

SECURITIES AND EXCHANGE COMMISSION

FORM N-1A EL/A

Registration statements of open end management investment companies [amend]

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FILER

**MERRILL LYNCH ASSET INCOME FUND INC**

CIK: **923269** | State of Incorpor.: **MD** | Fiscal Year End: **1231**  
Type: **N-1A EL/A** | Act: **33** | File No.: **033-53997** | Film No.: **94546090**

Mailing Address	Business Address
<i>P.O. BOX 9011</i>	<i>P.O. BOX 9011</i>
<i>C/O MERRILL LYNCH ASSET</i>	<i>C/O MERRILL LYNCH ASSET</i>
<i>MANAGEMENT</i>	<i>MANAGEMENT</i>
<i>PRINCETON NJ 08543-9011</i>	<i>PRINCETON NJ 08543-9011</i>
	<i>6092822467</i>



## MERRILL LYNCH ASSET INCOME FUND, INC.

## REGISTRATION STATEMENT ON FORM N-1A

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CROSS REFERENCE SHEET

<TABLE> <CAPTION> N-1A ITEM NO. -----	LOCATION -----	
<C>	<S>	
<b>PART A</b>		
Item 1.	Cover Page.....	Cover Page
Item 2.	Synopsis.....	Fee Table
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Item 4.	General Description of Registrant.....	Investment Objectives and Policies; Additional Information
Item 5.	Management of the Fund.....	Fee Table; Management of the Fund; Inside Back Cover Page
Item 5A...	Management's Discussion of Fund Performance.....	Not Applicable
Item 6.	Capital Stock and Other Securities....	Cover Page; Additional Information
Item 7.	Purchase of Securities Being Offered.....	Cover Page; Shareholder Services; Purchase of Shares;
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Item 9.	Pending Legal Proceedings.....	Not Applicable
<b>PART B</b>		
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Item 14.	Management of the Fund.....	Management of the Fund
Item 15.	Control Persons and Principal Holders of Securities.....	Management of the Fund
Item 16.	Investment Advisory and Other Services.....	Management of the Fund; Purchase of Shares; General Information
Item 17.	Brokerage Allocation and Other Practices.....	Portfolio Transactions and Brokerage
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Item 20.	Tax Status.....	Dividends and Distributions; Taxes
Item 21.	Underwriters.....	Purchase of Shares
Item 22.	Calculation of Performance Data.....	Performance Data
Item 23.	Financial Statements.....	Statement of Assets and Liabilities
<b>PART C</b>		
Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.		

PROSPECTUS

ISSUED AUGUST 25, 1994

MERRILL LYNCH ASSET INCOME FUND, INC.

BOX 9011, PRINCETON, NEW JERSEY 08543-9011 - PHONE NO. (609) 282-2800  
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Merrill Lynch Asset Income Fund, Inc. (the "Fund") is a non-diversified mutual fund seeking a high level of current income consistent with prudent risk, through an investment policy utilizing United States and foreign debt, equity and money market securities, the combination of which will be varied from time

to time both with respect to types of securities and markets in response to changing market and economic trends. The Fund also seeks capital appreciation. Under normal conditions, at least 65%, and as much as all, of the Fund's total assets will be invested in debt securities, and no more than 25% of the Fund's total assets will be invested in foreign securities. There can be no assurance that the Fund's investment objectives will be achieved. The Fund may employ a variety of instruments and techniques to enhance income and to hedge against market and currency risk. Investments on an international basis involve certain risks and special considerations. See "Risk Factors and Special Considerations."

The Fund offers two classes of shares which may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares") or (ii) on a deferred basis (the "Class B shares"). The deferred charges to which the Class B shares are subject shall consist of a contingent deferred sales charge which may be imposed on redemptions made within four years of purchase and an ongoing account maintenance fee and distribution fee. These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Class B shares pay an ongoing account maintenance fee and an ongoing distribution fee at the annual rates of 0.25% and 0.50%, respectively, of the Fund's average daily net assets attributable to the Class B shares. Investors should understand that the purpose and function of the deferred sales charges with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Investors also should understand that over time the deferred charges related to Class B shares may exceed the initial sales charge and account maintenance fee with respect to Class A shares. See "Alternative Sales Arrangements."

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

(continued on page 2)

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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.

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This Prospectus is a concise statement of information about the Fund that is relevant to making an investment in the Fund. This Prospectus should be retained for future reference. A statement containing additional information about the Fund, dated August 25, 1994 (the "Statement of Additional Information"), has been filed with the Securities and Exchange Commission and is available, without charge, by calling or by writing the Fund at the above telephone number or address. The Statement of Additional Information is hereby incorporated by reference into this Prospectus.

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MERRILL LYNCH ASSET MANAGEMENT--MANAGER

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

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(continued from cover page)

and distribution fee and certain other costs resulting from the deferred sales charge arrangement, which will cause Class B shares to have a higher expense ratio and to pay lower dividends than Class A shares. The two classes also have different exchange privileges.

Merrill Lynch Funds Distributor, Inc. (the "Distributor"), Box 9011, Princeton, New Jersey 08543-9011 ((609) 282-2800), and other securities dealers which have entered into selected dealer agreements with the Distributor, including Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), will solicit subscriptions for shares of the Fund during a period expected to end on August 26, 1994, unless extended. On the fifth business day after the conclusion of the subscription period, the subscriptions will be payable, the shares will be issued and the Fund will commence operations. The public offering price of the shares during the subscription offering will be \$10.00 per share in the case of Class B shares and \$10.00 per share plus a sales charge of 4.00%, subject to reductions on purchases in single transactions of \$25,000 or more, in the case of Class A shares. After the completion of the initial subscription

offering, the Fund will engage in a continuous offering of its shares at a price equal to the next determined net asset value per share in the case of Class B shares and the next determined net asset value per share, plus a sales charge subject to reductions as noted above, in the case of Class A shares. Shareholders may redeem their shares at any time at the next determined net asset value. The Class B shares may be subject to a contingent deferred sales charge if redeemed within four years of purchase and are subject to ongoing account maintenance and distribution fees. The minimum initial purchase during the subscription and continuous offerings is \$1,000 and the minimum subsequent purchase in the continuous offering is \$50. Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's transfer agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares."

FEE TABLE

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

<TABLE>  
<CAPTION>

<S>	<C>	CLASS A SHARES	CLASS B SHARES
		INITIAL SALES CHARGE ALTERNATIVE	DEFERRED SALES CHARGE ALTERNATIVE
		-----	-----
SHAREHOLDER TRANSACTION EXPENSES:			
Maximum Sales Charge Imposed on Purchases (as a percentage of offering price).....		4.00% (a)	None
Sales Charge Imposed on Dividend Reinvestments.....		None	None
Deferred Sales Charge (as a percentage of original purchase price or redemption proceeds, whichever is lower).....		None (f)	4.0% during the first year, decreasing 1.0% annually to 0.0% after the fourth year (b)
Exchange Fee.....		None	None
ANNUAL FUND OPERATING EXPENSES (AS A PERCENTAGE OF AVERAGE NET ASSETS):			
Management Fees (c).....		0.75%	0.75%
Rule 12b-1 Fees.....		None	0.75% (d)
Custodial Fees.....	0.09%		0.09%
Shareholder Servicing Costs (e).....	0.22%		0.22%
Other.....	0.30%		0.30%
		----	----
Total Other Expenses.....		0.61%	0.61%
Total Fund Operating Expenses.....		1.36%	2.11%

</TABLE>

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- (a) Reduced for purchases of \$25,000 and over, decreasing to 0.50% for purchases of \$1,000,000 and over. Certain investors making purchases of \$1,000,000 and over may, however, pay a contingent deferred sales charge ranging from a high of 1.00% to a low of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.50% initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 26.
  - (b) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares"--page 28.
  - (c) See "Management of the Fund--Management and Advisory Arrangements"--page 22.
  - (d) See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares--Distribution Plan"--page 29. This amount represents the 0.25% account maintenance fee and the 0.50% distribution fee applicable to Class B shares of the Fund.
  - (e) See "Management of the Fund--Transfer Agency Services"--page 22.
  - (f) Certain investors making purchases of \$1,000,000 and over may, however, pay

a contingent deferred sales charge ranging from a high of 1.00% to a low of 0.25% of amounts redeemed within the first year after purchase in lieu of the 0.50% initial sales charge. See "Purchase of Shares--Initial Sales Charge Alternative--Class A Shares"--page 26.

"Management Fees," "12b-1 Fees" and "Other Expenses," as shown above, are based upon estimated amounts of expenses of the Fund expected to be incurred during its current fiscal period ending December 31, 1994.

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<TABLE>  
<CAPTION>

EXAMPLE.	CUMULATIVE EXPENSES PAID FOR THE PERIOD OF:			
	1 YEAR	3 YEARS	5 YEARS	10 YEARS
<S>	<C>	<C>	<C>	<C>
An investor would pay the following expenses on a \$1,000 investment including, for Class A shares, the maximum \$40 front-end sales charge and assuming (1) an operating expense ratio of 1.36% for Class A shares and 2.11% for Class B shares, (2) a 5% annual return throughout the periods and (3) redemption at the end of the period:				
Class A.....	\$ 53.29	\$ 81.35	\$111.49	\$ 196.97
Class B.....	\$ 61.40	\$ 86.09	\$113.39	\$ 244.14
An investor would pay the following expenses on the same \$1,000 investment assuming no redemption at the end of the period:				
Class A.....	\$ 53.29	\$ 81.35	\$111.49	\$ 196.97
Class B.....	\$ 21.40	\$ 66.09	\$113.39	\$ 244.14

</TABLE>

The foregoing Fee Table is intended to assist investors in understanding the costs and expenses that a shareholder in the Fund will bear directly or indirectly. The Example set forth above assumes reinvestment of all dividends and distributions and utilizes a 5% annual rate of return as mandated by Securities and Exchange Commission regulations. The example should not be considered a representation of past or future expenses or annual rates of return, and actual expenses or annual rates of return may be more or less than those assumed for purposes of the example. Class B shareholders who hold their shares for an extended period of time may pay more in Rule 12b-1 distribution fees than the economic equivalent of the maximum front-end sales charges permitted under the Rules of Fair Practice of the National Association of Securities Dealers, Inc. Merrill Lynch may charge its customers a processing fee (presently \$4.85) for confirming purchases and repurchases. Purchases and redemptions directly through the Fund's transfer agent are not subject to the processing fee. See "Purchase of Shares" and "Redemption of Shares."

#### ALTERNATIVE SALES ARRANGEMENTS

Shares of the Fund may be purchased at a price equal to the next determined net asset value per share, plus a sales charge which, at the election of the purchaser, may be imposed either (i) at the time of the purchase (the "initial sales charge alternative") or (ii) on a deferred basis (the "deferred sales charge alternative").

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

**Class B Shares.** An investor who elects the deferred sales charge alternative acquires Class B shares. Class B shares do not incur a sales charge when they are purchased, but they are subject to ongoing account

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maintenance and distribution fees of 0.25% and 0.50%, respectively, of the Fund's average net assets attributable to the Class B shares and a sales charge if they are redeemed within four years of purchase. Class B shares enjoy the benefit of permitting all of the investor's dollars to work from the time the

investment is made. The ongoing account maintenance and distribution fees paid by Class B shares will cause such shares to have a higher expense ratio and to pay lower dividends than Class A shares. Payment of the distribution fee is subject to certain limits as set forth under "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares."

As an illustration, investors who qualify for significantly reduced sales charges might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to ongoing account maintenance and distribution fees. However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially. Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time might also elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees may exceed the initial sales charge. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred sales charge alternative. However, there can be no assurance as to the return, if any, which will be realized on such additional funds. Certain other investors might determine it to be more advantageous to have all their funds invested initially, although remaining subject to continued account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge.

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

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

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

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THE ALTERNATIVE SALES ARRANGEMENTS PERMIT AN INVESTOR TO CHOOSE THE METHOD OF PURCHASING SHARES THAT IS MOST BENEFICIAL GIVEN THE AMOUNT OF THE PURCHASE, THE LENGTH OF TIME THE INVESTOR EXPECTS TO HOLD THE SHARES AND OTHER CIRCUMSTANCES. INVESTORS SHOULD DETERMINE WHETHER UNDER THEIR PARTICULAR CIRCUMSTANCES IT IS MORE ADVANTAGEOUS TO INCUR AN INITIAL SALES CHARGE AND NOT BE SUBJECT TO ONGOING ACCOUNT MAINTENANCE AND DISTRIBUTION FEES OR TO HAVE THE ENTIRE INITIAL PURCHASE PRICE INVESTED IN THE FUND WITH THE INVESTMENT THEREAFTER BEING SUBJECT TO ONGOING ACCOUNT MAINTENANCE AND DISTRIBUTION FEES. TO ASSIST INVESTORS IN MAKING THIS DETERMINATION, THE FEE TABLE ON PAGE 3 SETS FORTH THE CHARGES APPLICABLE TO EACH CLASS OF SHARES, AND A DISCUSSION OF FACTORS RELEVANT TO MAKING SUCH DETERMINATION IS SET FORTH UNDER "PURCHASE OF SHARES--ALTERNATIVE SALES ARRANGEMENTS" ON PAGE 26.

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RISK FACTORS AND SPECIAL CONSIDERATIONS

The Fund may invest in U.S. and foreign securities, although no more than 25% of the Fund's total assets will be invested in foreign securities. The foreign securities in which the Fund may invest are not limited to securities of issuers in developed countries or economies and may include securities of issuers in less developed or emerging market economies. Investments in securities of foreign entities and securities denominated in foreign currencies involve risks not typically involved in domestic investment, including fluctuations in foreign exchange rates, future foreign political and economic developments, and the possible imposition of exchange controls or other foreign or U.S. governmental laws or restrictions applicable to such investments. Since the Fund may invest in securities denominated or quoted in currencies other than the U.S. dollar, changes in foreign currency exchange rates may affect the value of investments in the portfolio and the unrealized appreciation or depreciation of investments insofar as U.S. investors are concerned. Changes in foreign currency exchange rates relative to the U.S. dollar will affect the U.S. dollar value of the Fund's assets denominated in those currencies and the Fund's yield on such assets. Foreign currency exchange rates are determined by forces of supply and demand on the foreign exchange markets. These forces are, in turn, affected by the international balance of payments and other economic and financial conditions, government intervention, speculation, and other factors. Moreover, individual foreign economies may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross national product, rate of inflation, capital reinvestment, resources, self-sufficiency and balance of payments position.

With respect to certain foreign countries, there is the possibility of expropriation of assets, confiscatory taxation, political or social instability or diplomatic developments which could affect investment in those countries. There may be less publicly available information about a foreign financial instrument than about a U.S. instrument, and foreign entities may not be subject to accounting, auditing and financial reporting standards and requirements comparable to those to which U.S. entities are subject. In addition, certain foreign investments may be subject to foreign withholding taxes. Foreign financial markets, while generally growing in volume, typically have substantially less volume than U.S. markets, and securities of many foreign companies are less liquid and their prices more volatile than securities of comparable domestic companies. Foreign markets also have different clearance and settlement procedures and in certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct such transactions. Delays in settlement could result in temporary periods when assets of the Fund are uninvested and no return is earned thereon. The inability of the Fund to make intended security purchases due to settlement problems could cause the Fund to miss attractive investment opportunities. Inability to dispose of portfolio securities due to settlement problems could result either in losses to the Fund due to subsequent declines in value of the portfolio security or, if the Fund has entered into a contract to sell the security, could result in possible liability to the purchaser. Costs associated with transactions in foreign securities are generally higher than with transactions in U.S. securities. There is generally less government supervision and regulation of exchanges, financial institutions and issuers in foreign countries than there is in the U.S.

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

The Fund may engage in various portfolio strategies to seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against movements in the securities markets and

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exchange rates between currencies by the use of derivatives, such as options, futures and options thereon. Utilization of options and futures transactions involves the risk of imperfect correlation in movements in the price of options and futures and movements in the price of the securities or currencies which are the subject of the hedge. There can be no assurance that a liquid secondary market for options and futures contracts will exist at any specific time. See "Investment Objectives and Policies--Portfolio Strategies Involving Options and Futures."

Certain indexed securities in which the Fund may invest, 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 values of such securities will generally be more volatile than the market values of fixed-rate securities. See "Investment Objectives and Policies-Other Investment Policies and Practices-Indexed and Inverse Securities."



The net asset value of the Fund's shares, to the extent the Fund invests in fixed income securities, will be affected by changes in the general level of interest rates. When interest rates decline, the value of a portfolio of fixed income securities can be expected to rise. Conversely, when interest rates rise, the value of a portfolio of fixed income securities can be expected to decline.

As a non-diversified investment company, the Fund may invest a larger percentage of its assets in individual issuers than a diversified investment company. In this regard, the Fund is not subject to the general limitation that it not invest more than 5% of its total assets in the securities of any one issuer. To the extent the Fund makes investments in excess of 5% of its assets in a particular issuer, its exposure to credit and market risks associated with that issuer is increased.

#### INVESTMENT OBJECTIVES AND POLICIES

The Fund is a non-diversified, open-end management investment company. The Fund's primary investment objective is to seek a high level of current income, consistent with prudent risk, through an investment policy utilizing United States and foreign debt, equity and money market securities the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends. A secondary investment objective is capital appreciation. These objectives are fundamental policies which the Fund may not change without a vote of a majority of the Fund's outstanding voting securities. There can be no assurance that the Fund's investment objectives will be achieved. Under normal conditions, at least 65%, and as much as all, of the Fund's total assets will be invested in debt securities, and no more than 25% of the Fund's total assets will be invested in foreign securities. The Fund may employ a variety of instruments and techniques to enhance income and to hedge against market and currency risk, as described under "Portfolio Strategies Involving Options and Futures" below.

The Fund will invest in a portfolio of U.S. and foreign debt, equity and money market securities. The composition of the portfolio among these securities and markets will be varied from time to time by the Fund's manager, Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the "Manager"), in response to changing market and economic trends. This investment approach provides the Fund with the opportunity to benefit from anticipated shifts in the relative performance of different types of securities and different capital markets. For example, at times the Fund may increase its emphasis on debt securities in anticipation of significant declines in interest rates and at other times the Fund's investments in equity securities may be increased, not to exceed 35% under normal market conditions, in anticipation of

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significant advances in stock markets. Similarly, the Fund may invest a larger portion of its assets, not to exceed 25%, in foreign markets when such markets are expected to outperform, in U.S. dollar terms, the U.S. markets. The Fund will seek to identify longer-term structural or cyclical changes in the various economies and markets of the world which are expected to benefit certain capital markets and certain securities in those markets to a greater extent than other investment opportunities.

In determining the allocation of assets among capital markets within the limits set forth above, the Manager will consider, among other factors, the relative valuation, condition and growth potential of the various economies, including current and anticipated changes in the rates of economic growth, rates of inflation, corporate profits, capital reinvestment, resources, self-sufficiency, balance of payments, governmental deficits or surpluses and other pertinent financial, social and political factors which may affect such markets. In allocating among debt, equity and money market securities within each market, the Manager also will consider the relative opportunity for capital appreciation of equity and debt securities, dividend yields, and the level of interest rates paid on debt securities of various maturities.

In selecting securities denominated in foreign currencies, the Manager will consider, among other factors, the effect of movement in currency exchange rates on the U.S. dollar value of such securities. An increase in the value of a currency will increase the total return to the Fund of securities denominated in such currency. Conversely, a decline in the value of the currency will reduce the total return. The Manager may seek to hedge all or a portion of the Fund's foreign securities through the use of forward foreign currency contracts,

currency options, futures contracts and options thereon. See "Portfolio Strategies Involving Options and Futures" below.

The Manager anticipates that it will invest that portion of the Fund's portfolio consisting of foreign securities primarily in the securities of corporate and governmental issuers domiciled or located in Canada, Western Europe and the Far East. However, the Fund reserves the right to invest substantially all of its assets in U.S. markets or U.S. dollar-denominated obligations when market conditions warrant.

Although up to 100% of the Fund's total assets may be invested in debt securities, the Manager anticipates that the Fund's portfolio generally will include both equity and debt securities.

#### DEBT SECURITIES

The debt securities in which the Fund may invest include securities issued or guaranteed by the U.S. Government and its agencies or instrumentalities, by foreign governments (including foreign states, provinces and municipalities) and agencies or instrumentalities thereof and debt obligations issued by U.S. and foreign corporations. Such securities may include mortgage-backed securities issued or guaranteed by governmental entities or by private issuers. In addition, the Fund may invest in debt securities issued or guaranteed by international organizations designed or supported by multiple governmental entities (which are not obligations of the U.S. Government or foreign governments) to promote economic reconstruction or development ("supranational entities") such as the International Bank for Reconstruction and Development (the "World Bank").

U.S. 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 U.S.; and (ii) obligations issued or guaranteed by U.S. Government agencies or instrumentalities, including government guaranteed mortgage-related securities, some of which are backed by the full faith and

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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 pass-through certificates. Prepayment rates are important because of their effect on the yield and price of the securities. Accelerated prepayments adversely impact yields for pass-through 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 pass-through securities purchased at a discount. The Fund may purchase mortgage-related 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 Manager. The Manager 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.

The Fund will invest the portion of its assets allocated to debt obligations in the securities of governmental issuers and in corporate debt securities, including convertible debt securities, rated A or better by Standard & Poor's Corporation ("S&P") or by Moody's Investors Service, Inc. ("Moody's") or which, in the Manager's judgment, possess similar credit characteristics. See the Statement of Additional Information for more information regarding ratings of debt securities. The Manager considers the ratings assigned by S&P and Moody's as one of several factors in its independent credit analysis of issuers. If a debt security in the Fund's portfolio is downgraded below investment grade, the Manager will consider factors such as price, credit risk, market conditions and interest rates and will sell such security only if, in the Manager's judgment, it is advantageous to do so.

The average maturity of the Fund's portfolio of debt securities will vary

based on the Manager's assessment of pertinent economic market conditions. As with all debt securities, changes in market yields will affect the value of such securities. Prices 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.

#### EQUITY SECURITIES

Within the portion, if any, of the Fund's portfolio allocated to equity securities, the Manager will seek to identify the securities of companies and industry sectors which are expected to provide high total return relative to alternative equity investments. The Fund generally will seek to invest in securities the Manager believes to be undervalued. Undervalued issues include securities selling at a discount from the price-to-book

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value ratios and price/earnings ratios computed with respect to the relevant stock market averages. The Fund may also consider as undervalued, securities selling at a discount from their historic price-to-book value or price/earnings ratios, even though these ratios may be above the ratios for the stock market averages. Securities offering dividend yields higher than the yields for the relevant stock market averages or higher than such securities' historic yield may also be considered to be undervalued. The Fund may also invest in the securities of small and emerging growth companies when such companies are expected to provide a higher total return than other equity investments. Such companies are characterized by rapid historical growth rates, above-average returns on equity or special investment value in terms of their products or services, research capabilities or other unique attributes. The Manager will seek to identify small and emerging growth companies that possess superior management, marketing ability, research and product development skills and sound balance sheets. Investment in the securities of small and emerging growth companies involves greater risk than investment in larger, more established companies. Such risks include the fact that securities of small 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. Also, these companies may have limited product lines, markets or financial resources, or they may be dependent on a limited management group.

There may be periods when market and economic conditions exist that favor certain types of tangible assets as compared to other types of investments. For example, the value of precious metals can be expected to benefit from such factors as rising inflationary pressures or other economic, political or financial uncertainty or instability. Real estate values, which are influenced by a variety of economic, financial and local factors, tend to be cyclical in nature. During periods when the Manager believes that conditions favor a particular real asset as compared to other investment opportunities, the Fund may emphasize, within the portion of its portfolio allocated to equity securities, investments related to that asset such as investments in precious or industrial metal-related securities or real estate-related securities as described below. The Fund may invest up to 25% of its total assets in any particular industry sector.

**Precious and Industrial Metal-Related Securities.** Precious and industrial metal-related securities are equity securities of companies that explore for, extract, process or deal in precious or industrial metals, i.e., gold, silver, platinum, iron, copper and aluminum, and asset-based securities indexed to the value of such metals. Based on historical 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 precious and industrial metal prices during such periods. In addition, the instability of precious and industrial metal prices may result in volatile earnings of precious and industrial metal-related companies which, in turn, may affect adversely the financial condition of such companies. Asset-based securities are debt securities, preferred stock or convertible securities, the principal amount, redemption terms or conversion terms of which are related to the market price of some precious or industrial metal such as gold bullion. The Fund will purchase only asset-based securities which are rated, or are issued by issuers that have outstanding debt obligations rated, A or better by S&P or Moody's or commercial paper rated A-1 by S&P or Prime-1 by Moody's or of issuers that the Manager 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 Manager may take such backing into account in determining the creditworthiness of the issuer.

**Real Estate-Related Securities.** The real estate-related securities which will be emphasized are equity securities of real estate investment trusts, which own income-producing properties, and mortgage real estate investment trusts which make various types of mortgage loans often combined with equity features. The

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securities of such trusts generally pay above average dividends and may offer the potential for capital appreciation. Such securities will be subject to the risks customarily associated with the real estate industry, including declines in the value of the real estate investments of the trusts. Real estate values are affected by numerous factors including (i) governmental regulation (such as zoning and environmental laws) and changes in tax laws; (ii) operating costs; (iii) the location and the attractiveness of the properties; (iv) changes in economic conditions (such as fluctuations in interest and inflation rates and business conditions); and (v) supply and demand for improved real estate. Such trusts also are dependent on management skill and may not be diversified in their investments.

#### MONEY MARKET SECURITIES

Money market securities in which the Fund may invest consist of short-term securities issued or guaranteed by the U.S. Government and its agencies and instrumentalities; commercial paper, including variable amount master demand notes, rated at least "A" by S&P or "Prime" by Moody's; and repurchase agreements, purchase and sale contracts, and money market instruments issued by commercial banks, domestic savings banks, and savings and loan associations with total assets of at least one billion dollars. The obligations of commercial banks may be issued by U.S. banks, foreign branches of U.S. banks ("Eurodollar" obligations) or U.S. branches of foreign banks ("Yankee dollar" obligations).

#### PORTFOLIO STRATEGIES INVOLVING OPTIONS AND FUTURES

The Fund may engage in various portfolio strategies to seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against adverse movements in the equity, debt and currency markets. The Fund has authority to write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and financial futures, and related options on such futures. The Fund may also deal in forward foreign exchange transactions and foreign currency options and futures, and related options on such futures. Each of these portfolio strategies is described below. Although certain risks are involved in options and futures transactions (as discussed below and in "Risk Factors in Options and Futures Transactions" further below), the Manager believes that, because the Fund will (i) write only covered options on portfolio securities and (ii) engage in other options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of its shares, the net asset value of the Fund's shares will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. Furthermore, the Fund will only engage in hedging activities from time to time and may not necessarily be engaging in hedging activities when movements in the equity, debt and currency markets occur. Reference is made to the Statement of Additional Information for further information concerning these strategies.

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

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

The Fund 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. The Fund writes only covered put options which means that so long as the Fund is obligated as the writer of the option it will, 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. The Fund may engage in closing transactions in order to terminate put options that it has written.

**Purchasing Options.** The Fund is authorized to purchase put options to hedge against a decline in the market value of its securities. By buying a put option the Fund has a right to sell the underlying security at the stated exercise price, thus limiting the Fund's risk of loss through a decline in the market value of the security until the put option expires. The amount of any appreciation in the value of the underlying security will be partially offset by the amount of the premium paid for the put option and any related transaction costs. Prior to its expiration, a put option may be sold in a closing sale transaction and profit or loss 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, the Fund may purchase call options on securities held in its portfolio on which it has written call options or on securities which it intends to purchase. The Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase, the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

**Stock Index Options and Futures and Financial Futures.** The Fund is authorized to engage in transactions in stock index options and futures and financial futures, and related options on such futures. The Fund may purchase or write put and call options on stock indices to hedge against the risks of market-wide stock price movements in the securities in which the Fund invests. Options on indices are similar to options on securities except that on exercise or assignment, the parties to the contract pay or receive an amount of cash equal to the difference between the closing value of the index and the exercise price of the option times a specified multiple. The Fund may invest in stock index options based on a broad market index, e.g., the S&P 500 Index, or on a narrow index representing an industry or market segment, e.g., the AMEX Oil & Gas Index.

The Fund may also purchase and sell stock index futures contracts and financial futures contracts ("futures contracts") as a hedge against adverse changes in the market value of its portfolio securities as described below. A futures contract is an agreement between two parties which obligates the purchaser of the

futures contract to buy and the seller of a futures contract to sell a security for a set price on a future date. Unlike most other futures contracts, a stock index futures contract does not require actual delivery of securities but results in cash settlement based upon the difference in value of the index between the time the contract was entered into and the time of its settlement. The Fund may effect transactions in stock index futures contracts in connection with the equity securities in which it invests and in financial futures contracts in connection with the debt securities in which it invests. Transactions by the Fund in stock index futures and financial futures are subject to limitations as described below under "Restrictions on the Use of Futures Transactions."

The Fund may sell futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the Fund's securities portfolio that might otherwise result. When the Fund is not fully invested in the securities markets and anticipates a significant advance, it may purchase futures in order to gain rapid market exposure that may in part or entirely offset increases in the cost of securities that the Fund intends to purchase. As such purchases are made, an equivalent amount of futures contracts will be terminated by offsetting sales. The Fund does not consider purchases of futures contracts to be a speculative practice under these circumstances. It is anticipated that, in a substantial majority of these transactions, the Fund will purchase such securities upon termination of the long futures position, whether the long position is the purchase of a futures contract or the purchase of a call option or the writing of a put option on a future, but under unusual circumstances (e.g., the Fund experiences a significant amount of redemptions), a long futures position may be terminated without the corresponding purchase of securities.

The Fund also has authority to purchase and write call and put options on futures contracts and stock indices in connection with its hedging activities. Generally, these strategies are utilized under the same market and market sector conditions (i.e., conditions relating to specific types of investments) in which the Fund enters into futures transactions. The Fund may purchase put options or write call options on futures contracts and stock indices rather than selling the underlying futures contract in anticipation of a decrease in the market

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

The Fund may engage in options and futures transactions on U.S. and foreign exchanges and in options in the over-the-counter markets ("OTC options"). 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 prices and terms negotiated by the buyer and seller. See "Restrictions on OTC Options" below for information as to restrictions on the use of OTC options.

Foreign Currency Hedging. The Fund has authority to deal in forward foreign exchange among currencies of the different countries in which it will invest and multinational currency units as a hedge against possible variations in the foreign exchange rates among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date and price set at the time of the contract. The Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the sale of forward foreign currency with respect to portfolio

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

The Fund is also authorized to purchase or sell listed or over-the-counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund. As an illustration, the Fund may use such techniques to hedge the stated value in U.S. dollars of an investment in a yen denominated security. In such circumstances, for example, the Fund may purchase a foreign currency put option enabling it to sell a specified amount of yen for dollars at a specified price by a future date. To the extent the hedge is successful, a loss in the value of the 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 Fund 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 a call option in this illustration, the Fund gives up the opportunity to profit without limit from increases in the relative value of the yen to the dollar. The Manager believes that "straddles" of the type which may be utilized by the Fund constitute hedging transactions and are consistent with the policies described above.

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

Restrictions on the Use of Futures Transactions. Regulations of the Commodity Futures Trading Commission ("CFTC") applicable to the Fund provide that the futures trading activities described herein will not result in the Fund being deemed a "commodity pool," as defined under such regulations if the Fund adheres to certain restrictions. In particular, the Fund may purchase and sell futures contracts and options thereon (i) for bona fide hedging purposes, and

(ii) for non-hedging purposes, if the aggregate initial margin and premiums required to establish positions in such contracts and options does not exceed 5% of the liquidation value of the Fund's portfolio, after taking into account unrealized profits and unrealized losses on any such contracts and options. These restrictions are in addition to other restrictions on the Fund's hedging activities mentioned herein.

When the Fund purchases a futures contract, or writes a put option or purchases a call option thereon, an amount of cash and cash equivalents will be deposited in a segregated account with the Fund's custodian so

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

Restrictions on OTC Options. The Fund will engage in OTC options, including over-the-counter stock index options, over-the-counter foreign currency options and options on foreign currency futures, only with member banks of the Federal Reserve System and primary dealers in U.S. Government securities or with affiliates of such banks or dealers which have capital of at least \$50 million or whose obligations are guaranteed by an entity having capital of at least \$50 million.

The staff of the Securities and Exchange Commission has taken the position that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. Therefore, the Fund has adopted an investment policy pursuant to which it will not purchase or sell OTC options (including OTC options on futures contracts) if, as a result of such transaction, the sum of the market value of OTC options currently outstanding which are held by the Fund, the market value of the underlying securities covered by OTC call options currently outstanding which were sold by the Fund and margin deposits on the Fund's existing OTC options on futures contracts exceeds 10% of the total assets of the Fund, taken at market value, together with all other assets of the Fund which are illiquid or are not otherwise readily marketable. However, if the OTC option is sold by the Fund to a primary U.S. Government securities dealer recognized by the Federal Reserve Bank of New York and if the Fund has the unconditional contractual right to repurchase such OTC option from the dealer at a predetermined price, then the Fund will treat as illiquid such amount of the underlying securities as is equal to the repurchase price less the amount by which the option is "in-the-money" (i.e., current market value of the underlying security minus the option's strike price). The repurchase price with the primary dealers is typically a formula price which is generally based on a multiple of the premium received for the option, plus the amount by which the option is "in-the-money." This policy as to OTC options is not a fundamental policy of the Fund and may be amended by the Directors of the Fund without the approval of the Fund's shareholders. However, the Fund will not change or modify this policy prior to the change or modification by the Securities and Exchange Commission staff of its position.

Risk Factors in Options and Futures Transactions. Utilization of derivatives, such as options and futures, to hedge the portfolio involves the risk of imperfect correlation in movements in the price of options and futures and movements in the price of the securities or currencies which are the subject of the hedge. If the price of the options or futures moves more or less than the price of the hedged securities or currencies, the Fund will experience a gain or loss which will not be completely offset by movements in the price of the subject of the hedge. The successful use of options and futures also depends on the Manager's ability to correctly predict price movements in the market involved in a particular options or futures transaction. To compensate for imperfect correlations, the Fund may purchase or sell stock index options or futures contracts in a greater dollar amount than the hedged securities if the volatility of the hedged securities is historically greater than the volatility of the stock index options or futures contracts. Conversely, the Fund may purchase or sell fewer stock index options or futures contracts if the volatility of the price of the hedged securities is historically less than that of the stock index options or futures contracts. The risk of imperfect correlation generally tends to diminish as the maturity date of the stock index option or futures contract approaches.

The Fund intends to enter into options and futures transactions, on an exchange or in the over-the-counter market, only if there appears to be a liquid secondary market for such options or futures or, in the case

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

The exchanges on which the Fund intends to conduct options transactions have generally established limitations governing the maximum number of call or put options on the same underlying security or currency (whether or not covered) which may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). "Trading limits" are imposed on the maximum number of contracts which any person may trade on a particular trading day. The Manager does not believe that these trading and position limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

The Fund presently does not intend to invest in other types of derivative transactions; however, in response to changes in market conditions or if other types of derivative instruments are developed in the future which the Manager believes are appropriate for the Fund, the Fund will notify investors of its intention to invest in these instruments.

#### OTHER INVESTMENT POLICIES AND PRACTICES

**Non-Diversified Status.** The Fund is classified as non-diversified within the meaning of the Investment Company Act, which means that the Fund is not limited by such Act in the proportion of its assets that it may invest in securities of a single issuer. However, the Fund's investments will be limited so as to qualify as a "regulated investment company" for purposes of the Internal Revenue Code of 1986, as amended (the "Code"). See "Additional Information--Taxes." To qualify, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer, and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. A fund which elects to be classified as "diversified" under the Investment Company Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the Fund assumes large positions in the securities of a small number of issuers, the Fund's yield may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers.

**Portfolio Transactions.** Since portfolio transactions may be effected on foreign securities exchanges, the Fund may incur settlement delays on certain of such exchanges. See "Risk Factors and Special Considerations" above. Where possible, the Fund will deal directly with the dealers who make a market in the securities involved except in those circumstances where better prices and execution are available elsewhere. Such dealers usually are acting as principal for their own account. On occasion, securities may be purchased directly from the issuer. Such portfolio securities are generally traded on a net basis and do not normally involve either brokerage commissions or transfer taxes. Securities firms may receive brokerage commissions on certain portfolio transactions, including options, futures and options on futures transactions and the purchase and sale

of underlying securities upon exercise of options. The Fund has no obligation to deal with any broker in the execution of transactions in portfolio securities. Under the Investment Company Act, persons affiliated with the Fund, including Merrill Lynch, are prohibited from dealing with the Fund as a principal in the purchase and sale of securities unless a permissive order allowing such transactions is obtained from the Securities and Exchange Commission. Affiliated persons of the Fund, and affiliated persons of such affiliated persons, may serve as its broker in transactions conducted on an exchange and in over-the-counter transactions conducted on an agency basis. In addition, consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc., the Fund may consider sales of shares of the Fund as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund. It is expected that the majority of the shares of the Fund will be sold by Merrill Lynch. Costs associated with transactions in foreign securities are generally higher than with transactions in U.S. securities, although the Fund will endeavor to achieve the best net results in effecting such transactions.



When-Issued Securities and Delayed Delivery Transactions. The Fund may purchase securities on a when-issued basis, and it may purchase or sell securities for delayed delivery. These transactions occur when securities are purchased or sold by the 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. Purchasing a security on a when-issued or delayed basis can involve a risk that the market price at the time of delivery may be lower than the agreed upon purchase price, in which case there could be an unrealized loss at the time of delivery. Although the Fund has not established any limit on the percentage of its assets that may be committed in connection with such transactions, the Fund will maintain a segregated account with its custodian of 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 in an aggregate amount equal to the amount of its commitment in connection with such purchase transactions.

Indexed and Inverse Securities. The Fund may invest in securities whose potential investment return is based on the change in particular measurements of value or rate (an "index"). As an illustration, the Fund may invest in a security that pays interest and returns principal based on the change in an index of interest rates or of 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, the Fund may invest in securities whose potential investment return is inversely based on the change in particular indices. For example, the 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 the 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.

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 values of such securities will generally be more volatile than the market values of fixed-rate securities. The Fund believes that indexed securities, including inverse securities, represent flexible portfolio management instruments that may allow the Fund to seek potential investment rewards, hedge other portfolio positions, or vary the degree of portfolio leverage relatively efficiently under different market conditions.

Standby Commitment Agreements. The Fund may from time to time enter into standby commitment agreements. Such agreements commit the 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. The 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. The Fund will not enter into a standby commitment with a remaining term in excess of 90 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. The Fund will at all times maintain a segregated account with its custodian of 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 in an aggregate 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, the 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 the Fund's net asset value. 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.

Repurchase Agreements and Purchase and Sale Contracts. The Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements may be entered into only with a member bank of the Federal Reserve System or a primary dealer in U.S. Government securities or an affiliate thereof. Purchase and sale contracts may be entered into only with financial institutions which have capital of at least \$50 million or whose obligations are guaranteed by an entity having capital of at least \$50 million. Under such agreements, the other party agrees, upon entering into the contract with the Fund, to repurchase the security at a mutually agreed upon time and price in a specified currency, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period although it may be affected by currency fluctuations. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect the accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, often under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, as a purchaser, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but constitute only collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs of

possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate of return, the rate of return to the Fund would depend on intervening fluctuations of the market values of such securities and the accrued interest on the securities. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest more than 10% of its net assets in repurchase agreements or purchase and sale contracts maturing in more than seven days. While the substance of purchase and sale contracts is similar to repurchase agreements, because of the different treatment with respect to accrued interest and additional collateral, management believes that purchase and sale contracts are not repurchase agreements as such term is understood in the banking and brokerage community.

Lending of Portfolio Securities. The Fund may from time to time lend securities from its portfolio with a value not exceeding 33 1/3 of its total assets, to banks, brokers and other financial institutions and receive collateral in cash or securities issued or guaranteed by the U.S. Government. Such collateral will be maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. This limitation is a fundamental policy, and it may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities, as defined in the Investment Company Act. During the period of such a loan, the Fund receives the income on the loaned securities and either receives the income on the collateral or other compensation, i.e., negotiated loan premium or fee, for entering into the loan and thereby increases its yield. In the event that the borrower defaults on its obligation to return borrowed securities, because of insolvency or otherwise, the Fund could experience delays and costs in gaining access to the collateral and could suffer a loss to the extent that the value of the collateral falls below the market value of the borrowed securities.

Investment Restrictions. The Fund's investment activities are subject to further restrictions that are described in the Statement of Additional Information. Investment restrictions and policies which are fundamental policies may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the Investment Company Act means the lesser of (a) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (b) more than 50% of the outstanding shares). Among its fundamental policies,

the Fund may not invest more than 25% of its total assets, taken at market value at the time of each investment, in the securities of issuers of any particular industry (excluding the U.S. Government and its agencies or instrumentalities). Other fundamental policies include policies which (i) limit investments in securities which cannot be readily resold because of legal or contractual restrictions or which are not otherwise readily marketable, including repurchase agreements and purchase and sale contracts maturing in more than seven days, if, regarding all such securities, more than 15% of its net assets, taken at market value, would be invested in such securities, (ii) limit investments in securities of other investment companies, except in connection with certain specified transactions and with respect to investments of up to 5% of the Fund's assets in the securities of any one investment company and up to an aggregate of 10% of the Fund's assets in securities of investment companies and (iii) restrict the issuance of senior securities and limit bank borrowings except that the Fund may borrow amounts of up to 33 1/3% of its assets for extraordinary purposes or to meet redemptions. The Fund will not purchase securities while borrowings exceed 5% of its total assets. The Fund has no present intention to borrow money in amounts exceeding 5% of its total assets. Although not a fundamental policy, the Fund will include OTC options and the securities underlying such options in calculating the amount of its total

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assets subject to the limitation set forth in clause (i) above. However, as discussed above, the Fund may treat the securities it uses as cover for written OTC options as liquid, and, therefore, will be excluded from this restriction, provided it follows a specified procedure. The Fund will not change or modify this policy prior to the change or modification by the staff of the Securities and Exchange Commission of its position regarding OTC options, as discussed above.

Portfolio Turnover. The Manager will effect portfolio transactions without regard to holding period, if in its judgment, such transactions are advisable in light of a change in circumstances in general market, economic or financial conditions. As a result of its investment policies, the Fund may engage in a substantial number of portfolio transactions. Accordingly, while the Fund anticipates that its annual portfolio turnover rate should not exceed 200% under normal conditions, it is impossible to predict portfolio turnover rates. The portfolio turnover rate is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of securities whose maturities at the time of acquisition were one year or less) by the monthly average value of the securities in the portfolio during the year. High portfolio turnover involves correspondingly greater transaction costs in the form of dealer spreads and brokerage commissions, which are borne directly by the Fund. In addition, high portfolio turnover can be expected to result in the recognition of capital gains and losses. To the extent the Fund distributes short-term capital gains, such distributions will be taxable as dividends. The Fund's ability to enter into certain short-term transactions will be limited by the requirement that gains on certain securities held by the Fund for less than three months may not exceed 30% of its annual gross income for Federal income tax purposes.

#### MANAGEMENT OF THE FUND

##### BOARD OF DIRECTORS

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

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

ARTHUR ZEIKEL\*--President and Chief Investment Officer of the Manager and Fund Asset Management, L.P.; 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.

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

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

#### MANAGEMENT AND ADVISORY ARRANGEMENTS

The Manager, Merrill Lynch Asset Management, L.P., which does business as Merrill Lynch Asset Management, is owned and controlled by Merrill Lynch & Co., Inc., a financial services holding company and the parent of Merrill Lynch. The Manager provides the Fund with management and investment advisory services. The Manager or an affiliate, Fund Asset Management, L.P. ("FAM"), acts as the manager for more than 90 other registered investment companies. The Manager also offers portfolio management and portfolio analysis services to individuals and institutions. As of June 30, 1994, the Manager and FAM had a total of approximately \$161.4 billion in investment company and other portfolio assets under management, including accounts of certain affiliates of the Manager.

The management agreement with the Manager (the "Management Agreement") provides that, subject to the direction of the Board of Directors of the Fund, the Manager is responsible for the actual management of the Fund's portfolio. The responsibility for making decisions to buy, sell or hold a particular security rests with the Manager, subject to review by the Board of Directors.

The Manager provides the portfolio manager for the Fund who considers analyses from various sources (including brokerage firms with which the Fund does business), makes the necessary decisions, and places transactions accordingly. The Manager is also obligated to perform certain administrative and management services for the Fund and is obligated to provide all of the office space, facilities, equipment and personnel necessary to perform its duties under the Management Agreement. Joel Heymsfeld, who has been a Vice President of the Manager since 1978, is primarily responsible for the day-to-day management of the Fund's portfolio.

The Management Agreement provides that the Fund will pay the Manager a monthly fee at the annual rate of 0.75% of the average daily net assets of the Fund. This fee is higher than that of most mutual funds, but management of the Fund believes this fee, which is typical for a global fund, is justified by the global nature of the Fund.

The Management Agreement obligates the Fund to pay certain expenses incurred in its operations including, among other things, the investment advisory fee, legal and audit fees, registration fees, unaffiliated Directors' fees and expenses, custodian and transfer agency fees, accounting costs, the costs of issuing and redeeming shares and certain of the costs of printing proxies, shareholder reports, prospectuses and statements of additional information. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services on a semi-annual basis.

