APEX MUNICIPAL FUND INC
Form N-CSR
September 06, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT
INVESTMENT COMPANIES

Investment Company Act file number 811-05227

Name of Fund: Apex Municipal Fund, Inc.

Fund Address: P.O. Box 9011
Princeton, NJ 08543-9011

Name and address of agent for service: Robert C. Doll, Jr., Chief Executive Officer, Apex Municipal Fund, Inc., 800 Scudders Mill Road, Plainsboro, NJ 08536. Mailing address: P.O. Box 9011, Princeton, NJ 08543-9011

Registrant's telephone number, including area code: (609) 282-2800

Date of fiscal year end: 06/30/06

Date of reporting period: 07/01/05 - 06/30/06

Item 1 - Report to Stockholders

Annual Report
June 30, 2006

Apex Municipal
Fund, Inc.

Apex Municipal Fund, Inc.

Announcement to Shareholders

On February 15, 2006, BlackRock, Inc. ("BlackRock") and Merrill Lynch & Co., Inc. ("Merrill Lynch") entered into an agreement to contribute Merrill Lynch's investment management business, Merrill Lynch Investment Managers, L.P. and certain affiliates (including Fund Asset Management, L.P. and Merrill Lynch Investment Managers International Limited), to BlackRock to create a new independent company ("New BlackRock") that will be one of the world's largest asset management firms with over $1 trillion in assets under management (based on combined assets under management as of June 30, 2006) (the "Transaction"). The Transaction is expected to close at the end of the third quarter of 2006, at which time the new company will operate under the BlackRock name. The Fund's Board of Directors has approved a new investment advisory agreement with BlackRock Advisors, Inc. or its successor on substantially the same terms and for the same advisory fee as the current investment advisory agreement with the Investment Adviser. If the new agreement is approved by the Fund's shareholders, BlackRock Advisors, Inc. or its successor is expected to become the investment adviser of the Fund upon the closing of the Transaction.

Portfolio Information as of June 30, 2006

Quality Ratings by S&P/Moody's	Percent of Total Investments
AAA/Aaa	0.3%
A/A	3.4
BBB/Baa	19.2
BB/Ba	12.2
B/B	6.6
CCC/Caa	5.5
NR (Not Rated)	50.5
Other*	2.3

* Includes portfolio holdings in short-term investments, anticipation notes and variable rate demand notes.

A Letter From the President

Dear Shareholder

By now, you have probably heard of the important changes unfolding at Merrill Lynch Investment Managers ("MLIM"). We have been communicating with shareholders, via letters like this and in a detailed proxy mailing, about MLIM's impending union with another highly regarded investment manager -- BlackRock, Inc. ("BlackRock"). This transaction marks the next chapter in MLIM's growth story and, we believe, will be a benefit to our investors.

MLIM, a division of Merrill Lynch with over $583 billion in assets under management, is a leading investment manager offering more than 100 investment strategies in vehicles ranging from mutual funds to institutional portfolios. BlackRock, with $464.1 billion in assets under management, is one of the largest publicly traded investment management firms in the United States managing assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, liquidity and alternative investment products. At the completion of the transaction, which is expected by the end of third quarter 2006, the resultant firm will be a top-10 investment manager worldwide with over $1 trillion in assets under management.*

The combined company, to be known as BlackRock, will provide a wide selection of high-quality investment solutions across a range of asset classes and investment styles. The organization will have over 4,500 employees in 18 countries and a major presence in key markets worldwide. MLIM and BlackRock possess complementary capabilities that together create a well-rounded organization uniting some of the finest money managers in the industry. The firms share similar values and beliefs -- each strives for excellence in all areas, and both make investment performance their single most important mission. As such, our combination only reinforces our commitment to shareholders.

Most of MLIM's investment products -- including mutual funds, separately managed accounts, annuities and variable insurance funds -- eventually will carry the "BlackRock" name. This will be reflected in newspaper and online information sources beginning in October. Your account statements will reflect the BlackRock name beginning with the October month-end reporting period. Unless otherwise communicated via a proxy statement, your funds will maintain the same investment objectives that they do today. Importantly, the MLIM/BlackRock union will not affect your brokerage account or your relationship with your financial advisor. If you are a client of Merrill Lynch, you will remain a client of Merrill Lynch.

As always, we thank you for entrusting us with your investment assets. We look forward to continuing to serve your investment needs with even greater strength and scale as the new BlackRock.

Sincerely,

/s/ Robert C. Doll, Jr.

Robert C. Doll, Jr.
President and Chief Investment Officer
Merrill Lynch Investment Managers

* $1.047 trillion in assets under management as of June 30, 2006.

Data, including assets under management, are as of June 30, 2006.

A Discussion With Your Fund's Portfolio Manager

The Fund outpaced the average return of the Lipper High Yield Municipal Debt Funds category for the fiscal year, benefiting from the outperformance of several individual holdings as credit spreads continued to contract in the municipal market.

Describe the recent market environment relative to municipal bonds.

Long-term bond yields rose sharply during the 12-month period, with much of the increase occurring in the final three months. Bond prices, which move opposite of yields, declined as investors focused on solid economic growth, both globally and in the United States, and renewed inflationary pressures deriving from rising commodity prices.

The Federal Reserve Board (the Fed) increased short-term interest rates at each of its meetings during the year, bringing the federal funds target rate to 5.25% at period-end. The yield curve continued to flatten as short-term interest rates rose more than longer-term interest rates. Over the past 12 months, 30-year U.S. Treasury bond yields rose 100 basis points (1.00%) to 5.19% and 10-year U.S. Treasury note yields rose 121 basis points to 5.15%, the highest level since May 2002.

While municipal bond yields also rose in recent months, the market's strong technical position provided significant price support and allowed municipal bond prices to decline much less than taxable bond prices. As measured by Municipal Market Data, yields on AAA-rated issues maturing in 30 years rose 37 basis points to 4.63% and yields on AAA-rated issues maturing in 10 years rose 69 basis points to 4.14%.

The municipal market has been supported by increased retail investor demand and declining supply. Year-to-date, over $179 billion in new long-term tax-exempt bonds was underwritten, a decline of 14% compared to the first half of 2005 and the lowest initial semi-annual volume in the past four years. The decline has largely been the result of a 52% drop in refunding activity so far this year. Rising bond yields have made the refinancing of existing higher-couponed debt less attractive, as the potential savings have rapidly diminished. In addition, the improved fiscal conditions of many state and local governments have resulted in lower borrowing trends, as many new municipal capital projects have been financed from existing budget surpluses. At the same time, municipal bond fund flows have remained positive. As reported by the Investment Company Institute, open-end tax-exempt bond funds received net new cash inflows of over $6.2 billion in the first five months of 2006, compared to $1.4 billion during the same period in 2005.

Looking ahead, the fundamentals for the municipal market appear positive. Demand is expected to be sustained as investors receive cash flow from coupon income and the proceeds of bond maturities and calls. In addition, new issuance should be manageable. The favorable supply/ demand dynamic, coupled with attractive yields relative to comparable U.S. Treasury bonds, should continue to support the municipal market in the coming months.

How did the Fund perform during the fiscal year?

For the 12-month period ended June 30, 2006, the Common Stock of Apex Municipal Fund, Inc. had net annualized yields of 5.89% and 5.69%, based on a year-end per share net asset value of $9.90 and a per share market price of $10.25, respectively, and $.583 per share income dividends. Over the same period, the total investment return on the Fund's Common Stock was +7.00%, based on a change in per share net asset value from $9.82 to $9.90, and assuming reinvestment of all distributions.

The Fund's total return, based on net asset value, exceeded the +5.53% average return of the Lipper High Yield Municipal Debt Funds category for the 12-month period. (Funds in this Lipper category invest at least 50% of their assets in lower-rated municipal debt issues.) Fund performance benefited from the continued contraction of credit spreads in the municipal market, which had a favorable impact on our positions in tax-backed and corporate-related debt, where we have a significant concentration, as well as our health care-related holdings. The greatest contribution to performance came from the Fund's positions in airline-related debt. While this sector lagged in the first six months, airlines resumed a strong rally in the latter half of the period that resulted in considerable spread tightening. This proved beneficial to some of our larger holdings in Continental Airlines, Inc., American Airlines, Inc. and USAir. Also contributing significantly to performance was strong appreciation in the portfolio's largest exposure -- the bonds of Pocahontas Parkway, a toll road in Virginia that was constructed within the past few years. The road has been signed over to an infrastructure financing entity, with the transaction expected to close in the summer. Given this development, the toll road's outstanding debt is expected to be defeased (or called at its first call date), which has resulted in a price increase in the existing bonds.

For the six-month period ended June 30, 2006, the total investment return on the Fund's Common Stock was +3.75%, based on a change in per share net asset value from $9.83 to $9.90, and assuming reinvestment of all distributions.

