



KEEFE, BRUYETTE & WOODS

Specialists in Financial Services

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Robert Lee
212 887 7732
rlee@kbw.com

U.S. Asset Managers

North America Equity Research

Larry Hedden, CFA
212 887 3884
lhedden@kbw.com

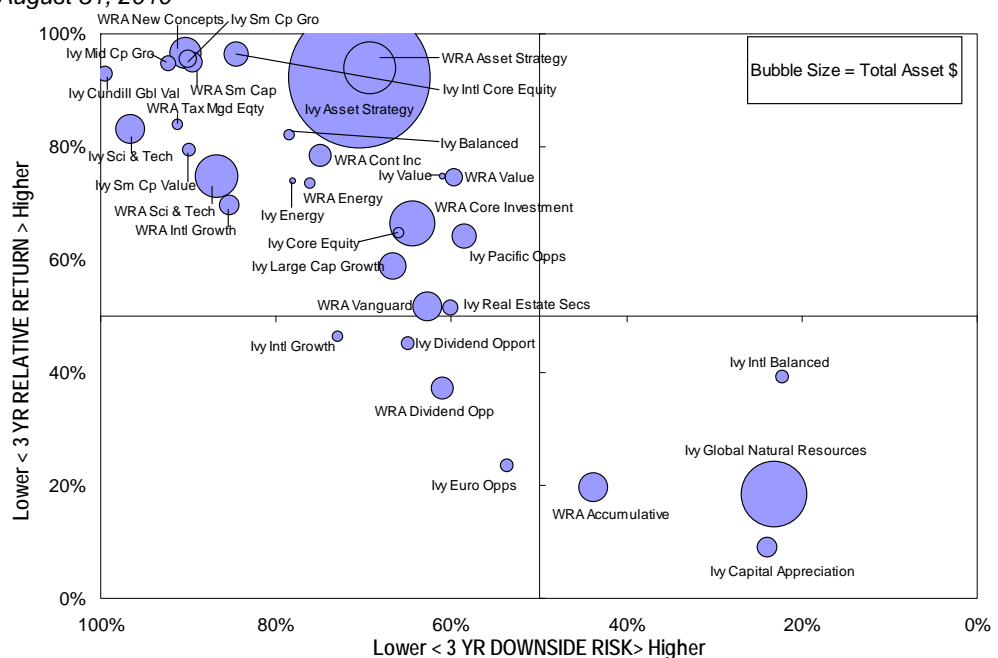
Equity Performance Bubbles

A Look at Risk-Adjusted Returns

Jacob Troutman
212 887 3688
jtroutman@kbw.com

Waddell & Reed

Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

- In this edition of our quarterly report on equity fund performance, we examine how three-year risk-adjusted equity fund returns as of August 31, 2010, compare with returns calculated as of one year ago. The hope is that by spotting changes in performance trends we can gain some insight into future equity fund flow trends.
- Eaton Vance, T. Rowe Price and Waddell & Reed, among others, continue to demonstrate strong risk-adjusted, three-year equity returns, while Calamos shows the most improvement. However, the relative positioning of many funds managed by AllianceBernstein remains weak.

Please refer to important disclosures and analyst certification information on pages 33-37 of this report.



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Methodology—Looking at Risk-Adjusted Returns

Using Strategic Insight’s Simfund database, we generated scattergraph diagrams (see Exhibits 1a-24b) for a wide variety of asset managers. Each diagram plots the three-year risk-return profile of individual equity funds managed by a particular asset manager relative to other funds in the same Morningstar category. The X-axis represents downside risk, while the Y-axis represents relative total returns. Here’s how the methodology works:

- For each measuring period, a fund is assigned a percentile score relative to its peers for both cumulative total returns and downside risk. Downside risk is measured by the sum of all negative monthly returns during the measuring period (in this case 36 months).
- The program will only capture funds with at least a three-year history in the database.
- For funds with multiple share classes, the “primary” class—as defined by Strategic Insight—is used.
- Each point on the diagram represents an equity fund, and the size of the “bubble” is determined by that fund’s net assets relative to other equity funds from the *same asset manager*. It does not compare asset size from one manager with another.

Certainly, there are other methodologies that an investor can use to measure risk, both on an absolute and relative basis, and other benchmarks against which return and risk could be compared and measured. For example, the widely followed Morningstar Star ratings use a different methodology when calculating risk-adjusted returns.

In addition, this analysis does not provide a sense of how risk may have changed, for better or worse, over the course of the three-year period being measured. For example, did a fund start out by being very volatile and then rein in the volatility (perhaps due to a new portfolio manager) over the past year? These types of factors and trends are difficult to capture in a relatively mechanistic calculation. Nevertheless, we believe this methodology can still provide some useful insight into how a manager’s equity funds stack up against peers.



A Fund's Placement within the Diagram Seems Correlated to Net Flows

Many factors such as distribution prowess, short- (and long-) term returns, and reputation can help determine flows. However, if investors are focusing on longer-term risk-adjusted returns, then theoretically, fund companies should want to have as many funds as possible grouped in the upper-left quadrant, which represents lower risk but higher (relative) return. By the same token, companies should want to minimize the number of funds in the lower-right quadrant, which represents higher risk and lower returns.