#### TRANSFER AGENCY SERVICES

Financial Data Services, Inc. (the "Transfer Agent"), which is a wholly owned subsidiary of Merrill Lynch & Co., Inc., acts as the Fund's transfer agent pursuant to a Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement (the "Transfer Agency Agreement"). Pursuant to the Transfer Agency Agreement, the Transfer Agent is responsible for the issuance, transfer and redemption of shares and the opening and maintenance of shareholder accounts. Pursuant to the Transfer Agency Agreement, the Transfer Agent receives an annual fee of \$10.00 per Class A shareholder account and \$12.00

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per Class B shareholder account, nominal miscellaneous fees (e.g., account closing fees) and is entitled to reimbursement for out-of-pocket expenses incurred by it under the Transfer Agency Agreement.

#### PURCHASE OF SHARES

#### SUBSCRIPTION OFFERING

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

The Distributor, Merrill Lynch and other securities dealers which have entered into selected dealer agreements with the Distributor will solicit subscriptions for shares of the Fund during a period expected to end on August 26, 1994. The subscription period may be extended for up to an additional 30 days upon agreement between the Fund and the Distributor. On the fifth business day after the conclusion of the subscription period, the subscriptions will be payable, the Class A and Class B shares will be issued and the Fund will commence operations. The subscription offering may be terminated by the Fund or the Distributor at any time, in which event no Class A or Class B shares will be issued (and, therefore, the Fund will not commence operations and no amounts will be payable by subscribers, and no sales charges will be assessed) or a limited number of shares will be issued.

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

SUBSCRIPTION PERIOD

<TABLE>

<CAPTION>

AMOUNT OF PURCHASE	SALES CHARGE		SECURITIES DEALERS' CONCESSION		
	PUBLIC OFFERING PRICE	DOLLAR AMOUNT	PERCENTAGE* OF PUBLIC OFFERING PRICE	DOLLAR AMOUNT	PERCENTAGE* OF PUBLIC OFFERING PRICE
<S>	<C>	<C>	<C>	<C>	<C>
Less than \$25,000.....	\$ 10.417	\$.417	4.00%	\$.417	4.00%
\$25,000 but less than 50,000.....	10.390	.390	3.75	.390	3.75
\$50,000 but less than \$100,000.....	10.336	.336	3.25	.336	3.25
\$100,000 but less than \$250,000.....	10.256	.256	2.50	.256	2.50
\$250,000 but less than \$1,000,000.....	10.152	.152	1.50	.152	1.50
\$1,000,000 and over.....	10.050	.050	0.50	.050	0.50

</TABLE>

\* Rounded to the nearest one-hundredth percent.

Initial sales charges will be waived for shareholders purchasing \$1 million or more in a single transaction (other than an employer sponsored retirement or savings plan, such as a tax qualified retirement plan under Section 401 of the Code, a deferred compensation plan under Section 403(b) and Section 457 of the Code, other deferred compensation arrangements, VEBA plans and nonqualified After Tax Savings and Investment Programs maintained on the Merrill Lynch Group Employee Services system, herein referred to as "Employer Sponsored Retirement or Savings Plans"), or a purchase by TMA(SM) Managed Trust, of Class A shares of the

Fund. Such purchases will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates:

<TABLE>

<CAPTION>

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

</TABLE>

The Distributor may reallocate discounts to selected dealers and retain the balance over such discounts. At times the Distributor may reallocate the entire sales charge to such dealers. Since securities dealers selling Class A shares of the Fund will receive a concession equal to most of the sales charge, they may

be deemed to be underwriters under the Securities Act.

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

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

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

#### CONTINUOUS OFFERING

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

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

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

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

The boards of directors or trustees of each of the mutual funds advised by the Manager or FAM and presently offering two classes of shares, including the Fund, considered and approved in August 1994 whether to approve a new distribution system for shares of the funds, which will be named the Merrill Lynch Select Pricing System(SM). Under the Select Pricing System, eligible investors would be permitted to choose from different sales charge alternatives

offered through four classes of shares. It is currently anticipated that, subject to, in the case of some funds, the approval of shareholders of the funds, the Select Pricing System will be implemented for all of such mutual funds, including the Fund.

ALTERNATIVE SALES ARRANGEMENTS

The alternative sales arrangements of the Fund permit investors to choose the method of purchasing shares that is most beneficial given the amount of their purchase, the length of time the investor expects to hold the shares and other relevant circumstances. Investors should determine whether under their particular circumstances it is more advantageous to incur an initial sales charge and not be subject to ongoing charges, as discussed below, or to have the entire initial purchase price invested in the Fund with the investment thereafter being subject to ongoing account maintenance and distribution fees.

As an illustration, investors who qualify for significantly reduced sales charges, as described below, might elect the initial sales charge alternative because similar sales charge reductions are not available for purchases under the deferred sales charge alternative. Moreover, shares acquired under the initial sales charge alternative would not be subject to an ongoing account maintenance fee and a distribution fee, as described below.

However, because initial sales charges are deducted at the time of purchase, such investors would not have all their funds invested initially.

Investors not qualifying for reduced initial sales charges who expect to maintain their investment for an extended period of time might also elect the initial sales charge alternative because over time the accumulated continuing account maintenance and distribution fees related to Class B shares may exceed the initial sales charge related to Class A shares. Again, however, such investors must weigh this consideration against the fact that not all their funds will be invested initially. Furthermore, the ongoing account maintenance and distribution fees will be offset to the extent any return is realized on the additional funds initially invested under the deferred sales charge alternative. Another factor that may be applicable under certain circumstances is that the payment of the Class B distribution fee and contingent deferred sales charge is subject to certain limits as set forth below under "Deferred Sales Charge Alternative--Class B Shares."

Certain other investors might determine it to be more advantageous to have all their funds invested initially, although subject to continuing account maintenance and distribution fees and, for a four-year period of time, a contingent deferred sales charge as described below. For example, an investor subject to the 4.00% initial sales charge will have to hold his investment at least 6 1/2 years for the ongoing 0.25% account maintenance fee and 0.50% distribution fee of Class B shares to exceed the initial sales charge plus the accumulated account maintenance fee of Class A shares. This example does not take into account the time value of money which further reduces the impact of the ongoing 0.25% account maintenance fee and 0.50% distribution fee of Class B shares on the investment, fluctuations in net asset value, the effect of the return on the investment over this period of time or the effect of any limits that may be imposed upon the payment of the distribution fee and the contingent deferred sales charge.

INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

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

<TABLE>  
<CAPTION>

AMOUNT OF PURCHASE	SALES CHARGE		
	SALES CHARGE AS PERCENTAGE OF THE OFFERING PRICE	AS PERCENTAGE* OF THE NET AMOUNT INVESTED	DISCOUNT TO SELECTED DEALERS AS PERCENTAGE OF THE OFFERING PRICE
<S>	<C>	<C>	<C>
Less than \$25,000.....	4.00%	4.17%	3.75%
\$25,000 but less than \$50,000.....	3.75	3.90	3.50
\$50,000 but less than \$100,000.....	3.25	3.36	3.00
\$100,000 but less than \$250,000.....	2.50	2.56	2.25
\$250,000 but less than \$1,000,000.....	1.50	1.52	1.25
\$1,000,000 and over.....	.50	.50	.40

</TABLE>

\* Rounded to the nearest one-hundredth percent.

Initial sales charges may be waived for shareholders purchasing \$1 million or more in a single transaction (other than an employer sponsored retirement or savings plan, such as a tax qualified retirement plan under Section 401 of the Code, a deferred compensation plan under Section 403(b) and Section 457 of the Code, other deferred compensation arrangements, VEBA plans and non-qualified After Tax Savings and Investment programs maintained on the Merrill Lynch Group Employee Services system, herein referred to as

"Employer Sponsored Retirement or Savings Plans"), or a purchase by a TMA(SM) Managed Trust, of Class A shares of the Fund. In addition, purchases of Class A shares of the Fund made in connection with a single investment of \$1 million or more under the Merrill Lynch Mutual Fund Adviser Program will not be subject to an initial sales charge. Purchases described in this paragraph will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates.

<TABLE>  
<CAPTION>

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

</TABLE>

The Distributor may reallocate discounts to select dealers and retain the balance over such discounts. At times the Distributor may reallocate the entire sales charge to such dealers. Since securities dealers selling Class A shares of the Fund will receive a concession equal to most of the sales charge, they may be deemed to be underwriters under the Securities Act.

REDUCED INITIAL SALES CHARGES

Sales charges are reduced under a Right of Accumulation and a Letter of Intention. Class A shares of the Fund are offered at net asset value to Directors of the Fund, to directors of Merrill Lynch & Co., Inc., to participants in certain benefit plans, to directors and trustees of certain other Merrill Lynch sponsored investment companies, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase if certain conditions set forth in the Statement of Additional Information are met, to directors of Merrill Lynch & Co., Inc. and to employees of Merrill Lynch & Co., Inc. and its subsidiaries. Class A shares are offered at net asset value to certain retirement plans, including eligible 401(k) plans, provided such plans meet the required minimum number of eligible employees or required amount of assets advised by the Manager or its affiliate, FAM. Also, Class A shares may be offered at net asset value in connection with the acquisition of assets of other investment companies. No initial sales charges are imposed upon Class A shares issued as a result of the automatic reinvestment of dividends or capital gains distributions. Class A shares of the Fund are also offered at net asset value, without sales charge, to an investor who has a business relationship with a Merrill Lynch financial consultant and who has invested in a mutual Fund sponsored by a non-Merrill Lynch company for which Merrill Lynch has served as a selected dealer and where Merrill Lynch has either received or given notice that such arrangement will be terminated, if the following conditions are satisfied: first, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of such other mutual Fund and such Fund imposed a sales charge either at the time of purchase or on a deferred basis; second, such purchase of Class A shares must be made within 90 days after such notice of termination. Class A shares of the Fund are also offered at net asset value to shareholders of certain closed-end funds advised by the Manager or FAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund, provided certain conditions are met. For example, Class A shares of the Fund and certain other mutual funds advised by the Manager or FAM are offered at net asset value to shareholders of Merrill Lynch Senior Floating Rate Fund, Inc. (formerly known as Merrill Lynch Prime Fund, Inc.) ("Senior



Floating Rate Fund") who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund in shares of such funds.

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

DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

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

Proceeds from the contingent deferred sales charge are paid to the Distributor and are used in whole or in part by the Distributor to defray the expenses of dealers (including Merrill Lynch) related to providing distribution-related services to the Fund in connection with the sale of the Class B shares such as the payment, from its own funds, of compensation to financial consultants for selling Class B shares. Payments by the Fund to the Distributor of the distribution fee under the Distribution Plan relating to Class B shares also may be used in whole or in part by the Distributor for this purpose. The combination of the contingent deferred sales charge and the ongoing distribution fee facilitates the ability of the Fund to sell the Class B shares without a sales charge being deducted at the time of purchase. Class B shareholders of the Fund exercising the exchange privilege described under "Shareholders Services--Exchange Privilege" will continue to be subject to the Fund's contingent deferred sales charge schedule if such schedule is higher than the deferred sales charge schedule relating to the Class B shares acquired as a result of the exchange.

CONTINGENT DEFERRED SALES CHARGE

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

The following table sets forth the rates of the contingent deferred sales charge:

<TABLE>  
<CAPTION>

YEAR SINCE PURCHASE PAYMENT MADE	CONTINGENT DEFERRED SALES CHARGE AS A PERCENTAGE OF DOLLAR AMOUNT SUBJECT TO CHARGE
0-1.....	4.0%
1-2.....	3.0%
2-3.....	2.0%
3-4.....	1.0%
4 and thereafter.....	None

</TABLE>

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

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

The contingent deferred sales charge is waived on redemptions of shares in connection with certain post-retirement withdrawals from Individual Retirement Accounts ("IRAs") or other retirement plans or following the death or disability (as defined in the Code) of a shareholder.

The contingent deferred sales charge also is waived on redemptions of shares by certain eligible 401(a) and eligible 401(k) plans and in connection with certain group plans placing orders through the Merrill Lynch Blueprint(SM) Program. The contingent deferred sales charge is also waived for any Class B shares which are purchased by an eligible 401(k) or eligible 401(a) plan and which are rolled over into a Merrill Lynch or Merrill Lynch Trust Company custodied IRA and held in such account at the time of redemption. Additional information concerning the waiver of the contingent deferred sales charge is set forth in the Statement of Additional Information.

The contingent deferred sales charge is also waived for any Class B shares which are purchased by a Merrill Lynch rollover IRA account, that was funded by a rollover from a terminated 401(k) plan managed by the MLAM Private Portfolio Group, and held in such account at the time of redemption.

#### DISTRIBUTION PLAN

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

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and a distribution fee relating to Class B shares, which are accrued daily and paid monthly, at the annual rates of 0.25% and 0.50%, respectively, of the average daily net assets of the Class B shares of the Fund. The ongoing account maintenance fee compensates the Distributor and Merrill Lynch for providing account maintenance services to Class B shareholders. The ongoing distribution fee compensates the Distributor and Merrill Lynch for providing shareholder and distribution services and bearing certain distribution-related expenses of the Fund, including payments to financial consultants for selling Class B shares of the Fund.

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

The Fund has no obligation with respect to distribution and account maintenance-related expenses incurred by the Distributor and Merrill Lynch in connection with the Class B shares, and there is no assurance that the Directors of the Fund will approve the continuance of the Distribution Plan from year to year. However, the Distributor intends to seek annual continuation of the Distribution Plan. In their review of the Distribution Plan, the Directors will

not be asked to take into consideration expenses incurred in connection with the distribution of Class A shares or of shares of other funds for which the Distributor acts as distributor. The account maintenance fee, the distribution fee and the contingent deferred sales charges in the case of Class B shares will not be used to subsidize the sale of Class A shares. Similarly, the initial sales charges in the case of Class A shares will not be used to subsidize the sale of Class B shares. Payment of the distribution fee on Class B shares is subject to certain limits as set forth under "Deferred Sales Charge Alternative--Class B Shares."

#### LIMITATIONS ON THE PAYMENT OF DEFERRED SALES CHARGES

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

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6.75% of eligible gross sales. The Distributor retains the right to stop waiving the interest charges at any time. To the extent payments would exceed the voluntary maximum, the Fund will not make further payments of the distribution fee, and any contingent deferred sales charges will be paid to the Fund rather than to the Distributor; however the Fund will continue to make payments of the account maintenance fee. In certain circumstances the amount payable pursuant to the voluntary maximum may exceed the amount payable under the NASD formula. In such circumstances payment in excess of the amount payable under the NASD formula will not be made.

#### REDEMPTION OF SHARES

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

#### REDEMPTION

A shareholder wishing to redeem shares may do so without charge by tendering the shares directly to the Transfer Agent, Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, P.O. Box 45289, Jacksonville, Florida 32232-5289. Redemption requests delivered other than by mail should be delivered to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484. Proper notice of redemption in the case of shares deposited with the Transfer Agent may be accomplished by a written letter requesting redemption. Proper notice of redemption in the case of shares for which certificates have been issued may be accomplished by a written letter as noted above accompanied by certificates for the shares to be redeemed. The notice in either event requires the signatures of all persons in whose names the shares are registered, signed exactly as their names appear on the Transfer Agent's register or on the certificate, as the case may be. The signature(s) on the notice must be guaranteed by an "eligible guarantor institution" (including, for example, Merrill Lynch branch offices and certain other financial institutions) as such term is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the Transfer Agent through the use of industry publications. Notarized signatures are not sufficient. In certain instances, the Transfer Agent may require additional documents, such as, but not limited to, trust instruments, death certificates, appointments as executor or administrator, or certificates of corporate authority. For shareholders redeeming directly with the Transfer Agent, payment will be mailed within seven days of receipt of a proper notice of redemption.

At various times the Fund may be requested to redeem shares for which it has not yet received good payment. The Fund may delay or cause to be delayed the mailing of a redemption check until such time as good payment (e.g., cash or certified check drawn on a U.S. bank) has been collected for the purchase of

such shares. Normally, this delay will not exceed 10 days.

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#### REPURCHASE

The Fund also will repurchase shares through a shareholder's listed securities dealer. The Fund normally will accept orders to repurchase shares by wire or telephone from dealers for their customers at the net asset value next computed after receipt of the order by the dealer, provided that the request for repurchase is received by the dealer prior to the close of business on the New York Stock Exchange on the day received and that such request is received by the Fund from such dealer not later than 4:30 p.m., New York time, on the same day. Dealers have the responsibility of submitting such repurchase requests to the Fund not later than 4:30 p.m., New York time, in order to obtain that day's closing price.

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

#### REINSTATEMENT PRIVILEGE--CLASS A SHARES

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

#### SHAREHOLDER SERVICES

The Fund offers a number of shareholder services and investment plans described below which are designed to facilitate investment in its shares. Certain of such services are not available to investors who place purchase orders for the Fund's shares through the Merrill Lynch Blueprint (SM) Program. Full details as to each of such services, copies of the various plans described below and instructions as to how to participate in the various plans and services, or to change options with respect thereto, can be obtained from the Fund by calling the telephone number on the cover page hereof or from the Distributor or Merrill Lynch. Certain of these services are available only to U.S. investors.

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

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confirmations for each purchase or sale transaction other than automatic investment purchases and the investment of ordinary income dividends and long-term capital gain distributions. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the Transfer Agent. Shareholders may also maintain their accounts through Merrill Lynch. Upon the transfer of shares out of a Merrill Lynch brokerage account, an Investment Account in the transferring shareholder's name will be opened automatically, without charge, at the Transfer Agent. Shareholders considering transferring their Class A shares from Merrill Lynch to another brokerage firm or financial institution should be aware that, if the firm to which the Class A shares are to be transferred will not take delivery of shares of the Fund, a shareholder either must redeem the Class A shares so that the cash proceeds can be transferred to the account at the new firm or such shareholder must continue to

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

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

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

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

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

**Automatic Reinvestment of Dividends and Capital Gains Distributions.** All dividends and capital gains distributions are reinvested automatically in full and fractional shares of the Fund at the net asset value per share next determined on the payable date of such dividend or distribution. A shareholder may at any time, by written notification to Merrill Lynch if the shareholder's

account is maintained with Merrill Lynch or by written notification or telephone call (1-800-MER-FUND) to the Transfer Agent if the shareholder's account is maintained with the Transfer Agent, elect to have subsequent dividends or capital gains distributions, or both, paid in cash, rather than reinvested, in which event payment will be mailed on or about the payment date. No contingent deferred sales charge will be imposed upon redemption of shares issued as a result of the automatic reinvestment of dividends or capital gains distributions.

**Systematic Withdrawal and Automatic Investment Plans.** A Class A shareholder may elect to receive systematic withdrawal payments from his Investment Account in the form of payments by check or through automatic payment by direct deposit to his bank account on either a monthly or quarterly basis. A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program, subject to certain conditions. Regular additions of Class A shares may be made to an investor's Investment Account by prearranged charges of \$50 or more to his regular bank account. Investors who maintain CMA accounts may arrange to have periodic investments made in the Fund in their CMA accounts or in certain related accounts in amounts of \$250 or more through the CMA Automatic Investment Program. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch other than a CMA(R) account.

**Retirement Plans.** Class A shares are offered at net asset value to qualified retirement plans within the meaning of Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and deferred compensation plans within the meaning of Sections 403(b) and 457 of the Code ("Retirement Plans"), provided the plan has \$5 million or more in existing plan assets initially invested in portfolios, mutual funds or trusts advised either directly or through a subsidiary by the Manager or its affiliate, FAM. Class A shares may also be offered at net asset value to Retirement Plans, provided the plan has accumulated \$5 million or more in existing plan assets invested in mutual funds advised by the Manager or FAM charging a front-end sales

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charge or contingent deferred sales charge. Assets of Retirement Plans with the same sponsor or an affiliated sponsor may be aggregated. Retirement Plans that are also qualified under Section 401(k) of the Code with a salary reduction feature offering a menu of investments to plan participants ("Eligible 401(k) Plans") are also offered Class A shares at net asset value, provided such plan initially has 1,000 or more employees eligible to participate in the plan. Employees eligible to participate in Retirement Plans of the same sponsoring employer or its affiliates may be aggregated. Retirement Plans meeting any of the foregoing requirements and which are provided specialized services (e.g., plans whose participants may direct on a daily basis their plan allocations among a wide range of investments including individual corporate equities and other securities in addition to mutual fund shares) by the Merrill Lynch Blueprint<sup>SM</sup> Program, are offered Class A shares at a price equal to net asset value per share plus a reduced sales charge of 0.50%. Any Retirement Plan which does not meet the above described qualifications to purchase Class A shares at net asset value has the option of purchasing Class A shares at the sales charge schedule disclosed in this Prospectus, or if the Retirement Plan meets the specified requirements, then it may purchase Class B shares with a waiver of the contingent deferred sales charge upon redemption. The minimum initial and subsequent purchase requirements are waived in connection with all the above referenced Retirement Plans.

#### PERFORMANCE DATA

From time to time the Fund may include its average annual total return for various specified time periods in advertisements or information furnished to present or prospective shareholders. Average annual total return is computed separately for Class A and Class B shares in accordance with a formula 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 capital gains or losses on portfolio investments over such periods) that would equate the initial amount invested to the redeemable value of such investment at the end of each period. Average annual total return will be computed assuming all dividends and distributions are reinvested and taking into account all applicable recurring and nonrecurring expenses, including the maximum sales charge in the case of Class A shares and the contingent deferred sales charge that would be applicable to a complete redemption of the investment at the end of the specified period in the case of Class B shares. Dividends paid by the Fund with respect to Class A and Class B shares, to the extent any dividends are paid, will be calculated in the same manner at the same time on the same day and will be in the same amount, except that account maintenance and distribution fees and any incremental transfer

agency costs relating to Class B shares will be borne exclusively by that Class. The Fund will include performance data for both Class A and Class B shares of the Fund in any advertisement or information including performance data of the Fund.

The Fund also may quote total return and aggregate total return performance data for various specified time periods. Such data will be calculated substantially as described above, except that (1) the rates of return calculated will not be average annual rates, but rather, actual annual, annualized or aggregate rates of return, and (2) the maximum applicable sales charges will not be included with respect to annualized rates of return calculations. Aside from the impact on the performance data calculations of including or excluding the maximum applicable sales charges, actual annual or annualized total return data generally will be lower than average annual total return data since the average annual rates of return reflect compounding; aggregate total return data generally will be higher than average annual total return data since the aggregate rates of return

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reflect compounding over longer periods of time. In advertisements directed to investors whose purchases are subject to reduced sales charges in the case of Class A shares or waiver of the contingent deferred sales charge in the case of Class B shares (such as investors in certain retirement plans), performance data may take into account the reduced, and not the maximum, sales charge or may not take into account the contingent deferred sales charge and therefore may reflect greater total return since, due to the reduced sales charges or waiver of the contingent deferred sales charge, a lower amount of expenses may be deducted. See "Purchase of Shares." The Fund's total return may be expressed either as a percentage or as a dollar amount in order to illustrate the effect of such total return on a hypothetical \$1,000 investment in the Fund at the beginning of each specified period.

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

On occasion, the Fund may compare its performance to the Standard & Poor's 500 Composite Stock Price Index, the Dow Jones Industrial Average, or performance data published by Lipper Analytical Services, Inc., Morningstar Publications, Inc., Money Magazine, U.S. News & World Report, Business Week, CDA Investment Technology, Inc., Forbes Magazine, Fortune Magazine or other industry publications. In addition, from time to time the Fund may include the Fund's risk-adjusted performance ratings assigned by Morningstar Publications, Inc. in advertising or supplemental sales literature. As with other performance data, performance comparisons should not be considered representative of the Fund's relative performance for any future period.

#### ADDITIONAL INFORMATION

##### DIVIDENDS AND DISTRIBUTIONS

All or a portion of the Fund's net investment income will be declared as dividends daily prior to the determination of net asset value on that day and paid monthly. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income in addition to net investment income earned in any particular period in order to permit the Fund to maintain a more stable level of distributions. As a result, the distribution paid by the Fund for any particular period may be more or less than the amount of net investment income earned by the Fund during such period. However, it is the Fund's intention to distribute during any fiscal year all its net investment income. Shares will accrue dividends as long as they are issued and outstanding. Shares are issued and outstanding as of the settlement date of a purchase order to the settlement date of a redemption order. All net realized long-or short-term capital gains, if any, are distributed to the Fund's shareholders at least annually.

The per share dividends and distributions on Class B shares will be lower than the per share dividends and distributions on Class A shares as a result of the account maintenance, distribution and higher transfer agency fees applicable to the Class B shares. See "Additional Information--Determination of Net Asset Value." Dividends and distributions may be reinvested automatically in shares of the Fund, at net asset value without a

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sales charge. Shareholders may elect in writing to receive any such dividends or

distributions, or both, in cash. Dividends and distributions are taxable to shareholders as described below whether they are reinvested in shares of the Fund or received in cash. From time to time, the Fund may declare a special distribution at or about the end of the calendar year in order to comply with a Federal income tax requirement that certain percentages of its ordinary income and capital gains be distributed during the calendar year.

Certain gains or losses attributable to foreign currency related gains or losses from certain of the Fund's investments may increase or decrease the amount of the Fund's income available for distribution to shareholders. If such losses exceed other income during a taxable year, (a) the Fund would not be able to make any ordinary dividend distributions, and (b) distributions made before the losses were realized would be recharacterized as returns of capital to shareholders, rather than as ordinary dividends, reducing each shareholder's tax basis in his Fund shares for Federal income tax purposes. For a detailed discussion of the Federal tax considerations relevant to foreign currency transactions, see "Additional Information--Taxes." If in any fiscal year the Fund has net income from certain foreign currency transactions, such income will be distributed annually.

All net realized long-or short-term capital gains, if any, are declared and distributed to the Fund's shareholders annually after the close of the Fund's fiscal year. Capital gains distributions will be automatically reinvested in shares unless the shareholder elects to receive such distributions in cash.

See "Shareholder Services--Automatic Reinvestment of Dividends and Capital Gains Distributions" for information as to how to elect either dividend reinvestment or cash payments. Dividends and distributions are taxable to shareholders as described below whether they are reinvested in shares of any portfolio or received in cash.

#### DETERMINATION OF NET ASSET VALUE

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

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 last available bid price. Securities traded in the over-the-counter market are valued at the last available bid price or yield equivalents obtained from one or more dealers in the over-the-counter market prior to the time of valuation. Portfolio securities which are traded both in the over-the-counter market and on a stock exchange are valued according

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to the broadest and most representative market. Other investments, including futures contracts and related options, are stated at market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Board of Directors of the Fund.

#### TAXES

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

Dividends paid by the Fund from its ordinary income and distributions of the Fund's net realized short-term capital gains (together referred to hereafter as "ordinary income dividends") are taxable to shareholders as ordinary income.



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

Dividends are taxable to shareholders even if they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends and capital gain dividends. A portion of the Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. If the Fund pays a dividend in January that was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% U.S. withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the U.S. withholding tax.

Dividends and interest received by the Fund may give rise to withholding and other taxes imposed by foreign countries. Tax treaties between certain countries and the U.S. may reduce or eliminate such taxes. Shareholders may be able to claim U.S. foreign tax credits with respect to such taxes, subject to certain conditions and limitations contained in the Code. For example, certain retirement accounts cannot claim foreign tax credits on investments in foreign securities held in the Fund. The Fund will report annually to its shareholders the amount per share of such withholding taxes.

Under certain provisions of the Code, certain non-corporate shareholders may be subject to a 31% withholding tax on certain ordinary income dividends and capital gain dividends and on redemption payments ("backup withholding"). Generally, shareholders subject to backup withholding will be those for whom no certified taxpayer identification number is on file with the Fund or who, to the Fund's knowledge, have

furnished an incorrect number. When establishing an account, an investor must certify under penalty of perjury that such number is correct and that such investor is not otherwise subject to backup withholding.

Under Code Section 988, foreign currency gains or losses from certain debt instruments, from certain forward contracts, from futures contracts that are not "regulated futures contracts" and from unlisted options will generally be treated as ordinary income or loss. Such Code Section 988 gains or losses will generally increase or decrease the amount of the Fund's income available to be distributed to shareholders as ordinary income. Additionally, if Code Section 988 losses exceed other investment company taxable income during a taxable year, the Fund would not be able to make any ordinary dividend distributions, and any distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to shareholders, thereby reducing the basis of each shareholder's Fund shares.

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

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

Ordinary income dividends and capital gain dividends may also be subject to

state and local taxes.

Certain states exempt from state income taxation dividends paid by RICs which are derived from interest on U.S. Government obligations. State law varies as to whether dividend income attributable to U.S. Government obligations is exempt from state income tax.

Shareholders are urged to consult their tax advisers regarding specific questions as to Federal, foreign, state or local taxes. Foreign investors should consider applicable foreign taxes in their evaluation of an investment in the Fund.

#### ORGANIZATION OF THE FUND

The Fund was incorporated under Maryland law on June 6, 1994. It has an authorized capital of 200,000,000 shares of Common Stock, par value \$0.10 per share, divided into two classes, designated Class A Common Stock and Class B Common Stock, each of which consists of 100,000,000 shares. Both Class A Common Stock and Class B Common Stock represent an interest in the same assets of the Fund and are identical in all respects except that the Class B shares bear certain expenses related to the account maintenance and distribution of such shares and have exclusive voting rights with respect to matters relating to such account maintenance and distribution expenditures. See "Purchase of Shares." The Fund has received an order from the Securities and Exchange Commission permitting the issuance and sale of two classes of Common Stock. The Board of Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date and may change the rights and preferences of issued shares as long as such change does not substantially adversely affect the rights of holders of such issued shares.

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The creation of additional classes would require an additional order from the Securities and Exchange Commission. There is no assurance that such an additional order would be issued.

Shareholders are entitled to one vote for each share held and fractional votes for fractional shares held and will vote on the election of Directors and any other matters submitted to a shareholder vote. The Fund does not intend to hold meetings of shareholders in any year in which the Investment Company Act does not require shareholders to act on any of the following matters: (i) election of Directors; (ii) approval of an investment advisory agreement; (iii) approval of a distribution agreement; and (iv) ratification of selection of independent auditors. Also, the by-laws of the Fund require that a special meeting of stockholders be held upon the written request of at least 10% of the outstanding shares of the Fund entitled to vote at such meeting. Voting rights for Directors are not cumulative. Shares issued are fully paid and non-assessable and have no preemptive or conversion rights. Each share of Class A Common Stock and Class B Common Stock is entitled to participate equally in dividends and distributions declared by the Fund and in the net assets of the Fund on liquidation or dissolution after satisfaction of outstanding liabilities, except as noted above, the Class B shares bear certain expenses related to the distribution of such shares.

#### SHAREHOLDER REPORTS

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

Financial Data Services, Inc.  
P.O. Box 45290  
Jacksonville, FL 32232-5290

The written notification should include the shareholder's name, address, tax identification number and Merrill Lynch, Pierce, Fenner & Smith Incorporated and/or mutual fund account numbers. If you have any questions regarding this, please call your Merrill Lynch financial consultant or Financial Data Services, Inc. at 1-800-637-3863.

#### SHAREHOLDER INQUIRIES

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

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NOTE: THIS FORM MAY NOT BE USED FOR PURCHASES THROUGH THE MERRILL LYNCH BLUEPRINT(SM) PROGRAM. YOU MAY REQUEST AN APPLICATION FOR PURCHASES THROUGH MERRILL LYNCH BLUEPRINT(SM) PROGRAM BY CALLING (800) 637-3766.

1. SHARE PURCHASE APPLICATION

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

Basis for establishing an Investment Account:

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

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

<TABLE>		<C>	
<S>		<C>	
1. ....	4. ....		
2. ....	5. ....		
3. ....	6. ....		
</TABLE>			

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

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

<TABLE>		<C>		<C>	
<S>		<C>		<C>	
Distribution	ELECT	/ / reinvest dividends	ELECT	/ / reinvest dividends	
Options	ONE	/ / pay dividends in cash	ONE	/ / pay dividends in cash	
</TABLE>					

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

<TABLE>				<C>	
<S>				<C>	
(PLEASE PRINT)					
Name.....	First Name	Initial	Last Name	Social Security No.	
Name of Co-Owner (if any).....	First Name	Initial	Last Name	or Taxpayer Identification No.	
Address.....				....., 19....	
	(Zip Code)			Date	
</TABLE>					

<TABLE>		<C>	
<S>		<C>	
Occupation.....	Name and Address of Employer.....		
</TABLE>			

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

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

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

In the case of co-owners, a joint tenancy with right of survivorship will be presumed unless otherwise specified.

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

....., 19.....  
Date of Initial Purchase

GENTLEMEN:

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

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

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

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

<TABLE>  
<S> <C>  
By..... Signature of Owner Signature of Co-Owner  
(If registered in joint names, both must sign)  
</TABLE>

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

<TABLE>  
<S> <C>  
(1) Name..... (2) Name.....  
</TABLE>

MERRILL LYNCH ASSET INCOME FUND, INC.--AUTHORIZATION FORM

3. SYSTEMATIC WITHDRAWAL PLAN--CLASS A SHARES ONLY (See terms and conditions in the Statement of Additional Information)

Minimum Requirements: \$10,000 for monthly disbursements, \$5,000 for quarterly, of shares in Merrill Lynch Asset Income Fund, Inc., at cost or current offering price. Begin systematic withdrawal on....., 19..... Withdrawals to (Date) be made either (check one) // Monthly // Quarterly\*

\*Quarterly withdrawals are made on the 24th day of March, June, September and December.

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

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

(A) I HEREBY AUTHORIZE PAYMENT BY CHECK

Draw checks payable (check one)

// as indicated in item 1.  
// to the order of.....

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

Address.....

Signature of Owner.....

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

(B) I HEREBY AUTHORIZE PAYMENT BY DIRECT DEPOSIT TO BANK ACCOUNT AND (IF NECESSARY) DEBIT ENTRIES AND ADJUSTMENTS FOR ANY CREDIT ENTRIES MADE IN ERROR TO MY ACCOUNT.

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

Name on your Account.....

Bank.....

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

Bank Address.....

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

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

NOTE: If Automatic Direct Deposit is elected, your blank, unsigned check marked "VOID" or a deposit slip from your savings account should accompany this Application.

-----  
4. APPLICATION FOR AUTOMATIC INVESTMENT PLAN

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

-----  
FINANCIAL DATA SERVICES, INC.

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

Amount of each check or ACH debit \$.....

Account No.....

Please date and invest checks or draw ACH debits on the 20th day of each month beginning.....

(Month)

or as soon thereafter as possible.

I agree that you are preparing these checks or drawing these debits voluntarily at my request and that you shall not be liable for any loss arising from any delay in preparing or failure to prepare any such check or debit. If I change banks or desire to terminate or suspend this program, I agree to notify you promptly in writing. I further agree that if a check or debit is not honored upon presentation, Financial Data Services, Inc. is authorized to discontinue immediately the Automatic Investment Plan and to liquidate sufficient shares held in my account to offset the purchase made with the returned check or dishonored debit.

<TABLE>  
<S> ..... <C> .....  
Date ..... Signature of Depositor .....  
Signature of Depositor .....  
(If joint account, both must sign)

</TABLE>

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

To..... Bank  
(Investor's Bank)

Bank Address.....

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

As a convenience to me, I hereby request and authorize you to pay and charge to my account checks or ACH debits drawn on my account by and payable to Financial Data Services, Inc., Transfer Agency Mutual Fund Operations, Jacksonville, Florida 32232-5289. I agree that your rights in respect to each such check or debit shall be the same as if it were a check drawn on you and signed personally by me. This authority is to remain in effect until revoked personally by me in writing. Until you receive such notice, you shall be fully protected in honoring any such check or debit. I further agree that if any such check or debit be dishonored, whether with or without cause and whether intentionally or inadvertently, you shall be under no liability.

<TABLE>

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

</TABLE>

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

5. FOR DEALER ONLY

Branch Office, Address, Stamp

This form when completed should be mailed to:

Merrill Lynch Asset Income Fund, Inc.  
c/o Financial Data Services, Inc.  
Transfer Agency Mutual Fund Operations  
P.O. Box 45289  
Jacksonville, Florida 32232-5289

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

.....  
Dealer Name and Address

By .....  
Authorized Signature of Dealer

<TABLE>

<S>	<C>	<C>	<C>
-----	-----	-----	.....
Branch-Code	F/C No.	F/C Last Name	
-----	-----		
-----	-----		
Dealer's Customer A/C No.			

</TABLE>

## MANAGER

Merrill Lynch Asset Management

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

Mailing Address:  
Box 9011  
Princeton, New Jersey 08543-9011

## DISTRIBUTOR

Merrill Lynch Funds Distributor, Inc.

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

Mailing Address:  
Box 9011  
Princeton, New Jersey 08543-9011

## TRANSFER AGENT

Financial Data Services, Inc.

Administrative Offices:  
Transfer Agency Mutual Fund Operations  
4800 Deer Lake Drive East  
Jacksonville, Florida 32246-6484

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

## CUSTODIAN

The Chase Manhattan Bank, N.A.

4 MetroTech Center, 18th Floor

Brooklyn, New York 11245

## INDEPENDENT AUDITORS

Deloitte & Touche LLP

117 Campus Drive  
Princeton, New Jersey 08540

## COUNSEL

Rogers & Wells  
200 Park Avenue  
New York, New York 10166

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

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(LOGO)

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MERRILL LYNCH

ASSET

INCOME FUND, INC.

(ARTWORK)

Prospectus

August 25, 1994

Distributor:  
Merrill Lynch

Funds Distributor, Inc.

This prospectus should be  
retained for future reference.

Code 18235--0794

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STATEMENT OF ADDITIONAL INFORMATION



MERRILL LYNCH ASSET INCOME FUND, INC.

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

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Merrill Lynch Asset Income Fund, Inc. (the "Fund") is a non-diversified mutual fund primarily seeking a high level of current income, consistent with prudent risk, through an investment policy utilizing United States and foreign debt, equity and money market securities, the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends. The Fund will also seek capital appreciation. Under normal conditions, at least 65%, and as much as all, of the Fund's total assets will be invested in debt securities, and no more than 25% of the Fund's total assets will be invested in foreign securities. There can be no assurance that the Fund's investment objectives will be achieved. The Fund may employ a variety of instruments and techniques to enhance income and to hedge against market and currency risk.

The Fund offers two classes of shares which may be purchased during the subscription offering at \$10.00 per share and during the continuous offering at a price equal to the next determined net asset value per share, plus in both cases, a sales charge which, at the election of the purchaser, may be imposed (i) at the time of purchase (the "Class A shares") or (ii) on a deferred basis (the "Class B shares"). These alternatives permit an investor to choose the method of purchasing shares that is most beneficial given the amount of the purchase, the length of time the investor expects to hold the shares and other circumstances. Investors should understand that the purpose and function of the deferred sales charges and ongoing account maintenance fee with respect to the Class B shares are the same as those of the initial sales charge with respect to the Class A shares. Each Class A and Class B share represents identical interests in the investment portfolio of the Fund and has the same rights, except that Class B shares bear the expenses of the account maintenance and distribution fees and certain other costs resulting from the deferred sales charge arrangement and have exclusive voting rights with respect to the account maintenance and distribution fees. The two classes also have different exchange privileges.

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This Statement of Additional Information of the Fund is not a prospectus and should be read in conjunction with the prospectus of the Fund, dated August 25, 1994 (the "Prospectus"), which has been filed with the Securities and Exchange Commission and can be obtained, without charge, by calling or by writing the Fund at the above telephone number or address. This Statement of Additional Information has been incorporated by reference into the Prospectus.

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MERRILL LYNCH ASSET MANAGEMENT--MANAGER

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.--DISTRIBUTOR

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The date of this Statement of Additional Information is August 25, 1994.

INVESTMENT OBJECTIVES AND POLICIES

The Fund's primary investment objective is to seek a high level of current income, consistent with prudent risk, through an investment policy utilizing United States and foreign debt, equity and money market securities the combination of which will be varied from time to time both with respect to types of securities and markets in response to changing market and economic trends. A secondary investment objective is capital appreciation. These objectives are fundamental policies which the Fund may not change without a vote of a majority of the Fund's outstanding voting securities. Under normal conditions, at least 65%, and as much as all, of the Fund's total assets will be invested in debt securities, and no more than 25% of the Fund's total assets will be invested in foreign securities. Reference is made to "Investment Objectives and Policies" in the Prospectus for a discussion of the investment objectives and policies of the Fund.

Although up to 100% of the Fund's total assets may be invested in debt securities, the Manager anticipates that the Fund's portfolio generally will include both equity and debt securities.

The Fund will invest the portion of its assets allocated to debt obligations in the securities of governmental issuers and in corporate debt securities, including convertible debt securities, rated A or better by Standard & Poor's Corporation ("S&P") or Moody's Investors Service, Inc. ("Moody's") or which, in the Manager's judgment, possess similar credit characteristics. See Appendix. The Manager considers the ratings assigned by S&P and Moody's as one of several factors in its independent credit analysis of issuers. If a debt security in the Fund's portfolio is downgraded below investment grade, the Manager will consider factors such as price, credit risk, market conditions and interest rates and will sell the security only if, in the Manager's judgment, it is advantageous to do so.

While it is the policy of the Fund generally not to engage in trading for short-term gains, Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the "Manager"), 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 due to general market, economic or financial conditions. Accordingly, while the Fund anticipates that its annual turnover rate should not exceed 200% under normal conditions, it is impossible to predict portfolio turnover rates. The portfolio turnover rate is calculated by dividing the lesser of the Fund's annual sales or purchases of portfolio securities (exclusive of purchases or sales of securities whose maturities at the time of acquisition were one year or less) by the monthly average value of the securities in the portfolio during the year. The Fund is subject to the Federal income tax requirement that less than 30% of the Fund's gross income must be derived from gains from the sale or other disposition of securities held for less than three months.

The Fund's ability and decisions to purchase or sell portfolio securities may be affected by laws or regulations relating to the convertibility and repatriation of assets. Because the shares of the Fund are redeemable on a daily basis on each day the Fund determines its net asset value in U.S. dollars, the Fund intends to manage its portfolio so as to give reasonable assurance that it will be able to obtain U.S. dollars to the extent necessary to meet anticipated redemptions. See "Redemption of Shares." Under present conditions, the Fund does not believe that these considerations will have any significant effect on its portfolio strategy, although there can be no assurance in this regard.

#### PRECIOUS AND INDUSTRIAL METAL-RELATED SECURITIES

The Fund may invest in the equity securities of companies that explore for, extract, process or deal in precious or industrial metals, i.e., gold, silver, platinum, iron, copper and aluminum, and in asset-based securities indexed to the value of such metals. Such securities may be purchased when they are believed to be

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attractively priced in relation to the value of a company's precious or industrial metal-related assets or when the value of precious or industrial metals are expected to benefit from inflationary pressure or other economic, political or financial uncertainty or instability. The prices of precious and industrial metals and of the securities of precious and industrial metal-related companies historically have been subject to high volatility. In addition, the earnings of precious and industrial metal-related companies may be adversely affected by volatile metals prices which may adversely affect the financial condition of such companies.

The major producers of gold include the Republic of South Africa, the former republics of the Soviet Union, Canada, the United States, Brazil and Australia. Sales of gold by the former republics of the Soviet Union 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 significantly affect South African gold production.

The Fund may invest in debt securities, preferred stock or convertible securities, the principal amount, redemption terms or conversion terms of which are related to the market price of some metals such as gold bullion. 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, A or better by S&P or Moody's or commercial paper rated A-1 by S&P or Prime-1 by Moody's or of issuers that the Manager 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 Manager 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 at 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 in 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 securities may be payable at 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.

#### REAL ESTATE-RELATED SECURITIES

The real estate-related securities which will be emphasized by the Fund are equity securities of real estate investment trusts, which own income-producing properties, and mortgage real estate investment trusts which make various types of mortgage loans often combined with equity features. The securities of such trusts generally pay above average dividends and may offer the potential for capital appreciation. Such securities will be subject to the risks customarily associated with the real estate industry, including declines in the value of the real estate investments of the trusts. Real estate values are affected by numerous factors including (i) governmental regulations (such as zoning and environmental laws) and changes in tax laws, (ii) operating costs, (iii) the location and the attractiveness of the properties, (iv) changes in economic conditions (such as

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fluctuations in interest and inflation rates and business conditions) and (v) supply and demand for improved real estate. Such trusts also are dependent on management skill and may not be diversified in their investments.

#### PORTFOLIO STRATEGIES INVOLVING OPTIONS AND FUTURES

Reference is made to the discussion under the caption "Investment Objectives and Policies -- Portfolio Strategies Involving Options and Futures" in the Prospectus for information with respect to various portfolio strategies involving options and futures. The Fund may seek to increase its return through the use of options on portfolio securities and to hedge its portfolio against movements in the equity, debt and currency markets. The Fund has authority to write (i.e., sell) covered put and call options on its portfolio securities, purchase put and call options on securities and engage in transactions in stock index options, stock index futures and stock futures and financial futures, and related options on such futures. The Fund may also deal in forward foreign transactions and foreign currency options and futures, and related options on such futures. Each of such portfolio strategies is described in the Prospectus. Although certain risks are involved in transactions in derivatives, such as options and futures (as discussed in the Prospectus and below), the Manager believes that, because the Fund will (i) write only covered call options on portfolio securities and (ii) engage in other options and futures transactions only for hedging purposes, the options and futures portfolio strategies of the Fund will not subject the Fund to the risks frequently associated with the speculative use of options and futures transactions. While the Fund's use of hedging strategies is intended to reduce the volatility of the net asset value of its shares, the net asset value of the Fund's shares will fluctuate. There can be no assurance that the Fund's hedging transactions will be effective. The following is further information relating to portfolio strategies involving options and futures that the Fund may utilize.