For a description of the Fund's total investment return based on a change in the per share market value of the Fund's Common Stock (as measured by the trading price of the Fund's shares on the New York Stock Exchange), and assuming reinvestment of dividends, please refer to the Financial Highlights section of this report. As a closed-end fund, the Fund's shares may trade in the secondary market at a premium or discount to the Fund's net asset value. As a result, total investment returns based on changes in the market value of the Fund's Common Stock can vary significantly from total investment returns based on changes in the Fund's net asset value.

What changes were made to the portfolio during the period?

Portfolio activity was driven primarily by the need to reinvest the proceeds from bonds that were called by their issuers prior to maturity. This is a typical phenomenon in an environment where interest rates are low and credit spreads are contracting, as issuers find it economical to refinance their existing debt. As the portfolio's seasoned, higher-coupon holdings are called by their issuers, our reinvestment prospects in the current environment are less and less appealing. It is not possible to reinvest at the same levels as those former holdings. This is an industry-wide experience that requires us -- and our competitors -- to adjust to a lower interest rate environment.

Our efforts during the period also were focused on reducing exposure to weaker credits that had participated in the spread rally. We sold a multi-family housing bond and a couple of health care issues, while also trimming exposure to the tobacco sector. Purchases during the period were largely confined to health care-related issues and some tax-backed credits, largely because this is where we have seen the most new issuance. We have found that the most attractive prices available today are in the new-issue market, whereas opportunities in the secondary market have been fairly sparse and priced rather aggressively.

How would you characterize the Fund's position at the close of the period?

In the conclusion of our last report to shareholders, we said that we had put off reducing the Fund's overweight position in airlines because we wanted to avoid selling at a low point. We have once again decided to delay implementing that reduction, this time for different reasons. First, given the number of bond calls we are experiencing and the struggle to maintain an attractive yield in the current environment, we want to avoid selling our higher-yielding airline holdings. Second, the airlines' business prospects are improving. As a result, the prices of their bonds have done significantly better, and we believe there is room for continued appreciation. Also, in light of the improvements in the industry, airlines are experiencing increased demand from investors. So, whereas the portfolio was overweight to this sector a year or two ago, that is no longer the case as more of our competitors increase their airline exposure.

Looking ahead, we intend to continue trimming some of the portfolio's weaker holdings while addressing bond calls as they arise. More so than ever, we believe it is important to remain nimble in our approach, especially with respect to new-issue bonds that come to market. We are taking a tactical approach to these new purchases. We would not consider them longer-term core holdings given the tight spreads that the market demands, but view them as an opportunity to add value from a total return/price appreciation standpoint. We maintain a positive outlook on the high yield municipal market, but believe the prospect for further spread contraction is limited. For that reason, we intend to remain flexible and cautious in our approach, taking opportunities to upgrade our credit profile as they become available.

Theodore R. Jaeckel Jr., CFA
Vice President and Portfolio Manager

July 6, 2006

Schedule of Investments (in Thousands)

Face

Amount	Municipal Bonds	Value
Alabama--0.5%		
$1,000	Brewton, Alabama, IDB, PCR, Refunding (Container Corporation of America--Jefferson Smurfit Corp. Project), 8% due 4/01/2009	$ 1,012
Alaska--1.1%		
2,000	Alaska Industrial Development and Expert Authority Revenue Bonds (Williams Lynxs Alaska Cargoport), AMT, 8% due 5/01/2023	2,103
Arizona--3.6%		
900	Maricopa County, Arizona, IDA, Education Revenue Bonds (Arizona Charter Schools Project 1), Series A, 6.625% due 7/01/2020	893
	Maricopa County, Arizona, IDA, M/F Housing Revenue Bonds (Sun King Apartments Project), Series A:	
70	5.875% due 11/01/2008	68
20	6% due 11/01/2010	19
1,020	6.75% due 5/01/2031	868
3,660	Phoenix, Arizona, IDA, Airport Facility, Revenue Refunding Bonds (America West Airlines, Inc. Project), AMT, 6.30% due 4/01/2023	3,609
1,000	Pima County, Arizona, IDA, Education Revenue Bonds (Arizona Charter Schools Project), Series E, 7.25% due 7/01/2031	1,068
500	Yavapai County, Arizona, IDA, Hospital Facility Revenue Bonds (Yavapai Regional Medical Center), Series A, 6% due 8/01/2033	526
California--2.2%		
1,800	California State, GO, 5% due 2/01/2033	1,812
1,300	California State, Various Purpose, GO, 5.25% due 11/01/2025	1,353
1,000	Fontana, California, Special Tax, Refunding (Community Facilities District Number 22--Sierra), 6% due 9/01/2034	1,044
Colorado--5.5%		
2,765	Denver, Colorado, Urban Renewal Authority, Tax Increment Revenue Bonds (Pavilions), AMT, 7.75% due 9/01/2016	2,834
2,800	Elk Valley, Colorado, Public Improvement Revenue Bonds (Public Improvement Fee), Series A, 7.30% due 9/01/2022	2,971
1,235	North Range, Colorado, Metropolitan District Number 1, GO, 7.25% due 12/15/2031	1,318
	Plaza Metropolitan District Number 1, Colorado, Tax Allocation Revenue Bonds (Public Improvement Fees):	
2,000	8% due 12/01/2025	2,184
500	8.125% due 12/01/2025	499
830	Southlands, Colorado, Medical District, GO (Metropolitan District Number 1), 7.125% due 12/01/2034	904
Connecticut--1.0%		
1,650	Bridgeport, Connecticut, Senior Living Facilities Revenue Bonds (3030 Park Retirement Community Project), 7.25% due 4/01/2035	1,384
490	Connecticut State Development Authority, Airport	

Schedule of Investments (continued) (in Thousands)

	Facility Revenue Bonds (LearJet Inc. Project), AMT, 7.95% due 4/01/2026	579
Florida--8.3%		
750	Arbor Greene Community Development District, Florida, Special Assessment Revenue Bonds, 7.60% due 11/01/2006 (a)	766
800	Capital Projects Finance Authority, Florida, Continuing Care Retirement Revenue Bonds (Glenridge on Palmer Ranch), Series A, 8% due 6/01/2032	874
840	Halifax Hospital Medical Center, Florida, Hospital Revenue Refunding Bonds, Series A, 5% due 6/01/2038	812
850	Highlands County, Florida, Health Facilities Authority, Hospital Revenue Bonds (Adventist Health System), Series C, 5.25% due 11/15/2036	868
2,500	Hillsborough County, Florida, IDA, Exempt Facilities Revenue Bonds (National Gypsum Company), AMT, Series A, 7.125% due 4/01/2030	2,744
765	Lakewood Ranch, Florida, Community Development District Number 5, Special Assessment Revenue Refunding Bonds, Series A, 6.70% due 5/01/2031	809
	Midtown Miami, Florida, Community Development District, Special Assessment Revenue Bonds, Series A:	
1,500	6% due 5/01/2024	1,607
1,350	6.25% due 5/01/2037	1,455
1,555	Orlando, Florida, Urban Community Development District, Capital Improvement Special Assessment Bonds, Series A, 6.95% due 5/01/2033	1,669
1,895	Santa Rosa Bay Bridge Authority, Florida, Revenue Bonds, 6.25% due 7/01/2028	1,904
2,515	Tampa Palms, Florida, Open Space and Transportation Community Development District Revenue Bonds, Capital Improvement (Richmond Place Project), 7.50% due 5/01/2018	2,570

Portfolio Abbreviations

To simplify the listings of Apex Municipal Fund, Inc.'s portfolio holdings in the Schedule of Investments, we have abbreviated the names of many of the securities according to the list at right.

