that 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 that 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.

Purchasing Options. The Fund may purchase put options to hedge against a decline in the market value of its securities. By buying a put option the Fund has a right to sell the underlying security at the exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any appreciation in the value of the underlying security will be partially offset by the amount of

the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss for the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of any offsetting sale of an identical option prior to the expiration of the option it has purchased.

In certain circumstances, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase. The Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

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

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

The Fund may sell futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the Fund's securities portfolio that might otherwise result. When the Fund is not fully invested in the securities markets and anticipates a significant market advance, it may purchase futures in order to gain rapid market exposure that may in part or entirely offset increases in the cost of securities that the Fund intends to purchase. As such purchases are made, an equivalent amount of futures contracts will be terminated by offsetting sales. The Investment Adviser does not consider purchases of futures contracts to be a speculative practice under these circumstances.

The Fund may sell financial futures contracts in anticipation of an increase in the general level of interest rates. Generally, as interest rates rise, the market values of debt securities which may be held by the Fund as a temporary defensive measure will fall, thus reducing the net asset value of the Fund. However, as interest rates rise, the value of the Fund's short position in the futures contract 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, these commissions are generally less than the transaction expenses which the Fund would have incurred had the Fund sold portfolio securities in order to reduce its exposure to increases in interest rates. The Fund also may purchase financial 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 may purchase and write call and put options on futures contracts and stock indices in connection with its hedging activities. Generally, these strategies are utilized under the same market and market sector conditions (i.e., conditions relating to specific types of investments) in which the Fund enters into futures transactions. The Fund may purchase put options or write call options on futures contracts and stock indices rather than selling the underlying futures contract in anticipation of a decrease in the market

value of its securities. Similarly, the Fund may purchase call options, or write put options on futures contracts and stock indices, as a substitute for the purchase of such futures to hedge against the increased cost resulting from an increase in the market value of securities which the Fund intends to purchase.

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

Foreign Currency Hedging. The Fund may deal in forward foreign exchange among currencies of the different countries in which it will invest and multinational currency units as a hedge against possible variations in the foreign exchange rates among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date (up to one year) 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 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 effected with respect to hedges on non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund.

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

Risk Factors in Options, Futures and Currency Transactions. Utilization of options and futures transactions to hedge the portfolio involves the risk of imperfect correlation in movements in the price of options and futures and movements in the prices of the securities, interest rates or currencies which are the subject of the hedge. If the price of the options or futures moves more or less than the price of the subject of the hedge, the Fund will experience a gain or loss which will not be completely offset by movements in the price of the subject of the hedge.

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The successful use of options, futures and currency transactions also depends on the Investment Adviser's ability to predict correctly price movements in the market involved in a particular options or futures transaction.

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, the Investment Adviser believes the Fund can receive on each business day at least two independent bids or offers. 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 position. The inability to close options and futures positions also could have an adverse impact on the Fund's ability to hedge effectively its portfolio. There is also the risk of loss by the Fund of margin deposits or collateral in the event of the bankruptcy of a broker with whom the Fund has an open position in an option, a futures contract or related option.

Restrictions on the Use of Futures Transactions. Regulations of the Commodity Futures Trading Commission ("CFTC") applicable to the Fund provide that the futures trading activities described herein will not result in the

Fund being deemed a "commodity pool" 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.

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 insuring that the use of such futures contract is unleveraged.

Restrictions on OTC Options. The Fund will engage in OTC options, including OTC stock index options, OTC foreign currency options and options on foreign currency futures, only with member banks of the Federal Reserve System and primary dealers in United States Government securities or with affiliates of such banks or dealers that have capital of at least \$50 million or whose obligations are guaranteed by an entity having capital of at least \$50 million. The Fund will acquire only these OTC options for which the Investment Adviser 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 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 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 exceed 15% (10% to the extent required by certain state laws) of the total assets of the Fund, taken at market value, together with all other assets of the Fund which are illiquid or are not otherwise readily marketable. However, if the OTC option is sold by the Fund to a primary U.S. Government securities dealer recognized by the Federal Reserve Bank of New York and 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

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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.

Lending of Portfolio Securities. The Fund may from time to time lend securities (but not in excess of 20% of its total assets) from its portfolio to brokers, dealers and financial institutions and receive collateral in cash or securities issued or guaranteed by the United States Government which will be maintained at all times in amounts equal to at least 100% of the current market value of the loaned securities. Such cash collateral will be invested in short-term securities, which will increase the current income of the Fund.

Investment Restrictions

The Fund's investment activities are subject to further restrictions that are described in the Statement of Additional Information. Investment restrictions and policies which are fundamental policies may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the Investment Company Act means the lesser of (a) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (b) more than 50% of the outstanding shares). Among its fundamental policies, the Fund may not invest more than 25% of its total assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry (excluding the U.S. Government and its agencies and instrumentalities). Investment restrictions and policies that are

non-fundamental policies may be changed by the Board of Directors without shareholder approval. As a non-fundamental policy, the Fund may not borrow money or pledge its assets, except that the Fund (a) may borrow from a bank as a temporary measure for extraordinary or emergency purposes or to meet redemptions in amounts not exceeding 33-1/3% (taken at market value) of its total assets and pledge its assets to secure such borrowings, (b) may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and (c) may purchase securities on margin to the extent permitted by applicable law. (However, at the present time, applicable law prohibits the Fund from purchasing securities on margin.) (The deposit or payment by the Fund of initial or variation margin in connection with financial futures contracts or options transactions is not considered to be the purchase of a security on margin.) The purchase of securities while borrowings are outstanding will have the effect of leveraging the Fund. Such leveraging or borrowing increases the Fund's exposure to capital risk, and borrowed funds are subject to interest costs which will reduce net income.

As a non-fundamental policy, the Fund will not invest in securities which cannot readily be 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 15% of its total assets (or 10% of its total assets as presently required by certain state law) taken at market value would be invested in such securities. Notwithstanding the foregoing, the Fund may purchase without regard to this limitation securities that are not registered under the Securities Act, but that can be offered and sold to "qualified institutional buyers" under Rule 144A under the Securities Act, provided that the Fund's Board of Directors determines, based on the trading markets for the specific Rule 144A security, that it is liquid. 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 has determined that securities which are freely tradeable in their primary market offshore should be deemed liquid. The Board, however, will retain sufficient oversight and be ultimately responsible for the determinations.

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MANAGEMENT OF THE FUND

Board of Directors

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

The Directors of the Fund are:

Arthur Zeikel*--President of the Investment Adviser and MLAM; President and Director of Princeton Services, Inc. ("Princeton Services"); Executive Vice President of Merrill Lynch and Merrill Lynch & Co., Inc. ("ML&Co."); Director of the Distributor.

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

M. Colyer Crum--James R. Williston Professor of Investment Management, Harvard Business School.

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

Jack B. Sunderland--President and Director of American Independent Oil Company, Inc. (an energy company).

J. Thomas Touchton--Managing Partner of The Witt-Touchton Company (a private investment partnership).

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

Management and Advisory Arrangements

The Investment Adviser, which is owned and controlled by ML&Co., a financial services holding company, acts as the investment adviser to the Fund and provides the Fund with management and investment advisory services. The Investment Adviser or its affiliate, MLAM, acts as the investment adviser to more than 130 registered investment companies. MLAM also provides investment advisory services to individual and institutional accounts. As of June 30,

1995, the Investment Adviser and MLAM had a total of approximately \$180.4 billion in investment company and other portfolio assets under management, including accounts of certain affiliates of MLAM.

The investment advisory agreement with the Investment Adviser (the "Investment Advisory Agreement") provides that, subject to the direction of the Board of Directors, the Investment Adviser is responsible for the actual management of the Fund's portfolio. The responsibility for making decisions to buy, sell or hold a particular security rests with the Investment Adviser, subject to review by the Board of Directors. The Investment Adviser provides the portfolio managers for the Fund, who consider analyses from various sources, make the necessary investment decisions and place transactions accordingly. The Investment Adviser also is obligated to perform certain administrative and management services for the Fund and to provide all the office space, facilities, equipment and personnel necessary to perform its duties under the Investment Advisory Agreement. The Investment Adviser has access to the total securities research and economic facilities of Merrill Lynch.

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The Investment Adviser receives monthly compensation at the annual rate of 0.75% of the average daily net assets of the Fund. This fee is higher than that of many other mutual funds, but the Fund believes it is justified by the high degree of care that must be given to the initial selection and continuous supervision of the types of portfolio securities in which the Fund invests. For the fiscal year ended March 31, 1995, the Investment Adviser earned a fee of \$1,927,770 (based on average net assets of approximately \$262.2 million).

The Investment Advisory Agreement obligates the Fund to pay certain expenses incurred in its operations including, among other things, the investment advisory fee, legal and audit fees, unaffiliated Directors' fees and expenses, custodian and transfer agency fees, accounting costs, the costs of issuing and redeeming shares and certain of the costs of printing proxies, shareholder reports, prospectuses and statements of additional information. Accounting services are provided to the Fund by the Investment Adviser, and the Fund reimburses the Investment Adviser for its costs in connection with such services. For the fiscal year ended March 31, 1995, the amount of such reimbursement was \$47,277. For the fiscal year ended March 31, 1995, the ratio of total expenses to average net assets was 1.15% for Class A shares, 2.20% for Class B shares, and for the period from October 21, 1994 (commencement of operations) to March 31, 1995, the ratio of total expenses to average net assets was 2.41% for Class C shares and 1.61% for Class D shares.

Dennis W. Stattman is Vice President and Portfolio Manager of the Fund. Mr. Stattman has been a Vice President of MLAM since 1989 and was the Vice President of Meridian Management Company from 1984 to 1989.

Code of Ethics

The Board of Directors of the Fund has adopted a Code of Ethics under Rule 17j-1 of the Investment Company Act which incorporates the Code of Ethics of the Investment Adviser (together, the "Codes"). The Codes significantly restrict the personal investing activities of all employees of the Investment Adviser and, as described below, impose additional, more onerous, restrictions on fund investment personnel.

The Codes require that all employees of the Investment Adviser preclear any personal securities investment (with limited exceptions, such as government securities). The preclearance requirement and associated procedures are designed to identify any substantive prohibition or limitation applicable to the proposed investment. The substantive restrictions applicable to all employees of the Investment Adviser include a ban on acquiring any securities in a "hot" initial public offering and a prohibition from profiting on short-term trading in securities. In addition, no employee may purchase or sell any security which at the time is being purchased or sold (as the case may be), or to the knowledge of the employee is being considered for purchase or sale, by any fund advised by the Investment Adviser. Furthermore, the Codes provide for trading "blackout periods" which prohibit trading by investment personnel of the Fund within periods of trading by the Fund in the same (or equivalent) security (15 or 30 days depending upon the transaction).

Transfer Agency Services

Merrill Lynch Financial Data Services, Inc. (formerly called Financial Data Services, Inc.) (the "Transfer Agent"), which is a wholly-owned subsidiary of ML&Co., 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 a fee of \$11.00 per Class A or Class D shareholder account and \$14.00 per Class B or Class C shareholder account and the Transfer Agent is entitled to reimbursement from

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the Fund for out-of-pocket expenses incurred by the Transfer Agent under the Transfer Agency Agreement. For the fiscal year ended March 31, 1995, the Fund paid the Transfer Agent \$596,709 pursuant to the Transfer Agency Agreement. At June 30, 1995, the Fund had 24,827 Class A shareholder accounts, 34,392 Class B shareholder accounts, 2,764 Class C shareholder accounts and 2,083 Class D shareholder accounts. At this level of accounts the annual fee payable to the Transfer Agent would aggregate approximately \$816,194 plus out-of-pocket expenses.

PURCHASE OF SHARES

Merrill Lynch Funds Distributor, Inc. (the "Distributor"), an affiliate of both the Investment Adviser and Merrill Lynch, acts as the Distributor of the shares of the Fund. Shares of the Fund are offered continuously for sale by the Distributor and other eligible securities dealers (including Merrill Lynch). Shares of the Fund may be purchased from securities dealers or by mailing a purchase order directly to the Transfer Agent. The minimum initial purchase is \$1,000 and the minimum subsequent purchase is \$50 except that for retirement plans, the minimum initial purchase is \$100 and the minimum subsequent purchase is \$1.

The Fund is offering its shares in four classes at a public offering price equal to the next determined net asset value per share plus sales charges imposed, either at the time of purchase or on a deferred basis depending upon the class of shares selected by the investor under the Merrill Lynch Select Pricing(SM) System, as described below. The applicable offering price for purchase orders is based on the net asset value of the Fund next determined after receipt of the purchase order by the Distributor. As to purchase orders received by securities dealers prior to the close of business on the New York Stock Exchange (generally, 4:00 p.m., New York time), which includes orders received after the close of business on the previous day, the applicable offering price will be based on the net asset value determined as of 15 minutes after the close of business on the New York Stock Exchange on that day, provided the Distributor in turn receives the orders from the securities dealer prior to 30 minutes after the close of business on the New York Stock Exchange on that day. If the purchase orders are not received by the Distributor prior to 30 minutes after the close of business on the New York Stock Exchange, such orders shall be deemed received on the next business day. The Fund or the Distributor may suspend the continuous offering of the Fund's shares of any class at any time in response to conditions in the securities markets or otherwise and may thereafter resume such offering from time to time. Any order may be rejected by the Distributor or the Fund. 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 four classes of shares under the Merrill Lynch Select Pricing(SM) System, which permits each investor to choose the method of purchasing shares that the investor believes is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other relevant circumstances. Shares of Class A and Class D are sold to investors choosing the initial sales charge alternatives and shares of Class B and Class C are sold to investors choosing the deferred sales charge alternatives. Investors should determine whether under their particular circumstances it is more advantageous to incur an initial sales charge or to have the entire initial purchase price invested in the Fund with the investment thereafter being subject to a CDSC and ongoing distribution fees. A discussion of the factors that investors should consider in determining the method of purchasing shares under the Merrill Lynch Select Pricing System is set forth under "Merrill Lynch Select Pricing(SM) System" on page 4.

Each Class A, Class B, Class C and Class D share of the Fund represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B, Class C and Class D shares bear the expenses

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of the ongoing account maintenance fees, and Class B and Class C shares bear the expenses of the ongoing distribution fees and the additional incremental

transfer agency costs resulting from the deferred sales charge arrangements. The deferred sales charges and account maintenance fees that are imposed on Class B and Class C shares, as well as the account maintenance fees that are imposed on Class D shares, are imposed directly against those classes and not against all assets of the Fund and, accordingly, such charges do not affect the net asset value of any other class or have any impact on investors choosing another sales charge option. Dividends paid by the Fund for each class of shares are calculated in the same manner at the same time and will differ only to the extent that account maintenance and distribution fees and any incremental transfer agency costs relating to a particular class are borne exclusively by that class. Class B, Class C and Class D shares each have exclusive voting rights with respect to the Rule 12b-1 distribution plan adopted with respect to such class pursuant to which account maintenance and/or distribution fees are paid. See "Distribution Plans" below. Each class has different exchange privileges. See "Shareholder Services--Exchange Privilege".

Investors should understand that the purpose and function of the initial sales charges with respect to Class A and Class D shares are the same as those of the deferred sales charges with respect to Class B and Class C shares in that the sales charges applicable to each class provide for the financing of the distribution of the shares of the Fund. The distribution-related revenues paid with respect to a class will not be used to finance the distribution expenditures of another class. Sales personnel may receive different compensation for selling different classes of shares. Investors are advised that only Class A and Class D shares may be available for purchase through securities dealers, other than Merrill Lynch, which are eligible to sell shares.

The following table sets forth a summary of the distribution arrangements for each class of shares under the Merrill Lynch Select Pricing(SM) System.

<TABLE>
<CAPTION>

Class <S>	Sales Charge(1) <C>	Account		Conversion Feature <C>
		Maintenance Fee <C>	Distribution Fee <C>	
A	Maximum 5.25% initial sales charge(2) (3))	No	No	No
B	CDSC for a period of 4 years, at a rate of 4.0% during the first year, decreasing 1.0% annually to 0.0%	0.25%	0.75%	B shares convert to D shares automatically after approximately eight years(4))
C	1.0% CDSC for one year	0.25%	0.75%	No
D	Maximum 5.25% initial sales charge(3))	0.25%	No	No

</TABLE>

(1) Initial sales charges are imposed at the time of purchase as a percentage of the offering price. CDSCs may be imposed if the redemption occurs within the applicable CDSC time period. The charge will be assessed on an amount equal to the lesser of the proceeds of redemption or the cost of the shares being redeemed.

(2) Offered only to eligible investors. See "Initial Sales Charge Alternatives--Class A and Class D Shares--Eligible Class A Investors".

(3) Reduced for purchases of \$25,000 or more, and waived for purchases of Class A shares by certain retirement plans in connection with certain investment programs. Class A and Class D share purchases of \$1,000,000 or more will not be subject to an initial sales charge but, if the initial sales charge is waived, will be subject to a 1.0% CDSC for one year.

(4) The conversion period for dividend reinvestment shares and certain retirement plans is modified. Also, Class B shares of certain other MLAM-advised mutual funds into which exchanges may be made have a ten-year conversion period. If Class B shares of the Fund are exchanged for Class B shares of another MLAM-advised mutual fund, the conversion period applicable to the Class B shares acquired in the exchange will apply, and the holding period for the shares exchanged will be tacked onto the holding period for the shares acquired.

Initial Sales Charge Alternatives--Class A and Class D Shares

Investors choosing the initial sales charge alternatives who are eligible to purchase Class A shares should purchase Class A shares rather than Class D shares because there is an account maintenance fee imposed on Class D shares.

The public offering price of Class A and Class D shares for purchasers choosing the initial sales charge alternatives 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 Load as Percentage of Offering Price	Sales Load as Percentage* of the Net Amount Invested	Discount to Selected Dealers as Percentage of the Offering Price
<S>	<C>	<C>	<C>
Less than \$25,000	5.25%	5.54%	5.00%
\$25,000 but less than \$50,000	4.75	4.99	4.50
\$50,000 but less than \$100,000	4.00	4.17	3.75
\$100,000 but less than \$250,000	3.00	3.09	2.75
\$250,000 but less than \$1,000,000	2.00	2.04	1.80
\$1,000,000 and over**	0.00	0.00	0.00

</TABLE>

* Rounded to the nearest one-hundredth percent.

** The initial sales charge may be waived on Class A and Class D purchases of \$1,000,000 or more made on or after October 21, 1994, and on Class A purchases by certain retirement plan investors in connection with certain investment programs. If the sales charge is waived in connection with a purchase of \$1,000,000 or more, such purchases will be subject to a CDSC of 1.0% if the shares are redeemed within one year after purchase. Class A purchases made prior to October 21, 1994 may be subject to a CDSC if the shares are redeemed within one year of purchase at the following rates: 1.00% on purchases of \$1,000,000 to \$2,500,000; 0.60% on purchases of \$2,500,001 to \$3,500,000; 0.40% on purchases of \$3,500,001 to \$5,000,000; and 0.25% on purchases of more than \$5,000,000 in lieu of paying an initial sales charge. The charge will be assessed on an amount equal to the lesser of the proceeds of redemption or the cost of the shares being redeemed. A sales charge of 0.75% will be charged on purchases of \$1 million or more of Class A or Class D shares by certain Employer Sponsored Retirement or Savings Plans.

The Distributor may reallocate discounts to selected dealers and retain the balance over such discounts. At times the Distributor may reallocate the entire sales charge to such dealers. Since securities dealers selling Class A and Class D 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 March 31, 1995, the Fund sold 2,510,523 Class A shares for aggregate net proceeds of \$38,699,950. The gross sales charges for the sale of Class A shares of the Fund for that year were \$138,623, of which \$9,023 and \$129,600 were received by the Distributor and Merrill Lynch, respectively. For the fiscal year ended March 31, 1995, the Distributor received \$1,244 in CDSCs with respect to redemption within one year after purchase of Class A shares purchased subject to front-end sales charge waivers. During the fiscal period October 21, 1994 (commencement of operations for Class D shares) to March 31, 1995, the Fund sold 496,638 Class D shares for aggregate net proceeds of \$7,482,596. The gross sales charges for the sale of Class D shares of the Fund for that period were \$77,923 of which \$4,692 and \$73,231 were received by the Distributor and Merrill Lynch, respectively. For the fiscal period October 21, 1994 (commencement of operations for Class D shares) to March 31, 1995, the Distributor received no CDSCs with respect to redemption within one year after purchase of Class D shares purchased subject to front-end sales charge waivers.

Eligible Class A Investors. Class A shares are offered to a limited group of investors and also will be issued upon reinvestment of dividends on outstanding Class A shares. Investors that currently own Class A shares of the Fund in a shareholder account, including participants in the Merrill Lynch Blueprint (SM) Program, are entitled to purchase additional Class A shares of the Fund in that account. Certain employer sponsored retirement or savings plans, including eligible 401(k) plans, may purchase Class A shares at net asset value provided such plans meet the required minimum number of eligible employees or required amount of assets advised by MLAM or any of its affiliates. Class A shares are available at net asset value to corporate warranty insurance reserve fund programs provided that the program has \$3 million or more initially invested in MLAM-advised mutual funds. Also eligible to purchase Class A shares at net asset value are participants in certain investment programs including TMA (SM) Managed Trusts to which Merrill Lynch Trust Company provides discretionary trustee services and certain purchases made in connection with the Merrill Lynch Mutual Fund Adviser program. In addition, Class A shares will be offered at net asset value to ML&Co. and its subsidiaries and their directors and employees and to members of the Boards of MLAM-advised investment companies, including the Fund. Certain persons who acquired shares of certain MLAM-advised closed-end funds who wish to reinvest the net proceeds from a sale of their closed-end fund

shares of common stock in shares of the Fund also may purchase Class A shares of the Fund if certain conditions set forth in the Statement of Additional Information are met for closed-end funds that commenced operations prior to October 21, 1994. For example, Class A shares of the Fund and certain other MLAM-advised mutual funds are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund, Inc. who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Merrill Lynch Senior Floating Rate Fund, Inc. in shares of such funds.

Reduced Initial Sales Charges. No initial sales charges are imposed upon Class A and Class D shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. Class A and Class D sales charges also may be reduced under a Right of Accumulation and a Letter of Intention. Class A shares are offered at net asset value to certain eligible Class A investors as set forth above under "Eligible Class A Investors".

Class D shares are offered at net asset value without sales charge to an investor who has a business relationship with a Merrill Lynch financial consultant, if certain conditions set forth in the Statement of Additional Information are met. Class D shares may be offered at net asset value in connection with the acquisition of assets of other investment companies.

Class D shares are offered with reduced sales charges and, in certain circumstances, at net asset value, to participants in the Merrill Lynch Blueprint(SM) Program.

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

Deferred Sales Charge Alternatives--Class B and Class C Shares

Investors choosing the deferred sales charge alternatives should consider Class B shares if they intend to hold their shares for an extended period of time and Class C shares if they are uncertain as to the length of time they intend to hold their assets in MLAM-advised mutual funds.

The public offering price of Class B and Class C shares for investors choosing the deferred sales charge alternatives is the next determined net asset value per share without the imposition of a sales charge at the time of purchase. As discussed below, Class B shares are subject to a four year CDSC, while Class C shares are subject only to a one year 1.0% CDSC. On the other hand, approximately eight years after Class B shares are issued, such Class B shares, together with shares issued upon dividend reinvestment with respect to those shares, are

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automatically converted into Class D shares of the Fund and thereafter will be subject to lower continuing fees. See "Conversion of Class B Shares to Class D Shares" below. Both Class B and Class C shares are subject to an account maintenance fee of 0.25% of net assets and a distribution fee of 0.75% of net assets as discussed below under "Distribution Plans". The proceeds from the account maintenance fees are used to compensate Merrill Lynch for its account maintenance activities.

Class B and Class C shares are 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 and Class C shares at the time of purchase from its own funds. See "Distribution Plans" below.

Proceeds from the CDSC and the distribution fee 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 and Class C shares, such as the payment of compensation to financial consultants for selling Class B and Class C shares, from its own funds. The combination of the CDSC and the ongoing distribution fee facilitates the ability of the Fund to sell the Class B and Class C shares without a sales charge being deducted at the time of purchase. Approximately eight years after issuance, Class B shares will convert automatically into Class D shares of the Fund, which are subject to an account maintenance fee but no distribution fee; Class B shares of certain other MLAM-advised mutual funds into which exchanges may be made convert into Class D shares automatically after approximately ten years. If Class B shares of the Fund are exchanged for Class B shares of another MLAM-advised mutual fund, the conversion period applicable to the Class B shares acquired in the exchange will apply, and the holding period for the shares exchanged will be tacked onto the holding period for the shares acquired.

Imposition of the CDSC and the distribution fee on Class B and Class C shares is limited by the NASD asset-based sales charge rule. See "Limitations on the Payment of Deferred Sales Charges" below. 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 CDSC schedule if such schedule is higher than the CDSC schedule relating to the Class B shares acquired as a result of the exchange.

Contingent Deferred Sales Charges--Class B Shares. Class B shares which are redeemed within four years of purchase may be subject to a CDSC 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 proceeds of redemption or the cost of the shares being redeemed. Accordingly, no CDSC will be imposed on increases in net asset value above the initial purchase price. In addition, no CDSC will be assessed on shares derived from reinvestment of dividends or capital gains distributions.

The following table sets forth the rates of the Class B CDSC:

<TABLE>
<CAPTION>

Year Since Purchase Payment Made	Class B CDSC as a Percentage of Dollar Amount Subject to Charge
0-1	4.00%
1-2	3.00
2-3	2.00
3-4	1.00
4 and thereafter	0.00

</TABLE>

During the fiscal year ended March 31, 1995, the Fund sold 11,451,034 Class B shares for aggregate net proceeds of \$171,088,878. For the fiscal year ended March 31, 1995, the Distributor received CDSCs of \$354,631 with respect to redemptions of Class B shares, all of which were paid to Merrill Lynch.

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

To provide an example, assume an investor purchases 100 shares at \$10 per share (at a cost of \$1,000) and in the third year after purchase, the net asset value per share is \$12 and, during such time, the investor has acquired 10 additional shares through dividend reinvestment. If at such time the investor makes his or her first redemption of 50 shares (proceeds of \$600), 10 shares will not be subject to the CDSC because of dividend reinvestment. With respect to the remaining 40 shares, the CDSC is applied only to the original cost of \$10 per share and not to the increase in net asset value of \$2 per share. Therefore, \$400 of the \$600 redemption proceeds will be charged at a rate of 2.0% (the applicable rate in the third year after purchase for shares purchased on or after October 21, 1994).

In the event that Class B shares are exchanged by certain retirement plans for Class A shares in connection with a transfer to the Merrill Lynch Mutual Fund Adviser ("MFA") program, the time period that such Class A shares are held in the MFA program will be included in determining the holding period of Class B shares reacquired upon termination of participation in the MFA program (see "Shareholder Services--Exchange Privilege").

The Class B CDSC 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 Internal Revenue Code of 1986, as amended) of a shareholder. The Class B CDSC also is waived on redemptions of shares by certain eligible 401(a) and eligible 401(k) plans and in connection with certain group plans placing orders through the Merrill Lynch Blueprint(SM) Program. The CDSC also is waived for any Class B shares which are purchased by eligible 401(k) or

eligible 401(a) plans 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. The Class B CDSC also is waived for any Class B shares which are purchased by a Merrill Lynch rollover IRA that was funded by a rollover from a terminated 401(k) plan managed by the MLAM Private Portfolio Group and held in such account at the time of redemption. Additional information concerning the waiver of the Class B CDSC is set forth in the Statement of Additional Information.

Contingent Deferred Sales Charges--Class C Shares. Class C shares which are redeemed within one year after purchase may be subject to a 1.0% CDSC charged as a percentage of the dollar amount subject thereto. The charge will be assessed on an amount equal to the lesser of the proceeds of redemption or the cost of the shares being redeemed. Accordingly, no Class C CDSC will be imposed on increases in net asset value above the initial purchase price. In addition, no Class C CDSC will be assessed on shares derived from reinvestment of dividends or capital gains distributions.

In determining whether a Class C CDSC 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 one year or shares acquired pursuant to reinvestment of dividends or distributions and then of shares held longest during the one-year period. The charge will not be applied to dollar amounts

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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.

During the period October 21, 1994 (commencement of operations of Class C shares) to March 31, 1995, the Fund sold 828,311 Class C shares for aggregate net proceeds of \$12,105,918. During that period, the Distributor received CDSCs of \$3,295 with respect to redemptions of Class C shares, all of which were paid to Merrill Lynch.

Conversion of Class B Shares to Class D Shares. After approximately eight years (the "Conversion Period"), Class B shares will be converted automatically into Class D shares of the Fund. Class D shares are subject to an ongoing account maintenance fee of 0.25% of net assets but are not subject to the distribution fee that is borne by Class B shares. Automatic conversion of Class B shares into Class D shares will occur at least once each month (on the "Conversion Date") on the basis of the relative net asset values of the shares of the two classes on the Conversion Date, without the imposition of any sales load, fee or other charge. Conversion of Class B shares to Class D shares will not be deemed a purchase or sale of the shares for Federal income tax purposes.

In addition, shares purchased through reinvestment of dividends on Class B shares also will convert automatically to Class D shares. The Conversion Date for dividend reinvestment shares will be calculated taking into account the length of time the shares underlying such dividend reinvestment shares were outstanding. If at a Conversion Date the conversion of Class B shares to Class D shares of the Fund in a single account will result in less than \$50 worth of Class B shares being left in the account, all of the Class B shares of the Fund held in the account on the Conversion Date will be converted to Class D shares of the Fund.

Share certificates for Class B shares of the Fund to be converted must be delivered to the Transfer Agent at least one week prior to the Conversion Date applicable to those shares. In the event such certificates are not received by the Transfer Agent at least one week prior to the Conversion Date, the related Class B shares will convert to Class D shares on the next scheduled Conversion Date after such certificates are delivered.

In general, Class B shares of equity MLAM-advised mutual funds will convert approximately eight years after initial purchase, and Class B shares of taxable and tax-exempt fixed income MLAM-advised mutual funds will convert approximately ten years after initial purchase. If, during the Conversion Period, a shareholder exchanges Class B shares with an eight-year Conversion Period for Class B shares with a ten-year Conversion Period, or vice versa, the Conversion Period applicable to the Class B shares acquired in the exchange will apply, and the holding period for the shares exchanged will be tacked onto the holding period for the shares acquired.

The Conversion Period is modified for shareholders who purchased Class B shares through certain retirement plans which qualified for a waiver of the CDSC normally imposed on purchases of Class B shares ("Class B Retirement Plans"). When the first share of any MLAM-advised mutual fund purchased by a Class B Retirement Plan has been held for ten years (i.e., ten years from the

date the relationship between MLAM-advised mutual funds and the Class B Retirement Plan was established), all Class B shares of all MLAM-advised mutual funds held in that Class B Retirement Plan will be converted into Class D shares of the appropriate funds. Subsequent to such conversion, that Class B Retirement Plan will be sold Class D shares of the appropriate fund at net asset value.

The Conversion Period also is modified for retirement plan investors which participate in the MFA program. While participating in the MFA program, such investors will hold Class A shares. If these Class A shares were acquired through exchange of Class B shares (see "Shareholder Services--Exchange Privilege"), then the holding period for such Class A shares will be "tacked" to the holding period of the Class B shares originally held for purposes of calculating the Conversion Period on Class B shares acquired upon termination of participation in the MFA program.

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Distribution Plans

The Fund has adopted separate distribution plans for Class B, Class C and Class D shares pursuant to Rule 12b-1 under the Investment Company Act (each a "Distribution Plan") with respect to the account maintenance and/or distribution fees paid by the Fund to the Distributor with respect to such classes. The Class B and Class C Distribution Plans provide for the payment of account maintenance fees and distribution fees, and the Class D Distribution Plan provides for the payment of account maintenance fees.

The Distribution Plans for Class B, Class C and Class D shares each provide that the Fund pays the Distributor an account maintenance fee relating to the shares of the relevant class, accrued daily and paid monthly, at the annual rate of 0.25% of the average daily net assets of the Fund attributable to shares of the relevant class in order to compensate the Distributor and Merrill Lynch (pursuant to a sub-agreement) in connection with account maintenance activities.

The Distribution Plans for Class B and Class C shares each provide that the Fund also pays the Distributor a distribution fee relating to the shares of the relevant class, accrued daily and paid monthly, at the annual rate of 0.75% of the average daily net assets of the Fund attributable to the shares of the relevant class in order to compensate the Distributor and Merrill Lynch (pursuant to a sub-agreement) for providing shareholder and distribution services, and bearing certain distribution-related expenses of the Fund, including payments to financial consultants for selling Class B and Class C shares of the Fund. The Distribution Plans relating to Class B and Class C shares are designed to permit an investor to purchase Class B and Class C shares through dealers without the assessment of an initial sales charge and at the same time permit the dealer to compensate its financial consultants in connection with the sale of the Class B and Class C shares. In this regard, the purpose and function of the ongoing distribution fees and the CDSC are the same as those of the initial sales charge with respect to the Class A and Class D shares of the Fund in that the deferred sales charges provide for the financing of the distribution of the Fund's Class B and Class C shares.

Prior to July 6, 1993, the Fund paid the Distributor an ongoing distribution fee, accrued daily and paid monthly, at the annual rate of 1.0% of average daily net assets of the Class B shares of the Fund under a distribution plan previously adopted by the Fund (the "Prior Plan") to compensate the Distributor and Merrill Lynch for providing account maintenance and distribution-related activities and services to Class B shareholders. The fee rate payable and the services provided under the Prior Plan are identical to the aggregate fee rate payable and the services provided under the Class B Distribution Plan, the difference being that the account maintenance and distribution services have been unbundled.

For the fiscal year ended March 31, 1995, the Fund paid the Distributor account maintenance fees of \$404,634 and distribution fees of \$1,213,904 (for an aggregate total of \$1,618,538) under the Class B Distribution Plan (based on average net assets subject to the Class B Distribution Plan of approximately \$161.4 million), all of which was paid to Merrill Lynch for providing account maintenance and distribution-related activities and services in connection with Class B shares. For the fiscal period October 21, 1994 (commencement of operations of Class C shares) to March 31, 1995, the Fund paid the Distributor account maintenance fees of \$5,603 and distribution fees of \$16,811 (for an aggregate total of \$22,414) pursuant to the Class C Distribution Plan (based on average net assets subject to the Class C Distribution Plan of approximately \$5.0 million), all of which was paid to Merrill Lynch for providing account maintenance and distribution-related activities and services in connection with Class C shares. For the fiscal

period October 21, 1994 (commencement of operations of Class D shares) to March 31, 1995, the Fund paid the Distributor \$6,057 pursuant to the Class D Distribution Plan (based on average net assets subject to the Class D Distribution Plan of approximately \$5.5 million), all of which was paid to Merrill Lynch for providing

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account maintenance services in connection with Class D shares. At June 30, 1995, the net assets of the Fund subject to the Class B Distribution Plan aggregated approximately \$275 million. At this asset level, the annual fee payable pursuant to the Class B Distribution Plan would aggregate approximately \$2.8 million. At June 30, 1995, the net assets of the Fund subject to the Class C Distribution Plan aggregated approximately \$18.1 million. At this asset level, the annual fee payable pursuant to the Class C Distribution Plan would aggregate approximately \$181,037. At June 30, 1995, the net assets of the Fund subject to the Class D Distribution Plan aggregated approximately \$15.8 million. At this asset level, the annual fee payable pursuant to the Class D Distribution Plan would aggregate approximately \$39,481.

The payments under the Distribution Plans are based upon a percentage of average daily net assets attributable to the shares regardless of the amount of expenses incurred and, accordingly, distribution-related revenues from the Distribution Plans 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 and Class C Distribution Plans. 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 CDSCs 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 CDSCs and the expenses consist of financial consultant compensation.

