

SECURITIES AND EXCHANGE COMMISSION

FORM 485APOS

Post-effective amendments [Rule 485(a)]

Filing Date: **1994-03-17**
SEC Accession No. **0000950115-94-000060**

([HTML Version](#) on secdatabase.com)

FILER

MERRILL LYNCH VARIABLE SERIES FUNDS INC

CIK: **355916** | IRS No.: **133093080** | State of Incorporation: **NJ** | Fiscal Year End: **1231**
Type: **485APOS** | Act: **33** | File No.: **002-74452** | Film No.: **94516613**

Business Address
P O BOX 9011
PRINCETON NJ 08543-9011
6092823319

FILE NO. 2-74452

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM N-1A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933 /x/

PRE-EFFECTIVE AMENDMENT NO. / /

POST-EFFECTIVE AMENDMENT NO. 21 /x/

AND/OR

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940 /x/

AMENDMENT NO. 22

(CHECK APPROPRIATE BOX OR BOXES) /x/

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN CHARTER)

<TABLE>		
<S>	P.O. BOX 9011 PRINCETON, NEW JERSEY (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	<C> 08543-9011 (ZIP CODE)
</TABLE>		

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

ARTHUR ZEIKEL
800 SCUDDERS MILL ROAD

PLAINSBORO, NEW JERSEY 08536
(NAME AND ADDRESS OF AGENT FOR SERVICE)

COPIES TO:

<TABLE>		
<S>	PHILIP L. KIRSTEIN, ESQ. MERRILL LYNCH INVESTMENT MANAGEMENT, L.P. P.O. BOX 9011 PRINCETON, NEW JERSEY 08543-9011	<C> LEONARD B. MACKEY, JR., ESQ. ROGERS & WELLS 200 PARK AVENUE NEW YORK, NEW YORK 10166
</TABLE>		

IT IS PROPOSED THAT THIS FILING WILL BECOME EFFECTIVE (CHECK APPROPRIATE BOX)

/ / immediately upon filing pursuant to paragraph (b)

/ / on (date) pursuant to paragraph (b)

/x/ 60 days after filing pursuant to paragraph (a)

/ / on (date) pursuant to paragraph (a) of rule 485

The Registrant has registered an indefinite number of shares of its Funds, other than the Developing Capital Markets Focus, International Bond and Intermediate Government Bond Funds, under the Securities Act of 1933 pursuant to Rule 24f-2 under the Investment Company Act of 1940. The notice required by such rule for the Registrant's most recent fiscal year was filed on February 28, 1994. The Registrant hereby registers an indefinite number of shares of the Developing Capital Markets Focus, International Bond and Intermediate Government Bond Funds under the Securities Act of 1933 pursuant to Rule 24f-2 under the Investment Company Act of 1940.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
CROSS REFERENCE SHEET

<TABLE> <CAPTION> FORM N-1A ITEM		PROSPECTUS CAPTION
<C>	<S>	<C>
PART A		
1.	Cover Page.....	Cover Page
2.	Synopsis.....	*
3.	Financial Highlights.....	Financial Highlights; Performance Data
4.	General Description of Registrant.....	Investment Objective and Policies of the Funds; Additional Information
5.	Management of the Fund.....	Investment Adviser; Directors; Portfolio Transactions and Brokerage; Additional Information
6.	Capital Stock and Other Securities.....	Cover Page; Dividends; Distributions and Taxes; Additional Information
7.	Purchase of Securities Being Offered.....	Purchase of Shares; Additional Information
8.	Redemption or Repurchase.....	Redemption of Shares
9.	Pending Legal Proceedings.....	*
STATEMENT OF ADDITIONAL INFORMATION CAPTION		
PART B		
10.	Cover Page.....	Cover Page
11.	Table of Contents.....	Table of Contents
12.	General Information and History.....	Additional Information
13.	Investment Objectives and Policies.....	Investment Objectives and Policies; Investment Restrictions; Portfolio Transactions and Brokerage
14.	Management of the Registrant.....	Management of the Company
15.	Control Persons and Principal Holders of Securities.....	Management of the Company; Additional Information
16.	Investment Advisory and Other Services.....	Management of the Company
17.	Brokerage Allocation and Other Practices....	Portfolio Transactions and Brokerage
18.	Capital Stock and Other Securities.....	*
19.	Purchase, Redemption and Pricing of Securities Being Offered.....	Determination of Net Asset Value; Redemption of Shares
20.	Tax Status.....	Dividends, Distributions and Taxes
21.	Underwriters.....	Distribution Arrangements
22.	Calculation of Performance Data.....	Performance Data
23.	Financial Statements.....	Financial Statements

</TABLE>
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.

* Item inapplicable or answer negative.

PROSPECTUS
MAY 1, 1994

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

Merrill Lynch Variable Series Funds, Inc. (the 'Company') is an open-end management investment company which has a wide range of investment objectives among its seventeen separate funds (hereinafter referred to as the 'Funds' or individually as a 'Fund'). A separate class of common stock ('Common Stock') is issued for each Fund.

The shares of the Funds will be sold to Merrill Lynch Life Insurance Company ('MLLIC') and ML Life Insurance Company of New York ('ML of New York') and shares of certain of the Funds will be sold to Family Life Insurance Company ('Family Life' and, together with ML of New York and MLLIC, the 'Insurance Companies') for certain separate accounts ('Separate Accounts') to fund benefits under variable annuity contracts ('Variable Annuity Contracts') issued by the Insurance Companies. Shares of the funds sold only to MLLIC and ML of New York also will be sold to MLLIC and ML of New York for certain of their other separate accounts to fund variable life insurance contracts issued by them (such contracts, together with Variable Annuity Contracts are collectively referred to as the 'Contracts'). The Insurance Companies will redeem shares to the extent necessary to provide benefits under the respective Contracts or for such other purposes as may be consistent with the respective Contracts. MLLIC and ML of New York are wholly-owned subsidiaries of Merrill Lynch & Co., Inc., as is the Company's investment adviser, Merrill Lynch Asset Management, L.P. (the 'Investment Adviser'). The investment objectives of the Funds, each of whose name is preceded by 'Merrill Lynch', are as follows:

DOMESTIC MONEY MARKET FUND. Preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives by investing in short-term domestic money market securities. Shares of this Fund are sold only to MLLIC and ML of New York.

RESERVE ASSETS FUND. Preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives by investing in short-term money market securities.

PRIME BOND FUND. As high a level of current income as is consistent with prudent investment management, and capital appreciation to the extent consistent with the foregoing objective, by investing primarily in long-term corporate bonds rated A or better by either Moody's Investors Service, Inc. or Standard & Poor's Corporation.

HIGH CURRENT INCOME FUND. As high a level of current income as is consistent with prudent investment management, and capital appreciation to the extent consistent with the foregoing objective, by investing principally in fixed-income securities which are rated in the lower rating categories of the established rating services or in unrated securities of comparable quality.

(continued on next page)

THE RESERVE ASSETS FUND AND THE DOMESTIC MONEY MARKET FUND ATTEMPT TO MAINTAIN A STABLE NET ASSET VALUE OF \$1.00 PER SHARE, BUT THERE CAN BE NO ASSURANCE THAT THEY WILL BE ABLE TO DO SO. AN INVESTMENT IN THE RESERVE ASSETS FUND OR THE DOMESTIC MONEY MARKET FUND IS NEITHER INSURED NOR GUARANTEED BY THE U.S. GOVERNMENT. THE HIGH CURRENT INCOME FUND, WORLD INCOME FOCUS FUND AND DEVELOPING CAPITAL MARKETS FOCUS FUND INVEST IN HIGH YIELD BONDS (COMMONLY KNOWN AS 'JUNK BONDS'), WHICH INVOLVE SPECIAL RISKS. SEE 'INVESTMENT OBJECTIVE AND POLICIES OF THE FUNDS--HIGH CURRENT INCOME FUND--RISK FACTORS.'

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 SETS FORTH IN CONCISE FORM THE INFORMATION ABOUT THE COMPANY THAT A PROSPECTIVE INVESTOR SHOULD KNOW BEFORE INVESTING IN THE COMPANY.

INVESTORS SHOULD READ AND RETAIN THIS PROSPECTUS FOR FUTURE REFERENCE. A STATEMENT CONTAINING ADDITIONAL INFORMATION ABOUT THE COMPANY HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IN A STATEMENT OF ADDITIONAL INFORMATION, DATED MAY 1, 1994, AND IS AVAILABLE ON REQUEST AND WITHOUT CHARGE BY CALLING OR WRITING THE COMPANY AT THE ADDRESS AND TELEPHONE NUMBER SET FORTH ABOVE. THE STATEMENT OF ADDITIONAL INFORMATION IS HEREBY INCORPORATED BY REFERENCE INTO THIS PROSPECTUS.

MERRILL LYNCH ASSET MANAGEMENT--INVESTMENT ADVISER
MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

(continuation of cover page)

QUALITY EQUITY FUND. Highest total investment return consistent with prudent risk through a fully managed investment policy utilizing equity securities, primarily common stocks of large-capitalization companies, as well as investment grade debt and convertible securities.

EQUITY GROWTH FUND. Long-term capital growth by investing primarily in common shares of small companies and emerging growth companies regardless of size.

FLEXIBLE STRATEGY FUND. High total investment return consistent with prudent risk through a flexible investment policy using equity securities, intermediate and long-term debt obligations and money market securities of domestic and foreign issuers. While the Fund will generally emphasize investment in common stocks of larger-capitalization issuers and in investment grade debt obligations, the Fund may from time to time invest in small company and emerging growth company stocks when consistent with the Fund's objective.

NATURAL RESOURCES FOCUS FUND. Long-term growth of capital and protection of the purchasing power of shareholders' capital by investing primarily in equity securities of domestic and foreign companies with substantial natural resource assets.

AMERICAN BALANCED FUND. A level of current income and a degree of stability of principal not normally available from an investment solely in equity securities and the opportunity for capital appreciation greater than is normally available from an investment solely in debt securities by investing in a balanced portfolio of fixed income and equity securities.

GLOBAL STRATEGY FOCUS FUND. High total investment return by investing primarily in a portfolio of equity and fixed income securities of U.S. and foreign issuers. Shares of this Fund are sold only to MLLIC and ML of New York.

BASIC VALUE FOCUS FUND. Capital appreciation and, secondarily, income by investing in securities, primarily equities that management of the Fund believes are undervalued and therefore represent basic investment value.

WORLD INCOME FOCUS FUND. High current income by investing in a global portfolio of fixed income securities denominated in various currencies, including multinational currency units. The Fund may invest in United States and foreign government and corporate fixed income securities, including high yield, high risk, lower rated and unrated securities.

GLOBAL UTILITY FOCUS FUND. 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, in the opinion of the Investment Adviser, primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.

INTERNATIONAL EQUITY FOCUS FUND. Capital appreciation through investment in securities, principally equities of issuers in countries other than the United States.

DEVELOPING CAPITAL MARKETS FOCUS FUND. Long-term capital appreciation by investing in securities, principally equities, of issuers in countries having smaller capital markets. Shares of this Fund are sold only to MLLIC and ML of New York.

INTERNATIONAL BOND FUND. High total investment return by investing

in a non-U.S. international portfolio of debt instruments denominated in various currencies and multi-national currency units. Shares of this Fund are sold only to MLLIC and ML of New York.

INTERMEDIATE GOVERNMENT BOND FUND. Highest possible current income consistent with the protection of capital afforded by investing in intermediate-term debt securities issued or guaranteed by the United States Government or its agencies. Shares of this Fund are sold only to MLLIC and ML of New York.

There can be no assurance that the objectives of any Fund will be realized. See 'Investment Objectives and Policies of the Funds,' page .

FINANCIAL HIGHLIGHTS

The following table presents supplementary financial information with respect to each of the Company's Funds, other than the Developing Capital Markets Focus, International Bond and Intermediate Government Bond Funds, none of which had commenced operations on December 31, 1993. The table has been audited by Deloitte & Touche, independent auditors, in connection with their annual audits of the Company's financial statements. Financial statements for the year ended December 31, 1993 and the independent auditors' report thereon appear in the Statement of Additional Information. The information in the following table should be read in conjunction with the financial statements.

<TABLE>
<CAPTION>

AMERICAN BALANCED FUND					

FOR THE YEAR ENDED DECEMBER 31,					

	1993	1992	1991	1990	1989
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
The following per share data and ratios have been derived from information provided in the financial statements.					
INCREASE (DECREASE) IN NET ASSET VALUE:					
PER SHARE OPERATING PERFORMANCE:					
Net asset value, beginning of period.....	\$ 12.85	\$ 12.82	\$ 11.26	\$ 11.74	\$ 10.41
Investment income--net.....	.32	.31	.47	.47	.44
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.37	.37	1.76	(.35)	1.40
Total from investment operations.....	1.69	.68	2.23	.12	1.84
Less dividends and distributions:					
Investment income--net.....	(.34)	(.37)	(.49)	(.46)	(.50)
Realized gain on investments--net.....	(.12)	(.28)	(.18)	(.14)	(.01)
Total dividends and distributions.....	(.46)	(.65)	(.67)	(.60)	(.51)
Net asset value, end of period.....	\$ 14.08	\$ 12.85	\$ 12.82	\$ 11.26	\$ 11.74
TOTAL INVESTMENT RETURN:**					
Based on net asset value per share.....	13.49%	5.72%	20.65%	1.22%	18.11%
RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	.70%	.97%	1.20%	1.25%	1.25%
Expenses.....	.70%	.97%	1.20%	1.50%	2.29%
Investment income--net.....	3.20%	3.71%	4.16%	4.71%	4.71%
SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$115,420	\$24,918	\$ 7,937	\$ 5,675	\$ 3,854
Portfolio turnover.....	12.55%	36.34%	50.82%	23.52%	37.60%

</TABLE>
 <TABLE>
 <CAPTION>

	FOR THE PERIOD JUNE 1, 1988+ TO DEC. 31, 1988

The following per share data and ratios have been derived from information provided in the financial statements. INCREASE (DECREASE) IN NET ASSET VALUE:	
<S>	<C>
PER SHARE OPERATING PERFORMANCE.	
Net asset value, beginning of period.....	\$ 10.00

Investment income--net.....	.29
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.12

Total from investment operations.....	.41

Less dividends and distributions:	
Investment income--net.....	--
Realized gain on investments--net.....	--

Total dividends and distributions.....	--

Net asset value, end of period.....	\$ 10.41

TOTAL INVESTMENT RETURN:**	
Based on net asset value per share.....	4.10%++

RATIOS TO AVERAGE NET ASSETS:	
Expenses, net of reimbursement.....	1.25%*

Expenses.....	1.25%*

Investment income--net.....	5.13%

SUPPLEMENTAL DATA:	
Net assets, end of period (in thousands).....	\$ 2,276

Portfolio turnover.....	2.04%

</TABLE>

* Annualized.

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

+ The Fund commenced operations on June 1, 1988.

++ Aggregate total investment return.

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

<TABLE>
 <CAPTION>

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

INCREASE (DECREASE) IN NET ASSET VALUE:

<S>

PER SHARE OPERATING PERFORMANCE:

	BASIC VALUE FOCUS FUND	DOMESTIC MONEY MARKET FUND
	FOR THE PERIOD JULY 1, 1993+ TO	FOR THE YEAR ENDED
	DECEMBER 31, 1993	DECEMBER 31, 1993
	<C>	<C>
Net asset value, beginning of period.....	\$ 10.00	\$ 1.00
Investment income--net.....	.04	.0302
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.91	.0005
Total from investment operations.....	.95	.0307
Less dividends and distributions:		
Investment income--net.....	--	(.0302)
Realized gain on investments--net.....	--	(.0005)
Total dividends and distributions.....	--	(.0307)
Net asset value, end of period.....	\$ 10.95	\$ 1.00
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share.....	9.50%++	3.10%

RATIOS TO AVERAGE NET ASSETS:

Expenses, net of reimbursement.....	.86%*	.36%
Expenses.....	.86%*	.63%
Investment income--net.....	1.69%*	--%
Investment income--net, and realized gain (loss) on investments--net.....	--*	3.03%

SUPPLEMENTAL DATA:

Net assets, end of period (in thousands).....	\$47,207	\$ 170,531
Portfolio turnover.....	30.86%	--%

</TABLE>
<TABLE>
<CAPTION>

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

INCREASE (DECREASE) IN NET ASSET VALUE:

<S>

PER SHARE OPERATING PERFORMANCE:

	FOR THE PERIOD FEBRUARY 20, 1992+ TO
	DECEMBER 31, 1992
	<C>
Net asset value, beginning of period.....	\$ 1.00
Investment income--net.....	.0302
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.0013
Total from investment operations.....	.0315
Less dividends and distributions:	
Investment income--net.....	(.0302)
Realized gain on investments--net.....	(.0010)
Total dividends and distributions.....	(.0312)
Net asset value, end of period.....	\$ 1.00
TOTAL INVESTMENT RETURN:**	
Based on net asset value per share.....	3.16%++

RATIOS TO AVERAGE NET ASSETS:	
Expenses, net of reimbursement.....	.32%*
Expenses.....	.88%*
Investment income--net.....	--%
Investment income--net, and realized gain (loss) on investments--net.....	3.48%*
SUPPLEMENTAL DATA:	
Net assets, end of period (in thousands).....	\$41,128
Portfolio turnover.....	--%

</TABLE>

* Annualized.

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

+ The Basic Value Focus Fund commenced operations on July 1, 1993 and the Domestic Money Market Fund commenced operations on February 20, 1992.

++ Aggregate total investment return.

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>	EQUITY GROWTH FUND							
<CAPTION>	FOR THE YEAR ENDED DECEMBER 31,							
The following per share data and ratios have been derived from information provided in the financial statements.								
INCREASE (DECREASE) IN NET ASSET VALUE:	1993+	1992+	1991	1990	1989	1988	1987	1986
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:								
Net asset value, beginning of period.....	\$ 17.80	\$ 17.96	\$ 11.98	\$ 13.70	\$ 11.75	\$ 11.47	\$ 18.42	\$ 15.56
Investment income--net.....	(.01)	.01	.09	.05	(.07)	(.10)	(.09)	.04
Realized and unrealized gain (loss) on investments--net.....	3.17	(.10)	5.91	(1.77)	2.02	.60	(4.01)	2.86
Total from investment operations.....	3.16	(.09)	6.00	(1.72)	1.95	.50	(4.10)	2.90
Less dividends and distributions:								
Investment income--net.....	--	(.07)	(.02)	--	--	--	(.03)	(.04)
Realized gain on investments--net.....	--	--	--	--	--	(.22)	(2.82)	--

Total dividends and distributions....	--	(.07)	(.02)	--	--	(.22)	(2.85)	(.04)
Net asset value, end of period.....	\$ 20.96	\$ 17.80	\$ 17.96	\$ 11.98	\$ 13.70	\$ 11.75	\$ 11.47	\$ 18.42
TOTAL INVESTMENT RETURN:**								
Based on net asset value per share...	17.78%	(0.53)%	50.10%	(12.55)%	16.60%	4.25%	(22.29)%	18.68%
RATIOS TO AVERAGE NET ASSETS:								
Expenses, net of reimbursement.....	.96%	1.18%	1.25%	1.25%	1.25%	1.25%	1.24%	1.25%
Expenses.....	.96%	1.18%	1.28%	1.47%	1.53%	1.25%	1.24%	1.44%
Investment income (loss)--net.....	(.05)%	.04%	.51%	.14%	(.68)%	(.56)%	(.60)%	.24%
SUPPLEMENTAL DATA:								
Net assets, end of period (in thousands).....	\$98,976	\$ 23,167	\$11,318	\$ 6,851	\$ 6,811	\$ 5,521	\$ 6,707	\$ 4,955
Portfolio turnover.....	131.75%	98.64%	79.10%	135.24%	100.49%	68.73%	94.91%	80.52%

</TABLE>
<TABLE>
<CAPTION>

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

INCREASE (DECREASE) IN NET ASSET VALUE:

	1985	1984
<S>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period.....	\$ 11.85	\$ 14.97
Investment income--net.....	.05	.10
Realized and unrealized gain (loss) on investments--net.....	3.73	(2.44)
Total from investment operations.....	3.78	(2.34)
Less dividends and distributions:		
Investment income--net.....	(.07)	(.13)
Realized gain on investments--net.....	--	(.65)
Total dividends and distributions....	(.07)	(.78)
Net asset value, end of period.....	\$ 15.56	\$ 11.85
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share...	32.01%	(16.44)%

RATIOS TO AVERAGE NET ASSETS:

Expenses, net of reimbursement.....	1.08%	.75%
Expenses.....	1.48%	1.56%
Investment income (loss)--net.....	.34%	.73%

SUPPLEMENTAL DATA:

Net assets, end of period (in thousands).....	\$ 2,662	\$ 2,743
Portfolio turnover.....	66.55%	46.28%

</TABLE>

 ** Total investment returns exclude the effects of sales loads.
 + Based on average number of shares outstanding during the year.
 ++ Aggregate total investment return.

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

FLEXIBLE STRATEGY FUND

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

	FOR THE YEAR ENDED DECEMBER 31,					
INCREASE (DECREASE) IN NET ASSET VALUE:	1993	1992	1991	1990	1989	1988
<S>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:						
Net asset value, beginning of period.....	\$ 14.15	\$ 14.79	\$ 12.55	\$ 12.44	\$ 10.84	\$ 9.97
Investment income--net.....	.28	.33	.47	.65	.48	.52
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.94	.25	2.52	(.08)	1.67	.60
Total from investment operations.....	2.22	.58	2.99	.57	2.15	1.12
Less dividends and distributions:						
Investment income--net.....	(.15)	(.54)	(.66)	(.46)	(.55)	(.25)
Realized gain on investments--net.....	(.03)	(.68)	(.09)	--	--	--
Total dividends and distributions.....	(.18)	(1.22)	(.75)	(.46)	(.55)	(.25)
Net asset value, end of period.....	\$ 16.19	\$ 14.15	\$ 14.79	\$ 12.55	\$ 12.44	\$ 10.84
TOTAL INVESTMENT RETURN:**						
Based on net asset value per share.....	15.80%	4.25%	24.98%	4.81%	20.29%	11.26%
RATIOS TO AVERAGE NET ASSETS:						
Expenses, net of reimbursement.....	.80%	.90%	.96%	1.08%	1.19%	1.09%
Expenses.....	.80%	.90%	.96%	1.08%	1.19%	1.09%
Investment income--net.....	2.26%	2.62%	3.51%	5.19%	3.94%	4.37%
SUPPLEMENTAL DATA:						
Net assets, end of period (in thousands).....	\$ 194,777	\$ 82,549	\$ 55,221	\$ 47,428	\$ 47,837	\$46,662
Portfolio turnover.....	56.42%	55.25%	67.13%	52.95%	83.31%	80.07%

	1987	FOR THE PERIOD MAY 1, 1986+ TO DEC. 31, 1986
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period.....	\$ 10.22	\$ 10.00
Investment income--net.....	.24	.11
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.03	.11
Total from investment operations.....	.27	.22
Less dividends and distributions:		
Investment income--net.....	(.34)	--
Realized gain on investments--net.....	(.18)	--
Total dividends and distributions.....	(.52)	--
Net asset value, end of period.....	\$ 9.97	\$ 10.22
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share.....	2.43%	2.20%++
RATIOS TO AVERAGE NET ASSETS:		
Expenses, net of reimbursement.....	1.07%	1.25%*
Expenses.....	1.07%	1.25%*
Investment income--net.....	2.84%	3.65%*
SUPPLEMENTAL DATA:		
Net assets, end of period (in thousands).....	\$61,305	\$ 20,640
Portfolio turnover.....	74.09%	48.88%

</TABLE>

* Annualized.

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

+ The Fund commenced operations on May 1, 1986.

++ Aggregate total investment return.

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

	GLOBAL STRATEGY FOCUS FUND	GLOBAL UTILITY FOCUS FUND
	FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE PERIOD FEBRUARY 28, 1992+ TO DECEMBER 31, 1992
		FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993
The following per share data and ratios have been derived from information provided in the financial statements. INCREASE (DECREASE) IN NET ASSET VALUE:		
<S>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period.....	\$ 10.22	\$ 10.00
Investment income--net.....	.07	.13
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.96	.13
Total from investment operations.....	2.03	.26
Less dividends and distributions:		
Investment income--net.....	(.08)	(.04)
Realized gain on investments--net.....	--	--
Total dividends and distributions.....	(.08)	(.04)
Net asset value, end of period.....	\$ 12.17	\$ 10.22
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share.....	21.03%	2.62%++
RATIOS TO AVERAGE NET ASSETS:		
Expenses, net of reimbursement.....	.88%	1.25%*
Expenses.....	.88%	1.35%*
Investment income--net.....	2.41%	2.66%*
SUPPLEMENTAL DATA:		
Net assets, end of period (in thousands).....	\$ 269,627	\$ 15,527
Portfolio turnover.....	17.07%	14.47%

</TABLE>

* Annualized.

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

+ The Global Strategy Focus Fund commenced operations on February 28, 1992 and the Global Utility Focus Fund commenced operations on July 1, 1993.

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

		HIGH CURRENT INCOME FUND							
		FOR THE YEAR ENDED DECEMBER 31,							
INCREASE (DECREASE) IN NET ASSET VALUE:		1993	1992	1991	1990	1989	1988	1987	1986
<S>		<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:									
Net asset value, beginning of period.....		\$ 11.13	\$ 10.23	\$ 8.14	\$ 10.21	\$ 10.85	\$ 10.55	\$ 11.42	\$ 11.39
Investment income--net.....		.95	1.07	1.19	1.40	1.29	1.21	1.23	1.25
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....		.95	.90	2.10	(2.08)	(.64)	.20	(.79)	.03
Total from investment operations.....		1.90	1.97	3.29	(.68)	.65	1.41	.44	1.28
Less dividends and distributions:									
Investment income--net.....		(.97)	(1.07)	(1.20)	(1.39)	(1.29)	(1.11)	(1.23)	(1.25)
Realized gain on investments--net.....		--	--	--	--	--	--	(.08)	--
Total dividends and distributions...		(.97)	(1.07)	(1.20)	(1.39)	(1.29)	(1.11)	(1.31)	(1.25)
Net asset value, end of period.....		\$ 12.06	\$ 11.13	\$ 10.23	\$ 8.14	\$ 10.21	\$ 10.85	\$ 10.55	\$ 11.42
TOTAL INVESTMENT RETURN:**									
Based on net asset value per share.....		17.84%	20.05%	43.00%	(7.63)%	6.14%	13.87%	3.82%	11.74%
RATIOS TO AVERAGE NET ASSETS:									
Expenses, net of reimbursement...		.72%	.89%	1.10%	1.15%	1.22%	1.07%	1.01%	1.12%
Expenses.....		.72%	.89%	1.10%	1.15%	1.22%	1.07%	1.01%	1.12%
Investment income--net.....		8.62%	10.06%	12.49%	14.52%	11.98%	11.22%	10.88%	10.65%
SUPPLEMENTAL DATA:									
Net assets, end of period (in thousands).....		\$163,428	\$ 26,343	\$ 9,649	\$ 8,106	\$12,942	\$13,960	\$13,075	\$12,577
Portfolio turnover.....		35.67%	28.21%	51.54%	26.43%	53.52%	33.91%	56.07%	22.44%

INCREASE (DECREASE) IN NET ASSET VALUE:		1985	1984
<S>	<C>	<C>	<C>

PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period.....	\$ 10.33	\$ 11.17
	-----	-----
Investment income--net.....	1.32	1.38
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.06	(.58)
	-----	-----
Total from investment operations.....	2.38	.80
	-----	-----
Less dividends and distributions:		
Investment income--net.....	(1.32)	(1.38)
Realized gain on investments--net.....	--	(.26)
	-----	-----
Total dividends and distributions...	(1.32)	(1.64)
	-----	-----
Net asset value, end of period.....	\$ 11.39	\$ 10.33
	-----	-----
	-----	-----
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share.....	24.24%	7.97%
	-----	-----
	-----	-----
RATIOS TO AVERAGE NET ASSETS:		
Expenses, net of reimbursement...	1.11%	.75%
	-----	-----
Expenses.....	1.54%	1.60%
	-----	-----
Investment income--net.....	11.87%	13.20%
	-----	-----
	-----	-----
SUPPLEMENTAL DATA:		
Net assets, end of period (in thousands).....	\$ 4,695	\$ 2,786
	-----	-----
Portfolio turnover.....	33.67%	43.59%
	-----	-----
	-----	-----

</TABLE>

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

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

[co eah]

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

INTERNATIONAL
EQUITY FOCUS
FUND

FOR THE
PERIOD

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

JULY 1,
1993+ TO
DECEMBER 31,

INCREASE (DECREASE) IN NET ASSET VALUE:	1993
<S>	-----
PER SHARE OPERATING PERFORMANCE:	<C>
Net asset value, beginning of period.....	\$ 10.00
Investment income--net.....	.01
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.02
Total from investment operations.....	1.03
Less dividends and distributions:	
Investment income--net.....	--
Realized gain on investments--net.....	--
Total dividends and distributions.....	--
Net asset value, end of period.....	\$ 11.03
TOTAL INVESTMENT RETURN:**	
Based on net asset value per share.....	10.30%++
RATIOS TO AVERAGE NET ASSETS:	
Expenses, net of reimbursement.....	1.14%*
Expenses.....	1.14%*
Investment income--net.....	0.30%*
SUPPLEMENTAL DATA:	
Net assets, end of period (in thousands).....	\$ 76,906
Portfolio turnover.....	17.39%

</TABLE>

* Annualized.
** Total investment returns exclude the effects of sales loads.
+ The Fund commenced operations on July 1, 1993.
++ Aggregate total investment return.

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

NATURAL RESOURCES FOCUS FUND

The following per share data and ratios have been

derived from information provided in the financial statements.

INCREASE (DECREASE) IN NET ASSET VALUE:	FOR THE YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
<S>	-----	-----	-----	-----	-----
PER SHARE OPERATING PERFORMANCE:	<C>	<C>	<C>	<C>	<C>
Net asset value, beginning of period.....	\$ 9.84	\$ 10.06	\$ 10.17	\$ 11.09	\$ 9.58
Investment income--net.....	.11	.18	.25	.22	.24
Realized and unrealized gain (loss) on investments and					

foreign currency transactions--net.....	.92	(.05)	(.11)	(.90)	1.49
Total from investment operations.....	1.03	.13	.14	(.68)	1.73
Less dividends and distributions:					
Investment income--net.....	(.05)	(.29)	(.25)	(.24)	(.22)
Realized gain on investments--net.....	--	(.06)	--	--	--
Total dividends and distributions.....	(.05)	(.35)	(.25)	(.24)	(.22)
Net asset value, end of period.....	\$ 10.82	\$ 9.84	\$ 10.06	\$ 10.17	\$ 11.09
TOTAL INVESTMENT RETURN:**					
Based on net asset value per share.....	10.47%	1.36%	1.36%	(6.21)%	18.23%
RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	1.13%	1.25%	1.25%	1.25%	1.25%
Expenses.....	1.13%	1.27%	1.30%	1.38%	1.74%
Investment income--net.....	1.34%	2.00%	2.31%	2.26%	2.26%
SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$14,778	\$ 4,144	\$ 3,084	\$ 3,247	\$ 2,704
Portfolio turnover.....	58.44%	22.88%	31.38%	27.61%	93.97%

<CAPTION>

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

INCREASE (DECREASE) IN NET ASSET VALUE:

	FOR THE PERIOD JUNE 1, 1988+ TO DEC. 31, 1988
<S>	<C>
PER SHARE OPERATING PERFORMANCE:	
Net asset value, beginning of period.....	\$ 10.00
Investment income--net.....	.12
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	(.54)
Total from investment operations.....	(.42)
Less dividends and distributions:	
Investment income--net.....	--
Realized gain on investments--net.....	--
Total dividends and distributions.....	--
Net asset value, end of period.....	\$ 9.58
TOTAL INVESTMENT RETURN:**	
Based on net asset value per share.....	(4.20)%++
RATIOS TO AVERAGE NET ASSETS:	
Expenses, net of reimbursement.....	1.24%*
Expenses.....	1.24%*
Investment income--net.....	2.59%*
SUPPLEMENTAL DATA:	
Net assets, end of period (in thousands).....	\$ 2,371

Portfolio turnover..... 16.31%

</TABLE>

* Annualized.

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

+ The Fund commenced operations on June 1, 1988.

++ Aggregate total investment return.

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

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

PRIME BOND FUND

FOR THE YEAR ENDED DECEMBER 31,

INCREASE (DECREASE) IN NET ASSET VALUE:	1993	1992	1991	1990	1989	1988	1987	1986
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:								
Net asset value, beginning of period.....	\$ 12.04	\$ 12.02	\$ 11.18	\$ 11.29	\$ 10.81	\$ 10.89	\$ 12.04	\$ 11.50
Investment income--net.....	.70	.79	.90	.88	.90	.87	.87	.99
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.71	.04	.84	(.12)	.48	(.15)	(1.00)	.54
Total from investment operations.....	1.41	.83	1.74	.76	1.38	.72	(.13)	1.53
Less dividends and distributions:								
Investment income--net.....	(.70)	(.81)	(.90)	(.87)	(.90)	(.80)	(.87)	(.99)
Realized gain on investments--net.....	(.11)	--	--	--	--	--	(.15)	--
Total dividends and distributions.....	(.81)	(.81)	(.90)	(.87)	(.90)	(.80)	(1.02)	(.99)
Net asset value, end of period.....	\$ 12.64	\$ 12.04	\$ 12.02	\$ 11.18	\$ 11.29	\$ 10.81	\$ 10.89	\$ 12.04
TOTAL INVESTMENT RETURN:**								
Based on net asset value per share.....	12.02%	7.27%	16.41%	7.13%	13.29%	6.75%	(1.10)%	13.75%
RATIOS TO AVERAGE NET ASSETS:								

Expenses, net of reimbursement...	.63%	.78%	.78%	1.06%	1.16%	1.07%	1.07%	1.12%
Expenses.....	.63%	.78%	.78%	1.06%	1.16%	1.07%	1.07%	1.12%
Investment income--net.....	5.86%	6.76%	7.94%	8.01%	8.12%	8.05%	7.66%	7.98%
SUPPLEMENTAL DATA:								
Net assets, end of period (in thousands).....	\$314,091	\$84,810	\$39,743	\$34,655	\$29,593	\$22,499	\$17,385	\$20,869
Portfolio turnover.....	115.26%	82.74%	152.18%	155.17%	144.52%	225.81%	129.46%	103.63%

<CAPTION>

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

INCREASE (DECREASE) IN NET ASSET VALUE:

	1985	1984
<S>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period.....	\$ 10.44	\$ 10.24
Investment income--net.....	1.13	1.23
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.06	.24
Total from investment operations.....	2.19	1.47
Less dividends and distributions:		
Investment income--net.....	(1.13)	(1.23)
Realized gain on investments--net.....	--	(.04)
Total dividends and distributions.....	(1.13)	(1.27)
Net asset value, end of period.....	\$ 11.50	\$ 10.44
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share.....	22.15%	15.82%
RATIOS TO AVERAGE NET ASSETS:		
Expenses, net of reimbursement...	1.11%	.75%
Expenses.....	1.43%	1.43%
Investment income--net.....	10.26%	12.44%
SUPPLEMENTAL DATA:		
Net assets, end of period (in thousands).....	\$ 7,631	\$ 4,755
Portfolio turnover.....	16.58%	39.42%

</TABLE>

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

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

		QUALITY EQUITY FUND							
		FOR THE YEAR ENDED DECEMBER 31,							
INCREASE (DECREASE) IN NET ASSET VALUE:		1993	1992	1991	1990	1989	1988	1987	1986
		<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:									
Net asset value, beginning of									
period.....		\$ 25.48	\$ 26.35	\$ 21.72	\$ 22.88	\$ 17.94	\$ 16.00	\$ 20.15	\$ 17.14
Investment income--net.....		.24	.34	.43	.47	.50	.43	.42	.43
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....		3.46	.32	5.75	(.38)	4.96	1.73	(.35)	3.01
Total from investment operations....		3.70	.66	6.18	.09	5.46	2.16	.07	3.44
Less dividends and distributions:									
Investment income--net.....		(.12)	(.58)	(.50)	(.41)	(.52)	(.22)	(.60)	(.43)
Realized gain on investments--net.....		(.04)	(.95)	(1.05)	(.84)	--	--	(3.62)	--
Total dividends and distributions...		(.16)	(1.53)	(1.55)	(1.25)	(.52)	(.22)	(4.22)	(.43)
Net asset value, end of period.....		\$ 29.02	\$ 25.48	\$ 26.35	\$ 21.72	\$ 22.88	\$ 17.94	\$ 16.00	\$ 20.15
TOTAL INVESTMENT RETURN:**									
Based on net asset value per share.....		14.57%	2.69%	30.18%	0.66%	30.77%	13.54%	(0.70)%	20.38%
RATIOS TO AVERAGE NET ASSETS:									
Expenses, net of reimbursement.....		.62%	.74%	.79%	.94%	1.05%	1.02%	.93%	1.09%
Expenses.....		.62%	.74%	.79%	.94%	1.05%	1.02%	.93%	1.09%
Investment income--net.....		1.07%	1.54%	1.87%	2.36%	2.58%	2.25%	2.31%	2.41%
SUPPLEMENTAL DATA:									
Net assets, end of period (in thousands).....		\$309,420	\$87,977	\$55,005	\$39,470	\$31,467	\$20,055	\$23,986	\$16,704
Portfolio turnover.....		88.25%	62.54%	55.83%	69.05%	44.23%	32.53%	65.58%	50.96%

<CAPTION>
 The following per share data and ratios have been derived from information provided in the financial statements.
 INCREASE (DECREASE) IN NET ASSET VALUE:

1985 1984

<S>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of		
period.....	\$ 13.94	\$ 13.55
Investment income--net.....	.45	.62
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	3.84	.45
Total from investment operations....	4.29	1.07
Less dividends and distributions:		
Investment income--net.....	(.60)	(.50)
Realized gain on investments--net.....	(.49)	(.18)
Total dividends and distributions...	(1.09)	(.68)
Net asset value, end of period.....	\$ 17.14	\$ 13.94
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share.....	32.66%	8.54%
RATIOS TO AVERAGE NET ASSETS:		
Expenses, net of reimbursement.....	1.08%	.75%
Expenses.....	1.22%	1.27%
Investment income--net.....	3.20%	4.55%
SUPPLEMENTAL DATA:		
Net assets, end of period (in thousands).....	\$ 9,973	\$ 5,963
Portfolio turnover.....	34.21%	83.91%

</TABLE>

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

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

The following per share data and ratios have been derived from information provided in the financial statements.
INCREASE (DECREASE) IN NET ASSET VALUE:

RESERVE ASSETS FUND

FOR THE YEAR ENDED DECEMBER 31,

	1993	1992	1991	1990	1989	1988	1987	1986
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>

PER SHARE OPERATING PERFORMANCE:								
Net asset value, beginning of period.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Investment income--net.....	.0268	.0320	.0546	.0730	.0822	.0661	.0574	.0560
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.0005	.0007	.0014	.0019	.0012	.0002	.0005	.0027
Total from investment operations.....	.0273	.0327	.0560	.0749	.0834	.0663	.0579	.0587
Less dividends and distributions:								
Investment income--net.....	(.0268)	(.0320)	(.0546)	(.0730)	(.0822)	(.0661)	(.0574)	(.0560)
Realized gain on investments--net.....	(.0005)	(.0005)	(.0014)+	(.0019)+	(.0012)+	(.0002)+	(.0005)+	(.0027)+
Total dividends and distributions....	(.0273)	(.0325)	(.0560)	(.0749)	(.0834)	(.0663)	(.0579)	(.0587)
Net asset value, end of period.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
TOTAL INVESTMENT RETURN:**								
Based on net asset value per share...	2.77%	3.29%	5.68%	7.65%	8.62%	6.85%	5.96%	6.05%
RATIOS TO AVERAGE NET ASSETS:								
Expenses, net of reimbursement.....	.70%	.79%	.79%	.97%	1.03%	1.01%	1.04%	1.18%
Expenses.....	.70%	.79%	.79%	.97%	1.03%	1.01%	1.04%	1.18%
Investment income--net, and realized gain (loss) on investments--net.....	2.73%	3.36%	5.64%+	7.46%+	8.34%+	6.65%+	5.86%+	5.89%+
SUPPLEMENTAL DATA:								
Net assets, end of period (in thousands).....	\$30,168	\$26,767	\$34,362	\$35,871	\$29,311	\$24,951	\$23,068	\$17,214

<CAPTION>

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

INCREASE (DECREASE) IN NET ASSET VALUE:

	1985	1984
<S>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:		
Net asset value, beginning of period.....	\$ 1.00	\$ 1.00
Investment income--net.....	.0712	.0967
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.0016	.0022
Total from investment operations.....	.0728	.0989
Less dividends and distributions:		
Investment income--net.....	(.0712)	(.0967)
Realized gain on investments--net.....	(.0016)+	(.0022)+
Total dividends and distributions....	(.0728)	(.0989)
Net asset value, end of period.....	\$ 1.00	\$ 1.00
TOTAL INVESTMENT RETURN:**		
Based on net asset value per share...	7.55%	10.34%
RATIOS TO AVERAGE NET ASSETS:		
Expenses, net of reimbursement.....	1.07%	.75%
Expenses.....	1.26%	1.31%

Investment income--net, and realized gain (loss) on investments--net.....	7.24%+	9.89%+
SUPPLEMENTAL DATA:		
Net assets, end of period (in thousands).....	\$15,955	\$17,415

</TABLE>

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

+ Includes unrealized gain (loss).

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>

<CAPTION>

	WORLD INCOME FOCUS FUND
	FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993
The following per share data and ratios have been derived from information provided in the financial statements.	
INCREASE (DECREASE) IN NET ASSET VALUE:	
<S>	<C>
PER SHARE OPERATING PERFORMANCE:	
Net asset value, beginning of period.....	\$ 10.00
Investment income--net.....	.25
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.33
Total from investment operations.....	.58
Less dividends and distributions	
Investment income--net.....	(.20)
Realized gain on investments--net.....	--
Total dividends and distributions.....	(.20)
Net asset value, end of period.....	\$ 10.38
TOTAL INVESTMENT RETURN:**	
Based on net asset value per share.....	5.90%+
RATIOS TO AVERAGE NET ASSETS:	
Expenses, net of reimbursement.....	.94%*
Expenses.....	.94%*

Investment income--net.....	6.20%*

SUPPLEMENTAL DATA:	
Net assets, end of period (in thousands).....	\$ 50,737

Portfolio turnover.....	54.80%

</TABLE>

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

Further information about each Fund's performance is contained in the Company's Annual Report, which can be obtained, without charge, upon request.

THE INSURANCE COMPANIES

The Company was organized to fund benefits under Contracts issued by Family Life, formerly a wholly owned subsidiary of Merrill Lynch & Co., Inc. On June 12, 1991, Family Life was sold to a non-affiliated corporation and most (although not all) of the Contracts were transferred to MLLIC and ML of New York, two wholly-owned subsidiaries of Merrill Lynch & Co., Inc. The shares of the Funds in existence at the time of that sale (Reserve Assets Fund, Prime Bond Fund, High Current Income Fund, Quality Equity Fund, Equity Growth Fund, Flexible Strategy Fund, Natural Resources Focus Fund and American Balanced Fund,

collectively, the 'Existing Funds') are sold to MLLIC, ML of New York and Family Life (collectively, the 'Insurance Companies') for certain separate accounts (the 'Separate Accounts') which serve as funding vehicles for, among other

things, Contracts originally sold by Family Life, Contracts transferred to MLLIC and ML of New York and Contracts sold by MLLIC and ML of New York after the time of the transfer. The shares of the Domestic Money Market Fund, Global Strategy Focus Fund, the Basic Value Focus Fund, World Income Focus Fund, Global Utility Focus Fund, International Equity Focus Fund, Developing Capital Markets Focus Fund, International Bond Fund and Intermediate Government Bond Fund (collectively, the 'New Funds') are sold only to (i) MLLIC and ML of New York Separate Accounts to fund certain Contracts sold after the time of the transfer to MLLIC and ML of New York, respectively, and (ii) certain other separate accounts of MLLIC and ML of New York to fund certain variable life insurance contracts sold by MLLIC and ML of New York, respectively.

The rights of the Insurance Companies as shareholders should be distinguished from the rights of a Contract Owner, which are set forth in the Contract. A Contract Owner has no interest in the shares of a Fund, but only in the Contract. The Contract is described in the Prospectus for each Contract. That Prospectus describes the relationship between increases or decreases in the net asset value of shares of a Fund, and any distributions on such shares, and the benefits provided under a Contract. The Prospectus for the Contracts also describes various fees payable to the Insurance Companies and charges to the Separate Accounts made by the Insurance Companies with respect to the Contracts. Since shares of the Funds will be sold only to the Insurance Companies for the Separate Accounts, the terms 'shareholder' and 'shareholders' in this Prospectus

refer to the Insurance Companies. MLLIC and ML of New York are wholly-owned subsidiaries of Merrill Lynch & Co., Inc. ('Merrill Lynch & Co.'), as is the Investment Adviser.

RESERVE ASSETS FUND AND DOMESTIC MONEY MARKET FUND YIELD INFORMATION

Set forth below is yield information for the Reserve Assets Fund and the Domestic Money Market Fund for the seven-day period ended December 31, 1993, computed to include and exclude realized and unrealized gains and losses, and information as to the compounded annualized yield, excluding gains and losses, for the same periods. The yield quotations may be of limited use for comparative purposes because they do not reflect charges imposed at the Separate Account level which, if included, would decrease the yield.

<TABLE>
<CAPTION>

	RESERVE ASSETS FUND -----	DOMESTIC MONEY FUND MARKET -----
<S>	<C>	<C>
Annualized Yield:		
Including gains and losses.....	2.87%	2.94%
Excluding gains and losses.....	2.85%	2.93%
Compounded Annualized Yield.....	2.89%	2.97%
Average maturity of portfolio at end of period.....	72 days	73 days

</TABLE>

INVESTMENT OBJECTIVES AND POLICIES OF THE FUNDS

INVESTMENT OBJECTIVES

Each Fund of the Company has a different investment objective which it pursues through separate investment policies as described below. The differences in objectives and policies among the Funds can be expected to affect the return of each Fund and the degree of market and financial risk to which each Fund is subject. Each Fund is classified as 'diversified,' as defined in the Investment Company Act of 1940, except for the Natural Resources Focus Fund, the Global Strategy Focus Fund, the World Income Focus Fund, Developing Capital Markets Focus Fund and International Bond Fund, each of which is classified as 'non-diversified.' The investment objectives and classification of each Fund may not be changed without the approval of the holders of a majority of the outstanding shares of each Fund affected. The investment objectives and policies of each Fund are discussed below.

Fixed Income Security Ratings. No Fund other than the High Current Income Fund, the World Income Focus Fund and Developing Capital Markets Focus Fund invests in fixed-income securities which are rated below investment grade (i.e., securities rated Ba or below by Moody's Investors Service, Inc. ('Moody's') or BB or below by Standard & Poor's Corporation ('Standard & Poor's')). However, securities purchased by a Fund may subsequently be downgraded. Such securities may continue to be held and will be sold only if, in the judgment of the Investment Adviser, it is advantageous to do so. Securities in the lowest category of investment grade debt securities may have speculative characteristics which may lead to weakened capacity to pay interest and principal during periods of adverse economic conditions. See Appendix A for a fuller description of corporate bond ratings.

DOMESTIC MONEY MARKET FUND

The investment objectives of the Domestic Money Market Fund are to preserve shareholder capital, to maintain liquidity and to achieve the highest possible

current income consistent with the foregoing objectives by investing in short-term domestic money market securities. The Fund will invest in short-term U.S. Government securities, U.S. Government agency securities, domestic depository institution money instruments (including certificates of deposit, bankers' acceptances, time deposits and bank notes) short-term debt securities (such as commercial paper), variable amount master demand notes and repurchase and reverse repurchase agreements of U.S. issuers. As a matter of fundamental policy, which may be changed only with the approval of a majority of the Domestic Money Market Fund's outstanding voting securities, as defined in the Investment Company Act of 1940, the Fund may not purchase securities of foreign issuers (including Eurodollar or Yankeedollar bank obligations). U.S. Government securities may be purchased on a forward commitment basis. The types of money market securities in which the Domestic Money Market Fund may invest are described more fully in Appendix A to this Prospectus. The Domestic Money Market Fund will be subject to portfolio maturity, quality and diversification restrictions discussed below under 'Money Market Fund Portfolio Restrictions.'

RESERVE ASSETS FUND

The investment objectives of the Reserve Assets Fund are to preserve shareholder capital, to maintain liquidity and to achieve the highest possible current income consistent with the foregoing objectives by investing in short-term money market securities. The Fund will invest in short-term U.S. Government securities, U.S. Government agency securities, depository institution money instruments (including certificates of deposit, bankers' acceptances, time deposits and bank notes) short-term debt securities (such as commercial paper),

16

variable amount master demand notes, securities of foreign issuers (including Eurodollar, Yankeedollar and foreign bank obligations), repurchase and reverse repurchase agreements. U.S. Government securities may be purchased on a forward commitment basis. The types of money market securities in which the Reserve Assets Fund may invest are described more fully in Appendix A to the Prospectus. The Reserve Assets Fund will be subject to the portfolio maturity, quality and diversification restrictions discussed below under 'Money Market Fund Portfolio Restrictions.'

PRIME BOND FUND

The principal investment objective of the Prime Bond Fund is to provide shareholders with as high a level of current income as is consistent with the investment policies of the Fund and with prudent investment management. As a secondary objective, the Fund seeks capital appreciation when consistent with its principal objective.

The Prime Bond Fund invests primarily in securities rated in the top three rating categories of either Standard & Poor's (AAA, AA and A) or Moody's (Aaa, Aa and A). Additional information regarding various bond ratings is set forth in Appendix A to the Prospectus. The financial risk of the Fund should be minimized by the quality of the bonds in which it will invest, but the long maturities

that typically provide the best yield will subject the Fund to possible substantial price changes resulting from market yield fluctuations. The market price of fixed-income securities such as those purchased by the Fund is affected by changes in interest rates generally. As interest rates rise, the market value of fixed-income securities will fall, adversely affecting the net asset value of the Fund.

Fund management strategy will attempt to mitigate adverse price changes and optimize favorable price changes through active trading that shifts the maturity and/or quality structure of the Fund within the overall investment guidelines. The Fund's investments will vary from time to time depending upon the judgment of management as to prevailing conditions in the economy and the securities markets and the prospects for interest rate changes among different categories of fixed-income securities. The Fund anticipates that under normal circumstances more than 90% of the assets of the Fund will be invested in fixed-income securities, including convertible and non-convertible debt securities and preferred stock. The Fund does not intend to invest in common stock, rights or other equity securities. Under unusual market or economic conditions, the Fund for defensive or other purposes may invest up to 100% of its assets in obligations of or guaranteed by the U.S. Government or its instrumentalities or agencies, certificates of deposit, bankers' acceptances and other bank obligations, commercial paper rated in the highest category by an established rating agency or other fixed-income securities deemed by the Investment Adviser to be consistent with the objectives of the Fund, or the Fund may hold its assets in cash.

HIGH CURRENT INCOME FUND

The primary investment objective of the High Current Income Fund, like the Prime Bond Fund, is to obtain the highest level of current income that is consistent with the investment policies of the Fund and with prudent investment management. As a secondary objective, the Fund seeks capital appreciation when consistent with its primary objective.

The High Current Income Fund seeks high current income by investing principally in fixed-income securities which are rated in the lower rating categories of the established rating services (Baa or lower by Moody's and BBB or lower by Standard & Poor's), or in unrated securities of comparable quality. Securities rated below Baa by Moody's and below BBB by Standard & Poor's are commonly known as 'junk bonds.'

17

Additional information regarding various bond ratings is set forth in Appendix A to the Prospectus. The market price of fixed-income securities such as those purchased by the Fund is affected by changes in interest rates generally. As interest rates rise, the market value of fixed-income securities will fall, adversely affecting the net asset value of the Fund.

Although they can be expected to provide higher yields, lower-rated

securities such as those purchased by the Fund may be subject to greater market fluctuations and risks of loss of income and principal than lower-yielding, higher-rated fixed-income securities. Such securities are generally issued by corporations which are not as financially secure or as creditworthy as issuers

of higher-rated securities. There is, accordingly, a greater risk that the issuers of higher-yielding securities will not be able to pay principal and interest on such securities, especially during periods of adverse economic conditions. Because investment in such high-yield securities entails relatively greater risk of loss of income or principal, an investment in the High Current Income Fund may not be appropriate as the exclusive investment to fund the Contracts for all Contract Owners. See 'Risks of High Yield Securities' below.

Selection and supervision by the management of the Company of investments in lower-rated fixed-income securities involves continuous analysis of individual issuers, general business conditions and other factors which may be too time consuming or too costly for the average investor. The furnishing of these services does not, of course, guarantee successful results. The analysis of issuers may include, among other things, historic and current financial condition, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing, and current and anticipated results or operations. Analysis of general business conditions and other factors may include anticipated changes in economic activity and interest rates, the availability of new investment opportunities, and the economic outlook for specific industries. While the Investment Adviser considers as one factor in its credit analysis the ratings assigned by the rating services, the Investment Adviser performs its own independent credit analysis of issuers and consequently, the Fund may invest, without limit, in unrated securities if such securities offer, in the opinion of the Investment Adviser, a relatively high yield without undue risk. As a result, the High Current Income Fund's ability to achieve its investment objective may depend to a greater extent on the Investment Adviser's own credit analysis than the Funds which invest in higher-rated securities. Although the High Current Income Fund will invest primarily in lower-rated securities, it will not invest in securities rated Ca or lower by Moody's and CC or lower by Standard & Poor's unless the Investment Adviser believes that the financial condition of the issuer or the protection afforded to the particular securities is stronger than would otherwise be

indicated by such low ratings. However, securities purchased by the Fund may subsequently be downgraded. Such securities may continue to be held and will be sold only if, in the judgment of the Investment Adviser, it is advantageous to do so.

When changing economic conditions and other factors cause the yield difference between lower-rated and higher-rated securities to narrow, the Fund may purchase higher-rated securities if the Investment Adviser believes that the risk of loss of income and principal may be substantially reduced with only a relatively small reduction in yield.

The securities in the Fund will be varied from time to time depending upon the judgment of management as to prevailing conditions in the economy and the securities markets and the prospects for interest rate changes among different categories of fixed-income securities. It is anticipated that under normal circumstances more than 90% of the Fund's assets will be invested in fixed-income securities, including convertible and non-convertible debt securities and preferred stock. Although it is expected that, in general, the Fund will not invest in common stocks, rights or other equity securities, it will acquire or hold such securities (if consistent with the objectives of the

Fund) when such securities are acquired in unit offerings with fixed-income securities or in

18

connection with an actual or proposed conversion or exchange of fixed-income securities. In addition, under unusual market or economic conditions, the High Current Income Fund for defensive purposes may invest up to 100% of its assets in securities issued or guaranteed by the U.S. Government or its instrumentalities or agencies, certificates of deposit, bankers' acceptances and other bank obligations, commercial paper rated in the highest category by an established rating agency, or other fixed-income securities deemed by the Investment Adviser to be consistent with a defensive posture, or may hold its assets in cash. The yield on such securities may be lower than the yield on lower-rated fixed-income securities.

The table below shows the average monthly dollar-weighted market value, by Standard & Poor's rating category, of the securities held by the Fund during the year ended December 31, 1993.

<TABLE>
<CAPTION>

% MARKET

RATING*	% NET ASSETS	VALUE CORPORATE BONDS
<S>	<C>	<C>
AAA.....	.09%	.10%
AA.....	.06	.06
A.....	.70	.79
BBB.....	1.06	1.18
BB.....	22.18	24.39
B.....	50.72	55.98
CCC.....	2.73	3.19
CC.....	0.48	0.53
C.....	1.18	0.32
D.....	0.13	0.14
NR.....	12.77	13.32

		100.0%

</TABLE>

*A description of corporate bond ratings of Standard & Poor's is set forth in Appendix A to the Prospectus.

QUALITY EQUITY FUND

The Quality Equity Fund seeks to achieve the highest total investment return, or the aggregate of income and capital value changes, consistent with prudent risk. To do this, management will shift the emphasis among investment alternatives for capital growth, capital stability and income as market trends change. This 'fully managed' investment policy distinguishes the Fund from investment companies which seek either capital growth or income. The Fund's investment philosophy is based on management's belief that the structure of the United States economy and its securities markets will undergo continuous change. The flexibility of the Fund is designed to reduce overall exposure to risk by achieving below-average volatility in a falling market and above-average volatility in a rising market.

The Quality Equity Fund's fully managed investment approach will make use of equity, debt and convertible securities. The majority of the Fund's equity portfolio will be in the common stocks of large-capitalization, 'quality' companies. Management of the Company believes that a quality company is one which conforms closely to the following criteria: good financial resources, strong balance sheet, satisfactory rate of return on capital, good industry position and superior management skills. The earnings of quality companies generally tend to grow consistently. Whenever market or financial conditions warrant, the Fund may, in order to reduce risk and achieve the highest total investment return, invest in non-convertible, long-term debt securities, including 'deep discount' corporate debt securities of investment grade or issues of fixed-income convertible securities which give the owner the option of a later exchange for common stock. Management expects that over

19

longer periods the larger portion of the Fund's portfolio will consist of equity securities. During defensive periods, the Fund may invest in money-market securities to produce interest income or the Fund may hold its assets in cash.

EQUITY GROWTH FUND

The investment objective of the Equity Growth Fund is to seek long-term growth of capital by investing in a diversified portfolio of securities,

primarily common stocks, of relatively small companies that management of the Company believes have special investment value and emerging growth companies regardless of size. Companies are selected by management on the basis of their long-term potential for expanding their size and profitability or for gaining increased market recognition for their securities. Current income is not a factor in the selection of securities. The Fund is intended to provide an opportunity for Contract Owners who are not ordinarily in a position to perform the specialized type of research or analysis of small and emerging growth companies.

Management seeks to identify those small emerging growth companies which can show significant and sustained increases in earnings over an extended period of time and are in sound financial condition. Management believes that, while these companies present above-average risks, properly selected companies of this type also have the potential to increase their earnings at a rate substantially in excess of the general growth of the economy. The Fund attempts to achieve its objective by focusing on the long-range view of a company's prospects through a fundamental analysis of its management, financial structure, product

development, marketing ability and other relevant factors. Full development of these companies frequently takes time and, for this reason, the Fund should be considered as a long-term investment and not as a vehicle for seeking short-term profits.

Small companies. Management seeks small companies that offer special investment value in terms of their product or service, research capability, or other unique attributes, and are relatively undervalued in the marketplace when compared with similar, but larger, enterprises. These companies typically have total market capitalizations in the \$50-\$300 million range and generally are little known to most individual investors, although some may be dominant in their respective industries. Underlying this strategy is management's belief that relatively small companies will continue to have the opportunity to develop into significant business enterprises. Some such companies may be in a relatively early stage of development; others may manufacture a new product or perform a new service. Such companies may not be counted upon to develop into major industrial companies, but management believes that eventual recognition of their special value characteristics by the investment community can provide above-average long-term growth to the portfolio.

Emerging growth companies. In selecting investments for the Equity Growth Fund, management also seeks emerging growth companies that either occupy a dominant position in an emerging industry or subindustry or have a significant and growing market share in a large, fragmented industry. Management believes that capable and flexible management is one of the most important criteria of emerging growth companies and that such companies should employ sound financial and accounting policies and also demonstrate effective research, successful product development and marketing, efficient service and pricing flexibility. Emphasis is given to companies with rapid historical growth rates, above-average returns on equity and strong current balance sheets, all of which should enable the company to finance its continued growth. Management of the Company also analyzes and weighs relevant factors beyond the company itself, such as the level of competition in the industry, the extent of governmental regulation, the nature of labor conditions and other related matters.

The Equity Growth Fund emphasizes investments in companies that do most of their business in the United States and therefore are free of the currency exchange problems, foreign tax considerations and potential political and economic upheavals that many multinational corporations face. Moreover, the size and kinds of markets that

20

they serve make these companies less susceptible than larger companies to intervention from the Federal government by means of price controls, regulations or litigation.

While the process of selection and continuous supervision by management does not, of course, guarantee successful investment results, it does provide ingredients not available to the average individual due to the time and cost involved. Careful initial selection is particularly important in this area as many new enterprises have promise but lack certain of the ingredients necessary to prosper.

It should be apparent that an investment in a fund such as the Equity Growth Fund involves greater risk than is customarily associated with more established companies. The securities of smaller or emerging growth companies may be subject to more abrupt or erratic market movements than larger, more established companies or the market average in general. These companies may have limited product lines, markets or financial resources, or they may be dependent upon a limited management group. Because of these factors, management of the Company believes that shares in the Equity Growth Fund are suitable for Contract Owners who are in a financial position to assume above-average investment risk in search of above-average long-term reward. As indicated, the Fund is designed for Contract Owners whose investment objective is growth rather than income. It is definitely not intended for exclusive funding of Contracts but is designed for Contract Owners who are prepared to experience above-average fluctuations in net asset value.

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

The investment emphasis of the Equity Growth Fund is on equities, primarily common stock and, to a lesser extent, securities convertible into common stocks and rights to subscribe for common stock, and the Fund will maintain at least 80% of its net assets invested in equity securities of small or emerging growth companies except during defensive periods. The Fund reserves the right as a

defensive measure and to provide for redemptions to hold other types of securities, including non-convertible preferred stocks and debt securities, government and money market securities or cash, in such proportions as, in the opinion of management, prevailing market or economic conditions warrant.

FLEXIBLE STRATEGY FUND

The investment objective of the Flexible Strategy Fund is to seek a high total investment return consistent with prudent risk. Total investment return is the aggregate of dividend and interest income and capital value changes. This investment objective is a fundamental policy and may not be changed without a vote of the majority of outstanding shares of the Fund. The Fund will seek to achieve its objective by utilizing a flexible investment policy which permits the Fund to vary its investment emphasis among equity securities, intermediate and long-term debt obligations and money market securities and, to a lesser extent, between the securities of domestic and foreign issuers. While the Fund will generally emphasize investment in common stocks of larger-capitalization issuers and in investment-grade debt obligations, the Fund may from time to time invest a portion of its assets in small company and emerging growth company stocks when consistent with the Fund's objective. The Fund may also seek to enhance the return on its common stock portfolio by writing covered call options listed on United States securities exchanges. The Fund's success in achieving

its investment objective depends upon management's ability to assess the effect of economic and market trends on U.S. and foreign capital market and on different sectors of those markets. There can be no assurance that the Fund's investment objective will be

21

achieved. As a matter of operating policy, this Fund may not invest more than 25% of its assets in the securities of foreign issuers.

Management will determine the composition of the Fund's portfolio based upon its assessment of economic and market trends and the anticipated relative total return available from investment in a particular type of security. Accordingly, at any given time, the Fund may be substantially invested in common stocks, bonds and notes or money market securities. Similarly, the portion of the Fund's assets which are invested in foreign securities will be varied, subject to the operating policy referred to above, in accordance with management's judgment as to the anticipated relative performance of foreign capital markets as compared to U.S. markets. Management will consider, among other factors, the condition and growth potential of the various economies and securities markets, currency and tax considerations and other pertinent financial, social, national and political factors. The Fund's investments in foreign securities may include American Depository Receipts and European Depository Receipts, and the Fund may invest in non-dollar denominated securities. For a discussion of the risks of investing in foreign securities, see 'Other Portfolio Strategies--Foreign Securities,' below.

Because of the flexible investment policy of the Fund, portfolio turnover may be greater resulting in increased transaction costs to the Fund.

NATURAL RESOURCES FOCUS FUND

The investment objectives of the Natural Resources Focus Fund are to achieve long-term growth of capital and to protect the purchasing power of shareholders' capital by investing primarily in a portfolio of equity securities (e.g., common stocks and securities convertible into common stocks) of domestic and foreign companies with substantial natural resource assets. This investment objective is a fundamental policy and may not be changed without a vote of the majority of outstanding shares of the Fund. The Fund also may invest in debt,

preferred or convertible securities, the value of which is related to the market value of some natural resource asset ('asset-based securities'). See 'Asset-Based Securities' below. Management of the Company will seek to identify companies or asset-based securities it believes are attractively priced relative to the intrinsic value of the underlying natural resource assets or are especially well positioned to benefit during particular portions of inflationary cycles. There can be no assurance the investment objectives of the Fund will be realized.

IN SEEKING TO PROTECT THE PURCHASING POWER OF SHAREHOLDERS' CAPITAL, THE FUND HAS RESERVED THE RIGHT, WHEN MANAGEMENT OF THE COMPANY ANTICIPATES SIGNIFICANT ECONOMIC, POLITICAL OR FINANCIAL INSTABILITY, SUCH AS HIGH INFLATIONARY PRESSURES OR UPHEAVAL IN THE FOREIGN CURRENCY EXCHANGE MARKETS, TO INVEST A MAJORITY OF ITS ASSETS IN COMPANIES THAT EXPLORE FOR, EXTRACT, PROCESS OR DEAL IN GOLD OR IN ASSET-BASED SECURITIES INDEXED TO THE VALUE OF GOLD

BULLION. Such a switch in investment strategies could require the Fund to liquidate portfolio securities and incur transaction costs. The Company has been advised by counsel that it is uncertain under the current Federal tax law whether the Fund may concentrate its investments in gold and gold-related securities without adversely affecting the Federal tax status of the Contracts.

Accordingly, management of the Company has determined that the Fund will not concentrate its investments in such securities until counsel has advised the Company that such uncertainty has been resolved favorably.

Management attempts to achieve the investment objectives of the Fund by seeking to identify securities of companies which, in its opinion, are undervalued relative to the value of natural resource holdings of such companies in light of current and anticipated economic or financial conditions. Natural resource assets are materials derived from natural sources which have economic value. Management will consider a company to have substantial natural resource assets when, in its opinion, the company's holdings of the assets are of such magnitude, when compared to the capitalization, revenues or operating profits of the company, that changes in

22

the economic value of the assets will affect the market price of the equity securities of such company. Generally, a company has substantial natural resource assets when at least 50% of the non-current assets, capitalization, gross revenues or operating profits of the company in the most recent or current fiscal year are involved in or result from directly or indirectly through subsidiaries, exploring, mining, refining, processing, fabricating, dealing in or owning natural resource assets. Examples of natural resource assets include precious metals (e.g., gold, silver and platinum), ferrous and nonferrous metals (e.g., iron, steel, aluminum and copper), strategic metals (e.g., uranium and titanium), hydrocarbons (e.g., coal, oil and natural gas), timber land, undeveloped real property and agricultural commodities. The Fund presently does not intend to invest directly in natural resource assets or contracts related thereto.

Management of the Company believes that, based upon past performance, the securities of specific companies that hold different types of substantial natural resource assets may move relatively independently of one another during different stages of inflationary cycles due to different degrees of demand for, or market values of, their respective natural resource holdings during

particular portions of such inflationary cycles. The Fund's fully-managed investment approach enables it to switch its emphasis among various industry groups depending upon management's outlook with respect to prevailing trends and developments.

The Natural Resources Focus Fund may seek to hedge its portfolio against adverse market fluctuations by writing covered call options or purchasing put options on portfolio securities, writing call options or purchasing put options on stock indices, or by purchasing or selling stock index futures contracts and options thereon. The Fund may also seek to hedge its portfolio of non-dollar denominated securities and other assets or liabilities against adverse currency fluctuations by writing call options and purchasing put options on currency, by buying or selling futures contracts on currency and options thereon and by engaging in forward foreign exchange transactions. See 'Transactions in Options,

Futures and Currency.'

The Fund at all times, except during defensive periods, will maintain at least 65% of its total assets invested in companies with substantial natural resource assets or in asset-based securities. Current income from dividends and interest will not be a primary consideration in selecting securities. The Fund reserves the right as a temporary defensive measure and to provide for redemptions, to hold short-term U.S. Government securities, money market securities, including repurchase agreements, or cash, in such proportions as, in the opinion of management, prevailing market or economic conditions warrant.

Asset-Based Securities. The Fund may invest in debt securities, preferred stocks or convertible securities, the principal amount, redemption terms or conversion terms of which are related to the market price of some natural resource asset such as gold bullion. For the purposes of the Fund's investment policies, these securities are referred to as 'asset-based securities.' The Fund will purchase only asset-based securities which are rated, or are issued by issuers that have outstanding debt obligations rated, investment grade (that is AAA, AA, A or BBB by Standard & Poor's or Aaa, Aa, A or Baa by Moody's or commercial paper rated A-1 by Standard & Poor's or Prime-1 by Moody's) or of issuers that the Investment Adviser has determined to be of similar creditworthiness. If the asset-based security is backed by a bank letter of credit or other similar facility, the Investment Adviser may take such backing into account in determining the creditworthiness of the issuer. While the market prices for an asset-based security and the related natural resource asset generally are expected to move in the same direction, there may not be perfect correlation in the two price movements. Asset-based securities may not be secured by a security interest in or claim on the underlying natural resource asset. The asset-based securities in which the Fund may invest may bear interest or pay preferred dividends at below market (or even relatively nominal) rates. As an example, assume gold is selling at a market price of \$300 per ounce and an issuer sells a \$1,000 face amount gold-related note with a seven-year maturity, payable at maturity at the greater of either \$1,000 in cash or the then market price of three ounces of gold. If at maturity, the market price of gold is \$400 per ounce, the amount payable on the note would be \$1,200. Certain asset-based

maturity in cash at the stated principal amount or, at the option of the holder, directly in a stated amount of the asset to which it is related. In such

instance, because the Fund presently does not intend to invest directly in natural resource assets, the Fund would sell the asset-based security in the secondary market, to the extent one exists prior to maturity, if the value of the stated amount of the asset exceeds the stated principal amount, and thereby realize the appreciation in the underlying asset.

Risk Factors. As indicated above, under certain circumstances, the Fund has reserved the right to invest a majority of its assets in gold-related companies or securities. Based on historic experience, during periods of economic or financial instability, the securities of such companies may be subject to extreme price fluctuations, reflecting the high volatility of gold prices during such periods. In addition, the instability of gold prices may result in volatile earnings of gold-related companies which, in turn, may affect

adversely the financial condition of such companies. Gold mining companies also are subject to the risks generally associated with mining operations.

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

The Fund presently does not intend to invest in companies the assets of which are located primarily in the Republic of South Africa, which produces approximately 38% of the gold mined in non-Communist nations. This limitation may affect adversely the Fund's ability to invest in gold-related securities and may result during certain periods in the Fund's restricting its investments to relatively few companies. This limitation is not a fundamental policy of the Fund and may be changed by the directors of the Company, without a vote of the shareholders, if they determine that such action is warranted. The Fund will notify its shareholders of any change in this policy with respect to South Africa.

See 'Other Portfolio Strategies--Foreign Securities' for special considerations in investments in foreign securities.

The Company and Merrill Lynch Funds Distributor, Inc., the distributor of the Company's shares, reserve the right to suspend the sale of shares of the Natural Resources Focus Fund in response to conditions in the securities markets or otherwise.

AMERICAN BALANCED FUND

The investment objective of the American Balanced Fund is to seek a level of current income and a degree of stability of principal not normally available from an investment solely in equity securities and the opportunity for capital appreciation greater than is normally available from an investment solely in debt securities by investing in a balanced portfolio of fixed income and equity securities. This investment objective is a fundamental policy and may not be changed without a vote of the majority of the outstanding shares of the Fund. The Fund will seek current income by investing a portion of its assets in a

portfolio of intermediate to long-term debt, convertible debt and money market securities. The Fund will seek capital appreciation primarily by investing a portion of its assets in equity securities, including preferred and convertible preferred stock. At all times the Fund will maintain at least 25% of its net assets in senior fixed income securities. As indicated under 'Investment Restrictions' on page 5 of the Statement of Additional Information, the Fund is not permitted to invest in securities of foreign issuers. There can be no assurance that the Fund's objective will be achieved.

The Fund will normally seek to maintain the allocation of its assets between debt securities and equity securities at approximately equal percentages of the Fund's net asset value. However, the prices of debt and equity securities will not generally move in the same direction or to the same extent, and, consequently, the

relative percentages of the Fund's debt and equity investments will vary. The Fund will seek to reduce such variations by investing its available cash in securities of the appropriate type. However, except as discussed below, the Fund is not obligated to sell portfolio securities, including money market securities, in order to reduce such discrepancies.

The Fund will normally limit its allocation of assets to equity securities to no more than 50% of its net assets. To the extent its equity position exceeds this limitation, because of changes in the value of portfolio securities or otherwise, the Fund will seek to reduce its equity position to less than 50% of net assets by selling such securities at such times and in such amounts as management of the Company deems appropriate in light of market conditions and other pertinent factors. See 'Dividends, Distributions and Taxes--Tax Treatment of the Company.'

The Fund will generally emphasize investment in common stocks of larger-capitalization issuers and in investment-grade debt obligations. The Fund may also seek to enhance the return on its common stock portfolio by writing covered call options listed on United States securities exchanges. Under unusual market or economic conditions, the Fund for defensive purposes may invest up to 100% of its assets in securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities, certificates of deposit, bankers' acceptances and other bank obligations, commercial paper rated in the highest category by an established rating agency, or other fixed-income securities deemed by the Investment Adviser to be consistent with a defensive posture, or may hold its assets in cash.

GLOBAL STRATEGY FOCUS FUND

The investment objective of the Global Strategy Focus Fund is to seek high total investment return by investing primarily in a portfolio of equity and fixed income securities, including convertible securities, of U.S. and foreign issuers. Total investment return consists of interest, dividends, discount accruals and capital changes, including changes in the value of non-dollar denominated securities and other assets and liabilities resulting from currency fluctuations.

The Global Strategy Focus Fund seeks to achieve its objective by investing primarily in the securities of issuers located in the United States, Canada, Western Europe and the Far East. There are no prescribed limits on the geographical allocation of the Fund among these regions. Such allocation will be made primarily on the basis of the anticipated total return from investments in the securities of issuers wherever located, considering such factors as the condition and growth potential of the various economies and securities markets and the issuers domiciled therein, anticipated movements in interest rates in the various capital markets and in the value of foreign currencies relative to the U.S. dollar, tax considerations and economic, social, financial, national and political factors which may affect the climate for investing within such securities markets. When, in the judgment of the Investment Adviser, economic or market conditions warrant, the Fund reserves the right to concentrate its investments in one or more capital markets, including the United States. For additional information concerning the risks of investing in foreign securities, see 'Other Portfolio Strategies--Foreign Securities.'