AMT	Alternative Minimum Tax (subject to)
BAN	Bond Anticipation Notes
EDA	Economic Development Authority
GO	General Obligation Bonds
IDA	Industrial Development Authority
IDB	Industrial Development Board
IDR	Industrial Development Revenue Bonds
M/F	Multi-Family
PCR	Pollution Control Revenue Bonds
VRDN	Variable Rate Demand Notes

Face Amount	Municipal Bonds	Value
Georgia--3.9%		
	Atlanta, Georgia, Tax Allocation Bonds:	
$2,000	(Atlantic Station Project), 7.90% due 12/01/2024	$ 2,202
410	(Eastside Project), Series B, 5.40% due 1/01/2020	412
495	(Princeton Lakes Project), 5.50% due 1/01/2031	492
	Brunswick and Glynn County, Georgia, Development Authority, First Mortgage Revenue Bonds (Coastal Community Retirement Corporation Project), Series A:	
830	7.125% due 1/01/2025	813
1,185	7.25% due 1/01/2035	1,158
1,580	Fulton County, Georgia, Development Authority, PCR (General Motors Corporation), Refunding, VRDN, 8% due 4/01/2010 (e)	1,580
830	Savannah, Georgia, EDA, Revenue Bonds (Marshes of Skidaway), First Mortgage, Series A, 7.40% due 1/01/2034	862
Idaho--0.8%		
1,470	Idaho Health Facilities Authority, Revenue Refunding Bonds (Valley Vista Care Corporation), Series A, 7.75% due 11/15/2016	1,534
Illinois--8.0%		
1,845	Caseyville, Illinois, Senior Tax Increment Revenue Bonds (Forest Lakes Project), 7% due 12/30/2022	1,911
3,000	Chicago, Illinois, O'Hare International Airport, Special Facility Revenue Refunding Bonds (American Airlines, Inc. Project), 8.20% due 12/01/2024	3,090
	Illinois Development Finance Authority Revenue Bonds (Primary Health Care Centers Facilities Acquisition Program):	
585	7.75% due 12/01/2006 (a)	605
2,605	7.75% due 12/01/2016	2,678
490	6.60% due 7/01/2024	500
	Illinois State Finance Authority Revenue Bonds Series A:	
2,050	(Clare at Water Tower Project), 6.125% due 5/15/2038	2,083
430	(Landing at Plymouth Place Project), 6% due 5/15/2037	439
755	Lincolnshire, Illinois, Special Service Area Number 1, Special Tax Bonds (Sedgebrook Project), 6.25% due 3/01/2034	788
2,400	Lombard, Illinois, Public Facilities Corporation, First Tier Revenue Bonds (Conference Center and Hotel), Series A-1, 7.125% due 1/01/2036	2,532
265	Naperville, Illinois, IDR (General Motors Corporation), Refunding, VRDN, 8% due 12/01/2012 (e)	265
760	Village of Wheeling, Illinois, Revenue Bonds (North Milwaukee/Lake-Cook Tax Increment Financing (TIF) Redevelopment Project), 6% due 1/01/2025	727
Indiana--0.9%		
840	Delaware County, Indiana, Hospital Authority, Hospital Revenue Bonds (Cardinal Health System Obligated Group), 5.25% due 8/01/2036	839
820	Vanderburgh County, Indiana, Redevelopment Commission, Redevelopment District Tax Allocation Bonds, 5.25% due 2/01/2031	832
Iowa--2.3%		

3,855	Iowa Finance Authority, Health Care Facilities, Revenue Refunding Bonds (Care Initiatives Project), 9.25% due 7/01/2025	4,566
Kansas--0.6%		
1,230	Wyandotte County, Kansas, Kansas City Unified Government Revenue Refunding Bonds (General Motors Corporation Project), 6% due 6/01/2025	1,169
Louisiana--1.3%		
1,300	Louisiana Public Facilities Authority, Hospital Revenue Bonds (Franciscan Missionaries of Our Lady Health System, Inc.), Series A, 5.25% due 8/15/2036	1,319
1,290	New Orleans, Louisiana, Sewer Service Revenue Notes, BAN, 3% due 7/26/2006	1,287
Maine--0.4%		
840	Maine Finance Authority, Solid Waste Recycling Facilities Revenue Bonds (Great Northern Paper Project--Bowater), AMT, 7.75% due 10/01/2022	842
Maryland--1.0%		
385	Baltimore, Maryland, Convention Center Hotel Revenue Bonds, Sub-Series B, 5.875% due 9/01/2039	399
1,500	Maryland State Energy Financing Administration, Limited Obligation Revenue Bonds (Cogeneration -- AES Warrior Run), AMT, 7.40% due 9/01/2019	1,513
Massachusetts--4.5%		
1,845	Massachusetts State Development Finance Agency, First Mortgage Revenue Bonds (Overlook Communities Inc.), Series A, 6.25% due 7/01/2034	1,869
	Massachusetts State Development Finance Agency, Revenue Refunding Bonds (Eastern Nazarene College):	
1,245	5.625% due 4/01/2019	1,260
1,220	5.625% due 4/01/2029	1,228
850	Massachusetts State Health and Educational Facilities Authority Revenue Bonds (Jordan Hospital), Series E, 6.75% due 10/01/2033	912
	Massachusetts State Health and Educational Facilities Authority, Revenue Refunding Bonds:	
2,000	(Bay Cove Human Services Issue), Series A, 5.90% due 4/01/2028	2,008
500	(Milton Hospital), Series, 5.50% due 7/01/2016	503
1,000	Massachusetts State Industrial Finance Agency Revenue Bonds, Sewer Facility (Resource Control Composting), AMT, 9.25% due 6/01/2010	1,008
Michigan--1.3%		
1,150	Macomb County, Michigan, Hospital Finance Authority, Hospital Revenue Bonds (Mount Clemens General Hospital), Series B, 5.875% due 11/15/2034	1,208
1,260	Monroe County, Michigan, Hospital Financing Authority, Hospital Revenue Refunding Bonds (Mercy Memorial Hospital Corporation), 5.50% due 6/01/2035	1,271
Minnesota--0.7%		
1,230	Saint Paul, Minnesota, Port Authority, Hotel Facility, Revenue Refunding Bonds (Radisson Kellogg Project), Series 2, 7.375% due 8/01/2008 (a)	1,347
Missouri--1.2%		

1,155	Fenton, Missouri, Tax Increment Revenue Refunding and Improvement Bonds (Gravois Bluffs), 7% due 10/01/2011 (a)	1,322
1,000	Kansas City, Missouri, IDA, First Mortgage Health Facilities Revenue Bonds (Bishop Spencer Place), Series A, 6.50% due 1/01/2035	1,041

Schedule of Investments (continued) (in Thousands)

Face Amount	Municipal Bonds	Value
Nevada--0.2%		
$ 430	Clark County, Nevada, Improvement District Number 142, Special Assessment Bonds, 6.375% due 8/01/2023	$ 443
New Hampshire--0.4%		
835	New Hampshire Health and Education Facilities Authority, Hospital Revenue Bonds (Catholic Medical Center), 5% due 7/01/2036	820
New Jersey--13.4%		
	Camden County, New Jersey, Improvement Authority, Lease Revenue Bonds (Holt Hauling & Warehousing), AMT, Series A (b)(c):	
2,000	9.625% due 1/01/2011	283
4,500	9.875% due 1/01/2021	637
6,000	Camden County, New Jersey, Pollution Control Financing Authority, Solid Waste Resource Recovery, Revenue Refunding Bonds, AMT, Series A, 7.50% due 12/01/2010	6,032
2,170	New Jersey EDA, Cigarette Tax Revenue Bonds, 5.50% due 6/15/2024	2,243
1,500	New Jersey EDA, IDR, Refunding (Newark Airport Marriott Hotel), 7% due 10/01/2014	1,552
	New Jersey EDA, Retirement Community Revenue Bonds:	
1,000	(Cedar Crest Village Inc. Facility), Series A, 7.25% due 11/15/2031	1,079
3,700	(Seabrook Village Inc.), Series A, 8.125% due 11/15/2023	4,135
	New Jersey EDA, Special Facility Revenue Bonds (Continental Airlines, Inc. Project), AMT:	
3,050	6.625% due 9/15/2012	3,246
1,750	6.25% due 9/15/2029	1,790
1,870	New Jersey Health Care Facilities Financing Authority Revenue Bonds (Pascack Valley Hospital Association), 6.625% due 7/01/2036	1,938
2,760	New Jersey State Transportation Trust Fund Authority, Transportation System Revenue Bonds, Series C, 5.05% due 12/15/2035 (f)(h)	632
	Tobacco Settlement Financing Corporation of New Jersey, Asset-Backed Revenue Bonds:	
1,245	5.75% due 6/01/2032	1,299