At December 31, 1994, the fully allocated accrual expenses incurred by the Distributor and Merrill Lynch with respect to Class B shares exceeded fully allocated accrual revenues for such period by approximately \$2,700,000 (1.5136% of Class B net assets at that date). As of December 31, 1994, direct cash revenues for the period since commencement of the offering of Class B shares exceeded direct cash expenses by \$720,966 (.4042% of Class B net assets at that date); as of March 31, 1995, direct cash revenues for the period since the commencement of the offering of Class B shares exceeded direct cash expenses by \$998,291 (.4206% of Class B net assets at that date). Similar fully allocated accrual data is not yet available with respect to Class C shares which the Fund commenced offering to the public on October 21, 1994. As of December 31, 1994, direct cash expenses with respect to Class C shares for the period since October 21, 1994 (commencement of public offering) exceeded direct cash revenues by \$14,718 (.3759% of Class C 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 Class B, Class C and Class D 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 initial sales charges, the account maintenance fee, the distribution fee and/or the CDSCs received with respect to one class will not be used to subsidize the sale of shares of another class. Payments of the distribution fee on Class B shares will terminate upon conversion of those Class B shares into Class D shares as set forth under "Deferred Sales Charge Alternatives-- Class B and Class C Shares--Conversion of Class B Shares to Class D Shares".

Limitations on the Payment of Deferred Sales Charges

The maximum sales charge rule in the Rules of Fair Practice of the NASD imposes a limitation on certain asset-based sales charges such as the Fund's distribution fee and the CDSC borne by the Class B and Class C shares

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but not the account maintenance fee. The maximum sales charge rule is applied separately to each class. As applicable to the Fund, the maximum sales charge

rule limits the aggregate of distribution fee payments and CDSCs payable by the Fund to (1) 6.25% of eligible gross sales of Class B shares and Class C shares, computed separately (defined to exclude shares issued pursuant to dividend reinvestments and exchanges) plus (2) interest on the unpaid balance for the respective class, computed separately, 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 CDSC). In connection with the Class B shares, 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") in connection with the Class B shares 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 in connection with the Class B shares, and any CDSCs will be paid to the Fund rather than to the Distributor; however, the Fund will continue to make payments of the account maintenance fee. In certain circumstances the amount payable pursuant to the voluntary maximum may exceed the amount payable under the NASD formula. In such circumstances, payment in excess of the amount payable under the NASD formula will not be made.

REDEMPTION OF SHARES

The Fund is required to redeem for cash all shares of the Fund on 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 CDSC which may be applicable, there will be no charge for redemption if the redemption request is sent directly to the Transfer Agent. Shareholders liquidating their holdings will receive upon redemption all dividends reinvested through the date of redemption. The value of shares at the time of redemption may be more or less than the shareholder's cost, depending on the market value of the securities held by the Fund at such time.

Redemption

A shareholder wishing to redeem shares may do so without charge by tendering the shares directly to the Transfer Agent, Merrill Lynch Financial Data Services, Inc., P.O. Box 45289, Jacksonville, Florida 32232-5289. Redemption requests delivered other than by mail should be delivered to Merrill Lynch Financial Data Services, Inc., 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 writing a letter as noted above accompanied by certificates for the shares to be redeemed. The notice in either event requires the signatures of all persons in whose names the shares are registered, signed exactly as their names appear on the Transfer Agent's register or on the certificate, as the case may be. The signature(s) on the redemption request must be 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. Notarized signatures are not sufficient. In certain instances, the Transfer Agent may require additional documents, such as, but not limited to, trust instruments, death certificates, appointments as executor or administrator, or certificates of corporate authority. For shareholders redeeming directly with the Transfer Agent, payment will be mailed within seven days of receipt of a proper notice of redemption.

At various times the Fund may be requested to redeem shares for which it has not yet received good payment. The Fund may delay or cause to be delayed the mailing of a redemption check until such time as good payment

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(e.g., cash or certified check drawn on a United States bank) has been collected for the purchase of such shares, which 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 dealer receives the request for repurchase prior to the close of business on the New York Stock Exchange on the day received, and such request is received by the Fund from such dealer not later than 30 minutes after the close of business on the New York Stock Exchange (generally, 4:00 p.m., New York time) on the same day. Dealers have the responsibility to submit such repurchase

requests to the Fund not later than 30 minutes after the close of business on the New York Stock Exchange in order to obtain that day's closing price.

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

Reinstatement Privilege--Class A and Class D Shares

Shareholders who have redeemed their Class A or Class D shares have a one-time privilege to reinstate their accounts by purchasing Class A or Class D shares, as the case may be, 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 or Class D shareholder only the first time such shareholder makes a redemption.

SHAREHOLDER SERVICES

The Fund offers a number of shareholder services and investment plans designed to facilitate investment in shares of the Fund. Full details as to each of such services, copies of the various plans described below and instructions as to how to participate in the various 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.

Investment Account. Each shareholder whose account is maintained at the Transfer Agent has an Investment Account and will receive statements, at least quarterly, from the Transfer Agent. These statements will serve as transaction confirmations for automatic investment purchases and the reinvestment of ordinary income dividends and long-term capital gain distributions. The statements also will show any other activity in the account since the

preceding statement. Shareholders will receive separate confirmations for each purchase or sale transaction other than automatic investment purchases and the reinvestment of ordinary income dividends and long-term capital gain distributions. Shareholders may make additions to their 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 may be opened automatically, without charge, at the Transfer Agent. Shareholders considering transferring their Class A or Class D shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A or Class D shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A or Class D shares (paying any applicable CDSC) 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 or Class D shares. Shareholders interested in transferring their Class B or Class C 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 at the Transfer Agent. 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 CDSC) 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. Shareholders of each class of shares of the Fund have an exchange privilege with certain other MLAM-advised mutual funds. 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.

Under the Merrill Lynch Select Pricing(SM) System, Class A shareholders may exchange Class A shares of the Fund for Class A shares of a second MLAM-advised mutual fund if the shareholder holds any Class A shares of the second fund in his account in which the exchange is made at the time of the exchange or is otherwise eligible to purchase Class A shares of the second fund. If the Class A shareholder wants to exchange Class A shares for shares of a second MLAM-advised mutual fund, and the shareholder does not hold Class A shares of the second fund in his account at the time of the exchange and is not otherwise eligible to acquire Class A shares of the second fund, the shareholder will receive Class D shares of the second fund as a result of the exchange. Class D shares also may be exchanged for Class A shares of a second MLAM-advised mutual fund at any time as long as, at the time of the exchange, the shareholder holds Class A shares of the second fund in the account in which the exchange is made or is otherwise eligible to purchase Class A shares of the second fund.

Exchanges of Class A and Class D shares are made on the basis of the relative net asset values per Class A or Class D share, respectively, plus an amount equal to the difference, if any, between the sales charge previously paid on the Class A or Class D shares being exchanged and the sales charge payable at the time of the exchange on the shares being acquired.

Class B, Class C and Class D shares are exchangeable with shares of the same class of other MLAM-advised mutual funds.

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Shares of the Fund which are subject to a CDSC are exchangeable on the basis of relative net asset value per share without the payment of any CDSC that might otherwise be due upon redemption of the shares of the Fund. For purposes of computing the CDSC that may be payable upon a disposition of the shares acquired in the exchange, the holding period for the previously owned shares of the Fund is "tacked" to the holding period of the newly acquired shares of the other fund.

Class A, Class B, Class C and Class D shares also are exchangeable for shares of certain MLAM-advised money market funds specifically designated as available for exchange by holders of Class A, Class B, Class C or Class D shares. The period of time that Class A, Class B, Class C or Class D shares are held in a money market fund, however, will not count toward satisfaction of the holding period requirement for reduction of any CDSC imposed on such shares, if any, and, with respect to Class B shares, toward satisfaction of the Conversion Period.

Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's CDSC 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 CDSC schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the MLAM-advised fund from which the exchange has been made.

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.

The exchange privilege is modified with respect to certain retirement plans which participate in the MFA program. Such retirement plans may exchange Class B, Class C or Class D shares that have been held for at least one year for Class A shares of the same fund on the basis of relative net asset values in connection with the commencement of participation in the MFA program, i.e., no CDSC will apply. The one year holding period does not apply to shares reacquired through reinvestment of dividends. Upon termination of participation in the MFA program, Class A shares will be reexchanged for the class of shares originally held. For purposes of computing any CDSC that may be payable upon redemption of Class B or Class C shares so reacquired, or the Conversion Period for Class B shares so acquired, the holding period for the

Class A shares will be "tacked" to the holding period for the Class B or Class C shares originally held. The Fund's exchange privilege is also modified with respect to purchases of Class A and Class D shares by non-retirement plan investors under the MFA Program. First, the initial allocation of assets is made under the MFA program. Then, any subsequent exchange under the program of Class A or Class D shares of a MLAM-advised mutual fund for Class A or Class D 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 MLAM-advised mutual fund and the sales charge payable on the shares of the Fund being acquired in the exchange under the MFA program.

Automatic Reinvestment of Dividends and Capital Gains Distributions. All dividends and capital gains distributions are reinvested automatically in full and fractional shares of the Fund, without sales charge, at the net asset value per share next determined on the ex-dividend date of such dividend or distribution. A shareholder may at any time, by written notification or by telephone (1-(800)-MER-FUND) to the Transfer Agent, if the shareholder's account is maintained at 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 on or about the payment date. Cash payment can also be directly deposited to the shareholder's bank account. No CDSC will be imposed upon redemption of shares issued as a result of the automatic reinvestment of dividends or capital gains distributions.

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Systematic Withdrawal Plans. A Class A or Class D 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 the investor's bank account on either a monthly or quarterly basis. A Class A or Class D 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 CMA(R)/CBA(R) Systematic Redemption Program, subject to certain conditions.

Automatic Investment Plans. Regular additions of Class A, Class B, Class C and Class D 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(R) or CBA(R) accounts may arrange to have periodic investments made in the Fund in their CMA(R) or CBA(R) accounts or in certain related accounts in amounts of \$100 or more (\$1 for retirement accounts) through the CMA(R)/CBA(R) Automated Investment Program.

PORTFOLIO TRANSACTIONS AND BROKERAGE

Subject to policies established by the Board of Directors of the Fund, the Investment Adviser is responsible for the Fund's portfolio decisions and the placing 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. While the Investment Adviser generally seeks reasonably competitive commission rates, the Fund does not necessarily pay the lowest commission or spread available. Transactions with respect to the securities of small and emerging growth companies in which the Fund invests may involve specialized services on the part of the broker or dealer and thereby entail higher commissions or spreads than would be the case with transactions involving more widely traded securities of more established companies.

The Fund has no obligation to deal with any broker in the execution of transactions for its portfolio securities. The Fund pays brokerage fees or commissions to Merrill Lynch in connection with portfolio transactions executed by Merrill Lynch. Brokers and dealers, including Merrill Lynch, who provide supplemental investment research to the Investment Adviser may receive orders for transactions by the Fund. Supplemental investment research received by the Investment Adviser also may be used by it in servicing its other accounts. 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. The expenses of the Investment Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. Whether or not a particular broker-dealer sells shares of the Fund neither qualifies nor disqualifies that broker-dealer to execute transactions for the Fund.

PERFORMANCE DATA

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

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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 any CDSC that would be applicable to a complete redemption of the investment at the end of the specified period such as in the case of Class B and Class C shares, and the maximum sales charge in the case of Class A and Class D shares. Dividends paid by the Fund with respect to all 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 fees, distribution charges and any incremental transfer agency costs relating to each class of shares will be borne exclusively by that class. The Fund will include performance data for all classes of 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 a longer period of time. In advertisements directed to investors whose purchases are subject to waiver of the CDSC in the case of Class B and Class C shares (such as investors in certain retirement plans) or reduced sales charges in the case of Class A and Class D shares, performance data may take into account the reduced, and not the maximum, sales charge or may not take into account the CDSC and therefore may reflect greater total return since, due to the reduced sales charges or waiver of the CDSC, a lower amount of expenses may be deducted. See "Purchase of Shares". The Fund's total return may be expressed either as a percentage or as a dollar amount in order to illustrate the effect of such total return on a hypothetical \$1,000 investment in the Fund at the beginning of each specified period.

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

On occasion, the Fund may compare its performance to that of the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average, or performance data published by Lipper Analytical Services, Inc., Morningstar Publications, Inc., Money Magazine, U.S. News & World Report, Business Week, CDA Investment Technology, Inc., Forbes Magazine and Fortune Magazine or other industry publications. As with other performance data, performance comparisons should not be considered indicative of the Fund's relative performance for any future period.

ADDITIONAL INFORMATION

Dividends and Distributions

It is the Fund's intention to distribute all its net investment income, if any. Dividends from such net investment income are paid semi-annually. All net realized long- or short-term capital gains, if any, will be distributed to the

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Fund's shareholders at least annually. The per share dividends and distributions on each class of shares will be reduced as a result of any account maintenance, distribution and transfer agency fees applicable with respect to that class. See "Additional Information--Determination of Net Asset Value". Dividends and distributions may be reinvested automatically in shares of the Fund, at the net asset value without sales charge. Shareholders may elect in writing to receive any such dividends or distributions, or both, in cash. Dividends and distributions are taxable to shareholders as discussed below whether they are reinvested in shares of the Fund or received in cash. From time to time, the Fund may declare a special distribution at or about the end of the calendar year in order to comply with a Federal income tax requirement that certain percentages of its ordinary income and capital gains be distributed during the calendar year.

Determination of Net Asset Value

The net asset value of the shares of all classes of the Fund is determined once daily as of 15 minutes after the close of business on the New York Stock Exchange (generally, 4:00 p.m., New York time), on each day during which the New York Stock Exchange is open for trading. Any assets or liabilities initially expressed in terms of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation. The net asset value per share is computed by dividing the sum of the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time, rounded to the nearest cent. Expenses, including the investment advisory fees payable to the Investment Adviser and any account maintenance and/or distribution fees payable to the Distributor, are accrued daily. The per share net asset value of the Class A shares generally will be higher than the per share net asset value of the shares of the other classes, reflecting the daily expense accruals of the account maintenance, distribution and higher transfer agency fees applicable with respect to Class B and Class C shares and the daily expense accruals of the account maintenance fees applicable with respect to Class D shares; moreover, the per share net asset value of Class D shares generally will be higher than the per share net asset value of Class B and Class C shares, reflecting the daily expense accruals of the distribution and higher transfer agency fees applicable with respect to Class B and Class C shares. It is expected, however, that the per share net asset value of the classes will tend to converge (although not necessarily meet) immediately after the payment of dividends or distributions which will differ by approximately the amount of the expense accrual differentials between the classes.

Portfolio securities which are traded on stock exchanges are valued at the last sale price (regular way) on the exchange 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. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board of Directors as the primary market. Securities traded in the over-the-counter market are valued at the last available bid price in the over-the-counter market prior to the time of valuation. Securities traded in the NASDAQ National Market System are valued at the last sale price or, lacking any sales, at the closing bid price. When the Fund writes an option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based upon the last sale price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the last asked price. Options purchased by the Fund are valued at their last sale price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the last bid price.

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

When the Fund sells an option, an amount equal to the premium received by the Fund is included in the Fund's Statement of Assets and Liabilities as a deferred credit. The amount of such liability will be subsequently marked-to-market to reflect the current market value of the option written. If current market value exceeds the premium received there is an unrealized

loss; conversely, if the premium exceeds current market value there is an unrealized gain. The current market value of a traded option is the last sale price or, in the absence of a sale, the last offering price. If an option expires on its stipulated expiration date or if the Fund enters into a closing purchase transaction, the Fund will realize a gain (or loss if the cost of a closing purchase transaction exceeds the premium received when the option was sold) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option will be extinguished. If an option is exercised, the Fund will realize a gain or loss from the sale of the underlying security and the proceeds of sale are increased by the premium originally received.

Taxes

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

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

Dividends are taxable to shareholders even though they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends or capital gain dividends. A portion of the Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. If the Fund pays a dividend in January 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 the 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% United States 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 United States 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 United States may reduce or eliminate such 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 debt instruments, from certain forward contracts, from futures contracts that are not "regulated futures contracts" and from unlisted options will generally be treated as ordinary income or loss. Such Code Section 988 gains or losses will generally increase or decrease the amount of the Fund's investment company taxable income available to be distributed to shareholders as ordinary income. Additionally, if Code Section 988 losses exceed other investment company taxable income during a taxable year, the Fund would not be able to make any ordinary income 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 and resulting in a

capital gain for any shareholder who received a distribution greater than the shareholder's tax basis in Fund shares (assuming the shares were held as a capital asset).

No gain or loss will be recognized by Class B shareholders on the conversion of their Class B shares into Class D shares. A shareholder's basis in the Class D shares acquired will be the same as such shareholder's basis in the Class B shares converted, and the holding period of the acquired Class D shares will include the holding period for the converted Class B shares.

If a shareholder exercises an 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 any sales charge paid to the Fund on the exchanged shares reduces any sales charge the shareholder would have owed upon the purchase of the new shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new shares.

A loss realized on a sale or exchange of shares of the Fund will be disallowed if other Fund shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

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.

Organization of the Fund

The Fund, a diversified, open-end investment company, was incorporated under Maryland law on February 23, 1978. It has an authorized capital of 400,000,000 shares of Common Stock, par value \$0.10 per share, divided into four classes, designated Class A, Class B, Class C and Class D Common Stock, each of which consists of 100,000,000 shares.

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Shares of Class A, Class B, Class C and Class D Common Stock represent interests in the same assets of the Fund and are identical in all respects except that Class B, Class C and Class D shares bear certain expenses related to the account maintenance associated with such shares and Class B and Class C shares bear certain expenses related to the distribution of such shares. Each class has exclusive voting rights with respect to matters relating to account maintenance and distribution expenditures, as applicable. See "Purchase of Shares". The Fund has received an order from the Commission permitting the issuance and sale of multiple classes of Common Stock. The Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date.

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

Shareholder Reports

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

Merrill Lynch Financial Data Services, Inc.
P.O. Box 45289
Jacksonville, FL 32232-5289

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

Shareholder Inquiries

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

MERRILL LYNCH SPECIAL VALUE FUND, INC.--AUTHORIZATION FORM (PART 1)

Note: This form may not be used for purchases through the Merrill Lynch Blueprint(SM) Program. You may request a Merrill Lynch Blueprint(SM) Program application by calling toll free (800) 637-3766.

1. Share Purchase Application

I, being of legal age, wish to purchase: (choose one)
 Class A shares Class B shares Class C shares Class D shares

of Merrill Lynch Special Value Fund, Inc., and establish an Investment Account as described in the Prospectus. In the event that I am not eligible to purchase Class A shares, I understand that Class D shares will be purchased.

Basis for establishing an Investment Account:

A. I enclose a check for \$..... payable to Merrill Lynch Financial Data Services, Inc., as an initial investment (minimum \$1,000). 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: (Please list all funds. Use a separate sheet of paper if necessary.)

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

Name
First Name Initial Last Name

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

Address
..... Name and Address of Employer
(Zip Code)

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

(In the case of co-owner, a joint tenancy with rights of survivorship will be presumed unless otherwise specified.)

2. Dividend and Capital Gain Distribution Options
- | | |
|--|--|
| Ordinary Income Dividends | Long-Term Capital Gains |
| Select <input type="checkbox"/> Reinvest | Select <input type="checkbox"/> Reinvest |
| One: <input type="checkbox"/> Cash | One: <input type="checkbox"/> Cash |

If no election is made, dividends and capital gains will be automatically reinvested at net asset value without a sales charge. If cash, specify how you would like your distributions paid to you: Check or Direct Deposit to bank account

If direct deposit to bank account is selected, please complete below:
 I hereby authorize payment of dividend and capital gain distributions by direct deposit to my bank account and, if necessary, debit entries and adjustments for any credit entries made to my account in accordance with the terms I have selected on the Merrill Lynch Special Value Fund, Inc. Authorization Form.
 Specify type of account (check one) checking savings
 Name of your account
 Bank Name
 Bank Number
 Account Number
 Bank Address

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

Signature of Depositor
 Signature of Depositor
 Date
 (if joint account, both must sign)

Note: If direct deposit to bank account is selected, your blank, unsigned check marked "VOID" or a deposit slip from your savings account should accompany this application.

3. Social Security or Taxpayer Identification Number

 Social Security Number or Taxpayer Identification Number

Under penalty of perjury, I certify (1) that the number set forth above is my correct Social Security Number or Taxpayer Identification Number and (2) that I am not subject to backup withholding (as discussed under "Additional Information-Taxes") either because I have not been notified that I am subject thereto as a result of a failure to report all interest or dividends, or the Internal Revenue Service (the "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 underreporting 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)

4. Letter of Intention--Class A and Class D shares only (See terms and conditions in the Statement of Additional Information)

Dear Sir/Madam:
, 19....
 Date of Initial Purchase

Although I am not obligated to do so, I intend to purchase shares of Merrill Lynch Special Value 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:

\$25,000 \$50,000 \$100,000 \$250,000 \$1,000,000

Each purchase will be made at the then reduced offering price applicable to the amount checked above, as described in the Fund's prospectus.

I agree to the terms and conditions of this 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 Special Value Fund, Inc. held as security.

By.....
 Signature of Owner Signature of Co-Owner
 (If registered in joint parties,
 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
 Account Number Account Number

5. For Dealer Only
 Branch Office, Address, Stamp.
 []

[]
This form when completed should be mailed to:

Merrill Lynch Special Value Fund, Inc.
c/o Merrill Lynch Financial Data Services, Inc.
P.O. Box 45289
Jacksonville, FL 32232-5289

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

.....
Dealer Name and Address

By
Authorized Signature of Dealer

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

[] [] [] [] [] [] [] [] [] []
Dealer's Customer Account No.

MERRILL LYNCH SPECIAL VALUE FUND, INC.--AUTHORIZATION FORM (PART 2)

Note: This form is required to apply for the Systematic Withdrawal or Automatic Investment Plans only.

1. Account Registration

Name of Owner []
Name of Co-Owner (if any) Social Security Number
or Taxpayer
Address Identification Number
..... Account Number
(if existing account)

2. Systematic Withdrawal Plan--Class A and D Shares Only (See terms and conditions in the Statement of Additional Information)

Minimum Requirements: \$10,000 for monthly disbursements, \$5,000 for quarterly, of |B* Class A or Class D shares in Merrill Lynch Special Value Fund, Inc. at cost or current offering price. Withdrawals to be made either (check one) |B* Monthly on the 24th day of each month, or |B* Quarterly on the 24th day of March, June, September and December. If the 24th falls on a weekend or holiday, the next succeeding business day will be utilized. Begin systematic withdrawal on (month), or as soon as possible thereafter.

Specify how you would like your withdrawal paid to you (check one):
[] \$.....or []% of the current value of [] Class A or [] Class D shares in the account.

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

Draw checks payable (check one)

(a) I hereby authorize payment by check
[] as indicated in Item 1.
[] to the order of

Mail to (check one)
[] the address indicated in Item 1.
[] Name (please print)

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

(b) I hereby authorize payment by direct deposit to my bank account and, if necessary, debit entries and adjustments for any credit entries made to my account. I agree that this authorization will remain in effect until I provide written notification to Merrill Lynch Financial Data Services, Inc. amending or terminating this service.

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

Bank Name
Bank Number
Account Number
Bank Address
Signature of Owner
Date
Signature of Depositor
(if joint account, both must sign)

Note: If direct deposit is elected, your blank, unsigned check marked "VOID" or a deposit slip from your savings account shall accompany this application.

3. Application for Automatic Investment Plan

I hereby request that Merrill Lynch Financial Data Services, Inc. draw an automated clearing house ("ACH") debit on my checking account described below each month to purchase: (choose one)

Class A shares Class B shares Class C shares Class D shares

of Merrill Lynch Special Value Fund, Inc., subject to the terms set forth below. In the event that I am not eligible to purchase Class A shares, I understand that Class D shares will be purchased.

MERRILL LYNCH FINANCIAL DATA SERVICES, INC.

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

Amount of each ACH debit \$

Account Number

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

I agree that you are drawing these ACH 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 debit. If I change banks or desire to terminate or suspend this program, I agree to notify you promptly in writing. I hereby authorize you to take any action to correct erroneous ACH debits of my bank account or purchases of fund shares including liquidating shares of the Fund and crediting my bank account. I further agree that if a debit is not honored upon presentation, Merrill Lynch 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 dishonored debit.

.....
Date Signature of Depositor

.....
Signature of Depositor
(If joint account, both must sign)

AUTHORIZATION TO HONOR ACH DEBITS DRAWN BY
MERRILL LYNCH FINANCIAL DATA SERVICES, INC.

To Bank
(Investor's Bank)

Bank Address

City State Zip Code

As a convenience to me, I hereby request and authorize you to pay and charge to my account ACH debits drawn on my account by and payable to Merrill Lynch Financial Data Services, Inc., I agree that your rights in respect to each such 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 by me in writing. Until you receive such notice, you shall be fully protected in honoring any such debit. I further agree that if any such debit be dishonored, whether with or without cause and whether intentionally or inadvertently, you shall be under no liability.

.....
Date Signature of Depositor

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

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Investment Adviser

Fund Asset Management

Administrative Offices:
800 Scudders Mill Road
Plainsboro, New Jersey 08536

Mailing Address:
P.O. 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:
P.O. Box 9011
Princeton, New Jersey 08543-9011

Custodian

The Bank of New York
90 Washington Street, 12th Floor
New York, New York 10286

Transfer Agent

Merrill Lynch Financial Data Services, Inc.

Administrative Offices:
4800 Deer Lake Drive East
Jacksonville, Florida 32246-6484

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

Independent Auditors

Deloitte & Touche LLP
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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Merrill Lynch
Special Value Fund, Inc.

[logo]
Prospectus
July 28, 1995
Distributor:
Merrill Lynch
Funds Distributor, Inc.
This Prospectus should be
retained for future reference.

STATEMENT OF ADDITIONAL INFORMATION

Merrill Lynch Special Value Fund, Inc.

P.O. Box 9011, Princeton, New Jersey 08543-9011 -- Phone No. (609) 282-2800

Merrill Lynch Special Value Fund, Inc. (the "Fund") is a diversified, open-end investment company seeking long-term growth of capital by investing in a diversified portfolio of securities, primarily common stocks, of relatively small companies which management of the Fund believes have special investment value and emerging growth companies regardless of size. Current income is not a factor in management's selection of companies in which the Fund will invest.

Pursuant to the Merrill Lynch Select Pricing(SM) System, the Fund offers four classes of shares each with a different combination of sales charges, ongoing fees, and other features. The Merrill Lynch Select Pricing System permits an investor to choose the method of purchasing shares that the investor believes is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other relevant circumstances.

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 July 28, 1995 (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.

Fund Asset Management--Investment Adviser
Merrill Lynch Funds Distributor, Inc.--Distributor

The date of this Statement of Additional Information is July 28, 1995.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to seek long-term growth of capital by investing in a diversified portfolio of securities, primarily common stock, of relatively small companies which management of the Fund believes have special investment value and emerging growth companies regardless of

size. 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 emphasizes investments in companies that, due to the size and kinds of markets which they serve, are less susceptible than large companies to intervention from the Federal government by means of price controls, regulations or litigation.

It is anticipated that, in the immediate future, not more than 30% of the Fund's total assets (taken at market value at the time of their acquisition) will be invested in the securities of foreign issuers. Investments in securities of foreign issuers involve certain risks, including fluctuations in foreign exchange rates, future political and economic developments, and the possible imposition of exchange controls or other foreign governmental laws or restrictions. These risks are described more fully in the Fund's Prospectus under the caption "Investment Objective and Policies".

The securities in which the Fund invests often will be traded only in the over-the-counter market or on a regional securities exchange and may not be traded every day or in the volume typical of trading on a national securities exchange. As a result, the disposition by the Fund of portfolio securities to meet redemptions or otherwise may require the Fund to sell these securities at a discount from market prices or during periods when, in management's judgment, such disposition is not desirable or to make many small sales over a lengthy period of time.

While it is the policy of the Fund generally not to engage in trading for short-term gains, the management will effect portfolio transactions without regard to holding period if, in its judgment, such transactions are advisable in light of a change in circumstances of a particular company or within a particular industry or in general market, economic or financial conditions. The annual portfolio turnover rate of the Fund is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of securities whose maturities at the time of acquisition were one year or less) by the monthly average value of the securities in the portfolio during the year. The rates of portfolio turnover for the years ended March 31, 1994 and 1995 were 68.70% and 59.79%, respectively.

Portfolio Strategies Involving Options and Futures

Reference is made to the discussion under the caption "Investment Objective and Policies--Other Investment Policies and Practices--Portfolio Strategies Involving Options and Futures" in the Prospectus for information with respect to various portfolio strategies involving options and futures. The Fund may seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against adverse movements in the equity, debt and currency markets. The Fund may write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and stock futures and financial futures, and related options on such futures. The Fund may deal in forward foreign exchange transactions, foreign currency options and futures and related options on such futures. Each of such portfolio strategies is described in the Prospectus. Although certain risks are involved in options and futures transactions (as discussed in the Prospectus and below), Fund Asset Management, L.P. (the "Investment Adviser"), believes that, because the Fund will (i) write only covered options on portfolio securities and (ii) engage in other options

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and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of Fund shares, the Fund's net asset value will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. Furthermore, the Fund will only engage in hedging activities from time to time and may not necessarily be engaging in hedging activities where movements on the equity markets, interest rates or currency exchange rates occur. The following is further information relating to portfolio strategies involving options and futures the Fund may utilize.

Writing Covered Options. The Fund may write (i.e., sell) covered call options on the securities in which it may invest and enter into closing purchase transactions with respect to certain of such options. A covered call option is an option where the Fund, in return for a premium, gives another party a right to buy specified securities owned by the Fund at a specified future date and price set at the time of the contract. The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, the Fund gives up the opportunity, while the

option is in effect, to profit from any price increase in the underlying security above the option price. In addition, the Fund's ability to sell the underlying security will be limited while the option is in effect unless the Fund effects a closing purchase transaction. A closing purchase transaction cancels out the Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a particular hedge against the price of the underlying security declining.

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

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

Options referred to herein and in the Fund's Prospectus may be options traded on foreign securities exchanges. An options position may be closed only on an exchange which provides a secondary market for an option of the same series. If a secondary market does not exist, it might not be possible to effect closing transactions in particular options, with the result, in the case of a covered call option, that the Fund will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise.

Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; (iv) unusual or unforeseen

circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Options Clearing Corporation (the "Clearing Corporation") may not, at all times, be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

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

Purchasing Options. The Fund may purchase put options to hedge against a decline in the market value of its equity holdings. By buying a put, the Fund has a right to sell the underlying security at the exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any appreciation in the value of the underlying security will be offset partially by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction; profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction cost. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased. In certain circumstances, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it

intends to purchase. The Fund may purchase either exchange-traded options or OTC options. The Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

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

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

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

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

Foreign Currency Hedging. Generally, the foreign exchange transactions of the Fund will be conducted on a spot (i.e., cash basis), at the spot rate for purchasing or selling currency prevailing in the foreign exchange market. The Fund may deal in forward foreign exchange among currencies of the different countries in which it may invest as a hedge against possible variations in the foreign exchange rate among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date and price set at the time of the contract. The Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted in such foreign currency. The Fund will not speculate in forward foreign exchange. The Fund may not position hedge with respect to the currency of a particular country to an extent greater than the aggregate market value (at the time of making such sale) of the securities held in its portfolio denominated or quoted in that particular foreign currency. The Fund will enter into such transactions only to the extent, if any, deemed appropriate by the Investment Adviser. The Fund will not enter into a forward contract with a term of more than one year.

The Fund may purchase or sell listed or over-the-counter ("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 effected with respect to hedges on non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund. As an illustration, the Fund may use such techniques to hedge the stated value in U.S. dollars of an investment in a pound sterling denominated security. In such circumstances, for example, the Fund may purchase a foreign currency put option enabling it to sell a specified amount

of pounds for dollars at a specified price by a future date. To the extent the hedge is successful, a loss in the value of the pound relative to the dollar will tend to be offset by an increase in the value of the put option. To offset in whole or part the cost of acquiring such a put option, the Fund may also sell a call option which, if exercised, requires it to sell a specified amount of pounds for dollars at a specified price by a future date (a technique called a "straddle"). By selling such call option in this illustration, the Fund gives up the opportunity to profit without limit from increases in the relative value of the pound to the dollar. The Investment Adviser believes that "straddles" of the type which may be utilized by the Fund constitute hedging transactions and are consistent with the policies described above.

Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates. The cost to the Fund of engaging in foreign currency transactions

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

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

Prior to exercise or expiration, an exchange-traded option or futures position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market on an exchange for call or put options of the same series. The Fund will enter into options or futures transactions 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. In the case of a futures position or an option on a futures position written by the Fund in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. In addition, the Fund may be required to take or make delivery of the security underlying futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on the Fund's ability to effectively 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 or currency (whether or not covered) which may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). "Trading limits" are imposed on the maximum number of contracts which any person may trade on a particular trading day. An exchange may order the liquidation of positions found to be in violation of these limits and it may impose other sanctions or restrictions. The Investment Adviser does not believe that these trading and positions limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

Current Investment Restrictions

In addition to the investment restrictions set forth in the Prospectus, the Fund has adopted the following restrictions and policies relating to the

investment of its assets and its activities, which are fundamental policies and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose means the lesser of (a) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (b) more than 50% of the outstanding shares).

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Under the fundamental investment restrictions, the Fund may not:

1. Make any investment inconsistent with the Fund's classification as a diversified company under the Investment Company Act.

2. Invest more than 25% of its assets, taken at market value, in the securities of issuers in any particular industry (excluding the U.S. Government and its agencies and instrumentalities).

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

4. Purchase or sell real estate, except that, to the extent permitted by applicable law, the Fund may invest in securities directly or indirectly secured by real estate or interests therein or issued by companies which invest in real estate or interests therein.

5. Make loans to other persons, except that the acquisition of bonds, debentures or other corporate debt securities and investment in government obligations, commercial paper, pass-through instruments, certificates of deposit, bankers acceptances, repurchase agreements or any similar instruments shall not be deemed to be the making of a loan, and except further that the Fund may lend its portfolio securities, provided that the lending of portfolio securities may be made only in accordance with applicable law and the guidelines set forth in the Fund's Prospectus and Statement of Additional Information, as they may be amended from time to time.

6. Issue senior securities to the extent such issuance would violate applicable law.

7. Borrow money, except that (i) the Fund may borrow from banks (as defined in the Investment Company Act) in amounts up to 33-1/3% of its total assets (including the amount borrowed), (ii) the Fund may borrow up to an additional 5% of its total assets for temporary purposes, (iii) the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and (iv) the Fund may purchase securities on margin to the extent permitted by applicable law. The Fund may not pledge its assets other than to secure such borrowings or, to the extent permitted by the Fund's investment policies as set forth in its Prospectus and Statement of Additional Information, as they may be amended from time to time, in connection with hedging transactions, short sales, when-issued and forward commitment transactions and similar investment strategies.

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

9. Purchase or sell commodities or contracts on commodities, except to the extent that the Fund may do so in accordance with applicable law and the Fund's Prospectus and Statement of Additional Information, as they may be amended from time to time, and without registering as a commodity pool operator under the Commodity Exchange Act.

In addition, the Fund has adopted non-fundamental restrictions which may be changed by the Board of Directors. Under the non-fundamental investment restrictions, the Fund may not:

a. Purchase securities of other investment companies, except to the extent such purchases are permitted by applicable law.

b. Make short sales of securities or maintain a short position, except to the extent permitted by applicable law.