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

Fund's position as the writer of an option by means of an offsetting purchase of an identical option prior to the expiration of the option it has written. Covered call options serve as a particular hedge against the price of the underlying security declining.

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

The Fund 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. The Fund writes only covered put options which means that so long as the

Fund is obligated as the writer of the option, it will, 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. The Fund may engage in closing transactions in order to terminate put options that it has written.

Options referred to herein and in the Fund's Prospectus may be options issued by The Options Clearing Corporation (the "Clearing Corporation") which are currently traded on the Chicago Board Options Exchange, American Stock Exchange, New York Stock Exchange, Philadelphia Stock Exchange and Pacific Stock Exchange. Options referred to herein and in the Fund's Prospectus may also be options traded on foreign securities exchanges such as the London Stock Exchange and the Amsterdam Stock Exchange. An option position may be closed out only on an exchange which provides a secondary market for an option of the same series. If a secondary market does not exist, it might not be possible to effect a closing transaction in a particular option, with the result, in the case of a covered call option, that the Fund will not be able to sell the underlying security until the option expires or until it delivers the underlying security upon exercise. Reasons for the absence of a liquid secondary market on an exchange include the following: (i) there may be insufficient trading interest in certain options; (ii) restrictions may be imposed by an exchange on opening transactions or closing transactions or both; (iii) trading halts, suspensions or other restrictions may be imposed with respect to particular classes or series of options or underlying securities; (iv) unusual or unforeseen circumstances may interrupt normal operations on an exchange; (v) the facilities of an exchange or the Clearing Corporation may not at all times be adequate to handle current trading volume; or (vi) one or more exchanges could, for economic or other reasons, decide or be compelled at some future date to discontinue the trading of options (or a particular class or series of options), in which event the secondary market on that exchange (or in that class or series of options) would cease to exist, although outstanding options on that exchange that had been issued by the Clearing Corporation as a result of trades on that exchange would continue to be exercisable in accordance with their terms.

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

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

Fund will not purchase options on securities (including stock index options discussed below) if as a result of such purchase the aggregate cost of all outstanding options on securities held by the Fund would exceed 5% of the market value of the Fund's total assets.

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

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

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

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

Foreign Currency Hedging. Generally, the foreign exchange transactions of the Fund will be conducted on a spot, i.e., cash basis at the spot rate of purchasing or selling currency prevailing in the foreign exchange market. This rate under normal market conditions differs from the prevailing exchange rate in an amount generally less than one tenth of one percent due to the costs of converting from one currency to another. However, the Fund has authority to deal in forward foreign exchange among currencies of the different countries in which it will invest as a hedge against possible variations in the foreign exchange rates among these currencies. This is accomplished through contractual agreements to purchase or sell a specified currency at a specified future date and price set at the time of the contract. The Fund's dealings in forward foreign exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward foreign currency with respect to specific receivables or payables of

the Fund accruing in connection with the purchase and sale of its portfolio securities, the sale and redemption of shares of the Fund or the payment of dividends and distributions by the Fund. Position hedging is the sale of forward foreign currency with respect to portfolio security positions denominated or quoted in such foreign currency. The Fund will not speculate in forward foreign exchange. The Fund may not position hedge with respect to the currency of a particular country to an extent greater than the aggregate market value (at the time of making such sale) of the securities held in its portfolio denominated or quoted in that particular foreign currency. If the Fund enters into a position hedging transaction, its custodian will place cash or liquid equity or debt securities in a separate account of the Fund in an amount equal to the value of the Fund's total assets committed to the consummation of such forward contract. If the value of the securities placed in the separate account declines, additional cash or securities will be placed in the account so that the value of

the account will equal the amount of the Fund's commitment with respect to such contracts. The Fund will enter into such transactions only to the extent, if any, deemed appropriate by the Manager. The Fund will not enter into a forward contract with a term of more than one year.

The Fund is also authorized to purchase or sell listed or over-the-counter foreign currency options, foreign currency futures and related options on foreign currency futures as a short or long hedge against possible variations in foreign exchange rates. Such transactions may be effected with respect to hedges on non-U.S. dollar denominated securities owned by the Fund, sold by the Fund but not yet delivered, or committed or anticipated to be purchased by the Fund. As an illustration, the Fund may use such techniques to hedge the stated value in U.S. dollars of an investment in a yen denominated security. In such circumstances, for example, the Fund may purchase a foreign currency put option enabling it to sell a specified amount of Japanese 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 part, the cost of acquiring such a put option, the Fund may also sell a call option which, if exercised, requires it to sell a specified amount of 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 Fund gives up the opportunity to profit without limit from increases in the relative value of the yen to the dollar. The Manager believes that "straddles" of the type which may be utilized by the Fund constitute hedging transactions and are consistent with the policies described above.

Hedging against a decline in the value of a currency does not eliminate fluctuations in the prices of portfolio securities or prevent losses if the prices of such securities decline. Such transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates. The cost to the Fund of engaging in foreign currency transactions varies with such factors as the currencies involved, the length of the contract period and the market conditions then prevailing. Since transactions in foreign currency exchange usually are conducted on a principal basis, no fees or commissions are involved.

Risk Factors in Options and Futures Transactions. Utilization of derivatives such as options and futures involves the risk of imperfect correlation in movements in the prices of options and futures contracts and movements in the prices of the securities and currencies which are the subject of the hedge. If the price of the options and futures contract moves more or less than the prices of the hedged securities or currencies, the Fund will experience a gain or loss which will not be completely offset by movements in the prices of the securities and currencies which are the subject of the hedge. The successful use of options and futures also

depends on the Manager's ability to correctly predict price movements in the market involved in a particular options or futures transaction.

Prior to exercise or expiration, an exchange-traded option or futures position can only be terminated by entering into a closing purchase or sale transaction. This requires a secondary market on an exchange for call or put options of the same series. The Fund will enter into an option or futures transaction on an exchange only if there appears to be a liquid secondary market for such options or futures. However, there can be no assurance that a liquid secondary market will exist for any particular call or put option or futures contract at any specific time. Thus, it may not be possible to close an option or futures position. The Fund will acquire only over-the-counter options for which management believes the Fund can receive on each business day at least two independent bids or offers (one of which will be from an entity other than a party to the option), unless there is only one dealer, in which case that dealer's price is used. In the case of a futures position or an option on a futures position written by the Fund in the event of adverse price movements, the Fund would continue to be required to make daily cash payments of variation margin. In such situations, if the Fund has insufficient cash, it may have to sell portfolio securities to meet daily variation margin requirements at a time when it may be disadvantageous to do so. In addition, the Fund may be required to take or make delivery of the security or currency underlying futures contracts it holds. The inability to close options and futures positions also could have an adverse impact on the Fund's ability to hedge effectively its portfolio. There is also the risk of loss by the Fund of margin deposits in the event of bankruptcy of a broker with whom the Fund has an open position in a futures contract or related option. The risk of loss from investing in futures transactions is theoretically unlimited.

The exchanges on which the Fund intends to conduct options transactions

have generally established limitations governing the maximum number of call or put options on the same underlying security or currency (whether or not covered) which may be written by a single investor, whether acting alone or in concert with others (regardless of whether such options are written on the same or different exchanges or are held or written on one or more accounts or through one or more brokers). "Trading limits" are imposed on the maximum number of contracts which any person may trade on a particular trading day. An exchange may order the liquidation of positions found to be in violation of these limits, and it may impose other sanctions or restrictions. The Manager does not believe that these trading and position limits will have any adverse impact on the portfolio strategies for hedging the Fund's portfolio.

#### OTHER INVESTMENT POLICIES AND PRACTICES

**Non-Diversified Status.** The Fund is classified as non-diversified within the meaning of the Investment Company Act, which means that the Fund is not limited by such Act in the proportion of its assets that it may invest in securities of a single issuer. However, the Fund's investments will be limited so as to qualify as a "regulated investment company" for purposes of the Internal Revenue Code of 1986, as amended. See "Dividends, Distributions and Taxes - Taxes." To qualify, among other requirements, the Fund will limit its investments so that, at the close of each quarter of the taxable year, (i) not more than 25% of the market value of the Fund's total assets will be invested in the securities of a single issuer, and (ii) with respect to 50% of the market value of its total assets, not more than 5% of the market value of its total assets will be invested in the securities of a single issuer, and the Fund will not own more than 10% of the outstanding voting securities of a single issuer. A fund which elects to be classified as "diversified" under the Investment Company Act must satisfy the foregoing 5% and 10% requirements with respect to 75% of its total assets. To the extent that the

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Fund assumes large positions in the securities of a small number of issuers, the Fund's net asset value may fluctuate to a greater extent than that of a diversified company as a result of changes in the financial condition or in the market's assessment of the issuers.

**When-Issued Securities and Delayed Delivery Transactions.** The Fund may purchase securities on a when-issued basis, and it may purchase or sell securities for delayed delivery. These transactions occur when securities are purchased or sold by the 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. Although the Fund has not established any limit on the percentage of its assets that may be committed in connection with such transactions, the Fund will maintain a segregated account with its custodian of 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 in an aggregate amount equal to the amount of its commitment in connection with such purchase transactions.

**Standby Commitment Agreements.** The Fund may from time to time enter into standby commitment agreements. Such agreements commit the 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. The Fund will enter into such agreement only for the purpose of investing in the security underlying the commitment at a yield and price which is considered advantageous to the Fund. The Fund will not enter into a standby commitment with a remaining term in excess of 90 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. The Fund will at all times maintain a segregated account with its custodian of 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 in an aggregate 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, the 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 the Fund's net asset value. 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.

Repurchase Agreements; Purchase and Sale Contracts. The Fund may invest in securities pursuant to repurchase agreements or purchase and sale contracts. Repurchase agreements may be entered into only with a member bank of the Federal Reserve System or primary dealer in U.S. Government securities. Purchase and sale contracts may be entered into only with financial institutions which have capital of at least \$50 million or

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whose obligations are guaranteed by an entity having capital of at least \$50 million. Under such agreements, the other party agrees, upon entering into the contract with the Fund, to repurchase the security at a mutually agreed upon time and price in a specified currency, thereby determining the yield during the term of the agreement. This results in a fixed rate of return insulated from market fluctuations during such period although it may be affected by currency fluctuations. In the case of repurchase agreements, the prices at which the trades are conducted do not reflect the accrued interest on the underlying obligations; whereas, in the case of purchase and sale contracts, the prices take into account accrued interest. Such agreements usually cover short periods, often under one week. Repurchase agreements may be construed to be collateralized loans by the purchaser to the seller secured by the securities transferred to the purchaser. In the case of a repurchase agreement, as a purchaser, the Fund will require the seller to provide additional collateral if the market value of the securities falls below the repurchase price at any time during the term of the repurchase agreement; the Fund does not have the right to seek additional collateral in the case of purchase and sale contracts. In the event of default by the seller under a repurchase agreement construed to be a collateralized loan, the underlying securities are not owned by the Fund but constitute only collateral for the seller's obligation to pay the repurchase price. Therefore, the Fund may suffer time delays and incur costs of possible losses in connection with the disposition of the collateral. A purchase and sale contract differs from a repurchase agreement in that the contract arrangements stipulate that the securities are owned by the Fund. In the event of a default under such a repurchase agreement or under a purchase and sale contract, instead of the contractual fixed rate of return, the rate of return to the Fund would depend on intervening fluctuations of the market values of such securities and the accrued interest on the securities. In such event, the Fund would have rights against the seller for breach of contract with respect to any losses arising from market fluctuations following the failure of the seller to perform. The Fund may not invest more than 10% of its net assets in repurchase agreements or purchase and sale contracts maturing in more than seven days. While the substance of purchase and sale contracts is similar to repurchase agreements, because of the different treatment with respect to accrued interest and additional collateral, management believes that purchase and sale contracts are not repurchase agreements as such term is understood in the banking and brokerage community.

Lending of Portfolio Securities. Subject to investment restriction (5) below, the Fund may lend securities from its portfolio to approved borrowers and receive therefor collateral in cash or securities issued or guaranteed by the U.S. Government which are maintained at all times in an amount equal to at least 100% of the current market value of the loaned securities. The purpose of such loans is to permit the borrower to use such securities for delivery to purchasers when such borrower has sold short. If cash collateral is received by the Fund, it is invested in short-term money market securities, and a portion of the yield received in respect of such investment is retained by the Fund. Alternatively, if securities are delivered to the Fund as collateral, the Fund and the borrower negotiate a rate for the loan premium to be received by the Fund for lending its portfolio securities. In either event, the total yield on the Fund's portfolio is increased by loans of its portfolio securities. The Fund will have the right to regain record ownership of loaned securities to exercise beneficial rights such as voting rights, subscription rights and rights to dividends, interest or other distributions. Such loans are terminable at any time. The Fund may pay reasonable finder's, administrative and custodial fees in connection with such loans. With respect to the lending of portfolio securities, there is the risk of failure by the borrower to return the securities involved in such transactions.

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#### INVESTMENT RESTRICTIONS

The Fund has adopted the following restrictions and policies relating to the investment of its assets and its activities, which are fundamental policies



and may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the Investment Company Act means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares). The Fund may not:

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

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

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

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

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

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

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

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

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

Additional investment restrictions adopted by the Fund, which may be changed by the Directors, provide that the Fund may not:

(i) Purchase securities of other investment companies except to the extent that such purchases are permitted by applicable law. Applicable law currently prohibits the Fund from purchasing the securities of other investment companies, except in connection with a plan of merger, consolidation, reorganization, or acquisition, or by purchase in the open market of securities of investment companies where no underwriter or dealer's commission or profit, other than the customary broker's commission, is involved and only if immediately thereafter not more than (i) 3% of the total outstanding voting stock of such company is owned by the Fund, (ii) 5% of the Fund's total assets, taken at market value, would be invested in any one such company, (iii) 10% of the Fund's total assets, taken at market value, would be invested in such securities, and (iv) the Fund, together with other investment companies having the same investment adviser and companies controlled by such companies, owns not more than 10% of the total outstanding stock of any one investment company. Investments by the Fund in wholly owned investment entities created under the laws of certain countries will not be deemed an investment in other investment companies.

(ii) Make short sales of securities or maintain a short position except to the extent permitted by applicable law. The Fund does not, however, currently intend to engage in short sales.

(iii) Invest in securities which cannot be readily resold because of legal or contractual restrictions or which cannot otherwise be marketed, redeemed, or put to the issuer or to a third party, if at the time of acquisition more than 15% of its total assets would be invested in such securities. This restriction shall not apply to securities which mature within seven days, or securities which the Board of Directors of the Fund has otherwise determined to be liquid pursuant to applicable law.

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

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

(vi) 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 one-half of one percent of the securities of such issuer own in the aggregate more than 5% of the securities of such issuer.

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

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

The Fund has undertaken to certain state securities administrators that as a matter of operating policy it will not:

(a) Purchase securities of issuers which the company is restricted from selling to the public without registration under the Securities Act of 1933 (including restricted securities determined by the Fund or the Board of Directors to be liquid) if by any reason thereof the value of its aggregate investment in such securities will exceed 10% of its total assets;

(b) Invest more than 5% of its total assets in the securities of unseasoned issuers, including equity securities of issuers which are not readily marketable;

(c) Invest more than 10% of its total assets in securities of one or more real estate investment trusts;

(d) Engage in short term trading; or

(e) Invest in the securities of any open-end investment company.

The staff of the Securities and Exchange Commission (the "Commission") has taken the position that purchased OTC options and the assets used as cover for written OTC options are illiquid securities. Therefore, the Fund has adopted an investment policy pursuant to which it will not purchase or sell OTC options if, as a result of such transaction, the sum of the market value of OTC options currently outstanding which are held by the Fund, the market value of the underlying securities covered by OTC call options currently outstanding which were sold by the Fund and margin deposits on the Fund's existing OTC options on futures contracts exceeds 10% of the total assets of the Fund, taken at market value, together with all other assets of the Fund which are illiquid or are not otherwise readily marketable. However, if the OTC option is sold by the Fund to a primary U.S. Government securities dealer recognized by the Federal Reserve Bank of New York and if the Fund has the unconditional contractual right to repurchase such OTC option from the dealer at a predetermined price, then the Fund will treat as illiquid such amount of the underlying securities as is equal to the repurchase price less the amount by which the option is "in-the-money" (i.e., current market value of the underlying securities minus the option's strike price). The repurchase price with the primary dealers is typically a formula price which is generally based on a multiple of the premium received for the option, plus the amount by which the option is "in-the-money." This policy as to OTC options is not a fundamental policy of the Fund and may be amended by the Directors of the Fund without the approval of the Fund's shareholders. However, the Fund will not change or modify this policy prior to the change or modification by the Commission staff of its position.

Portfolio securities of the Fund generally may not be purchased from, sold or loaned to the Manager or its affiliates or any of their directors, general partners, officers or employees, acting as principal, unless pursuant to a rule or exemptive order under the Investment Company Act.

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Because of the affiliation of the Manager with the Fund, the Fund is prohibited from engaging in certain transactions involving the Manager's affiliate, Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch"), or its affiliates except for brokerage transactions permitted under the Investment Company Act involving only usual and customary commissions or transactions pursuant to an exemptive order under the Investment Company Act. See "Portfolio Transactions and Brokerage." Without such an exemptive order, the Fund would be prohibited from engaging in portfolio transactions with Merrill Lynch or its affiliates acting as principal and from purchasing securities in public offerings which are not registered under the Securities Act of 1933, as amended, in which such firm or any of its affiliates participate as an underwriter or dealer.

#### MANAGEMENT OF THE FUND

##### DIRECTORS AND OFFICERS

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

ARTHUR ZEIKEL--President and Director(1)(2)--President of the Manager since 1977 and Chief Investment Officer and Director of the Manager 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 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 Benefits 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 Funds, Flag Investors Funds and Advanced Technology Laboratories and Space Labs Medical (medical equipment manufacturing and marketing).

TERRY K. GLENN--Executive Vice President(1)(2)--Executive Vice President of the Manager and FAM since 1983 and Director since 1991; President and Director of Merrill Lynch Funds Distributor, Inc.

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(the "Distributor") since 1986; President of Princeton Administrators, Inc. since 1988; and Director of Financial Data Services, Inc. since 1985.

BERNARD J. DURNIN--Senior Vice President(1)(2)--Senior Vice President of the Manager since 1981 and Vice President from 1977 to 1981.

DONALD C. BURKE--Vice President(1)(2)--Vice President of the Manager since 1990; accountant, Deloitte & Touche from 1982 to 1990.

JOEL HEYMSFELD--Vice President(1)(2)--Vice President of the Manager since 1978.

GERALD M. RICHARD--Treasurer(1)(2)--Senior Vice President and Treasurer of the Manager 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.

MARK B. GOLDFUS--Secretary(1)(2)--Vice President of the Manager since 1985.

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(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. Grills, Mintz, Seiden, Swensrud and Woolf are directors, trustees or members of the advisory board, and Messrs. Glenn, Durnin, Richard and Goldfus are officers, of certain other investment companies for which the Manager or FAM acts as investment adviser.

At August 15, 1994, the officers and Directors of the Fund as a group (12 persons) owned an aggregate of less than 1% of the outstanding shares of the Fund. At such date, Mr. Zeikel, a Director of the Fund, and the other officers of the Fund, owned less than 1% of the outstanding shares of common stock of Merrill Lynch & Co., Inc.

The Fund pays each Director not affiliated with the Manager a fee of \$2,600 per year plus \$250 per Board meeting attended, together with such Director's actual out-of-pocket expenses relating to attendance at meetings. The Fund also

compensates members of its Audit Committee, which consists of all of the non-affiliated Directors, at a rate of \$150 per meeting attended.

#### MANAGEMENT AND ADVISORY ARRANGEMENTS

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

Securities held by the Fund may also be held by, or be appropriate investments for, other funds or investment advisory clients for which the Manager or its affiliates act as an adviser. Because of different objectives or other factors, a particular security may be bought for one or more clients when one or more clients are selling the same security. If purchases or sales of securities by the Manager for the Fund or other funds for which it acts as investment adviser or for its other 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 Manager or its affiliates during the same period may increase the demand for securities being purchased or the supply of securities being sold, there may be an adverse effect on price.

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The Fund has entered into a management agreement with the Manager (the "Management Agreement"). As discussed in the Prospectus, the Management Agreement provides that the Fund will pay the Manager a monthly fee at the annual rate of 0.75% of the average daily net assets of the Fund. This fee is higher than that of most mutual funds, but management of the Fund believes this fee, which is typical for a global fund, is justified by the global nature of the Fund.

California imposes limitations on the expenses of the Fund. These expense limitations require that the Manager reimburse the Fund in an amount necessary to prevent the ordinary operating expenses of the Fund (excluding interest, taxes, distribution fees, brokerage fees and commissions and extraordinary charges such as litigation costs) from exceeding 2.5% of the Fund's first \$30 million of average daily net assets, 2.0% of the next \$70 million of average daily net assets and 1.5% of the remaining average daily net assets. The Manager's obligation to reimburse the Fund is limited to the amount of the management fee. No fee payment will be made to the Manager during any fiscal year which will cause such expenses to exceed the most restrictive expense limitation applicable at the time of such payment.

The Management Agreement obligates the Manager to provide investment advisory services and to pay all compensation of and furnish office space for officers and employees of the Fund connected with investment and economic research, trading and investment management of the Fund, as well as the fees of all Directors of the Fund who are affiliated persons of the Manager or any of their affiliates. The Fund pays all other expenses incurred in its operation, including, among other things, taxes; expenses for legal and auditing services; costs of printing proxies, stock certificates, shareholder reports and prospectuses and statements of additional information (except to the extent paid by the Distributor); charges of the custodian, any sub-custodian and transfer agent; expenses of redemption of shares; Commission fees; expenses of registering the shares under Federal, state or foreign laws; fees and expenses of unaffiliated Directors; accounting and pricing costs (including the daily calculation of net asset value); insurance; interest; brokerage costs; litigation and other extraordinary or non-recurring expenses; and other expenses properly payable by the Fund. Accounting services are provided to the Fund by the Manager, and the Fund reimburses the Manager for its costs in connection with such services on a semi-annual basis. The Distributor will pay certain promotional expenses of the Fund incurred in connection with the offering of its shares. Certain expenses in connection with the distribution of Class B shares will be financed by the Fund pursuant to a distribution plan in compliance with Rule 12b-1 under the Investment Company Act. See "Purchase of Shares--Alternative Sales Arrangements--Distribution Plans."

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

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

#### PURCHASE OF SHARES

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

#### ALTERNATIVE SALES ARRANGEMENTS

The Fund issues two classes of shares: Class A shares are sold to investors choosing the initial sales charge alternative, and Class B shares are sold to investors choosing the deferred sales charge alternative. The two classes of shares each represent interests in the same portfolio of investments of the Fund, have the same rights and are identical in all respects, except that Class B shares bear the expenses of the deferred sales arrangements, any expenses (including incremental transfer agency costs) resulting from such sales arrangements and the expenses of the account maintenance fee and have exclusive voting rights with respect to the Rule 12b-1 distribution plan pursuant to which the account maintenance and distribution fees are paid. The two classes also have different exchange privileges. See "Shareholder Services--Exchange Privilege."

The Fund has entered into separate distribution agreements with Merrill Lynch Funds Distributor, Inc. (the "Distributor") in connection with the continuous offering of Class A and Class B shares of the Fund (the "Distribution Agreements"). The Distribution Agreements obligate the Distributor to pay certain expenses in connection with the offering of the Class A and Class B shares of the Fund. After the prospectuses, statements of additional information and periodic reports have been prepared, set in type and mailed to shareholders, the Distributor pays for the printing and distribution of copies thereof used in connection with the offering to dealers and investors. The Distributor also pays for other supplementary sales literature and advertising costs. The Distribution Agreements are subject to the same renewal requirements and termination provision as the Management Agreement described under "Management of the Fund--Management and Advisory Arrangements."

#### INITIAL SALES CHARGE ALTERNATIVE--CLASS A SHARES

The term "purchase," as used in the Prospectus and this Statement of Additional Information in connection with an investment in Class A shares of the Fund, refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing shares for a single trust estate or single fiduciary account (including a pension, profit-sharing or other employee benefit trust created pursuant to a plan qualified under Section 401 of the Code) although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company," as that term is defined in the Investment Company Act, but does not include purchases by any such company which has not been in existence for at least six months or which has no purpose other than the purchase of shares of the Fund or shares of other registered investment companies at a discount; provided, however, that it does not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser. The term "purchase" also includes purchases by employee benefit plans not qualified under Section 401 of the Code, including purchases by employees or by employers on behalf of employees, by means of a payroll deduction plan or otherwise, of shares of the Fund. Purchases by such a company or non-qualified employee benefit plan will qualify for the quantity discounts discussed above only if the Fund and the Distributor are able to realize

economies of scale in sales effort and sales related expense by means of the company, employer or plan making the Fund's Prospectus available to individual investors or employees and forwarding investments by such persons to the Fund and by any such employer or plan bearing the expense of any payroll deduction plan.

#### REDUCED INITIAL SALES CHARGES--CLASS A SHARES

Right of Accumulation. Reduced sales charges are applicable through a right of accumulation under which eligible investors are permitted to purchase Class A shares of the Fund at the offering price applicable to the total of (a) the dollar amount then being purchased plus (b) an amount equal to the then current net asset value or cost, whichever is higher, of the purchaser's combined holdings of the Class A shares and Class B shares of the Fund and of any other

investment company with a sales charge for which the Distributor acts as the distributor. For any such right of accumulation to be made available, the Distributor must be provided at the time of purchase, by the purchaser or the purchaser's securities dealer, with sufficient information to permit confirmation of qualification. Acceptance of the purchase order is subject to such confirmation. The right of accumulation may be amended or terminated at any time.

Letter of Intention. Reduced sales charges are applicable to purchases aggregating \$25,000 or more of Class A shares of the Fund or any other investment company with an initial sales charge or a deferred sales charge for which the Distributor acts as the distributor made within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. The Letter of Intention is available only to investors whose accounts are maintained at the Fund's transfer agent. The Letter of Intention is not available to employee benefit plans for which Merrill Lynch provides plan-participant recordkeeping services. The Letter of Intention is not a binding obligation to purchase any amount of Class A shares; however, its execution will result in the purchaser paying a lower sales charge at the appropriate quantity purchase level. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent Letter of Intention executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. The value of Class A shares of the Fund and of other investment companies with a sales charge for which the Distributor acts as the distributor presently held, at cost or maximum offering price (whichever is higher), on the date of the first purchase under the Letter of Intention, may be included as a credit toward completion of such Letter, but the reduced sales charge applicable to the amount covered by such Letter will be applied only to new purchases. If the total amount of shares purchased does not equal the amount stated in the Letter of Intention (minimum of \$25,000), the investor will be notified and must pay, within 20 days of the expiration of such Letter, the difference between the sales charge on the Class A shares purchased at the reduced rate and the sales charge applicable to the shares actually purchased through the Letter. Class A shares equal to five percent of the intended amount will be held in escrow during the thirteen-month period (while remaining registered in the name of the purchaser) for this purpose. The first purchase under the Letter of Intention must be at least five percent of the dollar amount of such Letter. If a purchase during the term of such Letter would otherwise be subject to a further reduced sales charge based on the right of accumulation, the purchaser will be entitled on that purchase and subsequent purchases to the reduced percentage sales charge which would be applicable to a single purchase equal to the total dollar value of the Class A shares then being purchased under such Letter, but there will be no retroactive reduction of the sales charges on any previous purchase. The value of any shares redeemed or otherwise disposed of by the purchaser prior to termination or completion of the Letter of Intention will be deducted from the total purchases made under such Letter. An exchange from Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Reserves Money Fund or Merrill

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Lynch U.S.A. Government Reserves into the Fund that creates a sales charge will count toward completing a new or existing Letter of Intention from the Fund.

Merrill Lynch Blueprint (SM) Program. Class A shares of the Fund are offered to participants in the Merrill Lynch Blueprint (SM) Program ("Blueprint"). Blueprint is directed to small investors, group IRAs and participants in certain affinity groups such as credit unions, trade associations and benefit plans. Investors placing orders to purchase Class A shares of the Fund through Blueprint will acquire the Class A shares at net asset value plus a sales charge calculated in accordance with the Blueprint sales charge schedule (i.e., up to \$300 at 5.50%, \$300.01 to \$5,000 at 4.50% plus \$3.00 and \$5,000.01 or more at the standard sales charge rates disclosed in the Prospectus). Class A shares of the Fund are offered at net asset value plus a sales charge of 1/2 of 1% for corporate or group IRA programs placing orders to purchase their Class A shares through Blueprint. Services, including the exchange privilege, available to Class A investors through Blueprint, however, may differ from those available to other investors in Class A shares.

Class A shares are offered at net asset value, with a waiver of the front-end sales charge, to Blueprint participants through the Merrill Lynch Directed IRA Rollover Program ("IRA Rollover Program") available from Merrill Lynch Business Financial Services, a business unit of Merrill Lynch. The IRA Rollover Program is available to custodian rollover assets from Eligible Retirement Plans (as defined below) whose Trustee and/or Plan Sponsor offers the Merrill Lynch Directed IRA Rollover Program. Eligible Retirement Plans include (a) plans qualified under Section 401(k) of the Internal Revenue Code of 1986, as amended (the "Code"), with a salary reduction feature offering a menu of investments to plan participants, provided such plan initially has 1,000 or more employees eligible to participate in the plan (employees eligible to participate in retirement plans of the same sponsoring employer or its affiliates may be aggregated); or (b) tax qualified retirement plans within the meaning of Section 401(a) of the Code or deferred compensation plans within the meaning of Section

403(b) of the Code, provided the plan (i) initially invested \$5 million or more in existing plan assets in portfolios, mutual funds or trusts advised by the Manager or its subsidiaries or (ii) has accumulated \$5 million or more in existing plan assets invested in mutual funds advised by the Manager or its subsidiaries, which charge a front-end sales charge or contingent deferred sales charge (assets of retirement plans with the same sponsor or an affiliated sponsor may be aggregated).

Orders for purchases and redemptions of Class A shares of the Fund may be grouped for execution purposes which, in some circumstances, may involve the execution of such orders two business days following the day such orders are placed. The minimum initial purchase price is \$100, with a \$50 minimum for subsequent purchases through Blueprint. There are no minimum initial or subsequent purchase requirements for participants who are part of an automatic investment plan. Additional information concerning purchases through Blueprint, including any annual fees and transaction charges, is available from Merrill Lynch, Pierce, Fenner & Smith Incorporated, The Blueprint(SM) Program, P.O. Box 30441, New Brunswick, New Jersey 08989-0441.

Employer Sponsored Retirement and Savings Plans. Class A shares are offered at net asset value to employer sponsored retirement or savings plans, such as tax qualified retirement plans within the meaning of Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), deferred compensation plans within the meaning of Sections 403(b) and 457 of the Code, other deferred compensation arrangements, VEBA plans, and non-qualified After Tax Savings and Investment programs, maintained on the Merrill Lynch Group Employee Services system, herein referred to as "Employer Sponsored Retirement or Savings Plans," provided the plan has \$5 million or more in existing plan assets initially invested in portfolios, mutual funds or

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trusts advised by the Manager either directly or through an affiliate. Class A shares may also be offered at net asset value to Employer Sponsored Retirement or Savings Plans, provided the plan has accumulated \$5 million or more in existing plan assets invested in mutual funds advised by the Manager charging a front-end sales charge or contingent deferred sales charge. Assets of Employer Sponsored Retirement or Savings Plans sponsored by the same sponsor or an affiliated sponsor may be aggregated. The Class A share reduced load breakpoints also apply to these aggregated assets. Class A shares may be offered at net asset value to multiple plans sponsored by the same sponsor or an affiliated sponsor provided that the addition of one or more of the multiple plans results in aggregate assets of \$5 million or more invested in portfolios, mutual funds or trusts advised by the Manager either directly or through an affiliate. Employer Sponsored Retirement or Savings Plans are also offered Class A shares at net asset value, provided such plan initially has 1,000 or more employees eligible to participate in the plan. Employees eligible to participate in Employer Sponsored Retirement or Savings Plan of the same sponsoring employer or its affiliates may be aggregated. Tax qualified retirement plans within the meaning of Section 401(a) of the Code meeting any of the foregoing requirements and which are provided specialized services (e.g., plans whose participants may direct on a daily basis their plan allocations among a wide range of investments including individual corporate equities and other securities in addition to mutual fund shares) by the Merrill Lynch Blueprint(SM) Program, are offered Class A shares at a price equal to net asset value per share plus a reduced sales charge of 0.50%. Any Employer Sponsored Retirement or Savings Plan which does not meet the above described qualifications to purchase Class A shares at net asset value has the option of purchasing Class A shares at the sales charge schedule disclosed in the Prospectus, or if the Employer Sponsored Retirement or Savings Plan is a tax qualified retirement plan and meets the specified requirements, then it may purchase Class B shares with a waiver of the contingent deferred sales charge upon redemption. The minimum initial and subsequent purchase requirements are waived in connection with all the above referenced Employer Sponsored Retirement or Savings Plans.

Purchase Privilege of Certain Persons. Directors of the Fund, directors and trustees of certain other Merrill Lynch sponsored investment companies, directors of Merrill Lynch & Co., Inc., employees of Merrill Lynch & Co., Inc. and its subsidiaries and any trust, pension, profit-sharing or other benefit plan for such persons may purchase Class A shares of the Fund at net asset value. Class A shares of the Fund will be offered at net asset value, without a sales charge, to an investor who has a business relationship with a financial consultant who joined Merrill Lynch from another investment firm within six months prior to the date of purchase by such investor if the following conditions are satisfied. First, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of a mutual fund that was sponsored by the financial consultant's previous firm and imposed a sales charge either at the time of purchase or on a deferred basis. Second, such redemption must have been made within 60 days prior to the investment in the Fund, and the proceeds from the redemption must have been maintained in the interim in cash or a money market fund.



Class A shares of the Fund are offered at net asset value to shareholders of Senior Floating Rate Fund, Inc. (formerly known as Merrill Lynch Prime Fund, Inc.) who wish to reinvest the net proceeds from a sale of certain of their shares of common stock of Senior Floating Rate Fund, Inc. in shares of the Fund. In order to exercise this investment option, Senior Floating Rate Fund, Inc. shareholders must sell their Senior Floating Rate Fund shares to the Senior Floating Rate Fund, Inc. in connection with a tender offer conducted by the Senior Floating Rate Fund, Inc. and reinvest the proceeds immediately in the Fund. This investment option is available only with respect to the proceeds of Senior Floating Rate Fund, Inc. shares as to which no Early Withdrawal Charge (as defined in the Senior Floating Rate Fund, Inc. prospectus) is applicable. Purchase orders from Senior Floating Rate Fund, Inc. shareholders wishing to exercise this investment option will be

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accepted only on the day that the related Senior Floating Rate Fund, Inc. tender offer terminates and will be effected at the net asset value of the Fund at such day.

Class A shares of the Fund are offered at net asset value to shareholders of certain closed-end funds advised by the Manager or FAM who wish to reinvest the net proceeds from a sale of their closed-end fund shares of common stock in shares of the Fund. In order to exercise this investment option, closed-end fund shareholders must (i) sell their closed-end fund shares through Merrill Lynch and reinvest the proceeds immediately in the Fund, (ii) have acquired the shares in the closed-end fund's initial public offering or through reinvestment of dividends earned on shares purchased in such offering, (iii) have maintained their closed-end fund shares continuously in a Merrill Lynch account, and (iv) purchase a minimum of \$250 worth of Fund shares.

Class A shares of the Fund are also offered at net asset value, without sales charge, to an investor who has a business relationship with a Merrill Lynch financial consultant and who has invested in a mutual fund sponsored by a non-Merrill Lynch company for which Merrill Lynch has served as a selected dealer and where Merrill Lynch has either received or given notice that such arrangement will be terminated, if the following conditions are satisfied: first, the investor must purchase Class A shares of the Fund with proceeds from a redemption of shares of such other mutual fund and such fund imposed a sales charge either at the time of purchase or on a deferred basis; second, such purchase of Class A shares must be made within 90 days after such notice of termination.

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

Reductions in or exemptions from the imposition of a sales load are due to the nature of the investors and/or the reduced sales efforts that will be needed in obtaining such investments.

#### DEFERRED SALES CHARGE ALTERNATIVE--CLASS B SHARES

Distribution Plans. Reference is made to "Purchase of Shares--Alternative Sales Arrangements--Distribution Plans" in the Prospectus for certain information with respect to the distribution plans of the Fund (each, a "Distribution Plan").

The payment of the account maintenance fee and distribution fee with respect to Class B shares is subject to the provisions of Rule 12b-1 under the Investment Company Act. See "General Information--Description of Shares." Among other things, the Distribution Plan provides that the Distributor will provide and the Directors will review quarterly reports of the disbursement of the account maintenance and distribution fees paid to the Distributor. In their consideration of the Distribution Plan, the Directors must consider all factors they deem relevant, including information as to the benefits of the Distribution Plan to the Fund and to its Class B shareholders. The Distribution Plan further provides that, so long as such Distribution Plan remains in effect, the selection and nomination of Directors who are not "interested persons" of the Fund, as defined in the Investment Company Act (the "Independent Directors"), will be committed to the discretion of the Independent Directors then in office. In approving the Distribution Plan in accordance with Rule 12b-1, the

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Independent Directors concluded that there is a reasonable likelihood that such Distribution Plan will benefit the Fund and its Class B shareholders. The Distribution Plan can be terminated at any time, without penalty, by the vote of a majority of the Independent Directors or by the vote of the holders of a majority of the outstanding Class B voting securities of the Fund. The Distribution Plan can be amended to increase materially the amount to be spent by the Fund without Class B shareholder approval, and all material amendments are required to be approved by the vote of Directors, including a majority of the Independent Directors who have no direct or indirect financial interest in such Distribution Plan, cast in person at a meeting called for that purpose. Rule 12b-1 further requires that the Fund preserve copies of the Distribution Plan and any reports made pursuant to such plan for a period of not less than six years from the date of the Distribution Plan or such reports, the first two years in an easily accessible place.

#### REDEMPTION OF SHARES

Reference is made to "Redemption of Shares" in the Prospectus for certain information as to the redemption and repurchase of Fund shares. The right to redeem shares or to receive payment with respect to any such redemption may be suspended only for any period during which trading on the New York Stock Exchange is restricted as determined by the Commission or such Exchange is closed (other than customary weekend and holiday closings), for any period during which an emergency exists as defined by the Commission as a result of which disposal of portfolio securities or determination of the net asset value of the Fund is not reasonably practicable, and for such other periods as the Commission may by order permit for the protection of shareholders of the Fund.

#### CONTINGENT DEFERRED SALES CHARGE--CLASS B SHARES

As discussed in the Prospectus under "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares," while Class B shares redeemed within four years of purchase are subject to a contingent deferred sales charge under most circumstances, the charge is waived on redemptions of Class B shares in connection with certain post-retirement withdrawals from an Individual Retirement Account ("IRA") or other retirement plan or following the death or disability of a Class B shareholder. Redemptions for which the waiver applies are: (a) any partial or complete redemption in connection with a tax-free distribution following retirement under a tax-deferred retirement plan or attaining age 59 1/2 in the case of an IRA or other retirement plan, or any redemption resulting from the tax-free return of an excess contribution to an IRA or (b) any partial or complete redemption following the death or disability (as defined in the Code) of a Class B shareholder (including one who owns the Class B shares as joint tenant with his or her spouse), provided the redemption is requested within one year of the death or initial determination of disability.

Merrill Lynch Blueprint (SM) Program. Class B shares are offered to certain participants in the Merrill Lynch Blueprint (SM) Program ("Blueprint"). Blueprint is directed to small investors, group IRAs and participants in certain affinity groups such as trade associations and credit unions. Class B shares of the Fund are offered through Blueprint only to members of certain affinity groups. The contingent deferred sales charge is waived in connection with purchase orders placed through Blueprint. Services, including the exchange privilege, available to Class B investors through Blueprint, however, may differ from those available to other investors in Class B shares. Orders for purchases and redemptions of Class B shares of the Fund will be grouped for execution purposes which, in some circumstances, may involve the execution of such orders two business days following the day such orders are placed. The minimum initial purchase price is \$100, with a \$50

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minimum for subsequent purchases through Blueprint. There is no minimum initial or subsequent purchase requirement for investors who are part of the Blueprint automatic investment plan. Additional information concerning these Blueprint programs, including any annual fees or transaction charges, is available from Merrill Lynch, Pierce, Fenner & Smith Incorporated, The Blueprint (SM) Program, P.O. Box 30441, New Brunswick, New Jersey 08989-0441.

Retirement Plans. Any Retirement Plan which does not meet the qualifications to purchase Class A shares at net asset value has the option of purchasing Class A shares at the sales charge schedule disclosed in the Prospectus, or if the Retirement Plan meets the following requirements, then it may purchase Class B shares with a waiver of the contingent deferred sales charge upon redemption. The contingent deferred sales charge is waived for any Eligible 401(k) Plan redeeming Class B shares. "Eligible 401(k) Plan" is defined as a retirement plan qualified under Section 401(k) of the Code with a salary reduction feature offering a menu of investments to plan participants. The contingent deferred sales charge is also waived for redemptions from a 401(a)

plan qualified under the Code, provided, however, that each such plan has the same or an affiliated sponsoring employer as an Eligible 401(k) Plan purchasing Class B shares of a mutual fund advised by the Manager or FAM ("Eligible 401(a) Plan"). The contingent deferred sales charge is waived for any Class B shares which are purchased by an Eligible 401(k) Plan or Eligible 401(a) Plan and are rolled over into a Merrill Lynch or Merrill Lynch Trust Company custodied IRA and held in such account at the time of redemption. The minimum initial and subsequent purchase requirements are waived in connection with all the above referenced Retirement Plans.

#### PORTFOLIO TRANSACTIONS AND BROKERAGE

Reference is made to "Investment Objectives and Policies--Other Investment Policies and Practices Portfolio Transactions" in the Prospectus.

Subject to policies established by the Board of Directors of the Fund, the Manager is primarily responsible for the execution of the Fund's portfolio transactions. In executing such transactions, the Manager seeks to obtain the best net results for the Fund, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. Subject to obtaining the best price and execution, brokers who provide supplemental investment research to the Manager may receive orders for transactions by the Fund. Information so received will be in addition to and not in lieu of the services required to be performed by the Manager under the Management Agreement, and the expenses of the Manager will not necessarily be reduced as a result of the receipt of such supplemental information. In addition, consistent with the Rules of Fair Practice of the National Association of Securities Dealers, Inc. and policies established by the Directors of the Fund, the Manager may consider sales of shares of the Fund as a factor in the selection of brokers or dealers to execute portfolio transactions for the Fund. It is possible that certain of the supplementary investment research so received will primarily benefit one or more other investment companies or other accounts for which investment discretion is exercised. Conversely, the Fund may be the primary beneficiary of the research or services received as a result of portfolio transactions effected for such other accounts or investment companies.

The Fund anticipates that its brokerage transactions involving securities of companies domiciled in countries other than the United States will be conducted primarily on the principal stock exchanges of such

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countries. Brokerage commissions and other transaction costs on foreign stock exchange transactions are generally higher than in the United States, although the Fund will endeavor to achieve the best net results in effecting its portfolio transactions. There is generally less governmental supervision and regulation of foreign stock exchanges and brokers than in the United States.

The Fund invests in certain securities traded in the over-the-counter market and, where possible, deals directly with the dealers who make a market in the securities involved except in those circumstances in which better prices and execution are available elsewhere. Under the Investment Company Act, persons affiliated with the Fund and persons who are affiliated with such affiliated persons are prohibited from dealing with the Fund as principal in the purchase and sale of securities unless a permissive order allowing such transactions is obtained from the Commission. Since transactions in the over-the-counter market usually involve transactions with dealers acting as principal for their own accounts, affiliated persons of the Fund, including Merrill Lynch and any of its affiliates, will not serve as the Fund's dealer in such transactions. However, affiliated persons of the Fund may serve as its broker in listed or over-the-counter transactions conducted on an agency basis provided that, among other things, the fee or commission received by such affiliated broker is reasonable and fair compared to the fee or commission received by non-affiliated brokers in connection with comparable transactions.

The Fund's ability and decisions to purchase or sell portfolio securities may be affected by laws or regulations relating to the convertibility and repatriation of assets. Because the shares of the Fund are redeemable on a daily basis in U.S. dollars, the Fund intends to manage its portfolio so as to give reasonable assurance that it will be able to obtain U.S. dollars to the extent necessary to meet anticipated redemptions. Under present conditions, it is not believed that these considerations will have any significant effect on its portfolio strategy.

Section 11(a) of the Securities Exchange Act of 1934, as amended, generally prohibits members of the U.S. national securities exchanges from executing exchange transactions for their affiliates and institutional accounts which they

manage unless the member (i) has obtained prior express authorization from the account to effect such transactions, (ii) at least annually furnishes the account with the aggregate compensation received by the member in effecting such transactions, and (iii) complies with any rules the Commission has prescribed with respect to the requirements of clauses (i) and (ii). To the extent Section 11(a) would apply to Merrill Lynch acting as a broker for the Fund in any of its portfolio transactions executed on any such securities exchange of which it is a member, appropriate consents have been obtained from the Fund and annual statements as to aggregate compensation will be provided to the Fund.

The Directors have considered the possibilities of seeking to recapture for the benefit of the Fund brokerage commissions and other expenses of possible portfolio transactions by conducting portfolio transactions through affiliated entities. For example, brokerage commissions received by affiliated brokers could be offset against the advisory fee paid by the Fund. After considering all factors deemed relevant, the Directors made a determination not to seek such recapture. The Directors will reconsider this matter from time to time.