1,075	7% due 6/01/2041	1,219
New Mexico--2.7%		
5,000	Farmington, New Mexico, PCR, Refunding (Tucson Electric Power Company--San Juan Project), Series A, 6.95% due 10/01/2020	5,202
New York--5.2%		
1,000	Dutchess County, New York, IDA, Civic Facility Revenue Bonds (Saint Francis Hospital), Series B, 7.50% due 3/01/2029	1,082
	New York City, New York, City IDA, Civic Facility Revenue Bonds:	
350	Series C, 6.80% due 6/01/2028	375
830	(Special Needs Facility Pooled Program), Series C-1, 6.50% due 7/01/2024	840
1,730	New York City, New York, City IDA, Special Facility Revenue Bonds (British Airways Plc Project), AMT, 7.625% due 12/01/2032	1,944
2,080	New York State Dormitory Authority, Non-State Supported Debt, Revenue Bonds (Mount Sinai--NYU Medical Center Health System), 5.50% due 7/01/2026	2,096
1,865	New York State Dormitory Authority, Non-State Supported Debt, Revenue Refunding Bonds (Mount Sinai Hospital), Series C, 5.50% due 7/01/2026	1,879
635	Utica, New York, GO, Public Improvement, 9.25% due 8/15/2006	638
1,180	Westchester County, New York, IDA, Continuing Care Retirement, Mortgage Revenue Bonds (Kendal on Hudson Project), Series A, 6.50% due 1/01/2034	1,248
North Carolina--0.5%		
1,000	North Carolina Medical Care Commission, Retirement Facilities, First Mortgage Revenue Bonds (Givens Estates Project), Series A, 6.50% due 7/01/2032	1,064
Oregon--0.7%		
1,310	Western Generation Agency, Oregon, Cogeneration Project Revenue Bonds (Wauna Cogeneration Project), AMT, Series B, 7.40% due 1/01/2016	1,315
Pennsylvania--6.8%		
1,160	Bucks County, Pennsylvania, IDA, Retirement Community Revenue Bonds (Ann's Choice Inc.), Series A, 6.125% due 1/01/2025	1,198
1,750	Chester County, Pennsylvania, Health and Education Facilities Authority, Senior Living Revenue Refunding Bonds (Jenners Pond, Inc. Project), 7.625% due 7/01/2034	1,967
1,825	Montgomery County, Pennsylvania, Higher Education and Health Authority Revenue Bonds (Faulkeways at Gwynedd Project), 6.75% due 11/15/2009 (a)	1,992
1,700	Montgomery County, Pennsylvania, IDA, Revenue Bonds (Whitemarsh Continuing Care Project), 6.25% due 2/01/2035	1,781
	Philadelphia, Pennsylvania, Authority for IDR:	
1,600	(Air Cargo), AMT, Series A, 7.50% due 1/01/2025	1,742
4,460	Commercial Development, 7.75% due 12/01/2017	4,505
Rhode Island--1.0%		
1,750	Central Falls, Rhode Island, Detention Facility Corporation, Detention Facility, Revenue Refunding	

	Bonds, 7.25% due 7/15/2035	1,919
Tennessee--1.0%		
1,800	Shelby County, Tennessee, Health, Educational and Housing Facilities Board Revenue Bonds (Germantown Village), Series A, 7.25% due 12/01/2034	1,895
Texas--7.3%		
1,000	Austin, Texas, Convention Center Revenue Bonds (Convention Enterprises Inc.), First Tier, Series A, 6.70% due 1/01/2028	1,059
2,530	Brazos River Authority, Texas, PCR, Refunding (Texas Utility Company), AMT, Series A, 7.70% due 4/01/2033	2,937
1,220	Brazos River Authority, Texas, Revenue Refunding Bonds (Reliant Energy Inc. Project), Series B, 7.75% due 12/01/2018	1,305
2,275	Dallas-Fort Worth, Texas, International Airport Facilities Improvement Corporation Revenue Bonds (American Airlines, Inc.), AMT, 7.25% due 11/01/2030	2,272
830	Grand Prairie, Texas, Housing Finance Corporation Revenue Bonds (Independent Senior Living Center), 7.75% due 1/01/2034	855
1,000	Houston, Texas, Health Facilities Development Corporation, Retirement Facility Revenue Bonds (Buckingham Senior Living Community), Series A, 7.125% due 2/15/2034	1,099

Schedule of Investments (concluded) (in Thousands)

Face Amount	Municipal Bonds	Value
Texas (concluded)		
$ 875	Kerrville, Texas, Health Facilities Development Corporation, Hospital Revenue Bonds (Sid Peterson Memorial Hospital Project), 5.375% due 8/15/2035	$ 876
2,310	Matagorda County, Texas, Navigation District Number 1, Revenue Refunding Bonds (Reliant Energy Inc.), Series C, 8% due 5/01/2029	2,469
1,330	Port Corpus Christi, Texas, Individual Development Corporation, Environmental Facilities Revenue Bonds (Citgo Petroleum Corporation Project), AMT, 8.25% due 11/01/2031	1,386
Utah--1.2%		
2,240	Carbon County, Utah, Solid Waste Disposal, Revenue Refunding Bonds (Laidlaw Environmental), AMT, Series A, 7.45% due 7/01/2017	2,337
Virginia--1.3%		
2,470	Dulles Town Center, Virginia, Community Development Authority, Special Assessment Tax (Dulles Town Center Project), 6.25% due 3/01/2026	2,577

West Virginia--0.6%		
1,125	Princeton, West Virginia, Hospital Revenue Refunding Bonds (Community Hospital Association Inc. Project), 6.20% due 5/01/2013	1,125
Wisconsin--0.7%		
1,320	Wisconsin State Health and Educational Facilities Authority Revenue Bonds (New Castle Place Project), Series A, 7% due 12/01/2031	1,356
U.S. Virgin Islands--1.2%		
2,100	Virgin Islands Government Refinery Facilities, Revenue Refunding Bonds (Hovensa Coker Project), AMT, 6.50% due 7/01/2021	2,346
	Total Municipal Bonds (Cost--$176,541)--93.3%	181,569

Shares Held	Short-Term Securities	
1,101	Merrill Lynch Institutional Tax-Exempt Fund, 3.72% (d)(g)	1,101
	Total Short-Term Securities (Cost--$1,101)--0.5%	1,101
Total Investments (Cost--$177,642*)--93.8%		182,670
Other Assets Less Liabilities--6.2%		11,976
Net Assets--100.0%		$194,646

* The cost and unrealized appreciation (depreciation) of investments as of June 30, 2006, as computed for federal income tax purposes, were as follows:

Aggregate cost	$177,276
Gross unrealized appreciation	$ 11,625
Gross unrealized depreciation	(6,231)
Net unrealized appreciation	$ 5,394

(a) Prerefunded.

(b) Non-income producing security; issuer filed for bankruptcy or is in default of interest payments.

(c) Restricted securities as to resale, representing 0.5% of net assets, were as follows:

Issue	Acquisition Dates	Cost	Value
Camden County, New Jersey,			

Improvement Authority, Lease Revenue Bonds (Holt Hauling & Warehousing), AMT, Series A, 9.625% due 1/01/2011	1/29/1997	$2,116	$283
Camden County, New Jersey, Improvement Authority, Lease Revenue Bonds (Holt Hauling & Warehousing), AMT, Series A, 9.875% due 1/01/2021	2/06/1996-1/29/1997	4,644	637
Total		$6,760	$920

(d) Investments in companies considered to be an affiliate of the Fund, for purposes of Section 2(a)(3) of the Investment Company Act of 1940, were as follows:

Affiliate	Net Activity	Dividend Income
Merrill Lynch Institutional Tax-Exempt Fund	(2,599)	$70

(e) Security may have a maturity of more than one year at time of issuance, but has variable rate and demand features that qualify it as a short-term security. The rate disclosed is that currently in effect. This rate changes periodically based upon prevailing market rates.
(f) AMBAC Insured.
(g) Represents the current yield as of 6/30/2006.
(h) Represents a zero coupon bond; the interest rate shown reflects the effective yield at the time of purchase.

See Notes to Financial Statements.

Statement of Assets, Liabilities and Capital

As of June 30, 2006

Assets

Investments in unaffiliated securities, at value (identified cost--$176,541,000)
Investments in affiliated securities, at value (identified cost--$1,101,148) ....
Cash ....
Receivables:
Securities sold ....
Interest ....
Custodian ....

Prepaid expenses ....

Total assets ....

Liabilities

Payables:

Investment adviser ....

Other affiliates ....

Accrued expenses ....

Total liabilities ....

Net Assets

Net Assets ....

Capital

Common Stock, $.10 par value, 150,000,000 shares authorized; 19,669,911 shares issued and outstanding ....

Paid-in capital in excess of par ....

Undistributed investment income--net ....

Accumulated realized capital losses--net ....

Unrealized appreciation--net ....

Total accumulated losses--net ....

Total capital--Equivalent to $9.90 net asset value per share of Common Stock (market price--$10.25) ....

See Notes to Financial Statements.

Statement of Operations

For the Year Ended June 30, 2006

Investment Income

Interest ....

Dividends from affiliates ....

Total income ....

Expenses

Investment advisory fees ....

Accounting services ....

Transfer agent fees ....

Professional fees ....

Printing and shareholder reports ....

Directors' fees and expenses ....

Listing fees ....

Pricing fees ....

Custodian fees ....

Other ....

Total expenses before reimbursement ....
Reimbursement of expenses ....

Total expenses after reimbursement ....

Investment income--net ....

===
Realized & Unrealized Gain (Loss)--Net

Realized gain on investments--net ....
Change in unrealized appreciation on investments--net ....

Total realized and unrealized gain--net ....

Net Increase in Net Assets Resulting from Operations ....