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c. Invest in securities which cannot be readily resold because of legal or contractual restrictions or which cannot otherwise be marketed, redeemed or put to the issuer or a third party, if at the time of acquisition more than 15% of its total assets would be invested in such securities. This restriction shall not apply to securities which mature within seven days or securities which the Board of Directors of the Fund has otherwise determined to be liquid pursuant to applicable law. Notwithstanding the 15% limitation herein, to the extent the laws of any state in which the Fund's shares are registered or qualified for sale require a lower limitation, the Fund will observe such limitation. As of the date hereof, therefore, the Fund will not

invest more than 10% of its total assets in securities which are subject to this investment restriction (c). Securities purchased in accordance with Rule 144A under the Securities Act (a "Rule 144A security") and determined to be liquid by the Fund's Board of Directors are not subject to the limitations set forth in this investment restriction (c). Notwithstanding the fact that the Board may determine that a Rule 144A security is liquid and not subject to limitations set forth in this investment restriction (c), the State of Ohio does not recognize Rule 144A securities as securities that are free of restrictions as to resale. To the extent required by Ohio law, the Fund will not invest more than 50% of its total assets in securities of issuers that are restricted as to disposition, including Rule 144A securities, or in securities of issuers described in (e) below.

d. Invest in warrants if, at the time of acquisition, its investments in warrants, valued at the lower of cost or market value, would exceed 5% of the Fund's net assets; included within such limitation, but not to exceed 2% of the Fund's net assets, are warrants which are not listed on the New York Stock Exchange or American Stock Exchange or a major foreign exchange. For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.

e. Invest in securities of companies having a record, together with predecessors, of less than three years of continuous operation, if more than 5% of the Fund's total assets would be invested in such securities. This restriction shall not apply to mortgage-backed securities, asset-backed securities or obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities.

f. 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 officers and directors of any subsidiary thereof each owning beneficially more than one-half of one percent of the securities of such issuer own in the aggregate more than 5% of the securities of such issuer.

g. Invest in real estate limited partnership interests or interests in oil, gas or other mineral leases, or exploration or development programs, except that the Fund may invest in securities issued by companies that engage in oil, gas or other mineral exploration or development activities.

h. Write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except to the extent permitted in the Fund's Prospectus and Statement of Additional Information, as they may be amended from time to time.

i. Notwithstanding fundamental investment restriction (7) above, borrow amounts in excess of 5% of its total assets, taken at market value, and then only from banks as a temporary measure for extraordinary or emergency purposes.

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

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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 15% of the total assets of the Fund (10% to the extent required by certain state laws), 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.

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 Merrill Lynch except pursuant to a permissive order or otherwise in compliance with the provisions of the

Investment Company Act and the rules and regulations thereunder. Included among such restricted transactions are purchases from or sales to Merrill Lynch of securities in transactions in which it acts as principal and purchases of securities from underwriting syndicates of which Merrill Lynch is a member.

MANAGEMENT OF THE FUND

Directors and Officers

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

Arthur Zeikel (62)--President and Director(1)(2)--President of the Investment Adviser (which term as used herein includes the Investment Adviser's corporate predecessors) since 1977; President of MLAM (which term as used herein includes MLAM's corporate predecessors) since 1977; President and Director of Princeton Services, Inc. ("Princeton Services") since 1993; Executive Vice President of Merrill Lynch since 1990 and Senior Vice President of Merrill Lynch from 1985 to 1990; Executive Vice President of Merrill Lynch & Co., Inc. ("ML&Co.") since 1990; and Director of Merrill Lynch Funds Distributor, Inc. (the "Distributor").

Donald Cecil (68)--Director(2)--1114 Avenue of the Americas, New York, New York 10036. Special Limited Partner of Cumberland Partners (an investment partnership) since 1982; Member of Institute of Chartered Financial Analysis; Member and Chairman of Westchester County (N.Y.) Board of Transportation.

M. Colyer Crum (62)--Director(2)--Soldiers Field Road, Boston, Massachusetts 02163. James R. Williston Professor of Investment Management, Harvard Business School, since 1971; Director of Cambridge Bancorp, Copley Properties, Inc. and Sun Life Assurance Company of Canada.

Edward H. Meyer (68)--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;

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Director of The May Department Stores Company, Bowne & Co., Inc. (financial printers), Harman International Industries, Inc. and Ethan Allen Interiors, Inc.

Jack B. Sunderland (66)--Director(2)--P.O. Box 1177, Scarsdale, New York 10583. President and Director of American Independent Oil Company, Inc. (an energy company) since 1987; Chairman of Murexco Petroleum, Inc. (an energy company) from 1981 to 1988; Member of Council on Foreign Relations since 1971; President, Director and Chief Executive Officer of Coroil, Inc. (an energy company) from 1979 to 1985.

J. Thomas Touchton (56)--Director(2)--Suite 3405, One Tampa City Center, Tampa, Florida 33602. Managing Partner of The Witt-Touchton Company and its predecessor The Witt Co. (a private investment partnership) since 1972; Trustee Emeritus of Washington and Lee University; Director of TECO Energy, Inc. (an electric utility holding company).

Terry K. Glenn (54)--Executive Vice President(1)(2)--Executive Vice President of the Investment Adviser and MLAM since 1983; Executive Vice President and Director of Princeton Services since 1993; President of the Distributor since 1986 and Director thereof since 1991; President of Princeton Administrators, L.P. since 1988.

Norman R. Harvey (61)--Senior Vice President(1)(2)--Senior Vice President of the Investment Adviser and MLAM since 1982; Senior Vice President of Princeton Services since 1993.

Dennis W. Stattman (44)--Vice President(1)--Vice President of MLAM since 1989 and associated with MLAM since 1989; Vice President of Meridian Management Company from 1984 to 1989.

Donald C. Burke (34)--Vice President(1)(2)--Vice President and Director of Taxation of MLAM since 1990; employee of Deloitte & Touche from 1981 to 1990.

Gerald M. Richard (45)--Treasurer(1)(2)--Senior Vice President and Treasurer of the Investment Adviser and MLAM since 1984; Senior Vice President and Treasurer of Princeton Services since 1993; Vice President of the Distributor since 1981 and Treasurer of the Distributor since 1984.

Mark B. Goldfus (48)--Secretary(1)(2)--Vice President of the Investment Adviser and MLAM since 1985.

(1) Interested person, as defined in the Investment Company Act, of the Fund.
(2) Such Director or officer is a director or officer of certain other

investment companies for which the Investment Adviser or MLAM acts as investment adviser.

At June 30, 1995, the Directors and officers of the Fund as a group (12 persons) owned an aggregate of less than 1% of the outstanding shares of the Fund. At that date, Mr. Zeikel, an officer and a Director of the Fund, and the other officers of the Fund owned less than 1% of the outstanding Common Stock of ML&Co.

Compensation of Directors

The Fund pays each unaffiliated Director an annual fee of \$2,000 plus a fee of \$500 for each meeting attended and pays all Directors' actual out-of-pocket expenses relating to attendance at meetings. The Fund also pays each member of the Audit Committee of the Board of Directors, which consists of all of the unaffiliated Directors, an annual fee of \$2,100 and the chairman of such committee receives an annual fee of \$750. Fees and expenses paid to the unaffiliated Directors aggregated \$31,626 for the fiscal year ended March 31, 1995.

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The following table sets forth for the fiscal year ended March 31, 1995, compensation paid by the Fund to the non-interested Directors and for the calendar year ended December 31, 1994, the aggregate compensation paid by all investment companies advised by MLAM and its affiliate, FAM ("MLAM/FAM Advised Funds"), to the non-interested Directors.

<TABLE>

<CAPTION>

Name of Director	Aggregate Compensation from Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Total Compensation from Fund and MLAM/FAM Advised Funds Paid to Directors(1)
<S>	<C>	<C>	<C>
Donald Cecil	\$6,850	None	\$276,350
M. Colyer Crum	\$6,100	None	\$126,600
Edward H. Meyer	\$6,100	None	\$251,600
Jack B. Sunderland	\$6,100	None	\$134,600
J. Thomas Touchton	\$6,100	None	\$134,600

</TABLE>

(1) In addition to the Fund, the Directors serve on the boards of other MLAM/FAM Advised Funds as follows: Mr. Cecil (34 funds), Mr. Crum (17 funds), Mr. Meyer (34 funds), Mr. Sunderland (18 funds) and Mr. Touchton (18 funds).

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.

The Investment Advisory Agreement provides that, subject to the direction of the Board of Directors of the Fund, the Investment Adviser is responsible for the actual management of the Fund's portfolio and for the review of the Fund's holdings in light of its own research analysis and analyses from other relevant sources.

The responsibility for making decisions to buy, sell or hold a particular security rests with the Investment Adviser, subject to review by the Board of Directors. The Investment Adviser supplies the portfolio managers for the Fund who consider analyses from various sources, make the necessary investment decisions and place transactions accordingly. The Investment Adviser also is obligated to perform certain administrative and management services for the Fund and to provide all the office space, facilities, equipment and personnel necessary to perform its duties under the Investment Advisory Agreement.

Securities held by the Fund also may be held by or be appropriate investments for other funds for which the Investment Adviser or MLAM acts as an adviser or by investment advisory clients of MLAM. Because of different investment objectives or other factors, a particular security may be bought for one or more clients when one or more clients are selling the same security. If purchases or sales of securities for the Fund or other funds for which the Investment Adviser or MLAM acts as investment adviser or for their advisory clients arise for consideration at or about the same time, transactions in such securities will be made, insofar as feasible, for the respective funds and clients in a manner deemed equitable to all. To the extent that transactions on behalf of more than one client of the Investment Adviser or MLAM 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.

As compensation for its services to the Fund, the Investment Adviser receives monthly compensation at the annual rate of 0.75% of the average daily net assets of the Fund. California imposes limitations on the expenses

of the Fund. At the date of this Statement of Additional Information, these 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

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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. The Investment Adviser's obligation to reimburse the Fund is limited to the amount of the investment advisory fee. No payment will be made to the Investment Adviser during any fiscal year which will cause such expenses to exceed the most restrictive expense limitation at the time of such payment. For the fiscal years ended March 31, 1993, 1994 and 1995, the Investment Adviser earned fees of \$735,344, \$1,179,244 and \$1,927,770, respectively, from the Fund. For such years the Investment Adviser was not required to reimburse the Fund pursuant to the applicable expense limitation provisions.

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 ML&Co. or any of its affiliates. The Fund pays all other expenses incurred in the operation of the Fund, including, among other things, taxes, expenses for legal and auditing services, costs of printing proxies, stock certificates, shareholders reports, prospectuses and statements of additional information (except to the extent paid by the Distributor), charges of the custodian and the transfer agent, expenses of redemption of shares, Securities and Exchange Commission fees, expenses of registering the shares under Federal and state securities laws, fees and expenses of unaffiliated Directors, accounting and pricing costs (including the daily calculation of net asset value), insurance, interest, brokerage costs, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund. Accounting services are provided for the Fund by the Investment Adviser, and the Fund reimburses the Investment Adviser for its costs in connection with such services. For the fiscal years ended March 31, 1993, 1994 and 1995, the amount of such reimbursement was \$37,164, \$48,221 and \$47,277, respectively. As required by the Fund's distribution agreements, the Distributor pays certain of the expenses of the Fund in connection with the continuous offering of its shares including the expenses of printing the prospectuses and statements of additional information used in connection with the continuous offering of shares by the Fund. Certain expenses will be financed by the Fund pursuant to distribution plans in compliance with Rule 12b-1 under the Investment Company Act. See "Purchase of Shares--Deferred Sales Charge Alternatives--Class B and Class C Shares--Distribution Plans".

The Investment Adviser is a limited partnership, the partners of which are ML&Co. and Princeton Services. ML&Co. 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 herein, the Investment Advisory Agreement will remain in effect from year to year if approved annually (a) by the Board of 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 contract or interested persons (as defined in the Investment Company Act) of any such party. Such contract is not assignable and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by the vote of the shareholders of the Fund.

PURCHASE OF SHARES

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

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The Fund issues four classes of shares under the Merrill Lynch Select Pricing System: shares of Class A and Class D are sold to investors choosing the initial sales charge alternatives, and shares of Class B and Class C are sold to investors choosing the deferred sales charge alternatives. Each Class A, Class B, Class C and Class D share of the Fund represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B, Class C and Class D shares bear the expenses of the ongoing account maintenance fees, and Class B and Class C shares bear the expenses of the ongoing distribution fees and the additional incremental transfer agency costs resulting from the deferred sales charge arrangements.

Class B, Class C and Class D shares each have exclusive voting rights with respect to the Rule 12b-1 distribution plan adopted with respect to such class pursuant to which the account maintenance fee and/or distribution fees are paid. Each class has different exchange privileges. See "Shareholder Services--Exchange Privilege."

The Merrill Lynch Select Pricing System is used by more than 60 mutual funds advised by MLAM or its affiliate, the Investment Adviser. Funds advised by MLAM or the Investment Adviser which use the Merrill Lynch Select Pricing(SM) System are referred to herein as "MLAM-advised mutual funds."

The Fund has entered into four separate distribution agreements with the Distributor in connection with the continuous offering of each class of shares of the Fund (the "Distribution Agreements"). The Distribution Agreements obligate the Distributor to pay certain expenses in connection with the offering of each class of 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 requirement and termination provisions as the Investment Advisory Agreement described above.

Initial Sales Charge Alternatives--Class A and Class D Shares

For the fiscal years ended March 31, 1993, 1994 and 1995, gross sales charges on the sale of Class A shares totaled \$404,052, \$410,165 and \$138,623, respectively, of which approximately \$163,657, \$253,499 and \$9,023, respectively, was received by the Distributor and approximately \$240,395, \$156,666 and \$129,600, respectively, was paid to Merrill Lynch as a selected dealer. For the fiscal year ended March 31, 1995, the Distributor received \$1,244 in contingent deferred sales charges ("CDSCs") with respect to redemptions within one year of purchase of Class A shares purchased subject to front-end sales charge waivers. The gross sales charges for the sale of the Fund's Class D shares for the fiscal period October 21, 1994 (commencement of operations) to March 31, 1995, were \$77,923, of which the Distributor received \$4,692 and Merrill Lynch received \$73,231. During such period, the Distributor received no CDSCs with respect to redemptions within one year of purchase of Class D shares purchased subject to front-end sales charge waivers. 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 in connection with an investment in Class A and Class D shares of the Fund, refers to a single purchase by an individual or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account 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

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companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser.

Reduced Initial Sales Charges

Right of Accumulation. Reduced sales charges are applicable through a right of accumulation under which eligible investors are permitted to purchase shares of the Fund subject to an initial sales charge at the offering price applicable to the total of (a) the public offering price of the shares 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 all classes of shares of the Fund and of other MLAM-advised mutual funds. 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. Shares held in the name of a nominee or custodian under pension, profit-sharing, or other employee benefit plans may not be combined with other shares to qualify for the right of accumulation.

Letter of Intention. Reduced sales charges are applicable to purchases

aggregating \$25,000 or more of the Class A or Class D shares of the Fund or any other MLAM-advised mutual funds made within a 13-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 or Class D 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 or Class D shares of the Fund and of other MLAM-advised mutual funds 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 does not equal the amount stated in the Letter of Intention (minimum of \$25,000), 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 or Class D shares purchased at the reduced rate and the sales charge applicable to the shares actually purchased through the Letter. Class A or Class D shares equal to five percent of the intended amount will be held in escrow during the 13-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 further reduced percentage sales charge, 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 a MLAM-advised money market fund into the Fund that creates a sales charge will count toward completing a new or existing Letter of Intention from the Fund.

Merrill Lynch Blueprint(SM) Program. Class D shares of the Fund are offered to participants in the Merrill Lynch Blueprint(SM) Program ("Blueprint"). In addition, participants in Blueprint who own Class A shares of the

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Fund may purchase additional Class A shares of the Fund through Blueprint. The Blueprint program 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 or Class D shares of the Fund through Blueprint will acquire the Class A or Class D shares at net asset value plus a sales charge calculated in accordance with the Blueprint sales charge schedule (i.e., up to \$300 at 4.25%, from \$300.01 to \$5,000 at 3.25% plus \$3.00 and \$5,000.01 or more at the standard sales charge rates disclosed in the Prospectus). In addition, Class A or Class D 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 or Class D shares through Blueprint. Services, including the exchange privilege, available to Class A or Class D investors through Blueprint, however, may differ from those available to other investors in Class A or Class D shares.

Class A and Class D shares are offered at net asset value 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 Employer Sponsored Retirement and Savings Plans (as defined below) whose Trustee and/or Plan sponsor has entered into a Merrill Lynch Directed IRA Rollover Program Service Agreement.

Orders for purchases and redemptions of Class A or Class D 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 at net asset value to TMA(SM) Managed Trusts to which Merrill Lynch Trust Company provides discretionary trustee services.

Employer Sponsored Retirement or Savings Plans. Class A and Class D 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 Code, deferred compensation plans within the meaning of Sections 403(b) and 457 of the Code, other deferred compensation arrangements, Voluntary Employee Benefits Association ("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 Plan(s)"), provided the Employer Sponsored Retirement or Savings Plan has accumulated \$20 million or more in MLAM-advised mutual funds (in the case of Class A shares) or \$5 million or more in MLAM-advised mutual funds (in the case of Class D shares). Class D shares may be offered at net asset value to new Employer Sponsored Retirement or Savings Plans, provided the plan has \$3 million or more initially invested in MLAM-advised mutual funds. Assets of Employer Sponsored Retirement or Savings Plans sponsored by the same sponsor or an affiliated sponsor may be aggregated. Class A shares and Class D shares also are offered at net asset value to Employer Sponsored Retirement or Savings Plans that have at least 1,000 employees eligible to participate in the plan (in the case of Class A shares) or between 500 and 999 employees eligible to participate in the plan (in the case of Class D shares). 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

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corporate equities and other securities in addition to mutual fund shares) by Blueprint, are offered Class A or Class D 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 or Class D shares at net asset value has the option of (i) purchasing Class A shares at the sales charge and possible CDSC schedule disclosed in the Prospectus if it is otherwise eligible to purchase Class A shares, (ii) purchasing Class D shares at the initial sales charge and possible CDSC schedule disclosed in the Prospectus, (iii) if the Employer Sponsored Retirement or Savings Plan meets the specified requirements, purchasing Class B shares with a waiver of the CDSC upon redemption or if the Employer Sponsored Retirement or Savings Plan does not qualify to purchase Class B shares with a waiver of the CDSC upon redemption, purchasing Class C shares at the CDSC schedule disclosed in the Prospectus. The minimum initial and subsequent purchase requirements are waived in connection with all the above-referenced Employer Sponsored Retirement or Savings Plans.

Closed-End Fund Investment Option. Class A shares of the Fund and other MLAM-advised mutual funds ("Eligible Class A shares") are offered at net asset value to shareholders of certain closed-end funds advised by MLAM or the Investment Adviser who purchased such closed-end fund shares prior to October 21, 1994 (the date the Merrill Lynch Select Pricing System commenced operations) and wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in Eligible Class A shares, if the conditions set forth below are satisfied. Alternatively, closed-end fund shareholders who purchased such shares on or after October 21, 1994 and wish to reinvest the net proceeds from a sale of their closed-end fund shares are offered Class A shares (if eligible to buy Class A shares) or Class D shares of the Fund and other MLAM-advised mutual funds ("Eligible Class D shares"), if the following conditions are met. First, the sale of the closed-end fund shares must be made through Merrill Lynch and the net proceeds therefrom must be immediately reinvested in Eligible Class A or Class D shares. Second, the closed-end fund shares must either have been acquired in the initial public offering or be shares representing dividends from shares of common stock acquired in such offering. Third, the closed-end fund shares must have been continuously maintained in a Merrill Lynch securities account. Fourth, there must be a minimum purchase of \$250 to be eligible for the investment option. Class A shares of the Fund are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund, Inc. ("Senior Floating Rate Fund") who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of the Fund. In order to exercise this investment option, Senior Floating Rate Fund shareholders must sell their Senior Floating Rate Fund shares to the Senior Floating Rate Fund in connection with a tender offer conducted by the Senior Floating Rate Fund and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Senior Floating Rate Fund shares as to which no Early Withdrawal Charge (as defined in the Senior Floating Rate Fund prospectus) is applicable. Purchase orders from Senior Floating Rate Fund shareholders wishing to exercise this investment option will be accepted only on the day that the related Senior Floating Rate Fund tender offer terminates and will be effected at the net asset value of the Fund at such day.

Purchase Privileges of Certain Persons. Directors of the Fund, members of the Boards of other MLAM- advised investment companies, directors and employees of ML&Co. and its subsidiaries (the term "subsidiaries", when used herein with respect to ML&Co., includes MLAM, the Investment Adviser and certain other entities directly or indirectly wholly-owned and controlled by ML&Co.), 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 D shares of the Fund are offered at net asset value, without 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 advise

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Merrill Lynch that he or she will purchase Class D shares of the Fund with proceeds from a redemption of a mutual fund that was sponsored by the financial consultant's previous firm and was subject to a sales charge either at the time of purchase or on a deferred basis. Second, the investor also must establish that such redemption had been made within 60 days prior to the investment in the Fund, and the proceeds from the redemption had been maintained in the interim in cash or a money market fund.

Class D 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 ("notice"), if the following conditions are satisfied: First, the investor must purchase Class D shares of the Fund with proceeds from a redemption of shares of such other mutual fund and the shares of such other fund were subject to a sales charge either at the time of purchase or on a deferred basis; second, such purchase of Class D shares must be made within 90 days after such notice.

Class D shares of the Fund are 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 for which Merrill Lynch has not served as a selected dealer if the following conditions are satisfied: First, the investor must advise Merrill Lynch that it will purchase Class D shares of the Fund with proceeds from the redemption of such shares of other mutual funds and that such shares have been outstanding for a period of no less than six months. Second, such purchase of Class D shares must be made within 60 days after the redemption and the proceeds from the redemption must be maintained in the interim in cash or a money market fund.

Acquisition of Certain Investment Companies. The public offering price of Class D shares may be reduced to the net asset value per Class D share in connection with the acquisition of the assets of or merger or consolidation with a personal holding company or a public or private investment company. The value of the assets or company acquired in a tax-free transaction may in appropriate cases be adjusted 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. The issuance of Class D shares for consideration other than cash is limited to bona fide reorganizations, statutory mergers or other acquisitions of portfolio securities which (i) meet the investment objectives and policies of the Fund; (ii) are acquired for investment and not for resale (subject to the understanding that the disposition of the Fund's portfolio securities shall at all times remain within its control); and (iii) are liquid securities, the value of which is readily ascertainable, which are not restricted as to transfer either by law or liquidity of market (except that the Fund may acquire through such transactions restricted or illiquid securities to the extent the Fund does not exceed the applicable limits on acquisition of such securities set forth under "Investment Objective and Policies" herein).

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.

Distribution Plans

Reference is made to "Purchase of Shares--Distribution Plans" in the Prospectus for certain information with respect to the separate distribution plans for Class B, Class C and Class D shares pursuant to Rule 12b-1 under the Investment Company Act (each a "Distribution Plan") with respect to the account maintenance and/or distribution fees paid by the Fund to the Distributor with respect to such classes.

Payments of the account maintenance fees and/or distribution fees are subject to the provisions of Rule 12b-1 under the Investment Company Act. Among other things, each Distribution Plan provides that the Distributor

provide and the Directors shall review quarterly reports of the disbursement of the distribution fees paid to the Distributor. In their consideration of each Distribution Plan, the Directors must consider all factors they deem relevant, including information as to the benefits of the Distribution Plan to the Fund and its related class of 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 such Distribution Plan will benefit the Fund and its related class of 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 related class of voting securities of the Fund. A Distribution Plan cannot be amended to increase materially the amount to be spent by the Fund without the approval of 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 such Distribution Plan, cast in person at a meeting called for that purpose. Rule 12b-1 further requires that the Fund preserve copies of each Distribution Plan and any report made pursuant to such plan for a period of not less than six years from the date of such Distribution Plan or such report, the first two years in an easily accessible place.

Limitations on the Payment of Deferred Sales Charges

The maximum sales charge rule in the Rules of Fair Practice of the National Association of Securities Dealers, Inc. ("NASD") imposes a limitation on certain asset-based sales charges such as the distribution fee and the CDSC borne by the Class B and Class C shares but not the account maintenance fee. The maximum sales charge rule is applied separately to each class. As applicable to the Fund, the maximum sales charge rule limits the aggregate of distribution fee payments and CDSCs payable by the Fund to (1) 6.25% of eligible gross sales of Class B shares and Class C shares, computed separately (defined to exclude shares issued pursuant to dividend reinvestments and exchanges), plus (2) interest on the unpaid balance for the respective class, computed separately, 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 CDSC). In connection with the Class B shares, 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") in connection with the Class B shares 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 with respect to Class B shares, and any CDSCs will be paid to the Fund rather than to the Distributor; however, the Fund will continue to make payments of the account maintenance fee. In certain circumstances the amount payable pursuant to the voluntary maximum may exceed the amount payable under the NASD formula. In such circumstances payment in excess of the amount payable under the NASD formula will not be made.

The following table sets forth comparative information as of March 31, 1995 with respect to the Class B and Class C shares of the Fund indicating the maximum allowable payments that can be made under the NASD maximum sales charge rule and, with respect to Class B shares, the Distributor's voluntary maximum.

<TABLE>

<CAPTION>

Data Calculated as of March 31, 1995 (In Thousands)

	Eligible Gross Sales (1)	Allowable Aggregate Sales Charges	Allowable Interest on Unpaid Balance (2)	Maximum Amount Payable	Amounts Previously Paid to Distributor (3)	Aggregate Unpaid Balance	Annual Distribution Fee at Current Net Asset Level (4)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

Class B Shares (for the fiscal period October 21, 1988 (commencement of operations) to March 31, 1995):

Under NASD Rule as

Adopted	\$178,360	\$11,148	\$1,056	\$12,204	\$2,963	\$9,241	\$1,780
Under Distributor's Voluntary Waiver	\$178,360	\$11,148	\$ 891	\$12,039	\$2,963	\$9,076	\$1,780
Class C Shares (for the fiscal period October 21, 1994 (commencement of operations) to March 31, 1995):							
Under NASD Rule as Adopted	\$ 10,140	\$ 634	\$ 12	\$ 646	\$ 20	\$ 625	\$ 86

</TABLE>

(1) Purchase price of all eligible Class B or Class C shares sold during the period indicated 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 1.0% as permitted under the NASD Rule.

(3) Consists of CDSC payments, distribution fee payments and accruals. Of the distribution fee payments made with respect to Class B shares prior to July 6, 1993 under the distribution plan in effect at that time, at a 1.0% rate, 0.75% of average daily net assets has been treated as a distribution fee and 0.25% of average daily net assets has been deemed to have been a service fee and not subject to the NASD maximum sales charge rule.

(4) Provided to illustrate the extent to which the current level of distribution fee payments (not including any CDSC payments) is amortizing the unpaid balance. No assurance can be given that payments of the distribution fee will reach either the NASD maximum or, with respect to the Class B shares, the voluntary maximum.

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.

Deferred Sales Charges--Class B and Class C Shares

As discussed in the Prospectus under "Purchase of Shares--Deferred Sales Charge Alternatives--Class B and Class C Shares", while Class B shares redeemed within four years of purchase are subject to a CDSC under most circumstances, the charge is waived on redemptions of Class B shares in connection with certain post-retirement

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withdrawals from an Individual Retirement Account ("IRA") or other retirement plan or on redemptions of Class B shares following the death or disability of a Class B shareholder. Redemptions for which the waiver applies are: (a) any partial or complete redemption in connection with a tax-free distribution following retirement under a tax-deferred retirement plan or attaining age 59-1/2 in the case of an IRA or other retirement plan, or part of a series of equal periodic payments (not less frequently than annually) made for the life (or life expectancy) or any redemption resulting from the tax-free return of an excess contribution to an IRA; or (b) any partial or complete redemption following the death or disability (as defined in the Code) of a Class B shareholder (including one who owns the Class B shares as joint tenant with his or her spouse), provided the redemption is requested within one year of the death or initial determination of disability. For the fiscal years ended March 31, 1993, 1994 and 1995, the Distributor received CDSCs of \$118,233, \$158,825 and \$354,631, respectively, with respect to redemptions of Class B shares, all of which were paid to Merrill Lynch. For the fiscal period October 21, 1994 (commencement of operations) to March 31, 1995, the Distributor received CDSCs of \$3,295 with respect to redemptions of Class C shares, all of which were paid to Merrill Lynch.

Merrill Lynch Blueprint(SM) Program. Class B shares are offered to certain participants in Blueprint, which 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 CDSC is waived in connection with purchase orders placed through Blueprint by members of such affinity groups. Services, including the exchange privilege, available to Class B investors

through Blueprint, however, may differ from those available to other Class B investors. 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 a 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(SM) Program, P.O. Box 30441, New Brunswick, New Jersey 08989-0441.

Retirement Plans. Any Retirement Plan which does not meet the qualifications to purchase Class A or Class D shares at net asset value has the option of purchasing Class A or Class D 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 CDSC upon redemption. The CDSC is waived for any Eligible 401(k) Plan redeeming Class B shares. "Eligible 401(k) Plan" is defined as a retirement plan qualified under Section 401(k) of the Code with a salary reduction feature offering a menu of investments to plan participants. The CDSC is also waived for redemptions from a 401(a) plan qualified under the Code, provided, however, that such plan has the same or an affiliated sponsoring employer as an Eligible 401(k) Plan purchasing Class B shares of MLAM-advised mutual funds ("Eligible 401(a) Plan"). Other tax qualified retirement plans within the meaning of Section 401(a) and 403(b) of the Code which are provided specialized services (e.g., plans whose participants may direct on a daily basis their plan allocations among a menu of investments) by independent administration firms contracted through Merrill Lynch also may purchase Class B shares with a waiver of the CDSC. The CDSC also 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 Class B CDSC also is waived for any Class B shares which are purchased by a Merrill Lynch rollover IRA that was funded by a rollover from a terminated 401(k) plan managed by the MLAM Private Portfolio Group and held

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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 "Portfolio Transactions and Brokerage" in the Prospectus.

Subject to policies established by the Board of Directors of the Fund, the Investment Adviser is responsible for the Fund's portfolio decisions and the placing of the Fund's portfolio transactions. In executing such transactions, the Investment Adviser seeks to obtain the best net results for the Company, 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. While the Investment Adviser generally seeks reasonably competitive commission rates, the Fund does not necessarily pay the lowest commission or spread available. Transactions with respect to the securities of small and emerging growth companies in which the Fund invests may involve specialized services on the part of the broker or dealer and thereby entail higher commissions or spreads than would be the case with transactions involving more widely traded securities of more established companies. The Fund has no obligation to deal with any broker in the execution of transactions for its portfolio securities. In addition, consistent with the Rules of Fair Practice of the NASD and policies established by the Directors of the Fund, 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.

For the fiscal year ended March 31, 1993, the Fund paid brokerage commissions of \$190,566 of which \$11,549, or 6.1%, was paid to Merrill Lynch for effecting 8.01% of the aggregate dollar amount of transactions in which the Fund paid brokerage commissions. For the fiscal year ended March 31, 1994, the Fund paid brokerage commissions of \$354,950 of which \$15,386 or 4.3% was paid to Merrill Lynch for effecting 5.1% of the aggregate dollar amount of transactions in which the Fund paid brokerage commissions. For the fiscal year ended March 31, 1995, the Fund paid brokerage commissions of \$784,983 of which \$18,421, or 2.3% was paid to Merrill Lynch for effecting 2.5% of the aggregate dollar amount of transactions in which the Fund paid brokerage commissions.

The Fund has been informed by Merrill Lynch that it will in no way, at any time, attempt to influence or control the placing by the Investment Adviser or by the Fund of orders for brokerage transactions. Brokers and dealers,

including Merrill Lynch, who provide supplemental investment research (such as securities and economic research and market forecasts) to the Investment Adviser may receive orders for transactions by the Fund. Supplemental investment research received by the Investment Adviser also may be used in connection with other investment advisory accounts of the Investment Adviser and its affiliates. 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. The expenses of the Investment Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. Whether or not a particular broker-dealer sells shares of the Fund neither qualifies nor disqualifies such broker-dealer to execute transactions for the Fund.

The Fund also may invest in securities traded in the over-the-counter market. Transactions in the over-the-counter market generally are principal transactions with dealers and the costs of such transactions involve dealer spreads rather than brokerage commissions. With respect to over-the-counter transactions, the Fund, where possible, deals directly with the dealers who make a market in the securities involved except in those circumstances where better prices and execution are available elsewhere. Under the Investment Company Act, persons affiliated with the Fund are prohibited from dealing with the Fund as a principal in the purchase and sale of securities unless a

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permissive order allowing such transaction is obtained from the Commission. Since transactions in the over-the-counter market usually involve transactions with dealers acting as principal for their own account, affiliated persons of the Fund, including Merrill Lynch, may not serve as the Fund's dealer in connection with such transactions. However, affiliated persons of the Fund may serve as its broker in over-the-counter transactions conducted on an agency basis.

The Board of Directors of the Fund has considered the possibilities of recapturing for the benefit of the Fund brokerage commissions, dealer spreads and other expenses of possible portfolio transactions, such as underwriting commissions, by conducting such portfolio transactions through affiliated entities, including Merrill Lynch. For example, brokerage commissions received by Merrill Lynch could be offset against the advisory fee payable by the Fund to the Investment Adviser. After considering all factors deemed relevant, the Board made a determination not to seek such recapture. The Board will reconsider this matter from time to time. The Investment Adviser has arranged for the Fund's custodian to receive any tender offer solicitation fees on behalf of the Fund payable with respect to portfolio securities of the Fund.

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

As a non-fundamental restriction, 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 officers and directors of any subsidiary thereof each owning beneficially more than one-half of one percent of the securities of such issuer own in the aggregate more than five percent of the securities of such issuer.

DETERMINATION OF NET ASSET VALUE

The net asset value of the shares of the Fund is determined once daily Monday through Friday as of 15 minutes after the close of business on the New York Stock Exchange (generally, 4:00 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. Any assets or liabilities initially expressed in terms of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation. The Fund will also determine its net asset value on any day in which there is sufficient trading in its portfolio securities that the net asset value might be materially affected, but only if on any such day the Fund is required to sell or redeem shares. 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 (including interest and dividends accrued but not yet received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time, rounded to the nearest cent. Expenses, including the investment advisory fees and any account maintenance and/or distribution fees, are accrued daily. The per share net asset value of Class B, Class C and Class D shares generally will be lower

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than the per share net asset value of Class A shares reflecting the daily expense accruals of the account maintenance, distribution and higher transfer agency fees applicable with respect to Class B and Class C shares and the daily expense accruals of the account maintenance fees applicable with respect to Class D shares; moreover the per share net asset value of Class B and Class C shares generally will be lower than the per share net asset value of Class D shares reflecting the daily expense accruals of the distribution fees and higher transfer agency fees applicable with respect to Class B and Class C shares of the Fund. It is expected, however, that the per share net asset value of the four classes will tend to converge (although not necessarily meet) immediately after the payment of dividends or distributions, which will differ by approximately the amount of the expense accrual differentials between the classes.

Portfolio securities which are traded on stock exchanges are valued at the last sale price (regular way) on the exchange 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. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board of Directors as the primary market. Securities traded in the over-the-counter market are valued at the last available bid price in the over-the-counter market prior to the time of valuation. Securities traded in the NASDAQ National Market System are valued at the last sale price or, lacking any sales, at the closing bid price. When the Fund writes a call option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based upon the last sale price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the last asked price. Options purchased by the Fund are valued at their last sale price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the last bid price.

