

SECURITIES AND EXCHANGE COMMISSION

FORM N-1A EL/A

Registration statements of open end management investment companies [amend]

Filing Date: **1994-04-11**
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FILER

**MERRILL LYNCH CONN MUNI BD FD OF M L MULTI ST
MUNI SER TR**

CIK: **888957** | State of Incorpor.: **NJ** | Fiscal Year End: **1231**
Type: **N-1A EL/A** | Act: **33** | File No.: **033-48693** | Film No.: **94522087**

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SECURITIES ACT FILE NO. 33-48693
INVESTMENT COMPANY ACT FILE NO. 811-4375

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 [X]
PRE-EFFECTIVE AMENDMENT NO. 1 [X]
POST-EFFECTIVE AMENDMENT NO. []
AND/OR
REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 [X]
AMENDMENT NO. 75
(Check appropriate box or boxes) [X]

MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND
OF MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

800 SCUDDERS MILL ROAD
PLAINSBORO, NEW JERSEY 08536
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (609) 282-2800

ARTHUR ZEIKEL
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
800 SCUDDERS MILL ROAD, PLAINSBORO, NEW JERSEY
MAILING ADDRESS: BOX 9011, PRINCETON, NEW JERSEY 08543-9011

COPIES TO:

COUNSEL FOR THE TRUST: PHILIP L. KIRSTEIN, ESQ.
BROWN & WOOD FUND ASSET MANAGEMENT
ONE WORLD TRADE CENTER BOX 9011
NEW YORK, NEW YORK 10048-0557 PRINCETON, NEW JERSEY 08543-9011
ATTENTION: THOMAS R. SMITH, JR., ESQ.
BRIAN M. KAPLOWITZ, ESQ.

APPROXIMATE DATE OF PROPOSED PUBLIC OFFERING:

AS SOON AS PRACTICABLE AFTER THE EFFECTIVE DATE OF THIS REGISTRATION STATEMENT.

AN INDEFINITE NUMBER OF CLASS A AND CLASS B SHARES OF BENEFICIAL INTEREST OF THE REGISTRANT IS BEING REGISTERED BY THIS REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 PURSUANT TO RULE 24F-2 UNDER THE INVESTMENT COMPANY ACT OF 1940.

MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND OF
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
REGISTRATION STATEMENT ON FORM N-1A
CROSS REFERENCE SHEET

<TABLE>
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	N-LA ITEM NO. -----	LOCATION -----
<C>	<S>	<C>
PART A		
Item 1.	Cover Page.....	Cover Page
Item 2.	Synopsis	Fee Table
Item 3.	Condensed Financial Information...	Not Applicable
Item 4.	General Description of Registrant.	Investment Objective and Policies; Additional Information
Item 5.	Management of the Fund.....	Fee Table; Management of the Trust; Inside Back Cover Page
Item 5A.	Management's Discussion of Fund Performance.....	Not Applicable
Item 6.	Capital Stock and Other Securities.....	Cover Page; Additional Information
Item 7.	Purchase of Securities Being Offered	Cover Page; Fee Table; Alternative Sales Arrangements; Purchase of Shares; Shareholder Services; Additional Information; Inside Back Cover Page
Item 8.	Redemption of Repurchase.....	Fee Table; Alternative Sales Arrangements; Purchase of Shares; Redemption of Shares
Item 9.	Pending Legal Proceedings.....	Not Applicable
PART B		

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Item 11. Table of Contents.....	Back Cover Page
Item 12. General Information and History...	Not Applicable
Item 13. Investment Objective and Policies.	Investment Objective and Policies; Investment Restrictions
Item 14. Management of the Fund.....	Management of the Trust
Item 15. Control Persons and Principal Holders of Securities.....	Management of the Trust; Additional Information
Item 16. Investment Advisory and Other Services.....	Management of the Trust; Purchase of Shares; General Information
Item 17. Brokerage Allocation and Other Practices.....	Portfolio Transactions
Item 18. Capital Stock and Other Securities.....	General Information-- Description of Series and Shares
Item 19. Purchase, Redemption and Pricing of Securities Being Offered.....	Purchase of Shares; Redemption of Shares; Determination of Net Asset Value; Shareholder Services
Item 20. Tax Status.....	Distributions and Taxes
Item 21. Underwriters.....	Purchase of Shares
Item 22. Calculation of Performance Data...	Performance Data
Item 23. Financial Statements.....	Statement of Assets and Liabilities

PART C

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

</TABLE>

PROSPECTUS

, 1994

MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND

MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

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

Merrill Lynch Connecticut Municipal Bond Fund (the "Fund") is a mutual fund seeking to provide shareholders with as high a level of income exempt from Federal and Connecticut income taxes as is consistent with prudent investment management. The Fund invests primarily in a non-diversified portfolio of long-term, investment grade obligations, the interest on which, in the opinion of bond counsel to the issuer, is exempt from Federal and Connecticut income taxes. The Fund may invest in certain tax-exempt securities classified as "private activity bonds" that may subject certain investors in the Fund to an alternative minimum tax. At times, the Fund may seek to hedge its portfolio

through the use of futures transactions and options. There can be no assurance that the investment objective of the Fund will be realized.

The Fund offers two classes of shares which may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares"), or (ii) on a deferred basis (the "Class B shares"). The deferred charges to which the Class B shares are subject shall consist of a contingent deferred sales charge which may be imposed on redemptions made within four years of purchase and an ongoing account maintenance fee and distribution fee. These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Investors also should understand that over time the deferred sales charges related to Class B shares may exceed the initial sales charge with respect to Class A shares. See "Alternative Sales Arrangements" on page 4.

(continued on following page)

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

This Prospectus is a concise statement of information about the Fund that is relevant to making an investment in the Fund. This Prospectus should be retained for future reference. A statement containing additional information about the Fund, dated , 1994 (the "Statement of Additional Information"), has been filed with the Securities and Exchange Commission and is available, without charge, by calling or by writing Merrill Lynch Multi-State Municipal Series Trust (the "Trust") at the above telephone number or address. The Statement of Additional Information is hereby incorporated by reference into this Prospectus. The Fund is a separate series of the Trust, an open-end management investment company organized as a Massachusetts business trust.

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

(continued from prior page)

Each Class A share and Class B share represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance fee and distribution fee and certain other costs resulting from the deferred sales charge arrangement, which will cause Class B shares to have a higher expense ratio and to pay lower

dividends than those related to Class A shares, and that Class B shares have exclusive voting rights with respect to the account maintenance fee and the distribution fee. The two classes also have different exchange privileges.

Merrill Lynch Funds Distributor, Inc. (the "Distributor"), Box 9011, Princeton, New Jersey 08543-9011 [(609) 282-2800], and other securities dealers which have entered into selected dealer agreements with the Distributor, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), will solicit subscriptions for shares of the Fund during a period expected to end on April 29, 1994, unless extended. On the fifth business day after the conclusion of this subscription period, the subscriptions will be payable, the shares will be issued and the Fund will commence operations. The public offering price of the shares during the subscription offering will be \$10.00 per share in the case of Class B shares and \$10.00 per share plus a sales charge of 4.00%, subject to reductions on purchases in single transactions of \$25,000 or more, in the case of Class A shares. After the completion of the initial subscription offering, the Fund will engage in a continuous offering of its shares at a price equal to the next determined net asset value per share in the case of Class B shares and the next determined net asset value per share, plus a sales charge subject to reductions as noted above, in the case of Class A shares. Shareholders may redeem their shares at any time at the next determined net asset value. The Class B shares may be subject to a contingent deferred sales charge if redeemed within four years of purchase and are subject to ongoing account maintenance and distribution fees. The minimum initial purchase during the subscription and continuous offerings is \$1,000 and the minimum subsequent purchase in the continuous offering is \$50. Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's Transfer Agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares".

FEE TABLE

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

<TABLE>
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	CLASS A SHARES		CLASS B SHARES	
	INITIAL SALES		DEFERRED SALES	
	CHARGE		CHARGE	
	ALTERNATIVE		ALTERNATIVE	
	-----		-----	
<S>	<C>	<C>	<C>	<C>
Shareholder Transaction Expenses:				
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price).....		4.00% (a)		None
Sales Charge Imposed on Dividend Reinvestments		None		None
Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, whichever is lower)		None	4.0%	during the first

year,
decreasing
1.0%
annually
to
0.0% after
the fourth
year (b)

Exchange Fee	None		None
Annual Fund Operating Expenses (as a percentage of average net assets):			
Management Fees (c)	0.55%		0.55%
Rule 12b-1 Fees	None		0.50% (d)
Other Expenses			
Custodial Fees.....	0.05%		0.05%
Shareholder Servicing Costs (e) .	0.05%		0.05%
Miscellaneous.....	0.61%		0.61%
	-----		----
Total Other Expenses.....	0.71%		0.71%
	----		----
Total Fund Operating Expenses.....	1.26%		1.76%
	====		====

</TABLE>

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- (a) Reduced for purchases of \$25,000 and over, decreasing to 0.50% for purchases of \$1,000,000 and over. Certain purchasers of Class A shares investing \$1,000,000 or more may in lieu of a front-end sales load, be assessed a deferred sales charge on redemptions within the first year of such investment. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 20.
- (b) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares"--page 21.
- (c) See "Management of the Trust--Management and Advisory Arrangements"--page 16.
- (d) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan"--page 22.
- (e) See "Management of the Trust--Transfer Agency Services"--page 17.

EXAMPLE:

<TABLE>

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CUMULATIVE EXPENSES PAID
FOR THE PERIOD OF:

	-----	-----
	1 YEAR	3 YEARS
	-----	-----
<S>	<C>	<C>

An investor would pay the following expenses on a \$1,000 investment including, for Class A shares, the maximum \$40 front-end sales charge and assuming (1) an operating expense ratio of 1.26% for Class A shares and 1.76% for Class B shares, (2) a 5% annual return throughout the periods and (3) redemption at the end of the period:

Class A	\$	52.32	\$78.37
Class B	\$	57.89	\$ 75.41

An investor would pay the following expenses on the same \$1,000 investment assuming no redemption at the end of the period:

Class A	\$	52.32	\$	78.37
Class B	\$	17.89	\$	55.41

</TABLE>

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

ALTERNATIVE SALES ARRANGEMENTS

Shares of the Fund may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases a sales charge which, at the election of the purchaser, may be imposed either (i) at the time of the purchase (the "initial sales charge alternative"), or (ii) on a deferred basis (the "deferred sales charge alternative").

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

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

As an illustration, investors who qualify for significantly reduced sales

charges might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to ongoing account maintenance and distribution fees. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially. Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time also might elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all of their funds will be invested initially.

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Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred alternative. However, there can be no assurance as to the return, if any, which will be realized on such additional funds. Certain other investors might determine it to be more advantageous to have all of their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge.

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

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

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

The alternative sales arrangements permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the

purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should determine whether under their particular circumstances it is more advantageous to incur an initial sales charge and not be subject to ongoing charges, or to have the entire initial purchase price invested in the Fund with the investment thereafter being subject to ongoing account maintenance and distribution fees. To assist investors in making this determination, the Fee Table on page 3 sets forth the charges applicable to each class of shares and a discussion of relevant factors in making such determination is set forth under "Purchase of Shares--Alternative Sales Arrangements" on page 19.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide shareholders with as high a level of income exempt from Federal and Connecticut income taxes as is consistent with prudent investment management. The Fund seeks to achieve its objective while providing investors with the opportunity to invest in a non-diversified portfolio of securities consisting primarily of long-term obligations issued by or on behalf of the State of Connecticut, its political subdivisions, agencies and instrumentalities and obligations of other qualifying issuers, such as issuers located in Puerto Rico, the Virgin Islands and Guam, which pay interest exempt, in the opinion of bond counsel to the issuer, from Federal and Connecticut income taxes. Obligations exempt from Federal income taxes are referred to herein as "Municipal Bonds" and obligations exempt from both Federal and Connecticut income taxes are referred to as "Connecticut Municipal Bonds". Unless otherwise indicated, references to Municipal Bonds shall be deemed to include Connecticut Municipal Bonds. The Fund at all times, except during temporary defensive periods, will maintain at least 65% of its total assets invested in Connecticut Municipal Bonds. The investment objective of the Fund as set forth in the first sentence of this paragraph is a fundamental policy and may not be changed without shareholder approval. At times, the Fund may seek to hedge its portfolio through the use of futures transactions to reduce volatility in the net asset value of Fund shares.

Municipal Bonds may include several types of bonds. See "Description of Municipal Bonds". The interest on Municipal Bonds may bear a fixed rate or be payable at a variable or floating rate. At least 80% of the Municipal Bonds purchased by the Fund primarily will be what are commonly referred to as "investment grade" securities, which are obligations rated at the time of purchase within the four highest quality ratings as determined by either Moody's Investors Service, Inc. ("Moody's") (currently Aaa, Aa, A and Baa), Standard & Poor's Corporation ("Standard & Poor's") (currently AAA, AA, A and BBB) or Fitch Investors Service, Inc. ("Fitch") (currently AAA, AA, A and BBB). If Municipal Bonds are unrated, such securities will possess creditworthiness comparable, in the opinion of the manager of the Fund, Fund Asset Management, L.P. (the "Manager"), to obligations in which the Fund may invest. Municipal Bonds rated in the fourth highest rating category, while considered "investment grade", have certain speculative characteristics and are more likely to be downgraded to non-investment grade than obligations rated in one of the top three rating categories. See Appendix II--"Ratings of Municipal Bonds" in the Statement of Additional Information for more information regarding ratings of debt securities. An issue of rated Municipal Bonds may cease to be rated or its

rating may be reduced below "investment grade" subsequent to its purchase by the Fund. If an obligation is downgraded below investment grade, the Manager will consider factors such as price, credit risk, market conditions, financial condition of the issuer and interest rates to determine whether to continue to hold the obligation in the Fund's portfolio.

The Fund may invest up to 20% of its total assets in Municipal Bonds that are rated below Baa by Moody's or below BBB by Standard & Poor's or Fitch, or which in the Manager's judgment, possess similar credit characteristics. Such securities, sometimes referred to as "high-yield" or "junk" bonds, are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve a greater volatility of price than securities in higher rating categories. The market prices of high-yielding, lower-rated securities may fluctuate more than higher-rated securities and may decline significantly in periods of general economic difficulty, which may follow periods of rising interest rates. In purchasing such securities, the Fund will rely on the Manager's judgment, analysis and experience in evaluating the creditworthiness of the issuer of such securities. The Manager will take into consideration, among other things, the issuer's financial resources, its sensitivity to economic conditions and trends, its operating history, the quality of its management and regulatory matters. See "Investment Objective

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and Policies" in the Statement of Additional Information for a more detailed discussion of the pertinent risk factors involved in investing in "high yield" or "junk" bonds and Appendix II--"Ratings of Municipal Bonds"--in the Statement of Additional Information for additional information regarding ratings of debt securities. The Fund does not intend to purchase debt securities that are in default or which the Manager believes will be in default.

Certain Municipal Bonds may be entitled to the benefits of letters of credit or similar credit enhancements issued by financial institutions. In such instances, the Trustees and the Manager will take into account in assessing the quality of such bonds not only the creditworthiness of the issuer of such bonds but also the creditworthiness of the financial institution. Certain instruments in which the Fund may invest may be characterized as derivative instruments. See "Description of Municipal Bonds" and "Financial Futures Transactions and Options".

The Fund's investments may also include variable rate demand obligations ("VRDOs") and VRDOs in the form of participation interests ("Participating VRDOs") in variable rate tax-exempt obligations held by a financial institution. The VRDOs in which the Fund will invest are tax-exempt obligations which contain a floating or variable interest rate adjustment formula and an unconditional right of demand on the part of the holder thereof to receive payment of the unpaid principal balance plus accrued interest on a short notice period not to exceed seven days. Participating VRDOs provide the Fund with a specified undivided interest (up to 100%) of the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the Participating VRDOs from the financial institution on a specified number of days' notice, not to exceed seven days. There is, however, the possibility that because of a default or insolvency, the demand feature of VRDOs or Participating VRDOs may not be honored. The Fund has been advised by its counsel that the Fund should be entitled to treat the income received on

Participating VRDOs as interest from tax-exempt obligations.

VRDOs that contain an unconditional right of demand to receive payment of the unpaid principal balance plus accrued interest on a notice period exceeding seven days may be deemed illiquid securities. A VRDO with a demand notice period exceeding seven days will therefore be subject to the Fund's restriction on illiquid investments unless, in the judgment of the Trustees, such VRDO is liquid. The Trustees may adopt guidelines and delegate to the Manager the daily function of determining and monitoring liquidity of such VRDOs. The Trustees, however, will retain sufficient oversight and be ultimately responsible for such determinations.

The Fund ordinarily does not intend to realize investment income not exempt from Federal and Connecticut income taxes. However, to the extent that suitable Connecticut Municipal Bonds are not available for investment by the Fund, the Fund may purchase Municipal Bonds issued by other states, their agencies and instrumentalities, the interest income on which is exempt, in the opinion of bond counsel, from Federal, but not Connecticut, taxation. The Fund also may invest in securities not issued by or on behalf of a state or territory or by an agency or instrumentality thereof, if the Fund nevertheless believes such securities to be exempt from Federal income taxation ("Non-Municipal Tax-Exempt Securities"). Non-Municipal Tax-Exempt Securities may include securities issued by other investment companies that invest in municipal bonds, to the extent such investments are permitted by the Investment Company Act of 1940, as amended (the "1940 Act"). Other Non-Municipal Tax-Exempt Securities could include trust certificates or other derivative instruments evidencing interests in one or more long-term municipal securities.

Under normal circumstances, except when acceptable securities are unavailable as determined by the Manager, the Fund will invest at least 65% of its total assets in Connecticut Municipal Bonds. For temporary

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defensive periods or to provide liquidity, the Fund has the authority to invest as much as 35% of its total assets in tax-exempt or taxable money market obligations with a maturity of one year or less (such short-term obligations being referred to herein as "Temporary Investments"), except that taxable Temporary Investments shall not exceed 20% of the Fund's net assets. The Temporary Investments, VRDOs and Participating VRDOs in which the Fund may invest also will be in the following rating categories at the time of purchase: MIG-1/VMIG-1 through MIG-4/VMIG-4 for notes and VRDOs and Prime-1 through Prime-3 for commercial paper (as determined by Moody's), SP-1 and SP-2 for notes and A-1 through A-3 for VRDOs and commercial paper (as determined by Standard & Poor's), or F-1 through F-3 for notes, VRDOs and commercial paper (as determined by Fitch) or, if unrated, of comparable quality in the opinion of the Manager. The Fund at all times will have at least 80% of its net assets invested in securities the interest on which is exempt from Federal taxation. However, interest received on certain otherwise tax-exempt securities which are classified as "private activity bonds" (in general, bonds that benefit non-governmental entities), may be subject to a Federal alternative minimum tax. The percentage of the Fund's net assets invested in "private activity bonds" will vary during the year. See "Distributions and Taxes". In addition, the Fund reserves the right to invest temporarily a greater portion of its assets in Temporary Investments for defensive purposes, when, in the judgment of the Manager, market conditions warrant. The investment objective of the Fund is a

fundamental policy of the Fund which may be not changed without a vote of a majority of the outstanding shares of the Fund. The Fund's hedging strategies, which are described in more detail under "Financial Futures Transactions and Options", are not fundamental policies and may be modified by the Trustees of the Trust without the approval of the Fund's shareholders.

POTENTIAL BENEFITS

Investment in shares of the Fund offers several benefits. The Fund offers investors the opportunity to receive income exempt from Federal and Connecticut income taxes by investing in a professionally managed portfolio consisting primarily of long-term Connecticut Municipal Bonds. The Fund also provides liquidity because of its redemption features and relieves the investor of the burdensome administrative details involved in managing a portfolio of tax-exempt securities. The benefits of investing in the Fund are at least partially offset by the expenses involved in operating an investment company. Such expenses primarily consist of the management fee and operational costs, and in the case of Class B shares, account maintenance and distribution costs.

SPECIAL AND RISK CONSIDERATIONS RELATING TO CONNECTICUT MUNICIPAL BONDS

The Fund ordinarily will invest at least 65% of its total assets in Connecticut Municipal Bonds, and therefore it is more susceptible to factors adversely affecting issuers of Connecticut Municipal Bonds than is a tax-exempt mutual fund that is not concentrated in issuers of Connecticut Municipal Bonds to this degree.

The Connecticut State General Fund had an operating deficit of \$28 million for the 1988-89 fiscal year based on the modified cash basis of accounting used for statutory financial reporting. The Connecticut Comptroller's annual reports on the state's fiscal position reported an actual General Fund operating deficit of \$259.5 million for the 1989-90 fiscal year and a General Fund operating deficit of \$808.5 million for the 1990-91 fiscal year. The total accumulated deficit of approximately \$966 million was funded through the issuance of five-year Economic Recovery Notes. The Connecticut Comptroller's annual report for the fiscal year ended June 30, 1992 reflected a General Fund operating surplus of \$110.2 million. The Comptroller's annual report for the fiscal year ended June 30, 1993 reflected a General Fund operating surplus of \$113.5 million. The Comptroller's March 31, 1994 interim report projects a surplus of \$62.9 million for the fiscal

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year ending June 30, 1994. On a GAAP basis, the interim report estimates the cumulative deficit of \$458.7 million at June 30, 1994. Currently, Moody's rates Connecticut's general obligation bonds Aa and Connecticut's outstanding commercial paper P-1 and Standard & Poor's rates Connecticut's general obligation bonds AA- and Connecticut's outstanding commercial paper A-1+.

The Manager does not believe that the current economic conditions in Connecticut or other factors described above will have a significant adverse effect on the Fund's ability to invest in high quality Connecticut Municipal Bonds. Because the Fund's portfolio will be comprised primarily of investment grade securities, the Fund is expected to be less subject to market and credit risks than a fund that invests primarily in lower quality Connecticut Municipal Bonds. See Appendix I, "Economic and Financial Conditions in Connecticut" in

DESCRIPTION OF MUNICIPAL BONDS

Municipal Bonds include debt obligations issued to obtain funds for various public purposes, including construction and equipping of a wide range of public facilities (including water, sewer, gas, electricity, solid waste, health care, transportation, education and housing facilities), refunding of outstanding obligations and obtaining funds for general operating expenses and loans to other public institutions and facilities. In addition, certain types of bonds are issued by or on behalf of public authorities to finance various privately operated facilities, including certain facilities for the local furnishing of electric energy or gas, sewage facilities, solid waste disposal facilities and other specialized facilities. For purposes of this Prospectus, such obligations are referred to as Municipal Bonds if the interest paid thereon is exempt from Federal income tax, and, as Connecticut Municipal Bonds if the interest thereon is exempt from Federal and Connecticut income taxes, even though such bonds may be "private activity bonds" as discussed below.

The two principal classifications of Municipal Bonds are "general obligation" bonds and "revenue" bonds which latter category includes industrial development bonds ("IDBs") and, for bonds issued after August 15, 1986, private activity bonds. General obligation bonds are secured by the issuer's pledge of its faith, credit and taxing power for the payment of principal and interest. The taxing power of any governmental entity may be limited, however, by provisions of state constitutions or laws, and an entity's creditworthiness will depend on many factors, including potential erosion of the tax base due to population declines, natural disasters, declines in the state's industrial base or inability to attract new industries, economic limits on the ability to tax without eroding the tax base, state legislative proposals or voter initiatives to limit ad valorem real property taxes and the extent to which the entity relies on Federal or state aid, access to capital markets or other factors beyond the state or entity's control. Accordingly, the capacity of the issuer of a general obligation bond as to the timely payment of interest and the repayment of principal when due is affected by the issuer's maintenance of its tax base.

Revenue bonds are payable only from the revenues derived from a particular facility or class of facilities or, in some cases, from the proceeds of a special excise tax or other specific revenue source such as payments from the user of the facility being financed; accordingly, the timely payment of interest and the repayment of principal in accordance with the terms of the revenue or special obligation bond is a function of the economic viability of such facility or such revenue source. The Fund will not invest more than 10% of its total assets (taken at market value at the time of each investment) in industrial revenue bonds where the entity supplying the revenues from which the issuer is paid, including predecessors, has a record of less than three years of continuous business operations. Investments involving entities with less than three years of continuous

business operations may pose somewhat greater risks due to the lack of a substantial operating history for such entities. The Manager believes, however, that the potential benefits of such investments outweigh the potential risks, particularly given the Fund's limitations on such investments.

The Fund may purchase IDBs and private activity bonds. IDBs and private activity bonds are tax-exempt securities issued by states, municipalities or public authorities to provide funds, usually through a loan or lease arrangement, to a private entity for the purpose of financing construction or improvement of a facility to be used by the entity. Such bonds are secured primarily by revenues derived from loan repayments or lease payments due from the entity which may or may not be guaranteed by a parent company or otherwise secured. Neither IDBs nor private activity bonds are secured by a pledge of the taxing power of the issuer of such bonds. Therefore, an investor should be aware that repayment of such bonds depends on the revenues of a private entity and be aware of the risks that such an investment may entail. Continued ability of an entity to generate sufficient revenues for the payment of principal and interest on such bonds will be affected by many factors including the size of the entity, capital structure, demand for its products or services, competition, general economic conditions, governmental regulation and the entity's dependence on revenues for the operation of the particular facility being financed. The Fund may also invest in so-called "moral obligation" bonds. If an issuer of such bonds is unable to meet its obligations, repayment of such bonds becomes a moral commitment, but not a legal obligation, of the issuer.

