FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

SECTOR STRATEGY FUND II LP

CIK:**867247**| IRS No.: **133584544** | State of Incorp.:**DE** | Fiscal Year End: **1229**
Type: **10-K405** | Act: **34** | File No.: **000-18944** | Film No.: **99574773**
SIC: **6798** Real estate investment trusts

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WORLD FINANCIAL CENTER
SOUTH TOWER, 6TH FLOOR
NEW YORK NY 10080-6106

Business Address
MERRILL LYNCH WORLD
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C/0 ML FUTURES
INVESTMENT PARTNERS INC
NEW YORK NY 10080-6106
2122364161

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(x) Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 1998
or
( ) Transition Report Pursuant to Section 13
or 15(d) of the Securities Exchange Act of 1934

Commission file number: 0-18944

THE SECTOR STRATEGY FUND (SM) II L.P.
(Exact name of registrant as specified in its charter)

DELAWARE	13-3584544
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

C/O MERRILL LYNCH INVESTMENT PARTNERS INC.
MERRILL LYNCH WORLD HEADQUARTERS
WORLD FINANCIAL CENTER
SOUTH TOWER, NEW YORK, NY 10080
(Address of principal executive offices)

Registrant's telephone number, including area code: (212) 236-5662

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: None

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: Limited Partnership Units

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant: the registrant is a limited partnership; as of February 1, 1999, limited partnership units with an aggregate value of $32,545,524 were outstanding and held by non-affiliates.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant's "1998 Annual Report and Independent Auditors' Report," the annual report to security holders for the fiscal year ended December 31, 1998, is incorporated by reference into Part II, Item 8 and Part IV hereof and filed as an Exhibit herewith.

THE SECTOR STRATEGY FUND (SM) II L.P.

ANNUAL REPORT FOR 1998 ON FORM 10-K

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PART I

ITEM 1: BUSINESS

(a) General Development of Business:

The SECTOR Strategy Fund (SM) II L.P. (the "Partnership") was organized under the Delaware Revised Uniform Limited Partnership Act on August 21, 1990 and began trading operations on December 5, 1990 ("SECTOR II Units"). A re-opening of the Partnership through the public offering of SECTOR III Limited Partnership Units ("SECTOR III Units") commenced operations on July 5, 1991. Units may be redeemed as of the end of each calendar month. The Partnership engages (currently, through an investment in a limited liability company (see below)) in the speculative trading of a portfolio of futures, options on futures, forwards and options on forward contracts and related options in the currencies, interest rates, stock indices, metals, agricultural and energy sectors of the world futures markets. The Partnership's objective is achieving, through speculative trading, substantial capital appreciation over time, while also assuring investors of at least a predetermined minimum Net Asset Value per Unit as of the Principal Assurance Date .

Merrill Lynch Investment Partners Inc. (the "General Partner" or "MLIP") is the general partner of the Partnership and selects and allocates the Partnership's assets (through the Partnership's investment in ML Multi-Manager Portfolio LLC ("MM LLC")) among professional advisors ("Trading Advisors" or "Advisors"), each unaffiliated with MLIP and each of which trades independently of the others. The Partnership and MM LLC are referred to throughout this document, either individually and/or collectively, as the "Fund". MLIP also determines what percentage of the Partnership's assets to allocate to trading and what percentage to hold in reserve. Merrill Lynch Futures Inc. (the "Commodity Broker" or "MLF") is the Partnership's commodity broker. A portion of the Partnership's assets is held by a commodity broker, other than MLF, to facilitate the trading of a certain independent advisor. The General Partner is a wholly-owned subsidiary of Merrill Lynch Group, Inc., which, in turn, is a wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("ML&Co."). The Commodity Broker is an indirect wholly-owned subsidiary of ML&Co. (ML&Co. and its affiliates are herein sometimes referred to as "Merrill Lynch").

Prior to October 1, 1996, the Partnership placed assets with the Trading Advisors by opening individual managed accounts with them. For the period from October 1, 1996 to May 31, 1998, the Partnership placed assets with certain of the Trading Advisors through investing in private funds ("Trading LLCs") sponsored by MLIP, through which the trading accounts of different MLIP-sponsored funds managed by the same Advisor pursuant to the same strategy were consolidated. The only members of the Trading LLCs were commodity pools sponsored by MLIP. Placing assets with an Advisor through investing in a Trading LLC rather than a managed account had no economic effect on the Partnership, except to the extent that the Partnership benefited from the Advisor not having to allocate trades among a number of different accounts (rather than acquiring a single position for the Trading LLC as a whole). As of June 1, 1998, MLIP consolidated the trading accounts of nine of its multi-advisor funds (the "Multi-Advisor Funds"), including the Partnership. The consolidation was achieved by having these Multi-Advisor Funds invest in a single Delaware limited liability company, MM LLC, which opened a single account with each Advisor selected. MM LLC is managed by MLIP, has no investors other than the Multi-Advisor Funds and serves solely as the vehicle through which the assets of such Multi-Advisor Funds are combined in order to be managed through single rather than multiple accounts. The placement of assets into MM LLC did not change the operations or fee structure of the Partnership. The administrative authority over the Partnership, as well as MM LLC, remains with MLIP. The following disclosures relate to the operation of the Partnership through its investment in MM LLC.

In addition to its investment in MM LLC, the Partnership maintains a cash account. From time to time, the General Partner allocates and reallocates Partnership assets among its investment in MM LLC and cash accounts in an attempt to increase profit potential while limiting the downside risks associated with futures and forward trading (in order to prevent ML&Co. from incurring any obligations under its guarantee of a minimum Net Asset Value per Unit, as described below). Initially, the General Partner allocated approximately 30% of the Partnership's assets in each of the SECTOR II and SECTOR III portions to cash and approximately 70% to trading. As of December 31, 1998, 100% was invested in MM LLC for the SECTOR II Units and for the SECTOR III Units.

As of December 31, 1998, the Partnership's SECTOR II Unit capitalization was $10,700,065, the Partnership's SECTOR III Unit capitalization was $23,091,117 and the Net Asset Value of a SECTOR II Unit sold as of December 5, 1990 for $100 was $158.74 and the Net Asset Value of SECTOR III Unit sold as of July 5, 1991 for $100 was $166.72.

ML&Co. guarantees that the Net Asset Value per Unit will equal at least $125.10 as of December 31, 1999 for SECTOR II Units and at least $132.74 as of October 31, 2000 for SECTOR III Units (the "Principal Assurance Dates"). The initial Principal Assurances Dates for the SECTOR II Units and SECTOR III Units were December 31, 1995 and September 30, 1996, respectively, at which time the minimum Net Asset Value per Unit guaranteed by ML&Co. was $100 per Unit. As of January 1, 1996, the Fund restarted the trading program for SECTOR II Units, setting a new Time Horizon of two years in duration with a second Principal Assurance Date of December 31, 1997 and a minimum assured Net Asset Value of $100.12. As of October 1, 1996, the Fund restarted the trading program for the SECTOR III Units also setting a new Time Horizon of two years in duration, with a second Principal Assurance Date of September 30, 1998 and a minimum assured Net Asset Value of $100.92. As of January 1, 1998, the Fund restarted the trading program for SECTOR II Units, setting a new Time Horizon of two years in duration with a third Principal Assurance Date of December 31, 1999 and a minimum assured Net Asset Value of $125.10. As of November 1, 1998, the Fund restarted the trading program for SECTOR III Units, setting a new Time Horizon of two years in duration with a third Principal Assurance Date as of October 31, 2000 and a minimum assured Net Asset Value of $132.74. This guarantee does not prevent substantial investor losses, but rather serves only as a form of "stop-loss," limiting the maximum loss which investors who retain their Units until the Principal Assurance Date can incur. In order to protect ML&Co. from any liability under its guarantee at such time, if any, as the Net Asset Value per Unit were to decline to 110% or less of the present value of the guaranteed minimum Net Asset Value per SECTOR II or SECTOR III Units, as the case may be, discounted back from their respective current Principal Assurance Dates, MLIP would terminate trading altogether in order to ensure that ML&Co. incurred no financial obligation to the Fund under ML&Co.'s guarantee of the minimum Net Asset Value per Unit.

Through December 31, 1998 the highest month-end Net Asset Value per SECTOR II and SECTOR III Units was $158.74 (December 31, 1998) and $166.72 (December 31, 1998), respectively, and the lowest $98.68 (January 31, 1991) and $97.74 (May 31, 1992), respectively. The Partnership does not engage in the sale of goods or services.

(b) Financial Information about Segments:

The Partnership's business constitutes only one segment for financial reporting purposes, i.e., a speculative "commodity pool." The Partnership does not engage in sales of goods or services.

(c) Narrative Description of Business:

GENERAL

The Fund trades (currently, through its investment in MM LLC) in futures, options on futures, forwards and options on forward contracts in major sectors of the world economy, with the objective of achieving substantial capital appreciation over time, while assuring investors of at least a predetermined minimum Net Asset Value per Unit as of the Principal Assurance Date.

The General Partner is the Partnership's trading manager, with responsibility for selecting Advisors to manage MM LLC's assets, allocating and reallocating MM LLC's assets among different Advisors and determining the percentage of the Partnership's assets committed to trading from time to time.

Although considered as a whole, the Partnership (currently, through an investment in MM LLC) trades in a diversified range of international markets. Certain of the Trading Advisors, considered individually, concentrate primarily on trading in a limited portfolio of markets. The composition of the "sectors" included in the Partnership's portfolio varies substantially over time.

MLIP may, from time to time, direct certain individual Advisors to manage their Fund accounts as if they were managing more equity than the actual capital allocated to them.

One of the objectives of the Fund is to provide diversification for a limited portion of the risk segment of the Limited Partners' portfolios. Commodity pool performance has historically demonstrated a low degree of performance correlation with traditional stock and bond holdings. Since it began trading, the Fund's returns have, in fact, frequently been significantly non-correlated (not, however, negatively correlated) with the United States stock and bond markets.

ML&CO.'S "PRINCIPAL PROTECTION" UNDERTAKING TO THE FUND

ML&Co., the parent company of the Merrill Lynch organization, which includes the General Partner and the Commodity Broker, has agreed to contribute sufficient capital to the Partnership so that it will have adequate funds, after adjustment for all liabilities to third parties, that the Net Asset Value per SECTOR II and SECTOR III Unit, respectively, will be no less than $125.10 or $132.74 as of their respective third Principal Assurance Dates. This guarantee, which is effective only as of the Principal Assurance Date, is a guarantee only of the minimum assured Net Asset Value (plus distributions, if any), not against the loss of the time value of such investment or a guarantee of profit. This guarantee is a general, unsecured obligation of ML&Co.

OPERATION OF THE PARTNERSHIP AFTER THE THIRD PRINCIPAL ASSURANCE DATES

When the Fund reached the first Principal Assurance Dates for the SECTOR II and SECTOR III Units, respectively, MLIP "restarted" the Fund's trading program and the ML&Co. guarantee for a two-year period ending December 31, 1997 and September 30, 1998, respectively. When the Fund reached the second Principal Assurance Dates for the SECTOR II and SECTOR III Units, MLIP again "restarted" the Fund's trading program and the ML&Co. guarantee for a second two-year period ending December 31, 1999 and October 31, 2000, respectively. MLIP may determine to terminate the Partnership's operations with respect to either or both of the SECTOR II or SECTOR III Units as of their third Principal Assurance Dates, to extend the ML&Co. guarantee for a certain period of time (again resetting the minimum Net Asset Value per Unit guaranteed by ML&Co.) or to continue to operate the Fund without a "principal protection" feature. All investors will be given notice no later than 45 days prior to the Principal Assurance Date for their Units as to what the operation of the Fund (if any) will be with respect to such Units after such current Principal Assurance Date.

USE OF PROCEEDS AND INTEREST INCOME

Market Sectors. The Partnership trades (currently, through an investment in MM LLC) in a diversified group of markets under the direction of multiple independent Advisors. These Advisors can, and do, from time to time materially alter the allocation of their overall trading commitments among different market sectors. Except in the case of certain trading programs which are purposefully limited in the markets which they trade, there is essentially no restriction on the commodity interests which may be traded by any Advisor or the rapidity with which an Advisor may alter its market sector allocations.

The Fund's financial statements contain information relating to the market sectors traded by the Fund. There can, however, be no assurance as to which markets may be included in the Fund's portfolio or in which market sectors the Fund's trading may be concentrated at any one time or over time.

Market Types. The Fund trades (currently, through its investment in MM LLC) on a variety of United States and foreign futures exchanges. Substantially all of the Fund's off-exchange trading takes place in the highly liquid, institutionally-based currency forward markets.

Many of the Partnership's currency trades are executed in the spot and forward foreign exchange markets (the "FX Markets") where there are no direct execution costs. Instead, the participants, banks and dealers, including Merrill Lynch International Bank ("MLIB"), in the FX Markets take a "spread" between the prices at which they are prepared to buy and sell a particular currency and such spreads are built into the pricing of the spot or forward contracts with the Partnership. The General Partner anticipates that some of the Partnership's foreign currency trades will be executed through MLIB, an affiliate of the General Partner. MLIB has discontinued the operation of the foreign exchange service desk, which included seeking multiple quotes from counterparties unrelated to MLIB for a service fee and trade execution.

In its exchange of futures for physical ("EFP") trading, the Partnership acquires cash currency positions through banks and dealers, including Merrill Lynch. The Partnership pays a spread when it exchanges these positions for

futures. This spread reflects, in part, the different settlement dates of the cash and the futures contracts, as well as prevailing interest rates, but also includes a pricing spread in favor of the banks and dealers, which may include a Merrill Lynch entity.

As in the case of its market sector allocations, the Fund's commitments to different types of markets -- U.S. and non-U.S., regulated and unregulated -- differ substantially from time to time as well as over time.

The Fund's financial statements contain information relating to the types of markets traded by the Fund. There can, however, be no assurance as to which markets the Fund may trade or as to how the Fund's trading may be concentrated at any one time or over time.

Custody of Assets. The majority of the Fund's assets are currently held in customer accounts at Merrill Lynch.

Interest paid by Merrill Lynch on the Fund's U.S. Dollar and Non U.S. Dollar Assets. A majority of the Fund's U.S. dollar assets are maintained at MLF. On assets held in U.S. dollars, Merrill Lynch credits the Fund with interest at the prevailing 91-day U.S. Treasury bill rate. The Fund is credited with interest on any of its net gains actually held by Merrill Lynch in non-U.S. dollar currencies at a prevailing local rate received by Merrill Lynch. Merrill Lynch may derive certain economic benefit, in excess of the interest which Merrill Lynch pays to the Fund, from possession of such assets.

Merrill Lynch charges the Fund Merrill Lynch's cost of financing realized and unrealized losses on the Fund's non-U.S. dollar-denominated positions.

CHARGES

The following table summarizes the charges incurred by the Fund during 1998, 1997 and 1996.

<TABLE>
<CAPTION>

	1998		1997		1996	
Cost	Dollar Amount	% of Average Month End Net Assets	Dollar Amount	% of Average Month End Net Assets	Dollar Amount	% of Average Month End Net Assets
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Brokerage	$1,015,128	2.79%	$2,732,838	6.56%	$4,213,004	8.92%

Commissions						
Administrative Expenses	29,004	0.08%	78,081	0.19%	113,600	0.24%
Profit Shares	301,645	0.83%	530,099	1.27%	364,863	0.77%
Total	$1,345,777	3.70%	$3,341,018	8.02%	$4,691,467	9.93%

</TABLE>

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Subsequent to October 1, 1996, Brokerage Commissions and Administrative Fees and Profit Shares are not representative of the actual amounts paid by the Fund, because the Fund paid the bulk of these fees as an investor in the Trading LLCs or in MM LLC. See "Description of Current Charges."