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

Option Accounting Principles. When the Fund sells an option, an amount equal to the premium received by the Fund is included in the Fund's Statement of Assets and Liabilities as a deferred credit. The amount of such liability will be subsequently marked-to-market to reflect the current market value of the option written. If current market value exceeds the premium received there is an unrealized loss; conversely, if the premium exceeds current market value there is an unrealized gain. The current market value of a traded option is the last sale price or, in the absence of a sale, the last offering price. If an option expires on its stipulated expiration date or if the Fund enters into a closing purchase transaction, the Fund will realize a gain (or loss if the cost of a closing purchase transaction exceeds the premium received when the option was sold) without regard to any unrealized gain or loss on the underlying security, and the liability related to such option will be extinguished. If an option is exercised, the Fund will realize a gain or loss from the sale of the underlying security and the proceeds of sale are increased by the premium originally received.

SHAREHOLDER SERVICES

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

Investment Account

Each shareholder whose account is maintained at the Transfer Agent has an Investment Account and will receive statements, at least quarterly, from the Transfer Agent showing any reinvestment of ordinary income

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dividends and long-term capital gains 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 ordinary income dividends and capital gains distributions. A shareholder may make additions to his Investment Account at any time by mailing a check

directly to the Transfer Agent.

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

Shareholders considering transferring their Class A or Class D shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A or Class D shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A or Class D shares (paying any applicable CDSC) 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 or Class D shares. Shareholders interested in transferring their Class B or Class C 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 at the transfer agent. 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 CDSC) 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.

Automatic Investment Plans

A shareholder may make additions to an Investment Account at any time by purchasing Class A shares (if an eligible Class A investor as described in the Prospectus) or Class B, Class C or Class D shares at the applicable public offering price either through the shareholder's securities dealer, or by mail directly to the Transfer Agent, acting as agent for such securities dealer. Voluntary accumulation also can be made through a service known as the Fund's Automatic Investment Plan whereby the Fund is authorized through pre-authorized checks or automated clearing house debits 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. For investors who buy shares of the Fund through Blueprint, no minimum charge to the investor's bank account is required. Investors who maintain a CMA(R) or CBA(R) account may arrange to have periodic investments made in the Fund in their CMA(R)/CBA(R) accounts or in certain related accounts in amounts of \$100 or more (\$1 for retirement accounts) through the CMA(R)/CBA(R) Automated Investment Program.

Automatic Reinvestment of Dividends and Capital Gains Distributions

Unless specific instructions are given as to the method of payment of dividends and capital gains distributions, dividends and distributions will be reinvested automatically in additional shares of the Fund. Such reinvestment will be at the net asset value of shares of the Fund as of the close of business on the ex-dividend date of the dividend or distribution. Shareholders may elect in writing to receive either their income dividends or capital gains distributions, or both, in cash, in which event payment will be mailed or direct deposited on or about the payment date.

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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 capital gains distributions reinvested in shares of the Fund or vice versa and, commencing ten days after the receipt by the Transfer Agent of such notice, those instructions will be effected.

Systematic Withdrawal Plans--Class A and Class D Shares

A Class A or Class D shareholder may elect to make systematic 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 or Class D 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 or Class D shares with such a value of \$10,000 or more.

At the time of each withdrawal payment, sufficient Class A or Class D 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 or

Class D shares. Redemptions will be made at net asset value as determined as of 15 minutes after the close of business of the New York Stock Exchange (generally, 4:00 P.M., New York City time) on the 24th day of each month or the 24th day of the last month of each quarter, whichever is applicable. If the New York Stock Exchange is not open for business on such date, the Class A or Class D 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 for the withdrawal payment will be made, on the next business day following redemption. When a shareholder is making systematic withdrawals, dividends and distributions on all Class A or Class D shares in the Investment Account are reinvested automatically in Class A or Class D shares, respectively. A shareholder's Systematic Withdrawal Plan may be terminated at any time, without charge or penalty, by the shareholder, the Fund, the Fund's 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 or Class D 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 or Class D 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.

Alternatively, a Class A or Class D 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 CMA(R)/CBA(R) Systematic Redemption Program. The minimum fixed dollar amount redeemable is \$25. The proceeds of systematic redemptions will be posted to a 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 CMA(R)/CBA(R) 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 CMA(R)/CBA(R) Systematic Redemption Program, eligible shareholders should contact their Merrill Lynch financial consultant.

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Retirement Plans

Self-directed individual retirement accounts and other retirement plans are available from Merrill Lynch. Under these plans, investments may be made in the Fund and certain of the other mutual funds sponsored by Merrill Lynch as well as in other securities. Merrill Lynch charges an initial establishment fee and an annual custodial fee for each account. Information with respect to these plans is available upon request from Merrill Lynch. The minimum initial purchase to establish any such plan is \$100 and the minimum subsequent purchase is \$1.

Capital gains and income received in each of the plans referred to above are exempt from Federal taxation until distributed from the plans. Investors considering participation in any such plan should review specific tax laws relating thereto and should consult their attorneys or tax advisers with respect to the establishment and maintenance of any such plan.

Exchange Privilege

Shareholders of each class of shares of the Fund have an exchange privilege with certain other MLAM-advised mutual funds listed below. Under the Merrill Lynch Select Pricing System, Class A shareholders may exchange Class A shares of the Fund for Class A shares of a second MLAM-advised mutual fund if the shareholder holds any Class A shares of the second fund in his account in which the exchange is made at the time of the exchange or is otherwise eligible to purchase Class A shares of the second fund. If the Class A shareholder wants to exchange Class A shares for shares of a second MLAM-advised mutual fund, and the shareholder does not hold Class A shares of the second fund in his account at the time of the exchange and is not otherwise eligible to acquire Class A shares of the second fund, the shareholder will receive Class D shares of the second fund as a result of the exchange. Class D shares also may be exchanged for Class A shares of a second MLAM-advised mutual fund at any time as long as, at the time of the exchange, the shareholder holds Class A shares of the second fund in the account in which the exchange is made or is otherwise eligible to purchase Class A shares of the second fund. Class B, Class C and Class D shares are exchangeable with shares of the same class of other MLAM-advised mutual funds. For purposes of computing the CDSC that may be payable upon a

disposition of the shares acquired in the exchange, the holding period for the previously owned shares of the Fund is "tacked" to the holding period of the newly acquired shares of the other Fund as more fully described below. Class A, Class B, Class C and Class D shares also are exchangeable for shares of certain MLAM-advised money market funds specifically designated below as available for exchange by holders of Class A, Class B, Class C or Class D shares. Shares with a net asset value of at least \$100 are required to qualify for the exchange privilege, and any shares utilized in an exchange must have been held by the shareholder for at least 15 days. It is contemplated that the exchange privilege may be applicable to other new mutual funds whose shares may be distributed by the Distributor.

Exchanges of Class A or Class D shares outstanding ("outstanding Class A or Class D shares") for Class A or Class D shares of another MLAM-advised mutual fund ("new Class A or Class D shares") are transacted on the basis of relative net asset value per Class A or Class D share, respectively, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A or Class D shares and the sales charge payable at the time of the exchange on the new Class A or Class D shares. With respect to outstanding Class A or Class D shares as to which previous exchanges have taken place, the "sales charge previously paid" shall include the aggregate of the sales charge paid with respect to such Class A or Class D shares in the initial purchase and any subsequent exchange. Class A or Class D shares issued pursuant to dividend reinvestment are sold on a no-load basis in each of the funds offering Class A or Class D shares. For purposes of the exchange privilege, Class A or Class D shares acquired through dividend reinvestment shall be deemed to have been sold with a sales charge equal

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to the sales charge previously paid on the Class A or Class D shares on which the dividend was paid. Based on this formula, Class A and Class D shares generally may be exchanged into the Class A or Class D shares of the other funds or into shares of the Class A and Class D money market funds with a reduced or without a sales charge.

In addition, each of the funds with Class B and Class C shares outstanding ("outstanding Class B and Class C shares") offers to exchange its Class B or Class C shares for Class B or Class C shares, respectively, of another MLAM-advised mutual fund ("new Class B or Class C shares") on the basis of relative net asset value per Class B or Class C share, without the payment of any CDSC 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 CDSC schedule if such schedule is higher than the CDSC 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 CDSC schedule if such schedule is higher than the CDSC 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 or Class C shares, the holding period for the outstanding Class B or Class C shares is "tacked" to the holding period of the new Class B or Class C shares. For example, an investor may exchange Class B shares of the Fund for those of Merrill Lynch Global Resources Trust (formerly known as Merrill Lynch Natural Resources Trust) after having held the Fund Class B shares for two and a half years. The 2% CDSC 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 CDSC due on this redemption, since by "tacking" the two and a half year holding period of Fund 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.

The exchange privilege is modified with respect to certain retirement plans which participate in the Merrill Lynch Mutual Fund Adviser ("MFA") program. Such retirement plans may exchange Class B, Class C or Class D shares that have been held for at least one year for Class A shares of the same Fund on the basis of relative net asset values in connection with the commencement of participation in the MFA program, i.e., no CDSC will apply. The one year holding period does not apply to shares acquired through reinvestment of dividends. Upon termination of participation in the MFA program, Class A shares will be reexchanged for the class of shares originally held. For purposes of computing any CDSC that may be payable upon redemption of Class B or Class C shares so reacquired, the holding period for the Class A shares will be "tacked" to the holding period for the Class B or Class C shares originally held.

Shareholders also may exchange shares of the Fund into shares of a money market fund advised by the Investment Adviser or its affiliates, but the period of time that Class B or Class C shares are held in a money market fund will not count towards satisfaction of the holding period requirement for purposes of reducing the CDSC or, with respect to Class B shares, towards

satisfaction of the conversion period. However, shares of a money market fund which were acquired as a result of an exchange for Class B or Class C shares of the Fund may, in turn, be exchanged back into Class B or Class C shares, respectively, of any fund offering such shares, in which event the holding period for Class B or Class C shares of the Fund will be aggregated with previous holding periods for purposes of reducing the CDSC. Thus, for example, an investor may exchange Class B shares of the Fund for shares of Merrill Lynch Institutional Fund ("Institutional Fund") after having held the Fund Class B shares for two and a half years and three years later decide to redeem the shares of Institutional Fund for cash. At the time of this redemption, the 2% CDSC that would have been due had the Class B shares of the Fund been redeemed for cash rather than exchanged for shares of Institutional Fund will be payable. If, instead of such redemption, the shareholder

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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 CDSC.

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

<TABLE>

Funds Issuing Class A, Class B, Class C and Class D Shares:

<S>

Merrill Lynch Adjustable Rate Securities Fund, Inc.

<C>

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 as high a level of income exempt from Federal and Arizona income taxes as is consistent with prudent investment management.

Merrill Lynch Arkansas Municipal Bond Fund

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Arkansas income taxes as is consistent with prudent investment management.

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Merrill Lynch Asset Growth Fund, Inc.

High total investment return, consistent with prudent risk, from investment in United States and foreign equity, debt and money market securities the combination of which will be varied both with respect to types of securities and markets in response to changing market and economic trends.

Merrill Lynch Asset Income Fund, Inc.

A high level of current income through investment primarily in United States fixed income securities.

Merrill Lynch Balanced Fund For Investment And Retirement, Inc.

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 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 insured California Municipal Bonds.

Merrill Lynch California Limited Maturity
Municipal Bond Fund

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

Merrill Lynch California Municipal Bond Fund

A portfolio of Merrill Lynch California Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and California income taxes as is consistent with prudent investment management.

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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 to provide as high a level of income exempt from Federal and Colorado income taxes as is consistent with prudent investment management.

Merrill Lynch Connecticut Municipal Bond Fund

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Connecticut 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 capital 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.

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.

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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 to provide 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 to provide 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 of capital through investment in a diversified portfolio of equity securities placing particular emphasis on companies that have exhibited an above-average growth rate in earnings.

Merrill Lynch Fundamental Value

Portfolio (available only for exchanges by certain individual retirement accounts for which Merrill Lynch acts as custodian)

A portfolio of Merrill Lynch Asset Builder Program, Inc., a series fund, whose objective is to provide capital appreciation and income by investing in securities, with at least 65% of the portfolio's assets being invested in equities.

Merrill Lynch Global Allocation Fund, Inc.

High total investment return, consistent with prudent risk, through a fully managed investment policy utilizing United States and foreign equity, debt and money market securities, the combination of which will be varied from time to time both with respect to the types of securities and markets in response to changing market and economic trends.

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Merrill Lynch Global Bond Fund For Investment
And Retirement

High total investment return from investment in a global portfolio of debt instruments denominated in various currencies and multinational currency units.

Merrill Lynch Global Convertible Fund, Inc.

High total return from investment primarily in an internationally diversified portfolio of convertible debt securities, convertible preferred stock and "synthetic" convertible securities consisting of a combination of debt securities or preferred stock and warrants or options.

Merrill Lynch Global Holdings, Inc. (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 Opportunity
Portfolio (available only for exchanges by certain
individual retirement accounts for which Merrill Lynch
acts as custodian)

A portfolio of Merrill Lynch Asset Builder Program, Inc., a series fund, whose objective is to provide a high total investment return through an investment policy utilizing United States and foreign equity, debt and money market securities, the combination of which will vary depending upon changing market and economic trends.

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 Smallcap Fund, Inc.

Long-term growth of capital by investing primarily in equity securities of companies with relatively small market capitalizations located in various foreign countries and in the United States.

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 primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunication, gas or water.

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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 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 to provide 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 to provide 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 to provide 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 to provide as high a level of income exempt from Federal and Michigan income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Michigan Municipal Bonds.

Merrill Lynch Michigan Municipal Bond Fund

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is to provide 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 to provide as high a level of income exempt from Federal and Minnesota personal 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 to provide 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 to provide as high a level of income exempt from Federal and New Jersey income taxes as is consistent with prudent investment management.

Merrill Lynch New Mexico Municipal Bond Fund

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and New Mexico 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 to provide 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 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 to provide 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 to provide 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 to provide 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 to provide 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

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 to provide 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 Quality Bond Portfolio (available only for exchanges by certain individual retirement accounts for which Merrill Lynch acts as custodian)

A portfolio of Merrill Lynch Asset Builder Program, Inc., a series fund, whose objective is to provide a high level of current income through investment in a diversified portfolio of debt obligations, such as corporate bonds and notes, convertible securities, preferred stocks and governmental obligations.

Merrill Lynch Short-Term Global Income
Fund, Inc.

As high a level of current income as is consistent with prudent investment management from a global portfolio of high quality debt securities denominated in various currencies and multinational currency units and having remaining maturities not exceeding three years.

Merrill Lynch 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 to provide 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 U.S. Government
Securities Portfolio (available only for exchanges by certain individual retirement accounts for which Merrill Lynch acts as custodian)

A portfolio of Merrill Lynch Asset Builder Program, Inc., a series fund, whose objective is to provide a 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 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.

Class A Share Money Market Funds:
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 to provide current income, preservation of capital and

liquidity available from investing in a diversified portfolio of short-term money market securities.

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.

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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.

Class B, Class C and Class D Share Money Market Funds:
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 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 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.

</TABLE>

Before effecting an exchange, shareholders should obtain a currently effective prospectus of the fund into which the exchange is to be made.

To exercise the exchange privilege, shareholders should contact their Merrill Lynch financial consultant, who will advise the Fund of the exchange. 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 at any time and thereafter may 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.

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DIVIDENDS, DISTRIBUTIONS AND TAXES

Dividends and Distributions

The Fund intends to distribute all of its net investment income, if any. Dividends from such net investment income will be paid semi-annually. All net realized long- or short-term capital gains, if any, will be distributed to the Fund's shareholders at least annually. See "Shareholder Services--Automatic Reinvestment of Dividends and Capital Gains Distributions" for information concerning the manner in which dividends and distributions may be reinvested automatically in shares of the Fund. Shareholders may elect in writing to receive any such dividends or distributions, or both, in cash. Dividends and distributions are taxable to shareholders, as discussed below, whether they are reinvested in shares of the Fund or received in cash. The per share dividends and distributions on Class B and Class C shares will be lower than the per share dividends and distributions on Class A and Class D shares as a result of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B and Class C shares; similarly, the per share dividends and distributions on Class D shares will be lower than the per share dividends and distributions on Class A shares as a result of the account maintenance fees applicable with respect to Class D shares. See "Determination of Net Asset Value".

Taxes

The Fund intends to continue to qualify for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, the Fund (but not its shareholders) will not be subject to Federal income tax on the part of its net ordinary income and net realized capital gains which it distributes to Class A, Class B, Class C and Class D 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. Any loss upon the sale or exchange of Fund shares held for six months or less, however, will be treated as long-term capital loss to the extent of any capital gain dividends received by the shareholder. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset).

Dividends are taxable to shareholders even though they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends or capital gain dividends. A portion of the Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. For this purpose, the Fund will allocate dividends eligible for the dividends received deduction among the Class A, Class B, Class C and Class D shareholders according to a method (which it believes is consistent with the Commission exemptive order permitting the issuance and sale of multiple classes of stock) that is based on the gross income allocable to Class A, Class B, Class C and Class D shareholders during the taxable year, or such other method as the Internal Revenue Service may prescribe. 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.

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Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% United States 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 United States 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 United States may reduce or eliminate such 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.

No gain or loss will be recognized by Class B shareholders on the conversion of their Class B shares into Class D shares. A shareholder's basis in the Class D shares acquired will be the same as such shareholder's basis in the Class B shares converted, and the holding period of the acquired Class D shares will include the holding period of the converted Class B shares.

If a shareholder exercises an 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 any sales charge paid to the Fund on the exchanged shares reduces any sales charge the shareholder would have owed upon purchase of the new shares in the absence of the exchange privilege. Instead, such sales charge will be treated as an amount paid for the new shares.

A loss realized on a sale or exchange of shares of the Fund will be disallowed if other Fund shares are acquired (whether through the automatic reinvestment of dividends or otherwise) within a 61-day period beginning 30

days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

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 and 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

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value on the last day of the taxable year. Unless such contract is a forward foreign exchange contract, or is a non-equity option or a regulated futures contract for a non-U.S. currency for which the Fund elects to have gain or loss treated as ordinary gain or loss under Code Section 988 (as described below), gain or loss from Section 1256 contracts will be 60% long-term and 40% short-term capital gain or loss. The mark-to-market rules outlined above, however, will not apply to certain transactions entered into by the Fund solely to reduce the risk of changes in price or interest or currency exchange rates with respect to its investments.

A forward foreign exchange contract that is a Section 1256 contract will be marked to market, as described above. However, the character of gain or loss from such a contract will generally be ordinary under Code Section 988. The Fund may, nonetheless, elect to treat the gain or loss from certain forward foreign exchange contracts as capital. In this case, gain or loss realized in connection with a forward foreign exchange contract that is a Section 1256 contract will be characterized as 60% long-term and 40% short-term capital gain or loss.

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

One of the requirements for qualification as a RIC is that less than 30% of the Fund's gross income 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 option 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.

Under Code Section 988, special rules are provided for certain transactions in a currency other than the taxpayer's functional currency (i.e., unless certain special rules apply, currencies other than the United States 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 income 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 and resulting in a capital gain for any shareholder who received a distribution greater than such shareholder's basis in Fund shares (assuming the shares were held as a capital asset). 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 Treasury regulations promulgated thereunder. The Code and 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 United States Government obligations. State law varies as to whether dividend income attributable to United States 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 other total return data in advertisements or information furnished to present or prospective shareholders. Total return figures are based on the Fund's historical performance and are not intended to indicate future performance. Average annual total return is determined separately for Class A, Class B, Class C and Class D shares in accordance with a formula specified by the Commission.

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

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

<TABLE>
<CAPTION>

Period	Class A Shares		Class B Shares	
	Expressed as a percentage based on a hypothetical \$1,000 investment	Redeemable Value of a hypothetical \$1,000 investment at the end of the period	Expressed as a percentage based on a hypothetical \$1,000 investment	Redeemable Value of a hypothetical \$1,000 investment at the end of the period

<S>	<C>	Average Annual Total Return (including maximum applicable sales charges)		
		<C>	<C>	<C>
One Year ended March 31, 1995	3.14%	\$1,031.40	3.76%	\$1,037.60
Five Years ended March 31, 1995	9.99%	\$1,610.10	10.05%	\$1,614.20
Ten Years ended March 31, 1995	6.14%	\$1,814.30		
Inception (October 21, 1988) to March 31, 1995*			7.04%	\$1,549.90
		Annual Total Return (excluding maximum applicable sales charges)		
Year ended March 31,				
1995	8.85%	\$1,088.50	7.70%	\$1,077.00
1994	13.14%	\$1,131.40	12.03%	\$1,120.30
1993	10.69%	\$1,106.90	9.56%	\$1,095.60
1992	28.71%	\$1,287.10	27.41%	\$1,274.10
1991	(3.15)%	\$ 968.50	(4.16)%	\$ 958.40
1990	(5.05)%	\$ 949.50	(6.00)%	\$ 940.00
1989	5.85%	\$1,058.50		
1988	(18.82)%	\$ 811.80		
1987	1.99%	\$1,019.90		
1986	35.40%	\$1,354.00		
1985	13.95%	\$1,139.50		
1984	(7.63)%	\$ 923.70		
1983	55.89%	\$1,558.90		
1982	(19.36)%	\$ 806.40		
1981	59.88%	\$1,598.80		
1980	(4.76)%	\$ 952.40		
Inception (May 5, 1978) to March 31, 1979	3.42%	\$1,034.20		
Inception (October 21, 1988) to March 31, 1989*			2.15%	\$ 1,021.50
		Aggregate Total Return (including maximum applicable sales charges)		
Inception (May 5, 1978) to March 31, 1995	277.99%	\$3,779.90		
Inception (October 21, 1988) to March 31, 1995*			54.99%	\$1,549.90

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Period	Class C Shares		Class D Shares	
	Expressed as a percentage based on a hypothetical \$1,000 investment	Redeemable Value of a hypothetical \$1,000 investment at the end of the period	Expressed as a percentage based on a hypothetical \$1,000 investment	Redeemable Value of a hypothetical \$1,000 investment at the end of the period
		Average Annual Total Return (including maximum applicable sales charges)		
Inception (October 21, 1994) to March 31, 1995**	8.87%	\$1,038.20	(0.87)%	\$ 996.10
		Annual Total Return (excluding maximum applicable sales charges)		
Inception (October 21, 1994) to March 31, 1995**	4.82%	\$1,048.20	5.13%	\$1,051.30
		Aggregate Total Return (including maximum applicable sales charges)		
Inception (October 21, 1994) to March 31, 1995**	3.82%	\$1,038.20	(0.39)%	\$ 996.10

</TABLE>

* Information as to Class B shares is presented only for the period October 21, 1988 to March 31, 1995. Prior to October 21, 1988, no Class B shares were publicly issued.

** Information as to Class C and Class D shares is presented for the period October 21, 1994 to March 31, 1995. Prior to October 21, 1994, no Class C or Class D shares were publicly issued.

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

GENERAL INFORMATION

Description of Shares

The Fund was incorporated under Maryland law on February 23, 1978. It has an authorized capital of 400,000,000 shares of Common Stock, par value of \$0.10 per share, divided into four classes, designated Class A, Class B, Class C

and Class D Common Stock, each of which consists of 100,000,000 shares. Class A, Class B, Class C and Class D Common Stock represent an interest in the same assets of the Fund and are identical in all respects except that the Class B, Class C and Class D shares bear certain expenses related to the account maintenance and/or distribution of such shares and have exclusive voting rights with respect to matters relating to such account maintenance and/or distribution expenditures. The Fund has received an order from the Commission permitting the issuance and sale of multiple classes of Common Stock. The Board of Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date.

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Shareholders are entitled to one vote for each share held and fractional votes for fractional shares held and will vote on the election of Directors and any other matter submitted to a shareholder vote. The Fund does not intend to hold meetings of shareholders in any year in which the Investment Company Act does not require shareholders to act on any of the following matters: (i) election of Directors; (ii) approval of an investment advisory agreement; (iii) approval of a distribution agreement; and (iv) ratification of selection of independent auditors. Generally, under Maryland law, a meeting of shareholders may be called for any purpose on the written request of the holders of at least 25% of the outstanding shares of the Fund. Also, the by-laws of the Fund require that a special meeting of shareholders be held on the written request of at least 10% of the outstanding shares of the Fund entitled to vote at such meeting. Voting rights for Directors are not cumulative. Shares issued are fully paid and non-assessable and have no preemptive rights. Redemption and conversion rights are discussed elsewhere herein and in the Prospectus. Each share is entitled to participate equally in dividends and distributions declared by the Fund and in the net assets of the Fund on liquidation or dissolution after satisfaction of outstanding liabilities. Stock certificates will be issued by the Transfer Agent only on specific request. Certificates for fractional shares are not issued in any case.

Computation of Offering Price Per Share

An illustration of the computation of the offering price for Class A, Class B, Class C and Class D shares of the Fund, based on the value of the Fund's net assets and number of shares outstanding as of March 31, 1995, is calculated as set forth below.

<TABLE>
<CAPTION>

	Class A	Class B	Class C	Class D
<S>	<C>	<C>	<C>	<C>
Net Assets	\$106,505,526	\$237,359,356	\$11,433,954	\$11,036,673
Number of Shares Outstanding	\$ 6,815,898	\$ 15,653,545	\$ 757,232	\$ 706,989
Net Asset Value Per Share (net assets divided by number of shares outstanding)	\$ 15.63	\$ 15.16	\$ 15.10	\$ 15.61
Sales Charge (for Class A and Class D shares: 5.25% of offering price (5.54% of net amount invested))*	.87	**	**	.86
Offering Price	\$ 16.50	\$ 15.16	\$ 15.10	\$ 16.47

</TABLE>
 * Rounded to the nearest one-hundredth percent; assumes maximum sales charge is applicable.
 ** Class B and Class C shares are not subject to an initial sales charge but may be subject to a CDSC on redemption of shares. See "Purchase of Shares--Deferred Sales Charge Alternatives--Class B and Class C Shares" in the Prospectus and "Redemption of Shares--Deferred Sales Charge--Class B Shares" herein.

Independent Auditors

Deloitte & Touche LLP, 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.

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Custodian

The Bank of New York, 90 Washington Street, 12th Floor, New York, New York 10286, acts as custodian of the Fund's assets. The Custodian is responsible for safeguarding and controlling the Fund's cash and securities, handling the receipt and delivery of securities and collecting interest and dividends on

the Fund's investments.

Transfer Agent

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

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

Additional Information

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

To the knowledge of the Fund, no person or entity owned beneficially 5% or more of the Fund's shares on June 30, 1995.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders,
Merrill Lynch Special Value Fund, Inc.:

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Merrill Lynch Special Value Fund, Inc. as of March 31, 1995, the related statements of operations for the year then ended and changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. 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 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 March 31, 1995 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 Special Value Fund, Inc. as of March 31, 1995, 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 LLP
Princeton, New Jersey
May 9, 1995

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FINANCIAL INFORMATION
SCHEDULE OF INVESTMENTS
<TABLE>

<CAPTION>						
Industries <S>	Shares Held/ Face Amount		Stocks & Convertible Bonds	Cost	Value (Note 1a)	Percent of Net Assets
	<C>	<C>				
Aerospace	86,800	++Banner Aerospace, Inc.		\$ 592,640	\$ 347,200	0.1%
	65,000	++BE Aerospace, Inc.		497,985	422,500	0.1
	257,800	++UNC, Inc.		1,466,514	1,417,900	0.4
				-----	-----	-----
				2,557,139	2,187,600	0.6
Apparel	684,800	++Farah, Inc. (a)		5,798,170	5,221,600	1.4
	35,000	++Jones Apparel Group, Inc.		790,325	945,000	0.3
	183,000	Kellwood Co.		3,429,866	3,408,375	0.9
	84,000	++Marisa Christina, Inc.		862,660	1,018,500	0.3
	152,100	++Norton McNaughton, Inc.		2,142,668	2,699,775	0.7
	75,000	The Warnaco Group, Inc. (Class A)		1,142,930	1,340,625	0.4
				-----	-----	-----
				14,166,619	14,633,875	4.0
Automotive	43,000	Smith (A.O.) Corp.		883,060	967,500	0.3
Banks & Finance	60,000	American Federal Bank, FSB		611,250	855,000	0.2
	267,000	Bankers Corp.		2,164,922	4,405,500	1.2
	20,000	Banknorth Group, Inc.		365,000	470,000	0.1
	492,000	Charter One Financial, Inc.		9,416,987	9,963,000	2.7
	170,000	++Civic Bancorp, Inc.		926,250	1,115,625	0.3
	30,000	Collective Bancorp, Inc.		502,547	543,750	0.2
	287,500	The Co-Operative Bank of Concord (a)		3,701,013	4,600,000	1.3
	51,600	++FirstFed Financial Corp.		580,034	806,250	0.2
	20,000	New York Bancorp, Inc.		348,974	342,500	0.1
	105,000	ONBANCorp, Inc.		3,357,159	2,677,500	0.7
	380,000	Roosevelt Financial Group, Inc.		3,948,501	5,985,000	1.6
				-----	-----	-----
				25,922,637	31,764,125	8.6
Beverages	66,000	++Celestial Seasonings, Inc.		980,315	1,270,500	0.3

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Biotechnology	40,000	++Alteon, Inc.		181,731	240,000	0.1
	256,000	++Applied Immune Sciences, Inc.		3,639,452	1,248,000	0.3
	42,900	++AutoImmune, Inc.		284,213	268,125	0.1
	89,300	++Cephalon, Inc.		630,609	625,100	0.2
	95,000	++COR Therapeutics, Inc.		937,940	1,235,000	0.3
	173,500	++CytoTherapeutics, Inc.		1,354,051	1,192,813	0.3
	60,000	++Genetic Therapy, Inc.		677,651	600,000	0.2
	75,000	++The Immune Response Corp.		1,089,374	210,938	0.1
	45,000	++The Liposome Company, Inc. (Convertible Preferred)		992,998	1,125,000	0.3
	100,000	++Liposome Technology, Inc.		804,373	687,500	0.2
	76,100	National Patent Development Corp.		208,155	128,419	0.0
	90,000	++Regeneron Pharmaceuticals, Inc.		313,200	562,500	0.2
	50,000	++Sepracor, Inc.		386,875	506,250	0.1
				-----	-----	-----
				11,500,622	8,629,645	2.4
Building & Building Materials	70,000	American Homestar, Inc.		560,000	778,750	0.2
	59,000	Blount, Inc. (Class A)		2,311,339	2,625,500	0.7
	100,000	++Giant Cement Holding, Inc.		1,146,880	1,150,000	0.3
	400,000	++Redman Industries, Inc. (a)		6,782,631	7,750,000	2.1
	125,300	Ryland Group, Inc.		1,724,018	1,801,188	0.5
	150,200	Washington Homes, Inc.		872,781	525,700	0.1
				-----	-----	-----
				13,397,649	14,631,138	3.9

</TABLE>

SCHEDULE OF INVESTMENTS (continued)

<TABLE>						
<CAPTION>						
Industries <S>	Shares Held/ Face Amount		Stocks & Convertible Bonds	Cost	Value (Note 1a)	Percent of Net Assets
	<C>	<C>				
Business Services	566,000	++Applied Bioscience International, Inc.		\$ 3,086,390	\$ 3,042,250	0.8%
	60,000	Banta Corp.		1,791,430	1,980,000	0.5
				-----	-----	-----
				4,877,820	5,022,250	1.3
Computer Services	725,000	++Anacomp, Inc.		2,691,367	1,268,750	0.3
	240,500	Boole & Babbage, Inc.		3,101,038	6,854,250	1.9
	25,000	++Primark Corp.		282,750	359,375	0.1
				-----	-----	-----
				6,075,155	8,482,375	2.3

Computers	25,000	++DH Technology, Inc.	295,000	518,750	0.1
	301,300	Radius, Inc.	2,674,581	3,916,900	1.1
	180,000	++Storage Technology Corp.	3,623,075	3,442,500	0.9
	170,000	++Stratus Computer, Inc.	5,287,343	5,312,500	1.5
			-----	-----	-----
			11,879,999	13,190,650	3.6
Cosmetics	1,317	Alfin, Inc., Preferred (f)	0	0	0.0
Data Processing	205,000	++Cognos, Inc.	1,573,000	4,484,375	1.2
	30,000	++Computervision Corp.	83,700	150,000	0.0
	57,800	++Consilium, Inc.	419,581	462,400	0.1
	275,000	++SHL Systemhouse, Inc.	1,509,375	1,650,000	0.5
	120,000	++Sterling Software, Inc.	4,201,414	4,185,000	1.1
	85,000	++Symantec Corp.	1,111,950	1,955,000	0.5
			-----	-----	-----
			8,899,020	12,886,775	3.4
Electrical Equipment	60,000	++Catalina Lighting, Inc.	471,291	375,000	0.1
	138,000	Comptek Research, Inc.	2,204,043	1,863,000	0.5
	26,300	++WPI Group, Inc.	164,375	72,325	0.0
			-----	-----	-----
			2,839,709	2,310,325	0.6
Electronics	100,000	Alden Electronics, Inc.	422,500	250,000	0.1
	500,011	Automated Security Holdings PLC	1,774,832	937,521	0.3
	27,562	++Maxwell Laboratories, Inc.	316,726	179,153	0.1
	226,000	++Micronics Computers, Inc.	1,198,238	1,214,750	0.3
	141,000	++VLSI Technology, Inc.	1,712,250	2,538,000	0.7
	27,000	++VTEL Corp.	161,155	297,000	0.1
			-----	-----	-----
			5,585,701	5,416,424	1.6
Environmental & Environmental Control	390,250	NSC Corp.	2,062,737	975,625	0.3
	110,000	++Rollins Environmental Services, Inc.	546,187	453,750	0.1
			-----	-----	-----
			2,608,924	1,429,375	0.4
Foods/Food Processing	50,000	Riviana Foods, Inc.	600,000	675,000	0.2
Health Care-- Products & Services	215,000	++Beverly Enterprises, Inc.	2,869,712	3,117,500	0.9
	255,000	Charter Medical Corp.	4,561,083	4,749,375	1.3
	120,000	Community Psychiatric Centers	1,480,500	1,545,000	0.4
	50,000	++Healthcare Services Group, Inc.	468,500	600,000	0.2
	504,500	++Ramsey Health Care, Inc. (a)	3,537,506	3,720,688	1.0
	200,000	++Unilab Corp.	1,106,250	1,025,000	0.3
			-----	-----	-----
			14,023,551	14,757,563	4.1

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</TABLE>

SCHEDULE OF INVESTMENTS (continued)

<TABLE>

<CAPTION>

Industries	Shares Held/ Face Amount	Stocks & Convertible Bonds	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<C> <C>		<C>	<C>	<C>
Home Furnishings	158,000	Crown Crafts, Inc.	\$ 2,535,692	\$ 2,686,000	0.7%
Insurance	173,800	Ace, Ltd.	3,894,836	4,388,450	1.2
	225,000	Capital Guaranty Corp.	3,407,464	3,853,125	1.1
	152,500	Harleysville Group, Inc.	3,227,904	3,717,188	1.0
	107,200	++Omni Insurance Group, Inc.	636,023	804,000	0.2
	395,000	PXRE Corp. (a) (b)	8,361,899	9,529,375	2.6
	232,400	Security-Connecticut Corp.	4,645,395	5,780,950	1.6
	70,000	++Transnational Re Corp. (Class A)	1,326,059	1,400,000	0.4
			-----	-----	-----
			25,499,580	29,473,088	8.1