See Notes to Financial Statements.

Statements of Changes in Net Assets

Increase (Decrease) in Net Assets:

===
Operations

Investment income--net ....
Realized gain--net ....
Change in unrealized appreciation--net ....

Net increase in net assets resulting from operations ....

===
Dividends to Shareholders

Investment income--net ....

Net decrease in net assets resulting from dividends to shareholders ....

===
Common Stock Transactions

Value of shares issued to shareholders in reinvestment of dividends ....

Net increase in net assets derived from Common Stock transactions ....

===
Net Assets

Total increase in net assets	
Beginning of year	
End of year*	
* Undistributed investment income--net	

See Notes to Financial Statements.

Financial Highlights

The following per share data and ratios have been derived from information provided in the financial statements.	For the Yea		
	2006	2005	
Per Share Operating Performance			
Net asset value, beginning of year	$ 9.82	$ 9.13	$
Investment income--net	.58+	.58+	
Realized and unrealized gain (loss)--net	.08	.69	
Total from investment operations	.66	1.27	
Less dividends and distributions to Common Stock shareholders:			
Investment income--net	(.58)	(.58)	
Realized gain--net	--	--	
Total dividends and distributions to Common Stock shareholders	(.58)	(.58)	
Net asset value, end of year	$ 9.90	$ 9.82	$
Market price per share, end of year	$ 10.25	$ 9.48	$
Total Investment Return*			
Based on net asset value per share	7.00%	14.67%	
Based on market price per share	14.76%	22.36%	
Ratios to Average Net Assets			
Expenses, net of reimbursement	.80%	.80%	
Expenses	.81%	.80%	
Investment income--net	5.83%	6.11%	
Supplemental Data			

Net assets, end of year (in thousands)	$194,646	$192,475	$
Portfolio turnover	19%	22%	

* Total investment returns based on market value, which can be significantly greater or lesser than the net asset value, may result in substantially different returns. Total investment returns exclude the effects of sales charges.

** Amount is less than $(.01) per share.

\+ Based on average shares outstanding.

See Notes to Financial Statements.

Notes to Financial Statements

1. Significant Accounting Policies:

Apex Municipal Fund, Inc. (the "Fund") is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The Fund's financial statements are prepared in conformity with U.S. generally accepted accounting principles, which may require the use of management accruals and estimates. Actual results may differ from these estimates. The Fund determines and makes available for publication the net asset value of its Common Stock on a daily basis. The Fund's Common Stock shares are listed on the New York Stock Exchange under the symbol APX. The following is a summary of significant accounting policies followed by the Fund.

(a) Valuation of investments -- Municipal bonds are traded primarily in the over-the-counter ("OTC") markets and are valued at the last available bid price in the OTC market or on the basis of values as obtained by a pricing service. Pricing services use valuation matrixes that incorporate both dealer-supplied valuations and valuation models. The procedures of the pricing service and its valuations are reviewed by the officers of the Fund under the general direction of the Board of Directors. Such valuations and procedures are reviewed periodically by the Board of Directors of the Fund. Financial futures contracts and options thereon, which are traded on exchanges, are valued at their closing prices as of the close of such exchanges. Options written or purchased are valued at the last sale price in the case of exchange-traded options. In the case of options traded in the OTC market, valuation is the last asked price (options written) or the last bid price (options purchased). Swap agreements are valued by quoted fair values received daily by the Fund's pricing service. Short-term investments with a remaining maturity of 60 days or less are valued at amortized cost, which approximates market value, under which method the investment is valued at cost and any premium or discount is amortized on a straight line basis to maturity. Investments in open-end investment companies are valued at their net asset value each business day. Securities and other assets for which market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of the Board of Directors of the Fund.

(b) Derivative financial instruments -- The Fund may engage in various portfolio investment strategies both to increase the return of the Fund and to hedge, or protect, its exposure to interest rate movements and movements in the securities markets. Losses may arise due to changes in the value of the contract or if the counterparty does not perform under the contract.

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

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

  Written and purchased options are non-income producing investments.

- Forward interest rate swaps -- The Fund may enter into forward interest rate swaps. In a forward interest rate swap, the Fund and the counterparty agree to make periodic net payments on a specified notional contract amount, commencing on a specified future effective date, unless terminated earlier. When the agreement is closed, the Fund records a realized gain or loss in an amount equal to the value of the agreement.

(c) Income taxes -- It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its taxable income to its shareholders. Therefore, no federal income tax provision is required.

Notes to Financial Statements (concluded)

(d) Security transactions and investment income -- Security transactions are recorded on the dates the transactions are entered into (the trade dates). Realized gains and losses on security transactions are determined on the identified cost basis. Interest income is recognized on the accrual basis. The Fund amortizes all premiums and discounts on debt securities.

(e) Dividends and distributions -- Dividends from net investment income are declared daily and paid monthly. Distributions of capital gains are recorded on the ex-dividend dates.

(f) Custodian -- The Fund recorded an amount receivable from the custodian resulting from a timing difference of security transaction settlements.

(g) Reclassifications -- U.S. generally accepted accounting principles require that certain components of net assets be adjusted to reflect permanent differences between financial and tax reporting. There were no significant reclassifications in the current year. These reclassifications have no effect on net assets or net asset values per share.

2. Investment Advisory Agreement and Transactions with Affiliates:

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

FAM is responsible for the management of the Fund's portfolio and provides the necessary personnel, facilities, equipment and certain other services necessary to the operations of the Fund. For such services, the Fund pays a monthly fee at an annual rate of .65% of the Fund's average daily net assets. FAM has agreed to reimburse its management fee by the amount of management fees the Fund pays to FAM indirectly through its investment in Merrill Lynch Institutional Tax-Exempt Fund. For the year ended June 30, 2006, FAM reimbursed the Fund in the amount of $5,277.

For the year ended June 30, 2006, the Fund reimbursed FAM $4,436 for certain accounting services.

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

In February 2006, ML & Co. and BlackRock, Inc. entered into an agreement to contribute ML & Co.'s investment management business, including FAM, to the investment management business of BlackRock, Inc. The transaction is expected to close at the end of the third quarter of 2006.

3. Investments:

Purchases and sales of investments, excluding short-term securities, for the year ended June 30, 2006 were $35,298,380 and $46,473,215, respectively.

4. Common Stock Transactions:

At June 30, 2006, the Fund had one class of shares of Common Stock, par value $.10 per share, of which 150,000,000 shares were authorized.

Shares issued and outstanding for the year ended June 30, 2006 increased by 73,179 as a result of dividend reinvestment. Shares issued and outstanding for the year ended June 30, 2005 remained constant.

5. Distributions to Shareholders:

The Fund paid a tax-exempt income dividend to holders of Common Stock in the amount of $.049000 per share on July 28, 2006 to shareholders of record on July 17, 2006.

The tax character of distributions paid during the fiscal years ended June 30, 2006 and June 30, 2005 was as follows:

	6/30/2006	6/30/2005
Distributions paid from:		
Tax-exempt income	$11,421,420	$11,287,718
Total distributions	$11,421,420	$11,287,718

As of June 30, 2006, the components of accumulated losses on a tax basis were as follows:

Undistributed tax-exempt income -- net	$ 2,027,586
Undistributed long-term capital gains -- net	--
Total undistributed earnings -- net	2,027,586
Capital loss carryforward	(13,818,112)*
Unrealized gains -- net	5,109,729**
Total accumulated losses -- net	$ (6,680,797)

* On June 30, 2006, the Fund had a net capital loss carryforward of $13,818,112, of which $2,542,361 expires in 2008, $5,341,699 expires in 2009, $2,075,987 expires in 2010, $2,163,492 expires in 2011, $1,659,281 expires in 2012 and $35,292 expires in 2013. This amount will be available to offset like amounts of any future taxable gains.

** The difference between book-basis and tax-basis net unrealized gains is attributable primarily to the difference between book and tax amortization methods for premiums and discounts on fixed income securities and book/tax differences in the accrual of income on securities in default.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Apex Municipal Fund, Inc.:

We have audited the accompanying statement of assets, liabilities and capital, including the schedule of investments, of Apex Municipal Fund, Inc. as of June 30, 2006, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of June 30, 2006, by correspondence with the custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Apex

Municipal Fund, Inc. as of June 30, 2006, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and its financial highlights for each of the five years in the period then ended, in conformity with U.S. generally accepted accounting principles.

Deloitte & Touche LLP
Princeton, New Jersey
August 23, 2006

Fund Certification (unaudited)

In May 2006, the Fund filed its Chief Executive Officer Certification for the prior year with the New York Stock Exchange pursuant to Section 303A.12(a) of the New York Stock Exchange Corporate Governance Listing Standards.