The Fund may invest in Municipal Bonds the return on which is based on a particular index of value or interest rates. For example, the Fund may invest in Municipal Bonds that pay interest based on an index of Municipal Bond interest rates or based on the value of gold or some other commodity. The principal amount payable upon maturity of certain Municipal Bonds also may be based on the value of an index. Also, the Fund may invest in so-called "inverse floating obligations" or "residual interest bonds" on which the interest rates typically decline as market rates increase and increase as market rates decline. To the extent the Fund invests in these types of Municipal Bonds, the Fund's return on such Municipal Bonds will be subject to risk with respect to the value of the particular index. Such securities have the effect of providing a degree of investment leverage, since they may increase or decrease in value in response to changes, as an illustration, in market interest rates at a rate which is a multiple (typically two) of the rate at which fixed-rate long-term tax-exempt securities increase or decrease in response to such changes. As a result, the market values of such securities will generally be more volatile than the market values of fixed-rate tax-exempt securities. To seek to limit the volatility of these securities, the Fund may purchase inverse floating obligations with shorter term maturities or which contain limitations on the extent to which the interest rate may vary. The Manager believes that indexed and inverse floating obligations represent a flexible portfolio management instrument for the Fund which allows the Manager to vary the degree of investment leverage relatively efficiently under different market conditions. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

Also included within the general category of Municipal Bonds are participation certificates issued by government authorities or entities to finance the acquisition or construction of equipment, land and/or facilities. The certificates represent participations in a lease, an installment purchase contract or a conditional sales contract (hereinafter collectively called "lease obligations") relating to such equipment, land or facilities. Although lease obligations do not constitute general obligations of the issuer for which the issuer's unlimited taxing power is pledged, a lease obligation frequently is backed by the issuer's covenant to budget for,

appropriate and make the payments due under the lease obligation. However, certain lease obligations contain "non-appropriation" clauses which provide that the issuer has no obligation to make lease or installment purchase payments in future years unless money is appropriated for such purpose on a yearly basis. Although "non-appropriation" lease obligations are secured by the leased property, disposition of the property in the event of foreclosure might prove difficult. These securities represent a type of financing that has not yet developed the depth of marketability associated with more conventional securities. Certain investments in lease obligations may be illiquid. The Fund may not invest in illiquid lease obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets. The Fund may, however, invest without regard to such limitation in lease obligations which the Manager, pursuant to guidelines which have been adopted by the Board of Trustees and subject to the supervision of the Board, determines to be liquid. The Manager will deem lease obligations liquid if they are publicly offered and have received an investment grade rating of Baa or better by Moody's, or BBB or better by Standard & Poor's or Fitch. Unrated lease obligations, or those rated below investment grade, will be considered liquid if the obligations come to the market through an underwritten public offering and at least two dealers are willing to give competitive bids. In reference to the latter, the Manager must, among other things, also review the creditworthiness of the municipality obligated to make payment under the lease obligation and make certain specified determinations based on such factors as the existence of a rating or credit enhancement such as insurance, the frequency of trades or quotes for the obligation and the willingness of dealers to make a market in the obligation.

Federal tax legislation has limited the types and volume of bonds the interest on which qualifies for a Federal income tax exemption. As a result, this legislation and legislation which may be enacted in the future may affect the availability of Municipal Bonds for investment by the Fund.

WHEN-ISSUED SECURITIES AND DELAYED DELIVERY TRANSACTIONS

The Fund may purchase or sell Municipal Bonds on a delayed delivery basis or a when-issued basis at fixed purchase terms. These transactions arise when securities are purchased or sold by the Fund with payment and delivery taking place in the future. The purchase will be recorded on the date the Fund enters into the commitment and the value of the obligation will thereafter be reflected in the calculation of the Fund's net asset value. The value of the obligation on the delivery date may be more or less than its purchase price. A separate account of the Fund will be established with its custodian consisting of cash, cash equivalents or high grade, liquid Municipal Bonds having a market value at all times at least equal to the amount of the forward commitment.

CALL RIGHTS

The Fund may purchase a Municipal Bond issuer's right to call all or a portion of such Municipal Bond for mandatory tender for purchase (a "Call Right"). A holder of a Call Right may exercise such right to require a mandatory tender for the purchase of related Municipal Bonds, subject to certain conditions. A Call Right that is not exercised prior to the maturity of the related Municipal Bond will expire without value. The economic effect to

holding both the Call Right and the related Municipal Bond is identical to holding a Municipal Bond as a non-callable security. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

FINANCIAL FUTURES TRANSACTIONS AND OPTIONS

The Fund is authorized to purchase and sell certain exchange traded financial futures contracts ("financial futures contracts") solely for the purpose of hedging its investments in Municipal Bonds against declines in value and to hedge against increases in the cost of securities it intends to purchase. However, any transactions involving financial futures or options (including puts and calls associated therewith) will be in accordance with the Fund's investment policies and limitations. A financial futures contract obligates the seller of a contract to deliver and the purchaser of a contract to take delivery of the type of financial instrument covered by the contract, or in the case of index-based futures contracts to make and accept a cash settlement, at a specific future time for a specified price. A sale of financial futures contracts may provide a hedge against a decline in the value of portfolio securities because such depreciation may be offset, in whole or in part, by an increase in the value of the position in the financial futures contracts. A purchase of financial futures contracts may provide a hedge against an increase in the cost of securities intended to be purchased, because such appreciation may be offset, in whole or in part, by an increase in the value of the position in the futures contracts. Distributions, if any, of net long-term capital gains from certain transactions in futures or options are taxable at long-term capital gains rates for Federal income tax purposes, regardless of the length of time the shareholder has owned Fund shares. See "Distributions and Taxes--Taxes".

The Fund deals in financial futures contracts traded on the Chicago Board of Trade based on The Bond Buyer Municipal Bond Index, a price-weighted measure of the market value of 40 large, recently issued tax-exempt bonds. There can be no assurance, however, that a liquid secondary market will exist to terminate any particular financial futures contract at any specific time. If it is not possible to close a financial futures position entered into by the Fund, the Fund would continue to be required to make daily cash payments of variation margin in the event of adverse price movements. In such a situation, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The inability to close financial futures positions also could have an adverse impact on the Fund's ability to hedge effectively. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in a financial futures contract.

The Fund may purchase and sell financial futures contracts on U.S. Government securities and write and purchase put and call options on such futures contracts as a hedge against adverse changes in interest rates as described more fully in the Statement of Additional Information. With respect to U.S. Government securities, currently there are financial futures contracts based on long-term U.S. Treasury bonds, Treasury notes, Government National Mortgage Association ("GNMA") Certificates and three-month U.S. Treasury bills.

Subject to policies adopted by the Trustees, the Fund also may engage in other financial futures contracts transactions and options thereon, such as financial futures contracts or options on other municipal bond indexes which may become available if the Manager of the Fund and the Trustees of the Trust should determine that there is normally a sufficient correlation between the prices of such futures contracts and the Municipal Bonds in which the Fund invests to make such hedging appropriate.

Utilization of futures transactions and options thereon involves the risk of imperfect correlation in movements in the price of futures contracts and movements in the price of the security which is the subject of the hedge. If the price of the futures contract moves more or less than the price of the security that is the subject of the hedge, the Fund will experience a gain or loss which will not be completely offset by movements

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in the price of such security. There is a risk of imperfect correlation where the securities underlying futures contracts have different maturities, ratings or geographic mixes than the security being hedged. In addition, the correlation may be affected by additions to or deletions from the index which serves as a basis for a financial futures contract. Finally, in the case of futures contracts on U.S. Government securities and options on such futures contracts, the anticipated correlation of price movements between the U.S. Government securities underlying the futures or options and Municipal Bonds may be adversely affected by economic, political, legislative or other developments which have a disparate impact on the respective markets for such securities.

Under regulations of the Commodity Futures Trading Commission, the futures trading activities described herein will not result in the Fund being deemed to be a "commodity pool," as defined under such regulations, provided that the Fund adheres to certain restrictions. In particular, the Fund may purchase and sell futures contracts and options thereon (i) for bona fide hedging purposes, and (ii) for non-hedging purposes, if the aggregate initial margins and premiums required to establish positions in such contracts and options does not exceed 5% of the liquidation value of the Fund's portfolio assets after taking into account unrealized profits and unrealized losses on any such contracts and options. (However, as stated above, the Fund intends to engage in options and futures transactions only for hedging purposes.) Margin deposits may consist of cash or securities acceptable to the broker and the relevant contract market.

When the Fund purchases a futures contract, or writes a put option or purchases a call option thereon, it will maintain an amount of cash, cash equivalents (e.g., high grade commercial paper and daily tender adjustable notes) or short-term, high-grade, fixed-income securities in a segregated account with the Fund's custodian, so that the amount so segregated plus the amount of initial and variation margin held in the account of its broker equals the market value of the futures contracts, thereby ensuring that the use of such futures contract is unleveraged. It is not anticipated that transactions in futures contracts will have the effect of increasing portfolio turnover.

Although certain risks are involved in options and futures transactions, the Manager believes that, because the Fund will engage in futures transactions only for hedging purposes, the futures portfolio strategies of the Fund will not subject the Fund to certain risks frequently associated with speculation in futures transactions. The Fund must meet certain Federal income tax

requirements under the Internal Revenue Code of 1986, as amended (the "Code"), in order to qualify for the special tax treatment afforded regulated investment companies, including a requirement that less than 30% of its gross income be derived from the sale or other disposition of securities held for less than three months. Additionally, the Fund is required to meet certain diversification requirements under the Code.

The liquidity of a secondary market in a futures contract may be adversely affected by "daily price fluctuation limits" established by commodity exchanges which limit the amount of fluctuation in a futures contract price during a single trading day. Once the daily limit has been reached in the contract, no trades may be entered into at a price beyond the limit, thus preventing the liquidation of open futures positions. Prices have in the past moved beyond the daily limit on a number of consecutive trading days.

The successful use of transactions in futures also depends on the ability of the Manager to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent these rates remain stable during the period in which a futures contract is held by the Fund or moves in a direction opposite to that anticipated, the Fund may realize a loss on the hedging transaction which is not fully or

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partially offset by an increase in the value of portfolio securities. As a result, the Fund's total return for such period may be less than if it had not engaged in the hedging transaction. Furthermore, the Fund will only engage in hedging transactions from time to time and may not necessarily be engaging in hedging transactions when movements in interest rates occur.

Reference is made to the Statement of Additional Information for further information on financial futures contracts and certain options thereon.

REPURCHASE AGREEMENTS AND PURCHASE AND SALE CONTRACTS

As Temporary Investments, the Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements and purchase and sale contracts may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Under such agreements, the bank or primary dealer agrees, upon entering into the contract, to repurchase the security at a mutually agreed upon time and price, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, such as under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under the repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but only constitute collateral

for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate of return, the rate of return to the Fund shall be dependent upon intervening fluctuations of the market value of such security and the accrued interest on the security. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest in repurchase agreements or purchase and sale contracts maturing in more than seven days if such investments, together with all other illiquid investments, would exceed 15% of the Fund's net assets.

INVESTMENT RESTRICTIONS

The Fund has adopted a number of restrictions and policies relating to the investment of the Fund's assets and its activities, which are fundamental policies of the Fund and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the 1940 Act. Among the more significant restrictions, the Fund may not: (i) purchase any securities other than securities referred to under "Investment Objective and Policies" herein; (ii) purchase securities of other investment companies, except in connection with certain specified transactions and with respect to investments of up to 10% of the Fund's total assets in securities of closed-end investment companies; (iii) borrow amounts in excess of 20% of its total assets taken at market value (including the amount borrowed), and then only from

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banks as a temporary measure for extraordinary or emergency purposes [The Fund will not purchase securities while borrowings are outstanding]; (iv) mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held by the Fund except in connection with certain specified transactions; (v) invest in securities which cannot be readily resold because of legal or contractual restrictions or which are not readily marketable, including individually negotiated loans that constitute illiquid investments and illiquid lease obligations, and in repurchase agreements and purchase and sale contracts maturing in more than seven days, if, regarding all such securities taken together, more than 15% of its net assets (taken at market value at the time of each investment) would be invested in such securities; (vi) invest more than 10% of its total assets (taken at market value at the time of each investment) in industrial revenue bonds where the entity supplying the revenues from which the issue is to be paid, and the guarantor of the obligation, including predecessors, each have a record of less than three years' continuous business operation; and (vii) invest more than 25% of its total assets (taken at market value at the time of each investment) in securities of issuers in any particular industry (other than United States Government securities or Government agency securities, Municipal Bonds and Non-Municipal Tax-Exempt Securities).

The Fund is classified as non-diversified within the meaning of the 1940 Act, which means that the Fund is not limited by the 1940 Act in the proportion of its assets that it may invest in obligations of a single issuer. However, the

Fund's investments will be limited so as to qualify as a "regulated investment company" for purposes of the Internal Revenue Code. See "Taxes". To qualify, among other requirements, the Trust will limit the Fund's investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. [For purposes of this restriction, the Fund will regard each state and each political subdivision, agency or instrumentality of such state and each multi-state agency of which such state is a member and each public authority which issues securities on behalf of a private entity as a separate issuer, except that if the security is backed only by the assets and revenues of a non-government entity then the entity with the ultimate responsibility for the payment of interest and principal may be regarded as the sole issuer.] These tax-related limitations may be changed by the Trustees of the Trust to the extent necessary to comply with changes to the Federal tax requirements. A fund which elects to be classified as "diversified" under the 1940 Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the Fund assumes large positions in the obligations of a small number of issuers, the Fund's total return may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers.

Investors are referred to the Statement of Additional Information for a complete description of the Fund's investment restrictions.

MANAGEMENT OF THE TRUST

TRUSTEES

The Trustees of the Trust consist of six individuals, five of whom are not "interested persons" of the Trust as defined in the 1940 Act. The Trustees are responsible for the overall supervision of the operations of the Trust and the Fund and perform the various duties imposed on the directors or trustees of investment companies by the 1940 Act.

The Trustees are:

Arthur Zeikel*--President and Chief Investment Officer of Fund Asset Management, L.P. and Merrill Lynch Asset Management, L.P. ("MLAM"); President and Director of Princeton Services, Inc.; Executive Vice President of Merrill Lynch & Co., Inc. since 1990; Executive Vice President of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") since 1990 and a Senior Vice President thereof from 1985 to 1990; Director of Merrill Lynch Funds Distributor, Inc.

Kenneth S. Axelson--Former Executive Vice President and Director, J.C. Penney Company, Inc.

Robert R. Martin--Former Chairman, Kinnard Investments, Inc.

Herbert I. London--Former Dean, Gallatin Division of New York University.

Joseph L. May--Attorney in private practice.

Andre F. Perold--Professor, Harvard Business School.

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*Interested person, as defined in the 1940 Act, of the Trust.

MANAGEMENT AND ADVISORY ARRANGEMENTS

Fund Asset Management, L.P. (the "Manager"), which is an affiliate of MLAM and is owned and controlled by Merrill Lynch & Co., Inc., acts as the manager for the Fund and provides the Fund with management services. The Manager or MLAM acts as the investment adviser for over 90 other registered investment companies. MLAM also offers portfolio management and portfolio analysis services to individuals and institutions. As of February 28, 1994, the Manager and MLAM had a total of approximately \$164.4 billion in investment company and other portfolio assets under management, including accounts of certain affiliates of the Manager.

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

Vincent R. Giordano and Kenneth A. Jacob are the Portfolio Managers for the Fund. Vincent R. Giordano has been a Portfolio Manager of the Manager and MLAM since 1977 and a Senior Vice President of the Manager and MLAM since 1984. Kenneth A. Jacob has been a Vice President of the Manager and MLAM since 1984.

Pursuant to the management agreement between the Manager and the Trust on behalf of the Fund (the "Management Agreement"), the Manager is entitled to receive from the Fund a monthly fee based upon the average daily net assets of the Fund at the following annual rates: 0.55% of the average daily net assets not

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exceeding \$500 million; 0.525% of the average daily net assets exceeding \$500 million but not exceeding \$1.0 billion; and 0.50% of the average daily net assets exceeding \$1.0 billion.

The Management Agreement obligates the Fund to pay certain expenses incurred in the Fund's operations, including, among other things, the management fee, legal and audit fees, unaffiliated Trustees' fees and expenses, registration fees, custodian and transfer agency fees, accounting and pricing costs, and certain of the costs of printing proxies, shareholder reports, prospectuses and statements of additional information. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services. The Manager may waive all or a portion of its management fee and may voluntarily assume all or a portion of the Fund's expenses.

TRANSFER AGENCY SERVICES

Financial Data Services, Inc. (the "Transfer Agent"), which is a wholly-owned subsidiary of Merrill Lynch & Co., Inc., acts as the Trust's transfer agent pursuant to a transfer agency, dividend disbursing agency and shareholder servicing agency agreement (the "Transfer Agency Agreement"). Pursuant to the Transfer Agency Agreement, the Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening and maintenance of shareholder accounts. Pursuant to the Transfer Agency Agreement, the Fund pays the Transfer Agent an annual fee of \$10.00 per Class A shareholder account and \$12.00 per Class B shareholder account, and the Transfer Agent is entitled to reimbursement from the Fund for out-of-pocket expenses incurred by the Transfer Agent under the Transfer Agency Agreement.

PURCHASE OF SHARES

SUBSCRIPTION OFFERING

Merrill Lynch Funds Distributor, Inc. (the "Distributor"), a subsidiary of the Manager and an affiliate of Merrill Lynch, acts as the distributor of Class A and Class B shares of the Fund.

The Distributor, Merrill Lynch and other securities dealers which have entered into selected dealer agreements with the Distributor will solicit subscriptions for shares of the Fund during a period expected to end on April 29, 1994. The subscription period may be extended for up to an additional 30 days upon agreement between the Trust on behalf of the Fund and the Distributor. On the fifth business day after the conclusion of the subscription period, the subscriptions will be payable, the Class A and Class B shares will be issued and the Fund will commence operations. The subscription offering may be terminated by the Trust or the Distributor at any time, in which event no Class A and Class B shares will be issued (and, therefore, the Fund will not commence operations and no amounts will be payable by subscribers, and no sales charges will be assessed) or a limited number of shares will be issued.

The public offering price of the Class A shares during the subscription offering is set forth in the table below:

<TABLE>
<CAPTION>

	SUBSCRIPTION PERIOD				
	SALES CHARGE		SECURITIES DEALERS' CONCESSION		
	PUBLIC OFFERING PRICE	DOLLAR AMOUNT	PERCENTAGE* OF PUBLIC OFFERING PRICE	DOLLAR AMOUNT	PERCENTAGE* OF PUBLIC OFFERING PRICE
<S>	<C>	<C>	<C>	<C>	<C>
Less than \$25,000.....	\$10.417	\$.417	4.00%	\$.417	4.00%

\$25,000 but less than					
\$50,000.....	10.390	.390	3.75	.390	3.75
\$50,000 but less than					
\$100,000.....	10.336	.336	3.25	.336	3.25
\$100,000 but less than					
\$250,000.....	10.256	.256	2.50	.256	2.50
\$250,000 but less than					
\$1,000,000.....	10.152	.152	1.50	.152	1.50
\$1,000,000 and over.....	10.050	.050	0.50	.050	0.50

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* Rounded to the nearest one-hundredth percent.

The proceeds per share to the Fund from the sale of all Class A shares sold during the subscription period will be \$10.00.

The public offering price of the Class B shares during the subscription offering will be \$10.00 per share. However, the Class B shares may be subject to a contingent deferred sales charge described below under "Deferred Sales Charge Alternative--Class B Shares--CDSC" if redeemed within four years of purchase and are subject to ongoing account maintenance and distribution fees as described below.

The minimum initial purchase for both Class A and Class B shares during the subscription period is \$1,000.

CONTINUOUS OFFERING

Commencing immediately after completion of the subscription offering, Class A and Class B shares of the Fund will be offered continuously for sale by the Distributor and other eligible securities dealers (including Merrill Lynch). During the continuous offering, shares of the Fund may be purchased from securities dealers or by mailing a purchase order directly to the Transfer Agent. The minimum initial purchase during the continuous offering is \$1,000. The minimum subsequent purchase is \$50.

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

deemed received on the next business day. Any order may be rejected by the Distributor or the Trust. The Trust or the Distributor may suspend the

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

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

ALTERNATIVE SALES ARRANGEMENTS

The alternative sales arrangements of the Fund permit investors to choose the method of purchasing shares that is most beneficial given the amount of their purchase, the length of time the investor expects to hold his shares and other relevant circumstances. INVESTORS SHOULD DETERMINE WHETHER UNDER THEIR PARTICULAR CIRCUMSTANCES IT IS MORE ADVANTAGEOUS TO INCUR AN INITIAL SALES CHARGE AND NOT BE SUBJECT TO ONGOING CHARGES, AS DISCUSSED BELOW, OR TO HAVE THE ENTIRE INITIAL PURCHASE PRICE INVESTED IN THE FUND WITH THE INVESTMENT THEREAFTER BEING SUBJECT TO ONGOING CHARGES.

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

Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time also might elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing

return is realized on the additional funds initially invested under the deferred alternative. Another factor that may be applicable under certain circumstances is that the payment of the Class B distribution fee and contingent deferred sales charge ("CDSC") is subject to certain limits as set forth below under "Deferred Sales Charge Alternative--Class B Shares".

Certain other investors might determine it to be more advantageous to have all their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a CDSC as described below. For example, an investor subject to the 4.0% initial sales charge will have to hold his investment at least 8 years for the 0.25% account maintenance fee and 0.25% distribution fee to exceed the initial sales charge of Class A shares. This example does not take into account the time value of money which further reduces the impact of the ongoing account maintenance and distribution fees on the investment, fluctuations in the net asset value, the effect of the return on the investment over this period of time or the effect of any limits that may be imposed upon the payment of the distribution fee and the CDSC.

INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

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

<TABLE>
<CAPTION>

AMOUNT OF PURCHASE	SALES CHARGE AS PERCENTAGE OF OFFERING PRICE	SALES CHARGE AS PERCENTAGE* OF THE NET AMOUNT INVESTED	DISCOUNT TO SELECTED DEALERS AS PERCENTAGE OF THE OFFERING PRICE
<S>	<C>	<C>	<C>
Less than \$25,000.....	4.00%	4.17%	3.75%
\$25,000 but less than \$50,000.....	3.75	3.90	3.50
\$50,000 but less than \$100,000.....	3.25	3.36	3.00
\$100,000 but less than \$250,000.....	2.50	2.56	2.25
\$250,000 but less than \$1,000,000.....	1.50	1.52	1.25
\$1,000,000 and over.....	0.50	0.50	0.40

</TABLE>

* Rounded to the nearest one-hundredth percent.

Initial sales charges may be waived for shareholders purchasing \$1 million or more in a single transaction (other than a tax qualified retirement plan under Section 401 of the Code, or a deferred compensation plan under Section 403(b) and Section 457 of the Code), or a purchase by a TMASM Managed Trust, of Class A shares of the Fund. In addition, purchases of Class A shares of the Fund made

in connection with a single investment of \$1 million or more under the Merrill Lynch Mutual Fund Adviser Program will not be subject to an initial sales charge. Purchases described in this paragraph will be subject instead to a CDSC if the shares are redeemed within one year after purchase at the following rates:

<TABLE>

<CAPTION>

AMOUNT OF PURCHASE -----	CDSC AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHANGE -----
<S>	<C>
\$1 million up to \$2.5 million.....	0.75%
Over \$2.5 million up to \$3.5 million.....	0.40%
Over \$3.5 million up to \$5 million.....	0.25%
Over \$5 million.....	0.20%

</TABLE>

The Distributor may reallocate discounts to selected dealers and retain the balance over such discounts. At times the Distributor may reallocate the entire sales charge to such dealers. Since securities dealers selling

Class A shares of the Fund will receive a concession equal to most of the sales charge, they may be deemed to be underwriters under the Securities Act of 1933, as amended.

Reduced Initial Sales Charges. Sales charges are reduced under a Right of Accumulation and a Letter of Intention. Class A shares of the Fund are offered at net asset value to Trustees of the Trust, to directors or trustees of certain other Merrill Lynch-sponsored investment companies, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase if certain conditions set forth in the Statement of Additional Information are met, to directors of Merrill Lynch & Co., Inc. and to employees of Merrill Lynch & Co., Inc. and its subsidiaries. Also, Class A shares may be offered at net asset value in connection with the acquisition of assets of other investment companies. No initial sales charges are imposed upon Class A shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. Class A shares are offered to TMSM Managed Trusts to which Merrill Lynch Trust Company provides discretionary trustee services at net asset value plus a reduced sales charge. Class A shares of the Fund also are offered at net asset value to shareholders of certain closed-end funds advised by the Manager or MLAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund, provided certain conditions are met. Thus, for example, Class A shares of the Fund are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund (formerly known as Merrill Lynch Prime Fund, Inc.) ("Senior Floating Rate Fund") who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of the Fund. In order to exercise this investment option, Senior Floating Rate Fund shareholders must sell their Senior Floating Rate Fund shares to the Senior Floating Rate Fund in connection with a tender offer conducted by the Senior Floating Rate Fund and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Senior

Floating Rate Fund shares as to which no Early Withdrawal Charge (as defined in the Senior Floating Rate Fund prospectus) is applicable. Purchase orders from Senior Floating Rate Fund shareholders wishing to exercise this investment option will be accepted only on the day that the related Senior Floating Rate Fund tender offer terminates and will be effected at the net asset value of the Fund at such day. Class A shares of the Fund may be purchased at net asset value, without a sales charge, by programs associated with professional athletic players' associations which have invested in the aggregate more than \$10 million in Merrill Lynch-sponsored investment companies. Additional information concerning these reduced initial sales charges is set forth in the Statement of Additional Information.

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

Investors choosing the deferred sales charge alternative purchase Class B shares at net asset value per share without the imposition of a sales charge at the time of purchase. The Class B shares are being sold without an initial sales charge so that the Fund will receive the full amount of the investor's purchase payment. Merrill Lynch compensates its financial consultants for selling Class B shares at the time of purchase from its own funds. The proceeds of the CDSC and the ongoing distribution fee discussed below are used to defray Merrill Lynch's distribution expenses, including compensating its financial consultants. The proceeds from the ongoing account maintenance fee are used to compensate Merrill Lynch for providing continuing account maintenance activities.

Proceeds from the CDSCs are paid to the Distributor and are used in whole or in part by the Distributor to defray the expenses of dealers (including Merrill Lynch) related to providing distribution-related services

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

CDSC. Class B shares which are redeemed within four years of purchase may be subject to a CDSC at the rates set forth below charged as a percentage of the dollar amount subject thereto. The charge will be assessed on an amount equal to the lesser of the current market value or the cost of the shares being redeemed. Accordingly, no CDSC will be imposed on increases in net asset value above the initial purchase price. In addition, no CDSC will be assessed on shares derived from reinvestment of dividends or capital gains distributions.