There does seem to be some correlation to a fund's risk-adjusted return and the flows it can generate, although attractive risk-adjusted returns do not guarantee that a fund will generate positive flows. Generally speaking, however, in testing the usefulness of this analysis, we observed that the funds in our sample universe that fell into the upper-left quadrant (lower risk, higher return) have tended to generate net inflows. Furthermore, our observations also suggest that funds that fell in both the upper-right quadrant (high risk, high return) and lower-left quadrant (lower risk, lower returns) also remained capable of generating significant inflows. On the other hand, funds that fell in the bottom-right quadrant tended, more often than not, to suffer from net outflows.

Tracking How Risk-Adjusted Returns Evolve

In this report we track how three-year risk-adjusted returns evolve over time with the expectation that we can glean some insight into future equity fund flow trends.

With that in mind, we observed that over the course of a year, there was noticeable change in the relative positioning of many of the equity funds measured in our analysis. In some cases there seem to be wholesale shifts in the relative positioning of many asset managers' funds, and in other cases, only one or two funds shifted noticeably.



Company Analysis

The following pages present both the relevant performance diagrams and exhibits and a brief summary or interpretation for each company we follow. At the end of the report, we include performance exhibits for Cohen & Steers, MFS, and Virtus—three additional asset managers that we thought investors would find of interest.

Affiliated Managers Group

As shown in Exhibits 1a and 1b, some of the mutual funds managed by Affiliated Managers' affiliates have shown some deterioration in risk-adjusted returns, led predominately by the Brandywine funds, while Tweedy Browne funds remain strong. Performance of the Third Avenue Value Fund remains somewhat weak, and we expect that the weakness in the Third Avenue Value Fund's three-year risk adjusted returns and weakening returns on the Brandywine funds could keep some pressure on equity mutual fund flows at AMG. That said, many of the recently acquired Aston funds screen well on three-year risk adjusted returns, which could provide some offset.

AllianceBernstein Holdings

As shown in Exhibits 2a and 2b, three-year risk-adjusted performance of several Alliance equity funds, particularly several international-oriented funds, remains relatively weak. However, given some recent relative improvement the past year, risk-adjusted returns for several funds, particularly large-cap growth appear to be modestly improving. While this is a small sampling of AB's overall asset base, it could indicate continued risk that net flows to retail equity funds could remain pressured for a period of time.

Artio Global Investors

As shown in Exhibits 3a and 3b, three-year risk-adjusted performance of both of Artio's large international equity funds, particularly International Equity I, appear to be moderating. In the absence of an improvement in risk-adjusted returns, we would not expect these funds to generate much in the way of inflows.

BlackRock Inc.

As shown in Exhibits 4a and 4b, inclusive of I-shares, BlackRock's equity funds tend to gravitate towards the middle of the chart, which we would expect given that most I-shares are index products. When it came to actively managed funds, BLK has few equity funds in the unfavorable, lower-right quadrant and a healthy proportion of larger funds in more favorable quadrants. In particular, the large, dominant Global Allocation Fund continues to screen very well. We note that this is a small sampling of BLK's overall equity asset base and includes only U.S. domiciled actively managed mutual funds.



Calamos Asset Management

As shown in Exhibits 5a and 5b, the three-year risk-adjusted return on the Growth & Income, Global Growth & Income, and several other Calamos funds have improved noticeably year over year, although the Growth fund, while improved, still has challenged risk adjusted returns. To the extent most Calamos funds can continue to perform well and the Growth Fund's performance continues to improve, this could eventually result in improved retail fund flows, although so far Calamos has been challenged to transform better performance into sustained better flows despite a product line suited to a more risk adverse investment environment.

Eaton Vance Corp.

Many of Eaton Vance's equity funds continue to exhibit solid risk-adjusted returns although there has clearly been some deterioration in the relative positioning of the larger Tax-Managed Growth and Large Cap Value funds (Exhibit 7a). Of note, the Tax-Managed Growth Fund, while still important, is not nearly as dominant as it once was within Eaton Vance's fund complex, as the Large Cap Value product is the largest fund. Given the relatively large size of the fund, a key to equity fund flows could be the extent to which the Large Cap Value Fund's relative risk-adjusted returns can stabilize.

Federated Investors, Inc.

As shown in Exhibits 8a and 8b, Federated has a number equity funds with favorable risk-adjusted returns, although risk-adjusted returns on the large Kaufmann fund, while still favorable, have weakened some. The Prudent Bear Fund continues to screen very well.

Franklin Resources

Exhibit 9a shows the risk-adjusted performance of many of Franklin's equity funds remains generally favorable, with many Mutual Series funds continuing to screen well, although overall we would characterized risk-adjusted returns as being a mixed bag. The Franklin Income Fund continues to account for a comparatively large proportion of retail equity and balanced AUM and remains in the unfavorable lower-right quadrant despite showing some modest improvement.