The equity and convertible preferred securities in which the Global Strategy Focus Fund may invest are primarily securities issued by quality companies. Generally, the characteristics of such companies include a strong balance sheet, good financial resources, a satisfactory rate of return on capital, a good industry position and superior management.

The corporate debt securities, including convertible debt securities, in which the Fund may invest will be primarily those rated BBB or better by Standard and Poor's or Baa or better by Moody's or of comparable quality. The Fund may also invest in debt obligations issued or guaranteed by sovereign governments, political subdivisions thereof (including states, provinces and municipalities) or their agencies or instrumentalities or issued or guaranteed by international organizations designated or supported by governmental entities to promote

25

economic reconstruction or development ('supranational entities') such as the International Bank for Reconstruction and Development (the 'World Bank') and the European Coal and Steel Community. Investments in securities of supranational entities are subject to the risk that member governments will fail to make required capital contributions and that a supranational entity will thus be unable to meet its obligations.

When market or financial conditions warrant, the Global Strategy Focus Fund may invest as a temporary defensive measure up to 100% of its assets in securities issued or guaranteed by the United States Government or its agencies or instrumentalities, certificates of deposit, bankers' acceptances and other bank obligations, commercial paper rated in the highest category by an established rating agency, or other fixed income securities deemed by the Investment Adviser to be consistent with a defensive posture, or may hold its assets in cash.

The Global Strategy Focus Fund may write covered call options and purchase put options on its portfolio securities for the purpose of generating incremental income or hedging its securities against market risk. The Fund may

seek to hedge its non-dollar denominated securities and other assets and liabilities against adverse currency fluctuations by writing call options and purchasing put options on currency, purchasing or selling futures contracts and

futures contract options on currency and entering into forward foreign exchange transactions in currency. See 'Transactions in Options, Futures and Currency.'

BASIC VALUE FOCUS FUND

The investment objective of the Basic Value Focus Fund is to seek capital appreciation and, secondarily, income by investing in securities, primarily equities, that management of the Fund believes are undervalued and therefore represent basic investment value. The Fund seeks special opportunities in securities that are selling at a discount, either from book value or historical

price-earnings ratios, or seem capable of recovering from temporarily out of favor considerations. Particular emphasis is placed on securities which provide an above-average dividend return and sell at a below-average price-earnings ratio.

The investment policy of the Basic Value Focus Fund is based on the belief that the pricing mechanism of the securities market lacks total efficiency and has a tendency to inflate prices of securities in favorable market climates and depress prices of securities in unfavorable climates. Based on this premise, management believes that favorable changes in market prices are more likely to begin when securities are out of favor, earnings are depressed, price-earnings ratios are relatively low, investment expectations are limited, and there is no real general interest in the particular security or industry involved. On the other hand, management believes that negative developments are more likely to occur when investment expectations are generally high, stock prices are advancing or have advanced rapidly, price-earnings ratios have been inflated, and the industry or issue continues to gain new investment acceptance on an accelerated basis. In other words, management believes that market prices of securities with relatively high price-earnings ratios are more susceptible to unexpected adverse developments while securities with relatively low price-earnings ratios are more favorably positioned to benefit from favorable, but generally unanticipated, events. This investment policy departs from traditional philosophy. Management of the Fund believes that the market risk involved in this policy is moderated somewhat by an emphasis on securities with above-average dividend returns.

The current institutionally-dominated market tends to ignore, to some extent, the numerous secondary issues whose market capitalizations are below those of the relatively few larger size growth companies. It is expected that the Basic Value Focus Fund's portfolio generally will have significant representation in this secondary segment of the market. The basic orientation of the Fund's investment policies is such that at times a large portion of its common stock holdings may carry less than favorable research ratings from research analysts.

Investment emphasis is on equities, primarily common stock and, to a lesser extent, securities convertible into common stocks. The Basic Value Focus Fund also may invest in preferred stocks and non-convertible debt securities and utilize covered call options with respect to portfolio securities as described below and in the

26

Statement of Additional Information. It reserves the right as a defensive measure to hold other types of securities, including Government and money market

securities, repurchase agreements or cash, in such proportions as, in the opinion of management, prevailing market or economic conditions warrant. The Fund may invest up to 10% of its total assets, taken at market value at the time of acquisition, in the securities of foreign issuers.

WORLD INCOME FOCUS FUND

The investment objective of the World Income Focus Fund is to seek to provide shareholders with high current income by investing in a global portfolio

of fixed income securities denominated in various currencies, including multi-national currency units. The Fund may invest in United States and foreign government and corporate fixed income securities, including high yield, high risk securities (commonly known as 'junk bonds'). The Fund will, under normal conditions, invest at least 90% of its total assets in such fixed income securities and may invest up to 100% of its total assets in lower rated, high yield, high risk securities. In pursuing its investment objective, the Fund will allocate its investments among different types of fixed income securities denominated in various currencies based upon the Investment Adviser's analysis of the yield, maturity and currency considerations affecting such securities.

The Fund may purchase fixed income securities issued by United States or foreign corporations or financial institutions, including debt securities of all types and maturities, convertible securities and preferred stocks. The Fund also may purchase securities issued or guaranteed by United States or foreign

governments (including foreign states, provinces and municipalities) or their agencies and instrumentalities ('governmental entities') or issued or guaranteed by international organizations designated or supported by multiple governmental entities to promote economic reconstruction or development ('supranational entities').

International Investing. The Fund may invest in fixed income securities denominated in any currency or multinational currency unit. An illustration of a multinational currency unit is the European Currency Unit ('ECU') which is a 'basket' consisting of specified amounts of the currencies of certain of the twelve member states of the European Community, a Western European economic cooperative association including France, Germany, the Netherlands and the United Kingdom. The specific amounts of currencies comprising the ECU may be adjusted by the Council of Ministers of the European Community to reflect changes in relative values of the underlying currencies. The Investment Adviser does not believe that such adjustments will adversely affect holders of ECU-denominated obligations or the marketability of such securities. European supranational entities (described further below), in particular, issue ECU-denominated obligations. The Fund may invest in securities denominated in the currency of one nation although issued by a governmental entity, corporation or financial institution of another nation. For example, the Fund may invest in a British pound sterling-denominated obligation issued by a United States corporation. Such investments involve credit risks associated with the issuer and currency risks associated with the currency in which the obligation is denominated.

It is anticipated that under current conditions the Fund will invest primarily in marketable securities denominated in the currencies of the United States, Canada, Western European nations, New Zealand and Australia, as well as in ECUs. Further, it is anticipated that such securities will be issued

primarily by entities located in such countries and by supranational entities. Under normal conditions, the Fund's investments will be denominated in at least three currencies or multinational currency units. Under certain adverse conditions, the Fund may restrict the financial markets or currencies in which its assets will be invested. The Fund presently intends to invest its assets solely in the United States financial markets or United States dollar-denominated obligations only for temporary defensive purposes.

United States Government securities include:

(i) U.S. Treasury obligations (bills, notes and bonds), which differ in their interest rates, maturities and times of issuance, all of which are backed by the full faith and credit of the United States; and

27

(ii) obligations issued or guaranteed by U.S. Government agencies or instrumentalities, including government guaranteed mortgage-related or asset-backed securities, some of which are backed by the full faith and credit of the U.S. Treasury (e.g., direct pass-through certificates of the Government National Mortgage Association), some of which are supported by the right of the issuer to borrow from the U.S. Government (e.g., obligations of Federal Home Loan Banks) and some of which are backed only by the credit of the issuer itself (e.g., obligations of the Student Loan Marketing Association).

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

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

Supranational entities include international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. Examples include the International Bank for Reconstruction and Development (the World Bank), the European Steel and Coal Community, the Asian Development Bank and the Inter-American Development Bank. The government members, or 'stockholders', usually make initial capital contributions to the supranational entity and in many cases are committed to make additional capital contributions if the supranational entity is unable to repay its borrowings.

Allocation of Investments and Risks of High Yield, High Risk Securities. In seeking high current income, the Fund will allocate its investments among fixed income securities of various types, maturities and issuers in the various global markets based upon the analysis of the Investment Adviser of yield and price differentials, currency considerations and general market and economic conditions. In making such allocations, the Investment Adviser will assess the overall quality of the portfolio considering in particular the extent to which the differences in yield justify investments in higher risk securities. In its evaluations, the Investment Adviser will utilize its internal financial, economic and credit analysis resources as well as information in this regard obtained from other sources.

The Fund has established no rating criteria for the fixed income securities in which it may invest, and a substantial portion of the securities in the Fund's portfolio may be securities rated in the medium to low rating categories of nationally recognized statistical rating organizations such as Moody's or Standard & Poor's, or in unrated securities of comparable quality. See Appendix A to this Prospectus for a description of these rating categories. See also 'Risks of High Yield Securities' below.

28

The average maturity of the World Income Focus Fund's portfolio securities will vary based upon the Investment Adviser's assessment of economic and market conditions. As with all fixed income securities, changes in market yields will affect the Fund's asset value as the prices of portfolio securities generally increase when interest rates decline and decrease when interest rates rise. Prices of longer term securities generally fluctuate more in response to interest rate changes than do shorter term securities. The Fund does not expect the average maturity of its portfolio to exceed ten years.

The table below shows the average monthly dollar-weighted market value, by Standard & Poor's rating category, of the securities held by the Fund during the year ended December 31, 1993.

<TABLE>
<CAPTION>

RATING*	% NET ASSETS	% MARKET VALUE CORPORATE BONDS
<S>	<C>	<C>
AA.....	.54%	1.05%
BBB.....	.50	.81
BB.....	16.58	25.91
B.....	38.23	60.54
CCC.....	.61	.71
NR.....	4.43	7.22
NA.....	2.51	3.76

		100.0 %

</TABLE>

*A description of corporate bond ratings of Standard & Poor's is set forth in Appendix A to the Prospectus.

GLOBAL UTILITY FOCUS FUND

The Fund is a diversified, open-end management investment company. The investment objective of the Global Utility Focus Fund is to seek both 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, in the opinion of the Investment Adviser, primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water. There can be no assurance that the Fund's investment objective will be achieved. The Fund may employ a variety of instruments and techniques to enhance income and to hedge against market and currency risk, as described below under 'Transactions in Options, Futures and Currency.'

The Global Utility Focus Fund at all times, except during temporary defensive periods, will maintain at least 65% of its total assets invested in equity and debt securities issued by domestic and foreign companies in the utilities industries. The Fund reserves the right to hold, as a temporary defensive measure or as a reserve for redemptions, short-term U.S. Government securities, money market securities, including repurchase agreements, or cash in such proportions as, in the opinion of the Investment Adviser, prevailing market or economic conditions warrant. Except during temporary defensive periods, such securities or cash will not exceed 20% of its total assets. Under normal circumstances, the Fund will invest at least 65% of its total assets in issuers domiciled in at least three countries, one of which may be the United States, although the Investment Adviser expects the Fund's portfolio to be more geographically diversified. Under normal conditions, it is anticipated that the percentage of assets invested in U.S. securities will be higher than that invested in securities of any other single country. It is possible that at times the Fund may have 65% or more of its total assets invested in foreign securities.

29

The Fund will invest in common stocks (including preferred or debt securities convertible into common stocks), preferred stocks and debt securities.

The relative weightings among common stocks, debt securities and preferred stocks will vary from time to time based upon the Investment Adviser's judgement of the extent to which investments in each category will contribute to meeting the Fund's investment objective. Fixed income securities in which the Fund will invest generally will be limited to those rated investment grade, that is, rated in one of the four highest rating categories by Standard & Poor's or Moody's, or deemed to be of equivalent quality (i.e., securities rated at least BBB by Standard & Poor's or Baa by Moody's) in the judgment of the Investment Adviser. Securities rated Baa by Moody's are described by it as having speculative characteristics and, according to Standard & Poor's, fixed income securities rated BBB normally exhibit adequate protection parameters, although adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal. The Fund's commercial paper investments at the time of purchase will be rate 'A-1' or 'A-2' by Standard & Poor's or 'Prime-1' or 'Prime-2' by Moody's or, if not rated, will be of comparable quality as determined by the Investment Adviser. The Fund may also invest up to 5% of its total assets at the time of purchase in fixed income securities having a minimum rating no lower than Caa by Moody's or CCC by Standard & Poor's. The Fund may, but need not, dispose of any security if it is subsequently downgraded. For a description of ratings of debt securities, see Appendix A to this Prospectus.

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

The Fund may invest in the securities of foreign issuers in the form of American Depositary Receipts (ADRs), European Depositary Receipts ('EDRs') or other securities convertible into securities of foreign issuers. These securities may not necessarily be denominated in the same currency as the securities into which they may be converted. ADRs are receipts typically issued by an American bank or trust company which evidence ownership of underlying securities issued by a foreign corporation. EDRs are receipts issued in Europe which evidence a similar ownership arrangement. Generally, ADRs which are issued in registered form, are designated for use in the United States securities markets, and EDRs, which are issued in bearer form, are designed for use in European securities markets. The Fund may invest in ADRs and EDRs through both sponsored and unsponsored arrangements. In a sponsored ADR or EDR arrangement, the foreign issuer assumes the obligation to pay some or all of the depository's transaction fees, whereas in an unsponsored arrangement the foreign issuer assumes no obligations and the depository's transaction fees are paid by the ADR or EDR holders. Foreign issuers in respect of whose securities unsponsored ADRs or EDRs have been issued are not necessarily obligated to disclose material information in the markets in which the unsponsored ADRs or EDRs are traded and, therefore, there may not be a correlation between such information and the

market value of such securities.

A change in prevailing interest rates is likely to affect the Fund's net asset value because prices of debt and equity securities of utility companies tend to increase when interest rates decline and decrease when interest rates rise.

Utility Industries--Description and Risks. Under normal circumstances, the Fund will invest at least 65% of its total assets in common stocks (including preferred or debt securities convertible into common stocks), debt securities and preferred stocks of domestic and/or foreign companies in the utility industries. To meet its objective of current income, the Fund may invest in domestic utility companies that pay higher than average dividends, but have a lesser potential for capital appreciation. The average dividend yields of common stocks issued by domestic utility companies historically have significantly exceeded those of industrial companies' common stocks, while the prices of domestic utility stocks have tended to be less volatile than stocks of industrial

30

companies. Total returns on domestic utility stocks have also generally exceeded those on stocks of industrial companies. Debt securities of domestic utility companies historically also have yielded slightly more than similar debt securities of industrial companies, and have had higher total returns. For certain periods, the total return of utility companies' securities has underperformed that of industrial companies' securities. There can be no assurance that positive relative returns on utility securities will occur in the future. The Investment Adviser believes that the average dividend yields of common stocks issued by foreign utility companies have also historically exceeded those of foreign industrial companies' common stocks. To meet its objective of capital appreciation, the Fund may invest in foreign utility companies which pay lower than average dividends, but have a greater potential for capital appreciation.

The utility companies in which the Fund will invest include companies which are, in the opinion of the Investment Adviser, primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water.

Risks that are intrinsic to the utility industries include difficulty in obtaining an adequate return on invested capital, difficulty in financing large construction programs during an inflationary period, restrictions on operations and increased cost and delays attributable to environmental considerations and regulation, difficulty in raising capital in adequate amounts on reasonable terms in periods of high inflation and unsettled capital markets, technological innovations which may render existing plants, equipment or products obsolete, the potential impact of natural or man-made disasters, increased costs and reduced availability of certain types of fuel, occasionally reduced availability and high costs of natural gas for resale, the effects of energy conservation, the effects of a national energy policy and lengthy delays and greatly increased

costs and other problems associated with design, construction, licensing, regulation and operation of nuclear facilities for electric generation, including, among other considerations, the problems associated with the use of radioactive materials and the disposal of radioactive wastes. There are substantial differences between the regulatory practices and policies of various

jurisdictions, and any given regulatory agency may make major shifts in policy from time to time. There is no assurance that regulatory authorities will, in the future, grant rate increases or that such increases will be adequate to permit the payment of dividends on common stocks. Additionally, existing and possible future regulatory legislation may make it even more difficult for these utilities to obtain adequate relief. Certain of the issuers of securities of the portfolio may own or operate nuclear generating facilities. Governmental authorities may from time to time review existing policies, and impose additional requirements governing the licensing, construction and operation of nuclear power plants.

Utility companies in the United States and in foreign countries are generally subject to regulation. In the United States, most utility companies are regulated by state and/or federal authorities. Such regulation is intended to ensure appropriate standards of service and adequate capacity to meet public demand. Generally, prices are also regulated in the United States and in foreign countries with the intention of protecting the public while ensuring that the rate of return earned by utility companies is sufficient to allow them to attract capital in order to grow and continue to provide appropriate services. There can be no assurance that such pricing policies or rates of return will continue in the future.

The nature of regulation of the utility industries is evolving both in the

United States and in foreign countries. Changes in regulation in the United States increasingly allow utility companies to provide services and products outside their traditional geographic areas and lines of business, creating new areas of competition within the industries. In some instances, utility companies are operating on an unregulated basis. Because of trends toward deregulation and the evolution of independent power producers as well as new entrants to the field of telecommunications, non-regulated providers of utility services have become a significant part of their respective

industries. The Investment Adviser believes that the emergence of competition and deregulation will result in certain utility companies being able to earn more than their traditional regulated rates of return, while others may be forced to defend their core businesses from increased competition and may be less profitable. The Investment Adviser seeks to take advantage of favorable investment opportunities that are expected to arise from these structural changes. Of course, there can be no assurance that favorable developments will occur in the future.

Foreign utility companies are also subject to regulation, although such regulations may or may not be comparable to that in the United States. Foreign utility companies may be more heavily regulated by their respective governments than utilities in the United States and, as in the U.S., generally are required

to seek government approval for rate increases. In addition, many foreign utilities use fuels that cause more pollution than those used in the United

States, which may require such utilities to invest in pollution control equipment to meet any proposed pollution restrictions. Foreign regulatory systems vary from country to country and may evolve in ways different from regulation in the United States.

The Global Utility Focus Fund's investment policies are designed to enable it to capitalize on evolving investment opportunities throughout the world. For example, the rapid growth of certain foreign economies will necessitate expansion of capacity in the utility industries in those countries. Although many foreign utility companies currently are government-owned, thereby limiting current investment opportunities for the Fund, the Investment Adviser believes that, in order to attract significant capital for growth, foreign governments are likely to seek global investors through the privatization of their utility industries. Privatization, which refers to the trend toward investor ownership of assets rather than government ownership, is expected to occur in newer, faster-growing economies and in mature economies. Of course, there is no assurance that such favorable developments will occur or that investment opportunities in foreign markets for the Fund will increase.

The revenues of domestic and foreign utility companies generally reflect the economic growth and developments in the geographic areas in which they do business. The Investment Adviser will take into account anticipated economic growth rates and other economic developments when selecting securities of utility companies. The principal sectors of the global utility industries are discussed below.

Electric. The electric utility industry consists of companies that are engaged principally in the generation, transmission and sale of electric energy, although many also provide other energy-related services. Domestic electric utility companies, in general, recently have been favorably affected by lower fuel and financing costs and the full or near completion of major construction programs. In addition, many of these companies recently have generated cash flows in excess of current operating expenses and construction expenditures, permitting some degree of diversification into unregulated businesses. Some electric utilities have also taken advantage of the right to sell power outside of their traditional geographic areas. Electric utility companies have historically been subject to the risks associated with increases in fuel and other operating costs, high interest costs on borrowings needed for capital construction programs, costs associated with compliance with environmental and safety regulations and changes in the regulatory climate. As interest rates have declined, many utilities have refinanced high cost debt and in doing so have improved their fixed charges coverage. Regulators, however, have lowered allowed rates of return as interest rates have declined and thereby caused the benefits of the rate declines to be shared wholly or in part with customers.

In the United States, the construction and operation of nuclear power facilities is subject to increased scrutiny by, and evolving regulations of, the Nuclear Regulatory Commission and state agencies having comparable jurisdiction. Increased scrutiny might result in higher operating costs and higher capital

expenditures, with the risk that the regulators may disallow inclusion of these costs in rate authorizations or the risk that a

company may not be permitted to operate or complete construction of a facility. In addition, operators of nuclear power plants may be subject to significant costs for disposal of nuclear fuel and for decommissioning of such plants.

In October 1993, S&P stiffened its debt-ratings formula for the electric utility industry, stating that the industry is in long-term decline. In addition, Moody's stated that it expected a drop in the next three years in its average credit ratings for the industry. Reasons set forth for these outlooks included slowing demand and increasing cost pressures as a result of competition from rival providers.

Telecommunications. The telephone industry is large and highly concentrated. Companies that distribute telephone services and provide access to the telephone networks comprise the greatest portion of this segment. Telephone companies in the United States are still experiencing the effects of the breakup of American Telephone & Telegraph Company, which occurred in 1984. Since 1984, companies engaged in telephone communication services have expanded their non-regulated activities into other businesses, including cellular telephone services, data processing, equipment retailing, computer software and hardware services, and financial services. This expansion has provided significant opportunities for certain telephone companies to increase their earnings and dividends at faster rates than had been allowed in traditional regulated businesses. Increasing competition, technological innovations and other structural changes, however, could adversely affect the profitability of such utilities. Technological breakthroughs and the merger of telecommunications with video and entertainment is now associated with the expansion of the role of cable companies as providers of utility services in the telecommunications industry and the competitive response of traditional telephone companies. Given mergers and certain marketing tests currently underway, it is likely that both traditional telephone companies and cable companies will soon provide a greatly expanded range of utility services, including two-way video and informational services.

Gas. Gas transmission companies and gas distribution companies are also undergoing significant changes. In the United States, interstate transmission companies are regulated by the Federal Energy Regulatory Commission, which is reducing its regulation of the industry. Many companies have diversified into oil and gas exploration and development, making returns more sensitive to energy prices. In the recent decades, gas utility companies have been adversely affected by disruptions in the oil industry and have also been affected by increased concentration and competition. In the opinion of the Investment Adviser, however, environmental considerations could improve the gas industry outlook in the future. For example, natural gas is the cleanest of the hydrocarbon fuels, and this may result in incremental shifts in fuel consumption

toward natural gas and away from oil and coal.

Water. Water supply utilities are companies that collect, purify, distribute and sell water. In the United States and around the world, the industry is highly fragmented because most of the supplies are owned by local authorities. Companies in this industry are generally mature and are experiencing little or no per capita volume growth. In the opinion of the Investment Adviser, there may be opportunities for certain companies to acquire other water utility companies and for foreign acquisition of domestic companies. The Investment Adviser believes that favorable investment opportunities may result from consolidation of this segment.

There can be no assurance that the positive developments noted above, including those relating to privatization and changing regulation, will occur or that risk factors other than those noted above will not develop in the future.

Investment Outside the Utility Industries. The Global Utility Focus Fund is permitted to invest up to 35% of its assets in securities of issuers that are outside the utility industries. Such investments may include common stocks, debt securities or preferred stocks and will be selected to meet the Fund's investment objective of both capital appreciation and current income. These securities may be issued by either U.S. or non-U.S. companies. Some of these issuers may be in industries related to utility industries and, therefore, may be subject to similar risks. Securities that are issued by foreign companies or are denominated in foreign currencies are subject to the risks outlined above.

The Global Utility Focus Fund is also permitted to invest in securities issued or guaranteed by the U.S. Government, its agencies or instrumentalities ('U.S. Government Securities'). Such investments may be backed by the 'full faith and credit' of the United States, including U.S. Treasury bills, notes and

bonds as well as certain agency securities and mortgage-backed securities issued by the Government National Mortgage Association (GNMA). The guarantees on these securities do not extend to the securities' yield or value or to the yield or value of the Fund's shares. Other investments in agency securities are not necessarily backed by the 'full faith and credit' of the United States, such as certain securities issued by the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation, the Student Loan Marketing Association and the Farm Credit Bank.

The Global Utility Focus Fund may invest in securities issued or guaranteed by foreign governments. Such securities are typically denominated in foreign currencies and are subject to the currency fluctuation and other risks of foreign securities investments. The foreign government securities in which the Fund intends to invest generally will consist of obligations supported by national, state or local governments or similar political subdivisions. Foreign government securities also include debt obligations of supranational entities, including international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. Examples include the International Bank for Reconstruction and Development (the World Bank), the European Investment Bank, the Asian Development Bank and the Inter-American Development Bank.

Foreign government securities also include debt securities of 'quasi-governmental agencies' and debt securities denominated in multinational currency units. An example of a multinational currency unit is the European Currency Unit. A European Currency Unit represents specified amounts of the currencies of certain of the twelve member states of the European Economic Community. Debt securities of quasi-governmental agencies are issued by entities owned by either a national or local government or are obligations of a political unit that is not backed by the national government's full faith and credit and general taxing powers. Foreign government securities also include mortgage-related securities issued or guaranteed by national or local governmental instrumentalities including quasi-governmental agencies. Foreign government securities will not be considered government securities for purposes of determining the Fund's compliance with diversification and concentration policies.

INTERNATIONAL EQUITY FOCUS FUND

The investment objective of the International Equity Focus Fund is to seek capital appreciation and, secondarily, income by investing in a diversified portfolio of equity securities of issuers located in countries other than the United States. Under normal conditions, at least 65% of the Fund's net assets will be invested in such equity securities. The investment objective of the Fund is a fundamental policy and may not be changed without approval of a majority of the Fund's outstanding shares. There can be no assurance that the Fund's investment

34

objective will be achieved. The Fund may employ a variety of investments and techniques to hedge against market and currency risk. The Fund is designed for investors seeking to complement their U.S. holdings through foreign investments. The Fund should be considered as a vehicle for diversification and not as a balanced investment program.

The International Equity Focus Fund will invest in an international portfolio of securities of foreign companies located throughout the world. While there are no prescribed limits on the geographic allocation of the Fund's investments, management of the Fund anticipates that a substantial portion of its assets will be invested in the developed countries of Europe and the Far East. However, for the reasons stated below, management of the Fund will give special attention to investment opportunities in the developing countries of the world, including, but not limited to Latin America, the Far East and Eastern Europe. It is anticipated that a significant portion of the Fund's assets may be invested in such developing countries.

The allocation of the Fund's assets among the various foreign securities markets will be determined by the Investment Adviser based primarily on its assessment of the relative condition and growth potential of the various economies and securities markets, currency and taxation considerations and other pertinent financial, social, national and political factors. Within such allocations, the Investment Adviser will seek to identify equity investments in each market which are expected to provide a total return which equals or exceeds the return of such market as a whole.

A significant portion of the Fund's assets may be invested in developing countries. This allocation of the Fund's assets reflects the belief that attractive investment opportunities may result from an evolving long-term

international trend favoring more market-oriented economies, a trend that may especially benefit certain developing countries with smaller capital markets. This trend may be facilitated by local or international political, economic or financial developments that could benefit the capital markets of such countries. Certain such countries, particularly so-called 'emerging' countries (such as Malaysia, Mexico and Thailand), which may be in the process of developing more market-oriented economies, may experience relatively high rates of economic growth. Because of the general illiquidity of the capital markets in certain developing countries, the Fund may invest in a relatively small number of leading or relatively actively traded companies in such countries' capital markets in the expectation that the investment experience of the securities of such companies will substantially represent the investment experience of the countries' capital markets as a whole.

While the Fund will primarily emphasize investments in common stock, the Fund may also invest in preferred stocks and convertible debt securities. The Fund reserves the right, as a temporary defensive measure and to provide for redemptions, to hold cash or cash equivalents in U.S. dollars or foreign currencies and short-term securities including money market securities. Under certain adverse investment conditions, the Fund may restrict the markets in which its assets will be invested and may increase the proportion of assets invested in temporary defensive obligations of U.S. issuers. Under normal conditions, at least 65% of the Fund's total assets will be invested in the securities of issuers from at least three different foreign countries. Investments made for defensive purposes will be maintained only during periods in which the Investment Adviser determines that economic or financial conditions are adverse for holding or being fully invested in equity securities of foreign issuers.

The Fund may invest in the securities of foreign issuers in the form of American Depositary Receipts (ADRs), European Depositary Receipts (EDRs), Global Depositary Receipts (GDRs) or other securities convertible into securities of foreign issuers. These securities may not necessarily be denominated in the same currency as the securities into which they may be converted. ADRs are receipts typically issued by an American

35

bank or trust company which evidence ownership of underlying securities issued by a foreign corporation. EDRs are receipts issued in Europe which evidence a similar ownership arrangement. GDRs are receipts issued throughout the world which evidence a similar ownership arrangement. Generally, ADRs, in registered form, are designed for use in the U.S. securities markets, and EDRs, in bearer form, are designed for use in European securities markets. GDRs are tradeable both in the U.S. and Europe and are designed for use throughout the world.

DEVELOPING CAPITAL MARKETS FOCUS FUND

The investment objective of the Developing Capital Markets Focus Fund is to seek long-term capital appreciation by investing in securities, principally equities, of issuers in countries having smaller capital markets. Under normal conditions, at least 65% of the Fund's net assets will be invested in equity securities. The investment objective of the Fund is a fundamental policy and may not be changed without approval of a majority of the Fund's outstanding shares. There can be no assurance that the Fund's investment objective will be achieved. The Fund may employ a variety of investments and techniques to hedge against market and currency risk. The Fund is designed for investors seeking to complement their U.S. holdings through foreign investments. The Fund should be considered as a vehicle for diversification and not as a balanced investment program.

For purposes of its investment objective, the Fund considers countries having smaller capital markets to be all countries other than the four countries having the largest equity market capitalizations. Currently, these four countries are Japan, the United Kingdom, the United States and Germany. On , 1994, those countries' equity market capitalizations totalled approximately % of the world's equity market capitalization according to data provided by Morgan Stanley Capital International. The Fund will at all times, except during defensive periods, maintain investments in at least three countries having smaller capital markets.

The Fund seeks to benefit from economic and other developments in smaller capital markets. The investment objective of the Fund reflects the belief that investment opportunities may result from an evolving long-term international trend favoring more market-oriented economies, a trend that may especially benefit certain countries having smaller capital markets. This trend may be facilitated by local or international political, economic or financial

developments that could benefit the capital markets of such countries. Certain such countries, particularly so-called 'emerging' countries (such as Malaysia, Mexico and Thailand) which may be in the process of developing more market-oriented economies, may experience relatively high rates of economic growth. Other countries (such as France, the Netherlands and Spain), although having relatively mature smaller capital markets, may also be in a position to benefit from local or international developments encouraging greater market orientation and diminishing governmental intervention in economic affairs.

Many investors, particularly individuals, lack the information, capability or inclination to invest in countries having smaller capital markets. It also may not be permissible for such investors to invest directly in certain such markets. Unlike many intermediary investment vehicles, such as closed-end investment companies that invest in a single country, the Fund intends to diversify investment risk among the capital markets of a number of countries. The Fund will not necessarily seek to diversify investments on a geographical basis or on the basis of the level of economic development of any particular

country.

In its investment decision-making, the Investment Adviser will emphasize the allocation of assets among certain countries' capital markets, rather than the selection of particular industries or issuers. Because of the

36

general illiquidity of the capital markets in some countries, the Fund may invest in a relatively small number of leading or actively traded companies in a country's capital markets in the expectation that the investment experience of the securities of such companies will substantially represent the investment experience of the country's capital markets as a whole.

The Fund also may invest in debt securities of issuers in countries having smaller capital markets. Capital appreciation in debt securities may arise as a result of a favorable change in relative foreign exchange rates, in relative interest rate levels, or in the creditworthiness of issuers. In accordance with its investment objective, the Fund will not seek to benefit from anticipated short-term fluctuations in currency exchange rates. The Fund may, from time to time, invest in debt securities with relatively high yields (as compared to other debt securities meeting the Fund's investment criteria), notwithstanding that the Fund may not anticipate that such securities will experience substantial capital appreciation. Such income can be used, however, to offset the operating expenses of the Fund.

The Fund may invest in debt securities issued or guaranteed by foreign governments (including foreign states, provinces and municipalities) or their agencies and instrumentalities ('governmental entities'), issued or guaranteed by international organizations designated or supported by multiple foreign governmental entities (which are not obligations of foreign governments) to promote economic reconstruction or development ('supranational entities'), or issued by foreign corporations or financial institutions.

Supranational entities include international organizations designated or supported by governmental entities to promote economic reconstruction or development and international banking institutions and related government agencies. Examples include the International Bank for Reconstruction and Development (the 'World Bank'), the European Steel and Coal Community, the Asian Development Bank and the Inter-American Development Bank. The governmental members, or 'stockholders', usually make initial capital contributions to the supranational entity and in many cases are committed to make additional capital contributions if the supranational entity is unable to repay its borrowings.

The Fund has established no rating criteria for the debt securities in

which it may invest, and such securities may not be rated at all for creditworthiness. Securities rated in the medium to lower rating categories of nationally recognized statistical rating organizations and unrated securities of comparable quality 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. In purchasing such securities, the Fund will rely on the Investment Adviser's judgment, analysis and experience in evaluating the

creditworthiness of an issuer of such securities. The Investment Adviser 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 the issuer's management and regulatory matters. The Fund does not intend to purchase debt securities that are in default or which the Investment Adviser believes will be in default.

For purposes of the Fund's investment objective, an issuer ordinarily will be considered to be located in the country where the primary trading market of its securities is located. The Fund, however, may consider a company to be located in countries having smaller capital markets, without reference to its domicile or to the primary trading market of its securities, when at least 50% of its non-current assets, capitalization, gross revenues or profits in any one of the two most recent fiscal years represents (directly or indirectly through subsidiaries) assets or activities located in such countries. The Fund also may consider closed-end investment companies to be located in the country or countries in which they primarily make their portfolio investments.

37

The Fund reserves the right, as a temporary defensive measure or to provide for redemptions or in anticipation of investment in countries having smaller capital markets, to hold cash or cash equivalents (in U.S. dollars or foreign currencies) and short-term securities, including money market securities. The Fund may invest in the securities of foreign issuers in the form of American Depositary Receipts (ADRs), European Depositary Receipts (EDRs), Global Depositary Receipts (GDRs) or other securities convertible into securities of foreign issuers. The Fund may invest in unsponsored ADRs. The issuers of unsponsored ADRs are not obligated to disclose material information in the United States, and therefore, there may not be a correlation between such information and the market value of such ADRs.

INTERNATIONAL BOND FUND

The investment objective of the International Bond Fund is to seek a high total investment return by investing in an international portfolio of non-U.S. debt instruments denominated in various currencies and multinational currency

units. Total investment return is the aggregate of capital value changes and

income. The investment objective of the Fund is a fundamental policy and may not be changed without approval of a majority of the Fund's outstanding shares. There can be no assurance that the Fund's investment objective will be achieved. The Fund may seek to hedge against interest rate and currency risks through the use of option, futures and currency transactions. The Fund is designed for investors seeking to complement their U.S. holdings through foreign investments. The Fund should be considered as a vehicle for diversification and not as a balanced investment program.

The Fund may purchase debt obligations issued or guaranteed by foreign governments (including foreign states, provinces and municipalities) or their agencies and instrumentalities ('governmental entities'), or issued or guaranteed by international organizations designated or supported by multiple governmental entities to promote economic reconstruction or development ('supranational entities') such as the International Bank for Reconstruction and Development (the 'World Bank') and the European Coal and Steel Community, or issued by foreign corporations or financial institutions.

With respect to the creditworthiness of the Fund's portfolio securities, under normal conditions all of the securities owned by the Fund will be (i) obligations which have a credit rating of A or better by S&P or by Moody's or commercial paper rated A-1 by S&P or Prime-1 by Moody's or obligations that the Fund's Investment Adviser has determined to be of similar creditworthiness. The Fund's Investment Adviser may determine that a non-dollar denominated obligation of a foreign government is of similar creditworthiness notwithstanding S&P's or Moody's less favorable rating of a dollar denominated obligation of the same issuer, provided that the Investment Adviser believes that such dollar denominated obligation is assigned a lower rating because it is denominated in a currency other than the foreign government's own currency.

In evaluating obligations, the Investment Adviser will utilize its internal

credit analysis resources as well as financial and economic information obtained from other sources. With respect to foreign corporate issuers, the Investment Adviser will consider the financial condition of the issuer and market and economic conditions relevant to its operations. In terms of foreign governmental obligations, the Investment Adviser will review the financial position of the issuer and political and economic conditions in the country. Investment in securities of supranational entities is subject to the additional risk to be considered by the Investment Adviser that member governments will fail to make required capital contributions and that a supranational entity will thus be unable to meet its obligations.

38

The Fund's fully managed approach enables it to seek high total investment return by investing in debt instruments denominated in various currencies and

currency units on the basis of the potential capital appreciation of such instruments in U.S. dollars and the rates of income paid on such instruments. As a general matter, in evaluating investments, the Fund will consider, among other factors, the relative levels of interest rates prevailing in various countries, the potential appreciation of such investments in their denominated currencies and, for debt instruments not denominated in U.S. dollars, the potential movement in the value of such currencies compared to the U.S. dollar. In seeking capital appreciation, the Fund may invest in relatively low-yielding instruments in expectation of favorable currency fluctuations or interest rate movements, thereby potentially reducing the Fund's current yield. In seeking income, the Fund may invest in short-term instruments with relatively high yields (as compared to other debt securities) meeting the Fund's investment criteria, notwithstanding that the Fund may not anticipate that such instruments will experience substantial capital appreciation.

The average maturity of the Fund's portfolio securities will vary based upon the Investment Adviser's assessment of economic and market conditions. As with all debt securities, changes in market yields will affect the Fund's asset value as the prices of portfolio securities generally increase when interest rates decline and decrease when interest rates rise. Prices of longer term securities generally fluctuate more in response to interest rate changes than do shorter term securities. The Fund does not expect the average maturity of its portfolio to exceed ten years.

The Fund may invest in debt instruments denominated in any currency or multinational currency unit. An illustration of a multinational currency unit is the European Currency Unit ('ECU') which is a 'basket' consisting of specified amounts of the currencies of certain of the twelve member states of the European Community, a Western European economic cooperative association including France, Germany, The Netherlands and the United Kingdom. The specific amounts of currencies comprising the ECU may be adjusted by the Council of Ministers of the European Community to reflect changes in relative values of the underlying currencies. The Investment Adviser does not believe that such adjustments will adversely affect holders of ECU-denominated obligations or the marketability of such securities. European supranationals, in particular, issue ECU-denominated obligations. The Fund may invest in debt instruments denominated in the currency of one nation although issued by a governmental entity, corporation or financial institution of another nation. For example, the Fund may invest in a Japanese yen-denominated obligation issued by a German corporation. Such investments involve credit risks associated with the issuer and currency risks associated with the currency in which the obligation is denominated. It is anticipated that the Fund will invest primarily in marketable instruments denominated in the currencies of the U.S., Japan, Canada, Western European nations, New Zealand and Australia as well as in ECUs. Further, it is anticipated that such instruments will be issued primarily by entities located in such countries and by supranational entities. Under certain adverse conditions, the Fund may restrict the financial markets or currencies in which its assets will be invested and may invest its assets solely in U.S. dollar-denominated obligations.

The Fund reserves the right, as a temporary defensive measure or to provide for redemptions or in anticipation of investment in foreign markets, to hold cash or cash equivalents (in U.S. dollars or foreign currencies) and short-term securities, including money market securities.

39

The investment objective of the Intermediate Government Bond Fund is to seek highest possible current income consistent with the protection of capital afforded by investing in intermediate-term debt securities issued or guaranteed by the U.S. Government, its agencies and instrumentalities with a maximum maturity not to exceed fifteen years. Depending on market conditions, an average maturity of six to eight years is anticipated. When, in the opinion of management, prevailing market or economic conditions warrant, a portion of the Fund may be invested in money market securities or a liquid asset fund to effectively utilize cash reserves.

Certain of the securities in which the Fund invests are supported by the full faith and credit of the U.S. Government, such as U.S. Treasury obligations. Other of the securities in which the Fund invests are not supported by the full faith and credit of the U.S. Government but are issued by U.S. Government agencies, instrumentalities or government sponsored enterprises. Such securities are generally supported only by the credit of the agency, instrumentality or enterprise issuing the security and are generally considered to have a low principal risk. However, because of the longer term maturities of the securities in which the Fund will invest, interest rate fluctuations may adversely affect the market value of such securities. As interest rates rise, the value of fixed-income securities will fall, adversely affecting the net asset value of the Fund.

The U.S. Treasury Department has enacted regulations prescribing diversification standards to be met by investment company portfolios to which the investment base for any variable annuity policy has been allocated as a condition to such policies being treated as variable annuity contracts under the Internal Revenue Code of 1986, as amended (the 'Code'). The regulations limit the percentage of the total assets of any investment company portfolio which may be invested in securities of any five or fewer issuers, including a requirement that no more than 55% of a portfolio's total assets be invested in the securities of any one issuer. Direct obligations of the U.S. Treasury, are not excepted from the diversification requirements. Each Government agency or instrumentality issuing, guaranteeing or insuring securities will be treated as a separate issuer for purposes of the diversification standards.

NON-DIVERSIFIED FUNDS

The Natural Resources Focus, Global Strategy Focus, World Income Focus, Developing Capital Markets Focus and International Bond Funds are classified as non-diversified investment companies under the Investment Company Act of 1940. However, each Fund will have to limit its investments to the extent required by the diversification requirements applicable to regulated investment companies under the Internal Revenue Code. To qualify as a regulated investment company, a Fund, at the close of each fiscal quarter, may not have more than 25% of its total assets invested in the securities (except obligations of the U.S. Government, its agencies or instrumentalities) of any one issuer and with respect to 50% of its assets, (i) may not have more than 5% of its total assets invested in the securities of any one issuer and (ii) may not own more than 10% of the outstanding voting securities of any one issuer.

INVESTMENT RESTRICTIONS

The Company 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 the Company's outstanding voting securities (including a majority of the shares of each Fund). Investors are referred to the Statement of Additional Information for a complete description of such restrictions and policies.

MONEY MARKET FUND PORTFOLIO RESTRICTIONS

For purposes of the investment policies of the Domestic Money Market and Reserve Assets Funds, the Company defines short-term money market securities as securities having a maturity of no more than 762 days (25 months) in the case of U.S. Government and agency securities and no more than 397 days (13 months) in the case of all other securities. Management of the Company expects that

substantially all the assets of the Domestic Money Market and Reserve Assets Funds will be invested in securities maturing in less than one year, but at times some portion may have maturities of up to 25 months. For these purposes, the maturity of variable rate is deemed to be the next coupon date on which the interest rate is adjusted. The dollar-weighted average maturity of each Fund's portfolio assets will not exceed 90 days. During the year ended December 31, 1993, the average maturity of the Reserve Assets Fund's assets ranged from 61 days to 90 days and the average maturity of the Domestic Money Market Fund's assets ranged from 59 days to 89 days.

The Domestic Money Market and Reserve Asset Funds' investments in

short-term debt and depository institution money instruments will be rated, or will be issued by issuers who have been rated, in one of the two highest rating categories for short-term debt obligations by a nationally recognized statistical rating organization (an 'NRSRO') or, if not rated, will be of comparable quality as determined by the Directors of the Company. Each Fund's

investments in corporate bonds and debentures (which must have maturities at the date of purchase of 397 days (13 months) or less) will be in issuers which have received from an NRSRO a rating, with respect to a class of short-term debt obligations that is comparable in priority and security with the investment, in one of the two highest rating categories for short-term obligations or, if not rated, will be of comparable quality as determined by the Directors of the Company. Currently, there are six NRSROs: Duff & Phelps Inc., Fitch Investors Services, Inc., IBCA Limited and its affiliate IBCA Inc., Moody's, Standard & Poor's and Thomson BankWatch.

A recently adopted regulation of the Securities and Exchange Commission will limit investments by the Domestic Money Market and Reserve Assets Funds in securities issued by any one issuer (other than the U.S. Government, its agencies or instrumentalities) ordinarily to not more than 5% of its total assets, or in the event that such securities do not have the highest rating, not more than 1% of its total assets. In addition, this regulation requires that not more than 5% of each Fund's total assets be invested in securities that have a rating lower than the highest rating.

OTHER PORTFOLIO STRATEGIES

Restricted Securities. Each of the Funds is subject to limitations on the amount of illiquid securities they may purchase; however, each Fund may purchase without regard to that limitation securities that are not registered under the Securities Act of 1933 (the 'Securities Act'), but that can be offered and sold to 'qualified institutional buyers' under Rule 144A under the Securities Act, provided that the Company's Board of Directors continuously determines, based on the trading markets for the specific Rule 144A security, that it is liquid. The Board of Directors may adopt guidelines and delegate to the Investment Adviser the daily function of determining and monitoring liquidity of restricted securities. The Board has determined that securities which are freely tradeable in their primary market offshore should be deemed liquid. The Board, however, will retain sufficient oversight and be ultimately responsible for the determinations.

Since it is not possible to predict with assurance exactly how the market for restricted securities sold and offered under Rule 144A will develop, the Board of Directors will carefully monitor the Funds' investments in these securities, focusing on such factors, among others, as valuation, liquidity and availability of information.

41

This investment practice could have the effect of increasing the level of illiquidity in a Fund to the extent that qualified institutional buyers become for a time uninterested in purchasing these restricted securities.

Indexed and Inverse Securities. A Fund may invest in securities whose potential return is based on the change in particular measurements of value or rate (an 'index'). As an illustration, a Fund may invest in a security that pays interest and returns principal based on the change in an index of interest rates or on the value of a precious or industrial metal. Interest and principal payable on a security may also be based on relative changes among particular

indices. In addition, certain of the Funds may invest in securities whose potential investment return is inversely based on the change in particular indices. For example, a Fund may invest in securities that pay a higher rate of interest and principal when a particular index decreases and pay a lower rate of interest and principal when the value of the index increases. To the extent that a Fund invests in such types of securities, it will be subject to the risks associated with changes in the particular indices, which may include reduced or eliminated interest payments and losses of invested principal. An example of such types of securities are indexed or inverse securities issued with respect

to a stock market index in a particular emerging market Asia-Pacific country.

Certain indexed securities, including certain inverse securities, may have the effect of providing a degree of investment leverage, because they may increase or decrease in value at a rate that is a multiple of the changes in applicable indices. As a result, the market value of such securities will generally be more volatile than the market values of fixed-rate securities. The Company believes that indexed securities, including inverse securities, represent flexible portfolio management instruments that may allow a Fund to seek potential investment rewards, hedge other portfolio positions, or vary the degree of portfolio leverage relatively efficiently under different market conditions.

Foreign Securities. The Reserve Assets, Prime Bond, High Current Income, Quality Equity, Equity Growth, Flexible Strategy, Natural Resources Focus, Global Strategy Focus, Basic Value Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds may invest in securities of foreign issuers. Investments in foreign securities, particularly those of non-governmental issuers, involve considerations and risks which are not ordinarily associated with investing in domestic issuers. These considerations and risks include changes in currency rates, currency exchange control regulations, the possibility of expropriation, the unavailability of financial information or the difficulty of interpreting financial information prepared under foreign accounting standards, less liquidity and more volatility in foreign securities markets, the impact of political, social or diplomatic developments, and the difficulty of assessing economic trends in foreign countries. If it should become necessary, a Fund could encounter greater difficulties in invoking legal processes abroad than would be the case in the United States. Transaction costs in foreign securities may be higher. In addition, net investment income earned by a Fund on a foreign security may be subject to withholding and other taxes imposed by foreign governments which will reduce a Fund's net investment income. The Investment Adviser will consider these and other factors before investing in foreign securities, and will not make such investments unless, in its opinion,

such investments will meet the standards and objectives of a particular Fund. No Fund which may invest in foreign securities, other than the Natural Resources Focus and Global Strategy Focus Funds, will concentrate its investments in any particular country. The Flexible Strategy, Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds may from time to time be substantially invested in non-dollar-denominated securities of

foreign issuers. A Fund's return on investments in non-dollar-denominated securities may be reduced or enhanced as a result of changes in foreign currency rates during the period in which the Fund holds such investments. Each Fund other than the Flexible

42

Strategy, Natural Resources Focus, Global Strategy Focus, Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds, Developing Capital Markets Focus and International Bond Funds will purchase only securities issued in dollar denominations.

Each of the International Equity Focus Fund and Developing Capital Markets Focus Fund may invest a significant portion of its assets in securities of foreign issuers in smaller capital markets, while each of the other Funds which is permitted to invest in foreign securities may from time to time invest in securities of such foreign issuers. Foreign investments in smaller capital markets involve risks not involved in domestic investment, including fluctuations in foreign exchange rates, future political and economic developments, different legal systems and the existence or possible imposition of exchange controls or other foreign or United States governmental laws or restrictions applicable to such investments. These risks are often heightened for investments in small capital markets. Because a Fund which invests in foreign securities will invest in securities denominated or quoted in currencies other than the United States dollar, changes in foreign currency exchange rates may affect the value of securities in the portfolio and the unrealized appreciation or depreciation of investments insofar as United States investors are concerned. Foreign currency exchange rates are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by international balance of payments and other economic and financial conditions, government intervention, speculation and other factors. With respect to certain countries, there may be the possibility of expropriation of assets, confiscatory taxation, high rates of inflation, political or social instability or diplomatic developments which could affect investment in those countries. In addition, certain foreign investments may be subject to foreign withholding

taxes.

There may be less publicly available information about an issuer in a smaller capital market than would be available about a United States company, and it may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those of United States companies. As a result, traditional investment measurements, such as price/earnings ratios, as used in the United States, may not be applicable in certain capital markets.

Smaller capital markets, while often growing in trading volume, have substantially less volume than United States markets, and securities in many smaller capital markets are less liquid and their prices may be more volatile than securities of comparable United States companies. Brokerage commissions, custodial services, and other costs relating to investment in smaller capital markets are generally more expensive than in the United States. Such markets

have different clearance and settlement procedures, and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Further, satisfactory custodial services for investment securities may not be available in some countries having smaller capital markets, which may result in a Fund which invests in these markets incurring additional costs and delays in transporting and custodial services for investment securities outside such countries. Delays in settlement could result in temporary periods when assets of such a Fund are uninvested and no return is earned thereon. The inability of a Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of a portfolio security due to settlement problems could result either in losses to the Fund due to subsequent declines in value of the portfolio security or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser. There is generally less government supervision and regulation of exchanges, brokers and issuers in countries having smaller capital markets than there is in the United States.

As a result, management of a Fund which invests in foreign securities may determine that, notwithstanding otherwise favorable investment criteria, it may not be practicable or appropriate to invest in a particular country.

43

A Fund may invest in countries in which foreign investors, including management of the Fund, have had no or limited prior experience. Due to its emphasis on securities of issuers located in smaller capital markets, the International Equity Focus Fund should be considered as a vehicle for diversification and not as a balanced investment program.

Restrictions on Foreign Investment. The Developing Capital Markets Focus Fund intends to invest in securities of foreign issuers in smaller capital markets. Some countries with smaller capital markets prohibit or impose substantial restrictions on investments in their capital markets, particularly their equity markets, by foreign entities such as the Fund. As illustrations, certain countries require governmental approval prior to investments by foreign persons, or limit the amount of investment by foreign persons in a particular company, or limit the investment by foreign persons to only a specific class of securities of a company which may have less advantageous terms than securities of the company available for purchase by nationals.

A number of countries, such as South Korea, Taiwan and Thailand, have authorized the formation of closed-end investment companies to facilitate

indirect foreign investment in their capital markets. In accordance with the Investment Company Act of 1940, as amended (the 'Investment Company Act'), the Developing Capital Markets Focus Fund may invest up to 10% of its total assets in securities of closed-end investment companies. This restriction on investments in securities of closed-end investment companies may limit opportunities for the Fund to invest indirectly in certain smaller capital markets. Shares of certain closed-end investment companies may at times be acquired only at market prices representing premiums to their net asset values. If the Fund acquires shares in closed-end investment companies, shareholders

would bear both their proportionate share of expenses in the Fund (including management and advisory fees) and, indirectly, the expenses of such closed-end investment companies. The Fund also may seek, at its own cost, to create its own investment entities under the laws of certain countries.

In some countries, banks or other financial institutions may constitute a substantial number of the leading companies or the companies with the most actively traded securities. Also, the Investment Company Act restricts the Developing Capital Markets Focus Fund's investments in any equity security of an

issuer which, in its most recent fiscal year, derived more than 15% of its revenues from 'securities related activities', as defined by the rules thereunder. These provisions may also restrict the Fund's investments in certain foreign banks and other financial institutions.

Lending of Portfolio Securities. Each Fund of the Company may from time to time lend securities (but not in excess of 20% of its total assets) from its portfolio to brokers, dealers and financial institutions and receive collateral in cash, securities issued or guaranteed by the U.S. Government or, in the case of the Domestic Money Market and Reserve Assets Funds, cash equivalents which, while the loan is outstanding, will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities plus accrued interest. Such cash collateral will be invested in short-term securities, the income from which will increase the return to the Fund.

Forward Commitments. Each of the Funds may purchase securities on a when-issued basis, and they may purchase or sell such securities for delayed delivery. These transactions occur when securities are purchased or sold by a Fund with payment and delivery taking place in the future to secure what is considered an advantageous yield and price to the Fund at the time of entering into the transaction. The value of the security on the delivery date may be more or less than its purchase price. A Fund entering into such transactions will maintain a segregated account with its custodian of cash or liquid, high-grade debt obligations in an aggregate amount equal to the amount of its commitments in connection with such delayed delivery and purchase transactions.

44

Standby Commitment Agreements. The High Current Income, Global Utility Focus and Developing Capital Markets Focus Funds may from time to time enter into standby commitment agreements. Such agreements commit the respective Fund,

for a stated period of time, to purchase a stated amount of a fixed income security which may be issued and sold to the Fund at the option of the issuer. The price and coupon of the security is fixed at the time of the commitment. At the time of entering into the agreement the Fund is paid a commitment fee which is typically approximately 0.5% of the aggregate purchase price of the security which the Fund has committed to purchase. The Fund will at all times maintain a segregated account with its custodian of cash or liquid, high-grade debt obligations in an amount equal to the purchase price of the securities

underlying the commitment. There can be no assurance that the securities subject to a standby commitment will be issued, and the value of the security, if issued, on the delivery date may be more or less than its purchase price.

TRANSACTIONS IN OPTIONS, FUTURES AND CURRENCY

The Quality Equity, Flexible Strategy, Natural Resources Focus, American Balanced, Global Strategy Focus, Basic Value Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds may engage in certain of the options, futures and currency transactions discussed in Appendix A to this Prospectus. A Fund may engage in transactions in futures contracts, options on futures contracts, forward foreign exchange contracts, currency options and options on portfolio securities and on stock indexes only for hedging purposes and not for speculation. A Fund may write call options on portfolio securities and on stock indexes for the purpose of achieving, through receipt of premium income, a greater average total return than it would otherwise realize from holding portfolio securities alone. There can be no assurance that the objectives sought to be obtained from the use of these instruments will be achieved. A Fund's use of such instruments may be limited by certain Internal Revenue Code requirements for qualification of the Fund for the favorable tax treatment afforded investment companies. There can be no assurance that a Fund's hedging transactions will be effective. Furthermore, a Fund will only engage in hedging activities from time to time and will not necessarily engage in hedging transactions in all the smaller capital markets in which certain of the Funds may be invested at any given time.

RISKS OF HIGH YIELD SECURITIES

The High Current Income Fund, World Income Focus Fund and Developing Capital Markets Focus Fund may invest a substantial portion of their assets in high yield, high risk securities or junk bonds, which are regarded as being predominantly speculative as to the issuer's ability to make payments of principal and interest. Investment in such securities involves substantial risk. Issuers of junk bonds may be highly leveraged and may not have available to them more traditional methods of financing. Therefore, the risks associated with acquiring the securities of such issuers generally 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 recessionary periods, such issuers may not have

sufficient revenues to meet their interest payment obligations. The issuer's ability to service its debt obligations also may be adversely affected by specific issuer developments, or the issuer's inability to meet specific projected business forecasts, or the unavailability of additional financing. The risk of loss due to default by the issuer is significantly greater for the holders of junk bonds because such securities may be unsecured and may be subordinated to other creditors of the issuer. While the high yield securities in which the High Current Income Fund, World Income Focus Fund or Developing Capital Markets Focus Fund may invest normally do not include securities which,

at the time of investment, are in default or the

45

issuers of which are in bankruptcy, there can be no assurance that such events will not occur after a Fund purchases a particular security, in which case a Fund may experience losses and incur costs.

In an effort to minimize the risk of issuer default or bankruptcy, the High Current Income Fund, World Income Focus Fund and Developing Capital Markets Focus Fund each will diversify its holdings among many issuers. However, there can be no assurance that diversification will protect a Fund from widespread defaults brought about by a sustained economic downturn.

High yield securities tend to be more volatile than higher-rated fixed-income securities, so that adverse economic events may have a greater impact on their prices and yields than on higher-rated fixed-income securities. Zero coupon bonds and bonds which pay interest and/or principal in additional bonds rather than in cash are especially volatile. Like higher-rated fixed-income securities, junk bonds are generally purchased and sold through dealers who make a market in such securities for their own accounts. However, there are fewer dealers in this market, which may be less liquid than the market for higher-rated fixed-income securities, even under normal economic conditions. Also, there may be significant disparities in the prices quoted for such bonds by various dealers. Adverse economic conditions or investor perceptions (whether or not based on economic fundamentals) may impair the liquidity of this market, and may cause the prices the High Current Income Fund, World Income Focus Fund and International Bond Fund receive for their junk bonds to be reduced, or a Fund may experience difficulty in liquidating a portion of its portfolio 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. Under such conditions, judgment may play a greater role in valuing certain of each Fund's portfolio securities than in the case of securities trading in a more liquid market.

Adverse publicity and investor perceptions, which may not be based on fundamental analysis, also may decrease the value and liquidity of junk bonds, particularly in a thinly traded market. Factors adversely affecting the market value of such securities are likely to affect adversely the net asset value of

the High Current Income Fund, World Income Focus Fund and International Bond Fund. In addition, each Fund may incur additional expenses to the extent that it is required to seek recovery upon a default on a portfolio holding or to participate in the restructuring of the obligation.

INSURANCE LAW RESTRICTIONS

In order for shares of the Company's Funds to remain eligible investments for the Separate Accounts, it may be necessary, from time to time, for a Fund to

limit its investments in certain types of securities in accordance with the insurance laws or regulations of the various states in which the Contracts are sold.

The New York insurance law requires that investments of each Fund be made with the degree of care of an 'ordinarily prudent person.' In addition, each Fund has undertaken, at the request of the State of California Department of Insurance, to observe certain investment related requirements of the Insurance Code of the State of California. The Investment Adviser believes that compliance with these standards will not have any negative impact on the performance of any of the Funds.

46

OTHER CONSIDERATIONS

The Investment Adviser will use its best efforts to assure that each Fund of the Company complies with certain investment limitations of the Internal Revenue Service to assure favorable income tax treatment for the Contracts. It is not expected that such investment limitations will materially affect the ability of any Fund to achieve its investment objective.

DIRECTORS

The Directors of the Company consist of five individuals, four of whom are not 'interested persons' of the Company as defined in the Investment Company Act of 1940. The Directors of the Company are responsible for the overall supervision of the operations of the Company and perform the various duties imposed on the directors of the investment companies by the Investment Company Act of 1940. The Board of Directors elects officers of the Company annually.

The Directors of the Company and their principal employment are as follows:

ARTHUR ZEIKEL*--President and Chief Investment Officer of the Investment Adviser and Fund Asset Management, Inc.; Executive Vice President of Merrill Lynch & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated ('Merrill Lynch'); and Director of Merrill Lynch Funds Distributor, Inc.

WALTER MINTZ--Special Limited Partner of Cumberland Partners (investment partnership).

MELVIN R. SEIDEN--President of Silbanc Properties, Ltd. (real estate, consulting and investments).

STEPHEN B. SWENSRUD--Principal of Fernwood Associates (financial consultants).

JOE GRILLS--Member of the Committee on Investment of Employee Benefits Assets of the Financial Executives Institute.

HARRY WOOLF--Professor and former Director of the Institute for Advanced Study (private institution devoted to the encouragement, support and patronage of learning).

- - - - -

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

INVESTMENT ADVISER

Merrill Lynch Asset Management L.P. ('MLAM'), an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc., is the investment adviser for the Fund. The principal address of the Investment Adviser is 800 Scudders Mill Road, Plainsboro, New Jersey 08536 (mailing address: Box 9011, Princeton, New Jersey 08543-9011). The Investment Adviser or its affiliate, Fund Asset Management, L.P. ('FAM'), 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. In the aggregate, as of January 31, 1994, MLAM and FAM had a total of approximately \$167.1 billion in investment company and other portfolio assets under management.

Effective January 1, 1994, MLAM was reorganized as a Delaware limited partnership. MLAM (the general partner of which is Princeton Services, Inc., a wholly-owned subsidiary of Merrill Lynch & Co., Inc.) is itself a wholly-owned subsidiary of Merrill Lynch & Co., Inc. and has its principal place of business at 800 Scudders Mill Road, Plainsboro, New Jersey 08536. Prior to the reorganization, the Investment Adviser was a Delaware corporation known as Merrill Lynch Investment Management, Inc., which did business as Merrill Lynch Asset Management, which was incorporated in 1976. The reorganization did not result in a change to the Investment Adviser's management or personnel, nor did the reorganization cause any adverse change to the Investment Adviser's financial condition. MLAM was a wholly-owned subsidiary of Merrill Lynch & Co., Inc. prior to its reorganization and continues to be after its reorganization.

While the Investment Adviser is at all times subject to the direction of the Board of Directors of the Company, the Investment Advisory Agreements provide that the Investment Adviser, subject to review by the Board of Directors, is responsible for the actual management of the Funds and has responsibility for making decisions to buy, sell or hold any particular security. The Investment Adviser provides the portfolio managers for the Funds, who consider information from various sources, make the necessary investment decisions and effect transactions accordingly. The Investment Adviser is also obligated to perform certain administrative and management services for the Company and is obligated to provide all the office space, facilities, equipment

and personnel necessary to perform its duties under the Agreements. The Investment Adviser has access to the full range of the securities and economic research facilities of Merrill Lynch.

During the Company's fiscal year ended December 31, 1993, the advisory fees expense incurred by the Company totalled \$5,421,039 of which \$141,301 related to the Reserve Assets Fund (representing 0.50% of its average net assets), \$918,563 related to the Prime Bond Fund (representing 0.50% of its average net assets), \$439,699 related to the High Current Income Fund (representing 0.55% of its average net assets), \$874,617 related to the Quality Equity Fund (representing 0.50% of its average net assets), \$393,786 related to the Equity Growth Fund (representing 0.75% of its average net assets), \$803,592 related to the Flexible Strategy Fund (representing 0.65% of the average net assets), \$59,420 related to the Natural Resources Focus Fund (representing 0.65% of its average net assets), \$326,591 related to the American Balanced Fund (representing 0.55% of its average net assets), \$462,020 related to the Domestic Money Market Fund (representing 0.50% of its average net assets), \$582,082 related to the Global Strategy Focus Fund (representing 0.65% of its average net assets), \$54,569 related to the Basic Value Focus Fund (representing 0.60% of its average net assets), \$88,050 related to the World Income Focus Fund (representing 0.60% of its average net assets), \$142,995 related to the Global Utility Focus Fund (representing 0.60% of its net assets) and \$133,754 related to International Equity Focus Fund (representing 0.75% of its net assets). Although the 0.75% investment advisory fee of the Equity Growth Fund is higher than that of many other mutual funds, the Fund believes it is justified by the high degree

48

of care that must be given to the initial selection and continuous supervision of the types of portfolio securities in which the Fund invests. The advisory fees for the Developing Capital Markets Focus, International Bond and Intermediate Government Bond Funds are %, % and % of their respective average daily net assets.

During the Company's fiscal year ended December 31, 1993, the total operating expenses of the Company's Funds (including the advisory fees paid to the Investment Adviser), before reimbursement of a portion of such expenses, were as follows: \$196,431 by the Reserve Assets Fund (representing 0.70% of its

average net assets), \$1,161,122 by the Prime Bond Fund (representing 0.63% of its average net assets), \$571,823 by the High Current Income Fund (representing 0.72% of its average net assets), \$1,076,921 by the Quality Equity Fund (representing 0.61% of its average net assets), \$499,142 by the Equity Growth Fund (representing 0.96% of its average net assets), \$992,934 by the Flexible Strategy Fund (representing 0.80% of its average net assets), \$103,317 by the Natural Resources Focus Fund (representing 1.13% of its average net assets) \$416,322 by the American Balanced Fund (representing 0.70% of its average net assets), \$581,716 by the Domestic Money Market Fund (representing 0.63% of its average net assets), \$787,580 by the Global Strategy Focus Fund (representing 0.88% of its average net assets), \$77,816 related to the Basic Value Focus Fund

(representing 0.86% of its average net assets), \$137,370 related to the World Income Focus Fund (representing 0.94% of its average net assets), \$212,080 related to the Global Utility Focus Fund (representing 0.89% of its net assets) and \$203,643 related to the International Equity Focus Fund (representing 1.14% of its net assets).

The Investment Advisory Agreements require the Investment Adviser to reimburse the Company's Funds if and to the extent that in any fiscal year the operating expenses of each Fund exceeds the most restrictive expense limitations then in effect under any state securities laws or published regulations thereunder. At present the most restrictive expense limitation requires the Investment Adviser to reimburse expenses which exceed 2.5% of each Fund's first \$30 million of average daily net assets, 2.0% of its average daily net assets in excess of \$30 million but less than \$100 million, and 1.5% of its average daily net assets in excess of \$100 million. Expenses for this purpose include the Investment Adviser's fee but exclude interest, taxes, brokerage fees and

commissions and extraordinary charges, such as litigation. No fee payments will be made to the Investment Adviser with respect to any Fund during any fiscal year which would cause the expenses of such Fund to exceed the pro rata expense limitation applicable to such Fund at the time of such payment.

The Investment Adviser and Merrill Lynch Life Agency, Inc. ('MLLA') have entered into two agreements which limit the operating expenses paid by each Fund in a given year to 1.25% of its average daily net assets (the 'Reimbursement Agreements'), which is less than the expense limitations imposed by state securities laws or published regulations thereunder. The reimbursement agreements, dated April 30, 1985 and February 11, 1992, provide that any expenses in excess of 1.25% of average daily net assets will be reimbursed to the Fund by the Investment Adviser which, in turn, will be reimbursed by MLLA. During the Company's fiscal year ended December 31, 1993, the Domestic Money Market Fund was reimbursed for operating expenses. Such reimbursement amounted to \$246,351. See 'Investment Advisory Arrangements' in the Statement of Additional Information. MLLA sells the Contracts described in the Prospectus for the Contracts.

The following is information with respect to the Portfolio Managers for each of the Company's Funds.

Joel Heymsfeld has served as the American Balanced Fund's Portfolio Manager since June 1988, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1978.

Kevin Rendino has served as the Basic Value Focus Fund's Portfolio Manager since July 1993, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since December 1993; Senior Research Analyst from 1990 to 1992; Corporate Analyst from 1988 to 1990.

49

Christopher Ayoub has served as the Domestic Money Market Fund's Portfolio Manager since June 1992, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1985.

Frederic Lutcher has served as the Equity Growth Fund's Portfolio Manager since June 1989, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1989.

Dennis Cummings has served as the Flexible Strategy Focus Fund's Portfolio Manager since May 1986, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1978.

Joel Heymsfeld has served as the Global Strategy Focus Fund's Portfolio Manager since February 1992, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1978.

Walter Rogers has served as the Global Utility Focus Fund's Portfolio Manager since July 1993, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1987.

Aldona Schwartz has served as the High Current Income Fund's Portfolio Manager since July 1993, and is primarily responsible for the Fund's day-to-day management. She has served as Vice President of MLAM since 1991 and employee of the Investment Adviser since 1986.

Andrew Bascand, Adrian Holmes, Grace Pineda and Steve Silverman have served as the International Equity Focus Fund's Portfolio Managers since July 1993, and are primarily responsible for the Fund's day-to-day management. Andrew Bascand has been the director of MLAM, U.K. and Vice President of Merrill Lynch Global Asset Management Limited (MLGAM) since 1993. Adrian Holmes has been the Managing Director of MLAM, U.K. since 1993; Vice President from 1990 to 1993; and an

employee since 1987. Grace Pineda and Steve Silverman have served as Vice Presidents of MLAM since 1989 and 1983, respectively.

Peter Lehman has served as the Natural Resources Focus Fund's Portfolio Manager since January 1994, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1994; Senior Fund Analyst for an international fund managed by the Investment Adviser from 1992 to 1994; Director and Senior Portfolio Manager for Prudential Insurance Company of America from 1989 to 1991.

Jay Harbeck has served as the Prime Bond Fund's Portfolio Manager since July 1992, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1986.

Dennis Cummings has served as the Quality Equity Fund's Portfolio Manager since April 1982, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1978.

Christopher Ayoub has served as the Reserve Assets Fund's Portfolio Manager since June 1992, and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1986.

Vincent Lathbury, III and Robert Parish have served as the World Income Focus Fund's Portfolio Managers since July 1993 and are primarily responsible for the Fund's day-to-day management. They have served as Vice Presidents of MLAM since 1982 and 1991, respectively. Mr. Parish was the Vice President and Senior Portfolio Manager for Templeton International from 1987 to 1991.

50

Grace Pineda will serve as the Developing Capital Markets Focus Fund's Portfolio Manager beginning May 1994, and is primarily responsible for the Fund's day-to-day management. She has served as Vice President of MLAM since 1989.

Robert Parish will serve as the International Bond Fund's Portfolio Manager beginning May 1994 and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1991, and was Vice President and Senior Portfolio Manager for Templeton International from 1987 to 1991.

Jay Harbeck will serve as the Intermediate Government Fund's Portfolio Manager beginning May 1994 and is primarily responsible for the Fund's day-to-day management. He has served as Vice President of MLAM since 1986.

PORTFOLIO TRANSACTIONS AND BROKERAGE

None of the Company's Funds has any obligation to deal with any dealer or group of dealers in the execution of transactions in portfolio securities. Subject to policy established by the Board of Directors of the Company, the Investment Adviser is primarily responsible for the Company's portfolio decisions and the placing of the Company's portfolio transactions. In placing orders, it is the policy of each Fund to obtain the most favorable net results, taking into account various factors, including price, dealer spread or commission, if any, size of the transactions and difficulty of execution. While the Investment Adviser generally seeks reasonably competitive spreads or commissions, the Company will not necessarily be paying the lowest spread or commission available.

Under the Investment Company Act of 1940, persons affiliated with the Company are prohibited from dealing with the Company as a principal in the purchase and sale of the Company's portfolio securities unless an exemptive order allowing such transactions is obtained from the Securities and Exchange Commission. Affiliated persons of the Company may serve as its broker in over-the-counter transactions conducted on an agency basis. The Securities and Exchange Commission has issued an order permitting the Company to conduct certain principal transactions with respect to the Domestic Money Market and Reserve Assets Funds with Merrill Lynch Government Securities Inc. and Merrill Lynch Money Markets Inc. in U.S. Government and government agency securities, and certain other money market securities, subject to certain terms and conditions. During the year ended December 31, 1993, the Company engaged in 41 transactions pursuant to such order involving \$99.1 million of securities. For the year ended December 31, 1993, the Company paid brokerage commissions of \$2,120,358, of which \$158,442 was paid to Merrill Lynch.

The Company is offering shares in the Funds, without sales charge, only for purchase by the Insurance Companies for the Separate Accounts to fund benefits under the Contracts and for certain other separate accounts to fund benefits under variable life insurance contracts. Shares of the Domestic Money Market Fund, the Global Strategy Focus Fund, the Basic Value Focus Fund, World Income Focus Fund, Global Utility Focus Fund, International Equity Focus Fund,

Developing Capital Markets Focus Fund, International Bond Fund and Intermediate Government Bond Fund are sold only to MLLIC and ML of New York. The Company continuously offers shares in each of its Funds to the Insurance Companies at prices equal to the respective per share net asset value of the Funds. Merrill Lynch Funds Distributor, Inc., a wholly-owned subsidiary of the Investment Adviser, acts as the distributor of the shares. Net asset value is determined in the manner set forth below under 'Additional Information-Determination of Net Asset Value.'

REDEMPTION OF SHARES

The Company is required to redeem all full and fractional shares of the Funds for cash. The redemption price is the net asset value per share next determined after the initial receipt of proper notice of redemption.

DIVIDENDS, DISTRIBUTIONS AND TAXES

It is the Company's intention to distribute substantially all of the net investment income, if any, of each Fund. For dividend purposes, net investment income of each Fund, other than the Domestic Money Market and Reserve Assets Funds, will consist of all payments of dividends or interest received by such Fund less the estimated expenses of such Fund (including fees payable to the Investment Adviser). Net investment income of the Domestic Money Market and Reserve Assets Funds (from the time of the immediate preceding determination thereof) consists of (i) interest accrued and/or discount earned (including both original issue and market discount), (ii) plus or minus all realized and unrealized gains (other than realized long-term capital gains) and losses on its portfolio securities, (iii) less the estimated expenses of the respective Fund (including the fees payable to the Investment Adviser) applicable to that dividend period.

Dividends on the Domestic Money Market and Reserve Assets Funds are declared and reinvested daily in additional full and fractional shares of such Fund. Dividends from net investment income of the Prime Bond, the High Current Income, World Income Focus, International Bond and Intermediate Government Bond Funds are declared daily and reinvested monthly in additional full and fractional shares of the respective Funds at asset value. Dividends from net investment income of the Global Utility Focus Fund are declared and reinvested quarterly in additional full and fractional shares of the Fund. Dividends from net investment income of the Quality Equity, Equity Growth, Flexible Strategy, National Resources Focus, American Balanced, Global Strategy Focus, International Equity Focus, Basic Value Focus and Developing Capital Markets Focus Funds are declared and reinvested at least semi-annually in additional full and fractional shares of the respective Funds.

All net realized long-term or short-term capital gains of the Company, if any, other than short-term capital gains of the Domestic Money Market and Reserve Assets Funds, are declared and distributed annually after the close of

the Company's fiscal year to the shareholders of the Fund or Funds to which such gains are attributable. Short-term capital gains are taxable as ordinary income.

TAX TREATMENT OF THE COMPANY

Each Fund intends to continue to qualify as a regulated investment company under certain provisions of the Internal Revenue Code of 1986, as amended (the 'Code'). Under such provisions, a Fund will not be subject to Federal income tax on such part of its net ordinary income and net realized capital gains which it distributes to shareholders. One of the requirements to qualify for treatment as a regulated investment company under the Code is that a Fund, among other things, derive less than 30% of its gross income in each taxable year from gains (without deduction of losses) from the sale or other disposition of stocks,

securities and certain options, futures or forward contracts held for less than three months. This requirement may limit the ability of certain Funds to dispose of certain securities at times when management of the Company might otherwise deem such disposition appropriate or desirable.