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#### DETERMINATION OF NET ASSET VALUE

Reference is made to "Additional Information--Determination of Net Asset Value" in the Prospectus concerning the determination of net asset value. The net asset value of the shares of the Fund is determined once daily Monday through Friday as of 4:15 p.m., New York time, on each day the New York Stock Exchange is open for trading. The New York Stock Exchange is not open on New Year's Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. Any assets or liabilities initially expressed in terms of non-U.S. dollar currencies are translated into U.S. dollars at the prevailing market rates as quoted by one or more banks or dealers on the day of valuation. Net asset value is computed by dividing the value of the securities held by the Fund plus any cash or other assets (including interest and dividends accrued but not yet received) minus all liabilities (including accrued expenses) by the total number of shares outstanding at such time. Expenses, including the fees payable to the Manager and the Distributor, are accrued daily. The per share net asset value of the Class B shares generally will be lower than the per share net asset value of the Class A shares reflecting the daily expense accruals of the account maintenance, distribution and higher transfer agency fees applicable with respect to the Class B shares. It is expected, however, that the per share net asset value of the two classes will tend to converge immediately after the payment of dividends or distributions, which will differ by approximately the amount of the expense accrual differential between the classes.

Securities traded in the over-the-counter market are valued at the last available bid price or yield equivalents obtained from one or more dealers in the over-the-counter market prior to the time of valuation. When the Fund writes a call option, the amount of the premium received is recorded on the books of the Fund as an asset and an equivalent liability. The amount of the liability is subsequently valued to reflect the current market value of the option written, based upon the last asked price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last asked price as obtained from one or more dealers. Options purchased by the Fund are valued at their last bid price in the case of exchange-traded options or, in the case of options traded in the over-the-counter market, the average of the last bid price as obtained from two or more dealers unless there is only one dealer, in which case that dealer's price is used. Portfolio securities which are traded on stock exchanges are valued at the last sale price on the principal market on which such securities are traded, as of the close of business on the day the securities are being valued, or lacking any sales, at the last available bid price. 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. Other investments, including futures contracts and related options, are stated at market value. Securities and assets for which market quotations are not readily available are valued at fair value as determined in good faith under the direction of the Board of Directors of the Fund, including valuations furnished by a pricing service retained by the Fund, which may utilize a matrix system for valuations. The procedures of the pricing service and its valuations are reviewed by the officers of the Fund under the general supervision of the Board of Directors.

#### SHAREHOLDER SERVICES

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

## INVESTMENT ACCOUNT

Each shareholder whose account is maintained at the transfer agent has an Investment Account and will receive monthly statements from the transfer agent showing any reinvestments of dividends and capital gains distributions and any other activity in the account since the preceding statement. Shareholders also will receive separate confirmations for each purchase or sale transaction other than reinvestment of dividends and capital gains distributions. A shareholder may make additions to his Investment Account at any time by mailing a check directly to the transfer agent.

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

## AUTOMATIC INVESTMENT PLAN

A shareholder may make additions to an Investment Account at any time by purchasing Class A or Class B shares at the applicable public offering price either through the shareholder's securities dealer or by mail directly to the transfer agent, acting as agent for such securities dealer. Voluntary accumulation can also be made through a service known as the Automatic Investment Plan whereby the Fund is authorized through pre-authorized checks of \$50 or more to charge the regular bank account of the shareholder on a regular basis to provide systematic additions to the Investment Account of such shareholder. An investor whose shares of the Fund are held within a CMA(R) account may arrange to have periodic investments made in the Fund in amounts of \$250 or more through the CMA Automatic Investment Program. The Automatic Investment Program is not available to shareholders whose shares are held in a brokerage account with Merrill Lynch other than a CMA(R) account.

## AUTOMATIC REINVESTMENT OF DIVIDENDS AND CAPITAL GAINS DISTRIBUTIONS

Unless specific instructions to the contrary are given as to the method of payment of dividends and capital gains distributions, dividends and distributions will be reinvested automatically in additional shares of the Fund. Such reinvestment will be at the net asset value of shares of the Fund, without sales charge, as of the close of business on the ex-dividend date of the dividend or distribution. Shareholders may elect in writing to receive either their dividends or capital gains distributions, or both, in cash, in which event payment will be mailed on or about the payment date.

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

## SYSTEMATIC WITHDRAWAL PLANS -- CLASS A SHARES

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

At the time of each withdrawal payment, sufficient Class A shares are redeemed from those on deposit in the shareholder's account to provide the withdrawal payment specified by the shareholder. The shareholder may specify either a dollar amount or a percentage of the value of his Class A shares. Redemptions will be made at net asset value as determined at the close of business of the New York Stock Exchange on the 24th day of each month or the 24th day of the last month of each quarter, whichever is applicable. If the Exchange is not open for business on such date, the Class A shares will be redeemed at the close of business on the following business day. The check for the withdrawal payment will be mailed, or the direct deposit of the withdrawal payment will be made, on the next business day following redemption. When a shareholder is making systematic withdrawals, dividends and distributions on all Class A shares in the Investment Account are reinvested automatically in Fund Class A shares. A shareholder's Systematic Withdrawal Plan may be terminated at

any time, without charge or penalty, by the shareholder, the Fund, the transfer agent or the Distributor.

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

A Class A shareholder whose shares are held within a CMA(R), CBA(R) or Retirement Account may elect to have shares redeemed on a monthly, bimonthly, quarterly, semiannual or annual basis through the Systematic Redemption Program. The minimum fixed dollar amount redeemable is \$25. The proceeds of systematic redemptions will be posted to the shareholder's account five business days after the date the shares are redeemed. Monthly systematic redemptions will be made at net asset value on the first Monday of each month, bimonthly systematic redemptions will be made at net asset value on the first Monday of every other month, and quarterly, semiannual or annual redemptions are made at net asset value on the first Monday of months selected at the shareholder's option. If the first Monday of the month is a holiday, the redemption will be processed at net asset value on the next business day. The Systematic Redemption Program is not available if Fund shares are being purchased within the account pursuant to the Automatic Investment Program. For more information on the Systematic Redemption Program, eligible shareholders should contact their Financial Consultant.

#### EXCHANGE PRIVILEGE

U.S. Class A or Class B shareholders of the Fund may exchange their Class A or Class B shares of the Fund for shares of the same class of Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Arizona Limited Maturity Municipal Bond Fund, Merrill Lynch Arizona Municipal Bond Fund, Merrill Lynch Asset Growth Fund, Inc., Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California Insured Municipal Bond Fund, Merrill Lynch California Limited Maturity Municipal Bond Fund, Merrill Lynch California Municipal Bond Fund, Merrill Lynch Capital Fund, Inc., Merrill Lynch Colorado Municipal Bond Fund, Merrill Lynch Connecticut Municipal Bond Fund, Merrill Lynch Corporate Bond Fund, Inc., Merrill

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Lynch Developing Capital Markets Fund, Inc., Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Federal Securities Trust, Merrill Lynch Florida Limited Maturity Municipal Bond Fund, Merrill Lynch Florida Municipal Bond Fund, Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings (residents of Arizona must meet investor suitability standards), Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc. (residents of Wisconsin must meet investor suitability standards), Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Maryland Municipal Bond Fund, Merrill Lynch Massachusetts Limited Maturity Municipal Bond Fund, Merrill Lynch Massachusetts Municipal Bond Fund, Merrill Lynch Michigan Limited Maturity Municipal Bond Fund, Merrill Lynch Michigan Municipal Bond Fund, Merrill Lynch Minnesota Municipal Bond Fund, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Municipal Intermediate Term Fund, Merrill Lynch New Jersey Limited Maturity Municipal Bond Fund, Merrill Lynch New Mexico Municipal Bond Fund, Merrill Lynch New Jersey Municipal Bond Fund, Merrill Lynch New York Limited Maturity Municipal Bond Fund, Merrill Lynch New York Municipal Bond Fund, Merrill Lynch North Carolina Municipal Bond Fund, Merrill Lynch Ohio Municipal Bond Fund, Merrill Lynch Oregon Municipal Bond Fund, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Pennsylvania Limited Maturity Municipal Bond Fund, Merrill Lynch Pennsylvania Municipal Bond Fund, Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch SmallCap Global Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch Texas Municipal Bond Fund, Merrill Lynch Utility Income Fund, Inc. and Merrill Lynch World Income Fund, Inc. on the basis described below. In addition, Class A shareholders of the Fund may exchange their Class A shares for shares of Merrill Lynch U.S.A. Government Reserves, Merrill Lynch Ready Assets Trust and Merrill Lynch U.S. Treasury Money Fund (or Merrill Lynch Retirement Reserves Money Fund if the exchange occurs within certain retirement plans) (together, the "Class A

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

Under the exchange privilege, each of the funds with Class A shares outstanding offers to exchange its Class A shares ("new Class A shares") for Class A shares ("outstanding Class A shares") of any of the other funds, on the basis of relative net asset value per Class A share, plus an amount equal to the difference, if any, between the sales charge previously paid on the outstanding Class A shares and the sales charge payable at the time of the exchange on the new Class A shares. With respect to outstanding Class A shares as to which

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previous exchanges have taken place, the "sales charge previously paid" shall include the aggregate of the sales charges paid with respect to such Class A shares in the initial purchase and any subsequent exchange. Class A shares issued pursuant to dividend reinvestment are sold on a no-load basis in each of the funds offering Class A shares. For purposes of the exchange privilege, Class A shares acquired through dividend reinvestment shall be deemed to have been sold with a sales charge equal to the sales charge previously paid on the Class A shares on which the dividend was paid. Based on this formula, Class A shares of the Fund generally may be exchanged into the Class A shares of the other funds or into shares of the Class A money market funds with a reduced or without a sales charge.

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

Shareholders also may exchange Class A shares and Class B shares from any of the funds into shares of the Class A money market funds and Class B money market funds, respectively, but the period of time that Class B shares are held in a Class B money market fund will not count towards satisfaction of the holding period requirement for purposes of reducing the contingent deferred sales charge. However, shares of a Class B money market fund which were acquired as a result of an exchange for Class B shares of a fund may, in turn, be exchanged back into Class B shares of any fund offering such shares, in which event the holding period for Class B shares of the fund will be aggregated with previous holding periods for purposes of reducing the contingent deferred sales charge. Thus, for example, an investor may exchange Class B shares of the Fund for shares of Merrill Lynch Institutional Fund after having held the Class B shares for two and a half years and three years later decide to redeem the shares of Merrill Lynch Institutional Fund for cash. At the time of this redemption, the 2% contingent deferred sales charge that would have been due had

the Class B shares of the Fund been redeemed for cash rather than exchanged for shares of Merrill Lynch Institutional Fund will be payable. If, instead of such redemption the shareholder exchanged such shares for Class B shares of a fund which the shareholder continues to hold for an additional two and a half years, any subsequent redemption will not incur a contingent deferred sales charge.

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

MERRILL LYNCH ADJUSTABLE RATE  
SECURITIES FUND, INC.

High current income consistent with a policy of limiting the degree of fluctuation in net asset value by investing primarily in a portfolio of adjustable rate securities, consisting principally of mortgage-backed and asset-backed securities.

MERRILL LYNCH AMERICAS  
INCOME FUND, INC.

A high level of current income, consistent with prudent investment risk, by investing primarily in debt securities denominated in a currency of a country located in the Western Hemisphere (i.e., North and South America and the surrounding waters).

MERRILL LYNCH ARIZONA LIMITED MATURITY  
MUNICIPAL BOND FUND

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

MERRILL LYNCH ARIZONA MUNICIPAL  
BOND FUND

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

MERRILL LYNCH ASSET GROWTH FUND, INC.

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

MERRILL LYNCH BALANCED FUND FOR  
INVESTMENT AND RETIREMENT

As high a level of total investment return as is consistent with reasonable risk by investing in common stocks and other types of securities,

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including fixed income securities and convertible securities.

MERRILL LYNCH BASIC VALUE FUND, INC.

Capital appreciation and, secondarily, income through investment in securities, primarily equities, that are undervalued and therefore represent basic investment value.

MERRILL LYNCH CALIFORNIA INSURED  
MUNICIPAL BOND FUND

A portfolio of Merrill Lynch



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

MERRILL LYNCH CALIFORNIA LIMITED MATURITY MUNICIPAL BOND FUND

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

MERRILL LYNCH CALIFORNIA MUNICIPAL BOND FUND

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

MERRILL LYNCH CAPITAL FUND, INC.

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

MERRILL LYNCH COLORADO MUNICIPAL BOND FUND

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

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MERRILL LYNCH CONNECTICUT MUNICIPAL BOND FUND, INC.

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

MERRILL LYNCH CORPORATE BOND FUND, INC.

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

MERRILL LYNCH DEVELOPING CAPITAL MARKETS FUND, INC.

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

MERRILL LYNCH DRAGON FUND, INC.

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

MERRILL LYNCH EUROFUND

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

MERRILL LYNCH FEDERAL SECURITIES TRUST

High current return through investments in U.S. Government and Government agency securities,

including GNMA mortgage-backed certificates and other mortgage-backed Government securities.

MERRILL LYNCH FLORIDA LIMITED MATURITY MUNICIPAL BOND FUND

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

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MERRILL LYNCH FLORIDA MUNICIPAL BOND FUND

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

MERRILL LYNCH FUND FOR TOMORROW, INC.

Long-term growth through investment in a portfolio of good quality securities, primarily common stock, potentially positioned to benefit from demographic and cultural changes as they affect consumer markets.

MERRILL LYNCH FUNDAMENTAL GROWTH FUND, INC.

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

MERRILL LYNCH GLOBAL ALLOCATION FUND, INC.

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

MERRILL LYNCH GLOBAL BOND FUND FOR INVESTMENT AND RETIREMENT

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

MERRILL LYNCH GLOBAL CONVERTIBLE FUND, INC.

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

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MERRILL LYNCH GLOBAL HOLDINGS  
(residents of Arizona must meet  
investor  
suitability standards)

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

MERRILL LYNCH GLOBAL RESOURCES TRUST

Long-term growth and protection of  
capital from investment in  
securities of domestic and foreign  
companies that possess substantial  
natural resource assets.

MERRILL LYNCH GLOBAL UTILITY FUND,  
INC.

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

MERRILL LYNCH GOVERNMENT FUND

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

MERRILL LYNCH GROWTH FUND FOR  
INVESTMENT  
AND RETIREMENT

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

MERRILL LYNCH HEALTHCARE FUND, INC.  
(residents of Wisconsin must meet  
investor  
suitability standards) .....

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

MERRILL LYNCH INSTITUTIONAL FUND

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

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MERRILL LYNCH INSTITUTIONAL TAX-EXEMPT  
FUND

A portfolio of Merrill Lynch Funds  
for Institutions Series, a series  
fund, whose objective is to provide  
current income exempt from Federal  
income taxes, preservation of  
capital and liquidity available  
from investing in a diversified  
portfolio of short-term, high  
quality municipal bonds.

MERRILL LYNCH INTERNATIONAL  
EQUITY FUND

Capital appreciation and,  
secondarily, income by investing in  
a diversified portfolio of equity

securities of issuers located in countries other than the United States.

MERRILL LYNCH LATIN AMERICA FUND, INC.

Capital appreciation by investing primarily in Latin American equity and debt securities.

MERRILL LYNCH MARYLAND MUNICIPAL BOND FUND

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

MERRILL LYNCH MASSACHUSETTS LIMITED MATURITY MUNICIPAL BOND FUND

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

MERRILL LYNCH MASSACHUSETTS MUNICIPAL BOND FUND

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

MERRILL LYNCH MICHIGAN LIMITED MATURITY MUNICIPAL BOND FUND

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

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

MERRILL LYNCH MICHIGAN MUNICIPAL BOND FUND

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

MERRILL LYNCH MINNESOTA MUNICIPAL BOND FUND

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

MERRILL LYNCH MUNICIPAL BOND FUND, INC.

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

MERRILL LYNCH MUNICIPAL INTERMEDIATE TERM FUND

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

average maturity of five to twelve years.

MERRILL LYNCH NEW JERSEY LIMITED  
MATURITY MUNICIPAL BOND FUND

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

MERRILL LYNCH NEW JERSEY  
MUNICIPAL BOND FUND

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

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

MERRILL LYNCH NEW MEXICO  
MUNICIPAL BOND FUND

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

MERRILL LYNCH NEW YORK LIMITED  
MATURITY MUNICIPAL BOND FUND

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

MERRILL LYNCH NEW YORK  
MUNICIPAL BOND FUND

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

MERRILL LYNCH NORTH CAROLINA MUNICIPAL  
BOND FUND

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

MERRILL LYNCH OHIO MUNICIPAL BOND  
FUND

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

MERRILL LYNCH OREGON MUNICIPAL  
BOND FUND

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

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MERRILL LYNCH PACIFIC FUND, INC.	Capital appreciation by investing in equity securities of corporations domiciled in Far Eastern and Western Pacific countries, including Japan, Australia, Hong Kong, Singapore and the Philippines.
MERRILL LYNCH PENNSYLVANIA MATURITY MUNICIPAL FUND	A portfolio of Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, a series fund, whose objective is to provide as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent investment management through investment in a portfolio of intermediate-term investment grade Pennsylvania Municipal Bonds.
MERRILL LYNCH PENNSYLVANIA MUNICIPAL BOND FUND	A portfolio of Merrill Lynch Multi-State Municipal Series Trust, a series fund, whose objective is as high a level of income exempt from Federal and Pennsylvania income taxes as is consistent with prudent investment management.
MERRILL LYNCH PHOENIX FUND, INC.	Long-term growth of capital by investing in equity and fixed income securities, including tax-exempt securities, of issuers in weak financial condition or experiencing poor operating results believed to be undervalued relative to the current or prospective condition of such issuer.
MERRILL LYNCH READY ASSETS TRUST	Preservation of capital, liquidity and the highest possible current income consistent with the foregoing objectives from the short-term money market securities in which the Trust invests.
MERRILL LYNCH RETIREMENT RESERVES MONEY FUND (available only if the exchange occurs within certain retirement plans)	Currently the only portfolio of Merrill Lynch Retirement Series Trust, a series fund, whose objectives are current income, preservation of capital and liquidity available from investing in a diversified portfolio of short-term money market securities.
MERRILL LYNCH SHORT-TERM GLOBAL INCOME FUND, INC.	As high a level of current income as is consistent with prudent investment management from a global portfolio of high quality debt securities

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MERRILL LYNCH SMALLCAP GLOBAL FUND, INC.	denominated in various currencies and multinational currency units and having remaining maturities not exceeding three years.
MERRILL LYNCH SPECIAL VALUE FUND, INC.	Long-term growth of capital from investments in securities, primarily common stocks, of companies with relatively small market capitalizations located in various foreign countries and in the United States.
	Long-term growth of capital from

investments in securities, primarily common stocks, of relatively small companies believed to have special investment value and emerging growth companies regardless of size.

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

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

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

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

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

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

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

MERRILL LYNCH WORLD INCOME FUND, INC. High current income by investing in a global portfolio of fixed income securities denominated in various currencies, including multinational currencies.

Before effecting an exchange, shareholders of the Fund should obtain a currently effective prospectus of the fund into which the exchange is to be made. Exercise of the exchange privilege is treated as a sale for Federal income tax purposes and, depending on the circumstances, a short-or long-term capital gain or loss may be realized. In addition, a shareholder exchanging shares of any of the funds may be subject to a backup withholding tax unless such

shareholder certifies under penalty of perjury that the taxpayer identification number on file with any such fund is correct and that such shareholder is not otherwise subject to backup withholding. See "Dividends, Distributions and Taxes - -- Taxes" below.

To exercise the exchange privilege, shareholders should contact their Merrill Lynch financial consultant, who will advise the Fund of the exchange, or if the exchange does not involve a money market fund, shareholders may write to the transfer agent requesting that the exchange be effected. Such letter must be signed exactly as the account is registered with signatures guaranteed by an "eligible guarantor institution" (including, for example, Merrill Lynch branch offices and certain other financial institutions) as such is defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, the existence and validity of which may be verified by the transfer agent through the use of industry publications. Shareholders of the Fund, and shareholders of the other funds described above with shares for which certificates have not been issued, may exercise the exchange privilege by wire through their securities dealers. The Fund reserves the right to require a properly completed Exchange Application. This exchange privilege may be modified or terminated in accordance with the rules of the Commission. The Fund reserves the right to limit the number of times an investor may exercise the exchange privilege. Certain funds may suspend the continuous offering

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of their shares at any time and may thereafter resume such offering from time to time. The exchange privilege is available only to U.S. shareholders in states where the exchange legally may be made.

#### DIVIDENDS, DISTRIBUTIONS AND TAXES

##### DIVIDENDS AND DISTRIBUTIONS

All or a portion of the Fund's net investment income will be declared as dividends daily prior to the determination of net asset value on that day and paid monthly. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income in addition to net investment income earned in any particular period in order to permit the Fund to maintain a more stable level of distributions. As a result, the distribution paid by the Fund for any particular period may be more or less than the amount of net investment income earned by the Fund during such period. However, it is the Fund's intention to distribute during any fiscal year all its net investment income. Shares will accrue dividends as long as they are issued and outstanding. Shares are issued and outstanding as of the settlement date of a purchase order or the settlement date of a redemption order. All net realized long-term and short-term capital gains, if any, will be distributed to the Fund's shareholders at least annually. See "Shareholder Services--Automatic Reinvestment of Dividends and Capital Gains Distributions" for information concerning the manner in which dividends and distributions may be reinvested automatically in shares of the Fund. Shareholders may elect in writing to receive any such dividends or distributions, or both, in cash. Dividends and distributions are taxable to shareholders as described below whether they are invested in shares of the Fund or received in cash. The per share dividends and distributions on Class B shares will be lower than the per share dividends and distributions on Class A shares as a result of the distribution and higher transfer agency fees applicable with respect to the Class B shares. See "Determination of Net Asset Value."

##### TAXES

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

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



Dividends are taxable to shareholders even if they are reinvested in additional shares of the Fund. Not later than 60 days after the close of its taxable year, the Fund will provide its shareholders with a written notice designating the amounts of any ordinary income dividends and capital gain dividends. A portion of the Fund's ordinary income dividends may be eligible for the dividends received deduction allowed to corporations under the Code, if certain requirements are met. For this purpose, the Fund will allocate dividends eligible for the dividends received deduction between the Class A and Class B shareholders according to a method (which it believes is consistent with the Securities and Exchange Commission exemptive order permitting the issuance and sale of two classes of stock) that is based on the gross income allocable to Class A and Class B shareholders during the taxable year, or such other method as the Internal Revenue Service may prescribe. If the Fund pays a dividend in January that was declared in the previous October, November or December to shareholders of record on a specified date in one of such months, then such dividend will be treated for tax purposes as being paid by the Fund and received by its shareholders on December 31 of the year in which such dividend was declared.

Ordinary income dividends paid by the Fund to shareholders who are nonresident aliens or foreign entities will be subject to a 30% U.S. withholding tax under existing provisions of the Code applicable to foreign individuals and entities unless a reduced rate of withholding or a withholding exemption is provided under applicable treaty law. Nonresident shareholders are urged to consult their own tax advisers concerning the applicability of the U.S. withholding tax.

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

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

The Code requires a RIC to pay a nondeductible 4% excise tax to the extent the RIC does not distribute, during each calendar year, 98% of its ordinary income, determined on a calendar year basis, and 98% of its capital gains, determined, in general, on an October 31 year end, plus certain undistributed amounts from previous years. While the Fund intends to distribute its income and capital gains in the manner necessary to avoid imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's taxable income and capital gains will be distributed to avoid entirely the imposition of the tax. In such event, the Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirements.

**Tax Treatment of Options, Futures and Forward Foreign Exchange Transactions.** The Fund may write, purchase or sell options, futures or forward foreign exchange contracts. Options and futures contracts that are "Section 1256 contracts" will be "marked to market" for Federal income tax purposes at the end of each taxable year, i.e., each such option or futures contract will be treated as sold for its fair market value on the last day of the taxable year, which may cause the Fund to recognize income without receiving cash with which to

make distributions in amounts necessary to satisfy certain distribution requirements for relief from income and excise taxes. Unless such contract is a non-equity option or a regulated futures contract for a non-U.S. currency and the Fund elects to have gain or loss in connection with the contract treated as ordinary gain or loss under Code Section 988 (as described below), gain or loss from Section 1256 contracts will be 60% long-term and 40% short-term capital gain or loss. The mark-to-market rules outlined above, however, will not apply to certain transactions entered into by the Fund solely to reduce the risk of changes in price or interest or currency exchange rates with respect to its investments.

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

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

One of the requirements for qualification as a RIC is that less than 30% of the Fund's gross income may be derived from gains from the sale or other disposition of securities held for less than three months. Accordingly, the Fund may be restricted in effecting closing transactions within three months after entering into an options or futures contract.

Special Rules for Certain Foreign Currency Transactions. In general, gains from "foreign currencies" and from foreign currency options, foreign currency futures and forward foreign exchange contracts relating to investments in stock, securities or foreign currencies will be qualifying income for purposes of determining whether the Fund qualifies as a RIC. It is currently unclear, however, who will be treated as the issuer of a foreign currency instrument or how foreign currency options, foreign currency futures and forward foreign exchange contracts will be valued for purposes of the RIC diversification requirements applicable to the Fund. The Fund intends to monitor developments in this area and may request a private letter ruling from the Internal Revenue Service on some or all of these issues.

Under Code Section 988, special rules are provided for certain transactions in a currency other than the taxpayer's functional currency (i.e., unless certain special rules apply, currencies other than the U.S. dollar). In general, foreign currency gains or losses from certain debt instruments, from forward contracts, from futures contracts that are not "regulated futures contracts" and from unlisted options will be treated as ordinary income or loss under Code Section 988. In certain circumstances, the Fund may elect capital gain or loss treatment for such transactions. Regulated futures contracts, as described above, will be taxed under Code Section 1256 unless application of Section 988 is elected by the Fund. In general, however, Code Section 988 gains or losses will increase or decrease the amount of the Fund's income available to be distributed to shareholders as ordinary income. Additionally, if Code Section 988 losses exceed other ordinary income during a taxable year, the Fund would not be able to make any ordinary dividend distributions, and any distributions made before the losses were realized but in the same taxable year would be recharacterized as a return of capital to shareholders, thereby reducing the basis of each shareholder's Fund shares. These rules and the

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mark-to-market rules described above, however, will not apply to certain transactions entered into by the Fund solely to reduce the risk of currency fluctuations with respect to its investments.

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

Ordinary income dividends and capital gain dividends may also be subject to state and local taxes.

Certain states exempt from state income taxation dividends paid by RICs which are derived from interest on U.S. Government obligations. State law varies as to whether dividend income attributable to U.S. Government obligations is exempt from state income tax.

Shareholders are urged to consult their own tax advisers regarding specific questions as to Federal, foreign, state or local taxes. Foreign investors should consider applicable foreign taxes in their evaluation of an investment in the Fund.

#### PERFORMANCE DATA

From time to time the Fund may include its average annual total return and other total return data in advertisements or information furnished to present or prospective shareholders. Total return figures are based on the Fund's historical performance and are not intended to indicate future performance.

Average annual total return is determined separately for Class A and Class B shares in accordance with a formula specified by the Commission.

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

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

In order to reflect the reduced sales charges, in the case of Class A shares, or the waiver of the contingent deferred sales charge, in the case of Class B shares, applicable to certain investors, as described under

"Purchase of Shares" and "Redemption of Shares," respectively, the total return data quoted by the Fund in advertisements directed to such investors may take into account the reduced, and not the maximum, sales charge or may not take into account the contingent deferred sales charge and therefore may reflect greater total return since, due to the reduced sales charges or the waiver of sales charges, a lower amount of expenses may be deducted.

#### GENERAL INFORMATION

##### DESCRIPTION OF SHARES

The Fund was incorporated under Maryland law on June 6, 1994. It has an authorized capital of 200,000,000 shares of Common Stock, par value \$0.10 per share, divided into two classes, designated Class A Common Stock and Class B Common Stock, each of which consists of 100,000,000 shares. Both Class A Common Stock and Class B Common Stock represent an interest in the same assets of the Fund and are identical in all respects except that the Class B shares bear certain expenses related to the account maintenance and distribution of such shares and have exclusive voting rights with respect to matters relating to such account maintenance and distribution expenditures. The Fund has received an order from the Commission permitting the issuance and sale of two classes of Common Stock. The Board of Directors of the Fund may classify and reclassify the shares of the Fund into additional classes of Common Stock at a future date and may change the rights and preferences of issued shares as long as such change does not substantially adversely affect the rights of holders of such issued shares. The creation of additional classes would require an additional order from the Commission. There is no assurance that such an additional order would be issued.

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

The Manager provided the initial capital for the Fund by purchasing 5,000

shares of each class of stock for an aggregate of \$100,000. Such shares were acquired for investment and can only be disposed of by redemption. The organizational expenses of the Fund will be paid by the Fund and amortized over a period not exceeding five years. The proceeds realized by the Manager upon redemption of any of such shares will be reduced by the proportionate amount of the unamortized organizational expenses which the number of shares redeemed bears to the number of shares initially purchased.

COMPUTATION OF OFFERING PRICE PER SHARE

An illustration of the computation of the offering price for Class A and Class B shares of the Fund based on the projected value of the Fund's estimated net assets on July 22, 1994, and its shares outstanding on that date is as follows:

<u>&lt;S&gt;</u>	<u>CLASS A</u>	<u>CLASS B</u>
<u>&lt;CAPTION&gt;</u>	<u>-----</u>	<u>-----</u>
Net Assets.....	\$50,000	\$50,000
	=====	=====
Number of Shares Outstanding.....	5,000	5,000
	=====	=====
Net Asset Value Per Share (net assets divided by number of shares outstanding).....	\$ 10.00	\$ 10.00
Sales Charge (for Class A shares: 4.00% of offering price ( % of net amount invested))*.....	\$ 0.42	\$ ---**
	-----	-----
Offering Price.....	\$ 10.42	\$ 10.00
	=====	=====

</TABLE>

\* Rounded to the nearest one-hundredth percent; assumes maximum sales charge is applicable.

\*\* Class B shares are not subject to an initial sales charge but may be subject to a contingent deferred sales charge on redemption of shares within four years of purchase. See "Purchase of Shares--Deferred Sales Charge Alternative--Class B Shares" in the Prospectus and "Redemption of Shares--Contingent Deferred Sales Charge--Class B Shares" herein.

INDEPENDENT AUDITORS

Deloitte & Touche LLP, 117 Campus Drive, Princeton, New Jersey 08540, has been selected as the independent auditors of the Fund. The selection of independent auditors is subject to ratification by the shareholders of the Fund. The independent auditors are responsible for auditing the annual financial statements of the Fund.

CUSTODIAN

The Chase Manhattan Bank, N.A., 4 MetroTech Center, 18th Floor, Brooklyn, New York 11245 (the "Custodian"), acts as the custodian of the Fund's assets. Under its contract with the Fund, the Custodian is authorized to establish separate accounts in foreign currencies and to cause foreign securities owned by the Fund to be held in its offices outside the U.S. and with certain foreign banks and securities depositories. The Custodian is responsible for safeguarding and controlling the Fund's cash and securities, handling the receipt and delivery of securities and collecting interest and dividends on the Fund's investments.

TRANSFER AGENT

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

## LEGAL COUNSEL

Rogers & Wells, 200 Park Avenue, New York, New York 10166, is counsel for the Fund.

## REPORTS TO SHAREHOLDERS

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

## ADDITIONAL INFORMATION

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

Under a separate agreement, Merrill Lynch has granted the Fund the right to use the "Merrill Lynch" name and has reserved the right to withdraw its consent to the use of such name by the Fund at any time or to grant the use of such name to any other company, and the Fund has granted Merrill Lynch, under certain conditions, the use of any other name it might assume in the future, with respect to any corporation organized by Merrill Lynch.

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## APPENDIX

## RATINGS OF FIXED INCOME SECURITIES

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

&lt;TABLE&gt;

&lt;S&gt; &lt;C&gt;

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

&lt;/TABLE&gt;

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.

#### DESCRIPTION OF MOODY'S COMMERCIAL PAPER RATINGS

The term "commercial paper" as used by Moody's means promissory obligations not having an original maturity in excess of nine months. Moody's makes no representations as to whether such commercial paper is by any other definition "commercial paper" or is exempt from registration under the Securities Act of 1933, as amended.

Moody's commercial paper ratings are opinions of the ability of issuers to repay punctually promissory obligations not having an original maturity in excess of nine months. Moody's makes no representation that such obligations are exempt from registration under the Securities Act of 1933, nor does it represent that any specific note is a valid obligation of a rated issuer or issued in conformity with any applicable law. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

PRIME-1. Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

--Leading market positions in well-established industries.

--High rates of return on funds employed.

--Conservative capitalization structure with moderate reliance on debt and ample asset protection.

--Broad margins in earnings coverage of fixed financial charges and high internal cash generation.

--Well-established access to a range of financial markets and assured sources of alternate liquidity.

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

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

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

If an issuer represents to Moody's that its commercial paper obligations are supported by the credit of another entity or entities, then the name or names of such supporting entity or entities are listed within the parentheses beneath the name of the issuer, or there is a footnote referring the reader to another page for the name or names of the supporting entity or entities. In assigning ratings to such issuers, Moody's evaluates the financial strength of the affiliated corporations, commercial banks, insurance companies, foreign governments or other entities, but only as one factor in the total rating assessment. Moody's makes no representation and

gives no opinion on the legal validity or enforceability of any support arrangement. You are cautioned to review with your counsel any questions regarding particular support arrangements.

#### DESCRIPTION OF MOODY'S PREFERRED STOCK RATINGS

Because of the fundamental differences between preferred stocks and bonds, a variation of the bond rating symbols is being used in the quality ranking of preferred stock. The symbols, presented below, are designed to avoid comparison with bond quality in absolute terms. It should always be borne in mind that preferred stock occupies a junior position to bonds within a particular capital

structure and that these securities are rated within the universe of preferred stocks.

Preferred stock rating symbols and their definitions are as follows:

<TABLE>	
<S>	<C>
"aaa"	An issue which is rated "aaa" is considered to be a top-quality preferred stock. This rating indicates good asset protection and the least risk of dividend impairment within the universe of preferred stocks.
"aa"	An issue which is rated "aa" is considered a high-grade preferred stock. This rating indicates that there is a reasonable assurance the earnings and asset protection will remain relatively well maintained in the foreseeable future.
"a"	An issue which is rated "a" is considered to be an upper-medium grade preferred stock. While risks are judged to be somewhat greater than in the "aaa" and "aa" classifications, earnings and asset protections are, nevertheless, expected to be maintained at adequate levels.
"baa"	An issue which is rated "baa" is considered to be a medium-grade preferred stock, neither highly protected nor poorly secured. Earnings and asset protection appear adequate at present but may be questionable over any great length of time.
"ba"	An issue which is rated "ba" is considered to have speculative elements and its future cannot be considered well assured. Earnings and asset protection may be very moderate and not well safeguarded during adverse periods. Uncertainty of position characterizes preferred stocks in this class.
"b"	An issue which is rated "b" generally lacks the characteristics of a desirable investment. Assurance of dividend payments and maintenance of other terms of the issue over any long period of time may be small.
"caa"	An issue which is rated "caa" is likely to be in arrears on dividend payments. This rating designation does not purport to indicate the future status of payments.
"ca"	An issue which is rated "ca" is speculative in a high degree and is likely to be in arrears on dividends with little likelihood of eventual payments.
"c"	This is the lowest rated class of preferred or preference stock. Issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

</TABLE>

Note: Moody's applies numerical modifiers 1, 2 and 3 in each rating classification: 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.

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

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

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

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

The ratings are based, in varying degrees, on the following considerations: (1) likelihood of default-capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation; (2) nature of and provisions of the obligation; and (3) protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

<TABLE>	
<S>	<C>
AAA	Debt rated AAA has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.
AA	Debt rated AA has a very strong capacity to pay interest and repay principal and differs from the highest rated issues only in small degree.
A	Debt rated A has a strong capacity to pay interest and repay principal although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher rated categories.
BBB	Debt rated BBB is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to

a weakened capacity to pay interest and repay principal for debt in this category than in higher rated categories.

Speculative Grade Debt rated BB, B, CCC, CC and C is regarded as having predominantly speculative characteristics with respect to capacity to pay interest and repay principal. BB indicates the least degree of speculation and C the highest. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major exposures to adverse conditions.

BB Debt rated BB has less near-term vulnerability to default than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to inadequate capacity to meet timely interest and principal payments. The BB rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BBB- rating.

B Debt rated B has a greater vulnerability to default but currently has the capacity to meet interest payments and principal repayments. Adverse business, financial, or economic

</TABLE>

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<TABLE>  
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<C>

conditions will likely impair capacity or willingness to pay interest and repay principal. The B rating category is also used for debt subordinated to senior debt that is assigned an actual or implied BB or BB- rating.

CCC

Debt rated CCC has a currently identifiable vulnerability to default, and is dependent upon favorable business, financial, and economic conditions to meet timely payment of interest and repayment of principal. In the event of adverse business, financial, or economic conditions, it is not likely to have the capacity to pay interest and repay principal. The CCC rating category is also used for debt subordinated to senior debt that is assigned an actual or implied B or B- rating.

CC

The rating CC is typically applied to debt subordinated to senior debt that is assigned an actual or implied CCC rating.

C

The rating C is typically applied to debt subordinated to senior debt which is assigned an actual or implied CCC- debt rating. The C rating may be used to cover a situation where a bankruptcy petition has been filed, but debt service payments are continued.

CI

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

D

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

</TABLE>

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

N.R. indicates that no rating has been requested, that there is insufficient information on which to base a rating or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Debt obligations of issuers outside the United States and its territories are rated on the same basis as domestic corporate and municipal issues. The ratings measure the creditworthiness of the obligor but do not take into account currency exchange and related uncertainties.

Bond Investment Quality Standards: Under present commercial bank regulations issued by the Comptroller of the Currency, bonds rated in the top four categories ("AAA," "AA," "A," "BBB," commonly known as "investment grade" ratings) are generally regarded as eligible for bank investment. In addition, the Legal Investment Laws of various states may impose certain rating or other standards for obligations eligible for investment by savings banks, trust companies, insurance companies and fiduciaries generally.

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#### DESCRIPTION OF STANDARD & POOR'S COMMERCIAL PAPER RATINGS

A Standard & Poor's commercial paper rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A-1" for the highest quality obligations to "D" for the lowest. The four categories are as follows:

<TABLE>

<S> <C>

A Issues assigned this highest rating are regarded as having the greatest capacity for



timely payment. Issues in this category are delineated with the numbers 1, 2, and 3 to indicate the relative degree of safety.

- A-1 This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Those issues determined to possess overwhelming safety characteristics are denoted with a plus (+) sign designation.
- A-2 Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated "A-1."
- A-3 Issues carrying this designation have a satisfactory capacity for timely payment. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the higher designations.
- B Issues rated "B" are regarded as having only an adequate capacity for timely payment. However, such capacity may be damaged by changing conditions or short-term adversities.
- C This rating is assigned to short-term debt obligations with a doubtful capacity for payment.
- D Debt rated "D" is in payment default. The "D" rating category is used when interest payments or principal payments are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period.

</TABLE>

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

#### DESCRIPTION OF STANDARD & POOR'S PREFERRED STOCK RATINGS

A Standard & Poor's preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock dividends and any applicable sinking fund obligations. A preferred stock rating differs from a bond rating inasmuch as it is assigned to an equity issue, which issue is intrinsically different from, and subordinated to, a debt issue. Therefore, to reflect this difference, the preferred stock rating symbol will normally not be higher than the bond rating symbol assigned to, or that would be assigned to, the senior debt of the same issuer.

The preferred stock ratings are based on the following considerations:

I. Likelihood of payment--capacity and willingness of the issuer to meet the timely payment of preferred stock dividends and any applicable sinking fund requirements in accordance with the terms of the obligation.

II. Nature of, and provisions of, the issue.

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III. Relative position of the issue in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

<TABLE>

<S> <C>

- AAA This is the highest rating that may be assigned by Standard & Poor's to a preferred stock issue and indicates an extremely strong capacity to pay the preferred stock obligations.
- AA A preferred stock issue rated "AA" also qualifies as a high-quality fixed income security. The capacity to pay preferred stock obligations is very strong, although not as overwhelming as for issues rated "AAA."
- A An issue rated "A" is backed by a sound capacity to pay the preferred stock obligations, although it is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions.
- BBB An issue rated "BBB" is regarded as backed by an adequate capacity to pay the preferred stock obligations. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to make payments for a preferred stock in this category than for issues in the "A" category.
- BB Preferred stock rated "BB," "B," and "CCC" are regarded, on balance, as predominately speculative with respect to the issuer's capacity to pay preferred stock obligations. "BB" indicates the lowest degree of speculation and "CCC" the highest degree of speculation. While such issues will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.
- CC The rating "CC" is reserved for a preferred stock issue in arrears on dividends or sinking fund payments but that is currently paying.
- C A preferred stock rated "C" is a non-paying issue.
- D A preferred stock rated "D" is a non-paying issue with the issuer in default on debt instruments.

</TABLE>

NR indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Plus (+) or minus (-): To provide more detailed indications of preferred stock quality, the ratings from "AA" to "CCC" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

The preferred stock ratings are not a recommendation to purchase or sell a security, inasmuch as market price is not considered in arriving at the rating. Preferred stock ratings are wholly unrelated to Standard & Poor's earnings and dividend rankings for common stocks.

The ratings are based on current information furnished to Standard & Poor's by the issuer, and obtained by Standard & Poor's from other sources it considers reliable. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of  
MERRILL LYNCH ASSET INCOME FUND, INC.:

We have audited the accompanying statement of assets and liabilities, of Merrill Lynch Asset Income Fund, Inc. as of July 22, 1994. This financial statement is the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement based on our 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statement presents fairly, in all material respects, the financial position of Merrill Lynch Asset Income Fund, Inc. as of July 22, 1994, in conformity with generally accepted accounting principles.

Deloitte & Touche LLP  
Princeton, New Jersey  
July 26, 1994.

MERRILL LYNCH ASSET INCOME FUND, INC.

STATEMENT OF ASSETS AND LIABILITIES

JULY 22, 1994

<TABLE>	
<S>	<C>
Assets:	
Cash in Bank.....	\$100,000
Prepaid registration fees (Note 3).....	33,450
Deferred organization expenses (Note 4).....	58,100
	-----
Total Assets.....	191,550
Liabilities--accrued expenses.....	(91,550)
	-----
Net Assets (equivalent to \$10.00 per share on 5,000 Class A shares of common stock (par value \$0.10) and 5,000 Class B shares of common stock (par value \$0.10) outstanding with 200,000,000 shares authorized) (Note 1).....	\$100,000
	=====
</TABLE>	

- (1) Merrill Lynch Asset Income Fund, Inc. (the "Fund") was incorporated in the State of Maryland on June 6, 1994. The Fund is registered under the Investment Company Act of 1940 as an open-end investment company.
- (2) The Fund intends to enter into an Investment Management Agreement (the "Management Agreement") with Merrill Lynch Asset Management, L.P. (the "Manager"), and a distribution agreement (the "Distribution Agreement") with Merrill Lynch Funds Distributor, Inc. (the "Distributor"). (See "Management and Advisory Arrangements" in the Statement of Additional Information.) Certain officers and/or directors of the Fund are officers and/or directors of the Manager and the Distributor.
- (3) Prepaid registration fees are charged to income as the related shares are issued.
- (4) Deferred organization expenses will be amortized over a period from the date the Fund commences operations not exceeding five years. In the event that the Manager (or any subsequent holder) redeems any of its original shares prior to the end of the five-year period, the proceeds of the redemption payable in respect of such shares will be reduced by the pro rata share (based on the proportionate share of the original shares redeemed to the total number of original shares outstanding at the time of redemption) of the unamortized deferred organization expenses as of the date of such redemption. In the event that the Fund is liquidated prior to the end of the five-year period, the Manager (or any subsequent holder) will bear the unamortized deferred organization expenses.

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</TABLE>

-----  
MERRILL LYNCH

ASSET INCOME

FUND, INC.

Statement of

Additional Information

August 25, 1994

Distributor:  
Merrill Lynch  
Funds Distributor, Inc.

Code 18238 -- 0794

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PART C. OTHER INFORMATION

ITEM 24. FINANCIAL STATEMENTS AND EXHIBITS.

(A) FINANCIAL STATEMENTS:

Contained in Part A:               None.

Contained in Part B:

Statement of Assets and Liabilities, July 22, 1994.

(B) EXHIBITS:

<TABLE>

<CAPTION>

EXHIBIT  
NUMBER

-----

<S>	<C>	<C>
1	--	Articles of Incorporation of Registrant, as amended.
2	--	By-Laws of Registrant, as amended.
3	--	None.
4	--	Copies of instruments defining the rights of shareholders, including the relevant portions of the Articles of Incorporation, as amended, and By-Laws of Registrant. (a)
5	--	Form of Management Agreement between Registrant and Merrill Lynch Asset Management, L.P.
6(a)	--	Form of Class A Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc.
(b)	--	Form of Class B Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc.
7	--	None.
8	--	Form of Custodian Agreement between Registrant and The Chase Manhattan

- Bank, N.A.
- 9(a) -- Form of Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement between Registrant and Financial Data Services, Inc.
- (b) -- Form of Agreement between Merrill Lynch & Co., Inc. and the Registrant relating to use by Registrant of Merrill Lynch name.
- 10(a) -- Opinion and consent of Rogers & Wells.
- (b) -- Opinion and consent of Galland, Kharasch, Morse & Garfinkle, P.C.
- 11 -- Consent of Deloitte & Touche LLP, independent auditors for the Registrant.
- 12 -- None.
- 13 -- Certificate of Merrill Lynch Asset Management, L.P.
- 14 -- None.
- 15 -- Class B Distribution Plan of the Registrant and Distribution Plan Sub-Agreement.