The following table sets forth the rates of the CDSC:

<TABLE>
<CAPTION>

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

</TABLE>

In determining whether a CDSC is applicable to a redemption, the calculation will be determined in the manner that results in the lowest possible applicable rate being charged. Therefore, it will be assumed that the redemption is first of shares until such time as the CDSC is no longer applicable or shares acquired pursuant to reinvestment of dividends or distributions and then of shares held longest during the four-year period. The charge will not be applied to dollar amounts representing an increase in the net asset value since the time of purchase. A transfer of shares from a shareholder's account to another account will be assumed to be made in the same order as redemption.

To provide an example, assume an investor purchased 100 Class B shares at \$10 per share (at a cost of \$1,000) and in the third year after purchase, the net asset value per share is \$12 and, during such time, the investor has acquired 10 additional shares upon dividend reinvestment. If at such time the investor makes his first redemption of 50 shares (proceeds of \$600), 10 shares will not be subject to charge because of dividend reinvestment. With respect to the remaining 40 shares, the CDSC is applied only to the original cost of \$10 per share and not to the increase in net asset value of \$2 per share. Therefore, \$400 of the \$600 redemption proceeds will be charged at a rate of 2.0% (the applicable rates in the third year after purchase). The CDSC is waived on redemptions of shares following the death or disability (as defined in the Code) of a shareholder.

Distribution Plan. Pursuant to a distribution plan adopted by the Fund under Rule 12b-1 under the 1940 Act (the "Distribution Plan"), the Fund pays the Distributor an ongoing account maintenance fee and

distribution fee relating to Class B shares, which are accrued daily and paid monthly, at the annual rates of 0.25% and 0.25%, respectively, of the average daily net assets of the Class B shares of the Fund. Pursuant to a sub-agreement with the Distributor, Merrill Lynch also provides account maintenance and distribution services to the Fund. The ongoing account maintenance fee compensates the Distributor and Merrill Lynch for providing account maintenance services to Class B shareholders. The ongoing distribution fee compensates the Distributor and Merrill Lynch for providing distribution services and bearing certain distribution-related expenses of the Fund, including payments to financial consultants for selling Class B shares of the Fund.

The Distribution Plan is designed to permit an investor to purchase Class B shares through dealers without the assessment of a front-end sales charge and

at the same time permit the dealer to compensate its financial consultants in connection with the sale of the Class B shares. In this regard, the purpose and function of the ongoing distribution fee under the Distribution Plan and the CDSC are the same as those of the initial sales charge with respect to the Class A shares of the Fund in that the deferred sales charges provide for the financing of the distribution of the Fund's Class B shares.

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

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

Limitations on the Payment of Deferred Sales Charges. The maximum sales charge rule in the Rules of Fair Practice of the National Association of Securities Dealers, Inc. ("NASD") imposes a limitation on certain asset-based sales charges such as the Fund's distribution fee and the CDSC, but not the account maintenance fee. As applicable to the Fund, the maximum sales charge rule limits the aggregate of distribution fee payments and CDSCs payable by the Fund to (1) 6.25% of eligible gross sales of Class B shares (defined to exclude shares issued pursuant to dividend reinvestments and exchanges) plus (2) interest on the unpaid balance at the prime rate plus 1% (the unpaid balance being the maximum amount payable minus amounts received from the payment of the distribution fee and the CDSC). The Distributor has voluntarily agreed to waive interest charges on the unpaid balance in excess of 0.50% of eligible gross sales.

Consequently, the maximum amount payable to the Distributor (referred to as the "voluntary maximum") is 6.75% of eligible gross sales. The Distributor retains the right to stop waiving the interest charges at any time. To the extent

payments would exceed the voluntary maximum, the Fund will not make further payments of the distribution fee and any CDSCs will be paid to the Fund rather than to the Distributor; however, the Fund will continue to make payments of the account maintenance fee. In certain circumstances the amount payable pursuant to the voluntary maximum may exceed the amount payable under the NASD formula. In such circumstances, payments in excess of the amount payable under the NASD formula will not be made.

REDEMPTION OF SHARES

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

REDEMPTION

A shareholder wishing to redeem shares may do so by tendering the shares directly to the Transfer Agent, Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, P.O. Box 45289, Jacksonville, Florida 32232-5289. Redemption requests delivered other than by mail should be delivered to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484. Proper notice of redemption in the case of shares deposited with the Transfer Agent may be accomplished by a written letter requesting redemption. Proper notice of redemption in the case of shares for which certificates have been issued may be accomplished by a written letter as noted above accompanied by certificates for the shares to be redeemed. Redemption requests should not be sent to the Trust. The notice in either event requires the signature(s) of all persons in whose name(s) the shares are registered, signed exactly as such name(s) appear(s) on the Transfer Agent's register. The signature(s) on the redemption request must be guaranteed by an "eligible guarantor institution" as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the Transfer Agent through the use of industry publications. Notarized signatures are not sufficient. In certain instances, the Transfer Agent may require additional documents such as, but not limited to, trust instruments, death certificates, appointments as executor or administrator, or certificates of corporate authority. For shareholders redeeming directly with the Transfer Agent, payments will be mailed within seven days of receipt of a proper notice of redemption.

At various times the Trust may be requested to redeem Fund shares for which it has not yet received good payment (e.g., cash, Federal funds or certified check drawn on a United States bank). The Trust may delay or cause to be delayed the mailing of a redemption check until such time as it has assured itself that good payment has been collected for the purchase of such Fund shares, which may take up to 10 days.

REPURCHASE

The Trust also will repurchase Fund shares through a shareholder's listed

securities dealer. The Trust normally will accept orders to repurchase Fund shares by wire or telephone from dealers for their customers

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at the net asset value next computed after receipt of the order by the dealer, provided that the request for repurchase is received by the dealer prior to the close of business on the New York Stock Exchange on the day received and is received by the Fund from such dealer not later than 4:30 P.M., New York time, on the same day.

Dealers have the responsibility of submitting such repurchase requests to the Trust not later than 4:30 P.M., New York time, in order to obtain that day's closing price. The repurchase arrangements are for the convenience of shareholders and do not involve a charge by the Trust (other than the applicable CDSC in the case of Class B shares); securities firms which do not have selected dealer agreements with the Distributor, however, may impose a charge on the shareholder for transmitting the notice of repurchase to the Trust. Merrill Lynch may charge its customers a processing fee (presently \$4.85) to confirm a repurchase of shares of such customers. Redemptions directly through the Fund's Transfer Agent are not subject to the processing fee. The Trust reserves the right to reject any order for repurchase, which right of rejection might adversely affect shareholders seeking redemption through the repurchase procedure. However, a shareholder whose order for repurchase is rejected by the Trust may redeem Fund shares as set forth above.

REINSTATEMENT PRIVILEGE -- CLASS A SHARES

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

SHAREHOLDER SERVICES

The Trust offers a number of shareholder services and investment plans designed to facilitate investment in shares of the Fund. Full details as to each of such services and instructions as to how to participate in the various services or plans, or to change options with respect thereto can be obtained from the Trust by calling the telephone number on the cover page hereof or from the Distributor or Merrill Lynch. Included in such services are the following:

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

receive separate transaction confirmations for each purchase or sale transaction other than automatic investment purchases and the reinvestment of taxable ordinary income dividends, tax-exempt income, and long-term capital gain distributions. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the Transfer Agent. Shareholders may also maintain their accounts through Merrill Lynch. Upon the transfer of shares out of a Merrill Lynch brokerage account, an Investment Account in the transferring shareholder's name will be opened automatically, without charge, at the Transfer Agent. Shareholders considering transferring their Class A shares from Merrill Lynch

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to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm or such shareholder must continue to maintain an Investment Account at the Transfer Agent for those Class A shares. Shareholders interested in transferring their Class B shares from Merrill Lynch and who do not wish to have an Investment Account maintained for such shares at the Transfer Agent may request their new brokerage firm to maintain such shares in an account registered in the name of the brokerage firm for the benefit of the shareholder. If the new brokerage firm is willing to accommodate the shareholder in this manner, the shareholder must request that he be issued certificates for his shares and then must turn the certificates over to the new firm for re-registration as described in the preceding sentence.

Exchange Privilege. Shareholders of the Fund each have an exchange privilege with certain other mutual funds sponsored by Merrill Lynch. There is currently no limitation on the number of times a shareholder may exercise the exchange privilege. The exchange privilege may be modified or terminated at any time in accordance with the rules of the Commission. Class A shareholders of the Fund may exchange their shares ("outstanding Class A shares") for Class A shares of another fund ("new Class A shares") on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. However, the Fund's exchange privilege is modified with respect to purchases of Class A shares under the Merrill Lynch Mutual Fund Adviser program. First, the initial allocation of assets is made under the program. Then, any subsequent exchange under the program of Class A shares of a fund for Class A shares of the Fund will be made solely on the basis of the relative net asset values of the shares being exchanged. Therefore, there will not be a charge for any difference between the sales charge previously paid on the shares of the other fund and the sales charge payable on the shares of the Fund being acquired in the exchange under this program.

Class B shareholders of the Fund may exchange their shares ("outstanding Class B shares") for Class B shares of another fund ("new Class B shares") on the basis of relative net asset value per share, without the payment of any CDSC that might otherwise be due upon the redemption of the outstanding Class B shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's CDSC schedule if such schedule is higher than the deferred sales charge schedule relating to the new Class B shares. In addition, Class B shares of the Fund acquired through use of the exchange

privilege will be subject to the Fund's CDSC schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the CDSC that may be payable upon a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to the holding period of the new Class B shares. Class A and Class B shareholders of the Fund may also exchange their shares for shares of certain money market funds, but in the case of an exchange from Class B shares the period of time that shares are held in a money market fund will not count toward satisfaction of the holding period requirement for purposes of reducing the CDSC. Exercise of the exchange privilege is treated as a sale for Federal income tax purposes. For further information, see "Shareholder Services -- Exchange Privilege" in the Statement of Additional Information.

The Fund's exchange privilege is modified with respect to purchases of Class A shares under the Merrill Lynch Mutual Fund Adviser program. First, the initial allocation of assets is made under the program. Then, any subsequent exchange under the program of Class A shares of a fund for Class A shares of the Fund will be made solely on the basis of the relative net asset values of the shares being exchanged. Therefore, there will not be a charge for any difference between the sales charge previously paid on the shares of the other fund and the sales charge payable on the shares of the Fund being acquired in the exchange under this program.

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Automatic Reinvestment of Dividends and Capital Gains Distributions. All dividends and capital gains distributions are reinvested automatically in full and fractional shares of the Fund, without a sales charge, at the net asset value per share at the close of business on the monthly payment date for such dividends and distributions. A shareholder may at any time, by written notification or by telephone (1-800-MER-FUND) to the Transfer Agent, elect to have subsequent dividends or both dividends and capital gains distributions paid in cash, rather than reinvested, in which event payment will be mailed monthly. No deferred sales charge will be imposed upon redemption of shares issued as a result of the automatic reinvestment of dividends or capital gains distributions.

Systematic Withdrawal and Automatic Investment Plans. A Class A shareholder may elect to receive systematic withdrawal payments from his Investment Account through automatic payment by check or through automatic payment by direct deposit to his bank account on either a monthly or quarterly basis. A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program, subject to certain conditions. Regular additions of both Class A and Class B shares may be made to an investor's Investment Account by prearranged charges of \$50 or more to his regular bank account. The Fund's Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch. Alternatively, investors who maintain CMA(R) accounts may arrange to have periodic investments made in the Fund in their CMA(R) account or in certain related accounts in amounts of \$100 or more through the CMA(R) Automatic Investment Program.

PORTFOLIO TRANSACTIONS

The Trust has no obligation to deal with any dealer or group of dealers in the execution of transactions in portfolio securities of the Fund. Municipal Bonds and other securities in which the Fund invests are traded primarily in the over-the-counter market. Where possible, the Trust deals directly with the dealers who make a market in the securities involved except in those circumstances where better prices and execution are available elsewhere. It is the policy of the Trust to obtain the best net results in conducting portfolio transactions for the Fund, taking into account such factors as price (including the applicable dealer spread), the size, type and difficulty of the transactions involved, the firm's general execution and operations facilities, and the firm's risk in positioning the securities involved and the provision of supplemental investment research by the firm. While reasonably competitive spreads or commissions are sought, the Fund will not necessarily be paying the lowest spread or commission available. The sale of shares of the Fund may be taken into consideration as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund. The portfolio securities of the Fund generally are traded on a net basis and normally do not involve either brokerage commissions or transfer taxes. The cost of portfolio securities transactions of the Fund primarily consists of dealer or underwriter spreads. Under the 1940 Act, persons affiliated with the Trust, including Merrill Lynch, are prohibited from dealing with the Trust as a principal in the purchase and sale of securities unless such trading is permitted by an exemptive order issued by the Commission. The Trust has obtained an exemptive order permitting it to engage in certain principal transactions with Merrill Lynch involving high quality short-term municipal bonds subject to certain conditions. In addition, the Trust may not purchase securities, including Municipal Bonds, for the Fund during the existence of any underwriting syndicate of which Merrill Lynch is a member except pursuant to procedures approved by the Trustees of the Trust which comply with rules adopted by the Commission. Affiliated persons of the Trust may serve as its broker in over-the-counter transactions conducted for the Fund on an agency basis only.

DISTRIBUTIONS AND TAXES

DISTRIBUTIONS

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

All net realized long- or short-term capital gains, if any, are declared and distributed to the Fund's shareholders at least annually. Capital gains

distributions will be reinvested automatically in shares unless the shareholder elects to receive such distributions in cash.

The per share dividends and distributions on Class B shares will be lower than per share dividends and distributions on Class A shares as a result of the distribution and transfer agency fees applicable with respect to the Class B shares. See "Additional Information--Determination of Net Asset Value".

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

TAXES

The Trust intends to elect and to qualify the Fund for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, in any taxable year in which it distributes at least 90% of its taxable net income and 90% of its tax-exempt net income (see below), the Fund (but not its shareholders) will not be subject to Federal income tax to the extent that it distributes its net investment income and net realized capital gains. The Trust intends to cause the Fund to distribute substantially all of such income.

To the extent that the dividends distributed to the Fund's Class A and Class B shareholders (together, the "shareholders") are derived from interest income exempt from Federal income tax under Code Section 103(a), and are properly designated as "exempt-interest dividends" by the Trust, they will be excludable from a shareholder's gross income for Federal income tax purposes. Exempt-interest dividends are included, however, in determining the portion, if any, of a person's social security benefits and railroad retirement benefits subject to Federal income taxes. The portion of such exempt-interest dividends paid from interest received by the Fund from Connecticut Municipal Bonds will not be subject to the Connecticut income tax on individuals, estates and trusts (the "Connecticut income tax"). Distributions from the Fund to shareholders subject to the Connecticut corporation business tax will be included in taxable income to the extent such distributions are treated as exempt-interest dividends or capital gains dividends. Shareholders subject to income taxation by states other than Connecticut will realize a lower after-tax rate of return than

Connecticut shareholders since the dividends distributed by the Fund generally will not be exempt, to any significant degree, from income taxation by such other states. The Trust will inform shareholders annually as to the portion of the Fund's distributions which constitutes exempt-interest dividends and the portion which is exempt from Connecticut income tax. Interest on indebtedness incurred or continued to purchase or carry Fund shares is not deductible for Federal income tax purposes to the extent attributable to exempt-interest dividends, and such interest expense will not reduce taxable income under the Connecticut income tax except to the extent reflected in Federal adjusted gross income. Persons who may be "substantial users" (or "related persons" of substantial users) of facilities financed by industrial development bonds or private activity bonds held by the Fund should consult their tax advisers before purchasing Fund shares.

To the extent that the Fund's distributions are derived from interest on its taxable investments or from an excess of net short-term capital gains over net long-term capital losses ("ordinary income dividends"), such distributions are considered ordinary income for Federal income tax purposes. Such distributions are not eligible for the dividends received deduction for corporations. Distributions, if any, of net long-term capital gains from the sale of securities or from certain transactions in futures or options ("capital gain dividends") are taxable as long-term capital gains for Federal income tax purposes, regardless of the length of time the shareholder has owned Fund shares. Under the Revenue Reconciliation Act of 1993, all or a portion of the Fund's gain from the sale or redemption of tax-exempt obligations purchased at a market discount will be treated as ordinary income rather than capital gain. This rule may increase the amount of ordinary income dividends received by shareholders. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset). Any loss upon the sale or exchange of Fund shares held for six months or less will be treated as long-term capital loss to the extent of any capital gain dividends received by the shareholder. In addition, such loss will be disallowed to the extent of any exempt-interest dividends received by the shareholder. If the Fund pays a dividend in January which was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

The Code subjects interest received on certain otherwise tax-exempt securities to an alternative minimum tax. This alternative minimum tax applies to interest received on "private activity bonds" issued after August 7, 1986. Private activity bonds are bonds which, although tax-exempt, are used for purposes other than those generally performed by governmental units and which benefit non-governmental entities (e.g., bonds used for industrial development or housing purposes). Income received on such bonds is classified as an item of "tax preference," which could subject investors in such bonds, including shareholders of the Fund, to an alternative minimum tax. The Fund will purchase such "private activity bonds," and the Trust will report to shareholders within 60 days after the Fund's taxable year-end the portion of the Fund's dividends declared during the year which constitutes an item of tax preference for alternative minimum tax purposes. The Code further provides that corporations are subject to an alternative minimum tax based, in part, on certain differences between taxable income as adjusted for other tax preferences and the corporation's "adjusted current earnings" (which more closely reflects a corporation's economic income). Because an exempt-interest dividend paid by the Fund will be included in adjusted current earnings, a corporate shareholder may be required to pay alternative minimum tax on exempt-interest dividends paid by the Fund.

The Revenue Reconciliation Act of 1993 has added new marginal tax brackets of 36% and 39.6% for individuals and has created a graduated structure of 26% and 28% for the alternative minimum tax

applicable to individual taxpayers. These rate increases may affect an individual investor's after-tax return from an investment in the Fund as

compared with such investor's return from taxable investments.

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

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

The Code provides that every person required to file a tax return must include for information purposes on such return the amount of exempt-interest dividends received from all sources (including the Fund) during the taxable year.

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

Shareholders are urged to consult their tax advisers regarding the availability of any exemptions from state or local taxes (other than those imposed by Connecticut) and with specific questions as to Federal, foreign, state or local taxes.

PERFORMANCE DATA

From time to time the Fund may include its average annual total return and yield and tax equivalent yield for various specified time periods in advertisements or information furnished to present or prospective shareholders. Average annual total return, yield and tax equivalent yield are computed in accordance with formulas specified by the Commission.

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

respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution charges and any incremental transfer agency costs relating to Class B shares will be borne exclusively by that Class. The Fund will include performance data for both Class A and Class B shares of the Fund in any advertisement or information including performance data of the Fund.

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

Yield quotations will be computed based on a 30-day period by dividing (a) the net income based on the yield of each security earned during the period by (b) the average daily number of shares outstanding during the period that were entitled to receive dividends multiplied by the maximum offering price per share on the last day of the period. Tax equivalent yield quotations will be computed by dividing (a) the part of the Fund's yield that is tax-exempt by (b) one minus a stated tax rate and (c) adding the result to that part, if any, of the Fund's yield that is not tax-exempt.

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

On occasion, the Fund may compare its performance to performance data published by Lipper Analytical Services, Inc., Morningstar Publications, Inc. ("Morningstar") and CDA Investment Technology, Inc., or to data contained in publications such as Money Magazine, U.S. News & World Report, Business Week, Forbes Magazine and Fortune Magazine. From time to time, the Fund may include

the Fund's Morningstar risk-adjusted performance ratings in advertisements or supplemental sales literature. As with other performance data, performance comparisons should not be considered representative of the Fund's relative performance for any future period.

ADDITIONAL INFORMATION

DETERMINATION OF NET ASSET VALUE

The net asset value of the Fund is determined by the Manager once daily as of 4:15 P.M., New York time, on each day during which the New York Stock Exchange is open for trading. The net asset value per share is computed by dividing the sum of the value of the securities held by the Fund plus any cash or other

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assets minus all liabilities by the total number of shares outstanding at such time, rounded to the nearest cent. Expenses, including the fees payable to the Manager and the Distributor, are accrued daily.

The net asset value per share of the Class A shares and the net asset value per share of the Class B shares are expected to be equivalent. Under certain circumstances, however, the per share net asset value of the Class B shares may be lower than the per share net asset value of the Class A shares reflecting the higher daily expense accruals of the deferred charges (and incremental transfer agency costs) applicable with respect to the Class B shares. Even under those circumstances, the per share net asset value of the two classes eventually will tend to converge immediately after the payment of dividends, which will differ by approximately the amount of the expense accrual differential between the classes.

ORGANIZATION OF THE TRUST

The Trust is an unincorporated business trust organized on August 2, 1985 under the laws of Massachusetts. On October 1, 1987, the Trust changed its name from "Merrill Lynch Multi-State Tax-Exempt Series Trust" to "Merrill Lynch Multi-State Municipal Bond Series Trust" and on December 22, 1987 the Trust changed its name to "Merrill Lynch Multi-State Municipal Series Trust". The Trust is an open-end management investment company comprised of separate series ("Series"), each of which is a separate portfolio offering shares to selected groups of purchasers. Each of the Series is to be managed independently in order to provide to shareholders who are residents of the state to which such Series relates as high a level of income exempt from Federal, state and local income taxes as is consistent with prudent investment management. The Trustees are authorized to create an unlimited number of Series and, with respect to each Series, to issue an unlimited number of full and fractional shares of beneficial interest of \$.10 par value of different classes. Shareholder approval is not required for the authorization of additional Series or classes of a Series of the Trust. At the date of this Prospectus, the shares of the Fund are divided into Class A shares and Class B shares. Both Class A and Class B shares represent an interest in the same assets of the Fund and have identical voting, dividend, liquidation and other rights and the same terms and conditions except that expenses related to the account maintenance and distribution of the Class B shares are borne solely by such class and Class B shares have exclusive voting rights with respect to matters relating to such distribution expenditures. See "Purchase of Shares". The Trust has received an

order (the "Order") from the Commission permitting the issuance and sale of two classes of shares, and the issuance and sale of any additional classes by any Series will require an additional order from the Commission. There is no assurance that such an additional order will be granted.

Shareholders are entitled to one vote for each full share and to fractional votes for fractional shares held in the election of Trustees (to the extent hereinafter provided) and on other matters submitted to the vote of shareholders. All shares of the Trust have equal voting rights, except that only shares of the respective Series are entitled to vote on matters concerning only that Series and, as noted above, only Class B shares of a Series will have exclusive voting rights with respect to matters relating to the account maintenance and distribution expenses being borne solely by such class. There normally will be no meeting of shareholders for the purpose of electing Trustees unless and until such time as less than a majority of the Trustees holding office have been elected by shareholders, at which time the Trustees then in office will call a shareholders' meeting for the election of Trustees. Shareholders may, in accordance with the terms of the Declaration of Trust, cause a meeting of shareholders to be held for the purpose of voting on the removal of Trustees. Also, the Trust will be required to call a special meeting of shareholders of a Series in accordance with the requirements of the 1940 Act to seek approval of new management and advisory arrangements, of a material

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increase in distribution fees or of a change in the fundamental policies, objectives or restrictions of a Series. Except as set forth above, the Trustees shall continue to hold office and appoint successor Trustees. Each issued and outstanding share is entitled to participate equally in dividends and distributions declared by the respective Series and in net assets of such Series upon liquidation or dissolution remaining after satisfaction of outstanding liabilities except that, as noted above, expenses related to the distribution of the Class B shares of a Series will be borne solely by such class. The obligations and liabilities of a particular Series are restricted to the assets of that Series and do not extend to the assets of the Trust generally. The shares of each Series, when issued, will be fully-paid and non-assessable by the Trust.

SHAREHOLDER REPORTS

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

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

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

SHAREHOLDER INQUIRIES

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

The Declaration of Trust establishing the Trust, dated August 2, 1985, a copy of which together with all amendments thereto (the "Declaration"), is on file in the office of the Secretary of the Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability, nor shall resort be had to such person's private property for the satisfaction of any obligation or claim of the Trust, but the "Trust Property" only shall be liable.

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MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND--AUTHORIZATION FORM

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

1. SHARE PURCHASE APPLICATION

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

Basis for establishing an Investment Account:

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

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

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

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

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

Distribution Elect reinvest dividends Elect reinvest capital gains
Options One pay dividends in cash One pay capital gains in cash

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

(Please Print)

Name
First Name Initial Last Name

Name of Co-Owner (if any) [][][][][][][][][][]
First Name Initial Last Name Social Security
No. or Taxpayer
Identification
No.

Address

....., 19. .
(Zip Code) Date

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

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

INSTRUCTION: YOU MUST STRIKE OUT THE LANGUAGE IN (2) ABOVE IF YOU HAVE BEEN NOTIFIED THAT YOU ARE SUBJECT TO BACKUP WITHHOLDING DUE TO UNDER-REPORTING, AND IF YOU HAVE NOT RECEIVED A NOTICE FROM THE IRS THAT BACKUP WITHHOLDING HAS BEEN TERMINATED.

SIGNATURE OF OWNER SIGNATURE OF CO-OWNER (IF ANY)
In the case of co-owners, a joint tenancy with right of survivorship will be presumed unless otherwise specified.

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

Gentlemen:

Date of initial purchase

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

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

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

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

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

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

(1) Name (2) Name

MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND--AUTHORIZATION FORM

3.SYSTEMATIC WITHDRAWAL PLAN--CLASS A SHARES ONLY (SEE TERMS AND CONDITIONS IN THE STATEMENT OF ADDITIONAL INFORMATION)

Minimum Requirements: \$10,000 for monthly disbursements, \$5,000 for quarterly, of shares in Merrill Lynch Connecticut Municipal Bond Fund at cost or current offering price.