If a Fund earns original issue discount income in a taxable year which is not represented by correlative cash income, or if a Fund receives property rather than cash in payment of interest, shareholders will be allocated income greater than the amount of cash distributed to them. In addition, the Fund may have to dispose of securities and use the proceeds thereof to make distributions in amounts necessary to satisfy its distribution requirements under the Code.

52

TAX TREATMENT OF MLLIC, ML OF NEW YORK AND FAMILY LIFE AS SHAREHOLDERS

Dividends paid by the Company from its ordinary income and distributions of the Company's net realized capital gains are includable in the respective Insurance Company's gross income. Distributions of the Company's net realized long-term capital gains retain their character as long-term capital gains in the hands of the Insurance Companies if certain requirements are met. The tax treatment of such dividends and distributions depends on the respective Insurance Company's tax status. To the extent that income of the Company represents dividends on common or preferred stock, rather than interest income, its distributions to the Insurance Companies will be eligible for the present 70% dividends received deduction applicable in the case of a life insurance company as provided in the Code. See the Prospectus for the Contracts for a description of the respective Insurance Company's tax status and the charges which may be made to cover any taxes attributable to the Separate Account. Not later than 60 days after the end of each calendar year, the Company will send to the Insurance Companies a written notice required by the Code designating the amount and character of any distributions made during such year.

PERFORMANCE DATA

From time to time one or more of the Company's Funds may include its average annual total return and yield for various specified time periods in advertisements or information furnished to present or prospective shareholders. Average annual total return and yield are computed in accordance with formulas specified by the Securities and Exchange Commission.

Average annual total return quotations for the specified periods will be computed by finding the average annual compounded rates of return (based on net investment income and any 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.

Yield quotations will be computed based on a 30-day period by dividing (a) the net income based on the yield to maturity 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. The yield for the 30-day period ending December 31, 1993 was 5.46% for the Prime Bond Fund, 8.17% for the High Current Income Fund and 5.60% for the World Income Fund.

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 gains or losses during the period. The value of an investment in the Fund will fluctuate and an investor's shares, when redeemed, may be worth more or less than their original cost. The yield and total return quotations may be of limited use for comparative purposes because they do not reflect charges imposed at the Separate Account level which, if included, would decrease the yield.

On occasion, one or more of the Company's Funds may compare its performance to that of the Standard & Poor's 500 Composite Stock Price Index, the Value Line Composite Index, the Dow Jones Industrial Average, or performance data published by Lipper Analytical Services, Inc., or Variable Annuity Research Data Service or contained in publications such as Morningstar Publications, Inc., Chase Investment Performance Digest, Money Magazine, U.S. News & World Report, Business Week, Financial Services Weekly, Kiplinger Personal Finances, CDA Investment Technology, Inc., Forbes Magazine, Fortune Magazine, Wall Street Journal, USA Today, Barrons, Strategic Insight, Donaghues, Investors Business Daily and Ibbotson Associates. As with other

53

performance data, performance comparisons should not be considered representative of the Fund's relative performance for any future period.

DETERMINATION OF NET ASSET VALUE

The net asset value of the shares of each Fund is determined once daily by the Investment Adviser immediately after the declaration of dividends, if any, and is determined (i) for shares of the Domestic Money Market, Reserve Assets, Prime Bond, High Current Income, Quality Equity, Equity Growth, Flexible Strategy, American Balanced, Basic Value Focus, and Intermediate Government Bond Funds, at 4:00 P.M. New York City time on each day the New York Stock Exchange is open for business and (ii) for shares of the Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds, as of 4:15 P.M. New York City time on each day the New York Stock Exchange is open for business. The New York Stock Exchange is open on business days other than national holidays (except for Martin Luther King Day, when it is open) and Good Friday. The net asset value per share of each Fund other than the Domestic Money Market and Reserve Assets Funds are computed by dividing the sum of the value of

the securities held by that Fund plus any cash or other assets (including interest and dividends accrued) minus all liabilities (including accrued expenses) by the total number of shares outstanding of that Fund at such time, rounded to the nearest cent. Expenses, including the investment advisory fees payable to the Investment Adviser, are accrued daily. Since the net investment income of the Domestic Money Market and Reserve Assets Funds (including realized and unrealized gains and losses on their portfolio securities) are declared as a dividend each time the net income of the Funds are determined (see 'Dividends, Distributions and Taxes'), the net asset value per share of the Funds normally remains at \$1.00 per share immediately after each such determination and dividend declaration.

Except with respect to securities held by the Domestic Money Market and Reserve Assets Funds having a remaining maturity of 60 days or less, securities held by each Fund will be valued as follows: Portfolio securities which are traded on stock exchanges are valued at the last sale price as of the close of business on the day the securities are being valued, or, lacking any sales, at the mean between closing bid and asked prices. Securities traded in the over-the-counter market are valued at the mean between the bid and asked prices or yield equivalent as obtained from one or more dealers that make markets in the securities. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market, and it is expected that for debt securities this ordinarily will be the over-the-counter market. Options are valued at the last bid price in the case of options purchased and the last asked price in the case of options written. Futures contracts are valued at settlement price at the close of the applicable exchange. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Company. Securities held by the Domestic Money Market and Reserve Assets Funds with a remaining maturity of 60 days or less are valued on an amortized cost basis, unless particular circumstances dictate otherwise.

ORGANIZATION OF THE COMPANY

The Company was incorporated on October 16, 1981, and operations of its Reserve Assets Fund commenced on November 12, 1981. Operations of the Prime Bond, High Current Income, Quality Equity and Equity Growth Funds commenced on April 20, 1982. The Flexible Strategy Fund commenced operations on May 1, 1986. The Natural Resources Focus Fund and the American Balanced Fund commenced operations on June 1, 1988 and June 2, 1988, respectively. The Domestic Money Market Fund and the Global Strategy Focus

54

Fund commenced operations on February 20 and February 28, 1992, respectively. The Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds commenced operations on July 1, 1993. The Developing Capital Markets Focus, International Bond and Intermediate Government Bond Funds are expected to commence operations on or about May 1, 1994. The authorized capital stock of the Company consists of 2,300,000,000 shares of

Common Stock, par value \$0.10 per share. The shares of Common Stock are divided into seventeen classes designated Merrill Lynch Reserve Assets Fund Common Stock, Merrill Lynch Prime Bond Fund Common Stock, Merrill Lynch High Current Income Fund Common Stock, Merrill Lynch Quality Equity Fund Common Stock, Merrill Lynch Equity Growth Fund Common Stock, Merrill Lynch Flexible Strategy Fund Common Stock, Merrill Lynch Natural Resources Focus Fund Common Stock, Merrill Lynch American Balanced Fund Common Stock, Merrill Lynch Global Strategy

Focus Fund Common Stock, Merrill Lynch Domestic Money Market Fund Common Stock, Merrill Lynch Basic Value Focus Fund Common Stock, Merrill Lynch World Income Focus Fund Common Stock, Merrill Lynch Global Utility Focus Fund Common Stock, Merrill Lynch International Equity Focus Fund Common Stock, Merrill Lynch Developing Capital Markets Focus Fund Common Stock, Merrill Lynch International Bond Fund Common Stock and Merrill Lynch Intermediate Government Bond Fund Common Stock, respectively. The Company may, from time to time, at the sole discretion of its Board of Directors and without the need to obtain the approval of its shareholders or of Contract Owners, offer and sell shares of one or more of such classes. Each class consists of 100,000,000 shares except for Domestic Money Market Fund Common Stock which consists of 300,000,000 shares Reserve Assets Fund Common Stock which consists of 500,000,000 shares. All shares of Common Stock have equal voting rights, except that only shares of the respective classes are entitled to vote on matters concerning only that class. Pursuant to the Investment Company Act of 1940 and the rules and regulations thereunder, certain matters approved by a vote of all shareholders of the Company may not be binding on a class whose shareholders have not approved such matter. Each issued and outstanding share of a class is entitled to one vote and to participate equally in dividends and distributions declared with respect to such class and in net assets of such class upon liquidation or dissolution remaining after satisfaction of outstanding liabilities. The shares of each class, when issued, will be fully paid and nonassessable, have no preference, preemptive, conversion, exchange or similar rights, and will be freely transferable. Holders of shares of any class are entitled to redeem their shares as set forth under 'Redemption of Shares.' Shares do not have cumulative voting rights and the holders of more than 50% of the shares of the Company voting for the election of directors can elect all of the directors of the Company if they choose to do so and in such event the holders of the remaining shares would not be able to elect any directors. The Company does not intend to hold meetings of shareholders

unless under the Investment Company Act of 1940 shareholders are required to act on any of the following matters: (i) election of directors; (ii) approval of an investment advisory agreement; (iii) approval of a distribution agreement; and (iv) ratification of the selection of independent accountants.

Family Life purchased \$1,000 worth of shares of each of the Natural Resources Focus Fund and the American Balanced Fund on April 29, 1988 and \$1,999,000 worth of shares of each such Fund on May 27, 1988. Family Life also provided the initial capitalization for each of the Company's other Funds other than the Domestic Money Market, Global Strategy Focus, Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds. MLLIC purchased \$100 worth of shares of each of the Domestic Money Market and Global Strategy Focus Funds on February 6, 1992, \$2,000,000 worth of shares of the Domestic Money Market Fund on February 20, 1992, \$2,000,000 worth of shares of the Global Strategy Focus Fund on February 28, 1992 and \$100 worth of shares of each of the Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds on June 28, 1993. [MLLIC purchased, on July 1,

1993, \$8,000,000 worth of shares of each of the World Income Focus Fund and International Equity Focus Fund and \$2,000,000 worth of shares of each of the Basic Value Focus Fund and the Global Utility Focus Fund.] It is

55

anticipated that MLLIC will purchase, on May 1, 1993, \$8,000,000 worth of shares of the Developing Capital Markets Focus Fund, \$5,000,000 worth of shares of the International Bond Fund and \$2,000,000 worth of shares of the Intermediate Government Bond Fund. The organizational expenses of each of the Company's Funds are paid by the Investment Adviser. The Investment Adviser is reimbursed by MLLIC for all such expenses over a five-year period.

INDEPENDENT AUDITORS

Deloitte & Touche, 117 Campus Drive, Princeton, New Jersey 08540, has been selected as the independent auditors of the Company. The selection of independent auditors is subject to annual ratification by the Company's shareholders.

CUSTODIAN

The Bank of New York ('BONY'), 110 Washington Street, New York, New York 10286, acts as custodian (the 'Custodian') of the Company's assets.

TRANSFER AND DIVIDEND DISBURSING AGENT

Financial Data Services, Inc. ('FDS'), which is a wholly-owned subsidiary of Merrill Lynch & Co., Inc., acts as the Company's transfer agent and is responsible for the issuance, transfer and redemption of shares and the opening and maintenance of shareholder accounts. FDS will receive an annual fee of \$5,000 per Fund and will be entitled to reimbursement of out-of-pocket expenses.

Prior to June 1, 1990, BONY was the Company's transfer agent.

LEGAL COUNSEL

Rogers & Wells, New York, New York, is counsel for the Company.

REPORTS TO SHAREHOLDERS

The fiscal year of the Company ends on December 31 of each year. The Company will send to its shareholders at least semi-annually reports showing the Funds' portfolio securities and other information. An annual report containing financial statements, audited by independent auditors, will be sent to shareholders each year.

ADDITIONAL INFORMATION

This Prospectus does not contain all of the information included in the Registration Statement filed with the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Company Act of 1940, with respect to the securities offered hereby, certain portions of which have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

The Statement of Additional Information, dated May 1, 1994, which forms a part of the Registration Statement, is incorporated by reference into this Prospectus. The Statement of Additional Information may be obtained without charge as provided on the cover page of this Prospectus. The Registration Statement, including the exhibits filed therewith, may be examined at the office of the Securities and Exchange Commission in Washington, D.C.

56

[covin]

APPENDIX A

U.S. GOVERNMENT SECURITIES

The Domestic Money Market Fund and Reserve Assets Fund may invest in the various types of marketable securities issued by or guaranteed as to principal and interest by the U.S. Government and supported by the full faith and credit of the U.S. Treasury. U.S. Treasury obligations differ mainly in the length of their maturity. Treasury bills, the most frequently issued marketable government security, have a maturity of up to one year and are issued on a discount basis.

GOVERNMENT AGENCY SECURITIES

The Domestic Money Market Fund and Reserve Assets Fund may invest in government agency securities, which are debt securities issued by government

sponsored enterprises, Federal agencies and international institutions. Such securities are not direct obligations of the Treasury but involve government sponsorship or guarantees by government agencies or enterprises. The Funds may invest in all types of government agency securities currently outstanding or to be issued in the future.

DEPOSITORY INSTITUTIONS MONEY INSTRUMENTS

The Domestic Money Market and Reserve Assets Funds may invest in depository institutions money instruments, such as certificates of deposit, including variable rate certificates of deposit, bankers' acceptances, time deposits and bank notes. Certificates of deposit are generally short-term, interest-bearing negotiable certificates issued by commercial banks, savings banks or savings and loan associations against funds deposited in the issuing institution. Variable rate certificates of deposit are certificates of deposit on which the interest rate is periodically adjusted prior to their stated maturity, usually at 30, 90 or 180 day intervals ('coupon dates'), based upon a specified market rate. As a result of these adjustments, the interest rate on these obligations may be

increased or decreased periodically. Often, dealers selling variable rate certificates of deposit to the Funds agree to repurchase such instruments, at the Funds' option, at par on the coupon dates. The dealers' obligations to repurchase these instruments are subject to conditions imposed by the various dealers; such conditions typically are the continued credit standing of the issuer and the existence of reasonably orderly market conditions. The Funds are also able to sell variable rate certificates of deposit in the secondary market.

Variable rate certificates of deposit normally carry a higher interest rate than comparable fixed rate certificates of deposit because variable rate certificates of deposit generally have a longer stated maturity than comparable fixed rate certificates of deposit. As a matter of policy, the Domestic Money Market Fund will invest only in these types of instruments issued by U.S. issuers.

A bankers' acceptance is a time draft drawn on a commercial bank by a borrower usually in connection with an international commercial transaction (to finance the import, export, transfer or storage of goods). The borrower is liable for payment as well as the bank, which unconditionally guarantees to pay the draft at its face amount on the maturity date. Most acceptances have maturities of six months or less and are traded in secondary markets prior to maturity.

The Reserve Assets Fund may invest in certificates of deposit and bankers' acceptances issued by foreign branches or subsidiaries of U.S. banks ('Eurodollar' obligations) or U.S. branches or subsidiaries of foreign banks ('Yankee-dollar' obligations). The Fund may invest only in Eurodollar obligations which by their terms are general obligations of the U.S. parent bank and meet the other criteria discussed below. Yankee-dollar obligations in which the Fund may invest must be issued by U.S. branches or subsidiaries of foreign banks which are subject to state or Federal banking regulations in the U.S. and by

their terms must be general obligations of the foreign parent. In addition, the Fund will limit its investments in Yankee-dollar obligations to obligations issued by banking institutions with more than \$1 billion in assets.

The Reserve Assets Fund may also invest in U.S. dollar-denominated obligations of foreign depository institutions and their foreign branches and subsidiaries, such as certificates of deposit, bankers' acceptances, time deposits and deposit notes. The obligations of such foreign branches and subsidiaries may be the general obligation of the parent bank or may be limited to the issuing branch or subsidiary by the terms of the specific

A-1

obligation or by government regulation. Such investments will only be made if determined to be of comparable quality to other investments permissible for the Reserve Assets Fund. The Reserve Assets Fund will not invest more than 25% of its total assets (taken at market value at the time of each investment) in these obligations.

Except as otherwise provided above with respect to investment in Yankee-dollar and other foreign bank obligations by the Reserve Assets Fund, the Domestic Money Market and Reserve Assets Funds may not invest in any bank money instrument issued by a commercial bank or a savings and loan association unless

the bank or association is organized and operating in the United States, has total assets of at least \$1 billion and its deposits are insured by the Federal Deposit Insurance Corporation (the 'FDIC'); provided that this limitation shall not prohibit the investment of up to 10% of the total assets of the Funds (taken at market value at the time of each investment) in certificates of deposit issued by banks and savings and loan associations with assets of less than \$1 billion if the principal amount of each such certificate of deposit is fully insured by the FDIC.

SHORT-TERM DEBT INSTRUMENTS

The Domestic Money Market and Reserve Assets Funds may invest in commercial paper (including variable amount master demand notes), which refers to short-term, unsecured promissory notes issued by corporations, partnerships, trusts and other entities to finance short-term credit needs and by trusts issuing asset-backed commercial paper. Commercial paper is usually sold on a discount basis and has a maturity at the time of issuance not exceeding nine months. Variable amount master demand notes are demand obligations that permit the investment of fluctuating amounts at varying market rates of interest pursuant to arrangements between the issuer and a commercial bank acting as agent for the payees of such notes, whereby both parties have the right to vary the amount of the outstanding indebtedness on the notes. Because variable amount master notes are direct lending arrangements between the lender and borrower, it is not generally contemplated that such instruments will be traded and there is no secondary market for the notes. Typically, agreements relating to such notes provide that the lender may not sell or otherwise transfer the note without the borrower's consent. Such notes provide that the interest rate on the amount

outstanding is adjusted periodically, typically on a daily basis, in accordance with a stated short-term interest rate benchmark. Since the interest rate of a variable amount master note is adjusted no less often than every 60 days and since repayment of the note may be demanded at any time, the Investment Adviser values such a note in accordance with the amortized cost basis described under

The Domestic Money Market and Reserve Assets Funds may also invest in nonconvertible debt securities issued by entities or asset-backed nonconvertible debt securities issued by trusts (e.g., bonds and debentures) with no more than 397 days (13 months) remaining to maturity at date of settlement. Short-term debt securities with a remaining maturity of less than one year tend to become extremely liquid and are traded as money market securities. For a discussion of the ratings requirements of the Funds' portfolio securities, see 'Investment Objectives and Policies of the Funds-Money Market Fund Portfolio Restrictions' and 'Investment Objectives and Policies of the Funds-Domestic Money Market Fund' in the Prospectus.

The Reserve Assets Fund may also invest in U.S. dollar-denominated commercial paper and other short-term obligations issued by foreign entities. Such investments are subject to quality standards similar to those applicable to

investments in comparable obligations of domestic issuers. Investments in foreign entities in general involve the same risks as those described in the Statement of Additional Information in connection with investments in Eurodollar, Yankee dollar and foreign bank obligations.

REPURCHASE AGREEMENTS

Each of the Company's Funds may invest in securities subject to repurchase agreements with any member bank of the Federal Reserve System or primary dealer in U.S. Government securities. A repurchase agreement is an instrument under which the purchaser (i.e., a Fund) acquires ownership of the obligation (debt security) and the seller agrees, at the time of the sale, to repurchase the obligation at a mutually agreed upon time and price, thereby determining the yield during the purchaser's holding period. This results in a fixed rate of return insulated from market fluctuations during such period. The underlying securities will only consist of U.S. Government or government agency securities, certificates of deposit, commercial paper or bankers' acceptances. Repurchase agreements usually are for short periods, such as under one week. Repurchase agreements are

A-2

considered to be collateralized loans by the Domestic Money Market and Reserve Assets Funds under the Investment Company Act of 1940, and the Funds will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price any time during the term of the repurchase agreement. If a repurchase agreement is construed to be a

collateralized loan, the underlying securities will not be considered to be owned by the Funds but only to constitute collateral for the seller's obligation to pay the repurchase price, and, in the event of a default by the seller because of bankruptcy or otherwise, the Funds may suffer time delays and incur costs or losses in connection with the disposition of the collateral. The Investment Adviser evaluates the creditworthiness of dealers with which the Funds enter into repurchase agreements, using guidelines established by the Company's Board of Directors. The Domestic Money Market and Reserve Assets Funds will not enter into repurchase agreements with maturities of more than 30 days.

Reverse Repurchase Agreements: The Domestic Money Market and Reserve Assets Funds may enter into reverse repurchase agreements, which involve the sale of money market securities held by the Funds, with an agreement to repurchase the securities at an agreed upon price, date, and interest payment. The Funds will use the proceeds of the reverse repurchase agreements to purchase other money market securities either maturing, or under an agreement to resell, at a date simultaneous with or prior to the expiration of the reverse repurchase agreement. The Funds will utilize reverse repurchase agreements when the interest income to be earned from the investment of the proceeds of the transaction is greater than the interest expense of the reverse repurchase transaction. A separate account of the applicable Fund will be established with the Custodian consisting of cash or U.S. Government securities having a market value at all times at least equal in value to the proceeds received on any sale subject to repurchase plus accrued interest.

DESCRIPTION OF CORPORATE BOND RATINGS

Moody's Investors Service, Inc.:

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 medium-grade obligations, i.e., they are neither highly protected nor poorly secured. Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any 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 both during 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 a desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any period of time may be small.

A-3

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

Standard & Poor's Corporation:

AAA--This is the highest rating assigned by Standard & Poor's to a debt obligation and indicates an extremely strong capacity to pay principal and interest.

AA--Bonds rated AA also qualify as high-quality debt obligations. Capacity to pay principal and interest is very strong, and in the majority of instances they differ from AAA issues only in small degree.

A--Bonds rated A have a strong capacity to pay principal and interest, although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.

BBB--Bonds rated BBB are regarded as having an adequate capacity to pay principal and interest. Whereas they normally exhibit adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay principal and interest for bonds in this category than for bonds in the A category.

BB--B--CCC--CC--Bonds rated BB, B, CCC, and CC are regarded, on balance, as predominantly speculative with respect to the issuer's 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 bonds will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.

NR--Not rated by the indicated rating agency.

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

TRANSACTIONS IN OPTIONS, FUTURES AND CURRENCY

Options on Portfolio Securities. Each of the Quality Equity, Flexible Strategy, Natural Resources Focus, American Balanced, Global Strategy Focus, Basic Value Focus, World Income Focus, Global Utility Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds may

from time to time sell ('write') covered call options on its portfolio securities in which it may invest and may engage in closing purchase transactions with respect to such options. A covered call option is an option where the Fund, in return for a premium, gives another party a right to buy particular securities held by the Fund at a specified future date and at a price set at the time of the contract. The principal reason for writing call options is to attempt to realize, through the receipt of premiums, a greater return than would be realized on the securities alone. By writing covered call options, a Fund gives up the opportunity, while the option is in effect, to profit from any price increase in the underlying security above the option exercise price. In addition, the Fund's ability to sell the underlying security will be limited while the option is in effect unless the Fund effects a closing purchase transaction. A closing purchase transaction cancels out the Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a partial hedge against the price of the underlying security declining. The Quality Equity Fund and the Basic Value Focus Fund may not write covered call options on underlying securities exceeding 15% of the value of its total assets.

A-4

Each of the Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, International Bond and

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

The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds may purchase put options on portfolio securities. In return for payment of a premium, the purchase of a put option gives the holder thereof the right to sell the security underlying the option to another party at a specified price until the put option is closed out, expires or is exercised. Each Fund will only purchase put options to seek to reduce the risk of a decline in value of the underlying security. The total return on the security may be reduced by the amount of the premium paid for the option by the Fund. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss from the sale will depend on whether the amount

received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased.

In certain circumstances, a Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase. The Fund will not purchase options on securities if as a result of such purchase, the aggregate cost of all outstanding options

on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

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

Options on Stock Indices. The Natural Resources Focus, Global Strategy Focus, World Income Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds may purchase and write call options and put options on stock indices traded on a national securities exchange to seek to reduce the general market risk of their securities or specific industry sectors which the Fund invests in. Options on indices are similar to options on securities except that, on exercise or assignment, the parties to the contract pay or receive an amount of cash equal to the difference between the closing value of the index and the exercise price of the option times a specified multiple. The Funds may invest in index options based on a broad market index, e.g., the S&P 500, or on a narrow index representing an industry or market segment, e.g., the Amex Oil & Gas Index. The effectiveness of a hedge employing stock index options will depend primarily on the degree of correlation between movements in the value of the index underlying the option and in the portion of the portfolio being hedged. For further discussion concerning such options, see 'Risk Factors in Options, Futures and Currency Transactions' below and the Company's Statement of Additional Information.

Stock Index Futures Contracts. The Natural Resources Focus, Global Strategy Focus, World Income Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds may purchase and sell stock index futures contracts and financial futures contracts to hedge their portfolios. The Funds may sell stock index futures contracts and financial futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the Funds' securities portfolios that might otherwise result. When the Funds are not fully invested in the securities

market and anticipate a significant market advance, they may purchase stock index or financial futures in order to gain rapid market exposure that may in part or entirely offset increases in the cost of securities that the Funds intend to purchase. A stock index or financial futures

A-5

contract is a bilateral agreement pursuant to which the Funds will agree to buy or deliver at settlement an amount of cash equal to a dollar multiplied by the difference between the value of a stock index or financial instrument at the close of the last trading day of the contract and the price at which the futures contract is originally entered into. The Funds may engage in transactions in stock index futures contracts based on broad market indexes or on indexes on industry or market segments. A Fund may effect transactions in stock index futures contracts in connection with the equity securities in which it invests and in financial futures contracts in connection with the debt securities in which it invests. As with stock index options, the effectiveness of the Funds' hedging strategies depend primarily upon the degree of correlation between movements in the value of the securities subject to the hedge and the index or securities underlying the futures contract. See 'Risk Factors in Options, Futures and Currency Transactions' below.

Hedging Foreign Currency Risks. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds are authorized to deal in forward foreign exchange contracts between currencies of the different countries in which they will invest, including multi-national currency units, as a hedge against possible variations in the foreign exchange rate between these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date (up to one year) and price at the time of the contract. The dealings of the Funds in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Funds accruing in connection with the purchase and sale of their portfolio securities, the sale and redemption of shares of the

Funds or the payment of dividends and distributions by the Funds. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted in such foreign currency. The Funds will not speculate in forward foreign exchange. Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Funds to hedge against a devaluation that is so generally anticipated that the Funds are not able to contract to sell the currency at a price above the devaluation level they anticipate.

The Funds are also authorized to purchase or sell listed foreign currency options and foreign currency futures contracts as a hedge against possible

adverse variations in foreign exchange rates. Foreign currency options provide the holder thereof the right to buy or to sell a currency at a fixed price on or before a future date. A futures contract on a foreign currency is an agreement between two parties to buy and sell a specified amount of a currency for a set price on a future date. Such transactions may be effected with respect to hedges on non-U.S. dollar-denominated securities (including securities denominated in multi-national currency units) owned by the Funds, sold by the Funds but not yet delivered, or committed or anticipated to be purchased by the Funds. As an illustration, the Funds may use such techniques to hedge the stated value in United States dollars of an investment in a Japanese yen-denominated security. In such circumstances, for example, the Funds may purchase a foreign currency put option enabling them to sell a specified amount of yen for dollars at a specified price by a future date. To the extent the hedge is successful, a loss in the value of the yen relative to the dollar will tend to be offset by an increase in the value of the put option. To offset, in whole or in part, the cost of acquiring such a put option, the Funds may also sell a call option which, if exercised, requires it to sell a specified amount of yen for dollars at a specified price by a future date (a technique called a 'straddle'). By selling such call option in this illustration, the Funds give up the opportunity to profit without limit from increases in the relative value of the yen to the dollar.

The Funds will not speculate in foreign currency options or futures.

Accordingly, the Funds will not hedge a currency substantially in excess of the market value of the securities denominated in such currency which they own, the expected acquisition price of securities which they have committed or anticipate to purchase which are denominated in such currency, and, in the case of securities which have been sold by the Funds but not yet delivered, the proceeds thereof in its denominated currency. Further, if a security with respect to which a currency hedging transaction has been executed should subsequently decrease in value, the Funds will direct their custodian to segregate liquid, high-grade debt securities having a market value equal to such decrease in value, less any initial or variation margin held in the account of their broker.

A-6

As in the case of forward foreign exchange contracts, employing currency futures and options in hedging transactions does not eliminate fluctuations in the market price of a security and such transactions preclude or reduce the opportunity for gain if the hedged currency should move in a favorable direction.

Options on Futures Contracts. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds may also purchase and write call and put options on futures contracts in connection with their hedging activities. Generally, these strategies are utilized under the same market conditions (i.e., conditions relating to specific types of investments) in which the Funds enter into futures transactions. The Funds may purchase put options or write call options on futures contracts rather than selling the underlying futures contract in anticipation of a decline in the equities markets or in the value of a foreign currency. Similarly, the Funds may purchase call options, or write put options on futures contracts, as a substitute for the purchase of such futures to hedge against the increased cost resulting from appreciation of equity securities or in the currency in which

securities which the Funds intend to purchase are denominated. Limitations on transactions in options on futures contracts are described below.

Over-the-Counter Options. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds may engage in options transactions in the over-the-counter markets. In general, over-the-counter ('OTC') options are two-party contracts with price and terms negotiated by the buyer and seller, whereas exchange-traded options are third-party contracts (i.e., performance of the parties' obligations is guaranteed by an exchange or clearing corporation) with standardized strike prices and expiration dates. OTC options include put and call options on

individual securities, cash settlement options on groups of securities, and options on currency. The Funds may engage in an OTC options transaction only if they are permitted to enter into transactions in exchange-traded options of the same general type. The Funds will engage in OTC options only with member banks of the Federal Reserve System and primary dealers in U.S. Government securities or their affiliates which have a capital of at least \$50 million or whose obligations are guaranteed by an entity having capital of at least \$50 million.

Restrictions on Use of Futures Transactions. Regulations of the Commodity Futures Trading Commission applicable to the Company require that each of the Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds' futures transactions constitute bona fide hedging transactions or, with respect to non-hedging transactions, that the Fund not enter into such transactions, if, immediately thereafter, the sum of the amount of initial margin deposits on the respective Fund's existing non-hedging futures positions and premiums paid for related options would exceed 5% of the market value of the Fund's total assets.

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

An order has been obtained from the Securities and Exchange Commission which exempts the Company from certain provisions of the Investment Company Act of 1940 in connection with transactions involving futures contracts and options thereon.

Risk Factors in Options, Futures and Currency Transactions. A Fund's ability to effectively hedge all or a portion of its portfolio of securities through transactions in options on stock indexes, stock index futures and financial futures depends on the degree to which price movements in the index underlying the hedging instrument correlates with price movements in the relevant portion of the securities portfolio. The securities portfolio will not duplicate the components of the index. As a result, the correlation will not be perfect. Consequently, a Fund bears the risk that the price of the portfolio securities being hedged will not move in the same amount or direction as the underlying index or securities and that the Fund would experience a loss on one position which is not completely offset by a gain on the other position. It is also possible that there may be a negative correlation between the index or securities underlying an option or futures contract in which a Fund has a position and the portfolio securities the Fund is attempting to hedge, which could result in a loss on both the securities and the hedging instrument. A Fund will invest in a hedging instrument only if, in the judgment of the Investment Adviser, there is expected to be a sufficient degree of correlation between movements in the value of the

A-7

instrument and movements in the value of the relevant portion of the portfolio of securities for such hedge to be effective. There can be no assurance that the judgment will be accurate.

Investment in stock index and currency futures, financial futures and options thereon entail the additional risk of imperfect correlation between movements in the futures price and the price of the underlying index or currency. The anticipated spread between the prices may be distorted due to differences in the nature of the markets, such as differences in margin and maintenance requirements, the liquidity of such markets and the participation of speculators in the futures market. However, the risk of imperfect correlation generally tends to diminish as the maturity date of the futures contract or termination date of the option approaches.

The Funds intend to enter into exchange-traded options and futures transactions only if there appears to be a liquid secondary market for such options or futures. However, there can be no assurance that a liquid secondary market will exist at any specific time. Thus, it may not be possible to close an options or futures transaction. The inability to close options and futures positions could have an adverse impact on a Fund's ability to effectively hedge its portfolio. There is also the risk of loss by a Fund of margin deposits or collateral in the event of bankruptcy of a broker with whom a Fund has an open

position in an option or futures contract.

[covin]

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

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	PAGE

<S>	<C>
Financial Highlights.....	3
The Insurance Companies.....	15
Reserve Assets Fund and Domestic Money Market Fund Yield Information.....	15
Investment Objectives and Policies of the Funds.....	16
Directors.....	47
Investment Adviser.....	48
Portfolio Transactions and Brokerage.....	51
Purchase of Shares.....	51
Redemption of Shares.....	52
Dividends, Distributions and Taxes.....	52
Performance Data.....	53
Additional Information.....	54
Appendix A.....	A-1

</TABLE>

Prospectus

- - - - -

MERRILL LYNCH
VARIABLE
SERIES FUNDS, INC.

May 1, 1994

MAY 1, 1994

STATEMENT OF ADDITIONAL INFORMATION

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.

P.O. BOX 9011, PRINCETON, NEW JERSEY 08543-9011

PHONE NO. (609) 282-2800

Merrill Lynch Variable Series Funds, Inc. (the 'Company') is an open-end management investment company which has a wide range of investment objectives among its seventeen separate funds (hereinafter referred to as the 'Funds' or individually as a 'Fund'): Merrill Lynch Domestic Money Market Fund, Merrill Lynch Reserve Assets Fund, Merrill Lynch Prime Bond Fund, Merrill Lynch High Current Income Fund, Merrill Lynch Quality Equity Fund, Merrill Lynch Equity Growth Fund, Merrill Lynch Flexible Strategy Fund, Merrill Lynch Natural Resources Focus Fund, Merrill Lynch American Balanced Fund, Merrill Lynch Global Strategy Focus Fund, Merrill Lynch Basic Value Focus Fund, Merrill Lynch World Income Focus Fund, Merrill Lynch Global Utility Focus Fund, Merrill Lynch International Equity Focus Fund, Merrill Lynch Developing Capital Markets Focus Fund, Merrill Lynch International Bond Fund and Merrill Lynch Intermediate

Government Bond Fund. A separate class of Common Stock is issued for each Fund.

The shares of the Funds will be sold to Merrill Lynch Life Insurance Company ('MLLIC') and ML Life Insurance Company of New York ('ML of New York') and shares of certain of the Funds will be sold to Family Life Insurance Company ('Family Life') for their separate accounts ('Separate Accounts') to fund benefits under variable annuity contracts issued by them (the 'Variable Annuity Contracts'). Shares of the Funds sold only to MLLIC and ML of New York also will be sold to MLLIC and ML of New York for certain of their other separate accounts to fund variable life insurance contracts issued by them (such contracts, together with the Variable Annuity Contracts are collectively referred to as the 'Contracts'). MLLIC, ML of New York and Family Life (collectively, the 'Insurance Companies') will redeem shares to the extent necessary to provide benefits under the Contracts or for such other purposes as may be consistent with the contracts. MLLIC and ML of New York are wholly-owned subsidiaries of Merrill Lynch & Co., Inc., as is the Company's investment adviser, Merrill Lynch Asset Management, L.P. (the 'Investment Adviser').

THIS STATEMENT OF ADDITIONAL INFORMATION OF THE COMPANY IS NOT A PROSPECTUS AND SHOULD BE READ IN CONJUNCTION WITH THE PROSPECTUS OF THE COMPANY (THE 'PROSPECTUS') DATED MAY 1, 1994 WHICH HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AND WHICH IS AVAILABLE UPON REQUEST AND WITHOUT CHARGE BY CALLING OR WRITING THE COMPANY AT THE ADDRESS AND TELEPHONE NUMBER SET FORTH ABOVE.

MERRILL LYNCH ASSET MANAGEMENT--INVESTMENT ADVISER
MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

INVESTMENT OBJECTIVES AND POLICIES

The investment objectives of the Funds are as follows: The Domestic Money Market Fund seeks preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives by investing in short-term domestic money market securities. The Reserve Assets Fund seeks the preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives by investing in short-term money market securities. The Prime Bond Fund seeks to attain as high a level of current income as is consistent with prudent investment management, and capital appreciation to the extent consistent with the foregoing objective, by investing primarily in long-term corporate bonds rated A or better by either Moody's Investors Service, Inc. ('Moody's') or Standard & Poor's Corporation ('Standard & Poor's'). The High Current Income Fund seeks to attain as high a level of current income as is consistent with prudent investment management, and capital appreciation to the extent consistent with the foregoing objective, by investing principally in fixed-income securities which are rated in the lower rating categories of the established rating services or in unrated securities of comparable quality. The Quality Equity Fund seeks to attain the highest total investment return consistent with prudent risk through a fully managed investment policy utilizing equity securities, primarily common stocks of large-capitalization companies, as well as investment grade debt and convertible securities. The Equity Growth Fund seeks to attain long-term capital growth by investing primarily in common shares of small companies and emerging growth companies regardless of size. The Flexible Strategy Fund seeks to achieve high total investment return consistent with prudent risk by utilizing a flexible investment strategy which permits the Fund to vary its investment emphasis among equity securities, intermediate and long-term debt obligations and money market securities of foreign and domestic issuers. While the Fund will generally emphasize investment in common stocks of larger-capitalization issuers and in investment grade debt obligations, the Fund may from time to time invest a portion of its assets in small company and emerging growth company stocks when consistent with the Fund's objective. The Natural Resources Focus Fund seeks to attain long-term growth of capital and the protection of the purchasing power of shareholders' capital by investing primarily in equity securities of domestic and foreign companies with substantial natural resource assets. The American Balanced Fund seeks a level of current income and a degree of stability of principal not normally available from an investment solely in equity securities and the opportunity for capital appreciation greater than normally available from an investment solely in debt securities by investing in a balanced portfolio of fixed income and equity securities. The Global Strategy Focus Fund seeks high total investment return by investing primarily in a portfolio of equity and fixed income securities of U.S. and foreign issuers. The Basic Value Focus Fund seeks to attain capital appreciation and, secondarily, income by investing in securities, primarily equities, that management of the Fund believes are undervalued and therefore represent basic investment value. The World Income Focus Fund seeks to attain high current income by investing in a global portfolio of fixed income securities dominated in various currencies, including multinational currency units. The Fund may invest in United States and

foreign government and corporate fixed income securities, including high yield, high risk, lower rated and unrated securities. The Global Utility Focus Fund seeks to attain 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, in the opinion of the Investment Adviser, primarily engaged in the ownership or operation of facilities used to generate, transmit or distribute electricity, telecommunications, gas or water. The International Equity Focus Fund seeks to attain capital appreciation through investment in securities, principally equities, of issuers in countries other than the United States. The Developing Capital Markets Focus Fund seeks long-term capital appreciation through investment in securities, principally equities, of issuers in countries having smaller capital markets. The International Bond Fund seeks high total investment return from investment in a non-U.S. international portfolio of debt instruments denominated in various currencies and multi-national

2

currency units. The Intermediate Government Bond Fund seeks the highest possible current income consistent with the protection of capital afforded by investing in intermediate-term debt securities issued or guaranteed by the United States Government or its agencies.

Investors are referred to 'Investment Objectives and Policies of the Funds' on page 16 of the Prospectus for a more complete discussion of the investment objectives and policies of the Company.

INVESTMENT RESTRICTIONS

The Company has adopted the following restrictions and policies relating to the investment of assets of the Funds and their activities. These are fundamental policies and may not be changed without the approval of the holders of a majority of the outstanding voting shares of each Fund affected (which for this purpose and under the Investment Company Act of 1940 means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares). A change in policy affecting only one Fund may be effected with the approval of a majority of the outstanding shares of such Fund. The Company may not issue senior securities.

RESTRICTIONS APPLICABLE TO THE DOMESTIC MONEY MARKET

The Domestic Money Market Fund may not purchase any security other than money market and other securities described under 'Investment Objectives and Policies of the Funds--Domestic Money Market Fund' in the Prospectus. In addition, the Domestic Money Market Fund may not purchase securities of foreign issuers (including Eurodollar and Yankee dollar obligations). In addition, the Domestic Money Market Fund may not:

(1) invest more than 10% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities) of any one issuer (including repurchase agreements with any one bank) except that up to 25% of the value of the Fund's total assets may be invested without regard to such 10% limitation.

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

(3) purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization.

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combination thereof.

(7) make loans to other persons; provided that the Fund may purchase money market securities or enter into repurchase agreements; lend securities owned or held by it pursuant to (8) below; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or

3

other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 20% of its total assets, taken at market value, and then only from banks as a temporary measure for extraordinary or emergency purposes. The borrowing provisions shall not apply to reverse repurchase agreements. 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 dispositions of portfolio securities. The Fund will not purchase securities while borrowings are outstanding.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 25% of the Fund's total assets, taken at market value at the time thereof. Although the Fund has the authority to mortgage, pledge or hypothecate more than 10% of its total assets under this investment restriction (10), as a matter of operating policy, the Fund will not mortgage, pledge or hypothecate in excess of 10% of total net assets.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) purchase, either alone or together with any other Fund or Funds, more than 10% of the outstanding securities of an issuer except that such restriction does not apply to U.S. Government or government agency securities, bank money instruments or repurchase agreements.

(13) invest in securities (except for repurchase agreements or variable amount master notes) with legal or contractual restrictions on resale or for which no readily available market exists or in securities of issuers (other than issuers of government agency securities) having a record, together with predecessors, of less than three years of continuous operation if, regarding all such securities, more than 10% of its total assets (taken at market value) would be invested in such securities.

(14) enter into repurchase agreements if, as a result thereof, more than 10% of the Fund's total assets (taken at market value at the time of each investment) would be subject to repurchase agreements maturing in more than

seven days.

(15) enter into reverse repurchase agreements if, as a result thereof, the Fund's obligations with respect to reverse repurchase agreements would exceed one-third of the Fund's net assets (defined to be total assets, taken at market value, less liabilities other than reverse repurchase agreements).

(16) invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any particular industry (other than U.S. Government securities, government agency securities or bank money instruments).

4

RESTRICTIONS APPLICABLE TO THE RESERVE ASSETS FUNDS

The Reserve Assets Fund may not purchase any security other than money market and other securities described under 'Investment Objectives and Policies of the Funds--Reserve Assets Fund' in the Prospectus. In addition, the Reserve Assets Fund may not:

(1) invest more than 10% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities) of any one issuer (including repurchase agreements with any one bank) except that up to 25% of the value of the Fund's total assets may be invested without regard to such 10% limitation.

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

(3) purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization.

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof.

(7) make loans to other persons; provided that the Fund may purchase money market securities or enter into repurchase agreements; lend securities owned or held by it pursuant to (8) below; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 20% of its total assets, taken at market value and then only from banks as a temporary measure for extraordinary or emergency purposes. The borrowing provisions shall not apply to reverse repurchase agreements. 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 dispositions of portfolio securities. The Fund will not purchase securities while borrowings are outstanding.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 25%

5

of the Fund's total assets, taken at market value at the time thereof. As a matter of operating policy, the Fund will not mortgage, pledge or hypothecate in excess of 10% of total net assets.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) purchase, either alone or together with any other Fund or Funds, more than 10% of the outstanding securities of an issuer except that such restriction does not apply to U.S. Government or government agency securities, bank money instruments or repurchase agreements.

(13) invest in securities (except for repurchase agreements or variable amount master notes) with legal or contractual restrictions on resale or for which no readily available market exists or in securities of issuers (other than issuers of government agency securities) having a record, together with predecessors, of less than three years of continuous operation if, regarding all such securities, more than 5% of its total assets (taken at market value) would be invested in such securities.

(14) enter into repurchase agreements if, as a result thereof, more than 10% of the Fund's total assets (taken at market value at the time of each investment) would be subject to repurchase agreements maturing in more than seven days.

(15) enter into reverse repurchase agreements if, as a result thereof, the Fund's obligations with respect to reverse repurchase agreements would exceed one-third of the Fund's net assets (defined to be total assets, taken at market value, less liabilities other than reverse repurchase agreements).

(16) invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in any particular industry (other than U.S. Government securities, government agency securities or bank money instruments).

RESTRICTIONS APPLICABLE TO THE PRIME BOND FUND

The Prime Bond Fund may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may purchase securities of issuers which invest or deal in any of the above.

6

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof.

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and the Fund may purchase obligations in private placements, and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 5% of its total assets, taken at market value and then only from banks as a temporary measure for extraordinary or emergency purposes. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of the Fund's total assets, taken at market value at the time thereof.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in the securities of foreign issuers except that the Fund may invest in securities of foreign issuers if at the time of acquisition no more than 10% of its total assets, taken at market value at the time of the investment, would be invested in such securities, provided however, that up to 25% of the total assets of the Prime Bond Fund may be invested in securities (i) issued, assumed or guaranteed by foreign governments, or political subdivisions or instrumentalities thereof, (ii) assumed or guaranteed by domestic issuers,

including Eurodollar securities or (iii) issued, assumed or guaranteed by foreign issuers having a class of securities listed for trading on the New York Stock Exchange (see 'Other Portfolio Strategies--Foreign Securities' in the Prospectus). Consistent with the general policy of the Securities and Exchange Commission, the nationality or domicile of an issuer for determination of foreign issuer status may be (i) the country under whose laws the issuer is organized, (ii) the country in which the issuer's securities are principally traded, or (iii) a country in which the issuer derives a significant proportion (at least 50%) of its revenues or profits from goods produced or sold, investments made, or services performed in the country, or in which at least 50% of the assets of the issuer are situated.

(13) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(14) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities. If through the

7

appreciation of restricted securities or the depreciation of unrestricted securities held by a Fund, more than 10% of the assets of the Fund should be invested in restricted securities, the Fund will consider appropriate steps to assure maximum flexibility.

(15) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(16) invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers primarily engaged in the same industry (utilities will be divided according to their services; for example, gas, gas transmission, electric and telephone each will be considered a separate industry for purposes of this restriction).

(17) participate on a joint (or a joint and several) basis in any trading account in securities (but this does not include the 'bunching' of orders for the sale or purchase of portfolio securities with the other Funds or with individually managed accounts advised or sponsored by the Investment Adviser or any of its affiliates to reduce brokerage commissions or otherwise to achieve best overall execution).

(18) purchase, either alone or together with any other Fund or Funds, more than either 10% (a) in principal amount of the outstanding securities of an issuer, or (b) of the outstanding voting securities of an issuer except that such restriction will not apply to U.S. Government or government agency securities, bank money instruments or bank repurchase agreements.

RESTRICTIONS APPLICABLE HIGH CURRENT INCOME FUND

The High Current Income Fund may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may purchase securities of issuers which invest or deal in any of the above.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof.

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and provided further that for purposes of this restriction the acquisition of a portion of an issue of

8

publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 5% of its total assets, taken at market value and then only from banks as a temporary measure for extraordinary or emergency purposes. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of the Fund's total assets, taken at market value at the time thereof.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in the securities of foreign issuers; except that the High Current Income Fund may invest in securities of foreign issuers if at the time of acquisition no more than 10% of its total assets, taken at market value at the time of the investment, would be invested in such securities, provided however, that up to 25% of the total assets of the Fund may be invested in securities (i) issued, assumed or guaranteed by foreign governments, or political subdivisions or instrumentalities thereof, (ii) assumed or guaranteed by domestic issuers, including Eurodollar securities or (iii) issued, assumed or

guaranteed by foreign issuers having a class of securities listed for trading on the New York Stock Exchange (see 'Other Portfolio Strategies--Foreign Securities' in the Prospectus). Consistent with the general policy of the Securities and Exchange Commission, the nationality or domicile of an issuer for determination of foreign issuer status may be (i) the country under whose laws the issuer is organized, (ii) the country in which the issuer's securities are principally traded, or (iii) a country in which the issuer derives a significant proportion (at least 50%) of its revenues or profits from goods produced or sold, investments made, or services performed in the country, or in which at least 50% of the assets of the issuer are situated.

(13) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(14) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities. If through the appreciation of restricted securities or the depreciation of unrestricted securities held by a Fund, more than 10% of the assets of the Fund should be invested in restricted securities, the Fund will consider appropriate steps to assure maximum flexibility.

(15) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

9

(16) invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers primarily engaged in the same industry (utilities will be divided according to their services; for example, gas, gas transmission, electric and telephone each will be considered a separate industry for purposes of this restriction).

(17) participate on a joint (or a joint and several) basis in any trading account in securities (but this does not include the 'bunching' of orders for the sale or purchase of portfolio securities with the other Funds or with individually managed accounts advised or sponsored by the Investment Adviser or any of its affiliates to reduce brokerage commissions or otherwise to achieve best overall execution).

(18) purchase, either alone or together with any other Fund or Funds, more than either 10% (a) in principal amount of the outstanding securities of an issuer, or (b) of the outstanding voting securities of an issuer except that such restriction will not apply to U.S. Government or government agency securities, bank money instruments or bank repurchase agreements.

RESTRICTIONS APPLICABLE TO THE QUALITY EQUITY FUND

The Quality Equity Fund, may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities or, securities issued by instrumentalities of the U.S. Government) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except that the Fund may write covered call options.

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposits, bankers' acceptances and variable amount notes shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral

10

from the borrower equal at all times to the current market value of the securities loaned; and provided further that the Fund may only make loans to New York Stock Exchange Member firms, other brokerage firms having net capital of at least \$10 million and financial institutions, such as registered investment companies, banks and insurance companies, having at least \$10 million in capital and surplus.

(9) borrow amounts in excess of 5% of its total assets, taken at market value or, acquisition cost if it is lower, and then only from banks as a temporary measure for extraordinary or emergency purposes. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 15% of the Fund's total assets, taken at market value at the time thereof (the deposit is escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge); although Fund has the authority to mortgage, pledge or hypothecate more than 10% of its total assets under this investment restriction (10), as a matter of operating policy, the Fund will not mortgage, pledge or hypothecate in excess of 10% of total net assets.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in the securities of foreign issuers except that the Quality Equity Fund may invest in securities of foreign issuers if at the time of acquisition no more than 10% of its total assets, taken at market value at the time of the investment, would be invested in such securities. Consistent with the general policy of the Securities and Exchange Commission, the nationality or domicile of an issuer for determination of foreign issuer status may be (i) the country under whose laws the issuer is organized, (ii) the country in which the issuer's securities are principally traded, or (iii) a country in which the issuer derives a significant proportion (at least 50%) of its revenues or profits from goods produced or sold, investments made, or services performed in the country, or in which at least 50% of the assets of the issuer are situated.

(13) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in the securities.

(14) Quality Equity Fund may not invest in securities for which there are legal or contractual restrictions on resale, and it may not invest in securities for which there is no readily available market if at the time of acquisition more than 5% of its total assets would be invested in such securities).

(15) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(16) concentrate its investments in any particular industry; provided that if it is deemed appropriate for the attainment of the Fund's investment objectives, up to 25% of its total assets (taken at acquisition cost at the time of each investment) may be invested in any one industry.

(17) invest, either alone or together with any other Fund or Funds, in securities of any single issuer, if immediately after and as a result of such investment, the Fund owns more than 10% of the outstanding securities, or more than 10% of the outstanding voting securities, of such issuer.

11

(18) invest in warrants if at the time of acquisition more than 2% of its total assets, taken at market value, would be invested in warrants. (For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.)

RESTRICTIONS APPLICABLE TO THE EQUITY GROWTH FUND

The Equity Growth Fund may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S Government or government agency securities or, securities issued by instrumentalities of the U.S. Government) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

(3) purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, or by purchase in

the open market of securities of closed-end investment companies where no underwriter or dealer's commission or profit, other than customary broker's commission, is involved, and only if immediately thereafter not more than 10% of the Fund's total assets, taken at market value, would be invested in such securities.

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls straddles, spreads or combinations thereof.

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 5% of its total assets, taken at market value, and then only from banks as a temporary measure for extraordinary or emergency purposes. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed the Fund's total assets, taken at market value at the time thereof.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

12

(12) invest in securities of foreign issuers except that the Quality Equity Fund may invest in securities of foreign issuers if at the time of acquisition no more than 10% of its total assets, taken at (market value at the time of the investment, would be invested in such securities. Consistent with the general policy of the Securities and Exchange Commission, the nationality or domicile of an issuer for determination of foreign issuer status may be (i) the country under whose laws the issuer is organized, (ii) the country in which the issuer's securities are principally traded, or (iii) a country in which the issuer derives a significant proportion (at least 50%) of its revenues or profits from goods produced or sold, investments made, or services performed in the country, or in which at least 50% of the assets of the issuer are situated.

(13) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of

investment, would be invested in such securities.

(14) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 5% of the total assets of the Fund taken at market value, would be invested in the securities.

(15) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(16) 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.

(17) invest, either alone or together with any other Fund or Funds, in securities of any one issuer (other than the United States or its agencies or instrumentalities), if immediately after and as a result of such investment more than 10% of the outstanding securities, or more than 10% of any class of securities, of such issuer would be owned by the Fund.

(18) invest in warrants if at the time of acquisition more than 2% of its total assets, taken at market value, would be invested in warrants. (For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.)

RESTRICTIONS APPLICABLE TO THE FLEXIBLE STRATEGY FUND

The Flexible Strategy Fund may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities or, securities issued by instrumentalities of the U.S. Government) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

13

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interest therein or securities issued by companies which invest in real estate or interest therein.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except that the Fund may write covered call options.

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 5% of its total assets, taken at market value, and then only from banks as a temporary measure for extraordinary or emergency purposes. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(10) mortgage, pledge, hypothecate or any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 15% of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge); although the Fund has the authority to mortgage, pledge or hypothecate more than 10% of its total assets under this investment restriction (10), as a matter of operating policy, the Fund will not mortgage, pledge or hypothecate in excess of 10% of total net asset.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(13) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities.

(14) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(15) 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.

(16) invest, either alone or together with any other Fund or Funds, in securities of any one issuer (other than the United States or its agencies or

instrumentalities), if immediately after and as a result of such investment more than 10% of the outstanding securities, or more than 10% of any class of securities, of such issuer would be owned by the Fund.

(17) invest in warrants if at the time of acquisition more than 2% of its total assets, taken at market value, would be invested in warrants. (For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.)

RESTRICTIONS APPLICABLE TO THE NATURAL RESOURCES FOCUS FUND

The Natural Resources Focus Fund may not:

(1) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(3) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may purchase securities of investors which invest or deal in any of the above, and except further, that the Fund may engage in transactions in currency and options thereon, forward currency contracts, futures contracts and options thereon and purchase, sell or otherwise invest or deal in commodities or commodities contracts (as a matter of operating policy, however, the Fund at present does not intend to engage in transactions in commodities or commodities contracts, other than foreign currency, futures contracts and options on futures contracts).

(4) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and the Fund may make margin payments in connection with transactions in options, forward currency contracts, futures contracts and options on futures contracts.

(5) make short sales of securities or maintain a short position (except that the Fund may maintain short positions in forward currency contracts, options, futures contracts and options on futures contracts).

(6) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (7) below; and the Fund may purchase obligations in private placements; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(7) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(8) borrow amounts in excess of 10% of its total assets, taken at market value 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 dispositions of portfolio securities. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(9) except as may be necessary in connection with transactions in options, foreign currency contracts, futures contracts and options on futures contracts, mortgage, pledge, hypothecate or in any manner transfer (except as provided in (7) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (7) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge).

(10) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(11) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(12) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities.

(13) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(14) invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers primarily engaged in the same industry, except that when management anticipates significant economic, political or financial instability, the Natural Resources Focus Fund may invest more than 25% of its total assets in gold-related companies. In determining compliance by the Natural Resources Focus Fund with its policy on investing in the securities of issuers primarily engaged in the same industry, management will rely on industrial classifications contained in Standard & Poor's Register of Corporations, Directors and Executives.

RESTRICTIONS APPLICABLE TO THE AMERICAN BALANCED FUND

The American Balanced Fund may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities or, securities issued by instrumentalities of the U.S. Government) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

16

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may purchase securities of issuers which invest or deal in any of the above.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except that the Fund may write covered call options.

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and provided that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures of other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 5% of its total assets, taken at market value, and then only from banks as a temporary measure for extraordinary or emergency purposes. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 15 % of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge); although the Fund has the authority to mortgage, pledge or hypothecate more than 10% of its total assets under this investment restriction (10), as a matter of operating policy, the Fund will not mortgage, pledge or hypothecate in excess of 10% of total net assets.

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in the securities of foreign issuers. Consistent with the general policy of the Securities and Exchange Commission, the nationality or domicile of an issuer for determination of foreign issuer status may be (i) the country under whose laws the issuer is organized, (ii) the country in which the issuer's securities are principally traded, or (iii) a country in which the issuer derives a significant proportion (at least 50%) of its revenues or profits from goods produced or sold, investments made, or services performed in the country, or in which at least 50% of the assets of the issuer are situated.

(13) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(14) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities.

17

(15) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(16) 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.

(17) invest, either alone or together with any other Fund or Funds, in securities of any one issuer (other than the United States or its agencies or instrumentalities), if immediately after and as a result of such investment more than 10% of the outstanding securities, or more than 10% of any class of securities, of such issuer would be owned by the Fund.

(18) invest in warrants if at the time of acquisition more than 2% of its total assets, taken at market value, would be invested in warrants. (For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.)

RESTRICTIONS APPLICABLE TO THE GLOBAL STRATEGY FOCUS FUND

The Global Strategy Focus Fund, may not:

(1) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(3) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may purchase securities of issuers which invest or deal in any of the above, and except further, that the Fund may engage in transactions in currency and options thereon, forward currency contracts, futures contracts and options thereon and purchase, sell or otherwise invest or deal in commodities or commodities contracts.

(4) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and the Fund may make margin payment in connection with transactions in options, forward currency contracts, futures contracts and

options on futures contracts.

(5) make short sales of securities or maintain a short position (except that the Fund may maintain short positions in forward currency contracts, options, futures contracts and options on futures contracts).

(6) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (7) below; and the Fund may purchase obligations in private placements; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances.

(7) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the

18

Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(8) borrow amounts in excess of 10% of its total assets, taken at market value, 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 dispositions of portfolio securities. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(9) except as may be necessary in connection with transactions in options, foreign currency contracts, futures contracts and options on futures contracts, mortgage, pledge, hypothecate or in any manner transfer (except as provided in (7) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (8) above, and then such mortgaging, pledging or hypothecating may not exceed 15% of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge); although the Fund has the authority to mortgage, pledge or hypothecate more than 10% of its total assets under this investment restriction (9), as a matter of operating policy, the Fund will not mortgage, pledge or hypothecate in excess of 10% of total assets.

(10) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(11) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(12) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities.

(13) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(14) 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.

(15) invest, either alone or together with any other Fund or Funds, in securities of any one issuer (other than the United States or its agencies or instrumentalities), if immediately after and as a result of such investment more than 10% of the outstanding securities, or more than 10% of any class of securities, of such issuer would be owned by the Fund.

(16) invest in warrants if at the time of acquisition more than 2% of its total assets, taken at market value, would be invested in warrants. (For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value.)

19

RESTRICTIONS APPLICABLE TO THE BASIC VALUE FOCUS FUND

The Basic Value Focus Fund may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities or, securities issued by instrumentalities of the U.S. Government) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.

(6) make short sales of securities or maintain a short position or write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except that the Fund may write covered call options.

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and provided further that for the purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures of other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 5% of its total assets, taken at market value, and then only from banks as a temporary measure for extraordinary or emergency purposes. The Fund will not purchase securities while borrowings are outstanding. Interest paid on such borrowings will reduce net income.

(10) mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge).

(11) act as a an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in the securities of foreign issuers except that the Basic Value Focus Fund may invest in securities of foreign issuers if at the time of acquisition no more than 10% of its total assets, taken at market

20

value at the time of the investment, would be invested in such securities. Consistent with the general policy of the Securities and Exchange Commission, the nationality or domicile of an issuer for determination of foreign issuer status may be (i) the country under whose laws the issuer is organized, (ii) the country in which the issuer's securities are principally traded, or (iii) a country in which the issuer derives a significant proportion (at least 50%) of its revenues or profits from goods produced or sold, investments made, or services performed in the country, or in which at least 50% of the assets of the issuer are situated.

(13) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(14) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 5% of the total assets of the Fund taken at market value, would be invested in the securities.

(15) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(16) invest more than 25% of its assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry (including securities issued or guaranteed by the government of any one foreign country, but excluding the U.S. Government, its agencies and instrumentalities).

RESTRICTIONS APPLICABLE TO THE WORLD INCOME FOCUS FUND

The World Income Focus Fund may not:

(1) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

(2) purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, or by purchase in the open market of securities of closed-end investment companies where no underwriter or dealer's commission or profit, other than customary broker's commissions, is involved, and only if immediately thereafter not more than 10% of the Fund's total assets, taken at market value, would be invested in such securities.

(3) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein, and except further, that the Fund may engage in transactions in currency and options thereon, forward currency contracts, futures contracts and options thereon and purchase, sell or otherwise invest or deal in commodities or commodities contracts.

(4) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and the Fund may make margin payments in connection with transactions in options, forward currency contracts, futures contracts and options on futures contracts.

(5) make short sales of securities or maintain a short position (except that the Fund may maintain short positions in forward currency contracts, options, futures contracts and options on futures contracts).

21

(6) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (7) below; and the Fund may purchase obligations in private placements; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(7) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(8) borrow amounts in excess of 20% of its total assets, taken at market value 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 dispositions of portfolio securities. The Fund will not purchase securities while borrowings are outstanding except that the Fund may purchase securities if their outstanding borrowings do not exceed 5% of their total assets. Interest paid on such borrowings will reduce net income.

(9) except as may be necessary in connection with transactions in options, foreign currency contracts, futures contracts and options on future contracts, mortgage, pledge, hypothecate or in any manner transfer (except as provided in (7) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (8) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of

call options is not deemed to be a pledge).

(10) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(11) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(12) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities.

(13) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(14) invest more than 25% of the assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry (including securities issued or guaranteed by the government of any one foreign country, but excluding the U.S. Government, its agencies and instrumentalities).

22

RESTRICTIONS APPLICABLE TO THE GLOBAL UTILITY FOCUS FUND

The Global Utility Focus Fund may not:

(1) invest more than 5% of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities or, securities issued by instrumentalities of the U.S. Government) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(4) purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein and except further, that the Fund may engage in transactions in currency and options thereon, forward currency contracts, futures contracts and options thereon and purchase, sell or otherwise invest or deal in commodities or commodities contracts.

(5) purchase any securities on margin except that the Company may obtain

such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and the Fund may make margin payments in connection with transactions in options, forward currency contracts, futures contracts and options on futures contracts.

(6) make short sales of securities or maintain a short position (except that the Fund may maintain short positions in forward currency contracts, options, futures contracts and options on futures contract).

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and the Fund may purchase obligations in private placements; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 10% of its total assets, taken at market value 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 dispositions of portfolio securities. The Fund will not purchase securities while borrowings are outstanding, except that the Fund may purchase securities if their outstanding borrowings do not exceed 5% of their total assets. Interest paid on such borrowings will reduce net income.

23

(10) except as may be necessary in connection with transactions in options, foreign currency contracts, futures contracts and options on future contracts, mortgage, pledge, hypothecate or or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge).

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(13) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities. However, the asset-backed securities which the Fund has the option to put to the issuer or a stand-by bank or broker and receive the principal amount or redemption price thereof less transaction costs on no more than seven days' notice or when the Fund has the right to convert such securities into a readily marketable security in which it could otherwise invest upon not less than seven days' notice are not subject to this restriction.

(14) purchase or retain the securities of any issuer, if those individual

officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(15) invest less than 65% of its total assets in equity and debt securities issued by domestic and foreign companies in the utilities industries, except during temporary defensive periods.

RESTRICTIONS APPLICABLE TO THE INTERNATIONAL EQUITY FOCUS FUND

The International Equity Focus Fund may not:

(1) invest more than 5 % of its total assets (taken at market value at the time of each investment) in the securities (other than U.S. Government or government agency securities or, securities issued by instrumentalities of the U.S. Government) of any one issuer (including repurchase agreements with any one bank).

(2) alone, or together with any other Fund or Funds, make investments for the purpose of exercising control or management.

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

(4) purchase or sell interests in oil, gas or other mineral exploration or developing program, commodities, commodity contracts or real estate, except that the Fund may invest in securities secured by real estate or interests therein or securities issued by companies which invest in real estate or interest therein and except further, that the

24

Fund may engage in transactions in currency and options thereon, forward currency contracts, futures contracts and options thereon and purchase, sell or otherwise invest or deal in commodities or commodities contracts.

(5) purchase any securities on margin except that the Company may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities and the Fund may make margin payments in connection with transactions in options, forward currency contracts, futures contracts and options on futures contracts.

(6) make short sales of securities or maintain a short position (except that the Fund may maintain short positions in forward currency contracts, options, futures contracts and options on futures contracts).

(7) make loans to other persons; provided that the Fund may lend securities owned or held by it pursuant to (8) below; and the Fund may purchase obligations in private placements; and provided further that for purposes of this restriction the acquisition of a portion of an issue of publicly-distributed bonds, debentures or other corporate debt securities or of government obligations, short-term commercial paper, certificates of deposit and bankers' acceptances shall not be deemed the making of a loan.

(8) lend its portfolio securities in excess of 20% of its total assets, taken at market value at the time of the loan, provided that such loans are made

according to the guidelines set forth below and the guidelines of the Securities and Exchange Commission and the Company's Board of Directors, including maintaining collateral from the borrower equal at all times to the current market value of the securities loaned.

(9) borrow amounts in excess of 10% of its total assets, taken at market value 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 dispositions of portfolio securities. The Fund will not purchase securities while borrowings are outstanding, except that the Fund may purchase securities if their outstanding borrowings do not exceed 5% of their total assets. Interest paid on such borrowings will reduce net income.

(10) except as may be necessary in connection with transactions in options, foreign currency contracts, futures contracts and options on future contracts, mortgage, pledge, hypothecate or in any manner transfer (except as provided in (8) above), as security for indebtedness, any securities owned or held by the Fund except as may be necessary in connection with borrowings mentioned in (9) above, and then such mortgaging, pledging or hypothecating may not exceed 10% of the Fund's total assets, taken at market value at the time thereof (the deposit in escrow by the Fund of underlying securities in connection with the writing of call options is not deemed to be a pledge).

(11) act as an underwriter of securities, except insofar as the Fund may be deemed an underwriter under the Securities Act of 1933 in selling portfolio securities.

(12) invest in securities of issuers having a record, together with predecessors, of less than three years of continuous operation if more than 5% of the total assets of the Fund, taken at market value at the time of investment, would be invested in such securities.

(13) invest in securities which cannot be readily resold to the public because of legal or contractual restrictions or for which no readily available market exists if, regarding all such securities held by a Fund, more than 10% of the total assets of the Fund taken at market value, would be invested in the securities.

25

(14) purchase or retain the securities of any issuer, if those individual officers and directors of the Company, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

(15) invest more than 25% of the assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry (including securities issued or guaranteed by the government of any one foreign country, but excluding the U.S. Government, its agencies and instrumentalities).

RESTRICTIONS APPLICABLE TO THE DEVELOPING CAPITAL MARKETS FOCUS FUND

The Developing Capital Markets Focus Fund may not:

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

(2) Make investments for the purpose of exercising control or management. Investments by the Fund in wholly-owned investment entities created under the

laws of certain countries will not be deemed the making of investments for the purpose of exercising control or management.

(3) Purchase securities of other investment companies, except to the extent permitted by applicable law.

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

(5) Purchase any securities on margin, except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities. The payment by the Fund of initial or variation margin in connection with futures or related options transactions, if applicable, shall not be considered the purchase of a security on margin.

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

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

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

(9) Issue senior securities, borrow money or pledge its assets in excess of 20% of its total assets taken at market value (including the amount borrowed) and then only from a bank as a temporary measure for extraordinary or emergency purposes including to meet redemptions or to settle securities transactions. Usually only 'leveraged' investment companies may borrow in excess of 5% of their assets; however, the Fund will not borrow to increase income but only as a temporary measure for extraordinary or emergency purposes including to meet redemptions or to settle securities transactions which may otherwise require untimely dispositions of Fund securities. The Fund will not purchase securities while borrowings exceed 5% of total assets except (a) to honor prior commitments or (b) to exercise subscription rights where outstanding borrowings have been obtained exclusively for settlements of other securities transactions. (For the purpose of this restriction, collateral arrangements with respect to the writing of options, and, if applicable, futures contracts, options on futures

26

contracts, and collateral arrangements with respect to initial and variation margin are not deemed to be a pledge of assets and neither such arrangements nor the purchase or sale of futures or related options are deemed to be the issuance of a senior security.)

(10) Invest in securities which cannot be readily resold because of legal or contractual restrictions or which are otherwise not readily marketable, including repurchase agreements and purchase and sale contracts maturing in more than seven days, if at the time of acquisition more than 15% of its net assets would be invested in such securities.

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

(12) Purchase or sell interests in oil, gas or other mineral exploration or development programs, except that the Fund may invest in securities issued by

companies that engage in oil, gas or other mineral exploration or development activities.

Additional investment restrictions adopted by the Company for the Developing Capital Markets Focus Fund, which may be changed by the Board of Directors, provide that the Fund may not:

(i) Invest in warrants if at the time of acquisition its investments in warrants, valued at the lower of cost or market value, would exceed 5% of the Fund's net assets; included within such limitation, but not to exceed 2% of the Fund's net assets, are warrants which are not listed on the New York or American Stock Exchange. For purposes of this restriction, warrants acquired by the Fund in units or attached to securities may be deemed to be without value. (ii) Purchase or sell commodities or commodity contracts, except that the Fund may deal in forward foreign exchange between currencies of the different countries in which it may invest and purchase and sell stock index and currency options, stock index futures, financial futures and currency futures contracts and related options on such futures. (iii) Invest in securities of corporate issuers having a record, together with predecessors, of less than three years of continuous operation, if more than 5% of its total assets, taken at market value, would be invested in such securities. (iv) Write, purchase or sell puts, calls, straddles, spreads or combinations thereof, except to the extent described in the Fund's Prospectus and in this Statement of Additional Information, as amended from time to time. (v) Purchase or retain the securities of any issuer, if those individual officers and directors of the Fund, the Manager or any subsidiary thereof each owning beneficially more than 1/2 of 1% of the securities of such issuer own in the aggregate more than 5% of the securities of such issuer.

RESTRICTIONS APPLICABLE TO THE INTERNATIONAL BOND FUND

The International Bond Fund may not:

(1) Make investments for the purpose of exercising control or management.

(2) Purchase securities of other investment companies, except to the extent permitted by applicable law.

(3) Purchase or sell real estate, provided that the Fund may invest in securities secured by real estate or interests therein or issued by companies which invest in real estate or interests therein.

(4) Purchase or sell commodities or commodity contracts except that the Fund may deal in forward foreign exchange between currencies in which its portfolio securities are denominated and the Fund may purchase and sell interest rate and currency options, futures contracts and related options.

27

(5) Invest more than 25% of its total assets, taken at market value at the time of each investment, in the securities of corporate issuers in any particular industry.

(6) Purchase any securities on margin, except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities, or make short sales of securities or maintain a short position. (The deposit or payment by the Fund of initial or variation margin in connection with futures or options transactions is not considered the purchase of a security on margin.)

(7) Make loans to other persons (except as provided in (8) below), provided that for purposes of this restriction the acquisition of a portion of publicly distributed bonds, debentures, or other corporate debt securities and investment

in governmental and supranational obligations, short-term commercial paper, certificates of deposit, bankers' acceptances and repurchase agreements shall not be deemed to be the making of a loan.

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

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

(10) Invest in securities which cannot be readily resold because of legal or contractual restrictions or which are not otherwise readily marketable if, regarding all such securities, more than 15% of its net assets, taken at market value, would be invested in such securities.

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

(12) Purchase or sell interests in oil, gas or other mineral exploration or development programs.

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

The Directors have established the policy that the Fund will not purchase or retain the securities of any issuer if those individual officers and Trustees of the Company, the Investment Advisor or Merrill Lynch Funds Distributor, Inc. (the 'Distributor'), each owning beneficially more than one-half of 1% of the securities of each issuer, own in the aggregate more than 5% of the securities of such issuer.

RESTRICTIONS APPLICABLE TO INTERMEDIATE GOVERNMENT BOND FUND

The Intermediate Government Bond Fund may not:

(1) Invest in any security which is not issued or guaranteed by the U.S. Government or one of its agencies or instrumentalities which has a stated maturity greater than fifteen years from the date of purchase.

(2) make investments for the purpose of exercising control over, or management of, any issuer.

(3) Purchase or sell interests in oil, gas or other mineral exploration or development programs, commodities, commodity contracts or real estate, except that the Fund may purchase securities of issuers which invest or deal in any of the above, and the Fund may purchase and sell financial futures contracts and related options.

(4) Purchase any securities on margin (except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities) or make short sales of securities or maintain a short position. (The deposit or payment by the Fund of initial or variation margin in connection with futures or options transactions is not considered the purchase of a security on margin.)

(5) Make loans, except as provided in (6) below and except through the purchase of obligations in private placements (the purchase of publicly-traded obligations not being considered the making of a Loan.

(6) Lend its portfolio securities in excess of 33 1/3% of its total assets, taken at market value at the time of the loan, and provided that such loan shall be made in accordance with the guidelines set forth above.

(7) Borrow amounts in excess of 10% of its total assets, taken at market value at the time of the borrowing, and then only from banks as a temporary measure for extraordinary or emergency purposes.

(8) 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 (7) above (and then such mortgaging, pledging or hypothecating may not exceed 10% of such Fund's total assets taken at market value at the time thereof. (For the purpose of this restriction, collateral arrangements with respect to the writing of options, and, if applicable, futures contracts, options on futures contracts, and collateral arrangements with respect to initial and variation margin are not deemed to be a pledge of assets and neither such arrangements nor the purchase or sale of futures or related options are deemed to be the issuance of a senior security.)

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

(10) Participate on a joint (or a joint and several) basis in any trading account in securities (but) this does not include the 'bunching' of orders for the sale or purchase of portfolio securities or with individually managed accounts advised or sponsored by the Investment Adviser or any of its affiliates to reduce brokerage commissions or otherwise to achieve best overall execution.

(11) Purchase or retain the securities of any issuer, if those individual officers and directors of the Fund, Merrill Lynch Asset Management or any subsidiary thereof each owning beneficially more than 1/2 or 1% of the securities of such issuer, own in the aggregate more than 5% of the securities of such issuer.

The Directors have established a policy that the Fund will not invest in financial futures or options thereon or write, purchase or sell puts, calls or combinations thereof.