</TABLE>

(a) Reference is made to Article II (Sections 3 and 4), Article V (Section 3), Article IV, Article VI, Article VII and Article IX of the Registrant's Articles of Incorporation, filed as Exhibit (1) to the Registration Statement; and Article II, Article III (Sections 1, 3, 5, 6 and 17), Article IV (Section 2), Article V (Section 7), Article VI, Article VII, Article XII, Article XIII, and Article XIV of the Registrant's By-laws, as amended, previously filed as Exhibit (2) to the Registration Statement.

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

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

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ITEM 26. NUMBER OF HOLDERS OF SECURITIES.

<TABLE>  
<CAPTION>

TITLE OF CLASS	NUMBER OF RECORD HOLDERS AT EFFECTIVE DATE OF THE REGISTRATION STATEMENT
<S>	<C>
Shares of Class A Common Stock, par value \$0.10 per share.....	One
Shares of Class B Common Stock, par value \$0.10 per share.....	One

ITEM 27. INDEMNIFICATION.

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

Article VI of the By-Laws provides that each officer and director of the Registrant shall be indemnified by the Registrant to the full extent permitted under the General Laws of the State of Maryland, except that such indemnity shall not protect any such person against any liability to the Registrant or any stockholder thereof to which such person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. Absent a court determination that an officer or director seeking indemnification was not liable on the merits or guilty of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office, the decision by the Registrant to indemnify such person must be based upon the reasonable determination of independent counsel or non-party independent directors, after review of the facts, that such officer or director is not guilty of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

The Registrant may purchase insurance on behalf of an officer or director protecting such person to the full extent permitted under the General Laws of the State of Maryland from liability arising from his activities as officer or director of the Registrant. The Registrant, however, may not purchase insurance on behalf of any officer or director of the Registrant that protects or purports to protect such person from liability to the Registrant or to its stockholders to which such officer or director would otherwise be subject by reason of

willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office.

Insofar as the conditional advancing of indemnification moneys for actions based upon the Investment Company Act of 1940 may be concerned, such payments will be made only on the following conditions: (i) the advances must be limited to amounts used, or to be used, for the preparation or presentation of a defense to the action, including costs connected with the preparation of a settlement; (ii) advances may be made only upon receipt of a written promise by, or on behalf of, the recipient to repay that amount of the advance which exceeds the amount to which it is ultimately determined that he is entitled to receive from the Registrant by reason of indemnification; and (iii) (a) such promise must be secured by a surety bond, other suitable insurance or an equivalent form of security which assures that any repayments may be obtained by the Registrant without delay or litigation, which bond, insurance or other form of security must be provided by the recipient of the advance, or (b) a majority of a quorum of the Registrant's disinterested, non-party Directors, or an independent legal counsel in a written opinion, shall determine, based upon a review of readily available facts, that the recipient of the advance ultimately will be found entitled to indemnification.

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

Insofar as indemnification for liabilities arising under the Act may be permitted to Directors, officers and controlling persons of the Registrant and the principal underwriter pursuant to the foregoing provisions or

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

#### ITEM 28. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER.

(a) Merrill Lynch Asset Management, L.P., doing business as Merrill Lynch Asset Management (the 'Manager'), acts as investment adviser for the following registered investment companies: Convertible Holdings, Inc., Merrill Lynch Adjustable Rate Securities Fund, Inc., Merrill Lynch Americas Income Fund, Inc., Merrill Lynch Asset Growth Fund, Inc., Merrill Lynch Asset Income Fund, Inc., Merrill Lynch Balanced Fund for Investment and Retirement, Merrill Lynch Capital Fund, Inc., Merrill Lynch Developing Capital Markets Fund, Inc., Merrill Lynch Dragon Fund, Inc., Merrill Lynch EuroFund, Merrill Lynch Fundamental Growth Fund, Inc., Merrill Lynch Fund For Tomorrow, Inc., Merrill Lynch Global Bond Fund for Investment and Retirement, Merrill Lynch Global Allocation Fund, Inc., Merrill Lynch Global Convertible Fund, Inc., Merrill Lynch Global Holdings, Merrill Lynch Global Resources Trust, Merrill Lynch Global Utility Fund, Inc., Merrill Lynch Growth Fund for Investment and Retirement, Merrill Lynch Healthcare Fund, Inc., Merrill Lynch High Income Municipal Bond Fund, Inc., Merrill Lynch Institutional Intermediate Fund, Merrill Lynch International Equity Fund, Merrill Lynch Latin America Fund, Inc., Merrill Lynch Municipal Series Trust, Merrill Lynch Pacific Fund, Inc., Merrill Lynch Ready Assets Trust, Merrill Lynch Retirement Series Trust, Merrill Lynch Series Fund, Inc., Merrill Lynch Short-Term Global Income Fund, Inc., Merrill Lynch SmallCap Global Fund, Inc., Merrill Lynch Strategic Dividend Fund, Merrill Lynch Technology Fund, Inc., Merrill Lynch U.S. Treasury Money Fund, Merrill Lynch Utility Income Fund, Inc., Merrill Lynch Variable Series Funds, Inc. and Senior Floating Rate Fund, Inc. Fund Asset Management, L.P. ("FAM"), an affiliate of the Manager, acts as the investment adviser for the following investment companies: Apex Municipal Fund, Inc., CBA Money Fund, CMA Government Securities Fund, CMA Money Fund, CMA Multi-State Municipal Series Trust, CMA Tax-Exempt Fund, CMA Treasury Fund, The Corporate Fund Accumulation Program, Inc., Corporate High Yield Fund, Inc., Corporate High Yield Fund II, Inc., Financial Institutions Series Trust, Income Opportunities Fund 1999, Inc., Income Opportunities Fund 2000, Inc., Merrill Lynch Basic Value Fund, Inc., Merrill Lynch California Municipal Series

Trust, Merrill Lynch Corporate Bond Fund, Inc., Merrill Lynch Federal Securities Trust, Merrill Lynch Funds for Institutions Series, Merrill Lynch Multi-State Municipal Series Trust, Merrill Lynch Multi-State Limited Maturity Municipal Series Trust, Merrill Lynch Municipal Bond Fund, Inc., Merrill Lynch Phoenix Fund, Inc., Merrill Lynch Special Value Fund, Inc., Merrill Lynch World Income Fund, Inc., MuniAssets Fund, Inc., MuniBond Income Fund, Inc., The Municipal Fund Accumulation Program, Inc., MuniEnhanced Fund, Inc., MuniInsured Fund, Inc., MuniVest Fund, Inc., MuniVest Fund II, Inc., MuniVest California Insured Fund, Inc., MuniVest Florida Fund, MuniVest Michigan Insured Fund, Inc., MuniVest New Jersey Fund, Inc., MuniVest New York Insured Fund, Inc., MuniVest Pennsylvania Insured Fund, MuniYield Arizona Fund, Inc., MuniYield Arizona Fund II, Inc., MuniYield California Fund, Inc., MuniYield California Insured Fund, Inc., MuniYield California Insured Fund II, Inc., MuniYield Florida Fund, MuniYield Florida Insured Fund, MuniYield Fund, Inc., MuniYield Insured Fund, Inc., MuniYield Insured Fund II, Inc., MuniYield Michigan Fund, Inc., MuniYield Michigan Insured Fund, Inc., MuniYield New Jersey Fund, Inc., MuniYield New Jersey Insured Fund, Inc., MuniYield New York Insured Fund, Inc., MuniYield New York Insured Fund II, Inc., MuniYield New York Insured Fund III, Inc., MuniYield Pennsylvania Fund, MuniYield Quality Fund, Inc., MuniYield Quality Fund II, Inc., Senior High Income Portfolio, Inc., Senior High Income Portfolio II, Inc., Senior Strategic Income Fund, Inc., Taurus MuniCalifornia Holdings, Inc., Taurus MuniNew York Holdings, Inc. and Worldwide DollarVest Fund, Inc. The address of each of these investment companies is Box 9011, Princeton, New Jersey 08543-9011, except that the address of Merrill

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Lynch Funds for Institutions Series and Merrill Lynch Institutional Intermediate Fund is One Financial Center, 15th Floor, Boston, Massachusetts 02111-2646. The address of the Manager 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 partner of the Manager indicating each business, profession, vocation or employment of a substantial nature in which each such person or entity has been engaged since November 1, 1991, for his or its own account or in the capacity of director, officer, partner or trustee. In addition, Mr. Zeikel is President, Mr. Richard is Treasurer and Mr. Glenn is Executive Vice President of substantially all of the investment companies described in the preceding paragraph, and Messrs. Durnin, Giordano, Harvey, Kirstein and Monagle are directors, trustees or officers of one or more of such companies.

<TABLE>  
<CAPTION>

NAME	POSITION WITH THE MANAGER	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT
<S>	<C>	<C>
ML & Co.....	Limited Partner	Financial Services Holding Company
Merrill Lynch Management, Inc.....	Limited Partner	Investment Advisory Services; Limited Partner of FAM
Princeton Services, Inc. ("Princeton Services")....	General Partner	General Partner of FAM
Arthur Zeikel.....	President	President of FAM; President and Director of Princeton Services; Director of Merrill Lynch Funds Distributor, Inc. ("MLFD") Executive Vice President of ML & Co.; Executive Vice President of Merrill Lynch
Terry K. Glenn.....	Executive Vice President	Executive Vice President of the Manager and FAM; Executive Vice President and Director of Princeton Services; President and Director of MLFD; Director of Financial Data Services, Inc. ("FDS"); President of Princeton Administrators
Bernard J. Durnin.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Vincent R. Giordano.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Elizabeth Griffin.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Norman R. Harvey.....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton

N. John Hewitt.....	Senior Vice President	Services Senior Vice President of FAM; Senior Vice President of Princeton Services
Philip L. Kirstein.....	Senior Vice President, General Counsel and Secretary	Senior Vice President, General Counsel and Secretary of FAM; Senior Vice President, General Counsel, Director and Secretary of Princeton Services, Director of MLF

</TABLE>

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<TABLE>  
<CAPTION>

NAME	POSITION WITH THE MANAGER	OTHER SUBSTANTIAL BUSINESS, PROFESSION, VOCATION OR EMPLOYMENT
<S>	<C>	<C>
Ronald M. Kloss.....	Senior Vice President and Controller	Senior Vice President and Controller of FAM; Senior Vice President and Controller of Princeton Services
Stephen M.M. Miller.....	Senior Vice President	Executive Vice President of Princeton Administrators; Senior Vice President of Princeton Services
Joseph T. Monagle, Jr. ....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Gerald M. Richard .....	Senior Vice President and Treasure	Senior Vice President and Treasurer of the Manager and FAM; Senior Vice President and Treasurer of Princeton Services; Vice President and Treasurer of MLFD
Richard L. Rufener .....	Senior Vice President	Vice President of FAM; Senior Vice President of Princeton Services
Ronald L. Welburn .....	Senior Vice President	Senior Vice President of FAM; Senior Vice President of Princeton Services
Anthony Wiseman .....	Senior Vice President	Senior Vice President of Princeton Services

</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 Holding, Inc. and Worldwide DollarVest Fund, Inc.

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



<TABLE>  
<CAPTION>

(1) NAME	(2) POSITION(S) AND OFFICE(S) WITH MLFD	(3) POSITION(S) AND OFFICE(S) WITH REGISTRANT
<S>	<C>	<C>
Terry K. Glenn .....	President and Director	Executive Vice President
Arthur Zeikel .....	Director	President and Director
Philip L. Kirstein .....	Director	None
William E. Aldrich .....	Senior Vice President	None
Robert W. Crook .....	Senior Vice President	None
Michael J. Brady .....	Vice President	None
William M. Breen .....	Vice President	None
	Vice President and Assistant	
Sharon Creveling .....	Treasurer	None
Mark A. DeSario .....	Vice President	None
James T. Fatseas .....	Vice President	None
Stanley Graczyk .....	Vice President	None
Michelle T. Lau .....	Vice President	None
Debra W. Landsman-Yaros .....	Vice President	None
Gerald M. Richard .....	Vice President and Treasurer	Treasurer
Richard L. Rufener .....	Vice President	None
Salvatore Venezia .....	Vice President	None
William Wasel .....	Assistant Vice President	None
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, as amended, and the rules thereunder are maintained at the offices of the Registrant, 800 Scudders Mill Road, Plainsboro, New Jersey 08536, and Financial Data Services, Inc., 4800 Deer Lake Drive East, Jacksonville, Florida 32246-6484.

ITEM 31. MANAGEMENT SERVICES.

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

ITEM 32. UNDERTAKINGS.

The Registrant undertakes to file a post-effective amendment to this Registration Statement, using financial statements which need not be certified, within four to six months from the effective date of this Registration Statement.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, AND THE INVESTMENT COMPANY ACT OF 1940, AS AMENDED, THE REGISTRANT HAS DULY CAUSED THIS AMENDMENT TO THE 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 24TH DAY OF AUGUST, 1994.

MERRILL LYNCH ASSET

INCOME FUND, INC.

(ARTHUR ZEIKEL, PRESIDENT)

EACH PERSON WHOSE SIGNATURE APPEARS BELOW HEREBY AUTHORIZES MARK B. GOLDFUS, GERALD M. RICHARD AND TERRY K. GLENN OR ANY OF THEM, AS ATTORNEY-IN-FACT, TO SIGN ON HIS BEHALF, INDIVIDUALLY AND IN EACH CAPACITY STATED BELOW, ANY AMENDMENTS TO THIS REGISTRATION STATEMENT (INCLUDING POST-EFFECTIVE AMENDMENTS) AND TO FILE THE SAME, WITH ALL EXHIBITS THERETO, WITH THE SECURITIES AND EXCHANGE COMMISSION.

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment to this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<TABLE> <CAPTION>	SIGNATURE	TITLE	DATE
<C>	/s/ ARTHUR ZEIKEL	President and Director (Principal Executive Officer)	August 24, 1994
	ARTHUR ZEIKEL		
	/s/ JOE GRILLS	Director	August 24, 1994
	JOE GRILLS		
	/s/ WALTER MINTZ	Director	August 24, 1994
	WALTER MINTZ		
	/s/ MELVIN R. SEIDEN	Director	August 24, 1994
	MELVIN R. SEIDEN		
	/s/ HARRY WOOLF	Director	August 24, 1994
	HARRY WOOLF		
	/s/ STEPHEN B. SWENSRUD	Director	August 24, 1994
	STEPHEN B. SWENSRUD		
	/s/ GERALD M. RICHARD	Treasurer (Principal Financial and Accounting Officer)	August 24, 1994
	GERALD M. RICHARD		

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EXHIBIT INDEX

<TABLE> <CAPTION>	EXHIBIT NUMBER	SEQUENTIAL NUMBERED PAGE
<C>	<S>	<C>
	1 -- Articles of Incorporation of Registrant, as amended. ....	
	2 -- By-Laws of Registrant, as amended. ....	
	5 -- Form of Management Agreement between Registrant and Merrill Lynch Asset Management, L.P. ....	
	6(a) -- Form of Class A Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc. ....	
	(b) -- Form of Class B Shares Distribution Agreement between Registrant and Merrill Lynch Funds Distributor, Inc. ....	
	8 -- Form of Custodian Agreement between Registrant and The Chase Manhattan Bank, N.A. ....	
	9(a) -- Form of Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement between Registrant and Financial Data Services, Inc. ....	

(b) -- Form of Agreement between Merrill Lynch & Co., Inc. and the Registrant relating to use by Registrant of Merrill Lynch name. ....  
10(a) -- Opinion and consent of Rogers & Wells. ....  
(b) -- Opinion and consent of Galland, Kharasch, Morse & Garfinkle, P.C. ....  
11 -- Consent of Deloitte & Touche LLP, independent auditors for the Registrant. ....  
13 -- Certificate of Merrill Lynch Asset Management, Inc. ....  
15 -- Class B Distribution Plan of the Registrant and Distribution Plan Sub-Agreement. ....

</TABLE>

MERRILL LYNCH ASSET ALLOCATION INCOME FUND, INC.

ARTICLES OF AMENDMENT AND RESTATEMENT

MERRILL LYNCH ASSET ALLOCATION INCOME FUND, INC., a Maryland corporation (the "Corporation"), DOES HEREBY CERTIFY:

1. The name of the Corporation is MERRILL LYNCH ASSET ALLOCATION INCOME FUND, INC. The Corporation desires to amend and restate its Charter as currently in effect. The original Articles of Incorporation were filed with the Maryland State Department of Assessments and Taxation on June 6, 1994.

2. Pursuant to Section 2-609 of the Maryland General Corporation Law, these Articles of Amendment and Restatement restate and integrate and further amend the provisions of the Articles of Incorporation of the Corporation.

3. The text of the Charter of the Corporation as heretofore amended or supplemented is hereby restated and further amended to read in its entirety as follows:

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

MERRILL LYNCH ASSET ALLOCATION INCOME FUND, INC.

THE UNDERSIGNED, JOHN D. LAMB, whose post office address is 200 Park Avenue, New York, New York 10166-0153, being at least eighteen years of age, does hereby act as an incorporator, under and by virtue of the General Laws of the State of Maryland authorizing the formation of corporations and with the intention of forming a corporation.

ARTICLE I

NAME

The name of the corporation is MERRILL LYNCH ASSET INCOME FUND, INC. (the "Corporation").

ARTICLE II

## PURPOSES AND POWERS

The purpose or purposes for which the Corporation is formed, the powers, rights and privileges that the Corporation shall be authorized to exercise and enjoy, and the business or objects to be transacted, carried on and promoted by it are as follows:

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

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

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

(4) To exchange, classify, reclassify, change the designation of, convert, rename, redeem, purchase or otherwise acquire, hold, dispose of, resell, transfer, reissue or cancel (all without the vote or consent of the stockholders of the Corporation) shares of its issued or unissued capital stock of any class or series, as its Board of Directors may determine, in any manner and to the extent

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now or hereafter permitted by the General Laws of the State of Maryland and by these Articles of Incorporation.

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

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

## ARTICLE III

### PRINCIPAL OFFICE AND RESIDENT AGENT

The post office address of the principal office of the Corporation in the State of Maryland is c/o The Corporation Trust Incorporated, 32 South Street, Baltimore, Maryland 21202. The name of the resident agent of the Corporation in this State is the Corporation Trust Incorporated, a corporation of this State, and the post office address of the resident agent is 32 South Street, Baltimore, Maryland 21202.

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#### ARTICLE IV

#### CAPITAL STOCK

(1) The total number of shares of capital stock which the Corporation shall have authority to issue is Two Hundred Million (200,000,000) shares, of the par value of Ten Cents (\$.10) per share, and of the aggregate par value of Twenty Million Dollars (\$20,000,000). The capital stock initially is classified into two classes, consisting of One Hundred Million (100,000,000) shares of Class A Common Stock and One Hundred Million (100,000,000) shares of Class B Common Stock.

(2) The Board of Directors may classify and reclassify any unissued shares of capital stock of any class or series into one or more additional or other classes or series as may be established from time to time by setting or changing in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares of stock and pursuant to such classification or reclassification to increase or decrease the number of authorized shares of any existing class or series.

(3) The Board of Directors may classify and reclassify any issued shares of capital stock into one or more additional or other classes or series as may be established from time to time by setting or changing in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares of stock and pursuant to

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such classification or reclassification to increase or decrease the number of

authorized shares of any existing class or series; provided, however, that any such classification or reclassification shall not substantially adversely affect the rights of holders of such issued shares. The Board's authority pursuant to this paragraph shall include, but not be limited to, the power to vary among all the holders of a particular class or series (a) the length of time shares must be held prior to reclassification to shares of another class or series (the "Holding Period(s)"), (b) the manner in which the time for such Holding Period(s) is determined and (c) the class or series into which the particular class or series is being reclassified; provided, however, that subject to the first sentence of this section, with respect to holders of the Corporation's shares issued on or after the date of the Corporation's first effective prospectus which sets forth Holding Period(s) (the "First Holding Period Prospectus"), the Holding Period(s), the manner in which the time for such Holding Period(s) is determined and the class or series into which the particular class or series is being reclassified shall be disclosed in the Corporation's prospectus or statement of additional information in effect at the time such shares, which are the subject of the reclassification, were issued; and provided, further, that subject to the first sentence of this section, with respect to holders of the Corporation's Class B shares issued prior to the date of the Corporation's First Holding Period Prospectus, the Holding Period shall be ten (10) years for retirement plan (as recognized by the Internal Revenue Code of 1986, as amended from

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

(4) Unless otherwise expressly provided in the charter of the Corporation, including any Articles Supplementary creating any class or series of capital stock, the holders of each class or series of capital stock shall be entitled to dividends and distributions in such amounts and at such times as may be determined by the Board of Directors, and the dividends and

distributions paid with respect to the various classes or series of capital stock may vary among such classes and series. Dividends on a class or series may be declared or paid only out of the net

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assets of that class or series. Expenses related to the distribution of, and other identified expenses that should properly be allocated to, the shares of a particular class or series of capital stock may be charged to and borne solely by such class or series and the bearing of expenses solely by a class or series of capital stock may be appropriately reflected (in a manner determined by the Board of Directors) and cause differences in the net asset value attributable to, and the dividend, redemption and liquidation rights of, the shares of each class or series of capital stock.

(5) Unless otherwise expressly provided in the charter of the Corporation, including those matters set forth in Article II, Section (4) hereof and including any Articles Supplementary creating any class or series of capital stock, on each matter submitted to a vote of stockholders, each holder of a share of capital stock of the Corporation shall be entitled to one vote for each share standing in such holder's name on the books of the Corporation, irrespective of the class or series thereof, and all shares of all classes and series shall vote together as a single class; provided, however, that (a) as to any matter with respect to which a separate vote of any class or series is required by the Investment Company Act of 1940, as amended, and in effect from time to time, or any rules, regulations or orders issued thereunder, or by the Maryland General Corporation Law, such requirement as to a separate vote by that class or series shall apply in lieu of a general vote of all classes and series as described above, (b) in the event that the separate vote requirements referred to in (a)

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above apply with respect to one or more classes or series, then, subject to paragraph (c) below, the shares of all other classes and series not entitled to a separate class vote shall vote as a single class, and (c) as to any matter which does not affect the interest of a particular class or series, such class or series shall not be entitled to any vote and only the holders of shares of the affected classes and series, if any, shall be entitled to vote.

(6) Notwithstanding any provision of the Maryland General Corporation Law requiring a greater proportion than a majority of the votes of



all classes or series of capital stock of the Corporation (or of any class or series entitled to vote thereon as a separate class or series) to take or authorize any action, the Corporation is hereby authorized (subject to the requirements of the Investment Company Act of 1940, as amended, and in effect from time to time, and any rules, regulations and orders issued thereunder) to take such action upon the concurrence of a majority of the votes entitled to be cast by holders of capital stock of the Corporation (or a majority of the votes entitled to be cast by holders of a class or series entitled to vote thereon as a separate class or series).

(7) Unless otherwise expressly provided in the charter of the Corporation, including any Articles Supplementary creating any class or series of capital stock, in the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of each class or series of capital stock of the Corporation shall be entitled, after payment or provision for payment of the debts and other liabilities of the Corporation,

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to share ratably in the remaining net assets of the Corporation applicable to that class or series.

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

(9) The presence in person or by proxy of the holders of shares entitled to cast one-third of the votes entitled to be cast shall constitute a quorum at any meeting of stockholders, except with respect to any matter which requires approval by a separate vote of one or more classes of stock, in which case the presence in person or by proxy of the holders of shares entitled to cast one-third of the votes entitled to be cast by each class entitled to vote as a separate class shall constitute a quorum.

(10) All persons who shall acquire stock in the Corporation shall acquire the same subject to the provisions of the charter and By-Laws of the Corporation. As used in the charter of the Corporation, the terms "charter" and "Articles of Incorporation" shall mean and include the Articles of Incorporation of the Corporation as amended, supplemented and restated from time to time by Articles of Amendment, Articles Supplementary, Articles of Restatement or otherwise.

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

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

Philip L. Kirstein

Mark B. Goldfus

Robert Harris

(2) The Board of Directors of the Corporation is hereby empowered to authorize the issuance from time to time of shares of capital stock of any class or series, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable, subject to such limitations as may be set forth in these Articles of Incorporation or in the By-Laws of the Corporation or in the General Laws of the State of Maryland.

(3) No holder of stock of the Corporation shall, as such holder, have any rights to purchase or subscribe for any shares of the capital stock of the Corporation or any other security of the Corporation which it may issue or sell (whether out of the number of shares authorized by these Articles of Incorporation, or out of any shares of the capital stock of the Corporation, of any class or series, acquired by it after the issue thereof, or otherwise) other

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than such right, if any, as the Board of Directors, in its discretion, may determine.

(4) Each director and each officer of the Corporation shall be indemnified by the Corporation to the full extent permitted by the General Laws of the State of Maryland, subject to the requirements of the Investment Company Act of 1940, as amended. No amendment of these Articles of Incorporation or repeal of any provision hereof shall limit or eliminate the benefits provided to directors and officers under this provision in connection with any act or omission that occurred prior to such amendment or repeal.

(5) To the fullest extent permitted by the General Laws of the State of Maryland, subject to the requirements of the Investment Company Act of 1940, as amended, no director or officer of the Corporation shall be personally

liable to the Corporation or its security holders for money damages. No amendment of these Articles of Incorporation or repeal of any provision hereof shall limit or eliminate the benefits provided to directors and officers under this provision in connection with any act or omission that occurred prior to such amendment or repeal.

(6) The Board of Directors of the Corporation is vested with the sole power, to the exclusion of the stockholders, to make, alter or repeal from time to time any of the By-Laws of the Corporation except any particular By-Law which is specified as not subject to alteration or repeal by the Board of Directors, subject to the requirements of the Investment Company Act of 1940, as amended.

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(7) The Board of Directors of the Corporation from time to time may change the Corporation's name, without the vote or consent of the stockholders of the Corporation, in any manner and to the extent now or hereafter permitted by the General Laws of the State of Maryland and by these Articles of Incorporation.

#### ARTICLE VI

#### REDEMPTION

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

such time and in such manner as may be determined from time to time by the Board of Directors of the Corporation.

## ARTICLE VII

### DETERMINATION BINDING

Any determination made in good faith, so far as accounting matters are involved, in accordance with accepted accounting practice by or pursuant to the direction of the Board of Directors, as to the amount of assets, obligations or liabilities of the Corporation, as to the amount of net income of the Corporation from dividends and interest for any period or amounts at any time legally available for the payment of dividends, as to the amount of any reserves or charges set up and the propriety thereof, as to the time of or purpose for creating reserves or as to the use, alteration or cancellation of any reserves or charges (whether or not any obligation or liability for which such reserves or charges shall have been created, shall have been paid or discharged or shall be then or thereafter required to be paid or discharged), as to the price of any security owned by the Corporation or as to any other matters relating to the issuance, sale, redemption or other acquisition or disposition of securities or shares of capital stock of the Corporation, and any reasonable determination made in good faith by the Board of Directors as to whether any transaction constitutes a purchase of securities on "margin," a sale of securities "short," or an underwriting or the sale of, or a participation in any underwriting or selling group in connection with the public distribution of, any securities, shall be final and

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

negligence or reckless disregard of the duties involved in the conduct of his office.

ARTICLE VIII

PERPETUAL EXISTENCE

The duration of the Corporation shall be perpetual.

ARTICLE IX

AMENDMENT

The Corporation reserves the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation, in any manner now or hereafter prescribed by statute, including any

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amendment which alters the contract rights, as expressly set forth in the charter, of any outstanding stock and substantially adversely affects the stockholder's rights, and all rights conferred upon stockholders herein are granted subject to this reservation.

IN WITNESS WHEREOF, the undersigned incorporator of MERRILL LYNCH ASSET INCOME FUND, INC. hereby executes the foregoing Articles of Incorporation and acknowledges the same to be his act.

Dated this 2nd day of June, 1994.

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John D. Lamb

4. The amendment to and restatement of the Charter of the Corporation as hereinabove set forth has been duly approved by the Board of Directors and no stock entitled to be voted on the matter was outstanding or subscribed for at the time of approval.

5. The current address of the principal office of the Corporation in the State of Maryland is as set forth in Article III of the foregoing amendment and restatement of the Charter. The name and address of the Corporation's current resident agent is as set forth in Article III of the foregoing amendment and restatement of the Charter. The number of directors of the Corporation and the names of those currently in office are as set forth in

Article V of the foregoing amendment and restatement of the Charter.

6. (a) The foregoing amendment and restatement of the Charter does not increase the authorized capital stock of the Corporation.

(b) A description of each class of capital stock, including the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption are set forth in the foregoing amendment and restatement of the Charter.

7. These Articles of Amendment and Restatement shall be effective on the date of acceptance for record by the Maryland State Department of Assessments and Taxation.

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IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment and Restatement to be signed in its name and on its behalf by its President and attested to by its Secretary on this \_\_\_\_\_ day of August, 1994.

MERRILL LYNCH ASSET INCOME FUND, INC.

By \_\_\_\_\_ (SEAL)  
Title: President

ATTEST:

\_\_\_\_\_  
Mark B. Goldfus, Secretary

THE UNDERSIGNED, President of MERRILL LYNCH ASSET INCOME FUND, INC., who executed on behalf of the Corporation the foregoing Articles of Amendment and Restatement of which this Certificate is made a part, hereby

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

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Title: President

BY-LAWS, AS AMENDED  
OF  
MERRILL LYNCH ASSET INCOME FUND, INC.

ARTICLE I

Offices

Section 1. Principal Office. The principal office of Merrill Lynch Asset Income Fund, Inc. (the "Corporation") shall be in the City of Baltimore, State of Maryland.

Section 2. Principal Executive Office. The principal executive office of the Corporation shall be at 800 Scudders Mill Road, Plainsboro, New Jersey 08536.

Section 3. Other Offices. The Corporation may have such other offices in such places as the Board of Directors may from time to time determine.

ARTICLE II

Meetings of Stockholders

Section 1. Annual Meeting. The Corporation shall not be required to hold an annual meeting of its stockholders in any year in which the election of directors is not required to be acted upon under the Investment Company Act of 1940. In the event that the Corporation shall be required to hold an annual meeting of stockholders to elect directors by the Investment Company Act of 1940, as amended, such meeting shall be held no later than 120 days after the occurrence of the event requiring the meeting. Any

stockholders' meeting held in accordance with this Section shall for all purposes constitute the annual meeting of stockholders for the year in which the meeting is held.

Section 2. Special Meetings. Special meetings of the



stockholders, unless otherwise provided by law, may be called for any purpose or purposes by a majority of the Board of Directors, the President, or on the written request of the holders of at least 10% of the outstanding shares of capital stock of the Corporation entitled to vote at such meeting if they comply with Section 2-502(b) or (c) of the Maryland General Corporation Law.

Section 3. Place of Meetings. Meetings of the stockholders shall be held at such place within the United States as the Board of Directors may from time to time determine.

Section 4. Notice of Meetings; Waiver of Notice. Notice of the place, date and time of the holding of each stockholders' meeting and, if the meeting is a special meeting, the purpose or purposes of the special meeting, shall be given personally or by mail, not less than ten nor more than ninety days before the date of such meeting, to each stockholder entitled to vote at such meeting and to each other stockholder entitled to notice of the meeting. Notice by mail shall be deemed to be duly given when deposited in the United States mail addressed to the stockholder at his address as it appears on the records of the Corporation, with postage thereon prepaid.

Notice of any meeting of stockholders shall be deemed waived by any stockholder who shall attend such meeting in person or by proxy, or who shall, either before or after the meeting,

submit a signed waiver of notice which is filed with the records of the meeting. When a meeting is adjourned to another time and place, unless the Board of Directors, after the adjournment, shall fix a new record date for an adjourned meeting, or the adjournment is for more than one hundred and twenty days after the original record date, notice of such adjourned meeting need not be given if the time and place to which the meeting shall be adjourned were announced at the meeting at which the adjournment is taken.

Section 5. Quorum. At all meetings of the stockholders, the holders of shares of stock of the Corporation entitled to cast one-third of the votes entitled to be cast, present in person or by proxy, shall constitute a quorum for the transaction of any business, except with respect to any matter which requires approval by a separate vote of one or more classes of stock, in which case the presence in person or by proxy of the holders of shares entitled to cast one-third of the votes entitled to be cast by each class entitled to vote as a separate class shall constitute a quorum. In the absence of a quorum no business may be transacted, except that the holders of a majority of the shares of stock present in person or by proxy and entitled to vote may adjourn

the meeting from time to time, without notice other than announcement thereat except as otherwise required by these By-Laws, until the holders of the requisite amount of shares of stock shall be so present. At any such adjourned meeting at which a quorum may be present any business may be transacted which might have been transacted at the meeting as originally called. The absence from any meeting, in person or by proxy, of holders of the number of

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shares of stock of the Corporation in excess of a majority thereof which may be required by the laws of the State of Maryland, the Investment Company Act of 1940, as amended, or other applicable statute, the Articles of Incorporation, or these By-Laws, for action upon any given matter shall not prevent action at such meeting upon any other matter or matters which may properly come before the meeting, if there shall be present thereat, in person or by proxy, holders of the number of shares of stock of the Corporation required for action in respect of such other matter or matters.

Section 6. Organization. At each meeting of the stockholders, the Chairman of the Board (if one has been designated by the Board), or in his absence or inability to act, the President, or in the absence or inability to act of the Chairman of the Board and the President, a Vice President, shall act as chairman of the meeting. The Secretary, or in his absence or inability to act, any person appointed by the chairman of the meeting, shall act as secretary of the meeting and keep the minutes thereof.

Section 7. Order of Business. The order of business at all meetings of the stockholders shall be as determined by the chairman of the meeting.

Section 8. Voting. Except as otherwise provided by statute or the Articles of Incorporation, each holder of record of shares of stock of the Corporation having voting power shall be entitled at each meeting of the stockholders to one vote for every share of such stock standing in his name on the record of

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stockholders of the Corporation as of the record date determined pursuant to

Section 9 of this Article or if such record date shall not have been so fixed, then at the later of (i) the close of business on the day on which notice of the meeting is mailed or (ii) the thirtieth day before the meeting.

Each stockholder entitled to vote at any meeting of stockholders may authorize another person or persons to act for him by a proxy signed by such stockholder or his attorney-in-fact. No proxy shall be valid after the expiration of eleven months from the date thereof, unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the stockholder executing it, except in those cases where such proxy states that it is irrevocable and where an irrevocable proxy is permitted by law. Except as otherwise provided by statute, the Articles of Incorporation or these By-Laws, any corporate action to be taken by vote of the stockholders (other than the election of directors, which shall be by plurality vote) may be authorized by a majority of the total votes cast at a meeting of stockholders by the holders of shares present in person or represented by proxy and entitled to vote on such action.

If a vote shall be taken on any question other than the election of directors, which shall be by written ballot, then unless required by statute or these By-Laws, or determined by the chairman of the meeting to be advisable, any such vote need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and shall state the number of shares voted.

Section 9. Fixing of Record Date. The Board of Directors may set a record date for the purpose of determining stockholders entitled to vote at any meeting of the stockholders. The record date, which may not be prior to the close of business on the day the record date is fixed, shall be not more than ninety nor less than ten days before the date of the meeting of the stockholders. All persons who were holders of record of shares at such time, and not others, shall be entitled to vote at such meeting and any adjournment thereof.

Section 10. Inspectors. The Board may, in advance of any meeting of stockholders, appoint one or more inspectors to act at such meeting or any adjournment thereof. If the inspectors shall not be so appointed or if any of them shall fail to appear or act, the chairman of the meeting may appoint inspectors. Each inspector, before entering upon the discharge of his duties, may be required to take and sign an oath to execute faithfully the duties of inspector at such meeting with strict impartiality and according to the best of his ability. The inspectors may be empowered to determine the number of shares outstanding and the voting powers of each, the number of

shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all stockholders. On request of the chairman of the meeting or any stockholder entitled to vote

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thereat, the inspectors shall make a report in writing of any challenge, request or matter determined by them and shall execute a certificate of any fact found by them. No director or candidate for the office of director shall act as inspector of an election of directors. Inspectors need not be stockholders.

#### Section 11. Consent of Stockholders in Lieu of Meeting.

Except as otherwise provided by statute or the Articles of Incorporation, any action required to be taken at any meeting of stockholders, or any action which may be taken at any meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if the following are filed with the records of stockholders meetings: (i) a unanimous written consent which sets forth the action and is signed by each stockholder entitled to vote on the matter and (ii) a written waiver of any right to dissent signed by each stockholder entitled to notice of the meeting but not entitled to vote thereat.

### ARTICLE III

#### Board of Directors

Section 1. General Powers. Except as otherwise provided in the Articles of Incorporation, the business and affairs of the Corporation shall be managed under the direction of the Board of Directors. All powers of the Corporation may be exercised by or under authority of the Board of Directors except as conferred on or reserved to the stockholders by law or by the Articles of Incorporation or these By-Laws.

Section 2. Number of Directors. The number of directors shall be fixed from time to time by resolution of the Board of

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Directors adopted by a majority of the entire Board of Directors; provided, however, that the number of directors shall in no event be less than three nor more than fifteen. Any vacancy created by an increase in Directors may be filled in accordance with Section 6 of this Article III. No reduction in the number of directors shall have the effect of removing any director from office prior to the expiration of his term unless such director is specifically removed pursuant to Section 5 of this Article III at the time of such decrease. Directors need not be stockholders.

Section 3. Election and Term of Directors. Directors shall be elected annually at a meeting of stockholders held for that purpose; provided, however, that if no meeting of the stockholders of the Corporation is required to be held in a particular year pursuant to Section 1 of Article II of these By-Laws, directors shall be elected at the next meeting held. The term of office of each director shall be from the time of his election and qualification until the election of directors next succeeding his election and until his successor shall have been elected and shall have qualified, or until his death, or until he shall have resigned or until December 31 of the year in which he shall have reached seventy-two years of age, or until he shall have been removed as hereinafter provided in these By-Laws, or as otherwise provided by statute or the Articles of Incorporation.

Section 4. Resignation. A director of the Corporation may resign at any time by giving written notice of his resignation to the Board or the Chairman of the Board or the President or the Secretary. Any such resignation shall take effect at the time

specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Removal of Directors. Any director of the Corporation may be removed by the stockholders by a vote of a majority of the votes entitled to be cast for the election of directors.

Section 6. Vacancies. Any vacancies in the Board, whether arising from death, resignation, removal, an increase in the number of directors or any other cause, may be filled by a vote of the majority of the Board of Directors then in office even though such majority is less than a quorum, provided that no vacancies shall be filled by action of the remaining

directors, if after the filling of said vacancy or vacancies, less than two-thirds of the directors then holding office shall have been elected by the stockholders of the Corporation. In the event that at any time there is a vacancy in any office of a director which vacancy may not be filled by the remaining directors, a special meeting of the stockholders shall be held as promptly as possible and in any event within sixty days, for the purpose of filling said vacancy or vacancies.

Section 7. Place of Meetings. Meetings of the Board may be held at such place as the Board may from time to time determine or as shall be specified in the notice of such meeting.

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Section 8. Regular Meetings. Regular meetings of the Board may be held without notice at such time and place as may be determined by the Board of Directors.

Section 9. Special Meetings. Special meetings of the Board may be called by two or more directors of the Corporation or by the Chairman of the Board or the President.

Section 10. Telephone Meetings. Members of the Board of Directors or of any committee thereof may participate in a meeting by means of a conference telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. Subject to the provisions of the Investment Company Act of 1940, as amended, participation in a meeting by these means constitutes presence in person at the meeting.

Section 11. Notice of Special Meetings. Notice of each special meeting of the Board shall be given by the Secretary as hereinafter provided, in which notice shall be stated the time and place of the meeting. Notice of each such meeting shall be delivered to each director, either personally or by telephone or any standard form of telecommunication, at least twenty- four hours before the time at which such meeting is to be held, or by first-class mail, postage prepaid, addressed to him at his residence or usual place of business, at least three days before the day on which such meeting is to be held.

Section 12. Waiver of Notice of Meetings. Notice of any special meeting need not be given to any director who shall, either before or after the meeting, sign a written waiver of notice which

is filed with the records of the meeting or who shall attend such meeting. Except as otherwise specifically required by these By-Laws, a notice or waiver or notice of any meeting need not state the purposes of such meeting.

Section 13. Quorum and Voting. One-third, but not less than two, of the members of the entire Board shall be present in person at any meeting of the Board in order to constitute a quorum for the transaction of business at such meeting, and except as otherwise expressly required by statute, the Articles of Incorporation, these By-Laws, the Investment Company Act of 1940, as amended, or other applicable statute, the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board. In the absence of a quorum at any meeting of the Board, a majority of the directors present thereat may adjourn such meeting to another time and place until a quorum shall be present thereat. Notice of the time and place of any such adjourned meeting shall be given to the directors who were not present at the time of the adjournment and, unless such time and place were announced at the meeting at which the adjournment was taken, to the other directors. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called.

Section 14. Organization. The Board may, by resolution adopted by a majority of the entire Board, designate a Chairman of the Board, who shall preside at each meeting of the Board. In the absence or inability of the Chairman of the Board to preside at a meeting, the President or, in his absence or inability to act,

another director chosen by a majority of the directors present, shall act as chairman of the meeting and preside thereat. The Secretary (or, in his absence or inability to act, any person appointed by the Chairman) shall act as secretary of the meeting and keep the minutes thereof.

Section 15. Written Consent of Directors in Lieu of a Meeting. Subject to the provisions of the Investment Company Act of 1940, as amended, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto

in writing, and the writings or writing are filed with the minutes of the proceedings of the Board or committee.

Section 16. Compensation. Directors may receive compensation for services to the Corporation in their capacities as directors or otherwise in such manner and in such amounts as may be fixed from time to time by the Board.

Section 17. Investment Policies. It shall be the duty of the Board of Directors to direct that the purchase, sale, retention and disposal of portfolio securities and the other investment practices of the Corporation are at all times consistent with the investment policies and restrictions with respect to securities investments and otherwise of the Corporation, as recited in the Prospectus of the Corporation included in the Registration Statement of the Corporation, as recited in the current Prospectus and Statement of Additional Information of the Corporation, as filed from time to time with the Securities and Exchange Commission

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and as required by the Investment Company Act of 1940, as amended. The Board however, may delegate the duty of management of the assets and the administration of its day to day operations to an individual or corporate management company and/or investment adviser pursuant to a written contract or contracts which have obtained the requisite approvals, including the requisite approvals of renewals thereof, of the Board of Directors and/or the stockholders of the Corporation in accordance with the provisions of the Investment Company Act of 1940, as amended.

#### ARTICLE IV

##### Committees

Section 1. Executive Committee. The Board may, by resolution adopted by a majority of the entire Board, designate an Executive Committee consisting of two or more of the directors of the Corporation, which committee shall have and may exercise all the powers and authority of the Board with respect to all matters other than:

(a) the submission to stockholders of any action requiring authorization of stockholders pursuant to statute or the Articles of Incorporation;

(b) the filling of vacancies on the Board of Directors;



(c) the fixing of compensation of the directors for serving on the Board or on any committee of the Board, including the Executive Committee;

(d) the approval or termination of any contract with an investment adviser or principal underwriter, as such terms

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are defined in the Investment Company Act of 1940, as amended, or the taking of any other action required to be taken by the Board of Directors by the Investment Company Act of 1940, as amended;

(e) the amendment or repeal of these By-Laws or the adoption of new By-Laws;

(f) the amendment or repeal of any resolution of the Board which by its terms may be amended or repealed only by the Board;

(g) the declaration of dividends and, except to the extent permitted by law, the issuance of capital stock of the Corporation; and

(h) the approval of any merger or share exchange which does not require stockholder approval.

The Executive Committee shall keep written minutes of its proceedings and shall report such minutes to the Board. All such proceedings shall be subject to revision or alteration by the Board; provided, however, that third parties shall not be prejudiced by such revision or alteration.

Section 2. Other Committees of the Board. The Board of Directors may from time to time, by resolution adopted by a majority of the whole Board, designate one or more other committees of the Board, each such committee to consist of two or more directors and to have such powers and duties as the Board of Directors may, by resolution, prescribe.

Section 3. General. One-third, but not less than two, of the members of any committee shall be present in person at any meeting of such committee in order to constitute a quorum for the transaction of business at such meeting, and the act of a majority

present shall be the act of such committee. The Board may designate a chairman of any committee and such chairman or any two members of any committee may fix the time and place of its meetings unless the Board shall otherwise provide. In the absence or disqualification of any member of any committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. The Board shall have the power at any time to change the membership of any committee, to fill all vacancies, to designate alternate members to replace any absent or disqualified member, or to dissolve any such committee. Nothing herein shall be deemed to prevent the Board from appointing one or more committees consisting in whole or in part of persons who are not directors of the Corporation; provided, however, that no such committee shall have or may exercise any authority or power of the Board in the management of the business or affairs of the Corporation except as may be prescribed by the Board.