The foregoing table does not reflect the bid-ask spreads paid by the Fund on its forward trading, or the benefits which may be derived by Merrill Lynch from the deposit of certain of the Fund's U.S. dollar assets in offset accounts.

The Fund's SECTOR II Units average month-end Net Assets during 1998, 1997 and 1996 equaled $11,959,856, $14,791,387; and $16,918,994; respectively.

The Fund's SECTOR III Units average month-end Net Assets during 1998, 1997 and 1996 equaled $24,385,480, $26,871,244 and $30,297,499, respectively.

During 1998, 1997 and 1996, the Fund's SECTOR II Units earned $238,969, $640,195 and $733,578 in interest income, or approximately 2.00%, 4.33% and 4.34% of the Fund's average month-end Net Assets.

During 1998, 1997 and 1996, the Fund's SECTOR III Units earned $359,189, $911,165; and $1,276,409 in interest income, or approximately 1.47%, 3.39% and 4.21% of the Fund's average month-end Net Assets.

The 9% per annum Brokerage Commissions for the SECTOR II Units and the 10% per annum Brokerage Commissions for the Sector III Units paid by the Fund to MLF were recharacterized as 8.75% and 9.75%, respectively, per annum Brokerage Commissions and a 0.25% per annum Administrative Fee paid by the Fund to MLIP effective January 1, 1996. This recharacterization had no economic effect on the Fund.

As of October 1, 1996, the 9.75% per annum Brokerage Commissions for the SECTOR III Units were reduced to 8.75% per annum (0.7291% of the Fund's month-end assets).

DESCRIPTION OF CURRENT CHARGES

<TABLE>
<CAPTION>

RECIPIENT	NATURE OF PAYMENT	AMOUNT OF PAYMENT
<S>	<C>	<C>
MLF	Brokerage Commissions	A flat-rate monthly commission of 0.7291 of 1% (an 8.75% annual rate) of the SECTOR III and SECTOR II month-end assets committed to trading. As of December 31, 1998 approximately 100% of the SECTOR II assets and 100% of the SECTOR III assets were allocated to trading. During 1998, 1997 and 1996, the round-turn (each purchase and sale or sale and purchase of a single futures contract) equivalent rate of the Partnership's flat-rate Brokerage Commissions was approximately $52, $63 and $59, respectively.
MLF	Use of Fund assets	Merrill Lynch may derive an economic benefit from the deposit of certain of the Fund's U.S. dollar assets in offset accounts.
MLIP	Administrative Fees	The Fund pays MLIP a monthly Administrative Fee equal to 0.020833 of 1% of the Fund's month-end assets committed to trading (0.25% annually). MLIP pays all of the Fund's routine administrative costs.
MLIB; Other Counterparties	Bid-ask spreads	Bid-ask spreads on forward and related trades.

</TABLE>

Trading Advisors	Profit Shares	Prior to January 1, 1997, all Advisors received quarterly Profit Shares ranging from 15% to 25% (depending on the Trading Advisor) of any New Trading Profit achieved by their Fund account. As of January 1, 1997, a number of Advisors agreed to receive only annual Profit Shares. Profit Shares are also paid upon redemption of Units and upon the net reallocation of assets away from an Advisor. New Trading Profit is calculated separately in respect of each Advisor, irrespective of the overall performance of the Fund. The Fund and MM LLC may pay substantial Profit Shares during periods when it is incurring significant overall losses.
Trading Advisors	Consulting Fees	MLF pays the Advisors annual Consulting Fees ranging up to 2% of the Partnership's average month-end assets allocated to them for management, after reduction for a portion of the brokerage commissions.
MLF; Others	Extraordinary expenses	Actual costs incurred; none paid to date.

REGULATION

The General Partner, the Trading Advisors and the Commodity Broker are each subject to regulation by the Commodity Futures Trading Commission (the "CFTC") and the National Futures Association. Other than in respect of its periodic reporting requirements under the Securities Exchange Act of 1934, the Partnership itself is generally not subject to regulation by the Securities and Exchange Commission. However, MLIP itself is registered as an "investment adviser" under the Investment Advisers Act of 1940.

(i) through (xii) -- not applicable.

(xiii) The Partnership has no employees.

(d) Financial Information about Foreign and Domestic Operations and Export Sales:

The Partnership trades (through its investment in MM LLC), on a number of foreign commodity exchanges. The Partnership does not engage in the sales of goods or services.

ITEM 2: PROPERTIES

The Partnership does not use any physical properties in the conduct of its business.

The Partnership's only place of business is the place of business of the General Partner, Merrill Lynch World Headquarters, World Financial Center, South Tower, New York, New York, 10080. The General Partner performs all administrative services for the Partnership from the General Partner's offices.

ITEM 3: LEGAL PROCEEDINGS

ML&Co. -- the sole stockholder of Merrill Lynch Group, Inc. (which is the sole stockholder of MLIP) -- as well as certain of its subsidiaries and affiliates have been named as defendants in civil actions, arbitration proceedings and claims arising out of their respective business activities. Although the ultimate outcome of these actions cannot be ascertained at this time and the results of legal proceedings cannot be predicted with certainty, it is the opinion of management that the result of these matters will not be materially adverse to the business operations or financial condition of MLIP or the Fund.

MLIP itself has never been the subject of any material litigation.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Partnership has never submitted any matter to a vote of its Limited Partners.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Item 5(a)

(a) Market Information:

There is no established public trading market for the Units, nor will one develop. Rather, Limited Partners may redeem Units as of the end of each month at Net Asset Value. Units redeemed prior to the applicable Principal Assurance Date are not entitled to any benefits under the ML&Co. guarantee.

(b) Holders:

As of December 31, 1998, there were 2,362 holders of Units, including the General Partner.

(c) Dividends:

The Partnership has made no distributions, nor does the General Partner presently intend to make any distributions in the future.

Item 5(b)

Not applicable.

ITEM 6: SELECTED FINANCIAL DATA

The following selected financial data has been derived from the audited financial statements of the Partnership.

<TABLE>
<CAPTION>

STATEMENT OF OPERATIONS DATA	FOR THE YEAR ENDED DECEMBER 31, 1998	FOR THE YEAR ENDED DECEMBER 31, 1997	FOR THE YEAR ENDED DECEMBER 31, 1996	FOR THE YEAR ENDED DECEMBER 31, 1995	FOR THE YEAR ENDED DECEMBER 31, 1994
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Trading Profits (Loss)					
Realized Gain (Loss)	$ 1,169,961	$ 4,629,434	$ 6,760,623	$ 13,084,311	$(2,043,045)
Change in Unrealized (Loss) Gain	(671,259)	98,218	(1,911,494)	(1,408,174)	(1,470,617)
Total Trading Results	498,702	4,727,652	4,849,129	11,676,137	(3,513,662)
Interest Income	598,158	1,551,360	2,009,987	3,519,449	3,540,215
Total Revenues	1,096,860	6,279,012	6,859,116	15,195,586	26,553
Expenses:					
Brokerage Commissions	1,015,128	2,732,838	4,213,004	6,481,462	8,306,339
Administrative Fees	29,004	78,081	113,600	-	-
Profit Shares	301,645	530,099	364,863	1,319,093	897,488
Total Expense	1,345,777	3,341,018	4,691,467	7,800,555	9,203,827
Earnings from Investment	1,406,243	1,708,985	2,258,309	-	-
Net Income (Loss)	$ 1,157,326	$ 4,646,979	$ 4,425,958	$ 7,395,031	$(9,177,274)

</TABLE>

The variations in income statement line items are primarily due to investing in Trading LLCs and in MM LLC.

<TABLE>
<CAPTION>

BALANCE SHEET DATA	DECEMBER 31, 1998	DECEMBER 31, 1997	DECEMBER 31, 1996	DECEMBER 31, 1995	DECEMBER 31, 1994

<S>	<C>	<C>	<C>	<C>	<C>
Fund Net Asset Value	$33,791,182	$40,650,457	$42,584,105	$57,593,256	$76,783,553
Net Asset Value per SECTOR II Unit	$ 158.74	$ 156.37	$ 143.42	$ 125.15	$ 110.26
Net Asset Value per SECTOR III Unit	$ 166.72	$ 159.00	$ 140.75	$ 128.26	$ 117.34

</TABLE>

<TABLE>
<CAPTION>

MONTH-END NET ASSET VALUE PER SECTOR II UNIT

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1994	$117.74	$113.15	$116.19	$113.73	$119.68	$119.10	$116.12	$111.44	$112.74	$113.05	$111.62	$110.26
1995	$108.34	$115.58	$124.97	$127.02	$131.03	$130.14	$127.55	$126.66	$124.80	$123.65	$124.30	$125.15
1996	$129.65	$123.52	$122.45	$124.82	$123.17	$121.68	$124.98	$123.96	$127.55	$139.16	$149.40	$143.42
1997	$150.05	$149.10	$148.60	$149.07	$147.91	$150.77	$158.23	$155.56	$155.08	$154.49	$154.47	$156.37
1998	$155.45	$151.98	$150.75	$145.57	$146.58	$146.91	$147.09	$155.15	$158.46	$157.97	$158.11	$158.74

</TABLE>

<TABLE>
<CAPTION>

MONTH-END NET ASSET VALUE PER SECTOR III UNIT

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1994	$116.65	$115.55	$117.57	$116.31	$119.68	$122.37	$119.77	$115.18	$117.13	$116.94	$118.61	$117.34
1995	$114.71	$122.70	$129.65	$128.97	$125.75	$123.17	$118.12	$119.65	$118.92	$119.78	$121.97	$128.26
1996	$132.39	$120.96	$120.08	$127.41	$124.26	$123.53	$125.16	$122.91	$126.15	$138.27	$142.98	$140.75
1997	$147.15	$149.44	$150.41	$146.96	$146.16	$147.82	$156.23	$151.82	$153.39	$153.98	$155.24	$159.00
1998	$159.04	$156.52	$159.24	$151.72	$154.09	$154.27	$154.50	$162.95	$166.44	$165.93	$166.05	$166.72

</TABLE>

Pursuant to CFTC policy, monthly performance is presented from January 1, 1994, even though the Units were outstanding prior to such date.

THE SECTOR STRATEGY FUND(SM) II L.P.
SECTOR II UNITS
DECEMBER 31, 1998

Type of Pool: Selected-Advisor/Publicly-Offered/"Principal Protected"/(1)/
Inception of Trading: December 5, 1990
Aggregate Subscriptions: $136,410,000
Current Capitalization: $10,700,064
Worst Monthly Drawdown/(2)/: (4.73)% (2/96)
Worst Peak-to-Valley Drawdown/(3)/: (15.93)% (8/93-1/95)

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Net Asset Value per Unit, December 31, 1998: $158.74

<TABLE>
<CAPTION>

MONTHLY RATES OF RETURN/(4)/

MONTH	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
January	-0.59%	4.62%	3.59%	(1.74)%	(3.82)%

February	(2.23)	(0.63)	(4.73)	6.68	(3.90)
March	(0.81)	(0.34)	(0.86)	8.13	2.69
April	(3.44)	0.32	1.93	1.64	(2.12)
May	0.69	(0.78)	(1.32)	3.16	1.85
June	0.23	1.93	(1.21)	(0.68)	2.81
July	0.12	4.95	2.71	(1.99)	(2.50)
August	5.48	(1.69)	(0.82)	(0.69)	(4.03)
September	2.13	(0.31)	2.90	(1.47)	1.17
October	(0.31)	(0.38)	9.10	(0.92)	0.27
November	0.09	(0.01)	7.36	0.53	(0.44)
December	0.40	1.23	(4.00)	0.68	(2.03)
Compound Annual Rate of Return	1.51%	9.02%	14.60%	13.52%	(9.93)%

</TABLE>

(1) Pursuant to applicable CFTC regulations, a "Multi-Advisor" fund is defined as one that allocates no more than 25% of its trading assets (i.e., assets committed to trading) to any single manager. As the Fund may allocate more than 25% of its trading assets to one or more Advisors, it is referred to as a "Selected-Advisor" fund. Applicable CFTC regulations define a "Principal Protected" fund as one which is designed to limit the loss of participants' initial investment. MLIP's trading leverage policies and the ML&Co. guarantee limit Limited Partners' losses on their Units to the time value of their investments over the Time Horizon from the beginning of trading to the Principal Assurance Date.

(2) Worst Monthly Drawdown represents the largest negative Monthly Rate of Return experienced since January 1, 1994 by the SECTOR II Units; a drawdown is measured on the basis of month-end Net Asset Value only, and does not reflect intra-month figures.

(3) Worst Peak-to-Valley Drawdown represents the greatest percentage decline since January 1, 1994 from a month-end cumulative Monthly Rate of Return without such cumulative Monthly Rate of Return being equaled or exceeded as of a subsequent month-end. For example, if the Monthly Rate of Return was (1)% in each of January and February, 1% in March and (2)% in April, the Peak-to-Valley Drawdown would still be continuing at the end of April in the amount of approximately (3)%, whereas if the Monthly Rate of Return had been approximately 3% in March, the Peak-to-Valley Drawdown would have ended as of the end of February at approximately the (2)% level.

(4) Monthly Rate of Return is the net performance of the SECTOR II Units during the month of determination (including interest income and after all expenses have been accrued or paid) divided by the total equity of the SECTOR II Units as of the beginning of such month.

THE SECTOR STRATEGY FUND(SM) II L.P.
SECTOR III UNITS
DECEMBER 31, 1998

Type of Pool: Selected-Advisor/Publicly-Offered/"Principal Protected"/(1)/
Inception of Trading: July 5, 1991
Aggregate Subscriptions: $194,005,000
Current Capitalization: $23,091,118
Worst Monthly Drawdown/(2)/: (8.64)% (2/96)
Worst Peak-to-Valley Drawdown/(3)/: (9.30)% (2/96-3/96)

Net Asset Value per Unit, December 31, 1998: $166.72

<TABLE>
<CAPTION>

MONTHLY RATES OF RETURN/(4)/

MONTH	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
January	0.03%	4.55%	3.22%	(2.25)%	(3.79)%

February	(1.58)	1.56	(8.64)	6.97	(0.94)
March	1.73	0.65	(0.73)	5.66	1.74
April	(4.72)	(2.29)	6.10	(0.53)	(1.07)
May	1.56	(0.54)	(2.47)	(2.50)	2.90
June	0.08	1.14	(0.59)	(2.05)	2.25
July	0.15	5.69	1.31	(4.10)	(2.12)
August	5.47	(2.82)	(1.79)	1.29	(3.83)
September	2.14	1.03	2.63	(0.61)	1.69
October	(0.31)	0.38	9.60	0.72	(0.17)
November	0.07	0.82	3.41	1.83	1.43
December	0.40	2.42	(1.56)	5.16	(1.06)
Compound Annual Rate of Return	4.16%	12.98%	9.71%	9.28%	(3.22)%

</TABLE>

(1) Pursuant to applicable CFTC regulations, a "Multi-Advisor" fund is defined as one that allocates no more than 25% of its trading assets (i.e., assets committed to trading) to any single manager. As the Fund may allocate more than 25% of its trading assets to one or more Advisors, it is referred to as a "Selected-Advisor" fund. Applicable CFTC regulations define a "Principal Protected" fund as one which is designed to limit the loss of participants' initial investment. MLIP's trading leverage policies and the ML&Co. guarantee limit Limited Partners' losses on their Units to the time value of their investments over the Time Horizon from the beginning of trading to the Principal Assurance Date.