Withdrawals to be made either (check one) [] Monthly [] Quarterly. Quarterly withdrawals are made on the 24th day of March, June, September and December.

Begin systematic withdrawal on , 19. . [date]

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

Specify withdrawal method: [] check or [] direct deposit to bank account (CHECK ONE AND COMPLETE PART (A) OR (B) BELOW):

(A) I HEREBY AUTHORIZE PAYMENT BY CHECK

(B) I HEREBY AUTHORIZE PAYMENT BY DIRECT DEPOSIT TO BANK ACCOUNT and (if necessary) debit entries and adjustments for any credit entries

made in error to my account

Draw checks payable
(check one)
 as indicated in item 1.
 to the order of

Specify type of account (check one): checking savings
I agree that this authorization will remain in effect until I provide written notification to Financial Data Services, Inc. amending or terminating this service.
Name on your Account

Mail to (check one)
 the address indicated in item 1.
 Name (Please Print)

Bank
Bank #
Account # ...

Address

Bank Address

Signature of Owner.....

Signature of Depositor ... Date

Signature of Depositor (if joint account)
NOTE: IF AUTOMATIC DIRECT DEPOSIT IS ELECTED, YOUR BLANK, UNSIGNED CHECK MARKED "VOID" OR A DEPOSIT SLIP FROM YOUR SAVINGS ACCOUNT SHOULD ACCOMPANY THIS APPLICATION.

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

4. APPLICATION FOR AUTOMATIC INVESTMENT PLAN

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

FINANCIAL DATA SERVICES, INC.

AUTHORIZATION TO HONOR CHECKS OR ACH DEBITS

You are hereby authorized to draw a check or an ACH debit each month on my bank account for investment in Merrill Lynch Connecticut Municipal Bond Fund as indicated below:

DRAWN BY FINANCIAL DATA SERVICES, INC.
ToBank
(Investor's Bank)

Bank Address
City State Zip Code.....

Amount of each check or ACH debit \$

As a convenience to me, I hereby request and authorize you to pay and charge to my account checks or ACH debits drawn on my account by and payable to Financial Data Services, Inc. I agree that your rights in respect to each such check or debit shall be the same as if it were a check drawn on you and signed personally by me. This authority is to remain in effect until

Account No.
Please date and invest checks or draw ACH debits on the 20th of each month beginning

(Month)
or as soon thereafter as

possible.

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

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

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

revoked personally by me in writing. Until you receive such notice, you shall be fully protected in honoring any such check or debit. I further agree that if any such check or debit be dishonored, whether with or without cause and whether intentionally or inadvertently, you shall be under no liability.

.....
Date Signature of Depositor
.....
Bank Signature of Depositor
Account (If joint account, both
Number must sign)

NOTE: IF AUTOMATIC INVESTMENT PLAN IS ELECTED, YOUR BLANK, UNSIGNED CHECK MARKED "VOID" SHOULD ACCOMPANY THIS APPLICATION.

5. FOR DEALER ONLY

Branch Office, Address, Stamp

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

This form when completed should be mailed to:

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

Merrill Lynch Connecticut
Municipal Bond Fund c/o
Financial Data Services, Inc.
Transfer Agency Mutual Fund
Operations P.O. Box
45289 Jacksonville, FL 32232-
5289

Dealer Name and Address
Dealer's Customer
A/C No.
By
Authorized Signature of Dealer

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MANAGER

Fund Asset Management, L.P.
Administrative Offices:
800 Scudders Mill Road
Plainsboro, New Jersey
Mailing Address:
Box 9011
Princeton, New Jersey 08543-9011

DISTRIBUTOR

Merrill Lynch Funds Distributor, Inc.
Administrative Offices:
800 Scudders Mill Road
Plainsboro, New Jersey
Mailing Address:
Box 9011
Princeton, New Jersey 08543-9011

CUSTODIAN

National Westminster Bank NJ
100 Wall Street
20th Floor
New York, New York 10005

TRANSFER AGENT

Financial Data Services, Inc.
Administrative Offices:
Transfer Agency Mutual Fund Operations
4800 Deer Lake Drive East
Jacksonville, Florida 32246-6484
Mailing Address:
P.O. Box 45289
Jacksonville, Florida 32232-5289

INDEPENDENT AUDITORS

Deloitte & Touche
117 Campus Drive
Princeton, New Jersey 08540

COUNSEL

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

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Code # 18110

MERRILL LYNCH
CONNECTICUT
MUNICIPAL BOND
FUND
MERRILL LYNCH MULTI-STATE
MUNICIPAL SERIES TRUST

, 1994

Distributor:
Merrill Lynch
Funds Distributor, Inc.

This prospectus should be
retained for future reference.

STATEMENT OF ADDITIONAL INFORMATION

MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST
BOX 9011, PRINCETON, NEW JERSEY 08543-9011--PHONE NO. (609) 282-2800

Merrill Lynch Connecticut Municipal Bond Fund (the "Fund") is a series of Merrill Lynch Multi-State Municipal Series Trust (the "Trust"), an open-end management investment company organized as a Massachusetts business trust. The investment objective of the Fund is to provide shareholders with as high a level of income exempt from Federal and Connecticut income taxes as is consistent with prudent investment management. The Fund invests primarily in a non-diversified portfolio of long-term investment grade obligations the interest on which is exempt from Federal and Connecticut income taxes in the opinion of bond counsel to the issuer ("Connecticut Municipal Bonds"). There can be no assurance that the investment objective of the Fund will be realized.

The Fund offers two classes of shares which may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares"), or (ii) on a deferred basis (the "Class B shares"). These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred sales charge with respect to the Class B shares are the same as the purpose and function of the initial sales charge with respect to the Class A shares. Each Class A share and Class B share represents an identical interest

in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance and distribution fees and certain other costs resulting from the deferred sales charge arrangement and have exclusive voting rights with respect to the account maintenance and distribution fees. The two classes also have different exchange privileges.

The Statement of Additional Information of the Fund is not a prospectus and should be read in conjunction with the prospectus of the Fund, dated , 1994 (the "Prospectus"), which has been filed with the Securities and Exchange Commission and can be obtained, without charge, by calling or by writing the Fund at the above telephone number or address. This Statement of Additional Information has been incorporated by reference into the Prospectus. Capitalized terms used but not defined herein have the same meanings as in the Prospectus.

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

The date of this Statement of Additional Information is , 1994

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide shareholders with as high a level of income exempt from Federal and Connecticut personal income taxes as is consistent with prudent investment management. The Fund seeks to achieve its objective by investing primarily in a portfolio of long-term obligations issued by or on behalf of the State of Connecticut, its political subdivisions, agencies and instrumentalities and obligations of other qualifying issuers, such as issuers located in Puerto Rico, the Virgin Islands and Guam, which pay interest exempt, in the opinion of bond counsel to the issuer, from Federal and Connecticut income taxes. Obligations exempt from Federal income taxes are referred to herein as "Municipal Bonds" and obligations exempt from both Federal and Connecticut income taxes are referred to as "Connecticut Municipal Bonds". Unless otherwise indicated, references to Municipal Bonds shall be deemed to include Connecticut Municipal Bonds. The Fund anticipates that at all times, except during temporary defensive periods, it will maintain at least 65% of its total assets invested in Connecticut Municipal Bonds. At times, the Fund will seek to hedge its portfolio through the use of futures transactions to reduce volatility in the net asset value of Fund shares. Reference is made to "Investment Objective and Policies" in the Prospectus for a discussion of the investment objective and policies of the Fund.

Municipal Bonds may include general obligation bonds of the State and its political subdivisions, revenue bonds of utility systems, highways, bridges, port and airport facilities, colleges, hospitals, housing facilities, etc., and industrial development bonds or private activity bonds. The interest on such obligations may bear a fixed rate or be payable at a variable or floating rate. The Municipal Bonds purchased by the Fund will be primarily what are commonly referred to as "investment grade" securities, which are obligations rated at the time of purchase within the four highest quality ratings as determined by either Moody's Investors Service, Inc. ("Moody's") (currently Aaa, Aa, A and

Baa), Standard & Poor's Corporation ("Standard & Poor's") (currently AAA, AA, A and BBB) or Fitch Investors Service, Inc. ("Fitch") (currently AAA, AA, A and BBB). If unrated, such securities will possess creditworthiness comparable, in the opinion of the manager of the Fund, Fund Asset Management, Inc. (the "Manager"), to other obligations in which the Fund may invest.

The Fund ordinarily does not intend to realize investment income not exempt from Federal and Connecticut income taxes. However, to the extent that suitable Connecticut Municipal Bonds are not available for investment by the Fund, the Fund may purchase Municipal Bonds issued by other states, their agencies and instrumentalities, the interest income on which is exempt, in the opinion of bond counsel, from Federal but not Connecticut taxation. The Fund also may invest in securities not issued by or on behalf of a state or territory or by an agency or instrumentality thereof, if the Fund nevertheless believes such securities to be exempt from Federal income taxation ("Non-Municipal Tax-Exempt Securities"). Non-Municipal Tax-Exempt Securities may include securities issued by other investment companies that invest in municipal bonds, to the extent permitted by applicable law. Other Non-Municipal Tax-Exempt Securities also could include trust certificates or other instruments evidencing interests in one or more long-term municipal securities.

Except when acceptable securities are unavailable as determined by the Manager, the Fund, under normal circumstances, will invest at least 65% of its total assets in Connecticut Municipal Bonds. For temporary periods or to provide liquidity, the Fund has the authority to invest as much as 35% of its total assets in tax-exempt or taxable money market obligations with a maturity of one year or less (such short-term obligations being referred to herein as "Temporary Investments"), except that taxable Temporary Investments shall not exceed 20% of the Fund's net assets. The Fund at all times will have at least 80% of its net assets invested in securities exempt from Federal income taxation. However, interest received on

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certain otherwise tax-exempt securities which are classified as "private activity bonds" (in general bonds that benefit non-governmental entities) may be subject to an alternative minimum tax. The Fund may purchase such private activity bonds. See "Distributions and Taxes". In addition, the Fund reserves the right to invest temporarily a greater portion of its assets in Temporary Investments for defensive purposes, when, in the judgment of the Manager, market conditions warrant. The investment objective of the Fund set forth in this paragraph is a fundamental policy of the Fund which may not be changed without a vote of a majority of the outstanding shares of the Fund. The Fund's hedging strategies are not fundamental policies and may be modified by the Trustees of the Trust without the approval of the Fund's shareholders.

Municipal Bonds may at times be purchased or sold on a delayed delivery basis or a when-issued basis. These transactions arise when securities are purchased or sold by the Fund with payment and delivery taking place in the future, often a month or more after the purchase. The payment obligation and the interest rate are each fixed at the time the buyer enters into the commitment. The Fund will make only commitments to purchase such securities with the intention of actually acquiring the securities, but the Fund may sell these securities prior to the settlement date if it is deemed advisable. Purchasing Municipal Bonds on a when-issued basis involves the risk that the yields available in the market when the delivery takes place actually may be higher than those obtained in the

transaction itself; if yields so increase, the value of the when-issued obligations generally will decrease. The Fund will maintain a separate account at its custodian bank consisting of cash, cash equivalents or high-grade, liquid Municipal Bonds or Temporary Investments (valued on a daily basis) equal at all times to the amount of the when-issued commitment.

The Fund may invest in Municipal Bonds the return on which is based on a particular index of value or interest rates. For example, the Fund may invest in Municipal Bonds that pay interest based on an index of Municipal Bond interest rates or based on the value of gold or some other commodity. The principal amount payable upon maturity of certain Municipal Bonds also may be based on the value of an index. Also, the Fund may invest in so-called "inverse floating obligations" or "residual interest bonds" on which the interest rates typically decline as market rates increase and increase as market rates decline. For example, to the extent the Fund invests in these types of Municipal Bonds, the Fund's return on such Municipal Bonds will be subject to risk with respect to the value of the particular index. Such securities have the effect of providing a degree of investment leverage, since they may increase or decrease in value in response to changes, as an illustration, in market interest rates at a rate which is a multiple (typically two) of the rate at which fixed-rate long-term tax exempt securities increase or decrease in response to such changes. As a result, the market values of such securities will generally be more volatile than the market values of fixed-rate tax exempt securities. To seek to limit the volatility of these securities, the Fund may purchase inverse floating obligations with shorter term maturities or which contain limitations on the extent to which the interest rate may vary. The Manager believes that indexed and inverse floating obligations represent a flexible portfolio management instrument for the Fund which allows the Manager to vary the degree of investment leverage relatively efficiently under different market conditions. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

The Fund may purchase a Municipal Bond issuer's right to call all or a portion of such Municipal Bond for mandatory tender for purchase (a "Call Right"). A holder of a Call Right may exercise such right to require a mandatory tender for the purchase of related Municipal Bonds, subject to certain conditions. A Call Right that is not exercised prior to the maturity of the related Municipal Bond will expire without value. The economic effect of holding both the Call Right and the related Municipal Bond is identical to holding a

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Municipal Bond as a non-callable security. Certain investments in such obligations may be illiquid. The Fund may not invest in such illiquid obligations if such investments, together with other illiquid investments, would exceed 15% of the Fund's net assets.

The Fund may invest up to 20% of its total assets in Municipal Bonds which are rated below Baa by Moody's or below BBB by Standard & Poor's or Fitch or which, in the Manager's judgment, possess similar credit characteristics ("high yield securities"). See Appendix II--"Ratings of Municipal Bonds" for additional information regarding ratings of debt securities. The Manager considers the ratings assigned by Standard & Poor's, Moody's or Fitch as one of

several factors in its independent credit analysis of issuers.

High yield securities are considered by Standard & Poor's, Moody's and Fitch to have varying degrees of speculative characteristics. Consequently, although high yield securities can be expected to provide higher yields, such securities may be subject to greater market price fluctuations and risk of loss of principal than lower yielding, higher rated debt securities. Investments in high yield securities will be made only when, in the judgment of the Manager, such securities provide attractive total return potential relative to the risk of such securities, as compared to higher quality debt securities. The Fund generally will not invest in debt securities in the lowest rating categories (those rated CC or lower by Standard & Poor's or Fitch or Ca or lower by Moody's) unless the Manager believes that the financial condition of the issuer or the protection afforded the particular securities is stronger than would otherwise be indicated by such low ratings. The Fund does not intend to purchase debt securities.

Issuers of high yield securities may be highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risks associated with acquiring the securities of such issuers or obligors generally are greater than is the case with higher rated securities. For example, during an economic downturn or a sustained period of rising interest rates, issuers of high yield securities may be more likely to experience financial stress, especially if such issuers are highly leveraged. During periods of economic recession, such issuers may not have sufficient revenues to meet their interest payment obligations. The issuer's ability to service its debt obligations also may be adversely affected by specific issuer developments, or the issuer's inability to meet specific projected business forecasts, or the unavailability of additional financing. The risk of loss due to default by the issuer is significantly greater for the holders of high yield securities because such securities may be unsecured and may be subordinated to other creditors of the issuer.

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

The Fund may have difficulty disposing of certain high yield securities because there may be a thin trading market for such securities. Because not all dealers maintain markets in all high yield securities, there is no established secondary market for many of these securities, and the Fund anticipates that such securities could be sold only to a limited number of dealers or institutional investors. To the extent that a secondary trading market for high yield securities does exist, it generally is not as liquid as the secondary market for higher rated securities. Reduced secondary market liquidity may have an adverse impact on market price and the Fund's ability to dispose of particular issues when necessary to meet the Fund's liquidity needs or in response to a specific economic event such as a deterioration in the creditworthiness of the issuer. Reduced secondary market liquidity for certain securities also may make it more difficult for the Fund to obtain

accurate market quotations for purposes of valuing the Fund's portfolio. Market quotations generally are available on many high yield securities only from a limited number of dealers and may not necessarily represent firm bids of such dealers or prices for actual sales.

It is expected that a significant portion of the high yield securities acquired by the Fund will be purchased upon issuance, which may involve special risks because the securities so acquired are new issues. In such instances the Fund may be a substantial purchaser of the issue and therefore have the opportunity to participate in structuring the terms of the offering. Although this may enable the Fund to seek to protect itself against certain of such risks, the considerations discussed herein would nevertheless remain applicable.

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

DESCRIPTION OF MUNICIPAL BONDS AND TEMPORARY INVESTMENTS

Set forth below is a description of the Municipal Bonds and Temporary Investments in which the Fund may invest. A more complete discussion concerning futures and options transactions is set forth under "Investment Objective and Policies" in the Prospectus. Information with respect to ratings assigned to tax-exempt obligations which the Fund may purchase is set forth in Appendix II to this Statement of Additional Information.

DESCRIPTION OF MUNICIPAL BONDS

Municipal Bonds include debt obligations issued to obtain funds for various public purposes, including construction of a wide range of public facilities, refunding of outstanding obligations and obtaining funds for general operating expenses and loans to other public institutions and facilities. In addition, certain types of bonds are issued by or on behalf of public authorities to finance various privately owned or operated facilities, including certain facilities for local furnishing of electric energy or gas, sewage facilities, solid waste disposal facilities and other specialized facilities. Such obligations are included within the term Municipal Bonds if the interest paid thereon is, in the opinion of bond counsel, excluded from gross income for Federal income tax purposes and, in the case of Connecticut Municipal Bonds, exempt from Connecticut income taxes. Other types of industrial development bonds or private activity bonds, the proceeds of which are used for the construction, equipment or improvement of privately operated industrial or commercial facilities, may constitute Municipal Bonds, although the current Federal tax laws place substantial limitations on the size of such issues.

The two principal classifications of Municipal Bonds are "general obligation" bonds and "revenue" bonds which latter category includes industrial development bonds and, for bonds issued after August 15, 1986, private activity bonds. General obligation bonds are secured by the issuer's pledge of faith, credit and taxing power for the payment of principal and interest. Revenue bonds are payable only from the revenues derived from a particular facility or class of

facilities or, in some cases, from the proceeds of a special or limited tax or other specific revenue source such as payments from the user of the facility being financed. Industrial development bonds ("IDBs") and, in the case of bonds issued after April 15, 1986, private activity bonds, are in most cases revenue bonds and generally do not constitute the pledge of the credit or taxing power of the issuer of such bonds. Generally, the payment of the principal of and interest on such IDBs and private activity

bonds depends solely on the ability of the user of the facility financed by the bonds to meet its financial obligations and the pledge, if any, of real and personal property so financed as security for such payment, unless a line of credit, bond insurance or other security is furnished. The Fund also may invest in "moral obligation" bonds, which are normally issued by special purpose public authorities. Under a moral obligation bond, if the issuer thereof is unable to meet its obligations, the repayment of the bond becomes a moral commitment, but not a legal obligation, of the state or municipality in question.

Also included within the general category of Municipal Bonds are participation certificates issued by government authorities or entities to finance the acquisition or construction of equipment, land and/or facilities. The certificates represent participations in a lease, an installment purchase contract or a conditional sales contract (hereinafter collectively called "lease obligations") relating to such equipment, land or facilities. Although lease obligations do not constitute general obligations of the issuer for which the issuer's unlimited taxing power is pledged, a lease obligation is frequently backed by the issuer's covenant to budget for, appropriate and make the payments due under the lease obligation. Certain investments in lease obligations may be illiquid. The Fund may not invest in illiquid lease obligations if such investments, together with all other illiquid investments, would exceed 15% of the Fund's net assets. The Fund may, however, invest without regard to such limitation in lease obligations which the Manager, pursuant to the guidelines which have been adopted by the Board of Trustees and subject to the supervision of the Board of Trustees, determines to be liquid. The Manager will deem lease obligations liquid if they are publicly offered and have received an investment grade rating of Baa or better by Moody's, or BBB or better by Standard & Poor's or Fitch. Unrated lease obligations, or those rated below investment grade, will be considered liquid if the obligations come to the market through an underwritten public offering and at least two dealers are willing to give competitive bids. In reference to the latter, the Manager must, among other things, also review the creditworthiness of the municipality obligated to make payment under the lease obligation and make certain specified determinations based on such factors as the existence of a rating or credit enhancement such as insurance, the frequency of trades or quotes for the obligation and the willingness of dealers to make a market in the obligation.

Yields on Municipal Bonds are dependent on a variety of factors, including the general condition of the money market and of the municipal bond market, the size of a particular offering, the financial condition of the issuer, the general conditions of the Municipal Bond market, the maturity of the obligation, and the rating of the issue. The ability of the Fund to achieve its investment objective also is dependent on the continuing ability of the issuers of the bonds in which the Fund invests to meet their obligations for the payment of interest and principal when due. There are variations in the risks

involved in holding Municipal Bonds, both within a particular classification and between classifications, depending on numerous factors. Furthermore, the rights of owners of Municipal Bonds and the obligations of the issuer of such Municipal Bonds may be subject to applicable bankruptcy, insolvency and similar laws and court decisions affecting the rights of creditors generally.

DESCRIPTION OF TEMPORARY INVESTMENTS

The Fund may invest in short-term tax-free and taxable securities subject to the limitations set forth under "Investment Objective and Policies". The tax-exempt money market securities may include municipal notes, municipal commercial paper, municipal bonds with remaining maturity of less than one year, variable rate demand notes and participations therein. Municipal notes include tax anticipation notes, bond anticipation notes and grant anticipation notes. Anticipation notes are sold as interim financing in anticipation of tax collection, bond sales, government grants or revenue receipts. Municipal commercial paper refers to

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short-term unsecured promissory notes generally issued to finance short-term credit needs. The taxable money market securities in which the Fund may invest as Temporary Investments consist of U.S. Government securities, U.S. Government agency securities, domestic bank or savings institution certificates of deposit and bankers' acceptances, short-term corporate debt securities such as commercial paper, and repurchase agreements. These Temporary Investments must have a stated maturity not in excess of one year from the date of purchase.

Variable rate demand obligations ("VRDOs") are tax-exempt obligations which contain a floating or variable interest rate adjustment formula and an unconditional right of demand on the part of the holder thereof to receive payment of the unpaid principal balance plus accrued interest upon a short notice period not to exceed seven days. There is, however, the possibility that because of default or insolvency the demand feature of VRDOs and Participating VRDOs, described below, may not be honored. The interest rates are adjustable at intervals (ranging from daily to up to one year) to some prevailing market rate for similar investments, such adjustment formula being calculated to maintain the market value of the VRDO at approximately the par value of the VRDOs on the adjustment date. The adjustments typically are set at a rate determined by the remarketing agent or based upon the prime rate of a bank or some other appropriate interest rate adjustment index. The Fund may invest in all types of tax-exempt instruments currently outstanding or to be issued in the future which satisfy the short-term maturity and quality standards of the Fund.

The Fund also may invest in VRDOs in the form of participation interests ("Participating VRDOs") in variable rate tax-exempt obligations held by a financial institution, typically a commercial bank. Participating VRDOs provide the Fund with a specified undivided interest (up to 100%) of the underlying obligation and the right to demand payment of the unpaid principal balance plus accrued interest on the Participating VRDOs from the financial institution upon a specified number of days' notice, not to exceed seven days. In addition, a Participating VRDO is backed by an irrevocable letter of credit or guaranty of the financial institution. The Fund would have an undivided interest in the underlying obligation and thus participate on the same basis as the financial institution in such obligation except that the financial institution typically

retains fees out of the interest paid on the obligation for servicing the obligation, providing the letter of credit and issuing the repurchase commitment. The Fund has been advised by its counsel that the Fund should be entitled to treat the income received on Participating VRDOs as interest from tax-exempt obligations.

VRDOs that contain an unconditional right of demand to receive payment of the unpaid principal balance plus accrued interest on a notice period exceeding seven days may be deemed to be illiquid securities. A VRDO with a demand notice period exceeding seven days therefore will be subject to the Fund's restriction on illiquid investments unless, in the judgment of the Trustees, such VRDO is liquid. The Trustees may adopt guidelines and delegate to the Manager the daily function of determining and monitoring liquidity of such VRDOs. The Trustees, however, will retain sufficient oversight and will be ultimately responsible for such determination.

The Trust has established the following standards with respect to money market securities and VRDOs in which the Fund invests. Commercial paper investments at the time of purchase must be rated "A-1" through "A-3" by Standard & Poor's, "Prime-1" through "Prime-3" by Moody's or "F-1" through "F-3" by Fitch or, if not rated, issued by companies having an outstanding debt issue rated at least "A" by Standard & Poor's, Fitch or Moody's. Investments in corporate bonds and debentures (which must have maturities at the date of purchase of one year or less) must be rated at the time of purchase at least "A" by Standard & Poor's, Moody's or Fitch. Notes and VRDOs at the time of purchase must be rated SP-1/A-1 through SP-2/A-3 by Standard & Poor's, MIG-1/VMIG-1 through MIG-4/VMIG-4 by Moody's or F-1 through F-3

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by Fitch. Temporary Investments, if not rated, must be of comparable quality to securities rated in the above rating categories in the opinion of the Manager. The Fund may not invest in any security issued by a commercial bank or a savings institution unless the bank or institution is organized and operating in the United States, has total assets of at least one billion dollars and is a member of the Federal Deposit Insurance Corporation ("FDIC"), except that up to 10% of total assets may be invested in certificates of deposit of small institutions if such certificates are insured fully by the FDIC.

REPURCHASE AGREEMENTS AND PURCHASE AND SALE CONTRACTS

The Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements and purchase and sale contracts may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Under such agreements, the bank or primary dealer agrees, upon entering into the contract, to repurchase the security at a mutually agreed upon time and price, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, such as under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, the Fund will require the seller to

provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but only constitute collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs or possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate of return, the rate of return to the Fund will depend on intervening fluctuations of the market value of such security and the accrued interest on the security. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest in repurchase agreements or purchase and sale contracts maturing in more than seven days if such investments, together with all other illiquid investments, would exceed 15% of the Fund's net assets. While the substance of purchase and sale contracts is similar to repurchase agreements, because of the different treatment with respect to accrued interest and additional collateral, management believes that purchase and sale contracts are not repurchase agreements as such term is understood in the banking and brokerage community.

In general, for Federal income tax purposes, repurchase agreements are treated as collateralized loans secured by the securities "sold". Therefore, amounts earned under such agreements will not be considered tax-exempt interest. The treatment of purchase and sale contracts is less certain. However, it is likely that income from such arrangements also will not be considered tax-exempt interest.