OVER-THE-COUNTER OPTIONS

The staff of the Commission has taken the position that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. Therefore, the Company has adopted an investment policy pursuant to which it will not purchase or sell OTC options if, as a result of such transactions, the sum of the market value of OTC options currently outstanding which are held by a Fund, the market value of the underlying securities covered by OTC call options currently outstanding which were sold by the Fund and margin deposits on the Fund's existing OTC options on futures contracts exceeds 15% of the total assets of the Fund, taken at market value, together with all other

assets of the Fund which are illiquid or are otherwise not readily marketable. However, if an OTC option is sold by a Fund to a primary U.S. Government securities dealer recognized by the

29

Federal Reserve Bank of New York and if the Fund has the unconditional contractual right to repurchase such OTC option from the dealer at a predetermined price, then the Fund will treat as illiquid such amount of the underlying securities equal to the repurchase price less the amount by which the option is 'in-the-money' (i.e., current market value of the underlying securities minus the option's strike price). The repurchase price with the primary dealers is typically a formula price which is generally based on a multiple of the premium received for the option, plus the amount by which the option is 'in-the-money'. This policy as to OTC options is not a fundamental policy of any Fund and may be amended by the Directors of the Company without the approval of the Company's shareholders. However, the Company will not change or modify this policy prior to the change or modification by the Commission staff of its position.

RESTRICTED SECURITIES

From time to time a Fund may invest in securities the disposition of which is subject to legal restrictions, such as restrictions imposed by the Securities Act of 1933 (the 'Securities Act') on the resale of securities acquired in private placements. If registration of such securities under the Securities Act is required, such registration may not be readily accomplished and if such securities may be sold without registration, such resale may be permissible only in limited quantities. In either event, a Fund may not be able to sell its restricted securities at a time which, in the judgment of the Investment Adviser, would be most opportune.

Each of the Funds is subject to limitations on the amount of securities which are illiquid, because of restrictions under the Securities Act or otherwise, they may purchase. Each Fund may, however, purchase without regard to that limitation securities that are not registered under the Securities Act, but that can be offered and sold to 'qualified institutional buyers' under Rule 144A under the Securities Act, provided that the Company's Board of Directors continuously determines, based on the trading markets for the specific Rule 144A security, that it is liquid. The Board of Directors may adopt guidelines and delegate to the Investment Adviser the daily function of determining and monitoring liquidity of restricted securities. The Board has determined that securities which are freely tradeable in their primary market offshore should be deemed liquid. The Board, however, will retain sufficient oversight and be ultimately responsible for the determinations.

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

PORTFOLIO STRATEGIES

Liquidity. In order to assure that each Fund has sufficient liquidity, as a matter of operating policy no Fund may invest more than 10% of its net assets, except that the Developing Capital Markets Focus and International Bond Funds may not invest more than 15% of its net assets in securities for which market disposition is not readily available. Market disposition may not be readily available for repurchase agreements maturing in more than seven days and for securities having restrictions on resale.

Lending of Portfolio Securities. Subject to any applicable investment restriction above, each Fund may from time to time loan securities from its portfolio to brokers, dealers and financial institutions and receive collateral in cash, securities issued or guaranteed by the U.S. Government or, in the case of the Domestic Money Market and Reserve Assets Fund, cash equivalents which while the loan is outstanding will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. Such cash collateral will be

30

invested in short-term securities, the income from which will increase the return to the Fund. The Fund will retain all rights of beneficial ownership as to the loaned portfolio securities, including voting rights and rights to interest or other distributions, and will have the right to regain record

ownership of loaned securities to exercise such beneficial rights. Such loans will be terminable at any time. The Fund may pay reasonable finders', administrative and custodial fees to persons unaffiliated with the Fund in connection with the arranging of such loans. The dividends, interest and other distributions received by the Company on loaned securities may, for tax purposes, be treated as income other than qualified income for the 90% test discussed under 'Dividends, Distributions and Taxes--Federal Income Taxes.' The Company intends to lend portfolio securities only to the extent that such activity does not jeopardize the Company's qualification as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended.

Forward Commitments. Securities may be purchased or sold on a delayed delivery basis or may be purchased on a forward commitment basis by each of the Company's Funds at fixed purchase terms with periods of up to 180 days between the commitment and settlement dates. The purchase will be recorded on the date the purchasing Fund enters into the commitment and the value of security will thereafter be reflected in the calculation of the Fund's net asset value. The value of the security on the delivery date may be more or less than its purchase price. A separate account of the Fund will be established with The Bank of New York (the 'Custodian') consisting of cash or liquid, high-grade debt obligations having a market value at all times until the delivery date at least equal to the amount of its commitments in connection with such delayed delivery and purchase transactions. Although a Fund will generally enter into forward commitments with the intention of acquiring securities for its portfolio, it may dispose of a commitment prior to settlement if the Investment Adviser deems it appropriate to do so. There can, of course, be no assurance that the judgment upon which these techniques are based will be accurate or that such techniques when applied will be effective. The Funds will enter into forward commitment arrangements only with respect to securities in which they may otherwise invest as described under 'Investment Objectives and Policies of the Funds' in the Prospectus.

Eurodollar and Yankeedollar Obligations. The Reserve Assets Fund may invest in obligations issued by foreign branches or subsidiaries of U.S. banks ('Eurodollar' obligations), by U.S. branches or subsidiaries of foreign banks ('Yankeedollar' obligations), or by foreign depository institutions and their foreign branches and subsidiaries ('foreign bank obligations'). Investment in such obligations may involve different risks from the risks of investing in obligations of U.S. banks. Such risks include adverse political and economic developments, the possible imposition of withholding taxes on interest income payable on such obligations, the possible seizure or nationalization of foreign deposits and the possible establishment of exchange controls or other foreign governmental laws or restrictions which might adversely affect the payment of principal and interest. Generally the issuers of such obligations are subject to fewer U.S. regulatory requirements than are applicable to U.S. banks. Foreign depository institutions and their foreign branches and subsidiaries, and foreign branches or subsidiaries of U.S. banks, may be subject to less stringent reserve requirements than U.S. banks. U.S. branches or subsidiaries of foreign banks are subject to the reserve requirements of the state in which they are located. There may be less publicly available information about a foreign depository institution, branch or subsidiary, or a U.S. branch or subsidiary of a foreign bank, than about a U.S. bank, and such institutions may not be subject to the same accounting, auditing and financial record keeping standards and requirements as U.S. banks. Evidence of ownership of Eurodollar and foreign bank obligations may be held outside of the United States, and a Fund may be subject to the risks associated with the holding of such property overseas. Eurodollar and foreign bank obligations of the Fund held overseas will be held by foreign branches of the Custodian for the Fund or by other U.S. or foreign banks under subcustodian arrangements complying with the requirements of the Investment Company Act of 1940.

31

The Investment Adviser will consider the above factors in making investments in Eurodollar, Yankeedollar and foreign bank obligations and will not knowingly purchase obligations which, at the time of purchase, are subject to exchange controls or withholding taxes. Generally, the Reserve Assets Fund will limit its Yankeedollar investments to obligations of banks organized in Canada, France, Germany, Japan, the Netherlands, Switzerland, the United Kingdom and other western industrialized nations.

Standby Commitment Agreements. The High Current Income Fund, Global Utility Focus Fund, International Equity Focus Fund, and Developing Capital Markets Focus Fund may from time to time enter into standby commitment agreements. Such agreements commit a Fund, for a stated period of time, to purchase a stated amount of a fixed income security which may be issued and sold to the Fund at the option of the issuer. The price and coupon of the security is fixed at the time of the commitment. At the time of entering into the agreement the Fund is paid a commitment fee, regardless of whether or not the security is ultimately issued, which is typically approximately 0.5% of the aggregate purchase price of the security which the Fund has committed to purchase. A Fund will enter into such agreements only for the purpose of investing in the security underlying the

commitment at a yield and price which is considered advantageous to the Fund. A Fund will not enter into a standby commitment with a remaining term in excess of 45 days and will limit its investment in such commitments so that the aggregate purchase price of the securities subject to such commitments, together with the value of portfolio securities subject to legal restrictions on resale, will not exceed 10% of its assets taken at the time of acquisition of such commitment or security. A Fund will at all times maintain a segregated account with its custodian of cash or liquid, high-grade debt obligations in an amount equal to the purchase price of the securities underlying the commitment.

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

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

Asset-Based Securities. As described in the Prospectus, the Natural Resources Focus Fund may invest in debt securities, preferred stocks or convertible securities, the principal amount, redemption terms or conversion terms of which are related to the market price of some natural resource asset such as gold bullion. These securities are referred to as 'asset-based securities.'

The Fund will not acquire asset-based securities for which no established secondary trading market exists if at the time of acquisition more than 5% of its total assets are invested in securities which are not readily marketable. The Fund may invest in asset-based securities without limit when it has the option to put such securities to the issuer or a stand-by bank or broker and received the principal amount or redemption price thereof less transaction costs on no more than seven days' notice or when the Fund has the right to convert such securities into a readily marketable security in which it could otherwise invest upon not less than seven days' notice.

The asset-based securities in which the Fund may invest may bear interest or pay preferred dividends at below market (or even relatively nominal) rates. The Fund's holdings of such securities therefore may not

32

generate appreciable current income, and the return from such securities primarily will be from any profit on the sale, maturity or conversion thereof at a time when the price of the related asset is higher than it was when the Fund purchased such securities.

Writing of Covered Options. The Quality Equity Fund, Flexible Strategy Fund, Natural Resources Focus Fund, American Balanced Fund, Global Strategy Focus Fund, Basic Value Focus Fund, World Income Focus Fund, Global Utility Focus Fund, International Equity Focus Fund, Developing Capital Markets Focus Fund and International Bond Fund may from time to time write covered call options on their portfolio securities. A covered call option is an option where the Fund owns the underlying securities. By writing a covered call option, the Fund, in return for the premium income realized from the sale of the option, may give up the opportunity to profit from a price increase in the underlying security above the option exercise price. In addition, the Fund will not be able to sell the underlying security until the option expires or is exercised or the Fund effects a closing purchase transaction as described below. If the option expires unexercised, or is closed out at a profit, the Fund realizes a gain (short-term capital gain for Federal income tax purposes) on the option which may offset all or a part of a decline in the market price of the underlying security during the option period. The Quality Equity Fund and the Basic Value Focus Fund may not write options on underlying securities exceeding 15% of the value of their total assets.

Each of the Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, International Bond and Developing Capital Markets Focus Funds also may write put options, which give the holder of the option the right to sell the underlying security to the Fund at the stated exercise price. The Fund will receive a premium for writing a put option which increases the Fund's return. A Fund will write only covered put options which means that so long as the Fund is obligated as the writer of the option, it

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

Exchange-traded options are issued by The Options Clearing Corporation (the 'Clearing Corporation') and are currently traded on the Chicago Board Options Exchange, American Stock Exchange, Philadelphia Stock Exchange, Pacific Stock Exchange, and Midwest Stock Exchange. An Option gives the purchaser of an option the right to buy, and obligates the writer (seller) to sell, the underlying security at the exercise price during the option period. The maximum term of an option is nine months. For writing an option, the Funds receive a premium, which is the price of such option on the Exchange on which it is traded. The exercise price of the option may be below, equal to or above the current market value of the underlying security at the time the option was written.

A Fund may terminate its obligation prior to the expiration date of the option by executing a closing purchase transaction which is effected by purchasing on an exchange an option of the same series (i.e., same underlying security, exercise price and expiration date) as the option previously written. The cost of such closing purchase transaction may be greater than the premium received upon the original option, in which case a Fund will have incurred a loss in the transaction. An option may be closed out only on an exchange which provides a secondary market for an option of the same series and there is no assurance that a secondary market will exist for any particular option at any specific time. In the event a Fund is unable to effect a closing purchase transaction, it will not be able to sell the underlying security until the option expires or the underlying security is delivered upon exercise, with the result that the Fund will be subject to the risk of market decline in the underlying security

33

during such period. A Fund will write an exchange-traded option on a particular security only if management believes that a secondary market will exist on an exchange for options of the same series which will permit the Fund to make a closing purchase transaction in order to close out its position.

Writing options involves risks of possible unforeseen events which can be disruptive to the option markets or could result in the institution of certain procedures including restriction of certain types of orders.

Purchasing Options. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds, each may purchase put options in connection with its hedging activities. By buying a put, these Funds have the right to sell the underlying securities at the exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put expires. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss from the sale will depend on whether the amount received is more or less than the premium paid for the put option plus the related transaction costs. A closing sale transaction cancels out the Fund's position as the purchaser of an option by means of an offsetting sale of an identical option prior to the expiration of the option it has purchased.

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

Stock Index Options. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus and Developing Capital Markets Focus Funds may purchase and write exchange-traded call options and put options on stock indexes for the purpose of hedging the Funds' investment portfolios. As stated in the Prospectus, the effectiveness of this hedging technique will depend upon the extent to which price movements in the portion of the Funds' investment portfolio being hedged correlate with price movements of the stock index selected. Because the value of an index option depends upon movements in the level of the index rather than the price of a particular stock, whether the Fund will realize a gain or loss on the purchase or sale of an option on an index depends upon movements in the level of prices in the stock market generally or in an industry or market segment rather than

movements in the price of a particular stock. Accordingly, successful use by the Funds of options on indexes will be subject to the Investment Adviser's ability to correctly predict movements in the direction of the stock market generally or of a particular industry or market segment. This requires different skills and techniques than predicting changes in the price of individual stocks.

Stock Index and Financial Futures. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds will only engage in transactions in stock index or financial futures to hedge its investment portfolios. The Funds may sell stock index or financial futures contracts in anticipation of or during a market decline in an endeavor to offset the decrease in market value of the Funds' securities portfolio that would otherwise result from a market decline. When the Funds are not fully invested in the securities market and anticipate a significant market advance, they may purchase stock index or financial futures in order to gain rapid market exposure that may in part or entirely offset increases in the cost of the securities that the Funds intend to purchase. No purchase of stock index or financial futures will be made, however, unless the Funds intend to purchase securities in approximately the amount of the market value of the stocks represented by the stock index or financial futures purchased and the Funds have identified the cash or cash equivalents needed to make such a purchase. An amount of cash and cash equivalents will be deposited in a segregated account with the Company's Custodian so that the amount so segregated, plus the initial and variation margin held in the account of its broker, will collateralize the Funds' positions in stock index or financial futures.

Forward Foreign Exchange Transactions. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and

34

International Bond Funds are authorized to deal in forward foreign exchange between currencies of the different countries in which they will invest and multinational currency units as a hedge against possible variations in the foreign exchange rates between these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date (up to one year) and price at the time of the contract. A Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the purchase or sale of one forward foreign currency for another currency with respect to portfolio security positions denominated or quoted in such foreign currency to offset the effect of an anticipated substantial appreciation or depreciation, respectively, in the value of such currency relative to the U.S. dollar. In this situation, the Fund also may, for example, enter into a forward contract to sell or purchase a different foreign currency for a fixed U.S. dollar amount where it is believed that the U.S. dollar value of the currency to be sold or bought pursuant to the forward contract will fall or rise, as the case may be, whenever there is a decline or increase, respectively, in the U.S. dollar value of the currency in which portfolio securities of the Fund are denominated (this practice being referred to as a 'cross-hedge'). A Fund will not speculate in forward foreign exchange. Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for a Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates.

Call Options on Futures Contracts. A call option on a futures contract provides the purchaser with the right, but not the obligation, to enter into a 'long' position in the underlying futures contract at any time up to the expiration of the option. The purchase of an option on a futures contract presents more limited risk than purchasing the underlying futures contract. Depending on the price of the option compared to either the futures contract upon which it is based, or the underlying securities or currency, exercise of the option may or may not be less risky than ownership of the futures contract or underlying securities or currency. Like the purchase of a futures contract, the National Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds will purchase a call option on a futures contract to hedge against the appreciation of securities resulting from a market advance or appreciation of securities denominated in foreign currencies resulting from

strengthening of the currency which the Fund intends to purchase.

The writing of a call option on a futures contract may constitute a partial hedge against a decline in the equities market or drop in the value of a foreign currency, if the futures price at expiration is below the exercise price of the option. In such event, 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 security investments or investments denominated in foreign currencies. Conversely, if the futures price is above the exercise price at any point prior to expiration, the option may be exercised and the Fund would be required to enter into the underlying futures contract at an unfavorable price.

Put Options on Futures Contracts. A put option on a futures contract provides the purchaser with the right, but not the obligation, to enter into a 'short' position in the futures contract at any time up to the expiration of the option. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds will purchase a put

35

option on a futures contract to hedge its securities against the risk of a decline in the equities markets or drop in the value of a foreign currency.

The writing of a put option on a futures contract may constitute a partial hedge against increasing prices of portfolio securities or in value of foreign currencies which the Fund intends to purchase, if the futures price at expiration is higher than the exercise price. In such event, the Fund will retain the full amount of the option premium, which provides a partial hedge against any increase in the price of the securities which the Fund intends to purchase. Conversely, if the futures price is below the exercise price at any point prior to expiration, the option may be exercised and the Fund would be required to enter into the underlying futures contract at an unfavorable price.

Risk Factors in Transactions in Futures and Options Thereon. The Natural Resources Focus, Global Strategy Focus, World Income Focus, Global Utility Focus, International Equity Focus, Developing Capital Markets Focus and International Bond Funds may purchase futures contracts or purchase call or write put options thereon to hedge against a possible increase in the price of securities before the Fund is able to invest its cash in such securities. In such instances, it is possible that the market may instead decline. If the Fund does not then invest in such securities because of concern as to possible further market decline or for other reasons, the Fund may realize a loss on the futures or option contract that is not offset by a reduction in the price of securities purchased.

Because of low initial margin deposits made upon the opening of a futures position, futures transactions involve substantial leverage. As a result, relatively small movements in the price of the futures contract can result in substantial unrealized gains or losses. Because the Fund will engage in the purchase and sale of stock index and currency 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 anticipated offsetting movements between the price of the futures or option contracts and the hedged security may be distorted due to differences in the nature of the markets, such as differences in initial and variation margin requirements, the liquidity of such markets and the participation of speculators in such markets.

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 transactions costs. In order to profit from an option purchased, however, it may be necessary to exercise the option and to liquidate the underlying futures contract, subject to the risks of the availability of a liquid offset market. In addition to the correlation risks discussed above, the purchase of an option also entails the risk that changes in the value of the underlying futures contract will not be fully reflected in the value of the option purchased. The writer of an option on a futures contract is subject to the risks of commodity futures trading, including the requirement of variation margin payments, as well as the additional risk that movements in the price of the option may not correlate with movements in the price of the underlying security or futures contract.

The trading of futures contracts and options thereon also is subject to

certain market risks, such as trading halts, suspensions, exchange or clearing house equipment failures, government intervention, insolvency of a brokerage firm or clearing corporation or other disruptions of normal trading activity, which could at times make it difficult or impossible to liquidate existing positions.

MANAGEMENT OF THE COMPANY

The directors and executive officers of the Company and their principal occupations for at least the last five years and the public companies for which they serve as directors are set forth below. Unless otherwise noted, the address of each executive officer and director is P.O. Box 9011, Princeton, New Jersey 08543-9011.

ARTHUR ZEIKEL--President and Director(1)(2)--President of the Investment Adviser since 1977 and Chief Investment Officer and Director of the Investment Adviser since 1976; President, Director and Chief Investment Officer of Fund Asset Management, L.P. ('FAM') since 1977; Director of Merrill Lynch Funds Distributor, Inc.; Executive Vice President of Merrill Lynch & Co., Inc. and of Merrill Lynch, Pierce, Fenner & Smith Incorporated since 1990.

WALTER MINTZ--Director(2)--1114 Avenue of the Americas, New York, New York 10036. Special Limited Partner of Cumberland Partners (investment partnership) since 1982.

MELVIN R. SEIDEN--Director(2)--780 Third Avenue, New York, New York 10017. President of Silbanc Properties, Ltd. (real estate, consulting and investments) since 1987; Chairman and President of Seiden & de Cuevas, Inc. (private investment firm) from 1964 to 1987.

STEPHEN B. SWENSRUD--Director(2)--24 Federal Street, Boston, Massachusetts 02110. Principal of Fernwood Associates (financial consultants); Director, Hitchiner Manufacturing Company.

JOE GRILLS--Director(2)--183 Soundview Lane, New Canaan, Connecticut 06840. Member of the Committee on Investment of Employee Benefit Assets of the Financial Executives Institute ('CIEBA') since 1986, member of CIEBA's Executive Committee since 1988 and its Chairman from 1991 to 1992; Assistant Treasurer of International Business Machines Corporation ('IBM') and Chief Investment Officer of the IBM Retirement Funds from 1986 until 1992.

HARRY WOOLF--Director(2)--The Institute for Advanced Study, Olden Lane, Princeton, New Jersey 08540. Professor and former Director of The Institute for Advanced Study (private institution devoted to the encouragement, support and patronage of learning) since 1976; Director, Alex. Brown Cash Reserve Fund, Flag Investors Fund and Westmark International (medical equipment manufacturing and marketing).

TERRY K. GLENN--Executive Vice President(1)(2)--Executive Vice President of the Investment Adviser and FAM since 1983 and Director since 1991; President and Director of Merrill Lynch Funds Distributor, Inc. (the 'Distributor') since 1986; President of Princeton Administrators, Inc. since 1988; and Director of Financial Data Services, Inc. since 1985.

BERNARD J. DURRIN--Senior Vice President(1)(2)--Senior Vice President of the Investment Adviser since 1981.

N. JOHN HEWITT--Senior Vice President(1)(2)--Senior Vice President of MLAM and FAM since 1980.

JOSEPH T. MONAGLE, JR.--Senior Vice President(1)(2)--Senior Vice President of MLAM since 1990; Vice President of MLAM from 1978 to 1990.

CHRISTOPHER G. AYOUB--Vice President(1)(2)--Vice President of MLAM since 1985; Assistant Vice President from 1984 to 1985 and an employee since 1982.

DONALD C. BURKE--Vice President(1)(2)--Vice President of MLAM since 1990; accountant, Deloitte & Touche from 1982 to 1990.

DENIS B. CUMMINGS--Vice President(1)(2)--Vice President of MLAM since 1978.

JOEL HEYMSFELD--Vice President(1)(2)--Vice President of MLAM since 1978.

VINCENT T. LATHBURY, III--Vice President(1)(2)--Vice President of MLAM and FAM and Portfolio Manager of MLAM and FAM since 1982.

FREDRIC LUTCHER--Vice President(1)(2)--Vice President of MLAM since 1989 and Portfolio Manager since 1989; Senior Vice President, Lazard Freres Asset Management, Inc. from 1988 to 1989; Director, E. F. Hutton Capital Management, Inc. from 1981 to 1988.

JAY C. HARBECK--Vice President(1)(2)--Vice President of MLAM since 1986.

ALDONA A. SCHWARTZ--Vice President(1)(2)--Vice President of MLAM since 1991 and an employee of the Investment Adviser since 1986.

GERALD M. RICHARD--Treasurer(1)(2)--Senior Vice President and Treasurer of MLAM and FAM since 1984; Treasurer of the Distributor since 1984 and Vice President since 1981; and Senior Vice President and Treasurer of Princeton Administrators, Inc. since 1988.

MICHAEL J. HENNEWINKEL--Secretary(1)(2)--Vice President of MLAM since 1985 and attorney associated with MLAM and FAM since 1982.

- - - - -

(1) Interested person, as defined in the Investment Company Act of 1940, of the Company.

(2) Mr. Zeikel is a director or trustee and officer, Messrs. Mintz, Seiden, Swensrud and Woolf are directors, trustees or members of the advisory board, and Messrs. Glenn, Durnin, Hewitt, Monagle, Ayoub, Cummings, Heymsfeld, Kenney, Lathbury, Lutcher, Harbeck, Richard and Hennewinkel and Ms. Schwartz are officers, of certain other investment companies for which the Investment Adviser, MLAM or FAM acts as investment adviser.

Mr. Zeikel and the officers of the Company owned on February 28, 1994 in the aggregate less than 1% of the outstanding Common Stock of Merrill Lynch & Co., Inc. The Company has an Audit Committee consisting of all of the directors of the Company who are not interested persons of the Company.

Pursuant to the terms of the Investment Advisory Agreements, the Investment Adviser pays all compensation of officers and employees of the Company as well as the fees of all directors of the Company who are affiliated persons of Merrill Lynch & Co., Inc. or its subsidiaries. The fees payable by the Company to non-interested directors are \$5,500 per year plus \$1,500 per quarterly meeting of the Board of Directors attended, \$3,000 per year for serving on the Audit Committee of the Board of Directors plus \$250 per meeting of the Audit Committee attended if such meeting is held on a day other than a day on which the Board of Directors meets, and reimbursement of out-of-pocket expenses. For the year ended December 31, 1993, such fees and expenses aggregated \$35,923.

INVESTMENT ADVISORY ARRANGEMENTS

The Company has entered into seven separate investment advisory agreements (the 'Investment Advisory Agreements') relating to the Funds with the Investment Adviser, which is a wholly-owned subsidiary of Merrill Lynch & Co., Inc. The principal business address of the Investment Adviser is P.O. Box 9011, Princeton, New Jersey 08543-9011. The Investment Adviser and FAM currently act as the investment adviser to over 110 other registered investment companies.

The principal executive officers and directors of the Investment Adviser are Arthur Zeikel, President and Director; Terry K. Glenn, Executive Vice President and Director; Robert W. Crook, Senior Vice President; Bernard J. Durnin, Senior Vice President; Vincent R. Giordano, Senior Vice President; Norman R. Harvey, Senior Vice President; N. John Hewitt, Senior Vice President; Philip L. Kirstein, Senior Vice President, General Counsel and Secretary; Ronald M. Kloss, Senior Vice President; Stephen M. M. Miller, Senior Vice President; Joseph T. Monagle, Senior Vice President; Gerald M. Richard, Senior Vice

President and Treasurer; Richard L. Rufener, Senior Vice President; Ronald L. Welburn, Senior Vice President; and Anthony Wiseman, Senior Vice President.

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

Advisory Fee. As compensation for its services to the Company and its Funds, the Investment Adviser receives a fee from the Company at the end of each month at an annual rate of 0.75% of the average daily net assets of the Equity Growth Fund, 0.65% of the average daily net assets of each of the Flexible Strategy Fund, Natural Resources Focus Fund and Global Strategy Focus Fund, 0.55% of the average daily net assets of the American Balanced Fund, 0.50% of the average daily net assets of the Domestic Money Market Fund, 0.60% of the average daily net assets of the Basic Value Focus Fund, 0.60% of the average daily net assets of the World Income Focus Fund, 0.60% of the average daily net assets of the Global Utility Focus Fund, 0.75% of the average daily net assets of the International Equity Focus Fund % of the average daily net assets of the Developing Capital Markets Focus Fund, % of the average daily net assets of the Global Bond Focus Fund and % of the average daily net assets of the Intermediate Government Bond Fund, and at the following annual rates with respect to the other Funds:

RESERVE ASSETS FUND

Portion of average daily value of net assets of the Fund:

<TABLE>
<CAPTION>

	ADVISORY FEE

<S>	<C>
Not exceeding \$500 million.....	0.500%
In excess of \$500 million but not exceeding \$750 million.....	0.425%
In excess of \$750 million but not exceeding \$1 billion.....	0.375%
In excess of \$1 billion but not exceeding \$1.5 billion.....	0.350%
In excess of \$1.5 billion but not exceeding \$2 billion.....	0.325%
In excess of \$2 billion but not exceeding \$2.5 billion.....	0.300%
In excess of \$2.5 billion.....	0.275%

</TABLE>

QUALITY EQUITY FUND

Portion of average daily value of net assets of the Fund:

<TABLE>
<S>

Not exceeding \$250 million.....	<C> 0.500%
In excess of \$250 million but not exceeding \$300 million.....	0.450%
In excess of \$300 million but not exceeding \$400 million.....	0.425%
In excess of \$400 million.....	0.400%

</TABLE>

PRIME BOND FUND AND HIGH CURRENT INCOME FUND

Portion of aggregate average daily value of net assets of both Funds:

<TABLE>
<CAPTION>

	ADVISORY FEE	
	-----	-----
	HIGH CURRENT INCOME FUND	BOND PRIME FUND
	-----	-----
<S>	<C>	<C>
Not exceeding \$250 million.....	0.55%	0.50%

In excess of \$250 million but not more than \$500 million.....	0.50%	0.45%
In excess of \$500 million but not more than \$750 million.....	0.45%	0.40%
In excess of \$750 million.....	0.40%	0.35%

</TABLE>

As the last table shows, the advisory fee rates for the Prime Bond Fund and the High Current Income Fund are subject to reduction to the extent that the aggregate average daily net assets of those Funds exceeds \$250 million. The reductions will be applicable to each Fund regardless of size on a 'uniform percentage' basis. Determination of the portion of the net assets of each such Fund to which a reduced rate is applicable is made by multiplying the net assets of that Fund by the 'uniform percentage,' which is derived by dividing the amount of the portion of the aggregate assets of both Funds to which such rate applies by the total amount of such aggregate assets. There can be no assurance, however, that any of the Funds will reach a net asset level at which a reduced advisory fee rate would be applicable.

The Investment Advisory Agreements require the Investment Adviser to reimburse each Fund (up to the amount of the advisory fee earned by the Investment Adviser with respect to such Fund) if and to the extent that in any fiscal year the operating expenses of the Fund exceed the most restrictive expense limitation then in effect under any state securities law or the published regulations thereunder. At present the most restrictive expense limitation requires the Investment Adviser to reimburse expenses (excluding interest, taxes, brokerage fees and commissions and extraordinary charges such as litigation costs) which exceed 2.5% of each Fund's first \$30 million of average daily net assets, 2.0% of its average daily net assets in excess of \$30 million but less than \$100 million, and 1.5% of its average daily net assets in excess of \$100 million. It should be noted that because the Funds' shares are sold only to the Insurance Companies, the shares are not required to be registered under state 'blue sky' or securities laws. The Investment Adviser believes, however, that the most restrictive expense limitations imposed by state securities laws or published regulations thereunder are an appropriate standard.

The Investment Adviser and Merrill Lynch Life Agency, Inc. ('MLLA') entered into two reimbursement agreements, dated April 30, 1985 and February 11, 1992 (the 'Reimbursement Agreements'), that provide that the expenses paid by each Fund (excluding interest, taxes, brokerage fees and commissions and extraordinary charges such as litigation costs) will be limited to 1.25% of its average net assets. Any expenses in excess of this percentage will be reimbursed to the Fund by the Investment Adviser which, in turn, will be reimbursed by MLLA. The Reimbursement Agreements may be amended or terminated by the parties thereto upon prior written notice to the Company. For the fiscal year ended December 31, 1991, the Investment Adviser earned fees of

40

\$1,114,890 and reimbursed \$3,077 for the Equity Growth Fund and \$1,467 for the National Resources Focus Fund. For the fiscal year ended December 31, 1992, the Investment Adviser earned fees of \$1,592,890 and reimbursed \$83,713 for the Domestic Money Market Fund, \$6,125 for the Global Strategy Focus Fund and \$730 for the Natural Resources Focus Fund. For the fiscal year ended December 31, 1993, the Investment Adviser earned fees of \$5,421,039 from the Company and reimbursed \$246,351 for the Domestic Money Market Fund. The Investment Adviser was reimbursed by MLLA for those amounts.

The Investment Advisory Agreements relating to the Company's Funds, unless earlier terminated as described below, will continue in effect from year to year if approved annually (a) by the Board of Directors of the Company or by a majority of the outstanding shares of the respective Funds, and (b) by a majority of the directors who are not parties to such contracts or interested persons (as defined in the Investment Company Act of 1940) of any such party. The Board of Directors of the Company approved the continuation of the Investment Advisory Agreements relating to all Funds, other than the Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds, at a meeting held on April 14, 1993. The Board of Directors of the Company approved the Investment Advisory Agreement for the Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds at a meeting held on June 14, 1993. The Board of Directors of the Company approved the Investment Advisory Agreement for the Developing Capital Markets Focus, International Bond and Intermediate Government Bond Funds at a meeting held on April 13, 1994. The Investment Advisory Agreements are not assignable and may be terminated without penalty on 60 days' written notice at the option of either party or by the vote of the shareholders of the respective Funds.

Payment of Expenses. The Investment Advisory Agreements obligate the Investment Adviser to provide investment advisory services and to pay all compensation of and furnish office space for officers and employees of the

Company connected with investment and economic research, trading and investment management of the Funds, as well as the fees of all directors of the Company who are affiliated persons of Merrill Lynch & Co., Inc. or any of its subsidiaries. Each Fund will pay all other expenses incurred in its operation, including a portion of the Company's general administrative expenses allocated on the basis of the Fund's asset size. Expenses that will be borne directly by the Funds include redemption expenses, expenses of portfolio transactions, shareholder servicing costs, expenses of registering the shares under Federal and state securities laws, pricing costs (including the daily calculation of net asset value), interest, certain taxes, charges of the Custodian and Transfer Agent and other expenses attributable to a particular Fund. Expenses which will be allocated on the basis of size of the respective Funds include directors' fees, legal expenses, state franchise taxes, auditing services, costs of printing proxies and stock certificates, Securities and Exchange Commission fees, accounting costs and other expenses properly payable by the Company and allocable on the basis of size of the respective Funds. Accounting services are provided for the Company by the Investment Adviser, and the Company reimburses the Investment Adviser for its costs in connection with such services. For the year ended December 31, 1993, the amount of such reimbursement was \$397,373. Depending upon the nature of the lawsuit, litigation costs may be directly applicable to the Funds or allocated on the basis of the size of the respective Funds. The Board of Directors has determined that this is an appropriate method of allocation of expenses.

DETERMINATION OF NET ASSET VALUE

As set forth in the Prospectus, since the net investment income of the Domestic Money Market and Reserve Assets Funds (including realized gains and losses on its portfolio securities) is declared as a dividend each time the net income of the Funds are determined (see 'Dividends, Distributions and Taxes'), the net asset value per share of the Funds normally remains at \$1.00 per share immediately after each such determination and dividend declaration. The Board of Directors of the Company expects that the Domestic Money Market and Reserve

41

Assets Funds will have a positive net income at the time of each determination. If for any reason the net income of either Fund is a negative amount (i.e., net realized and unrealized losses and expenses exceed interest income), that Fund will reduce the number of its outstanding shares. This reduction will be effected by having MLLIC and Family Life from the Separate Account proportionately contribute to the capital of the Fund the necessary shares that represent the amount of the excess upon such determination. It is anticipated that MLLIC and Family Life will agree to such contribution in these circumstances. Any such contribution will be treated as a negative dividend for purposes of the Net Investment Factor under the Contracts described in the Prospectus for the Contracts. See 'Dividends, Distributions and Taxes' for a discussion of the tax effect of such a reduction. This procedure will permit the net asset value per share of the Domestic Money Market and Reserve Assets Funds to be maintained at a constant value of \$1.00 per share.

If in the view of the Board of Directors of the Company it is inadvisable to continue the practice of maintaining the net asset value of the Domestic Money Market and Reserve Assets Funds at \$1.00 per share, the Board of Directors of the Company reserves the right to alter the procedure. The Company will notify MLLIC and Family Life of any such alteration.

Each of the International Equity Focus Fund, Global Utility Focus Fund, World Income Focus Fund, Developing Capital Markets Focus Fund, and International Bond Fund may invest a substantial portion of its assets in foreign securities which are traded on days on which such Fund's net asset value is not computed. On any such day, shares of such a Fund may not be purchased or redeemed since shares of a Fund may only be purchased or redeemed on days on which the Fund's net asset value is computed.

As set forth in the Prospectus, securities held by the Domestic Money Market and Reserve Assets Funds with a remaining maturity of 60 days or less are valued on an amortized cost basis, unless particular circumstances dictate otherwise. Under this method of valuation, the security is initially valued at cost on the date of purchase (or in the case of securities purchased with more than 60 days remaining to maturity, the market value on the 61st day prior to maturity); and thereafter the Domestic Money Market and Reserve Assets Funds assume a constant proportionate amortization in value until maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the security. For purposes of this method of valuation, the maturity of a variable rate certificate of deposit is deemed to be the next coupon date on which the interest rate is to be adjusted. If, due to the impairment of the creditworthiness of the issuer of a security held by either Fund or to other factors with respect to such security, the fair value of such security is not fairly reflected through the amortized cost method of valuation, such security will be valued at fair value as determined in good faith by the Board of Directors.

If the securities in which a particular Fund of the Company invests are traded primarily in the over-the-counter market, where possible, the Fund will deal directly with the dealers who make a market in the securities involved, except in those circumstances where better prices and execution are available elsewhere. Such dealers usually are acting as principals for their own account. On occasions, securities may be purchased directly from the issuer. Bonds and money market securities are generally traded on a net basis and do not normally involve either brokerage commissions or transfer taxes. The cost of executing portfolio securities transactions of each Fund will primarily consist of brokerage commissions or underwriter or dealer spreads. Under the Investment Company Act of 1940, persons affiliated with the Company are prohibited from dealing with the Company as a principal in the purchase and sale of the Company's portfolio securities unless an exemptive order allowing such transactions is obtained from the Securities and Exchange Commission. Since over-the-counter transactions are

42

usually principal transactions, affiliated persons of the Company, including Merrill Lynch Government Securities Inc. ('GSI'), Merrill Lynch Money Markets Inc. ('MMI') and Merrill Lynch, Pierce, Fenner & Smith Incorporated ('Merrill Lynch'), may not serve as the Company's dealer in connection with such transactions except pursuant to exemptive orders from the Securities and Exchange Commission, such as the one described below. However, affiliated persons of the Company may serve as its broker in over-the-counter transactions conducted on an agency basis, subject to the Company's policy of obtaining best price and execution. The Company may not purchase securities from any underwriting syndicate of which Merrill Lynch is a member except in accordance with rules and regulations under the Investment Company Act of 1940.

The Securities and Exchange Commission has issued an exemptive order permitting the Company to conduct principal transactions with respect to the Domestic Money Market and Reserve Assets Funds with GSI and MMI in U.S. Government and government agency securities, and certain other money market securities, subject to a number of conditions, including conditions designed to insure that the prices to the Funds available from GSI and MMI are equal to or better than those available from other sources. GSI and MMI have informed the Company that they will in no way, at any time, attempt to influence or control the activities of the Company or the Investment Adviser in placing such principal transactions. The exemptive order allows GSI and MMI to receive a dealer spread on any transaction with the Company no greater than their customary dealer spreads for transactions of the type involved. Certain court decisions have raised questions as to whether investment companies should seek to 'recapture' brokerage commissions and underwriting and dealer spreads by effecting their purchases and sales through affiliated entities. In order to effect such an arrangement, the Company would be required to seek an exemption from the Investment Company Act so that it could engage in principal transactions with affiliates. The Board of Directors has considered the possibilities of seeking to recapture spreads for the benefit of the Company and, after reviewing all factors deemed relevant, has made a determination not to seek such recapture at this time. The Board will reconsider this matter from time to time. The Company will take such steps as may be necessary to effect recapture, including the filing of applications for exemption under the Investment Company Act of 1940, if the Directors should determine that recapture is in the best interests of the Company or otherwise required by developments in the law.

While the Investment Adviser seeks to obtain the most favorable net results in effecting transactions in the Funds' portfolio securities, dealers who provide supplemental investment research of the Investment Adviser may receive orders for transactions by the Funds. Such supplemental research services ordinarily consist of assessments and analysis of the business or prospects of a company, industry or economic sector. If, in the judgment of the Investment Adviser, a particular Fund or Funds will be benefited by such supplemental research services, the Investment Adviser is authorized to pay spreads or commissions to brokers or dealers furnishing such services which are in excess of spreads or commissions which another broker or dealer may charge for the same transaction. Information so received will be in addition to and not in lieu of the services required to be performed by the Investment Adviser under the Investment Advisory Agreements. The expenses of the Investment Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. In some cases, the Investment Adviser may use such supplemental research in providing investment advice to its other investment advisory accounts. For the year ended December 31, 1993, the Company paid brokerage commissions of \$2,210,358, of which \$158,442 was paid to Merrill Lynch. For the year ended December 31, 1992, the Company paid brokerage commissions of \$360,157, of which \$26,647 was paid to Merrill Lynch and \$308,601 was paid to brokers who furnished such services to the Investment Adviser in connection with a total of approximately \$25.4 million in transactions. For the year ended December 31, 1991, the Company paid brokerage commissions of \$190,699, of which \$14,718 was paid to Merrill Lynch and \$175,981 was paid to brokers who furnished

such services to the Investment Adviser in connection with a total of approximately \$2.1 million in transactions.

PORTFOLIO TURNOVER

Each Fund has a different expected rate of portfolio turnover; however, rate of portfolio turnover will not be a limiting factor when management of the Company deems it appropriate to purchase or sell securities for a Fund. Because of the short-term nature of the securities in which the Domestic Money Market and Reserve Assets Funds will invest, and because such Funds' investments will be constantly changing in response to market conditions, no portfolio turnover rate may be accurately predicted for the Domestic Money Market and Reserve Assets Funds.

The Company expects that the annual portfolio turnover rate for the Prime Bond Fund should not generally exceed 100%, although in any particular year market conditions could result in portfolio activity of the Fund at a greater or lesser rate than anticipated. During 1990, volatility in the fixed-income markets contributed to an increase in portfolio activity. For the year ended December 31, 1993, the portfolio turnover rate for the Prime Bond Fund was approximately 115.26%.

The Company expects that, because of the nature of the High Current Income Fund, its annual portfolio turnover rate generally will be higher than 100%. In any particular year, however, market conditions could result in portfolio activity of the Fund at a lesser, or at an even greater, rate than anticipated. For the year ended December 31, 1993, the portfolio turnover rate for the High Current Income Fund was approximately 35.67%.

The Company expects that the annual portfolio turnover rate for the Quality Equity Fund should not generally exceed 100%, although in any particular year market conditions could result in portfolio activity of the Fund at a greater or lesser rate than anticipated. For the year ended December 31, 1993, the portfolio turnover rate for the Quality Equity Fund was approximately 88.25%.

While it is the policy of the Equity Growth Fund generally not to engage in trading for short-term gains, management will effect portfolio transactions without regard to holding period if, in its judgment, such transactions are advisable in light of a change in circumstances of a particular company or within a particular industry or in general market, economic or financial conditions. The Fund anticipates that its annual turnover rate should not exceed 50%, but the turnover rate will not be a limiting factor when management deems portfolio changes appropriate. For the year ended December 31, 1993, the portfolio turnover rate for the Equity Growth Fund was approximately 131.75%.

The Company expects that the annual portfolio turnover rate for the Flexible Strategy Fund should not generally exceed 100%. For the year ended December 31, 1993, the portfolio turnover rate for the Flexible Strategy Fund was 56.42%.

The Company expects that the annual portfolio turnover rate for each of the Natural Resources Focus Fund, the American Balanced Fund and the Global Strategy Focus Fund should not generally exceed 100%, respectively, although in any particular year market conditions could result in portfolio activity at a greater or lesser rate than anticipated. For the year ended December 31, 1993, the portfolio turnover rates for the Natural Resources Focus Fund, the American Balanced Fund and the Global Strategy Focus Fund were 58.44%, 12.55% and 17.07%, respectively.

The Company expects that the annual portfolio turnover rate for each of the Basic Value Focus Fund, Global Utility Focus Fund and International Equity Focus Fund should not generally exceed 100%. For the year ended December 31, 1993, the portfolio turnover rates were 30.86%, 1.72% and 17.39%, respectively.

The Company expects that the annual portfolio turnover rate for the World Income Focus Fund should not generally exceed 200%. For the year ended December 31, 1993, the portfolio turnover rate was 54.80%.

The Company expects that the annual portfolio turnover rate for each of the Developing Capital Markets Focus Fund, International Bond Fund and Intermediate Government Bond Fund should not generally exceed 100%, 150% and 150%, respectively.

REDEMPTION OF SHARES

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

DIVIDENDS, DISTRIBUTIONS AND TAXES

DIVIDENDS AND DISTRIBUTIONS

Reference is made to 'Dividends, Distributions and Taxes' on page of the Prospectus.

FEDERAL INCOME TAXES

Under the Internal Revenue Code of 1986, as amended (the 'Code'), each Fund of the Company will be treated as a separate corporation for Federal income tax purposes and, thus, each Fund is required to satisfy the qualification requirements under the Code for treatment as a regulated investment company. There will be no offsetting of capital gains and losses among the Funds. Each Fund intends to continue to qualify as a regulated investment company under certain provisions of the Code. Under such provisions, a Fund will not be subject to Federal income tax on such part of its net ordinary income and net realized capital gains which it distributes to shareholders. To qualify for treatment as a regulated investment company, a Fund must, among other things, derive in each taxable year at least 90% of its gross income from dividends, interest and gains from the sale or other disposition of securities and derive less than 30% of its gross income in each taxable year from the gains (without deduction for losses) from the sale or other disposition of stocks, securities and certain options, futures or forward contracts held for less than three months. In addition, the Code requires that each Fund meet certain diversification requirements, including the requirement that not more than 25% of the value of a Fund's total assets be invested in the securities (other than U.S. Government securities or the securities of other regulated investment companies) of any one issuer. Each of the Company's Funds, including the Natural Resources Focus Fund, intends to comply with such requirement.

On occasion, some amount of the distributions of the Domestic Money Market Fund or the Reserve Assets Fund for a fiscal year may constitute a return of capital, in which case such amount would be applied against and reduce the Separate Account's tax basis in shares of such Fund. If such amount were to exceed the Separate Account's tax basis for shares of the Domestic Money Market Fund or the Reserve Assets Fund, the excess would be treated as gain from the sale or exchange of such shares.

On occasion the net income of the Domestic Money Market Fund or the Reserve Assets Fund may be a negative amount as a result of a net decline in the value of the portfolio securities of the Fund which is in excess of the interest earned. Consequently, the Fund will reduce the number of its outstanding shares to reflect the

negative net income. The adjustment may result in gross income to MLLIC, ML of New York and Family Life in excess of the net dividend credited to MLLIC, ML of New York and Family Life for a period. In such a case, MLLIC's, ML of New York's and Family Life's basis in the shares of the Domestic Money Market Fund or the Reserve Assets Fund may be adjusted to reflect the difference between taxable income and net dividends actually distributed. Such difference may be realized as a capital loss when the shares are liquidated.

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

DISTRIBUTION ARRANGEMENTS

The Company has entered into a distribution agreement (the 'Distribution Agreement') with Merrill Lynch Funds Distributor, Inc. (the 'Distributor') with respect to the sale of the Company's shares to the Distributor for resale to Insurance Companies' accounts. Such shares will be sold at their respective net asset values and therefore will involve no sales charge. The Distributor is a wholly-owned subsidiary of the Investment Adviser. The continuation of the Distribution Agreement was approved by the Company's Board of Directors at a meeting held on April 14, 1993 and will continue in effect until June 30, 1994.

The Distribution Agreement is subject to the same renewal requirements and termination provisions as the Investment Advisory Agreements described above.

PERFORMANCE DATA

From time to time one or more of the Company's Funds may include its average annual total return and other total return data, as well as yield, in advertisements or information furnished to present or prospective shareholders. Total return and yield figures are based on the Fund's historical performance and are not intended to indicate future performance. Average annual total return and yield are determined in accordance with formulas specified by the Securities and Exchange Commission.

Average annual total return quotations for the specified periods are computed by finding the average annual compounded rates of return (based on net investment income and any realized and unrealized capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return is computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring and nonrecurring expenses.

The Reserve Assets Fund normally computes its annualized yield by determining the net change for a seven-day base period, exclusive of capital changes, in the value of a hypothetical pre-existing account having a balance of one share at the beginning of the period, dividing the net change in account value by the value of the account at the beginning of the base period to obtain the base period return, and multiplying the base period return by 365 and then dividing by seven. Under this calculation, the yield does not reflect realized and unrealized gains and losses on portfolio securities. The Fund may also include its yield in advertisements, calculated in the same manner as set forth above but including realized and unrealized gains and losses. The Securities and Exchange Commission also permits the calculation of a standardized effective or compounded yield. This is computed by compounding the unannualized base period return by dividing the base period by seven, adding one to the

46

quotient, raising the sum to the 365th power, and subtracting one from the result. This compounded yield calculation also excludes realized or unrealized gains or losses on portfolio securities.

Set forth below is average annual total return information for the shares of each of the Company's Funds, other than the Reserve Assets Fund, Domestic Money Market Fund, Developing Capital Markets Focus Fund, International Bond Fund and Intermediate Government Bond Fund. The total return quotations may be of limited use for comparative purposes because they do not reflect charges imposed at the Separate Account level which, if included, would decrease total return.

AVERAGE ANNUAL TOTAL RETURN

<TABLE>
<CAPTION>

	EXPRESSED AS A PERCENTAGE BASED ON A HYPOTHETICAL \$1,000 INVESTMENT	REDEEMABLE VALUE OF A HYPOTHETICAL \$1,000 INVESTMENT AT THE END OF THE PERIOD
	<C>	<C>
<S>		
PRIME BOND FUND:		
One Year Ended December 31, 1993.....	12.02%	\$ 1,120
Five Years Ended December 31, 1993.....	11.17	1,698
Ten Years Ended December 31, 1993.....	11.18	2,885
HIGH CURRENT INCOME FUND:		
One Year Ended December 31, 1993.....	17.84	1,178
Five Years Ended December 31, 1993.....	14.68	1,983
Ten Years Ended December 31, 1993.....	13.39	3,515
QUALITY EQUITY FUND:		

One Year Ended December 31, 1993.....	14.57	1,146
Five Years Ended December 31, 1993.....	15.05	2,016
Ten Years Ended December 31, 1993.....	14.70	3,940
EQUITY GROWTH FUND:		
One Year Ended December 31, 1993.....	17.78	1,178
Five Years Ended December 31, 1993.....	12.39	1,793
Ten Years Ended December 31, 1993.....	6.64	1,902
FLEXIBLE STRATEGY FUND:		
One Year Ended December 31, 1993.....	15.80%	1,158
Five Years Ended December 31, 1993.....	13.72	1,902
Inception* Through December 31, 1993.....	10.92	2,216
NATURAL RESOURCES FOCUS FUND:		
One Year Ended December 31, 1993.....	10.47	1,105
Five Years Ended December 31, 1993.....	4.71	1,259
Inception* Through December 31, 1993.....	3.40	1,206
AMERICAN BALANCED FUND:		
One Year Ended December 31, 1993.....	13.49	1,135
Five Years Ended December 31, 1993.....	11.59	1,731
Inception* Through December 31, 1993.....	11.11	1,802

47

<TABLE>
<CAPTION>

	EXPRESSED AS A PERCENTAGE BASED ON A HYPOTHETICAL \$1,000 INVESTMENT	REDEEMABLE VALUE OF A HYPOTHETICAL \$1,000 INVESTMENT AT THE END OF THE PERIOD
	-----	-----
<S>	<C>	<C>
GLOBAL STRATEGY FOCUS FUND:		
One Year Ended December 31, 1993.....	21.03	1,210
Inception* Through December 31, 1993.....	12.49	1,242
BASIC VALUE FOCUS FUND:		
Inception* Through December 31, 1993.....	9.50	1,095
WORLD INCOME FOCUS FUND:		
Inception* Through December 31, 1993.....	5.90	1,059
GLOBAL UTILITY FOCUS FUND:		
Inception* Through December 31, 1993.....	6.85	1,069
INTERNATIONAL EQUITY FOCUS FUND:		
Inception* Through December 31, 1993.....	10.30	1,103

- - - - -

* Inception for Flexible Strategy Fund is May 1, 1986; Natural Resources Focus Fund is June 1, 1988; American Balanced Fund is June 1, 1988; and Global Strategy Focus Fund is February 28, 1992; Basic Value Focus Fund is July 1, 1993; World Income Focus Fund is July 1, 1993; Global Utility Focus Fund is July 1, 1993 and International Equity Focus Fund is July 1, 1993; The Developing Capital Markets Focus Fund, International Bond Fund and Intermediate Government Bond Fund had not commenced operations at December 31, 1993.

ADDITIONAL INFORMATION

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

48

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders,
MERRILL LYNCH VARIABLE SERIES FUNDS, INC.:

We have audited the accompanying statements of assets and liabilities, including the schedules of investments, of American Balanced, Domestic Money Market, Equity Growth, Flexible Strategy, Global Strategy Focus, High Current Income, Natural Resources Focus, Prime Bond, Quality Equity, Reserve Assets, Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds of Merrill Lynch Variable Series Funds, Inc. as of December 31, 1993, the related statements of operations for the period then ended and changes in net assets for each of the periods in the two-year period then ended, and

the financial highlights for each of the periods presented. These financial statements and the financial highlights are the responsibility of the Funds' management. Our responsibility is to express an opinion on these financial statements and the financial highlights based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned at December 31, 1993 by correspondence with the custodian and brokers, or other alternative procedures. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements and supplementary financial information present fairly, in all material respects, the financial positions of American Balanced, Domestic Money Market, Equity Growth, Flexible Strategy, Global Strategy Focus, High Current Income, Natural Resources Focus, Prime Bond, Quality Equity, and Reserve Assets, Basic Value Focus, World Income Focus, Global Utility Focus and International Equity Focus Funds of Merrill Lynch Variable Series Funds, Inc. as of December 31, 1993, the results of their operations, the changes in their net assets, and the financial highlights for the respective stated periods in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE
Princeton, New Jersey
February 18, 1994

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--AMERICAN BALANCED FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

<S>	INDUSTRIES	SHARES HELD <C>	COMMON STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
AEROSPACE		32,000	United Technologies Corp.....	\$ 1,722,120	\$ 1,984,000	1.7%
AIRLINES		28,500+	AMR Corp.....	1,876,975	1,909,500	1.6
BANKING		28,000	Morgan (J. P.) & Co.....	1,884,577	1,942,500	1.7
BUILDING--RELATED		47,700	Stanley Works Co.....	1,970,379	2,122,650	1.8
CHEMICALS		52,400	Nalco Chemical Co.....	1,730,335	1,965,000	1.7
COMPUTER TECHNOLOGY		24,600	Hewlett-Packard Co.....	1,654,024	1,943,400	1.7
DRUGS & HOSPITAL SUPPLIES		33,000	Bristol-Myers Squibb Co.....	1,930,617	1,918,125	1.7
FOOD		86,870	Archer-Daniels-Midland Co.....	2,000,658	1,976,292	1.7
HEALTH MAINTENANCE ORGANIZATIONS		111,400+	Humana Inc.....	957,129	1,963,425	1.7
MACHINERY		47,700	Ingersoll-Rand Co.....	1,538,715	1,824,525	1.6
		74,100	Morrison Knudsen Corp.....	1,702,527	1,861,763	1.6
				3,241,242	3,686,288	3.2
MERCHANDISING		47,500	May Department Stores Co.....	1,722,656	1,870,313	1.6
METALS		27,700	Aluminum Co. of America.....	1,902,193	1,921,687	1.7

MISCELLANEOUS-- MANUFACTURING	70,900	Keystone International, Inc.....	1,838,872	1,940,888	1.7
NATURAL GAS	46,900	Consolidated Natural Gas Co.....	2,215,910	2,204,300	1.9
OFFICE RELATED	42,800	Pitney-Bowes, Inc.....	1,616,246	1,770,850	1.5
OIL & RELATED	95,300	Dresser Industries, Inc.....	2,004,443	1,977,475	1.7
	70,500	Phillips Petroleum Co.....	2,096,314	2,044,500	1.8
			4,100,757	4,021,975	3.5
PHOTOGRAPHY	28,400	Eastman Kodak Co.....	1,430,804	1,590,400	1.4
PRINT/PUBLISHING	32,200	Gannett Co., Inc.....	1,571,211	1,843,450	1.6
RETAIL STORES	85,900	K mart Corp.....	1,946,759	1,825,375	1.6
SEMICONDUCTOR PRODUCTION EQUIPMENT	76,000+	Teradyne, Inc.....	1,487,451	2,109,000	1.8
SERVICES	68,000	Kelly Services, Inc.....	1,781,000	1,878,500	1.6
SPECIAL SITUATIONS	102,792	Wheelabrator Technologies Inc.....	1,748,874	1,824,558	1.6
TELECOMMUNICATIONS	34,800	American Telephone & Telegraph Co....	1,852,700	1,827,000	1.6
	30,600	Bell Atlantic Corp.....	1,661,964	1,805,400	1.6
	60,500	Comsat Corp.....	1,722,000	1,799,875	1.5
			5,236,664	5,432,275	4.7
UTILITIES--ELECTRIC	94,000+	California Energy Co. Inc.....	1,686,121	1,739,000	1.5
		TOTAL COMMON STOCKS.....	49,253,574	53,383,751	46.2

</TABLE>

50

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--AMERICAN BALANCED FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE>

<CAPTION>

<S>	FACE AMOUNT <C>	US GOVERNMENT OBLIGATIONS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
US TREASURY NOTES		US Treasury Notes:			
	\$ 1,250,000	6.375% due 1/15/2000.....	\$ 1,277,148	\$ 1,313,662	1.1%
	12,450,000	5.50% due 4/15/2000.....	12,578,024	12,558,813	10.9
	700,000	7.75% due 2/15/2001.....	706,094	796,684	0.7
	1,400,000	8.00% due 5/15/2001.....	1,387,922	1,602,118	1.4
	200,000	7.875% due 8/15/2001.....	204,031	227,686	0.2
	1,300,000	7.50% due 11/15/2001.....	1,315,492	1,450,709	1.2
	900,000	7.50% due 5/15/2002.....	955,500	1,007,154	0.9
	3,500,000	6.375% due 8/15/2002.....	3,455,779	3,650,920	3.2
	12,550,000	6.25% due 2/15/2003.....	12,863,703	12,965,656	11.2
	6,350,000	5.75% due 8/15/2003.....	6,441,133	6,330,125	5.5
		TOTAL US GOVERNMENT OBLIGATIONS.....	41,184,826	41,903,527	36.3
		SHORT-TERM SECURITIES			
COMMERCIAL PAPER*	3,566,000	General Electric Capital Corp., 3.220% due 1/03/1994.....	3,565,043	3,565,043	3.1
US GOVERNMENT DISCOUNT NOTES*		US Treasury Bills:			
	1,000,000	3.055% due 2/03/1994.....	997,115	994,661	0.9
	5,000,000	3.06% due 2/03/1994.....	4,985,550	4,973,305	4.3
	1,000,000	3.065% due 2/03/1994.....	997,105	994,661	0.9
	1,000,000	3.08% due 2/03/1994.....	997,091	994,661	0.9
	1,000,000	3.01% due 3/10/1994.....	994,231	994,289	0.8
	4,000,000	3.04% due 3/10/1994.....	3,976,655	3,977,153	3.4
			12,947,747	12,928,730	11.2
		TOTAL SHORT-TERM SECURITIES.....	16,512,790	16,493,773	14.3
		TOTAL INVESTMENTS.....	\$106,951,190	111,781,051	96.8

OTHER ASSETS LESS LIABILITIES.....	3,638,869	3.2
NET ASSETS.....	\$115,419,920	100.0%

</TABLE>

+ Non-income producing security.
 * Commercial Paper and US Government Discount Notes are traded on a discount basis, the interest rates shown are the discount rates paid at the time of purchase by the Fund.

See Notes to Financial Statements.

51

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--BASIC VALUE FOCUS FUND
 SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE> <CAPTION>					
INDUSTRY	SHARES HELD	COMMON STOCKS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
DISCOUNT FROM BOOK VALUE					
METALS	40,000	ASARCO Inc.....	\$ 773,693	\$ 915,000	1.9%
COMPUTERS	14,000	+Digital Equipment Corp.....	562,722	479,500	1.0
PACKAGING	55,000	Federal Paper Board Co., Inc.....	1,170,668	1,168,750	2.5
OIL & GAS PRODUCERS	80,000	+Gerrity Oil & Gas Corp.....	1,127,238	930,000	2.0
INSURANCE	100,000	Greater N. Y. Savings Bank.....	708,612	725,000	1.5
BANKING & FINANCIAL	70,000	+Peoples Heritage Financial Group, Inc..	757,318	831,250	1.8
TEXTILE & APPAREL	60,000	+Texfi Industries, Inc.....	265,250	240,000	0.5
OIL--INTEGRATED	60,000	Total Petroleum N.A., Ltd.....	579,312	667,500	1.4
INSURANCE	10,000	Travelers Corp.....	326,690	311,250	0.7
			6,271,503	6,268,250	13.3
BELOW-AVERAGE PRICE/EARNINGS RATIO					
CONGLOMERATES	91,100	+ADT Ltd.....	805,189	819,900	1.7
AUTOMOBILES	50,000	+Agency Rent-A-Car, Inc.....	513,750	662,500	1.4
BANKING	30,000	BankAmerica Corp.....	1,327,975	1,391,250	3.0
RETAIL STORES	34,300	+Bon-Ton Stores, Inc.....	222,590	274,400	0.6
HOUSING	75,000	+Castle & Cooke Homes, Inc.....	993,370	1,012,500	2.1
AUTOMOBILES	20,000	General Motors Corp.....	905,765	1,097,500	2.3
RETAIL	10,000	Liz Claiborne Inc.....	226,864	227,500	0.5
TECHNOLOGY	130,000	+Micronics Computers, Inc.....	745,040	780,000	1.7
INSURANCE	40,000	PartnerRe Holdings Ltd.....	826,750	860,000	1.8
AUTO PARTS	70,000	Purolator Products Co.....	1,206,910	1,225,000	2.6
BROADCAST--MEDIA	30,000	U.S. Shoe Corp.....	298,650	450,000	1.0
ENERGY	50,000	Valero Energy Corp.....	1,124,015	1,056,250	2.2
			9,196,868	9,856,800	20.9
ABOVE-AVERAGE YIELD					
FOODS	60,000	Borden, Inc.....	951,390	1,020,000	2.2
PHARMACEUTICALS	15,000	Bristol-Myers Squibb Co.....	874,595	871,875	1.8
REAL ESTATE	60,000	Camden Property Trust Inc.....	1,461,025	1,515,000	3.2
INVESTMENT TRUST					
PHOTOGRAPHY	30,000	Eastman Kodak Co.....	1,765,150	1,680,000	3.6
MERCHANDISING	35,000	K mart Corp.....	819,725	743,750	1.6
OIL/DOMESTIC	60,000	Occidental Petroleum Corp.....	1,122,705	1,027,500	2.2
TOBACCO	20,000	Philip Morris Cos. Inc.....	998,850	1,115,000	2.4
			7,993,440	7,973,125	17.0
SPECIAL SITUATIONS					
MEDICAL SERVICES	198,200	+Applied Bioscience International, Inc..	916,926	1,015,775	2.2
PAPER PRODUCTS	36,000	Chesapeake Corp.....	715,332	918,000	1.9
DIVERSIFIED COMPANIES	30,000	Cyprus Minerals Co.....	736,448	776,250	1.6
STEEL	60,000	Geneva Steel Co. (Class A).....	879,456	1,020,000	2.2
OIL SERVICES	15,000	Halliburton Co.....	454,650	478,125	1.0
COMPUTER SERVICES	15,000	International Business Machines Corp.....	683,550	847,500	1.8

PHARMACEUTICALS	40,000	Merck & Co., Inc.....	1,305,200	1,375,000	2.9
TECHNOLOGY	70,000	+Network Systems Corp.....	581,400	586,250	1.2

52

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--BASIC VALUE FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

INDUSTRY	SHARES HELD	COMMON STOCKS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
SPECIAL SITUATIONS (CONCLUDED)					
TELECOMMUNICATIONS	20,000	Northern Telecom Ltd.....	\$ 513,700	\$ 617,500	1.3%
METALS	15,000	+Reynolds Metals Co.....	688,560	680,625	1.4
HEALTH CARE	42,500	Salick Health Care, Inc.....	599,645	695,938	1.5
ENERGY	100,000	+Varco International Inc.....	568,294	600,000	1.3
			8,643,161	9,610,963	20.3
		TOTAL COMMON STOCKS.....	32,104,972	33,709,138	71.5
	FACE AMOUNT	ISSUE			
SHORT-TERM SECURITIES					
COMMERCIAL PAPER*	\$ 1,500,000	Ciesco L.P., 3.20% due 1/05/1994.....	1,499,333	1,499,333	3.2
	1,856,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	1,855,502	1,855,502	3.9
	3,000,000	New Jersey Economic Development Authority: 3.15% due 1/11/1994.....	2,997,112	2,997,112	6.4
	2,000,000	3.11% due 1/25/1994.....	1,995,681	1,995,681	4.2
	2,000,000	Preferred Receivables Funding Corp., 3.42% due 1/12/1994.....	1,997,720	1,997,720	4.2
			10,345,348	10,345,348	21.9
US GOVERNMENT & AGENCY OBLIGATIONS--DISCOUNT	2,000,000	Federal National Mortgage Association, 3.13% due 1/13/1994.....	1,997,739	1,997,739	4.2
			12,343,087	12,343,087	26.1
		TOTAL SHORT-TERM SECURITIES.....			
			\$ 44,448,059	46,052,225	97.6
		TOTAL INVESTMENTS.....			
				1,155,038	2.4
		OTHER ASSETS LESS LIABILITIES.....			
				\$ 47,207,263	100.0%
		NET ASSETS.....			

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

See Notes to Financial Statements.

53

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--DOMESTIC MONEY MARKET FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

<S>	FACE AMOUNT <C>	ISSUE <C>	INTEREST RATE* <C>	MATURITY DATE <C>	VALUE (NOTE 1A) <C>
BANK NOTES--5.9%	\$ 4,000,000	FNB of Chicago.....	3.35%	1/31/94	\$ 3,999,986
	3,000,000	FNB of Chicago.....	3.55	5/25/94	3,001,710
	2,000,000	Nationsbank North Carolina.....	3.65	6/21/94	2,001,332
	1,000,000	PNC Bank, N.A.....	3.80	4/29/94	1,000,618
TOTAL BANK NOTES (COST--\$10,002,652).....					10,003,646
COMMERCIAL PAPER*--61.6%	329,000	ABN-AMRO N.A. Finance, Inc.....	3.26	1/24/94	328,265
	988,000	ABN-AMRO N.A. Finance, Inc.....	3.32	1/24/94	985,793
	5,000,000	Abbey National N.A. Corp.....	3.21	3/21/94	4,964,444
	3,000,000	American Express Credit Corp.....	3.22	1/10/94	2,997,250
	4,000,000	Apreco, Inc.....	3.35	2/25/94	3,979,342
	3,000,000	Apreco, Inc.....	3.28	3/11/94	2,981,333
	1,000,000	Arco Coal Australia, Inc.....	3.33	2/07/94	996,443
	2,000,000	Bank One Diversified Services Inc.....	3.40	1/13/94	1,997,544
	5,000,000	Bankers Trust N.Y. Corp.....	3.21	3/16/94	4,966,667
	4,500,000	Beta Finance Inc.....	3.375	2/22/94	4,478,005
	1,000,000	CIT Group Holdings, Inc.....	3.25	1/07/94	999,358
	1,400,000	CIT Group Holdings, Inc.....	3.30	3/01/94	1,392,183
	3,000,000	CIT Group Holdings, Inc.....	3.28	4/15/94	2,971,563
	1,500,000	CIT Group Holdings, Inc.....	3.24	4/18/94	1,485,375
	4,000,000	CSW Credit, Inc.....	3.25	2/14/94	3,983,400
	275,000	CXC Inc.....	3.40	1/18/94	274,544
	1,973,000	CXC Inc.....	3.23	2/01/94	1,967,335
	1,000,000	Ciesco L.P.....	3.35	2/01/94	997,022
	2,000,000	Ciesco L.P.....	3.35	2/08/94	1,992,742
	2,000,000	Ciesco L.P.....	3.20	3/10/94	1,987,733
	2,893,000	Ciesco L.P.....	3.20	3/11/94	2,874,999
	3,000,000	Corporate Asset Funding Co., Inc.....	3.25	2/18/94	2,986,729
	4,000,000	Ford Motor Credit Co.....	3.20	1/27/94	3,989,950
	2,000,000	General Electric Capital Corp.....	3.21	1/31/94	1,994,231
	873,000	General Electric Capital Corp.....	3.35	3/23/94	866,637
	3,000,000	Goldman Sachs Group L.P.....	3.22	1/14/94	2,996,150
	2,000,000	Goldman Sachs Group L.P.....	3.36	2/07/94	1,992,886
	2,000,000	Hertz Funding Corp.....	3.34	2/11/94	1,992,137
	5,000,000	HYPO U.S. Finance, Inc.....	3.28	3/11/94	4,968,889
	600,000	MCA Funding Corp.....	3.30	1/18/94	599,004
	1,500,000	Nomura Holding America, Inc.....	3.40	1/24/94	1,496,650
	5,000,000	Sanwa Business Credit Corp.....	3.25	2/24/94	4,974,639
	1,582,000	Sanwa Business Credit Corp.....	3.20	2/28/94	1,573,392
	1,519,000	Sanwa Business Credit Corp.....	3.23	3/22/94	1,508,063
	5,617,000	Sheffield Receivables Corp.....	3.25	2/18/94	5,591,617
	3,740,000	Student Loan Corp.....	3.33	1/31/94	3,729,276
	7,000,000	Svenska Handelsbanken, Inc.....	3.25	1/05/94	6,996,792

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--DOMESTIC MONEY MARKET FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

[co eah]

<TABLE>
<CAPTION>

<S>	FACE AMOUNT <C>	ISSUE <C>	INTEREST RATE* <C>	MATURITY DATE <C>	VALUE (NOTE 1A) <C>
COMMERCIAL PAPER* (CONCLUDED)	\$ 4,257,000	Transamerica Finance Corp.....	3.27%	2/04/94	\$ 4,243,466
	3,000,000	Transamerica Finance Corp.....	3.36	2/22/94	2,985,337
TOTAL COMMERCIAL PAPER (COST--\$105,087,255).....					105,087,185
CORPORATE NOTES--1.8%	500,000	Associates Corp. of North America.....	9.00	1/15/94	501,414
	2,370,000	Associates Corp. of North America.....	12.50	9/15/94	2,512,200
TOTAL CORPORATE NOTES (COST--\$3,017,067).....					3,013,614
MASTER NOTES+--1.2%	2,000,000	Goldman Sachs Group L.P.+.....	3.33	3/01/94	2,000,000
TOTAL MASTER NOTES (COST--\$2,000,000).....					2,000,000

MEDIUM-TERM NOTES--2.3%	3,000,000	General Electric Capital Corp.....	3.29	5/18/94	2,998,500
	1,000,000	General Electric Capital Corp.....	3.50	8/25/94	999,600
TOTAL MEDIUM-TERM NOTES (COST--\$3,999,277)					3,998,100
US GOVERNMENT & AGENCY OBLIGATIONS--DISCOUNT*--6.0%	1,783,000	Federal Home Loan Mortgage Corporation.....	3.12	1/24/94	1,779,220
	172,000	Federal Home Loan Mortgage Corporation.....	3.35	5/20/94	169,853
	133,000	Federal Home Loan Mortgage Corporation.....	3.47	7/28/94	130,460
	560,000	Federal National Mortgage Association.....	3.23	5/12/94	553,409
	365,000	Federal National Mortgage Association.....	3.28	6/30/94	359,036
	275,000	Federal National Mortgage Association.....	3.39	7/15/94	270,074
	155,000	Federal National Mortgage Association.....	3.34	9/22/94	151,121
	4,000,000	Federal National Mortgage Association.....	3.43	9/29/94	3,897,244
	55,000	Federal National Mortgage Association.....	3.55	10/13/94	53,497
	3,000,000	United States Treasury Bills.....	3.245	6/23/94	2,953,600
TOTAL US GOVERNMENT & AGENCY OBLIGATIONS--DISCOUNT (COST--\$10,315,567)					10,317,514
US GOVERNMENT & AGENCY OBLIGATIONS--NON-DISCOUNT*--21.0%	2,500,000	Federal Home Loan Bank+.....	3.15	5/20/94	2,497,403
	3,000,000	Federal Home Loan Bank+.....	3.43	12/28/95	3,000,000
	10,000,000	Federal Home Loan Mortgage Association+....	3.36	9/01/95	9,996,770
	2,000,000	Federal National Mortgage Association+....	3.33	5/13/96	2,000,000
	2,000,000	Federal National Mortgage Association+....	3.33	8/13/96	2,000,000
	2,000,000	Federal National Mortgage Association+....	3.45	5/19/97	2,000,000
	2,000,000	Federal National Mortgage Association+....	3.50	5/14/98	2,000,000
	3,500,000	Student Loan Marketing Association+.....	3.51	12/30/94	3,508,159
	2,000,000	Student Loan Marketing Association+.....	3.44	3/03/97	2,000,736
	1,000,000	United States Treasury Notes.....	5.375	2/28/94	1,003,627
	250,000	United States Treasury Notes.....	5.125	5/31/94	251,875
	250,000	United States Treasury Notes.....	5.00	6/30/94	252,031
	1,000,000	United States Treasury Notes.....	3.875	3/31/95	1,000,312
	1,500,000	United States Treasury Notes.....	3.875	4/30/95	1,500,000
	1,000,000	United States Treasury Notes.....	4.125	6/30/95	1,002,500

</TABLE>

55

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--DOMESTIC MONEY MARKET FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE> <CAPTION>						
<S>	FACE AMOUNT <C>	ISSUE <C>	INTEREST RATE* <C>	MATURITY DATE <C>	VALUE (NOTE 1A) <C>	
US GOVERNMENT & AGENCY OBLIGATIONS--NON-DISCOUNT* (CONCLUDED)	\$ 500,000	United States Treasury Notes.....	4.25 %	7/31/95	\$ 501,406	
	750,000	United States Treasury Notes.....	3.875	8/31/95	747,890	
	500,000	United States Treasury Notes.....	4.25	12/31/95	500,156	
TOTAL US GOVERNMENT & AGENCY OBLIGATIONS--NON-DISCOUNT (COST--\$35,758,372)					35,762,865	
TOTAL INVESTMENTS (COST--\$170,180,190)--99.8%					170,182,924	
OTHER ASSETS LESS LIABILITIES--0.2%					348,429	
NET ASSETS--100.0%					\$170,531,353	

</TABLE>

* Commercial Paper and certain US Government Obligations are traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund. Other securities bear interest at the rates shown, payable at fixed dates or upon maturity. The interest rates on variable rate securities are adjusted periodically based upon appropriate indexes. The interest rates shown are the rates in effect at December 31, 1993.

+ Variable Rate Notes.

See Notes to Financial Statements.