(2) Worst Monthly Drawdown represents the largest negative Monthly Rate of Return experienced since January 1, 1994 by the SECTOR III Units; a drawdown is measured on the basis of month-end Net Asset Value only, and does not reflect intra-month figures.

(3) Worst Peak-to-Valley Drawdown represents the greatest percentage decline since January 1, 1994 from a month-end cumulative Monthly Rate of Return without such cumulative Monthly Rate of Return being equaled or exceeded as of a subsequent month-end. For example, if the Monthly Rate of Return was (1)% in each of January and February, 1% in March and (2)% in April, the Peak-to-Valley Drawdown would still be continuing at the end of April in the amount of approximately (3)%, whereas if the Monthly Rate of Return had been approximately 3% in March, the Peak-to-Valley Drawdown would have ended as of the end of February at approximately the (2)% level.

(4) Monthly Rate of Return is the net performance of the SECTOR III Units during the month of determination (including interest income and after all expenses have been accrued or paid) divided by the total equity of the SECTOR III Units as of the beginning of such month.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Advisor Selections

The Fund's results of operations depend on MLIP's ability to select Advisors and the Advisors' ability to trade profitably. MLIP's selection procedures and trading leveraging analysis, as well as the Advisors' trading methods, are confidential, so that substantially the only available information relevant to the Fund's results of operations is its actual performance record to date. Because of the speculative nature of its trading, the Fund's past performance is not necessarily indicative of its future results.

MLIP has made and expects to continue making frequent changes to both trading asset allocations among Advisors and Advisor combinations as well as from time to time adjusting the percentage of the Fund's assets committed to trading.

MLIP's decision to terminate or reallocate assets among Advisors is based on a combination of factors. Advisors are, in general, terminated primarily for unsatisfactory performance, but other factors -- for example, a change in MLIP's or an Advisor's market outlook, apparent deviation from announced risk control policies, excessive turnover of positions, changes in principals, commitment of resources to other business activities, etc. -- may also have a role in the termination or reallocation decision. The market judgment and experience of MLIP's principals is an important factor in its asset allocation decisions.

MLIP has no timetable or schedule for making Advisor changes or reallocations, and generally makes a medium- to long-term commitment to all Advisors selected. There can be no assurance as to the frequency or number of Advisor changes that may take place in the future, or as to how long any of the current Advisors will continue to manage assets for the Fund.

General

A number of the Advisors are trend-following traders, whose programs do not attempt to predict price movements. No fundamental economic supply or demand analyses are used by these Advisors, and no macroeconomic assessments of the relative strengths of different national economies or economic sectors. Instead, the programs apply proprietary computer models to analyzing past market data, and from this data alone attempt to determine whether market prices are trending. These technical traders base their strategies on the theory that market prices reflect the collective judgment of numerous different traders and are, accordingly, the best and most efficient indication of market movements. However, there are frequent periods during which fundamental factors external to the market dominate prices.

If a trend-following Advisor's models identify a trend, they signal positions which follow it. When these models identify the trend as having ended or reversed, these positions are either closed out or reversed. Due to their trend-following character, these Advisors' programs do not predict either the commencement or the end of a price movement. Rather, their objective is to identify a trend early enough to profit from it and detect its end or reversal in time to close out the Fund's positions while retaining most of the profits made from following the trend.

In analyzing the performance of trend-following programs, economic conditions, political events, weather factors, etc., are not directly relevant because only market data has any input into trading results. Furthermore, there is no direct connection between particular market conditions and price trends. There are so many influences on the markets that the same general type of economic event may lead to a price trend in some cases but not in others. The analysis is further complicated by the fact that the programs are designed to recognize only certain types of trends and to apply only certain criteria of when a trend has begun. Consequently, even though significant price trends may occur, if these trends are not comprised of the type of intra-period price movements which the programs are designed to identify, a trend-following Advisor may miss the trend altogether.

In the case of the Advisors which implement strategies which rely more on discretion and market judgment, it is not possible to predict, from their performance during past market cycles, how they will respond to future market events.

Performance Summary

This performance summary is an outline description of how the Fund performed in the past, not necessarily any indication of how it will perform in the future. In addition, the general causes to which certain price movements are attributed may or may not in fact have caused such movements, but simply occurred at or about the same time.

The Advisors, as a group, are unlikely to be profitable in markets in which such trends do not occur. Static or erratic prices are likely to result in losses. Similarly, unexpected events (for example, a political upheaval, natural disaster or governmental intervention) can lead to major short-term losses as well as gains.

While there can be no assurance that any Advisor will be profitable, under any given market condition, markets in which substantial and sustained price movements occur typically offer the best profit potential for the Fund.

The performance of the Fund is also materially affected by the percentage of its assets allocated to trading. The greater the percentage of the Fund's assets allocated to trading, the greater its profit potential, risk and performance volatility.

1998

	Total Trading Results
Interest Rates	$ 85,850
Stock Indices	(139,134)
Commodities	518,301
Currencies	(343,635)
Energy	312,851
Metals	64,469
	$ 498,702

Global interest rate markets provided the Fund with its most profitable positions for the first quarter, particularly in European bonds where an extended bond market rally continued despite an environment of robust growth in the United States, Canada and the United Kingdom, as well as a strong pick-up in growth in continental Europe. In the second quarter, swings in the U.S. dollar and developments in Japan affected bond markets, causing the Fund's interest rate trading to result in losses. This was turned around in the third quarter, as markets worldwide were turned upside down and the Fund's non-correlation with general equity and debt markets was strongly exhibited, and trading was particularly profitable in positions in Eurodollars, German and Japanese bonds, and U.S. Treasury notes and bonds. Global investors staged a major flight to quality, resulting in a significant widening of credit spreads on a global basis. In October, investors pushed the yields on U.S. Treasury bonds to a 31-year low. The long bond yield fell about 75 basis points in 1998 as the world economy slowed more than expected, inflation continued to fall, the anticipated small U.S. budget deficit turned into substantial surplus, and the Fed lowered interest rates.

Trading results in stock index markets were mixed in early 1998, despite a strong first-quarter performance by the U.S. equity market as several consecutive weekly gains were recorded with most market averages setting new highs. Second quarter results were profitable as the Asia-Pacific region's equity markets weakened across the board. In particular, Hong Kong's Hang Seng index trended downward during most of the second quarter and traded at a three-year low. As U.S. equity markets declined in July and August, the Fund profited from short positions in the S&P 500, most notably during August, when the index dropped 14.5%. Volatility in September made for a difficult trading environment in the stock index sector, and the Fund incurred modest losses, although results remained profitable for the quarter and the year overall in these markets.

In energy markets, demand for crude oil in the Middle East was affected by low oil prices early in the year, and trading resulted in losses. Initially buoyed on concerns about a U.S.-led military strike against Iraq, crude oil fell to a nine-year low, as the globally warm winter, the return of Iraq as a producer and the Asian economic crisis added to OPEC's supply glut problems. Despite production cuts initiated by OPEC at the end of March, world oil supplies remained excessive and oil prices stood at relatively low levels throughout the first half of 1998. Short heating oil positions in the third quarter proved profitable for the Fund as the market for heating oil prices dropped to its lowest level in more than a decade. In early December, oil and natural gas prices dropped sharply, causing continued problems for many emerging market countries that depend on commodity exports for economic growth and government financing. These price pressures were mainly due to excessive supply availability and near-term weather indications that inventories would remain at more than adequate levels even in the event of a cold Northern Hemisphere winter. Also, the December U.S. air attack on Iraq failed to cause any damage to oil pumping and shipping operations, and oil prices fell over 10%.

Gold prices began the year drifting sideways, and continued to weaken following news in the second quarter of a European Central Bank consensus that ten to fifteen percent of reserves should be made up of gold bullion, which was at the low end of expectations. Gold was unable to extend third quarter rallies or to build any significant upside momentum, resulting in a trendless environment. This was also the case in the fourth quarter, as gold's cost of production declined. Also, silver markets remained range-bound, while also experiencing a significant selloff in November, and aluminum traded at its lowest levels since 1994, with many aluminum smelters operating at a loss.

In agricultural commodity markets, 1998 began with strong gains as live cattle and hog prices trended downward throughout the first quarter. In the second quarter, although the U.S. soybean crop got off to a good start which contributed to higher yield expectations and a more burdensome supply outlook, soybean prices traded in a volatile pattern. Sugar futures maintained mostly a downtrend, as no major buyers emerged to support the market. Similarly, coffee prices trended downward, as good weather conditions in Central America and Mexico increased the prospects of more output from these countries. The third quarter resulted in losses as the U.S. soybean crop increased relative to the USDA's production estimate as a result of timely rains, which contributed to lower prices. These losses continued into the fourth quarter as the Fund was caught on the short side of the soybean complex, as the soybean supply surplus became more manageable following the November 10th USDA reports, causing prices to gain upward momentum.

In currency markets, results early in the year were mixed, but unprofitable. During the second quarter, strong gains were realized in positions in the Japanese yen, which weakened during June to an eight-year low versus the U.S. dollar. Significant gains from Japanese yen trading continued into the third quarter, and Japan's problems spread to other sectors of the global economy, causing commodities prices to decline as demand from the Asian economies weakened. Japan's deepening recession and credit crunch continued through the fourth quarter, and the Fund achieved gains from long yen positions.

1997

	Total Trading Results
Interest Rates	$ 51,377
Stock Indices	747,204
Commodities	1,098,616
Currencies	2,050,928
Energy	292,364
Metals	487,163
	$ 4,727,652

Trend reversals and extreme market volatility, affected by such factors as the Asian flu and El Nino, were characteristic of most of 1997. However, the year proved to be a profitable one overall for the Fund as trends in several key markets enabled the Trading Advisors to profit despite the significant obstacles. Although trading results in several sectors may have been lackluster, the global currency and bond markets offered noteworthy trading opportunities, which resulted in significant profits in these markets during the year. Additionally, the currency and interest rate sectors of the Fund's portfolio represented its largest percentage of market commitments.

In currency markets, the U.S. dollar rallied and started 1997 on a strong note, rising to a four-year high versus the Japanese yen and two-and-a-half year highs versus the Deutsche mark and the Swiss franc. However, the dollar underwent two significant corrections during the year. The first correction occurred in the Spring against the Japanese yen, due to the G7 finance ministers' determination that a further dollar advance would be counter-productive to their current goals. From August through mid-November, the dollar corrected against the Eurocurrencies in advance of a well-advertised tightening by the Bundesbank. By mid-December the dollar had bounced back to new highs against the yen and was rallying against the mark.

Global interest rate markets began the year on a volatile note, as investors evaluated economic data for signs of inflation. By the middle of the year, economic data in key countries was positive indicating lower inflation and igniting a worldwide rally in the bond markets. Specifically, investor sentiment was particularly strong in the U.S., where prices on the 30-year Treasury bond and 10-year Treasury note rose to their highest levels in over two years. This followed a largely positive economic report delivered by Federal Reserve Chairman Greenspan in testimony before Congress. Effects of the plunge in the Hong Kong stock market in late October spread rapidly throughout the world's financial markets, including global bond markets. After continued volatility in subsequent months made trading difficult, 1997 interest rate trading ended on a positive note when U.S. and Japanese bond markets rallied as a flight to safety from plunging stock markets around the world occurred in December.

1996

<TABLE>
<CAPTION>

	Total Trading Results
<S>	<C>

Interest Rates	$	2,068,922
Stock Indices		(869,901)
Commodities		1,910,190
Currencies		2,004,685
Energy		(67,699)
Metals		(197,068)
	$	4,849,129

</TABLE>

1996 began with the East Coast blizzard, continuing difficulties in federal budget talks and an economic slowdown having a negative impact on many markets. The Fund was profitable in January due to strong profits in currency trading as the U.S. dollar reached a 23-month high against the Japanese yen. In February, however, the Fund incurred its worst monthly loss due to the sudden reversals in several strong price trends and considerable volatility in the currency and financial markets. During March, large profits were taken in the crude oil and gasoline markets as strong demand continued and talks between the United Nations and Iraq were suspended. This trend continued into the second quarter, during which strong gains were also recognized in the agricultural markets as a combination of drought and excessive rain drove wheat and grain prices to historic highs. In the late summer and early fall months, the Fund continued to trade profitably as trending prices in a number of key markets favorably impacted the Fund's performance. In September heating oil hit a five-year high on soaring prices in Europe, and the Fund was also able to capitalize on downward trends in the metals markets. Strong trends in the currency and global bond markets produced significant gains in October and November, but the year ended with declining performance as December witnessed the reversal of several strong upward trends and increased volatility in key markets.

Variables Affecting Performance

The principal variables which determine the net performance of the Fund are gross profitability and interest income. Gross profitability is, in turn, affected by the percentage of the Fund's assets allocated to trading.

During all periods set forth under "Selected Financial Data," the interest rates in many countries were at unusually low levels. The low interest rates in the United States (although higher than in many other countries) negatively impacted revenues because interest income is typically a major component of the Fund's profitability. In addition, low interest rates are frequently associated with reduced fixed income market volatility, and in static markets the Fund's profit potential generally tends to be diminished. On the other hand, during periods of higher interest rates, the relative attractiveness of a high risk investment such as the Fund may be reduced as compared to high yielding and much lower risk fixed-income investments.

The Fund's Brokerage Commissions and Administrative Fees are a constant percentage of the Fund's assets allocated to trading. The only Fund costs (other than the insignificant currency trading costs) which are not based on a percentage of the Fund's assets (allocated to trading or total) are the Profit Shares payable to the Advisors on an Advisor-by-Advisor basis. Gross profitability, is in turn, affected by the percentage of the Fund's assets allocated to trading. During periods when Profit Shares are a high percentage of net trading gains, it is likely that there has been substantial performance non-correlation among the Advisors (so that the total Profit Shares paid to those Advisors which have traded profitably are a high percentage, or perhaps even in excess, of the total profits recognized, as other Advisors have incurred offsetting losses, reducing overall trading gains but not the Profit Shares paid to the successful Advisors) -- suggesting the likelihood of generally trendless, non-consensus markets.

Unlike many investment fields, there is no meaningful distinction in the operation of the Fund between realized and unrealized profits. Most of the contracts traded by the Fund are highly liquid and can be closed out at any time.

Except in unusual circumstances, factors -- regulatory approvals, cost of goods sold, employee relations and the like -- which often materially affect an operating business have virtually no impact on the Fund.

LIQUIDITY; CAPITAL RESOURCES

The Fund borrows only to a limited extent and only on a strictly short-term basis in order to finance losses on non-U.S. dollar denominated trading positions pending the conversion of the Fund's dollar deposits. These borrowings are at a prevailing short-term rate in the relevant currency. They have been immaterial to the Fund's operation to date and are expected to continue to be so.

Substantially all of the Fund's assets are held in cash. The Net Asset Value of the Fund's cash is not affected by inflation. However, changes in interest rates could cause periods of strong up or down price trends, during which the Fund's profit potential generally increases. Inflation in commodity prices could also generate price movements which the strategies might successfully follow.