FINANCIAL FUTURES TRANSACTIONS AND OPTIONS

Reference is made to the discussion concerning futures transactions under "Investment Objective and Policies" in the Prospectus. Set forth below is additional information concerning these transactions.

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As described in the Prospectus, the Fund may purchase and sell exchange traded financial futures contracts ("financial futures contracts") to hedge its portfolio of Municipal Bonds against declines in the value of such securities and to hedge against increases in the cost of securities the Fund intends to purchase. However, any transactions involving financial futures or options (or puts and calls associated therewith) will be in accordance with the Fund's investment policies and limitations. See "Investment Objective and Policies--Investment Restrictions" in the Prospectus. To hedge its portfolio, the Fund may take an investment position in a futures contract which will move in the opposite direction from the portfolio position being hedged. While the Fund's use of hedging strategies is intended to moderate capital changes in portfolio holdings and thereby reduce the volatility of the net asset value of Fund shares, the Fund anticipates that its net asset value will fluctuate. Set forth below is information concerning futures transactions.

Description of Futures Contracts. A futures contract is an agreement between

two parties to buy and sell a security, or in the case of an index-based futures contract, to make and accept a cash settlement for a set price on a future date. A majority of transactions in futures contracts, however, do not result in the actual delivery of the underlying instrument or cash settlement, but are settled through liquidation, i.e., by entering into an offsetting transaction. Futures contracts have been designed by boards of trade which have been designated "contracts markets" by the Commodity Futures Trading Commission ("CFTC").

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

The Fund may deal in financial futures contracts based on a long-term municipal bond index developed by the Chicago Board of Trade ("CBT") and The Bond Buyer (the "Municipal Bond Index"). The Municipal Bond Index is comprised of 40 tax-exempt municipal revenue and general obligations bonds. Each bond included in the Municipal Bond Index must be rated A or higher by Moody's or Standard & Poor's and must have a remaining maturity of 19 years or more. Twice a month new issues satisfying the eligibility requirements are added to, and an equal number of old issues are deleted from, the Municipal Bond Index. The value of the Municipal Bond Index is computed daily according to a formula based on the price of each bond in the Municipal Bond Index, as evaluated by six dealer-to-dealer brokers.

The Municipal Bond Index futures contract is traded only on the CBT. Like other contract markets, the CBT assures performance under futures contracts through a clearing corporation, a nonprofit organization managed by the exchange membership which also is responsible for handling daily accounting of deposits or withdrawals of margin.

As described in the Prospectus, the Fund may purchase and sell financial futures contracts on U.S. Government securities as a hedge against adverse changes in interest rates as described below. With respect to U.S. Government securities, currently there are financial futures contracts based on long-term U.S.

Treasury bonds, Treasury notes, Government National Mortgage Association ("GNMA") Certificates and three-month U.S. Treasury bills. The Fund may purchase and write call and put options on futures contracts on U.S. Government

securities in connection with its hedging strategies.

Subject to policies adopted by the Trustees, the Fund also may engage in other futures contracts transactions such as futures contracts on other municipal bond indices which may become available if the Manager and the Trustees should determine that there is normally a sufficient correlation between the prices of such futures contracts and the Municipal Bonds in which the Fund invests to make such hedging appropriate.

Futures Strategies. The Fund may sell a financial futures contract (i.e., assume a short position) in anticipation of a decline in the value of its investments in Municipal Bonds resulting from an increase in interest rates or otherwise. The risk of decline could be reduced without employing futures as a hedge by selling such Municipal Bonds and either reinvesting the proceeds in securities with shorter maturities or by holding assets in cash. This strategy, however, entails increased transaction costs in the form of dealer spreads and typically would reduce the average yield of the Fund's portfolio securities as a result of the shortening of maturities. The sale of futures contracts provides an alternative means of hedging against declines in the value of its investments in Municipal Bonds. As such values decline, the value of the Fund's positions in the futures contracts will tend to increase, thus offsetting all or a portion of the depreciation in the market value of the Fund's Municipal Bond investments which are being hedged. While the Fund will incur commission expenses in selling and closing out futures positions, commissions on futures transactions are lower than transaction costs incurred in the purchase and sale of Municipal Bonds. In addition, the ability of the Fund to trade in the standardized contracts available in the futures markets may offer a more effective defensive position than a program to reduce the average maturity of the portfolio securities due to the unique and varied credit and technical characteristics of the municipal debt instruments available to the Fund. Employing futures as a hedge also may permit the Fund to assume a defensive posture without reducing the yield on its investments beyond any amounts required to engage in futures trading.

When the Fund intends to purchase Municipal Bonds, the Fund may purchase futures contracts as a hedge against any increase in the cost of such Municipal Bonds, resulting from an increase in interest rates or otherwise, that may occur before such purchases can be effected. Subject to the degree of correlation between the Municipal Bonds and the futures contracts, subsequent increases in the cost of Municipal Bonds should be reflected in the value of the futures held by the Fund. As such purchases are made, an equivalent amount of futures contracts will be closed out. Due to changing market conditions and interest rate forecasts, however, a futures position may be terminated without a corresponding purchase of portfolio securities.

Call Options on Futures Contracts. The Fund also may purchase and sell exchange traded call and put options on financial futures contracts on U.S. Government securities. The purchase of a call option on a futures contract is analogous to the purchase of a call option on an individual security. Depending on the pricing of the option compared to either the futures contract on which it is based, or on the price of the underlying debt securities, it may or may not be less risky than ownership of the futures contract or underlying debt securities. Like the purchase of a futures contract, the Fund will purchase a call option on a futures contract to hedge against a market advance when the Fund is not fully invested.

The writing of a call option on a futures contract constitutes a partial

hedge against declining prices of the securities which are deliverable upon exercise of the futures contract. If the futures price at expiration is below the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any decline that may have occurred in the Fund's portfolio holdings.

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Put Options on Futures Contracts. The purchase of options on a futures contract is analogous to the purchase of protective put options on portfolio securities. The Fund will purchase put options on futures contracts to hedge the Fund's portfolio against the risk of rising interest rates.

The writing of a put option on a futures contract constitutes a partial hedge against increasing prices of the securities which are deliverable upon exercise of the futures contract. If the futures price at expiration is higher than the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any increase in the price of Municipal Bonds which the Fund intends to purchase.

The writer of an option on a futures contract is required to deposit initial and variation margin pursuant to requirements similar to those applicable to futures contracts. Premiums received from the writing of an option will be included in initial margin. The writing of an option on a futures contract involves risks similar to those relating to futures contracts.

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

Restrictions on Use of Futures Transactions. Regulations of the CFTC applicable to the Fund require that all of the Fund's futures transactions constitute bona fide hedging transactions and that the Fund purchase and sell futures contracts and options thereon (i) for bona fide hedging purposes, and (ii) for non-hedging purposes, if the aggregate initial margin and premiums required to establish positions in such contracts and options does not exceed 5% of the liquidation value of the Fund's portfolio assets after taking into account unrealized profits and unrealized losses on any such contracts and options. (However, the Fund intends to engage in options and futures transactions only for hedging purposes.) Margin deposits may consist of cash or securities acceptable to the broker and the relevant contract market.

When the Fund purchases futures contracts or a call option with respect thereto or writes a put option on a futures contract, an amount of cash, cash equivalents or short-term, high-grade, fixed income securities will be deposited in a segregated account with the Fund's custodian so that the amount

so segregated, plus the amount of initial and variation margin held in the account of its broker, equals the market value of the futures contract, thereby ensuring that the use of such futures is unleveraged.

Risk Factors in Futures Transactions and Options. Investment in futures contracts involves the risk of imperfect correlation between movements in the price of the futures contract and the price of the security being hedged. The hedge will not be fully effective when there is imperfect correlation between the movements in the prices of two financial instruments. For example, if the price of the futures contract moves more than the price of the hedged security, the Fund will experience either a loss or gain on the futures contract which is not offset completely by movements in the price of the hedged securities. To compensate for imperfect correlations, the Fund may purchase or sell futures contracts in a greater dollar amount than the hedged securities if the volatility of the hedged securities is historically greater than the volatility of the futures contracts. Conversely, the Fund may purchase or sell fewer futures contracts if the volatility of the price of the hedged securities is historically less than that of the futures contracts.

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The particular municipal bonds comprising the index underlying the Municipal Bond Index financial futures contract may vary from the Municipal Bonds held by the Fund. As a result, the Fund's ability to hedge effectively all or a portion of the value of its Municipal Bonds through the use of such financial futures contracts will depend in part on the degree to which price movements in the index underlying the financial futures contract correlate with the price movements of the Municipal Bonds held by the Fund. The correlation may be affected by disparities in the average maturity, ratings, geographical mix or structure of the Fund's investments as compared to those comprising the Municipal Bond Index, and general economic or political factors. In addition, the correlation between movements in the value of the Municipal Bond Index may be subject to change over time as additions to and deletions from the Municipal Bond Index alter its structure. The correlation between futures contracts on U.S. Government securities and the Municipal Bonds held by the Fund may be adversely affected by similar factors and the risk of imperfect correlation between movements in the prices of such futures contracts and the prices of the Municipal Bonds held by the Fund may be greater.

The Fund expects to liquidate a majority of the futures contracts it enters into through offsetting transactions on the applicable contract market. There can be no assurance, however, that a liquid secondary market will exist for any particular futures contract at any specific time. Thus, it may not be possible to close out a futures position. In the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Fund has insufficient cash, it may be required to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. The inability to close out futures positions also could have an adverse impact on the Fund's ability to hedge effectively its investments in Municipal Bonds. The Fund will enter into a futures position only if, in the judgment of the Manager, there appears to be an actively traded secondary market for such futures contracts.

The successful use of transactions in futures and related options also depends on the ability of the Manager to forecast correctly the direction and extent of interest rate movements within a given time frame. To the extent

interest rates remain stable during the period in which a futures contract or option is held by the Fund or such rates move in a direction opposite to that anticipated, the Fund may realize a loss on the hedging transaction which is not fully or partially offset by an increase in the value of portfolio securities. As a result, the Fund's total return for such period may be less than if it had not engaged in the hedging transaction.

Because of low initial margin deposits made on the opening of a futures position, futures transactions involve substantial leverage. As a result, relatively small movements in the price of the futures contracts can result in substantial unrealized gains or losses. Because the Fund will engage in the purchase and sale of futures contracts solely for hedging purposes, however, any losses incurred in connection therewith should, if the hedging strategy is successful, be offset in whole or in part by increases in the value of securities held by the Fund or decreases in the price of securities the Fund intends to acquire.

The amount of risk the Fund assumes when it purchases an option on a futures contract is the premium paid for the option plus related transaction costs. In addition to the correlation risks discussed above, the purchase of an option on a futures contract also entails the risk that changes in the value of the underlying futures contract will not be reflected fully in the value of the option purchased.

Municipal Bond Index futures contracts have only recently been approved for trading and therefore have little trading history. It is possible that trading in such futures contracts will be less liquid than that in other futures contracts. The trading of futures contracts also is subject to certain market risks, such as inadequate trading activity, which could at times make it difficult or impossible to liquidate existing positions.

INVESTMENT RESTRICTIONS

The Trust has adopted a number of restrictions and policies relating to the investment of its assets and its activities, which are fundamental policies and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the 1940 Act means the lesser of (i) 67% of the Fund's shares present at a meeting at which more than 50% of the outstanding shares of the Fund are represented or (ii) more than 50% of the Fund's outstanding shares). The Fund may not (1) purchase any securities other than securities referred to under "Investment Objective and Policies" herein and in the Prospectus; (2) invest more than 25% of its total assets (taken at market value at the time of each investment) in securities of issuers in any particular industry (other than U.S. Government securities or Government agency securities, Municipal Bonds and Non-Municipal Tax-Exempt Securities); (3) invest more than 10% of its total assets (taken at market value at the time of each investment) in industrial revenue bonds where the entity supplying the revenues from which the issuer is to be paid, and the guarantor of the obligation, including predecessors, each have a record of less than three years of continuous business operation; (4) make investments for the purpose of exercising control or management; (5) purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, and provided further that the Fund may purchase securities of closed-end investment companies if immediately thereafter not

more than (i) 3% of the total outstanding voting stock of such company is owned by the Fund, (ii) 5% of the Fund's total assets, taken at market value, would be invested in any one such company, or (iii) 10% of the Fund's total assets, taken at market value, would be invested in such securities; (6) purchase or sell real estate (including limited partnership interests, but provided that such restriction shall not apply to readily marketable securities secured by real estate or interests therein or issued by companies which invest in real estate or interests therein), commodities or commodity contracts (except that the Fund may purchase and sell financial futures contracts), interests in oil, gas or other mineral exploration or development programs or leases; (7) purchase any securities on margin, except for use of short-term credit necessary for clearance of purchases and sales of portfolio securities (the deposit or payment by the Fund of initial or variation margin in connection with financial futures contracts is not considered the purchase of a security on margin); (8) make short sales of securities or maintain a short position or invest in put, call, straddle or spread options (this restriction does not apply to options on financial futures contracts); (9) make loans to other persons, provided that the Fund may purchase a portion of an issue of tax-exempt securities (the acquisition of a portion of an issue of tax-exempt securities or bonds, debentures or other debt securities which are not publicly distributed is considered to be the making of a loan under the 1940 Act) and provided further that investments in repurchase agreements and purchase and sale contracts shall not be deemed to be the making of a loan; (10) borrow amounts in excess of 20% of its total assets, taken at market value (including the amount borrowed), and then only from banks as a temporary measure for extraordinary or emergency purposes [Usually only "leveraged" investment companies may borrow in excess of 5% of their assets; however, the Fund will not borrow to increase income but only to meet redemption requests which might otherwise require untimely disposition of portfolio securities. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income]; (11) mortgage, pledge, hypothecate or in any manner transfer as security for indebtedness any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (10) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of its total assets, taken at market value, or except as may be necessary in connection with transactions in financial futures contracts; (12) invest in securities which cannot be readily resold because of legal or contractual restrictions or which are not readily marketable, including individually negotiated loans that constitute illiquid investments and illiquid lease obligations, or in repurchase agreements or purchase and sale contracts maturing in more than seven days,

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if, regarding all such securities, more than 15% of its net assets (taken at market value), would be invested in such securities; and (13) act as an underwriter of securities, except to the extent that the Fund may technically be deemed an underwriter when engaged in the activities described in (12) above or insofar as the Fund may be deemed an underwriter under the Securities Act of 1933, as amended, in selling portfolio securities.

In addition, to comply with Federal income tax requirements for qualification as a "regulated investment company", the Fund's investments will be limited in a manner such that, at the close of each quarter of each fiscal year, (a) no more than 25% of the Fund's total assets are invested in the securities of a single issuer, and (b) with regard to at least 50% of the Fund's total assets,

no more than 5% of its total assets are invested in the securities of a single issuer. [For purposes of this restriction, the Fund will regard each state and each political subdivision, agency or instrumentality of such state and each multi-state agency of which such state is a member and each public authority which issues securities on behalf of a private entity as a separate issuer, except that if the security is backed only by the assets and revenues of a non-governmental entity then the entity with the ultimate responsibility for the payment of interest and principal may be regarded as the sole issuer.] These tax-related limitations may be changed by the Trustees of the Trust to the extent necessary to comply with changes to the Federal income tax requirements.

Because of the affiliation of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") with the Trust, the Fund is prohibited from engaging in certain transactions involving such firm or its affiliates except for brokerage transactions permitted under the 1940 Act involving only usual and customary commissions or transactions pursuant to an exemptive order under the 1940 Act. Included among such restricted transactions will be purchases from or sales to Merrill Lynch of securities in transactions in which it acts as principal. See "Portfolio Transactions". An exemptive order has been obtained which permits the Trust to effect principal transactions with Merrill Lynch in high quality, short-term, tax-exempt securities subject to conditions set forth in such order.

MANAGEMENT OF THE TRUST

TRUSTEES AND OFFICERS

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

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

Kenneth S. Axelson--Trustee(2)--75 Jameson Point Road, Rockland, Maine 04841. Executive Vice President and Director, J.C. Penney Company, Inc. until 1982; Director, Grumman Corporation, UNUM Corporation, Protection Mutual Insurance Company, Zurn Industries, Inc. and, until 1992, of Central Maine Power Company and Key Trust Company of Maine; Trustee, The Chicago Dock and Canal Trust.

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Robert R. Martin--Trustee(2)--513 Grand Hill, St. Paul, Minnesota 55102. Chairman and Chief Executive Officer, Kinnard Investments, Inc. from 1990 to 1993; Executive Vice President, Dain Bosworth from 1974 to 1989; Director, Carnegie Capital Management from 1977 to 1985 and Chairman thereof in 1979; Director, Securities Industry Association from 1981 to 1982 and Public Securities Association from 1979 to 1980; Trustee, Northland College since 1992.

Herbert I. London--Trustee(2)--New York University--Gallatin Division, 113-115 University Place, New York, New York 10003. Dean, Gallatin Division of New York University from 1978 to 1993 and Director from 1975 to 1976; Professor, New York University since 1973; Distinguished Fellow, Herman Kahn Chair, Hudson Institute from 1984 to 1985; Director, Damon Corporation since 1991; Overseer, Center for Naval Analyses.

Joseph L. May--Trustee(2)--424 Church Street, Suite 2000, Nashville, Tennessee 37219. Attorney in private practice since 1984; President, May and Athens Hosiery Mills Division, Wayne-Gossard Corporation from 1954 to 1983; Vice President, Wayne-Gossard Corporation from 1972 to 1983; Chairman, The May Corporation (personal holding company) from 1972 to 1983; Director, Signal Apparel Co. from 1972 to 1989.

Andre F. Perold--Trustee(2)--Morgan Hall, Soldiers Field, Boston, Massachusetts 02163. Professor, Harvard Business School since 1989 and Associate Professor from 1983 to 1989; Trustee, The Common Fund, since 1989; Director, Quantec Investment Technology (a private United Kingdom company).

Terry K. Glenn--Executive Vice President(1)(2)--Executive Vice President of the Manager and MLAM since 1983; Executive Vice President and Director of Princeton Services since 1993; President of MLFD since 1986 and Director thereof since 1991.

Vincent R. Giordano--Vice President and Portfolio Manager(1)(2)--Portfolio Manager of the Manager and MLAM since 1977 and Senior Vice President of the Manager and MLAM since 1984; Vice President of MLAM from 1980 to 1984; Senior Vice President of Princeton Services since 1993.

Kenneth A. Jacob--Vice President and Portfolio Manager(1)(2)--Vice President of the Manager and MLAM since 1984.

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

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

Jerry Weiss--Secretary(1)(2)--Vice President of MLAM since 1990; Attorney in private practice from 1982 to 1990.

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- (1) Interested person, as defined in the 1940 Act, of the Trust.
- (2) Such Trustee or officer is a director or officer of certain other investment companies for which the Manager or MLAM acts as investment adviser or manager.

At , 1994, the Trustees and officers of the Trust as a group (12 persons) owned an aggregate of less than 1/4 of 1% of the outstanding shares of Common Stock of Merrill Lynch & Co., Inc. and owned an aggregate of less than 1% of the outstanding shares of the Fund.

The Trust pays each Trustee not affiliated with the Manager a fee of \$10,000 per year plus \$1,000 per meeting attended, together with such Trustee's actual out-of-pocket expenses relating to attendance at meetings. The Trust also compensates members of its Audit Committee, which consists of all the non-affiliated Trustees.

MANAGEMENT AND ADVISORY ARRANGEMENTS

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

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

Pursuant to a management agreement between the Trust on behalf of the Fund and the Manager (the "Management Agreement"), the Manager receives for its services to the Fund monthly compensation based upon the average daily net assets of the Fund at the following annual rates: 0.55% of the average daily net assets not exceeding \$500 million; 0.525% of the average daily net assets exceeding \$500 million but not exceeding \$1.0 billion; and 0.50% of the average daily net assets exceeding \$1.0 billion.

California imposes limitations on the expenses of the Fund. These annual expense limitations require that the Manager reimburse the Fund in an amount necessary to prevent the aggregate ordinary operating expenses (excluding taxes, brokerage fees and commissions, distribution fees and extraordinary charges such as litigation costs) from exceeding in any fiscal year 2.5% of the Fund's first \$30,000,000 of average net assets, 2.0% of the next \$70,000,000 of average net assets and 1.5% of the remaining average net assets. The Manager's obligation to reimburse the Fund is limited to the amount of the management fee. Expenses not covered by this limitation are interest, taxes, brokerage commissions and other items such as extraordinary legal expenses. No fee payment will be made to the Manager during any fiscal year which will cause such expenses to exceed limitations at the time of such payment.

The Management Agreement obligates the Manager to provide investment advisory services and to pay all compensation of and furnish office space for officers and employees of the Trust connected with investment and economic research, trading and investment management of the Trust, as well as the compensation of all Trustees of the Trust who are affiliated persons of the Manager or any of its subsidiaries. The Fund pays all other expenses incurred in its operation and, if other Series shall be added ("Series"), a portion of the Trust's general administrative expenses will be allocated on the basis of the asset size of the respective Series. Expenses that will be borne directly by the

Series include, among other things, redemption expenses, expenses of portfolio transactions, expenses of registering the shares under Federal and state securities laws, pricing costs (including the daily calculation of net asset value), expenses of printing shareholder reports, prospectuses and statements of additional information (except to the extent paid by the Distributor as described below), fees for legal and auditing services, Commission fees, interest, certain taxes, and other

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expenses attributable to a particular Series. Expenses which will be allocated on the basis of asset size of the respective Series include fees and expenses of unaffiliated Trustees, state franchise taxes, costs of printing proxies and other expenses related to shareholder meetings, and other expenses properly payable by the Trust. The organizational expenses of the Trust were paid by the Trust, and as additional Series are added to the Trust, the organizational expenses are allocated among the Series (including the Fund) in a manner deemed equitable by the Trustees. Depending upon the nature of a lawsuit, litigation costs may be assessed to the specific Series to which the lawsuit relates or allocated on the basis of the asset size of the respective Series. The Trustees have determined that this is an appropriate method of allocation of expenses. Accounting services are provided to the Fund by the Manager and the Fund reimburses the Manager for its costs in connection with such services. As required by the Fund's distribution agreements, the Distributor will pay the promotional expenses of the Fund incurred in connection with the offering of shares of the Fund. Certain expenses in connection with account maintenance and the distribution of Class B shares will be financed by the Fund pursuant to the Distribution Plan in compliance with Rule 12b-1 under the 1940 Act. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan".

The Manager is a limited partnership, the partners of which are Merrill Lynch & Co., Inc., Fund Asset Management, Inc. and Princeton Services, Inc.

Duration and Termination. Unless earlier terminated as described below, the Management Agreement will remain in effect from year to year if approved annually (a) by the Trustees of the Trust or by a majority of the outstanding shares of the Fund and (b) by a majority of the Trustees who are not parties to such contract or interested persons (as defined in the 1940 Act) of any such party. Such contracts are not assignable and may be terminated without penalty on 60 days' written notice at the option of either party thereto or by vote of the shareholders of the Fund.

PURCHASE OF SHARES

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

ALTERNATIVE SALES ARRANGEMENTS

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares each represents an interest in the same portfolio of investments of the Fund, has the same rights and is identical in all respects, except that Class B shares bear the expenses of the deferred sales arrangements and any expenses

(including incremental transfer agency costs) resulting from such sales arrangements and the expenses paid by the account maintenance fee. The two classes also have different exchange privileges. See "Shareholder Services--Exchange Privilege".

The Fund has entered into separate distribution agreements with the Distributor in connection with the subscription and continuous offering of Class A and Class B shares of the Fund (the "Distribution Agreements"). The Distribution Agreements obligate the Distributor to pay certain expenses in connection with the offering of the Class A and Class B shares of the Fund. After the prospectuses, statements of additional information and periodic reports have been prepared, set in type and mailed to shareholders, the Distributor pays for the printing and distribution of copies thereof used in connection with the offering to

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dealers and prospective investors. The Distributor also pays for other supplementary sales literature and advertising costs. The Distribution Agreements are subject to the same renewal requirements and termination provisions as the Management Agreement described above.

INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

The term "purchase", as used in the Prospectus and this Statement of Additional Information in connection with an investment in Class A shares of the Fund, refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company", as that term is defined in the 1940 Act, but does not include purchases by any such company which has not been in existence for at least six months or which has no purpose other than the purchase of shares of the Fund or shares of other registered investment companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser.

REDUCED INITIAL SALES CHARGES--CLASS A SHARES

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

may be amended or terminated at any time.

Letter of Intention. Reduced sales charges are applicable to purchases aggregating \$25,000 or more of the Class A shares of the Fund or any other investment company with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor made within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. The Letter of Intention is available only to investors whose accounts are maintained at the Fund's Transfer Agent. The Letter of Intention is not available to employee benefit plans for which Merrill Lynch provides plan participant, record-keeping services. The Letter of Intention is not a binding obligation to purchase any amount of Class A shares; however, its execution will result in the purchaser paying a lower sales charge at the appropriate quantity purchase level. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent Letter of Intention executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. The value of Class A shares of the Fund and of other investment companies with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor presently held, at cost or maximum offering price (whichever is higher), on the date of the first purchase under the Letter of Intention, may be included as a credit toward the completion of such Letter, but the reduced sales charge applicable to the amount covered by such Letter will be applied

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only to new purchases. If the total amount of shares does not equal the amount stated in the Letter of Intention (minimum of \$25,000), the investor will be notified and must pay, within 20 days of the expiration of such Letter, the difference between the sales charge on the Class A shares purchased at the reduced rate and the sales charge applicable to the shares actually purchased through the Letter. Class A shares equal to at least five percent of the intended amount will be held in escrow during the thirteen-month period (while remaining registered in the name of the purchaser) for this purpose. The first purchase under the Letter of Intention must be at least five percent of the dollar amount of such Letter. If during the term of such Letter, a purchase brings the total amount invested to an amount equal to or in excess of the amount indicated in the Letter, the purchaser will be entitled on that purchase and subsequent purchases to the reduced percentage sales charge which would be applicable to a single purchase equal to the total dollar value of the Class A shares then being purchased under such Letter, but there will be no retroactive reduction of the sales charges on any previous purchase. The value of any shares redeemed or otherwise disposed of by the purchaser prior to termination or completion of the Letter of Intention will be deducted from the total purchases made under such Letter. An exchange from Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Reserves Money Fund, Merrill Lynch U.S. Treasury Money Fund or Merrill Lynch U.S.A. Government Reserves into the Fund that creates a sales charge will count toward completing a new or existing Letter of Intention from the Fund.