#### ARTICLE V

##### Officers, Agents and Employees

Section 1. Number of Qualifications. The officers of the Corporation shall be a President (who shall be a Director of the Corporation), a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors. The Board of Directors may elect or appoint one or more Vice Presidents and may also appoint such other officers, agents and employees as it may deem necessary or proper. Any two or more offices may be held by the same person, except the offices of President and Vice

President, but no officer shall execute, acknowledge or verify any instrument in more than one capacity. Such officers shall be elected by the Board of Directors each year at a meeting of the Board of Directors, each to hold office for the ensuing year and until his successor shall have been duly elected and shall have qualified, or until his death, or until he shall have resigned, or have been removed, as hereinafter provided in these By-Laws. The Board may from time to time elect, or delegate to the President the power to appoint, such officers (including one or more Assistant Vice Presidents, one or more

Assistant Treasurers and one or more Assistant Secretaries) and such agents, as may be necessary or desirable for the business of the Corporation. Such officers and agents shall have such duties and shall hold their offices for such terms as may be prescribed by the Board or by the appointing authority.

Section 2. Resignations. Any officer of the Corporation may resign at any time by giving written notice of resignation to the Board, the Chairman of the Board, President or the Secretary. Any such resignation shall take effect at the time specified therein or, if the time when it shall become effective shall not be specified therein, immediately upon its receipt; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 3. Removal of Officer, Agent or Employee. Any officer, agent or employee of the Corporation may be removed by the Board of Directors with or without cause at any time, and the Board may delegate such power of removal as to agents and employees not

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elected or appointed by the Board of Directors. Such removal shall be without prejudice to such person's contract rights, if any, but the appointment of any person as an officer, agent or employee of the Corporation shall not of itself create contract rights.

Section 4. Vacancies. A vacancy in any office, whether arising from death, resignation, removal or any other cause, may be filled for the unexpired portion of the term of the office which shall be vacant, in the manner prescribed in these By-Laws for the regular election or appointment to such office.

Section 5. Compensation. The compensation of the officers of the Corporation shall be fixed by the Board of Directors, but this power may be delegated to any officer in respect of other officers under his control.

Section 6. Bonds or Other Security. If required by the Board, any officer, agent or employee of the Corporation shall give a bond or other security for the faithful performance of his duties, in such amount and with such surety or sureties as the Board may require.

Section 7. President. The President shall be the chief executive officer of the Corporation. In the absence of the Chairman of the Board (or if there be none), he shall preside at all meetings of the stockholders and of the Board of Directors. He shall have, subject to the control of the Board of Directors, general charge of the business and affairs

of the Corporation. He may employ and discharge employees and agents of the Corporation, except such as shall be appointed by the Board, and he may delegate these powers.

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Section 8. Vice President. Each Vice President shall have such powers and perform such duties as the Board of Directors or the President may from time to time prescribe.

Section 9. Treasurer. The Treasurer shall

(a) have charge and custody of, and be responsible for, all the funds and securities of the Corporation, except those which the Corporation has placed in the custody of a bank or trust company or member of a national securities exchange (as that term is defined in the Securities Exchange Act of 1934, as amended) pursuant to a written agreement designating such bank or trust company or member of a national securities exchange as custodian of the property of the Corporation;

(b) keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation;

(c) cause all moneys and other valuables to be deposited to the credit of the Corporation;

(d) receive, and give receipts for, moneys due and payable, to the Corporation from any source whatsoever;

(e) disburse the funds of the Corporation and supervise the investment of its funds as ordered or authorized by the Board, taking proper vouchers therefor; and

(f) in general, perform all the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the Board or the President.

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Section 10. Secretary. The Secretary shall

(a) keep or cause to be kept in one or more books provided for the purpose, the minutes of all meetings of the Board, the committees of the Board and the stockholders;

(b) see that all notices are duly given in accordance with the provisions of these By-Laws and as required by Law;

(c) be custodian of the records and the seal of the Corporation and affix and attest the seal to all stock certificates of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and affix and attest the seal to all other documents to be executed on behalf of the Corporation under its seal;

(d) see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and

(e) in general, perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the Board or the President.

Section 11. Delegation of Duties. In case of the absence of any officer of the Corporation, or for any other reason that the Board may deem sufficient, the Board may confer for the time being the powers or duties, or any of them, of such officer upon any other officer or upon any director.

ARTICLE VI

Indemnification

Each officer and director of the Corporation shall be indemnified by the Corporation to the full extent permitted under the General Laws of the State of Maryland, except that such indemnity shall not protect any such person against any liability to the Corporation or any stockholder thereof to which such person would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office. Absent a court determination that an officer or director seeking indemnification was not liable on the merits or guilty of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office, the decision by the Corporation to indemnify such person must be based upon the

reasonable determination of independent legal counsel in a written opinion or the vote of a majority of a quorum of the directors who are neither "interested persons," as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended, nor parties to the proceeding ("non-party independent directors"), after review of the facts, that such officer or director is not guilty of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office.

Each officer and director of the Corporation claiming indemnification within the scope of this Article VI shall be entitled to advances from the Corporation for payment of the reasonable expenses incurred by him in connection with proceedings

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to which he is a party in the manner and to the full extent permitted under the Maryland General Corporation Law without a preliminary determination as to his or her ultimate entitlement to indemnification (except as set forth below); provided, however, that the person seeking indemnification shall provide to the Corporation a written affirmation of his good faith belief that the standard of conduct necessary for indemnification by the Corporation has been met and a written undertaking to repay any such advance, if it should ultimately be determined that the standard of conduct has not been met, and provided further that at least one of the following additional conditions is met: (a) the person seeking indemnification shall provide a security in form and amount acceptable to the Corporation for his undertaking; (b) the Corporation is insured against losses arising by reason of the advance; (c) a majority of a quorum of non-party independent directors, or independent legal counsel in a written opinion, shall determine, based on a review of the facts readily available to the Corporation at the time the advance is proposed to be made, that there is reason to believe that the person seeking indemnification will ultimately be found to be entitled to indemnification.

The Corporation may purchase insurance on behalf of an officer or director protecting such person to the full extent permitted under the General Laws of the State of Maryland, from liability arising from his activities as officer or director of the Corporation. The Corporation, however, may not purchase insurance on behalf of any officer or director of the Corporation that protects or purports to protect such person from liability to the

Corporation or to its stockholders to which such officer or director would otherwise be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of the duties involved in the conduct of his office.

The Corporation may indemnify, make advances or purchase insurance to the extent provided in this Article VI on behalf of an employee or agent who is not an officer or director of the Corporation.

## ARTICLE VII

### Capital Stock

Section 1. Stock Certificates. Each holder of stock of the Corporation shall be entitled upon request to have a certificate or certificates, in such form as shall be approved by the Board, representing the number of shares of stock of the Corporation owned by him, provided, however, that certificates for fractional shares will not be delivered in any case. The certificates representing shares of stock shall be signed by or in the name of the Corporation by the Chairman, President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and sealed with the seal of the Corporation. Any or all of the signatures or the seal on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate shall be issued, it may be issued by the Corporation with the same effect

as if such officer, transfer agent or registrar were still in office at the date of issue.

Section 2. Books of Account and Record of Stockholders. There shall be kept at the principal executive office of the Corporation correct and complete books and records of account of all the business and transactions of the Corporation. There shall be made available upon request of any stockholder, in accordance with Maryland law, a record containing the number of shares of stock issued during a specified period not to exceed twelve months and the consideration received by the Corporation for each such share.

Section 3. Transfers of Shares. Transfers of shares of stock of the Corporation shall be made on the stock records of the Corporation only by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed and filed with the Secretary or with a transfer agent or transfer clerk, and on surrender of the certificate or certificates, if issued, for such shares properly endorsed or accompanied by a duly executed stock transfer power and the payment of all taxes thereon. Except as otherwise provided by law, the Corporation shall be entitled to recognize the exclusive right of a person in whose name any share or shares stand on the record of stockholders as the owner of such share or shares for all purposes, including, without limitation, the rights to receive dividends or other distributions, and to vote as such owner, and the Corporation shall not be bound to recognize any equitable or legal claim to or interest in any such share or shares on the part of any other person.

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Section 4. Regulations. The Board may make such additional rules and regulations, not inconsistent with these By-Laws, as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock of the Corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer agents or one or more transfer clerks and one or more registrars and may require all certificates for shares of stock to bear the signature or signatures of any of them.

Section 5. Lost, Destroyed or Mutilated Certificates. The holder of any certificates representing shares of stock of the Corporation shall immediately notify the Corporation of any loss, destruction or mutilation of such certificate, and the Corporation may issue a new certificate of stock in the place of any certificate theretofore issued by it which the owner thereof shall allege to have been lost or destroyed or which shall have been mutilated, and the Board may, in its discretion, require such owner or his legal representatives to give to the Corporation a bond in such sum, limited or unlimited, and in such form and with such surety or sureties, as the Board in its absolute discretion shall determine, to indemnify the Corporation against any claim that may be made against it on account of the alleged loss or destruction of any such certificate, or issuance of a new certificate. Anything herein to the contrary notwithstanding, the Board, in its absolute discretion, may refuse to issue any such new certificate, except pursuant to legal proceedings under the laws of the State of Maryland.



Section 6. Fixing of a Record Date for Dividends and Distributions. The Board may fix, in advance, a date not more than ninety days preceding the date fixed for the payment of any dividend or the making of any distribution or the allotment of rights to subscribe for securities of the Corporation, or for the delivery of evidences of rights or evidences of interests arising out of any change, conversion or exchange of common stock or other securities, as the record date for the determination of the stockholders entitled to receive any such dividend, distribution, allotment, rights or interests, and in such case only the stockholders of record at the time so fixed shall be entitled to receive such dividend, distribution, allotment, rights or interests.

Section 7. Information to Stockholders and Others. Any stockholder of the Corporation or his agent may inspect and copy during usual business hours the Corporation's By-Laws, minutes of the proceedings of its stockholders, annual statement of its affairs, and voting trust agreements on file at its principal office.

#### ARTICLE VIII

##### Seal

The seal of the Corporation shall be circular in form and shall bear, in addition to any other emblem or device approved by the Board of Directors, the name of the Corporation, the year of its incorporation and the words "Corporate Seal" and "Maryland." Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

#### ARTICLE IX

##### Fiscal Year

Unless otherwise determined by the Board, the fiscal year of the Corporation shall end on the 31st day of December.

#### ARTICLE X

## Depositories and Custodians

Section 1. Depositories. The funds of the Corporation shall be deposited with such banks or other depositories as the Board of Directors of the Corporation may from time to time determine.

Section 2. Custodians. All securities and other investments shall be deposited in the safe keeping of such banks or other companies as the Board of Directors of the Corporation may from time to time determine. Every arrangement entered into with any bank or other company for the safe keeping of the securities and investments of the Corporation shall contain provisions complying with the Investment Company Act of 1940, as amended, and the general rules and regulations thereunder.

## ARTICLE XI

### Execution of Instruments

Section 1. Checks, Notes, Drafts, etc. Checks, notes, drafts, acceptances, bills of exchange and other orders or obligations for the payment of money shall be signed by such officer or officers or person or persons as the Board of Directors by resolution shall from time to time designate.

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Section 2. Sale or Transfer of Securities. Stock certificates, bonds or other securities at any time owned by the Corporation may be held on behalf of the Corporation or sold, transferred or otherwise disposed of subject to any limits imposed by these By-Laws and pursuant to authorization by the Board and, when so authorized to be held on behalf of the Corporation or sold, transferred or otherwise disposed of, may be transferred from the name of the Corporation by the signature of the President or a Vice President or the Treasurer or pursuant to any procedure approved by the Board of Directors, subject to applicable law.

## ARTICLE XII

### Independent Public Accountants

The firm of independent public accountants which shall sign or certify the financial statements of the Corporation which are filed with the Securities and Exchange Commission shall be selected annually by the Board of Directors and, if required by the provisions of the Investment Company Act of

1940, as amended, ratified by the stockholders.

#### ARTICLE XIII

##### Annual Statement

The books of account of the Corporation shall be examined by an independent firm of public accountants at the close of each annual period of the Corporation and at such other times as may be directed by the Board. A report to the stockholders based upon each such examination shall be mailed to each stockholder of the Corporation of record on such date with respect to each report as

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may be determined by the Board, at his address as the same appears on the books of the Corporation. Such annual statement shall also be available at the annual meeting of stockholders, if any, and, within 20 days after the meeting (or, in the absence of an annual meeting, within 120 days after the end of the fiscal year), shall be placed on file at the Corporation's principal office. Each such report shall show the assets and liabilities of the Corporation as of the close of the annual or quarterly period covered by the report and the securities in which the funds of the Corporation were then invested. Such report shall also show the Corporation's income and expenses for the period from the end of the Corporation's preceding fiscal year to the close of the annual or quarterly period covered by the report and any other information required by the Investment Company Act of 1940, as amended, and shall set forth such other matters as the Board or such firm of independent public accountants shall determine.

#### ARTICLE XIV

##### Amendments

These By-Laws or any of them may be amended, altered or repealed by the Board of Directors. The stockholders shall have no power to make, amend, alter or repeal By-Laws.

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FORM OF  
MANAGEMENT AGREEMENT

AGREEMENT made this 25th day of August, 1994, by and between MERRILL LYNCH ASSET INCOME FUND, INC., a Maryland corporation (the "Fund"), and MERRILL LYNCH ASSET MANAGEMENT, L.P., a Delaware limited partnership (the "Manager"):

W I T N E S S E T H:

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

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

WHEREAS, the Fund desires to retain the Manager to provide management and investment advisory services to the Fund in the manner and on the terms hereinafter set forth; and

WHEREAS, the Manager is willing to provide management and investment advisory services to the Fund on the terms and conditions hereinafter set forth;

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

ARTICLE 1.

Duties of the Manager

The Fund hereby employs the Manager to act as a manager and investment adviser of the Fund and to furnish, or arrange for affiliates to furnish, the management and investment advisory services described below, subject to the policies of, review by and overall control of the Board of Directors of the Fund, for the period and on the terms and conditions set forth in this Agreement. The Manager hereby accepts such employment and agrees

during such period, at its own expense, to render, or arrange for the rendering of, such services and to assume the obligations herein set forth for the compensation provided for herein. The Manager and its affiliates shall for all purposes herein be deemed to be independent contractors and shall, unless otherwise expressly

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provided or authorized, have no authority to act for or represent the Fund in any way or otherwise be deemed agents of the Fund.

(a) Administrative Services. The Manager shall perform (or arrange for the performance by affiliates of) the management, investment advisory and administrative services necessary for the operation of the Fund including administering shareholder accounts and handling shareholder relations. The Manager shall provide the Fund with office space, facilities, equipment and necessary personnel and such other services as the Manager, subject to review by the Board of Directors, shall from time to time determine to be necessary or useful to perform its obligations under this Agreement. The Manager shall also, on behalf of the Fund, conduct relations with custodians, sub-custodians, depositaries, transfer agents, pricing agents, dividend disbursing agents, other shareholder servicing agents, accountants, attorneys, distributors, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Manager shall generally monitor the Fund's compliance with investment policies and restrictions as set forth in filings made by the Fund under the Federal securities laws. The Manager shall make reports to the Board of Directors of its performance of obligations hereunder and furnish advice and recommendations with respect to such other aspects of the business and affairs of the Fund as it shall determine to be desirable.

(b) Investment Advisory Services. The Manager shall provide (or arrange for affiliates to provide) the Fund with such investment research, advice and supervision as the latter may from time to time consider necessary for the proper supervision of the assets of the Fund, shall furnish continuously an investment program for the Fund and shall determine from time to time which securities shall be purchased, sold or exchanged and what portion of the assets of the Fund shall be held in the various securities in which the Fund invests, options, futures, options on futures or cash, subject always to the restrictions of the Articles of Incorporation and By-Laws of the Fund, as amended from time to time, the provisions of the Investment Company Act and the statements relating to the Fund's investment objectives, investment policies and investment restrictions as the same are set forth in filings made by the Fund under the Federal securities laws. The Manager shall make decisions for the Fund as to foreign currency matters and make determinations as to foreign exchange contracts, foreign currency options, foreign currency futures and related options on foreign currency futures. The Manager shall make decisions for the Fund as to the manner in which voting rights, rights to consent to corporate action and any other rights pertaining to the Fund's portfolio securities shall be exercised. Should the Directors at any time, however, make

any definite determination as to investment policy and notify the Manager thereof in writing, the Manager 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.

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The Manager shall take, on behalf of the Fund, all actions which it deems necessary to implement the investment policies determined as provided above, and in particular to place all orders for the purchase or sale of portfolio securities for the Fund's account with brokers or dealers selected by it, and to that end, the Manager is authorized as the agent of the Fund to give instructions to the Custodian of the Fund as to deliveries of securities and payments of cash for the account of the Fund. In connection with the selection of such brokers or dealers and the placing of such orders with respect to assets of the Fund, the Manager is directed at all times to seek to obtain execution and prices within the policy guidelines determined by the Board of Directors and set forth in filings made by the Fund under the Federal securities laws. Subject to this requirement and the provisions of the Investment Company Act, the Securities Exchange Act of 1934, as amended, and other applicable provisions of law, the Manager may select brokers or dealers with which it or the Fund is affiliated.

## ARTICLE 2.

### Allocation of Charges and Expenses

(a) The Manager. The Manager assumes and shall pay for maintaining the staff and personnel necessary to perform its obligations under this Agreement, and shall at its own expense, provide the equipment, office space, facilities, and necessary personnel which it is obligated to provide under Article I hereof, and shall pay all compensation of officers and employees of the Fund and the fees of all directors of the Fund who are affiliated persons of the Manager.

(b) The Fund. The Fund assumes and shall pay or cause to be paid all other expenses of the Fund, including, without limitation, organizational costs, insurance, taxes, expenses for legal and auditing services, costs of printing proxies, stock certificates, shareholder reports and prospectuses and statements of additional information (except to the extent paid by the Distributor), charges of the Custodian, any sub-custodian and Transfer Agent, expenses of redemption of shares, Securities and Exchange Commission fees, expenses of registering the shares under Federal, state or foreign 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, brokerage costs, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

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### ARTICLE 3.

#### Compensation of the Manager

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

(b) Expense Limitations. In the event the operating expenses of the Fund, including the investment advisory fee payable to the Manager pursuant to subsection (a) hereof, for any fiscal year ending on a date on which this Agreement is in effect exceed the expense limitations applicable to the Fund imposed by state securities laws or regulations thereunder, as such limitations may be raised or lowered from time to time, the Manager shall reduce its investment advisory fee by the extent of such excess and, if required pursuant to any such laws or regulations, will reimburse the Fund in the amount of such excess; provided, however, to the extent permitted by law, there shall be excluded from such expenses the amount of any interest, taxes, brokerage commissions and extraordinary expenses (including but not limited to legal claims and liabilities and litigation costs and any indemnification related thereto) paid or payable by the Fund. Whenever the expenses of the Fund exceed 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 Manager.

### ARTICLE 4.

#### Limitation of Liability of the Manager

The Manager shall not be liable for any error of judgment or mistake of law or for any loss arising out of any investment or for any act or omission in the management of the Fund, except for willful misfeasance, bad faith or gross negligence in the performance of its duties, or by reason of reckless disregard of its obligations and duties hereunder. As used in this Article 4, the term "Manager" shall include any affiliates of the Manager performing services for the Fund contemplated hereby and directors, partners, officers and employees of the Manager and such affiliates.

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#### ARTICLE 5.

##### Activities of the Manager

The services of the Manager to the Fund are not to be deemed to be exclusive: the Manager and any person controlled by or under common control with the Manager (for purposes of this Article 5 referred to as "affiliates") are free to render services to others. It is understood that Directors, officers, employees and shareholders of the Fund are or may become interested in the Manager and its affiliates, as directors, officers, employees, partners and shareholders or otherwise, and that directors, officers, employees, partners and shareholders of the Manager and its affiliates are or may become similarly interested in the Fund, and that the Manager and directors, officers, employees, partners and shareholders of its affiliates may become interested in the Fund as a shareholder or otherwise.

#### ARTICLE 6.

##### Duration and Termination of this Agreement

This Agreement shall become effective as of the date first above written and shall remain in force until August 24, 1996, and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Board of Directors of the Fund, or by the vote of a majority of the outstanding shares of the 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 purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Board of Directors of the Fund or by vote of a majority of the outstanding shares of the Fund, or by the Manager on sixty



days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment.

## ARTICLE 7.

### Definitions.

The terms "assignment", "affiliated person" and "interested person", when used in this Agreement, shall have the respective meanings specified in the Investment Company Act. As used with respect to the Fund, the term "majority of the outstanding shares" means the lesser of (i) at least 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.

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## ARTICLE 8.

### Amendments of this Agreement

This Agreement may be amended by the parties only if such amendment is specifically approved by (i) the Board of Directors of the Fund, or by the vote of a majority of outstanding shares of the Fund, and (ii) a majority of those Directors of the Fund who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

## ARTICLE 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 with the applicable provisions of the Investment Company Act, the latter shall control.

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

MERRILL LYNCH ASSET INCOME  
FUND, INC.

By

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President

MERRILL LYNCH ASSET  
MANAGEMENT, L.P.

By: PRINCETON SERVICES, INC.,  
its General Partner

By

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President

CLASS A SHARES  
DISTRIBUTION AGREEMENT

AGREEMENT made as of the 25th day of August, 1994, between MERRILL LYNCH ASSET INCOME FUND, INC., a Maryland corporation (the "Fund"), and MERRILL LYNCH FUNDS DISTRIBUTOR, INC., a Delaware corporation (the "Distributor").

W I T N E S S E T H :

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

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

WHEREAS, the Fund and the Distributor wish to enter into an agreement with each other with respect to the continuous offering of the Class A shares of common stock in the Fund.

NOW, THEREFORE, the parties agree as follows:

Section 1. Appointment of the Distributor. The Fund hereby appoints the Distributor as the principal underwriter and distributor of the Fund to sell Class A shares of common stock in the Fund (sometimes herein referred to as "Class A shares") to eligible investors (as defined below) and hereby agrees during the term of this Agreement to sell Class A shares of the Fund to the Distributor upon the terms and conditions herein set forth.

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

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

(b) The exclusive right granted to the Distributor to purchase Class A shares from the Fund shall not apply to Class A shares issued in connection with the merger or consolidation of any other investment company or personal holding company with the Fund or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding shares of any such company by the Fund.

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

(d) Such exclusive right shall not apply to Class A shares issued by the Fund pursuant to any conversion, exchange or reinstatement privilege afforded redeeming shareholders or

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to any other Class A shares as shall be agreed between the Fund and the Distributor from time to time.

Section 3. Purchase of Class A Shares from the Fund.

(a) The Distributor shall have the right to buy from the Fund the Class A shares needed, but not more than the Class A shares needed (except for clerical errors in transmission) to fill unconditional orders for Class A shares of the Fund placed with the Distributor by eligible investors or securities dealers. Investors eligible to purchase Class A shares shall be those persons so identified in the currently effective prospectus and statement of additional information (the "prospectus" and "statement of additional information," respectively) under the Securities Act of 1933, as amended (the "Securities Act"), relating to such Class A shares ("eligible investors"). The price which the Distributor shall pay for any Class A shares so purchased from the Fund shall be the net asset value, determined as set forth in Section 3(d) hereof, used in determining the public offering price on which such orders were based.

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

(c) The public offering price of the Class A shares, i.e., the price per share at which the Distributor or selected dealers may sell Class A shares to eligible investors, shall be the public offering price as set forth in the prospectus and statement

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of additional information relating to such Class A shares, but not to exceed the net asset value at which the Distributor is to purchase the Class A shares, plus a sales charge not to exceed 4.0% of the public offering price (4.17% of the net amount invested), subject to reductions for volume purchases. Class A shares may be sold to certain Directors, officers and employees of the Fund, directors of Merrill Lynch & Co., Inc., and certain directors, officers and employees of the Manager (as that term is defined in the prospectus and statement of additional information), the Distributor and their (subsidiaries) (affiliates), and to certain other persons described in the prospectus and statement of additional information, without a sales charge or at a reduced sales charge, upon terms and conditions set forth in the prospectus and the statement of additional information. If the public offering price does not equal an even cent, the public offering price may be adjusted to the nearest cent. All payments to the Fund hereunder shall be made in the manner set forth in Section 3(f).

(d) The net asset value of the Class A shares shall be determined by the Fund or any agent of the Fund in accordance with the method

set forth in the prospectus and statement of additional information of the Fund and guidelines established by the Directors.

(e) The Fund shall have the right to suspend the sale of its Class A shares at times when redemption is suspended pursuant to the conditions set forth in Section 4(b) hereof. The Fund shall also have the right to suspend the sale of its Class A shares if

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trading on the New York Stock Exchange shall have been suspended, if a banking moratorium shall have been declared by Federal or New York authorities, or if there shall have been some other extraordinary event, which, in the judgment of the Fund, makes it impracticable or inadvisable to sell the Class A shares.

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

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

(a) Any of the outstanding Class A shares may be tendered for redemption at any time, and the Fund agrees to repurchase or redeem the Class A shares so tendered in accordance with its obligations as set forth in Article VI of its Articles of Incorporation, as amended from time to time, and in accordance with the applicable provisions set forth in the prospectus and statement

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of additional information. The price to be paid to redeem or repurchase the Class A shares shall be equal to the net asset value calculated in accordance with the provisions of Section 3(d) hereof less any contingent deferred sales charge ("CDSC"), redemption fee or other charge(s), if any, set forth in the prospectus and statement of additional information of the Fund. All payments by the Fund hereunder shall be made in the manner set forth below. The redemption or repurchase by the Fund of any of the Class A shares purchased by or through the Distributor will not affect the sales charge secured by the Distributor or any selected dealer in the course of the original sale, except that if any Class A shares are tendered for redemption or repurchase within seven business days after the date of the confirmation of the original purchase, the right to the sales charge shall be forfeited by the Distributor and the selected dealer which sold such Class A shares.

The Fund shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor

in New York Clearing House funds on or before the seventh business day subsequent to its having received the notice of redemption in proper form. The proceeds of any redemption of shares shall be paid by the Fund as follows: (i) any applicable CDSC shall be paid to the Distributor, and (ii) the balance shall be paid to or for the account of the shareholder, in each case in accordance with the applicable provisions of the prospectus and statement of additional information.

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

#### Section 5. Duties of the Fund.

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

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

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(c) The Fund shall use its best efforts to qualify and maintain the qualification of an appropriate number of Class A shares for sale under the securities laws of such states as the Distributor and the Fund may approve. Any such qualification may be withheld, terminated or withdrawn by the Fund at any time in its discretion. As provided in Section 8(c) hereof, the expense of qualification and maintenance of qualification shall be borne by the Fund. The Distributor shall furnish such information and other material relating to its affairs and activities as may be required by the Fund in connection with such qualification.

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

#### Section 6. Duties of the Distributor.

(a) The Distributor shall devote reasonable time and

effort to effect sales of Class A shares of the Fund, but shall not be obligated to sell any specific number of Class A shares. The services of the Distributor to the Fund hereunder are not to be deemed exclusive and nothing herein contained shall prevent the Distributor from entering into like arrangements with other investment companies so long as the performance of its obligations hereunder is not impaired thereby.

(b) In selling the Class A shares of the Fund, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer, as defined in Section 7 hereof, nor any

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other person is authorized by the Fund to give any information or to make any representations, other than those contained in the registration statement or related prospectus and statement of additional information and any sales literature specifically approved by the Fund.

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

#### Section 7. Selected Dealers Agreement.

(a) The Distributor shall have the right to enter into selected dealers agreements with securities dealers of its choice ("selected dealers") for the sale of Class A shares and fix therein the portion of the sales charge which may be allocated to the selected dealers; provided that the Fund shall approve the forms of agreements with dealers and the dealer compensation set forth therein. Class A shares sold to selected dealers shall be for resale by such dealers only at the public offering price(s) set forth in the prospectus and statement of additional information. The form of agreement with selected dealers to be used during the subscription period described in Section 3(a) is attached hereto as Exhibit A and the initial form of agreement with selected dealers

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to be used in the continuous offering of the Class A shares is attached hereto as Exhibit B.

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

#### Section 8. Payment of Expenses.

(a) The Fund shall bear all costs and expenses of the Fund, including fees and disbursements of its counsel and auditors, in

connection with the preparation and filing of any required registration statements and/or prospectuses and statements of additional information under the Investment Company Act, the Securities Act, and all amendments and supplements thereto, and preparing and mailing annual and interim reports and proxy materials to Class A shareholders (including but not limited to the expense of setting in type any such registration statements, prospectuses, statements of additional information, annual or interim reports or proxy materials).

(b) The Distributor shall be responsible for any payments made to selected dealers as reimbursement for their expenses associated with payments of sales commissions to financial consultants. In addition, after the prospectuses, statements of additional information and annual and interim reports have been prepared and set in type, the Distributor shall bear the costs and expenses of printing and distributing any copies thereof which are to be used in connection with the offering of Class A shares to selected dealers or eligible investors pursuant to this Agreement. The Distributor shall bear the costs and expenses of preparing,

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printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Class A shares for sale to eligible investors and any expenses of advertising incurred by the Distributor in connection with such offering.

(c) The Fund shall bear the cost and expenses of qualification of the Class A shares for sale pursuant to this Agreement, and, if necessary or advisable in connection therewith, of qualifying the Fund as a broker or dealer in such states of the United States or other jurisdictions as shall be selected by the Fund and the Distributor pursuant to Section 5(c) hereof and the cost and expenses payable to each such state for continuing qualification therein until the Fund decides to discontinue such qualification pursuant to Section 5(c) hereof.

#### Section 9. Indemnification.

(a) The Fund shall indemnify and hold harmless the Distributor and each person, if any, who controls the Distributor against any loss, liability, claim, damage or expense (including the reasonable cost of investigating or defending any alleged loss, liability, claim, damage or expense and reasonable counsel fees incurred in connection therewith), as incurred, arising by reason of any person acquiring any Class A shares, which may be based upon the Securities Act, or on any other statute or at common law, on the ground that the registration statement or related prospectus or statement of additional information, as from time to time amended and supplemented, or an annual or interim report to shareholders of the Fund, includes an untrue statement of a material fact or omits

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to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading, unless such statement or omission was made in reliance upon, and in conformity with, information furnished to the Fund in connection therewith by or on behalf of the Distributor; provided,



however, that in no case (i) is the indemnity of the Fund in favor of the Distributor and any such controlling persons to be deemed to protect such Distributor or any such controlling persons thereof against any liability to the Fund or its security holders to which the Distributor or any such controlling persons would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their obligations and duties under this Agreement, or (ii) is the Fund to be liable under its indemnity agreement contained in this paragraph with respect to any claim made against the Distributor or any such controlling persons, unless the Distributor or such controlling persons, as the case may be, shall have notified the Fund in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Distributor or such controlling persons (or after the Distributor or such controlling persons shall have received notice of such service on any designated agent), but failure to notify the Fund of any such claim shall not relieve it from any liability which it may have to the person against whom such action is brought otherwise than on account of its indemnity agreement contained in this paragraph. The Fund will be entitled to participate at its

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own expense in the defense, or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but if the Fund elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the Distributor or such controlling person or persons, defendant or defendants in the suit. In the event the Fund elects to assume the defense of any such suit and retain such counsel, the Distributor or such controlling person or persons, defendant or defendants in the suit, shall bear the fees and expenses of any additional counsel retained by them, but, in case the Fund does not elect to assume the defense of any such suit, it will reimburse the Distributor or such controlling person or persons, defendant or defendants in the suit, for the reasonable fees and expenses of any counsel retained by them. The Fund shall promptly notify the Distributor of the commencement of any litigation or proceedings against it or any of its officers or Directors in connection with the issuance or sale of any of the Class A shares.

(b) The Distributor shall indemnify and hold harmless the Fund and each of its Directors and officers and each person, if any, who controls the Fund against any loss, liability, claim, damage or expense described in the foregoing indemnity contained in subsection (a) of this Section, but only with respect to statements or omissions made in reliance upon, and in conformity with, information furnished to the Fund in writing by or on behalf of the Distributor for use in connection with the registration statement or related prospectus or statement of additional information, as from time to time amended, or the annual or interim reports to

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Class A shareholders. In case any action shall be brought against the Fund or any person so indemnified, in respect of which indemnity may be sought against the Distributor, the Distributor shall have the rights and duties given to the Fund, and the Fund and each person so indemnified shall have the rights and duties given to the Distributor by the provisions of subsection (a) of this

Section 10. Duration and Termination of this Agreement. This Agreement shall become effective as of the date first above written and shall remain in force until August 24, 1996 and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Directors, or by the vote of a majority of the outstanding voting securities of the Fund and (ii) by a vote of a majority of those Directors who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

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

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

Section 11. Amendments of this Agreement. This Agreement may be amended by the parties only if such amendment is specifically approved by (i) the Directors, or by the vote of a majority of the outstanding voting securities of the Fund and (ii) by a vote of a majority of those Directors of the Fund who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

Section 12. Governing Law. The provisions of this Agreement shall be construed and interpreted in accordance with the laws of the State of New York as at the time in effect and the applicable provisions of the Investment Company Act. To the extent that the applicable law of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of August 25, 1994.

MERRILL LYNCH ASSET INCOME FUND, INC.

By: \_\_\_\_\_

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By: \_\_\_\_\_

## EXHIBIT A

MERRILL LYNCH ASSET INCOME FUND, INC.  
CLASS A SHARES OF COMMON STOCKSELECTED DEALERS AGREEMENT  
FOR SUBSCRIPTION PERIOD

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Asset Income Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the distributor for the sale of Class A shares of common stock, par value \$0.10 per share, (herein referred to as "Class A shares"), of the Fund and as such has the right to distribute shares of the Fund for resale. The Fund is an open-end investment company registered under the Investment Company Act of 1940, as amended, and its Class A shares being offered to the public are registered under the Securities Act of 1933, as amended. You have received a copy of the Class A Shares Distribution Agreement (the "Distribution Agreement") between ourself and the Fund and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" as used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission which is part of the most recent effective registration statement pursuant to the Securities Act of 1933, as amended. We offer to sell to you, as a member of the Selected Dealers Group, Class A shares of the Fund for resale to investors identified in the Prospectus and Statement of Additional Information as eligible to purchase Class A shares ("eligible investors") upon the following terms and conditions:

1. The subscription period referred to in Section 3(a) of the Distribution Agreement will continue through August 26, 1994. The subscription period may be extended upon agreement between the Fund and the Distributor. Subject to the provisions of such Section and the conditions contained herein, we will sell to you on the fifth business day following the termination of the subscription period, or such other date as we may advise (the "Closing Date"), such number of shares as to which you have placed orders with us not later than 5:00 P.M. on the second full business day preceding the Closing Date.

2. In all sales of these Class A shares to eligible investors you shall act as dealer for your own account, and in no transaction shall you have any authority to act as agent for the Fund, for us or for any other member of the Selected Dealers Group, except in connection with the Merrill Lynch Mutual Fund Adviser program and such other special programs as we from time to time agree, in which case you shall have authority to offer and sell shares, as agent for the Fund, to participants in such program.

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3. During the subscription period, orders received from you will be accepted through us only at the public offering price of \$10.00 per Class A share, plus the appropriate sales charge as set forth in Section 4 hereof. The procedures relating to the handling of orders shall be subject to Section 6 hereof and instructions which we or the Fund shall forward from time to time to you. All orders are subject to acceptance or rejection by the Distributor or the Fund in the sole discretion of either. The minimum initial purchase is \$1,000. The minimum subsequent purchase is \$50.

4. The sales charges for sales to eligible investors, computed as percentages of the public offering price and the amount invested, and the related discount to Selected Dealers are as follows:

<TABLE>  
<CAPTION>

Amount of Purchase	Sales Charge as Percentage of the Offering Price	Sales Charge as Percentage(1) of the Net Amount Invested	Discount to Selected Dealers as Percentage of the Offering Price
-----	-----	-----	-----
<S>	<C>	<C>	<C>
Less than \$25,000	4.00%	4.17%	3.75%
\$25,000 but less than \$50,000	3.75	3.90	3.50
\$50,000 but less than \$100,000	3.25	3.36	3.00
\$100,000 but less than \$250,000	2.50	2.56	2.25
\$250,000 but less than \$1,000,000	1.50	1.52	1.25
\$1,000,000 and over(2)	.50	.50	.40

</TABLE>

(1) Rounded to the nearest one-hundredth percent.

(2) Initial sales charges will be waived for certain classes of offerees as set forth in the current Prospectus and Statement of Additional Information of the Fund. Such purchases will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates:

<TABLE>  
<CAPTION>

Amount of Purchase	Contingent Deferred Sales Charge as a Percentage of Dollar Amount Subject to Charge
-----	-----
<S>	<C>
\$1 million up to \$2.5 million . . . .	0.75%
Over \$2.5 million up to \$3.5 million	0.40%
Over \$3.5 million up to \$5 million .	0.25%
Over \$5 million . . . . .	0.20%

</TABLE>

The term "purchase" refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing Class A shares for his or their own account and to single purchases by a trustee or other fiduciary purchasing Class A shares for a single trust estate or single fiduciary account although

more than one beneficiary is involved. The term "purchase" also includes purchases by any "company" as that term is defined in the Investment Company Act of 1940, as amended, but does not include purchases by any such company which has not been in existence for at least six months or which has no purpose other than the purchase of shares of the Fund or shares of other registered investment companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser.

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

The reduced sales charges are applicable to purchases aggregating \$25,000 or more of Class A shares or of any other investment company with an initial sales charge for which the Distributor acts as the distributor made through you within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent letter executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. If the intended amount of Class A shares is not purchased within the thirteen-month period, an appropriate price adjustment will be made pursuant to the terms of the Letter of Intention.

You agree to advise us promptly at our request as to amounts of any sales made by you to eligible investors qualifying for reduced sales charges. Further information as to the reduced sales charges pursuant to the right of accumulation or a Letter of

Intention is set forth in the Prospectus and Statement of Additional Information.

5. You shall not place orders for any of the Class A shares unless you have already received purchase orders for such Class A shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. You agree that you will not offer or sell any of the Class A shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class A shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus (as then amended or supplemented) and will not furnish to any person any information relating to the Class A shares of the Fund which is inconsistent in any respect with the information contained in the Prospectus or Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Fund.

6. As a selected dealer, you are hereby authorized (i) to place orders directly with the Fund for Class A shares of the Fund to be resold by us to you subject to the applicable terms and conditions governing the placement of orders by us set forth in Section 3 of the Distribution Agreement and subject to the compensation provisions of Section 4 hereof, and (ii) to tender Class A shares directly to the Fund or its agent for redemption subject to the applicable terms and conditions set forth in Section 4 of the Distribution Agreement.

7. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding: e.g., by a change in the "net asset value" from that used in determining the offering price to your customers.

8. If any Class A shares sold to you under the terms of this Agreement are repurchased by the Fund or by us for the account of the Fund or are tendered for redemption within seven business days after the date of the confirmation of the original purchase by you, it is agreed that you shall forfeit your right to, and refund to us, any discount received by you on such Class A shares.

9. No person is authorized to make any representations concerning Class A shares of the issuer except those contained in the current Prospectus or Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Fund as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class A shares through us you shall rely solely on the representations contained in the Prospectus or Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus or Statement of Additional Information, periodic reports and proxy solicitation material is our sole responsibility and not the responsibility of the Fund, and you agree that the Fund shall have no liability or

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responsibility to you in these respects unless expressly assumed in connection therewith.

10. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to endeavor to obtain proxies from such purchasers. Additional copies of the Prospectus and the Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon request.

11. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class A shares entirely or to certain persons or entities in a class or classes specified by us. Each party hereto has the right to cancel this agreement upon notice to the other party.

12. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any

provision of the Securities Act of 1933, as amended, or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

13. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

14. Upon application to us, we will inform you as to the states in which we believe the Class A shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the shares, if necessary.

15. All communications to us should be sent to the address set forth below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

16. Your first order placed pursuant to this Agreement for the purchase of Class A shares of the Fund will represent your acceptance of this Agreement.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By: \_\_\_\_\_  
Authorized Signature

Please return one signed copy of this agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.  
Box 9011  
Princeton, N.J. 08543-9011

Accepted:

Firm Name: \_\_\_\_\_

By: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_

EXHIBIT B

MERRILL LYNCH ASSET INCOME FUND, INC.  
CLASS A SHARES OF COMMON STOCK

SELECTED DEALERS AGREEMENT

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Asset Income Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the distributor for the sale of Class A shares of common stock, par value \$0.10 per share, (herein referred to as "Class A shares"), of the Fund and as such has the right to distribute shares of the Fund for resale. The Fund is an open-end investment company registered under the Investment Company Act of 1940, as amended, and its Class A shares are registered under the Securities Act of 1933, as amended. You have received a copy of the Class A Shares Distribution Agreement (the "Distribution Agreement") between ourself and the Fund and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" as used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission which is part of the most recent effective registration statement pursuant to the Securities Act of 1933, as amended. We offer to sell to you, as a member of the Selected Dealers Group, Class A shares of the Fund for resale to investors identified in the Prospectus and Statement of Additional Information as eligible to purchase Class A shares ("eligible investors") upon the following terms and conditions:

1. In all sales of these Class A shares to eligible investors you shall act as dealer for your own account, and in no transaction shall you have any authority to act as agent for the Fund, for us or for any other member of the Selected Dealers Group, except in connection with the Merrill Lynch Mutual Fund Adviser program and such other special programs as we from time to time agree, in which case you shall have authority to offer and sell shares, as agent for the Fund, to participants in such program.

2. Orders received from you will be accepted through us only at the public offering price applicable to each order, as set forth in the current Prospectus and Statement of Additional Information of the Fund. The procedure relating to the handling of orders shall be subject to Section 5 hereof and instructions which we or the Fund shall forward from time to time to you. All orders

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are subject to acceptance or rejection by the Distributor or the Fund in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the current Prospectus and Statement of Additional Information of the Fund.

3. The sales charges for sales to eligible investors, computed as percentages of the public offering price and the amount invested, and the related discount to Selected Dealers are as follows:

<TABLE>  
<CAPTION>

Sales Charge	Discount to Selected
--------------	----------------------



Amount of Purchase	Sales Charge as Percentage of the Offering Price	as Percentage (1) of the Net Amount Invested	Dealers as Percentage of the Offering Price
<S>	<C>	<C>	<C>
Less than \$25,000	4.00%	4.17%	3.75%
\$25,000 but less than \$50,000	3.75	3.90	3.50
\$50,000 but less than \$100,000	3.25	3.36	3.00
\$100,000 but less than \$250,000	2.50	2.56	2.25
\$250,000 but less than \$1,000,000	1.50	1.52	1.25
\$1,000,000 and over (11)	.50	.50	.40

The term "purchase" refers to a single purchase by an individual, or to concurrent purchases, which in the aggregate are at least equal to the prescribed amounts, by an individual, his spouse and their children under the age of 21 years purchasing Class A shares for his or their own account and to single purchases

(1) Rounded to the nearest one-hundredth percent.

(11) Initial sales charges will be waived for certain classes of offerees as set forth in the current Prospectus and Statement of Additional Information of the Fund. Such purchases will be subject to a contingent deferred sales charge if the shares are redeemed within one year after purchase at the following rates:

<TABLE>  
<CAPTION>

Amount of Purchase	Contingent Deferred Sales Charge as a Percentage of Dollar Amount Subject to Charge
<S>	<C>
\$1 million up to \$2.5 million . . . . .	0.75%
Over \$2.5 million up to \$3.5 million . . . . .	0.40%
Over \$3.5 million up to \$5 million . . . . .	0.25%
Over \$5 million . . . . .	0.20%

by a trustee or other fiduciary purchasing Class A shares for a single trust estate or single fiduciary account although more than one beneficiary is involved. The term "purchase" also includes purchases by any "company" as that term is defined in the Investment Company Act of 1940, as amended, but does not include purchases by any such company which has not been in existence for at

least six months or which has no purpose other than the purchase of shares of the Fund or shares of other registered investment companies at a discount; provided, however, that it shall not include purchases by any group of individuals whose sole organizational nexus is that the participants therein are credit cardholders of a company, policyholders of an insurance company, customers of either a bank or broker-dealer or clients of an investment adviser.

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

The reduced sales charges are applicable to purchases aggregating \$25,000 or more of Class A shares or of any other investment company with an initial sales charge for which the Distributor acts as the distributor made through you within a thirteen-month period starting with the first purchase pursuant to a Letter of Intention in the form provided in the Prospectus. A purchase not originally made pursuant to a Letter of Intention may be included under a subsequent letter executed within 90 days of such purchase if the Distributor is informed in writing of this intent within such 90-day period. If the intended amount of shares is not purchased within the thirteen-month period, an appropriate price adjustment will be made pursuant to the terms of the Letter of Intention.

You agree to advise us promptly at our request as to amounts of any sales made by you to eligible investors qualifying for reduced sales charges. Further information as to the reduced sales charges pursuant to the right of accumulation or a Letter of Intention is set forth in the Prospectus and Statement of Additional Information.

4. You shall not place orders for any of the Class A shares unless you have already received purchase orders for such Class A shares at the applicable public offering prices and subject

to the terms hereof and of the Distribution Agreement. You agree that you will not offer or sell any of the Class A shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class A shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus (as then amended or supplemented) and will not furnish to any person any information relating to the Class A shares of the Fund which is inconsistent in any respect with the information contained in the Prospectus or Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Fund.

5. As a selected dealer, you are hereby authorized (i) to place orders directly with the Fund for Class A shares of the Fund to be resold by us to you subject to the applicable terms and conditions governing the placement of orders by us set forth in Section 3 of the Distribution

Agreement and subject to the compensation provisions of Section 3 hereof, and (ii) to tender Class A shares directly to the Fund or its agent for redemption subject to the applicable terms and conditions set forth in Section 4 of the Distribution Agreement.

6. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding: e.g., by a change in the "net asset value" from that used in determining the offering price to your customers.

7. If any Class A shares sold to you under the terms of this Agreement are repurchased by the Fund or by us for the account of the Fund or are tendered for redemption within seven business days after the date of the confirmation of the original purchase by you, it is agreed that you shall forfeit your right to, and refund to us, any discount received by you on such Class A shares.

8. No person is authorized to make any representations concerning Class A shares of the issuer except those contained in the current Prospectus or Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Fund as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class A shares through us you shall rely solely on the representations contained in the Prospectus or Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus or Statement of Additional Information, periodic reports and proxy solicitation material is our sole responsibility and not the responsibility of the Fund, and you agree that the Fund shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

9. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus

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and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to endeavor to obtain proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon request.

10. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class A shares entirely or to certain persons or entities in a class or classes specified by us. Each party hereto has the right to cancel this agreement upon notice to the other party.

11. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act of 1933, as amended, or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

12. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the

United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

13. Upon application to us, we will inform you as to the states in which we believe the Class A shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the shares, if necessary.

14. All communications to us should be sent to the address set forth below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

15. Your first order placed pursuant to this Agreement for the purchase of Class A shares of the Fund will represent your acceptance of this Agreement.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By: \_\_\_\_\_  
Authorized Signature

Please return one signed copy of this agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.  
Box 9011  
Princeton, N.J. 08543-9011

Accepted:

Firm Name: \_\_\_\_\_

By: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

Date: \_\_\_\_\_

CLASS B SHARES  
DISTRIBUTION AGREEMENT

AGREEMENT made as of the 25th day of August, 1994, between MERRILL LYNCH ASSET INCOME FUND, INC., a Maryland corporation (the "Fund"), and MERRILL LYNCH FUNDS DISTRIBUTOR, INC., a Delaware corporation (the "Distributor").

W I T N E S S E T H:

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

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

WHEREAS, the Fund and the Distributor wish to enter into an agreement with each other with respect to the continuous offering of the Fund's Class B shares in order to promote the growth of the Fund and facilitate the distribution of its Class B shares.

NOW, THEREFORE, the parties agree as follows:

Section 1. Appointment of the Distributor. The Fund hereby appoints the Distributor as the principal underwriter and distributor of the Fund to sell Class B shares of common stock in the Fund (sometime herein referred to as "Class B Shares") to the public and hereby agrees during the term of this Agreement to sell

shares of the Fund to the Distributor upon the terms and conditions herein set forth.

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

(a) The Fund may, upon written notice to the

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

(b) The exclusive right granted to the Distributor to purchase Class B shares from the Fund shall not apply to Class B shares of the Fund issued in connection with the merger or consolidation of any other investment company or personal holding company with the Fund or the acquisition by purchase or otherwise of all (or substantially all) the assets or the outstanding Class B shares of any such company by the Fund.

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

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(d) Such exclusive rights also shall not apply to Class B shares issued by the Fund pursuant to any conversion, exchange or reinstatement privilege afforded redeeming shareholders or to any other Class B shares as shall be agreed between the Fund and the Distributor from time to time.

### Section 3. Purchase of Class B Shares from the Fund.

(a) The Distributor shall have the right to buy from the Fund the Class B shares needed, but not more than the Class B shares needed (except for clerical errors in transmission) to fill unconditional orders for Class B shares of the Fund placed with the Distributor by eligible investors or securities dealers. Investors eligible to purchase Class B shares shall be those persons so identified in the currently effective prospectus and statement of additional information (the "prospectus" and "statement of additional information," respectively) under the Securities Act of 1933, as amended (the "Securities Act"), relating to such Class B shares. The price which the Distributor shall pay for the Class B shares so purchased from the Fund shall be the net asset value, determined as set forth in Section 3(d) hereof.

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

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

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

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

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

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#### Section 4. Repurchase or Redemption of Class B Shares by the Fund.

(a) Any of the outstanding Class B shares may be tendered for redemption at any time, and the Fund agrees to repurchase or redeem the Class B shares so tendered in accordance with its obligations as set

forth in Article VI of its Articles of Incorporation, as amended from time to time, and in accordance with the applicable provisions set forth in the prospectus and statement of additional information of the Fund. The price to be paid to redeem or repurchase the Class B shares shall be equal to the net asset value calculated in accordance with the provisions of Section 3(c) hereof, less any contingent deferred sales charge ("CDSC") or other charge, if any, set forth in the prospectus and statement of additional information of the Fund. All payments by the Fund hereunder shall be made in the manner set forth below.

The Fund shall pay the total amount of the redemption price as defined in the above paragraph pursuant to the instructions of the Distributor on or before the seventh business day subsequent to its having received the notice of redemption in proper form. The proceeds of any redemption of Class B shares shall be paid by the Fund as follows: (i) any applicable CDSC shall be paid to the Distributor and (ii) the balance shall be paid to or for the account of the shareholder, in each case in accordance with the applicable provisions of the prospectus and statement of additional information.

(b) Redemption of Class B shares or payment may be suspended at times when the New York Stock Exchange is closed, when trading on that Exchange is suspended, when trading on said

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Exchange is restricted, when an emergency exists as a result of which disposal by the Fund of securities owned by it is not reasonably practicable or it is not reasonably practicable for the Fund fairly to determine the value of its net assets, or during any other period when the Securities and Exchange Commission, by order, so permits.

#### Section 5. Duties of the Fund.

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

(b) The Fund shall take, from time to time, but subject to the necessary approval of the shareholders, all necessary action to fix the number of authorized shares and such steps as may be necessary to



register the same under the Securities Act to the end that there will be available for sale such number of Class B shares as the Distributor reasonably may be expected to sell.

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

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

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

#### Section 6. Duties of the Distributor.

(a) The Distributor shall devote reasonable time and effort to effect sales of the Fund, but shall not be obligated to sell any specific number of shares. The services of the Distributor to the Fund hereunder are not to be deemed exclusive and nothing herein contained shall prevent the Distributor from entering into like arrangements with other investment companies so long as the performance of its obligations hereunder is not impaired thereby.

(b) In selling the Class B shares of the Fund, the Distributor shall use its best efforts in all respects duly to conform with the requirements of all federal and state laws relating to the sale of such securities. Neither the Distributor nor any selected dealer, as defined in Section 7 hereof, nor any other person is authorized by the Fund to give any information or to make any representations, other than those contained in the registration statement or related prospectus and statement of

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additional information and any sales literature specifically approved by the Fund.

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

#### Section 7. Selected Dealer Agreements.

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

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

#### Section 8. Payment of Expenses.

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

(b) The Distributor shall be responsible for any payments made to selected dealers as reimbursement for their expenses associated with payments of sales commissions to financial consultants. In addition, after the prospectuses, statements of additional information and annual and interim reports have been prepared and set in type, the Distributor shall bear the costs and expenses of printing and distributing any copies thereof which are to be used in connection with the offering of Class B shares to selected dealers or investors pursuant to this Agreement. The Distributor shall bear the costs and expenses of preparing, printing and distributing any other literature used by the Distributor or furnished by it for use by selected dealers in connection with the offering of the Class B shares for sale to the public and any expenses of advertising incurred by the Distributor in connection with such offering. It is understood and agreed that, so long as the Fund's Class B Shares Distribution Plan

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pursuant to Rule 12b-1 under the Investment Company Act remains in effect, any expenses incurred by the Distributor hereunder may be paid from amounts recovered by it from the Fund under such Plan.

(c) The Fund shall bear the cost and expenses of qualification of the Class B shares for sale pursuant to this Agreement and, if necessary or advisable in connection therewith, of qualifying the Fund as a broker or dealer, in such states of the United States or other jurisdictions as shall be selected by the Fund and the Distributor pursuant to Section 5(c) hereof and the cost and expenses payable to each such state for continuing qualification therein until the Fund decides to discontinue such qualification pursuant to Section 5(c) hereof.

#### Section 9. Indemnification.

(a) The Fund shall indemnify and hold harmless the Distributor and each person, if any, who controls the Distributor against any loss, liability, claim, damage or expense (including the reasonable cost of investigating or defending any alleged loss, liability, claim, damage or expense and reasonable counsel fees incurred in connection therewith), as incurred, arising by reason of any person acquiring any Class B shares, which may be based upon the Securities Act, or on any other statute or at common law, on the ground that the registration statement or related prospectus and statement of additional information, as from time to time amended and supplemented, or an annual or interim report to Class B shareholders of the Fund, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein

not misleading, unless such statement or omission was made in reliance upon, and in conformity with, information furnished to the Fund in connection therewith by or on behalf of the Distributor; provided, however, that in no case (i) is the indemnity of the Fund in favor of the Distributor and any such controlling persons to be deemed to protect such Distributor or any such controlling persons thereof against any liability to the Fund or its security holders to which the Distributor or any such controlling persons would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of their duties or by reason of the reckless disregard of their obligations and duties under this Agreement; or (ii) is the Fund to be liable under its indemnity agreement contained in this paragraph with respect to any claim made against the Distributor or any such controlling persons, unless the Distributor or such controlling persons, as the case may be, shall have notified the Fund in writing within a reasonable time after the summons or other first legal process giving information of the nature of the claim shall have been served upon the Distributor or such controlling persons (or after the Distributor or such controlling persons shall have received notice of such service on any designated agent), but failure to notify the Fund of any such claim shall not relieve it from any liability which it may have to the person against whom such action is brought otherwise than on account of its indemnity agreement contained in this paragraph. The Fund will be entitled to participate at its own expense in the defense or, if it so elects, to assume the defense of any suit brought to enforce any such liability, but if

the Fund elects to assume the defense, such defense shall be conducted by counsel chosen by it and satisfactory to the Distributor or such controlling person or persons, defendant or defendants in the suit. In the event the Fund elects to assume the defense of any such suit and retain such counsel, the Distributor or such controlling person or persons, defendant or defendants in the suit shall bear the fees and expenses, as incurred, of any additional counsel retained by them, but in case the Fund does not elect to assume the defense of any such suit, it will reimburse the Distributor or such controlling person or persons, defendant or defendants in the suit, for the reasonable fees and expenses, as incurred, of any counsel retained by them. The Fund shall promptly notify the Distributor of the commencement of any litigation or

proceedings against it or any of its officers or Directors in connection with the issuance or sale of any of the Class B shares.

(b) The Distributor shall indemnify and hold harmless the Fund and each of its Directors and officers and each person, if any, who controls the Fund against any loss, liability, claim, damage or expense described in the foregoing indemnity contained in subsection (a) of this Section, but only with respect to statements or omissions made in reliance upon, and in conformity with, information furnished to the Fund in writing by or on behalf of the Distributor for use in connection with the registration statement or related prospectus and statement of additional information, as from time to time amended, or the annual or interim reports to shareholders. In case any action shall be brought against the Fund or any person so indemnified, in respect of which

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indemnity may be sought against the Distributor, the Distributor shall have the rights and duties given to the Fund, and the Fund and each person so indemnified shall have the rights and duties given to the Distributor by the provisions of subsection (a) of this Section 9.

Section 10. Duration and Termination of this Agreement. This Agreement shall become effective as of the date first above written and shall remain in force until August 24, 1996 and thereafter, but only so long as such continuance is specifically approved at least annually by (i) the Directors of the Fund, or by the vote of a majority of the outstanding voting securities of the Fund and (ii) by the vote of a majority of those Directors of the Fund who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

This Agreement may be terminated at any time, without the payment of any penalty, by the Directors or by vote of a majority of the outstanding voting securities of the Fund, or by the Distributor, on sixty days' written notice to the other party. This Agreement shall automatically terminate in the event of its assignment. The terms "vote of a majority of the outstanding voting securities," "assignment," and "affiliated person" and "interested person," when used in this Agreement, shall have the respective meanings specified in the Investment Company Act.

Section 11. Amendments of this Agreement. This Agreement may be amended by the parties only if such amendment is specifically approved by (i) the Directors of the Fund, or by the

vote of a majority of the outstanding voting securities of the Fund and (ii) by the vote of a majority of those Directors of the Fund who are not parties to this Agreement or interested persons of any such party cast in person at a meeting called for the purpose of voting on such approval.

Section 12. Governing Law. The provisions of this Agreement shall be construed and interpreted in accordance with the law 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 with the applicable provisions of the Investment Company Act, the latter shall control.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of August 25, 1994.

MERRILL LYNCH ASSET INCOME FUND, INC.

By \_\_\_\_\_  
Title:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By \_\_\_\_\_  
Title:

MERRILL LYNCH ASSET INCOME FUND, INC.  
CLASS B SHARES OF COMMON SHARES

SELECTED DEALER AGREEMENT  
FOR SUBSCRIPTION PERIOD

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Asset Income Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the distributor for the sale of Class B shares of common stock, par value \$0.10 per share, (herein referred to as "Class B shares"), of the Fund and as such has the right to distribute shares of the Fund for resale. The Fund is an open-end investment company registered under the Investment Company Act of 1940, as amended, and its Class B shares being offered to the public are registered under the Securities Act of 1933, as amended. Such shares and certain of the terms on which they are being offered are more fully described in the enclosed Prospectus and Statement of Additional Information. You have received a copy of the Class B Shares Distribution Agreement (the "Distribution Agreement") between ourself and the Fund and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" as used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission which is part of the most recent effective registration statement pursuant to the Securities Act of 1933, as amended. We offer to sell to you, as a member of the Selected Dealers Group, Class B shares of the Fund for resale to investors identified in the Prospectus and Statement of Additional Information as eligible to purchase Class B shares ("eligible investors") upon the following terms and conditions:

1. The subscription period referred to in Section 3(a) of the Distribution Agreement will continue through August 26, 1994. The subscription period may be extended upon agreement between the Fund and the Distributor. Subject to the provisions of such Section and the conditions contained herein, we will sell to you on the fifth business day following the termination of the subscription period, or such other date as we may advise (the "Closing Date"), such number of shares as to which you have placed orders with us not later than 5:00 P.M. on the second full business day preceding the Closing Date.

2. In all sales of these Class B shares to eligible investors you shall act as dealer for your own account, and in no transaction shall you have any authority to act as agent for the Fund, for us or for any other member of the Selected Dealers Group, except in connection with the Merrill Lynch Mutual Fund Adviser program and such other special programs as we from time to time

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agree, in which case you shall have authority to offer and sell shares, as agent for the Fund, to participants in such program.

3. Orders received from you will be accepted through us only at the public offering price of \$10.00 per share. The procedure relating to the handling of orders shall be subject to Section 5 hereof and instructions which we or the Fund shall forward from time to time to you. All orders shall be subject to acceptance or rejection by the Distributor or the Fund in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the current Prospectus and Statement of Additional Information of the Fund. We will pay you such commission, based on the total dollar value of Class B shares sold by you, as you and we agree.

4. You shall not place orders for any of the Class B shares unless you have already received purchase orders for such shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. All orders are subject to acceptance by the Distributor or the Fund in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the Prospectus, as amended from time to time. You agree that you will not offer or sell any of the Class B shares except under circumstances that will result in compliance with the applicable federal and state securities laws and that in connection with sales and offers to sell Class B shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) and will not furnish to any person any information relating to the Class B shares of the Fund which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Fund.

5. Payment for shares purchased by you is to be made by certified or official bank check at the office of Merrill Lynch Funds Distributor, Inc., Box 9011, Princeton, New Jersey 08543-9011, on such date as we may advise, in New York Clearing House funds payable to the order of Merrill Lynch Funds Distributor, Inc. against acknowledgement from the Fund's transfer agent that the appropriate entries in the Fund's books evidencing such payment and the transfer of Class B shares to you or delivery by us of non-negotiable share deposit receipts ("Receipts") issued by Financial Data Services, Inc., as shareholder servicing agent, acknowledging the deposit with it of the Class B shares so purchased by you. You agree that as promptly as practicable after the delivery of such Class B shares you will issue appropriate written transfer instructions to the Fund or to the shareholder servicing agent as to the purchasers to whom you sold the Class B shares.

6. No person is authorized to make any representations concerning shares of the Fund except those contained in the current



Prospectus and Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Fund as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class B shares through us you shall rely solely on the representations contained in the Prospectus and Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus and Statement of Additional Information, periodic reports and proxy solicitation material is our sole responsibility and not the responsibility of the Fund, and you agree that the Fund shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

7. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to endeavor to obtain Proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon request.

8. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of shares entirely or to certain persons or entities in a class or classes specified by us. Each party hereto has the right to cancel this Agreement upon notice to the other party.

9. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act of 1933, as amended, or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

10. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

11. Upon application to us, we will inform you as to the states in which we believe the shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the shares, if necessary.

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12. All communications to us should be sent to the address below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

13. You agree that you will not sell any shares of the Fund to any account over which you exercise discretionary authority.

14. This Agreement shall terminate at the close of business on the Closing Date, unless earlier terminated; provided, however, this Agreement shall continue after termination for the purpose of settlement of accounts hereunder.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By \_\_\_\_\_  
(Authorized Signature)

Please return one signed copy of this Agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.  
Box 9011  
Princeton, New Jersey 08543-9011

Accepted:

Firm Name: \_\_\_\_\_

By: \_\_\_\_\_

Address: \_\_\_\_\_

Date: \_\_\_\_\_

MERRILL LYNCH ASSET INCOME FUND, INC.  
CLASS B SHARES OF COMMON STOCK

SELECTED DEALER AGREEMENT

Gentlemen:

Merrill Lynch Funds Distributor, Inc. (the "Distributor") has an agreement with Merrill Lynch Asset Income Fund, Inc., a Maryland corporation (the "Fund"), pursuant to which it acts as the distributor for the sale of Class B shares of common stock, par value \$0.10 per share (herein referred to as the "Class B shares"), of the Fund, and as such has the right to distribute Class B shares of the Fund for resale. The Fund is an open-end investment company registered under the Investment Company Act of 1940, as amended, and its Class B shares being offered to the public are registered under the Securities Act of 1933, as amended. You have received a copy of the Class B Shares Distribution Agreement (the "Distribution Agreement") between ourself and the Fund and reference is made herein to certain provisions of such Distribution Agreement. The terms "Prospectus" and "Statement of Additional Information" as used herein refer to the prospectus and statement of additional information, respectively, on file with the Securities and Exchange Commission which is part of the most recent effective registration statement pursuant to the Securities Act of 1933, as amended. We offer to sell to you, as a member of the Selected Dealers Group, Class B shares of the Fund for resale to investors identified in the Prospectus and Statement of Additional Information as eligible to purchase Class B shares ("eligible investors") upon the following terms and conditions:

1. In all sales of these Class B shares to the public you shall act as dealer for your own account and in no transaction shall you have any authority to act as agent for the Fund, for us or for any other member of the Selected Dealers Group, except in connection with the Merrill Lynch Mutual Fund Adviser program and such other special programs as we from time to time agree, in which case you shall have authority to offer and sell shares, as agent for the Fund, to participants in such program.

2. Orders received from you will be accepted through us only at the public offering price applicable to each order, as set forth in the current Prospectus and Statement of Additional Information of the Fund. The procedure relating to the handling of orders shall be subject to Section 4 hereof and instructions which we or the Fund shall forward from time to time to you. All orders shall be subject to acceptance or rejection by the Distributor or the Fund in the sole discretion of either. The minimum initial and subsequent purchase requirements are as set forth in the current Prospectus and Statement of Additional Information of the Fund.

3. You shall not place orders for any of the Class B shares unless you have already received purchase orders for such shares at the applicable public offering prices and subject to the terms hereof and of the Distribution Agreement. You agree that you will not offer or sell any of the Class B shares except under circumstances that will result in compliance with the applicable Federal and state securities laws and that in connection with sales and offers to sell Class B shares you will furnish to each person to whom any such sale or offer is made a copy of the Prospectus and, if requested, the Statement of Additional Information (as then amended or supplemented) and will not furnish to any person any information relating to the Class B shares of the Fund which is inconsistent in any respect with the information contained in the Prospectus and Statement of Additional Information (as then amended or supplemented) or cause any advertisement to be published in any newspaper or posted in any public place without our consent and the consent of the Fund.

4. As a selected dealer, you are hereby authorized (i) to place orders directly with the Fund for Class B shares of the Fund to be resold by us to you subject to the applicable terms and conditions governing the placement of orders by us set forth in Section 3 of the Distribution Agreement and (ii) to tender Class B shares directly to the Fund or its agent for redemption subject to the applicable terms and conditions set forth in Section 4 of the Distribution Agreement.

5. You shall not withhold placing orders received from your customers so as to profit yourself as a result of such withholding: e.g., by a change in the "net asset value" from that used in determining the offering price to your customers.

6. No person is authorized to make any representations concerning Class B shares of the Fund except those contained in the current Prospectus and Statement of Additional Information of the Fund and in such printed information subsequently issued by us or the Fund as information supplemental to such Prospectus and Statement of Additional Information. In purchasing Class B shares through us you shall rely solely on the representations contained in the Prospectus and Statement of Additional Information and supplemental information above mentioned. Any printed information which we furnish you other than the Fund's Prospectus and Statement of Additional Information, periodic reports and proxy solicitation material is our sole responsibility and not the responsibility of the Fund, and you agree that the Fund shall have no liability or responsibility to you in these respects unless expressly assumed in connection therewith.

7. You agree to deliver to each of the purchasers making purchases from you a copy of the then current Prospectus and, if requested, the Statement of Additional Information at or prior to the time of offering or sale and you agree thereafter to deliver to such purchasers copies of the annual and interim reports and proxy solicitation materials of the Fund. You further agree to

endeavor to obtain Proxies from such purchasers. Additional copies of the Prospectus and Statement of Additional Information, annual or interim reports and proxy solicitation materials of the Fund will be supplied to you in reasonable quantities upon request.

8. We reserve the right in our discretion, without notice, to suspend sales or withdraw the offering of Class B shares entirely or to certain persons or entities in a class or classes specified by us. Each party hereto has the right to cancel this Agreement upon notice to the other party.

9. We shall have full authority to take such action as we may deem advisable in respect of all matters pertaining to the continuous offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us herein. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act of 1933, as amended, or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

10. You represent that you are a member of the National Association of Securities Dealers, Inc. and, with respect to any sales in the United States, we both hereby agree to abide by the Rules of Fair Practice of such Association.

11. Upon application to us, we will inform you as to the states in which we believe the Class B shares have been qualified for sale under, or are exempt from the requirements of, the respective securities laws of such states, but we assume no responsibility or obligation as to your right to sell Class B shares in any jurisdiction. We will file with the Department of State in New York a Further State Notice with respect to the Class B shares, if necessary.

12. All communications to us should be sent to the address below. Any notice to you shall be duly given if mailed or telegraphed to you at the address specified by you below.

13. Your first order placed pursuant to this Agreement for the purchase of Class B shares of the Fund will represent your acceptance of this Agreement.

14. This Agreement supersedes any prior Selected Dealers Agreement entered into by the parties hereto with respect to the Class B shares of the Fund.

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By \_\_\_\_\_  
(Authorized Signature)

Please return one signed copy of this Agreement to:

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.  
Box 9011  
Princeton, New Jersey 08543-9011

Accepted:

Firm Name: \_\_\_\_\_

By: \_\_\_\_\_

Address: \_\_\_\_\_

Date: \_\_\_\_\_

(CHASE LOGO)

GLOBAL  
CUSTODY  
AGREEMENT

This AGREEMENT is effective September 2, 1994 and is between THE CHASE MANHATTAN BANK, N.A. (the "Bank") and MERRILL LYNCH ASSET INCOME FUND, INC. (the "Customer").

1. CUSTOMER ACCOUNTS.

The Bank agrees to establish and maintain the following accounts ("Accounts"):

(a) a custody account in the name of the Customer ("Custody Account") for any and all stocks, shares, bonds, debentures, notes, mortgages or other obligations for the payment of money, bullion, coin and any certificates, receipts, warrants or other instruments representing rights to receive, purchase or subscribe for the same or evidencing or representing any other rights or interests therein and other similar property whether certificated or uncertificated as may be received by the Bank or its Subcustodian (as defined in Section 3) for the account of the Customer ("Securities"); and

(b) a deposit account in the name of the Customer ("Deposit Account") for any and all cash in any currency received by the Bank or its Subcustodian for the account of the Customer, which cash shall not be subject to withdrawal by draft or check.

The Customer warrants its authority to: 1) deposit the cash and Securities ("Assets") received in the Accounts and 2) give instructions (as defined in Section 11) concerning the Accounts. The Bank may deliver securities of the same class in place of those deposited in the Custody Account.

Upon written agreement between the Bank and the Customer, additional Accounts may be established and separately accounted for as additional Accounts under the terms of this Agreement.

2. MAINTENANCE OF SECURITIES AND CASH AT BANK AND SUBCUSTODIAN LOCATIONS.

Unless instructions specifically require another location acceptable to the Bank:

(a) Securities will be held in the country or other jurisdiction in which the principal trading market for such Securities is located, where such Securities are to be presented for payment or where such Securities are acquired; and

(b) cash will be credited to an account in a country or other jurisdiction in which such cash may be legally deposited or is the legal currency for the payment of public or private debts.

Cash may be held pursuant to instructions in either interest or non-interest bearing accounts as may be available for the particular currency. To the extent instructions are issued and the Bank can comply with such instructions, the Bank is authorized to maintain cash balances on deposit for the Customer with itself or one of its affiliates at such reasonable rates of interest as may from time to time be paid on such accounts, or in non-interest bearing accounts as the Customer may direct, if acceptable to the Bank.

If the Customer wishes to have any of its Assets held in the custody of an institution other than the established Subcustodians or their securities

depositories, such arrangement must be authorized by a written agreement, signed by the Bank and the Customer.

### 3. SUBCUSTODIANS AND SECURITIES DEPOSITORIES.

The Bank may act under this Agreement through the subcustodians listed in Schedule A of this Agreement with which the Bank has entered into subcustodial agreements ("Subcustodians"). The Customer authorizes the Bank to hold Assets in the Accounts in accounts which the Bank has established with one or more of its branches or Subcustodians. The Bank and Subcustodians are authorized to hold any of the Securities in their account with any securities depository in which they participate.

The Bank reserves the right to add new, replace or remove Subcustodians. The Customer will be given reasonable notice by the Bank of any amendment to Schedule A. Upon request by the Customer, the Bank will identify the name, address and principal place of business of any Subcustodian of the Customer's Assets and the name and address of the governmental agency or other regulatory authority that supervises or regulates such Subcustodian.

### 4. USE OF SUBCUSTODIAN.

(a) The Bank will identify Assets on its books as belonging to the Customer.

(b) A Subcustodian will hold Assets together with assets belonging to other Customers of the Bank in accounts identified on such Subcustodian's books as special custody accounts for the exclusive benefit of customers of the Bank.

(c) Any Assets in the Accounts held by a Subcustodian will be subject only to the instructions of the Bank or its agent. Any Securities held in a securities depository for the account of a Subcustodian will be subject only to the instructions of such Subcustodian.

(d) Any agreement the Bank enters into with a Subcustodian for holding its customer's assets shall provide that such assets will not be subject to any right, charge, security interest, lien or claim of any kind in favor of such Subcustodian except for safe custody or administration, and that the beneficial ownership of such assets will be freely transferrable without the payment of money or value other than for safe custody or administration. The foregoing shall not apply to the extent of any special agreement or arrangement made by the Customer with any particular Subcustodian.

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### 5. DEPOSIT ACCOUNT TRANSACTIONS.

(a) The Bank or its Subcustodians will make payments from the Deposit Account upon receipt of Instructions which include all information required by the Bank.

(b) In the event that any payment to be made under this Section 5 exceeds the funds available in the Deposit Account, the Bank, in its discretion, may advance the Customer such excess amount which shall be deemed a loan payable on demand, bearing interest at the rate customarily charged by the Bank on similar loans.

(c) If the Bank credits the Deposit Account on a payable date, or at any time prior to actual collection and reconciliation to the Deposit Account, with interest, dividends, redemptions or any other amount due, the Customer will promptly return any such amount upon oral or written notification: (i) that such amount has not been received in the ordinary course of business or (ii) that such amount was incorrectly credited. If the Customer does not promptly return any amount upon such notification, the Bank shall be entitled, upon oral or written notification to the Customer, to reverse such credit by debiting the Deposit Account for the amount previously credited. The Bank or its Subcustodian shall have no duty or obligation to institute legal proceedings, file a claim or a proof of claim in any insolvency proceeding or take any other action with respect to the collection of such amount, but may act for the Customer upon



Instructions after consultation with the Customer.

#### 6. CUSTODY ACCOUNT TRANSACTIONS.

(a) Securities will be transferred, exchanged or delivered by the Bank or its Subcustodian upon receipt by the Bank of Instructions which include all information required by the Bank. Settlement and payment for Securities received for, and delivery of Securities out of, the Custody Account may be made in accordance with the customary or established securities trading or securities processing practices and procedures in the jurisdiction or market in which the transaction occurs, including, without limitation, delivery of Securities to a purchaser, dealer or their agents against a receipt with the expectation of receiving later payment and free delivery. Delivery of Securities out of the Custody Account may also be made in any manner specifically required by Instructions acceptable to the Bank.

(b) The Bank, in its discretion, may credit or debit the Accounts on a contractual settlement date with cash or Securities with respect to any sale, exchange or purchase of Securities. Otherwise, such transactions will be credited or debited to the Accounts on the date cash or Securities are actually received by the Bank and reconciled to the Accounts.

(i) The Bank may reverse credits or debits made to the Accounts in its discretion if the related transaction fails to settle within a reasonable period, determined by the Bank in its discretion, after the contractual settlement date for the related transaction.

(ii) If any Securities delivered pursuant to this Section 6 are returned by the recipient thereof, the Bank may reverse the credits and debits of the particular transaction at any time.

#### 7. ACTIONS OF THE BANK.

The Bank shall follow Instructions received regarding Assets held in the Accounts. However, until it receives Instructions to the contrary, the Bank will perform the following functions.

(a) Present for payment any Securities which are called, redeemed or retired or otherwise become payable and all coupons and other income items which call for payment upon presentation, to the extent that the Bank or Subcustodian is actually aware of such opportunities.

(b) Execute in the name of the Customer such ownership and other certificates as may be required to obtain payments in respect of Securities.

(c) Exchange interim receipts or temporary Securities for definitive Securities.

(d) Appoint brokers and agents for any transaction involving the Securities, including, without limitation, affiliates of the Bank or any Subcustodian.

(e) Issue statements to the Customer, at times mutually agreed upon, identifying the Assets in the Accounts.

The Bank will send the Customer an advice or notification of any transfers of Assets to or from the Accounts. Such statements, advices or notifications shall indicate the identity of the entity having custody of the Assets. Unless the Customer sends the Bank a written exception or objection to any Bank statement within sixty days of receipt, the Customer shall be deemed to have approved such statement. In such event, or where the Customer has otherwise approved any such statement, the Bank shall, to the extent permitted by law, be released, relieved and discharged with respect to all matters set forth in such statement or reasonably implied therefrom as though it had been settled by the decree of a court of competent jurisdiction in an action where the Customer and all persons having or claiming an interest in the Customer or the Customer's Accounts were parties.

All collections of funds or other property paid or distributed in respect of Securities in the Custody Account shall be made at the risk of the Customer. The Bank shall have no liability for any loss occasioned by delay in the actual receipt of notice by the Bank or by its Subcustodians of any payment, redemption or other transaction regarding Securities in the Custody Account in respect of which the Bank has agreed to take any action under this Agreement.

#### 8. CORPORATE ACTIONS; PROXIES.

Whenever the Bank receives information concerning the Securities which requires discretionary action by the beneficial owner of the Securities (other than a proxy), such as subscription rights, bonus issues, stock repurchase plans and rights offerings, or legal notices or other material intended to be transmitted to securities holders ("Corporate Actions"), the Bank will give the Customer notice of such Corporate Actions to the extent that the Bank's central corporate actions department has actual knowledge of a Corporate Action in time to notify its customers.

When a rights entitlement or a fractional interest resulting from a rights issue, stock dividend, stock split or similar Corporate Action is received which bears an expiration date, the Bank will endeavor to obtain Instructions from the Customer or its Authorized Person, as defined in Section 10, but if Instructions are not received in time for the Bank to take timely action, or actual notice of such Corporate Action was received too late to seek Instructions, the Bank is authorized to sell such rights entitlement or fractional interest and to credit the Deposit Account with the proceeds or take any other action it deems, in good faith, to be appropriate in which case it shall be held harmless for any such action.

The Bank will deliver proxies to the Customer or its designated agent pursuant to special arrangements which may have been agreed to in writing. Such proxies shall be executed in the appropriate nominee name relating to Securities in the Custody Account registered in the name of such nominee but without indicating the manner in which such proxies are to be voted; and where bearer Securities are involved, proxies will be delivered in accordance with Instructions.

#### 9. NOMINEES.

Securities which are ordinarily held in registered form may be registered in a nominee name of the Bank, Subcustodian or securities depository, as the case may be. The Bank may, without notice to the Customer, cause any such Securities to cease to be registered in the name of any such nominee and to be registered in the name of the Customer. In the event that any Securities registered in a nominee name are called for partial redemption by the issuer, the Bank may allot the called portion to the respective beneficial holders of such class of security in any manner the Bank deems to be fair and equitable. The Customer agrees to hold the Bank, Subcustodians, and their respective nominees harmless from any liability arising directly or indirectly from their status as a mere record holder of Securities in the Custody Account.

#### 10. AUTHORIZED PERSONS.

As used in this Agreement, the term "Authorized Person" means employees or agents including investment managers as have been designated by written notice from the Customer or its designated agent to act on behalf of the Customer under this Agreement. Such persons shall continue to be Authorized Persons until such time as the Bank receives Instructions from the Customer or its designated agent that any such employee or agent is no longer an Authorized Person.

#### 11. INSTRUCTIONS.

The term "Instructions" means instructions of any Authorized Person received by the Bank, via telephone, telex, TWX, facsimile transmission, bank wire or other teleprocess or electronic instruction or trade information system acceptable to the Bank which the Bank believes in good faith to have been given by Authorized Persons or which are transmitted with proper testing or

authentication pursuant to terms and conditions which the Bank may specify. Unless otherwise expressly provided, all Instructions shall continue in full force and effect until cancelled or superseded.

Any Instructions delivered to the Bank by telephone shall promptly thereafter be confirmed in writing by an Authorized Person (which confirmation may bear the facsimile signature of such Person), but the Customer will hold the Bank harmless for the failure of an Authorized Person to send such confirmation in writing, the failure of such confirmation to conform to the telephone instructions received or the Bank's failure to produce such confirmation at any subsequent time. Either Party may electronically record any Instructions given by telephone, and any other telephone discussions with respect to the Custody Account. The Customer shall be responsible for safeguarding any testkeys, identification codes or other security devices which the Bank shall make available to the Customer or its Authorized Persons.

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## 12. STANDARD OF CARE; LIABILITIES.

(a) The Bank shall be responsible for the performance of only such duties as are set forth in this Agreement or expressly contained in Instructions which are consistent with the provisions of this Agreement.

(i) The Bank will use reasonable care with respect to its obligations under this Agreement and the safekeeping of Assets. The Bank shall be liable to the Customer for any loss which shall occur as the result of the failure of a Subcustodian to exercise reasonable care with respect to the safekeeping of such Assets to the same extent that the Bank would be liable to the Customer if the Bank were holding such Assets in New York. In the event of any loss to the Customer by reason of the failure of the Bank or its Subcustodian to utilize reasonable care, the Bank shall be liable to the Customer only to the extent of the Customer's direct damages, to be determined based on the market value of the property which is the subject of the loss at the date of discovery of such loss and without reference to any special conditions or circumstances.

(ii) The Bank will not be responsible for any act, omission, default or for the solvency of any broker or agent which it or a Subcustodian appoints unless such appointment was made negligently or in bad faith.

(iii) The Bank shall be indemnified by, and without liability to the Customer for any action taken or omitted by the Bank whether pursuant to Instructions or otherwise within the scope of this Agreement if such act or omission was in good faith, without negligence. In performing its obligations under this Agreement, the Bank may rely on the genuineness of any document which it believes in good faith to have been validly executed.

(iv) The Customer agrees to pay for and hold the Bank harmless from any liability or loss resulting from the imposition or assessment of any taxes or other governmental charges, and any related expenses with respect to income from or Assets in the Accounts.

(v) The Bank shall be entitled to rely, and may act upon the advice of counsel (who may be counsel for the Customer) on all matters, and shall be without liability for any action reasonably taken or omitted pursuant to such advice.

(vi) The Bank need not maintain any insurance for the benefit of the Customer.

(vii) Without limiting the foregoing, the Bank shall not be liable for any loss which results from: 1) the general risk of investing, or 2) investing or holding Assets in a particular country including, but not limited to, losses resulting from nationalization, expropriation or other governmental actions; regulation of the banking or securities industry; currency restrictions, devaluations or fluctuations; and market

conditions which prevent the orderly execution of securities transactions or affect the value of Assets.

(viii) Neither party shall be liable to the other for any loss due to forces beyond their control including, but not limited to, strikes or work stoppages, acts of war or terrorism, insurrection, revolution, nuclear fusion, fission or radiation, or acts of God.

(b) Consistent with and without limiting the first paragraph of this Section 12, it is specifically acknowledged that the Bank shall have no duty or responsibility to:

(i) question Instructions or make any suggestions to the Customer or an Authorized Person regarding such Instructions;

(ii) supervise or make recommendations with respect to investments or the retention of Securities;

(iii) advise the Customer or an Authorized Person regarding any default in the payment of principal or income of any security other than as provided in Section 5(c) of this Agreement;

(iv) evaluate or report to the Customer or an Authorized Person regarding the financial condition of any broker, agent or other party to which Securities are delivered or payments are made pursuant to this Agreement; or

(v) review or reconcile trade confirmations received from brokers. The Customer or its Authorized Persons issuing Instructions shall bear any responsibility to review such confirmations against Instructions issued to and statements issued by the Bank.

(c) The Customer authorizes the Bank to act under this Agreement notwithstanding that the Bank or any of its divisions or affiliates may have a material interest in a transaction, or circumstances are such that the Bank may have a potential conflict of duty or interest including the fact that the Bank or any of its affiliates may provide brokerage services to other customers, act as financial advisor to the issuer of Securities, act as a lender to the issuer of Securities, act in the same transaction as agent for more than one customer, have a material interest in the issue of Securities, or earn profits from any of the activities listed herein.

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### 13. FEES AND EXPENSES.

The Customer agrees to pay the Bank for its services under this Agreement such amount as may be agreed upon in writing, together with the Bank's reasonable out-of-pocket or incidental expenses, including, but not limited to legal fees. The Bank shall have a lien on and is authorized to charge any Accounts of the Customer for any amount owing to the Bank under any provision of this Agreement.

### 14. MISCELLANEOUS.

(a) Foreign Exchange Transactions. To facilitate the administration of the Customer's trading and investment activity, the Bank is authorized to enter into spot or forward foreign exchange contracts with the Customer or an Authorized Person for the Customer and may also provide foreign exchange through its subsidiaries, affiliates or Subcustodians. Instructions, including standing instructions, may be issued with respect to such contracts but the Bank may establish rules or limitations concerning any foreign exchange facility made available. In all cases where the Bank, its subsidiaries, affiliates or Subcustodians enter into a foreign exchange contract related to Accounts, the terms and conditions of the then current foreign exchange contract of the Bank, its subsidiary, affiliate or Subcustodian and, to the extent not inconsistent, this Agreement, shall apply to such transaction.

(b) Certification of Residency, etc. The Customer certifies that it is a resident of the United States and agrees to notify the Bank of any changes in residency. The Bank may rely upon this certification or the certification of such other facts as may be required to administer the Bank's obligations under this Agreement. The Customer will indemnify the Bank against all losses, liability, claims or demands arising directly or indirectly from any such certifications.

(c) Access to Records. The Bank shall allow the Customer's independent public accountants reasonable access to the records of the Bank relating to the Assets as is required in connection with the examination of books and records pertaining to the Customer's affairs. Subject to restrictions under applicable law, the Bank shall also obtain an undertaking to permit the Customer's independent public accountants reasonable access to the records of any Subcustodian which has physical possession of any Assets as may be required in connection with the examination of the Customer's books and records.

(d) Governing Law; Successors and Assigns. This Agreement shall be governed by the laws of the State of New York and shall not be assignable by either party, but shall bind the successors in interest of the Customer and the Bank.

(e) Entire Agreement; Applicable Riders. Customer represents that the Assets deposited in the Accounts are (check one):

- employee benefit plan or other assets subject to the  
Employee Retirement Income Security Act of 1974, as amended  
("ERISA");
- X mutual fund assets subject to Securities and Exchange  
----- Commission ("SEC") rules and regulations;
- neither of the above.

This Agreement consists exclusively of this document together with Schedule A, and the following rider(s) (check applicable rider(s)):

- ERISA
- X MUTUAL FUND  
-----
- SPECIAL TERMS AND CONDITIONS

There are no other provisions of this Agreement and this Agreement supersedes any other agreements, whether written or oral, between the parties. Any amendment to this Agreement must be in writing, executed by both parties.

(f) Severability. In the event that one or more provisions of this Agreement are held invalid, illegal or unenforceable in any respect on the basis of any particular circumstances or in any jurisdiction, the validity, legality and enforceability of any such provision and the remaining provisions, under other circumstances or in other jurisdictions will not in any way be affected or impaired.

(g) Waiver. Except as otherwise provided in this Agreement, no failure or delay on the part of either party in exercising any power or right under this Agreement operates as a waiver, nor does any single or partial exercise of any power or right preclude any other or further exercise thereof, or the exercise of any other power or right. No waiver by a party of any provision of this Agreement or waiver of any breach or default is effective unless in writing and signed by the party against whom the waiver is to be enforced.

(h) Notices. All notices under this Agreement shall be effective when



STATE OF NEW YORK )
: ss.
COUNTY OF NEW YORK )

On this 11th day of July, 1994, before me personally came Michael Ravensbergen, to me known, who being by me duly sworn, did depose and say that he resides in Hackensack, N.J., at 14 Brook Street; that he is a Vice President of THE CHASE MANHATTAN BANK, N.A. ("Bank"), the Bank which executed the foregoing Agreement; that he knows the seal of the Bank; that the seal affixed to the Agreement is such corporate seal; that it was so affixed by order of the Board of Directors of the Bank, and that he signed his name thereto by like order.

Sworn to before me this 11th day of July, 1994.

/s/ LAIYEE NG
Notary
LAIYEE NG

Notary Public, State of New York
No. 01NG5012928
Qualified in Queens County
Cert. Filed in Kings & N.Y. Counties
Commission Expires June 15, 1995

MUTUAL FUND RIDER TO GLOBAL CUSTODY AGREEMENT
BETWEEN THE CHASE MANHATTAN BANK, N.A. AND
MERRILL LYNCH ASSET ALLOCATION
INCOME PORTFOLIO, INC., EFFECTIVE \_\_\_\_\_

Customer represents that the Assets being placed in the Bank's custody are subject to the Investment Company Act of 1940 (the "Act"), as the same may be amended from time to time.

Except to the extent that the Bank has specifically agreed to comply with a condition of a rule, regulation or interpretation promulgated by or under the authority of the SEC or the Exemptive Order applicable to accounts of this nature issued to the Bank (Investment Company Act of 1940, Release No. 12053, November 20, 1981), as amended, or unless the Bank has otherwise specifically agreed, the Customer shall be solely responsible to assure that the maintenance of Assets under this Agreement complies with such rules, regulations, interpretations or exemptive order promulgated by or under the authority of the Securities Exchange Commission.

The following modifications are made to the Agreement:

SECTION 3. SUBCUSTODIANS AND SECURITIES DEPOSITORIES.

Add the following language to the end of Section 3:

The terms Subcustodian and securities depositions as used in this Agreement shall mean a branch of a qualified U.S. bank, an eligible foreign custodian or an eligible foreign securities depository, which are further defined as follows:

- (a) "qualified U.S. Bank" shall mean a qualified U.S. bank as defined in Rule 17f-5 under the Act.
(b) "eligible foreign custodian" shall mean (i) a banking institution or trust company incorporated or organized under the laws of a country other than the United States that is regulated as such by that country's government or an agency thereof and that has shareholders' equity in excess of \$200 million in

U.S. currency (or a foreign currency equivalent thereof), (ii) a majority owned direct or indirect subsidiary of a qualified U.S. bank or bank holding company that is incorporated or organized under the laws of a country other than the United States and that has shareholders' equity in excess of \$100 million in U.S. currency (or a foreign currency equivalent thereof), (iii) a banking institution or trust company incorporated or organized under the laws of a country other than the United States or a majority owned direct or indirect subsidiary of a qualified U.S. bank or bank holding company that is incorporated or organized under the laws of a country other than the United States which has such other qualifications as shall be specified in instructions and approved by the Bank or (iv) any other entity that shall have been so qualified by exemptive order, rule or other appropriate action of the SEC; and

(c) "eligible foreign securities depository" shall mean a securities depository or clearing agency, incorporated or organized under the laws of a country other than the United States, which operates (i) the central system for handling securities or equivalent book-entries in that country or (ii) a transnational system for the central handling of securities or equivalent book-entries.

The Customer represents that its Board of Directors has approved each of the Subcustodians listed in Schedule A to this Agreement and the terms of the subcustody agreements between the Bank and each Subcustodian, and further represents that its Board has determined that the use of each Subcustodian and the terms of each subcustody agreement are consistent with the best interests of the Customer's fund(s) and its (their) shareholders. The Bank will supply the Customer with any amendment to Schedule A for approval. The Customer has supplied or will supply the Bank with certified copies of its Board of Directors resolution(s) with respect to the foregoing prior to placing Assets with any Subcustodian so approved.