Substantially all of the Fund's assets are held in cash. Accordingly, except in very unusual circumstances, the Fund should be able to close out any or all of its open trading positions and liquidate any or all of its securities holdings quickly and at market prices. This permits an Advisor to limit losses as well as reduce market exposure on short notice should its strategies indicate doing so. In addition, because there is a readily available market value for the Fund's positions and assets, the Fund's monthly Net Asset Value calculations are precise, and investors need only wait ten business days to receive the full redemption proceeds of their Units.

YEAR 2000 COMPLIANCE INITIATIVE

As the millennium approaches, Merrill Lynch has undertaken initiatives to address the Year 2000 problem (the "Y2K problem"). The Y2K problem is the result of a widespread programming technique that causes computer systems to identify a date based on the last two numbers of a year, with the assumption that the first two numbers of the year are "19". As a result, the year 2000 would be stored as "00," causing computers to incorrectly interpret the year as 1900. Left uncorrected, the Y2K problem may cause information technology systems (e.g., computer databases) and non-information technology systems (e.g., elevators) to produce incorrect data or cease operating completely.

Merrill Lynch believes that it has identified and evaluated its internal Y2K problem and that it is devoting sufficient resources to renovating technology systems that are not already Year 2000 compliant. The resource-intensive renovation phase (as further discussed) of Merrill Lynch's Year 2000 efforts was approximately 95% completed as of January 31, 1999. Merrill Lynch will focus primarily on completing its renovation and testing and on integration of the Year 2000 programs of recent acquisitions during the remainder of 1999. In order to focus attention on the Y2K problem, management has deferred certain other technology projects: however, this deferral is not expected to have a material adverse effect on the company's business, results of operations, or financial condition.

The failure of Merrill Lynch's technology systems relating to a Y2K problem would likely have a material adverse effect on the company's business, results of operations, and financial condition. This effect could include disruption of normal business transactions, such as the settlement, execution, processing, and recording of trades in securities, commodities, currencies, and other assets. The Y2K problem could also increase Merrill Lynch's exposure to risk and its need for liquidity.

In 1995, Merrill Lynch established the Year 2000 Compliance Initiative, which is an enterprisewide effort to address the risks associated with the Y2K problem, both internal and external. The Year 2000 Compliance Initiative's efforts to address the risks associated with the Y2K problem have been organized into six phases: planning, pre-renovation, renovation, production testing, certification, and integration testing.

The planning phase involved defining the scope of the Year 2000 Compliance Initiative, including its annual budget and strategy, and determining the level of expert knowledge available within Merrill Lynch regarding particular systems or applications. The pre-renovation phase involved developing a detailed enterprisewide inventory of applications and systems, identifying the scope of necessary renovations to each application system, and establishing a conversion schedule. During the renovation phase, source code is actually converted, date fields are expanded or windowed (windowing is used on an exception basis only), test data is prepared, and each system or application is tested using a variety of Year 2000 scenarios. The production testing phase validates that a renovated system is functionally the same as the existing production version, that renovation has not introduced defects, and that expanded or windowed date fields continue to handle current dates properly. The certification phase validates that a system can run successfully in a Year 2000 environment. The integration testing phase, which will occur throughout 1999, validates that a system can successfully interface with both internal and external systems. Finally, as Merrill Lynch continues to implement new systems, they are also being tested for Year 2000 readiness.

In 1996 and 1997, as part of the planning and pre-renovation phases, both plans and funding of plans for inventory, preparation, renovation, and testing of computer systems for the Y2K problem were approved. All plans for both mission-critical and non-mission-critical systems are tracked and monitored. The work associated with the Year 2000 Compliance Initiative has been accomplished by Merrill Lynch employees, with the assistance of consultants where necessary.

As part of the production testing and certification phases, Merrill Lynch has performed, and will continue to perform, both internal and external Year 2000 testing intended to address the risks from the Y2K problem. As of January 31, 1999, production testing was approximately 93% completed. In July 1998, Merrill Lynch participated in an industrywide Year 2000 systems test sponsored by the Securities Industry Association ("SIA"), in which selected firms tested their computer systems in mock stock trades that simulated dates in December 1999 and January 2000. Merrill Lynch will participate in further industrywide testing sponsored by the SIA, currently scheduled for March and April 1999, which will involve an expanded number of firms, transactions, and conditions. Merrill Lynch also participated in various other domestic and international industry tests during 1998.

Merrill Lynch continues to survey and communicate with third parties whose Year 2000 readiness is important to the company. Information technology and non-information technology vendors and service providers are contacted in order to obtain their Year 2000 compliance plans. Based on the nature of the response and the importance of the product or service involved, Merrill Lynch determines if additional testing is needed. The results of these efforts are maintained in a database that is accessible throughout the firm. Third parties that have been contacted include transactional counterparties, exchanges, and clearinghouses; a process to access and rate their responses has been developed. This information as well as other Year 2000 readiness information on particular countries and their political subdivisions will be used by Merrill Lynch to manage risk resulting from the Y2K problem. Management is unable at this point to ascertain whether all significant third parties will successfully address the Y2K problem. Merrill Lynch will continue to monitor third parties' Year 2000 readiness to determine if additional or alternative measures are necessary. In connection with information technology and non-information technology products and services, contingency plans, which are developed at the business unit level, may include selection of alternative vendors or service providers and changing business practices so that a particular system is not needed. In the case of securities exchanges and clearinghouses, risk mitigation could include the re-routing of business. In light of the interdependency of the parties in or serving the financial markets, however, there can be no assurance that all Y2K problems will be identified and remediated on a timely basis or that all remediation will be successful. The failure of exchanges, clearing organizations, vendors, service providers, counterparties, regulators, or others to resolve their own processing issues in a timely manner could have a material adverse effect on Merrill Lynch's business, results of operations, and financial condition.

At year-end 1998, the total estimated expenditures for the entire Year 2000 Compliance Initiative were approximately $425 million, of which approximately $125 million was remaining. The majority of these remaining expenditures are expected to cover testing, risk management, and contingency planning. There can be no assurance that the costs associated with such remediation efforts will not exceed those currently anticipated by Merrill Lynch, or that the costs associated with the remediation efforts or the possible failure of such remediation efforts would not have a material adverse effect on Merrill Lynch's business, results of operations, or financial condition.

EUROPEAN ECONOMIC AND MONETARY UNION ("EMU") INITIATIVE

As of January 1, 1999, the "euro" was adopted as the common legal currency of participating member states of the EMU. As a consequence of the introduction of and conversion to the euro, Merrill Lynch was required to make significant changes to nearly 200 global business systems in order to reflect the substitution of the euro for the 11 member national currencies and the European currency unit. The introduction of the euro brings about fundamental changes in the structure and nature of European financial markets, including the creation of a unified, more liquid capital market in Europe. As financial markets in EMU member states converge and local barriers are removed, competition is expected to increase.

The introduction of the euro affects all Merrill Lynch facilities that transact, distribute, or provide custody or recordkeeping for securities or cash denominated in the currency of a participating member state. Merrill Lynch's systems or procedures that handle such securities or cash were modified in order to implement the conversion to the euro. The implementation phase is continuing into the first quarter of 1999 to resolve any post-conversion issues. The success of

Merrill Lynch's euro conversion efforts was dependent on the euro-compliance of third parties, such as trading counterparties, financial intermediaries (e.g., securities and commodities exchanges, depositories, clearing organizations, and commercial banks), and vendors.

As of the end of the 1998 fiscal year, the total estimated expenditures associated with the introduction of and conversion to the euro were approximately $79 million, of which $1 million is remaining to be spent during the first quarter of 1999 on compliance efforts and project administration. Management believes that it has identified and evaluated all of the systems and operational modifications necessary for the conversion to the euro. On January 4, 1999 and since then, Merrill Lynch has conducted normal business operations, having successfully completed its conversion program. Management does not expect the introduction of the euro to have a negative effect on its future business, currency risk, or competitive positioning in the European markets.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTRODUCTION

Past Results Not Necessarily Indicative of Future Performance

The Fund is a speculative commodity pool. Unlike an operating company, the risk of market sensitive instruments is integral, not incidental, to the Fund's main line of business.

Market movements result in frequent changes in the fair market value of the Fund's open positions and, consequently, in its earnings and cash flow. The Fund's market risk is influenced by a wide variety of factors, including the level and volatility of interest rates, exchange rates, equity price levels, the market value of financial instruments and contracts, the diversification effects among the Fund's open positions and the liquidity of the markets in which it trades.

The Fund, under the direction of the Trading Advisors, rapidly acquires and liquidates both long and short positions in a wide range of different markets. Consequently, it is not possible to predict how a particular future market scenario will affect performance, and the Fund's past performance is not necessarily indicative of its future results.

Value at Risk is a measure of the maximum amount which the Fund could reasonably be expected to lose in a given market sector. However, the inherent uncertainty of the Fund's speculative trading and the recurrence in the markets traded by the Fund of market movements far exceeding expectations could result in actual trading or non-trading losses far beyond the indicated Value at Risk or the Fund's experience to date (i.e., "risk of ruin"). In light of the foregoing as well as the risks and uncertainties intrinsic to all future projections, the inclusion of the quantification in this section should not be considered to constitute any assurance or representation that the Fund's losses in any market sector will be limited to Value at Risk or by the Fund's attempts to manage its market risk.

QUANTIFYING THE FUND'S TRADING VALUE AT RISK

Quantitative Forward-Looking Statements

The following quantitative disclosures regarding the Fund's market risk exposures contain "forward-looking statements" within the meaning of the safe harbor from civil liability provided for such statements by the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934). All quantitative disclosures in this section are deemed to be forward-looking statements for purposes of the safe harbor, except for statements of historical fact.

The Fund's risk exposure in the various market sectors traded by the Advisors is quantified below in terms of Value at Risk. Due to the Fund's mark-to-market accounting, any loss in the fair value of the Fund's open positions is directly reflected in the Fund's earnings (realized or unrealized) and cash flow (at least in the case of exchange-traded contracts in which profits and losses on open positions are settled daily through variation margin).

Exchange maintenance margin requirements have been used by the Fund as the measure of its Value at Risk. Maintenance margin requirements are set by exchanges to equal or exceed 95%-99% of the maximum one-day losses in the fair value of any given contract incurred during the time period over which historical price fluctuations are researched

for purposes of establishing margin levels. The maintenance margin levels are established by dealers and exchanges using historical price studies as well as an assessment of current market volatility (including the implied volatility of the options on a given futures contract) and economic fundamentals to provide a probabilistic estimate of the maximum expected near-term one-day price fluctuation.

In the case of market sensitive instruments which are not exchange-traded (almost exclusively currencies in the case of the Fund), the margin requirements for the equivalent futures positions have been used as Value at Risk. In those rare cases in which a futures-equivalent margin is not available, dealers' margins have been used.

The fair value of the Fund's futures and forward positions does not have any optionality component. However, certain of the Advisors trade commodity options. The Value at Risk associated with options is reflected in the following table as the margin requirement attributable to the instrument underlying each option.

100% positive correlation in the different positions held in each market risk category has been assumed. Consequently, the margin requirements applicable to the open contracts have been aggregated to determine each trading category's aggregate Value at Risk. The diversification effects resulting from the fact that the Fund's positions are rarely, if ever, 100% positively correlated have not been reflected.

THE FUND'S TRADING VALUE AT RISK IN DIFFERENT MARKET SECTORS

The following table indicates the trading Value at Risk associated with the Fund's open positions by market category as of December 31, 1998. As of December 31, 1998, the Fund's total capitalization was approximately $33,791,182, all, of which was allocated to trading.

<TABLE>
<CAPTION>

	DECEMBER 31, 1998	
		% OF TOTAL
MARKET SECTOR	VALUE AT RISK	CAPITALIZATION
<S>	<C>	<C>
Interest Rates	$ 159,263	.47
Currencies	294,936	.89
Stock Indices	79,470	.23
Metals	115,273	.34
Commodities	78,680	.23
Energy	63,550	.18
Total	$ 791,172	2.34

</TABLE>

MATERIAL LIMITATIONS ON VALUE AT RISK AS AN ASSESSMENT OF MARKET RISK

The face value of the market sector instruments held by the Fund is typically many times the applicable maintenance margin requirement (maintenance margin requirements generally ranging between approximately 1% and 10% of contract face value) as well as many times the capitalization of the Fund. The magnitude of the Fund's open positions creates a "risk of ruin" not typically found in most other investment vehicles. Because of the size of its positions, certain market conditions -- unusual, but historically recurring from time to time -- could cause the Fund to incur severe losses over a short period of time. Even comparatively minor losses could cause MLIP to further deleverage or terminate the Fund's trading. The foregoing Value at Risk table -- as well as the past performance of the Fund -- give no indication of this "risk of ruin."

NON-TRADING RISK

Foreign Currency Balances; Cash on Deposit with MLF

The Fund has non-trading market risk on its foreign cash balances not needed for margin. However, these balances (as well as the market risk they represent) are immaterial.

The Fund also has non-trading market risk on the approximately 90%-95% of its assets which are held

in cash at MLF. The value of this cash is not interest rate sensitive, but there is cash flow risk in that if interest rates decline so will the cash flow generated on these monies. This cash flow risk is immaterial.

QUALITATIVE DISCLOSURES REGARDING PRIMARY TRADING RISK EXPOSURES

The following qualitative disclosures regarding the Fund's market risk exposures -- except for (i) those disclosures that are statements of historical fact and (ii) the descriptions of how the Fund manages its primary market risk exposures -- constitute forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act. The Fund's primary market risk exposures as well as the strategies used and to be used by MLIP and the Advisors for managing such exposures are subject to numerous uncertainties, contingencies and risks, any one of which could cause the actual results of the Fund's risk controls to differ materially from the objectives of such strategies. Government interventions, defaults and expropriations, illiquid markets, the emergence of dominant fundamental factors, political upheavals, changes in historical price relationships, an influx of new market participants, increased regulation and many other factors could result in material losses as well as in material changes to the risk exposures and the risk management strategies of the Fund. There can be no assurance that the Fund's current market exposure and/or risk management strategies will not change materially or that any such strategies will be effective in either the short- or long-term. Investors must be prepared to lose all or substantially all of the time value of their investment in the Fund.

The following were the primary trading risk exposures of the Fund as of December 31, 1998, by market sector.

INTEREST RATES. Interest rate risk is the principal market exposure of the Fund. Interest rate movements directly affect the price of derivative sovereign bond positions held by the Fund and indirectly the value of its stock index and currency positions. Interest rate movements in one country as well as relative interest rate movements between countries materially impact the Fund's profitability. The Fund's primary interest rate exposure is to interest rate fluctuations in the United States and the other G-7 countries. However, the Fund also takes positions in the government debt of smaller nations -- e.g., New Zealand and Australia. The General Partner anticipates that G-7 interest rates will remain the primary market exposure of the Fund for the foreseeable future.

CURRENCIES. The Fund trades in a large number of currencies, including cross-rates -- i.e., positions between two currencies other than the U.S. dollar. However, the Fund's major exposures have typically been in the dollar/yen, dollar/mark and dollar/pound positions. The General Partner does not anticipate that the risk profile of the Fund's currency sector will change significantly in the future, although it is difficult at this point to predict the effect of the introduction of the Euro on the Advisors' currency trading strategies. The currency trading Value at Risk figure includes foreign margin amounts converted into U.S. dollars with an incremental adjustment to reflect the exchange rate risk inherent to the dollar-based Fund in expressing Value at Risk in a functional currency other than dollars.