The Fund's Chief Executive Officer and Chief Financial Officer Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 were filed with the Fund's Form N-CSR and are available on the Securities and Exchange Commission's Web site at http://www.sec.gov.

Important Tax Information (unaudited)

All of the net investment income distributions paid monthly by Apex Municipal Fund, Inc. during its taxable year ended June 30, 2006 qualify as tax-exempt interest dividends for federal income tax purposes.

Automatic Dividend Reinvestment Plan

How the Plan Works -- The Fund offers a Dividend Reinvestment Plan (the "Plan") under which income and capital gains dividends paid by the Fund are automatically reinvested in additional shares of Common Stock of the Fund. The Plan is administered on behalf of the shareholders by The Bank of New York (the "Plan Agent"). Under the Plan, whenever the Fund declares a dividend, participants in the Plan will receive the equivalent in shares of Common Stock of the Fund. The Plan Agent will acquire the shares for the participant's account either (i) through receipt of additional unissued but authorized shares of the Fund ("newly issued shares") or (ii) by purchase of outstanding shares of Common Stock on the open market on the New York Stock Exchange or elsewhere. If, on the dividend payment date, the Fund's net asset value per share is equal to or less than the market price per share plus estimated brokerage commissions (a condition often referred to as a "market premium"), the Plan Agent will invest the dividend amount in newly issued shares. If the Fund's net asset value per share is greater than the market price per share (a condition often referred to as a "market discount"), the Plan Agent will invest the dividend amount by purchasing on the open market additional shares. If the Plan Agent is unable to invest the full dividend amount in open market purchases, or if the market discount shifts to a market premium during the purchase period, the Plan Agent will invest any uninvested portion in newly issued shares. The shares acquired are credited to each shareholder's account. The amount credited is determined by dividing the dollar amount of the dividend by either (i) when the shares are newly issued, the net asset value per share on the date the shares are issued or (ii) when shares are purchased in the open market, the average purchase price per share.

Participation in the Plan -- Participation in the Plan is automatic, that is, a shareholder is automatically enrolled in the Plan when he or she purchases shares of Common Stock of the Fund unless the shareholder specifically elects not to participate in the Plan. Shareholders who elect not to participate will receive all dividend distributions in cash. Shareholders who do not wish to participate in the Plan must advise the Plan Agent in writing (at the address set forth below) that they elect not to participate in the Plan. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by writing to the Plan Agent.

Benefits of the Plan -- The Plan provides an easy, convenient way for shareholders to make additional, regular investments in the Fund. The Plan promotes a long-term strategy of investing at a lower cost. All shares acquired pursuant to the Plan receive voting rights. In addition, if the market price plus commissions of the Fund's shares is above the net asset value, participants in the Plan will receive shares of the Fund for less than they could otherwise purchase them and with a cash value greater than the value of any cash distribution they would have received. However, there may not be enough shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem shares, the price on resale may be more or less than the net asset value.

Plan Fees -- There are no enrollment fees or brokerage fees for participating in the Plan. The Plan Agent's service fees for handling the reinvestment of distributions are paid for by the Fund. However, brokerage commissions may be incurred when the Fund purchases shares on the open market and shareholders will pay a pro rata share of any such commissions.

Tax Implications -- The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. Therefore, income and capital gains may still be realized even though shareholders do not receive cash. The value of shares acquired pursuant to the Plan will generally be excluded from gross income to the extent that the cash amount reinvested would be excluded from gross income. If, when the Fund's shares are trading at a market premium, the Fund issues shares pursuant to the Plan that have a greater fair market value than the amount of cash reinvested, it is possible that all or a portion of the discount from the market value (which may not exceed 5% of the fair market value of the Fund's shares) could be viewed as a taxable distribution. If the discount is viewed as a taxable distribution, it is also possible that the taxable character of this discount would be allocable to all the shareholders, including shareholders who do not participate in the Plan. Thus, shareholders who do not participate in the Plan might be required to report as ordinary income a portion of their distributions equal to their allocable share of the discount.

Contact Information -- All correspondence concerning the Plan, including any questions about the Plan, should be directed to the Plan Agent at The Bank of New York, Church Street Station, P.O. Box 11258, New York, NY 10286-1258, Telephone: 800-432-8224.

Disclosure of New Investment Advisory Agreement

New BlackRock Investment Advisory Agreement -- Matters Considered by the Board

In connection with the Transaction between Merrill Lynch and BlackRock, the Fund's Board of Directors considered a new investment advisory agreement (the "New Investment Advisory Agreement") between the Fund and BlackRock Advisors, Inc. or its successor ("BlackRock Advisors"). If the New Investment Advisory Agreement is approved by the Fund's shareholders, it will become effective upon the closing of the Transaction, which is expected in the third quarter of 2006.

The Board discussed the New Investment Advisory Agreement at telephonic and in-person meetings held during April and May 2006. The Board, including the independent directors, approved the New Investment Advisory Agreement at a meeting held on May 9, 2006.

To assist the Board in its consideration of the New Investment Advisory Agreement, BlackRock provided materials and information about BlackRock, including its financial condition and asset management capabilities and organization, and Merrill Lynch provided materials and information about the Transaction. The independent directors, through their independent legal counsel, also requested and received additional information from Merrill Lynch and BlackRock in connection with their consideration of the New Investment Advisory Agreement. The additional information was provided in advance of the May 9, 2006 meeting. In addition, the independent directors consulted with their counsel and Fund counsel on numerous occasions, discussing, among other things, the legal standards and certain other considerations relevant to the directors' deliberations.

At the Board meetings, the directors discussed with Merrill Lynch management and certain BlackRock representatives the Transaction, its strategic rationale and BlackRock's general plans and intentions regarding the Fund. At these Board meetings, representatives of Merrill Lynch and BlackRock made presentations to and responded to questions from the Board. The directors also inquired about the plans for and anticipated roles and responsibilities of certain employees and officers of the Investment Adviser and certain affiliates being transferred to BlackRock in connection with the Transaction. The independent directors of the Board also conferred separately and with their counsel about the Transaction and other matters related to the Transaction on a number of occasions, including in connection with the April and May 2006 meetings. After the presentations and after reviewing the written materials provided, the independent directors met in executive sessions with their counsel to consider the New Investment Advisory Agreement.

In connection with the Board's review of the New Investment Advisory Agreement, Merrill Lynch and/or BlackRock advised the directors about a variety of matters. The advice included the following, among other matters:

- that there is not expected to be any diminution in the nature, quality and extent of services provided to the Fund and its shareholders by BlackRock Advisors, including compliance services;

- that operation of New BlackRock as an independent investment management firm will enhance its ability to attract and retain talented professionals;

- that the Fund should benefit from having access to BlackRock's state of the art technology and risk management analytic tools, including investment tools, provided under the BlackRock Solutions(R) brand name;

- that BlackRock has no present intention to alter any applicable expense waivers or reimbursements currently in effect and, while it reserves the right to do so in the future, it would seek the approval of the Board before making any changes;

- that in connection with the Transaction, Merrill Lynch and BlackRock have agreed to conduct, and use reasonable best efforts to cause their respective affiliates to conduct, their respective businesses in compliance with the conditions of Section 15(f) of the Investment Company Act of 1940 (the "1940 Act") in relation to any public funds advised by BlackRock or the Investment Adviser (or its affiliates), respectively; and o that Merrill Lynch and BlackRock would derive benefits from the Transaction and that, as a result, they have a different financial interest in the matters that were being considered than do Fund shareholders.

The directors considered the information provided by Merrill Lynch and BlackRock above, and, among other factors, the following:

o the potential benefits to Fund shareholders from being part of a combined fund family with BlackRock-sponsored funds, including possible economies of scale and access to investment opportunities;

o the reputation, financial strength and resources of BlackRock and its investment advisory subsidiaries and the anticipated financial strength and resources of New BlackRock;

o the compliance policies and procedures of BlackRock Advisors;

o the terms and conditions of the New Investment Advisory Agreement, including the fact that the schedule of the Fund's total advisory fees will not increase by virtue of the New Investment Advisory Agreement, but will remain the same;

o that in November 2005, the Board performed a full annual review of the investment advisory agreement currently in effect for the Fund (the "Current Investment Advisory Agreement") as required by the 1940 Act and has determined that the Investment Adviser has the capabilities, resources and personnel necessary to provide the advisory and administrative services currently provided to the Fund; and that the advisory and/or management fees paid by the Fund, taking into account any applicable agreed-upon fee waivers and breakpoints, represent reasonable compensation to the Investment Adviser in light of the services provided, the costs to the Investment Adviser of providing those services, economies of scale, the fees and other expenses paid by similar funds (including information provided by Lipper Inc. ["Lipper"]), and such other matters as the directors have considered relevant in the exercise of their reasonable judgment; and

o that Merrill Lynch agreed to pay all expenses of the Fund in connection with the Board's consideration of the New Investment Advisory Agreement and related agreements and all costs of shareholder approval of the New Investment Advisory Agreement and as a result the Fund would bear no costs in obtaining shareholder approval of the New Investment Advisory Agreement.