56

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--EQUITY GROWTH FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

INDUSTRY	SHARES HELD	COMMON STOCKS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
AIR TRANSPORTATION	29,000	SkyWest Inc.....	\$ 558,750	\$ 996,875	1.0%
AUTO--RELATED	50,000	+Automotive Industries Inc.....	1,091,625	1,462,500	1.5
AUTOMOBILE PARTS	60,000	+TBC Corp.....	757,500	735,000	0.7
AUTOMOTIVE	40,000	Monro Muffler Brake Inc.....	564,375	650,000	0.7
BUSINESS SERVICES	20,000	Reynolds & Reynolds Co. (Class A).....	809,271	912,500	0.9
COMPUTER SERVICES	50,000	+BancTec, Inc.....	867,125	1,193,750	1.2
	50,000	Merisel, Inc.....	834,375	912,500	0.9
			1,701,500	2,106,250	2.1
COMPUTER SOFTWARE	62,000	Metatec Corp. (Class A).....	670,500	914,500	0.9
COMPUTERS & PERIPHERALS	32,000	Adaptec Inc.....	859,000	1,274,000	1.3
CONSUMER--GOODS	65,000	Oshkosh B Gosh Inc. (Class A).....	1,250,000	1,283,750	1.3
CONSUMER--MISCELLANEOUS	45,000	Toro Co.....	886,575	1,260,000	1.3
ELECTRICAL EQUIPMENT	30,000	IEC Electronics Corp.....	358,750	397,500	0.4
	120,000	+Willcox & Gibbs, Inc.....	617,266	930,000	0.9
			976,016	1,327,500	1.3
ELECTRONIC/INSTRUMENTS	70,000	+BMC Industries Inc.....	961,524	1,478,750	1.5
	110,000	Checkmate Electronics Inc.....	1,041,875	1,045,000	1.1
	35,000	DOVatron International Inc.....	596,438	949,375	1.0
	40,000	Electronics For Imaging Inc.....	765,000	660,000	0.7
	65,000	Exide Electronics Group Inc.....	1,200,000	1,218,750	1.2
	40,000	+Kent Electronics Corp.....	816,041	1,140,000	1.2
	108,000	Method Electronics Inc. (Class A).....	1,056,455	1,566,000	1.6
			6,437,333	8,057,875	8.3
ELECTRONICS	45,000	Vishay Intertechnology Inc.....	1,467,780	1,580,625	1.6
ENERGY-RELATED	40,000	Magma Power Co., Inc.....	1,333,876	1,395,000	1.4
ENGINEERING & CONSTRUCTION	40,000	Butler Manufacturing Co.....	691,000	1,075,000	1.1
ENVIRONMENTAL	25,000	Donaldson Co.....	756,777	1,106,250	1.1
	60,000	IMCO Recycling Inc.....	791,697	720,000	0.7
			1,548,474	1,826,250	1.8
ENVIRONMENTAL CONTROL	45,000	TETRA Technologies Inc.....	751,250	871,875	0.9
FINANCIAL SERVICES	35,000	CMAC Investment Corp.....	1,016,387	971,250	1.0
	75,000	First Financial Corp.....	1,087,188	1,246,875	1.3
	50,000	First State Bancorp.....	548,750	581,250	0.6
	85,000	Southwest Securities Group, Inc.....	1,042,500	966,875	1.0
			3,694,825	3,766,250	3.9
FOOD DISTRIBUTION	46,300	Performance Food Group Co.....	759,450	1,134,350	1.1

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--EQUITY GROWTH FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>

<CAPTION>						
<S>	INDUSTRY	SHARES HELD <C>	COMMON STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
FOODS		70,000	J & J Snack Food Corp.....	\$ 1,141,625	\$ 1,443,750	1.5%
GAMING		40,000	Players International Inc.....	941,875	982,500	1.0
		35,000	Sodak Gaming Inc.....	1,088,750	1,032,500	1.0
				2,030,625	2,015,000	2.0
GOLD		75,000	Echo Bay Mines Ltd.....	987,325	965,625	1.0
HEALTH CARE-- PRODUCTS & SERVICES		47,000	Sybron Corp.....	1,176,235	1,504,000	1.5
INDUSTRIAL		91,500	Medalist Industries Inc.....	1,195,687	1,383,938	1.4
INSURANCE		64,000	Gainsco Inc.....	779,583	584,000	0.6
		50,000	Life USA Holding Inc.....	964,375	937,500	0.9
				1,743,958	1,521,500	1.5
LEASING		50,000	Rollins Truck Leasing Corp.....	809,888	956,250	1.0
MACHINERY		62,000	Duriron Co., Inc.....	1,429,875	1,433,750	1.4
		35,000	Electrogas Inc.....	731,250	866,250	0.9
		75,000	Thermo Fibertek Inc.....	1,045,450	1,190,625	1.2
				3,206,575	3,490,625	3.5
MANUFACTURED HOUSING	60,000.....		Redman Industries Inc.....	946,062	1,237,500	1.3
MEDICAL SERVICES		75,000	Clintrials, Inc.....	739,376	937,500	0.9
		50,000	Renal Treatment Centers Inc.....	600,000	1,037,500	1.0
		50,000	Sun Healthcare Group Inc.....	601,500	837,500	0.8
		70,000	Wellcare Management Group Inc.....	1,130,314	1,662,500	1.7
				3,071,190	4,475,000	4.4
MEDICAL SUPPLIES		40,000	Sullivan Dental Products, Inc.....	620,000	685,000	0.7
MEDICAL TECHNOLOGY		30,000	Cordis Corp.....	1,003,125	1,481,250	1.5
		40,000	Dentsply International Inc.....	1,527,500	1,755,000	1.8
				2,530,625	3,236,250	3.3
MERCHANDISING		50,000	Grow Biz International Inc.....	663,776	875,000	0.9
METALS		53,000	Material Sciences Corp.....	1,107,365	1,212,375	1.2
METALS & BASIC MATERIALS		30,000	Harsco Corp.....	1,219,587	1,218,750	1.2
OFFICE--RELATED		30,000	Miller (Herman) Inc.....	658,125	916,875	0.9
OIL & GAS		125,000	Lomak Petroleum Inc.....	915,625	921,875	0.9
		60,000	Parker & Parsley Development Partners.....	1,380,798	1,485,000	1.5
				2,296,423	2,406,875	2.4
OIL SERVICE		65,000	Hornbeck Offshore Service Inc.....	1,177,625	950,625	1.0
		60,000	Sundowner Offshore Services.....	843,951	780,000	0.8
				2,021,576	1,730,625	1.8

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--EQUITY GROWTH FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE> <CAPTION>						
<S>	INDUSTRY	SHARES HELD <C>	COMMON STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>

PRINTING	55,000	Merrill Corp.....	\$ 1,103,738	\$ 1,485,000	1.5%
PRINTING & PUBLISHING	30,000	Banta Corp.....	983,750	1,083,750	1.1
	100,000	International Imaging Materials Inc....	1,598,749	2,000,000	2.0
			2,582,499	3,083,750	3.1
RETAIL	100,000	Goody's Family Clothing Inc.....	1,396,250	1,237,500	1.3
	52,500	Haverty Furniture Companies Inc.....	673,750	899,063	0.9
			2,070,000	2,136,563	2.2
RETAIL SPECIALTY	50,000	Discovery Zone Inc.....	1,168,750	1,062,500	1.1
	15,000	MicroAge Inc.....	318,375	577,500	0.6
	50,000	Shoe Carnival Inc.....	837,500	612,500	0.6
			2,324,625	2,252,500	2.3
RETAIL TRADE	25,000	Fingerhut Companies Inc.....	714,000	703,125	0.7
SAVINGS & LOAN ASSOCIATIONS	50,000	Coast Savings & Loan Association.....	792,125	712,500	0.7
SEMICONDUCTOR EQUIPMENT	85,000	Aetrium Inc.....	878,751	871,250	0.9
SHIPPING	50,000	+Kirby Corp.....	896,850	1,068,750	1.1
TECHNOLOGY	50,000	LSI Logic Corp.....	787,752	800,000	0.8
	30,000	Storage Technology Corp.....	868,050	948,750	1.0
	50,000	Ultratech Stepper Inc.....	830,625	925,000	0.9
			2,486,427	2,673,750	2.7
TELECOMMUNICATIONS	80,000	Communications Central Inc.....	960,000	1,070,000	1.1
	61,100	Peoples Telephone Co.....	604,651	603,362	0.6
	13,000	Pittencrieff Communications Inc.....	187,000	315,250	0.3
	90,000	SpecTran Corp.....	1,053,122	1,023,750	1.0
			2,804,773	3,012,362	3.0
TELECOMMUNICATIONS EQUIPMENT	80,000	Cellstar Corp.....	920,000	1,360,000	1.4
TEXTILES	86,000	Worldtex Inc.....	509,646	451,500	0.5
TRANSPORTATION	47,000	Greyhound Lines Inc.....	814,858	540,500	0.5
TRANSPORTATION SERVICES	40,000	Johnstown America Industries, Inc.....	687,500	965,000	1.0
		TOTAL COMMON STOCKS.....	73,821,539	85,221,588	86.2

</TABLE>

59

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--EQUITY GROWTH FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE> <CAPTION>						
<S>	INDUSTRY	FACE AMOUNT <C>	SHORT-TERM SECURITIES <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
	COMMERCIAL PAPER*	\$ 4,184,000	General Electric Capital Corp., 3.00% due 1/03/1994.....	\$ 4,182,877	\$ 4,182,877	4.2%
		3,000,000	Morgan Stanley Group Inc., 3.25% due 1/14/1994.....	2,996,208	2,996,208	3.0
		2,000,000	Penney (J.C.) Co., 3.25% due 1/27/1994.....	1,995,125	1,995,125	2.0
		4,500,000	Schering-Plough Corp., 3.20% due 1/24/1994.....	4,490,400	4,490,400	4.5
			TOTAL SHORT-TERM SECURITIES.....	13,664,610	13,664,610	13.7
			TOTAL INVESTMENTS.....	\$ 87,486,149	98,886,198	99.9

OTHER ASSETS LESS LIABILITIES.....	90,226	0.1
NET ASSETS.....	\$ 98,976,424	100.0%

</TABLE>

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

+ Non-income producing security.

See Notes to Financial Statements.

60

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--FLEXIBLE STRATEGY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

INDUSTRIES	SHARES HELD	US STOCKS & WARRANTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
AEROSPACE	35,000	AlliedSignal Inc.....	\$ 2,374,243	\$ 2,765,000	1.4%
APPAREL	51,500	Phillips-Van Heusen Corp.....	1,356,596	1,931,250	1.0
APPLIANCES	120,000	Singer Co. N.V.....	3,614,607	4,485,000	2.3
	150,000	Sunbeam-Oster.....	3,055,575	3,300,000	1.7
			6,670,182	7,785,000	4.0
AUTOMOTIVE	65,000	Ford Motor Co.....	3,677,850	4,192,500	2.2
AUTOMOTIVE & EQUIPMENT	75,000	Cooper Tire & Rubber Co.....	1,477,729	1,875,000	1.0
BANKING	40,000	+Banco Rio de la Plata S.A. (ADR) (a).....	1,278,562	1,575,000	0.8
	55,000	Bank of New York, Inc.....	2,648,375	3,135,000	1.6
	65,000	+Bank of New York, Inc. (Warrants) (b).....	485,312	682,500	0.3
			4,412,249	5,392,500	2.7
BEVERAGES	10,000	PanAmerican Beverage, Inc. (Class A).....	322,807	382,500	0.2
	15,000	PepsiCo Inc.....	596,344	613,125	0.3
			919,151	995,625	0.5
CHEMICALS	30,000	PPG Industries, Inc.....	2,131,584	2,276,250	1.2
	35,000	Rohm and Haas.....	1,977,095	2,082,500	1.1
			4,108,679	4,358,750	2.3
COMMUNICATION EQUIPMENT	32,000	Tellabs, Inc.....	972,036	1,504,000	0.8
COMMUNICATIONS	62,367	LDOS Communication.....	2,660,824	3,024,800	1.6
	15,000	Sprint Corp.....	556,050	521,250	0.3
			3,216,874	3,546,050	1.9
COMPUTER SERVICES	40,000	Computer Sciences Corp.....	3,508,763	3,980,000	2.0
	100,000	General Motors Corp. (Class E)...	2,944,585	2,925,000	1.5
			6,453,348	6,905,000	3.5
CONTAINERS	80,000	Crown Cork & Seal Co., Inc.....	2,173,307	3,350,000	1.7
ELECTRICAL EQUIPMENT	55,000	Emerson Electric Co.....	3,151,393	3,313,750	1.7
ELECTRONICS	50,000	Perkin-Elmer Corp.....	1,847,668	1,925,000	1.0
	70,000	Solectron Corp.....	1,411,567	1,986,250	1.0
			3,259,235	3,911,250	2.0
ENGINEERING & CONSTRUCTION	50,000	Thermo Electron Corp.....	2,020,650	2,100,000	1.1

ENVIRONMENTAL CONTROL	225,000	Wheelabrator Technologies Inc....	3,579,011	3,993,750	2.0
FERTILIZERS	12,000	IMC Fertilizer Group, Inc.....	558,348	544,500	0.3

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--FLEXIBLE STRATEGY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE> <CAPTION>						
<S>	INDUSTRIES	SHARES HELD <C>	US STOCKS & WARRANTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
FOREST PRODUCTS		49,000	Willamette Industries, Inc.....	\$ 1,854,798	\$ 2,437,750	1.2%
HEALTHCARE-- PRODUCTS/SERVICES		125,000	+Humana Corp.....	2,100,084	2,203,125	1.1
		15,000	Johnson & Johnson Co.....	599,666	671,250	0.3
				2,699,750	2,874,375	1.4
HOUSEHOLD PRODUCTS		60,000	Procter & Gamble.....	3,292,754	3,420,000	1.8
INSURANCE		30,000	America International Group Inc.....	2,641,542	2,632,500	1.3
		20,000	Capital Holding Corp.....	821,259	742,500	0.4
				3,462,801	3,375,000	1.7
MEDICAL		44,000	Physician Corp.....	786,250	1,094,500	0.6
		15,000	Vivra Inc.....	278,914	346,875	0.2
				1,065,164	1,441,375	0.8
MEDIA/PUBLISHING		50,000	News Corp. Ltd. (ADR) (a).....	2,617,345	2,637,500	1.4
MERCHANDISING		27,500	Heilig-Meyers Co.....	465,055	1,072,500	0.5
MULTI--INDUSTRY		15,234	Pacific Dunlop Ltd.....	55,601	55,832	0.0
OFFICE EQUIPMENT		67,000	Danka Business Systems PLC (ADR) (a).....	1,874,782	2,650,688	1.4
PAPER & PACKAGING		40,000	Union Camp Corp.....	1,919,332	1,905,000	1.0
PETROLEUM-- DOMESTIC		65,000	Phillips Petroleum Co.....	2,046,532	1,885,000	1.0
PETROLEUM-- INTERNATIONAL		45,000	British Petroleum PLC.....	2,305,178	2,880,000	1.5
		15,000	Chevron Oil Corp.....	1,314,133	1,306,875	0.7
		30,000	Mobil Oil Corp.....	2,303,502	2,370,000	1.2
				5,922,813	6,556,875	3.4
PUBLISHING		40,000	Gannett Co., Inc.....	2,129,343	2,290,000	1.2
RAILROADS		10,000	CSX Corp.....	851,775	810,000	0.4
		25,000	Southern Pacific Rail Corp.....	480,690	493,750	0.3
				1,332,465	1,303,750	0.7
SEMICONDUCTORS		12,000	Motorola, Inc.....	1,003,033	1,108,500	0.6
SERVICES		15,000	Block (H&R), Inc.....	545,801	611,250	0.3
		45,000	Huntingdon International Holdings PLC (ADR) (a).....	461,978	410,625	0.2
		12,500	Kelly Services, Inc. (Class A)...	361,324	345,312	0.2
				1,369,103	1,367,187	0.7
SMALLER GROWTH		20,000	Bandag, Inc. (Class A).....	1,088,927	1,035,000	0.5
		4,700	Bandag, Inc.....	252,630	260,262	0.1
				1,341,557	1,295,262	0.6
SOFTWARE--COMPUTER		20,000	Microsoft Corp.....	1,616,500	1,612,500	0.8

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--FLEXIBLE STRATEGY FUND
 SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>						
<CAPTION>						
INDUSTRIES	SHARES HELD	US STOCKS & WARRANTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS	
<S>	<C>	<C>	<C>	<C>	<C>	
TELECOMMUNICATIONS	13,100	ALC Communications Corp.....	\$ 334,050	\$ 376,625	0.2%	
	120,000	MCI Communications Corp.....	3,351,698	3,382,500	1.7	
			3,685,748	3,759,125	1.9	
TELECOMMUNICATIONS	70,000	ADC Telecommunications Inc.....	1,876,416	2,493,750	1.3	
EQUIPMENT	32,000	Antec Corp.....	754,074	784,000	0.4	
	35,000	DSC Communications Corp.....	1,843,006	2,150,312	1.1	
	8,000	Picturitel Corp.....	145,636	149,000	0.1	
			4,619,132	5,577,062	2.9	
UTILITIES--ELECTRIC	100,000	California Energy, Inc.....	1,837,585	1,850,000	0.9	
		TOTAL US STOCK & WARRANTS.....	96,592,074	108,939,206	56.0	
COUNTRY		FOREIGN STOCKS & WARRANTS				
ARGENTINA	7,360	Banco de Galicia y Buenos Aires				
		S.A. (ADR) (a) (2).....	139,200	295,780	0.1	
	115,000	Telecom Argentina Stet S.A.				
		(16).....	549,904	723,647	0.4	
			689,104	1,019,427	0.5	
AUSTRALIA	15,000	Coles Meyer, Ltd.				
		(Warrants) (b) (15).....	44,571	32,272	0.0	
	16,917	National Australia Bank				
		Ltd. (2).....	105,508	141,453	0.1	
			150,079	173,725	0.1	
CANADA	15,000	Hudson Bay Co. (15).....	451,080	447,508	0.2	
	50,000	International Semi-Tech				
		Microelectronics Receipts Inc.				
		(5) (d).....	331,795	283,233	0.1	
	60,000	Magna International Inc. (Class				
		A) (1).....	2,647,900	2,985,000	1.5	
			3,430,775	3,715,741	1.8	
CHILE	15,900	Distribuidora Chilectra				
		Metropolitana S.A.				
		(ADR) (a) (4)++.....	415,283	652,854	0.3	
FRANCE	643	Compagnie Generale des Eaux				
		(Ordinary) (5).....	240,370	317,750	0.2	
GERMANY	400	Mannesman AG (11).....	68,658	97,210	0.0	
HONG KONG	6,000	Cheung Kong Holdings Ltd. (14)....	21,616	36,709	0.0	
	258,907	Dairy Farms International				
		Holdings Ltd. (7).....	399,176	516,272	0.3	
	35,000	Henderson Land Development Co.,				
		Ltd. (14).....	110,593	258,319	0.1	
	263,000	Hutchison Whampoa, Ltd. (12).....	495,611	1,311,084	0.7	
	200,000	Johnson Electric Holdings				
		Ltd. (5).....	408,481	512,754	0.3	
	80,500	Swire Pacific, Ltd. (Class				
		A) (12).....	308,125	724,427	0.4	
			1,743,602	3,359,565	1.8	

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--FLEXIBLE STRATEGY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

COUNTRY	SHARES HELD	FOREIGN STOCKS & WARRANTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
MEXICO	205,200	+Cifra, S.A. de C.V.(15).....	\$ 196,740	\$ 615,930	0.3%
	50,000	Consorcio G Grupo Dino S.A. de C.V. (ADR) (a) (2).....	922,018	1,393,750	0.7
	70,000	Empresas ICA Sociedad Controladora, S.A. de C.V. (ADR) (a) (4).....	1,398,296	1,977,500	1.0
	115,000	Grupo Carso, S.A. de C.V. (ADR) (a) (12)++.....	1,270,567	2,501,250	1.3
	25,000	Grupo Financiero Serfin S.A. de C.V. (ADR) (a) (2).....	615,413	737,500	0.4
	45,000	Telefonos de Mexico, S.A. de C.V. (Telmex) (ADR) (a) (16).....	2,281,902	3,037,500	1.6
	100,000	Telefonos de Mexico, S.A. de C.V. (Telmex) (Class A) (16).....	215,208	336,554	0.2
	311,500	Telefonos de Mexico, S.A. de C.V. (Telmex) (Class L) (16).....	579,168	1,048,366	0.5
			7,479,312	11,648,350	6.0
NETHERLANDS	15,844	Aegon N.V.(10).....	567,718	860,821	0.4
	31,500	Royal Dutch Petroleum Co., N.V. (ADR) (a) (6).....	2,962,142	3,287,812	1.7
			3,529,860	4,148,633	2.1
PORTUGAL	3,040	Banco Comercial Portuges(2).....	38,256	45,746	0.0
	40,000	Banco Comercial Portuges (New) (ADR) (a) (2).....	559,100	610,000	0.3
	25,000	Espirito Santo Financial Holdings S.A. (ADR) (a) (2).....	725,712	881,250	0.4
			1,323,068	1,536,996	0.7
SPAIN	12,000	Empresa Nacional de Electricidad S.A. (ADR) (a) (4).....	260,496	570,000	0.3
	10,000	Repsol S.A.(13).....	277,603	311,080	0.2
			538,099	881,080	0.5
UNITED KINGDOM	26,065	British Petroleum PLC(13).....	131,040	138,687	0.1
	150,000	Hong Kong Land Holdings, Ltd.(14).....	291,839	532,177	0.3
	58,700	HSBC Holdings PLC(2).....	401,456	874,077	0.4
	31,300	Reuters Holdings PLC (ADR) (a) (3).....	2,101,244	2,472,700	1.3
			2,925,579	4,017,641	2.1
VENEZUELA	39,500	+Siderurgica Venezolana SIVENSA S.A.I.C.A.-S.A.C.A. (Warrants) (b) (9)++.....	56,525	5,530	0.0
		TOTAL FOREIGN STOCKS & WARRANTS.....	22,590,314	31,574,502	16.1

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--FLEXIBLE STRATEGY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

INDUSTRIES	FACE AMOUNT*	CORPORATE & FOREIGN BONDS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
------------	--------------	---------------------------	------	-----------------	-----------------------

<TABLE>
<CAPTION>

<S>	<C>	<C>	<C>	<C>	<C>	<C>
FINANCIAL SERVICES	\$	1,000,000	Ford Motor Credit Corp., 7.125% due 12/01/1997.....	\$ 995,000	\$ 1,059,301	0.5%
		1,000,000	International Business Machines Corp., 6.375% due 6/15/2000.....	1,000,000	1,016,784	0.5
				1,995,000	2,076,085	1.0
FOREIGN--AUSTRALIA	A\$	425,000	Queensland Treasury Corp. Global Notes, 8.00% due 7/14/1999(8).....	313,607	308,806	0.2
FOREIGN--CANADA	C\$	750,000	Government of Canada, 7.25% due 6/01/2003(8).....	555,467	593,467	0.3
		5,000,000	Hydro-Electric Quebec, 6.35% due 1/15/2002(6).....	5,000,000	4,921,875	2.5
				5,555,467	5,515,342	2.8
FOREIGN--FRANCE	Ffr	3,250,000	French "OAT", 8.50% due 4/25/2003(8).....	653,879	661,058	0.3
FOREIGN--ITALY	Lit	950,000,000	Buoni Poliennali del Tesoro (BTPS), 12.00% due 1/01/1998(8).....	623,358	617,587	0.3
		500,000	Republic of Italy, 8.75% due 2/08/2001(8).....	537,305	568,126	0.3
				1,160,663	1,185,713	0.6
FOREIGN--MEXICO	Mxp	3,564,470	Mexican Cetes, 12.60%(e) due 9/07/1995(8).....	948,988	964,301	0.5
FOREIGN--NETHERLANDS	Nlg	500,000	Aegon N.V., 7.00% due 9/15/2001(8).....	652,486	740,000	0.4
FOREIGN--SPAIN	Pta	90,000,000	Spanish Government, 10.50% due 10/30/2003(8).....	773,823	728,242	0.4
FOREIGN--SWEDEN	Skr	3,500,000	Government of Sweden, 10.75% due 1/23/1997(8).....	486,204	470,757	0.2
FOREIGN--UNITED KINGDOM	L	625,000	U.K. Treasury Gilt, 7.25% due 3/30/1998(8).....	942,775	981,918	0.5
TOBACCO	\$	500,000	Phillip Morris Corp. Inc., 9.25% due 12/01/1997.....	499,150	564,527	0.3
			TOTAL CORPORATE & FOREIGN BONDS..	13,982,042	14,196,749	7.2
			US GOVERNMENT & AGENCY OBLIGATIONS			
FEDERAL AGENCY OBLIGATIONS		7,500,000	Federal National Mortgage Association: FHG-16PH, 6.75% due 4/25/2021.....	7,617,188	7,485,938	3.8
		2,000,000	Series 93D, 5.85% due 2/25/2006.....	1,996,250	1,971,250	1.0
				9,613,438	9,457,188	4.8

</TABLE>

65

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--FLEXIBLE STRATEGY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<S>	FACE AMOUNT*	US GOVERNMENT & AGENCY OBLIGATIONS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
MORTGAGE-BACKED SECURITIES		Government National Mortgage Association:			
	1,600,477	9.00% due 11/15/2019(c).....	\$ 1,585,954	\$ 1,712,011	0.9 %
	824,029	9.00% due 11/15/2019(c).....	818,364	881,454	0.5
US GOVERNMENT &		US Treasury Notes:			

AGENCY OBLIGATIONS	1,000,000	8.625% due 8/15/1997.....	1,027,344	1,125,156	0.6
	850,000	7.50% due 11/15/2001.....	853,320	948,414	0.5
	3,000,000	6.25% due 2/15/2003.....	3,103,594	3,099,375	1.6
	3,000,000	US Treasury Bond, 7.125% due 2/15/2023.....	3,169,219	3,245,157	1.7
	3,000,000	US Treasury STRIPS++, 5.795% due 5/15/2000 (e).....	2,098,883	2,123,970	1.1
			10,252,360	10,542,072	5.5
TOTAL US GOVERNMENT & AGENCY OBLIGATIONS.....			22,270,116	22,592,725	11.7

</TABLE>

66

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--FLEXIBLE STRATEGY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE>
<CAPTION>

INDUSTRY	FACE AMOUNT*	SHORT-TERM SECURITIES	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
COMMERCIAL PAPER**	\$ 3,000,000	American Telephone & Telegraph Co. (AT&T), 3.29% due 1/04/1994.....	\$ 2,999,178	\$ 2,999,177	1.5%
	2,000,000	Ciesco L.P., 3.18% due 2/01/1994.....	1,994,523	1,994,523	1.0
	3,435,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	3,434,386	3,434,386	1.8
	5,000,000	Sanwa Business Corp., 3.20% due 1/25/1994.....	4,989,333	4,989,333	2.6
TOTAL SHORT-TERM SECURITIES.....			13,417,420	13,417,419	6.9
TOTAL INVESTMENTS.....			\$168,851,966	190,720,601	97.9
OTHER ASSETS LESS LIABILITIES....				4,055,915	2.1
NET ASSETS.....				\$194,776,516	100.0%

</TABLE>

- (a) American Depositary Receipts (ADR).
 (b) Warrants entitle the Fund to purchase a predetermined number of shares of common stock. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.
 (c) US Government Agency Mortgage-Backed Obligations are subject to principal paydowns as a result of prepayments or refinancings of the underlying mortgage investments. As a result, the average life may be substantially less than the original maturity.
 (d) Receipts evidence payment by the Fund of 40% of the purchase price of International Semi-Tech Microelectronics, Inc. The Fund is obligated to pay the remaining 60%, approximately \$498,000 over the next two years.
 (e) Represents the yield-to-maturity on this zero coupon issue.
 * Denominated in US dollars unless otherwise indicated.
 ** Commercial Paper is traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund.
 + Non-income producing security.
 ++ Restricted securities as to resale. The value of the Fund's investment in restricted securities was approximately \$3,160,000, representing 1.6% of net assets.

Corresponding industry groups for foreign securities:

- | | |
|------------------------|-------------------------|
| (1) Automotive | (10) Insurance |
| (2) Banking | (11) Machinery |
| (3) Business Services | (12) Multi-Industry |
| (4) Electric Utilities | (13) Petroleum |
| (5) Electronics | (14) Real Estate |
| (6) Energy | (15) Retail Stores |
| (7) Food Chains | (16) Telecommunications |

(8) Government Entities
(9) Health and Personal
Care

<TABLE>
<CAPTION>

ISSUE <S>	ACQUISITION DATE <C>	COST <C>	VALUE (NOTE 1A) <C>
Distribuidora Chilectra Metropolitana S.A. (ADR).....	2/13/92	\$ 415,283	\$ 652,854
Grupo Carso, S.A. de C.V. (ADR).....	9/24/91	1,270,567	2,501,250
Siderurgica Venezolana SIVENSA S.A.I.C.A.-S.A.C.A. (Warrants).....	2/13/92	56,525	5,530
TOTAL.....		\$1,742,375	\$3,159,634

</TABLE>

++ Separate Trading of Registered Interest and Principal of Securities
(STRIPS).

See Notes to Financial Statements.

67

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL STRATEGY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

INDUSTRY <S>	SHARES HELD <C>	US STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
AEROSPACE	23,500	United Technologies Corp.....	\$ 1,335,387	\$ 1,457,000	0.5%
AIRLINES	22,000	+AMR Corp.....	1,466,263	1,474,000	0.5
ALUMINUM	18,100	Aluminum Co. of America.....	1,262,536	1,255,688	0.5
BANKING	19,900	Morgan (J.P.) & Co.....	1,420,000	1,380,563	0.5
CHEMICALS	39,500	Nalco Chemical Co.....	1,372,693	1,481,250	0.5
COMPUTER TECHNOLOGY	16,400	Hewlett-Packard Co.....	1,197,290	1,295,600	0.5
FOOD & BEVERAGE	56,100	Grand Metropolitan PLC (Sponsored) (ADR)*.....	1,462,676	1,549,763	0.6
FOODS	54,381	Archer-Daniels-Midland Co.....	1,243,105	1,237,168	0.5
HARDWARE/PRODUCTS	35,700	Stanley Works Co.....	1,483,509	1,588,650	0.6
MACHINERY	36,900	Ingersoll-Rand Co.....	1,300,234	1,411,425	0.5
	53,800	Morrison Knudsen Corp.....	1,285,583	1,351,725	0.5
			2,585,817	2,763,150	1.0
MISCELLANEOUS	40,000	Kelly Services, Inc. (Class A).....	1,102,500	1,105,000	0.4
MISCELLANEOUS CAPITAL GOODS	47,200	Keystone International, Inc....	1,233,722	1,292,100	0.5
NATURAL GAS	74,000	Westcoast Energy Inc.....	1,199,590	1,221,000	0.5
OFFICE--RELATED	31,500	Pitney Bowes, Inc.....	1,239,729	1,303,312	0.5
OIL SERVICE	77,900	Dresser Industries, Inc.....	1,685,325	1,616,425	0.6
	24,200	Schlumberger Ltd.....	1,522,423	1,430,825	0.5
			3,207,748	3,047,250	1.1
PETROLEUM	46,700	Phillips Petroleum Co.....	1,396,735	1,354,300	0.5
PHARMACEUTICALS	50,000	Abbott Laboratories.....	1,358,227	1,475,000	0.5
	23,800	Bristol-Myers Squibb Co.....	1,400,865	1,383,375	0.5

			2,759,092	2,858,375	1.0
PHOTOGRAPHIC	20,200	Eastman Kodak Co.....	1,096,178	1,131,200	0.4
PRINTING/PUBLISHING	21,800	Gannett Co., Inc.....	1,079,334	1,248,050	0.5
RETAIL STORES	62,900	K mart Corp.....	1,416,070	1,336,625	0.5
	32,600	May Department Stores Co.....	1,290,202	1,283,625	0.5
			2,706,272	2,620,250	1.0
SEMICONDUCTOR PRODUCTION EQUIPMENT	49,000	+Teradyne Inc.....	1,140,755	1,359,750	0.5
SMALLER CAPITALIZATION	42,000	Comsat Corp.(a).....	1,222,587	1,249,500	0.5
SPECIAL SITUATIONS	76,800	Wheelabrator Technologies, Inc.....	1,317,755	1,363,200	0.5

</TABLE>

68

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL STRATEGY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE> <CAPTION>								
<S>	INDUSTRY	<C>	SHARES HELD	US STOCKS	<C>	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
								<C>
TELECOMMUNICATIONS			22,100	American Telephone & Telegraph Co.....		\$ 1,265,039	\$ 1,160,250	0.4%
			23,300	Bell Atlantic Corp.....		1,365,642	1,374,700	0.5
						2,630,681	2,534,950	0.9
UTILITIES--ELECTRIC			54,000	+California Energy Co., Inc.....		973,666	999,000	0.4
				TOTAL US STOCKS.....		39,135,620	40,170,069	14.9
COUNTRY				FOREIGN STOCKS & WARRANTS				
ARGENTINA			42,800	Banco de Galicia S.A. (ADR) * (1).....		1,049,975	1,720,025	0.6
			47,000	+Banco Frances del Rio de la Plata S.A. (Class A) (1).....		1,420,597	1,850,625	0.7
						2,470,572	3,570,650	1.3
AUSTRALIA			401,000	CSR Ltd. Ordinary(17).....		1,188,354	1,328,134	0.5
			171,000	National Bank of Australia(1).....		1,243,148	1,429,831	0.5
			377,600	Pacific Dunlop, Ltd.(17).....		1,219,150	1,383,896	0.5
						3,650,652	4,141,861	1.5
BRAZIL			137,600	Aracruz Celulose S.A. (ADR) * (20).....		1,314,143	1,806,000	0.7
CANADA			82,100	Canadian Pacific Ltd.(17).....		1,294,667	1,334,125	0.5
			37,000	Imperial Oil Ltd.(5).....		1,347,223	1,250,566	0.5
			44,400	Northern Telecommunications, Ltd.(27).....		1,181,567	1,370,850	0.5
			105,000	Thomson Corp.(24).....		1,306,964	1,288,708	0.5
						5,130,421	5,244,249	2.0
FRANCE			11,400	Alactel Alsthom(4).....		1,408,181	1,622,790	0.6
			15,100	Compagnie de Saint Gobain(15).....		1,490,945	1,501,065	0.6
			3,200	+Compagnie Generale des Eaux(30).....		1,373,440	1,581,336	0.6
			130	+Compagnie Generale des Eaux (Rights)(30).....		--	4,545	0.0
			21,766	Schneider S.A.(7).....		1,386,094	1,622,791	0.6
			1,966	Schneider S.A. (Warrants)(b)(7).....		16,313	24,995	0.0

	26,300	TOTAL S.A. (21).....	1,348,914	1,434,828	0.5
			7,023,887	7,792,350	2.9
GERMANY	6,250	Mannesmann AG(14).....	1,165,504	1,518,910	0.6
	5,950	Preussag AG(17).....	1,473,941	1,481,938	0.5
	4,700	RWE AG (Rheinisch Westfalisches) (29).....	1,234,359	1,446,362	0.5
	3,150	Siemens AG(8).....	1,277,995	1,444,996	0.5
	10,100	Thyssen AG (Ordinary) (14).....	1,322,824	1,600,546	0.6
			6,474,623	7,492,752	2.7

</TABLE>

69

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL STRATEGY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

<S>	COUNTRY	<C>	SHARES HELD	FOREIGN STOCKS & WARRANTS	<C>	COST	<C>	VALUE (NOTE 1A)	<C>	PERCENT OF NET ASSETS	<C>
HONG KONG		236,400	China Light & Power Co., Ltd.(29).....		\$	1,097,227	\$	1,729,457		0.6%	
		340,000	Hutchison Whampoa, Ltd.(12)....			1,191,669		1,694,937		0.6	
		182,000	Swire Pacific, Ltd. (Class A) (16).....			909,716		1,637,835		0.6	
						3,198,612		5,062,229		1.8	
ITALY		410,000	Daniel & Co.(14).....			1,430,488		1,384,807		0.5	
		430,000	Italclementi S.p.A.(2).....			1,449,431		1,542,425		0.6	
		915,000	Stet Savings Telecom(27).....			1,683,468		1,849,806		0.7	
						4,563,387		4,777,038		1.8	
JAPAN		119,000	Asahi Glass Co., Ltd.(2).....			1,344,440		1,129,679		0.4	
		28,000	Bandai Co.(28).....			985,433		1,055,705		0.4	
		98,000	Canon, Inc.(8).....			1,276,837		1,351,603		0.5	
		92,000	Dai Nippon Printing Co., Ltd.(24).....			1,395,217		1,310,048		0.5	
		88,000	Daiwa House Industries, Ltd.(12).....			1,299,429		1,182,160		0.4	
		56,000	Fuji Photo Film Co., Ltd.(23).....			1,328,598		1,238,761		0.5	
		205,000	Hitachi Cable, Ltd.(4).....			1,501,758		1,325,542		0.5	
		26,000	Ito-Yokado Co., Ltd.(25).....			1,173,699		1,187,534		0.4	
		131,000	Kamigumi Co.(26).....			1,553,445		1,384,381		0.5	
		58,000	Kandenko Co. Ltd.(2).....			1,374,145		1,111,589		0.4	
		47,000	Kansai Electric Power Co.(30).....			1,329,800		1,178,578		0.4	
		132,000	Maeda Corp.(2).....			1,283,398		1,182,160		0.4	
		267,000	Makino Milling Machine Co.(14).....			1,649,966		1,243,418		0.5	
		78,000	Makita Electric Works, Ltd.(8).....			1,273,092		1,362,171		0.5	
		106,000	Matsushita Electric Industries, Ltd.(8).....			1,359,367		1,414,472		0.5	
		221,000	Mitsubishi Heavy Industry, Ltd.(4).....			1,328,964		1,217,222		0.5	
		20,000	Nintendo Ltd.(8).....			1,648,723		1,286,047		0.5	
		210,000	Nippon Fire and Marine Insurance Co., Ltd.(13).....			1,435,241		1,352,230		0.5	
		214,000	Nippon Oil Co., Ltd.(21).....			1,473,852		1,253,412		0.5	
		175,000	Okumura Corp.(2).....			1,355,961		1,352,543		0.5	
		134,000	Sekisui Chemical Co., Ltd.(5).....			1,324,144		1,200,072		0.4	
		95,000	Sharp Corp.(8).....			1,319,123		1,293,212		0.5	
		49,000	Shikoku Electric Power Co.(29).....			1,326,068		1,176,070		0.4	
		40,000	Tokyo Electric Power Co., Inc.(29).....			1,248,014		1,103,349		0.4	
		76,000	Tokyo Style Co.(6).....			1,309,440		1,095,827		0.4	
		75,000	Toto Ltd.(2).....			1,418,884		1,229,178		0.5	
		50,000	Toyo Seikan Kaisha Corp.(19)...			1,397,919		1,253,806		0.5	
		66,000	Yamazaki Banking Ltd.(1).....			1,252,559		1,270,822		0.5	

			37,967,516	34,741,591	12.9
MEXICO	55,500	Cementos Mexicanos, S.A. de C.V. (Class B) (4).....	1,055,969	1,655,169	0.6
	499,000	+Cifra S.A. de C.V. (Class C) (25).....	1,076,840	1,497,804	0.6
	60,000	Consorcio G Grupo Dina S.A. de C.V. (ADR)* (3).....	1,157,338	1,672,500	0.6

</TABLE>

70

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL STRATEGY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE> <CAPTION>						
<S>	COUNTRY	SHARES HELD <C>	FOREIGN STOCKS & WARRANTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
MEXICO (CONCLUDED)		50,000	Empresas ICA Sociedad Controladora, S.A. de C.V. (ADR)* (30).....	\$ 1,141,552	\$ 1,412,500	0.5 %
		24,600	Telefonos de Mexico, S.A. de C.V. (Telmex) (ADR)* (27).....	1,260,088	1,660,500	0.6
				5,691,787	7,898,473	2.9
NETHERLANDS		466	ABN Amro Holdings N.V. (1).....	15,383	17,159	0.0
		38,600	ABN Amro Holdings N.V. (1).....	1,305,021	1,421,310	0.5
		14,000	Royal Dutch Petroleum Co. N.V. (ADR)* (21).....	1,361,397	1,461,250	0.5
		17,900	Ver Ner Utigevers (24).....	1,236,673	1,601,210	0.6
				3,918,474	4,500,929	1.6
NORWAY		16,200	Hafslund Nycomed, Inc. (ADR)* (22).....	328,622	269,325	0.1
		87,200	Hafslund Nycomed, Inc. (Class B) (22).....	1,534,353	1,458,581	0.5
		34,200	Kvaerner, Inc. (Class B) (16)...	1,234,012	1,657,153	0.6
				3,096,987	3,385,059	1.2
PORTUGAL		89,200	Banco Comercial Portuges (ADR)* (1).....	1,151,795	1,360,300	0.5
SINGAPORE		153,000	Jurong Shipyard Ltd. (2).....	1,105,918	1,379,664	0.5
		1,175,000	Neptune Orient Lines Ltd. (26).....	1,250,889	2,170,243	0.8
		530,000	Sime Darby (ADR)* (25).....	1,130,772	1,486,165	0.6
				3,487,579	5,036,072	1.9
SPAIN		48,400	Repsol S.A. (Sponsored) (ADR)* (21).....	1,325,504	1,494,350	0.6
		38,700	Telefonica Nacional de Espana S.A. (ADR)* (27).....	1,340,946	1,509,300	0.6
				2,666,450	3,003,650	1.2
SWEDEN		102,000	SKF AB 'B' Free (16).....	1,390,487	1,650,367	0.6
SWITZERLAND		2,100	BBC Brown Boveri & Cie (16).....	1,292,692	1,533,176	0.6
		2,640	Holderbank Financiere Glarus AG (4).....	1,317,434	1,650,555	0.6
		310	Roche Holdings, Ltd. (22).....	1,044,564	1,315,025	0.5
		2,890	Sulzer Gebrueder AG (14).....	1,457,695	1,637,829	0.6
		390	Sulzer Gebrueder AG (Warrants) (b) (14).....	--	2,097	0.0
				5,112,385	6,138,682	2.3
THAILAND		90,000	Bangkok Bank Co. Ltd. (1).....	696,775	888,367	0.3
		120,000	+M.D.X. Corp., Ltd. (33).....	686,720	958,872	0.4
				1,383,495	1,847,239	0.7

UNITED KINGDOM	125,600	Allied Lyons PLC(9).....	1,116,657	1,265,115	0.5
	283,000	British Gas PLC(18).....	1,344,449	1,426,314	0.5

</TABLE>

71

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL STRATEGY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

COUNTRY	SHARES HELD	FOREIGN STOCKS & WARRANTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
UNITED KINGDOM (CONCLUDED)	23,400	British Petroleum PLC (ADR)* (21).....	\$ 1,330,220	\$ 1,497,600	0.6%
	195,000	British Telecommunications PLC(3).....	1,293,218	1,360,351	0.5
	285,000	General Electric PLC(7).....	1,430,390	1,436,394	0.5
	194,000	GKN PLC(3).....	1,405,238	1,513,945	0.6
	347,000	Hanson PLC(6).....	1,316,828	1,374,481	0.5
	552,000	Hillsdown Holdings PLC(6).....	1,285,749	1,280,894	0.5
	127,000	Imperial Chemical Industries PLC(5).....	1,440,295	1,499,771	0.6
	437,000	Lucas Industries PLC(3).....	985,970	1,240,101	0.5
			12,949,014	13,894,966	5.3
		TOTAL FOREIGN STOCKS & WARRANTS.....	112,642,266	123,344,457	45.8

<CAPTION>

COUNTRY	FACE AMOUNT**	FOREIGN BONDS				
<S>	<C>	<C>	<C>	<C>	<C>	
AUSTRALIA	A \$	1,625,000	Queensland Treasury Corp., 8.00% due 7/14/1999(1).....	1,165,025	1,180,729	0.4
		3,500,000	Queensland Treasury Corp., 8.00% due 5/14/2003(1).....	2,520,859	2,554,977	0.9
				3,685,884	3,735,706	1.3
CANADA	C \$	7,800,000	Government of Canada, 7.25% due 6/01/2003(1).....	6,102,682	6,172,056	2.3
FRANCE	Ffr	2,000,000	French Government "OAT", 8.125% due 5/25/1999(1).....	386,664	384,595	0.1
		8,880,000	French Government "OAT", 8.50% due 4/25/2003(1).....	1,773,338	1,806,215	0.7
				2,160,002	2,190,810	0.8
ITALY	Lit	1,000,000,000	Buoni Poliennali del Tesoro, 11.50% due 3/01/1998(1).....	663,339	639,382	0.2
		3,100,000,000	Buoni Poliennali del Tesoro, 12.00% due 1/01/1998(1).....	2,119,044	2,015,283	0.7
				2,782,383	2,654,665	0.9
SWEDEN	Skr	6,000,000	Government of Sweden(1): 11.00% due 1/21/1999.....	854,936	856,925	0.3
		9,500,000	10.75% due 1/23/1997.....	1,303,345	1,277,768	0.5
				2,158,281	2,134,693	0.8

</TABLE>

72

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL STRATEGY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

COUNTRY	FACE AMOUNT**	FOREIGN BONDS				
<S>	<C>	<C>	<C>	<C>	<C>	
UNITED KINGDOM	L	2,190,000 75,000	UK Gilt, 7.25% due 3/30/1998 (11)..... 9.75% due 8/27/2002 (11).....	\$ 3,400,346 149,409	\$ 3,440,639 136,657	1.3 % 0.1
				3,549,755	3,577,296	1.4
			TOTAL FOREIGN BONDS.....	20,438,987	20,465,226	7.5
			US GOVERNMENT OBLIGATIONS			
US GOVERNMENT OBLIGATIONS	\$	13,275,000 500,000 300,000 700,000 1,400,000 7,175,000 8,000,000	US Treasury Notes: 5.50% due 4/15/2000..... 6.375% due 1/15/2000..... 7.875% due 8/15/2001..... 7.50% due 11/15/2001..... 6.375% due 8/15/2002..... 6.25% due 2/15/2003..... 5.75% due 8/15/2003.....	13,476,063 510,859 304,953 714,297 1,383,906 7,371,895 8,168,984	13,391,156 525,391 341,531 781,047 1,460,157 7,412,672 7,973,752	5.0 0.2 0.1 0.3 0.5 2.7 3.0
			TOTAL US GOVERNMENT OBLIGATIONS.....	31,930,957	31,885,706	11.8

</TABLE>

73

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL STRATEGY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<S>	FACE AMOUNT**	SHORT-TERM SECURITIES	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<C>	<C>	<C>	<C>	<C>	<C>
COMMERCIAL PAPER***	\$ 10,000,000	Bank One Diversified Services, 3.20% due 1/28/1994.....	\$ 9,976,000	\$ 9,976,000	3.7%
	10,000,000	Ciesco L.P., 3.20% due 2/10/1994.....	9,964,444	9,964,444	3.7
	9,460,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	9,458,308	9,458,308	3.5
	4,000,000	Hertz Funding Corp., 3.25% due 1/12/1994.....	3,996,028	3,996,028	1.5
	6,000,000	PHH Corp., 3.35% due 1/10/1994.....	5,994,975	5,994,975	2.2
	6,100,000	Xerox Credit Corp., 3.35% due 1/14/1994.....	6,092,621	6,092,621	2.3
		TOTAL SHORT-TERM SECURITIES.....	45,482,376	45,482,376	16.9
		TOTAL INVESTMENTS.....	\$ 249,630,206	261,347,834	96.9
		OTHER ASSETS LESS LIABILITIES.....		8,279,347	3.1
		NET ASSETS.....		\$ 269,627,181	100.0%

</TABLE>

* American Depositary Receipt (ADR).

** Denominated in US dollars unless otherwise indicated.

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

(a) Formerly Communications Satellite Corp.

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

+ Non-income producing security.

Corresponding industry groups for foreign stocks and bonds:

- | | |
|-----------------------------|---------------------|
| (1) Banking | (17) Multi-Industry |
| (2) Building & Construction | (18) Natural Gas |
| | (19) Packaging |

(3) Business & Public Service	(20) Paper
(4) Capital Goods	(21) Petroleum
(5) Chemicals	(22) Pharmaceutical
(6) Diversified	(23) Photography
(7) Electrical Equipment	(24) Printing & Publishing
(8) Electronics	(25) Retail Stores
(9) Food	(26) Shipping
(10) Government Bonds	(27) Telecommunications
(11) Government Agencies	(28) Toys
(12) Housing	(29) Utilities
(13) Insurance	(30) Utilities--Electric
(14) Machinery	(31) Advertising
(15) Miscellaneous	(32) Trucking
(16) Miscellaneous Capital	(33) Real Estate

Goods

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL UTILITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (IN US DOLLARS)

<TABLE> <CAPTION>							
COUNTRY <S>	INDUSTRIES <C>	SHARES HELD <C>	COMMON STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>	
ARGENTINA	TELECOMMUNICATIONS	900	+Central Costanera S.A.....	\$ 21,600	\$ 27,418	0.0%	
		21,600	+Telecom Argentina Stet, S.A. (ADR)*.....	924,319	1,360,800	1.3	
		19,000	+Telefonica de Argentina S.A. (ADR)*.....	940,801	1,396,500	1.3	
			TOTAL COMMON STOCKS IN ARGENTINA.....	1,866,720	2,784,718	2.6	
AUSTRALIA	UTILITIES--GAS	342,049	Australian Gas & Light Co., Ltd.....	947,000	1,044,669	1.0	
			TOTAL COMMON STOCKS IN AUSTRALIA.....	947,000	1,044,669	1.0	
AUSTRIA	UTILITIES	4,300	Energie Versorgung Niederosterreich AG (EVN).....	460,213	552,051	0.5	
			TOTAL COMMON STOCKS IN AUSTRIA.....	460,213	552,051	0.5	
CANADA	TELECOMMUNICATIONS	2,400	BC Telecom, Inc.....	43,814	45,997	0.0	
	UTILITIES--GAS	53,100	Transcanada Pipeline Co., Ltd.....	825,380	816,413	0.8	
		TOTAL COMMON STOCKS IN CANADA.....	869,194	862,410	0.8		
CHILE	TELECOMMUNICATIONS	14,400	Compania de Telefonos de Chile, S.A. (ADR)*.....	1,254,995	1,467,000	1.4	
	UTILITIES--ELECTRIC	29,700	+Distribuidora Chilectra Metropolitana, S.A. (ADR)*.....	872,213	1,219,482	1.2	
		37,500	Enersis S.A. (ADR)*.....	799,661	881,250	0.8	
				1,671,874	2,100,732	2.0	
	TOTAL COMMON STOCKS IN CHILE.....	2,926,869	3,567,732	3.4			
FRANCE	UTILITIES--ELECTRIC	3,537	+Compagnie Generale des Eaux (Ord.).....	1,608,201	1,747,870	1.7	
			TOTAL COMMON STOCKS IN FRANCE.....	1,608,201	1,747,870	1.7	
HONG KONG	TELECOMMUNICATIONS	894,000	Hong Kong				

			Telecommunications Ltd. PLC.....	1,646,544	1,886,857	1.8
UTILITIES--ELECTRIC	538,200		China Light & Power Co., Ltd.....	3,285,897	3,937,369	3.8
	253,500		Hong Kong Electric Holdings, Ltd.....	681,517	1,058,575	1.0
				3,967,414	4,995,944	4.8
UTILITIES--GAS	329,000		The Hong Kong & China Gas Co. Ltd.....	755,615	954,241	0.9
			TOTAL COMMON STOCKS IN HONG KONG.....	6,369,573	7,837,042	7.5

</TABLE>

75

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL UTILITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

COUNTRY <S>	INDUSTRIES <C>	SHARES HELD <C>	COMMON STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
ITALY	TELECOMMUNICATIONS	694,900	Societa Finanziara Telefonica S.p.A. (STET).....	\$ 1,415,223	\$ 1,404,842	1.3%
		652,600	Societa Italiana Esercizio Telecom S.p.A. (SIP)....	1,415,407	1,369,205	1.3
				2,830,630	2,774,047	2.6
	UTILITIES--GAS	453,400	Italgas Torino.....	1,362,668	1,309,449	1.3
			TOTAL COMMON STOCKS IN ITALY.....	4,193,298	4,083,496	3.9
MALAYSIA	TELECOMMUNICATIONS	139,000	Telekom Malaysia BHD.....	962,438	1,140,910	1.1
	UTILITIES	148,000	Tenaga Nasional BHD.....	738,712	1,060,873	1.0
			TOTAL COMMON STOCKS IN MALAYSIA.....	1,701,150	2,201,783	2.1
MEXICO	TELECOMMUNICATIONS	25,000	Telefonos de Mexico S.A. de C.V. (Telemex) (ADR)*.....	1,481,566	1,687,500	1.6
			TOTAL COMMON STOCKS IN MEXICO.....	1,481,566	1,687,500	1.6
NEW ZEALAND	TELECOMMUNICATIONS	31,800	Telecom Corporation of New Zealand Ltd. (ADR)*.....	1,442,105	1,609,875	1.5
			TOTAL COMMON STOCKS IN NEW ZEALAND.....	1,442,105	1,609,875	1.5
PHILIPPINES	TELECOMMUNICATIONS	18,800	Philippine Long Distance Telephone Co. (ADR)*....	1,057,611	1,525,150	1.5
			TOTAL COMMON STOCKS IN THE PHILIPPINES.....	1,057,611	1,525,150	1.5
SPAIN	TELECOMMUNICATIONS	23,200	Telefonica de Espana S.A. (ADR)*.....	844,184	904,800	0.9
	UTILITIES--ELECTRIC	36,400	Empresa Nacional de Electricidad, S.A. (ADR)* (Endesa).....	1,634,684	1,729,000	1.7
		136,900	Iberdrola I S.A.....	861,792	980,933	0.9
				2,496,476	2,709,933	2.6
			TOTAL COMMON STOCKS IN SPAIN.....	3,340,660	3,614,733	3.5

THAILAND	TELECOMMUNICATIONS	2,000	+TelecomAsia Corp. Public Co., Ltd. (ADR).....	43,740	106,500	0.1
TOTAL COMMON STOCKS IN THAILAND.....				43,740	106,500	0.1

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL UTILITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

COUNTRY <S>	INDUSTRIES <C>	SHARES HELD <C>	COMMON STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>		
UNITED KINGDOM	TELECOMMUNICATIONS	10,000	British Telecommunications PLC (ADR)*.....	\$ 741,450	\$ 711,250	0.7%		
		57,000	British Telecommunications PLC (Ordinary).....	406,712	397,641	0.4		
		248,140	British Telecommunications PLC (Part Pay).....	735,211	792,182	0.8		
		11,000	Vodafone Group PLC (ADR)*.....	980,210	981,750	0.9		
		TOTAL COMMON STOCKS IN THE UNITED KINGDOM.....				2,863,583	2,882,823	2.8
UNITED STATES	TELECOMMUNICATIONS	42,800	American Telephone & Telegraph Co.....	2,405,105	2,247,000	2.1		
		13,400	Ameritech Corp.....	1,097,333	1,028,450	1.0		
		18,800	Bell Atlantic Corp.....	1,145,785	1,109,200	1.1		
		19,700	BellSouth Corp.....	1,149,084	1,140,138	1.1		
		31,500	GTE Corp.....	1,170,878	1,102,500	1.1		
		40,100	MCI Communications Corp.....	1,072,528	1,130,319	1.1		
		25,000	NYNEX Corp.....	1,122,519	1,003,125	1.0		
		21,400	Pacific Telesis Group....	1,160,333	1,155,600	1.1		
		26,300	Southwestern Bell Corp....	1,118,830	1,091,450	1.0		
		39,900	US West, Inc.....	1,863,861	1,830,412	1.7		
						13,306,256	12,838,194	12.3
			UTILITIES--ELECTRIC	45,600	Allegheny Power System, Inc.....	1,237,676	1,208,400	1.2
				20,500	Boston Edison Co.....	650,444	609,875	0.6
				38,300	Central & SouthWest Corp.....	1,237,363	1,158,575	1.1
				18,300	Consolidated Edison Co. of N.Y.....	669,290	587,888	0.6
14,500	Detroit Edison Co.....			512,573	435,000	0.4		
26,400	Dominion Resources, Inc.....			1,242,516	1,197,900	1.1		
36,000	Duke Power Co.....			1,534,156	1,525,500	1.5		
17,300	Entergy Corp.....			671,377	622,800	0.6		
39,200	General Public Utilities Corp.....			1,252,521	1,210,300	1.2		
44,100	Houston Industries, Inc.....			2,115,495	2,100,262	2.0		
23,900	Long Island Lighting Co.....			668,586	582,562	0.6		
18,700	New York State Electric & Gas Corp.....			667,501	575,025	0.5		
37,000	NIPSCO Industries, Inc....			1,226,985	1,216,375	1.2		
24,300	Northeast Utilities Co....			665,976	577,125	0.5		
53,800	PacifiCorp.....			1,068,916	1,035,650	1.0		
22,307	Pennsylvania Power & Light Co.....	673,784	602,289	0.6				
39,800	Philadelphia Electric Co.....	1,234,908	1,203,950	1.1				
46,300	PSI Resources, Inc.....	1,202,688	1,226,950	1.1				
36,000	Public Service Co. of Colorado.....	1,101,146	1,156,500	1.1				
22,900	Rochester Gas & Electric Corp.....	670,864	601,125	0.6				

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL UTILITY FOCUS FUND
 SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

COUNTRY <S>	INDUSTRIES <C>	SHARES HELD <C>	COMMON STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
UNITED STATES (CONCLUDED)	UTILITIES--ELECTRIC (CONCLUDED)	26,000	SCBcorp.....	\$ 586,637	\$ 520,000	0.5%
		26,600	Southern Co.....	1,192,679	1,173,725	1.1
		14,000	Texas Utilities Co.....	670,007	605,500	0.6
		34,600	Western Resources Co.....	1,226,601	1,206,675	1.2
				23,980,689	22,939,951	22.0
	UTILITIES--GAS	33,000	The Brooklyn Union Gas Co.....	855,855	903,375	0.9
		28,000	The Coastal Corp.....	761,928	787,500	0.8
		18,000	Consolidated Natural Gas Co.....	898,489	846,000	0.8
		29,800	El Paso Natural Gas Co....	1,110,642	1,072,800	1.0
		48,700	Enron Corp.....	1,621,393	1,412,300	1.3
		11,000	New Jersey Resources Corp.....	312,335	284,625	0.3
		31,100	NICOR Inc.....	886,928	870,800	0.9
		30,500	Questar Corp.....	1,157,336	1,006,500	1.0
		40,200	Sonat, Inc.....	1,300,425	1,160,775	1.1
		11,900	Washington Gas Light Co.....	524,002	490,875	0.5
45,600		Williams Co., Inc.....	1,299,178	1,111,500	1.1	
			10,728,511	9,947,050	9.7	
			TOTAL COMMON STOCKS IN THE UNITED STATES.....	48,015,456	45,725,195	44.0
			TOTAL INVESTMENTS IN COMMON STOCKS.....	79,206,939	81,833,547	78.5

<CAPTION>

COUNTRY <S>	INDUSTRIES <C>	FACE AMOUNT <C>	FIXED-INCOME SECURITIES <C>	COST <C>	VALUE <C>	PERCENT OF NET ASSETS <C>
AUSTRALIA	TELECOMMUNICATIONS	\$1,040,000	Telstra Corp. Ltd., 6.50% due 7/31/2003.....	1,084,062	1,039,896	1.0
			TOTAL FIXED-INCOME SECURITIES IN AUSTRALIA.....	1,084,062	1,039,896	1.0
KOREA	ELECTRIC	1,000,000	Korea Electric Power Corp., 6.375% due 12/01/2020.....	985,510	968,258	0.9
			TOTAL FIXED-INCOME SECURITIES IN KOREA.....	985,510	968,258	0.9
			TOTAL INVESTMENTS IN FIXED-INCOME SECURITIES.....	2,069,572	2,008,154	1.9

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--GLOBAL UTILITY FOCUS FUND
 SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED) (IN US DOLLARS)

<TABLE>
<CAPTION>

COUNTRY <S>	INDUSTRIES <C>	FACE AMOUNT <C>	FIXED-INCOME SECURITIES <C>	COST <C>	VALUE <C>	PERCENT OF NET ASSETS <C>
			TOTAL INVESTMENTS IN FIXED-INCOME SECURITIES.....	2,069,572	2,008,154	1.9

COUNTRY <S>	<C>	AMOUNT <C>	SHORT-TERM SECURITIES <C>	COST <C>	(NOTE 1A) <C>	NET ASSETS <C>
UNITED STATES (CONCLUDED)	COMMERCIAL PAPER**	\$3,500,000	BASF Corp., 3.23% due 1/11/1994.....	\$ 3,496,546	\$ 3,496,546	3.3%
		3,500,000	Cooper Industries, Inc., 3.20% due 1/14/1994.....	3,495,644	3,495,644	3.3
		2,000,000	Corporate Bond Asset Fund, 3.20% due 1/28/1994.....	1,995,022	1,995,022	1.9
		4,000,000	Delaware Funding Corp., 3.23% due 1/10/1994.....	3,996,411	3,996,411	3.8
		823,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	822,779	822,779	0.8
		3,000,000	Hertz Funding Corp., 3.35% due 1/10/1994.....	2,997,208	2,997,208	2.9
		3,500,000	K mart Corp., 3.30% due 1/18/1994.....	3,494,225	3,494,225	3.3
		2,000,000	Metlife Funding Inc., 3.30% due 1/04/1994.....	1,999,267	1,999,267	1.9
		3,500,000	PHH Corp., 3.25% due 1/20/1994.....	3,493,681	3,493,681	3.3
		3,500,000	Sara Lee Corp., 3.30% due 1/04/1994.....	3,498,717	3,498,717	3.3
				29,289,500	29,289,500	27.8
TOTAL INVESTMENTS IN SHORT-TERM SECURITIES...				29,289,500	29,289,500	27.8
TOTAL INVESTMENTS.....				\$110,566,011	113,131,201	108.2
LIABILITIES IN EXCESS OF OTHER ASSETS.....					(8,613,888)	(8.2)
NET ASSETS.....					\$104,517,313	100.0%

</TABLE>

* American Depositary Receipt (ADR).

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

+ Restricted securities as to resale. The value of the Fund's investment in restricted securities was approximately \$4,111,000, representing 3.9% of net assets.

<TABLE>
<CAPTION>

<S>	ISSUE	ACQUISITION DATE <C>	COST <C>	VALUE (NOTE 1A) <C>
	Central Costranera S.A.....	12/17/93	\$ 21,600	\$ 27,418
	Distribuidora Chilectra Metropolitana, S.A. (ADR).....	8/06/93-12/21/93	872,213	1,219,482
	Telecom Argentina Stet, S.A. (ADR).....	10/05/93-12/22/93	924,319	1,360,800
	TelecomAsia Corp., Public Co., Ltd.....	11/15/93	43,740	106,500
	Telefonica de Argentina S.A. (ADR).....	7/02/93-12/22/93	940,801	1,396,500
	TOTAL.....		\$2,802,673	\$4,110,700

</TABLE>

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

S&P MOODY'S

VALUE

INDUSTRIES <S>	RATING <C>	RATING <C>	FACE AMOUNT <C>	ISSUE <C>	COST <C>	(NOTE 1A) <C>

AIRLINES--4.3%				Delta Air Lines Inc.:		
	BB+	Baa3	\$ 1,000,000	9.300% due 1/02/2010.....	\$ 987,700	\$ 999,148
	BB+	Baa3	500,000	10.50% due 4/30/2016.....	506,875	536,110
				United Air Lines, Inc.:		
	BB+	Baa1	1,000,000	9.35% due 4/07/2016.....	1,016,260	1,060,000
	BB+	Baa1	995,000	9.21% due 1/21/2017.....	991,938	1,003,487
				USAir, Inc.:		
	B+	Ba3	450,000	10.00% due 7/01/2003.....	450,000	432,000
	BB+	Ba2	1,000,000	9.82% due 1/01/2013.....	1,010,000	985,000
	BB+	Ba2	2,000,000	10.375% due 3/01/2013.....	2,000,000	2,001,926
					-----	-----
					6,962,773	7,017,671

AUTOMOBILE PARTS--0.3%	B-	B2	500,000	Exide Corp., 10.75% due 12/15/2002.....	518,750	547,500

BROADCASTING & PUBLISHING--5.0%	B	B2	250,000	Century Communications, Inc., 11.875% due 10/15/2003.....	250,000	287,500
	BB-	Ba2	1,000,000	Continental Cablevision Inc., 9.50% due 8/01/2013.....	1,000,000	1,120,000
	BB-	Ba3	750,000	Heritage Media Services Inc., 11.00% due 6/15/2002.....	789,062	830,625
	BB-	Ba2	250,000	K-III Communications Corp., 10.625% due 5/01/2002.....	250,000	272,500
	B	B3	500,000	The Katz Corp., 12.75% due 11/15/2002.....	510,625	556,250
	CCC+	B3	1,500,000	SCI Television Inc., 11.00% due 6/30/2005.....	1,557,500	1,560,000
	B+	B3	2,000,000	Sinclair Broadcasting Group, Inc., 10.00% due 12/15/2003.....	2,000,000	2,055,000
	BB-	B1	1,500,000	World Color Press Inc., 9.125% due 3/15/2003.....	1,511,250	1,556,250
					-----	-----
					7,868,437	8,238,125

BUILDING & CONSTRUCTION--1.0%	B	B1	250,000	K Hovnanian Enterprises Inc., 11.250% due 4/15/2002.....	247,812	273,437
	BB+	Ba2	250,000	Ryland Group Inc., 10.50% due 7/15/2002.....	246,260	265,000
	B+	Ba3	1,000,000	U.S. Home Corp., 9.75% due 6/15/2003.....	1,000,000	1,032,500
					-----	-----
					1,494,072	1,570,937

BUILDING MATERIALS--1.0%	B+	B3	1,500,000	Pacific Lumber Co., 10.50% due 3/01/2003.....	1,527,813	1,556,250

</TABLE>

80

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

INDUSTRIES <S>	S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	ISSUE <C>	COST <C>	VALUE (NOTE 1A) <C>

BUILDING PRODUCTS--2.4%	B	Ba3	\$ 250,000	American Standard Inc.:	\$ 250,000	\$ 262,812
	B+	Ba3	750,000	9.875% due 6/01/2001.....	755,625	778,125
	B	Ba3	1,250,000	Inter-City Products Corp., 9.75% due 3/01/2000.....	1,221,250	1,253,125
	B+	B1	500,000	National Gypsum Co., 10.00% due 7/01/2003.....	500,938	507,500
	B+	B2	250,000	USG Corp.:	251,563	257,500
	B-	B3	1,000,000	10.25% due 12/15/2002.....	904,375	925,000
				8.75% due 3/01/2017.....	-----	-----
					3,883,751	3,984,062

CAPITAL GOODS--1.0%	B+	B1	1,660,000	Essex Group, Inc., 10.00% due 5/01/2003.....	1,668,925	1,674,525

CELLULAR	B-	B3	1,500,000	Dial Page Inc., 12.25%		
TELEPHONES--1.0%				due 2/15/2000.....	1,586,125	1,672,500

CHEMICALS--3.4%	B	B2	1,250,000	Agricultural Minerals Co., L.P., 10.75% due 9/30/2003.....	1,250,000	1,318,750
	B+	Ba3	1,735,000	G-I Holdings, Inc., 11.38% due 10/01/1998+.....	1,025,835	1,113,653
	B+	B2	2,500,000	Harris Chemical Corp., 10.25% due 7/15/2001*.....	2,013,696	2,146,875
	B-	B3	1,750,000	Indespec Chemical Corp., 11.50% due 12/01/2003*+.....	1,005,309	1,023,750
					5,294,840	5,603,028

COMMUNICATIONS-- 0.7%	B-	B3	1,650,000	Panamsat L.P., 11.38% due 8/01/2003*.....	971,469	1,105,500

CONGLOMERATES-- 8.5%	B	Caa	317,000	Collins & Aikman Group, Inc., 7.50% due 1/31/2005.....	273,790	312,641
	B+	Ba2	845,000	Coltec Industries, Inc.: 9.75% due 4/01/2000.....	895,700	903,094
	B+	B1	750,000	10.25% due 4/01/2002.....	796,250	808,125
	B+	B1	450,000	Foamex L.P.: 11.25% due 10/01/2002.....	458,875	492,750
	BB-	B1	750,000	9.50% due 6/01/2000.....	732,187	787,500
	NR	NR	500,000	Gillette Holdings Inc., 12.25% due 6/30/2002.....	515,000	547,500
	B+	Ba3	1,750,000	Interco Inc.: 10.00% due 6/01/2001.....	1,770,000	1,780,625
	B	B2	1,000,000	9.00% due 6/01/2004.....	973,906	1,002,500
	B-	B3	1,500,000	Interlake Corp., 12.125% due 3/01/2002.....	1,537,500	1,518,750
	B+	B3	3,000,000	Jordan Industries Inc., 10.375% due 8/01/2003.....	2,993,000	3,060,000
	NR	NR	150,000	MacAndrews & Forbes Group, Inc., 13.00% due 3/01/1999.....	128,373	150,937
	BB-	Ba3	250,000	Reeves Industries, Inc., 11.00% due 7/15/2002.....	248,190	271,250
	BB	B2	750,000	Sequa Corp., 9.625% due 10/15/1999.....	740,625	787,500

</TABLE>

81

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

INDUSTRIES	S&P RATING	MOODY'S RATING	FACE AMOUNT	ISSUE	COST	VALUE (NOTE 1A)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CONGLOMERATES (CONCLUDED)	BB-	Ba3	\$ 1,500,000	Sherritt Gordon Ltd, 9.75% due 4/01/2003.....	\$ 1,503,438	\$ 1,515,000
					13,566,834	13,938,172

CONSUMER PRODUCTS--3.6%	NR	NR	1,250,000	Coleman Holdings Inc., 11.09% due 5/27/1998+.....	778,440	809,375
	NR	NR	750,000	Formica Corp.: 13.06% due 10/01/2001+.....	673,711	708,750
	NR	NR	750,000	13.125% due 9/15/2005+.....	750,000	761,719
	NR	NR	500,000	Liggett Group, Inc., 11.50% due 2/01/1999.....	451,760	370,000
	B-	B3	3,000,000	Revlon Worldwide Corp., 14.84% due 3/15/1998*.....	1,670,677	1,545,000
	B+	B1	1,520,000	Sealy Corp., 9.50% due 5/01/2003.....	1,548,425	1,592,200
					5,873,013	5,787,044

CONTAINERS--4.0%	B	B2	1,000,000	Anchor Glass Container Corp., 9.875% due 12/15/2008.....	1,000,000	1,025,000
	B+	B3	250,000	IVEX Packaging Corp., 12.50% due 12/15/2002.....	248,247	272,500
	BB	Ba3	750,000	Owens-Illinois, Inc., 11.00% due 12/01/2003.....	855,938	864,375
	B+	Ba3	250,000	Plastic Containers, Inc., 10.75%		

	B-	B3	2,660,000	due 4/01/2001.....	251,875	264,375	
				Silgan Holdings, Inc., 13.00%			
				due 6/15/1996*.....	2,042,513	2,061,500	
	B+	B1	1,000,000	Stone Consolidated Corp., 10.25%			
				due 12/15/2000.....	1,000,000	1,010,000	
	B+	Ba3	1,000,000	Sweetheart Cup Co., 9.625%			
				due 9/01/2000.....	1,000,000	1,055,000	
					-----	-----	
					6,398,573	6,552,750	

CONVERTIBLE	B-	B1	1,750,000	Employee Benefit Plans, Inc., 6.75%			
BONDS+--+1.8%				due 7/31/2006(1).....	1,194,325	1,262,188	
	B-	B3	200,000	MEDIQ Inc., 7.25%			
				due 6/01/2006(1).....	138,000	173,500	
	B	B2	1,200,000	OHM Corp., 8.00%			
				due 10/01/2006(2).....	1,070,500	1,177,500	
	B+	B2	250,000	UNC Inc., 7.50%			
				due 3/31/2006(3).....	145,625	238,125	
					-----	-----	
					2,548,450	2,851,313	

ENERGY--9.8%				Clark Oil & Refining Corp.:			
	BB+	Ba2	250,000	9.50% due 9/15/2004.....	240,937	263,750	
	B+	B-	4,000,000	11.00% due 2/15/2000*.....	2,140,102	2,205,000	
	NR	NR	1,500,000	Consolidated Hydro, Inc., 11.80%			
				due 7/15/2003*+.....	868,918	892,500	
	CC	Caa	230,000	Empire, Inc., 9.00%			
				due 12/31/2007.....	124,025	201,250	
	B	B2	2,000,000	Ferrell Gas Companies, Inc., 11.625%			
				due 12/15/2003.....	2,140,420	2,177,500	
	B+	B1	600,000	Global Marine Inc., 12.75%			
				due 12/15/1999.....	616,625	669,000	

</TABLE>

82

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

INDUSTRIES	S&P RATING	MOODY'S RATING	FACE AMOUNT	ISSUE	COST	VALUE	
<S>	<C>	<C>	<C>	<C>	<C>	(NOTE 1A) <C>	
ENERGY (CONCLUDED)	BB	B1	\$ 1,080,000	Gulf Canada Resources, Ltd., 9.00%			
				due 8/15/1999.....	\$ 1,023,700	\$ 1,072,372	
	BB	B1	250,000	Maxus Energy Corp., 11.50%			
				due 11/15/2015.....	246,563	263,750	
	C	Caa	177,000	National Propane Corp., 13.125%			
				due 3/01/1999.....	139,334	176,115	
	BB-	Ba3	1,000,000	Noble Drilling Corp., 9.25%			
				due 10/01/2003.....	1,000,000	1,035,000	
	BBB-	Ba2	200,000	Oryx Energy Co., 10.375%			
				due 9/15/2018.....	198,494	215,500	
	BB-	Ba2	250,000	Rowan Companies, Inc., 11.875%			
				due 12/01/2001.....	257,500	279,375	
	BB-	Ba3	2,500,000	Seagull Energy Corp., 8.625%			
				due 8/01/2005.....	2,493,750	2,500,000	
	CCC+	Caa	250,000	Tesoro Petroleum Corp., 12.75%			
				due 3/15/2001.....	228,413	250,313	
	BB-	B1	1,750,000	Trans Texas Gas Corp., 10.50%			
				due 9/01/2000.....	1,766,875	1,846,250	
	B+	B1	2,000,000	Triton Energy Corp., 12.816%*			
				due 11/01/1997.....	1,368,257	1,400,000	
	B+	B1	500,000	Western Co. of North America, 12.875%			
				due 12/01/2002.....	513,753	595,000	
					-----	-----	
					15,367,666	16,042,675	

ENTERTAINMENT--2.7%	B-	B3	500,000	AMC Entertainment, Inc., 12.625%			
				due 8/01/2002.....	509,742	571,250	
	B+	B1	250,000	Cinemark, USA, Inc., 12.00%			
				due 6/01/2002.....	250,000	280,000	
	CCC+	B3	260,000	Fair Lanes Inc., 11.875%			
				due 8/15/1997.....	261,300	183,300	
	B	B3	1,865,000	Marvel Holdings, Inc., 11.47%			
				due 4/15/1998*.....	1,166,533	1,226,238	
	NR	Caa	1,000,000	New World Pictures, 12.25%			