STOCK INDICES. The Fund's primary equity exposure is to equity index price movements. The stock index futures traded by the Fund are by law limited to futures on broadly based indices. As of December 31, 1998, the Fund's primary exposures were in the S&P 500, Financial Times (England), Nikkei (Japan) and DAX (Germany) stock indices. The General Partner anticipates little, if any, trading in non-G-7 stock indices. The Fund is primarily exposed to the risk of adverse price trends or static markets in the major U.S., European and Japanese indices.

METALS. The Fund's primary metals market exposure is to fluctuations in the price of gold and silver. Although certain of the Advisors will from time to time trade base metals such as aluminum, copper and tin, the principal market exposures of the Fund have consistently been in the precious metals, gold and silver (and, to a much lesser extent, platinum). The Advisors' gold trading has been increasingly limited due to the long-lasting and mainly non-volatile decline in the price of gold over the last 10-15 years. However, silver prices have remained volatile over this period, and the Advisors have from time to time taken substantial positions as they have perceived market opportunities to develop. The General Partner anticipates that gold and silver will remain the primary metals market exposure for the Fund.

COMMODITIES. The Fund's primary commodities exposure is to agricultural price movements which are often directly affected by severe or unexpected weather conditions. Soybeans, grains and orange juice accounted for the substantial bulk of the Fund's commodities exposure as of December 31, 1998. In the past, the Fund has had material market exposure to live cattle and hogbellies and may do so again in the future. However, the General Partner anticipates that the Advisors will maintain an emphasis on soybeans, grains and orange juice, in which the Fund has historically taken its largest positions.

ENERGY. The Fund's primary energy market exposure is to gas and oil price movements, often resulting from political developments in the Middle East. Although the Advisors trade natural gas to a limited extent, oil is by far the dominant energy market exposure of the Fund. Oil prices are currently depressed, but they can be volatile and substantial profits and losses have been and are expected to continue to be experienced in this market.

QUALITATIVE DISCLOSURES REGARDING NON-TRADING RISK EXPOSURE

The following were the only non-trading risk exposures of the Fund as of December 31, 1998.

FOREIGN CURRENCY BALANCES. The Fund's primary foreign currency balances are in Japanese yen, German marks, British pounds and French francs. The Fund has de minimis exchange rate exposure on these balances.

U.S. DOLLAR CASH BALANCE. The Fund holds U.S. dollars only in cash at MLF. The Fund has immaterial cash flow interest rate risk on its cash on deposit with MLF in that declining interest rates would cause the income from such cash to decline.

QUALITATIVE DISCLOSURES REGARDING MEANS OF MANAGING RISK EXPOSURE

Trading Risk

The General Partner has procedures in place intended to control market risk exposure, although there can be no assurance that they will, in fact, succeed in doing so. These procedures focus primarily on monitoring the trading of the Advisors selected from time to time for the Fund, adjusting the percentage of the Fund's total assets allocated to the Trading Advisors for management, calculating the Net Asset Value of the Advisors' respective Fund accounts as of the close of business on each day and reviewing outstanding positions for over-concentrations -- both on an Advisor-by-Advisor and on an overall Fund basis. While MLIP does not itself intervene in the markets to hedge or diversify the Fund's market exposure, MLIP may urge Advisors to reallocate positions, or itself reallocate Partnership assets among Advisors (although typically only as of the end of a month), in an attempt to avoid over-concentrations. However, such interventions are unusual.

One important aspect of the General Partner's risk controls is its adjustments to the leverage at which the Fund trades. By controlling the percentage of the Fund's assets allocated to trading, the General Partner can directly affect the market exposure of the Fund. Leverage control is the principal means by which the General Partner hopes to be able to ensure that Merrill Lynch is never required to make any payments under its guarantee that the Net Asset Value per Unit will equal no less than $100 as of the next Principal Assurance Date.

At the Advisor level, each Advisor applies its own risk management policies to its trading. These policies generally limit the total exposure that may be taken per "risk unit" of assets under management. In addition, many Advisors follow diversification guidelines (often formulated in terms of the maximum margin which they will commit to positions in any one contract or group of related contracts), as well as imposing "stop-loss" points at which open positions must be closed out. Occasionally, Advisors will limit the market exposure of their Fund account through acquiring put or call options which "collar" the risk of open positions. However, because of the typically high degree of liquidity in the markets traded by the Fund and the expense of acquiring options, most Advisors rely simply on stop-loss policies, requiring the liquidation of positions once losses of a certain magnitude have been incurred.

Certain Advisors treat their risk control policies as strict rules; others only as general guidelines for controlling risk.

Non-Trading Risk

The Fund controls the non-trading exchange rate risk by regularly converting foreign balances back into dollars (no less frequently than twice a month, and more frequently if a particular foreign currency balance becomes unusually high).

The Fund has cash flow interest rate risk on its cash on deposit with MLF in that declining interest rates would cause the income from such cash to decline. However, a certain amount of cash or cash equivalents must be held by the Fund in order to facilitate margin payments and pay expenses and redemptions. MLIP does not take any steps to limit the cash flow risk on its cash held on deposit at MLF.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item are included in Exhibit 13.01.

The supplementary financial information ("selected quarterly financial data" and "information about oil and gas producing activities") specified by Item 302 of Regulation S-K is not applicable. The General Partner promoted the Fund and is its controlling person.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no changes in or disagreements with independent auditors on accounting or financial disclosure.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

10(a) and 10(b) Identification of Directors and Executive Officers:

As a limited partnership, the Partnership itself has no officers or directors and is managed by the General Partner. Trading decisions are made by the Trading Advisors on behalf of the Partnership. The General Partner promoted the Fund and is its controlling person.

The directors and executive officers of MLIP and their respective business backgrounds are as follows.

JOHN R. FRAWLEY, JR.	Chairman, Chief Executive Officer, President and Director
JEFFREY F. CHANDOR	Senior Vice President, Director of Sales, Marketing and Research and Director
JO ANN DI DARIO	Vice President, Chief Financial Officer and Treasurer, through April 30, 1999
MICHAEL L. PUNGELLO	Vice President, Chief Financial Officer and Treasurer, effective May 1, 1999
JOSEPH H. MOGLIA	Director
ALLEN N. JONES	Director

STEPHEN G. BODURTHA	Director
STEVEN B. OLGIN	Vice President, Secretary and Director of Administration

John R. Frawley, Jr. was born in 1943. Mr. Frawley is Chairman, Chief Executive Officer, President and a Director of MLIP and Co-Chairman of MLF. He joined Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S") in 1966 and has served in various positions, including Retail and Institutional Sales, Manager of New York Institutional Sales, Director of Institutional Marketing, Senior Vice President of Merrill Lynch Capital Markets and Director of International Institutional Sales. Mr. Frawley holds a Bachelor of Science degree from Canisius College. Mr. Frawley served on the CFTC's Regulatory Coordination Advisory Committee from its formation in 1990 through its dissolution in 1994. Mr. Frawley has served four consecutive one-year terms as Chairman of the Managed Funds Association (formerly, the Managed Futures Association), a national trade association that represents the managed futures, hedge funds and fund of funds industry. Mr. Frawley currently serves as a member of the CFTC's Global Markets Advisory Committee.

Jeffrey F. Chandor was born in 1942. Mr. Chandor is Senior Vice President, Director of Sales, Marketing and Research and a Director of MLIP. He joined MLPF&S in 1971 and has served as the Product Manager of International Institutional Equities, Equity Derivatives and Mortgage-Backed Securities as well as Managing Director of International Sales in the United States, and Managing Director of Sales in Europe. Mr. Chandor holds a Bachelor of Arts degree from Trinity College, Hartford, Connecticut. Mr. Chandor is serving a two-year term as a director of the Managed Funds Association.

Jo Ann Di Dario was born in 1946. Ms. Di Dario is, through April 30, 1999, Vice President, Chief Financial Officer and Treasurer of MLIP. Before joining MLIP in May 1998, she was self-employed for one year. From February 1996 to May 1997, she worked as a consultant for Global Asset Management, an international mutual fund organizer and operator headquartered in London, where she offered advice on restructuring their back-office operations. From May 1992 to January 1996, she served as a Vice President of Meridian Bank Corporation, a regional bank holding company. She was responsible for managing the treasury operations of Meridian Bank Corporation including its wholly-owned subsidiary, Meridian Investment Company Inc. From September 1991 to May 1992, Ms. Di Dario managed the Domestic Treasury Operations of First Fidelity Bank, a regional bank. From January 1991 to September 1991, Ms. Di Dario was self-employed. For the previous five years, Ms. Di Dario was Vice President, Secretary and Controller of Caxton Corporation, a Commodity Pool Operator and Commodity Trading Advisor. Her background includes seven years of public accounting experience, and she graduated with high honors from Stockton State College with a Bachelor of Science degree in Accounting.

Michael L. Pungello was born in 1957. Effective May 1, 1999, Mr. Pungello will become Vice President, Chief Financial Officer and Treasurer of MLIP. He was First Vice President and Senior Director of Finance for Merrill Lynch's Operations, Services and Technology Group from January 1998 to March 1999. Prior to that, Mr. Pungello spent over 18 years with Deloitte & Touche LLP, and was a partner in their Financial Services practice from June 1990 to December 1997. He graduated from Fordham University in 1979 with a Bachelor of Science degree in accounting and received his Master of Business Administration degree in Finance from New York University in 1987.

Joseph H. Moglia was born in 1949. Mr. Moglia is a Director of MLIP. In 1971, he graduated from Fordham University with a Bachelor of Arts degree in Economics. He later received his Master of Science degree from the University of Delaware. He taught at the high school and college level for sixteen years. Mr. Moglia joined MLPF&S in 1984, and has served in a number of senior roles, including Director of New York Fixed Income Institutional Sales, Director of Global Fixed Income Institutional Sales, and Director of the Municipal Division. He is currently Senior Vice President and Director of the Investment Strategy and Product Group in Merrill Lynch Private Client, and Director of Middle Markets.

Allen N. Jones was born in 1942. Mr. Jones is a Director of MLIP and, from July 1995 until January 1998, Mr. Jones was also Chairman of the Board of Directors of MLIP. Mr. Jones graduated from the University of Arkansas with a Bachelor of Science, Business Administration degree in 1964. Since June 1992, Mr. Jones has held the position of Senior Vice President of MLPF&S. From June 1992 through February 1994, Mr. Jones was the President and Chief Executive Officer of Merrill Lynch Insurance Group, Inc. ("MLIG") and remains on the Board of Directors of MLIG and its subsidiary companies. From February 1994 to April 1997, Mr. Jones was the Director of Individual Financial Services of the Merrill Lynch Private Client Group. In April 1997, Mr. Jones became the Director of Private Client marketing.

Stephen G. Bodurtha was born in 1958. Mr. Bodurtha is a Director of MLIP. In 1980, Mr. Bodurtha graduated magna cum laude from Wesleyan University, Middletown, Connecticut with a Bachelor of Arts degree in Government. From 1980 to 1983, Mr. Bodurtha worked in the Investment Banking Division of Merrill Lynch. In 1985, he was awarded his Master of Business Administration degree from Harvard University, where he also served as Associates Fellow (1985 to 1986). From 1986 to 1989, Mr. Bodurtha held the positions of Associate and Vice President with Kidder,

Peabody & Co., Incorporated where he worked in their Financial Futures & Options Group. Mr. Bodurtha joined MLPF&S in 1989 and has held the position of First Vice President since 1995. He has been the Director in charge of the Structured Investments Group of MLPF&S since 1995.

Steven B. Olgin was born in 1960. Mr. Olgin is Vice President, Secretary and the Director of Administration of MLIP. He joined MLIP in July 1994 and became a Vice President in July 1995. From 1986 until July 1994, Mr. Olgin was an associate of the law firm of Sidley & Austin. In 1982, Mr. Olgin graduated from The American University with a Bachelor of Science degree in Business Administration and a Bachelor of Arts degree in Economics. In 1986, he received his Juris Doctor degree from The John Marshall Law School. Mr. Olgin is a member of the Managed Funds Association's Government Relations Committee and has served as an arbitrator for the NFA. Mr. Olgin is also a member of the Committee on Futures Regulation of the Association of the Bar of the City of New York.

As of December 31, 1998, the principals of MLIP had no investments in the Fund and MLIP's general partner interest in the Fund was valued at $397,988.

MLIP acts as general partner to twelve public futures funds whose units of limited partnership interest are registered under the Securities Exchange Act of 1934: The Futures Expansion Fund Limited Partnership, The Growth and Guarantee Fund L.P., ML Futures Investments II L.P., ML Futures Investments L.P., John W. Henry & Co./Millburn L.P., The S.E.C.T.O.R. Strategy Fund (SM) L.P., The SECTOR Strategy Fund (SM) V L.P., The SECTOR Strategy Fund (SM) VI L.P., ML Global Horizons L.P., ML Principal Protection L.P., ML JWH Strategic Allocation Fund L.P. and the Fund. Because MLIP serves as the sole general partner of each of these funds, the officers and directors of MLIP effectively manage them as officers and directors of such funds.

(c) Identification of Certain Significant Employees:

None.

(d) Family Relationships:

None.

(e) Business Experience:

See Item 10(a)(b) above.

(f) Involvement in Certain Legal Proceedings:

None.

(g) Promoters and Control Persons:

Not applicable.

ITEM 11: EXECUTIVE COMPENSATION

The directors and officers of the General Partner are remunerated by the General Partner. The Partnership does not itself have any officers, directors or employees. The Partnership pays Brokerage Commissions to an affiliate of the General Partner and Administrative Fees to the General Partner. The General Partner or its affiliates may also receive certain economic benefits from holding the Fund's dollar assets. The directors and officers receive no "other compensation" from the Partnership, and the directors receive no compensation for serving as directors of the General Partner. There are no compensation plans or arrangements relating to a change in control of either the Partnership or the General Partner.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security Ownership of Certain Beneficial Owners:

As of December 31, 1998, no person or "group" is known to be or have been the beneficial owner of more than 5% of the Units.

(b) Security Ownership of Management:

As of December 31, 1998, the General Partner owned 832 SECTOR II Units and 1,595 SECTOR III Units (unit-equivalent general partnership interests), which was less than 1.2% of the total Units outstanding.

(c) Changes in Control

None.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

(a) Transactions Between Merrill Lynch and the Fund

All of the service providers to the Fund, other than the Advisors, are affiliates of Merrill Lynch. Merrill Lynch negotiated with the Advisors over the level of its advisory fees and Profit Share. However, none of the fees paid by the Fund to any Merrill Lynch party were negotiated, and they are higher than would have been obtained in arm's-length bargaining.

The Fund pays Merrill Lynch substantial Brokerage Commissions and Administrative Fees as well as bid-ask spreads on forward currency trades. The Fund also pays MLF interest on short-term loans extended by MLF to cover losses on foreign currency positions.

Within the Merrill Lynch organization, MLIP is the direct beneficiary of the revenues received by different Merrill Lynch entities from the Fund. MLIP controls the management of the Fund and serves as its promoter. Although MLIP has not sold any assets, directly or indirectly, to the Fund, MLIP makes substantial profits from the Fund due to the foregoing revenues.