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

related expenses by virtue of familiarity with the Fund.

Class A shares of the Fund will be offered at net asset value, without sales charge, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase by such investor, if the following conditions are satisfied. First, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of a mutual fund that was sponsored by the financial consultant's previous firm and imposed a sales charge either at the time of purchase or on a deferred basis. Second, such redemption must have been made within 60 days prior to the investment in the Fund, and the proceeds from the redemption must have been maintained in the interim in cash or a money market fund.

Closed-End Fund Option. Class A shares of the Fund and certain other mutual funds advised by the Manager or MLAM (the "Eligible Class A shares") are offered at net asset value to shareholders of certain closed-end funds advised by the Manager or MLAM who wish to reinvest the net proceeds of a sale of their closed-end fund shares of common stock in Eligible Class A shares, if the conditions set forth below are satisfied. First, the sale of closed-end fund shares must be made through Merrill Lynch, and the net proceeds therefrom must be immediately reinvested in Eligible Class A shares. Second, the closed-end fund shares must have either been acquired in the initial public offering or be shares representing dividends from shares of common stock acquired in such offering. Third, the closed-end fund shares must have been continuously maintained in a Merrill Lynch securities account. Fourth, there must be a minimum purchase of \$250 to be eligible for the investment option. Class A shares of the Fund are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund (formerly Merrill Lynch Prime Fund, Inc.) ("Senior Floating Rate Fund") who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of the Fund. In order to exercise this investment option, Senior Floating Rate Fund shareholders must sell their Senior Floating Rate shares to the Senior Floating Rate Fund in connection

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with a tender offer conducted by the Senior Floating Rate Fund and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Senior Floating Rate Fund shares as to which no Early Withdrawal Charge (as defined in the Senior Floating Rate Fund prospectus) is applicable. Purchase orders from Senior Floating Rate Fund shareholders wishing to exercise this investment option will be accepted only on the day that the related Senior Floating Rate Fund tender offer terminates and will be effected at the net asset value of the Fund at such day.

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

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

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

The payment of the distribution fee is subject to the provisions of Rule 12b-1 under the 1940 Act. Among other things, the Distribution Plan provides that the Distributor shall provide and the Trustees shall review quarterly reports of the disbursement of the distribution fees paid to the Distributor. In their consideration of the Distribution Plan, the Trustees must consider all factors they deem relevant, including information as to the benefits of the Distribution Plan to the Fund and its Class B shareholders. The Distribution Plan further provides that, so long as the Distribution Plan remains in effect, the selection and nomination of Trustees who are not "interested persons" of the Trust, as defined in the 1940 Act (the "Independent Trustees"), shall be committed to the discretion of the Independent Trustees then in office. In approving the Distribution Plan in accordance with Rule 12b-1, the Independent Trustees concluded that there is reasonable likelihood that the Distribution Plan will benefit the Fund and its Class B shareholders. The Distribution Plan can be terminated at any time, without penalty, by the vote of a majority of the Independent Trustees or by the vote of the holders of a majority of the outstanding Class B voting securities of the Fund. The Distribution Plan cannot be amended to increase materially the amount to be spent by the Fund without approval by Class B shareholders and all material amendments are required to be approved by the vote of Trustees, including a majority of the Independent Trustees who have no direct or indirect financial interest in the Distribution Plan, cast in person at a meeting called for that purpose. Rule 12b-1 further requires that the Trust preserve copies of the Distribution Plan and any report made pursuant to such plan for a period of not less than six years from the date of the Distribution Plan or such report, the first two years in an easily accessible place.

REDEMPTION OF SHARES

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

The right to redeem shares or to receive payment with respect to any such redemption may be suspended only for any period during which trading on the New York Stock Exchange is restricted as determined by

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the Commission or such Exchange is closed (other than customary weekend and holiday closings), for any period during which an emergency exists, as defined by the Commission, as a result of which disposal of portfolio securities or determination of the net asset value of the Fund is not reasonably practicable, and for such other periods as the Commission may by order permit for the protection of shareholders of the Fund.

CONTINGENT DEFERRED SALES CHARGE--CLASS B SHARES

As discussed in the Prospectus under "Purchase of Shares--Alternative Sales Arrangements--Deferred Sales Charge Alternative--Class B Shares", while Class B shares redeemed within four years of purchase are subject to a contingent

deferred sales charge ("CDSC") under most circumstances, the charge is waived on redemptions of Class B shares following the death or disability of a Class B shareholder. Redemptions for which the waiver applies are any partial or complete redemption following the death or disability (as defined in the Internal Revenue Code of 1986, as amended (the "Code")) of a Class B shareholder (including one who owns the Class B shares as joint tenant with his or her spouse), provided the redemption is requested within one year of the death or initial determination of disability.

PORTFOLIO TRANSACTIONS

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

Under the 1940 Act, persons affiliated with the Trust are prohibited from dealing with the Fund as a principal in the purchase and sale of securities unless such trading is permitted by an exemptive order issued by the Commission. Since over-the-counter transactions are usually principal transactions, affiliated persons of the Trust, including Merrill Lynch, may not serve as dealer in connection with transactions with the Fund. The Trust has obtained an exemptive order permitting it to engage in certain principal transactions with Merrill Lynch involving high quality short-term municipal bonds subject to certain conditions. Affiliated persons of the Trust may serve as broker for the Fund in over-the-counter transactions conducted on an agency basis. Certain court decisions have raised questions as to the extent to which investment companies should seek exemptions under the 1940 Act in order to seek to recapture underwriting and dealer spreads from affiliated entities. The Trustees have considered all factors deemed relevant, and have made a determination not to seek such recapture at this time. The Trustees will reconsider this matter from time to time.

As a non-fundamental restriction, the Trust will prohibit the purchase or retention by the Fund of the securities of any issuer if the officers, directors or trustees of the Trust or the Manager owning beneficially more than one-half of one per cent of the securities of an issuer together own beneficially more than five per cent of the securities of that issuer. In addition, under the 1940 Act, the Fund may not purchase securities during the existence of any underwriting syndicate of which Merrill Lynch is a member except pursuant to an exemptive order or rules adopted by the Commission. Rule 10f-3 under the 1940 Act sets forth conditions under which the Fund may purchase municipal bonds in such transactions. The rule sets forth requirements relating to, among other things, the terms of an issue of municipal bonds purchased by the Fund, the amount of municipal bonds which may be purchased in any one issue and the assets of the Fund which may be invested in a particular issue.

The Fund does not expect to use any particular dealer in the execution of transactions but, subject to obtaining the best net results, dealers who provide supplemental investment research (such as information

concerning tax-exempt securities, economic data and market forecasts) to the Manager may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by the Manager under its Management Agreement and the expenses of the

Manager will not necessarily be reduced as a result of the receipt of such supplemental information.

The Trust has no obligation to deal with any broker in the execution of transactions for the Fund's portfolio securities. In addition, consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., and policies established by the Trustees of the Trust, the Manager may consider sales of shares of the Fund as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund.

Generally, the Fund does not purchase securities for short-term trading profits. However, the Fund may dispose of securities without regard to the time they have been held when such action, for defensive or other reasons, appears advisable to its Manager. While it is not possible to predict turnover rates with any certainty, at present it is anticipated that the Fund's annual portfolio turnover rate, under normal circumstances after the Fund's portfolio is invested in accordance with its investment objective, will be less than 100%. (The portfolio turnover rate is calculated by dividing the lesser of purchases or sales of portfolio securities for the particular fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the particular fiscal year. For purposes of determining this rate, all securities whose maturities at the time of acquisition are one year or less are excluded.)

DETERMINATION OF NET ASSET VALUE

The net asset value of the Fund is determined by the Manager once daily, Monday through Friday, as of 4:15 P.M., New York City time, on each day during which the New York Stock Exchange is open for trading. The New York Stock Exchange is not open on New Year's Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Net asset value per share is computed by dividing the sum of the value of the securities held by the Fund plus any cash or other assets minus all liabilities by the total number of shares outstanding at such time, rounded to the nearest cent. Expenses, including the fees payable to the Manager and Distributor, are accrued daily. The net asset value per share of the Class A shares and the net asset value per share of the Class B shares are expected to be equivalent. Under certain circumstances, however, the per share net asset value of the Class B shares may be lower than the per share net asset value of the Class A shares reflecting the higher daily expense accruals of the account maintenance and distribution fees (and incremental transfer agency costs) applicable with respect to the Class B shares. Even under those circumstances, the per share net asset value of the two classes will tend to converge immediately after the payment of dividends, which will differ by approximately the amount of the expense accrual differential between the classes.

The Municipal Bonds, and other portfolio securities in which the Fund invests are traded primarily in over-the-counter municipal bond and money markets and are valued at the last available bid price in the over-the-counter market or on the basis of yield equivalents as obtained from one or more dealers that make markets in the securities. One bond is the "yield equivalent" of another bond when, taking into account market price, maturity, coupon rate, credit rating and ultimate return of principal, both bonds will theoretically produce an equivalent return to the bondholder. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their settlement prices as of the close of such exchanges. Short-term investments with a remaining maturity of 60 days or less are valued on an amortized cost basis, which

approximates market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Trustees of the Trust, including valuations furnished by a pricing service retained by the Trust, which may utilize a matrix system for valuations. The procedures of the pricing service and its valuations are reviewed by the officers of the Trust under the general supervision of the Trustees.

SHAREHOLDER SERVICES

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

INVESTMENT ACCOUNT

Each shareholder whose account is maintained at the Transfer Agent has an Investment Account and will receive quarterly statements from the Transfer Agent. These quarterly statements will serve as transaction confirmations for automatic investment purchases and the reinvestment of taxable ordinary income dividends, tax-exempt income, and long-term capital gain distributions. The quarterly statements will also show any other activity in the account since the preceding statement. Shareholders will receive separate transaction confirmations for each purchase or sale transaction other than automatic investment purchases and the reinvestment of taxable ordinary income dividends, tax-exempt income, and long-term capital gain distributions. Shareholders considering transferring their Class A shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm or such shareholder must continue to maintain an Investment Account at the Transfer Agent for those Class A shares. Shareholders interested in transferring their Class B shares from Merrill Lynch and who do not wish to have an Investment Account maintained for such shares at the Transfer Agent may request their new brokerage firm to maintain such shares in an account registered in the name of the brokerage firm for the benefit of the shareholder. If the new brokerage firm is willing to accommodate the shareholder in this manner, the shareholder must request that he be issued certificates for his shares, and then must turn the certificates over to the new firm for re-registration as described in the preceding sentence. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the Transfer Agent.

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

AUTOMATIC INVESTMENT PLAN

A shareholder may make additions to an Investment Account at any time by purchasing Class A or Class B shares at the applicable public offering price

either through the shareholder's securities dealer, or by mail directly to the Transfer Agent, acting as agent for such securities dealers. Voluntary accumulation also can be made through a service known as the Automatic Investment Plan whereby the Fund is authorized through pre-authorized checks of \$50 or more to charge the regular bank account of the shareholder on a regular basis to provide systematic additions to the Investment Account of such shareholder. The Fund's Automatic Investment Program is not available to shareholders whose shares are held in brokerage account with Merrill Lynch. Alternatively, investors who maintain CMA(R) accounts may arrange to have periodic investments made in the Fund in their CMA(R) account or in certain related accounts in amounts of \$100 or more through the CMA(R) Automatic Investment Program.

AUTOMATIC REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

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

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

SYSTEMATIC WITHDRAWAL PLANS--CLASS A SHARES

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

At the time of each withdrawal payment, sufficient Class A shares are redeemed from those on deposit in the shareholder's account to provide the withdrawal payment specified by the shareholder. The shareholder may specify either a dollar amount or a percentage of the value of his Class A shares. Redemptions will be made at net asset value as determined at the normal close of business on the New York Stock Exchange (currently 4:00 P.M., New York City time) on the 24th day of each month or the 24th day of the last month of each quarter, whichever is applicable. If the Exchange is not open for business on such date, the Class A shares will be redeemed at the close of business on the following business day. The check for the withdrawal payment will be mailed, or the direct deposit for the withdrawal payment will be made, on the next business day following redemption. When a shareholder is making systematic withdrawals, dividends and distributions on all Class A shares in the Investment Account are reinvested automatically in the Fund's Class A shares. A shareholder's Systematic Withdrawal Plan may be terminated at any time, without

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

A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program. The minimum fixed dollar amount redeemable is \$25. The proceeds of systematic redemptions will be posted to the shareholder's account five business days after the date the shares

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

EXCHANGE PRIVILEGE

Class A and Class B shareholders of the Fund may exchange their Class A or Class B shares of the Fund for shares of the same class of Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Arizona Limited Maturity Municipal Bond Fund, Merrill Lynch Arizona Municipal Bond Fund, Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California Insured Municipal Bond Fund, Merrill Lynch California Limited Maturity Municipal Bond Fund, Merrill Lynch California Municipal Bond Fund, Merrill Lynch Capital Fund, Inc., Merrill Lynch Colorado Municipal Bond Fund, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc. (shares of which are deemed Class A shares for purposes of the exchange privilege), Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Federal Securities Trust, Merrill Lynch Florida Limited Maturity Municipal Bond Fund, Merrill Lynch Florida Municipal Bond Fund, Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings (residents of Arizona must meet investor suitability standards), Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc. (residents of Wisconsin must meet investor

suitability standards), Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Maryland Municipal Bond Fund, Merrill Lynch Massachusetts Limited Maturity Municipal Bond Fund, Merrill Lynch Massachusetts Municipal Bond Fund, Merrill Lynch Michigan Limited Maturity Municipal Bond Fund, Merrill Lynch Michigan Municipal Bond Fund, Merrill Lynch Minnesota Municipal Bond Fund, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Municipal Intermediate Term Fund, Merrill Lynch New Jersey Limited Maturity Municipal Bond Fund, Merrill Lynch New Jersey Municipal Bond Fund, Merrill Lynch New York Limited Maturity Municipal Bond Fund, Merrill Lynch New York Municipal Bond Fund, Merrill Lynch North Carolina Municipal Bond Fund, Merrill Lynch Ohio Municipal Bond Fund, Merrill Lynch Oregon Municipal Bond Fund, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Pennsylvania Limited Maturity Municipal Bond Fund, Merrill Lynch Pennsylvania Municipal Bond Fund, Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch Texas Municipal Bond Fund, Merrill Lynch Utility Income Fund, Inc. and Merrill Lynch World Income Fund, Inc., on the basis described below. In addition, Class A shareholders of the Fund may exchange their Class A shares for shares of Merrill Lynch U.S.A. Government Reserves, Merrill Lynch U.S. Treasury Money Fund and Merrill Lynch Ready Assets Trust (or Merrill Lynch Retirement Reserves Money Fund if the exchange occurs within certain retirement plans) (together, the "Class A money market funds") and Class B shareholders of the Fund may exchange their Class B shares for shares of Merrill Lynch Government Fund, Merrill Lynch Institutional Fund, Merrill Lynch Treasury Fund and Merrill Lynch Institutional Tax-Exempt

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

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

previously paid on the Class A shares on which the dividend was paid. Based on this formula, Class A shares of the Fund generally will be exchanged into the Class A shares of the other funds or into shares of the Class A money market funds without a sales charge.

In addition, each of the funds with Class B shares outstanding offers to exchange its Class B shares ("new Class B shares") for Class B shares ("outstanding Class B shares") of any of the other funds on the basis of relative net asset value per Class B share, without the payment of any CDSC that might otherwise be due on redemption of the outstanding shares. Class B shareholders of the Fund exercising the exchange privilege will continue to be subject to the Fund's CDSC schedule if such schedule is higher than the deferred sales charge schedule relating to the new Class B shares acquired through use of the exchange privilege. In addition, Class B shares of the Fund acquired through use of the exchange privilege will be subject to the Fund's CDSC schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares of the fund from which the exchange has been made. For purposes of computing the sales load that may be payable on a disposition of the new Class B shares, the holding period for the outstanding Class B shares is "tacked" to the holding period of the new Class B shares. For example, an investor may exchange Class B shares of the Fund for those of Merrill Lynch Global Resources Trust after having held the Fund's Class B shares for two and a half years. The 2% sales load that generally would apply to a redemption would not apply to the exchange. Three years later the investor may decide to redeem the Class B shares of Merrill Lynch Natural Resources Trust and receive cash. There will be no CDSC due on this redemption, since by "tacking" the two and a half year holding period of the Fund's Class B shares to the three-year holding period for the Merrill Lynch Global Resources Trust Class B shares, the investor will be deemed to have held the new Class B shares for more than five years.

Shareholders also may exchange Class A shares and Class B shares from any of the funds into shares of the Class A money market funds and Class B money market funds, respectively, but the period of time that

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

The investment objectives of the other funds into which exchanges can be made are as follows:

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

Merrill Lynch Basic Value
Fund, Inc.

Capital appreciation and, secondarily, income through investment in securities, primarily

equities, that are undervalued and therefore represent basic investment value.

Merrill Lynch California
Insured Municipal Bond
Fund.....

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

Merrill Lynch California
Limited Maturity
Municipal Bond Fund.....

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

Merrill Lynch California
Municipal Bond Fund

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

Merrill Lynch Capital
Fund, Inc.

The highest total investment return consistent with prudent risk through a fully managed investment policy utilizing equity, debt and convertible securities.

Merrill Lynch Colorado
Municipal Bond Fund.....

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

Merrill Lynch Corporate
Bond Fund, Inc.

Current income from three separate diversified portfolios of fixed income securities.

Merrill Lynch Developing

Capital Markets Fund,
Inc.

Long-term appreciation through investment in securities, principally equities, of issuers in countries having smaller capital markets.

Merrill Lynch Dragon Fund,
Inc.

Capital appreciation primarily through investment in equity and debt securities of issuers domiciled in developing countries located in Asia and the Pacific Basin, other than Japan, Australia and New Zealand.

Merrill Lynch EuroFund.....

Capital appreciation primarily through investment in equity securities of corporations domiciled in Europe.

Merrill Lynch Federal
Securities Trust

High current return through investments in U.S. Government and Government agency securities, including GNMA mortgage-backed certificates and other mortgage-backed Government securities.

Merrill Lynch Florida
Limited Maturity
Municipal Bond Fund.....

A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management while seeking to offer shareholders the opportunity to own securities exempt from Florida intangible personal property taxes through investment in a portfolio primarily of intermediate-term investment grade Florida Municipal Bonds.

Merrill Lynch Florida
Municipal Bond Fund

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management while seeking to offer shareholders the opportunity to own securities exempt from Florida intangible personal property taxes.

Merrill Lynch Fund For
Tomorrow, Inc.....

Long-term growth through investment in a portfo-

lio of good quality securities, primarily common stock, potentially positioned to benefit from demographic and cultural changes as they affect consumer markets.

Merrill Lynch Fundamental
Growth Fund, Inc.

Long-term growth through investment in a diversified portfolio of equity securities placing particular emphasis on companies that have exhibited above-average growth rates in earnings.

Merrill Lynch Global
Allocation Fund, Inc.....

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

Merrill Lynch Global Bond
Fund for Investment and
Retirement.....

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

Merrill Lynch Global
Convertible Fund, Inc.....

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

Merrill Lynch Global
Holdings (residents of
Arizona must meet
investor suitability
standards)

The highest total investment return consistent with prudent risk through worldwide investment in an internationally diversified portfolio of securities.

Merrill Lynch Global
Resources Trust.....

Long-term growth and protection of capital from

investment in securities of domestic and foreign companies that possess substantial natural resource assets.

Merrill Lynch Global
Utility Fund, Inc.....

Capital appreciation and current income through investment of at least 65% of its total assets in equity and debt securities issued by domestic and foreign companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.

Merrill Lynch Government
Fund.....

A portfolio of Merrill Lynch Funds For Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and security of principal from investment in securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities and in repurchase agreements secured by such obligations.

Merrill Lynch Growth Fund
for Investment and
Retirement.....

Growth of capital and, secondarily, income from investment in a diversified portfolio of equity securities placing principal emphasis on those securities which management of the fund believes to be undervalued.

Merrill Lynch Healthcare
Fund, Inc. (residents of
Wisconsin must meet
investor suitability
standards).....

Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in healthcare.

Merrill Lynch
Institutional Fund.....

A portfolio of Merrill Lynch Funds For Institutions Series, a series fund, whose objective is to provide maximum current income consistent with liquidity and the maintenance of a high quality portfolio of money market securities.

Merrill Lynch

<p>Institutional Tax-Exempt Fund.....</p>	<p>A portfolio of Merrill Lynch Funds for Institutions Series, a series fund, whose objective is to provide current income exempt from Federal income taxes, preservation of capital and liquidity available from investing in a diversified portfolio of short-term, high quality municipal bonds.</p>
<p>Merrill Lynch International Equity Fund.....</p>	<p>Capital appreciation and, secondarily, income by investing in a diversified portfolio of equity securities of issuers located in countries other than the United States.</p>
<p>Merrill Lynch Latin America Fund, Inc.</p>	<p>Capital appreciation by investing primarily in Latin American equity and debt securities.</p>
<p>Merrill Lynch Maryland Municipal Bond Fund.....</p>	<p>A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Maryland income taxes as is consistent with prudent investment management.</p>
<p>Merrill Lynch Massachusetts Limited Maturity Municipal Bond Fund.....</p>	<p>A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management through investment in a portfolio primarily of intermediate-term investment grade Massachusetts Municipal Bonds.</p>
<p>Merrill Lynch Massachusetts Municipal Bond Fund.....</p>	<p>A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Massachusetts income taxes as is consistent with prudent investment management.</p>
<p>Merrill Lynch Michigan Limited Maturity Municipal Bond Fund.....</p>	

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

Merrill Lynch Michigan
Municipal Bond Fund.....

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

Merrill Lynch Minnesota
Municipal Bond Fund.....

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

Merrill Lynch Municipal
Bond Fund, Inc.....

Tax-exempt income from three separate diversified portfolios of municipal bonds.

Merrill Lynch Municipal
Intermediate Term Fund....

Currently the only portfolio of Merrill Lynch Municipal Series Trust, a series fund, whose objective is to provide as high a level as possible of income exempt from Federal income taxes by investing in investment grade obligations with a dollar weighted average maturity of five to twelve years.

Merrill Lynch New Jersey
Limited Maturity Municipal
Bond Fund.....

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

Merrill Lynch New Jersey
Municipal Bond Fund.....

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

and New Jersey income taxes as is consistent with prudent investment management.

Merrill Lynch New York
Limited Maturity Municipal Bond Fund.....

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

Merrill Lynch New York Municipal Bond Fund.....

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

Merrill Lynch North Carolina Municipal Bond Fund..

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

Merrill Lynch Ohio Municipal Bond Fund.....

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

Merrill Lynch Oregon Municipal Bond Fund.....

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

Merrill Lynch Pacific Fund, Inc.....

Capital appreciation by investing in equity securities of corporations domiciled in Far Eastern and Western Pacific countries, including Japan, Australia, Hong Kong and Singapore.

Merrill Lynch Pennsylvania
Limited Maturity Municipal
Bond Fund.....

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

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Merrill Lynch Pennsylvania
Municipal Bond Fund.....

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

Merrill Lynch Phoenix
Fund, Inc.....

Long-term growth of capital by investing in equity and fixed income securities, including tax-exempt securities, of issuers in weak financial condition or experiencing poor operating results believed to be undervalued relative to the current or prospective condition of such issuer.

Merrill Lynch Ready Assets
Trust.....

Preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives from the short-term money market securities in which the Trust invests.

Merrill Lynch Retirement
Reserves Money Fund
(available only if the
exchange occurs within
certain retirement
plans).....

Currently the only portfolio of Merrill Lynch Retirement Series Trust, a series fund, whose objectives are current income, preservation of capital and liquidity available from investing in a diversified portfolio of short-term money market securities.

Merrill Lynch Short-Term
Global Income Fund, Inc...

As high a level of current income as is consistent with prudent investment management from a global portfolio of high quality debt securities

denominated in various currencies and multinational currency units and having remaining maturities not exceeding three years.

Merrill Lynch Special
Value Fund, Inc.....

Long-term growth of capital from investments in securities, primarily equities, of relatively small companies believed to have special investment value and emerging growth companies regardless of size.

Merrill Lynch Strategic
Dividend Fund.....

Long-term total return from investment in dividend paying common stocks which yield more than Standard & Poor's 500 Composite Stock Price Index.

Merrill Lynch Technology
Fund, Inc.....

Capital appreciation through worldwide investment in equity securities of companies that derive or are expected to derive a substantial portion of their sales from products and services in technology.

Merrill Lynch Texas
Municipal Bond Fund.....

A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal income taxes as is consistent with prudent investment management by investing primarily in a portfolio of long-term, investment grade obligations issued by the State of Texas, its political subdivisions, agencies and instrumentalities.

Merrill Lynch Treasury
Fund.....

A portfolio of Merrill Lynch Funds For Institutions Series, a series fund, whose objective is to provide current income consistent with liquidity and security of principal from investment in direct obligations of the U.S. Treasury and up to 10% of its total assets in repurchase agreements secured by such obligations.

Merrill Lynch U.S.A.
Government Reserves.....

Preservation of capital, current income and liquidity available from investing in direct obligations of the U.S. Government and repurchase agreements relating to such securities.

Merrill Lynch U.S.
Treasury Money Fund.....

Preservation of capital, liquidity and current income through investment exclusively in a diversified portfolio of short-term marketable securities which are direct obligations of the U.S. Treasury.

Merrill Lynch Utility In-
come Fund, Inc.....

High current income through investment in equity and debt securities issued by companies which are primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.

Merrill Lynch World Income
Fund, Inc.