Leasing	147,100	++LDI Corp.	1,406,703	514,850	0.1
	195,000	++Sea Containers, Ltd.	3,371,021	2,730,000	0.7
			-----	-----	-----
			4,777,724	3,244,850	0.8
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Medical	148,500	Analogic Corp.	2,654,377	2,821,500	0.8
	32,600	++Everest & Jennings International (Class A)	456,544	20,375	0.0
	15,000	++Fischer Imaging Corp.	288,440	76,875	0.0
			-----	-----	-----
			3,399,361	2,918,750	0.8
Metals--Non-Ferrous	76,800	Handy & Harman	1,205,929	1,267,200	0.3
Miscellaneous	45,000	PHH Corp.	1,541,238	1,710,000	0.5
Natural Resources	145,000	++Abraxas Petroleum Corp.	1,642,500	1,286,875	0.4
	80,000	++Addington Resources, Inc.	621,055	760,000	0.2
	103,600	++American Oilfield Divers, Inc.	951,150	699,300	0.2
	90,900	++Atwood Oceanics, Inc.	763,563	1,238,512	0.3
	110,000	++Tom Brown, Inc.	930,773	1,705,000	0.5
	38,300	++Cliffs Drilling Co.	494,562	540,987	0.1
	29,000	Cliffs Drilling Co. (Convertible Preferred)	774,875	768,500	0.2
	299,254	++Coho Resources, Inc.	2,075,477	1,533,677	0.4
	25,000	++Energy Ventures, Inc.	468,750	328,125	0.1
	275,000	++Gerrity Oil & Gas Corp.	3,571,250	1,065,625	0.3
	70,700	++Grant Tensor Geophysical Corp. (Convertible Preferred)	1,175,940	972,125	0.3
	75,000	Input/Output, Inc.	1,641,345	1,978,125	0.5
	359,000	++International Petroleum Corp.	990,247	560,937	0.2
	120,000	++Noble Drilling Corp.	735,714	735,000	0.2
	105,000	++Nuevo Energy Co.	2,023,100	2,073,750	0.6
	194,600	++Plains Resources, Inc.	1,356,218	1,508,150	0.4
	17,796	++Plains Resources, Inc. (Convertible Preferred), Series C	1,700,000	2,333,560	0.6
	\$ 900,000	Swift Energy Corp., Convertible Bonds, 6.50% due 6/30/2003	924,000	855,000	0.2
	65,000	++Tetra Technologies, Inc.	500,750	780,000	0.2
	192,100	Total Petroleum of North America, Ltd.	2,342,351	2,353,225	0.6
	231,000	++Trans Texas Gas Corp.	2,551,375	2,598,750	0.7
	2,876	Transamerican Refining Corp., 18.29%+++ due 2/15/1998 (Units) (d)	1,728,249	1,743,575	0.5
	1,700	WRT Energy Corp., 13.875% due 3/01/2002 (Units) (e)	1,700,000	1,678,750	0.5
	52,000	++Weatherford International, Inc.	449,600	546,000	0.2
	20,000	The Wiser Oil Co.	360,000	287,500	0.1
			-----	-----	-----
			32,472,844	30,931,048	8.5

</TABLE>

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SCHEDULE OF INVESTMENTS (continued)

<TABLE>

<CAPTION>

Industries	Shares Held/ Face Amount	Stocks & Convertible Bonds	Cost	Value (Note 1a)	Percent of Net Assets
<S>	<C>	<C>	<C>	<C>	<C>
Paper/Forest Products	100,000	Pope & Talbot, Inc.	\$ 1,662,200	\$ 1,600,000	0.4%
Personal Care Products	50,000	++Marietta Corp.	441,875	543,750	0.1
Pharmaceuticals	19,025	++American Drug Co.	2,377	4,756	0.0
	19,025	++American Drug Co. (Warrants) (c)	1,189	1,189	0.0
			-----	-----	-----
			3,566	5,945	0.0
Photo-Optical Instruments	80,000	Instron Corp.	1,010,849	960,000	0.3
Real Estate & Real	\$1,000,000	Alexander Haagen Properties, Inc., 7.25% due			

Estate Investment		12/27/2003	1,000,000	900,000	0.2
Trusts	25,000	Bay Apartment Communities, Inc.	456,662	459,375	0.1
	23,000	Cali Realty Corp.	364,567	399,625	0.1
	110,000	Carr Realty Corp.	2,223,480	1,911,250	0.5
	88,000	++Catellus Development Corp. (Convertible Preferred)	3,200,250	3,344,000	0.9
	280,800	Crown American Realty Trust	3,855,935	3,650,400	1.0
	25,000	Developers Diversified Realty Corp.	701,563	706,250	0.2
	40,000	Manufactured Home Communities, Inc.	591,350	615,000	0.2
	50,000	The Town and Country Trust	678,600	675,000	0.2
			-----	-----	-----
			13,072,407	12,660,900	3.4
Restaurants	536,400	++TPI Enterprises, Inc.	3,196,191	3,017,250	0.8
		53			
Retailing	338,500	J. Baker, Inc.	5,749,139	5,162,125	1.4
	189,500	++Bon-Ton Stores, Inc.	1,996,946	2,013,437	0.6
	313,800	++Catherines Stores Corp.	3,404,710	2,745,750	0.8
	222,000	++Filene's Basement Corp.	1,063,607	749,250	0.2
	80,000	Fingerhut Companies, Inc.	893,552	950,000	0.3
	40,000	Gantos, Inc.	497,275	75,000	0.0
	1,063,000	++Grossman's, Inc.	3,251,812	2,258,875	0.6
	84,900	Hancock Fabrics, Inc.	765,791	859,612	0.2
	66,200	Lillian Vernon Corp.	972,147	1,365,375	0.4
	59,200	++OfficeMax, Inc.	1,124,800	1,517,000	0.4
	305,000	Pier 1 Imports, Inc.	2,687,712	2,821,250	0.8
	102,000	++REX Stores Corp.	1,315,670	1,428,000	0.4
	40,000	++S&K Famous Brands, Inc.	511,650	290,000	0.1
	700,000	++Service Merchandise Co., Inc.	4,632,083	3,500,000	1.0
	144,000	Venture Stores, Inc.	2,407,682	1,782,000	0.5
	745,400	++The Wet Seal, Inc. (Class A) (a)	2,643,245	2,935,012	0.8
			-----	-----	-----
			33,917,821	30,452,686	8.5
Steel	60,000	++National Steel Corp.	972,012	960,000	0.3
Telecommunications	100,000	++General DataComm Industries, Inc.	1,460,168	1,475,000	0.4
Textiles	300,000	Burlington Industries, Inc.	3,384,602	3,412,500	0.9
Toy Manufacturing	389,000	++Just Toys, Inc. (a)	1,738,722	559,187	0.2
Transportation	148,700	++Kirby Corp.	2,696,059	2,602,250	0.7
Utilities	125,000	American Water Works Co., Inc.	1,921,197	3,625,000	1.0
		Total Stocks & Convertible Bonds	263,707,957	272,360,524	74.3

</TABLE>

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SCHEDULE OF INVESTMENTS (concluded)

<TABLE>

<CAPTION>

<S>	Face Amount	Short-Term Securities	Cost	Value (Note 1a)	Percent of Net Assets
<C>	<C>	<C>	<C>	<C>	<C>
Commercial Paper*	\$ 9,000,000	ANZ (Delaware), Inc., 5.95% due 4/07/1995	\$ 8,991,075	\$ 8,991,075	2.5%
	6,000,000	BAT Capital Corp., 5.97% due 4/10/1995	5,991,045	5,991,045	1.6
	15,000,000	Ciesco L.P., 5.97% due 5/03/1995	14,920,400	14,920,400	4.1
	10,000,000	du Pont (E.I.) de Nemours & Co., 5.85% due 4/04/1995	9,995,125	9,995,125	2.7
	19,451,000	General Electric Capital Corp., 6.25% due 4/03/1995	19,444,246	19,444,246	5.3
	5,000,000	Goldman Sachs & Co., 5.97% due 4/20/1995	4,984,246	4,984,246	1.4
	14,998,000	Matterhorn Capital Corp., 5.95% due 4/19/1995	14,953,381	14,953,381	4.1
	10,000,000	National Australia Funding (Delaware) Inc., 5.96% due 5/05/1995	9,943,711	9,943,711	2.7
			-----	-----	-----

			89,223,229	89,223,229	24.4
US Government & Agency Obligations*	10,000,000	Federal National Mortgage Association, 5.90% due 4/21/1995	9,967,222	9,967,222	2.7
		Total Short-Term Securities	99,190,451	99,190,451	27.1
Total Investments			\$ 362,898,408	371,550,975	101.4
Liabilities in Excess of Other Assets				(5,215,466)	(1.4)
Net Assets				\$ 366,335,509	100.0%

</TABLE>

(a) Investment in companies 5% or more of whose outstanding securities are held by the Fund (such companies are defined as "Affiliated Companies" in section 2 (a) (3) of the Investment Company Act of 1940) are as follows:

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<TABLE>
<CAPTION>

Industry	Affiliate	Net Share Activity	Net Cost	Dividend Income
<S>	<C>	<C>	<C>	<C>
Apparel	Farah, Inc.	684,800	\$5,798,170	--
Banks & Finance	The Co-Operative Bank of Concord	105,500	1,516,137	\$76,070
Building & Building Materials	Redman Industries, Inc.	290,000	5,024,675	--
Health Care--				
Products & Services	Ramsey Health Care, Inc.	429,000	2,949,083	--
Insurance	PXRE Corp.	295,000	6,001,185	107,670
Retailing	The Wet Seal, Inc. (Class A)	260,400	767,210	--
Toy Manufacturing	Just Toys, Inc.	242,000	781,455	--

(b) Formerly Phoenix Re Corp.

(c) Warrants entitle the Fund to purchase a predetermined number of shares of Common Stock. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.

(d) Each unit consists of a \$1,000 bond plus 17.09 warrants. Each warrant can be exercised for 1 share of common stock.

(e) Each unit consists of a \$1,000 bond plus 8 warrants. Each warrant can be exercised for 1 share of common stock.

(f) Security represents 14.5% Cumulative Preferred Stock. For each share of Preferred Stock, the Fund will receive an annual dividend of approximately 9.43 shares of Common Stock.

*Commercial Paper and certain US Government & Agency Obligations are traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund.

++Non-income producing security.

+++Represents the yield to maturity on this zero coupon bond.

See Notes to Financial Statements.

</TABLE>

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<TABLE>
<CAPTION>

Statement of Assets and Liabilities as of March 31, 1995

<S>	<C>	<C>	<C>
Assets:	Investments, at value (identified cost--\$362,898,408) (Note 1a)		\$371,550,975
Receivables:			
	Capital shares sold	\$ 2,927,430	
	Securities sold	1,711,097	
	Dividends	99,738	
	Interest	49,640	4,787,905
	Prepaid registration fees and other assets (Note 1e)		45,083
Total assets			376,383,963

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Liabilities:	Payables:		
	Securities purchased	8,115,981	
	Capital shares redeemed	728,571	
	Investment adviser (Note 2)	221,436	
	Distributor (Note 2)	200,610	9,266,598

	Accrued expenses and other liabilities		781,856

	Total liabilities		10,048,454

Net Assets:	Net assets		\$366,335,509
			=====
Net Assets	Class A Shares of Common Stock, \$0.10 par value, 100,000,000		
Consist of:	shares authorized	\$	681,590
	Class B Shares of Common Stock, \$0.10 par value, 100,000,000		
	shares authorized		1,565,355
	Class C Shares of Common Stock, \$0.10 par value, 100,000,000		
	shares authorized		75,723
	Class D Shares of Common Stock, \$0.10 par value, 100,000,000		
	shares authorized		70,699
	Paid-in capital in excess of par		344,227,254
	Undistributed investment income--net		459,974
	Undistributed realized capital gains on investments--net		10,602,347
	Unrealized appreciation on investments--net		8,652,567

	Net assets		\$366,335,509
			=====
Net Asset Value:	Class A--Based on net assets of \$106,505,526 and 6,815,898 shares		
	outstanding	\$	15.63
			=====
	Class B--Based on net assets of \$237,359,356 and 15,653,545 shares		
	outstanding	\$	15.16
			=====
	Class C--Based on net assets of \$11,433,954 and 757,232 shares		
	outstanding	\$	15.10
			=====
	Class D--Based on net assets of \$11,036,673 and 706,989 shares		
	outstanding	\$	15.61
			=====

See Notes to Financial Statements.

</TABLE>

FINANCIAL INFORMATION (continued)

<TABLE>		
<CAPTION>		
Statement of Operations for the Year Ended March 31, 1995		
<S>	<C>	<C>
Investment	Interest and discount earned	\$ 3,357,098
Income	Dividends (net of \$3,508 foreign withholding tax)	2,342,037
(Notes 1c		-----
& 1d):	Total income	5,699,135

Expenses:	Investment advisory fees (Note 2)	1,927,770
	Distribution fees--Class B (Note 2)	1,618,538
	Transfer agent fees--Class B (Note 2)	396,853
	Printing and shareholder reports	199,343
	Transfer agent fees--Class A (Note 2)	184,422
	Professional fees	98,476
	Registration fees (Note 1e)	96,805
	Accounting services (Note 2)	47,277
	Custodian fees	41,270
	Directors' fees and expenses	31,626
	Distribution fees--Class C (Note 2)	22,414
	Transfer agent fees--Class C (Note 2)	7,963
	Transfer agent fees--Class D (Note 2)	7,471
	Account maintenance fees--Class D (Note 2)	6,057
	Pricing fees	252
	Other	8,281

	Total expenses	4,694,818

	Investment income--net	1,004,317

Realized & Unrealized Gain on Investments--Net	Realized gain on investments--net	20,737,686
(Notes 1b, 1d & 3):	Change in unrealized appreciation on investments	1,142,318
	Net Increase in Net Assets Resulting from Operations	\$ 22,884,321

See Notes to Financial Statements.

</TABLE>

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FINANCIAL INFORMATION (continued)

<TABLE>

<CAPTION>

Statements of Changes in Net Assets

		For the Year Ended March 31,	
		1995	1994
Increase (Decrease) in Net Assets:	<S>	<C>	<C>
Operations:	Investment income--net	\$ 1,004,317	\$ 99,234
	Realized gain on investments--net	20,737,686	23,450,584
	Change in unrealized appreciation on investments--net	1,142,318	(6,187,920)
	Net increase in net assets resulting from operations	22,884,321	17,361,898
Dividends & Distributions to Shareholders (Note 1f):	Investment income--net:		
	Class A	(614,155)	--
	Class B	--	--
	Class C	(9,723)	--
	Class D	(19,699)	--
	Realized gain on investments--net:		
	Class A	(7,894,397)	(6,037,362)
	Class B	(13,778,928)	(6,735,508)
	Class C	(88,207)	--
	Class D	(139,464)	--
	Net decrease in net assets resulting from dividends and distributions to shareholders	(22,544,573)	(12,772,870)
Capital Share Transactions (Note 4):	Net increase in net assets derived from capital share transactions	174,423,847	39,880,101
Net Assets:	Total increase in net assets	174,763,595	44,469,129
	Beginning of year	191,571,914	147,102,785
	End of year*	\$366,335,509	\$191,571,914
	*Undistributed investment income--net	\$ 459,974	\$ 99,234

</TABLE>

See Notes to Financial Statements.

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FINANCIAL INFORMATION (continued)

Financial Highlights

<TABLE>

<CAPTION>

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

		Class A				
		For the Year Ended March 31,				
		1995**	1994**	1993	1992	1991
Increase (Decrease) in Net Asset Value:	<S>	<C>	<C>	<C>	<C>	<C>
Per Share Operating Performance:	Net asset value, beginning of year	\$ 15.88	\$ 15.32	\$ 13.86	\$ 10.84	\$ 11.36
	Investment income--net	.16	.10	.05	.10	.12
	Realized and unrealized gain (loss) on investments--net	1.09	1.87	1.43	3.00	(.49)
	Total from investment operations	1.25	1.97	1.48	3.10	(.37)
	Less dividends and distributions:					
	Investment income--net	(.10)	--	(.02)	(.08)	(.15)
	Realized gain on investments--net	(1.40)	(1.41)	--	--	--
	Total dividends and distributions	(1.50)	(1.41)	(.02)	(.08)	(.15)

Net asset value, end of year		\$ 15.63	\$ 15.88	\$ 15.32	\$ 13.86	\$ 10.84
		=====	=====	=====	=====	=====
Total Investment Return:*	Based on net asset value per share	8.85%	13.14%	10.69%	28.71%	(3.15%)
		=====	=====	=====	=====	=====
Ratios to Average Net Assets:	Expenses	1.15%	1.17%	1.28%	1.55%	1.88%
		=====	=====	=====	=====	=====
	Investment income--net	1.04%	.62%	.37%	.83%	1.13%
		=====	=====	=====	=====	=====
Supplemental Data:	Net assets, end of year (in thousands)	\$106,506	\$ 78,804	\$ 70,920	\$ 57,056	\$ 44,818
		=====	=====	=====	=====	=====
	Portfolio turnover	59.79%	68.70%	42.25%	98.76%	73.06%
		=====	=====	=====	=====	=====

</TABLE>

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<TABLE>

<CAPTION>

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

Increase (Decrease) in Net Asset Value:	in Net Asset Value:	Class B				
		1995**	1994**	1993**	1992**	1991**
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Per Share Operating Performance:	Net asset value, beginning of year	\$ 15.49	\$ 15.01	\$ 13.70	\$ 10.77	\$ 11.29
	Investment loss--net	--	(.06)	(.09)	(.03)	--
	Realized and unrealized gain (loss) on investments--net	1.06	1.83	1.40	2.98	(.47)
	Total from investment operations	1.06	1.77	1.31	2.95	(.47)
	Less dividends and distributions:					
	Investment income--net	--	--	--	(.02)	(.05)
	Realized gain on investments--net	(1.39)	(1.29)	--	--	--
	Total dividends and distributions	(1.39)	(1.29)	--	(.02)	(.05)
	Net asset value, end of year	\$ 15.16	\$ 15.49	\$ 15.01	\$ 13.70	\$ 10.77
		=====	=====	=====	=====	=====
Total Investment Return:*	Based on net asset value per share	7.70%	12.03%	9.56%	27.41%	(4.16%)
		=====	=====	=====	=====	=====
Ratios to Average Net Assets:	Expenses, excluding distribution fees	1.20%	1.19%	1.28%	1.51%	1.95%
		=====	=====	=====	=====	=====
	Expenses	2.20%	2.19%	2.28%	2.51%	2.95%
		=====	=====	=====	=====	=====
	Investment income--net	.02%	(.41%)	(.65%)	(.27%)	(.04%)
		=====	=====	=====	=====	=====
Supplemental Data:	Net assets, end of year (in thousands)	\$237,359	\$112,768	\$ 76,182	\$ 29,534	\$ 3,783
		=====	=====	=====	=====	=====
	Portfolio turnover	59.79%	68.70%	42.25%	98.76%	73.06%
		=====	=====	=====	=====	=====

</TABLE>

*Total investment returns exclude the effect of sales loads.

**Based on an average number of shares outstanding during the period.

See Notes to Financial Statements.

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FINANCIAL INFORMATION (concluded)

Financial Highlights (concluded)

<TABLE>

<CAPTION>

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 Period Oct. 21, 1994++
to March 31, 1995**
Class C Class D

<u><S></u>	<u><C></u>	<u><C></u>	<u><C></u>
Per Share	Net asset value, beginning of period	\$ 15.06	\$ 15.52
Operating		-----	-----
Performance:	Investment income--net	.01	.07
	Realized and unrealized gain on investments--net	.65	.66
		-----	-----
	Total from investment operations	.66	.73
		-----	-----
	Less dividends and distributions:		
	Investment income--net	(.06)	(.08)
	Realized gain on investments--net	(.56)	(.56)
		-----	-----
	Total dividends and distributions	(.62)	(.64)
		-----	-----
	Net asset value, end of period	\$ 15.10	\$ 15.61
		=====	=====
Total Investment	Based on net asset value per share	4.82%+++	5.13%+++
Return:***		=====	=====
Ratios to	Expenses, excluding account maintenance and distribution fees	1.41%*	1.36%*
Average		=====	=====
Net Assets:	Expenses	2.41%*	1.61%*
		=====	=====
	Investment income (loss)--net	.14%*	.95%*
		=====	=====
Supplemental	Net assets, end of period (in thousands)	\$ 11,434	\$ 11,037
Data:		=====	=====
	Portfolio turnover	59.79%	59.79%
		=====	=====

</TABLE>

*Annualized.
**Based on an average number of shares outstanding during the period.
***Total investment returns exclude the effect of sales loads.
+++Aggregate total investment return.
++Commencement of Operations.

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies:

Merrill Lynch Special Value Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940 as a diversified, open-end management investment company. The Fund offers four classes of shares under the Merrill Lynch Select Pricing SM System. Shares of Class A and Class D are sold with a front-end sales charge. Shares of Class B and Class C may be subject to a contingent deferred sales charge. All classes of shares have identical voting, dividend, liquidation and other rights and the same terms and conditions, except that Class B, Class C and Class D Shares bear certain expenses related to the account maintenance of such shares, and Class B and Class C Shares also bear certain expenses related to the distribution of such shares. Each class has exclusive voting rights with respect to matters relating to its account maintenance and distribution expenditures. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments--Portfolio securities which are traded on stock exchanges are valued at the last sale price on exchanges on which such securities are traded, as of the close of business on the day the securities are being valued or, lacking any sales, at the last available bid price. Securities traded in the over-the-counter market are valued at the last available bid price prior to the time of valuation. In cases where securities are traded on more than one exchange, the securities are valued on the exchange designated by or under the authority of the Board of Directors as the primary market. Securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market. Options written are valued at the last sale price in the case of exchange-traded options, or in the case of options traded in the over-the-counter market, the last asked price. Options purchased are valued at the last sale price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the last bid price. Short-term securities are valued at amortized cost, which approximates market value. Other

investments, including futures contracts and related options, are stated at market value. Securities and assets for which market value quotations are not available are valued at their fair value as determined in good faith by or under the direction of the Fund's Board of Directors.

(b) Derivative financial instruments--The Fund may engage in various portfolio strategies to seek to increase its return by hedging its portfolio against adverse movements in the equity, debt and currency markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

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* Financial futures contracts--The Fund may purchase or sell futures contracts and options on such futures contracts for the purpose of hedging the market risk on existing securities or the intended purchase of securities. Futures contracts are contracts for delayed delivery of securities at a specific future date and at a specific price or yield. Upon entering into a contract, the Fund deposits and maintains as collateral such initial margin as required by the exchange on which the transaction is effected. Pursuant to the contract, the Fund agrees to receive from or pay to the broker an amount of cash equal to the daily fluctuation in value of the contract. Such receipts or payments are known as variation margin and are recorded by the Fund as unrealized gains or losses. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

* Options--The Fund is authorized to write and purchase call and put options. When the Fund writes an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the current market value of the option written. When a security is purchased or sold through an exercise of an option, the related premium paid (or received) is added to (or deducted from) the basis of the security acquired or deducted from (or added to) the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction exceeds the premium paid or received).

Written and purchased options are non-income producing investments.

* Forward foreign exchange contracts--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.

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NOTES TO FINANCIAL STATEMENTS (continued)

* Foreign currency options and futures--The Fund may also purchase or sell listed or over-the-counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on non-US dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund.

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(c) Income taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required. Under the applicable foreign tax law, a withholding tax may be imposed on interest, dividends, and capital gains at various rates.

(d) Security transactions and investment income--Security transactions are recorded on the dates the transactions are entered

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

(e) Prepaid registration fees--Prepaid registration fees are charged to expense as the related shares are issued.

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

2. Investment Advisory Agreement and Transactions with Affiliates:

The Fund has entered into an Investment Advisory Agreement with Fund Asset Management, L.P. ("FAM"). The general partner of FAM is Princeton Services, Inc. ("PSI"), an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML & Co."), which is the limited partner. The Fund has also entered into a Distribution Agreement and Distribution Plans with Merrill Lynch Funds Distributor, Inc. ("MLFD" or "Distributor"), a wholly-owned subsidiary of Merrill Lynch Group, Inc.

FAM 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 of 0.75%, on an annual basis, of the average daily value of the Fund's net assets. The Investment Advisory Agreement obligates FAM to 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 Fund's next \$70 million of average daily net assets, and 1.5% of the average daily net assets in excess thereof. No fee payment will be made to the Investment Adviser during any fiscal year which will cause such expenses to exceed the most restrictive expense limitation at the time of such payment.

Pursuant to the distribution plans ("the Distribution Plans") adopted by the Fund in accordance with Rule 12b-1 under the Investment Company Act of 1940, the Fund pays the Distributor ongoing account maintenance and distribution fees. The fees are accrued daily and paid monthly at annual rates based upon the average daily net assets of the shares as follows:

	Account Maintenance Fee	Distribution Fee
Class B	0.25%	0.75%
Class C	0.25%	0.75%
Class D	0.25%	--

Pursuant to a sub-agreement with the Distributor, Merrill Lynch, Pierce, Fenner & Smith Inc. ("MLPF&S"), a subsidiary of ML & Co., also provides account maintenance and distribution services to the Fund. The ongoing account maintenance fee compensates the Distributor and MLPF&S for providing account maintenance services to Class B, Class C and Class D shareholders. The ongoing distribution fee compensates the Distributor and MLPF&S for providing shareholder and distribution-related services to Class B and Class C shareholders.

For the year ended March 31, 1995, MLFD earned underwriting discounts and MLPF&S earned dealer concessions on sales of the Fund's Class A and Class D Shares as follows:

	MLFD	MLPF&S
Class A	\$9,023	\$129,600
Class D	\$4,682	\$ 73,089

For the year ended March 31, 1995, MLPF&S received contingent deferred sales charges of \$354,631 and \$3,295 relating to transactions in Class B and Class C Shares, respectively.

In addition, MLPF&S received \$18,421 in commissions on the execution of portfolio security transactions for the Fund for the year ended March 31, 1995.

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

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

Certain officers and/or directors of the Fund are officers and/or directors of FAM, PSI, MLPF&S, FDS, MLFD, and/or ML & Co.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended March 31, 1995 were \$216,275,783 and \$118,590,306, respectively.

Net realized and unrealized gains as of March 31, 1995 were as follows:

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	Realized	Unrealized
	Gains	Gains
Long-term investments	\$20,255,458	\$ 8,652,567
Short-term investments	233	--
Stock index futures contracts	481,995	--
	-----	-----
Total	\$20,737,686	\$ 8,652,567
	=====	=====

As of March 31, 1995, net unrealized appreciation for Federal income tax purposes aggregated \$8,030,608, of which \$32,875,637 related to appreciated securities and \$24,845,029 related to depreciated securities. At March 31, 1995, the aggregate cost of investments for Federal income tax purposes was \$363,520,367.

4. Capital Share Transactions:

Net increase in net assets derived from capital share transactions was \$174,423,847 and \$39,880,101 for the years ended March 31, 1995 and 1994, respectively.

Transactions in capital shares for each class were as follows:

Class A Shares for the Year Ended March 31, 1995	Shares	Dollar Amount
Shares sold	2,510,523	\$ 38,699,950
Shares issued to shareholders in reinvestment of dividends and distributions	496,385	7,197,017
	-----	-----
Total issued	3,006,908	45,896,967
Shares redeemed	(1,152,958)	(17,707,842)
	-----	-----
Net increase	1,853,950	\$ 28,189,125
	=====	=====

Class A Shares for the Year Ended March 31, 1994	Shares	Dollar Amount
Shares sold	1,242,225	\$ 19,995,495
Shares issued to shareholders in reinvestment of dividends and distributions	322,010	4,973,387
	-----	-----
Total issued	1,564,235	24,968,882
Shares redeemed	(1,232,902)	(19,830,929)
	-----	-----
Net increase	331,333	\$ 5,137,953
	=====	=====

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Class B Shares for the Year Ended March 31, 1995	Shares	Dollar Amount
Shares sold	11,451,034	\$171,088,878
Shares issued to shareholders		

in reinvestment of dividends and distributions	882,748	12,456,145
	-----	-----
Total issued	12,333,782	183,545,023
Shares redeemed	(3,711,137)	(55,381,255)
Automatic conversion of shares	(247,985)	(3,691,530)
	-----	-----
Net increase	8,374,660	\$124,472,238
	=====	=====

Class B Shares for the Year Ended March 31, 1994	Shares	Dollar Amount
Shares sold	3,509,022	\$55,127,981
Shares issued to shareholders in reinvestment of dividends and distributions	387,961	5,863,597
	-----	-----
Total issued	3,896,983	60,991,578
Shares redeemed	(1,692,858)	(26,249,430)
	-----	-----
Net increase	2,204,125	\$34,742,148
	=====	=====

NOTES TO FINANCIAL STATEMENTS (concluded)

Class C Shares for the Period Oct. 21, 1994++ to March 31, 1995	Shares	Dollar Amount
Shares sold	828,311	\$12,105,918
Shares issued to shareholders in reinvestment of dividends and distributions	6,268	85,792
	-----	-----
Total issued	834,579	12,191,710
Shares redeemed	(77,347)	(1,134,143)
	-----	-----
Net increase	757,232	\$11,057,567
	=====	=====

++Commencement of Operations.

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Class D Shares for the Period Oct. 21, 1994++ to March 31, 1995	Shares	Dollar Amount
Shares sold	496,638	\$7,482,596
Automatic conversion of shares	240,716	3,691,530
Shares issued to shareholders in reinvestment of dividends and distributions	10,621	149,861
	-----	-----
Total issued	747,975	11,323,987
Shares redeemed	(40,986)	(619,070)
	-----	-----
Net increase	706,989	\$10,704,917
	=====	=====

++Commencement of Operations.

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Code #10256-0795

Merrill Lynch
Special Value Fund, Inc.

[logo]

Statement of
Additional
Information

July 28, 1995
Distributor:
Merrill Lynch
Funds Distributor, Inc.

PART C. OTHER INFORMATION

Item 24. Financial Statements and Exhibits

(a) Financial Statements:

Contained in Part A:

Financial Highlights for each of the years in the ten year period ended
March 31, 1995.

Contained in Part B:

Schedule of Investments, as of March 31, 1995.
Statement of Assets and Liabilities, as of March 31, 1995.
Statement of Operations for the year ended March 31, 1995.
Statements of Changes in Net Assets for the years ended March 31, 1995
and 1994.

Financial Highlights for each of the years in the five year period ended
March 31, 1995.

(b) Exhibits:

<TABLE>

<CAPTION>

Exhibit Number	Description
<S>	<C>
1(a)	--Articles of Incorporation of Registrant.(a)
(b)	--Articles of Amendment to Articles of Incorporation of Registrant.(a)
(c)	--Articles Supplementary to the Articles of Incorporation of the Registrant.

- (d) --Articles of Amendment to the Articles of Incorporation of the Registrant.
- 2 --By-Laws of Registrant.(c)
- 3 --None.
- 4(a) --Portions of Articles of Incorporation and By-laws of Registrant defining the rights of holders of shares of common stock of Registrant.(b)
- 5(a) --Investment Advisory Agreement between Registrant and Fund Asset Management, L.P.(a)
- 6(a) --Form of Revised Class A Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc. (including Form of Selected Dealers Agreement).(d)
- (b) --Class B Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc. (including Form of Selected Dealers Agreement).(a)
- (c) --Form of Class C Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc. (including Form of Selected Dealers Agreement).(d)
- (d) --Form of Class D Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc. (including Form of Selected Dealers Agreement).(d)
- 7 --None.
- 8 --Custody Agreement between Registrant and The Bank of New York.(a)
- 9 --Transfer Agency Agreement between Registrant and Merrill Lynch Financial Data Services, Inc.(a)
- 10 --None.
- 11 --Consent of Deloitte & Touche LLP, independent auditors for the Registrant.
- 12 --None.
- 13 --None.
- 14 --None.
- 15(a) --Amended and Restated Class B Distribution Plan of Registrant.(a)
- (b) --Form of Class C Distribution Plan of Registrant and Class C Distribution Plan Sub-Agreement.(d)
- (c) --Form of Class D Distribution Plan of Registrant and Class D Distribution Plan Sub-Agreement.(d)

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Exhibit Number	Description
16(a)	--Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class A shares.(a)
(b)	--Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class B shares.(a)
(c)	--Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class C shares.
(d)	--Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class D shares.
17(a)	--Financial Data Schedule for Class A Shares.
(b)	--Financial Data Schedule for Class B Shares.
(c)	--Financial Data Schedule for Class C Shares.
(d)	--Financial Data Schedule for Class D Shares.

</TABLE>

(a) Refiled pursuant to the Electronic Data Gathering, Analysis and Retrieval (EDGAR) phase-in requirements.

(b) Reference is made to Article IV, Article V (Sections 3, 5, 6 and 7) and Articles VI, VII and IX of the Registrant's Articles of Incorporation, as amended, filed as Exhibits 1(a), 1(b), 1(c) and 1(d) to the Registration Statement and to Article II, Article III (Sections 1, 3, 5 and 6) and Articles VI, VII, XIII and XIV of the Registrant's By-Laws, previously filed as Exhibit 2 to the Registration Statement.

(c) Previously filed with Post-Effective Amendment No. 19 to the Registration Statement on July 28, 1994 (File No. 2-60836).

(d) Previously filed with Post-Effective Amendment No. 20 to the Registration Statement on October 11, 1994 (File No. 2-60836).

Item 25. Persons Controlled by or under Common Control with Registrant

Registrant is not controlled by or under common control with any person.

Item 26. Number of Holders of Securities

Title of Class	Number of Record Holders at June 30, 1995
Class A Common Stock, par value \$0.10 per share	2,856
Class B Common Stock, par value \$0.10 per share	355
Class C Common Stock, par value \$0.10 per share	6
Class D Common Stock, par value \$0.10 per share	19

Item 27. Indemnification.

Reference is made to Article VI of Registrant's Articles of Incorporation, Article VI of Registrant's By-Laws, Section 2-418 of the Maryland General Corporation Law and Section 9 of the Class A, Class B, Class C and Class D Distribution Agreements.

Insofar as the conditional advancing of indemnification monies for actions based on the Investment Company Act of 1940, as amended (the "1940 Act") may

be concerned, Article VI of the Registrant's By-Laws provides that such payments will be made only on the following conditions: (i) advances may be made only on receipt of a written affirmation of such person's good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to repay any such advance if it is ultimately determined that the standard of conduct has not been met and (ii) (a) such promise must be secured by a security for the undertaking in form and amount acceptable to the Registrant, (b) the Registrant is insured against losses arising by receipt of the advance, or (c) a majority of a quorum of the Registrant's disinterested, non-party Directors, or an independent legal counsel in a written opinion, shall determine, based upon a review of readily available facts, that at the time the advance is proposed to be made, there is reason to believe that the person seeking indemnification will ultimately be found to be entitled to indemnification.

In Section 9 of the Class A, Class B, Class C and Class D Distribution Agreements relating to the securities being offered hereby, the Registrant agrees to indemnify the Distributor and each person, if any, who controls the Distributor within the meaning of the Securities Act of 1933, as amended (the "1933 Act"), against certain types of civil liabilities arising in connection with the Registration Statement or the Prospectus and Statement of Additional Information.

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to Directors, officers and controlling persons of the Registrant and the principal underwriter pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a Director, officer or controlling person of the Registrant and the principal underwriter in connection with the successful defense of any action,

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suit or proceeding) is asserted by such Director, officer or controlling person or the principal underwriter in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

Item 28. Business and Other Connections of Investment Adviser

Fund Asset Management, L.P. (the "Investment Adviser") acts as investment adviser for the following open-end investment companies: CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, The Corporate Fund Accumulation Program, Inc., Financial Institutions Series Trust, Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California Municipal Series Trust, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Federal Securities Trust, Merrill Lynch Funds for Institutions Series, Merrill Lynch Multi-State Municipal Series Trust, Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch World Income Fund, Inc., and The Municipal Fund Accumulation Program, Inc.; and the following closed-end investment companies: Apex Municipal Fund, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Emerging Tigers Fund, Inc., Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., MuniAsset Fund, Inc., MuniBond Fund, Inc., MuniBond Income Fund, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania Insured Fund, MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield California Insured Fund II, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Quality Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Senior Strategic Income Fund, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNewYork Holdings, Inc. and Worldwide DollarVest, Inc.