No loans have been, are or will be outstanding between MLIP or any of its principals and the Fund.

MLIP pays substantial selling commissions and trailing commissions to MLPF&S for distributing the Units. MLIP is ultimately paid back for these expenditures from the revenues it receives from the Fund.

(b) Certain Business Relationships:

MLF, an affiliate of the General Partner, acts as the principal commodity broker for the Partnership.

In 1998 the Partnership expensed: (i) Brokerage Commissions of $1,015,128 to the Commodity Broker, which included $153,793 in consulting fees earned by the Trading Advisors; and (ii) Administrative Fees of $29,004 to MLIP. Through its investments in Trading LLCs and MM LLC, the following fees were expensed: (i) Brokerage Commissions of $2,246,657 to the Commodity Broker, which included $409,071 in consulting fees earned by the Trading Advisors; and (ii) Administrative Fees of $64,191 to MLIP. In addition, MLIP and its affiliates may have derived certain economic benefits from possession of the Fund's assets, as well as from the Fund's foreign exchange and EFP trading.

See Item 1(c), "Narrative Description of Business -- Charges" and "-- Description of Current Charges" for a discussion of other business dealings between MLIP affiliates and the Partnership.

(c) Indebtedness of Management:

The Partnership is prohibited from making any loans, to management or otherwise.

(d) Transactions with Promoters:

Not applicable.

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

<TABLE>
<CAPTION>

(a)1.	Financial Statements (found in Exhibit 13.01):	Page
<S>	<C>	<C>
	Independent Auditors' Report	1
	Statements of Financial Condition as of December 31, 1998 and 1997	2
	For the years ended December 31, 1998, 1997 and 1996	
	Statements of Income	3
	Statements of Changes in Partners' Capital	4
	Notes to Financial Statements	5-17

</TABLE>

(a)2. Financial Statement Schedules:

Financial statement schedules not included in this Form 10-K have been omitted for the reason that they are not required or are not applicable or that equivalent information has been included in the financial statements or notes thereto.

(a)3. Exhibits:

The following exhibits are incorporated by reference or are filed herewith to this Annual Report on Form 10-K:

Designation	Description
3.01(a)	Amended and Restated Certificate of Limited Partnership of the Registrant, dated July 27, 1995.
Exhibit 3.01(a):	Is incorporated herein by reference from Exhibit 3.01(a) contained in the Registrant's report on Form 10-Q for the Quarter ended June 30, 1995.
3.01(b)	Amended and Restated Limited Partnership Agreement of the Partnership.
Exhibit 3.01(b):	Is incorporated herein by reference from Exhibit 3.01(b) contained in Amendment No. 1 to the Registration Statement (File No. 33-39966) filed on May 8, 1991, on Form S-1 under the Securities Act of 1933 (the "Registrant's Registration Statement").
10.01(x)	Form of Advisory Agreement between the Partnership, Merrill Lynch Investment Partners Inc., Merrill Lynch Futures Inc. and each Trading Advisor.
Exhibit 10.01(x):	Is incorporated by reference from Exhibit 10.01(x) contained in the Registrant's report on Form 10-Q for the Quarter Ended June 30, 1995.
10.02(b)	Form of Consulting Agreement between each of the Trading Advisors, the Partnership and Merrill Lynch Futures Inc.
Exhibit 10.02(b):	Is incorporated herein by reference from Exhibit 10.02 contained in the Registrant's Registration Statement.

10.03	Form of Customer Agreement between the Partnership and Merrill Lynch Futures Inc.
Exhibit 10.03:	Is incorporated herein by reference from Exhibit 10.03 contained in the Registrant's Registration Statement.
10.05	Merrill Lynch & Co., Inc. Guarantee with respect to the SECTOR II Units.
Exhibit 10.05:	Is incorporated herein by reference from Exhibit 10.05 contained in Amendment No. 1 (as Exhibit B) to the Registration Statement (File No. 33-36517) filed on October 2, 1990.
10.05(a)	Merrill Lynch & Co., Inc. Guarantee with respect to the SECTOR III Units.
Exhibit 10.05(a):	Is incorporated by reference from Exhibit 10.05 contained in the Registrant's Registration Statement.
10.07(i)	Foreign Exchange Desk Service Agreement among Merrill Lynch International Bank, Merrill Lynch Investment Partners Inc., Merrill Lynch Futures Inc. and the Fund.
Exhibit 10.07(i):	Is incorporated herein by reference from Exhibit 10.07(i) contained in the Registrant's report on Form 10-K for the year ended December 31, 1997.
10.07(ii)	Form of Advisory and Consulting Agreement Amendment among Merrill Lynch Investment Partners Inc., each Advisor, the

Fund and Merrill Lynch Futures Inc.

Exhibit 10.07(ii): Is incorporated herein by reference from Exhibit 10.07(ii) contained in the Registrant's report on Form 10-K for the year ended December 31, 1997.

10.07(iii) Form of Amendment to the Customer Agreement among the Partnership and MLF.

Exhibit 10.07(iii) Is incorporated herein by reference from Exhibit 10.07(iii) contained in the Registrant's report on Form 10-K for the year ended December 31, 1997.

13.01 1998 Annual Report and Independent Auditors' Report.

Exhibit 13.01: Is filed herewith.

13.01(a) 1998 Annual Reports and Independent Auditors' Reports for the following Trading Limited Liability Companies sponsored by Merrill Lynch Investment Partners' Inc.:
ML Millburn Global L.L.C.
ML JWH Financial and Metals Portfolio L.L.C.
ML Multi Manager Portfolio LLC

Exhibit 13.01(a): Is incorporated herein by reference from Form 10-K (fiscal year ended December 31, 1998) Commission File number 0-18702 for The S.E.C.T.O.R. Fund (SM) L.P. (Registration Statement File No. 33-34432 filed on May 25, 1990 under the Securities Act of 1933).

28.01(i) Prospectus of the Partnership with respect to the SECTOR II portion, dated October 2, 1990.

Exhibit 28.01(i): Is incorporated by reference as filed with the Securities and Exchange Commission on October 11, 1990 pursuant to Rule 424 under the Securities Act of 1933.

28.01(ii) Prospectus of the Partnership with respect to the SECTOR III portion, dated May 8, 1991.

Exhibit 28.01(ii): Is incorporated by reference as filed with the Securities and Exchange Commission on May 14, 1991 pursuant to Rule 424 under the Securities Act of 1933.

(b) Report on Form 8-K:

No reports on Form 8-K were filed during the fourth quarter of 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE SECTOR STRATEGY FUND (SM) II L.P.

By: MERRILL LYNCH INVESTMENT PARTNERS INC.
General Partner

By: /s/ John R. Frawley, Jr.

John R. Frawley, Jr.
Chairman, Chief Executive Officer, President and Director
(Principal Executive Officer)

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed on March 25, 1999 by the following persons on behalf of the Registrant and in the capacities indicated.

Signature	Title	Date
/s/ John R. Frawley, Jr. John R. Frawley, Jr.	Chairman, Chief Executive Officer, President and Director (Principal Executive Officer)	March 25, 1999
/s/ Jo Ann Di Dario Jo Ann Di Dario	Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 25, 1999
/s/ Jeffrey F. Chandor Jeffrey F. Chandor	Senior Vice President, Director of Sales, Marketing and Research, and Director	March 25, 1999
/s/ Allen N. Jones Allen N. Jones	Director	March 25, 1999

(Being the principal executive officer, the principal financial and accounting officer and a majority of the directors of Merrill Lynch Investment Partners Inc.)

MERRILL LYNCH INVESTMENT PARTNERS INC. General Partner of Registrant March 25, 1999

By: /s/ John R. Frawley, Jr.
John R. Frawley, Jr.

THE SECTOR STRATEGY FUND (SM) II L.P.

1998 FORM 10-K

INDEX TO EXHIBITS

	Exhibit
Exhibit 13.01	1998 Annual Report and Independent Auditors' Report

EXHIBIT 13.1

The SECTOR STRATEGY FUND(SM) II L.P.
(A Delaware Limited Partnership)

Financial Statements for the years ended
December 31, 1998, 1997 and 1996
and Independent Auditors' Report

[LOGO] MERRILL LYNCH

To: The Limited Partners of The SECTOR Strategy Fund(SM) II L.P.

The SECTOR Strategy Fund(SM) II L.P. (the "Fund" or the "Partnership") ended its ninth fiscal year of trading on December 31, 1998 with a Net Asset Value ("NAV") per Unit of $158.74, representing an increase of 1.52% from the December 31, 1997 NAV per Unit of $156.37. During 1998, trading profits were generated in the interest rate, stock index and energy markets while losses were incurred in metals, agriculture and currency trading.

Global interest rate markets provided the Fund with its most profitable positions for the first quarter, particularly in European bonds where an extended bond market rally continued despite an environment of robust growth in the United States, Canada and the United Kingdom, as well as a strong pick-up in growth in continental Europe. In the second quarter, swings in the U.S. dollar and developments in Japan affected bond markets, causing the Fund's interest rate trading to result in losses. This was turned around in the third quarter, as markets worldwide were turned upside down and the Fund's non-correlation with general equity and debt markets was strongly exhibited, and trading was particularly profitable in positions in Eurodollars, German and Japanese bonds, and U.S. Treasury notes and bonds. Global investors staged a major flight to quality, resulting in a significant widening of credit spreads on a global basis. In October, investors pushed the yields on U.S. Treasury bonds to a 31-year low. The long bond yield fell about 75 basis points in 1998 as the world economy slowed more than expected, inflation continued to fall, the anticipated small U.S. budget deficit turned into substantial surplus, and the Federal Reserve lowered interest rates.

Trading results in stock index markets were mixed in early 1998, despite a strong first-quarter performance by the U.S. equity market as several consecutive weekly gains were recorded with most market averages setting new highs. Second quarter results were profitable as the Asia-Pacific region's equity markets weakened across the board. In particular, Hong Kong's Hang Seng index trended downward during most of the second quarter and traded at a three-year low. As U.S. equity markets declined in July and August, the Fund profited from short positions in the S&P 500, most notably during August, when the index dropped 14.5%. Volatility in September made for a difficult trading environment in the stock index sector, and the Fund incurred modest losses, although results remained profitable for the quarter and the year overall in these markets.

In energy markets, demand for crude oil in the Middle East was affected by low oil prices early in the year, and trading resulted in losses. Initially buoyed on concerns about a U.S.-led military strike against Iraq, crude oil fell to a nine-year low, as the globally warm winter, the return of Iraq as a producer and the Asian economic crisis added to OPEC's supply glut problems. Despite production cuts initiated by OPEC at the end of March, world oil supplies remained excessive and oil prices stood at relatively low levels throughout the first half of 1998. Short heating oil positions in the third quarter proved profitable for the Fund as the market for heating oil prices dropped to its lowest level in more than a decade. In early December, oil and natural gas prices dropped sharply, causing continued problems for many emerging market countries that depend on commodity exports for economic growth and government financing. These price pressures were mainly due to excessive supply availability and near-term weather indications that inventories would remain at more than adequate levels even in the event of a cold Northern Hemisphere winter. Also, the December U.S. air attack on Iraq failed to cause any damage to oil pumping and shipping operations, and oil prices fell over 10%.

Gold prices began the year drifting sideways, and continued to weaken following news in the second quarter of a European Central Bank consensus that ten to fifteen percent of reserves should be made up of gold bullion, which was at the low end of expectations. Gold was unable to extend third quarter rallies or to build any significant upside momentum, resulting in a trendless environment. This was also the case in the fourth quarter, as gold's cost of production declined. Also, silver markets remained range-bound, while also experiencing a significant selloff in November, and aluminum traded at its lowest levels since 1994, with many aluminum smelters operating at a loss.

In agricultural commodity markets, 1998 began with strong gains as live cattle and hog prices trended downward throughout the first quarter. In the second quarter, although the U.S. soybean crop got off to a good start which contributed to higher yield expectations and a more burdensome supply outlook, soybean prices traded in a volatile pattern. Sugar futures maintained mostly a downtrend, as no major buyers emerged to support the market. Similarly, coffee prices trended downward, as good weather conditions in Central America and Mexico increased the prospects of more output from these countries. The third quarter resulted in losses as the U.S. soybean crop increased relative to the USDA's production estimate as a result of timely rains, which contributed to lower prices. These losses continued into the fourth quarter as the Fund was caught on the short side of the soybean complex, as the soybean supply surplus became more manageable following the November 10th USDA reports, causing prices to gain upward momentum.

In currency markets, results early in the year were mixed, but unprofitable. During the second quarter, strong gains were realized in positions in the Japanese yen, which weakened during June to an eight-year low versus the U.S. dollar. Significant gains from Japanese yen trading continued into the third quarter, and Japan's problems spread to other sectors of the global economy, causing commodities prices to decline as demand from the Asian economies weakened. Japan's deepening recession and credit crunch continued through the fourth quarter, and the Fund achieved gains from long yen positions.

Despite a year of unprecedented volatility in key global markets, we were pleased with the Fund's ability to generate a profit by trading both the long and short side of a variety of markets, demonstrating its value as an element of diversification in an investor's portfolio. We look forward to 1999 and the opportunities it may present.

Sincerely,
John R. Frawley, Jr.
President
Merrill Lynch Investment Partners Inc.
(General Partner)

FUTURES TRADING IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.

THE SECTOR STRATEGY FUND(SM) II L.P.
(A Delaware Limited Partnership)

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INDEPENDENT AUDITORS' REPORT

To the Partners of
The SECTOR Strategy Fund(SM) II L.P.:

We have audited the accompanying statements of financial condition of The SECTOR Strategy Fund(SM) II L.P. (the "Partnership") as of December 31, 1998 and 1997, and the related statements of income and of changes in partners' capital for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements 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 are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 present fairly, in all material respects, the financial position of The SECTOR Strategy Fund(SM) II L.P. as of December 31, 1998 and 1997 and the results of its operations for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

New York, New York
February 4, 1999

THE SECTOR STRATEGY FUND(SM) II L.P.
(A Delaware Limited Partnership)

STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 1998 AND 1997

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
ASSETS		
Equity in commodity futures trading accounts:		
Cash and option premiums (Note 1)	$ --	$ 28,313,407
Net unrealized profit on open contracts (Note 1)	--	671,259
Accrued interest (Note 2)	--	127,467
Investments (Note 7)	33,791,182	12,352,605
Receivable from investments (Note 7)	662,200	57,819
TOTAL	$ 34,453,382	$ 41,522,557
LIABILITIES AND PARTNERS' CAPITAL		
LIABILITIES:		
Brokerage commissions payable (Note 2)	$ --	$ 212,278
Profit Shares payable (Note 3)	--	394,697
Administrative fees payable (Note 2)	--	6,065
Redemptions payable	662,200	259,060
Total liabilities	662,200	872,100
PARTNERS' CAPITAL:		
General Partner:		
(832 and 2,145 SECTOR II Units)	$ 132,067	$ 335,409
(1,595 and 3,905 SECTOR III Units)	265,921	620,882
Limited Partners:		
(66,576 and 86,300 SECTOR II Units)	10,567,998	13,494,521
(136,907 and 164,781 SECTOR III Units)	22,825,196	26,199,645
Total partners' capital	33,791,182	40,650,457
TOTAL	$ 34,453,382	$ 41,522,557
NET ASSET VALUE PER UNIT:		
SECTOR II Units (Based on 67,408 and 88,445 Units outstanding)	$ 158.74	$ 156.37
SECTOR III Units (Based on 138,502 and 168,686 Units outstanding)	$ 166.72	$ 159.00

</TABLE>
See notes to financial statements

THE SECTOR STRATEGY FUND(SM) II L.P.
(A Delaware Limited Partnership)

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	1998	1997	1996
REVENUES:			
Trading profit (loss):			
Realized (Note 1)	$ 1,169,961	$ 4,629,434	$ 6,760,623
Change in unrealized (Note 1)	(671,259)	98,218	(1,911,494)
Total trading results	498,702	4,727,652	4,849,129
Interest income (Note 2)	598,158	1,551,360	2,009,987
Total revenues	1,096,860	6,279,012	6,859,116
EXPENSES:			
Brokerage commissions (Note 2)	1,015,128	2,732,838	4,213,004
Profit Shares (Note 3)	301,645	530,099	364,863
Administrative fees (Note 2)	29,004	78,081	113,600
Total expenses	1,345,777	3,341,018	4,691,467
INCOME FROM INVESTMENTS (Note 7)	1,406,243	1,708,985	2,258,309
NET INCOME	$1,157,326	$ 4,646,979	$ 4,425,958

For weighted average net income per Unit for SECTOR II Units and SECTOR III Units see Note 4.