High current income by investing in a global portfolio of fixed income securities denominated in various currencies, including multinational currencies.

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

To exercise the exchange privilege, shareholders should contact their Merrill Lynch financial consultant, who will advise the Fund of the exchange, or, if the exchange does not involve a money market fund, the shareholder may write to the Transfer Agent requesting that the exchange be effected. Such letter must be signed exactly as the account is registered with signatures guaranteed by an "eligible guarantor institution" as such term is defined in Rule 17Ad-15 under the Securities and Exchange Act of 1934, as amended, the

existence and validity of which may be verified by the Transfer Agent through the use of industry publications. Shareholders of the Fund, and shareholders of the other funds described above with shares for which certificates have not been issued, may exercise the exchange privilege by wire through their securities dealers. The Fund reserves the right to require a properly completed Exchange Application. This exchange privilege may be modified or terminated at any time in accordance with the rules of the Commission. The Fund reserves the right to limit the number of times an investor may exercise the exchange privilege. Certain funds may suspend the continuous offering of their shares to the general public at any time and may thereafter resume such offering from

time to time. The exchange privilege is available only to U.S. shareholders in states where the exchange legally may be made.

DISTRIBUTIONS AND TAXES

The Trust intends to elect and to qualify the Fund for the special tax treatment afforded regulated investment companies ("RICs") under the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, in any taxable year in which it distributes at least 90% of its taxable net income and 90% of its tax-exempt net income (see below), the Fund (but not its shareholders) will not be subject to Federal income tax to the extent that it distributes its net investment income and net realized capital gains. The Trust intends to cause the Fund to distribute substantially all of such income.

As discussed in the Fund's Prospectus, the Trust has established other series in addition to the Fund (together with the Fund, the "Series"). Each Series of the Trust is treated as a separate corporation for Federal income tax purposes. Each Series, therefore, is considered to be a separate entity in determining its treatment under the rules for RICs described in the Prospectus. Losses in one Series do not offset gains in another Series, and the requirements (other than certain organizational requirements) for qualifying for RIC status are determined at the Series level rather than at the Trust level.

The Code requires a RIC to pay a nondeductible 4% excise tax to the extent the RIC does not distribute, during each calendar year, 98% of its ordinary income, determined on a calendar year basis, and 98% of its capital gains, determined, in general, on an October 31 year end, plus certain undistributed amounts from previous years. The required distributions, however, are based only on the taxable income of a RIC. The excise tax, therefore, generally will not apply to the tax-exempt income of a RIC, such as the Fund, that pays exempt-interest dividends. The Trust anticipates that it will make sufficient timely distributions of taxable income of the Fund to avoid imposition of the excise tax on the Fund.

The Trust intends to qualify the Fund to pay "exempt-interest dividends" as defined in Section 852(b)(5) of the Code. Under such section if, at the close of each quarter of the Fund's taxable year, at least 50% of the value of the Fund's total assets consists of obligations exempt from Federal income tax ("tax-exempt obligations") under Section 103(a) of the Code (relating generally to obligations of a state or local governmental unit), the Fund shall be qualified to pay exempt-interest dividends to its Class A and Class B shareholders (together, the "shareholders"). Exempt-interest dividends are dividends or any part thereof paid by the Fund which are attributable to interest on tax-exempt obligations and designated by the Trust as exempt-interest dividends in a written notice mailed to the Fund's shareholders within 60 days after the close of the Fund's taxable year. For this purpose, the Fund will allocate interest from tax-exempt obligations (as well as ordinary income, capital gains and tax preference items, discussed below) between the Class A and Class B shareholders according to a method (which it believes is consistent with the Commission's exemptive order permitting the issuance and sale of two classes of shares) that is based on the gross income allocable to Class A and Class B shareholders during the taxable year, or such other method as the Internal Revenue

Service may prescribe. To the extent that the dividends distributed to the Fund's shareholders are derived from interest income exempt from Federal income tax under Code Section 103(a) and are properly designated as exempt-interest dividends, they will be excludable from a shareholder's gross income for Federal income tax purposes. Exempt-interest dividends are included, however, in determining the portion, if any, of a person's social security benefits and railroad retirement benefits subject to Federal income taxes. Interest on indebtedness incurred or continued to purchase or carry shares of a RIC paying exempt-interest dividends, such as the Fund, will not be deductible by the investor for Federal income tax purposes to the extent attributable to exempt-interest dividends, and such interest expense will not reduce taxable income under the Connecticut income tax except to the extent reflected in Federal adjusted gross income. Shareholders are advised to consult their tax advisers with respect to whether exempt-interest dividends retain the exclusion under Code Section 103(a) if a shareholder would be treated as a "substantial user" or "related person" under Code Section 147(a) with respect to property financed with the proceeds of an issue of "industrial development bonds" or "private activity bonds," if any, held by the Fund.

The portion of the Fund's exempt-interest dividends paid from interest received by the Fund from Connecticut Municipal Bonds will not be subject to the Connecticut income tax. Distributions from the Fund to shareholders subject to the Connecticut corporation business tax will be included in taxable income to the extent such distributions are treated as exempt-interest or capital gains dividends. Shareholders subject to income taxation in states other than Connecticut will realize a lower after-tax rate of return than Connecticut shareholders since the dividends distributed by the Fund generally will not be exempt, to any significant degree, from income taxation by such other states. The Trust will inform shareholders annually regarding the portion of the Fund's distributions which constitutes exempt-interest dividends and the portion which is exempt from Connecticut income taxes. The Trust will allocate exempt-interest dividends between Class A and Class B shareholders for Connecticut income tax purposes based on a method similar to that described above for Federal income tax purposes.

To the extent that the Fund's distributions are derived from interest on its taxable investments or from an excess of net short-term capital gains over net long-term capital losses ("ordinary income dividends"), such distributions are considered ordinary income for Federal income tax purposes. Such distributions are not eligible for the dividends received deduction for corporations. Distributions, if any, of net long-term capital gains from the sale of securities or from certain transactions in futures or options ("capital gain dividends") are taxable as long-term capital gains for Federal income tax purposes, regardless of the length of time the shareholder has owned Fund shares. Under the Revenue Reconciliation Act of 1993, all or a portion of the Fund's gain from the sale or redemption of tax-exempt obligations purchased at a market discount will be treated as ordinary income rather than capital gain. This rule may increase the amount of ordinary income dividends received by shareholders. Distributions in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's shares and, after such adjusted tax basis is reduced to zero, will constitute capital gains to such holder (assuming the shares are held as a capital asset). Any loss upon the sale or exchange of Fund shares held for six months or less, however, will be treated as long-term capital loss to the extent of capital gain dividends received by the shareholder. In addition, such loss will be disallowed to the extent of any exempt-interest dividends received by the shareholder. If the

Fund pays a dividend in January which was declared in the previous October, November or December to shareholders of record on a specific date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

The Code subjects interest received on certain otherwise tax-exempt securities to an alternative minimum tax. The alternative minimum tax applies to interest received on "private activity bonds" issued after

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August 7, 1986. Private activity bonds are bonds which, although tax-exempt, are used for purposes other than those generally performed by governmental units and which benefit non-governmental entities (e.g., bonds used for industrial development or housing purposes). Income received on such bonds is classified as an item of "tax preference," which could subject investors in such bonds, including shareholders of the Fund, to an alternative minimum tax. The Fund will purchase such "private activity bonds," and the Trust will report to shareholders within 60 days after the Fund's taxable year-end the portion of the Fund's dividends declared during the year which constitutes an item of tax preference for alternative minimum tax purposes. The Code further provides that corporations are subject to an alternative minimum tax based, in part, on certain differences between taxable income as adjusted for other tax preferences and the corporation's "adjusted current earnings" (which more closely reflects a corporation's economic income). Because an exempt-interest dividend paid by the Fund will be included in adjusted current earnings, a corporate shareholder may be required to pay alternative minimum tax on exempt-interest dividends paid by the Fund.

The Revenue Reconciliation Act of 1993 has added new marginal tax brackets of 36% and 39.6% for individuals and has created a graduated structure of 26% and 28% for the alternative minimum tax applicable to individual taxpayers. These rate increases may affect an individual investor's after-tax return from an investment in the Fund as compared with such investor's return from taxable investments.

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

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

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

withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the United States withholding tax.

The Code provides that every person required to file a tax return must include for information purposes on such return the amount of exempt-interest dividends received from all sources (including the Fund) during the taxable year.

ENVIRONMENTAL TAX

The Code imposes a deductible tax (the "Environmental Tax") on a corporation's modified alternative minimum taxable income (computed without regard to the alternative tax net operating loss deduction and

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the deduction for the Environmental Tax) at a rate of \$12 per \$10,000 (0.12%) of alternative minimum taxable income in excess of \$2,000,000. The Environmental Tax is imposed for taxable years beginning after December 31, 1986, and before January 1, 1996. The Environmental Tax is imposed even if the corporation is not required to pay an alternative minimum tax because the corporation's regular income tax liability exceeds its minimum tax liability. The Code provides, however, that a RIC, such as the Fund, is not subject to the Environmental Tax. However, exempt-interest dividends paid by the Fund that create alternative minimum tax preferences for corporate shareholders under the Code (as described above) may subject corporate shareholders of the Fund to the Environmental Tax.

TAX TREATMENT OF OPTIONS AND FUTURES TRANSACTIONS

The Fund may purchase or sell municipal bond index futures contracts and interest rate futures contracts on U.S. Government securities ("financial futures contracts"). The Fund may also purchase and write call and put options on such financial futures contracts. In general, unless an election is available to the Fund or an exception applies, such options and financial futures contracts that are "Section 1256 contracts" will be "marked to market" for Federal income tax purposes at the end of each taxable year, i.e., each such option or financial futures contract will be treated as sold for its fair market value on the last day of the taxable year, and any gain or loss attributable to Section 1256 contracts will be 60% long-term and 40% short-term capital gain or loss. Application of these rules to Section 1256 contracts held by the Fund may alter the timing and character of distributions to shareholders.

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

One of the requirements for qualification as a RIC is that less than 30% of the Fund's gross income must be derived from gains from the sale or other disposition of securities held for less than three months. Accordingly, the

Fund may be restricted in effecting closing transactions within three months after entering into an options or financial futures contract.

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

Shareholders are urged to consult their own tax advisers regarding the availability of any exemptions from state or local taxes (other than those imposed by Connecticut) and with specific questions as to Federal, state, local or foreign taxes.

PERFORMANCE DATA

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

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

The Fund also may quote annual, average annual and annualized total return and aggregate total return performance data, both as a percentage and as a dollar amount based on a hypothetical \$1,000 investment, for various periods other than those noted below. Such data will be computed as described above, except that (1) as required by the periods of the quotations, actual annual, annualized or aggregate data, rather than average annual data, may be quoted and (2) the maximum applicable sales charges will not be included with respect to annual or annualized rates of return calculations. Aside from the impact on the performance data calculations of including or excluding the maximum applicable sales charges, actual annual or annualized total return data generally will be lower than average annual total return data since the average rates of return reflect compounding of return; aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return reflect compounding over a longer period of time.

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

GENERAL INFORMATION

DESCRIPTION OF SHARES

The Declaration of Trust provides that the Trust shall be comprised of separate Series each of which will consist of a separate portfolio which will issue separate shares. The Trust is presently comprised of the Fund, Merrill Lynch Arizona Municipal Bond Fund, Merrill Lynch Colorado Municipal Bond Fund, Merrill Lynch Florida Municipal Bond Fund, Merrill Lynch Maryland Municipal Bond Fund, Merrill Lynch Massachusetts Municipal Bond Fund, Merrill Lynch Michigan Municipal Bond Fund, Merrill Lynch Minnesota Municipal Bond Fund, Merrill Lynch New Jersey Municipal Bond Fund, Merrill Lynch New York Municipal Bond Fund, Merrill Lynch North Carolina Municipal Bond Fund, Merrill Lynch Ohio Municipal Bond Fund, Merrill Lynch Oregon Municipal Bond Fund, Merrill Lynch Pennsylvania Municipal Bond Fund and Merrill Lynch Texas Municipal Bond Fund. The Trustees are authorized to create an unlimited number of Series and, with respect to each Series, to issue an unlimited number of full and fractional shares of beneficial interest, par value \$.10 per share, of different classes and to divide or combine the shares into a greater or lesser number of shares without thereby changing the proportionate beneficial interests in the Series. Shareholder approval is not necessary for the authorization of additional Series or classes of a Series of the Trust. At the date of this Statement of Additional Information, the shares of the Fund are divided

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into Class A shares and Class B shares. Both Class A and Class B shares represent an interest in the same assets of the Fund and have identical voting, dividend, liquidation and other rights and the same terms and conditions except that expenses related to the distribution fee of the Class B shares are borne solely by such Class B shares and the Class B shares have exclusive voting rights with respect to matters relating to such distribution expenditures. See "Purchase of Shares". The Trust has received an order from the Commission permitting the issuance and sale of two classes of shares of beneficial interest and the issuance and sale of any additional classes will require an additional order from the Commission. There is no assurance that such an additional order will be granted.

All shares of the Trust have equal voting rights, except that only shares of the respective Series are entitled to vote on matters concerning only that Series and, as noted above, Class B shares will have exclusive voting rights with respect to matters relating to the distribution expenses being borne solely by such class. Each issued and outstanding share is entitled to one vote and to participate equally in dividends and distributions declared by the Fund and in the net assets of such Series upon liquidation or dissolution remaining

after satisfaction of outstanding liabilities, except that, as noted above, expenses related to the distribution of the Class B shares will be borne solely by such class. There normally will be no meeting of shareholders for the purposes of electing Trustees unless and until such time as less than a majority of the Trustees holding office have been elected by shareholders, at which time the Trustees then in office will call a shareholders' meeting for the election of Trustees. Shareholders may, in accordance with the terms of the Declaration of Trust, cause a meeting of shareholders to be held for the purpose of voting on the removal of Trustees. Also, the Trust will be required to call a special meeting of shareholders in accordance with the requirements of the 1940 Act to seek approval of new management and advisory arrangements, of a material increase in distribution fees or of a change in the fundamental policies, objectives or restrictions of a Series.

The obligations and liabilities of a particular Series are restricted to the assets of that Series and do not extend to the assets of the Trust generally. The shares of each Series, when issued, will be fully paid and nonassessable, have no preference, preemptive, conversion, exchange or similar rights, and are freely transferable. Holders of shares of any Series are entitled to redeem their shares as set forth elsewhere herein and in the Prospectus. Shares do not have cumulative voting rights and the holders of more than 50% of the shares of the Trust voting for the election of Trustees can elect all of the Trustees if they choose to do so and in such event the holders of the remaining shares would not be able to elect any Trustees. No amendments may be made to the Declaration of Trust without the affirmative vote of a majority of the outstanding shares of the Trust.

The Manager provided the initial capital for the Fund by purchasing 10,000 shares of the Fund for \$100,000. Such shares were acquired for investment and can only be disposed of by redemption. The organizational expenses of the Fund (estimated at approximately \$) will be paid by the Fund and amortized over a period not exceeding five years. The proceeds realized by the Manager (or any subsequent holder) upon the redemption of any of the shares initially purchased by it will be reduced by the proportionate amount of unamortized organizational expenses which the number of shares redeemed bears to the number of shares initially purchased. Such organizational expenses include certain of the initial organizational expenses of the Trust which have been allocated to the Fund by the Trustees. If additional Series are added to the Trust, the organizational expenses will be allocated among the Series in a manner deemed equitable by the Trustees.

COMPUTATION OF OFFERING PRICE PER SHARE

An illustration of the computation of the offering price for Class A and Class B shares of the Fund based on the projected value of the Fund's estimated net assets and projected number of shares outstanding on the date its shares are first offered for sale to public investors is as follows:

TABLE*

<TABLE>
<CAPTION>

	CLASS A	CLASS B
	-----	-----
<S>	<C>	<C>

Net Assets.....	\$50,000.00	\$50,000.00
Number of Shares Outstanding.....	5,000	5,000
	=====	=====
Net Asset Value Per Share (net assets divided by number of shares outstanding).....	\$ 10.00	\$ 10.00
Sales Charge (for Class A shares: 4.00% of offering price (4.17% of net asset value per share))*.....	\$.42	\$ **
	-----	-----
Offering Price.....	\$ 10.42	\$ 10.00
	=====	=====

</TABLE>

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- * Rounded to the nearest one-hundredth percent; assumes maximum sales charge is applicable.
- ** Class B shares are not subject to an initial sales charge but may be subject to a contingent deferred sales charge on redemption of shares within four years of purchase. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares" herein and in the Prospectus.

INDEPENDENT AUDITORS

Deloitte & Touche, 117 Campus Drive, Princeton, New Jersey 08540, has been selected as the independent auditors of the Fund. The selection of independent auditors is subject to ratification by the Shareholders of the Fund. In addition, the employment of such auditors may be terminated without any penalty by vote of a majority of the outstanding shares of the Trust at a meeting called for the purpose of terminating such employment. The independent auditors are responsible for auditing the annual financial statements of the Fund.

CUSTODIAN

National Westminster Bank NJ, 100 Wall Street, 20th Floor, New York, New York 10005, acts as the custodian of the Fund's assets. The custodian is responsible for safeguarding and controlling the Fund's cash and securities, handling the delivery of securities and collecting interest on the Fund's investments.

TRANSFER AGENT

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

LEGAL COUNSEL

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

REPORTS TO SHAREHOLDERS

The fiscal year of the Fund ends on July 31 of each year. The Trust sends to shareholders of the Fund at least semi-annually reports showing the Fund's portfolio and other information. An annual report, containing

financial statements audited by independent auditors, is sent to shareholders each year. After the end of each year shareholders will receive Federal income tax information regarding dividends and capital gains distributions.

ADDITIONAL INFORMATION

The Prospectus and this Statement of Additional Information do not contain all the information set forth in the Registration Statement and the exhibits relating thereto, which the Trust has filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1933 and the Investment Company Act of 1940, to which reference is hereby made.

The Declaration of Trust establishing the Trust dated August 2, 1985, a copy of which, together with all amendments thereto (the "Declaration") is on file in the office of the Secretary of The Commonwealth of Massachusetts, provides that the name "Merrill Lynch Multi-State Municipal Series Trust" refers to the Trustees under the Declaration collectively as Trustees, but not as individuals or personally; and no Trustee, shareholder, officer, employee or agent of the Trust shall be held to any personal liability; nor shall resort be had to any such person's private property for the satisfaction of any obligation or claim of the Trust but the "Trust Property" only shall be liable.

APPENDIX I

ECONOMIC AND FINANCIAL INFORMATION CONCERNING CONNECTICUT

The information set forth below is derived from official statements prepared in connection with the issuance of municipal bonds in Connecticut and other sources that are generally available to investors. The information is provided as general information intended to give a recent historical description and is not intended to indicate future or continuing trends affecting the financial or other positions of the State of Connecticut (the "State"). The Trust has not independently verified this information.

The State of Connecticut (the "State") finances its operations primarily through the State's general fund (the "General Fund"). The State derives over 70% of its revenues from taxes, including sales and use taxes, corporation business taxes, and dividends, interest and capital gains taxes imposed by the State. The remainder of the State's revenues are derived from federal grants, miscellaneous fees, receipts and transfers.

For fiscal years ended June 30, 1984 to 1987, the Comptroller's annual report to the Governor of the State stated a surplus in the General Fund. The State had operating deficits in 1988 and 1989 of \$115.6 million and \$28.0 million, respectively, stated on the modified cash basis of accounting used for statutory financial reporting. As required by the General Statutes of the State, these amounts were deemed to be appropriated from the Budget Reserve Fund to fund the deficit.

The Comptroller's annual report to the Governor for the fiscal year ended June 30, 1990 stated that the operating deficit was \$259.5 million. This was the net deficit after actions taken by the Governor and the General Assembly which affected both revenues and expenditures. As required by statute, the

State Comptroller transferred the balance of the Budget Reserve Fund, \$102.3 million, to the General Fund to partially fund the operating deficit. This action brought the total deficit carried forward to fiscal 1990-91 to \$157.2 million.

The Comptroller's annual report to the Governor for the fiscal year ended June 30, 1991 stated that the operating deficit, after miscellaneous surplus adjustments, was \$808.5 million. Together with a deficit carried forward from fiscal 1989-90, the total deficit for the fiscal year 1990-91 was \$965.7 million.

The legislation enacting the fiscal 1991-92 budget contained two key provisions designed to balance the budget in fiscal year 1991-92 and to address and eliminate the cumulative deficit. They were the imposition of a broad based personal income tax and a five-year note financing. In September and October, the State issued \$965.7 million of general obligation economic recovery notes with a final maturity of June 15, 1996 to finance the cumulative general fund deficit. The Comptroller's annual report to the Governor for the fiscal year ended June 30, 1992 found the General Fund to have a surplus of \$110.2 million, which was used to retire \$110.1 million of the economic recovery notes.

The Comptroller's annual report for the fiscal year ended June 30, 1993 reported a General Fund operating surplus of \$113.5 million.

The Comptroller is required to issue cumulative monthly financial statements relating to the financial condition of the State. This report compares revenues already received and expenditures already made to estimated revenues to be collected and estimated expenditures to be made during the balance of the year.

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The Comptroller's March 31, 1994 report on the State's fiscal position as of June 30, 1994 estimates a General Fund operating surplus of \$62.9 million due to revisions in revenue estimates and expenditures. On a GAAP basis, however, the Comptroller estimated a cumulative projected deficit in the General Fund as of June 30, 1994 of \$458.7 million.

Despite the recent slowdown in the State's economy, the State maintains a high level of personal income compared to the nation and the New England region. The State's unemployment rate historically has been lower than the unemployment rate for the country as a whole, and while it had increased to 7.0% as of January 1993, on a seasonally adjusted basis, it has fallen to 5.9% at December 31, 1993, again on a seasonally adjusted basis.

Currently, Moody's Investors Service, Inc. rates Connecticut's general obligation bonds Aa and Connecticut's outstanding commercial paper P-1 and Standard and Poor's Corporation rates Connecticut's general obligation bonds AA- and Connecticut's outstanding commercial paper A-1+.

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APPENDIX II

RATINGS OF MUNICIPAL BONDS

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

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

Note: Those bonds in the Aa, A, Baa, Ba and B groups which Moody's believes

possess the strongest investment attributes are designated by the symbols Aa1, A1, Baal, Ba1 and B1.

Short-term Notes: The four ratings of Moody's for short-term notes are MIG 1/VMIG1, MIG 2/VMIG2, MIG 3/VMIG3 and MIG 4/VMIG4; MIG 1/VMIG1 denotes "best quality . . . strong protection by established cash flows"; MIG 2/VMIG2 denotes "high quality" with ample margins of protection; MIG 3/VMIG3 notes are of "favorable quality . . . but . . . lacking the undeniable strength of the preceding grades"; MIG 4/VMIG4 notes are of "adequate quality . . . [p]rotection commonly regarded as required of an investment security is present . . . there is specific risk."

DESCRIPTION OF MOODY'S CORPORATE BOND RATINGS

Excerpts from Moody's description of its corporate bond ratings: Aaa--judged to be the best quality, carry the smallest degree of investment risk; Aa--judged to be of high quality by all standards; A--possess many favorable investment attributes and are to be considered as upper medium grade obligations.

DESCRIPTION OF MOODY'S COMMERCIAL PAPER RATINGS

Moody's Commercial Paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of nine months. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

Issuers rated Prime-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations. Prime-1 repayment capacity will normally be evidenced by the following characteristics: leading market positions in well established industries; high rates of return on funds employed; conservative capitalization structures with moderate reliance on debt and ample asset protection; broad margins in earning coverage of fixed financial charges and high internal cash generation; and well established access to a range of financial markets and assured sources of alternate liquidity.

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

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

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

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

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

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

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

The ratings are based, in varying degrees, on the following considerations:

- I. Likelihood of default--capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
- II. Nature of and provisions of the obligations;
- III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

AAA Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.

AA Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the higher-rated issues only in small degree.

A Debt rated "A" has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.

BBB Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher rated categories.

BB, B, CCC, CC, C

Debt rated "BB", "B", "CCC", "CC" and "C" is regarded, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligations. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

CI The rating "CI" is reserved for income bonds on which no interest is being paid.

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

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

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DESCRIPTION OF STANDARD & POOR'S CORPORATE BOND RATINGS

A Standard & Poor's corporate debt rating is a current assessment of the creditworthiness of an obligor with respect to specific obligation. Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong. Debt rated "AA" has a very strong capacity to pay interest and to repay principal and differs from the highest rated issues only in small degree. Debt rated "A" has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt of a higher rated category. Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

The ratings from "AA" to "BBB" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

DESCRIPTION OF STANDARD & POOR'S COMMERCIAL PAPER RATINGS

A Standard & Poor's Commercial Paper Rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A" for the highest quality obligations to "D" for the lowest. Ratings are applicable to both taxable and tax-exempt commercial paper. Issues assigned the highest rating are regarded as having the greatest capacity for timely payment. Issues in this category are further refined with the designation 1, 2 and 3 to indicate the relative degree of safety. The three designations in the "A"

category are as follows:

A-1

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

A-2

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

A-3

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

B

Issues rated "B" are regarded as having only speculative capacity for timely payment.

C

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

D

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

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

A Standard & Poor's note rating reflects the liquidity concerns and market access risks unique to notes. Notes due in 3 years or less will likely receive a note rating. Notes maturing beyond 3 years will most likely receive a long-term debt rating. The following criteria will be used in making that assessment.

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--Amortization schedule (the larger the final maturity relative to other maturities, the more likely it will be treated as a note).

--Source of payment (the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note).

Note rating symbols are as follows:

SP-1 A very strong or strong capacity to pay principal and interest. Those

issues determined to possess overwhelming safety characteristics will be given a "+" designation.

SP-2 A satisfactory capacity to pay principal and interest.

SP-3 A speculative capacity to pay principal and interest.

Standard & Poor's may continue to rate note issues with a maturity greater than three years in accordance with the same rating scale currently employed for municipal bond ratings.

Unrated: Where no rating has been assigned or where a rating has been suspended or withdrawn, it may be for reasons unrelated to the quality of the issue.