Merrill Lynch Asset Management, L.P. ("MLAM"), acts as investment adviser for the following open-end investment companies: Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Asset Builder Program, Inc., Merrill Lynch Asset Growth Fund, Inc.,

Merrill Lynch Asset Income Fund, Inc., Merrill Lynch Balanced Fund for Investment and Retirement, Inc., Merrill Lynch Capital Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc., Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Fund for Tomorrow, 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, Inc., Merrill Lynch Global Resources Trust, Merrill Lynch Global SmallCap Fund, Inc., Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc., Merrill Lynch Institutional Intermediate Fund, Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Middle East/Africa Fund, Inc., Merrill Lynch Municipal Series Trust, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Series Trust, Merrill Lynch Series Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch U.S.A. Government Reserves, Merrill Lynch Utility Income Fund, Inc. and Merrill Lynch Variable Series Funds, Inc.; and the following closed-end investment companies: Convertible Holdings, Inc., Merrill Lynch High Income Municipal Bond Fund, Inc., and Merrill Lynch Senior Floating Rate Fund, Inc.

The address of each of these investment companies is P.O. Box 9011, Princeton, New Jersey 08543-9011, except that the address of Merrill Lynch Funds for Institutions Series and Merrill Lynch Institutional Intermediate Fund is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2646. The address of the Investment Adviser and Merrill Lynch Funds Distributor, Inc. (the "Distributor" or "MLFD"), and their parent corporation (MLAM), is also P.O. Box 9011, Princeton, New Jersey 08543-9011. The address of Merrill Lynch, Pierce, Fenner & Smith Incorporated ('Merrill Lynch') and Merrill Lynch & Co., Inc. ("ML&Co.") is World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281-1201. The address of Merrill Lynch Financial Data Services, Inc. ("FDS") is 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484.

Set forth below is a list of each officer and partner of the Investment Adviser indicating each business, profession, vocation or employment of a substantial nature in which each such person has been engaged since April 1, 1993 for his or its own account or in the capacity of director, officer, partner or trustee. In addition, Mr. Zeikel is President, Mr. Richard is Treasurer and Mr. Glenn is Executive Vice President of all or substantially all of the investment companies described in the preceding paragraphs, and Messrs. Giordano, Harvey, Kirstein and Monagle are directors, trustees or officers of one or more of such companies.

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<TABLE>
<CAPTION>

Name	Position with Investment Adviser	Other Substantial Business, Profession, Vocation or Employment
<S>	<C>	<C>
ML&Co.	Limited Partner	Financial Services Holding Company; Limited Partner of MLAM
Princeton Services, Inc. ("Princeton Services")	General Partner	General Partner of MLAM
Arthur Zeikel	President	President of MLAM; President and Director of Princeton Services; Director of MLFD; Executive Vice President of ML&Co.; Executive Vice President of Merrill Lynch
Terry K. Glenn	Executive Vice President	Executive Vice President of MLAM; Executive Vice President and Director of Princeton Services; President and Director of MLFD; President of Princeton Administrators, L.P.; Director of FDS
Vincent R. Giordano	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Elizabeth Griffin	Senior Vice President	Senior Vice President of MLAM
Norman R. Harvey	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
N. John Hewitt	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Philip L. Kirstein	Senior Vice President, General Counsel and Secretary	Senior Vice President, General Counsel and Secretary of MLAM; Senior Vice President, General Counsel, Director and Secretary of Princeton Services, Director of MLFD
Ronald M. Kloss	Senior Vice President and Controller	Senior Vice President and Controller of MLAM; Senior Vice President and Controller of Princeton Services
Joseph T. Monagle, Jr.	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Richard L. Reller	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Gerald M. Richard	Senior Vice President and Treasurer	Senior Vice President and Treasurer of MLAM; Senior Vice President and Treasurer of Princeton Services;

Ronald L. Welburn	Senior Vice President	Vice President and Treasurer of MLFD
		Senior Vice President of MLAM; Senior Vice President of Princeton Services
Anthony Wiseman	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services

</TABLE>

Item 29. Principal Underwriters

(a) MFLD acts as the principal underwriter for the Registrant and for each of the investment companies referred to in the first two paragraphs of Item 28 except CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, The Corporate Fund Accumulation Program, Inc., The Municipal Fund Accumulation Program, Inc., and also acts as principal underwriter for the following closed-end funds: Merrill Lynch High Income Municipal Bond Fund, Inc. and Merrill Lynch Senior Floating Rate Fund, Inc.

(b) Set forth below is information concerning each director and officer of the MLFD. The principal business address of each such person is P.O. Box 9011, Princeton, New Jersey 08543-9011, except that the address of Messrs. Aldrich, Breen, Crook, Fatseas, Graczyk and Wasel is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2646.

<TABLE>

<CAPTION>

(1) Name	(2) Position(s) and Office(s) with MLFD	(3) Position(s) and Office(s) with the Registrant
-----	-----	-----
<S>	<C>	<C>
Terry K. Glenn	President and Director	Executive Vice President
Arthur Zeikel	Director	President and Director
Philip L. Kirstein	Director	None
William E. Aldrich	Senior Vice President	None
Robert W. Crook	Senior Vice President	None

C-4

(1) Name	(2) Position(s) and Office(s) with MLFD	(3) Position(s) and Office(s) with the Registrant
-----	-----	-----
Kevin P. Boman	Vice President	None
Michael J. Brady	Vice President	None
William M. Breen	Vice President	None
Sharon Creveling	Vice President and Assistant Treasurer	None
Mark A. DeSario	Vice President	None
James T. Fatseas	Vice President	None
Stanley Graczyk	Vice President	None
Michelle T. Lau	Vice President	None
Debra W. Landsman-Yaros	Vice President	None
Gerald M. Richard	Vice President and Treasurer	Treasurer
Salvatore Venezia	Vice President	None
William Wasel	Vice President	None
Robert Harris	Secretary	None

(c) Not applicable.

</TABLE>

Item 30. Location of Accounts and Records

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, as amended, and the rules thereunder are maintained at the offices of the Registrant, 800 Scudders Mill Road, Plainsboro, New Jersey 08536 and its transfer agent, Merrill Lynch Financial Data Services, Inc., 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484.

Item 31. Management Services

Other than as set forth under the caption "Management of the Fund--Management and Advisory Arrangements" in the Prospectus constituting Part A of the Registration Statement and under "Management of the Fund--Management and Advisory Arrangements" in the Statement of Additional Information constituting Part B of the Registration Statement, Registrant is not a party to any management-related service contract.

Item 32. Undertakings

(a) Not applicable.

(b) Not applicable.

(c) Registrant undertakes to furnish each person to whom a prospectus is delivered with a copy of the Registrant's latest annual report to

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for effectiveness of this Registration Statement pursuant to Rule 485(b) under the Securities Act of 1933 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the township of Plainsboro, and the State of New Jersey, on the 27th of July, 1995.

Merrill Lynch Special Value Fund, Inc.
(Registrant)

By /s/ Terry K. Glenn
(Terry K. Glenn, Executive Vice President)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the date(s) indicated.

<TABLE>

<CAPTION>

	Signature -----	Title -----	Date(s) -----
<S>	<C>	<C>	<C>
	Arthur Zeikel* (Arthur Zeikel)	President and Director (Principal Executive Officer)	
	Gerald M. Richard* (Gerald M. Richard)	Treasurer (Principal Financial and Accounting Officer)	
	Donald Cecil* (Donald Cecil)	Director	
	M. Colyer Crum* (M. Colyer Crum)	Director	
	Edward H. Meyer* (Edward H. Meyer)	Director	
	Jack B. Sunderland* (Jack B. Sunderland)	Director	
	J. Thomas Touchton* (J. Thomas Touchton)	Director	

*By /s/ Terry K. Glenn
(Terry K. Glenn, Attorney-in-Fact)

July 27, 1995

</TABLE>

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.

DESCRIPTION OF OMITTED GRAPHIC OR MATERIAL	LOCATION OF GRAPHIC OR IMAGE IN TEXT
Compass plate, circular graph paper and Merrill Lynch logo including stylized market bull	Back Cover of Prospectus and back cover of Statement of Additional Information

EXHIBIT INDEX

Exhibit Number	Description
1(a)	--Articles of Incorporation of Registrant. (a)
(b)	--Articles of Amendment to Articles of Incorporation of Registrant. (a)
(c)	--Articles Supplementary to the Articles of Incorporation of the

- Registrant.
- (d) --Articles of Amendment to the Articles of Incorporation of the Registrant.
- 5(a) --Investment Advisory Agreement between Registrant and Fund Asset Management, L.P. (a)
- 6(b) --Class B Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc. (including Form of Selected Dealers Agreement). (a)
- 8 --Custody Agreement between Registrant and The Bank of New York. (a)
- 9 --Transfer Agency Agreement between Registrant and Merrill Lynch Financial Data Services, Inc. (a)
- 11 --Consent of Deloitte & Touche LLP, independent auditors for the Registrant.
- 15(a) --Amended and Restated Class B Distribution Plan of Registrant. (a)
- 16(a) --Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class A shares. (a)
- (b) --Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class B shares. (a)
- (c) --Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class C shares.
- (d) --Schedule for computation of each performance quotation provided in the Registration Statement in response to Item 22 relating to Class D Shares.
- 17(a) --Financial Data Schedule for Class A Shares.
- (b) --Financial Data Schedule for Class B Shares.
- (c) --Financial Data Schedule for Class C Shares.
- (d) --Financial Data Schedule for Class D Shares.

- - - - -
(a) Refiled pursuant to the Electronic Data Gathering, Analysis and Retrieval (EDGAR) phase-in requirements.

MERRILL LYNCH SPECIAL VALUE FUND, INC.
ARTICLES SUPPLEMENTARY TO ARTICLES OF INCORPORATION
INCREASING THE AUTHORIZED CAPITAL STOCK OF THE
CORPORATION AND CREATING TWO ADDITIONAL CLASSES
OF COMMON STOCK

MERRILL LYNCH SPECIAL VALUE FUND, INC., a Maryland corporation having its principal Maryland office c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202 (hereinafter called the "Corporation"), hereby certifies to the State Department of Assessments and Taxation, that:

FIRST: The Corporation is registered as an open-end company under the Investment Company Act of 1940, as amended, with authority to issue ONE HUNDRED MILLION (100,000,000) shares of capital stock. The Corporation has two classes of capital stock consisting of FIFTY MILLION (50,000,000) shares of Class A Common Stock and FIFTY MILLION (50,000,000) shares of Class B Common Stock. All shares of all classes and series of the Corporation's capital stock have a par value of Ten Cents (\$.10) per share and an aggregate par value of TEN MILLION Dollars (\$10,000,000).

SECOND: The Board of Directors of the Corporation, acting in accordance with Section 2-105(c) of the Maryland Corporations and Associations Code hereby increases the total number of authorized shares of class B Common Stock of the Corporation by THREE HUNDRED MILLION (300,000,000) shares.

THIRD: After this increase in the number of authorized shares of capital stock of the Corporation, the Corporation will have authority to issue FOUR HUNDRED MILLION (400,000,000) shares of capital stock and the capital stock will consist of FIFTY MILLION (50,000,000) shares of Class A Common Stock and THREE HUNDRED FIFTY MILLION (350,000,000) shares of Class B Common Stock.

FOURTH: After this increase in the number of authorized shares of capital stock of the Corporation, all shares of all classes and series of the Corporation's capital stock will have a par value of Ten Cents (\$.10) per share and an aggregate par value of FORTY MILLION Dollars (\$40,000,000).

FIFTH: Pursuant to authority expressly vested in the Board of Directors of the Corporation by its charter, the Board of Directors has reclassified ONE HUNDRED MILLION (100,000,000) authorized and unissued shares of the Class B Common Stock of the Corporation as Class C Common Stock of par value of Ten Cents

(\$.10) per share and of the aggregate par value of TEN MILLION Dollars

(\$10,000,000).

SIXTH: The preferences, designations, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of Class C Common Stock are as follows:

The Class C Common Stock of the Corporation shall represent the same interest in the Corporation and have identical preferences, designations, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption as the Class B Common Stock as of the date of these Articles Supplementary, except as otherwise set forth in the Corporation's charter and further except that:

(i) Expenses related to the distribution of the Class C Common Stock shall be borne solely by such class and such class shall have exclusive voting rights with respect to matters relating to the expenses being borne solely by such class;

(ii) Such distribution expenses borne solely by Class C Common Stock shall be appropriately reflected (in the manner determined by the Board of Directors) in the net asset value, dividends, distribution and liquidation rights of the shares of such class; and

(iii) Class C Common Stock shall not be reclassified into Class D shares.

SEVENTH: Pursuant to authority expressly vested in the Board of Directors of the Corporation by its charter, the Board of Directors has reclassified ONE HUNDRED MILLION (100,000,000) authorized and unissued shares of the Class B Common Stock of the Corporation as Class D Common Stock of par value of Ten Cents (\$.10) per share and of the aggregate par value of TEN MILLION Dollars (\$10,000,000).

EIGHTH: The preferences, designations, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of Class D Common Stock are as follows:

The Class D Common Stock of the Corporation shall represent the same interest in the Corporation and have identical preferences, designations, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption as the Class B Common Stock as of the date of these Articles Supplementary,

except as otherwise set forth in the Corporation's charter and further except that:

(i) Expenses related to the distribution of the Class D Common Stock shall be borne solely by such class and such class shall have exclusive voting rights with respect to matters relating to the expenses being borne solely by such class; and

(ii) Such distribution expenses borne solely by Class D Common Stock shall be appropriately reflected (in the manner determined by the Board of Directors) in the net asset value, dividends, distribution and liquidation rights of the shares of such class.

NINTH: Pursuant to authority expressly vested in the Board of Directors of the Corporation by its charter, the Board of Directors has reclassified FIFTY MILLION (50,000,000) authorized and unissued shares of the Class B Common Stock of the Corporation as Class A Common Stock of par value of Ten Cents (\$.10) per share and of the aggregate par value of FIVE MILLION Dollars (\$5,000,000).

TENTH: The preferences, designations, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of Class A Common Stock are as follows:

The Class A Common Stock of the Corporation shall represent the same interest in the corporation and have identical preferences, designations, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption as the Class B Common Stock as of the date of these Articles Supplementary, except as otherwise set forth in the Corporation's charter and further except that:

(i) Expenses related to the distribution of the Class A Common Stock shall be borne solely by such class and such class shall have exclusive voting rights with respect to matters relating to the expenses being borne solely by such class;

(ii) Such distribution expenses borne solely by Class A Common Stock shall be appropriately reflected (in the manner determined by the Board of Directors) in the net asset value, dividends, distribution and liquidation rights of the shares of such class; and

(iii) Class A Common Stock shall not be reclassified into Class D shares.

IN WITNESS WHEREOF, MERRILL LYNCH SPECIAL VALUE FUND, INC. has caused these Articles Supplementary to be signed in its name and on its behalf by its

President and attested by its Secretary on October 17, 1994.

MERRILL LYNCH SPECIAL VALUE FUND, INC.

By /s/ Arthur Zeikel
Arthur Zeikel, President

Attest:

/s/ Mark B. Goldfus
Mark B. Goldfus, Secretary

THE UNDERSIGNED, President of MERRILL LYNCH SPECIAL VALUE FUND, INC., who executed on behalf of said Corporation the foregoing Articles Supplementary, of which this certificate is made a part, hereby acknowledges, in the name and on behalf of said Corporation, the foregoing Articles Supplementary to be the corporate act of said Corporation and further certifies that, to the best of his knowledge, information and belief, the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects, and that this statement is made under the penalties for perjury.

/s/ Arthur Zeikel,
Arthur Zeikel, President

MERRILL LYNCH SPECIAL VALUE FUND, INC.

ARTICLES OF AMENDMENT

TO THE ARTICLES OF INCORPORATION

MERRILL LYNCH SPECIAL VALUE FUND, INC., a Maryland corporation having its principal Maryland office c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202 (hereinafter called the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The charter of the Corporation is hereby amended by adding the following provision at the end of Article V:

(8) The Board of Directors may classify and reclassify any issued shares of capital stock into one or more additional or other classes or series as may be established from time to time by setting or changing in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares of stock and pursuant to such classification or reclassification to increase or decrease the number of authorized shares of any existing class or series; provided, however, that any such classification or reclassification shall not substantially adversely affect the rights of holders of such issued shares. The Board's authority pursuant to this paragraph shall include, but not be limited to, the power to vary among all the holders of a particular class or series (a) the length of time shares must be held prior to reclassification to shares of another class or series (the "Holding Period(s)"), (b) the manner in which the time for such Holding Period(s) is determined and (c) the class or series into which the particular class or series is being reclassified; provided, however, that, subject to the first sentence of this section, with respect to holders of the Corporation's shares issued on or after the date of the Corporation's first effective prospectus which sets forth Holding Period(s) (the "First Holding Period Prospectus"), the Holding Period(s), the manner in which the time for such Holding Period(s) is determined and the class or series into which the particular class or series is being reclassified shall be disclosed in the Corporation's prospectus or statement of additional information in effect at the time such

shares, which are the subject of the reclassification, were issued; and provided, further, that, subject to the first sentence of this section, with respect to holders of the Corporation's Class B shares issued prior to the date of the

Corporation's First Holding Period Prospectus, the Holding Period shall be ten (10) years for retirement plan (as recognized by the Internal Revenue Code of 1986, as amended from time to time) holders of issued Class B shares purchased without a contingent deferred sales charge (a "CDSC-Waived Retirement Plan") and shall be the Holding Period set forth in the Corporation's First Holding Period Prospectus, for all other holders of issued Class B shares; Class B shares held by a CDSC-Waived Retirement Plan shall be reclassified to Class D shares in the month following the month in which the first Class B share of any mutual fund advised by Merrill Lynch Asset Management, L.P., Fund Asset Management, L.P., or their affiliates or successors, held by such CDSC-Waived Retirement Plan has been held for the ten (10) year Holding Period established by the Corporation's Board of Directors for such CDSC-Waived Retirement Plan Class B shareholder; and the Class B shares of every shareholder other than CDSC-Waived Retirement Plans shall be reclassified to Class D shares in the month following the month in which such shares have been held for the Holding Period established by the Corporation's Board of Directors for shareholders other than CDSC-Waived Retirement Plans in the Corporation's First Holding Period Prospectus.

SECOND: The foregoing Articles of Amendment have been effected in the manner and by the vote required by the Corporation's charter and the laws of the State of Maryland. Pursuant to Section 2-604 of the Maryland Corporations and Associations Code, the amendment was advised by the Board of Directors of the Corporation and approved by the stockholders.

THIRD: Except as amended hereby, the Corporation's charter shall remain in full force and effect.

FOURTH: The authorized capital stock of the Corporation has not been increased by these Articles of Amendment.

FIFTH: These Articles of Amendment shall be effective at the very beginning of the day on October 21, 1994.

The President acknowledges these Articles of Amendment to be the corporate act of the Corporation and states that to the best

of his knowledge, information and belief, the matters set forth in these Articles of Amendment with respect to the authorization and approval of the amendment of the Corporation's charter are true in all material respects, and that this statement is made under the penalties for perjury.

2

IN WITNESS WHEREOF, MERRILL LYNCH SPECIAL VALUE FUND, INC. has caused these Articles of Amendment to be signed in its name and on its behalf by its President, a duly authorized officer of the Corporation, and attested by its Secretary as of the 17th day of October, 1994.

MERRILL LYNCH SPECIAL VALUE FUND, INC

/S/ Arthur Zeikel
Arthur Zeikel, President

Attest:

/s/ Mark B. Goldfus
Mark B. Goldfus, Secretary

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INDEPENDENT AUDITORS' CONSENT

Merrill Lynch Special Value Fund, Inc.:

We consent to the use in Post-Effective Amendment No. 21 to Registration Statement No. 2-60836 of our report dated May 9, 1995 appearing in the Statement of Additional Information, which is a part of such Registration Statement, and to the reference to us under the caption "Financial Highlights" appearing in the Prospectus, which also is a part of such Registration Statement.

Deloitte & Touche LLP
Princeton, New Jersey
July 27, 1995

EXHIBIT 16(c)

Special Value--Class C

10/21/94-3/31/95

<TABLE>

<CAPTION>

	Since Inception Average Annual Total Return	Since Inception Total Return*
	----- <C>	----- <C>
Initial Investment	\$1,000.00	\$1,000.00
Divided by Net Asset Value	15.06	15.06
Equals Shares Purchased	66.401	66.401
Plus Shares Acquired through Dividend Reinvestment	3.016	3.016
Equals Shares Held at 3/31/95	69.417	69.417
Multiplied by Net Asset Value at 3/31/95	15.10	15.10
Equals Ending Value before deduction for contingent deferred sales charge	1,048.20	1,048.20
Less deferred sales charge	(10.00)	0.00
Equals Ending Redeemable Value at \$1,000 Investment (ERV) at 3/31/95	1,038.20	1,048.20
Divided by \$1,000 (P)	1.0382	1.0482
Subtract 1	0.0382	0.0482
Expressed as a percentage equals the Aggregate Total Return for the Period (T)	3.82%	
	=====	
Expressed as a percentage equals the Aggregate Total Return for the Period		4.82%
		=====
ERV divided by P	1.0382	
Raise to the power of	2.2671	
Equals	1.0887	
Subtract 1	0.0887	
Expressed as a percentage equals the Average Annualized Total Return	8.87%	
	=====	

</TABLE>

*Does not include sales charge for the period.

EXHIBIT 16(d)

Special Value--Class D

10/21/94-3/31/95

<TABLE>

<CAPTION>

	Since Inception Average Annual Total Return	Since Inception Total Return*
	-----	-----
<S>	<C>	<C>
Initial Investment	\$1,000.00	\$1,000.00
Divided by Initial Maximum Offering Price	16.38	

Divided by Net Asset Value		15.52
Equals Shares Purchased	61.050	64.433
Plus Shares Acquired through Dividend Reinvestment	2.764	2.917
	-----	-----
Equals Shares Held at 3/31/95	63.814	67.350
Multiplied by Net Asset Value at 3/31/95	15.61	15.61
	-----	-----
Equals Ending Redeemable Value at \$1,000 Investment (ERV) at 3/31/95	996.13	1,051.33
	-----	-----
Divided by \$1,000 (P)	0.9961	1.0513
Subtract 1	-0.0039	0.0513
Expressed as a percentage equals the Aggregate Total Return for the Period (T)	-0.39%	
	=====	
Expressed as a percentage equals the Aggregate Total Return for the Period		5.13%
		=====
ERV divided by P	0.9961	
Raise to the power of	2.2671	
Equals	0.9913	
Subtract 1	-0.0087	
Expressed as a percentage equals the Average Annualized Total Return	-0.87%	
	=====	

*Does not include sales charge for the period.

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WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

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ARTICLES OF INCORPORATION
OF
MERRILL LYNCH SPECIAL VALUE FUND, INC.

ARTICLE I

THE UNDERSIGNED, STEPHEN M. M. MILLER, whose post-office address is 165 Broadway, New York, New York 10080, being at least eighteen years of age, does hereby act as an incorporator, under and by virtue of the General Laws of the State of Maryland authorizing the formation of corporations and with the intention of forming a corporation.

ARTICLE II

NAME

The name of the Corporation is
MERRILL LYNCH SPECIAL VALUE FUND, INC.

ARTICLE III

PURPOSES AND POWERS

The purpose or purposes for which the Corporation is formed and the business or objects to be transacted, carried on and promoted by it are as follows:

(1) To conduct and carry on the business of an investment company of the management type.

(2) To hold, invest and reinvest its assets in securities, and in connection therewith to hold part or all of its assets in cash.

(3) To issue and sell shares of its own capital stock in such amounts and on such terms and conditions, for such purposes and for such amount or kind of consideration now or hereafter permitted by the General Laws of the State of Maryland and by these Articles of Incorporation, as its Board of Directors may determine; provided, however, that the value of the consideration per share to be received by the Corporation upon the sale or other disposition of any shares of its capital stock shall not be less than the net asset value per share of such capital stock outstanding at the time of such event.

(4) To redeem, purchase or otherwise acquire, hold, dispose of, resell, transfer, reissue or cancel (all without the vote or consent of the stockholders of the Corporation) shares of its capital stock, in any manner and to the extent now or hereafter permitted by the General Laws of the State of

Maryland and by these Articles of Incorporation.

(5) To do any and all such further acts or things and to exercise any and all such further powers or rights as may be necessary, incidental, relative, conducive, appropriate or desirable for the accomplishment, carrying out or attainment of all or any of the foregoing purposes or objects.

2.

The Corporation shall be authorized to exercise and enjoy all of the powers, rights and privileges granted to, or conferred upon, corporations by the General Laws of the State of Maryland now or hereafter in force, and the enumeration of the foregoing shall not be deemed to exclude any powers, rights or privileges so granted or conferred.

ARTICLE IV
PRINCIPAL OFFICE AND RESIDENT AGENT

The post-office address of the principal office of the Corporation in the State of Maryland is c/o The Corporation Trust Incorporated, First Maryland Building, 25 South Charles Street, Baltimore, Maryland 21201. The name of the resident agent of the Corporation in this State is The Corporation Trust Incorporated, a corporation of this State, and the post-office address of the resident agent is First Maryland Building, 25 South Charles Street, Baltimore, Maryland 21201.

ARTICLE V
CAPITAL STOCK

(1) The total number of shares of capital stock which the Corporation shall have authority to issue is One Hundred Million (100,000,000) shares, all of one class called Common Stock, of the par value of Ten Cents (\$0.10) per share and of the aggregate par value of Ten Million Dollars (\$10,000,000).

3.

(2) Any fractional share shall carry proportionately all the rights of a whole share, excepting any right to receive a certificate evidencing such fractional share, but including, without limitation, the right to vote and the right to receive dividends.

(3) All persons who shall acquire stock in the Corporation shall acquire

the same subject to the provisions of these Articles of Incorporation and the by-laws of the Corporation.

ARTICLE VI

PROVISIONS FOR DEFINING, LIMITING AND REGULATING CERTAIN POWERS OF THE CORPORATION AND OF THE DIRECTORS AND STOCKHOLDERS

(1) The number of directors of the Corporation shall be three (3), which number may be increased pursuant to the by-laws of the Corporation but shall never be less than three (3). The names of the directors who shall act until the first annual meeting or until their successors are duly elected and qualify are:

Arthur Zeikel
William W. Hewitt, Jr.
Stephen M. M. Miller

(2) The Board of Directors of the Corporation is hereby empowered to authorize the issuance from time to time of shares of capital stock, whether now or hereafter authorized, for such consideration as the Board of Directors may

4.

deem advisable, subject to such limitations as may be set forth in these Articles of Incorporation or in the by-laws of the Corporation or in the General Laws of the State of Maryland.

(3) No holder of stock of the Corporation shall, as such holder, have any right to purchase or subscribe for any shares of the capital stock of the Corporation or any other security of the Corporation which it may issue or sell (whether out of the number of shares authorized by these Articles of Incorporation, or out of any shares of the capital stock of the Corporation acquired by it after the issue thereof, or otherwise) other than such right, if any, as the Board of Directors, in its discretion, may determine.

(4) Each director and each officer of the Corporation shall be indemnified by the Corporation to the full extent permitted by the General Laws of the State of Maryland.

(5) The Board of Directors of the Corporation may make, alter or repeal

from time to time any of the by-laws of the Corporation except any particular by-law which is specified as not subject to alteration or repeal by the Board of Directors, subject to the requirements of the Investment Company Act of 1940, as amended.

ARTICLE VII REDEMPTION

Each holder of shares of capital stock of the Corporation shall be entitled to require the Corporation to redeem all or any part of the shares of capital stock of the Corporation standing in the name of such holder on the books of the Corporation, and all shares of capital stock issued by the Corporation shall be subject to redemption by the Corporation, at the redemption price of such shares as in effect from time to time as may be determined by the Board of Directors of the Corporation in accordance with the provisions hereof, subject to the right of the Board of Directors of the Corporation to suspend the right of redemption of shares of capital stock of the Corporation or postpone the date of payment of such redemption price in accordance with provisions of applicable law. The redemption price of shares of capital stock of the Corporation shall be the net asset value thereof as determined by the Board of Directors of the Corporation from time to time in accordance with the provisions of applicable law, less such redemption fee or other charge, if any, as may be fixed by resolution of the Board of Directors of the Corporation. Payment of the redemption price shall be made in cash by the Corporation at such time and in such manner as may be determined from time to time by the Board of Directors of the Corporation.

6.

ARTICLE VIII DETERMINATION BINDING

Any determination made in good faith, so far as accounting matters are involved, in accordance with accepted accounting practice by or pursuant to the direction of the Board of Directors, as to the amount of assets, obligations or liabilities of the Corporation, as to the amount of net income of the Corporation from dividends and interest for any period or amounts at any time legally available for the payment of dividends, as to the amount of any reserves or charges set up and the propriety thereof, as to the time of or purpose for creating reserves or as to the use, alteration or cancellation of any reserves or charges (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged or shall be then or thereafter required to be paid or discharged), as to the price of any security owned by the Corporation or as to any other matters relating to the

issuance, sale, redemption or other acquisition or disposition of securities or shares of capital stock of the Corporation, and any reasonable determination made in good faith by the Board of Directors as to whether any transaction constitutes a purchase of securities on "margin", a sale of securities "short", or an underwriting of the sale of, or a participation in any underwriting or selling group in connection with the public distribution of, any securities,

shall be final and conclusive, and shall be binding upon the Corporation and all holders of its capital stock, past, present and future, and shares of the capital stock of the Corporation are issued and sold on the condition and understanding, evidenced by the purchase of shares of capital stock or acceptance of share certificates, that any and all such determinations shall be binding as aforesaid. No provision of these Articles of Incorporation shall be effective to (a) require a waiver of compliance with any provision of the Securities Act of 1933, as amended, or the Investment Company Act of 1940, as amended, or of any valid rule, regulation or order of the Securities and Exchange Commission thereunder or (b) protect or purport to protect any director or officer of the Corporation against any liability to the Corporation or its security holders to which he would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

ARTICLE IX
PERPETUAL EXISTENCE

The duration of the Corporation shall be perpetual.

ARTICLE X
AMENDMENT

The Corporation reserves the right from time to time to make any amendment of its charter, now or hereafter

authorized by law, including any amendment which alters the contract rights, as expressly set forth in its charter, of any outstanding stock.

IN WITNESS WHEREOF, the undersigned incorporator of MERRILL LYNCH SPECIAL VALUE FUND, INC. hereby executes the foregoing Articles of Incorporation and acknowledges the same to be his act and further acknowledges that, to the best of his knowledge, the matters and facts set forth therein are true in all material respects under the penalties of perjury.

Dated the 22nd day of February, 1978.

/s/ Stephen M. M. Miller
Stephen M. M. Miller

9.

MERRILL LYNCH SPECIAL VALUE FUND, INC.

Articles of Amendment

MERRILL LYNCH SPECIAL VALUE FUND, INC., a Maryland corporation having its principal office c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202 (hereinafter called the "Corporation"), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: The charter of the Corporation is hereby amended by amending ARTICLE V thereof in its entirety to read as follows:

Capital Stock

1. The total number of shares of capital stock which the Corporation shall have authority to issue is One Hundred Million (100,000,000) shares of the par value of Ten Cents (\$0.10) per share and of the aggregate par value of Ten Million Dollars (\$10,000,000). The capital stock initially is classified into two classes, consisting of Fifty Million (50,000,000) shares of Class A Common Stock and Fifty Million (50,000,000) shares of Class B Common Stock.

2. The Board of Directors may classify and reclassify any unissued shares of capital stock into one or more additional or other classes or series as may be established from time to time by setting or changing in any one or more respects the designations, conversion or other rights, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares of stock and pursuant to such classification or reclassification to increase or decrease the number of authorized shares of any existing class or series; provided, however, that no such classification or reclassification shall result in the creation of a class or series of capital stock having a preference as to dividends or distributions or a preference in the event of any liquidation, dissolution or winding up of the Corporation.

3. Unless otherwise expressly provided in the charter of the Corporation, including any Articles Supplementary creating any class or series of capital stock, the holders of each class or series of capital stock shall be entitled

to dividends and distributions in such amounts and at such times as may be determined by the Board of Directors, and the dividends and distributions paid with respect to the various classes or series of capital stock may vary among such classes and series. Expenses related to the distribution of, and other identified expenses that should properly be allocated to, the shares of a particular class or series of capital stock may be charged to and borne solely by such class or series and the bearing of expenses solely by a class or series of capital stock may be appropriately reflected (in a manner determined by the Board of Directors) and cause differences in the net asset value attributable to, and the dividend, redemption and liquidation rights of, the shares of each class or series of capital stock.

4. On each matter submitted to a vote of stockholders, each holder of a share of capital stock of the Corporation shall be entitled to one vote for each share standing in such holder's name on the books of the Corporation, irrespective of the class or series thereof, and all shares of all classes and series shall vote together as a single class; provided, however, that (a) as to any matter with respect to which a separate vote of any class or series is required by the Investment Company Act of 1940, as amended, and in effect from time to time, or any rules, regulations or orders issued thereunder, or by the Maryland General Corporation Law, such requirement as to a separate vote by that class or series shall apply in lieu of a general vote of all classes and series as described above, (b) in the event that the separate vote requirements referred to in (a) above apply with respect to one or more classes or series, then, subject to paragraph (c) below, the shares of all other classes and series not entitled to a separate class vote shall vote as a single class, and (c) as to any matter which does not affect the interest of a particular class or series, such class or series shall not be entitled to any vote and only the holders of shares of the one or more affected classes and series shall be entitled to vote.

5. Unless otherwise expressly provided in the charter of the Corporation, including any Articles Supplementary creating any class or series of capital stock, in the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of all classes and series of capital stock of the Corporation shall be entitled, after payment or provision

2.

for payment of the debts and other liabilities of the corporation, to share ratably in the remaining net assets of the Corporation.

6. Any Fractional shares shall carry proportionately all the rights of a whole share, excepting any right to receive a certificate evidencing such fractional share, but including, without limitation, the right to vote and the right to receive dividends.

7. All persons who shall acquire stock in the Corporation shall acquire the same subject to the provisions of the charter and By-Laws of the Corporation. All shares of Common Stock of the Corporation issued on or before October 3, 1988 shall without further act be considered Class A Common Stock. As used in the charter of the Corporation, the terms "charter" and "Articles of Incorporation" shall mean and include the Articles of Incorporation of the Corporation, as amended, supplemented and restated from time to time by Articles of Amendment, Articles Supplementary, Articles of Restatement or otherwise.

SECOND: The foregoing amendment does not increase the authorized capital stock of the Corporation.

THIRD: The foregoing amendment to the charter of the Corporation has been advised by the Board of Directors and approved by the stockholders of the Corporation.

3.

IN WITNESS WHEREOF, Merrill Lynch Special Value, Inc. has caused these Articles of Amendment to be signed in its name and on its behalf by its President and attested by its Secretary on October 3, 1988.

ATTEST:

MERRILL LYNCH SPECIAL VALUE FUND, INC.

Mark B. Goldfus, Secretary

By /s/ Arthur Zeikel
Arthur Zeikel, President

THE UNDERSIGNED, President of Merrill Lynch Special Value Fund, Inc., who executed on behalf of said Corporation the foregoing Articles of Amendment, of which this certificate is made a part, hereby acknowledges, in the name and on

behalf of said Corporation, the foregoing Articles of Amendment to be the corporate act of said Corporation, and further certifies that, to the best of his knowledge, information and belief, the matters and facts set forth therein with respect to the approval thereof are true in all material respects, under the penalties of perjury.

/s/ Arthur Zeikel
Arthur Zeikel, President

4.