	B+	B2	1,415,000	due 9/15/1998..... SPI Holdings, Inc., 11.50% due 10/01/2001*.....	967,250 1,023,178 -----	1,015,000 1,103,700 -----
					4,178,003	4,379,488

FINANCIAL--2.4%	BB	Ba1	1,500,000	Lomas Mortgage USA, 10.25% due 10/01/2002.....	1,561,250	1,582,500
	CCC+	B2	250,000	Pioneer Finance Corp., 13.50% due 12/01/1998.....	264,063	263,750
	BB-	B1	2,000,000	Reliance Group Holdings Inc., 9.75% due 11/15/2003.....	2,000,000 -----	2,065,000 -----
					3,825,313	3,911,250

FOOD & BEVERAGE--4.1%	B-	B3	400,000	Farm Fresh Inc., 7.50% due 3/01/2010.....	208,000	266,000
	BB-	Ba3	1,000,000	Del Monte Corp., 10.00% due 5/01/2003+.....	1,002,500	990,000
	B+	B2	500,000	Grand Union Co., 12.25% due 7/15/2002.....	498,750	526,250
	BB-	Ba3	250,000	P&C Food Markets, Inc., 11.50% due 10/15/2001.....	260,156	279,688

</TABLE>

83

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

INDUSTRIES <S>	S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	ISSUE <C>	COST <C>	VALUE (NOTE 1A) <C>
FOOD & BEVERAGE (CONCLUDED)	B	B2	\$ 1,000,000	Penn Traffic Co., 9.625% due 4/15/2005.....	\$ 1,013,760	\$ 1,042,500
	B-	B2	1,500,000	Pueblo Xtra, 9.50% due 8/01/2003.....	1,504,375	1,522,500
	B+	B1	1,000,000	Royal Crown Corp., 9.75% due 8/01/2000.....	1,000,000	1,030,000
	B	B2	1,000,000	Specialty Foods Corp., 10.25% due 8/15/2001.....	1,000,000 -----	1,047,500 -----
					6,487,541	6,704,438

HEALTH SERVICES--2.0%	B-	B1	750,000	Abbey Healthcare Group Inc., 9.50% due 11/01/2002.....	750,000	769,687
	BB-	Ba2	500,000	American International Group, Inc., 11.25% due 6/01/2015.....	525,625	532,500
	B+	B1	250,000	Continental Medical Systems Inc., 10.875% due 8/15/2002.....	248,125	259,375
	B+	B1	250,000	Continental Medsystems, Inc., 10.375% due 4/01/2003.....	249,687	255,000
	NR	NR	500,000	Epic Properties, Inc.: 11.375% due 7/15/2001.....	532,500	560,000
	NR	NR	98,235	11.50% due 7/15/2001.....	97,744	110,515
	B+	B1	250,000	Healthtrust Inc., 10.75% due 5/01/2002.....	255,625	280,625
	B+	B1	250,000	MEDIQ/PRN Life Support Services, Inc., 11.125% due 7/01/1999.....	250,625	263,750
	B-	B3	200,000	The Multicare Companies Inc., 12.50% due 7/01/2002.....	194,841 -----	225,000 -----
					3,104,772	3,256,452

HIGH TECHNOLOGY--0.3%	CCC+	B3	250,000	ANACOMP, Inc., 15.00% due 11/01/2000.....	240,000	288,750
	B-	B2	250,000	ComputerVision Corp., 10.875% due 8/15/1997.....	250,625 -----	230,000 -----
					490,625	518,750

HOTELS--0.6%	B-	B3	1,000,000	Red Roof Inn, 9.625% due 12/15/2003+.....	1,000,000	1,012,500

HOTELS &	B	B2	1,000,000	Aztar Corp., 11.00%		

CASINOS--4.4%

B+	B2	1,000,000	due 10/01/2002.....	1,016,250	1,020,000
			GNS Mirage Finance Corp., 9.25%		
			due 3/15/2003.....	989,687	1,047,500
NR	NR	158,000	Goldriver Hotel & Casino Finance Corp., 11.375%		
			due 8/31/1999.....	222,801	128,770
BB-	Ba3	2,500,000	Showboat Inc., 9.25%		
			due 5/01/2008.....	2,528,750	2,562,500
NR	Caa	484,000	Trump Castle Funding, Inc., 9.50%		
			due 8/15/1998(a).....	346,210	401,417

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>

<CAPTION>

INDUSTRIES <S>	S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	ISSUE <C>	COST <C>	VALUE (NOTE 1A) <C>
HOTELS & CASINOS (CONCLUDED)	B	B3	\$ 1,500,000	Trump Plaza Funding, Inc., 10.875%		
				due 6/15/2001.....	\$ 1,487,965	\$ 1,507,500
	NR	Caa	533,279	Trump Taj Mahal Funding, Inc., 11.35%		
				due 11/15/1999(a).....	401,034	501,323
					-----	-----
					6,992,697	7,169,010
INDUSTRIALS--2.8%	B	B2	2,000,000	Coca-Cola Bottling Co., 9.00%		
				due 11/15/2003.....	2,000,000	2,005,000
	BB	Ba3	1,000,000	Methanex Corp., 8.875%		
				due 11/15/2001.....	992,980	1,035,000
	B+	B2	1,500,000	Navistar Financial Co., 8.875%		
				due 11/15/1998.....	1,500,000	1,518,750
					-----	-----
					4,492,980	4,558,750
INDUSTRIAL SERVICES--3.0%	BB-	B2	2,000,000	ADT Operations, 9.25%		
				due 8/01/2003.....	2,010,000	2,060,000
				Bell & Howell Co.:		
	B-	B3	500,000	10.75% due 10/01/2002.....	507,500	548,750
	B-	B3	1,000,000	11.50% due 3/01/2005*.....	501,447	555,000
	B+	B2	750,000	Blount, Inc., 9.00%		
				due 6/15/2003.....	750,000	778,125
	NR	NR	583,200	DYN Corp., 16.00%		
				due 6/30/2003(a).....	586,005	588,776
	NA	Caa	355,900	Thermadyne Industry, Inc., 15.00%		
				due 5/01/1999(a).....	354,342	371,965
					-----	-----
					4,709,294	4,902,616
METALS & MINING--1.7%	B-	B2	1,000,000	Kaiser Aluminum Corp., 12.75%		
				due 2/01/2003.....	1,003,750	1,007,500
	B-	B3	3,000,000	Maxxam Group, Inc., 12.25%		
				due 8/01/2003*.....	1,697,537	1,717,500
					-----	-----
					2,701,287	2,725,000
PAPER--3.6%				Container Corp. of America:		
	B	B3	1,000,000	14.00% due 12/01/2001.....	1,110,000	1,118,750
	B+	B2	1,000,000	9.75% due 4/01/2003.....	1,015,000	1,037,500
	B+	B1	250,000	Fort Howard Corp., 9.25%		
				due 3/15/2001.....	250,000	257,187
	B	B3	500,000	Gaylord Container Corp., 11.50%		
				due 5/15/2001.....	500,000	535,000
	B	B1	1,250,000	Riverwood International Corp., 11.25%		
				due 6/15/2002.....	1,340,313	1,368,750
				Stone Container Corp.:		
	B-	B2	250,000	10.75% due 6/15/1997.....	240,000	231,563
	B	B1	1,000,000	12.625% due 7/15/1998.....	1,000,000	1,030,000
	B	B1	250,000	11.875% due 12/01/1998.....	249,375	254,375
					-----	-----
					5,704,688	5,833,125
PAPER & PACKAGING--0.6%	B-	Caa	2,000,000	Ivex Holdings Inc., 13.25%		
				due 3/15/2005*.....	964,800	1,010,000

POLLUTION CONTROL--0.1%	B	B1	163,000	International Technology Inc., 9.375% due 7/01/1996.....	148,330	163,815
-------------------------	---	----	---------	----------------------------------------------------------------	---------	---------

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

INDUSTRIES <S>	S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	ISSUE <C>	COST <C>	VALUE (NOTE 1A) <C>
RAILROADS--0.8%	B+	Ba3	\$ 1,250,000	Southern Pacific Rail Co., 9.375% due 8/15/2005.....	\$ 1,250,000	\$ 1,337,500
RESTAURANTS--2.6%	B-	B2	1,000,000	Flagstar Corp., 11.375% due 9/15/2003.....	1,000,000	1,035,000
	B	B2	1,500,000	Foodmaker, Inc.: 9.75% due 6/01/2002.....	1,502,812	1,526,250
	B+	Ba3	1,750,000	9.75% due 11/01/2003.....	1,722,700	1,723,750
					4,225,512	4,285,000
RETAIL SPECIALTY--2.1%	B+	B2	250,000	Bradlees, Inc., 11.00% due 8/01/2002.....	255,312	269,687
	B-	B3	1,500,000	Pamida Holdings, Inc., 11.75% due 3/15/2003.....	1,502,188	1,533,750
	B+	B1	500,000	Specialty Retailer Services Inc.: 10.00% due 8/15/2000.....	500,000	512,500
	B-	B3	1,000,000	11.00% due 8/15/2003+.....	1,000,000	1,030,000
					3,257,500	3,345,937
STEEL--1.3%	B+	B1	2,000,000	WCI Steel, Inc., 10.50% due 3/01/2002.....	2,000,000	2,080,000
TEXTILES--1.5%	CCC-	Caa	2,500,000	J.P. Stevens & Co., 9.00% due 3/01/2017.....	2,376,750	2,512,500
TRANSPORTATION SERVICES--0.6%	B+	B1	217,000	ACF Industries, Inc., 11.60% due 5/15/2000.....	207,235	218,085
	BB	Ba2	750,000	Eletson Holdings Inc., 9.25% due 11/15/2003.....	750,000	763,125
					957,235	981,210
TRANSPORTATION--1.7%	BB-	B1	1,500,000	International Shipholding Corp., 9.00% due 7/01/2003.....	1,498,750	1,533,750
	B+	Ba3	1,250,000	Viking Star Shipping Co., 9.625% due 7/15/2003+.....	1,252,813	1,289,063
					2,751,563	2,822,813
UTILITIES--3.7%	BB+	Ba1	1,500,000	CTC Mansfield Funding, 11.125% due 9/30/2016.....	1,612,500	1,626,142
	BB	Ba2	928,692	Midland Cogeneration Venture L.P.: 10.33% due 7/23/2002+.....	958,875	958,810
	B	B1	250,000	11.75% due 7/23/2005(a).....	250,000	271,299
	BB	Ba3	1,750,000	Texas New Mexico: 9.25% due 9/15/2000.....	1,750,000	1,831,478
	B+	B2	250,000	10.75% due 9/15/2003.....	255,000	264,856
	NR	NR	570,386	Tucson Electric Power Co.: (Series B), 10.21067% due 1/01/2009+(a).....	529,034	550,067
	NR	NR	500,000	(Series C), 10.73239% due 1/01/2013+(a).....	461,050	488,125
					5,816,459	5,990,777
				TOTAL INVESTMENTS IN CORPORATE BONDS--90.4%.....	142,966,840	147,642,983

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

INDUSTRIES <S>	SHARES HELD <C>	PREFERRED STOCKS <C>	COST <C>	VALUE (NOTE 1A) <C>
BROADCASTING & PUBLISHING--0.3%	9,100	K-III Communications Corp.....	\$ 249,113	\$ 250,819
	2,639	K-III Communications Corp.(a).....	270,778	266,531
			519,891	517,350
FINANCIAL SERVICES--0.0%	222	Southmark Corp. (Series A)++.....	79,876	1,110
		TOTAL INVESTMENTS IN PREFERRED STOCKS--0.3%.....	599,767	518,460
		COMMON STOCKS		
DEFENSE--0.0%	78	+Empire of Carolina, Inc.++.....	4,056	507
ENERGY--0.0%	4,900	Petrolane Inc.....	56,963	47,163
FINANCIAL SERVICES--0.1%	4,384	Southmark Corp.....	130,874	0
FOOD & BEVERAGE--0.1%	4,060	Doskocil Companies, Inc.....	238,230	44,406
	7,063	RJR Holdings Corp.....	68,864	45,027
			307,094	89,433
HOTELS & CASINOS--0.0%	1,095	Buckhead Corp. of America+.....	2,738	2,738
	2,500	Goldriver Hotel & Casino Finance Corp.....	18,603	10,156
	500	Trump Taj Mahal Holding Corp. (Class A).....	250	11,375
			21,591	24,269
PAPER--0.0%	5,280	Gaylord Container Corp. (Class A)...	14,190	24,090
STEEL--0.0%	1,259	LTV Corp.....	141,540	20,301
		TOTAL INVESTMENTS IN COMMON STOCKS--0.2%.....	676,308	205,763
		TRUSTS, WARRANTS & RIGHTS		
ENERGY--0.0%	833	UGI Corp. (Warrants) (b)++.....	3,644	937
HIGH TECHNOLOGY--0.0%	7,588	+Anacomp, Inc. (Warrants) (b)++.....	10,000	19,918
HOTEL--0.0%	250	+Goldriver Hotel & Casino Finance Corp. (Liquidating Trust)++.....	6,000	4,282
INDUSTRIAL--0.0%	95	Thermadyne Industries, Inc. (Warrants) (b)++.....	945	413
PAPER--0.1%	28,046	Gaylord Container Corp. (Warrants) (b)++.....	59,598	101,667
		TOTAL INVESTMENTS IN TRUSTS, WARRANTS & RIGHTS--0.1%.....	80,187	127,217

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--HIGH CURRENT INCOME FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE>
<CAPTION>

<S>	FACE AMOUNT <C>	SHORT-TERM SECURITIES <C>	COST <C>	VALUE (NOTE 1A) <C>
US GOVERNMENT & AGENCY OBLIGATIONS--DISCOUNT--1.8%	\$ 3,000,000	Federal Home Loan, 3.17% due 1/10/1994.....	\$ 2,997,359	\$ 2,997,359
COMMERCIAL PAPER**--5.0%	5,153,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	5,151,617	5,151,617
	3,000,000	Goldman Sachs Group L.P., 3.40% due 1/21/1994.....	2,994,050	2,994,050
			8,145,667	8,145,667
		TOTAL INVESTMENTS IN SHORT-TERM SECURITIES--6.8%.....	11,143,026	11,143,026
		TOTAL INVESTMENTS--97.7%.....	\$ 155,466,128	159,637,449
		OTHER ASSETS LESS LIABILITIES--2.3%.....		3,790,723
		NET ASSETS--100.0%.....		\$ 163,428,172

</TABLE>

- * Represents the yield to maturity at time of purchase.
** Commercial Paper is traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund.
(a) Represents a pay-in-kind security which may pay interest/dividend in additional face/shares.
(b) Warrants entitle the portfolio to purchase a predetermined number of shares of common stock/face amount of bonds. The purchase price and number of shares/face amount are subject to adjustment under certain conditions until the expiration date.
+ Restricted security as to resale. The value of the Fund's investment in restricted securities was approximately \$11,656,000, representing 7.1% of net assets.

<TABLE>
<CAPTION>

<S>	ISSUE	ACQUISITION DATE <C>	COST <C>	VALUE (NOTE 1A) <C>
Anacomp, Inc. (Warrants).....		10/23/1990	10,000	19,918
Buckhead Corp. of America (Common Stock).....		12/29/1992	2,738	2,738
Coleman Holdings Inc., 11.09% due 5/27/1998.....		10/07/1993	778,440	809,375
Consolidated Hydro, Inc., 11.80% due 7/15/2003.....		7/08/1993	868,918	892,500
Del Monte Corp., 10.00% due 5/01/2003.....		4/22/93-7/26/1993	1,002,500	990,000
Empire of Carolina, Inc. (common stock).....		3/22/1989	4,056	507
Formica Corp., 13.06% due 10/01/2001.....		6/30/1993	673,711	708,750
Formica Corp., 13.125% due 9/15/2005.....		9/17/1993	750,000	761,719
G-I Holdings, Inc., 11.38% due 10/01/1998.....		9/28/1993	1,025,835	1,113,653
Goldriver Hotel & Casino Finance Corp. (Liquidating Trust).....		8/31/1992	6,000	4,282
Indespec Chemical Corp., 11.50% due 12/01/2003.....		11/19/1993	1,005,309	1,023,750
Midland Cogeneration Venture L.P., 10.33% due 7/23/2002.....		6/10/93	958,875	958,810
Red Roof Inn, 9.625% due 12/15/2003.....		12/08/1993	1,000,000	1,012,500
Stone Container Corp., 12.625% due 7/15/1998.....		6/24/93	1,000,000	1,030,000
Tucson Electric Co. (Series B) 10.2106% due 1/01/2009.....		6/16/1993	529,034	550,067
Tucson Electric Co. (Series C) 10.73239% due 1/01/2013.....		3/01/1993	461,050	488,125
Viking Star Shipping Co., 9.625% due 7/15/2003.....		7/08/93-9/09/1993	1,252,813	1,289,063
TOTAL.....			\$ 11,329,279	\$ 11,655,757

</TABLE>

- ++ Non-income producing security.
++ Corresponding industry groups for convertible bonds:
(1) Healthcare
(2) Waste Management
(3) Conglomerates
Ratings of Issuers shown here have not been audited by Deloitte & Touche.
See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (IN US DOLLARS)

<TABLE>
<CAPTION>

LATIN AMERICA	INDUSTRIES	SHARES HELD/ FACE AMOUNT	STOCKS, BONDS, WARRANTS & RIGHTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
BRAZIL	TELECOMMUNICATIONS	22,000	Telecomunicacoes Brasileiras S.A. Telebras PN (Preferred) (ADR) (a)+.....	\$ 739,050	\$ 739,750	1.0%
TOTAL INVESTMENTS IN BRAZILIAN STOCKS.....				739,050	739,750	1.0
CHILE	MISCELLANEOUS	1,000	Enersis S.A. (ADR) (a).....	18,000	23,500	0.0
TOTAL INVESTMENTS IN CHILEAN STOCKS.....				18,000	23,500	0.0
MEXICO	BANKING	21,000	Servicios Financieros Quadrum S.A. de C.V. (ADR) (a)+.....	480,375	675,938	0.9
	BEVERAGES	135,000	Fomento Economico Mexicano S.A. de C.V. (Femsa) (ADR) (a)+.....	794,324	890,325	1.2
	BUILDING & CONSTRUCTION	2,500 25,500	Cementos Mexicanos, S.A. de C.V. (Class B) (ADR) (a)... Cementos Mexicanos, S.A. de C.V. (Series B) (Cemex).....	100,000 692,998	147,500 760,483	0.2 1.0
				792,998	907,983	1.2
	DIVERSIFIED	100,000	Grupo Carso, S.A. de C.V. Series A.....	1,026,924	1,091,787	1.4
	MISCELLANEOUS	62,500	Elecktra 'L' Shares.....	511,892	555,556	0.7
	TELECOMMUNICATIONS	11,800	Telefonos de Mexico, S.A. de C.V. (Telmex) (ADR) (a)....	650,108	796,500	1.0
TOTAL INVESTMENTS IN MEXICAN STOCKS.....				4,256,621	4,918,089	6.4
PANAMA	BEVERAGES	2,560	Panamerican Beverages, Inc. (ADR) (a).....	82,617	97,920	0.1
TOTAL INVESTMENTS IN PANAMANIAN STOCKS.....				82,617	97,920	0.1
TOTAL INVESTMENTS IN LATIN AMERICA.....				5,096,288	5,779,259	7.6

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

PACIFIC BASIN	INDUSTRIES	SHARES HELD/ FACE AMOUNT	STOCKS, BONDS, WARRANTS & RIGHTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
AUSTRALIA	ENGINEERING & CONSTRUCTION	230,800	Australia National Industries, Ltd.			

			(Ordinary).....	\$ 296,137	\$ 324,253	0.4%
FOOD & BEVERAGE	162,000		Burns Philp & Co., Ltd. (Ordinary).....	477,965	525,558	0.7
	52,852		Coca-Cola Amatil, Ltd. (Ordinary).....	321,089	412,513	0.5
	170,000		Goodman Fielder Wattie.....	193,004	190,375	0.2
				992,058	1,128,446	1.4
INSURANCE	113,523		GIO Australia Holdings Ltd.....	221,504	263,504	0.3
PROPERTY	32,000		Lend Lease Corp.....	372,709	384,416	0.5
UTILITIES--GAS	48,062		The Australian Gas & Light Co. (Ordinary).....	121,398	146,789	0.2
			TOTAL INVESTMENTS IN AUSTRALIAN STOCKS.....	2,003,806	2,247,408	2.8
HONG KONG						
BANKING	388,000		J.C.G. Holdings Ltd.....	300,147	311,485	0.4
	654,000		Winton Holdings Ltd.....	250,162	228,642	0.3
				550,309	540,127	0.7
DIVERSIFIED	185,000		Citic Pacific Ltd. (Ordinary).....	475,097	610,838	0.8
FINANCIAL SERVICES	1,060,000		Sun Kung Kai & Co., Ltd. (Ordinary).....	593,942	857,827	1.1
FOODS	1,326,000		C.P. Pokphand Co., Ltd. (Ordinary).....	499,958	583,763	0.8
PROPERTY	243,000		Hang Lung Development Co., Ltd. (Ordinary).....	393,365	594,678	0.8
	390,000		Hopewell Holdings, Ltd.....	335,770	510,035	0.7
				729,135	1,104,713	1.5
TELECOMMUNICATIONS	253,000		Hong Kong Telecommunications Ltd. (Ordinary).....	432,236	533,976	0.7
UTILITIES	2,932		Consolidated Electric Power Ltd. (Ordinary).....	4,745	5,087	0.0
	175,000		The Hong Kong and China Gas Co., Ltd. (Ordinary).....	379,583	507,575	0.7
				384,328	512,662	0.7
UTILITIES--ELECTRIC	148,800		China Light & Power Co., Ltd. (Ordinary).....	735,003	1,088,593	1.4
			TOTAL INVESTMENTS IN HONG KONG STOCKS.....	4,400,008	5,832,499	7.7

</TABLE>

90

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION>							
PACIFIC BASIN (CONTINUED) <S>	INDUSTRIES <C>	SHARES HELD/ FACE AMOUNT <C>	STOCKS, BONDS, WARRANTS & RIGHTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>	
JAPAN	AUTOMOBILES	65,000	Suzuki Motor Co. (Ordinary).....	\$ 564,404	\$ 611,231	0.8%	
	BEVERAGES	9,000	Chukyo Coca-Cola Bottling Co., Ltd. (Ordinary).....	126,675	100,752	0.1	
		10,000	Hokkaido Coca-Cola Bottling Co., Ltd. (Ordinary).....	166,311	137,919	0.2	
		11,000	Kinki Coca-Cola Bottling Co., Ltd. (Ordinary).....	201,084	180,279	0.2	

	12,000	Mikuni Coca-Cola Bottling Co., Ltd.....	222,547	184,847	0.2
	11,000	Sanyo Coca-Cola Bottling Co., Ltd.....	181,958	157,621	0.2
			898,575	761,418	0.9

CAPITAL GOODS	142,000	Mitsubishi Heavy Industries, Ltd.....	903,477	782,106	1.0

CONSUMER--ELECTRONICS	56,000	Matsushita Electric Industrial Co., Ltd.....	746,797	747,268	1.0
	1,800	Nintendo Co., Ltd.....	167,380	115,744	0.2
			914,177	863,012	1.2

CONSTRUCTION/HOUSING	37,000	Sanki Engineering Co., Ltd.....	534,028	394,322	0.5

ELECTRICAL CONSTRUCTION	15,000	Chudenko Corp. (Ordinary)...	576,519	470,177	0.6
	15,000	Taihei Dengyo Kaisha, Ltd.....	370,758	323,751	0.4
			947,277	793,928	1.0

ELECTRICAL EQUIPMENT	14,000	Murata Manufacturing Co., Ltd.....	449,523	480,208	0.6
	51,000	Sumitomo Electric Industries Ltd.....	635,263	593,767	0.8
	23,000	The Nippon Signal Co., Ltd.....	347,016	278,076	0.4
			1,431,802	1,352,051	1.8

INSURANCE	77,000	Dai-Tokyo Fire & Marine Insurance Co., Ltd.....	600,583	498,576	0.7
	63,000	Fuji Fire & Marine Insurance Co., Ltd.....	438,102	335,707	0.4
	76,000	Koa Fire & Marine Insurance Co., Ltd.....	535,648	426,079	0.6
	98,000	Nichido Fire & Marine Insurance Co., Ltd.....	769,213	561,705	0.7
	41,000	Sumitomo Marine & Fire Insurance Co., Ltd.....	366,544	323,858	0.4
	64,000	Tokio Marine & Fire Insurance Co., Ltd. (Ordinary).....	793,046	699,266	0.9
			3,503,136	2,845,191	3.7

OFFICE EQUIPMENT	61,000	Canon, Inc. (Ordinary).....	832,516	841,304	1.1

</TABLE>

91

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

PACIFIC BASIN (CONCLUDED) <S>	INDUSTRIES <C>	SHARES HELD/FACE AMOUNT <C>	STOCKS, BONDS, WARRANTS & RIGHTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
JAPAN (CONCLUDED)	PACKAGING	29,000	Toyo Seikan Kaisha, Ltd. (Ordinary).....	\$ 838,658	\$ 727,208	0.9 %
	PHARMACEUTICAL--PRESCRIPTION	36,000	Sankyo Co., Ltd. (Ordinary).....	935,269	712,520	0.9
	PHARMACEUTICALS	22,000	Taisho Pharmaceutical Co., Ltd. (Ordinary).....	459,150	423,607	0.6
	PHOTOGRAPHY	20,000	Fuji Photo Film Co., Ltd....	487,545	442,414	0.6
	RETAIL TRADE	16,000	Ito Yokado Co., Ltd. (Ordinary).....	766,061	730,790	1.0

	STEEL	16,000	Maruichi Steel Tube, Ltd. (Ordinary).....	303,873	250,761	0.3
TOTAL INVESTMENTS IN JAPANESE STOCKS.....						
				14,319,948	12,531,863	16.3
MALAYSIA	LEISURE	15,000	Genting BHD.....	138,632	208,914	0.3
		70,000	Magnum Corp. BHD.....	142,789	207,985	0.3
				281,421	416,899	0.6
	STEEL	210,000	Maruichi Malaysia Steel Tube BHD.....	496,962	534,262	0.7
	TELECOMMUNICATIONS	62,000	Telekom Malaysia BHD.....	503,306	508,895	0.7
		50,000	Uniphone Telecommunications BHD.....	218,690	315,692	0.4
				721,996	824,587	1.1
TOTAL INVESTMENTS IN MALAYSIAN STOCKS.....						
				1,500,379	1,775,748	2.4
NEW ZEALAND	FOREIGN GOVERNMENT OBLIGATIONS	\$ 925,000	New Zealand Bill, 8.00% due 4/15/2004.....	598,473	600,296	0.8
	TELECOMMUNICATIONS	25,000	Telecommunications Corp. New Zealand Ltd. (ADR) (a).....	1,117,263	1,265,625	1.6
TOTAL INVESTMENTS IN NEW ZEALAND STOCKS & BONDS....						
				1,715,736	1,865,921	2.4
SINGAPORE	BANKING	29,166	United Overseas Bank Ltd. (Foreign Registered).....	209,500	315,602	0.4
TOTAL INVESTMENTS IN SINGAPOREAN STOCKS.....						
				209,500	315,602	0.4
THAILAND	BANKING	67,600	Bangkok Bank Co., Ltd.....	594,571	667,262	0.9
TOTAL INVESTMENTS IN THAI STOCKS.....						
				594,571	667,262	0.9
TOTAL INVESTMENTS IN THE PACIFIC BASIN.....						
				24,743,948	25,236,303	32.9

</TABLE>

92

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

SOUTHEAST ASIA <S>	INDUSTRIES <C>	SHARES HELD/ FACE AMOUNT <C>	STOCKS, BONDS, WARRANTS & RIGHTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
INDIA	INSURANCE	11,800	Grasim Industries Ltd. (ADR) (a).....	\$ 200,851	\$ 265,500	0.3%
TOTAL INVESTMENTS IN INDIAN STOCKS.....						
				200,851	265,500	0.3
TOTAL INVESTMENTS IN SOUTHEAST ASIA.....						
				200,851	265,500	0.3
WESTERN EUROPE						
AUSTRIA	UTILITIES	2,371	Energie-Versorgung Niederosterreich AG.....	220,683	304,398	0.4
		4,145	Verbund Oesterreichische Elektrizitats AG.....	224,164	252,304	0.3
				444,847	556,702	0.7

		TOTAL INVESTMENTS IN				
		AUSTRIAN STOCKS.....		444,847	556,702	0.7
BELGIUM	BANKING	1,110	Generale de Banque S.A. (Ordinary).....	273,130	276,495	0.4
	CHEMICALS	500	Solvay Group (Ordinary)....	193,772	204,584	0.3
	FOODS	6,000	GIB Group (Bearer).....	211,854	258,771	0.3
	METAL & MINING	2,421	Union Miniere N.V.....	162,857	163,984	0.2
		TOTAL INVESTMENTS IN BELGIAN STOCKS.....		841,613	903,834	1.2
DENMARK	BANKING	3,140	Den Danske Bank AF (Ordinary).....	177,329	177,581	0.2
	FOREIGN GOVERNMENT OBLIGATIONS	Dkr 1,250,000	Danish Government Bond, 7.00% due 12/15/2004.....	198,619	196,984	0.3
		TOTAL INVESTMENTS IN DANISH STOCKS & BONDS....		375,948	374,565	0.5
FINLAND	MINING	5,000	Outokumpu OY.....	54,883	59,055	0.1
	PAPER &	30,500	Enso-Gutzeit OY (Registered).....	201,133	193,285	0.3
	FOREST PRODUCTS	7,250	Metsa Serla OY.....	297,297	291,693	0.4
		16,175	Repola OY S.....	251,155	251,652	0.3
				749,585	736,630	1.0
		TOTAL INVESTMENTS IN FINNISH STOCKS.....		804,468	795,685	1.1
FRANCE	AUTOMOBILES	2,190	Peugeot S.A.....	243,781	291,753	0.4

</TABLE>

93

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION>		SHARES HELD/ FACE AMOUNT		STOCKS, BONDS, WARRANTS & RIGHTS		VALUE (NOTE 1A)		PERCENT OF NET ASSETS	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
FRANCE (CONCLUDED)	BANKING	2,630	Compagnie Financiere de Paribas.....	\$ 223,993	\$ 220,493		0.3%		
		3,400	Compagnie Financiere de Suez.....	194,401	205,150		0.3		
		1,650	Societe Generale de Surveillance S.A. (Class A) (Ordinary).....	176,382	213,677		0.3		
				594,776	639,320		0.9		
	OIL--RELATED	2,500	Societe Nationale Elf Aquitaine (Ordinary).....	180,830	176,120		0.2		
	PETROLEUM	3,500	Total S.A. (Class B).....	176,839	190,947		0.3		
	RETAIL TRADE	1,500	Pinault Printemps S.A.....	177,710	254,607		0.3		
	UTILITIES	621	Compagnie Generale des Eaux.....	281,389	306,878		0.4		
		TOTAL INVESTMENTS IN FRENCH STOCKS.....		1,655,325	1,859,625		2.5		
GERMANY	AUTOMOBILES	498	Bayerische Motorenwerke AG (BMW) (Bearer).....	171,887	206,820		0.3		
		591	Daimler-Benz AG.....	258,961	287,596		0.4		

	2,659	Volkswagen AG (Preferred Warrants) (b).....	239,121	244,717	0.3
	750	Volkswagen AG (Preferred)...	140,599	157,032	0.2
			810,568	896,165	1.2
BANKING	1,440	Deutsche Bank AG (Ordinary).....	700,090	734,288	1.0
BUILDING MATERIALS	116	Hochtief AG.....	74,861	76,066	0.1
CHEMICALS	1,726	BASF AG (Ordinary).....	277,672	303,800	0.4
	2,654	Bayer AG (Ordinary).....	487,062	564,843	0.7
			764,734	868,643	1.1
HEALTH & PERSONAL CARE	911	Schering AG.....	543,830	602,093	0.8
INSURANCE	600	Allianz AG Holding (Warrants) (b).....	23,070	37,964	0.1
MACHINERY	7,650	Kloekner Werke AG.....	382,078	453,236	0.6
METAL & MINING	1,948	Thyssen AG (Ordinary).....	246,738	308,699	0.4
UTILITIES	2,000	Veba (Warrants) (b).....	113,000	200,748	0.3
	584	Veba Vereinigte Elektrizitaets & Bergwerks AG (Ordinary).....	137,526	175,351	0.2
			250,526	376,099	0.5
TOTAL INVESTMENTS IN GERMAN STOCKS & WARRANTS.....			3,796,495	4,353,253	5.8

</TABLE>

94

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION>							
WESTERN EUROPE (CONTINUED) <S>	INDUSTRIES <C>	SHARES HELD/ FACE AMOUNT <C>	STOCKS, BONDS, WARRANTS & RIGHTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>	
IRELAND	BANKING	132,000	Bank of Ireland (Ordinary).....	\$ 538,778	\$ 562,704	0.7%	
	FOREIGN GOVERNMENT OBLIGATIONS	Iep 350,000	Irish Gilts, 9.25% due 7/11/2003.....	595,056	591,390	0.8	
TOTAL INVESTMENTS IN IRISH STOCKS & BONDS.....				1,133,834	1,154,094	1.5	
ITALY	DIVERSIFIED	335,500	CIR NC Savings.....	157,313	178,912	0.2	
		211,000	Compagnie Industriale Riunite S.p.A. (CIR).....	179,915	212,976	0.3	
				337,228	391,888	0.5	
	PAPER & FOREST PRODUCTS	34,700	Cartiere Burgo S.p.A. (Ordinary).....	175,909	196,362	0.3	
	TELECOMMUNICATIONS	261,720	Stet Savings Telecom.....	509,588	529,105	0.7	
	UTILITIES--GAS	12,800	Italgas (Sud) S.p.A.....	35,600	36,967	0.0	
TOTAL INVESTMENTS IN ITALIAN STOCKS.....				1,058,325	1,154,322	1.5	
NETHERLANDS	BANKING	8,755	ABNAMro Bank (Ordinary).....	314,833	322,372	0.4	
	BEVERAGES	496	Heineken Holdings, N.V.				

			(Class A).....	39,308	48,686	0.1
	1,530		Heineken N.V.....	160,673	169,720	0.2
				199,981	218,406	0.3
CHEMICALS	4,235		Akzo N.V. (Ordinary).....	395,654	410,022	0.5
	5,110		Dutch State Mining N.V. (Ordinary).....	269,387	280,526	0.4
				665,041	690,548	0.9
INSURANCE	8,643		AEGON N.V. (Ordinary).....	431,625	469,583	0.6
	10,670		Amev N.V. (Ordinary).....	438,161	472,562	0.6
	10,191		Internationale Nederlanden Groep N.V.....	418,061	487,560	0.6
				1,287,847	1,429,705	1.8
PAPER & FOREST PRODUCTS	16,175		Koninklijke KNP.....	304,559	394,004	0.5
RETAIL TRADE	512		De Boer Winkelbedr N.V.....	19,118	18,984	0.0
TRANSPORTATION	19,470		KLM Royal Dutch Airlines....	389,595	406,085	0.5
			TOTAL INVESTMENTS IN DUTCH STOCKS.....	3,180,974	3,480,104	4.4
PORTUGAL			BANKING			
	17,400		Banco Comercial Portugues...	247,411	265,350	0.3
			TOTAL INVESTMENTS IN PORTUGUESE STOCKS.....	247,411	265,350	0.3

</TABLE>

95

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>		<CAPTION>					
WESTERN EUROPE (CONTINUED)	INDUSTRIES	SHARES HELD/ FACE AMOUNT	STOCKS, BONDS, WARRANTS & RIGHTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
SPAIN	BANKING	2,215	Banco Popular Espanol (Ordinary).....	\$ 251,992	\$ 247,900	0.3%	
	OIL--RELATED	10,760	Repsol S.A.....	304,591	334,722	0.4	
	REAL ESTATE	307	Vallehermoso Inmobiliaria S.A. (New).....	3,760	5,955	0.0	
		1,840	Vallehermoso Inmobiliaria S.A.....	26,146	35,694	0.0	
				29,906	41,649	0.0	
	TELECOMMUNICATIONS	39,710	Telefonica Nacional de Espana S.A. (Ordinary)....	476,770	517,715	0.7	
	UTILITIES	47,000	Fuerzas Electricas de Cataluna, FECSA (Class A).....	267,823	282,559	0.4	
			TOTAL INVESTMENTS IN SPANISH STOCKS.....	1,331,082	1,424,545	1.8	
SWEDEN	BUILDING RELATED	12,300	Svedala Industry.....	221,118	200,489	0.3	
	FOREIGN GOVERNMENT OBLIGATIONS	Skr 700,000	Swedish Government Bond, 10.25% due 5/05/2003.....	99,005	102,039	0.1	
	METAL & MINING	23,040	Trelleborg AB (Class B)....	163,109	220,912	0.3	
	PHARMACEUTICAL-- PRESCRIPTION	20,050	Astra 'A' Fria.....	401,920	456,578	0.6	

		TOTAL INVESTMENTS IN SWEDISH STOCKS & BONDS.....		885,152	980,018	1.3
SWITZERLAND	BANKING	1,194	SBV Schweitz Bankverein.....	388,403	382,080	0.5
	BUILDING MATERIALS	543	Holderbank Financiere Glarus AG (Bearer).....	302,322	339,489	0.4
	CHEMICALS	744	Ciba-Geigy AG (Registered).....	367,871	450,151	0.6
	ELECTRICAL EQUIPMENT	1,211 212	BBC Brown Boveri & Cie..... Landis & Gyr AG (Registered).....	783,636 76,819	884,132 126,131	1.2 0.2
				860,455	1,010,263	1.4
	FOOD & BEVERAGE	536	Nestle AG (Registered).....	410,920	462,311	0.6
	HEALTH/PERSONAL CARE	160 277	Roche Holding Genusschein AG..... Sandoz AG (Registered).....	599,734 640,518	678,723 777,462	0.9 1.0
				1,240,252	1,456,185	1.9

</TABLE>

96

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

WESTERN EUROPE (CONTINUED) <S>	INDUSTRIES <C>	SHARES HELD/ FACE AMOUNT <C>	STOCKS, BONDS, WARRANTS & RIGHTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
SWITZERLAND (CONCLUDED)	INSURANCE	80 842	Baloise Holding Insurance... Winterthur.....	\$ 103,904 384,990	\$ 147,899 464,727	0.2% 0.6
				488,894	612,626	0.8
	MACHINERY	182	Sulzer Gebrueder AG (Registered).....	92,856	103,144	0.1
	STEEL	1,850	Von Roll (Registered).....	203,001	211,429	0.3
			TOTAL INVESTMENTS IN SWISS STOCKS.....	4,354,974	5,027,678	6.6
UNITED KINGDOM	AEROSPACE	202,500	Rolls Royce PLC (Ordinary).....	483,323	486,354	0.6
	AIRLINES	40,500	British Airways PLC (Ordinary).....	230,579	269,665	0.4
	BANKING	29,000 40,000	Barclays Bank, Ltd. (Ordinary)..... National Westminster Bank PLC (Ordinary).....	225,156 310,089	272,174 365,362	0.4 0.5
				535,245	637,536	0.9
	BEVERAGES	99,500	Grand Metropolitan PLC (Ordinary).....	643,076	697,069	0.9
	BUILDING & CONSTRUCTION	70,000	CRH PLC (Ordinary).....	335,762	366,357	0.5
	BUILDING MATERIALS	92,500	Tarmac PLC (Ordinary).....	192,214	235,150	0.3
	CONSUMER--GOODS	25,000	Vendome Luxury Group (Units).....	134,600	142,812	0.2
	DIVERSIFIED	56,700	BTR PLC (Warrants) (b).....	112,261	121,514	0.2
	ELECTRICAL	123,600	General Electric Co., Ltd.			

EQUIPMENT		PLC (Ordinary).....	632,673	622,942	0.8
FOODS	44,000	Argyll Group PLC (Ordinary).....	175,513	179,813	0.2
	111,000	Tesco PLC (Ordinary).....	328,445	351,084	0.5
			503,958	530,897	0.7
FOOD & BEVERAGE	84,000	Tate & Lyle PLC (Ordinary).....	491,229	495,366	0.6
INSURANCE	35,000	Commercial Union Assurance Co. PLC (Ordinary).....	332,852	334,693	0.4
LEISURE & ENTERTAINMENT	28,000	The Rank Organisation PLC (Ordinary).....	334,626	404,736	0.5
	22,500	Thorn EMI (Ordinary).....	337,196	329,224	0.4
			671,822	733,960	0.9
MEDIA/PUBLISHING	36,000	Pearson PLC (Ordinary).....	310,943	321,908	0.4
	135,000	WPP Group PLC.....	194,584	179,577	0.2
			505,527	501,485	0.6

</TABLE>

97

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION>						
WESTERN EUROPE (CONCLUDED) <S>	INDUSTRIES <C>	SHARES HELD/ FACE AMOUNT <C>	STOCKS, BONDS, WARRANTS & RIGHTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
UNITED KINGDOM (CONCLUDED)	OIL--RELATED	49,000	British Petroleum Co., Ltd.....	\$ 258,638	\$ 260,719	0.3%
	PHARMACEUTICALS	81,600	SmithKline Beecham 'A'.....	491,858	486,640	0.6
	RETAIL TRADE	39,000	Boots Co. PLC (Ordinary)....	310,146	344,699	0.4
		62,600	Dixons Group PLC (Ordinary).....	253,377	261,840	0.3
		249,300	Sears PLC.....	438,129	469,793	0.6
				1,001,652	1,076,332	1.3
	TELECOMMUNICATIONS	70,000	British Telecommunications PLC (Ordinary).....	500,780	488,331	0.6
	UTILITIES--GAS	56,000	British Gas PLC (Ordinary).....	269,257	282,239	0.4
			TOTAL INVESTMENTS IN UNITED KINGDOM STOCKS.....	8,327,306	8,770,061	11.2
			TOTAL INVESTMENTS IN WESTERN EUROPE.....	28,437,754	31,099,836	40.4

<CAPTION>

<S>	INDUSTRIES <C>	FACE AMOUNT <C>	SHORT-TERM SECURITIES <C>	<C>	<C>	<C>
UNITED STATES	US GOVERNMENT AGENCY OBLIGATIONS	\$ 10,000	Federal Farm Credit Bank, 3.15% due 1/24/1994.....	9,979	9,979	0.0
		500,000	Federal Home Loan Bank, 3.18% due 1/18/1994.....	499,205	499,205	0.7
		1,000,000	Federal Home Loan Mortgage Association, 3.15% due 1/11/1994.....	999,562	999,563	1.3
		1,300,000	Federal National Mortgage Association, 3.12% due 1/27/1994.....	1,296,958	1,296,958	1.7

TOTAL INVESTMENTS IN US GOVERNMENT & AGENCY OBLIGATIONS.....			
		2,805,704	2,805,705 3.7
COMMERCIAL PAPER*	2,357,000	General Electric Co., 3.22% due 1/03/1994.....	2,356,368 2,356,368 3.1
TOTAL INVESTMENTS IN COMMERCIAL PAPER.....			
		2,356,368	2,356,368 3.1

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>
<CAPTION>

<S>	<C>	FACE AMOUNT <C>	SHORT-TERM SECURITIES <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
UNITED STATES (CONCLUDED)	US GOVERNMENT OBLIGATIONS	\$ 380,000	US Treasury Bill:			
		400,000	2.95% due 3/17/1994.....	\$ 377,633	\$ 377,633	0.5 %
		175,000	2.96% due 3/24/1994.....	397,270	397,270	0.5
		10,000	3.00% due 3/17/1994.....	173,892	173,899	0.2
		30,000	3.00% due 3/24/1994.....	9,931	9,931	0.0
		650,000	3.011% due 3/24/1994.....	29,792	29,811	0.0
		4,000,000	3.015% due 3/24/1994.....	645,482	645,519	0.8
		1,000,000	3.025% due 3/10/1994.....	3,976,808	3,977,153	5.2
		200,000	3.04% due 3/10/1994.....	994,164	994,288	1.3
		10,000	3.06% due 3/17/1994.....	198,708	198,742	0.3
			3.098% due 3/17/1994.....	9,937	9,937	0.0
TOTAL INVESTMENTS IN US GOVERNMENT OBLIGATIONS....				6,813,617	6,814,183	8.8
TOTAL INVESTMENTS IN SHORT-TERM SECURITIES.....				11,975,689	11,976,256	15.6
TOTAL INVESTMENTS.....				\$70,454,530	74,357,154	96.7
			Put Options Written (Premium Received--\$118,850)**.....		(221,740)	(0.3)
			Call Options Purchased (Cost--\$131,375)***.....		39,270	0.0
			Unrealized Appreciation on Forward Foreign Exchange Contracts+.....		529,800	0.7
			Variation Margin on Stock Index Futures Contracts+.....		(14,358)	--
			Other Assets Less Liabilities.....		2,216,296	2.9
NET ASSETS.....					\$76,906,422	100.0%

</TABLE>

- (a) American Depositary Receipt (ADR).
- (b) Warrants entitle the Fund to purchase a predetermined number of shares of common stock. The purchase price and number of shares are subject to adjustment under certain conditions until the expiration date.
- + Restricted securities as to resale. The value of the Fund's investment in restricted securities was approximately \$2,306,000, representing 2.0% of net assets.

<TABLE>
<CAPTION>

<S>	ISSUE	ACQUISITION DATE <C>	COST <C>	VALUE (NOTE 1A) <C>
	Fomento Economico Mexicano S.A. de C.V. (Femsa) (Class B) (ADR).....	8/24/93	\$ 794,324	\$ 890,325
	Servicios Financieros Quadrum S.A. de C.V. (ADR).....	11/02/93	480,375	675,938
	Telecomunicacoes Brasileiras S.A. Telebras PN (Preferred).....	10/08/93	739,050	739,750

TOTAL..... \$2,013,749 \$2,306,013

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
 SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

++ Forward foreign exchange contracts as of December 31, 1993 are as follows:

<TABLE>
 <CAPTION>

FOREIGN CURRENCY PURCHASED	EXPIRATION DATE	UNREALIZED APPRECIATION (DEPRECIATION)
<S>	<C>	<C>
A\$ 296,417.....	January 1994	\$ 2,125
Chf 1,454,600.....	January 1994	(12,120)
TOTAL (US\$ COMMITMENT--\$1,187,892).....		\$ (9,995)

</TABLE>

<TABLE>
 <CAPTION>

FOREIGN CURRENCY SOLD		
<S>	<C>	<C>
A\$ 4,698,148.....	January 1994	\$ 4,780
Bf 19,314,300.....	January 1994	(3,466)
Chf 1,454,600.....	January 1994	22,428
DM 6,857,200.....	January 1994	58,668
Dkr 545,763.....	January 1994	(309)
Pta 88,185,400.....	January 1994	14,420
Fmk 1,750,485.....	January 1994	(2,076)
Frf 11,581,448.....	January 1994	(6,574)
Iep 149,095.....	January 1994	407
Y 1,383,482,500.....	January 1994	428,478
Nlg 5,772,750.....	January 1994	28,921
Skr 2,972,354.....	January 1994	(5,882)
TOTAL (US\$ COMMITMENT--\$25,260,000).....		539,795

TOTAL UNREALIZED APPRECIATION ON FORWARD FOREIGN EXCHANGE CONTRACTS..... \$529,800

</TABLE>

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

**Put options written as of December 31, 1993 are as follows:

<TABLE>
 <CAPTION>

PAR VALUE	SUBJECT TO PUT	ISSUE	PREMIUMS RECEIVED	VALUE (NOTES 1A & 1D)
<C>	<S>		<C>	<C>
\$2,000,000	DM currency put option, strike price 1.7336, expiring 1/12/94.....		\$ (15,500)	\$ (4,460)
2,000,000	DM currency put option, strike price 1.805, expiring 4/13/94.....		(27,200)	(28,600)
1,000,000	Nlg currency put option, strike price 2.012, expiring 4/13/94.....		(14,050)	(15,400)
8,000,000	Y currency put option, strike price 103.6, expiring 1/02/94.....		(52,000)	(169,600)
2,000,000	Nlg currency put option, strike price 1.835, expiring 1/12/94.....		(10,100)	(3,680)
	TOTAL PUT OPTIONS WRITTEN.....		\$ (118,850)	\$ (221,740)

</TABLE>

***Call Options purchased as of December 31, 1993 are as follows:

<TABLE> <CAPTION> PAR VALUE SUBJECT TO PUT		ISSUE	COST <C>	VALUE (NOTES 1A & 1D) <C>
<C>	<S>			
\$2,000,000	DM currency call option, strike price 1.675, expiring 4/13/94.....		\$ 27,200	\$ 25,400
1,000,000	Nlg currency call option, strike price 1.895, expiring 4/13/94.....		14,050	12,500
2,000,000	Nlg currency call option, strike price 1.885, expiring 1/12/94.....		10,100	480
8,000,000	Y currency call option, strike price 109.5, expiring 1/12/94.....		62,800	0
2,000,000	DM currency call option, strike price 1.675, expiring 1/12/94.....		15,500	20
500,000	Frf currency call option, strike price 5.84, expiring 1/12/94.....		1,725	870
TOTAL CALL OPTIONS PURCHASED.....			\$ 131,375	\$ 39,270

</TABLE>

100

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--INTERNATIONAL EQUITY FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED) (IN US DOLLARS)

++Stock Index futures contracts sold as of December 31, 1993 are as follows:

<TABLE> <CAPTION> NUMBER OF CONTRACTS		ISSUE	EXPIRATION DATE	VALUE (NOTE 1E) <C>
<C>	<S>		<C>	<C>
17	LIFFE FTSE 100.....		March 1994	\$2,152,042
97	Nikkei 225.....		March 1994	7,531,703
TOTAL FINANCIAL FUTURES CONTRACTS SOLD (TOTAL CONTRACT PRICE--\$9,671,377).....				\$9,683,745

The market value of the pledged securities is \$6,615,442.

</TABLE>

See Notes to Financial Statements.

101

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--NATURAL RESOURCES FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE> <CAPTION>		SHARES HELD	COMMON STOCKS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>		<C>	<C>	<C>
ALUMINUM	22,000	Alcan Aluminum Ltd.....	\$ 460,790	\$ 456,500	3.1%	
	7,500	Aluminum Co. of America.....	480,958	520,313	3.5	
	11,700	Reynolds Metals Co.....	550,233	530,888	3.6	
			1,491,981	1,507,701	10.2	
CHEMICALS	10,700	du Pont (E.I.) de Nemours & Co.....	534,988	516,275	3.5	
DIVERSIFIED RESOURCES COMPANY	17,900	Norsk Hydro A.S. (ADR)*.....	471,628	501,200	3.4	
ENGINEERING & CONSTRUCTION	23,300	Dresser Industries, Inc.....	486,528	483,475	3.3	
FOREST PRODUCTS	7,000	Georgia-Pacific Corp.....	510,263	481,250	3.3	

	12,100	Weyerhaeuser Co.....	476,374	539,963	3.7
			986,637	1,021,213	7.0
NATURAL GAS DISTRIBUTORS	11,100	Consolidated Natural Gas Co.....	539,539	521,700	3.5
	4,800	Equitable Resources, Inc.....	118,772	175,800	1.2
			658,311	697,500	4.7
NATURAL GAS PIPELINES	18,500	Coastal Corp.....	493,653	520,313	3.5
	4,000	Sonat, Inc.....	78,255	115,500	0.8
			571,908	635,813	4.3
OIL & GAS PRODUCERS	38,500	Norcen Energy Corp.....	600,603	466,812	3.2
OIL--INTEGRATED	9,500	Amoco Corp.....	499,683	502,312	3.4
	14,300	Imperial Oil Ltd.....	523,303	484,412	3.3
	17,700	Phillips Petroleum Co.....	517,938	513,300	3.5
			1,540,924	1,500,024	10.2
OIL--INTERNATIONAL	7,500	Exxon Corp.....	461,040	472,500	3.2
	4,700	Royal Dutch Petroleum Co. N.V. (ADR)*.....	398,449	490,562	3.3
			859,489	963,062	6.5
OIL SERVICE	71,500	+Parker Drilling Co.....	482,452	393,250	2.7
	64,400	Rowan Companies Inc.....	602,479	579,600	3.9
	8,600	Schlumberger Ltd., Inc.....	533,099	508,475	3.4
	24,000	Tidewater Inc.....	486,658	480,000	3.2
			2,104,688	1,961,325	13.2
PAPER & PACKAGING	7,400	International Paper Co.....	497,368	501,350	3.4
	12,000..	Scott Paper Co.....	479,340	493,500	3.3
	12,200	Union Camp Corp.....	530,592	581,025	3.9
			1,507,300	1,575,875	10.6

</TABLE>

102

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--NATURAL RESOURCES FOCUS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE>
<CAPTION>

INDUSTRY	SHARES HELD	COMMON STOCKS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
SPECIAL SITUATIONS	33,100	+Destec Energy Inc.....	\$ 562,620	\$ 475,812	3.2%
STEEL	21,000..	Allegheny Ludlum Corp.....	493,494	501,375	3.4
		TOTAL COMMON STOCKS.....	12,871,098	12,807,462	86.7
	FACE AMOUNT	SHORT-TERM INVESTMENTS			
COMMERCIAL PAPER**	\$614,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	613,835	613,835	4.2
US GOVERNMENT & AGENCY OBLIGATIONS**	300,000	Federal Home Loan Mortgage Corp., 3.13% due 1/05/1994.....	299,870	299,870	2.0
	185,000	Federal National Mortgage Association, 3.135% due 1/10/1994.....	184,839	184,839	1.3
	300,000	US Treasury Bill: 3.065% due 2/03/1994.....	299,132	299,122	2.0
	200,000	2.99% due 2/17/1994.....	199,202	199,202	1.3
			983,043	983,033	6.6
		TOTAL SHORT-TERM INVESTMENTS	1,596,878	1,596,868	10.8
		TOTAL INVESTMENTS.....	\$14,467,976	14,404,330	97.5

OTHER ASSETS LESS LIABILITIES.....	373,232	2.5
NET ASSETS.....	\$14,777,562	100.0%

</TABLE>

* American Depositary Receipt (ADR).

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

+ Non-income producing security.

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--PRIME BOND FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE> <CAPTION>		S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	CORPORATE BONDS & NOTES <C>	COST <C>	VALUE (NOTE 1A) <C>
BANKS & THRIFTS--11.4%							
	A-	Baa1	\$ 3,000,000	Bank of New York, 6.50% due 12/01/2003.....	\$ 2,986,875	\$ 2,984,334	
	A-	A3	1,000,000	Boatmen's Bancshares, Inc., 6.75% due 3/15/2003.....	999,800	1,018,209	
	BBB+	A3	3,000,000	First Interstate Bancorp, 11.00% due 3/05/1998.....	3,605,145	3,557,994	
	A-	A3	1,000,000	First Union Corp.: 6.75% due 1/15/1998.....	997,070	1,040,335	
	A-	A3	5,000,000	8.125% due 6/24/2002.....	5,541,690	5,555,910	
	A-	A3	2,000,000	Golden West Financial Corp.: 9.15% due 5/23/1998.....	2,271,480	2,273,712	
	A-	A3	1,500,000	7.875% due 1/15/2002.....	1,592,310	1,638,105	
	A-	A3	2,000,000	8.375% due 4/15/2002.....	2,014,380	2,251,302	
	A-	A3	1,000,000	Huntington National Bank, 7.625% due 1/15/2003.....	1,066,660	1,076,927	
	BBB+	A3	1,000,000	Meridian Bancorp., 6.625% due 3/15/2003.....	971,970	1,007,739	
	A-	A3	4,500,000	NationsBank Corp., 6.875% due 2/15/2005.....	4,743,055	4,595,544	
	A	A2	2,000,000	Norwest Corp., 6.625% due 3/15/2003.....	2,007,520	2,039,006	
	A-	A3	2,000,000	Society National Bank, Inc., 6.75% due 6/15/2003.....	2,032,760	2,046,500	
	A-	Baa1	3,000,000	U.S. Bancorp: 8.125% due 5/15/2002.....	3,343,260	3,316,755	
	A-	Baa1	1,500,000	7.00% due 3/15/2003.....	1,496,250	1,553,658	
					35,670,225	35,956,030	
FINANCIAL SERVICES--							
CAPTIVE--1.0%							
	A	A2	1,000,000	Ford Motor Credit Corp.: 7.75% due 11/15/2002.....	1,040,130	1,093,898	
	A	A2	1,000,000	7.50% due 1/15/2003.....	1,020,320	1,073,334	
	A	A2	1,000,000	6.75% due 8/15/2008.....	994,150	994,072	
					3,054,600	3,161,304	
FINANCIAL SERVICES--							
CONSUMER--2.6%							
	A+	A1	2,000,000	American General Finance Corp., 8.50% due 8/15/1998.....	2,278,920	2,233,086	
	AA-	A1	1,500,000	Associates Corp. of North America: 8.80% due 8/01/1998.....	1,690,365	1,693,362	
	AA-	A1	1,000,000	7.50% due 5/15/1999.....	1,097,300	1,079,667	
	A	A2	3,000,000	Commercial Credit Co., 6.70% due 8/01/1999.....	3,022,580	3,117,876	
					8,089,165	8,123,991	
FINANCIAL SERVICES--							
OTHER--11.2%							
	A	A2	3,000,000	Bear Stearns Cos., Inc., 6.70% due 8/01/2003.....	2,985,330	3,008,124	
	A	A3	2,000,000	Dean Witter, Discover & Co.: 6.875% due 3/01/2003.....	2,045,720	2,048,390	
	A	A3	3,000,000	6.50% due 11/01/2005.....	3,000,000	2,973,735	

A	A3	4,750,000	6.75% due 10/15/2013.....	4,691,575	4,503,147
A+	A2	2,000,000	Dillard Investment Co., 9.25% due 2/01/2001.....	2,354,230	2,389,524

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--PRIME BOND FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE> <CAPTION>							VALUE (NOTE 1A)	
<S>	INDUSTRIES	S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	CORPORATE BONDS & NOTES <C>	COST <C>	<C>	
FINANCIAL SERVICES-- OTHER (CONCLUDED)		AAA	Aaa	\$ 2,000,000	General Electric Capital Corp., 8.70% due 2/15/2003.....	\$ 2,422,100	\$ 2,336,122	
		A+	A1	4,000,000	Morgan Stanley Group, Inc.: 9.25% due 3/01/1998.....	4,606,111	4,529,008	
		A+	A1	3,000,000	8.875% due 10/15/2001.....	3,454,480	3,460,989	
		A+	A1	2,000,000	7.00% due 10/01/2013.....	1,981,260	1,949,198	
		BBB+	A3	1,000,000	PaineWebber Group, Inc.: 6.25% due 6/15/1998.....	1,026,020	1,007,861	
		BBB+	A3	4,000,000	9.25% due 12/15/2001.....	4,670,870	4,627,952	
		A+	A3	1,900,000	Torchmark Corp., 9.625% due 5/01/1998.....	2,114,568	2,186,526	
						-----	-----	
						35,352,264	35,020,576	
FOREIGN*--8.3%		A+	A2	6,000,000	CRA Finance Ltd., 7.125% due 12/01/2013 (1).....	5,965,200	5,906,796	
		A+	A1	1,000,000	Hydro-Quebec (2): 8.00% due 2/01/2013.....	1,121,260	1,081,096	
		A+	A1	3,000,000	8.40% due 1/15/2022.....	3,354,810	3,360,120	
		AAA	Aaa	4,165,000	Japan Finance Corp. for Municipal Enterprises, 8.70% due 7/30/2001 (3).....	4,754,072	4,858,352	
		A+	A1	1,175,000	Korea Development Bank Co., 7.90% due 2/01/2002 (3).....	1,282,700	1,267,756	
		A+	A1	4,000,000	Korea Electric Power Corp., 7.75% due 4/01/2013 (2).....	4,093,760	4,104,388	
		AAA	Aaa	250,000	Metropolis of Tokyo (Japan): 9.25% due 11/08/2000 (4).....	268,428	296,832	
		AAA	Aaa	2,000,000	8.65% due 7/18/2001 (4).....	2,288,720	2,319,932	
		A+	A1	1,500,000	Province of Manitoba (Canada), 8.80% due 1/15/2020 (4).....	1,775,700	1,770,376	
		A+	A1	1,000,000	Province of Quebec (Canada), 7.50% due 7/15/2002 (4).....	1,076,020	1,069,346	
						-----	-----	
						25,980,670	26,034,994	
INDUSTRIAL-- CONSUMER--8.4%		AA-	A1	2,500,000	Anheuser-Busch Cos., Inc., 8.75% due 12/01/1999.....	2,839,090	2,867,533	
		A+	A1	2,500,000	Bass America, Inc., 8.125% due 3/31/2002.....	2,668,930	2,769,375	
		A+	A2	2,000,000	Dillard Department Stores, Inc.: 7.375% due 6/15/1999.....	2,095,990	2,151,770	
		A+	A2	1,000,000	7.85% due 10/01/2012.....	1,033,960	1,082,836	
		A+	A2	4,000,000	Grand Metropolitan Investment Corp.: 6.50% due 9/15/1999.....	4,054,400	4,133,152	
		A+	A2	1,000,000	8.625% due 8/15/2001.....	1,049,910	1,150,171	
		A+	A2	1,000,000	7.125% due 9/15/2004.....	1,027,490	1,055,163	
		A+	A2	1,750,000	9.00% due 8/15/2011.....	2,049,972	2,085,200	
		A	A2	1,000,000	K mart Corp., 7.77% due 7/02/2002 (a).....	1,000,000	1,075,660	
		A	A1	1,000,000	PepsiCo, Inc., 6.125% due 1/15/1998.....	993,060	1,029,117	

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--PRIME BOND FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

INDUSTRIES <S>	S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	CORPORATE BONDS & NOTES <C>	COST <C>	VALUE (NOTE 1A) <C>
INDUSTRIAL-- CONSUMER-- (CONCLUDED)	A	A2	\$ 1,000,000	Philip Morris Cos., Inc., 9.00% due 1/01/2001.....	\$ 1,043,370	\$ 1,154,561
	AA	Aa1	2,500,000	Wal-Mart Stores, Inc.: 8.625% due 4/01/2001.....	2,827,500	2,907,012
	AA	Aa1	3,000,000	6.50% due 6/01/2003.....	2,992,810	3,071,040
					25,676,482	26,532,590
INDUSTRIAL-- ENERGY--6.0%	AA-	A1	1,000,000	BP America Inc.: 9.50% due 1/01/1998.....	1,169,680	1,143,350
	AA-	A1	5,500,000	7.875% due 5/15/2002.....	5,972,510	6,078,914
	A-	A3	1,000,000	Burlington Resources Inc.: 9.625% due 6/15/2000.....	1,201,910	1,193,948
	A-	A3	3,000,000	8.50% due 10/01/2001.....	3,497,340	3,420,456
	A+	A1	1,500,000	Texaco Capital Inc.: 9.00% due 12/15/1999.....	1,731,670	1,736,587
	A+	A1	2,500,000	8.50% due 2/15/2003.....	2,925,310	2,876,125
	A+	A1	1,000,000	8.875% due 9/01/2021.....	1,220,140	1,208,077
	A+	A1	1,000,000	8.00% due 8/01/2032.....	969,730	1,101,910
					18,688,290	18,759,367
INDUSTRIAL-- OTHER--13.1%	A+	A1	2,000,000	Air Products & Chemicals Inc., 6.25% due 6/15/2003.....	1,982,700	2,001,500
	AA-	Aa2	2,000,000	Archer-Daniels-Midland Co., 6.25% due 5/15/2003.....	1,992,640	2,022,520
	A-	A3	2,000,000	Baxter International Inc., 8.125% due 11/15/2001.....	2,105,970	2,221,062
	A+	A1	3,000,000	Capital Cities/ABC, Inc., 8.875% due 12/15/2000.....	3,454,220	3,509,088
	A-	Baa1	2,000,000	Carnival Cruise Lines, Inc., 6.15% due 10/01/2003.....	1,998,900	1,948,190
	A	A2	3,000,000	Communications Satellite Corp., 8.125% due 4/01/2004.....	3,183,750	3,368,334
	A	A2	4,000,000	Equifax, Inc., 6.50% due 6/15/2003.....	3,999,320	4,022,136
	A	A3	5,000,000	First Data Corp., 6.625% due 4/01/2003.....	5,010,870	5,076,610
	AA-	Aa3	1,000,000	Gannett Co., Inc., 5.25% due 3/01/1998.....	996,820	999,268
	AA	Aa2	5,020,000	Kaiser Foundation Hospitals, 9.00% due 11/01/2001.....	5,678,096	5,885,227
	AA-	Aa3	4,000,000	Walt Disney Co., 5.80% due 10/27/2008.....	4,000,000	3,761,000
	A	A2	3,000,000	Weyerhaeuser Corp.: 7.50% due 3/01/2013.....	3,159,740	3,159,903
	A	A2	2,000,000	7.25% due 7/01/2013.....	2,141,860	2,058,326
	A	A3	1,000,000	Witco Corp., 6.60% due 4/01/2003.....	999,710	1,015,130
					40,704,596	41,048,294

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--PRIME BOND FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

INDUSTRIES <S>	S&P RATING <C>	MOODY'S RATING <C>	FACE AMOUNT <C>	CORPORATE BONDS & NOTES <C>	COST <C>	VALUE (NOTE 1A) <C>
SUPRANATIONAL--6.0%	AAA	Aaa	\$ 1,000,000	Asian Development Bank: 10.75% due 6/01/1997.....	\$ 1,084,890	\$ 1,176,623
	AAA	Aaa	3,000,000	6.50% due 9/21/2002.....	3,088,230	3,087,933
	AAA	Aaa	5,000,000	European Investment Bank, 9.125% due 6/01/2002.....	6,147,500	5,996,760
				Inter-American Development Bank		

	AAA	Aaa	2,000,000	Co.:	8.875% due 6/01/2009.....	2,481,700	2,464,838
	AAA	Aaa	4,000,000		8.50% due 3/15/2011.....	4,910,200	4,751,328
	AAA	Aaa	1,000,000	International Bank for Reconstruction & Development, 12.375% due 10/15/2002.....		1,210,790	1,413,593
						18,923,310	18,891,075
TRANSPORTATION SERVICES--1.8%	A-	Baa1	2,000,000	Southwest Airlines, Inc.:	9.40% due 7/01/2001.....	2,407,120	2,353,712
	A-	Baa1	2,000,000		8.75% due 10/15/2003.....	2,297,060	2,308,578
	A-	Baa1	1,000,000		7.875% due 9/01/2007.....	992,600	1,086,883
						5,696,780	5,749,173
UTILITIES-- COMMUNICA- TIONS--4.0%	BBB+	A3	1,000,000	GTE Corp.:	8.85% due 3/01/1998.....	1,143,360	1,118,230
	BBB+	A3	1,000,000		9.10% due 6/01/2003.....	1,221,680	1,181,977
	AA-	Aa3	4,000,000	Pacific Bell, Inc.:	8.70% due 6/15/2001.....	4,554,320	4,634,992
	AA-	Aa3	1,500,000		7.125% due 3/15/2026.....	1,532,790	1,504,561
				Southwestern Bell Telecommunications Corp.:	6.125% due 3/01/2000.....	2,010,000	2,033,124
	A+	A1	2,000,000		7.00% due 7/01/2015.....	1,975,000	2,019,230
						12,437,150	12,492,114
UTILITIES-- ELECTRIC--2.2%	A-	A3	3,000,000	Georgia Power Co., 6.125% due 9/01/1999.....		2,892,720	3,048,123
	A	A1	1,000,000	Pacific Gas & Electric Co., 7.875% due 3/01/2002.....		997,920	1,102,846
	A	A2	1,000,000	Pennsylvania Power & Light Co.:	7.75% due 5/01/2002.....	995,100	1,093,746
	A	A2	1,000,000		6.875% due 2/01/2003.....	1,014,350	1,035,025
	A	A2	500,000	Virginia Electric & Power Co., 6.625% due 4/01/2003.....		499,450	512,868
						6,399,540	6,792,608
UTILITIES--GAS--2.0%	AA-	A1	3,000,000	Consolidated Natural Gas Co.:	8.75% due 6/01/1999.....	3,231,620	3,421,017
	AA-	A1	3,000,000		5.75% due 8/01/2003.....	3,002,550	2,902,176
						6,234,170	6,323,193
				TOTAL CORPORATE BONDS & NOTES-- 78.0%.....		242,907,242	244,885,309

</TABLE>

107

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--PRIME BOND FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE> <CAPTION>							
INDUSTRIES	S&P RATING	MOODY'S RATING	FACE AMOUNT	US GOVERNMENT OBLIGATIONS	COST	VALUE (NOTE 1A)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
US GOVERNMENT OBLIGATIONS--11.7%	NR	Aaa	\$ 4,000,000	US Treasury Notes & Bonds:			
	NR	Aaa	9,000,000	8.25% due 7/15/1998.....	\$ 4,502,500	\$ 4,502,480	
	NR	Aaa	4,000,000	6.375% due 7/15/1999.....	9,681,563	9,458,370	
	NR	Aaa	4,500,000	6.00% due 10/15/1999.....	4,144,375	4,129,960	
	NR	Aaa	4,500,000	8.75% due 8/15/2000.....	5,356,113	5,312,790	
	NR	Aaa	3,000,000	8.50% due 11/15/2000.....	3,530,625	3,507,180	
	NR	Aaa	3,000,000	6.375% due 8/15/2002.....	3,135,938	3,129,360	
	NR	Aaa	4,500,000	5.75% due 8/15/2003.....	4,670,312	4,485,915	
	NR	Aaa	2,000,000	7.50% due 11/15/2016.....	2,219,480	2,221,240	
					37,240,906	36,747,295	
				TOTAL US GOVERNMENT OBLIGATIONS--11.7%.....	37,240,906	36,747,295	

SHORT-TERM SECURITIES

COMMERCIAL PAPER**--4.8%	15,000,000	General Electric Capital Corp., 3.38% due 1/04/1994.....	14,994,367	14,994,367
REPURCHASE AGREEMENTS***--2.9%	9,168,000	Carroll McEntee & McGinley, Inc., purchased on 12/31/1993 to yield 3.25% to 1/03/1994.....	9,168,000	9,168,000
TOTAL SHORT-TERM SECURITIES--7.7%.....			24,162,367	24,162,367
TOTAL INVESTMENTS--97.4%.....			\$304,310,515	305,794,971
OTHER ASSETS LESS LIABILITIES--2.6%.....				8,296,493
NET ASSETS--100%.....				\$314,091,464

</TABLE>

(a) Medium-Term Note.

* Corresponding industry groups for foreign securities, which are denominated in US dollars:

- (1) Industrial Mining.
- (2) Electric Utility.
- (3) Financial Institution.
- (4) Government Entity.

** Commercial Paper is traded on a discount basis and amortized to maturity. The interest rate shown is the discount rate paid at the time of purchase by the Fund.

*** Repurchase Agreements are fully collateralized by US Government Obligations. Ratings of issues shown have not been audited by Deloitte & Touche.

See Notes to Financial Statements.