Should no rating be assigned, the reason may be one of the following:

1. An application for rating was not received or accepted.
2. The issue or issuers belongs to a group of securities that are not rated as a matter of policy.
3. There is a lack of essential data pertaining to the issue or issuer.
4. The issue was privately placed, in which case the rating is not published in Moody's publications.

Suspension or withdrawal may occur if new and material circumstances arise, the effects of which preclude satisfactory analysis; if there is no longer available reasonable up-to-date information to permit a judgment to be formed; if a bond is called for redemption; or for other reasons.

DESCRIPTION OF FITCH INVESTORS SERVICE, INC.'S ("FITCH") INVESTMENT GRADE BOND RATINGS

Fitch investment grade bond ratings provide a guide to investors in determining the credit risk associated with a particular security. The ratings represent Fitch's assessment of the issuer's ability to meet the obligations of a specific debt issue or class of debt in a timely manner.

The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, the current and prospective financial condition and operating performance of the issuer and of any guarantor, as well as the economic and political environment that might affect the issuer's future financial strength and credit quality.

Fitch ratings do not reflect any credit enhancement that may be provided by insurance policies or financial guaranties unless otherwise indicated.

Bonds that have the same rating are of similar but not necessarily identical credit quality since the rating categories do not fully reflect small differences in the degrees of credit risk.

Fitch ratings are not recommendations to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect of any security.

Fitch ratings are based on information obtained from issuers, other obligors, underwriters, their experts, and other sources Fitch believes to be reliable. Fitch does not audit or verify the truth or accuracy of such information. Ratings may be changed, suspended, or withdrawn as a result of changes in, or the unavailability of, information or for any other reasons.

AAA Bonds considered to be investment grade and of the highest credit quality. The obligor has an exceptionally strong ability to pay interest and repay principal, which is unlikely to be affected by reasonably foreseeable events.

AA Bonds considered to be investment grade and of very high credit quality. The obligor's ability to pay interest and repay principal is very strong, although not quite as strong as bonds rated "AAA". Because bonds rated in the "AAA" and "AA" categories are not significantly vulnerable to foreseeable future developments, short-term debt of these issuers is generally rated "F-1+".

A Bonds considered to be investment grade and of high credit quality. The obligor's ability to pay interest and repay principal is considered to be strong, but may be more vulnerable to adverse changes in economic conditions and circumstances than bonds with higher ratings.

BBB Bonds considered to be investment grade and of satisfactory credit quality. The obligor's ability to pay interest and repay principal is considered to be adequate. Adverse changes in economic conditions and circumstances, however, are more likely to have adverse impact on these bonds, and therefore, impair timely payment. The likelihood that the ratings of these bonds will fall below investment grade is higher than for bonds with higher ratings.

Plus (+) or Minus (-): Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "AAA" category.

Credit Trend Indicator: Credit trend indicators show whether credit fundamentals are improving, stable, declining, or uncertain, as follows:

Improving	(UP ARROW)
Stable	(LEFT/RIGHT ARROW)
Declining	(DOWN ARROW)
Uncertain	(UP/DOWN ARROW)

Credit trend indicators are not predictions that any rating change will occur, and have a longer-term time frame than issues placed on FitchAlert.

indicates that Fitch does not rate the specific issue.

NR

CONDITIONAL A conditional rating is premised on the successful completion of a project or the occurrence of a specific event.

SUSPENDED

A rating is suspended when Fitch deems the amount of information available from the issuer to be inadequate for rating purposes.

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WITHDRAWN A rating will be withdrawn when an issue matures or is called or refinanced and, at Fitch's discretion, when an issuer fails to furnish proper and timely information.

FITCHALERT Ratings are placed on FitchAlert to notify investors of an occurrence that is likely to result in a rating change and the likely direction of such change. These are designated as "Positive," indicating a potential upgrade, "Negative," for potential downgrade, or "Evolving," where ratings may be raised or lowered. FitchAlert is relatively short-term, and should be resolved within 12 months.

DESCRIPTION OF FITCH SPECULATIVE GRADE BOND RATINGS

Fitch speculative grade bond ratings provide a guide to investors in determining the credit risk associated with a particular security. The ratings ("BB" to "C") represent Fitch's assessment of the likelihood of timely payment of principal and interest in accordance with the terms of obligation for bond issues not in default. For defaulted bonds, the rating ("DDD" to "D") is an assessment of the ultimate recovery value through reorganization or liquidation.

The rating takes into consideration special features of the issue, its relationship to other obligations of the issuer, the current and prospective financial condition and operating performance of the issuer and any guarantor, as well as the economic and political environment that might affect the issuer's future financial strength.

Bonds that have the same rating are of similar but not necessarily identical credit quality since rating categories cannot fully reflect the differences in degrees of credit risk.

BB Bonds are considered speculative. The obligor's ability to pay interest and repay principal may be affected over time by adverse economic changes. However, business and financial alternatives can be identified which could assist the obligor in satisfying its debt service requirements.

B Bonds are considered highly speculative. While bonds in this class are currently meeting debt service requirements, the probability of continued timely payment of principal and interest reflects the obligor's limited margin of safety and

the need for reasonable business and economic activity throughout the life of the issue.

CCC Bonds have certain identifiable characteristics which, if not remedied, may lead to default. The ability to meet obligations requires an advantageous business and economic environment.

CC Bonds are minimally protected. Default in payment of interest and/or principal seems probable over time.

C Bonds are in imminent default in payment of interest or principal.

DDD, DD and D Bonds are in default on interest and/or principal payments. Such bonds are extremely speculative and should be valued on the basis of their ultimate recovery value in liquidation or reorganization of the obligor. "DDD" represents the highest potential for recovery on these bonds, and "D" represents the lowest potential for recovery.

Plus (+) or Minus (-): Plus and minus signs are used with a rating symbol to indicate the relative position of a credit within the rating category. Plus and minus signs, however, are not used in the "DDD", "DD", or "D" categories.

DESCRIPTION OF FITCH INVESTMENT GRADE SHORT-TERM RATINGS

Fitch's short-term ratings apply to debt obligations that are payable on demand or have original maturities of generally up to three years, including commercial paper, certificates of deposit, medium-term notes, and municipal and investment notes.

The short-term rating places greater emphasis than a long-term rating on the existence of liquidity necessary to meet the issuer's obligations in a timely manner.

Fitch short-term ratings are as follows:

- F-1+ Exceptionally Strong Credit Quality. Issues assigned this rating are regarded as having the strongest degree of assurance for timely payment.
- F-1 Very Strong Credit Quality. Issues assigned this rating reflect an assurance of timely payment only slightly less in degree than issues rated "F-1+".
- F-2 Good Credit Quality. Issues assigned this rating have a satisfactory degree of assurance for timely payment, but the margin of safety is not as great as for issues assigned "F-1+" and "F-1" ratings.
- F-3 Fair Credit Quality. Issues assigned this rating have characteristics suggesting that the degree of assurance for timely payment is adequate, however, near-term adverse changes could cause these securities to be rated below investment

grade.

F-S Weak Credit Quality. Issues assigned this rating have characteristics suggesting a minimal degree of assurance for timely payment and are vulnerable to near-term adverse changes in financial and economic conditions.

D Default. Issues assigned this rating are in actual or imminent payment default.

LOC The symbol "LOC" indicates that the rating is based on a letter of credit issued by a commercial bank.

INS The symbol "INS" indicates that the rating is based on an insurance policy or financial guaranty issued by an insurance company.

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees and Shareholder,
Merrill Lynch Connecticut Municipal Bond Fund of
Merrill Lynch Multi-State Municipal Series Trust:

We have audited the accompanying statement of assets and liabilities of Merrill Lynch Connecticut Municipal Bond Fund of Merrill Lynch Multi-State Municipal Series Trust as of _____, 1994. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 audit provides a reasonable basis for our opinion.

In our opinion, such statement of assets and liabilities presents fairly, in all material respects, the financial position of Merrill Lynch Connecticut Municipal Bond Fund of Merrill Lynch Multi-State Municipal Series Trust as of _____, 1994, in conformity with generally accepted accounting principles.

, 1994

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MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND
MERRILL LYNCH MULTI-STATE MUNICIPAL SERIES TRUST

STATEMENT OF ASSETS AND LIABILITIES
, 1994

<TABLE>

<CAPTION>

<S>	<C>
Assets:	
Cash in bank.....	\$
Prepaid registration fees (Note 3).....	
Deferred organization expenses (Note 4).....	

Total Assets.....	
Liabilities-Accrued expenses.....	

Net Assets (equivalent to \$10.00 per share on 5,000 Class A Shares of beneficial interest (par value \$0.10) and 5,000 of Class B Shares of beneficial interest (par value \$0.10) outstanding with an unlimited number of shares authorized) (Note 1).....	\$
	=====

</TABLE>

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Notes to Statement of Assets and Liabilities:

- (1) Merrill Lynch Multi-State Municipal Series Trust (the "Trust") was organized as a Massachusetts business trust on August 2, 1985. To date, Merrill Lynch Connecticut Municipal Bond Fund (the "Fund") has not had any transactions other than those relating to organizational matters and the sale of 5,000 Class A shares and 5,000 Class B shares of beneficial interest of the Fund to Fund Asset Management, Inc. (the "Manager"). The Trust is registered under the Investment Company Act of 1940 as an open-end management investment company.
- (2) The Trust has entered into a Management Agreement with the Manager and separate Class A and Class B Distribution Agreements and a Distribution Plan with Merrill Lynch Funds Distributor, Inc. (the "Distributor") on behalf of the Fund. (See "Management of the Trust--Management and Advisory Arrangements" in the Prospectus and Statement of Additional Information.) Certain officers and/or Trustees of the Trust are officers and/or directors of the Manager and the Distributor.
- (3) Prepaid registration fees are charged to income as the related shares are issued.
- (4) Deferred organization expenses will be amortized over a period from the date the Fund commences operations not exceeding five years. In the event that the Manager (or any subsequent holder) redeems any of its original shares prior to the end of the five-year period, the proceeds of the redemption payable in respect of such shares shall be reduced by the pro rata share (based on the proportionate share of the original shares redeemed to the total number of original shares outstanding at the time of redemption) of the unamortized deferred organization expenses as of the date of such redemption. In the event that the Fund is liquidated prior to the end of the five-year period, the Manager (or any subsequent holder) shall bear the unamortized deferred organization expenses.

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Code # 18111

Statement of
Additional Information

MERRILL LYNCH

CONNECTICUT
MUNICIPAL BOND
FUND
MERRILL LYNCH MULTI-STATE
MUNICIPAL SERIES TRUST

, 1994

Distributor:
Merrill Lynch
Funds Distributor, Inc.

PART C. OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS.

(a) FINANCIAL STATEMENTS

Contained in Part B:

Statement of Assets and Liabilities as of , 1994.

(b) EXHIBITS

<TABLE>

<CAPTION>

EXHIBIT
NUMBER

<C> <S>

- | | |
|------|---|
| 1(a) | --Declaration of Trust of the Registrant, dated August 2, 1985.
(a) |
| (b) | --Amendment to Declaration of Trust, dated October 3, 1988. (b) |
| (c) | --Instrument establishing Merrill Lynch Connecticut Municipal Bond
Fund (the
"Fund") as a series of Registrant. (e) |
| (d) | --Instrument establishing Class A and Class B shares of beneficial
interest of the Fund. (e) |
| 2 | --By-Laws of Registrant. (a) |
| 3 | --None. |
| 4 | --Portions of the Declaration of Trust, Establishment and
Designation and By-Laws of the Registrant defining the rights of
holders of the Fund as a series of the Registrant. (c) |
| 5 | --Form of Management Agreement between Registrant and Fund Asset
Management, L.P. (e) |
| 6(a) | --Form of Class A Shares Distribution Agreement between Registrant
and Merrill Lynch Funds Distributor, Inc. (e) |
| (b) | --Form of Class B Shares Distribution Agreement between Registrant
and Merrill Lynch Funds Distributor, Inc. (e) |
| (c) | --Letter Agreement between Registrant and Merrill Lynch Funds
Distributor, Inc., dated March 31, 1993, in connection with the
Merrill Lynch Mutual Fund Adviser Program. (e) |
| 7 | --None. |
| 8 | --Form of Letter Amendment to the Custody Agreement between
Registrant and National Westminster Bank NJ. (d) (e) |

- 9 --Amended Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement between Registrant and Financial Data Services, Inc. (e)
- 10 --Opinion of Brown & Wood, counsel for the Registrant. (e)
- 11 --Consent of Deloitte & Touche, independent auditors for the Registrant. (e)
- 12 --None.
- 13 --Certificate of Fund Asset Management, L.P. (e)
- 14 --None.
- 15 --Form of Class B Shares Distribution Plan and Class B Shares Distribution Plan Sub-Agreement of the Registrant. (e)
- 16 --None.

</TABLE>

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(a) Filed on August 6, 1985 as an Exhibit to the Registration Statement on Form N-1A (File No. 2-99473) under the Securities Act of 1933 of Merrill Lynch New York Municipal Bond Fund, a series of the Registrant.

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(b) Filed on October 11, 1988 as an Exhibit to Post-Effective Amendment No. 4 to the Registration Statement on Form N-1A (File No. 2-99473) under the Securities Act of 1933 of Merrill Lynch New York Municipal Bond Fund, a series of the Registrant.

(c) Reference is made to Article II, Section 2.3 and Articles V, VI, VIII, IX, X and XI of the Registrant's Declaration of Trust, previously filed as Exhibit 1(a) to the Registration Statement referred to in paragraph (a) above; to the Certificates of Establishment and Designation establishing the Fund as a series of the Registrant and establishing Class A and Class B shares of beneficial interest of the Fund, which will be filed as Exhibits 1(c) and 1(d), respectively, to the Registration Statement; and to Articles I, V and VI of the Registrant's By-Laws, previously filed as Exhibit 2 to the Registration Statement referred to in paragraph (a) above.

(d) The Custody Agreement between Registrant and National Westminster Bank, dated November 1, 1985, was filed on March 18, 1986 as an Exhibit to Post-Effective Amendment No. 1 to the Registration Statement on Form N-1A (File No. 2-99473) under the Securities Act of 1933 of Merrill Lynch New York Municipal Bond Fund, a series of the Registrant, and is incorporated by reference herein.

(e) To be filed by amendment.

ITEM 25. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL WITH REGISTRANT.

Prior to the effective date of this Registration Statement, the Registrant will sell 5,000 Class A shares of beneficial interest and 5,000 Class B shares of beneficial interest of the Fund to Fund Asset Management, Inc. for an aggregate of \$100,000.

ITEM 26. NUMBER OF HOLDERS OF SECURITIES.

<TABLE>

<CAPTION>

TITLE OF CLASS	NUMBER OF RECORD HOLDERS AT , 1994
----------------	--

-----	-----
<S>	<C>
Class A shares of beneficial interest par value \$0.10	
per share.....	
Class B shares of beneficial interest par value \$0.10	
per share.....	
</TABLE>	

ITEM 27. INDEMNIFICATION.

Section 5.3 of the Registrant's Declaration of Trust provides as follows:

"The Trust shall indemnify each of its Trustees, officers, employees and agents (including persons who serve at its request as directors, officers or trustees of another organization in which it has any interest as a shareholder, creditor or otherwise) against all liabilities and expenses (including amounts paid in satisfaction of judgments, in compromise, as fines and penalties and as counsel fees) reasonably incurred by him in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be involved or with which he may be threatened, while in office or thereafter, by reason of his being or having been such a trustee, officer, employee or agent, except with respect to any matter as to which he shall have been adjudicated to have acted in bad faith, willful misfeasance, gross negligence or reckless disregard of his duties; provided, however, that as to any matter disposed of by a compromise payment by such person, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless the Trust shall have received a written opinion from independent legal counsel approved by the Trustees to the effect that if either the matter of willful misfeasance, gross negligence or reckless disregard of duty, or the matter of good faith and reasonable belief as to the best interests of the Trust, had been adjudicated, it would have been adjudicated in favor of such person. The rights accruing to any Person under these provisions shall not exclude any other right to which

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he may be lawfully entitled; provided that no person may satisfy any right in indemnity or reimbursement granted herein or in Section 5.1 or to which he may be otherwise entitled except out of the property of the Trust, and no Shareholder shall be personally liable to any Person with respect to any claim for indemnity or reimbursement or otherwise. The Trustees may make advance payments in connection with indemnification under this Section 5.3, provided that the indemnified person shall have given a written undertaking to reimburse the Trust in the event it is subsequently determined that he is not entitled to such indemnification."

Insofar as the conditional advancing of indemnification monies for actions based upon the Investment Company Act of 1940, as amended may be concerned, such payments will be made only on the following conditions: (i) the advances must be limited to amounts used, or to be used, for the preparation or presentation of a defense to the action, including costs connected with the preparation of a settlement; (ii) advances may be made only upon receipt of a written promise by, or on behalf of, the recipient to repay that amount of the advance which exceeds the amount to which it is ultimately determined that he is entitled to receive from the Registrant by reason of indemnification; and (iii) (a) such promise must be secured by a surety bond, other suitable

insurance or an equivalent form of security which assures that any repayments may be obtained by the Registrant without delay or litigation, which bond, insurance or other form of security must be provided by the recipient of the advance, or (b) a majority of a quorum of the Registrant's disinterested, non-party Trustees, or an independent legal counsel in a written opinion, shall determine, based upon a review of readily available facts that the recipient of the advance ultimately will be found entitled to indemnification.

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

Insofar as indemnification for liabilities arising under the 1933 Act may be permitted to Trustees, officers and controlling persons of the Registrant and the principal underwriter pursuant to the foregoing provisions or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a Trustee, officer, or controlling person of the Registrant and the principal underwriter in connection with the successful defense of any action, suit or proceeding) is asserted by such Trustee, officer or controlling person or the principal underwriter in connection with the shares being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

ITEM 28. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER.

Fund Asset Management, L.P. (the "Manager") acts as the investment adviser for the following registered investment companies: Apex Municipal Fund, Inc., CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, The Corporate Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Financial Institutions Series Trust, Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California

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Municipal Series Trust, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Federal Securities Trust, Merrill Lynch Funds for Institutions Series, Merrill Lynch Institutional Tax-Exempt Fund, Merrill Lynch Multi-State Municipal Series Trust, Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch World Income Fund, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., The Municipal Fund Accumulation Program, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania

Insured Fund, MuniYield Arizona Fund, Inc., MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield California Insured Fund II, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Quality Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNew York Holdings, Inc. and Worldwide DollarVest Fund, Inc. Merrill Lynch Asset Management, L.P. ("MLAM"), an affiliate of the Manager, acts as the investment adviser for the following companies: Convertible Holdings, Inc., Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Capital Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc., Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings, Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc., Merrill Lynch High Income Municipal Bond Fund, Inc., Merrill Lynch Institutional Intermediate Fund, Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Municipal Series Trust, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Series Trust, Merrill Lynch Senior Floating Rate Fund, Merrill Lynch Series Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch U.S.A. Government Reserves, Merrill Lynch Utility Income Fund, Inc. and Merrill Lynch Variable Series Funds, Inc. The address of each of these investment companies is Box 9011, Princeton, New Jersey 08543-9011, except that the address of Merrill Lynch Funds for Institutions Series, Merrill Lynch Institutional Tax-Exempt Fund and Merrill Lynch Institutional Intermediate Fund is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2646. The address of the Manager and MLAM is also Box 9011, Princeton, New Jersey 08543-9011. The address of Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and Merrill Lynch & Co., Inc. ("ML & Co.") is World Financial Center, North Tower, 250 Vesey Street, New York, New York 10281.

Set forth below is a list of each executive officer and partner of the Manager indicating each business, profession, vocation or employment of a substantial nature in which each such person or entity has been engaged since December 31, 1991 for his or its own account or in the capacity of director, officer, partner or trustee. In addition, Mr. Zeikel is President, Mr. Richard is Treasurer and Mr. Glenn is Executive Vice President of substantially all of the investment companies described in the preceding paragraph and also hold the same positions with all or substantially all of the investment companies advised by MLAM as they do

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with those advised by the Manager, and Messrs. Durnin, Giordano, Harvey, Hewitt, and Monagle are directors or officers of one or more of such companies.

OFFICERS AND PARTNERS OF FAM ARE SET FORTH AS FOLLOWS:

<TABLE>
<CAPTION>

NAME -----	POSITION(S) WITH THE MANAGER -----	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT -----
<S>	<C>	<C>
ML & Co.	Limited Partner	Financial Services Holding Company
Fund Asset Management, Inc.	Limited Partner	Investment Advisory Services
Princeton Services, Inc.	General Partner	General Partner of MLAM
("Princeton Services")		
Arthur Zeikel.....	President	President of MLAM; President and Director of Princeton Services; Director of MLFD; Executive Vice President of ML & Co.; Executive Vice President of Merrill Lynch
Terry K. Glenn.....	Executive Vice President	Executive Vice President of MLAM; Executive Vice President and Director of Princeton Services; President and Director of MLFD; President of Princeton Administrators
Bernard J. Durnin.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Vincent R. Giordano.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Elizabeth Griffin.....	Senior Vice President	Senior Vice President of MLAM
Norman R. Harvey.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
N. John Hewitt.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Philip L. Kirstein.....	Senior Vice President, General Counsel and Secretary	Senior Vice President, General Counsel and Secretary of MLAM; Senior Vice President, General Counsel, Director and Secretary of Princeton Services; Director of MLFD
Ronald M. Kloss.....	Senior Vice President and Controller	Senior Vice President and Controller of MLAM; Senior Vice President and Controller of Princeton Services
Joseph T. Monagle, Jr. .	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Gerald M. Richard.....	Senior Vice President and Treasurer	Senior Vice President and Treasurer of MLAM; Senior Vice President and Treasurer of Princeton Services; Vice President and Treasurer of MLFD
Richard L. Rufener.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services; Vice President of MLFD
Ronald L. Welburn.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services
Anthony Wiseman.....	Senior Vice President	Senior Vice President of MLAM; Senior Vice President of Princeton Services

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ITEM 29. PRINCIPAL UNDERWRITERS.

(a) MLFD acts as the principal underwriter for the Registrant and, for each of the open-end investment companies referred to in the first paragraph of Item 28 except Apex Municipal Fund, Inc., CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, Convertible Holdings, Inc., The Corporate Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., The Municipal Fund Accumulation Program, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania Insured Fund, MuniYield Arizona Fund, Inc., MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield California Insured Fund II, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Quality Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNewYork Holdings, Inc. and Worldwide DollarVest Fund, Inc.

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

<TABLE>
<CAPTION>

NAME	POSITION(S) AND OFFICES WITH MLFD	POSITION(S) AND OFFICES WITH REGISTRANT
Terry K. Glenn.....	President and Director	Executive Vice President
Arthur Zeikel.....	Director	President and Trustee
Philip L. Kirstein....	Director	None
William E. Aldrich....	Senior Vice President	None
Robert W. Crook.....	Senior Vice President	None
Michael J. Brady.....	Vice President	None
William M. Breen.....	Vice President	None
Sharon Creveling.....	Vice President and Assistant Treasurer	None
Mark A. DeSario.....	Vice President	None
James T. Fatseas.....	Vice President	None
Stanley Graczyk.....	Vice President	None
Michelle T. Lau.....	Vice President	None
Gerald M. Richard....	Vice President and Treasurer	Treasurer

Richard L. Rufener....	Vice President	None
Salvatore Venezia.....	Vice President	None
William Wasel.....	Vice President	None
Robert Harris.....	Secretary	None

</TABLE>

(c) Not applicable.

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ITEM 30. LOCATION OF ACCOUNTS AND RECORDS.

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, as amended and the Rules thereunder are maintained at the offices of the Registrant and Financial Data Services, Inc.

ITEM 31. MANAGEMENT SERVICES.

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

ITEM 32. UNDERTAKINGS.

The Registrant undertakes to file a post-effective amendment, using financial statements which need not be certified, within four to six months from the effective date of Registrant's registration statement under the Securities Act of 1933, as amended.

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SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND THE INVESTMENT COMPANY ACT OF 1940, THE REGISTRANT HAS DULY CAUSED THIS REGISTRATION STATEMENT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THEREUNTO DULY AUTHORIZED, IN THE TOWNSHIP OF PLAINSBORO, AND STATE OF NEW JERSEY, ON THE 7TH DAY OF APRIL, 1994.

Merrill Lynch Multi-State Municipal
Series Trust
(Registrant)

/s/ Arthur Zeikel

By _____
(Arthur Zeikel, President)

EACH PERSON WHOSE SIGNATURE APPEARS BELOW HEREBY AUTHORIZES ARTHUR ZEIKEL, GERALD M. RICHARD AND TERRY K. GLENN, OR ANY OF THEM, AS ATTORNEY-IN-FACT, TO SIGN ON HIS BEHALF, INDIVIDUALLY AND IN EACH CAPACITY STATED BELOW, ANY AMENDMENTS TO THIS REGISTRATION STATEMENT (INCLUDING POST-EFFECTIVE AMENDMENTS)

AND TO FILE THE SAME, WITH ALL EXHIBITS THERETO, WITH THE SECURITIES AND EXCHANGE COMMISSION.

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS REGISTRATION STATEMENT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS IN THE CAPACITIES AND ON THE DATES INDICATED.

<TABLE>

<CAPTION>

SIGNATURE -----	TITLE -----	DATE ----
<S> /s/ Arthur Zeikel ----- (Arthur Zeikel)	<C> President and Trustee (Principal Executive Officer)	<C> April 7, 1994
/s/ Gerald M. Richard ----- (Gerald M. Richard)	Treasurer (Principal Financial and Accounting Officer)	April 7, 1994
/s/ Kenneth S. Axelson ----- (Kenneth S. Axelson)	Trustee	April 7, 1994
/s/ Herbert I. London ----- (Herbert I. London)	Trustee	April 7, 1994
/s/ Robert R. Martin ----- (Robert R. Martin)	Trustee	April 7, 1994
/s/ Joseph L. May ----- (Joseph L. May)	Trustee	April 7, 1994
/s/ Andre F. Perold ----- (Andre F. Perold)	Trustee	April 7, 1994

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