See notes to financial statements.

THE SECTOR STRATEGY FUND(SM) II L.P.
(A Delaware Limited Partnership)

STATEMENTS OF CHANGES IN PARTNERS' CAPITAL
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Units		Limited Partners		General Partner		
	SECTOR II	SECTOR III	SECTOR II	SECTOR III	SECTOR II	SECTOR III	Total
PARTNERS' CAPITAL, DECEMBER 31, 1995	164,541	288,481	$20,324,051	$ 36,499,903	$ 268,488	$ 500,814	$ 57,593,256
Redemptions	(58,471)	(94,014)	(7,440,617)	(11,994,492)	--	--	(19,435,109)
Net income	--	--	2,021,335	2,316,654	39,145	48,824	4,425,958
PARTNERS' CAPITAL, DECEMBER 31, 1996	106,070	194,467	14,904,769	26,822,065	307,633	549,638	42,584,105
Redemptions	(17,625)	(25,781)	(2,692,322)	(3,888,305)	--	--	(6,580,627)
Net income	--	--	1,282,074	3,265,885	27,776	71,244	4,646,979
PARTNERS' CAPITAL, DECEMBER 31, 1997	88,445	168,686	13,494,521	26,199,645	335,409	620,882	40,650,457

Redemptions	(21,037)	(30,184)	(3,011,647)	(4,456,542)	(192,459)	(355,953)	(8,016,601)
Net income	--	--	85,124	1,082,093	(10,883)	992	1,157,326
PARTNERS' CAPITAL, DECEMBER 31, 1998	67,408	138,502	$10,567,998	$ 22,825,196	$ 132,067	$ 265,921	$ 33,791,182

</TABLE>
See notes to financial statements.

THE SECTOR STRATEGY FUND(SM) II L.P.
(A Delaware Limited Partnership)

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The SECTOR Strategy Fund(SM) II L.P. (the "Partnership") was organized under the Delaware Revised Uniform Limited Partnership Act on August 21, 1990 and commenced trading activities on December 5, 1990. The Partnership engages (currently, through an investment in a limited liability company (see below)) in the speculative trading of futures, options on futures, forwards and options on forward contracts on a wide range of commodities. The Partnership raised $136,410,000 for its initial capitalization ("SECTOR II Units") and raised an additional $194,005,000 in a second offering of Units of limited partnership interest ("SECTOR III Units"; SECTOR II and SECTOR III Units being collectively referred to as "Units") and commenced trading activities with respect to its SECTOR III Units on July 5, 1991. These capitalization balances included investments from The SECTOR Strategy Fund(SM) International II Ltd. (the "Company"). On March 1, 1994, the Company redeemed its investments in the Partnership with respect to both the SECTOR II Units and SECTOR III Units to become a stand-alone trading company. Merrill Lynch Investment Partners Inc. ("MLIP" or the "General Partner"), a wholly-owned subsidiary of Merrill Lynch Group, Inc., which, in turn, is a wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("Merrill Lynch"), is the general partner of the Partnership. Merrill Lynch Futures Inc. ("MLF"), a Merrill Lynch affiliate, is the Partnership's commodity broker. A portion of the Partnership's assets is held by a commodity broker, other than MLF, to facilitate the trading of a certain independent advisor, subject to an arrangement recognized by the General Partner. The General Partner has agreed to maintain a general partner's interest of at least 1% of the total capital of the Partnership. The General Partner and each Limited Partner share in the profits and losses of the Partnership in proportion to their respective interests in it.

Many of the multi-advisor funds (the "Multi-Advisor Funds") sponsored by MLIP allocate their assets to a number of the same independent advisors (the "Advisors" or the "Trading Advisors"). However, because different Multi-Advisor Funds had historically allocated assets to slightly different Advisor groups, the Multi-Advisor Funds often were required to open and maintain individual trading accounts with each Advisor. MLIP consolidated the trading accounts of nine of its Multi-Advisor Funds (including the Partnership) as of June 1, 1998. The consolidation was achieved by having these Multi-Advisor Funds close their existing trading accounts and invest in a limited liability company, ML Multi-Manager Portfolio L.L.C. ("MM LLC"), a Delaware limited liability company, which opened a single account with each Advisor selected. MM LLC is managed by MLIP, has no investors other than the Multi-Advisor Funds and serves solely as the vehicle through which the assets of such Multi-Advisor Funds are combined in order to be managed through single rather than multiple accounts. The placement of assets into MM LLC did not change the operations or fee structure of the Partnership; therefore, the following notes relate to the operation of the Partnership through its investment in MM LLC. The administrative authority over the Partnership remains with MLIP. MLIP, on an ongoing basis, may change the number of Multi-Advisor Funds investing in MM LLC.

MLIP selects the Advisors to manage MM LLC's assets, and allocates and reallocates such trading assets among existing, replacement and additional Advisors.

MLIP determines what percentage of the Partnership's total capital to invest in MM LLC from time to time, attempting to balance the desirability of reducing the opportunity costs of the Partnership's "principal protection" structure by investing 100% of the Partnership's assets in MM LLC against the necessity of preventing Merrill Lynch from ever being required to make any payments to the Partnership under the Merrill Lynch guarantee (See Note 6).

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Commodity futures, options on futures, forwards and options on forward contracts are recorded on the trade date, and open contracts are reflected in net unrealized profit on open contracts in the Statements of Financial Condition at the difference between the original contract value and the market value (for those commodity interests for which market quotations are readily available) or at fair value. The change in unrealized (loss) profit on open contracts from one period to the next is reflected in change in unrealized in the Statements of Income. (As a result of the investment in MM LLC, there were no open contracts as of December 31, 1998.)

Foreign Currency Transactions

The Partnership's functional currency is the U.S. dollar; however, it transacts business in currencies other than the U.S. dollar. Assets and liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect at the dates of the Statements of Financial Condition. Income and expense items denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect during the period. Gains and losses resulting from the translation to U.S. dollars are reported in total trading results currently.

Operating Expenses

MLIP pays for all routine operating expenses (including legal, accounting, printing, postage and similar administrative expenses) of the Partnership. MLIP receives an administrative fee as well as a portion of the brokerage commissions paid to MLF by the Partnership.

Income Taxes

No provision for income taxes has been made in the accompanying financial statements as each Partner is individually responsible for reporting income or loss based on such Partner's respective share of the Partnership's income and expenses as reported for income tax purposes.

Distributions

The Unitholders are entitled to receive, equally per Unit, any distribution which may be made by the Partnership. No such distributions had been made as of December 31, 1998.

Redemptions

A Limited Partner may require the Partnership to redeem some or all of such Partner's Units at Net Asset Value as of the close of business on the last business day of any month upon ten calendar day's notice.

Dissolution of the Partnership

The Partnership will terminate on December 31, 2010 or at an earlier date if certain conditions occur, as well as under certain other circumstances as set forth in the Limited Partnership Agreement.

Recently Issued Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" (the "Statement"). Such Statement is effective for fiscal years commencing after June 15, 1999. The General Partner does not believe that the Statement will have a significant effect on the financial statements of the Partnership.

2. RELATED PARTY TRANSACTIONS

The majority of the Partnership's U.S. dollar assets are maintained at MLF. On assets held in U.S. dollars, Merrill Lynch credits the Partnership with interest at the prevailing 91-day U.S. Treasury bill rate. The Partnership is credited with interest on any of its net gains actually held by Merrill Lynch in non-U.S. dollar currencies at a prevailing local rate received by Merrill Lynch. Merrill Lynch may derive certain economic benefit, in excess of the interest which Merrill Lynch pays to the Partnership, from possession of such assets.

Merrill Lynch charges the Partnership Merrill Lynch's cost of financing realized and unrealized losses on the Partnership's non-U.S. dollar-denominated positions.

The General Partner determined that there may have been a miscalculation in the interest credited to the Partnership for a period prior to November 1996 (such period may extend prior to that covered by these financial statements). Accordingly, the General Partner credited current and former investors who maintained a Merrill Lynch customer account in December 1997 with interest which was compounded. Former investors who do not maintain a Merrill Lynch customer account have been credited as their response forms are processed. The total amount of the adjustment was approximately $2,605,000 for SECTOR II Units and $4,141,000 for SECTOR III Units. Since these amounts were paid directly to investors by the General Partner, they are not reflected in these financial statements. The General Partner determined that interest was calculated appropriately since November 1996.

Prior to January 1, 1996, the Partnership paid brokerage commissions to MLF at a flat monthly rate of .75 of 1% (a 9% annual rate) for SECTOR II Units, and .833 of 1% (a 10% annual rate) for SECTOR III Units, in each case, of the Partnership's month-end assets allocated to trading. Effective January 1, 1996, these percentages were reduced to .729 of 1% (an 8.75% annual rate) for SECTOR II Units and .813 of 1% (a 9.75% annual rate) for SECTOR III Units, and the Partnership began to pay MLIP a monthly administrative fee of .021 of 1% (a .25% annual rate) of the Partnership's month-end assets allocated to trading (this recharacterization had no economic effect on the Partnership). Effective October 1, 1996, the 9.75% annual brokerage rate for SECTOR III Units was reduced to .729 of 1% (an 8.75% annual rate). Assets allocated to trading are not reduced, for purposes of calculating brokerage commissions and administrative fees, by any accrued brokerage commissions, administrative fees, Profit Shares or other fees or charges.

The General Partner estimates that the round-turn equivalent commission rate charged to the Partnership during the years ended December 31, 1998, 1997 and 1996 was approximately $52, $63 and $59, respectively (not including, in calculating round-turn equivalents, forward contracts on a futures-equivalent basis).

MLF pays the Advisors annual Consulting Fees ranging up to 4% of the Partnership's average month-end assets allocated to them for management, after reduction for a portion of the brokerage commissions.

Many of the Partnership's currency trades are executed in the spot and forward foreign exchange markets (the "FX Markets") where there are no direct execution costs. Instead, the participants, banks and dealers, including Merrill Lynch International Bank ("MLIB"), in the FX Markets take a "spread" between the prices at which they are prepared to buy and sell a particular currency and such spreads are built into the pricing of the spot or forward contracts with the Partnership. The General Partner anticipates that some of the Partnership's foreign currency trades will be executed through MLIB, an affiliate of the General Partner. MLIB has discontinued the operation of the foreign exchange service desk, which included seeking multiple quotes from counterparties unrelated to MLIB for a service fee and trade execution.

In its exchange of futures for physical ("EFP") trading, the Partnership acquires cash currency positions through banks and dealers, including Merrill Lynch. The Partnership pays a spread when it exchanges these positions for futures. This spread reflects, in part, the different settlement dates of the cash and the futures contracts, as well as prevailing interest rates, but also includes a pricing spread in favor of the banks and dealers, which may include a Merrill Lynch entity.

3. AGREEMENTS

Pursuant to the Advisory Agreements among the Advisors, the Partnership and MLIP, the Advisors determined the commodity futures, options on futures, forwards and options on forward contracts traded on behalf of the Partnership, subject to certain rights reserved by the General Partner. The Advisory Agreements generally terminate one year after they are entered into, subject to certain renewal rights exercisable by the Partnership.

In the case of the Trading LLCs, as defined in Note 7, the Trading LLCs entered into the current Advisory Agreements with the Advisors.

In the case of MM LLC, as defined in Note 1, MM LLC has entered into the Advisory Agreements with the Advisors.

Profit Shares, generally ranging from 15% to 25% of any New Trading Profit, as defined, recognized by each Advisor considered individually irrespective of the overall performance of the Partnership, either as of the end of each calendar quarter or year and upon the net reallocation of assets away from an Advisor, were paid by the Partnership or the Trading LLCs and are currently paid by MM LLC to each Advisor. Profit shares are also paid out in respect of Units redeemed as of the end of interim months, to the extent of the applicable percentage of any New Trading Profit attributable to such Units.

4. INCOME PER UNIT

The profit and loss of the SECTOR II and SECTOR III Units for the years ended December 31, 1998, 1997 and 1996 was as follows:
<TABLE>
<CAPTION>

	SECTOR II UNITS			SECTOR III UNITS		
	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
REVENUES:						
Trading (loss) profit:						
Realized (Note 1)	$ (260,351)	$ 1,765,544	$ 2,295,562	$ 1,430,312	$ 2,863,890	$ 4,465,061
Change in unrealized (Note 1)	(104,914)	(106,339)	(154,315)	(566,345)	204,557	(1,757,179)
Total trading results	(365,265)	1,659,205	2,141,247	863,967	3,068,447	2,707,882
Interest income (Note 2)	238,969	640,195	733,578	359,189	911,165	1,276,409
Total revenues	(126,296)	2,299,400	2,874,825	1,223,156	3,979,612	3,984,291
EXPENSES:						
Brokerage commissions (Note 2)	403,960	1,130,850	1,443,310	611,168	1,601,988	2,769,694
Administrative fees (Note 2)	11,542	32,310	41,237	17,462	45,771	72,363
Profit Shares (Note 3)	517	129,719	108,878	301,128	400,380	255,985
Total expenses	416,019	1,292,879	1,593,425	929,758	2,048,139	3,098,042
INCOME FROM INVESTMENTS (Note 7)	616,556	303,329	779,080	789,687	1,405,656	1,479,229
NET INCOME	$ 74,241	$ 1,309,850	$ 2,060,480	$ 1,083,085	$ 3,337,129	$ 2,365,478
NET INCOME PER UNIT:						
Weighted average number of General Partner and Limited Partner Units outstanding (Note 5)	71,181	98,187	134,597	142,671	179,541	241,033
Weighted average net income per Unit	$ 1.04	$ 13.34	$ 15.31	$ 7.59	$ 18.59	$ 9.81

</TABLE>

5. WEIGHTED AVERAGE UNITS

The weighted average number of Units outstanding was computed for purposes of disclosing net income per weighted average Unit. The weighted average number of Units outstanding at December 31, 1998, 1997 and 1996 equals the Units outstanding as of such date, adjusted proportionately for Units redeemed based on the respective length of time each was outstanding during the year.