INVESTMENT ADVISORY AGREEMENT

AGREEMENT made this 27th day of March, 1978, by and between MERRILL LYNCH SPECIAL VALUE FUND INC., a Maryland corporation (the "Fund"), and FUND ASSET MANAGEMENT INC., a Delaware corporation (the "Adviser");

WITNESSETH:

WHEREAS, the Fund is engaged in business as a diversified open-end management investment company and is registered as such under the Investment Company Act of 1940 (the "Investment Company Act");

WHEREAS, the Adviser is engaged principally in rendering advisory services and is registered as an investment adviser under the Investment Advisers Act of 1940; and

WHEREAS, the Fund desires to retain the Adviser to render investment supervisory and corporate administrative services to the Fund in the manner and on the terms hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and the covenants hereinafter contained, the Fund and the Adviser hereby agree as follows:

ARTICLE 1. Duties of the Adviser. The Fund hereby employs the Adviser to act as the investment adviser to and manager of the Fund and to manage the investment and reinvestment of the assets of the Fund and to administer its affairs, subject to the supervision of the Board of Directors of the Fund, for the period and on the terms and conditions set forth in this Agreement. The Adviser hereby accepts such employment and agrees during such period, at its own expense, to render the services and to assume the obligations herein set forth for the compensation provided for herein. The Adviser shall for all purposes herein be deemed to be an independent contractor and shall, unless otherwise expressly provided or authorized, have no authority to act for or represent the Fund in any way or otherwise be deemed an agent of the Fund.

(a) Investment Advisory Services. In acting as investment adviser to the Fund, the Adviser shall regularly provide the Fund with such investment research, advice and supervision as the latter may from time to time consider necessary for the proper supervision of its funds and shall furnish continuously an investment program and shall determine from time to time what securities shall be purchased, sold or exchanged and what portion of the assets of the Fund shall be held in the various securities in which the Fund may invest, subject always to the restrictions of its Articles of Incorporation and By-Laws, as amended from time to time, the provisions of the Investment Company Act, and the statements relating to the Fund's investment objectives, investment policies and

investment restrictions as the same are set forth in the currently effective prospectus of the Fund under the Securities Act of 1933 (the "Prospectus"). The Adviser shall also make recommendations as to the manner in which voting rights, rights to consent to corporate action and any other rights pertaining to the Fund's portfolio securities shall be exercised. Should the Board or Directors of the Fund at any time, however, make any definite determination as to investment policy and notify the Adviser thereof, the Adviser shall be bound by such determination for the

period, if any, specified in such notice or until similarly notified that such determination has been revoked. The Adviser shall take, on behalf of the Fund, all actions which it deems necessary to implement the investment policies determined as provided above, and in particular to place all orders for the purchase or sale of portfolio securities or the Fund's account with brokers or dealers selected by it. In connection with the selection of such brokers or dealers and the placing of such orders, the Adviser is directed at all times to seek to obtain for the Fund the most favorable execution and price within the meaning of such terms as determined by the Board of Directors and set forth in the Prospectus. Subject to this requirement and the provisions of the Investment Company Act, the Securities Exchange Act of 1934, and other applicable provisions of law, nothing shall prohibit the Adviser from selecting brokers or dealers with which it or the Fund is affiliated.

(b) Administrative Services. In addition to the performance of investment advisory services, the Adviser shall perform, or supervise the performance of, administrative services in connection with the management of the Fund. In this connection, the Adviser agrees to (i) assist in supervising all aspects of the Fund's operations, including the co-ordination of all matters relating to the functions of the custodian, transfer agent, other shareholder service agents, accountants, attorneys and other parties performing services or operational functions for the Fund, (ii) provide the Fund, at the Adviser's expense, with the services of persons competent to perform such administrative and clerical functions as are necessary in order to provide effective administration of the Fund, including duties in connection with shareholder relations, reports, redemption requests and account adjustments and the maintenance of certain books and records of the Fund, (iii) provide the Fund, at the Adviser's expense, with adequate office space and related services necessary for its operations as contemplated in this Agreement, and (iv) supervise and administer the operation of the Exchange Privilege referred to in the Prospectus. The Fund acknowledges that the Adviser intends to arrange for the provision of services and the performance of functions referred to in this subsection (b) by Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Administrator") pursuant to an Administration Agreement between the Adviser and the Administrator.

ARTICLE 2. Allocation of Charges and Expenses.

(a) The Adviser. The Adviser assumes and shall pay for maintaining the staff and personnel, and shall at its own expense provide the equipment, office space and facilities, necessary to perform its obligations under this Agreement,

and shall pay all compensation of officers of the Fund and the fees of all directors of the Fund who are affiliated persons of Merrill Lynch & Co., Inc. or its subsidiaries.

(b) The Fund. The Fund assumes and shall pay all expenses of the Fund, including, without limitation: organization costs, taxes, expenses for legal and auditing services, costs of printing proxies, stock certificates, shareholder reports and prospectuses (except to the extent paid by the Distributor), charges of the Custodian and Transfer Agent, expenses of redemption of shares, Securities and Exchange Commission fees, expenses of registering the shares under Federal and state securities laws, fees and expenses of directors who are not affiliated persons of Merrill Lynch & Co., Inc. or its subsidiaries, accounting and pricing costs (including the daily calculation of net asset value), insurance, interest, brokerage costs, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

ARTICLE 3. Compensation of the Adviser.

(a) Investment Advisory Fee. For the services rendered, the facilities furnished and expenses assumed by the Adviser, the Fund shall pay to the Adviser at the end of each calendar month a fee based upon the average daily value of the net assets of the Fund, as determined and computed in accordance with the description of the determination of net asset value contained in the Prospectus, at the annual rate of 0.75% of the average daily net assets of the Fund. During any period when the determination of net asset value is suspended by the Board of Directors of the Fund, the net asset value of a share as or the last business day prior to such suspension shall for this purpose be deemed to be the net asset value at the close of each succeeding business day until it is again determined.

(b) Expense Limitations. In the event the operating expenses of the Fund, including the investment advisory fee payable to the Adviser pursuant to subsection (a) hereof, for any fiscal year ending on a date on which this Agreement is in effect exceed the expense limitations applicable to the Fund imposed by state securities laws or regulations thereunder, as such limitations may be raised or lowered from time to time, the Adviser shall reduce its investment advisory fee by the extent of such excess and, if required pursuant to any such laws or regulations, will reimburse the Fund in the amount of such excess; provided, however, to the extent permitted by law, there shall be excluded from such expenses the amount of any interest, taxes, brokerage commissions and extraordinary expenses (including but not limited to legal claims and liabilities and litigation costs and any indemnification related thereto) paid or payable by the Fund. Whenever the expenses of the Fund exceed a pro rata portion of the applicable annual expense limitations, the estimated amounts of reimbursement under such limitations shall be applicable as an offset against the monthly payment of the advisory fee due to the Adviser. Should two or more such expense limitations be applicable as at the end of the last business day of the month, that expense limitation which results in the largest

reduction in the Adviser's fee shall be applicable.

ARTICLE 4. Limitation of Liability of the Adviser. The Adviser shall not be liable for any error of judgment or mistake of law or for any loss suffered by the Fund in connection with any investment policy or the purchase, sale or redemption of any securities on the recommendation of the Adviser. Nothing herein contained shall be construed to protect the Adviser against any liability to the Fund or its security holders to which the Adviser shall otherwise be subject by reason of willful misfeasance, bad faith, gross negligence in the performance of its duties on behalf of the Fund, reckless disregard of the Adviser's obligations and duties under this Agreement or the violation of any applicable law.

ARTICLE 5. Activities of the Adviser. The services of the Adviser under this Agreement are not to be deemed exclusive, and the Adviser shall be free to render similar services to others so long as its services hereunder are not impaired thereby. It is understood that directors, officers, employees and shareholders of the Fund are or may become interested in the Adviser, as directors, officers, employees or shareholders or otherwise and that directors, officers, employees, or shareholders of the Adviser are or may become similarly interested in the Fund, and that the Adviser is or may become interested in the Fund as shareholder or otherwise.

ARTICLE 6. Duration and Termination of this Agreement. This Agreement shall become effective as of the date first above written and shall remain in force until March 1, 1980 and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Board of Directors of the Fund, or by the vote of a majority of the outstanding voting securities of the Fund, and (ii) by the vote of a majority

of those directors who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Board of Directors of the Fund or by vote of a majority of the outstanding voting securities of the Fund, or by the Adviser, on sixty days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

The terms "vote of majority of the outstanding voting securities", "assignment", "affiliated person" and "interested person", when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

ARTICLE 7. Amendments of this Agreement. This Agreement may be amended by the parties only if such amendment is specifically approved by (i) the Board of Directors of the Fund, or by the vote of a majority of the outstanding voting securities of the Fund, and (ii) by the vote of a majority of those directors of

the Fund who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

ARTICLE 8. Governing Law. The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MERRILL LYNCH SPECIAL VALUE FUND, INC.

By ARTHUR ZEIKEL
President

Attest:

STEPHEN M. M. MILLER
Secretary

FUND ASSEST MANAGEMENT, INC.

By SHIRLEY A. ALEXANDER
Vice President

Attest:

STEPHEN. M. M. MILLER
Secretary

CLASS B SHARES
DISTRIBUTION AGREEMENT

AGREEMENT made as of the 3rd day of October, 1988, between MERRILL LYNCH SPECIAL VALUE FUND, INC., a Maryland corporation (the "Fund"), and MERRILL LYNCH FUNDS DISTRIBUTOR, INC., a Delaware corporation (the "Distributor").

W I T N E S S E T H :

WHEREAS, the Fund is registered under the Investment Company Act of 1940, as amended to date (the "Investment Company Act"), as an open-end investment company and it is affirmatively in the interest of the Fund to offer its shares for sale continuously; and

WHEREAS, the Distributor is a securities firm engaged in the business of selling shares of investment companies either directly to purchasers or through other securities dealers; and

WHEREAS, the Fund and the Distributor wish to enter into an agreement with each other with respect to the continuous offering of the Class B shares of common stock of the Fund (the "Class B Shares") in order to promote the growth of the Fund and facilitate the distribution of its Class B shares.

NOW, THEREFORE, the parties agree as follows:

Section 1. Appointment of the Distributor. The Fund hereby appoints the Distributor as the principal underwriter and distributor of the Fund to sell Class B shares to the public and hereby agrees during the term of this Agreement to sell Class B shares of the Fund to the Distributor upon the terms and conditions herein set forth.

Section 2. Exclusive Nature of Duties. The Distributor shall be the exclusive representative of the Fund to act as principal underwriter and distributor, except that:

(a) The Fund may, upon written notice to the Distributor, from time to time designate other principal underwriters and distributors of its Class B shares with respect to areas other than the United States as to which the Distributor may have expressly waived in writing its right to act as such. If such designation is deemed exclusive, the right of the Distributor under this Agreement to sell Class B shares in the areas so designated shall terminate, but this Agreement shall remain otherwise in full effect until terminated in

accordance with the other provisions hereof.

(b) The exclusive rights granted to the Distributor to purchase Class B shares from the Fund shall not apply to shares of the Fund issued in connection with the merger or consolidation of any other investment company or personal holding company with

2.

the Fund or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding shares of any such company by the Fund.

(c) Such exclusive rights also shall not apply to Class B shares issued by the Fund pursuant to reinvestment of dividends or capital gains distributions.

(d) Such exclusive rights also shall not apply to Class B shares issued by the Fund pursuant to any reinstatement privilege afforded redeeming shareholders.

Section 3. Purchase of Shares from the Fund.

(a) The Fund will commence an offering of its Class B shares and thereafter the Distributor shall have the right to buy from the Fund the Class B shares needed, but not more than the Class B shares needed (except for clerical errors in transmission) to fill unconditional orders for Class B shares of the Fund placed with the Distributor by investors or securities dealers. The price which the Distributor shall pay for the Class B shares so purchased from the Fund shall be the net asset value, determined as set forth in Section 3(c) hereof.

(b) The Class B shares are to be resold by the Distributor to investors at net asset value, as set forth in Section 3(c) hereof, or to securities dealers having agreements with the Distributor upon the terms and conditions set forth in Section 7 hereof.

3.

(c) The net asset value of Class B shares of the Fund shall be determined by the Fund or any agent of the Fund in accordance with the method set forth in

the prospectus and statement of additional information of the Fund and guidelines established by the Board of Directors.

(d) The Fund shall have the right to suspend the sale of its Class B shares at times when redemption is suspended pursuant to the conditions set forth in Section 4(b) hereof. The Fund shall also have the right to suspend the sale of its Class B shares if trading on the New York Stock Exchange shall have been suspended, if a banking moratorium shall have been declared by Federal or New York authorities, or if there shall have been some other event, which, in the judgment of the Fund, makes it impracticable or inadvisable to sell the Class B shares.

(e) The Fund, or any agent of the Fund designated in writing by the Fund, shall be promptly advised of all purchase orders for Class B shares received by the Distributor. Any order may be rejected by the Fund; provided, however, that the Fund will not arbitrarily or without reasonable cause refuse to accept or confirm orders for the purchase of Class B shares. The Fund (or its agent) will confirm orders upon their receipt, will make appropriate book entries and, upon receipt by the Fund (or its agent) of payment therefor, will deliver deposit receipts or certificates for such Class B shares pursuant to the instructions of the Distributor. Payment shall be made to the Fund in New

4.

York Clearing House funds. The Distributor agrees to cause such payment and such instructions to be delivered promptly to the Fund (or its agent).

Section 4. Repurchase or Redemption of Shares by the Fund.

(a) Any of the outstanding Class B shares may be tendered for redemption at any time, and the Fund agrees to repurchase or redeem the Class B shares so tendered in accordance with its obligations as set forth in Article VII of its Articles of Incorporation, as amended from time to time, and in accordance with the applicable provisions set forth in the prospectus and statement of additional information of the Fund. The price to be paid to redeem or repurchase the Class B shares shall be equal to the net asset value calculated in accordance with the provisions of Section 3(c) hereof, less the redemption fee or other charge, if any, set forth in the prospectus and statement of additional information of the Fund. All payments by the Fund hereunder shall be made in the manner set forth below.

The Fund shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor on or before the seventh business day subsequent to its having received the notice of redemption in proper form. The proceeds of any redemption of Class B shares shall be paid by the Fund as follows: (i) any applicable contingent deferred

sales charge shall be paid to the Distributor and (ii) the

5.

balance shall be paid to or for the account of the shareholder, in each case in accordance with the applicable provisions of the prospectus and statement of additional information.

(b) Redemption of Class B shares or payment may be suspended at times when the New York Stock Exchange is closed, when trading on said Exchange is closed, when trading on said Exchange is restricted, when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or during any other period when the Securities and Exchange Commission, by order, so permits.

Section 5. Duties of the Fund.

(a) The Fund shall furnish to the Distributor copies of all information, financial statements and other papers which the Distributor may reasonably request for use in connection with the distribution of Class B shares of the Fund, and this shall include, upon request by the Distributor, one certified copy of all financial statements prepared for the Fund by independent public accountants. The Fund shall make available to the Distributor such number of copies of its prospectus and statement of additional information as the Distributor shall reasonably request.

6.

(b) The Fund shall take, from time to time, but subject to the necessary approval of the shareholders, all necessary action to fix the number of authorized Class B shares and such steps as may be necessary to register the same under the Securities Act of 1933, as amended (the "Securities Act"), to the end that there will be available for sale such number of Class B shares as the Distributor reasonably may be expected to sell.

(c) The Fund shall use its best efforts to qualify and maintain the qualification of an appropriate number of its Class B shares for sale under the securities laws of such states as the Distributor and the Fund may approve. Any

such qualification may be withheld, terminated or withdrawn by the Fund at any time in its discretion. As provided in Section 8(c) hereof, the expense of qualification and maintenance of qualification shall be borne by the Fund. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Fund in connection with such qualification.

(d) The Fund will furnish, in reasonable quantities upon request by the Distributor, copies of annual and interim reports of the Fund.

Section 6. Duties of the Distributor.

(a) The Distributor shall devote reasonable time and effort to effect sales of Class B shares of the Fund, but shall not be obligated to sell any specific number of Class B shares. The services of the Distributor to the Fund hereunder are not to

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be deemed exclusive and nothing herein contained shall prevent the Distributor from entering into like arrangements with other investment companies so long as the performance of its obligations hereunder is not impaired thereby.

(b) In selling the Class B shares of the Fund, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all Federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer nor any other person is authorized by the Fund to give any information or to make any representations, other than those contained in the registration statement or related prospectus and statement of additional information and any sales literature specifically approved by the Fund.

(c) The Distributor shall adopt and follow procedures, as approved by the officers of the Fund, for the confirmation of sales to investors and selected dealers, the collection of amounts payable by investors and selected dealers on such sales, and the cancellation of unsettled transactions, as may be necessary to comply with the requirements of the National Association of Securities Dealers, Inc. (the "NASD"), as such requirements may from time to time exist.

8.

Section 7. Selected Dealer Agreements.

(a) The Distributor shall have the right to enter into selected dealer agreements with securities dealers of its choice ("selected dealers") for the sale of Class B shares; provided, that the Fund shall approve the forms of agreements with dealers. Shares sold to selected dealers shall be for resale by such dealers only at net asset value determined as set forth in Section 3(c) hereof. The initial form of agreement with selected dealers to be used in the offering of the Class B shares is attached hereto as Exhibit A.

(b) Within the United States, the Distributor shall offer and sell Class B shares only to such selected dealers as are members in good standing of the NASD.

Section 8. Payment of Expenses.

(a) The Fund shall bear all costs and expenses of the Fund, including fees and disbursements of its counsel and auditors, in connection with the preparation and filing of any required registration statements and/or prospectuses and statements of additional information under the Investment Company Act, the Securities Act, and all amendments and supplements thereto, and preparing and mailing annual and interim reports and proxy materials to shareholders (including but not limited to the expense of setting in type any such registration statements, prospectuses, statements of additional information, annual or interim reports or proxy materials).

9.

(b) The Distributor shall be responsible for any payments made to selected dealers as reimbursement for their expenses associated with payments of sales commissions to financial consultants. In addition, after the prospectuses, statements of additional information and annual and interim reports have been prepared and set in type, the Distributor shall bear the costs and expenses of printing and distributing any copies thereof which are to be used in connection with the offering of Class B shares to selected dealers or investors pursuant to this Agreement. The Distributor shall bear the costs and expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Class B shares for sale to the public and any expenses of advertising incurred by the Distributor in connection with such offering. It is understood and agreed that, so long as the Fund's Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act remains in effect, any expenses incurred by the

Distributor hereunder may be paid from amounts recovered by it from the Fund under such Plan.

(c) The Fund shall bear the cost and expenses of qualification of the Class B shares for sale pursuant to this Agreement, and, if necessary or advisable in connection therewith, of qualifying the Fund as a broker or dealer, in such states of the United States or other jurisdictions as shall be selected by the Fund and the Distributor pursuant to Section 5(c) hereof and the

10.

cost and expenses payable to each such state for continuing qualification therein until the Fund decides to discontinue such qualification pursuant to Section 5(c) hereof.

Section 9. Indemnification.

(a) The Fund shall indemnify and hold harmless the Distributor and each person, if any, who controls the Distributor against any loss, liability, claim, damage or expense (including the reasonable cost of investigating or defending any alleged loss, liability, claim, damage or expense and reasonable counsel fees incurred in connection therewith) arising by reason of any person acquiring any Class B shares, which may be based upon the Securities Act, or on any other statute or at common law, on the ground that the registration statement or related prospectus and statement of additional information, as from time to time amended and supplemented, or an annual or interim report to shareholders of the Fund, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless such statement or omission was made in reliance upon, and in conformity with, information furnished to the Fund in connection therewith by or on behalf of the Distributor; provided, however, that in no case (i) is the indemnity of the Fund in favor of the Distributor and any such controlling persons to be deemed to protect such Distributor or any such controlling persons thereof against any liability to the Fund or its security

11.

holders to which the Distributor or any such controlling persons would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their obligations and duties under this Agreement; or (ii) is the Fund to be liable under its indemnity agreement contained in this paragraph with respect to any claim made against the Distributor or any such controlling persons, unless the Distributor or such controlling persons, as the case may be,

shall have notified the Fund in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Distributor or such controlling persons (or after the Distributor or such controlling persons shall have received notice of such service on any designated agent), but failure to notify the Fund of any such claim shall not relieve it from any liability which it may have to the person against whom such action is brought otherwise than on account of its indemnity agreement contained in this paragraph. The Fund will be entitled to participate at its own expense in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but if the Fund elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the Distributor or such controlling person or persons, defendant or defendants in the suit. In the event the Fund elects to assume the defense of any such suit and retain

12.

such counsel, the Distributor or such controlling person or persons, defendant or defendants in the suit, shall bear the fees and expenses of any additional counsel retained by them, but, in case the Fund does not elect to assume the defense of any such suit, it will reimburse the Distributor or such controlling person or persons, defendant or defendants in the suit, for the reasonable fees and expenses of any counsel retained by them. The Fund shall promptly notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or Directors in connection with the issuance or sale of any of the Class B shares.

(b) The Distributor shall indemnify and hold harmless the Fund and each of its Directors and officers and each person, if any, who controls the Fund against any loss, liability, claim, damage or expense described in the foregoing indemnity contained in subsection (a) of this Section, but only with respect to statements or omissions made in reliance upon, and in conformity with, information furnished to the Fund in writing by or on behalf of the Distributor for use in connection with the registration statement or related prospectus and statement of additional information, as from time to time amended, or the annual or interim reports to shareholders. In case any action shall be brought against the Fund or any person so indemnified, in respect of which indemnity may be sought against the Distributor, the Distributor shall have the rights and duties given to the Fund,

13.

and the Fund and each person so indemnified shall have the rights and duties given to the Distributor by the provisions of subsection (a) of this

Section 9.

Section 10. Duration and Termination of this Agreement. This Agreement shall become effective as of the date first above written and shall remain in force until September 30, 1990 and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Directors, or by the vote of a majority of the outstanding Class B voting securities of the Fund, and (ii) by the vote of a majority of those Directors who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Directors or by vote of a majority of the outstanding Class B voting securities of the Fund, or by the Distributor, on sixty days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

The terms "vote of a majority of the outstanding voting securities", "assignment", "affiliated person" and "interested person", when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

14.

Section 11. Amendments of this Agreement. This Agreement may be amended by the parties only if such amendment is specifically approved by (i) the Directors, or by the vote of a majority of outstanding Class B voting securities of the Fund, and (ii) by the vote of a majority of those Directors of the Fund who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

Section 12. Governing Law. The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

MERRILL LYNCH SPECIAL VALUE FUND, INC.

By /s/ Norman R. Harvey

MERRIL LYNCH FUNDS DISTRIBUTOR, INC.

By /s/ Terry K. Glenn

EXHIBIT A

MERRILL LYNCH SPECIAL VALUE FUND, INC.
CLASS B SHARES OF COMMON STOCK

SELECTED DEALER AGREEMENT

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Special Value Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the distributor for the sale of Class B shares of common stock, par value \$0.10 per share, of the Fund (the "Class B Shares"), and as such has the right to distribute Class B shares of the Fund for resale. The Fund is an open-end investment company registered under the Investment Company Act of 1940, as amended, and its Class B shares being offered to the public are registered under the Securities Act of 1933, as amended. You have received a copy of the Distribution Agreement between ourself and the Fund

and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" as used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission which is part of the most recent effective registration statement pursuant to the Securities Act of 1933, as amended. As principal, we offer to sell to you, as a member of the Selected Dealers Group, Class B shares of the Fund upon the following terms and conditions:

1. In all sales of these Class B shares to the public you shall act as dealer for your own account, and in no transaction shall you have any authority to act as agent for the Fund, for us or for any other member of the Selected Dealers Group.

2. Orders received from you will be accepted through us only at the public offering price applicable to each order, as set forth in the current Prospectus and Statement of Additional Information of the Fund. The procedure relating to the handling of orders shall be subject to Section 4 hereof and instructions which we or the Fund shall forward from time to time to you. All orders are subject to acceptance or rejection by the Distributor or the Fund in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the current Prospectus and Statement of Additional Information of the Fund.

3. You shall not place orders for any of the Class B shares unless you have already received purchase orders for such Class B shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. You agree that you will not offer or sell any of the Class B shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class B shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) and will not furnish to any person any information relating to the Class B shares of the Fund, which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Fund.

4. As a selected dealer, you are hereby authorized (i) to

place orders directly with the Fund for Class B shares of the Fund to be resold by us to you subject to the applicable terms and conditions governing the placement of orders by us set forth in Section 3 of the Distribution Agreement, and (ii) to tender Class B shares directly to the Fund or its agent for redemption subject to the applicable terms and conditions set forth in Section 4 of the Distribution Agreement.

5. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding: e.g., by a change in the "net asset value" from that used in determining the offering price to your customers.

6. No person is authorized to make any representations concerning Class B shares of the Fund except those contained in the current Prospectus and Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Fund as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class B shares through us you shall rely solely on the representations contained in the Prospectus and Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus, Statement of Additional Information, periodic reports and proxy solicitation material are our sole responsibility and not the responsibility of the Fund, and you agree that the Fund shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

2.

7. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to endeavor to obtain proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon re-

quest.

8. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class B shares entirely. Each party hereto has the right to cancel this Agreement upon notice to the other party.

9. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act of 1933, as amended, or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

10. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

11. Upon application to us, we will inform you as to the states in which we believe the Class B shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell Class B shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the Class B shares, if necessary.

12. All communications to us should be sent to the address below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

3.

13. Your first order placed pursuant to this Agreement for

the purchase of Class B shares of the Fund will represent your acceptance of this Agreement

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By /S/ TERRY K. GLENN
(Authorized Signature)

Please return one signed copy
of this Agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.
Box 9011
Princeton, New Jersey 08543-9011

Accepted:

Firm Name:

By:

Address:

Date:

CUSTODY AGREEMENT, made this 27th day of March, 1978, between Merrill Lynch Special Value Fund, Inc. a corporation organized and existing under the laws of the State of Maryland having its principal office and place of business at 165 Broadway, New York, New York 10080 (hereinafter called the "Fund"), and THE BANK OF NEW YORK, a corporation organized and existing under the laws of the State of New York, having its principal office and place of business at 48 Wall Street, New York, New York 10015 (hereinafter called the "Custodian"),

W I T N E S S E T H :

that for and in consideration of the mutual promises hereinafter set forth the Fund and the Custodian agree as follows:

I.

APPOINTMENT OF CUSTODIAN

1. The Fund hereby constitutes and appoints the Custodian as custodian of all of the securities and moneys at any time owned by the Fund during the period of this Agreement.

2. The Custodian hereby accepts appointment as such custodian and agrees to perform the duties thereof as hereinafter set forth.

II.

CUSTODY OF CASH AND SECURITIES

1. The Fund will deliver or cause to be delivered to the Custodian all securities and all moneys owned by it, including cash received for the issuance of its shares, at any time during the period of this Agreement. The Custodian will not be responsible for such securities and such moneys until actually received by it.

2. The Custodian shall credit to a separate account in the name of the Fund all moneys received by it for the account of the Fund, and shall disburse the same only:

(a) In payment for securities purchased, as provided in Article III hereof;

(b) In payment of dividends or distributions as provided in Article V hereof; or,

(c) In payment of original issue or other taxes, as provided in Article VI hereof; or

(d) In payment for capital stock of the Fund redeemed by it, as provided in Article VI hereof; or,

(e) Pursuant to certificates, notices or written instructions of the Fund, signed in its name by any two officers (as defined in Article X) or, with respect to money market securities, as defined in Article X, the oral instructions of an authorized person, as defined in Article X, setting forth the name and address of the person to whom payment is to be made, the amount to be paid, and the corporate purpose for which payment is to be made, and

(f) In payment of the fees and in reimbursement of the expenses and liabilities of the Custodian, as provided in Article VIII hereof.

3. The Custodian shall notify the Fund promptly after the close of business on each day with a statement summarizing all transactions and entries for the account of the Fund during said day; and it shall, at least monthly and from time to time, render a detailed statement of the securities and moneys held for the Fund under this Agreement.

4. All Securities held for the Fund, which are issued or issuable only in bearer form, shall be held by the Custodian in that form; all other securities held for the Fund may be registered in the name of the Fund, or in the name of any duly appointed and registered nominee of the Custodian, as the Custodian may from time to time determine. The Fund agrees to furnish to the Custodian appropriate instruments to enable the Custodian to hold or deliver in proper form for transfer, or to register in the name of its registered nominee, any securities which it may hold for the account of the Fund and which may from time to time be registered in the name of the Fund. The Custodian shall hold all such securities in a separate account, in the name of the Fund physically segregated

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at all times, from those of any other person or persons.

5. Unless otherwise instructed to the contrary by a certificate signed in the name of the Fund by any two officers, as defined in Article X, the Custodian shall, with respect to all securities held for the Fund;

(a) Collect all income due or payable;

(b) Present for payment and collect the amount payable upon all securities which may mature or be called, redeemed, or retired, or otherwise become payable;

(c) Surrender securities in temporary form for definitive securities;

(d) Execute, as custodian, any necessary declarations or certificates of ownership under the Federal Income Tax laws or the laws or regulations of any other taxing authority now or hereafter in effect.

(e) Hold for the account of the Fund all stock dividends, rights and similar securities issued with respect to any securities held by it hereunder.

6. Upon receipt of a certificate signed in the name of the Fund by any two officers as defined in Article X, and not otherwise, the Custodian shall:

(a) Execute and deliver to such persons as may be designated in such certificate, proxies, consents, authorizations, and any other instruments whereby the authority of the Fund as owner of any securities may be exercised;

(b) Deliver any securities held for the Fund in exchange for other securities or cash issued or paid in connection with the liquidation, reorganization, refinancing, merger, consolidation or recapitalization of any corporation, or the exercise of any conversion privilege;

(c) Deliver any securities held for the Fund to any protective committee, reorganization committee or other person in connection with the reorganization, refinancing, merger, consolidation, recapitalization or sale of assets of any corporation, and

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receive and hold under the terms of this Agreement, such certificates of deposit, interim receipts or other instruments or documents as may be issued to it to evidence such delivery;

(d) Make such transfers or exchanges of the assets of the Fund, and take such other steps, as shall be stated in said certificate to be for the purpose of effectuating any duly authorized plan of liquidation, reorganization, merger, consolidation or recapitalization of the Fund.

III.

PURCHASE AND SALE OF INVESTMENTS OF THE FUND

1. Promptly after each purchase of securities by the Fund, the Fund shall deliver to the Custodian (i) with respect to each purchase of securities which are not money market securities, a certificate signed in the name of the Fund by any two officers as defined in Article X and (ii) with respect to each purchase of money market securities such a certificate or oral instructions from an authorized person, specifying with respect to each such purchase: (a) the name of the issuer and the title of the securities, (b) the number of shares or the principal amount purchased, and accrued interest, if any, (c) the date of purchase and settlement, (d) the purchase price per unit, (e) the total amount payable upon such purchase, (f) the name of the person from whom or the broker through whom the purchase was made. The Custodian shall receive all securities purchased by or for the Fund from the persons through or from whom the same were purchased, and upon receipt thereof shall pay, out of the moneys held for the account of the Fund, the total amount payable upon such purchase as set forth in such certificate or such oral instructions, as the case may be, provided that the same conforms to the total amount payable shown on such certificate or such oral instructions.

2. Promptly after each sale of securities by the Fund, the Fund shall deliver to the Custodian (i) with respect to each

sale of securities which are not money market securities a certificate signed in the name of the Fund by any two officers as defined in Article X and (ii) with respect to each sale of money market securities such a certificate or oral instructions from an authorized person specifying with respect to each such sale: (a) the name of the issuer and the title of the security, (b) the number of shares or principal amount sold, and accrued interest, if any, (c) the date of sale, (d) the sale price per unit, (e) the total amount payable to the Fund upon such sale, and (f) the name of the broker through whom or the person to whom the sale was made. The Custodian shall deliver the securities thus designated to the broker or other person named in such certificate upon receipt of the total amount payable to the Fund upon such sale provided that the same conforms to the total amount payable to the Fund as set forth in such certificate or such oral instructions as the case may be, with respect to such sale. The Custodian may accept payment in such form as shall be satisfactory to it, and may deliver securities and arrange for payment, in accordance with the customs prevailing among dealers in securities.

IV.

LOAN OF PORTFOLIO SECURITIES OF THE FUND

1. Where the Fund is permitted to lend its portfolio securities, within 24 hours after each loan of portfolio securities by the Fund, the Fund shall deliver to the Custodian a certificate signed in the name of the Fund by two officers as defined in Article X specifying with respect to each such loan: (a) the name of the issuer and the title of the securities, (b) the number of shares or the principal amount loaned, (c) the date of loan and delivery, (d) the total amount to be delivered to the Custodian against the loan of the securities including the amount of cash collateral and the premium, if any, separately identified and (e) the name of the broker to whom the loan was made. The Custodian shall deliver the securities thus designated to the broker to whom the loan was made upon receipt of the total amount designated as to be delivered against the loan of securities. The Custodian may accept payment only in the form of a certified or bank cashier's check payable to the order of the Fund or the Custodian drawn on New York Clearing House funds and may deliver securities in accordance with the customs prevailing among dealers in securities.

2. Promptly after each termination of the loan of securities by the Fund, the Fund shall deliver to the Custodian

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a certificate signed in the name of the Fund by two officers as defined in Article X specifying with respect to each such loan termination and return of securities: (a) the name of the issuer and the title of the securities to be returned, (b) the number of shares or the principal amount to be returned, (c) the date of termination, (d) the total amount to be delivered by the Custodian (including the cash collateral for such securities minus any offsetting credits as described in said certificate), (e) the name of the broker from whom the securities will be returned. The Custodian shall receive all securities returned from the broker to whom such securities were loaned and upon receipt thereof shall pay, out the moneys held for the account of the Fund, the total amount payable upon such return of securities as set forth in the certificate.

V.

PAYMENT OF DIVIDENDS OR DISTRIBUTIONS

1. The Fund shall furnish to the Custodian a copy of a resolution of its Board of Directors, certified by the Secretary or any Assistant Secretary, setting forth the date of the declaration of dividends or distributions, the date of payment thereof, the record date as of which stockholders entitled to payment shall be determined, and the amount payable per share to the stockholders of record as of that date and the total amount payable to the Dividend Agent on the payment date.

2. Upon the payment date specified in such officer's certificate, the

Custodian shall pay out of the moneys held for the account of the Fund the total amount payable to the Dividend Agent for the Fund.

VI.

SALE AND REDEMPTION OF CAPITAL STOCK OF THE FUND

1. Whenever the Fund shall sell any shares of its capital stock, it shall cause to be delivered to the Custodian a certificate signed on behalf of the Fund by any two officers as defined in Article X, duly specifying:

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(a) The number of shares sold, trade date, and price;

(b) The amount of money to be received by the Custodian for the sale of such shares.

2. Upon receipt of such money the Custodian shall credit such money to the account of the Fund.

3. Upon the issuance of any of the capital stock of the Fund in accordance with the foregoing provisions of this article, the Custodian shall pay, out of the money held for the account of the Fund, all original issue or other taxes required to be paid by the Fund in connection with such issuance upon the receipt of a notice signed by any two officers, as defined in Article X, specifying the amount to be paid.

4. Except as provided hereinafter, whenever the Fund shall hereafter redeem any shares of its capital stock, it shall furnish to the Custodian a certificate signed in the name of the Fund by any two officers, specifying:

(a) The number of shares of capital stock redeemed;

(b) The amount to be paid for the shares redeemed;

5. Upon receipt from the Transfer Agent of an advice setting forth the number of shares received by the Transfer Agent for redemption and that such shares are valid and in good form for redemption the Custodian shall make payment to the Transfer Agent out of the moneys held for the account of the Fund, of the total amount specified in the certificate issued pursuant to the foregoing paragraph 4 of this article.