108

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--QUALITY EQUITY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

INDUSTRIES	SHARES HELD	COMMON STOCKS & WARRANTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
AEROSPACE	90,000	Allied Signal Inc.....	\$ 5,931,968	\$ 7,110,000	2.3%
APPAREL	110,000	Phillips-Van Heusen Corp.....	3,066,754	4,125,000	1.3
APPLIANCES	245,000	Singer Co., N.V.....	7,897,329	9,156,875	3.0
	392,000	Sunbeam-Oster.....	8,017,244	8,624,000	2.8
			15,914,573	17,780,875	5.8
AUTO & TRUCK	20,000	Consortio D Grupo Dina S.A. (ADR) (a).....	482,962	557,500	0.2
AUTOMOBILES	150,000	Ford Motor Co.....	8,093,805	9,675,000	3.1
AUTOMOTIVE	120,000	Magna International, Inc. (Class A)...	5,330,158	5,970,000	1.9
BANKING	60,000	Bank of New York Co. (Warrants) (b)....	433,750	630,000	0.2
	160,000	Bank of New York, Inc.....	7,904,505	9,120,000	3.0
			8,338,255	9,750,000	3.2
BEVERAGES	35,000	PepsiCo Inc.....	1,391,470	1,430,625	0.5
	13,500	Panamerican Beverages, Inc. (Class A).....	438,013	516,375	0.2
			1,829,483	1,947,000	0.7
CHEMICALS	50,000	PPG Industries, Inc.....	3,521,030	3,793,750	1.2
	70,000	Rohm and Haas.....	3,859,029	4,165,000	1.3

			7,380,059	7,958,750	2.5
COMMUNICATION EQUIPMENT	215,000	ADC Telecommunications Inc.....	6,295,827	7,659,375	2.5
	90,000	DSC Communications Corp.....	4,998,923	5,529,375	1.8
	45,000	Motorola, Inc.....	3,930,075	4,156,875	1.3
	37,000	Pictoretel Corp.....	669,067	689,125	0.2
	125,000	Tellabs, Inc.....	4,755,455	5,875,000	1.9
			20,649,347	23,909,750	7.7
COMPUTER SERVICES	85,000	Computer Sciences Corp.....	6,859,844	8,457,500	2.7
	300,000	General Motors Corp. (Class E).....	8,878,108	8,775,000	2.8
			15,737,952	17,232,500	5.5
COMPUTER TECHNOLOGY	140,000	Solectron Corp.....	2,900,977	3,972,500	1.3
ELECTRICAL EQUIPMENT	100,000	Emerson Electric Co.....	5,778,286	6,025,000	1.9
ELECTRONIC/INSTRUMENTS	80,000	Perkin-Elmer Corp.....	2,878,887	3,080,000	1.0
ENGINEERING & CONSTRUCTION	135,500	Thermo Electron.....	5,429,097	5,691,000	1.8
ENVIRONMENTAL CONTROL	460,000	Wheelabrator Technologies Inc.....	7,465,633	8,165,000	2.6
FERTILIZER	25,000	IMC Fertilizer Group Inc.....	1,060,593	1,134,375	0.4
FOREIGN--ARGENTINA	50,000	+Banco Frances del Rio de la Plata S.A. (2).....	1,563,880	1,968,750	0.6

</TABLE>

109

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--QUALITY EQUITY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE> <CAPTION>					
INDUSTRIES	SHARES HELD	COMMON STOCKS & WARRANTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
FOREIGN--MEXICO	25,000	Empresas ICA Sociedad Controladora, S.A. de C.V. (ADR) (a) (4).....	\$ 566,315	\$ 706,250	0.2%
	75,000	Grupo Financiero Serfin, S.A. de C.V. (ADR) (a) (2).....	1,874,720	2,212,500	0.7
	122,000	Telefonos de Mexico, S.A. de C.V. (Telmex) (ADR) (a) (7).....	6,019,253	8,235,000	2.7
			8,460,288	11,153,750	3.6
FOREIGN--NETHERLANDS	25,316	AEGON N.V. (ADR) (a) (3).....	1,125,525	1,373,393	0.4
	1,165,000	AEGON N.V. (ADR) (a) (3).....	1,496,297	1,724,200	0.6
			2,621,822	3,097,593	1.0
FOREIGN--PORTUGAL	30,000	Espirito Santo Financial Holdings S.A. (ADR) (a) (2).....	855,676	1,057,500	0.3
FOREIGN--UNITED KINGDOM	75,000	British Petroleum PLC (ADR) (a) (6).....	4,173,012	4,800,000	1.6
	40,000	Reuters Holdings PLC (ADR) (a) (1).....	2,583,407	3,160,000	1.0
			6,756,419	7,960,000	2.6
FOREST PRODUCTS	102,500	Willamette Industries Inc.....	3,925,498	5,099,375	1.7
HEALTH CARE	90,000	Vivra Inc.....	1,646,529	2,081,250	0.7
HEALTHCARE--PRODUCTS/SERVICES	306,600	+Humana Inc.....	5,094,403	5,403,825	1.7
	40,000	Johnson & Johnson Co.....	1,600,252	1,790,000	0.6
			6,694,655	7,193,825	2.3
HOME FURNISHINGS	90,000	Heilig-Meyers Co.....	1,593,336	3,510,000	1.1
HOUSEHOLD PRODUCTS	130,000	Procter & Gamble.....	6,748,835	7,410,000	2.4

INSURANCE	70,000	America International Group Inc.....	6,156,186	6,142,500	2.0
	100,000	Capital Holding Corp.....	4,035,123	3,712,500	1.2
			10,191,309	9,855,000	3.2
MEDICAL	240,000	Physician Corp.....	4,708,447	5,970,000	1.9
OFFICE EQUIPMENT	200,000	Danka Business Systems PLC (ADR) (a) (5).....	5,044,461	7,912,500	2.6
OIL--INTEGRATED	50,000	Chevron Corp.....	4,388,825	4,356,250	1.4
	60,000	Mobil Corp.....	4,670,347	4,740,000	1.5
	50,000	Royal Dutch Petroleum Co. (ADR) (a) (6).....	4,870,500	5,218,750	1.7
			13,929,672	14,315,000	4.6
PAPER & PACKAGING	200,000	Crown Cork & Seal Co., Inc.....	5,824,550	8,375,000	2.7
	60,000	Union Camp Corp.....	2,870,356	2,857,500	0.9
			8,694,906	11,232,500	3.6
PETROLEUM	165,000	Phillips Petroleum Co.....	4,733,030	4,785,000	1.5
PRINTING/PUBLISHING	80,000	News Corp., Ltd. (ADR) (a).....	4,300,065	4,220,000	1.4

</TABLE>

110

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--QUALITY EQUITY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED)

INDUSTRIES	SHARES HELD	COMMON STOCKS & WARRANTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>
RAILROADS	29,000	CSX Corp.....	\$ 2,458,253	\$ 2,349,000	0.8%
	50,000	Southern Pacific Rail Corp.....	959,750	987,500	0.3
			3,418,003	3,336,500	1.1
SERVICES	85,000	Block (H&R), Inc.....	2,979,575	3,463,750	1.1
	40,000	Kelly Services, Inc. (Class A).....	1,137,039	1,105,000	0.4
	12,000	Kelly Services, Inc. (Class B).....	114,998	363,000	0.1
			4,231,612	4,931,750	1.6
SOFTWARE--COMPUTER	40,000	Microsoft Corp.....	3,233,000	3,225,000	1.0
TELECOMMUNICATIONS	35,000	ALC Communications Corp.....	991,049	1,006,250	0.3
	150,000	LDDS Communications Inc.....	6,763,866	7,275,000	2.4
	290,000	MCI Communications Corp.....	8,127,036	8,174,375	2.6
	70,000	Sprint Corp.....	2,557,650	2,432,500	0.8
			18,439,601	18,888,125	6.1
TELECOMMUNICATIONS EQUIPMENT	4,000	Antec Corp.....	72,000	98,000	0.0
TIRES & RUBBER	10,000	Bandag, Inc.....	426,702	553,750	0.2
	50,000	Bandag, Inc. (Class A).....	2,585,504	2,587,500	0.8
	130,000	Cooper Tire & Rubber Co.....	2,713,790	3,250,000	1.1
			5,725,996	6,391,250	2.1
UTILITIES--ELECTRIC	294,000	California Energy Co., Inc.....	5,502,330	5,439,000	1.8
		TOTAL COMMON STOCKS & WARRANTS.....	251,360,159	285,215,918	92.0

</TABLE>

111

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--QUALITY EQUITY FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE>
<CAPTION>

<S>	FACE AMOUNT <C>	SHORT-TERM SECURITIES <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
COMMERCIAL PAPER*	\$4,507,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	\$ 4,505,791	\$ 4,505,791	1.5%
	4,500,000	Matterhorn Capital Corp., 3.20% due 1/24/1994.....	4,490,400	4,490,400	1.5
	5,000,000	Paribas Finance Corp., 3.36% due 1/04/1994.....	4,998,133	4,998,133	1.6
	3,000,000	PHH Corp., 3.25% due 1/12/1994.....	2,996,750	2,996,750	1.0
	7,000,000	Preferred Receivable Funding, 3.30% due 1/07/1994.....	6,995,508	6,995,508	2.3
US GOVERNMENT OBLIGATIONS	2,380,000	Federal Home Loan Bank, 3.17% due 1/18/1994.....	2,376,228	2,376,228	0.8
		TOTAL SHORT-TERM SECURITIES.....	26,362,810	26,362,810	8.7
		TOTAL INVESTMENTS.....	\$277,722,969	311,578,728	100.7
		LIABILITIES IN EXCESS OF OTHER ASSETS.....		(2,159,091)	(0.7)
		NET ASSETS.....		\$309,419,637	100.0%

</TABLE>

(a) American Depositary Receipt (ADR).

(b) Warrants entitle the Fund to purchase a predetermined number of shares of common stock. The purchase price and number of shares are subject to adjustments under certain conditions until the expiration date.

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

Corresponding industry groups for foreign securities:

- | | |
|------------------------|------------------------|
| (1) Business Services | (5) Office Equipment |
| (2) Financial Services | (6) Petroleum |
| (3) Insurance | (7) Telecommunications |
| (4) Miscellaneous | |

See Notes to Financial Statements.

112

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--RESERVE ASSETS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993

<TABLE>
<CAPTION>

<S>	FACE AMOUNT <C>	ISSUE <C>	INTEREST RATE* <C>	MATURITY DATE <C>	VALUE (NOTE 1A) <C>
BANK NOTE--3.3%	\$ 1,000,000	FNB of Chicago.....	3.35%	1/31/94	\$ 1,000,000
		TOTAL BANK NOTES (COST--\$1,000,000).....			1,000,000
COMMERCIAL PAPER--49.1%	203,000	American Express Credit Corp.....	3.22	1/10/94	202,814
	1,000,000	Arco Coal Australia, Inc.....	3.33	2/07/94	996,443
	1,235,000	Bass Finance (C.I.) Ltd.....	3.28	3/11/94	1,227,315
	500,000	CIT Group Holdings, Inc. (The).....	3.30	3/01/94	497,208
	588,000	CSW Credit, Inc.....	3.27	2/18/94	585,343
	900,000	CSW Credit, Inc.....	3.25	2/25/94	895,352
	60,000	CXC Inc.....	3.40	1/18/94	59,900
	628,000	Central Hispano N.A. Capital Corp.....	3.23	1/10/94	627,424
	1,302,000	Fisons U.S. Inc.....	3.22	1/12/94	1,300,568
	1,000,000	Ford Motor Credit Co.....	3.20	1/27/94	997,487
	500,000	Goldman Sachs Group L.P.....	3.36	2/07/94	498,221

1,300,000	Hanson Finance (UK) PLC.....	3.21	1/24/94	1,297,097
1,000,000	Nomura Holding America Inc.....	3.40	1/24/94	997,767
1,388,000	Province of Quebec.....	3.35	2/03/94	1,383,582
961,000	Sheffield Receivables Corp.....	3.25	2/18/94	956,657
1,301,000	Societe Generale North America, Inc.....	3.35	3/01/94	1,293,736
1,000,000	Svenska Handlesbanken, Inc.....	3.25	1/05/94	999,542

TOTAL COMMERCIAL PAPER (COST--\$14,816,867)..... 14,816,456

CORPORATE NOTES--3.3% 1,000,000 Goldman Sachs Group L.P..... 3.33 3/01/94 1,000,000

TOTAL CORPORATE NOTES-- (COST--\$1,000,000)..... 1,000,000

US GOVERNMENT & AGENCY OBLIGATIONS-- DISCOUNT--7.5%	50,000	Federal Farm Credit.....	3.59	11/17/94	48,440
	85,000	Federal Farm Credit.....	3.64	11/17/94	82,347
	54,000	Federal Home Loan Mortgage.....	3.22	1/18/94	53,914
	60,000	Federal Home Loan Mortgage.....	3.22	1/25/94	59,867
	128,000	Federal Home Loan Mortgage.....	3.39	5/09/94	126,528
	70,000	Federal Home Loan Mortgage.....	3.47	7/28/94	68,663
	303,000	Federal Home Loan Mortgage.....	3.50	7/28/94	297,213
	78,000	Federal Home Loan Mortgage.....	3.55	7/28/94	76,510
	125,000	Federal National Mortgage Association.....	3.24	2/24/94	124,415
	50,000	Federal National Mortgage Association.....	3.30	3/07/94	49,710
	30,000	Federal National Mortgage Association.....	3.21	4/01/94	29,758
	20,000	Federal National Mortgage Association.....	3.22	4/01/94	19,839
	125,000	Federal National Mortgage Association.....	3.275	6/06/94	123,228
	95,000	Federal National Mortgage Association.....	3.39	6/07/94	93,645
	90,000	Federal National Mortgage Association.....	3.38	7/19/94	88,355
	50,000	Federal National Mortgage Association.....	3.46	8/22/94	48,914
	25,000	Federal National Mortgage Association.....	3.46	8/23/94	24,455
	45,000	Federal National Mortgage Association.....	3.51	9/20/94	43,882
	120,000	Federal National Mortgage Association.....	3.34	9/22/94	116,997
	50,000	Federal National Mortgage Association.....	3.37	9/22/94	48,749

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--RESERVE ASSETS FUND
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE>
<CAPTION>

<S>	FACE AMOUNT <C>	ISSUE <C>	INTEREST RATE* <C>	MATURITY DATE <C>	VALUE (NOTE 1A) <C>
US GOVERNMENT & AGENCY OBLIGATIONS-- DISCOUNT (CONCLUDED)	25,000	Federal National Mortgage Association.....	3.42 %	9/27/94	\$ 24,363
	115,000	Federal National Mortgage Association.....	3.46	9/27/94	112,068
	20,000	Federal National Mortgage Association.....	3.49	9/27/94	19,490
	45,000	Federal National Mortgage Association.....	3.50	9/30/94	43,840
	45,000	Federal National Mortgage Association.....	3.42	10/11/94	43,779
	90,000	Federal National Mortgage Association.....	3.52	10/13/94	87,540
	240,000	Federal National Mortgage Association.....	3.53	10/13/94	233,441
	55,000	Federal National Mortgage Association.....	3.55	10/13/94	53,497

TOTAL US GOVERNMENT & AGENCY OBLIGATIONS--DISCOUNT (COST--\$2,242,107)..... 2,243,447

US GOVERNMENT & AGENCY OBLIGATIONS--NON-DISCOUNT--36.7%	500,000	Federal Home Loan Bank+.....	3.43	12/28/95	500,000
	2,000,000	Federal Home Loan Mortgage+.....	3.36	9/01/95	1,999,240
	1,000,000	Federal National Mortgage Association+.....	3.33	5/13/96	1,000,000
	1,000,000	Federal National Mortgage Association+.....	3.45	5/19/97	1,000,000
	1,000,000	Federal National Mortgage Association+.....	3.50	5/14/98	1,000,000
	500,000	Student Loan Marketing Association+.....	3.72	3/01/95	502,939
	1,000,000	Student Loan Marketing Association+.....	3.72	3/23/95	1,002,969
	450,000	Student Loan Marketing Association+.....	3.47	3/20/96	450,000
	1,000,000	United States Treasury Notes.....	5.75	3/31/94	1,006,250
	500,000	United States Treasury Notes.....	5.125	5/31/94	503,750
	650,000	United States Treasury Notes.....	5.00	6/30/94	655,281
	300,000	United States Treasury Notes.....	3.875	3/31/95	300,094
	250,000	United States Treasury Notes.....	3.875	4/30/95	250,000
	250,000	United States Treasury Notes.....	4.125	6/30/95	250,625
	400,000	United States Treasury Notes.....	3.875	8/31/95	398,875
	250,000	United States Treasury Notes.....	4.25	12/31/95	250,078

TOTAL US GOVERNMENT & AGENCY OBLIGATIONS--NON-DISCOUNT (COST--\$11,063,854)..... 11,070,101

TOTAL INVESTMENTS (COST--\$30,122,927)--99.9%..... 30,130,004
OTHER ASSETS LESS LIABILITIES--0.1%..... 37,901

</TABLE>

* Bankers' Acceptances, Commercial Paper and certain US Government & Agency Obligations are traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund. Other securities bear interest at the rates shown, payable at fixed dates or upon maturity. The interest rates on variable rate securities are adjusted periodically based upon appropriate indexes. The interest rates shown are the rates in effect at

December 31, 1993.

+ Variable Rate Note.

See Notes to Financial Statements.

114

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (IN US DOLLARS)

<TABLE>							
<CAPTION>							
LATIN AMERICA AND THE CARIBBEAN INDUSTRIES							
<S>	<C>	FACE AMOUNT	FIXED-INCOME INVESTMENTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS	<C>
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ARGENTINA	AUTOMOBILES	\$ 500,000	Compania Naviera Perez Companc S.A.C.F.I.M.F.A. S.A., 8.375% due 7/30/1998.....	\$ 511,875	\$ 508,750	1.01%	
		500,000	Sevel Argentina, S.A., 8.50% due 11/17/1996.....	505,625	510,625	1.01	
	FOREIGN GOVERNMENT OBLIGATIONS	500,000	Republic of Argentina, 8.25% due 8/02/2000.....	506,250	514,687	1.01	
	TELECOMMUNICATIONS	500,000	Telecom Argentina Stet--France Telecom, S.A., 8.375% due 10/18/2000.....	502,500	513,750	1.01	
			TOTAL FIXED-INCOME INVESTMENTS IN ARGENTINA	2,026,250	2,047,812	4.04	
MEXICO	RETAIL STORES	250,000	Controladora Comercial Mexicana, S.A., 8.75% due 4/21/1998.....	263,125	264,375	0.52	
			TOTAL FIXED-INCOME INVESTMENTS IN MEXICO	263,125	264,375	0.52	
TRINIDAD & TOBAGO	FOREIGN GOVERNMENT OBLIGATIONS	200,000	Republic of Trinidad and Tobago, 11.50% due 11/20/1997.....	214,750	217,500	0.43	
			TOTAL FIXED-INCOME INVESTMENTS IN TRINIDAD & TOBAGO	214,750	217,500	0.43	
			TOTAL FIXED-INCOME INVESTMENTS IN LATIN AMERICAN SECURITIES	2,504,125	2,529,687	4.99	
NORTH AMERICA							
CANADA	FOREIGN GOVERNMENT OBLIGATIONS	C\$ 550,000 2,000,000	Canadian Government Bonds: 6.50% due 9/01/1998... 7.50% due 12/01/2003...	431,789 1,581,135	428,763 1,606,495	0.84 3.17	
				2,012,924	2,035,258	4.01	

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION> NORTH AMERICA (CONTINUED)							
<S>	<C>	INDUSTRIES	FACE AMOUNT <C>	FIXED-INCOME INVESTMENTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
UNITED STATES	AIR TRANSPORT	US\$	250,000	Delta Air Lines, Inc., 9.30% due 1/02/2010....	\$ 246,925	\$ 249,787	0.49%
			100,000	USAir Inc.: 10.00% due 7/01/2003...	100,000	96,000	0.19
			250,000	10.375% due 3/01/2013..	250,000	250,241	0.49
			100,000	United Air Pass-Through, 10.125% due 3/22/2015.....	109,036	110,236	0.22
					705,961	706,264	1.39
	AUTOMOBILE PARTS		100,000	Exide Corp., 10.75% due 12/15/2002.....	107,500	109,500	0.22
	BROADCASTING & PUBLISHING		250,000	Continental Cablevision Inc., 9.50% due 8/01/2013.....	250,000	280,000	0.55
			500,000	SCI Television Inc., 11.00% due 6/30/2005...	520,625	520,000	1.03
			500,000	Sinclair Broadcasting Group, Inc., 10.00% due 12/15/2003.....	500,000	511,250	1.01
			250,000	World Color Press Inc., 9.125% due 3/15/2003...	250,625	259,375	0.51
					1,521,250	1,570,625	3.10
	BUILDING MATERIALS		250,000	Inter-City Products Corp., 9.75% due 3/01/2000.....	242,500	250,625	0.49
			100,000	Pacific Lumber Co., 10.50% due 3/01/2003...	102,500	103,750	0.21
			350,000	USG Corp., 8.75% due 3/01/2017.....	323,125	323,750	0.64
					668,125	678,125	1.34
	BUILDING PRODUCTS		250,000	American Standard Inc., 9.25% due 12/01/2016...	251,875	259,375	0.51
	CELLULAR TELEPHONES & PAGING		260,000	Dial Page, Inc., 12.25% due 2/15/2000.....	282,775	289,900	0.57
	CHEMICALS		435,000	G-I Holdings, Inc., 9.65%* due 10/01/1998.....	257,198	279,216	0.55
			500,000	Harris Chemical North America Co., 9.42%* due 7/15/2001.....	402,739	429,375	0.85
			250,000	Methanex Corp., 8.875% due 11/15/2001.....	248,245	258,750	0.51
					908,182	967,341	1.91
	COMMUNICATIONS		175,000	Panamsat L.P., 10.12%* due 8/01/2003.....	103,035	117,250	0.23

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>							
<CAPTION>							
NORTH AMERICA							
(CONTINUED)							
<S>	<C>	INDUSTRIES	FACE AMOUNT	FIXED-INCOME INVESTMENTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
UNITED STATES		CONGLOMERATES		Coltec Industries:			
(CONTINUED)			US\$ 150,000	9.75% due 11/01/1999...	\$ 159,000	\$ 161,250	0.32 %
			100,000	10.25% due 4/01/2002...	107,000	107,750	0.21
			250,000	Foamex L.P., 9.50%			
				due 6/01/2000.....	244,062	262,500	0.52
			292,000	Interco. Inc., 10.00%			
				due 6/01/2001.....	294,920	297,110	0.58
			500,000	Interlake Corp., 12.125%			
				due 3/01/2002.....	513,750	506,250	1.00
			500,000	Jordan Industries, Inc. 10.375%			
				due 8/01/2003.....	495,688	510,000	1.00
			500,000	Sherritt Gordon, Ltd.,			
				9.75% due 4/01/2003....	503,625	505,000	1.00
					2,318,045	2,349,860	4.63
		CONSUMER-PRODUCTS	500,000	++Coleman Holdings Inc., 10.11%*			
				due 5/27/1998.....	311,376	324,375	0.64
			250,000	++Formica Corp., 13.125%			
				due 9/15/2005.....	250,000	253,906	0.50
			925,000	Revlon Worldwide Corp., 16.61%*			
				due 3/15/1998.....	516,725	476,375	0.94
			250,000	Sealy Corp., 9.5%			
				due 5/01/2003.....	256,750	261,875	0.51
					1,334,851	1,316,531	2.59
		CONTAINERS	250,000	Anchor Glass Container			
				Co., 9.875%			
				due 12/15/2008.....	250,000	256,250	0.51
			500,000	Silgan Holdings, Inc.,			
				12.43%* due			
				6/15/1996.....	386,521	387,500	0.76
			250,000	Stone-Consolidated			
				Corp., 10.25%			
				due 12/15/2000.....	251,250	252,500	0.50
			250,000	Sweetheart Cup Co.,			
				9.625% due 9/01/2000...	250,000	263,750	0.52
					1,137,771	1,160,000	2.29
		ENERGY	100,000	++Clark Oil, 10.50%			
				due 12/01/2001.....	106,375	108,375	0.21
			1,000,000	Clark R & M Holdings, Inc.,			
				9.9684%*			
				due 2/15/2000.....	520,005	551,250	1.09
			250,000	++Consolidated-Hydro			
				Inc., 11.95%*			
				due 7/15/2003.....	144,849	148,750	0.29
			500,000	Ferrell Gas Inc., 11.625%			
				due 12/15/2003.....	543,250	544,375	1.07
			250,000	Noble Drilling Corp.,			
				9.25% due 10/01/2003...	250,000	258,750	0.51
			500,000	Seagull Energy Corp.,			
				8.625% due 8/01/2005...	499,688	500,000	0.99

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>							
<CAPTION>							
NORTH AMERICA							
(CONTINUED)							
<S>	<C>	INDUSTRIES	FACE AMOUNT	FIXED-INCOME INVESTMENTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
UNITED STATES		ENERGY (CONTINUED)	US\$ 250,000	Trans Texas Gas Corp., 10.50%			
(CONTINUED)				due 9/01/2000.....	\$ 250,000	\$ 263,750	0.52%
			500,000	Triton Energy Corp.,			
				9.65%* due			

		11/01/1997.....	343,791	350,000	0.69
			2,657,958	2,725,250	5.37

ENTERTAINMENT	500,000	Marvel Holdings, Inc., 10.13%* due 4/15/1998.....	312,570	328,750	0.65
	100,000	New World Pictures Inc., 12.25% due 9/15/1998.....	97,315	101,500	0.20
	350,000	SPI Holding Inc., 10.65%* due 10/01/2001.....	253,083	273,000	0.54
			662,968	703,250	1.39

FINANCIAL SERVICES	250,000	Penn Financial Corp., 9.25% due 12/15/2003...	250,000	253,750	0.50
	250,000	Reliance Group Holdings, Inc., 9.75% due 11/15/2003...	250,000	258,125	0.51
			500,000	511,875	1.01

FOOD & BEVERAGE	250,000	Coca-Cola Bottling Co., 9.0% due 11/15/2003...	250,625	250,625	0.49
	250,000	Del Monte Corp., 10.00% due 5/01/2003.....	251,250	247,500	0.49
	350,000	Grand Union Co., 12.25% due 7/15/2002.....	362,250	368,375	0.72
	300,000	Penn Traffic Co., 9.625% due 4/15/2005.....	309,000	312,750	0.62
	250,000	PuebloXtra, 9.50% due 8/01/2003.....	250,938	253,750	0.50
	250,000	Royal Crown Corp., 9.75% due 8/01/2000.....	250,000	257,500	0.51
	250,000	Specialty Foods Corp., 10.25% due 8/15/2001...	250,000	255,313	0.50
			1,924,063	1,945,813	3.83

HOME BUILDING	250,000	Ryland Group, Inc., 9.625% due 6/01/2004...	250,000	252,188	0.50

HOTELS & CASINOS	250,000	Aztar Corp., 11.00% due 10/01/2002.....	254,062	255,000	0.50
	250,000	Mirage Resorts Inc., 9.25% due 3/15/2003....	248,750	261,875	0.52
	500,000	Showboat Inc., 9.25% due 5/01/2008.....	506,250	512,500	1.01
	500,000	Trump Plaza Associates, 10.875% due 6/15/2001.....	500,313	502,500	0.99
	100,000	Trump Taj Mahal Funding, Inc., 11.35% due 11/15/1999(a).....	93,575	98,664	0.20
			1,602,950	1,630,539	3.22

</TABLE>

118

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE>							
<CAPTION>							
NORTH AMERICA							
(CONTINUED)							
<S>	<C>	INDUSTRIES	FACE AMOUNT	FIXED-INCOME INVESTMENTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>		<C>	<C>	<C>	<C>	<C>
UNITED STATES		INDUSTRIAL SERVICES	US\$ 250,000	ADT Operations, 9.25% due 8/01/2003.....	\$ 251,687	\$ 257,500	0.51%
(CONTINUED)			300,000	Blount, Inc., 9.00% due 6/15/2003.....	300,500	311,250	0.61
					552,187	568,750	1.12

		METALS & MINING	250,000	Maxxam Group, Inc., 12.48%* due 8/01/2003.....	141,461	143,125	0.28

		PAPER	250,000	Container Corp.			

		of America, 9.75% due 4/01/2003.....	255,000	259,375	0.51
	250,000	Riverwood International Corp., 11.25% due 6/15/2002.....	274,813	273,750	0.54
	100,000	Stone Container Group, 11.875% due 12/01/1998.....	101,625	101,750	0.20
			631,438	634,875	1.25
RAILROADS	250,000	Southern Pacific Rail Co., 9.375% due 8/15/2005...	250,000	267,500	0.53
RESTAURANTS & FOOD SERVICES	250,000	Flagstar Corp., 11.375% due 9/15/2003.....	250,000	258,750	0.51
	250,000	Foodmaker, Inc., 9.75% due 6/01/2002.....	251,250	254,375	0.50
			501,250	513,125	1.01
RETAIL STORES	250,000	Pamida Holdings, Inc., 11.75% due 3/15/2003...	247,500	255,625	0.51
	150,000	Specialty Retailers Inc., 10.00% due 8/15/2000...	149,625	153,750	0.30
	100,000	++Specialty Retailers Inc., 11.00% due 8/15/2003.....	100,000	103,000	0.20
			497,125	512,375	1.01
STEEL	500,000	WCI Steel Inc., 10.50% due 3/01/2002.....	500,000	520,000	1.02
TEXTILES	500,000	West Point Stevens Inc., 9.375% due 12/15/2005.....	500,000	506,875	1.00
TRANSPORT SERVICES	250,000	Eletson Holdings Inc., 9.25% due 11/15/2003...	250,000	255,469	0.50
	250,000	International Shipholding Corp., 9.00% due 7/01/2003.....	249,750	255,625	0.50
	250,000	Viking Star Shipping Co., 9.625% due 7/15/2003...	250,938	257,813	0.51
			750,688	768,907	1.51
US GOVERNMENT & AGENCY OBLIGATIONS	4,000,000	US Treasury Note, 5.75% due 8/15/2003.....	3,983,125	3,986,876	7.86

</TABLE>

119

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION> NORTH AMERICA (CONCLUDED)		FACE AMOUNT	FIXED-INCOME INVESTMENTS	COST	VALUE (NOTE 1A)	PERCENT OF NET ASSETS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
UNITED STATES (CONCLUDED)	UTILITIES	US\$ 92,869	Midland Funding Corp. II, 10.33% due 7/23/2002...	\$ 96,816	\$ 95,881	0.19%
		250,000	Texas-New Mexico Power Company, 9.25% due 9/15/2000.....	250,000	261,640	0.51
		233,383	++Tucson Electric Power Co., 10.732% due 1/01/2013.....	223,464	227,840	0.45
				570,280	585,361	1.15
			TOTAL FIXED-INCOME INVESTMENTS IN THE UNITED STATES	25,814,863	26,303,916	51.84

TOTAL FIXED-INCOME
INVESTMENTS IN NORTH
AMERICAN SECURITIES 27,827,787 28,339,174 55.85

PACIFIC
BASIN

AUSTRALIA	FOREIGN GOVERNMENT		Australia Government			
	OBLIGATIONS--REGIONAL & AGENCY	A\$ 2,400,000 1,000,000	Bonds: 9.50% due 8/15/2003.... 7.00% due 4/01/2004....	1,931,468 659,662	1,948,792 693,767	3.84 1.37
				2,591,130	2,642,559	5.21

TOTAL FIXED-INCOME
INVESTMENTS IN
AUSTRALIA 2,591,130 2,642,559 5.21

TOTAL FIXED-INCOME
INVESTMENTS IN PACIFIC
BASIN SECURITIES 2,591,130 2,642,559 5.21

WESTERN EUROPE

DENMARK	FOREIGN GOVERNMENT		Denmark Government Bonds:			
	OBLIGATION	Dkr 2,000,000 8,000,000	9.00% due 11/15/2000... 7.00% due 12/15/2004...	344,014 1,283,497	343,746 1,261,874	0.67 2.49
				1,627,511	1,605,620	3.16

TOTAL FIXED-INCOME
INVESTMENTS IN DENMARK 1,627,511 1,605,620 3.16

ITALY	FOREIGN	Lit 3,600,000,000	Buoni Poliennali del Tesoro (Italian Government Bonds)			
	OBLIGATIONS		9.00% due 10/01/1998...	2,179,661	2,165,524	4.27

TOTAL FIXED-INCOME
INVESTMENTS IN ITALY 2,179,661 2,165,524 4.27

</TABLE>

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION> WESTERN EUROPE (CONTINUED)							
<S>	<C>	INDUSTRIES	FACE AMOUNT <C>	FIXED-INCOME INVESTMENTS <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>
SPAIN	FOREIGN GOVERNMENT OBLIGATIONS		Pta 200,000,000 71,000,000	Government of Spain: 9.00%* due 2/28/1997... 10.50% due 10/30/2003..	\$ 1,432,931 608,038	\$ 1,434,603 574,750	2.83 % 1.13
				2,040,969	2,009,353	3.96	
				TOTAL FIXED-INCOME INVESTMENTS IN SPAIN	2,040,969	2,009,353	3.96
SWEDEN	FOREIGN GOVERNMENT OBLIGATIONS--REGIONAL & AGENCY		Skr 9,500,000 15,000,000	SBAB, 12.50% due 1/23/1997..... Government of Sweden, 10.250% due 5/05/2003.....	1,308,032 2,161,107	1,311,482 2,187,904	2.59 4.31
				3,469,139	3,499,386	6.90	
				TOTAL FIXED-INCOME INVESTMENTS IN SWEDEN	3,469,139	3,499,386	6.90
UNITED KINGDOM	FOREIGN GOVERNMENT OBLIGATIONS		L 800,000 250,000 700,000	United Kingdom Gilt: 7.75% due 9/08/2006.... 8.00% due 6/10/2003.... 8.00% due 9/27/2013....	1,273,065 390,145 1,137,043	1,330,385 419,671 1,215,493	2.62 0.83 2.39

				2,800,253	2,965,549	5.84

			TOTAL FIXED-INCOME INVESTMENTS IN THE UNITED KINGDOM	2,800,253	2,965,549	5.84

			TOTAL FIXED-INCOME INVESTMENTS IN WESTERN EUROPEAN SECURITIES	12,117,533	12,245,432	24.13

SHORT-TERM SECURITIES			ISSUE			

	COMMERCIAL PAPER+	US\$ 819,000	General Electric Capital Corp., 3.22% due 1/03/1994.....	818,853	818,853	1.62
		1,000,000	Goldman Sachs & Co., 3.35% due 1/10/1994.....	999,163	999,163	1.97
		1,200,000	PepsiCo., Inc., 3.30% due 1/14/1994.....	1,198,570	1,198,570	2.36
				-----	-----	-----
				3,016,586	3,016,586	5.95

</TABLE>

121

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONTINUED) (IN US DOLLARS)

<TABLE> <CAPTION>							
<S>	<C>	FACE AMOUNT <C>	SHORT-TERM SECURITIES <C>	COST <C>	VALUE (NOTE 1A) <C>	PERCENT OF NET ASSETS <C>	
	US GOVERNMENT & AGENCY OBLIGATIONS	US\$ 1,100,000	Federal Home Loan Bank, 3.120% due 2/03/1994.....	\$ 1,096,854	\$ 1,096,854	2.16%	

			TOTAL INVESTMENTS IN SHORT-TERM SECURITIES	4,113,440	4,113,440	8.11	

	TOTAL INVESTMENTS			\$49,154,015	49,867,831	98.29	

	UNREALIZED APPRECIATION ON FORWARD FOREIGN EXCHANGE CONTRACTS**				9,831	0.02	
	OTHER ASSETS LESS LIABILITIES				857,786	1.69	
	NET ASSETS				\$50,737,448	100.00%	

</TABLE>

- (a) Each \$1,000 face amount contains one non-detachable share of Taj Mahal Holding Corp.'s Class B redeemable Common Stock.
+ Commercial Paper and certain US Government & Agency Obligations are traded on a discount basis; the interest rates shown are the discount rates paid at the time of purchase by the Fund.
* Represents the yield to maturity.

122

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.--WORLD INCOME FOCUS
SCHEDULE OF INVESTMENTS AS OF DECEMBER 31, 1993 (CONCLUDED) (IN US DOLLARS)

** Forward foreign exchange contracts as of December 31, 1993 are as follows:

<TABLE> <CAPTION>		
<S>	EXPIRATION DATE <C>	UNREALIZED APPRECIATION (DEPRECIATION) <C>
FOREIGN CURRENCY PURCHASED		

DM 3,467,664	January 1994	\$ (32,428)
Dkr 6,835,300	January 1994	5,218
Fmk 6,510,328	January 1994	(2,818)
Lit 1,939,020,000	January 1994	3,064
NZ\$ 2,524,249	January 1994	14,085
TOTAL (US\$ COMMITMENT--\$6,674,504)		\$ (12,879)
FOREIGN CURRENCY SOLD		
A\$ 3,560,305	January 1994	(4,234)
C\$ 2,686,665	January 1994	(5,720)
DM 2,693,329	January 1994	23,356
Dkr 8,697,222	January 1994	4,571
Fmk 5,999,380	January 1994	(8,986)
L 169,400	January 1994	1,877
Lit 3,954,989,758	January 1994	37,803
Pta 113,569,246	January 1994	25,171
NZ\$ 1,089,839	January 1994	(12,915)
Skr 30,430,608	January 1994	(38,213)
TOTAL (US\$ COMMITMENT--\$15,928,966)		\$ 22,710
TOTAL UNREALIZED APPRECIATION ON FORWARD FOREIGN EXCHANGE CONTRACTS--NET		\$ 9,831

</TABLE>

++ Restricted securities as to resale. The value of the Fund's investment in restricted securities was approximately \$1,217,000, representing 2.39% of net assets.

<TABLE>

<CAPTION>

ISSUE	ACQUISITION DATE	COST	VALUE (NOTE 1A)
<S>	<C>	<C>	<C>
Clark Oil Co., 10.50% due 12/01/2001.....	9/01/1993	\$ 106,375	\$ 108,375
Coleman Holdings Inc., 10.11% due 5/27/1998.....	10/07/1993	311,376	324,375
Consolidated-Hydro Inc., 11.95% due 7/15/2003.....	7/08/1993	144,849	148,750
Formica Corp., 13.125% due 9/15/2005.....	9/17/1993	250,000	253,906
Speciality Retail Services Inc., 11.00% due 8/15/2003.....	11/05/1993	149,625	153,750
Tucson Electric Power Co., 10.732% due 7/01/2013.....	8/03/1993	223,464	227,840
TOTAL.....		\$1,185,689	\$1,216,996

</TABLE>

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 1993

<TABLE>

<CAPTION>

	AMERICAN BALANCED FUND	BASIC VALUE FOCUS FUND	DOMESTIC MONEY MARKET FUND	EQUITY GROWTH FUND
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments, at value* (Note 1a).....	\$111,781,051	\$ 46,052,225	\$170,182,924	\$ 98,886,198
Cash.....	14,486	--	5,390	81,004
Interest receivable.....	757,630	--	439,143	--
Dividends receivable.....	72,540	80,539	--	18,820
Receivable for securities sold.....	--	--	--	--
Receivable for capital shares sold.....	2,909,239	2,822,719	--	2,602,952
Receivable from investment adviser (Note 2).....	--	--	20,578	--
Deferred organization expenses (Note 1f).....	--	3,600	4,020	--
Prepaid registration fees and other assets (Note 1f).....	1,272	--	9,983	1,287
Foreign cash.....	--	--	--	--

Total assets.....	115,536,218	48,959,083	170,662,038	101,590,261

LIABILITIES:				
Payable for capital shares redeemed.....	20,650	--	--	65,966
Payable for securities purchased.....	--	1,709,155	--	2,442,812
Payable to investment adviser (Note 2).....	50,752	20,560	68,595	57,740
Accrued expenses and other liabilities.....	44,896	22,105	62,090	47,319
	-----	-----	-----	-----
Total liabilities.....	116,298	1,751,820	130,685	2,613,837
	-----	-----	-----	-----
NET ASSETS.....	\$115,419,920	\$ 47,207,263	\$170,531,353	\$ 98,976,424
	-----	-----	-----	-----

NET ASSETS CONSIST OF:				
Common Stock, \$0.10 par value+.....	\$ 819,974	\$ 431,308	\$ 17,052,862	\$ 472,106
Paid-in capital in excess of par.....	108,108,763	45,102,816	153,475,757	86,208,596
Undistributed (overdistributed) investment income--net...	1,279,064	153,585	--	--
Undistributed (accumulated) realized capital gains (losses) and foreign currency transactions--net (Note 5).....	382,258	(84,612)	--	895,673
Unrealized appreciation/depreciation on investments and foreign currency transactions--net.....	4,829,861	1,604,166	2,734	11,400,049
	-----	-----	-----	-----
NET ASSETS.....	\$115,419,920	\$ 47,207,263	\$170,531,353	\$ 98,976,424
	-----	-----	-----	-----

CAPITAL SHARES OUTSTANDING.....	8,199,743	4,313,085	170,528,619	4,721,063
	-----	-----	-----	-----

NET ASSET VALUE, OFFERING AND REDEMPTION PRICE PER SHARE.....	\$ 14.08	\$ 10.95	\$ 1.00	\$ 20.96
	-----	-----	-----	-----

* Identified cost.....	\$106,951,190	\$ 44,448,059	\$170,180,190	\$ 87,486,149
	-----	-----	-----	-----
+ Authorized shares.....	100,000,000	100,000,000	300,000,000	100,000,000
	-----	-----	-----	-----

</TABLE>

See Notes to Financial Statements.

124

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

<S>	FLEXIBLE STRATEGY FUND <C>	GLOBAL STRATEGY FOCUS FUND <C>	GLOBAL UTILITY FOCUS FUND <C>	HIGH CURRENT INCOME FUND <C>
ASSETS:				
Investments, at value* (Note 1a).....	\$190,720,601	\$261,347,834	\$113,131,201	\$159,637,449
Cash.....	--	21,132	11,335	10,518
Interest receivable.....	505,549	1,134,757	32,831	3,141,802
Dividends receivable.....	88,186	271,486	227,326	--
Receivable for securities sold.....	3,052,707	4,725	--	--
Receivable for capital shares sold.....	3,323,319	7,557,095	3,338,787	3,302,657
Receivable from investment adviser (Note 2).....	--	--	--	--
Deferred organization expenses (Note 1f).....	--	4,020	5,002	--
Prepaid registration fees and other assets (Note 1f)....	9,919	690	--	18,844
Foreign cash.....	--	--	--	--
	-----	-----	-----	-----
Total assets.....	197,700,281	270,341,739	116,746,482	166,111,270
	-----	-----	-----	-----

LIABILITIES:				
Payable for capital shares redeemed.....	162,370	700	--	39,814
Payable for securities purchased.....	2,412,620	469,904	12,128,755	2,470,980
Payable to investment adviser (Note 2).....	94,873	136,563	48,240	72,339

Accrued expenses and other liabilities.....	253,902	107,391	52,174	99,965
Total liabilities.....	2,923,765	714,558	12,229,169	2,683,098
<hr/>				
NET ASSETS.....	\$194,776,516	\$269,627,181	\$104,517,313	\$163,428,172
<hr/>				
NET ASSETS CONSIST OF:				
Common Stock, \$0.10 par value+.....	\$ 1,202,747	\$ 2,215,515	\$ 980,477	\$ 1,355,661
Paid-in capital in excess of par.....	163,437,304	252,693,893	100,371,469	156,922,503
Undistributed (overdistributed) investment income--net...	1,585,213	1,762,959	558,583	1,096,476
Undistributed (accumulated) realized capital gains (losses) and foreign currency transactions--net (Note 5).....	6,688,557	1,249,740	34,110	(117,789)
Unrealized appreciation/depreciation on investments and foreign currency transactions--net.....	21,862,695	11,705,074	2,572,674	4,171,321
NET ASSETS.....	\$194,776,516	\$269,627,181	\$104,517,313	\$163,428,172
<hr/>				
CAPITAL SHARES OUTSTANDING.....	12,027,465	22,155,153	9,804,762	13,556,613
<hr/>				
NET ASSET VALUE, OFFERING AND REDEMPTION PRICE PER SHARE.....	\$ 16.19	\$ 12.17	\$ 10.66	\$ 12.06
<hr/>				
* Identified cost.....	\$168,851,966	\$249,630,206	\$110,566,011	\$155,466,128
<hr/>				
+ Authorized shares.....	100,000,000	100,000,000	100,000,000	100,000,000
<hr/>				

</TABLE>

See Notes to Financial Statements.

125

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 1993 (CONTINUED)

<TABLE>
<CAPTION>

	INTERNATIONAL EQUITY FOCUS FUND	NATURAL RESOURCES FOCUS FUND	PRIME BOND FUND	QUALITY EQUITY FUND
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Investments, at value* (Note 1a).....	\$ 74,357,154	\$ 14,404,330	\$305,794,971	\$311,578,728
Call options purchased, at value (Cost--\$131,375) (Notes 1a & 1e).....	39,270	--	--	--
Unrealized appreciation on forward foreign exchange contracts--net (Note 1h).....	529,800	--	--	--
Cash.....	35,175	3,783	311	316,427
Interest receivable.....	6,240	--	5,021,705	23,906
Dividends receivable.....	32,853	10,317	--	169,031
Receivable for securities sold.....	598,025	--	1,044,280	2,439,313
Receivable for capital shares sold.....	3,409,641	381,601	5,387,619	5,158,667
Receivable from investment adviser (Note 2).....	--	--	--	--
Prepaid registration fees and other assets (Note 1f)....	--	268	9,205	5,147
Foreign cash.....	693,271	--	--	--
Deferred organization expenses (Note 1f).....	6,245	--	--	--
Option receivable.....	41,250	--	--	--
Forward exchange contract (Note 1c).....	107,840	--	--	--
Total assets.....	79,856,764	14,800,299	317,258,091	319,691,219
<hr/>				
LIABILITIES:				
Put options written, at value (premiums received--\$118,500) (Notes 1a & 1c).....	221,740	--	--	--
Payable for capital shares redeemed.....	--	563	55,575	128,230

Payable for securities purchased.....	2,567,462	--	2,856,852	9,910,287
Payable to investment adviser (Note 2).....	42,260	8,007	129,057	122,695
Variation margin on stock index futures contracts (Note 1i).....	14,358	--	--	--
Accrued expenses and other liabilities.....	43,922	14,167	125,143	110,370
Option purchase.....	41,250	--	--	--
Forward exchange contract (Note 1h).....	19,350	--	--	--
Total liabilities.....	2,950,342	22,737	3,166,627	10,271,582
NET ASSETS.....	\$ 76,906,422	\$ 14,777,562	\$314,091,464	\$309,419,637
NET ASSETS CONSIST OF:				
Common Stock, \$0.10 par value+.....	\$ 697,249	\$ 136,573	\$ 2,484,213	\$ 1,066,357
Paid-in capital in excess of par.....	71,655,499	14,671,581	304,396,890	266,831,740
Undistributed (overdistributed) investment income--net... Undistributed (accumulated) realized capital gains (losses) and foreign currency transactions--net (Note 5).....	53,487	82,634	1,534,560	1,111,383
115,051	(49,560)	4,191,345	6,554,398	
Unrealized appreciation/depreciation on investments and foreign currency transactions--net.....	4,385,136	(63,666)	1,484,456	33,855,759
NET ASSETS.....	\$ 76,906,422	\$ 14,777,562	\$314,091,464	\$309,419,637
CAPITAL SHARES OUTSTANDING.....	6,972,495	1,365,728	24,842,132	10,663,572
NET ASSET VALUE, OFFERING AND REDEMPTION PRICE PER SHARE.....	\$ 11.03	\$ 10.82	\$ 12.64	\$ 29.02
* Identified cost.....	\$ 70,454,530	\$ 14,467,976	\$304,310,515	\$277,722,969
+ Authorized shares.....	100,000,000	100,000,000	100,000,000	100,000,000

</TABLE>

See Notes to Financial Statements.

126

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 1993 (CONCLUDED)

<TABLE>

<CAPTION>

	RESERVE ASSETS FUND	WORLD INCOME FOCUS FUND
<S>	<C>	<C>
ASSETS:		
Investments, at value* (Note 1a).....	\$ 30,130,004	\$ 49,867,831
Unrealized appreciation on forward foreign exchange contracts (Note 1h).....	--	9,831
Cash.....	5,628	--
Interest receivable.....	63,907	1,032,484
Dividends receivable.....	--	--
Receivable for securities sold.....	--	--
Receivable for capital shares sold.....	--	2,073,604
Receivable from investment adviser (Note 2).....	--	--
Deferred organization expenses (Note 1f).....	--	--
Prepaid registration fees and other assets (Note 1f).....	2,196	7,099
Foreign cash.....	--	--
Total assets.....	30,201,735	52,990,849
LIABILITIES:		
Payable for capital shares redeemed.....	--	--
Payable for securities purchased.....	--	1,669,440
Payable to investment adviser (Note 2).....	12,798	23,536

Accrued expenses and other liabilities.....	21,032	560,425
Total liabilities.....	33,830	2,253,401

NET ASSETS.....	\$ 30,167,905	\$ 50,737,448

NET ASSETS CONSIST OF:		
Common Stock, \$0.10 par value+.....	\$ 3,016,083	\$ 488,857
Paid-in capital in excess of par.....	27,144,745	49,094,430
Undistributed (overdistributed) investment income--net.....	--	257,069
Undistributed (accumulated) realized capital gains (losses) and foreign currency transactions--net.....	--	176,781
Unrealized appreciation/depreciation on investments and foreign currency transactions--net.....	7,077	720,311
NET ASSETS.....	\$ 30,167,905	\$ 50,737,448

CAPITAL SHARES OUTSTANDING.....	30,160,829	4,888,571

NET ASSET VALUE, OFFERING AND REDEMPTION PRICE PER SHARE.....	\$ 1.00	\$ 10.38

* Identified cost.....	\$ 30,122,927	\$ 49,154,015

+ Authorized shares.....	500,000,000	100,000,000

</TABLE>

See Notes to Financial Statements.

127

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1993

<S>	AMERICAN BALANCED FUND <C>	BASIC VALUE FOCUS FUND+ <C>	DOMESTIC MONEY MARKET FUND <C>	EQUITY GROWTH FUND <C>
INVESTMENT INCOME (NOTES 1D & 1E):				
Interest and discount earned*.....	\$1,665,280	\$ 74,035	\$3,090,335	\$ 222,025
Dividends*.....	649,751	157,366	--	252,221
Other income.....	--	--	--	--
Total income.....	2,315,031	231,401	3,090,335	474,246

EXPENSES:				
Investment advisory fees (Note 2).....	326,591	54,569	462,020	393,786
Transfer agent fees (Note 2).....	6,746	2,554	5,168	7,845
Custodian fees.....	21,426	8,063	9,750	27,826
Professional fees.....	12,276	391	16,391	9,525
Registration fees (Note 1f).....	25,510	9,003	43,828	19,665
Directors' fees and expenses.....	2,149	53	2,700	2,992
Accounting services (Note 2).....	19,697	2,645	38,498	35,714
Pricing services.....	--	--	--	--
Amortization of organization expenses (Note 1f).....	--	400	--	--
Other.....	1,927	138	3,361	1,789
Total expenses before reimbursement.....	416,322	77,816	581,716	499,142
Reimbursement of expenses (Note 2).....	--	--	(246,351)	--
Total expenses--net of reimbursement.....	416,322	77,816	335,365	499,142
Investment income (loss)--net.....	1,898,709	153,585	2,754,970	(24,896)

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS--NET (NOTES 1B, 1E & 3):				
Realized gain (loss) on investments--net.....	381,401	(84,612)	41,187	3,639,264
Realized gain (loss) on foreign currency transactions--net...	--	--	--	--
Change in unrealized appreciation/depreciation on investments--net.....	3,571,478	1,604,166	(1,652)	7,724,322
Change in unrealized appreciation/depreciation on currency transactions--net.....	--	--	--	--
Total realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	3,952,879	1,519,554	39,535	11,363,586
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS.....				
	\$5,851,588	\$1,673,139	\$2,794,505	\$11,338,690
* Net of withholding tax.....	\$ --	\$ 712	\$ --	\$ 370

</TABLE>

+ The Fund commenced operations on July 1, 1993.

See Notes to Financial Statements.

128

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1993 (CONTINUED)

<S>	<C>	<C>	<C>	<C>
	FLEXIBLE STRATEGY FUND	GLOBAL STRATEGY FOCUS FUND	GLOBAL UTILITY FOCUS FUND+	HIGH CURRENT INCOME FUND
INVESTMENT INCOME (NOTES 1D & 1E):				
Interest and discount earned*.....	\$ 2,373,016	\$ 1,747,217	\$ 307,737	\$ 7,404,967
Dividends*.....	1,403,692	1,199,987	581,834	52,902
Other income.....	13,604	--	--	3,162
Total income.....	3,790,312	2,947,204	889,571	7,461,031
EXPENSES:				
Investment advisory fees (Note 2).....	803,592	582,082	142,995	439,699
Transfer agent fees (Note 2).....	7,841	5,840	2,653	7,411
Custodian fees.....	50,668	89,850	25,126	26,730
Professional fees.....	21,558	12,508	1,379	10,342
Registration fees (Note 1f).....	32,546	53,895	28,706	30,644
Directors' fees and expenses.....	6,679	1,580	134	2,347
Accounting services (Note 2).....	58,069	31,561	9,227	50,406
Pricing services.....	6,355	7,439	1,210	2,108
Amortization of organization expenses (Note 1f).....	--	1,340	435	--
Other.....	5,626	1,485	215	2,136
Total expenses before reimbursement.....	992,934	787,580	212,080	571,823
Reimbursement of expenses (Note 2).....	--	--	--	--
Total expenses--net of reimbursement.....	992,934	787,580	212,080	571,823
Investment income (loss)--net.....	2,797,378	2,159,624	677,491	6,889,208
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS--NET (NOTES 1B, 1E & 3):				
Realized gain (loss) on investments--net.....	6,460,171	1,230,629	33,513	615,071
Realized gain (loss) on foreign currency transactions--net.....	238,214	34,587	597	--
Change in unrealized appreciation/depreciation on investments--net.....	11,288,425	11,704,702	2,565,190	4,541,949
Change in unrealized appreciation/depreciation on currency transactions--net.....	(5,532)	(10,236)	7,484	--
Total realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	17,981,278	12,959,682	2,606,784	5,157,020

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS.....	\$20,778,656	\$15,119,306	\$3,284,275	\$12,046,228
* Net of withholding tax.....	\$ 54,406	\$ 124,209	\$ 18,294	\$ --

</TABLE>

+ The Fund commenced operations on July 1, 1993.

See Notes to Financial Statements.

<TABLE>
<CAPTION>

	INTERNATIONAL EQUITY FOCUS FUND+	NATURAL RESOURCES FOCUS FUND	PRIME BOND FUND	QUALITY EQUITY FUND
<S>	<C>	<C>	<C>	<C>
INVESTMENT INCOME (NOTES 1D & 1E):				
Interest and discount earned*.....	\$ 132,598	\$ 28,031	\$11,866,781	\$ 665,734
Dividends*.....	124,532	198,183	--	2,281,319
Other income.....	--	--	108,833	--
Total income.....	257,130	226,214	11,975,614	2,947,053
EXPENSES:				
Investment advisory fees (Note 2).....	133,754	59,420	918,563	874,617
Transfer agent fees (Note 2).....	2,569	6,880	10,265	7,475
Custodian fees.....	43,366	12,643	33,099	31,890
Professional fees.....	1,011	4,339	34,485	31,658
Registration fees (Note 1f).....	16,806	2,491	70,039	60,423
Directors' fees and expenses.....	118	379	7,148	7,328
Accounting services (Note 2).....	5,079	16,397	40,300	57,796
Pricing services.....	100	--	41,374	--
Amortization of organization expenses (Note 1f).....	700	--	--	--
Other.....	140	768	5,849	5,734
Total expenses before reimbursement.....	203,643	103,317	1,161,122	1,076,921
Reimbursement of expenses (Note 2).....	--	--	--	--
Total expenses--net of reimbursement.....	203,643	103,317	1,161,122	1,076,921
Investment income (loss)--net.....	53,487	122,897	10,814,492	1,870,132
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS--NET (NOTES 1B, 1E & 3):				
Realized gain (loss) on investments--net.....	(176,770)	64,649	4,199,723	6,568,052
Realized gain (loss) on foreign currency transactions--net...	291,821	42	--	(8)
Change in unrealized appreciation/depreciation on investments--net.....	4,048,621	(85,110)	200,559	20,450,896
Change in unrealized appreciation/depreciation on currency transactions--net.....	336,515	(24)	--	--
Total realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	4,500,187	(20,443)	4,400,282	27,018,940
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS.....	\$4,553,674	\$102,454	\$15,214,774	\$28,889,072
* Net of withholding tax.....	\$ 13,838	\$ 5,359	\$ --	\$ 40,626

</TABLE>

+ The Fund commenced operations on July 1, 1993.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1993 (CONCLUDED)

<TABLE>
<CAPTION>

<S>	RESERVE ASSETS FUND <C>	WORLD INCOME FOCUS FUND+ <C>

INVESTMENT INCOME (NOTES 1D & 1E):		
Interest and discount earned*.....	\$953,880	\$1,041,858
Dividends*.....	--	--
Other income.....	--	--
	-----	-----
Total income.....	953,880	1,041,858
	-----	-----

EXPENSES:		
Investment advisory fees (Note 2).....	141,301	88,050
Transfer agent fees (Note 2).....	7,154	2,575
Custodian fees.....	7,950	16,568
Professional fees.....	7,986	665
Registration fees (Note 1f).....	994	11,505
	-----	-----
Directors' fees and expenses.....	2,210	106
Accounting services (Note 2).....	27,119	4,865
Amortization of organization expenses (Note 1f).....	--	789
Pricing services.....	--	12,114
Other.....	1,717	133
	-----	-----
Total expenses before reimbursement.....	196,431	137,370
Reimbursement of expenses (Note 2).....	--	--
	-----	-----
Total expenses--net of reimbursement.....	196,431	137,370
	-----	-----
Investment income (loss)--net.....	757,449	904,488
	-----	-----

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND FOREIGN CURRENCY TRANSACTIONS--NET (NOTES 1B, 1E & 3):		
Realized gain (loss) on investments--net.....	15,302	101,414
Realized gain (loss) on foreign currency transactions--net.....	--	75,366
Change in unrealized appreciation/depreciation on investments--net.....	(173)	713,816
Change in unrealized appreciation/depreciation on currency transactions--net.....	--	6,495
	-----	-----
Total realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	15,129	897,091
	-----	-----
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS.....	\$772,578	\$1,801,579
	-----	-----

* Net of withholding tax.....	\$ --	\$ 11,636
	-----	-----

</TABLE>

+ The Fund commenced operations on July 1, 1993.

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF CHANGES IN NET ASSETS

<TABLE>
<CAPTION>

AMERICAN BALANCED FUND

FOR THE YEAR ENDED DECEMBER
31,

INCREASE (DECREASE) IN NET ASSETS:

	1993	1992
<S>	<C>	<C>
OPERATIONS:		
Investment income--net.....	\$ 1,898,709	\$ 551,068
Realized gain on investments and foreign currency transactions--net.....	381,401	228,607
Change in unrealized appreciation/depreciation on investments--net.....	3,571,478	415,741
Net increase in net assets resulting from operations.....	5,851,588	1,195,416
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (NOTE 1G):		
Investment income--net.....	(975,251)	(342,416)
Realized and unrealized gain on investments--net.....	(227,751)	(185,720)
Net decrease in net assets resulting from dividends and distributions to shareholders.....	(1,203,002)	(528,136)
CAPITAL SHARE TRANSACTIONS (NOTE 4):		
Net increase in net assets derived from capital share transactions.....	85,853,104	16,314,371
NET ASSETS:		
Total increase in net assets.....	90,501,690	16,981,651
Beginning of period.....	24,918,230	7,936,579
End of period*.....	\$115,419,920	\$24,918,230
* Undistributed investment income--net.....	\$ 1,279,064	\$ 355,606

</TABLE>

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF CHANGES IN NET ASSETS (CONTINUED)

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSETS:

BASIC VALUE FOCUS FUND
FOR THE PERIOD JULY 1, 1993+ TO
DECEMBER 31, 1993

<S>	<C>
OPERATIONS:	
Investment income--net.....	\$ 153,585
Realized gain (loss) on investments and foreign currency transactions--net.....	(84,612)
Change in unrealized appreciation/depreciation on investments--net.....	1,604,166
Net increase in net assets resulting from operations.....	1,673,139
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (NOTE 1G):	
Investment income--net.....	--
Realized and unrealized gain on investments--net.....	--
Net decrease in net assets resulting from dividends and distributions to shareholders.....	--
CAPITAL SHARE TRANSACTIONS (NOTE 4):	
Net increase in net assets derived from capital share transactions.....	43,534,024
NET ASSETS:	
Total increase in net assets.....	45,207,163
Beginning of period.....	2,000,100
End of period*.....	\$47,207,263

* Undistributed investment income--net..... \$ 153,585

</TABLE>

+ Commencement of Operations.

See Notes to Financial Statements.

<TABLE>
<CAPTION>

DOMESTIC MONEY MARKET FUND		EQUITY GROWTH FUND	
FOR THE YEAR ENDED DECEMBER 31, 1993	FOR THE PERIOD FEBRUARY 20, 1992+ TO DECEMBER 31, 1992	FOR THE YEAR ENDED DECEMBER 31,	
<S>	<C>	1993 <C>	1992 <C>
\$ 2,754,970	\$ 507,987	\$ (24,896)	\$ 5,872
41,187	16,865	3,639,264	(391,529)
(1,652)	4,386	7,724,322	983,789
2,794,505	529,238	11,338,690	598,132
(2,754,970)	(507,987)	(5,834)	(47,447)
(41,187)	(16,865)	--	--
(2,796,157)	(524,852)	(5,834)	(47,447)
129,405,088	39,123,431	64,476,432	11,298,272
129,403,436	39,127,817	75,809,289	11,848,957
41,127,917	2,000,100	23,167,135	11,318,178
\$ 170,531,353	\$ 41,127,917	\$98,976,424	\$23,167,135
\$ --	\$ --	\$ --	\$ --

</TABLE>

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF CHANGES IN NET ASSETS (CONTINUED)

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSETS:	FLEXIBLE STRATEGY FUND	
	FOR THE YEAR ENDED DECEMBER 31,	
<S>	1993 <C>	1992 <C>
OPERATIONS:		
Investment income--net.....	\$ 2,797,378	\$ 1,666,621
Realized gain (loss) on investments and foreign currency transactions--net.....	6,698,385	2,290,915
Change in unrealized appreciation/depreciation on investments--net.....	11,288,425	(488,639)
Change in unrealized appreciation/depreciation on currency transactions--net.....	(5,532)	(3,631)

Net increase in net assets resulting from operations.....	20,778,656	3,465,266

DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (NOTE 1G):		
Investment income--net.....	(1,224,834)	(2,438,767)
Realized and unrealized gain on investments--net.....	(235,661)	(3,175,999)

Net decrease in net assets resulting from dividends and distributions to shareholders.....	(1,460,495)	(5,614,766)

CAPITAL SHARE TRANSACTIONS (NOTE 4):		
Net increase in net assets derived from capital share transactions.....	92,909,143	29,477,979

NET ASSETS:		
Total increase in net assets.....	112,227,304	27,328,479
Beginning of period.....	82,549,212	55,220,733

End of period*.....	\$194,776,516	\$82,549,212

* Undistributed investment income--net.....	\$ 1,585,213	\$ 9,152

</TABLE>

+ Commencement of Operations.

See Notes to Financial Statements.

135

<TABLE>

<CAPTION>

GLOBAL STRATEGY FOCUS FUND

GLOBAL UTILITY FOCUS FUND

FOR THE YEAR ENDED DECEMBER 31, 1993 <S>	FOR THE PERIOD FEBRUARY 28, 1992+ TO DECEMBER 31, 1992 <C>	FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993 <C>
\$ 2,159,624	\$ 164,192	\$ 677,491
1,265,216	(15,476)	34,110
11,704,702	12,926	2,565,190
(10,236)	(2,318)	7,484

15,119,306	159,324	3,284,275

(531,339)	(29,518)	(118,908)
--	--	--

(531,339)	(29,518)	(118,908)

239,511,867	13,397,441	99,351,846

254,099,834	13,527,247	102,517,213
15,527,347	2,000,100	2,000,100

\$ 269,627,181	\$ 15,527,347	\$ 104,517,313

\$ 1,762,959	\$ 134,674	\$ 558,583

</TABLE>

See Notes to Financial Statements.

136

<TABLE>
 <CAPTION>

	HIGH CURRENT INCOME FUND	
	FOR THE YEAR ENDED DECEMBER 31,	
	1993	1992
	<C>	<C>
INCREASE (DECREASE) IN NET ASSETS:		
OPERATIONS:		
Investment income--net.....	\$ 6,889,208	\$ 1,671,914
Realized gain (loss) on investments and foreign currency transactions--net.....	615,071	120,708
Change in unrealized appreciation/depreciation on investments--net.....	4,541,949	760,863
Change in unrealized appreciation/depreciation on currency transactions--net.....	--	--
Net increase in net assets resulting from operations.....	12,046,228	2,553,485
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (NOTE 1G):		
Investment income--net.....	(6,035,740)	(1,522,781)
Realized and unrealized gain on investments--net.....	--	--
Net decrease in net assets resulting from dividends and distributions to shareholders.....	(6,035,740)	(1,522,781)
CAPITAL SHARE TRANSACTIONS (NOTE 4):		
Net increase in net assets derived from capital share transactions.....	131,074,555	15,663,036
NET ASSETS:		
Total increase in net assets.....	137,085,043	16,693,740
Beginning of period.....	26,343,129	9,649,389
End of period*.....	\$163,428,172	\$26,343,129
* Undistributed investment income--net.....	\$ 1,096,476	\$ 243,004

</TABLE>

+ Commencement of Operations.

See Notes to Financial Statements.

<TABLE>
 <CAPTION>

INTERNATIONAL EQUITY FOCUS FUND	NATURAL RESOURCES FOCUS FUND	
	FOR THE YEAR ENDED DECEMBER 31,	
	1993	1992
	<C>	<C>
FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993		
\$ 53,487	\$ 122,897	\$ 71,479
115,051	64,691	(110,450)
4,048,621	(85,110)	81,927
336,515	(24)	4
4,553,674	102,454	42,960
--	(40,449)	(106,437)
--	--	(19,447)
--	(40,449)	(125,884)

64,352,648	10,571,877	1,142,825
68,906,322	10,633,882	1,060,001
8,000,100	4,143,680	3,083,679
\$76,906,422	\$14,777,562	\$4,143,680
\$ 53,487	\$ 82,634	\$ 186

</TABLE>
See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
STATEMENTS OF CHANGES IN NET ASSETS (CONCLUDED)

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSETS:	PRIME BOND FUND	
	FOR THE YEAR ENDED DECEMBER 31,	
<S>	1993 <C>	1992 <C>
OPERATIONS:		
Investment income--net.....	\$ 10,814,492	\$ 3,773,379
Realized gain (loss) on investments and foreign currency transactions--net.....	4,199,723	1,133,106
Change in unrealized appreciation/depreciation on investments--net.....	200,559	(935,353)
Change in unrealized appreciation/depreciation on currency transactions--net.....	--	--
Net increase in net assets resulting from operations.....	15,214,774	3,971,132
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS (NOTE 1G):		
Investment income--net.....	(9,710,533)	(3,604,131)
Realized and unrealized gain on investments--net.....	(752,637)	--
Net decrease in net assets resulting from dividends and distributions to shareholders.....	(10,463,170)	(3,604,131)
CAPITAL SHARE TRANSACTIONS (NOTE 4):		
Net increase (decrease) in net assets derived from capital share transactions.....	224,530,037	44,700,280
NET ASSETS:		
Total increase (decrease) in net assets.....	229,281,641	45,067,281
Beginning of period.....	84,809,823	39,742,542
End of period*.....	\$314,091,464	\$84,809,823
* Undistributed investment income--net.....	\$ 1,534,560	\$ 430,601

</TABLE>
+ Commencement of Operations.
See Notes to Financial Statements.

<TABLE>
<CAPTION>

QUALITY EQUITY FUND		RESERVE ASSETS FUND		WORLD INCOME FOCUS FUND
FOR THE YEAR ENDED DECEMBER 31,		FOR THE YEAR ENDED DECEMBER 31,		FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993
1993	1992	1993	1992	
<S>	<C>	<C>	<C>	<C>
\$ 1,870,132	\$ 1,015,610	\$ 757,449	\$ 940,130	\$ 904,488
6,568,044	2,097,924	15,302	45,971	176,780
20,450,896	202,444	(173)	(25,438)	713,816
--	--	--	--	6,495
28,889,072	3,315,978	772,578	960,663	1,801,579
(758,750)	(1,554,668)	(757,449)	(940,130)	(647,419)
(236,123)	(2,663,160)	(15,302)	(13,284)	--
(994,873)	(4,217,828)	(772,751)	(953,414)	(647,419)
193,548,727	33,873,740	3,400,720	(7,602,390)	41,583,188
221,442,926	32,971,890	3,400,547	(7,595,141)	42,737,348
87,976,711	55,004,821	26,767,358	34,362,499	8,000,100
\$309,419,637	\$87,976,711	\$30,167,905	\$26,767,358	\$50,737,448
\$ 1,111,383	\$ (106,252)	\$ --	\$ --	\$ 257,069

</TABLE>

See Notes to Financial Statements.

140

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS

<TABLE>
<CAPTION>

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.		AMERICAN BALANCED FUND				
		FOR THE YEAR ENDED DECEMBER 31,				
INCREASE (DECREASE) IN NET ASSET VALUE:		1993	1992	1991	1990	1989
<S>		<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:						
Net asset value beginning of period.....		\$ 12.85	\$ 12.82	\$ 11.26	\$ 11.74	\$ 10.41
Investment income--net.....		.32	.31	.47	.47	.44
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....		1.37	.37	1.76	(.35)	1.40
Total from investment operations.....		1.69	.68	2.23	.12	1.84
Less dividends and distributions:						
Investment income--net.....		(.34)	(.37)	(.49)	(.46)	(.50)
Realized gain on investments--net.....		(.12)	(.28)	(.18)	(.14)	(.01)
Total dividends and distributions.....		(.46)	(.65)	(.67)	(.60)	(.51)
Net asset value, end of period.....		\$ 14.08	\$ 12.85	\$ 12.82	\$ 11.26	\$ 11.74
TOTAL INVESTMENT RETURN:*						
Based on net asset value per share.....		13.49%	5.72%	20.65%	1.22%	18.11%

RATIOS TO AVERAGE NET ASSETS:

Expenses, net of reimbursement.....	.70%	.97%	1.20%	1.25%	1.25%
Expenses.....	.70%	.97%	1.20%	1.50%	2.29%
Investment income (loss)--net.....	3.20%	3.71%	4.16%	4.71%	4.71%
Investment income--net, and realized gain (loss) on investments--net.....	--	--	--	--	--

SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$ 115,420	\$ 24,918	\$ 7,937	\$ 5,675	\$ 3,854
Portfolio turnover.....	12.55%	36.34%	50.82%	23.52%	37.60%

</TABLE>

* Total investment returns exclude the effects of sales loads.

See Notes to Financial Statements.

141

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>
THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.

INCREASE (DECREASE) IN NET ASSET VALUE:	BASIC VALUE FOCUS FUND			DOMESTIC MONEY MARKET FUND	
	FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993 <C>	FOR THE YEAR ENDED DECEMBER 31, 1993 <C>	FOR THE PERIOD FEBRUARY 28, 1992+ TO DECEMBER 31, 1992 <C>		
<S>					

PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 10.00	\$ 1.00	\$ 1.00		
Investment income--net.....	.04	.0302	.0302		
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.91	.0005	.0013		
Total from investment operations.....	.95	.0307	.0315		
Less dividends and distributions:					
Investment income--net.....	--	(.0302)	(.0302)		
Realized gain on investments--net.....	--	(.0005)	(.0010)		
Total dividends and distributions.....	--	(.0307)	(.0312)		
Net asset value, end of period.....	\$ 10.95	\$ 1.00	\$ 1.00		

TOTAL INVESTMENT RETURN:**					
Based on net asset value per share.....	9.50%+*	3.10	3.16%+*		

RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	.86%*	.36%	.32%*		
Expenses.....	.86%*	.63%	.88%*		
Investment income (loss)--net.....	1.69%*	--	--		

Investment income--net, and realized gain (loss) on investments--net.....	---	3.03%	3.48%*
	-----	-----	-----
	-----	-----	-----

SUPPLEMENTAL DATA:

Net assets, end of period (in thousands).....	\$ 47,207	\$ 170,531	\$ 41,128
	-----	-----	-----
Portfolio turnover.....	30.86%	--	--
	-----	-----	-----
	-----	-----	-----

</TABLE>

* Annualized.

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

+ Commencement of Operations.

++ Aggregate total investment return.

See Notes to Financial Statements.

<TABLE>
<CAPTION>

EQUITY GROWTH FUND					
THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.					
FOR THE YEAR ENDED DECEMBER 31,					
INCREASE (DECREASE) IN NET ASSET VALUE:	1993++	1992++	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 17.80	\$ 17.96	\$ 11.98	\$ 13.70	\$ 11.75
Investment income--net.....	(.01)	.01	.09	.05	(.07)
Realized and unrealized gain (loss) on investments--net.....	3.17	(.10)	5.91	(1.77)	2.02
Total from investment operations.....	3.16	(.09)	6.00	(1.72)	1.95
Less dividends and distributions:					
Investment income--net.....	--	(.07)	(.02)	--	--
Realized gain on investments--net.....	--	--	--	--	--
Total dividends and distributions.....	--	(.07)	(.02)	--	--
Net asset value, end of period.....	\$ 20.96	\$ 17.80	\$ 17.96	\$ 11.98	\$ 13.70
TOTAL INVESTMENT RETURN:*					
Based on net asset value per share.....	17.78%	(0.53%)	50.10%	(12.55%)	16.60%
RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	.96%	1.18%	1.25%	1.25%	1.25%
Expenses.....	.96%	1.18%	1.28%	1.47%	1.53%
Investment income (loss)--net.....	(.05%)	.04%	.51%	.14%	(.68%)
Investment income--net, and realized gain (loss) on investments--net.....	--	--	--	--	--
SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$ 98,976	\$ 23,167	\$ 11,318	\$ 6,851	\$ 6,811
Portfolio turnover.....	131.75%	98.64%	79.10%	135.24%	100.49%

</TABLE>

* Total investment returns exclude the effects of sales loads.
++ Based on average number of shares outstanding during the year.

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSET VALUE:	FLEXIBLE STRATEGY FUND				
	FOR THE YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 14.15	\$ 14.79	\$ 12.55	\$ 12.44	\$ 10.84
Investment income--net.....	.28	.33	.47	.65	.48
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.94	.25	2.52	(.08)	1.67
Total from investment operations.....	2.22	.58	2.99	.57	2.15
Less dividends and distributions:					
Investment income--net.....	(.15)	(.54)	(.66)	(.46)	(.55)
Realized gain on investments--net.....	(.03)	(.68)	(.09)	--	--
Total dividends and distributions.....	(.18)	(1.22)	(.75)	(.46)	(.55)
Net asset value, end of period.....	\$ 16.19	\$ 14.15	\$ 14.79	\$ 12.55	\$ 12.44
TOTAL INVESTMENT RETURN:*					
Based on net asset value per share.....	15.80%	4.25%	24.98%	4.81%	20.29%
RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	.80%	.90%	.96%	1.08%	1.19%
Expenses.....	.80%	.90%	.96%	1.08%	1.19%
Investment income--net.....	2.26%	2.62%	3.51%	5.19%	3.94%
Investment income--net, and realized gain (loss) on investments--net.....	--	--	--	--	--
SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$ 194,777	\$82,549	\$ 55,221	\$ 47,428	\$47,837
Portfolio turnover.....	56.42%	55.25%	67.13%	52.95%	83.31%

</TABLE>

* Total investment returns exclude the effects of sales loads.

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
 <CAPTION>
 THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN
 DERIVED FROM INFORMATION PROVIDED IN THE
 FINANCIAL STATEMENTS.

INCREASE (DECREASE) IN NET ASSET VALUE:	GLOBAL STRATEGY FOCUS FUND		GLOBAL UTILITY FOCUS FUND
	FOR THE YEAR ENDED DECEMBER 31, 1993 <C>	FOR THE PERIOD FEBRUARY 28, 1992+ TO DECEMBER 31, 1992 <C>	FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993 <C>
PER SHARE OPERATING PERFORMANCE:			
Net asset value beginning of period.....	\$ 10.22	\$ 10.00	\$ 10.00
Investment income--net.....	.07	.13	.04
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.96	.13	.64
Total from investment operations.....	2.03	.26	.68
Less dividends and distributions:			
Investment income--net.....	(.08)	(.04)	(.02)
Realized gain on investments--net.....	--	--	--
Total dividends and distributions.....	(.08)	(.04)	(.02)
Net asset value, end of period.....	\$ 12.17	\$ 10.22	\$ 10.66
TOTAL INVESTMENT RETURN:**			
Based on net asset value per share.....	21.03%	2.62%++	6.85%++
RATIOS TO AVERAGE NET ASSETS:			
Expenses, net of reimbursement.....	.88%	1.25%*	.89%*
Expenses.....	.88%	1.35%*	.89%*
Investment income--net.....	2.41%	2.66%*	2.84%*
Investment income--net, and realized gain (loss) on investments--net.....	--	--	--
SUPPLEMENTAL DATA:			
Net assets, end of period (in thousands)....	\$ 269,627	\$15,527	\$104,517
Portfolio turnover.....	17.07%	14.47%	1.72%

</TABLE>

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

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
 FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
 <CAPTION>

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.

