

# Exchange-Traded Funds

***Capital Link Forum***

***Closed-End Fund and Global ETF Conference***

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## ***Index Strategies***

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# Index-Linked ETF Strategies

**“Managed Indexation” involves using active strategies with ETFs including:**

- **Complete asset allocation**
- **Core/Satellite approach**
- **Market cap segment focus**
- **Growth or Value style focus**
- **Sector emphasis/rotation**
- **Pair trades**
- **Exposure to benchmark during manager transition / selection**
- **Tax swaps or creation of more tax efficient portfolios**
- **Risk management/hedging**
- **Portfolio completion (filling missing sectors or styles)**
- **Cash equitization (putting cash flow into equities)**
- **Options strategies (72 ETFs have options)**

*Source: Morgan Stanley Research.*

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## Global Stock Ratings Distribution

(as of April 30, 2004)

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight</b>	614	34%	258	40%	42%
<b>Equal-weight</b>	805	45%	287	44%	36%
<b>Underweight</b>	364	20%	102	16%	28%
<b>Total</b>	1,783		647		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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**Overweight (O).** The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

**Equal-weight (E).** The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

**Underweight (U).** The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

**More volatile (V).** We estimate that this stock has more than a 25% chance of a price move (up or down) of more than 25% in a month, based on a quantitative assessment of historical data, or in the analyst's view, it is likely to become materially more volatile over the next 1-12 months compared with the past three years. Stocks with less than one year of trading history are automatically rated as more volatile (unless otherwise noted). We note that securities that we do not currently consider "more volatile" can still perform in that manner.

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**Attractive (A).** The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark named on the cover of this report.

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## Other Important Disclosures

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