6. Notwithstanding the above provisions regarding the redemption of any shares of the capital stock of the Fund, whenever shares of the capital stock of the Fund are redeemed by a Fund shareholder pursuant to a check redemption

privilege which might be offered by the Fund the custodian, unless otherwise instructed by an officer of the Fund, shall, upon receipt of an advice from the Fund or its agent setting forth that the redemption is in good form for redemption in accordance with the check redemption procedure, honor the check presented as part of such check redemption privilege out of the moneys held in the account of the Fund for such purposes.

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VII.

OVERDRAFTS OR INDEBTEDNESS

If the Custodian should in its sole discretion advance funds on behalf of the Fund which results in an overdraft because the moneys held by the Custodian for the account of the Fund shall be insufficient to pay the total amount payable upon purchase of securities as set forth in a certificate or oral instructions issued pursuant to Article III, or which results in an overdraft for some other reason or if the Fund is for any other reason indebted to the Custodian, such overdraft or indebtedness shall be deemed to be a loan made by the Custodian to the Fund payable on demand and shall bear interest from the date incurred at a rate per annum (based on a 360-day year for the actual number of days involved) equal to 1/2% over Custodian's prime commercial lending rate in effect from time to time, such rate to be adjusted on the effective date of any change in such prime commercial lending rate but in no event to be less than 6% per annum. Any such overdraft or indebtedness shall be reduced by an amount equal to the total of all amounts due the Fund which have not been collected by the Custodian on behalf of the Fund when due because of the failure of the Custodian to timely make demand or presentment for payment. In addition thereto the Fund hereby agrees that the Custodian shall have a continuing lien and security interest in and to any property at any time held by it for the benefit of the Fund or in which the Fund may have an interest which is then in the Custodian's possession or control or in possession or control of any third party acting in the Custodian's behalf. The Fund authorizes the Custodian, in its sole discretion, at any time to charge any such overdraft or indebtedness together with interest due thereon against any balance of account standing to the Fund's credit on the Custodian's books.

VIII.

CONCERNING THE CUSTODIAN

1. Neither the Custodian nor its nominee shall be liable for any loss or damage including counsel fees, resulting from its action or omission to act or otherwise, except for any such loss or damage arising out of its own negligence or willful misconduct. The Custodian may, with respect to questions of law, apply for and

obtain the advice and opinion of counsel to the Fund or of its own counsel, at the expense of the Fund, and shall be fully protected with respect to anything done or omitted by it in good faith in conformity with such advice or opinion.

2. Without limiting the generality of the foregoing, the Custodian shall be under no duty or obligation to inquire into, and shall not be liable for:

(a) The validity of the issue of any securities purchased by or for the Fund, the legality of the purchase thereof, or the propriety of the amount paid therefor;

(b) The legality of the sale of any securities by or for the Fund, or the propriety of the amount for which the same are sold;

(c) The legality of the issue or sale of any shares of the capital stock of the Fund, or the sufficiency of the amount to be received therefor;

(d) The legality of the redemption of any shares of capital stock of the Fund, or the propriety of the amount to be paid therefor;

(e) The legality of the declaration of any dividend by the Fund, or the legality of the issue of any shares of the Fund's capital stock in payment of any stock dividend;

(f) The legality of any loan of portfolio securities pursuant to Article IV of this Agreement, nor shall the Custodian be under any duty or obligation to see to it that any cash collateral delivered to it by a brokerage firm or held by it at any time as a result of such loan of the portfolio securities of the Fund is adequate collateral for the Fund against any loss it might sustain as a result of such loan. The Custodian specifically but not by way of limitation, shall not be under any duty or obligation to periodically check or notify the Fund that the amount of such cash collateral held by it for the Fund is sufficient collateral for the Fund, but such duty or obligation shall be the sole responsibility of the Fund. In addition, the Custodian shall be under no duty or obligation to see that any brokerage firm to whom portfolio securities of the Fund are lent pursuant to Article IV of this Agreement makes payment to it of any dividends or interest which are payable to or

for the account of the Fund during the period of such loan or at the termination of such loan, provided however, that the Custodian shall promptly notify the Fund in the event that such dividends or interest are not paid and received when due.

3. The Custodian shall not be liable for, or considered to be the Custodian of, any money represented by any check, draft, or other instrument for the payment of money received by it on behalf of the Fund, until the Custodian actually receives such money.

4. The Custodian shall not be under any duty or obligation to take action to effect collection of any amount due to the Fund from the Transfer Agent of the Fund nor to take any action to effect payment or distribution by the Transfer Agent of the Fund of any amount paid by the Custodian to the Transfer Agent of the Fund in accordance with this Agreement.

5. The Custodian shall not be under any duty or obligation to take action to effect collection of any amount, if the securities upon which such amount is payable are in default, or if payment is refused after due demand or presentation, unless and until (i) it shall be directed to take such action by a certificate signed in the name of the Fund by any two officers, and (ii) it shall be assured to its satisfaction of reimbursement of its costs and expenses in connection with any such action.

6. The Custodian may appoint one or more banking institutions as Depositary or Depositaries or as Sub-Custodian or Sub-Custodians, including, but not limited to banking institutions located in foreign countries, of securities and moneys at any time owned by the Fund, upon terms and conditions approved in written instructions from two officers of the Fund.

7. The Custodian shall not be under any duty or obligation to ascertain whether any securities at any time delivered to or held by it for the account of the Fund are such as may properly be held by the Fund under the provisions of its Articles of Incorporation.

8. The Custodian shall be entitled to receive and the Fund agrees to pay to the Custodian, such compensation as may be agreed upon from time to time between the Custodian and the Fund. The Custodian may charge such compensation and any expenses incurred by the Custodian in the performance of its duties pursuant

to such agreement against any money held by it for the account of the Fund. The Custodian shall also be entitled to charge against any money held by it for the account of the Fund the amount of any loss, damage, liability or expense,

including counsel fees, for which it shall be entitled to reimbursements under the provisions of this Agreement. The expenses which the Custodian may charge against the account of the Fund include, but are not limited to, the expenses of Sub-Custodians and foreign branches of the Custodian incurred in settling transactions involving the purchase and sale of securities of the Fund.

9. The Custodian shall be entitled to rely upon any certificate, notice or other instrument in writing received by the Custodian and believed by the Custodian to be genuine and to be sent by two officers of the Fund as defined in Article X. The Custodian shall be entitled to rely upon any oral instructions received by the Custodian pursuant to Article III or V hereof and believed by the Custodian to be genuine and to be given by an authorized person. The Fund agrees to forward to the Custodian written instructions from an authorized person confirming such oral instructions in such manner so that such written instructions are received by the Custodian, whether by hand delivery, telex or otherwise, by the close of business of the same day that such oral instructions are given to the Custodian. The Fund agrees that the fact that such confirming instructions are not received by the Custodian shall in no way affect the validity of the transactions or enforceability of the transactions hereby authorized by the Fund. The Fund agrees that the Custodian shall incur no liability to the Fund in acting upon oral instructions given to the Custodian hereunder concerning such transactions provided such instructions reasonably appear to have been received from a duly authorized person.

10. The Fund agrees to indemnify the Custodian against and save the Custodian harmless from all liability, claims, losses and demands whatsoever, including attorney's fees, howsoever arising or incurred because of or in connection with the Custodian's payment or non-payment of checks pursuant paragraph 6 or Article VI as part of the check redemption privilege program of the Fund.

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IX.

TERMINATION

1. Either of the parties hereto may terminate this Agreement by giving to the other party a notice in writing specifying the date of such termination, which shall be not less than 90 days after the date of giving of such notice. In the event such notice is given by the Fund, it shall be accompanied by a copy of a resolution of the Board of Directors of the Fund, certified by the Secretary or any Assistant Secretary, electing to terminate this Agreement and designating a successor custodian or custodians, each of which shall be a bank or trust company having not less than \$2,000,000 aggregate capital, surplus

and undivided profits. In the event such notice is given by the Custodian, the Fund shall, on or before the termination date, deliver to the Custodian a copy of resolution of its Board of Directors, certified by the Secretary or any Assistant Secretary, designating a successor custodian or custodians. In the absence of such designation by the Fund, the Custodian may designate a successor custodian which shall be a bank or trust company having not less than \$2,000,000 aggregate capital, surplus, and undivided profits. If the Fund fails to designate a successor Custodian, the Fund shall upon the date specified in the notice of termination of this Agreement and upon the delivery by the Custodian of all securities and moneys then owned by the Fund be deemed to be its own custodian and the Custodian shall thereby be relieved of all duties and responsibilities pursuant to this Agreement.

2. Upon the date set forth in such notice this Agreement shall terminate, and the Custodian shall upon receipt of a notice of acceptance by the successor custodian on that date deliver directly to the successor custodian all securities and moneys then owned by the Fund and held by it as Custodian, after deducting all fees, expenses and other amounts for the payment or reimbursement of which it shall then be entitled.

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X.

MISCELLANEOUS

1. The term "certificate" shall mean any notice, instruction or other instrument in writing, authorized or required by this Agreement to be given to the Custodian signed by two officers on behalf of the Fund.

2. The term "officers" shall be deemed to include the President, any Vice President, the Secretary, the Treasurer, the Controller, any Assistant Controller, any Assistant Secretary, any Assistant Treasurer, or any other person or persons duly authorized by the Board of Directors to execute any certificate, instruction, notice or other instrument on behalf of the Fund.

3. Annexed hereto as Appendix A, is a certificate signed by two of the present officers of the Fund under its corporate seal, setting forth the names and the signatures of the present officers of the Fund. The Fund agrees to furnish to the Custodian a new certificate in similar form in the event any such present officer ceases to be an officer of the Fund, or in the event that other or additional officers as defined in Article X are elected or appointed. Until such new certificate shall be received, the Custodian shall be fully protected in acting under the provisions of this Agreement upon the signatures of the present officers as set forth in said annexed certificate or upon the signatures of the present officers as set forth in a subsequently issued certificate.

4. The term "authorized person" shall be deemed to include the Treasurer, the Controller or any other persons, whether or not any such person is an officer or employee of the Fund, duly authorized by the Board of Directors to execute any certificate, instruction, notice or other instrument or to deliver oral instructions on behalf of the Fund.

5. Annexed hereto as Appendix B is a certificate signed by two of the present officers of the Fund under its corporate seal, setting forth the names and the signatures of the present authorized persons. The Fund agrees to furnish to the Custodian a new certificate in similar form in the event

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that any such present authorized person ceases to be an authorized person or in the event that other or additional authorized persons are elected or appointed. Until such new certificate shall be received, the Custodian shall be fully protected in acting under the provisions of this Agreement upon oral instructions or signatures of the present authorized persons as set forth in said annexed certificate or upon oral instructions or the signatures of the present authorized persons as set forth in a subsequently issued certificate.

6. Any notice or other instrument in writing, authorized or required by this Agreement to be given to the Custodian, shall be sufficiently given if addressed to the Custodian and mailed or delivered to it at its offices at 90 Washington Street, New York, New York 10015, or at such other place as the Custodian may from time to time designate in writing.

7. Any notice or other instrument in writing, authorized or required by this Agreement to be given to the Fund shall be sufficiently given if addressed to the Fund and mailed or delivered to it at its office, or at such other place as the Fund may from time to time designate in writing.

8. This Agreement may not be amended or modified in any manner except by a written agreement executed by both parties with the same formality as this Agreement, and authorized and approved by a resolution of the Board of Directors of the Fund.

9. The term "money market security" shall be deemed to include, but not be limited to, debt obligations issued or guaranteed as to interest and principal by the Government of the United States or agencies or instrumentalities thereof, bank time deposits, certificates of deposit and bankers' acceptances, where the purchase or sale of such securities normally requires settlement in federal funds on the same day as such purchase or sale.

10. This Agreement shall extend to and shall be binding upon the parties hereto, and their respective successors and assigns; provided, however, that this Agreement shall not be assignable by the Fund without the written consent of the Custodian, or by the Custodian without the written consent of the Fund,

authorized or approved by a resolution of its Board of Directors.

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11. This Agreement shall be construed in accordance with the laws of the State of New York.

12. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but such counterparts shall, together, constitute only one instrument.

13. The term "written instructions" shall mean written communications by telex or any other such system whereby the receiver of such communications is able to verify by codes or otherwise with a reasonable degree of certainty the authenticity of the sender of such communication.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective corporate officers, thereunder duly authorized and their respective corporate seals to be hereunto affixed, as of the day and year first above written.

MERRILL LYNCH SPECIAL VALUE FUND, INC.

By /s/ Arthur Zeikel

Attest: /s/

THE BANK OF NEW YORK

By /s/

Attest: /s/

TRANSFER AGENCY, DIVIDEND DISBURSING AGENCY
AND SHAREHOLDER SERVICING AGENCY AGREEMENT

THIS AGREEMENT made as of the 3rd day of August, 1987 by and between Merrill Lynch Special Value Fund, Inc. (the "Fund") and Merrill Lynch Financial Data Service, Inc. ("MLFDS"), a New Jersey corporation.

WITNESSETH:

WHEREAS, the Fund wishes to appoint MLFDS to be the Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent upon, and subject to, the terms and provisions of this Agreement, and MLFDS is desirous of accepting such appointment upon, and subject to, such terms and provisions:

NOW THEREFORE, in consideration of mutual covenants contained in this Agreement, the Fund and MLFDS agree as follows:

1. Appointment of MLFDS as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent.

(a) The Fund hereby appoints MLFDS to act as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund upon, and subject to, the terms and provisions of this Agreement.

(b) MLFDS hereby accepts the appointment as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund, and agrees to act as such upon, and subject to, the terms and provisions of this Agreement.

2. Definitions.

(a) In this Agreement:

(I) The term "Act" means the Investment Company Act of 1940 as amended from time to time and any rule or regulation thereunder;

(II) The term "Account" means any account of a Shareholder, or, if the shares are held in an account in the

name of MLPF&S for benefit of an identified customer, such account, including a Plan Account, any account under a plan (by whatever name referred to in the Prospectus) pursuant to the Self-Employed Individuals Retirement Act of 1962 ("Keogh Act Plan") and any plan (by whatever name referred to in the Prospectus) in conjunction with Section 401 of the Internal Revenue Code ("Corporation Master Plan");

(III) The term "application" means an application made by a Shareholder or prospective Shareholder respecting the opening of the Account;

(IV) The term "MLFD" means Merrill Lynch Funds Distributor, Inc., a Delaware corporation;

(V) The term "MLPF&S" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, a Delaware corporation;

(VI) The term "Officer's Instruction" means an instruction in writing given on behalf of the Fund to MLFDS, and signed on behalf of the Fund by the President, and Vice President, the Secretary or the Treasurer of the Fund;

(VII) The term "Prospectus" means the Prospectus and the Statement of Additional Information of the Fund as from time to time in effect;

(VIII) The term "Shares" means shares of stock or beneficial interest, as the case may be, of the Fund, irrespective of class or series;

(IX) The term "Shareholder" means the holder of record of Shares:

(X) The term "Plan Account" means an account opened by a Shareholder or prospective Shareholder in respect to an open account, monthly payment or withdrawal plan (in each case by whatever name referred to in the Prospectus), and may also include an account relating to any other Plan if and when provision is made for such plan in the Prospectus.

3. Duties of MLFDS as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent.

(a) Subject to the succeeding provisions of the Agreement, MLFDS hereby agrees to perform the following

functions as Transfer Agent, Dividend Disbursing Agent, and Shareholder Servicing Agent for the Fund;

(I) Issuing, transferring and redeeming Shares;

(II) Opening, maintaining, servicing and closing Accounts;

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(III) Acting as agent for the Fund Shareholders and/or customers of MLPF&S in connection with Plan Accounts, upon the terms and subject to the conditions contained in the Prospectus and application relating to the specific Plan Account;

(IV) Acting as agent of the Fund and/or MLPF&S, maintaining such records as may permit the imposition of such contingent deferred sales charges as may be described in the Prospectus, including such reports as may be reasonably requested by the Fund with respect to such Shares as may be subject to a contingent deferred sales charge;

(V) Upon the redemption of Shares subject to such a contingent deferred sales charge, calculating and deducting from the redemption proceeds thereof the amount of such charge in the manner set forth in the Prospectus. MLFDS shall pay, on behalf of MLFD, to MLPF&S such deducted contingent deferred sales charges imposed upon all Shares maintained in the name of MLPF&S, or maintained in the name of an account identified as a customer account of MLPF&S. Sales charges imposed upon any other Shares shall be paid by MLFDS to MLFD.

(VI) Exchanging the investment of an investor into, or from the shares of other open-end investment companies or other series portfolios of the Fund, if any, if and to the extent permitted by the Prospectus at the direction of such investor.

(VII) Processing redemptions;

(VIII) Examining and approving legal transfers;

(IX) Replacing lost, stolen or destroyed certificates representing Shares, in accordance with, and subject to, procedures and conditions adopted by the Fund;

(X) Furnishing such confirmations of transactions relating to their Shares as required by applicable law;

(XI) Acting as agent for the Fund and/or MLPF&S, furnishing such appropriate periodic statements relating to Accounts, together with additional enclosures, including appropriate income tax information and income tax forms duly completed, as required by applicable law.

(XII) Acting as agent for the Fund and/or MLPF&S, mailing annual, semi-annual and quarterly reports prepared by or on behalf of the Fund, and mailing new Prospectuses upon their issue to Shareholders as required by applicable law;

(XIII) Furnishing such periodic statements of transactions effected by MLFDS, reconciliations, balances and summaries as the Fund may reasonably request;

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(XIV) Maintaining such books and records relating to transactions effected by MLFDS as are required by the Act, or by any other applicable provision of law, rule or regulation, to be maintained by the Fund or its transfer agent with respect to such transactions, and preserving, or causing to be preserved any such books and records for such periods as may be required by any such law, rule or regulation and as may be agreed upon from time to time between MLFDS and the Fund. In addition, MLFDS agrees to maintain and preserve master files and historical computer tapes on a daily basis in multiple separate locations a sufficient distance apart to insure preservation of at least one copy of such information;

(XV) Withholding taxes on non-resident alien Accounts, preparing and filing U.S. Treasury Department Form 1099 and other appropriate forms as required by applicable law with respect to dividends and distributions; and

(XVI) Reinvesting dividends for full and fractional

shares and disbursing cash dividends, as applicable.

(b) MLFDS agrees to act as proxy agent in connection with the holding of annual, if any, and special meeting of Shareholders, mailing such notices, proxies and proxy statements in connection with the holding of such meetings as may be required by applicable law, receiving and tabulating votes cast by proxy communicating to the Fund the results of such tabulation accompanied by appropriate certifications, and preparing and furnishing to the Fund certified lists of Shareholders as of such date, in such form and containing such information as may be required by the Fund.

(c) MLFDS agrees to deal with, and answer in a timely manner, all correspondence and inquires relating to the functions of MLFDS under this Agreement with respect to Accounts.

(d) MLFDS agrees to furnish to the Fund such information and at such intervals as is necessary for the Fund to comply with the registration and/or the reporting requirements (including applicable escheat laws) of the Securities and Exchange commission, Blue Sky authorities or other governmental authorities.

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(e) MLFDS agrees to provide to the Fund such information as may reasonably be required to enable the Fund to reconcile the number of outstanding Shares between MLFDS's records and the account books of the Fund.

(f) Notwithstanding anything in the foregoing provisions of this paragraph, MLFDS agrees to perform its functions thereunder subject to such modification (whether in respect of particular cases or in any particular class of cases) as may from time to time be contained in an Officer's Instruction.

4. Compensation.

The charges for services described in this Agreement, including "out-of-pocket" expenses, will be set forth in the Schedule of Fees attached hereto.

5. Right of Inspection.

MLFDS agrees that it will in a timely manner make available to, and permit, any officer, accountant, attorney or authorized agent of the Fund to examine and make transcripts and copies (including photocopies and computer or other electronic information storage media and print-outs) of any and all of its books and records which relate to any transaction or function performed by MLFDS or pursuant to this Agreement.

6. Confidential Relationship.

MLFDS agrees that it will, on behalf of itself and its officers and employees, treat all transactions contemplated by this Agreement, and all information germane thereto, as confidential and not to be disclosed to any person (other than the Shareholder concerned, or the Fund, or as may be disclosed in the examination of any books or records by any person lawfully entitled to examine the same) except as may be authorized by the Fund by way of an Officer's Instruction.

7. Indemnification.

The Fund shall indemnify and hold MLFDS harmless from any loss, costs, damage and reasonable expenses, including reasonable attorney's fees (provided that such attorney is appointed with the Fund's consent, which consent shall not be unreasonably withheld), incurred by it resulting from any claim, demand, action, or suit in connection with the performance of its duties hereunder,

provided that this indemnification shall not apply to actions or omissions of MLFDS in cases of willful misconduct, failure to

act in good faith or negligence by MLFDS, its officers, employees or agents, and further provided, that prior to confessing any claim against it which may be subject to this indemnification, MLFDS shall give the Fund reasonable opportunity to defend against said claim in its own name or in the name of MLFDS. An action taken by MLFDS upon any Officer's Instruction reasonably believed by it to have been properly executed shall not constitute willful misconduct, failure to act in good faith or negligence under this Agreement.

8. Regarding MLFDS.

(a) MLFDS hereby agrees to hire, purchase, develop and maintain such dedicated personnel, facilities, equipment, software, resources and capabilities as may be reasonably determined by the Fund to be necessary for the satisfactory performance of the duties and responsibilities of MLFDS. MLFDS warrants and represents that its officers and supervisory personnel charged with carrying out its functions as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund possess the special skill and technical knowledge appropriate for that purpose. MLFDS shall at all time exercise due care and diligence in the performance of its functions as Transfer Agent, Dividend Disbursing Agent, and Shareholder Servicing Agent for the Fund. MLFDS agrees that, in determining whether it has exercised due care and diligence, its conduct shall be measured by the standard applicable to persons possessing such special skill and technical knowledge.

(b) MLFDS warrants and represents that is duly authorized and permitted to act as Transfer Agent, Dividend Disbursing Agent, and Shareholder Servicing Agent under all applicable laws and that it will immediately notify the Fund of any revocation of such authority or permission or of the commencement of any proceeding or other action which may lead to such revocation.

9. Termination.

(a) This Agreement shall become effective as of the date first above written and shall thereafter continue from year to year. This Agreement may be terminated by the Fund or MLFDS (without penalty to the Fund or MLFDS) provided that the terminating party gives the other party written notice of such termination at least sixty (60) days in advance, except that the Fund may terminate this Agreement immediately upon written notice to MLFDS if the authority or permission of MLFDS to act as Transfer Agent, Dividend Disbursing Agent, and Shareholder Servicing Agent has been revoked or if any proceeding or other action which the Fund reasonably believes will lead to such revocation has been commenced.

(b) Upon termination of this Agreement, MLFDS shall deliver all unissued and cancelled stock certificates representing Shares remaining in its possession, and all Shareholder records, books, stock ledgers, instruments and other documents (including computerized or other electronically stored information) made or accumulated in the performance of its duties as Transfer Agent, Disbursing Agent, and Shareholder Servicing Agent for the Fund along with a certified locator document clearly indicating the complete contents therein, to such successor as may be specified in a notice of termination or Officer's Instruction; and the Fund assumes all responsibility for failure thereafter to produce any paper, record or documents so delivered and identified in the locator document, if and when required to be produced.

10. Amendment.

Except to the extent that the performance by MLFDS or its functions under this Agreement may from time to time be modified by an Officer's Instruction, this Agreement may be amended or modified only by further written Agreement between the parties.

11. Governing Law.

This agreement shall be governed by the laws of the State of New Jersey.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective duly authorized officers and their respective corporate seals hereunto duly affixed and attested, as of the day and year above written.

MERRILL LYNCH SPECIAL VALUE FUND, INC.

By /s/ Gerald M. Richard

/s/ Mark B. Goldfus (Attest)

Title:Treasurer

Title: Secretary

MERRILL LYNCH FINANCIAL DATA SERVICE, INC.

By:/S/ Robert C. Doan

Title: President

/s/ Patrick M. Cassidy (Attest)
Title: Section Mgr--MLFDS

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Schedule of Fees

The Fund will pay to FDS an annual fee of \$11.00 per Class A and Class D Shareholder Account and \$14.00 per Class B and Class C Shareholder Account in addition to reimbursement for the out-of-pocket expenses incurred by FDS pursuant to this Agreement.

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AMENDED AND RESTATED
CLASS B DISTRIBUTION PLAN
OF
MERRILL LYNCH SPECIAL VALUE FUND, INC.
PURSUANT TO RULE 12b-1

DISTRIBUTION PLAN made as of the 3rd day of October, 1988 and amended and restated as of the 12th day of October, 1992, by and between Merrill Lynch Special value Fund, Inc., a Maryland corporation (the "Fund"), and Merrill Lynch Funds Distributor, Inc., a Delaware corporation ("MLFD").

W I T N E S S E T H :

WHEREAS, the Fund intends to engage in business as an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act"); and

WHEREAS, MLFD is a securities firm engaged in the business of selling shares of investment companies either directly to purchasers or through other securities dealers; and

WHEREAS, the Fund proposes to enter into a Class B Shares Distribution Agreement with MLFD, pursuant to which MLFD will act as the exclusive distributor and representative of the Fund in the offer and sale of Class B shares of common stock, par value \$0.10 per share (the "Class B shares"), of the Fund to the public; and

WHEREAS, the Fund has entered into a Class B Distribution Plan (the "Prior Plan") pursuant to Rule 12b-1 under the Investment Company Act; and

WHEREAS, the Fund desires to adopt this Amended and Restated Class B Shares Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act, pursuant to which the Fund will pay an account maintenance fee and a distribution fee to MLFD with respect to the Fund's Class B Shares; and

WHEREAS, the Directors of the Fund have determined that

there is a reasonable likelihood that adoption of this Class B Shares Distribution Plan will benefit the Fund and its shareholders.

NOW, THEREFORE, the Fund hereby adopts, and MLFD hereby agrees to the terms of, the Plan in accordance with Rule 12b-1 under the Investment Company Act on the following terms and conditions:

1. The Fund shall pay MLFD an account maintenance fee under the Plan at the end of each month at the annual rate of 0.25% of average daily net assets of the Fund relating to Class B shares to compensate MLFD and securities firms with which MLFD enters into related agreements ("Sub-Agreements") pursuant to Paragraph 3 hereof for account maintenance activities with respect to Class B shareholders of the Fund.

2. The Fund shall pay MLFD a distribution fee under the Plan at the end of each month at the annual rate of 0.75% of average daily net assets of the Fund relating to Class B shares to compensate MLFD and securities firms with which MLFD enters into related agreements ("Sub-Agreements") pursuant to Paragraph 3 hereof for providing sales and promotional activities and services. Such activities and services will relate to the sale, promotion and marketing of the Class B shares of the Fund. Such expenditures may consist of sales commissions to financial consultants for selling Class B shares of the Fund, compensation, sales incentives and payments to sales and marketing personnel, and the payment of expenses incurred in its sales and promotional activities, including advertising expenditures related to the Fund and the costs of preparing and distributing promotional materials. The distribution fee may also be used to pay the financing costs of carrying the unreimbursed expenditures described in this Paragraph 2. Payment of the distribution fee described in this Paragraph 2 shall be subject to any limitation set forth in any applicable regulation of the National Association of Securities Dealers, Inc.

3. The Fund hereby authorizes MLFD to enter into Sub-Agreements with certain securities firms ("Securities Firms"), including Merrill Lynch, Pierce, Fenner & Smith Incorporated, to provide compensation to such Securities Firms for activities and services of the type referred to in Paragraphs 1 and 2 hereof. MLFD may reallocate all or a portion of its account maintenance fee or distribution fee to such Securities Firms as compensation for the above-mentioned activities and

services. Such Sub-Agreement shall provide that the Securities Firms shall provide MLFD with such information as is reasonably necessary to permit MLFD to comply with the reporting requirements set forth in Paragraph 4 hereof.

4. MLFD shall provide the Fund for review by the Board of Directors, and the Directors shall review, at least quarterly, a written report complying with the requirements of Rule 12b-1

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regarding the disbursement of the account maintenance fee and the distribution fee during such period.

5. The Prior Plan has been approved by a vote of at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund. The Plan has not been submitted to the Class B shareholders because the amendments do not materially increase the rate of payments by the Fund provided for in the Prior Plan.

6. The Plan shall not take effect until it has been approved, together with any related agreements, by votes of a majority of both (a) the Directors of the Fund and (b) those Directors of the Fund who are not "interested persons" of the Fund, as defined in the Investment Company Act, and have no direct or indirect financial interest in the operation of the Plan or any agreements related to it (the "Rule 12b-1 Directors"), cast in person at a meeting or meetings called for the purpose of voting on the Plan and such related agreements.

7. The Plan shall continue in effect for so long as such continuance is specifically approved at least annually in the manner provided for approval of the Plan in Paragraph 6.

8. The Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Directors, or by vote of a majority of the outstanding Class B voting securities of the Fund.

9. The Plan may not be amended to increase materially the rate of payments provided for herein unless such amendment is approved by at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund, and by the Directors of the Fund in the manner provided for

in Paragraph 6 hereof, and no material amendment to the Plan shall be made unless approved in the manner provided for approval and annual renewal in Paragraph 6 hereof.

10. while the Plan is in effect, the selection and nomination of Directors who are not interested persons, as defined in the Investment Company Act, of the Fund shall be committed to the discretion of the Directors who are not interested persons.

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11. The Fund shall preserve copies of the Plan and any related agreements and all reports made pursuant to Paragraph 4 hereof, for a period of not less than six years from the date of the Plan, or the agreements or such report, as the case may be, the first two years in an easily accessible place.

IN WITNESS WHEREOF, the parties hereto have executed the Plan as of the date first above written.

MERRILL LYNCH SPECIAL VALUE FUND, INC.
By /S/ GERALD RICHARD
MERRILL LYNCH FUNDS DISTRIBUTOR, INC.
By /S/ MICHELLE LAU

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CLASS B SHARES DISTRIBUTION PLAN SUB-AGREEMENT

AGREEMENT made as of the 12th day of October, 1992 by and between Merrill Lynch Funds Distributor, Inc. ("MLFD"), and Merrill Lynch, Pierce, Fenner & Smith Incorporated, a Delaware corporation (the "Securities Firm").

W I T N E S S E T H :

WHEREAS, MLFD has entered into an agreement with Merrill Lynch Special Value Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the exclusive distributor for the sale of Class B shares of common stock, par value \$0.10 per share (the "Class B shares"), of the Fund; and

WHEREAS, MLFD and Fund have entered into an Amended and Restated Class B Shares Distribution Plan (the "Plan") pursuant to Rule 12b-1 under the Investment Company Act of 1940 (the "Act") pursuant to which MLFD receives an account maintenance fee from the Fund at the annual rate of 0.25% of average daily net assets of the Fund relating to Class B shares for account maintenance services related to the Class B shares of the Fund and a distribution fee from the Fund at the annual rate of 0.75% of average daily net assets of the Fund relating to Class B shares for providing sales and promotional activities and services related to the distribution of Class B shares; and

WHEREAS, MLFD desires the Securities Firm to perform certain Account maintenance activities and sales and promotional activities and services for the Fund's Class B shareholders and the Securities Firm is willing to perform such services;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the parties hereby agree as follows:

1. The Securities Firm shall provide account maintenance activities with respect to the Class B shares of the Fund of the types referred to in Paragraph 1 of the Plan.

2. The Securities Firm shall provide sales and promotional activities and services with respect to the sale of the Class B shares of the Fund, and incur distribution expenditures of the types referred to in paragraph 2 of the Plan.

3. As compensation for its activities and services performed under this Sub-Agreement, MLFD shall pay the Securities Firm an account maintenance fee and a distribution fee at the end of each calendar month in an amount agreed upon by the parties hereto.

4. The Securities Firm shall provide MLFD, at least quarterly, such information as reasonably requested by MLFD to enable MLFD to comply with the reporting requirements of Rule 12b-1 regarding the disbursement of the fee during such period referred to in Paragraph 4 of the Plan.

5. This Sub-Agreement shall not take effect until it has been approved by votes of a majority of both (a) the Directors of the Fund and (b) those Directors of the Fund who are not "interested persons" of the Fund, as defined in the Act, and have no direct or indirect financial interest in the operation of the Plan or any agreements related to the Plan or this Sub-Agreement (the "Rule 12b-1 Directors"), cast in person at a meeting or meetings called for the purpose of voting on this Agreement.

6. This Sub-Agreement shall continue in effect for as long as such continuance is specifically approved at least annually in the manner provided for approval of the Plan in Paragraph 6.

7. This Sub-Agreement shall automatically terminate in the event of its assignment or in the event of the termination of the Plan or any amendment to the Plan that requires such termination.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first above written.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By /s/ MICHELLE LAU

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By /s/ ARTHUR ZEIKEL

MERRILL LYNCH SPECIAL VALUE FUND, INC.

TOTAL RETURN - CLASS A SHARES

<TABLE>
<CAPTION>

	1 Year	5 Years	Since Inception
<S> Initial Investment	<C> \$ 1,000.00	<C> \$ 1,000.00	<C> \$ 1,000.00
Divided by Maximum Offering Price	17.10	13.79	10.27
Equals Shares Purchased	58.480	72.516	97.371
Plus Shares Acquired Through Dividend Reinvestment	6.014	21.222	88.177
Equals Shares Held at 3/31/88	64.494	93.738	185.548
Multiplied by Net Asset Value at 3/31/88	11.77	11.77	11.77
Equals Ending Redeemable Value of a \$1,000 Investment (ERV)	\$ 759.10	\$ 1,103.30	\$ 2,183.90
Divided by \$ 1,000 (P)	.7591	1.1033	2.1839
Subtract 1	(.2409)	.1033	1.1839
Expressed as a Percentage Equals Aggregate Total Return for the Period Indicated	(24.09)%	10.33%	118.39%
Raised to the power of	1	1/5	1/9.912

Equals	.7591	1.0199	1.0820
Subtract 1	(.2409)	.0199	.0820
Expressed as a Percentage Equals Average Annual Total Return for the Period Indicated (T)	(24.09)%	1.99%	8.20%

</TABLE>

<TABLE>
<CAPTION>

SPECIAL VALUE - CLASS B
10/21/88 - 3/31/95

	Since Inception Average Annual Total Return -----	Since Inception Total Return* -----
<S>	<C>	<C>
Initial Investment	\$1,000.00	\$1,000.00
Divided by Net Asset Value	12.01	12.01
	-----	-----
Equals Shares Purchased	83.264	83.264
Plus Shares Acquired through Dividend Reinvestment	18.972	18.972
	-----	-----
Equals Shares Held at 3/31/95	102.236	102.236
Multiplied by Net Asset Value at 3/31/95	15.16	15.16
	-----	-----
Equals Ending Value before deduction for contingent deferred sales charge	1,549.89	1,549.89
Less deferred sales charge	0.00	0.00
	-----	-----
Equals Ending Redeemable Value at \$1000 Investment (ERV) at 3/31/95	1,549.89	1,549.89
	-----	-----
Divided by \$1,000 (P)	1.5499	1.5499
Subtract 1	0.5499	0.5499
Expressed as a percentage equals the Aggregate Total Return for the Period (T)	54.99%	

Expressed as a percentage equals the Aggregate Total Return for the Period (T)	54.99%	

Expressed as a percentage equals the		

Aggregate Total Return for the
Period

54.99%

ERV divided by P	1.5499
Raise to the power of	0.1553
Equals	1.0704
Subtract 1	0.0704

Expressed as a percentage equals the
Average Annualized Total Return

7.04%

</TABLE>

*Does not include sales charge for the period.