#### SECTION 11. INSTRUCTIONS.

Add the following language to the end of Section 11:

Account transactions made pursuant to Sections 5 and 6 of this Agreement may be made only for the purposes listed below. Instructions must specify the purpose for which any transaction is to be made and the Customer shall be solely responsible to assure that Instructions are in accord with any limitations or restrictions applicable to the Customer by law or as may be set forth in its prospectus.

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(a) In connection with the purchase or sale of Securities at prices as confirmed by Instructions.

(b) When Securities are called, redeemed or retired, or otherwise become payable.

(c) In exchange for or upon conversion into other securities alone or other securities and cash pursuant to any plan or merger, consolidation, reorganization, recapitalization or readjustment.

(d) Upon conversion of Securities pursuant to their terms into other securities.

(e) Upon exercise of subscription, purchase or other similar rights represented by Securities.

(f) For the payment of interest, taxes, management or supervisory fees, distributions or operating expenses.

(g) In connection with any borrowings by the Customer requiring a pledge of Securities, but only against receipt of amounts borrowed.

(h) In connection with any loans, but only against receipt of adequate collateral as specified in Instructions which shall reflect any restrictions



applicable to the Customer.

(i) For the purpose of redeeming shares of the capital stock of the Customer and the delivery to, or the crediting to the account of the Bank, its Subcustodian or the Customer's transfer agent, such shares to be purchased or redeemed.

(j) For the purpose of redeeming in kind shares of the Customer against delivery of the shares to be redeemed to the Bank, its Subcustodian or the Customer's transfer agent.

(k) For delivery in accordance with the provisions of any agreement among the Customer, the Bank and a broker-dealer registered under the Securities Exchange Act of 1934 (the "Exchange Act") and a member of the National Association of Securities Dealers, Inc., relating to compliance with the rules of The Options Clearing Corporation and of any registered national securities exchange, or of any similar organization or organizations, regarding escrow or other arrangements in connection with transactions by the Customer.

(l) For release of Securities to designated brokers under covered call options, provided, however, that such Securities shall be released only upon payment to the Bank of monies for the premium due and a receipt for the Securities which are to be held in escrow. Upon exercise of the option, or at expiration, the Bank will receive the Securities previously deposited from brokers. The Bank will act strictly in accordance with Instructions in the delivery of Securities to be held in escrow and will have no responsibility or liability for any such Securities which are not returned promptly when due other than to make proper request for such return.

(m) For spot or forward foreign exchange transactions to facilitate security trading, receipt of income from Securities or related transactions.

(n) For other proper purposes as may be specified in Instructions issued by an officer of the Customer which shall include a statement of the purpose for which the delivery or payment is to be made, the amount of the payment or specific Securities to be delivered, the name of the person or persons to whom delivery or payment is to be made, and a certification that the purpose is a proper purpose under the instruments governing the Customer.

(o) Upon the termination of this Agreement as set forth in Section 14(i).

#### SECTION 12. STANDARD OF CARE; LIABILITIES.

Add the following subsection (d) to Section 12:

(d) The Bank hereby warrants to the Customer that in its opinion, after due inquiry, the established procedures to be followed by each of its branches, each branch of a qualified U.S. bank, each eligible foreign custodian and each eligible foreign securities depository holding the Customer's Securities pursuant to this Agreement afford protection for such Securities at least equal to that afforded by the Bank's established procedures with respect to similar securities held by the Bank and its securities depositories in New York.

#### SECTION 14. ACCESS TO RECORDS.

Add the following language to the end of Section 14(c):

Upon reasonable request from the Customer, the Bank shall furnish the Customer such reports (or portions thereof) of the Bank's system of internal accounting controls applicable to the Bank's duties under this Agreement. The Bank shall endeavor to obtain and furnish the Customer with such similar reports as it may reasonably request with respect to each Subcustodian and securities depository holding the Customer's assets.

SUB-CUSTODIANS EMPLOYED BY  
THE CHASE MANHATTAN BANK, N.A. LONDON, GLOBAL CUSTODY

<TABLE> <CAPTION> COUNTRY -----	SUB-CUSTODIAN -----	CORRESPONDENT BANK -----
<S> ARGENTINA	<C> The Chase Manhattan Bank, N.A. Main Branch 25 De Mayo 130/140 Buenos Aires ARGENTINA	<C> The Chase Manhattan Bank, N.A. Buenos Aires
AUSTRALIA	The Chase Manhattan Bank Australia Limited 36th Floor World Trade Centre Jamison Street Sydney New South Wales 2000 AUSTRALIA	The Chase Manhattan Bank Australia Limited Sydney
AUSTRIA	Creditanstalt - Bankverein Schottengasse 6 A - 1011, Vienna AUSTRIA	Credit Lyonnais Vienna
BANGLADESH	Standard Chartered Bank 18-20 Motijheel C.A. Box 536, Dhaka-1000 BANGLADESH	Standard Chartered Bank Dhaka
BELGIUM	Generale Bank 3 Montagne Du Parc 1000 Bruxelles BELGIUM	Credit Lyonnais Bank Brussels

&lt;/TABLE&gt;

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<TABLE> <S> BOTSWANA	<C> Standard Chartered Bank Botswana Ltd. 4th Floor Commerce House The Mall Gaborone BOTSWANA	<C> Standard Chartered Bank Botswana Ltd. Gaborone
BRAZIL	Banco Chase Manhattan, S.A. Chase Manhattan Center Rua Verbo Divino, 1400 Sao Paulo, SP 04719-002 BRAZIL	Banco Chase Manhattan S.A. Sao Paulo
CANADA	The Royal Bank of Canada Royal Bank Plaza Toronto Ontario M5J 2J5 CANADA	Toronto Dominion Bank Toronto

	Canada Trust Canada Trust Tower BCE Place 161 Bay at Front Toronto Ontario M5J 2T2 CANADA	Toronto Dominion Bank Toronto
CHILE	The Chase Manhattan Bank, N.A. Agustinas 1235 Casilla 9192 Santiago CHILE	The Chase Manhattan Bank, N.A. Santiago
COLOMBIA	Cititrust Colombia S.A. Sociedad Fiduciaria Carrera 9a No 99-02 Santafe de Bogota, DC COLOMBIA	Cititrust Colombia S.A. Sociedad Fiduciaria Santafe de Bogota
CZECH REPUBLIC	Ceskoslovenska Obchodni Banka, A.S. Na Prikope 14 115 20 Praha 1 CZECH REPUBLIC	Ceskoslovenska Obchodni Banka, A.S. Praha
</TABLE>		
13	3	
<TABLE>		
<S>		
DENMARK	Den Danske Bank 2 Holmens Kanala DK 1091 Copenhagen DENMARK	Den Danske Bank Copenhagen
EGYPT	National Bank of Egypt 24 Sherif Street Cairo EGYPT	
EUROBONDS	Cedel S.A. 67 Boulevard Grande Duchesse Charlotte LUXEMBOURG A/c The Chase Manhattan Bank, N.A. London A/c No. 17817	ECU:Lloyds Bank PLC International Banking Division London For all other currencies: see relevant country
EURO CDS	First Chicago Clearing Centre 27 Leadenhall Street London EC3A 1AA UNITED KINGDOM	ECU:Lloyds Bank PLC Banking Division London For all other currencies: see relevant country
FINLAND	Kansallis-Osake-Pankki Aleksanterinkatu 42 00100 Helsinki 10 FINLAND	Kansallis-Osake-Pankki Helsinki
FRANCE	Banque Paribas Ref 256 BP 141 3, Rue D'Antin 75078 Paris Cedex 02 FRANCE	Societe Generale Paris
GERMANY	Chase Bank A.G.	Chase Bank A.G.

Alexanderstrasse 59  
Postfach 90 01 09  
60441 Frankfurt/Main  
GERMANY

Frankfurt

GREECE	Barclays Bank Plc 1 Kolokotroni Street 10562 Athens GREECE	National Bank of Greece S.A. Athens A/c Chase Manhattan Bank, N.A., London A/c No. 040/7/921578-68
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<TABLE>	<C>	<C>
<S>	<C>	<C>
HONG KONG	The Chase Manhattan Bank, N.A. 40/F One Exchange Square 8, Connaught Place Central, Hong Kong HONG KONG	The Chase Manhattan Bank, N.A. Hong Kong
HUNGARY	Citibank Budapest Rt. Vaci Utca 19-21 1052 Budapest V HUNGARY	Citibank Budapest Rt. Budapest
INDIA	The Hongkong and Shanghai Banking Corporation Limited 52/60 Mahatma Gandhi Road Bombay 400 001 INDIA	The Hongkong and Shanghai Banking Corporation Limited Bombay
INDONESIA	The Hongkong and Shanghai Banking Corporation Limited World Trade Center Jl. Jend Sudirman Kav. 29-31 Jakarta 10023 INDONESIA	The Chase Manhattan Bank, N.A. Jakarta
IRELAND	Bank of Ireland International Financial Services Centre 1 Harbourmaster Place Dublin 1 IRELAND	Allied Irish Bank Dublin
ISRAEL	Bank Leumi Le-Israel B.M. 19 Herzl Street 65136 Tel Aviv ISRAEL	Bank Leumi Le-Israel B.M. Tel Aviv
ITALY	The Chase Manhattan Bank, N.A. Piazza Meda 1 20121 Milan ITALY	The Chase Manhattan Bank, N.A. Milan
JAPAN	The Chase Manhattan Bank, N.A. 1-3 Marunouchi 1-Chome Chiyoda-Ku Tokyo 100 JAPAN	The Chase Manhattan Bank, N.A. Tokyo

</TABLE>

<TABLE>	<C>	<C>
<S> JORDAN	<C> Arab Bank Limited P.O. Box 950544-5 Amman Shmeisani JORDAN	<C> Arab Bank United Amman
LUXEMBOURG	Banque Generale du Luxembourg S.A. 27 Avenue Monterey LUXEMBOURG	Banque Generale du Luxembourg S.A. Luxembourg
MALAYSIA	The Chase Manhattan Bank, N.A. Pernas International Jalan Sultan Ismail 50250, Kuala Lumpur MALAYSIA	The Chase Manhattan Bank, N.A. Kuala Lumpur
MEXICO (Equities)	The Chase Manhattan Bank, N.A. Hamburgo 213, Piso 7 Colonia Juarez, 06660 Mexico D.F. MEXICO	No correspondent Bank
(Government Bonds)	Banco Nacional de Mexico, Avenida Juarez No. 104-11 Piso 06040 Mexico D.F. MEXICO	No correspondent Bank
MOROCCO	Banque Commerciale du Maroc 1 Rue Idriss Lahrizi Casablanca 01 MOROCCO	Banque Commerciale du Maroc Casablanca
NETHERLANDS	ABN AMRO N.V. Securities Centre PO Box 3200 4800 De Breda NETHERLANDS	Credit Lyonnais Bank Nederland N.V. Rotterdam
NEW ZEALAND	National Nominees Limited Level 2 BNZ Tower 125 Queen Street Auckland NEW ZEALAND	National Bank of New Zealand Wellington
NORWAY	Den Norske Bank Kirkegaten 21 Oslo 1 NORWAY	Den Norske Bank Oslo
</TABLE>		

<TABLE>	<C>	<C>
<S> PAKISTAN	<C> Citibank N.A. State Life Building No. 1 I.I. Chundrigar Road Karachi PAKISTAN	<C> Citibank N.A. Karachi
PERU	Citibank, N.A. Camino Real 457	Citibank N.A. Lima

CC Torre Real - 5th Floor  
San Isidro, Lima 27  
PERU

PHILIPPINES	The Hongkong and Shanghai Banking Corporation Limited Hong Kong Bank Centre 3/F San Miguel Avenue Ortigas Commercial Centre Pasig Metro Manila PHILIPPINES	The Hongkong and Shanghai Banking Corporation Limited Manila
POLAND	Bank Polska Kasa Opieki S.A. 6/12 Nowy Swiat Str 00-920 Warsaw POLAND	Bank Polska Kasa Opieki S.A. Warsaw
	For Mutual Funds: Bank Handlowy W. Warszawie, S.A. 6/12 Nowy Swiat Street 00-920 Warsaw Poland	Bank Polska Kasa Opieki S.A. Warsaw
PORTUGAL	Banco Espirito Santo & Comercial de Lisboa Servico de Gestao de Titulos R. Mouzinho da Silveira, 36 r/c 1200 Lisbon PORTUGAL	Banco Pinto & Sotto Mayor Avenida Fontes Pereira de Melo 1000 Lisbon
SHANGHAI (CHINA)	The Hongkong and Shanghai Banking Corporation Limited Shanghai Branch Corporate Banking Centre Unit 504, 5/F Shanghai Centre 1376 Nanjing Xi Lu Shanghai THE PEOPLE'S REPUBLIC OF CHINA	The Chase Manhattan Bank, N.A. Hong Kong
</TABLE>		
17	7	
<TABLE>		
<S>		
SHENZHEN (CHINA)	The Hongkong and Shanghai Banking Corporation Limited 1st Floor Central Plaza Hotel No. 1 Chun Feng Lu Shenzhen THE PEOPLE'S REPUBLIC OF CHINA	The Chase Manhattan Bank, N.A. Hong Kong
SINGAPORE	The Chase Manhattan Bank, N.A. Shell Tower 50 Raffles Place Singapore 0104 SINGAPORE	The Chase Manhattan Bank, N.A. Singapore
SOUTH AFRICA	Standard Bank of South Africa Standard Bank Chambers 46 Marshall Street Johannesburg 2001 South Africa	Standard Bank of South Africa Standard Bank Chambers South Africa
SOUTH KOREA	The Hongkong & Shanghai Banking Corporation Limited 6/F Kyobo Building	The Hongkong & Shanghai Banking Corporation Limited Seoul

#1 Chongro, 1-ka Chongro-Ku,  
Seoul  
SOUTH KOREA

SPAIN	The Chase Manhattan Bank, N.A. Calle Peonias 2 7th Floor La Piovera 28042 Madrid SPAIN	Banco Zaragozano, S.A. Madrid
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SRI LANKA	The Hongkong & Shanghai Banking Corporation Limited 24, Sir Baron Jayatilaka Mawatha, Colombo 1, SRI LANKA	The Hongkong & Shanghai Banking Corporation Limited Colombo
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SWEDEN	Skandinaviska Enskilda Banken Kungstradgardsgatan 8 Stockholm S-106 40 SWEDEN	Svenska Handelsbanken Stockholm
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</TABLE>

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<TABLE> <S> SWITZERLAND	<C> Union Bank of Switzerland 45 Bahnhofstrasse 8021 Zurich SWITZERLAND	<C> Union Bank of Switzerland Zurich
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TAIWAN	The Chase Manhattan Bank, N.A. 673 Min Sheng East Road -- 9th Floor Taipei TAIWAN Republic of China	No correspondent Bank
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THAILAND	The Chase Manhattan Bank, N.A. Bubhajit Building 20 North Sathorn Road Silim, Bangrak Bangkok 10500 THAILAND	The Chase Manhattan Bank, N.A. Bangkok
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TUNISIA	Banque Internationale Arabe de Tunisie 70-72 Avenue Habib Bourguiba P.O. Box 520 1080 Tunis Cedex Tunisia	Banque Internationale Arabe de Tunisie, Tunisia
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TURKEY	The Chase Manhattan Bank, N.A. Yildiz Posta Caddesi 52 Dedeman Ticaret Merkezi, Kat 11 80700 Esentepe Istanbul TURKEY	The Chase Manhattan Bank, N.A. Istanbul
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U.K.	The Chase Manhattan Bank, N.A. Woolgate House Coleman Street London EC2P 2HD UNITED KINGDOM	The Chase Manhattan Bank, N.A. London
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URUGUAY	The First National Bank of Boston Zabala 1463	The First National Bank of Boston Montevideo
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Montevideo  
URUGUAY

U.S.A.	The Chase Manhattan Bank, N.A. 1 Chase Manhattan Plaza New York NY 10081 U.S.A.	The Chase Manhattan Bank, N.A. New York
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</TABLE>

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<TABLE>

<S>	<C>	<C>
VENEZUELA	Citibank N.A. Carmelitas a Altigracia Edificio Citibank Caracas 1010 VENEZUELA	Citibank N.A. Caracas

ZIMBABWE	Barclays Bank of Zimbabwe Ground Floor Kurima House 42 George Silundika Avenue Harare Zimbabwe	Barclays Bank of Zimbabwe Harare
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</TABLE>

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CUSTODIAN FEE SCHEDULE  
BETWEEN

THE CHASE MANHATTAN BANK, N.A.  
GLOBAL INVESTOR SERVICES

AND

MERRILL LYNCH ASSET INCOME FUND, INC.

U.S. DOMESTIC ASSETS

<TABLE>

<S>	<C>	<C>
All Assets:	First \$1 Billion	0.5 basis points (.00005)
- -----	Next \$1 Billion	0.4 basis points (.00004)
	Over \$2 Billion	0.3 basis points (.00003)

</TABLE>

\$ 7 book-entry transactions (DTC, FED, PTC, etc.)  
\$15 non-book-entry transactions

<TABLE>

<CAPTION>

ASSETS HELD OVERSEAS

PRICING	LOCATION
<S>	<C>
ASSETS: 4.0BP	CEDEL
TRANSACTIONS: \$0	
ASSETS: 5BP	Canada



TRANSACTIONS:  
\$50 per BUY/SELL

-----  
ASSETS: 6BP Australia/Germany/Japan/United Kingdom  
TRANSACTIONS:  
\$50 per BUY/SELL

-----  
ASSETS: 10BP Austria/Belgium/Denmark/Finland/France/  
TRANSACTIONS: Hong Kong/Ireland/Italy/Luxembourg/  
\$50 per BUY/SELL Malaysia/Netherlands/New Zealand/Norway/  
Singapore/South Africa/Sweden/Switzerland

-----  
ASSETS: 15BP Mexico/Spain/Thailand  
TRANSACTIONS:  
\$100 per BUY/SELL

-----  
ASSETS: 35BP Argentina/Indonesia/Philippines/Portugal/  
TRANSACTIONS: South Korea/Taiwan  
\$100 per BUY/SELL

-----  
ASSETS: 40BP Bangladesh/Botswana/Brazil/Chile/China/  
TRANSACTIONS: Colombia/Czech Republic/Egypt/Greece/  
\$100 per BUY/SELL Hungary/India/Israel/Jordan/Morocco/Pakistan/  
Peru/Poland/Sri Lanka/Tunisia/Turkey/  
Venezuela/Uruguay/Zimbabwe

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</TABLE>

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OTHER SERVICES

Futures \$15 per futures transaction  
\$10 per mark-to-market wire

Options \$25 per transaction

Transfers to successor custodian Transaction charges in  
accordance with fee schedule.

OUT-OF-POCKET EXPENSES: (i.e., stamp taxes, registration costs, scrip fees,  
special transportation costs, etc.): As incurred.

Fees are to be paid monthly and based on the month end market value, as  
reported by MLAM.

Approved: /s/ GERALD RICHARD

-----  
Gerald Richard, Treasurer  
Merrill Lynch Asset Growth Fund, Inc.

Approved: /s/ MICHAEL RAVENSBERGEN

-----  
Michael Ravensbergen, Vice President  
Chase Manhattan Bank, N.A.

TRANSFER AGENCY, DIVIDEND DISBURSING AGENCY  
AND SHAREHOLDER SERVICING AGENCY AGREEMENT

THIS AGREEMENT made as of the 25th day of August, 1994,  
by and between Merrill Lynch Asset Income Fund, Inc., on behalf of itself (the  
"Fund") and Financial Data Services, Inc. ("FDS"), a New Jersey corporation.

WITNESSETH:

WHEREAS, the Fund wishes to appoint FDS to be the Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent upon, and subject to, the terms and provisions of this Agreement, and FDS is desirous of accepting such appointment upon, and subject to, such terms and provisions:

NOW THEREFORE, in consideration of the mutual covenants contained in this Agreement, the Fund and FDS agree as follows:

I. APPOINTMENT OF FDS AS TRANSFER AGENCY, DIVIDEND DISBURSING AGENCY AND SHAREHOLDER SERVICING AGENCY.

A. The Fund hereby appoints FDS to act as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund upon, and subject to, the terms and provisions of this Agreement.

B. FDS hereby accepts the appointment as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund, and agrees to act as such upon, and subject to, the terms and provisions of this Agreement.

II. DEFINITIONS.

A. In this Agreement:

1. The term "Act" means the Investment Company Act of 1940 as amended from time to time and any rule or regulation thereunder;

2. The term "Account" means any account of a Shareholder, or, if the shares are held in an account in the name of MLPF&S for benefit of an identified customer, such account, including a Plan Account, any account under a plan (by whatever name referred to in the Prospectus) pursuant to the Self-Employed Individuals Retirement Act of 1962 ("Keogh Act Plan") and any plan (by whatever name referred to in the Prospectus) in conjunction with Section 401 of the Internal Revenue Code ("Corporation Master Plan");

3. The term "application" means an application made by a Shareholder or prospective Shareholder respecting the opening of an Account;

4. The term "MLFD" means Merrill Lynch Funds Distributor, Inc., a Delaware corporation;

5. The term "MLPF&S" means Merrill Lynch Pierce, Fenner & Smith, Incorporated, a Delaware corporation;

6. The term "Officer's Instruction" means an instruction in writing given on behalf of the Fund to FDS, and signed on behalf of the Fund by the President, any Vice President, the Secretary or the Treasurer of the Fund;

7. The term "Prospectus" means the Prospectus and the Statement of Additional Information of the Fund as from time to time in effect;

8. The term "Shares" means shares of stock or beneficial interest, as the case may be, of the Fund, irrespective of class or series;

9. The term "Shareholder" means the holder of record of Shares;

10. The term "Plan Account" means an account opened by a Shareholder or prospective Shareholder in respect to an open account, monthly payment or withdrawal plan (in each case by whatever name referred to in the Prospectus), and may also include an account relating to any other Plan if and when provision is made for such plan in the Prospectus.

### III. DUTIES OF FDS AS TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND SHAREHOLDER SERVICING AGENT.

A. Subject to the succeeding provisions of the Agreement, FDS hereby agrees to perform the following functions as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund;

1. Issuing, transferring and redeeming Shares;

2. Opening, maintaining, servicing and closing Accounts;

3. Acting as agent for the Fund Shareholders and/or customers of MLPF&S in connection with Plan Accounts, upon the terms and subject to the conditions contained in the Prospectus and application relating to the specific Plan Account;

4. Acting as agent of the Fund and/or MLPF&S, maintaining such records as may permit the imposition of such contingent deferred sales charges as may be described in the

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Prospectus, including such reports as may be reasonably requested by the Fund with respect to such Shares as may be subject to a contingent deferred sales charge;

5. Upon the redemption of Shares subject to such a contingent deferred sales charge, calculating and deducting from the redemption proceeds thereof the amount of such charge in the manner set forth in the Prospectus. FDS shall pay, on behalf of MLFD to MLPF&S such deducted contingent deferred sales charges imposed upon all Shares maintained in the name of MLPF&S, or maintained in the name of an account identified as a customer account of MLPF&S. Sales charges imposed upon any other Shares shall be paid by FDS to MLFD;

6. Exchanging the investment of an investor into, or from the shares of other open-end investment companies or other series portfolios of the Fund, if any, if and to the extent permitted by the Prospectus at the direction of such investor;

7. Processing redemptions;

8. Examining and approving legal transfers;

9. Replacing lost, stolen or destroyed certificates representing Shares, in accordance with, and subject to, procedures and conditions adopted by the Fund;

10. Furnishing such confirmations of transactions relating to their Shares as required by applicable law;

11. Acting as agent for the Fund and/or MLPF&S, furnishing such appropriate periodic statements relating to Accounts, together with additional enclosures, including appropriate income tax information and income tax forms duly completed, as required by applicable law;

12. Acting as agent for the Fund and/or MLPF&S, mailing annual, semi-annual and quarterly reports prepared by or on behalf of the Fund, and mailing new Prospectuses upon their issue to Shareholders as required by applicable law;

13. Furnishing such periodic statements of transactions effected by FDS, reconciliations, balances and summaries as the Fund may reasonably request;

14. Maintaining such books and records relating to transactions effected by FDS as are required by the Act, or by any other applicable provision of law, rule or regulation, to be maintained by the Fund or its transfer agent with respect to such transactions, and preserving, or causing to be preserved any such books and records for such periods as may be required by any such law, rule or regulation and as may be agreed upon from time to time between FDS and the Fund. In addition, FDS agrees to maintain and preserve master files and historical computer tapes on a daily

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basis in multiple separate locations a sufficient distance apart to insure preservation of at least one copy of such information;

15. Withholding taxes on non-resident alien Accounts, preparing and filing U.S. Treasury Department Form 1099 and other appropriate forms as required by applicable law with respect to dividends and distributions; and

16. Reinvesting dividends for full and fractional shares and disbursing cash dividends, as applicable.

B. FDS agrees to act as proxy agent in connection with the holding of annual, if any, and special meetings of Shareholders, mailing such notices, proxies and proxy statements in connection with the holding of such meetings as may be required by applicable law, receiving and tabulating votes cast by proxy and communicating to the Fund the results of such tabulation accompanied by appropriate certifications, and preparing and furnishing to the Fund certified lists of Shareholders as of such date, in such form and containing such information as may be required by the Fund.

C. FDS agrees to deal with, and answer in a timely manner, all correspondence and inquiries relating to the functions of FDS under this Agreement with respect to Accounts.

D. FDS agrees to furnish to the Fund such information and at such intervals as is necessary for the Fund to comply with the registration and/or the reporting requirements (including applicable escheat laws) of the Securities and Exchange Commission, Blue Sky authorities or other governmental authorities.

E. FDS agrees to provide to the Fund such information as may reasonably be required to enable the Fund to reconcile the number of outstanding Shares between FDS's records and the account books of the Fund.

F. Notwithstanding anything in the foregoing provisions of this paragraph, FDS agrees to perform its functions thereunder subject to such modification (whether in respect of particular cases or in any particular class of cases) as may from time to time be contained in an Officer's Instruction.

#### IV. COMPENSATION.

The charges for services described in this Agreement, including "out-of-pocket" expenses, will be set forth in the Schedule of Fees attached hereto.

#### V. RIGHT OF INSPECTION.

FDS agrees that it will in a timely manner make available to, and permit, any officer, accountant, attorney or authorized agent of the Fund to examine and make transcripts and copies

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(including photocopies and computer or other electronical information storage media and print-outs) of any and all of its books and records which relate to any transaction or function performed by FDS under or pursuant to this Agreement.

#### VI. CONFIDENTIAL RELATIONSHIP.

FDS agrees that it will, on behalf of itself and its officers and employees, treat all transactions contemplated by this Agreement, and all information germane thereto, as confidential and not to be disclosed to any person (other than the Shareholder concerned, or the Fund, or as may be disclosed in the examination of any books or records by any person lawfully entitled to examine the same) except as may be authorized by the Fund by way of an Officer's Instruction.

#### VII. INDEMNIFICATION.

The Fund shall indemnify and hold FDS harmless from any loss, costs, damage and reasonable expenses, including reasonable attorney's fees (provided that such attorney is appointed with the Fund's consent, which

consent shall not be unreasonably withheld), incurred by it resulting from any claim, demand, action, or suit in connection with the performance of its duties hereunder, provided that this indemnification shall not apply to actions or omissions of FDS in cases of willful misconduct, failure to act in good faith or negligence by FDS, its officers, employees or agents, and further provided, that prior to confessing any claim against it which may be subject to this indemnification, FDS shall give the Fund reasonable opportunity to defend against said claim in its own name or in the name of FDS. An action taken by FDS upon any Officer's Instruction reasonably believed by it to have been properly executed shall not constitute willful misconduct, failure to act in good faith or negligence under this Agreement.

#### VIII. REGARDING FDS.

A. FDS hereby agrees to hire, purchase, develop and maintain such dedicated personnel, facilities, equipment, software, resources and capabilities as may be reasonably determined by the Fund to be necessary for the satisfactory performance of the duties and responsibilities of FDS. FDS warrants and represents that its officers and supervisory personnel charged with carrying out its functions as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund possess the special skill and technical knowledge appropriate for that purpose. FDS shall at all times exercise due care and diligence in the performance of its functions as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund. FDS agrees that, in determining whether it has exercised due care and diligence, its conduct shall be measured by the standard applicable to persons possessing such special skill and technical knowledge.

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B. FDS warrants and represents that it is duly authorized and permitted to act as Transfer Agent, Dividend Disbursing Agent, and Shareholder Servicing Agent under all applicable laws and that it will immediately notify the Fund of any revocation of such authority or permission or of the commencement of any proceeding or other action which may lead to such revocation.

#### IX. TERMINATION.

A. This Agreement shall become effective as of the date first above written and shall thereafter continue from year to year. This Agreement may be terminated by the Fund or FDS (without penalty to the Fund or FDS) provided that the terminating party gives the other party written notice of such termination at least sixty (60) days in advance, except that the Fund may terminate this Agreement immediately upon written notice to FDS if the

authority or permission of FDS to act as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent has been revoked or if any proceeding or other action which the Fund reasonably believes will lead to such revocation has been commenced.

B. Upon termination of this Agreement, FDS shall deliver all unissued and canceled stock certificates representing Shares remaining in its possession, and all Shareholder records, books, stock ledgers, instruments and other documents (including computerized or other electronically stored information) made or accumulated in the performance of its duties as Transfer Agent, Dividend Disbursing Agent and Shareholder Servicing Agent for the Fund along with a certified locator document clearly indicating the complete contents therein, to such successor as may be specified in a notice of termination or Officer's Instruction; and the Fund assumes all responsibility for failure thereafter to produce any paper, record or documents so delivered and identified in the locator document, if and when required to be produced.

X. AMENDMENT.

Except to the extent that the performance by FDS or its functions under this Agreement may from time to time be modified by an Officer's Instruction, this Agreement may be amended or modified only by further written Agreement between the parties.

XI. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of New Jersey.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed by their respective duly authorized officers and their respective corporate seals hereunto duly affixed and attested, as of the day and year above written.

MERRILL LYNCH ASSET INCOME FUND, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_



FINANCIAL DATA SERVICES, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

## LICENSE AGREEMENT RELATING TO USE OF NAME

AGREEMENT made as of the 25th day of August, 1994, between MERRILL LYNCH & CO., INC., a Delaware corporation ("ML&Co.") and MERRILL LYNCH ASSET INCOME FUND, INC., a Maryland Corporation (the "Fund");

## W I T N E S S E T H:

WHEREAS, ML&Co. was incorporated under the laws of the State of Delaware on March 27, 1973 under the corporate name "Merrill Lynch & Co., Inc." and has used such name at all times thereafter;

WHEREAS, ML&Co. was duly qualified as a foreign corporation under the laws of the State of New York on April 25, 1973 and has remained so qualified at all times thereafter;

WHEREAS, the Fund filed Articles of Incorporation under the laws of the State of Maryland on June 6, 1994; and

WHEREAS, the Fund desires to qualify as a foreign corporation under the laws of the State of New York and has requested that ML&Co. give its consent to the use of the name "Merrill Lynch" in the Fund's name, and in the name of any series established and designated as series of the Fund (the "Funds").

NOW, THEREFORE, in consideration of the premises and of the covenants hereinafter contained, ML&Co. and the Fund hereby agree as follows:

1. ML&Co. hereby grants the Fund a non-exclusive license to use the words "Merrill Lynch" in its name and in the names of the Funds.

2. ML&Co. hereby consents to the qualification of the Fund as a foreign association under the laws of the State of New York with the words "Merrill Lynch" in its name and agrees to execute such formal consents as may be necessary in connection with such filing.

3. The non-exclusive license hereinabove referred to has been given and is given by ML&Co. on the condition that it may at any time, in its sole and absolute discretion, withdraw the non-exclusive license to the use of the words "Merrill Lynch" in the name of the Fund; and, as soon as practicable after receipt by the Fund of written notice of the withdrawal of such non-exclusive license, and in no event later than ninety days thereafter, the Fund will change its name so that such name will not thereafter include the words "Merrill Lynch" or any variation thereof.

4. ML&Co. reserves and shall have the right to grant to

any other company, including without limitation, any other investment company, the right to use the words "Merrill Lynch" or variations thereof in its name and no consent or permission of the Fund shall be necessary; but, if required by an applicable law of any state, the Fund will forthwith grant all requisite consents.

5. The Fund will not grant to any other company the right to use a name similar to that of the Fund or ML&Co. without the written consent of ML&Co.

6. Regardless of whether the Fund should hereafter change its name and eliminate the words "Merrill Lynch" or any variation thereof from such name, the Fund hereby grants to ML&Co. the right to cause the incorporation of other corporations or the

organization of voluntary associations which may have names similar to that of the Fund or to that to which the Fund may change its name and to own all or any portion of the shares of such other corporations or associations and to enter into contractual relationships with such other corporations or associations, subject to any requisite approval of a majority of the Fund's shareholders and the Securities and Exchange Commission and subject to the payment of a reasonable amount to be determined at the time of use, and the Fund agrees to give and execute any such formal consents or agreements as may be necessary in connection therewith.

7. This Agreement may be amended at any time by a writing signed by the parties hereto.

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

MERRILL LYNCH & CO., INC.

By: \_\_\_\_\_  
Executive Vice President

MERRILL LYNCH ASSET INCOME FUND, INC.

By: \_\_\_\_\_  
Executive Vice President



August 23, 1994

Merrill Lynch Asset Income  
Fund, Inc.  
800 Scudders Mill Road  
Plainsboro, New Jersey 08536

Gentlemen:

We have acted as counsel for Merrill Lynch Asset Income Fund, Inc., a corporation organized under the laws of the State of Maryland (the "Fund"), in connection with the organization of the Fund, its registration as an open-end investment company under the Investment Company Act of 1940, as amended, and the registration of an indefinite number of its shares of Common Stock, par value \$.10 per share (the "Shares"), under the Securities Act of 1933, as amended, pursuant to a registration statement on Form N-1A (File No. 33-53997 and 811-7181) (as amended, the "Registration Statement").

As counsel for the Fund, we are familiar with the proceedings taken by it in connection with the authorization, issuance and sale of the Shares. In addition, we have examined and are familiar with the Articles of Incorporation of the Fund, the By-Laws of the Fund and such other documents as we have deemed relevant to the matters referred to in this opinion. As to matters governed by the laws of Maryland, we have relied upon an opinion of Galland, Kharasch, Morse & Garfinkle, P.C., dated August 22, 1994.

Based upon the foregoing, we are of the opinion that the Shares, upon issuance and sale in the manner referred to in the Registration Statement for consideration not less than the par value thereof, will be legally issued, fully paid and non-assessable shares of Common Stock of the Fund.

Merrill Lynch Asset  
Income Fund, Inc.

August 23, 1994

We consent to the filing of this opinion with the Securities and Exchange Commission as an Exhibit to the Registration Statement

and to the reference to this firm under the heading "Counsel" in the form of prospectus contained therein. In giving this consent, we do not admit that we are within the category of persons whose consent is required under Section 7 of the 1933 Act or the rules and regulations of the Securities and Exchange Commission thereunder.

Very truly yours,

August 23, 1994

Rogers & Wells  
200 Park Avenue  
New York, NY 10166

Re: Issuance of Common Stock by  
Merrill Lynch Asset Income Fund, Inc.

Ladies and Gentlemen:

We have acted as special Maryland counsel to Merrill Lynch Asset Income Fund, Inc., a Maryland corporation (the "Fund"), in connection with the organization of the Fund, its registration as an open-end investment company under the Investment Company Act of 1940, as amended, and the registration of an indefinite number of its Class A and Class B Common Stock, par value \$.10 per share (the "Shares"), pursuant to the Fund's Registration Statement filed on Form N-1A with the Securities and Exchange Commission, including all amendments or supplements thereto filed to date, relating to the offering and sale of the Shares (File No. 33-53997 and 811-7181) (the "Registration Statement"). Capitalized terms used in this letter, unless otherwise defined, have the meanings specified in the Registration Statement.

We have examined the Fund's Articles of Incorporation and By-Laws, the Fund's Registration Statement, including the Prospectus and Statement of Additional Information included therein, the Distribution Agreements, the Management Agreement, the Global Custody Agreement, the Transfer Agency, Dividend Disbursing Agency and Shareholder Servicing Agency Agreement, and a specimen certificate for the Shares. We also have examined and relied on a recently dated certificate of good standing issued by the Maryland State Department of Assessments and Taxation, and a certificate of the Secretary of the Fund with respect to the Fund's Articles of Incorporation, By-Laws, certain factual matters and certain actions taken by its Board of Directors (the "Secretary's Certificate"). As to various questions of material fact with respect to the opinion expressed below, we have relied on the Secretary's Certificate.

In basing the opinion and other matters set forth herein on "our knowledge," the words "our knowledge" signify that, in the course of our representation of the Fund in matters with respect to which we have been engaged by the Fund as special Maryland counsel, no facts have come to our attention that would give us actual knowledge or actual notice that any such opinions or other matters are not accurate or that any of the foregoing documents, certificates,

Rogers & Wells

and information on which we have relied are not accurate and complete. Except to the extent otherwise expressly set forth in this letter, we have not undertaken any independent investigation to determine the existence or absence of such facts, and no inference as to our knowledge of the existence or absence of such facts should be drawn from our representation of the Fund.

We have assumed, without independent verification, the genuineness of signatures, the authenticity of all documents submitted to us as originals, and the conformity with originals of all documents submitted to us as copies.

The opinion set forth herein is in all respects subject to the following limitations:

(a) The enforceability of any agreements are subject to general principles of equity, regardless of whether such enforcement is considered in a proceeding in equity or at law.

(b) The enforceability of any agreements may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws generally affecting the rights of creditors or debtors.

(c) This opinion is strictly limited to the general corporation laws of the State of Maryland, and we express no opinion as to the tax, securities or "blue sky" laws of Maryland, to federal securities laws or to any other laws of any other jurisdiction or compliance therewith by any party.

(d) The Articles of Incorporation and By-Laws of the Fund require compliance with various provisions of the Investment Company Act of 1940, as amended. We express no opinion with respect to such compliance.

(e) No opinion is expressed as to the decision of a court as to the laws of which jurisdiction would control the rights and remedies of any of the parties concerning any agreement.

Based on the foregoing and subject to the qualifications set forth herein, it is our opinion that the Shares, upon issuance and sale in the manner referred to in the Registration Statement for consideration not less than the par value thereof, will be legally issued, fully paid and non-assessable shares of Common Stock of the Fund.

This opinion is delivered to you and is for your sole and exclusive use. Except that you may rely on the foregoing opinion in rendering your opinion to the Fund in connection with the registration of the Shares, this opinion may not be reproduced, duplicated, quoted or excerpted



August 22, 1994

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from or referred to, shown, disseminated or delivered to, or relied on by, any other party (including governmental agencies) for any reason without the written consent of the undersigned.

Very truly yours,

GALLAND, KHARASCH,  
MORSE & GARFINKLE, P.C.

/s/ Galland, Kharasch, Morse &  
Garfinkle, P.C.

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INDEPENDENT AUDITOR'S CONSENT

Merrill Lynch Asset Income Fund, Inc.

We consent to the use in Pre-Effective Amendment No. 2 to Registration Statement No. 33-53997 of our report dated July 26, 1994 appearing in the Statement of Additional Information, which is part of such Registration Statement.

/s/ Deloitte & Touche LLP  
Deloitte & Touche LLP  
Princeton, New Jersey  
August 23, 1994

July 22, 1994

Merrill Lynch Asset Allocation Income  
Fund, Inc.  
800 Scudders Mill Road  
Plainsboro, New Jersey 08536

Ladies and Gentlemen:

Merrill Lynch Asset Management, L.P. ("MLAM") agrees to purchase 10,000 shares of Common Stock, par value \$.10 per share (the "Shares"), of Merrill Lynch Asset Allocation Income Fund, Inc. (the "Fund") at a price of \$10.00 per share. MLAM shall tender to the Fund the amount of \$100,000 in full payment for the Shares.

MLAM represents and warrants to the Fund that the Shares are being acquired for investment and not with a view to distribution thereof, and that MLAM has no present intention to redeem or dispose of any of the Shares.

Very truly yours,

MERRILL LYNCH ASSET  
MANAGEMENT, L.P.

/s/ Arthur Zeikel

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By: Arthur Zeikel  
Title: President

CLASS B SHARES DISTRIBUTION PLAN  
OF  
MERRILL LYNCH ASSET INCOME FUND, INC.

PURSUANT TO RULE 12b-1

DISTRIBUTION plan made as of the 25th day of August, 1994, by and between Merrill Lynch Asset Income Fund, Inc., a Maryland corporation (the "Fund"), and Merrill Lynch Funds Distributor, Inc., a Delaware corporation ("MLFD").

W I T N E S S E T H:

WHEREAS, the Fund intends to engage in business as an open-end investment company registered under the Investment Company Act of 1940, as amended (the "Investment Company Act");

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

WHEREAS, the Fund proposes to enter into a Class B Shares Distribution Agreement with MLFD, pursuant to which MLFD will act the exclusive distributor and representative of the Fund in the offer and sale of the shares of Class B Common Stock, per value \$0.10 per share (the "Class B shares") of the Fund to the public;

WHEREAS, the Fund desires to adopt this Class B Shares Distribution Plan pursuant to Rule 12b-1 under the Investment Company Act, pursuant to which the Fund will pay an account maintenance fee and a distribution fee to MLFD with respect to the Fund's Class B shares;

WHEREAS, the Board of Directors of the Fund has determined that there is a reasonable likelihood that adoption of this Class B Shares Distribution Plan will benefit the Fund and its shareholders.

NOW, THEREFORE, the Fund hereby adopts, and the Distributor hereby agrees to the terms of, this Class B Shares Distribution Plan (the "Plan") in accordance with Rule 12b-1, under the Investment Company Act on the following terms and conditions:

1. The Fund shall pay MLFD an account maintenance fee under the Plan at the end of each month at the annual rate of 0.25% of average daily net assets of the Fund relating to Class B shares to compensate MLFD and securities firms with which MLFD enters into related agreements ("Sub-Agreements") pursuant to Paragraph 3 hereof for account maintenance activities with respect to Class B shareholders of the Fund.

2. The Fund shall pay MLFD a distribution fee under the Plan at the end of each month at the annual rate of .50% of the average daily net assets of the Fund relating to Class B shares to

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compensate MLFD and securities firms with which MLFD enters into related agreements ("Sub-Agreements") pursuant to Paragraph 3 hereof for providing sales and promotional activities and services. Such activities and services will relate to the sale, promotion and marketing of the Class B shares of the Fund. Such expenditures may consist of sales commissions to financial consultants for selling Class B shares of the Fund, compensation, sales incentives and payments to sales and marketing personnel, and the payment of expenses incurred in its sales and promotional activities including advertising expenditures related to the Fund and the costs of preparing and distributing promotional materials.

3. The Fund hereby authorizes MLFD to enter into Sub-Agreements with certain securities firms ("Securities Firms"), including Merrill Lynch, Pierce, Fenner & Smith Incorporated, to provide compensation to such Securities Firms for activities and services of the type referred to in Paragraphs 1 and 2 hereof. MLFD may reallocate all or a portion of its account maintenance fee or distribution fee to such Securities Firms as compensation for the above-mentioned activities and services. Such Sub-Agreement shall provide that the Securities Firms shall provide MLFD with such information as is reasonably necessary to permit MLFD to comply with the reporting requirements set forth in Paragraph 4 hereof.

4. MLFD shall provide the Fund for review by the Board of Directors, and the Directors shall review, at least quarterly, a written report complying with the requirements of Rule 12b-1 regarding the disbursement of the account maintenance fee and the distribution fee during such period.

5. This Plan shall not take effect until it has been approved by a vote of at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund.

6. This Plan shall not take effect until it has been approved, together with any related agreements, by votes of a majority of both (a) the Directors of the Fund and (b) those Directors of the Fund who are not "interested persons" of the Fund, as defined in the Investment Company Act, and have no direct or indirect financial interest in the operation of this Plan or any agreements related to it (the "Rule 12b-1 Directors"), cast in person at a meeting or meetings called for the purpose of voting on this Plan and such related agreements.

7. This Plan shall continue in effect for so long as such continuance is specifically approved at least annually in the manner provided for approval of this Plan in Paragraph 6.

8. This Plan may be terminated at any time by vote of a majority of the Rule 12b-1 Directors, or by vote of a majority of the outstanding Class B voting securities of the Fund.

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9. This Plan may not be amended to increase materially the rate of payments provided for herein unless such amendment is approved by at least a majority, as defined in the Investment Company Act, of the outstanding Class B voting securities of the Fund, and by the Directors of the Fund in the manner provided for in Paragraph 6 hereof, and no material amendment to the Plan shall be made unless approved in the manner provided for approval and annual renewal in Paragraph 6 hereof.

10. While this Plan is in effect, the selection and nomination of Directors who are not interested persons, as defined in the Investment Company Act, of the Fund shall be committed to the discretion of Directors who are not interested persons.

11. The Fund shall preserve copies of this Plan and any related agreements and all reports made pursuant to Paragraph 3 hereof, for a period of not less than six years from the date of this Plan, or the agreements or such report, as the case may be, the first two years in an easily accessible place.

IN WITNESS WHEREOF, the parties hereto have executed this Distribution Plan as of the date first above written.

MERRILL LYNCH ASSET INCOME FUND INC.

By \_\_\_\_\_

MERRILL LYNCH FUNDS DISTRIBUTOR, INC.

By \_\_\_\_\_