Certain of these considerations are discussed in more detail below.

In its review of the New Investment Advisory Agreement, the Board assessed the nature, scope and quality of the services to be provided to the Fund by the personnel of BlackRock Advisors and its affiliates, including administrative services, shareholder services, oversight of fund accounting and assistance in meeting legal and regulatory requirements. In its review of the New Investment Advisory Agreement, the Board also considered a range of information in connection with its oversight of the services to be provided by BlackRock Advisors and its affiliates. Among the matters considered were: (a) fees (in addition to management fees) to be paid to BlackRock Advisors and its affiliates by the Fund; (b) Fund operating expenses paid to third parties; (c) the resources devoted to and compliance reports relating to the Fund's investment objective, policies and restrictions, and its compliance with its Code of Ethics and BlackRock Advisors' compliance policies and procedures; and (d) the nature, cost and character of non-investment management services to be provided by BlackRock Advisors and its affiliates.

In the period prior to the Board meetings to consider renewal of the Current Investment Advisory Agreement, the Board had requested and received materials specifically relating to the Current Investment Advisory Agreement. These materials included (a) information compiled by Lipper on the fees and expenses and the investment performance of the Fund as compared to a comparable group of funds as classified by Lipper; (b) information comparing the Fund's market price with its net asset value per share; (c) a discussion by the Fund's portfolio management team on investment strategies used by the Fund during its most recent fiscal year; (d) information on the profitability to the Investment Adviser of the Current Investment Advisory Agreement and other payments received by the Investment Adviser and its affiliates from the Fund; and (e) information provided by the Investment Adviser concerning services related to the valuation and pricing of Fund portfolio holdings, the Fund's portfolio turnover statistics, and direct and indirect benefits to the Investment Adviser and its affiliates from their relationship with the Fund.

In their deliberations, the directors considered information received in connection with their most recent continuation of the Current Investment Advisory Agreement, in addition to information provided by BlackRock and BlackRock Advisors in connection with their evaluation of the terms and conditions of the New Investment Advisory Agreement. The directors did not identify any particular information that was all-important or controlling. The directors, including a majority of the independent directors, concluded that the terms of the New Investment Advisory Agreement are appropriate, that the fees to be paid are reasonable in light of the services to be provided to the Fund, and that the New Investment Advisory Agreement should be approved and recommended to Fund shareholders.

Nature, Quality and Extent of Services Provided -- The Board reviewed the nature, extent and quality of services

provided by the Investment Adviser, including the investment advisory services and the resulting performance of the Fund, as well as the nature, quality and extent of services expected to be provided by BlackRock Advisors. The Board focused primarily on the Investment Adviser's advisory services and the Fund's investment performance, but also considered certain areas in which both the Investment Adviser and the Fund receive services as part of the Merrill Lynch complex. The Board compared the Fund's performance -- both including and excluding the effects of fees and expenses -- to the performance of a comparable group of funds, and the performance of a relevant index or combination of indexes. While the Board reviews performance data at least quarterly, consistent with the Investment Adviser's investment goals, the Board attaches more importance to performance over relatively long periods of time, typically three to five years.

In evaluating the nature, quality and extent of the services to be provided by BlackRock Advisors under the New Investment Advisory Agreement, the directors considered, among other things, the expected impact of the Transaction on the operations, facilities, organization and personnel of New BlackRock and how it would affect the Fund; the ability of BlackRock Advisors to perform its duties after the Transaction; and any anticipated changes to the current investment and other practices of the Fund.

The directors were given information with respect to the potential benefits to the Fund and its shareholders from having access to BlackRock's state of the art technology and risk management analytic tools, including the investment tools provided under the BlackRock Solutions brand name.

The directors were advised that, as a result of Merrill Lynch's equity interest in BlackRock after the Transaction, the Fund will continue to be subject to restrictions concerning certain transactions involving Merrill Lynch affiliates (for example, transactions with a Merrill Lynch broker-dealer acting as principal) absent revised or new regulatory relief. The directors were advised that a revision of existing regulatory relief with respect to these restrictions was being sought from the Securities and Exchange Commission and were advised of the possibility of receipt of such revised regulatory relief. There can be no assurance that such relief will be obtained.

Based on their review of the materials provided and the assurances they had received from the management of Merrill Lynch and of BlackRock, the directors determined that the nature and quality of services to be provided to the Fund under the New Investment Advisory Agreement were expected to be as good or better than that provided under the Current Investment Advisory Agreement. It was noted, however, that it is expected that there will be changes in personnel following the Transaction and the combination of the operations of the Investment Adviser and its affiliates with those of BlackRock. The directors noted that if current portfolio managers or other personnel cease to be available, the Board would consider all available options, which could include seeking the investment advisory or other services of BlackRock affiliates. Accordingly, the directors concluded that, overall, they were satisfied at the present time with assurances from BlackRock and BlackRock Advisors as to the expected nature, extent and quality of the services to be provided to the Fund under the New Investment Advisory Agreement.

Costs of Services Provided and Profitability -- It was noted that, in conjunction with the recent review of the Current Investment Advisory Agreement, the directors had received, among other things, a report from Lipper comparing the Fund's fees, expenses and performance to those of a peer group selected by Lipper, and information as to the fees charged by the Investment Adviser or its affiliates to other registered investment company clients for investment management services. The Board reviewed the Fund's contractual management fee rate and actual management fee rate as a percentage of total assets at common asset levels -- the actual rate includes advisory fees and the effects of any fee waivers -- compared to the other funds in its Lipper category. They also compared the Fund's total expenses to those of other comparable funds. The information showed that the Fund had fees and expenses within the range of fees and expenses of comparable funds. The Board concluded that the Fund's management fee and fee rate and overall expense ratio are reasonable compared to those of other comparable funds.

In evaluating the costs of the services to be provided by BlackRock Advisors under the New Investment Advisory Agreement, the directors considered, among other things, whether advisory fees or other expenses would change as a result of the Transaction. Based on their review of the materials provided and the fact that the New Investment Advisory Agreement is substantially similar to the Current Investment Advisory Agreement in all material respects, including the rate of compensation, the directors determined that the Transaction should not increase the total fees payable, including any fee waivers or after any expense caps or expense reimbursements, for advisory and administrative services. The directors noted that it was not possible to predict how the Transaction would affect BlackRock Advisors' profitability from its relationship with the Fund.

The directors discussed with BlackRock Advisors its general methodology to be used in determining its profitability with respect to its relationship with the Fund and noted that they expect to receive profitability information from BlackRock Advisors on at least an annual basis.

Fees and Economies of Scale -- The Board considered the extent to which economies of scale might be realized as the assets of the Fund increase and whether there should be changes in the management fee rate or structure in order to enable the Fund to participate in these economies of scale. The Board considered economies of scale to the extent applicable to the Fund's closed-end structure and determined that the Fund currently appropriately benefits from any economies of scale and no changes were currently necessary.

In reviewing the Transaction, the directors considered, among other things, whether advisory fees or other expenses would change as a result of the Transaction. Based on the fact that the New Investment Advisory Agreement is substantially similar to the Current Investment Advisory Agreement in all material respects, including the rate of compensation, the directors determined that as a result of the Transaction, the Fund's total advisory fees would be no higher than the fees under its Current Investment Advisory Agreement. The directors concluded that, because the rates for advisory fees for the Fund would be no higher than its current fee rates, the proposed management fee structure, including any fee waivers, was reasonable and that no additional changes were currently necessary.

Fall-Out Benefits -- The directors considered whether the Fund would generate any fall-out benefits to BlackRock Advisors. Fall-out benefits are indirect profits from other activities that accrue to the adviser or its affiliates solely because of the existence of the Fund. In evaluating the fall-out benefits to be received by BlackRock Advisors under the New Investment Advisory Agreement, the directors considered whether the Transaction would have an impact on the fall-out benefits received by the Investment Adviser by virtue of the Current Investment Advisory Agreement. Based on their review of the materials provided, including materials received in connection with their most recent approval or continuance of the Current Investment Advisory Agreement, and their discussions with management of the Investment Adviser and BlackRock, the directors determined that those benefits could include increased ability for BlackRock to distribute shares of its funds and other investment products. The directors noted that any such benefits were difficult to quantify with certainty at this time, and indicated that they would continue to evaluate them going forward.