HIGH CURRENT INCOME FUND
FOR THE YEAR ENDED DECEMBER 31,

INCREASE (DECREASE) IN NET ASSET VALUE:	1993 <C>	1992 <C>	1991 <C>	1990 <C>	1989 <C>
PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 11.13	\$ 10.23	\$ 8.14	\$10.21	\$ 10.85
Investment income--net.....	.95	1.07	1.19	1.40	1.29
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.95	.90	2.10	(2.08)	(.64)
Total from investment operations.....	1.90	1.97	3.29	(.68)	.65
Less dividends and distributions:					
Investment income--net.....	(.97)	(1.07)	(1.20)	(1.39)	(1.29)
Realized gain on investments--net.....	--	--	--	--	--
Total dividends and distributions.....	(.97)	(1.07)	(1.20)	(1.39)	(1.29)
Net asset value, end of period.....	\$ 12.06	\$ 11.13	\$10.23	\$ 8.14	\$ 10.21
TOTAL INVESTMENT RETURN:*					
Based on net asset value per share.....	17.84%	20.05%	43.00%	(7.63%)	6.14%
RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	.72%	.89%	1.10%	1.15%	1.22%
Expenses.....	.72%	.89%	1.10%	1.15%	1.22%
Investment income--net.....	8.62%	10.06%	12.49%	14.52%	11.98%
Investment income--net, and realized gain (loss) on investments--net.....	--	--	--	--	--
SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$ 163,428	\$26,343	\$9,649	\$8,106	\$12,942
Portfolio turnover.....	35.67%	28.21%	51.54%	26.43%	53.52%

</TABLE>

* Total investment returns exclude the effects of sales loads.

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.

INTERNATIONAL EQUITY
FOCUS FUND
FOR THE PERIOD JULY 1, 1993+
TO DECEMBER 31, 1993

INCREASE (DECREASE) IN NET ASSET VALUE:	<C>
PER SHARE OPERATING PERFORMANCE:	
Net asset value beginning of period.....	\$ 10.00
Investment income--net.....	.01
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	1.02

Total from investment operations.....	1.03
Less dividends and distributions:	
Investment income--net.....	--
Realized gain on investments--net.....	--
Total dividends and distributions.....	--
Net asset value, end of period.....	\$ 11.03

TOTAL INVESTMENT RETURN:**	
Based on net asset value per share.....	10.30%++

RATIOS TO AVERAGE NET ASSETS:	
Expenses, net of reimbursement.....	1.14%*
Expenses.....	1.14%*
Investment income (loss)--net.....	0.30%*
Investment income--net, and realized gain (loss) on investments--net.....	-- %

SUPPLEMENTAL DATA:	
Net assets, end of period (in thousands).....	\$ 76,906
Portfolio turnover.....	17.39%

</TABLE>

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

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.	NATURAL RESOURCES FOCUS FUND				
	FOR THE YEAR ENDED DECEMBER 31,				
INCREASE (DECREASE) IN NET ASSET VALUE: <S>	1993 <C>	1992 <C>	1991 <C>	1990 <C>	1989 <C>
PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 9.84	\$ 10.06	\$ 10.17	\$ 11.09	\$ 9.58
Investment income--net.....	.11	.18	.25	.22	.24
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.92	(.05)	(.11)	(.90)	1.49
Total from investment operations.....	1.03	.13	.14	(.68)	1.73
Less dividends and distributions:					
Investment income--net.....	(.05)	(.29)	(.25)	(.24)	(.22)
Realized gain on investments--net.....	--	(.06)	--	--	--
Total dividends and distributions.....	(.05)	(.35)	(.25)	(.24)	(.22)
Net asset value, end of period.....	\$ 10.82	\$ 9.84	\$ 10.06	\$ 10.17	\$ 11.09

TOTAL INVESTMENT RETURN:*					
Based on net asset value per share.....	10.47%	1.36%	1.36%	(6.21%)	18.23%

RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	1.13%	1.25%	1.25%	1.25%	1.25%

Expenses.....	1.13%	1.27%	1.30%	1.38%	1.74%

Investment income--net.....	1.34%	2.00%	2.31%	2.26%	2.26%

Investment income--net, and realized gain (loss) on investments--net.....	-- %	-- %	-- %	-- %	-- %

SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$ 14,778	\$ 4,144	\$ 3,084	\$ 3,247	\$ 2,704

Portfolio turnover.....	58.44%	22.88%	31.38%	27.61%	93.97%

</TABLE>

* Total investment returns exclude the effects of sales loads.

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSET VALUE:	PRIME BOND FUND				
	FOR THE YEAR ENDED DECEMBER 31,				
	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 12.04	\$ 12.02	\$ 11.18	\$ 11.29	\$ 10.81
Investment income--net.....	.70	.79	.90	.88	.90
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.71	.04	.84	(.12)	.48
Total from investment operations.....	1.41	.83	1.74	.76	1.38
Less dividends and distributions:					
Investment income--net.....	(.70)	(.81)	(.90)	(.87)	(.90)
Realized gain on investments--net.....	(.11)	--	--	--	--
Total dividends and distributions.....	(.81)	(.81)	(.90)	(.87)	(.90)
Net asset value, end of period.....	\$ 12.64	\$ 12.04	\$ 12.02	\$ 11.18	\$ 11.29

TOTAL INVESTMENT RETURN:*					
Based on net asset value per share.....	12.02%	7.27%	16.41%	7.13%	13.29%

RATIOS TO AVERAGE NET ASSETS:					
Expenses, net of reimbursement.....	.63%	.78%	.78%	1.06%	1.16%

Expenses.....	.63%	.78%	.78%	1.06%	1.16%

Investment income--net.....	5.86%	6.76%	7.94%	8.01%	8.12%
-----------------------------	-------	-------	-------	-------	-------

SUPPLEMENTAL DATA:

Net assets, end of period (in thousands).....	\$314,091	\$84,810	\$39,743	\$34,655	\$29,593
Portfolio turnover.....	115.26%	82.74%	152.18%	155.17%	144.52%

</TABLE>

* Total investment returns exclude the effects of sales loads.

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

QUALITY EQUITY FUND

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN
DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL
STATEMENTS.

FOR THE YEAR ENDED DECEMBER 31,

INCREASE (DECREASE) IN NET ASSET VALUE:	1993	1992	1991	1990	1989
<S>	<C>	<C>	<C>	<C>	<C>
PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 25.48	\$ 26.35	\$ 21.72	\$ 22.88	\$ 17.94
Investment income--net.....	.24	.34	.43	.47	.50
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	3.46	.32	5.75	(.38)	4.96
Total from investment operations.....	3.70	.66	6.18	.09	5.46
Less dividends and distributions:					
Investment income--net.....	(.12)	(.58)	(.50)	(.41)	(.52)
Realized gain on investments--net.....	(.04)	(.95)	(1.05)	(.84)	--
Total dividends and distributions.....	(.16)	(1.53)	(1.55)	(1.25)	(.52)
Net asset value, end of period.....	\$ 29.02	\$ 25.48	\$ 26.35	\$ 21.72	\$ 22.88

TOTAL INVESTMENT RETURN:*

Based on net asset value per share.....	14.57%	2.69%	30.18%	0.66%	30.77%
-----------------------------------------	--------	-------	--------	-------	--------

RATIOS TO AVERAGE NET ASSETS:

Expenses, net of reimbursement.....	.62%	.74%	.79%	.94%	1.05%
Expenses.....	.62%	.74%	.79%	.94%	1.05%
Investment income--net.....	1.07%	1.54%	1.87%	2.36%	2.58%

SUPPLEMENTAL DATA:

Net assets, end of period (in thousands).....	\$ 309,420	\$87,977	\$55,005	\$39,470	\$31,467
Portfolio turnover.....	88.25%	62.54%	55.83%	69.05%	44.23%

</TABLE>

* Total investment returns exclude the effects of sales loads.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONTINUED)

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSET VALUE:	RESERVE ASSETS FUND				
	FOR THE YEAR ENDED DECEMBER 31,				
<S>	1993 <C>	1992 <C>	1991 <C>	1990 <C>	1989 <C>

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.					
PER SHARE OPERATING PERFORMANCE:					
Net asset value beginning of period.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Investment income--net.....	.0268	.0320	.0546	.0730	.0822
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.0005	.0007	.0014	.0019	.0012
Total from investment operations.....	.0273	.0327	.0560	.0749	.0834
Less dividends and distributions:					
Investment income--net.....	(.0268)	(.0320)	(.0546)	(.0730)	(.0822)
Realized gain on investments--net.....	(.0005)	(.0005)	(.0014)+	(.0019)+	(.0012)+
Total dividends and distributions.....	(.0273)	(.0325)	(.0560)	(.0749)	(.0834)
Net asset value, end of period.....	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00

TOTAL INVESTMENT RETURN:*					
Based on net asset value per share.....	2.77%	3.29%	5.68%	7.65%	8.62%

RATIOS TO AVERAGE NET ASSETS:					
Expenses.....	.70%	.79%	.79%	.97%	1.03%
Investment income--net, and realized gain (loss) on investments--net.....	2.73%	3.36%	5.64%+	7.46%+	8.34%+

SUPPLEMENTAL DATA:					
Net assets, end of period (in thousands).....	\$30,168	\$26,767	\$34,362	\$35,871	\$29,311

</TABLE>

* Total investment returns exclude the effects of sales loads.
+ Includes unrealized gain (loss). (See Note 1g.)

See Notes to Financial Statements.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
FINANCIAL HIGHLIGHTS (CONCLUDED)

<TABLE>
<CAPTION>

INCREASE (DECREASE) IN NET ASSET VALUE:	WORLD INCOME FOCUS FUND
	FOR THE PERIOD JULY 1, 1993+ TO DECEMBER 31, 1993
<S>	<C>

THE FOLLOWING PER SHARE DATA AND RATIOS HAVE BEEN DERIVED FROM INFORMATION PROVIDED IN THE FINANCIAL STATEMENTS.	
PER SHARE OPERATING PERFORMANCE:	
Net asset value beginning of period.....	\$ 10.00

Investment income--net.....	.25
Realized and unrealized gain (loss) on investments and foreign currency transactions--net.....	.33

Total from investment operations.....	.58

Less dividends and distributions:	
Investment income--net.....	(.20)
Realized gain on investments--net.....	--

Total dividends and distributions.....	(.20)

Net asset value, end of period.....	\$ 10.38

TOTAL INVESTMENT RETURN:*	
Based on net asset value per share.....	5.90%++

RATIOS TO AVERAGE NET ASSETS:	
Expenses, net of reimbursement.....	.94%*

Expenses.....	.94%*

Investment income (loss)--net.....	6.20%*

Investment income--net, and realized gain (loss) on investments--net.....	-- %

SUPPLEMENTAL DATA:	
Net assets, end of period (in thousands).....	\$50,737

Portfolio turnover.....	54.80%

</TABLE>

* Annualized.

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

+ Commencement of Operations.

++ Aggregate total investment return.

See Notes to Financial Statements.

152

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES:

Merrill Lynch Variable Series Funds, Inc. (the "Company") is an open-end management investment company which is comprised of fourteen separate funds offering fourteen separate classes of shares to the Merrill Lynch Life Insurance Company, ML Life Insurance Company of New York (indirect wholly-owned subsidiaries of Merrill Lynch & Co., Inc.), and Family Life Insurance Company (an insurance company not affiliated with Merrill Lynch & Co., Inc.) separate accounts to fund benefits under certain variable annuity contracts. Each Fund is classified as "diversified", as defined in the Investment Company Act of 1940, except for Natural Resources Focus Fund and the Global Strategy Focus Fund, each of which is classified as "non-diversified." The following is a summary of significant accounting policies followed by the Funds.

(a) Valuation of investments--Money market securities maturing more than sixty days after the valuation date are valued at the most recent bid price or yield equivalent as obtained from dealers that make markets in the securities. When such securities are valued with sixty days or less to maturity, the difference between the valuation existing on the sixty-first day before maturity and maturity value is amortized on a straight-line basis to maturity. Investments maturing within sixty days from their date of acquisition are valued at amortized cost which approximates market.

Portfolio securities which are traded on stock exchanges are valued at the

last sale price as of the close of business on the day the securities are being valued, or lacking any sales, at the mean between closing bid and asked prices. Securities traded in the over-the-counter market are valued at the mean between the bid and asked prices or yield equivalent as obtained from one or more dealers that make markets in such securities. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according to the broadest and most representative market, and it is expected that for debt securities this ordinarily will be the over-the-counter market. Securities for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Company.

Options which are traded on exchanges are valued at the last bid price in the case of options purchased and last asked price in the case of options written. Financial future contracts are valued at settlement price at the close of the applicable exchange.

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

(c) Options--Flexible Strategy, Quality Equity, Natural Resources Focus, American Balanced, Global Strategy Focus, Basic Value Focus, World Income Focus, Global Utility Focus, and International Equity Focus Funds may write covered call options and purchase put options. When these Funds write an option, an amount equal to the premium received by the Fund is reflected as an asset and an equivalent liability. The amount of the liability is subsequently marked to market to reflect the current market value of the option written.

When a written call option is exercised, the related premium received is added to the proceeds of the security sold. When an option expires (or the Fund enters into a closing transaction), the Fund realizes a gain or loss on the option to the extent of the premiums received or paid (or gain or loss to the extent the cost of the closing transaction is less than or greater than the premiums received or paid).

Written and purchased options are non-income producing investments.

(d) Income taxes--It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment

153

companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no Federal income tax provision is required. Under the applicable foreign tax law, a withholding tax may be imposed on interest, dividends and capital gains at various rates.

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

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

(g) Dividends and distributions--Dividends and distributions paid by the Funds are recorded on the ex-dividend dates. This method maintains the Funds' current valuation of investment policy (see Note 1a). However, unrealized appreciation or depreciation will not be included in the daily dividend to shareholders. Dividends are declared from the total of net investment income and net realized gain or loss on investments.

(h) Foreign exchange contracts--The Funds are authorized to enter into forward foreign exchange contracts as a hedge against either specific transactions or portfolio positions. Such contracts are not entered on the Funds' records. However, the effect on operations is recorded from the date the Funds enter into such contracts. Premium or discount is amortized over the life of the contracts.

(i) Reclassifications--Certain 1992 amounts have been reclassified to conform

to the 1993 presentation.

2. INVESTMENT ADVISORY AGREEMENT AND TRANSACTIONS WITH AFFILIATES:

The Company has entered into an Investment Advisory Agreement with Merrill Lynch Asset Management ("MLAM"). MLAM is the name under which Merrill Lynch Investment Management, Inc. ("MLIM") does business. MLIM is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. MLAM is responsible for the management of the Company's portfolios and provided the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Funds.

Effective January 1, 1994, the investment advisory business of MLAM was reorganized from a corporation to a limited partnership. The general partner of MLAM is Princeton Services, Inc., an indirect wholly-owned subsidiary of Merrill Lynch & Co. The limited partners are Merrill Lynch & Co. and MLIM.

For such services, the Company pays a monthly fee based upon the average daily value of each Fund's net assets at the following annual rates: American Balanced Fund, 0.55% of the average daily net assets of the Fund; Basic Value Focus Fund, 0.60% of average daily net assets of the Fund; Domestic Money Market Fund, 0.50% of the average daily net assets of the Fund; Equity Growth Fund, 0.75% of the average daily net assets of the Fund; Flexible Strategy Fund, 0.65% of the average daily net assets of the Fund; Global Strategy Focus Fund, 0.65% of the average daily net assets of the Fund; Global Utility Focus, 0.60% of the average daily net assets of the Fund; High Current Income Fund, 0.55% of the Fund's average daily net assets not exceeding \$250 million, and at reduced rates for average daily net assets in excess of \$250 million; International Equity Focus, 0.75% of average daily net assets of the Fund; Natural Resources Focus Fund, 0.65% of the average daily net assets of the Fund; Prime Bond Fund, 0.50% of the Fund's average daily net assets not exceeding \$250 million, and at reduced rates for average daily net assets in excess of \$250 million; Quality Equity Fund, 0.50% of the Fund's average daily net assets not exceeding \$250 million, and at reduced rates for average daily net assets in excess of \$250 million; and Reserve

154

Assets Fund, 0.50% of the Fund's average daily net assets not exceeding \$500

million, and at reduced rates for average daily net assets in excess of \$500 million; and World Income Focus, 0.60% of average daily net assets of the Fund.

The Investment Advisory Agreement obligates MLAM to reimburse the Company, if in any year the aggregate ordinary operating expenses of any Fund exceed the most restrictive expense limitations then in effect under any state securities law or the regulations thereunder. Under the most restrictive state regulations presently in effect, the Investment Advisor would be required to reimburse each Fund for advisory fees received by it from the Fund, to the extent that such Fund's aggregate ordinary operating expenses (excluding interest, taxes, brokerage fees and commissions, and extraordinary items) exceed in any fiscal year 2.5% of each Fund's first \$30 million of average daily net assets, 2.0% of the Fund's average daily net assets in excess of \$30 million but less than \$100 million, and 1.5% of average daily net assets in excess of \$100 million. In addition, the Investment Adviser, MLAM, and Merrill Lynch Life Agency, Inc. ("MLLA") have entered into an agreement which limits the operating expenses paid by each Fund to 1.25% of its average daily net assets. Any expenses in excess of 1.25% of average daily net assets will be reimbursed to the Fund by the Investment Adviser which, in turn, will be reimbursed by MLLA.

For Domestic Money Market Fund, for the year ended December 31, 1993, MLAM has voluntarily agreed to waive \$246,351 of its advisory fee.

Merrill Lynch, Pierce, Fenner & Smith Inc. (MLPF&S), an affiliate of MLIM, earned commissions on the execution of portfolio security transactions aggregating \$3,860 in the American Balanced Fund, \$3,173 in the Basic Value Focus Fund, \$5,610 in the Equity Growth Fund, \$17,295 in the Flexible Strategy Fund, \$59,256 in the Global Strategy Focus Fund, \$11,815 in the Global Utility Focus Fund, \$8,520 in International Equity Focus Fund, \$1,725 in the Natural Resources Focus Fund and \$47,188 in the Quality Equity Fund.

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

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

Certain officers and/or directors of the Company are officers and/or directors of MLIM, FDS, Merrill Lynch Funds Distributor, Inc., a wholly owned subsidiary of MLIM, which is the Fund's distributor, and/or Merrill Lynch & Co., Inc.

3. INVESTMENTS:

Purchases and sales of investments, excluding short-term securities and

maturities, for the year ended December 31, 1993, were as follows:

<TABLE>

<CAPTION>

	PURCHASES	SALES
<S>	<C>	<C>
American Balanced Fund.....	\$ 76,476,739	\$ 6,568,473
Basic Value Focus Fund.....	36,468,837	4,292,258
Equity Growth Fund.....	114,186,789	60,092,866
Flexible Strategy Fund.....	172,795,711	91,376,748
Global Strategy Focus Fund.....	202,555,937	13,232,386
Global Utility Focus Fund.....	81,894,944	581,737
High Current Income Fund.....	145,426,639	26,253,324
International Equity Focus Fund...	62,933,311	4,642,661
Natural Resources Focus Fund.....	13,643,916	4,676,701
Prime Bond Fund.....	398,007,600	196,929,420
Quality Equity Fund.....	312,484,148	137,688,316
World Income Focus Fund.....	57,608,250	12,668,475

</TABLE>

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

<TABLE>

<CAPTION>

FLEXIBLE STRATEGY FUND

CALL OPTIONS WRITTEN	NUMBER OF SHARES COVERED	PREMIUMS RECEIVED
<S>	<C>	<C>
Outstanding call options written at beginning of year.....	--	--
Options written.....	40	\$ 8,326
Options expired.....	(25)	(5,824)
Options exercised.....	(15)	(2,502)
Outstanding call options written at end of year.....	--	\$ --

</TABLE>

Transactions in written call and put options for the period ended December 31, 1993, were as follows:

<TABLE>

<CAPTION>

INTERNATIONAL EQUITY FOCUS FUND

PUT OPTIONS WRITTEN	NUMBER OF SHARES COVERED	PREMIUMS RECEIVED
<S>	<C>	<C>
Outstanding put options written at beginning of period.....	--	--
Options written.....	\$ 15,000,000	\$ 118,850
Outstanding put options written at end of period.....	\$ 15,000,000	\$ 118,850

</TABLE>

<TABLE>

<CAPTION>

QUALITY EQUITY FUND

CALL OPTIONS WRITTEN	NUMBER OF SHARES COVERED	PREMIUMS RECEIVED
<S>	<C>	<C>
Outstanding options written at beginning of year.....	--	--

Options written.....	8,500	\$	17,816
Options expired.....	(5,500)		(12,812)
Options exercised.....	(3,000)		(5,004)
	-----		-----
Outstanding options written at end of year.....	--	\$	--
	-----		-----

</TABLE>

Transactions in call options purchased for the period ended December 31, 1993, were as follows:

<TABLE>
<CAPTION>

INTERNATIONAL EQUITY FOCUS FUND

CALL OPTIONS PURCHASED	NUMBER OF SHARES COVERED	PREMIUMS COST
<S>	<C>	<C>
Outstanding call options purchased at beginning of period.....	--	--
Options purchased.....	\$ 19,500,000	\$ 145,575
Options expired.....	(4,000,000)	(14,200)
	-----	-----
Outstanding call options purchased at end of period.....	\$ 15,500,000	\$ 131,375
	-----	-----

</TABLE>

At December 31, 1993 net unrealized appreciation/depreciation and aggregate cost for Federal income tax purposes were as follows:

<TABLE>
<CAPTION>

	AMERICAN BALANCED FUND	BASIC VALUE FOCUS FUND	DOMESTIC MONEY MARKET FUND	EQUITY GROWTH FUND
<S>	<C>	<C>	<C>	<C>
Appreciated securities.....	\$ 5,253,985	\$ 2,261,984	\$ 14,174	\$ 13,263,368
Depreciated securities.....	(424,124)	(657,818)	(11,440)	(1,863,319)
	-----	-----	-----	-----
Net unrealized appreciation/ depreciation.....	\$ 4,829,861	\$ 1,604,166	\$ 2,734	\$ 11,400,049
	-----	-----	-----	-----
Cost for Federal income tax purposes*.....	\$106,951,190	\$ 44,448,059	\$170,180,190	\$ 87,486,149
	-----	-----	-----	-----

</TABLE>

<TABLE>
<CAPTION>

	FLEXIBLE STRATEGY FUND	GLOBAL STRATEGY FOCUS FUND	GLOBAL UTILITY FOCUS FUND	HIGH CURRENT INCOME FUND
<S>	<C>	<C>	<C>	<C>
Appreciated securities.....	\$ 22,800,480	\$ 16,477,099	\$ 5,285,411	\$ 5,234,018
Depreciated securities.....	(931,845)	(4,759,471)	(2,720,221)	(1,062,697)
	-----	-----	-----	-----
Net unrealized appreciation/ depreciation.....	\$ 21,868,635	\$ 11,717,628	\$ 2,565,190	\$ 4,171,321
	-----	-----	-----	-----
Cost for Federal				

income tax purposes*.....	\$168,851,966	\$249,630,206	\$110,566,011	\$155,466,128
	-----	-----	-----	-----
	-----	-----	-----	-----

</TABLE>

<TABLE>

<CAPTION>

	INTERNATIONAL EQUITY FOCUS FUND	NATURAL RESOURCES FOCUS FUND	PRIME BOND FUND
<S>	<C>	<C>	<C>
Appreciated securities.....	\$ 5,927,605	\$ 436,107	\$ 3,982,785
Depreciated securities.....	(2,024,981)	(499,753)	(2,505,829)
	-----	-----	-----
Net unrealized appreciation/ depreciation.....	\$ (3,902,624)	\$ (63,646)	\$ 1,476,956
	-----	-----	-----
Cost for Federal income tax purposes*.....	\$ 70,454,530	\$ 14,467,976	\$304,318,015
	-----	-----	-----

</TABLE>

156

<TABLE>
<CAPTION>

	QUALITY EQUITY FUND	RESERVE ASSETS FUND	WORLD INCOME FOCUS FUND
<S>	<C>	<C>	<C>
Appreciated securities.....	\$ 34,758,443	\$ 9,647	\$ 847,505
Depreciated securities.....	(902,684)	(2,570)	(133,689)
	-----	-----	-----
Net unrealized appreciation/depreciation.....	\$ 33,855,759	\$ 7,077	\$ 713,816
	-----	-----	-----
Cost for Federal income tax purposes*.....	\$277,722,969	\$ 30,122,927	\$ 49,154,015
	-----	-----	-----

</TABLE>

*Net of premiums received on options written.

At December 31, 1993, net realized and unrealized gains (losses) were as follows:

<TABLE>
<CAPTION>

	AMERICAN BALANCED FUND		BASIC VALUE FOCUS FUND	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
<S>	<C>	<C>	<C>	<C>
Long-term investments.....	\$ 381,896	\$4,848,878	\$ (84,592)	\$1,604,166
Short-term investments.....	(495)	(19,017)	(20)	--
	-----	-----	-----	-----
	\$ 381,401	\$4,829,861	\$ (84,612)	\$1,604,166
	-----	-----	-----	-----

</TABLE>

<TABLE>
<CAPTION>

	DOMESTIC MONEY MARKET FUND		EQUITY GROWTH FUND	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
<S>	<C>	<C>	<C>	<C>
Long-term investments.....	--	--	\$ 3,639,259	\$ 11,400,049
Short-term investments.....	\$ 41,187	\$ 2,734	5	--
Options written.....	--	--	--	--
Foreign currency transactions.....	--	--	--	--
	\$ 41,187	\$ 2,734	\$ 3,639,264	\$ 11,400,049

</TABLE>

<TABLE>
<CAPTION>

	FLEXIBLE STRATEGY FUND		GLOBAL STRATEGY FOCUS FUND	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
<S>	<C>	<C>	<C>	<C>
Long-term investments...	\$ 6,476,703	\$ 21,868,635	\$ 1,230,629	\$ 11,717,628
Short-term investments.....	(1,272)	--	--	--
Foreign currency transactions.....	238,214	(5,939)	34,587	(12,554)
Financial Futures Contracts.....	(15,260)	--	--	--
	\$ 6,698,385	\$ 21,862,695	\$ 1,265,216	\$ 11,705,074

</TABLE>

<TABLE>
<CAPTION>

	GLOBAL UTILITY FOCUS FUND		HIGH CURRENT INCOME FUND	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
<S>	<C>	<C>	<C>	<C>
Long-term investments...	\$ 33,546	\$ 2,565,190	\$ 615,232	\$ 4,171,321
Short-term investments.....	(33)	--	(161)	--
Options written.....	--	--	--	--
Foreign currency transactions.....	597	7,484	--	--
	\$ 34,110	\$ 2,572,674	\$ 615,071	\$ 4,171,321

</TABLE>

<TABLE>
<CAPTION>

	INTERNATIONAL EQUITY FOCUS FUND		NATURAL RESOURCES FOCUS FUND	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
<S>	<C>	<C>	<C>	<C>
Long-term investments...	\$ 188,191	\$ 3,902,056	\$ 64,514	\$ (63,636)
Short-term investments.....	(287)	568	135	(10)
Options written.....	(14,200)	(102,890)	--	--
Financial Futures				

Contracts.....	(364,674)	145,997	--	--
Options purchased.....	--	(92,105)	--	--
Foreign currency transactions.....	306,021	531,510	42	(20)
	\$ 115,051	4,385,136	\$ 64,691	\$ (63,666)

</TABLE>

<TABLE>
<CAPTION>

	PRIME BOND FUND		QUALITY EQUITY FUND	
	Realized Gains (Losses)	Unrealized Gains	Realized Gains (Losses)	Unrealized Gains (Losses)
<S>	<C>	<C>	<C>	<C>
Long-term investments....	\$ 4,199,757	\$ 1,484,456	\$ 6,567,931	\$ 33,855,759
Short-term investments...	(34)	--	121	--
Options written.....	--	--	--	--
Foreign currency transactions.....	--	--	(8)	--
	\$ 4,199,723	\$ 1,484,456	\$ 6,568,044	\$ 33,855,759

</TABLE>

<TABLE>
<CAPTION>

	RESERVE ASSETS FUND		WORLD INCOME FOCUS FUND	
	Realized Gains (Losses)	Unrealized Gains (Losses)	Realized Gains (Losses)	Unrealized Gains (Losses)
<S>	<C>	<C>	<C>	<C>
Long-term investments.....	--	--	\$ 101,797	\$ 713,816
Short-term investments.....	\$ 15,302	\$ 7,077	(383)	--
Options written.....	--	--	--	--
Foreign currency transactions.....	--	--	75,366	6,495
	\$ 15,302	\$ 7,077	\$ 176,780	\$ 720,311

</TABLE>

157

4. CAPITAL SHARE TRANSACTIONS:

Transactions in capital shares were as follows:

AMERICAN BALANCED FUND

<TABLE>
<CAPTION>

	For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>	
Shares sold.....	6,659,885		\$ 91,353,359
Shares issued to shareholders in reinvestment of dividends and distributions.....	92,618		1,203,002
Total issued.....	6,752,503		92,556,361
Shares redeemed.....	(491,212)		(6,703,257)
Net increase.....	6,261,291		\$ 85,853,104

</TABLE>

<TABLE>
<CAPTION>

For the Year Ended December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	1,367,773	\$ 16,923,962
Shares issued to shareholders in reinvestment of dividends and distributions.....	43,421	528,136
Total issued.....	1,411,194	17,452,098
Shares redeemed.....	(91,625)	(1,137,727)
Net increase.....	1,319,569	\$ 16,314,371

</TABLE>

BASIC VALUE FOCUS FUND

<TABLE>
<CAPTION>

For the Period July 1, 1993+ to December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	4,316,053	\$ 47,688,307
Shares issued to shareholders in reinvestment of dividends and distributions.....	--	--
Total issued.....	4,316,053	47,688,307
Shares redeemed.....	(202,978)	(2,154,283)
Net increase.....	4,113,075	\$ 45,534,024

</TABLE>

+ Prior to July 1, 1993 (commencement of operations), the Fund issued 200,010 shares to MLAM for \$2,000,100.

DOMESTIC MONEY MARKET FUND

<TABLE>
<CAPTION>

For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	371,125,144	\$ 371,125,144
Shares issued to shareholders in reinvestment of dividends and distributions.....	2,796,153	2,796,153
Total issued.....	373,921,297	373,921,297
Shares redeemed.....	(244,516,209)	(244,516,209)
Net increase.....	129,405,088	\$ 129,405,088

</TABLE>

<TABLE>
<CAPTION>

For the Period February 20, 1992+ to December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	77,059,988	\$ 77,059,988
Shares issued to shareholders in reinvestment of dividends and distributions.....	522,668	522,668
Total issued.....	77,582,656	77,582,656
Shares redeemed.....	(38,459,225)	(38,459,225)
Net increase.....	39,123,431	\$ 39,123,431

</TABLE>

+ Prior to February 20, 1992 (commencement of operations), the Company issued 2,000,100 shares to MLAM for \$2,000,100.

EQUITY GROWTH FUND

<TABLE>

<CAPTION>

For the Year Ended December 31, 1993	Shares	Dollar Amount
Shares sold.....	3,715,936	\$ 69,928,165
Shares issued to shareholders in reinvestment of dividends and distributions.....	330	5,834
Total issued.....	3,716,266	69,933,999
Shares redeemed.....	(296,830)	(5,457,567)
Net increase.....	3,419,436	\$ 64,476,432

</TABLE>

<TABLE>

<CAPTION>

For the Year Ended December 31, 1992	Shares	Dollar Amount
Shares sold.....	888,271	\$ 14,836,367
Shares issued to shareholders in reinvestment of dividends.....	2,518	47,447
Total issued.....	890,789	14,883,814
Shares redeemed.....	(219,409)	(3,585,542)
Net increase.....	671,380	\$ 11,298,272

</TABLE>

158

FLEXIBLE STRATEGY FUND

<TABLE>

<CAPTION>

For the Year Ended December 31, 1993	Shares	Dollar Amount
Shares sold.....	6,911,886	103,761,462
Shares issued to shareholders in reinvestment of dividends and distributions.....	100,932	1,460,495
Total issued.....	7,012,818	105,221,957
Shares redeemed.....	(820,921)	(12,310,730)
Net increase.....	6,191,897	\$ 92,909,143

</TABLE>

<TABLE>

<CAPTION>

For the Year Ended December 31, 1992	Shares	Dollar Amount
Shares sold.....	2,252,323	\$ 31,668,961

Shares issued to shareholders in reinvestment of dividends and distributions.....	402,362	5,614,766
Total issued.....	2,654,685	37,283,727
Shares redeemed.....	(553,710)	(7,805,748)
Net increase.....	2,100,975	\$ 29,477,979

</TABLE>

GLOBAL STRATEGY FOCUS FUND

<TABLE>
<CAPTION>

For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	20,813,811	\$ 241,520,508
Shares issued to shareholders in reinvestment of dividends and distributions.....	35,643	394,216
Total issued.....	20,849,454	241,914,724
Shares redeemed.....	(213,171)	(2,402,857)
Net increase.....	20,636,283	\$ 239,511,867

</TABLE>

<TABLE>
<CAPTION>

For the Period February 28, 1992+ to December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	1,321,900	\$ 13,428,045
Shares issued to shareholders in reinvestment of dividends.....	2,888	29,518
Total issued.....	1,324,788	13,457,563
Shares redeemed.....	(5,928)	(60,122)
Net increase.....	1,318,860	\$ 13,397,441

</TABLE>

+ Prior to February 28, 1992 (commencement of operations), the Company sold 200,010 shares to MLAM for \$2,000,100.

GLOBAL UTILITY FOCUS FUND

<TABLE>
<CAPTION>

For the Period July 1, 1993+ to December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	9,794,562	\$ 101,325,529
Shares issued to shareholders in reinvestment of dividends and distributions.....	11,422	118,908
Total issued.....	9,805,984	101,444,437
Shares redeemed.....	(201,232)	(2,092,591)
Net increase.....	9,604,752	\$ 99,351,846

</TABLE>

+ Prior to July 1, 1993 (commencement of operations), the Company sold 200,010 shares to MLAM for \$2,000,100.

HIGH CURRENT INCOME FUND

<TABLE> <CAPTION>		
For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	11,096,856	\$ 130,007,224
Shares issued to shareholders in reinvestment of dividends and distributions.....	517,507	6,035,740
Total issued.....	11,614,363	136,042,964
Shares redeemed.....	(424,381)	(4,968,409)
Net increase.....	11,189,982	\$ 131,074,555

</TABLE>

<TABLE> <CAPTION>		
For the Year Ended December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	1,655,403	\$ 18,211,484
Shares issued to shareholders in reinvestment of dividends.....	139,646	1,522,781
Total issued.....	1,795,049	19,734,265
Shares redeemed.....	(371,472)	(4,071,229)
Net increase.....	1,423,577	\$ 15,663,036

</TABLE>

INTERNATIONAL EQUITY FOCUS FUND

<TABLE> <CAPTION>		
For the Period July 1, 1993+ to December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	6,976,839	\$ 72,732,083
Shares issued to shareholders in reinvestment of dividends and distributions.....	--	--
Total issued.....	6,976,839	72,732,083
Shares redeemed.....	(804,344)	(8,379,435)
Net increase.....	6,172,495	\$ 64,352,648

</TABLE>

+ Prior to July 1, 1993 (commencement of operations), the Company sold 800,010 shares to MLAM for \$8,000,100.

NATURAL RESOURCES FOCUS FUND

<TABLE> <CAPTION>		
For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	1,268,742	\$ 13,999,275
Shares issued to shareholders in reinvestment of dividends and distributions.....	3,674	40,449
Total issued.....	1,272,416	14,039,724

Shares redeemed.....	(327,587)	(3,584,398)
Net increase.....	944,829	\$ 10,571,877

</TABLE>

<TABLE>
<CAPTION>

For the Year Ended December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	169,193	\$ 1,683,526
Shares issued to shareholders in reinvestment of dividends and distributions.....	13,009	125,884
Total issued.....	182,202	1,809,410
Shares redeemed.....	(67,934)	(666,485)
Net increase.....	114,268	\$ 1,142,925

</TABLE>

PRIME BOND FUND

<TABLE>
<CAPTION>

For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	18,166,471	\$ 229,284,947
Shares issued to shareholders in reinvestment of dividends and distributions.....	835,307	10,463,170
Total issued.....	19,001,778	239,748,117
Shares redeemed.....	(1,205,821)	(15,218,080)
Net increase.....	17,795,957	\$ 224,530,037

</TABLE>

<TABLE>
<CAPTION>

For the Year Ended December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	4,282,632	\$ 51,080,851
Shares issued to shareholders in reinvestment of dividends.....	303,832	3,604,131
Total issued.....	4,586,464	54,684,982
Shares redeemed.....	(847,635)	(9,984,702)
Net increase.....	3,738,829	\$ 44,700,280

</TABLE>

QUALITY EQUITY FUND

<TABLE>
<CAPTION>

For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	7,584,386	\$ 204,488,643
Shares issued to shareholders in reinvestment of dividends and distributions.....	38,501	99,487
Total issued.....	7,622,887	204,588,130

Shares redeemed.....	(412,554)	(11,039,403)
Net increase.....	7,210,333	\$ 193,548,727

</TABLE>

<TABLE>
<CAPTION>

For the Year Ended December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	1,635,715	\$ 40,556,147
Shares issued to shareholders in reinvestment of dividends and distributions.....	168,257	4,217,827
Total issued.....	1,803,972	44,773,974
Shares redeemed.....	(437,956)	(10,900,234)
Net increase.....	1,366,016	\$ 33,873,740

</TABLE>

RESERVE ASSETS FUND

<TABLE>
<CAPTION>

For the Year Ended December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	18,903,263	\$ 18,903,263
Shares issued to shareholders in reinvestment of dividends and distributions.....	772,770	772,770
Total issued.....	19,676,033	19,676,033
Shares redeemed.....	(16,275,313)	(16,275,313)
Net increase.....	3,400,720	\$ 3,400,720

</TABLE>

<TABLE>
<CAPTION>

For the Year Ended December 31, 1992	Shares	Dollar Amount
<S>	<C>	<C>
Shares sold.....	8,149,134	\$ 8,149,134
Shares issued to shareholders in reinvestment of dividends and distributions.....	953,406	953,406
Total issued.....	9,102,540	9,102,540
Shares redeemed.....	(16,704,930)	(16,704,930)
Net decrease.....	(7,602,390)	\$ (7,602,390)

</TABLE>

WORLD INCOME FOCUS FUND

<TABLE>
<CAPTION>

For the Period July 1, 1993+ to December 31, 1993	Shares	Dollar Amount
<S>	<C>	<C>

Shares sold.....	4,880,334	\$ 49,656,106
Shares issued to shareholders in reinvestment of dividends and distributions.....	63,693	647,784
Total issued.....	4,944,037	50,303,890
Shares redeemed.....	(855,476)	(8,720,702)
Net increase.....	4,088,561	\$ 41,583,188

</TABLE>

+ Prior to July 1, 1993 (commencement of operations), the Fund issued 800,010 shares to MLAM for \$8,000,100.

5. CAPITAL LOSS CARRYFORWARD:

At December 31, 1993, the Fund had capital loss carryforwards of approximately \$52,000 in the Basic Value Focus Fund, all of which expires in 2001, \$119,000 in the High Current Income Fund, all of which expires in 1999 and \$48,000 in the Natural Resources Focus Fund, all of which expires in 2000. These will be available to offset like amount of any future taxable gains.

6. LOANED SECURITIES:

At December 31, 1993, the Prime Bond Fund held U.S. Treasury bonds having an aggregate value of approximately \$4,742,000 as collateral for portfolio securities loaned having a market value of approximately \$4,486,000.

7. COMMITMENTS:

At December 31, 1993, the Global Utility Focus Fund had entered into forward exchange contracts under which it agreed to purchase various foreign currencies with values of approximately \$2,955,000 and International Equity Focus \$87,000, and sold various foreign currencies with value of approximately \$298,000.

8. SUBSEQUENT EVENTS:

On January 3, 1994, the Board of Directors declared ordinary income dividends and a capital gains distributions per share to shareholders of record as of December 31, 1993 as follows:

<TABLE>
<CAPTION>

Fund	Ordinary Income-net	Capital Gains
American Balanced Fund (2).....	\$0.182570	\$0.020055
Basic Value Focus Fund (2).....	0.036210	--
Equity Growth Fund (2).....	--	0.189770
Flexible Strategy Fund (2).....	0.301396	0.386555
Global Strategy Focus Fund (2).....	0.125658	0.010581
Global Utility Focus Fund (2).....	0.060742	--
High Current Income Fund (1).....	--	--
International Equity Focus Fund (2).....	0.154109	--
Natural Resources Focus Fund (2)....	0.061468	--
Prime Bond Fund (1).....	0.128691	0.040576
Quality Equity Fund (2).....	0.423812	0.354436
World Income Focus Fund (1).....	0.043089	--

</TABLE>

(1) Payable on 1/03/1994.
(2) Payable on 1/10/1994.

TABLE OF CONTENTS

<TABLE>
<CAPTION>

	PAGE
Investment Objectives and Policies.....	2

Investment Restrictions.....	3
Management of the Company.....	37
Investment Advisory Arrangements.....	38
Determination of Net Asset Value.....	41
Portfolio Transactions and Brokerage.....	42
Redemption of Shares.....	45
Dividends, Distributions and Taxes.....	45
Distribution Arrangements.....	46
Performance Data.....	46
Additional Information.....	48
Independent Auditors' Report.....	49
Financial Statements.....	50

</TABLE>

Code 00000

Statement of
Additional Information

MERRILL LYNCH
VARIABLE
SERIES FUND, INC.

May 1, 1994

Distributor:
Merrill Lynch Funds
Distributor, Inc.

PART C. OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS.

(A) FINANCIAL STATEMENTS

Contained in Part A:

Financial Highlights:

Reserve Assets Fund for each of the years in the ten-year period ended December 31, 1993.

Prime Bond Fund for each of the years in the ten-year period ended December 31, 1993.

High Current Income Fund for each of the years in the ten-year period ended December 31, 1993.

Equity Growth Fund for each of the years in the ten-year period ended December 31, 1993.

Quality Equity Fund for each of the years in the ten-year period ended December 31, 1993.

Flexible Strategy Fund for each of the years in the seven-year period ended December 31, 1993 and the period May 1, 1986 (commencement of operations) to December 31, 1986.

Natural Resources Focus Fund for each of the years in the five-year period ended December 31, 1993 and the period June 1, 1988 (commencement of operations) to December 31, 1988.

American Balanced Fund for each of the years in the five-year period ended December 31, 1993 and the period June 1, 1988 (commencement of operations) to December 31, 1988.

Domestic Money Market Fund for the year ended December 31, 1993 and the period February 20, 1992 (commencement of operations) to December 31, 1992.

Global Strategy Focus Fund for the year ended December 31, 1993 and the period February 28, 1992 (commencement of operations) to December 31, 1992.

Basic Value Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

World Income Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

Global Utility Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

International Equity Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

Contained in Part B:

Schedules of Investments as of December 31, 1993.

Statements of Assets and Liabilities as of December 31, 1993.

Statements of Operations for the year ended December 31, 1993.

Statements of Changes in Net Assets for the years ended December 31, 1993 and 1992.

Financial Highlights:

American Balanced Fund for each of the years in the five-year period ended December 31, 1993.

Domestic Money Market Fund for the year ended December 31, 1993 and the period February 20, 1992 (commencement of operations) to December 31, 1992.

Equity Growth Fund for each of the years in the five-year period ended December 31, 1993.

Flexible Strategy Fund for each of the years in the five-year period ended December 31, 1993.

C-1

Global Strategy Focus Fund for the year ended December 31, 1993 and the period February 28, 1992 (commencement of operations) to December 31, 1992.

High Current Income Fund for each of the years in the five-year period ended December 31, 1993.

Natural Resources Focus Fund for each of the years in the five-year period ended December 31, 1993.

Prime Bond Fund for each of the years in the five-year period ended December 31, 1993.

Quality Equity Fund for each of the years in the five-year period ended December 31, 1993.

Reserve Assets Fund for each of the years in the five-year period ended December 31, 1993.

Basic Value Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

World Income Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

Global Utility Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

International Equity Focus Fund for the period July 1, 1993 (commencement of operations) to December 31, 1993.

(B) EXHIBITS:

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
1(a)	--Articles of Incorporation of Registrant (a)
1(b)	--Form of Articles Supplementary of Registrant (b)
1(c)	--Form of Articles of Amendment of Registrant (c)
1(d)	--Form of Articles Supplementary of Registrant (d)
1(e)	--Form of Articles Supplementary of Registrant (e)

1(f) --Form of Articles Supplementary of Registrant (f)
1(g) --Articles Supplementary to Registrant's Articles of Incorporation relating to the redesignation of shares of common stock as Merrill Lynch Basic Value Focus Fund Common Stock, Merrill Lynch World Income Focus Fund Common Stock, Merrill Lynch Global Utility Focus Fund Common Stock and Merrill Lynch International Equity Focus Fund Common Stock (s)
1(h) --Articles Supplementary to Registrant's Articles of Incorporation relating to the designation of shares of common stock as Merrill Lynch Developing Capital Markets Focus Fund Common Stock, Merrill Lynch International Bond Fund Common Stock and Merrill Lynch Intermediate Government Bond Common Stock
2 --By-Laws of Registrant, as amended (g)
3 --None
4 --Specimen certificate for shares of common stock of Registrant (h)
5(a) --Investment Advisory Agreement for Merrill Lynch Reserve Assets Fund (i)
5(b) --Investment Advisory Agreement for the Merrill Lynch Prime Bond Fund, Merrill Lynch High Current Income Fund, Merrill Lynch Quality Equity Fund and Merrill Lynch Equity Growth Fund (j)
5(c) --Investment Advisory Agreement for Merrill Lynch Flexible Strategy Fund (k)
5(d) --Form of Investment Advisory Agreement for Merrill Lynch Natural Resources Focus Fund and Merrill Lynch American Balanced Fund (l)
5(e) --Form of Investment Advisory Agreement for Merrill Lynch Domestic Money Market Fund and Merrill Lynch Global Strategy Focus Fund (m)

</TABLE>

C-2

<TABLE>

<CAPTION>

EXHIBIT NUMBER	DESCRIPTION
<S>	<C>
5(f)	--Form of Investment Advisory Agreement for Merrill Lynch Basic Value Focus Fund, Merrill Lynch World Income Focus Fund, Merrill Lynch Global Utility Focus Fund and Merrill Lynch International Equity Focus Fund (t)
5(g)	--Form of Investment Advisory Agreement for Merrill Lynch Developing Capital Markets Focus Fund, Merrill Lynch International Bond Fund and Merrill Lynch Intermediate Government Bond Fund
6(a)	--Form of Distribution Agreement (n)
7	--None
8	--Form of Custodian Agreement (o)
9(a)	--Form of Transfer Agency, and Dividend Disbursing Agreement (p)
9(b)	--Form of Agreement relating to the use of the 'Merrill Lynch' name (q)
10	--Opinion of Counsel (filed with Rule 24f-2 Notice on February 24, 1993)
11	--Consent of Deloitte & Touche
12	--None
13	--None
14	--None
15	--None
16	--Calculation of Performance Data (r)

</TABLE>

(a) Incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form N-1 (the 'Registration Statement').

(b) Incorporated by reference to Exhibit 1(b) to Post-Effective Amendment No. 1 to the Registration Statement.

(c) Incorporated by reference to Exhibit 1(c) to Post-Effective Amendment No. 7 to the Registration Statement.

(d) Incorporated by reference to Exhibit 1(d) to Post-Effective Amendment No. 10 to the Registration Statement.

(e) Incorporated by reference to Exhibit 1(e) to Post-Effective Amendment No. 12 to the Registration Statement.

(f) Incorporated by reference to Exhibit 1(f) to Post-Effective Amendment No. 16 to the Registration Statement ('Post-Effective Amendment No. 16').

(g) Incorporated by reference to Exhibit 2 to Post-Effective Amendment No. 11 to the Registration Statement ('Post-Effective Amendment No. 11').

(h) Incorporated by reference to Exhibit 4 to Post-Effective Amendment No. 4 to the Registration Statement ('Post-Effective Amendment No. 4').

(i) Incorporated by reference to Exhibit 5(a) to Post-Effective Amendment No. 8 to the Registration Statement ('Post-Effective Amendment No. 8').

(j) Incorporated by reference to Exhibit 5(b) to Post-Effective Amendment No. 8.

(k) Incorporated by reference to Exhibit 5(c) to Post-Effective Amendment

No. 9 to Registrant's Registration Statement.

(l) Incorporated by reference to Exhibit 5(d) to Post-Effective Amendment No. 11.

(m) Incorporated by reference to Exhibit 5(e) to Post-Effective Amendment No. 16.

C-3

(n) Incorporated by reference to Exhibit 6(a) to Amendment No. 1 to Registrant's Registration Statement ('Amendment No. 1').

(o) Incorporated by reference to Exhibit 8 to Post-Effective Amendment No. 4.

(p) Incorporated by reference to Exhibit 9(a) to Post-Effective Amendment No. 4.

(q) Incorporated by reference to Exhibit 9(b) to Amendment No. 1.

(r) Incorporated by reference to Exhibit 16 to Post-Effective Amendment No. 13 to the Registration Statement.

(s) Incorporated by reference to Exhibit 1(g) to Post-Effective Amendment No. 20 to the Registration Statement.

(t) Incorporated by reference to Exhibit 5(f) to Post-Effective Amendment No. 20 to the Registration Statement.

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

Registrant does not control any other person. Except that all of Registrant's issued and outstanding shares are and will be held by Merrill Lynch Life Insurance Company, ML Life Insurance Company of New York and Family Life Insurance Company for their Separate Accounts, the Registrant is not under common control with any other person.

ITEM 26. NUMBERS OF HOLDERS OF SECURITIES.

<TABLE>
<CAPTION>

TITLE OF CLASS 1993	NUMBER OF RECORD HOLDERS AT MARCH 1, 1994
<S>	<C>
Common stock, par value \$0.10 per share, Merrill Lynch Domestic Money Market Fund Class.....	4
Common stock, par value \$0.10 per share, Merrill Lynch Reserve Assets Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch Prime Bond Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch High Current Income Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch Quality Equity Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch Equity Growth Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch Flexible Strategy Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch Natural Resources Focus Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch American Balanced Fund Class.....	10
Common stock, par value \$0.10 per share, Merrill Lynch Global Strategy Focus Fund Class.....	4
Common stock, par value \$0.10 per share, Merrill Lynch Basic Value Focus Fund Class.....	0
Common stock, par value \$0.10 per share, Merrill Lynch World Income Focus Fund Class.....	0
Common stock, par value \$0.10 per share, Merrill Lynch Global Utility Focus Fund Class.....	0
Common stock, par value \$0.10 per share, Merrill Lynch International Equity Focus Fund Class.....	0
Common stock, par value \$0.10 per share, Merrill Lynch Developing Capital Markets Focus Fund Class.....	0
Common stock, par value \$0.10 per share, Merrill Lynch Global Bond Focus Fund Class.....	0

</TABLE>

C-4

<TABLE>
<CAPTION>

TITLE OF CLASS 1993	NUMBER OF RECORD HOLDERS AT MARCH 1, 1994
<S>	<C>

ITEM 27. INDEMNIFICATION.

Under Section 2-418 of the Maryland General Corporation Law, with respect to any proceedings against a present or former director, officer, agent or employee (a 'corporate representative') of the Registrant, except a proceeding brought by or on behalf of the Registrant, the Registrant may indemnify the corporate representative against expenses, including attorneys' fees and judgments, fines and amounts paid in settlement actually and reasonably incurred by the corporate representative in connection with the proceeding, if: (i) he acted in good faith and in a manner he reasonably believed to be in or not

opposed to the best interests of the Registrant; and (ii) with respect to any criminal proceeding, he had no reasonable cause to believe his conduct was unlawful. The Registrant is also authorized under Section 2-418 of the Maryland General Corporation Law to indemnify a corporate representative under certain circumstances against expenses incurred in connection with the defense of a suit or action by or in the right of the Registrant. Under the Distribution Agreement, the Registrant has agreed to indemnify the Distributor against any loss, liability, claim, damage or expense arising out of any untrue statement of a material fact, or an omission to state a material fact, in any registration statement, prospectus or report to shareholders of the Registrant. Reference is made to Article VI of Registrant's Certificate of Incorporation, Article VI of Registrant's By-Laws, Section 2-418 of the Maryland General Corporation Law and Section 9 of the Distribution Agreement.

ITEM 28. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER.

Merrill Lynch Asset Management 'MLAM' or the 'Investment Adviser' acts as investment adviser for the following registered investment companies: Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Merrill Lynch Balanced Fund for Investment and Retirement, Convertible Holdings, Inc., Merrill Lynch Capital Fund, Inc., Merrill Lynch Developing Capital Markets, Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Convertible Fund, Inc., 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 requirements), Merrill Lynch High Income Municipal Bond Fund, Merrill Lynch International Equity Fund, Merrill Lynch Institutional Intermediate Fund, Merrill Lynch Global Holdings, Inc., Merrill Lynch Latin America Fund, Inc., Merrill Lynch Senior Floating Rate Fund, Merrill Lynch Municipal Series Trust, Merrill Lynch Global Resources Trust, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Ready Assets Trust, Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Retirement Series Trust, Merrill Lynch Series Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Merrill Lynch Variable Series Funds, Inc., Merrill Lynch U.S.A. Government Reserves and Merrill Lynch U.S. Treasury Money Fund. Fund Asset Management, L.P. ('FAM'), an affiliate of the Investment Adviser, acts as the investment adviser for the following registered investment companies: Merrill Lynch California Municipal Series Trust, CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, The Corporate Fund Accumulation Program, Inc., Financial Institutions Series Trust, Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., Merrill Lynch Basic Value Fund, Inc., Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Federal Securities Trust, Merrill Lynch High Income Municipal Bond Fund, Inc., Merrill Lynch Funds for Institutions Series, Merrill Lynch Multi-State Municipal Series Trust, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Special Value Fund, Inc., The Municipal Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured 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, Inc.,

C-5

MuniYield Arizona Fund, Inc., MuniYield Arizona Fund II, Inc., MuniYield California Insured Fund II, Senior High Income Portfolio, Senior High Income Portfolio II, MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., Apex Municipal Fund, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, 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 Pennsylvania Fund, Inc., MuniYield Fund, Inc., MuniYield

Quality Fund, Inc., MuniYield Quality Fund II, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNew York Holdings, Inc., Merrill Lynch World Income Fund, Inc. and Worldwide DollarVest, Inc. The address of each of these investment companies is Box 9011, Princeton, New Jersey 08543-9011. The address of Merrill Lynch Funds for Institutions Series and Merrill Lynch Institutional Intermediate Fund is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2665. The address of the Investment Adviser and FAM 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 director of the Investment Adviser indicating each business, profession, vocation or employment of a substantial nature in which each such person has been engaged since October 31, 1987 for his own account or in the capacity of director, officer, partner or trustee. In addition, Mr. Zeikel is President and Mr. Richard is Treasurer of all or substantially all of the investment companies described in the preceding paragraph. Messrs. Durnin, Giordano, Glenn, Harvey, Hewitt, Kirstein and Monagle are directors or officers of one or more of such companies.

<TABLE>
<CAPTION>

NAME	POSITION WITH INVESTMENT ADVISER	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT
<S>	<C>	<C>
Arthur Zeikel.....	President and Director	President and Director of FAM; President and Director of Princeton Services; Executive Vice President of Merrill Lynch & Co. and Merrill Lynch; and Director of MLFD.
Terry K. Glenn.....	Executive Vice President and Director	Executive Vice President and Director of FAM; President and Director of MLFD; Executive Vice President of Princeton Services; President of Princeton Administrators, Inc. and Director of Financial Data Services, Inc.
Robert W. Crook.....	Senior Vice President	Senior Vice President of MLFD since 1990; Vice President of MLAM and MLFD.
Bernard J. Durnin.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services since 1993.
Vincent R. Giordano.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services since 1993.
Elizabeth Griffen.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services since 1993.
Norman R. Harvey.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services since 1993.
N. John Hewitt.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services since 1993.
Philip L. Kirstein.....	Senior Vice President, General Counsel, Director and Secretary	Senior Vice President, General Counsel, Director and Secretary of FAM; Senior Vice President of Princeton Services since 1993.
Ronald M. Kloss.....	Senior Vice President	Senior Vice President and Controller of FAM; Senior Vice President of Princeton Services since 1993.

</TABLE>

C-6

<TABLE>
<CAPTION>

NAME	POSITION WITH INVESTMENT ADVISER	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT
<S>	<C>	<C>
Stephen M. M. Miller.....	Senior Vice President	Executive Vice President of Princeton Administrators, Inc. since 1989; Senior Vice President of Princeton Services since 1993; Vice President and Secretary of Merrill Lynch from 1982 to 1989; Secretary of Merrill Lynch & Co. from 1982 to 1989.
Joseph T. Monagle.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services since 1993.
Gerald M. Richard.....	Senior Vice President and Treasurer	Senior Vice President and Treasurer of FAM; Senior Vice President of Princeton Services since 1993; Vice President and Treasurer of MLFD.
Richard L. Rufener.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services since 1993; Vice President of the MLFD.
Ronald Welburn.....	Senior Vice President	Senior Vice President of FAM; Senior Vice

Anthony Wiseman..... Senior Vice President

President of Princeton Services since 1993.
Senior Vice President of FAM; Senior Vice
President of Princeton Services since 1993.

</TABLE>

ITEM 29. PRINCIPAL UNDERWRITERS.

(a) MLFD acts as the principal underwriter for the Registrant and for each of the 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 Fund, MuniYield Arizona Fund, MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, 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, 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 Officers Crook, Aldrich, Graczyk, Brady, Breen, Fatseas, Wasel, Maguire and Schena is One Financial Center, Boston, Massachusetts 02111-2646.

<TABLE>
<CAPTION>

(1) NAME	(2) POSITIONS AND OFFICES WITH UNDERWRITER	(3) POSITIONS AND OFFICES WITH REGISTRANT
<S>	<C>	<C>
Terry K. Glenn.....	President	Trustee
Arthur Zeikel.....	Director	None
Philip L. Kirstein.....	Director	None
William E. Aldrich.....	Senior Vice President	Executive Vice President
Robert W. Crook.....	Senior Vice President	President and Trustee

C-7

<TABLE>
<CAPTION>

(1) NAME	(2) POSITIONS AND OFFICES WITH UNDERWRITER	(3) POSITIONS AND OFFICES WITH REGISTRANT
<S>	<C>	<C>
Michael J. Brady.....	Vice President	Senior Vice President
William M. Breen.....	Vice President	Assistant Treasurer
Sharon Creveling.....	Vice President and Assistant Treasurer	None
Mark A. DeSario.....	Vice President	None
James T. Fatseas.....	Vice President	Senior Vice President
Stanley Graczyk.....	Vice President	Vice President
Debra W. Landsman-Yaros.....	Vice President	None
Michelle T. Lau.....	Vice President	None
Gerald M. Richard.....	Vice President and Treasurer	Treasurer
Richard L. Rufener.....	Vice President	None
Sal Venezia.....	Vice President	None

William Wasel.....	Vice President	Senior Vice President
Mark E. Maguire.....	Assistant Vice President	Vice President
Patricia A. Schena.....	Assistant Vice President	Assistant Secretary
Robert Harris.....	Secretary	None

</TABLE>

(c) Not applicable.

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 and the Rules thereunder will be maintained at the offices of the Registrant, its Investment Adviser and its Custodian and Transfer Agent.

ITEM 31. MANAGEMENT SERVICES.

Other than as set forth under the captions 'Directors' and 'Investment Adviser' in the Prospectus constituting Part A of the Registration Statement and under the captions 'Management of the Company' and 'Investment 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 furnish each person to whom a prospectus is delivered with a copy of the Registrant's latest annual report to shareholders, upon request, and without charge.

C-8

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933 AND THE INVESTMENT COMPANY ACT OF 1940, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT TO ITS 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 17TH DAY OF MARCH, 1994.

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.
(Registrant)

By _____/s/ ARTHUR ZEIKEL_____
(ARTHUR ZEIKEL, PRESIDENT)

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, THIS AMENDMENT TO THE REGISTRANT'S 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 Director Principal Executive Officer)	<C> March 17, 1994
	/s/ GERALD M. RICHARD ----- (GERALD M. RICHARD)	Treasurer (Principal Financial and Accounting Officer)	March 17, 1994
	* ----- (WALTER MINTZ)	Director	March 17, 1994
	* ----- (MELVIN R. SEIDEN)	Director	March 17, 1994
	* ----- (STEPHEN B. SWENSRUD)	Director	March 17, 1994

*	Director	March 17, 1994

(JOE GRILLS)		
*	Director	March 17, 1994

(HARRY WOOLF)		
*By /S/ GERALD M. RICHARD	Attorney-in-Fact	March 17, 1994

(GERALD M. RICHARD)		

</TABLE>

C-9

EXHIBIT INDEX

<TABLE>
<CAPTION>

EXHIBIT NUMBER -----	<C>	SEQUENTIALLY NUMBERED PAGE -----
<S>	<C>	<C>
1(h)*	-- Article Supplementary to Registrant's Articles of Incorporation relating to the redesignation of shares of common stock as Merrill Lynch Developing Capital Markets Focus Fund Common Stock, Merrill Lynch International Bond Fund Common Stock and Merrill Lynch Intermediate Government Bond Common Stock.	
5(g)*	-- Form of Investment Advisory Agreement for Merrill Lynch Developing Capital Markets Focus Fund, Merrill Lynch International Bond Fund and Merrill Lynch Intermediate Government Bond Fund.	
11*	-- Consent of Deloitte & Touche.	

</TABLE>

* Filed herewith

EXHIBIT 99.1(h)

Exhibit 99.1(h)

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.

ARTICLES SUPPLEMENTARY

Merrill Lynch Variable Series Funds, Inc., a Maryland corporation (the "Corporation"), hereby certifies to the State Department of Assessments and Taxation as follows:

First: The Corporation is an open-end company registered as such under the Investment Company Act of 1940 with authority to issue capital stock as follows:

Funds -----	Number of Authorized Shares -----
American Balanced Fund Common Stock	100,000,000
Basic Value Focus Fund Common Stock	100,000,000
Domestic Money Market Fund Common Stock	300,000,000
Equity Growth Fund Common Stock	100,000,000
Flexible Strategy Focus Fund Common Stock	100,000,000
Global Strategy Focus Fund Common Stock	100,000,000
Global Utility Focus Fund Common Stock	100,000,000
High Current Income Fund Common Stock	100,000,000
International Equity Focus Fund Common Stock	100,000,000
Natural Resources Focus Fund Common Stock	100,000,000
Prime Bond Fund Common Stock	100,000,000
Quality Equity Fund Common Stock	100,000,000
Reserve Assets Fund Common Stock	500,000,000
World Income Focus Fund Common Stock	100,000,000

Second: All shares of the Corporation's capital stock have a par value of \$0.10 per share. The aggregate par value of all the shares of all classes of the Corporation's capital stock is Two Hundred Million Dollars (\$200,000,000).

Third: The Board of Directors of the Corporation, acting in accordance with Section 2-105(c) of the General Corporation Law of the State of Maryland, hereby increases the number of authorized shares of capital stock of the Corporation by 300,000,000 to be

classified as follows: 100,000,000 shares have been classified as a new class designated Merrill Lynch Developing Markets Focus Fund; 100,000,000 shares have been classified as a new class designated Merrill Lynch International Bond Fund Common Stock; and 100,000,000 shares have been classified as a new class designated Merrill Lynch Intermediate Government Bond Fund Common Stock.

Fourth: All of the shares of the Corporation's Common Stock, as classified and designated, continue to have preferences, conversions and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption as set forth in Article V of the Articles of Incorporation of the Corporation.

Fifth: After this increase in the number of authorized shares of capital stock of the Corporation and classification of the shares, the Corporation will have authority to issue capital stock as follows:

Funds -----	Number of Authorized Shares -----
American Balanced Fund Common Stock	100,000,000
Basic Value Focus Fund Common Stock	100,000,000
Domestic Money Market Fund Common Stock	300,000,000
Developing Capital Markets Focus Fund Common Stock	100,000,000
Equity Growth Fund Common Stock	100,000,000
Flexible Strategy Focus Fund Common Stock	100,000,000
Global Strategy Focus Fund Common Stock	100,000,000
Global Utility Focus Fund Common Stock	100,000,000
High Current Income Fund Common Stock	100,000,000
Intermediate Government Bond Fund Common Stock	100,000,000
International Bond Fund Common Stock	100,000,000
International Equity Focus Fund Common Stock	100,000,000
Natural Resources Focus Fund Common Stock	100,000,000
Prime Bond Fund Common Stock	100,000,000
Quality Equity Fund Common Stock	100,000,000
Reserve Assets Fund Common Stock	500,000,000
World Income Focus Fund Common Stock	100,000,000

Sixth: All of the additional shares shall have a par value of \$0.10 per share. After this increase in the number of authorized shares of capital stock of the Corporation and classification of those shares as Developing Capital Markets Focus Fund Common Stock, International Bond Fund Common Stock and Intermediate Government Bond Fund Common Stock, the aggregate par value of all the shares of all classes of the Corporation's capital stock will be Two

Hundred Thirty Million Dollars (\$230,000,000).

Seventh: No other change is intended or effected.

In Witness Whereof, the Corporation has caused these Articles Supplementary to be executed in its name and on its behalf by its Vice President and attested by its Secretary as of the ____ day of March, 1994.

Attest: MERRILL LYNCH VARIABLE SERIES
FUND, INC.

Secretary By: _____
Vice President

2

The undersigned, Vice President of Merrill Lynch Variable Series Fund, Inc., who executed on behalf of said Corporation the foregoing Articles Supplementary, of which this certificate is made a part, hereby acknowledges, in the name and on behalf of said Corporation, the foregoing Articles Supplementary to be the corporate act of said Corporation and further certifies that, to the best of his knowledge, information and belief, the matters and facts set forth therein with respect to the approval thereof are true in all material respects, under the penalties of perjury.

Vice President

3

EXHIBIT 99.5(g)

Exhibit 99.5(g)

INVESTMENT ADVISORY AGREEMENT

AGREEMENT made this ____ day of April, 1994 between Merrill Lynch Variable Series Funds, Inc., a Maryland corporation (the "Company"), and Merrill Lynch Asset Management, Inc., a Delaware corporation (the "Advisor");

W I T N E S S E T H:

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

WHEREAS, the Company is currently comprised of seventeen separate Funds, each of which pursues its investment objective through separate investment policies; and

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

WHEREAS, the Adviser is currently serving as the Investment Adviser to the Company's Reserve Assets Fund pursuant to an Investment Advisory Agreement dated November 10, 1981 as amended on April 23, 1985; to the Company's Prime Bond Fund, High Current Income Fund, Quality Equity Fund and Equity Growth Fund pursuant to an Investment Advisory Agreement dated April 21, 1982 as amended on April 23, 1985; to the Company's Flexible Strategy Fund pursuant to an Investment Advisory Agreement dated April 16, 1986; to the Company's Natural Resources Focus Fund and American Balanced Fund pursuant to an Investment Advisory Agreement dated April 1988; to

the Company's Domestic Money Market Fund and Global Strategy Focus Fund pursuant to an Investment Advisory Agreement dated October 16, 1991; and to the Company's Basic Value Focus Fund, World Income Focus Fund, Global Utility Focus Fund and International Equity Focus Fund pursuant to an Investment Advisory Agreement dated June 1993; and

WHEREAS, the Company desires to retain the Adviser to

render investment supervisory and corporate administrative services to the Company's Developing Capital Markets Focus Fund, International Bond Fund and Intermediate Government Bond Fund (the "Funds" and individually a "Fund"), in the manner and on the terms hereinafter set forth.

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

ARTICLE 1.
Duties of the Adviser.

The Company hereby employs the Adviser to act as the investment adviser to and manager of the Funds and to manage the investment and reinvestment of the assets of the Funds, and to administer their respective affairs, subject to the supervision of the Board of Directors of the Company, for the period and on the terms and conditions set forth in this Agreement. The Adviser hereby accepts such employment and agrees during such period, at its own expense, to render the services and to assume the obligations herein set forth for the compensation provided for

2

herein. The Adviser shall for all purposes herein be deemed to be an independent contractor and shall, unless otherwise expressly provided or authorized, have no authority to act for or represent the Company in any way or otherwise be deemed an agent of the Company.

(a) Investment Advisory Services. In acting as investment adviser to the Funds, the Adviser shall regularly provide the Funds with such investment research, advice and supervision as the latter may from time to time consider necessary for the proper supervision of the Funds and shall furnish continuously an investment program and shall determine from time to time what securities shall be purchased, sold or exchanged and what portion of the assets of each Fund's portfolio shall be held in the various securities in which it may invest, subject always to the restrictions of the Company's Articles of Incorporation and By-Laws, as amended from time to time, the provisions of the Investment Company Act of 1940 (the "Act") and the statements relating to each Fund's investment objectives, investment policies and investment restrictions set forth in the currently effective prospectus of the Company relating to such Fund under the Securities Act of 1933 (the "Prospectus"). Should the Board of Directors of the Company at any time, however, make any definitive determination as to the investment policy of a Fund and notify the Adviser thereof, the Adviser shall be bound by such determination for the period, if any, specified in such notice or until similarly

notified that such determination has been revoked. The Adviser shall take, on behalf of the Company, all actions which it deems

3

necessary to implement the investment policies determined as provided above, and in particular to place all orders for the purchase or sale of portfolio securities for each Fund with brokers or dealers selected by it. In connection with the selection of such brokers or dealers and the placing of such orders, the Adviser is directed at all times to seek to obtain for each Fund the most favorable net results for such Fund as determined by the Board of Directors and set forth in the Prospectus. Subject to this requirement and the provisions of the Investment Company Act, the Securities Exchange Act of 1934, and other applicable provisions of law, nothing shall prohibit the Adviser from selecting brokers or dealers with which it or the Company is affiliated.

(b) Administrative Services. In addition to the performance of investment advisory services, the Adviser shall perform, or supervise the performance of, administrative services in connection with the management of the Company insofar as such services relate to and are required by the Funds. In this connection, the Adviser agrees to (i) assist in supervising all aspects of the Company's operations relating to the Funds, including the coordination of all matters relating to the functions of the custodian, transfer agent, other shareholder service agents, accountants, attorneys and other parties performing services or operational functions for the Company relating to the Funds, (ii) provide the Company, at the Adviser's expense, with services of persons competent to perform such administrative and clerical functions as are necessary in order to provide effective administration of the Company to the extent required by the Funds,

4

including duties in connection with shareholder relations, reports, redemption requests and account adjustments and the maintenance of certain books and records of the Company insofar as they relate to the Fund, and (iii) provide the Company, at the Adviser's expense, with adequate office space and related services necessary for its operations as contemplated in the Agreement.

ARTICLE 2.

Allocation of Charges and Expenses.

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

directors of the Company who are affiliated persons of Merrill Lynch & Co., Inc. or its subsidiaries.

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

5

brokerage costs, litigation and other extraordinary or nonrecurring expenses, and other expenses properly payable by the Company.

ARTICLE 3.

Compensation of the Adviser.

(a) Investment Advisory Fee. For the services rendered, the facilities furnished and expenses assumed by the Adviser, the Company shall pay to the Adviser at the end of each calendar month a fee of ___% of the average daily net assets of the Developing Capital Markets Focus Fund, ___% of the average daily net assets of the International Bond Fund and ___% of the average daily net assets of the Intermediate Government Bond Fund, as determined and computed in accordance with the description of the method of determination of net asset value contained in the Prospectus.

(b) Expense Limitations. In the event the operating expenses of any Fund, including the investment advisory fee applicable to such Fund payable to the Adviser pursuant to subsection (a) hereof, for any fiscal year ending on a date on which this Agreement is in effect, exceeds the expense limitations under state securities laws or published regulations thereunder, as such limitations may be raised or lowered from time to time, the Adviser shall reduce its investment advisory fee by the extent of such excess and, if required under any such laws or regulations, will reimburse such Fund in the amount of such excess; provided, however, to the extent permitted under law, there shall be excluded from such expenses the amount of any interest, taxes, brokerage commissions and extraordinary expenses (including but not limited

6

to legal claims and liabilities and litigation costs and any indemnification related thereto) paid or payable by the Company and

allocated to such Fund. Whenever the expenses of any Fund exceed a pro rata portion of the applicable annual expense limitations, the estimated amounts of reimbursement under such limitations shall be applicable as an offset against the monthly payment of the advisory fee due to the Adviser.

ARTICLE 4.

Limitation of Liability of the Adviser.

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

ARTICLE 5.

Activities of the Adviser.

The services of the Adviser under this Agreement are not to be deemed exclusive, and the Adviser shall be free to render similar services to others so long as its services hereunder are

7

not impaired thereby. It is understood that directors, officers, employees and shareholders of the Company are or may become interested in the Adviser, as directors, officers, employees or shareholders or otherwise and that directors, officers, employees or shareholders of the Adviser are or may become similarly interested in the Company, and that the Adviser is or may become interested in the Company as shareholder or otherwise.

ARTICLE 6.

Duration and Termination of this Agreement.

This Agreement shall become effective as of the effective date of the Company's Post Effective Amendment No. 21 to its Registration Statement, and shall remain in force until May 1, 1996 and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Board of Directors of the Company, or by the vote of a majority of the outstanding shares of the Funds, including a majority of the outstanding shares of each Fund, and (ii) a majority of those directors who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for

the purposes of voting on such approval.

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

8

ARTICLE 7.
Definitions.

The terms "assignment", "affiliated person" and "interested person", when used in this Agreement, shall have the respective meanings specified in the Act. As used with respect to the Company or a Fund, the term "majority of the outstanding shares" means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares.

ARTICLE 8.
Amendments of this Agreement.

This Agreement may be amended by the parties only if such amendment is specifically approved by (i) the vote of the majority of outstanding shares of each of the Funds affected by such amendment, and (ii) a majority of those directors of the Company who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

ARTICLE 9.
Governing Law.

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

9

with the applicable provisions of the Investment Company Act, the latter shall control.

MERRILL LYNCH VARIABLE SERIES
FUNDS, INC.

ATTEST:

By: _____
President

Secretary

MERRILL LYNCH ASSET MANAGEMENT,
INC.

ATTEST:

By: _____
President

Secretary

10

INDEPENDENT AUDITORS' CONSENT

MERRILL LYNCH VARIABLE SERIES FUNDS, INC.:

We consent to the use in Post-Effective Amendment No. 21 to Registration Statement No. 2-74452 of our report dated February 18, 1994, appearing in the Statement of Additional Information, which is a part of such Registration Statement, and to the reference to us under the caption 'Financial Highlights' appearing in the Prospectus, which also is a part of such Registration Statement.

Deloitte & Touche
Princeton, New Jersey
March 14, 1994