6. MERRILL LYNCH & CO., INC. GUARANTEE

Merrill Lynch has guaranteed to the Partnership that it will have sufficient Net Assets with respect to SECTOR II and SECTOR III Units as of their respective Principal Assurance Dates, that the Net Asset Value per Unit as of such Principal Assurance Dates will equal, after adjustment for all liabilities to third parties, not less than the minimum assured Net Asset Value per Unit. Effective January 1, 1996, the Partnership restarted its trading program for SECTOR II Units for a Second Time Horizon, as defined, of two years' duration, and a new Principal Assurance Date of December 31, 1997 and a minimum assured Net Asset Value of $100.12. Effective October 1, 1996, the Partnership restarted its trading program for SECTOR III Units with a second Time Horizon, as defined, of two years' duration, and a new Principal Assurance Date of September 30, 1998 and a minimum assured Net Asset Value per Unit of $100.92. Effective January 1, 1998, the Partnership restarted its trading program for SECTOR II Units for an additional Time Horizon of two years' duration, with a new Principal Assurance Date of December 31, 1999 and a minimum assured Net Asset Value per Unit of $125.10. Effective November 1, 1998, the Partnership restarted its trading program for SECTOR III Units with a third Time Horizon, as defined, of two years' duration, and a new Principal Assurance Date of October 31, 2000 and a minimum assured Net Asset Value per unit of $132.74.

7. INVESTMENTS

Prior to investing in MM LLC, the Partnership placed assets under the management of certain of the Advisors by investing in private limited liability companies ("Trading LLCs") formed by the General Partner. The only members of the Trading LLCs were commodity pools sponsored by the General Partner. Each Trading LLC traded under the management of a single Advisor pursuant to a single strategy and at a uniform degree of leverage. Placing assets with an Advisor through a Trading LLC rather than a managed account had no economic effect on the Partnership, except to the extent that the Partnership benefited from the Advisor not having to allocate trades among a number of different accounts (rather than acquiring a single position for the Trading LLC as a whole).

The investments in Trading LLCs and MM LLC are reflected in the financial statements at fair value based upon the Partnership's interest in each Trading LLC and MM LLC. Fair value is equal to the market value of the net assets of the Trading LLCs and of MM LLC. The resulting difference between cost and fair value is reflected on the Statements of Income as income from investments.

As of December 31, 1998, the Partnership had an investment in MM LLC, and as of December 31, 1997, the Partnership had investments in the ML JWH Financial and Metals Portfolio L.L.C. ("JWH LLC") and ML Millburn Global L.L.C. ("Millburn LLC") as follows:

	1998	1997
JWH LLC	$ --	$ 9,266,578
Millburn LLC	--	3,086,027
MM LLC	33,791,182	--
Total	$33,791,182	$12,352,605

During the second quarter of 1998, the Partnership withdrew its investments in JWH LLC and Millburn LLC.

Total revenues and fees with respect to such investments were as follows:

<TABLE>
<CAPTION>

For the year ended December 31, 1998	Total Revenues	Brokerage Commissions	Administrative Fees	Profit Shares	(Loss) Income from Investments
<S>	<C>	<C>	<C>	<C>	<C>
SECTOR II Units					
JWH LLC	$ (222,268)	$ 71,032	$ 2,030	$ --	$ (295,330)
MM LLC	1,792,563	596,814	17,052	266,811	911,886

Total	$ 1,570,295	$ 667,846	$ 19,082	$ 266,811	$ 616,556
SECTOR III Units					
JWH LLC	$ (711,701)	$ 228,238	$ 6,521	$ --	$ (946,460)
Millburn LLC	(31,859)	106,408	3,040	100	(141,407)
MM LLC	3,727,049	1,244,165	35,548	569,782	1,877,554
Total	$ 2,983,489	$ 1,578,811	$ 45,109	$ 569,882	$ 789,687
Total All Units					
JWH LLC	$ (933,969)	$ 299,270	$ 8,551	$ --	$(1,241,790)
Millburn LLC	(31,859)	106,408	3,040	100	(141,407)
MM LLC	5,519,612	1,840,979	52,600	836,593	2,789,440
Total	$ 4,553,784	$ 2,246,657	$ 64,191	$ 836,693	$ 1,406,243

</TABLE>

<TABLE>
<CAPTION>

For the year ended December 31, 1997	Total Revenues	Brokerage Commissions	Administrative Fees	Profit Shares	Income from Investments
<S>	<C>	<C>	<C>	<C>	<C>
SECTOR II Units					
JWH LLC	$ 537,094	$ 193,763	$ 5,535	$ 34,467	$ 303,329
SECTOR III Units					
JWH LLC	$1,694,378	$ 526,322	$ 15,038	$ 127,575	$1,025,443
Millburn LLC	775,215	293,884	8,397	92,721	380,213
Total	$2,469,593	$ 820,206	$ 23,435	$ 220,296	$1,405,656
Total All Units					
JWH LLC	$2,231,472	$ 720,085	$ 20,573	$ 162,042	$1,328,772
Millburn LLC	775,215	293,884	8,397	92,721	380,213
Total	$3,006,687	$1,013,969	$ 28,970	$ 254,763	$1,708,985

<CAPTION>

For the year ended December 31, 1996	Total Revenues	Brokerage Commissions	Administrative Fees	Profit Shares	Income from Investments
<S>	<C>	<C>	<C>	<C>	<C>
SECTOR II Units					
JWH LLC	$ 999,541	$ 88,359	$ 2,525	$ 129,577	$ 779,080
SECTOR III Units					
JWH LLC	$1,854,422	$ 162,588	$ 4,645	$ 231,628	$1,455,561
Millburn LLC	52,033	24,145	690	3,530	23,668
Total	$1,906,455	$ 186,733	$ 5,335	$ 235,158	$1,479,229
Total All Units					
JWH LLC	$2,853,963	$ 250,947	$ 7,170	$ 361,205	$2,234,641
Millburn LLC	52,033	24,145	690	3,530	23,668
Total	$2,905,996	$ 275,092	$ 7,860	$ 364,735	$2,258,309

</TABLE>

Condensed statements of financial condition and statements of income for MM LLC, JWH LLC and Millburn LLC are set forth as follows:

<TABLE>
<CAPTION>

	MM LLC December 31, 1998	JWH LLC December 31, 1997	Millburn LLC December 31, 1997	JWH LLC	Millburn LLC
<S>	<C>	<C>	<C>	<C>	<C>
Assets	$ 125,332,558	$ 65,048,564	$ 35,584,936		
Liabilities	$ 4,949,082	$ 3,689,658	$ 1,454,658		
Members' Capital	120,383,476	61,358,906	34,130,278		
Total	$ 125,332,558	$ 65,048,564	$ 35,584,936		
	For the period from June 1, 1998 to December 31, 1998	For the year ended December 31, 1997	For the year ended December 31, 1997	For the period from October 1, 1996 to December 31, 1996	For the period from December 2, 1996 to December 31, 1996
Revenues	$ 19,255,343	$ 15,279,401	$ 8,303,430	$19,365,949	$450,619
Expenses	9,491,842	6,714,041	4,600,706	4,426,261	291,370
Net Income	$ 9,763,501	$ 8,565,360	$ 3,702,724	$14,939,688	$159,249

</TABLE>

8. FAIR VALUE AND OFF-BALANCE SHEET RISK

As of June 1, 1998, the Partnership invested all of its assets in MM LLC. Accordingly, the Partnership is invested indirectly in derivative instruments, but does not itself hold any derivative instrument positions. Consequently, no such positions subsequent to May 31, 1998 are reflected in these financial statements or in this Note 8.

The Partnership traded futures, options on futures, forwards and options on forward contracts in interest rates, stock indices, commodities, currencies, energy and metals. The Partnership's total trading results by reporting category for the period from January 1, 1998 to May 31, 1998 and for the years ended December 31, 1997 and 1996 (during 1998, 1997 and 1996, a portion of the Partnership's trading was done through Trading LLCs and is not, accordingly, reflected below) were as follows:

	Total Trading Results		
	1998	1997	1996
Interest Rates	$ 85,850	$ 51,377	$ 2,068,922
Stock Indices	(139,134)	747,204	(869,901)
Commodities	518,301	1,098,616	1,910,190
Currencies	(343,635)	2,050,928	2,004,685
Energy	312,851	292,364	(67,699)
Metals	64,469	487,163	(197,068)
	$ 498,702	$ 4,727,652	$ 4,849,129

Market Risk

Derivative instruments involve varying degrees of off-balance sheet market risk, and changes in the level or volatility of interest rates, foreign currency exchange rates or the market values of the financial instruments or commodities underlying such derivative instruments frequently result in changes in the Partnership's net unrealized profit on such derivative instruments as reflected in the Statements of Financial Condition or, with respect to Partnership assets invested in Trading LLCs and in MM LLC, the net unrealized profit as reflected in the respective Statements of Financial Condition of the Trading LLCs and MM LLC. The Partnership's exposure to market risk is influenced by a number of factors, including the relationships among the derivative instruments held by the Partnership, the Trading LLCs and currently MM LLC, as well as the volatility and liquidity of the markets in which such derivative instruments are traded.

The General Partner has procedures in place intended to control market risk exposure, although there can be no assurance that they will, in fact, succeed in doing so. These procedures focus primarily on monitoring the trading of the Advisors selected from time to time for the Partnership or MM LLC, adjusting the percentage of the Partnership's, the Trading LLC's or MM LLC's total assets allocated to trading, calculating the Net Asset Value of the Advisors' respective Partnership accounts and Trading LLC accounts or currently MM LLC accounts as of the close of business on each day and reviewing outstanding positions for over-concentrations both on an Advisor-by-Advisor and on an overall Partnership basis. While the General Partner does not itself intervene in the markets to hedge or diversify the Partnership's market exposure (although the General Partner does adjust the percentage of the Partnership's total assets allocated to trading), the General Partner may urge Advisors to reallocate positions, or itself reallocate Partnership assets among Advisors (although typically only as of the end of a month) in an attempt to avoid over-concentrations. However, such interventions are unusual. Except in cases in which it appears that an Advisor has begun to deviate from past practice or trading policies or to be trading erratically, the General Partner's basic risk control procedures consist simply of the ongoing process of Advisor monitoring and selection, with the market risk controls being applied by the Advisors themselves.

One important aspect of the General Partner's risk controls is its adjustments to the leverage at which the Partnership trades. By controlling the percentage of the Partnership's assets allocated to trading, the General Partner can directly affect the market exposure of the Partnership. Leverage control is the principal means by which the General Partner hopes to be able to ensure that Merrill Lynch is never required to make any payments under its guarantee that the Net Asset Value per Unit (Both Sector II and Sector III Units) will equal no less than a specified minimum as of the Principal Assurance Date.

Fair Value

The derivative instruments traded by the Partnership were marked to market daily with the resulting net unrealized profit recorded in the Statements of Financial Condition and the related profit (loss) reflected in trading results in the Statements of Income.

The contract/notional values of open contracts as of December 31, 1997 were as follows (there were no open contracts as of December 31, 1998):

	1997	
	Commitment to Purchase (Futures, Options & Forwards)	Commitment to Sell (Futures, Options & Forwards)
Interest Rates	$111,822,582	$61,960,093
Stock Indices	702,713	1,344,492
Commodities	6,118,437	10,527,025
Currencies	29,226,864	47,464,361
Energy	--	1,638,290
Metals	10,026,403	13,459,084
	$157,896,999	$136,393,345

All of the Partnership's derivative instruments outstanding at the end of 1997 expired within one year.

The contract/notional values of the Partnership's open exchange-traded and non-exchange-traded open derivative instrument positions as of December 31, 1997 were as follows (there were no open derivative instrument positions as of December 31, 1998):

1997

	Commitment to Purchase (Futures, Options & Forwards)	Commitment to Sell (Futures, Options & Forwards)
Exchange-Traded	$122,018,586	$ 86,758,401
Non-Exchange-Traded	35,878,413	49,634,944
	$157,896,999	$136,393,345

The average fair values, based on contract/notional values, of the Partnership's derivative instrument positions which were open as of the end of each calendar month during the period from January 1, 1998 to May 31, 1998 and for the year ended December 31, 1997 (during 1998 and 1997, a portion of the Partnership's trading was done through Trading LLCs and is not, accordingly, reflected below) were as follows:

<TABLE>
<CAPTION>

	1998		1997	
	Commitment to Purchase (Futures, Options & Forwards)	Commitment to Sell (Futures, Options & Forwards)	Commitment to Purchase (Futures, Options & Forwards)	Commitment to Sell (Futures, Options & Forwards)
<S>	<C>	<C>	<C>	<C>
Interest Rates	$110,834,643	$34,826,315	$ 77,088,151	$ 56,479,505
Stock Indices	3,655,697	4,182,365	2,167,668	3,574,752
Commodities	7,431,033	11,690,438	9,214,751	10,374,651
Currencies	25,112,602	33,215,901	29,245,884	41,682,837
Energy	504,061	1,591,262	480,943	1,090,424
Metals	7,369,692	8,517,697	11,335,877	11,258,160
	$154,907,728	$94,023,978	$129,533,274	$ 124,460,329

</TABLE>

A portion of the amounts indicated as off-balance sheet risk reflects offsetting commitments to purchase and to sell the same derivative on the same date in the future. These commitments are economically offsetting but are not, as a technical matter, offset in the forward markets until the settlement date.

Credit Risk

The risks associated with exchange-traded contracts are typically perceived to be less than those associated with over-the-counter (non-exchange-traded) transactions, because exchanges typically (but not universally) provide clearinghouse arrangements in which the collective credit (in some cases limited in amount, in some cases not) of the members of the exchange is pledged to support the financial integrity of the exchange. In over-the-counter transactions, on the other hand, traders must rely solely on the credit of their respective individual counterparties. Margins, which may be subject to loss in the event of a default, are generally required in exchange trading, and counterparties may require margin in the over-the-counter markets.

The fair value amounts in the above tables represent the extent of the Partnership's market exposure in the particular class of derivative instrument listed, but not the credit risk associated with counterparty nonperformance. The credit risk associated with these instruments from counterparty nonperformance, is the net unrealized profit included on the Statements of Financial Condition.

The gross unrealized profit and net unrealized profit on the Partnership's open derivative instrument positions as of December 31, 1997 (as of December 31, 1997, a portion of the Partnership trading was done through Trading LLCs and is not, accordingly, reflected below) were as follows (there were no open derivative instrument positions as of December 31, 1998):

	1997	
	Gross Unrealized Profit	Net Unrealized Profit
Exchange-Traded	$1,026,367	$604,825
Non-Exchange-Traded	1,284,841	66,434
	$2,311,208	$671,259

The Partnership has credit risk in respect of its counterparties and brokers, but attempts to control this risk by dealing almost exclusively with Merrill Lynch entities as counterparties and brokers.

The Partnership, in its normal course of business, entered into various contracts, with MLF acting as its commodity broker. Pursuant to the brokerage arrangement with MLF (which included a netting arrangement), to the extent that such trading resulted in receivables from and payables to MLF, these receivables and payables were offset and reported as a net receivable or payable.

* * * * * * * * *

To the best of the knowledge and belief of the undersigned, the information contained in this report is accurate and complete.

/s/ Jo Ann Di Dario

Jo Ann Di Dario
Chief Financial Officer
Merrill Lynch Investment Partners Inc.
General Partner of
The SECTOR Strategy Fund(SM) II L.P.

<TABLE> <S> <C>

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</TABLE>