Investment Performance -- The directors considered investment performance for the Fund. The directors compared the Fund's performance -- both including and excluding the effects of fees and expenses -- to the performance of a comparable group of funds, and the performance of a relevant index or combination of indexes. The comparative information received from Lipper showed Fund performance at various levels within the range of performance of comparable funds over different time periods. The directors believed the Fund's performance was satisfactory. The Board noted BlackRock's considerable investment management experience and capabilities, but was unable to predict what effect, if any, consummation of the Transaction would have on the future performance of the Fund.

Conclusion -- After the independent directors of the Fund deliberated in executive session, the entire Board, including the independent directors, approved the New Investment Advisory Agreement, concluding that the advisory fee rate was reasonable in relation to the services provided and that the New Investment Advisory Agreement was in the best interests of the shareholders. In approving the New Investment Advisory Agreement, the Board noted that it anticipated reviewing the continuance of the agreement in advance of the expiration of the initial two-year period.

Contingent BlackRock Subadvisory Agreement -- Matters Considered by the Board

At the telephonic and in-person meetings held during April and May 2006 at which the Board of Directors discussed and approved the New Investment Advisory Agreement, the Board, including the independent directors, also discussed and approved a contingent subadvisory agreement (the "Contingent Subadvisory Agreement") between the Investment Adviser and BlackRock Advisors (the "BlackRock Subadviser"). The Contingent Subadvisory Agreement is intended to ensure that the Fund operate with efficient portfolio management services until the closing of the Transaction, in the event that the Board deems it necessary and in the best interests of the Fund and its shareholders that the BlackRock Subadviser assist in managing the operations of the Fund during the interim period until the closing of the

Disclosure of New Investment Advisory Agreement (concluded)

Transaction. If shareholders approve the Contingent Subadvisory Agreement, it will take effect only upon recommendation from the Investment Adviser and upon subsequent approval of the Board in the period up to the closing of the Transaction. The effectiveness of the Contingent Subadvisory Agreement, therefore, would be contingent on further Board approval after shareholders approve it. Pursuant to the Contingent Subadvisory Agreement, the BlackRock Subadviser would receive a monthly fee from the Investment Adviser equal to 50% of the advisory fee received by the Investment Adviser. The Investment Adviser would pay the BlackRock Subadviser out of its own resources. There would be no increase in Fund expenses as a result of the Contingent Subadvisory Agreement.

In making its approval at the May in-person meeting, the Board considered the Contingent Subadvisory Agreement in conjunction with the New Investment Advisory Agreement and reviewed the same information and factors discussed above, and came to the same conclusions. The Board also considered in conjunction with the Contingent Subadvisory Agreement the necessity of ensuring that the Fund operate with effective management services until the closing of the Transaction. In reviewing the subadvisory fee rate provided in the Contingent Subadvisory Agreement, the Board took note of the fact that both the Investment Adviser and the BlackRock Subadviser would have significant responsibilities under their respective advisory agreements. The Investment Adviser would remain responsible for oversight of the Fund's operations and administration and the BlackRock Subadviser would provide advisory services to the Fund under the Contingent Subadvisory Agreement. The Board also took into account the expected short duration of the term of any Contingent Subadvisory Agreement and the fact that total advisory fees paid by the Fund would not increase as a result of the Contingent Subadvisory Agreement. Under all of the circumstances, the Board concluded that it was a reasonable allocation of fees for the BlackRock Subadviser to receive 50% of the advisory fee paid by the Fund to the Investment Adviser.

After the independent directors deliberated in executive session, the entire Board, including the independent directors, approved the Contingent Subadvisory Agreement, concluding that the advisory fee was reasonable in relation to the services provided and that the Contingent Subadvisory Agreement was in the best interests of shareholders.

Officers and Directors

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Interested Director				
Robert C. Doll, Jr.*	P.O. Box 9011 Princeton, NJ 08543-9011 Age: 51	President and Director	2005 to present	President of the MLIM/FAM-advised funds since 20 President and Chief Investment Officer of MLIM a and FAM since 2001; Co-Head (Americas Region) thereof from 2000 to 2001 and Senior Vice Presid from 1999 to 2001; President and Director of Princeton Services, Inc. ("Princeton Services") since 2001; President of Princeton Administrator L.P. ("Princeton Administrators") since 2001; Ch Investment Officer of OppenheimerFunds, Inc. in 1999 and Executive Vice President thereof from 1 to 1999.

* Mr. Doll is a director, trustee or member of an advisory board of certain other MLIM or FAM acts as investment adviser. Mr. Doll is an "interested person," as Act, of the Fund based on his positions with MLIM, FAM, Princeton Services and serve until their resignation, removal or death, or until December 31 of the ye President, Mr. Doll serves at the pleasure of the Board of Directors.

Officers and Directors (continued)

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Independent Directors*				
James H. Bodurtha**	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 62	Director	2002 to present	Director, The China Business Group, Inc. since 1 and Executive Vice President thereof from 1996 t 2003; Chairman of the Board, Berkshire Holding Corporation since 1980; Partner, Squire, Sanders Dempsey from 1980 to 1993.
Kenneth A. Froot	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 48	Director	2005 to present	Professor, Harvard University since 1992; Professor, Massachusetts Institute of Technology from 1986 to 1992.

Joe Grills**	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 71	Director	1994 to present	Member of the Committee of Investment of Employe Benefit Assets of the Association of Financial Professionals ("CIEBA") since 1986; Member of CIEBA's Executive Committee since 1988 and its Chairman from 1991 to 1992; Assistant Treasurer International Business Machines Corporation ("IB and Chief Investment Officer of IBM Retirement Funds from 1986 to 1993; Member of the Investmen Advisory Committee of the State of New York Comm Retirement Fund since 1989; Member of the Investment Advisory Committee of the Howard Hugh Medical Institute from 1997 to 2000; Director, D University Management Company from 1992 to 2004, Vice Chairman thereof from 1998 to 2004, and Director Emeritus thereof since 2004; Director, LaSalle Street Fund from 1995 to 2001; Director, Kimco Realty Corporation since 1997; Member of t Investment Advisory Committee of the Virginia Retirement System since 1998, Vice Chairman ther from 2002 to 2005, and Chairman thereof since 20 Director, Montpelier Foundation since 1998 and i Vice Chairman since 2000; Member of the Investme Committee of the Woodberry Forest School since 2000; Member of the Investment Committee of the National Trust for Historic Preservation since 2000.

Officers and Directors (continued)

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Independent Directors* (concluded)				
Herbert I. London	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 67	Director	2002 to present	Chairman of the Board of Directors of Vigilant Research, Inc. since 2006; Director of Reflex Security since 2006; Director of Cerego, LLC sin 2006; Director of InnoCentive, Inc. since 2006; Professor Emeritus, New York University since 20 John M. Olin Professor of Humanities, New York University from 1993 to 2005; and Professor ther from 1980 to 2005; President, Hudson Institute since 1997 and Trustee thereof since 1980; Dean, Gallatin Division of New York University from 19 to 1993; Distinguished Fellow, Herman Kahn Chair Hudson Institute from 1984 to 1985; Director, Da Corp. from 1991 to 1995; Overseer, Center for Na Analyses from 1983 to 1993.
Roberta	P.O. Box 9095	Director	2002 to	Shareholder, Modrall, Sperling, Roehl, Harris &

Cooper Ramo	Princeton, NJ 08543-9095 Age: 63		present	Sisk, P.A. since 1993; President, American Bar Association from 1995 to 1996 and Member of the Board of Governors thereof from 1994 to 1997; Shareholder, Poole, Kelly & Ramo, Attorneys at L P.C. from 1977 to 1993; Director of ECMC Group (service provider to students, schools and lende since 2001; Director, United New Mexico Bank (no Wells Fargo) from 1983 to 1988; Director, First National Bank of New Mexico (now Wells Fargo) fr 1975 to 1976; Vice President, American Law Institute since 2004.
Robert S. Salomon, Jr.	P.O. Box 9095 Princeton, NJ 08543-9095 Age: 69	Director	1996 to present	Principal of STI Management (investment adviser) from 1994 to 2005; Chairman and CEO of Salomon Brothers Asset Management Inc. from 1992 to 1995 Chairman of Salomon Brothers Equity Mutual Funds from 1992 to 1995; regular columnist with Forbes Magazine from 1992 to 2002; Director of Stock Research and U.S. Equity Strategist at Salomon Brothers Inc. from 1975 to 1991; Trustee, Commonfund from 1980 to 2001.

* Directors serve until their resignation, removal or death, or until December 31

** Co-Chairman of the Board of Directors and the Audit Committee.

Officers and Directors (concluded)

Name	Address & Age	Position(s) Held with Fund	Length of Time Served	Principal Occupation(s) During Past 5 Years
Fund Officers*				
Donald C. Burke	P.O. Box 9011 Princeton, NJ	Vice President	1993 to present	Managing Director of MLIM and FAM since 2006 and First Vice President of MLIM and FAM from 1997 t