Goldman Sachs

It appears that GSAM's risk-adjusted equity mutual fund performance is generally a mixed bag. There seems to be some modest weighting of funds toward the more favorable upper-left quadrant (Exhibit 10a).

Invesco Ltd.

Invesco's diagram includes the recently acquired Van Kampen and Morgan Stanley retail funds. Overall, the relative performance of Invesco's equity funds is generally favorable although two large, recently acquired funds seem to be edging towards the less favorable quadrant (Exhibit 11a).



Janus Capital Group

As shown in Exhibits 12a and 12b, overall performance remains solid and the Perkins Value funds continue to screen very well. Of note, several larger Janus equity funds currently reside in the upper-right quadrant, which denotes higher returns with higher risk, and the risk-adjusted returns of funds in this quadrant appear to have improved somewhat. The positioning of these funds bears watching, and outflows could be a greater risk if funds find their way into the lower-right quadrant.

Legg Mason, Inc.

Despite solid risk adjusted returns in many products, many Legg Mason Capital Management funds continue to experience weak risk-adjusted performance (Exhibits 13a and 13b) on a three-year basis. Conversely, there is a variety of Clearbridge and Royce funds continue to screen well. Overall we would characterize returns as a mixed bag but with a favorable bias.

Morgan Stanley

As shown in Exhibits 14a and 14b, the risk-adjusted performance of Morgan Stanley's institutional equity mutual funds appears to be generally positive.

Pzena Investment Management

As shown in Exhibit 16a, three-year risk-adjusted performance on the large mutual fund that Pzena sub-advises for John Hancock has been weak, which could remain a headwind to better flows in this product.

SEI Investments Company

The relative positioning of many of SEI's funds have modestly improved over the past year (Exhibits 18a and 18b). While the company focus on asset allocation strategies could mitigate the potential impact of weakening relative returns, the funds' positioning bears watching and could inhibit future flows, in our view.

T. Rowe Price Group

In our view, T. Rowe's risk-adjusted returns remain generally strong and grouped toward the middle of the diagram (Exhibits 20a and 20b). The strong historical performance of a wide range of T. Rowe's equity funds is one of the reasons the company has been enjoying, and we expect will continue to enjoy, comparatively solid inflows over time.

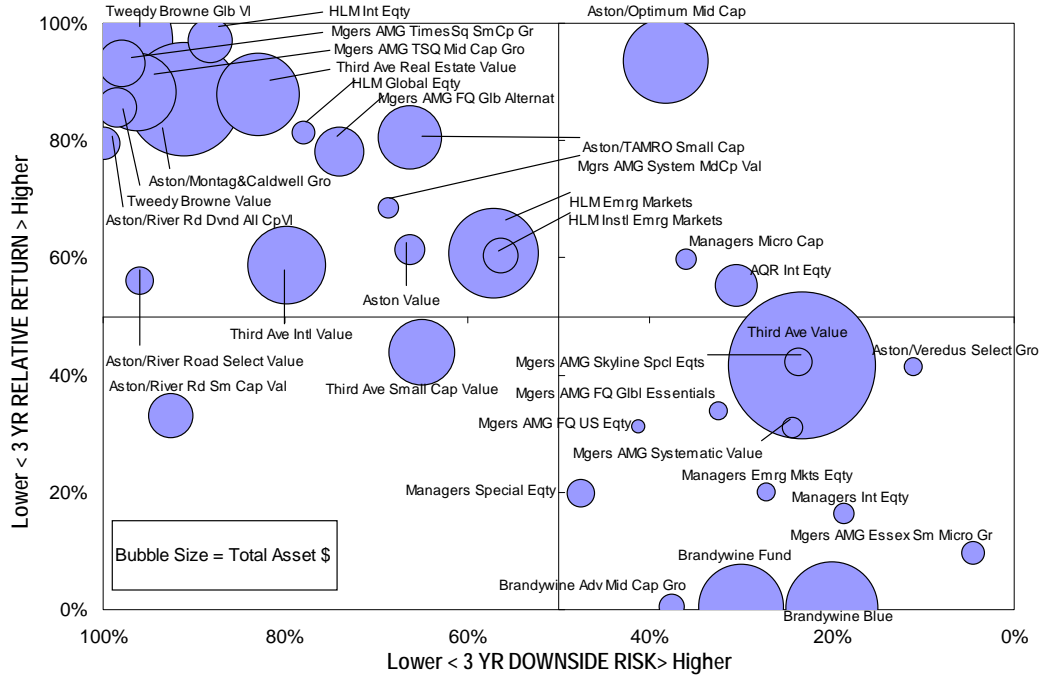
Waddell & Reed Financial

Risk-adjusted returns of a variety of Waddell's funds (Exhibits 21a and 21b) remain strong, particularly the dominant Asset Strategy product. We believe the positive positioning of several of its other funds should over time help the company's ability to expand flows into new products, although the relative positioning of the larger Global Natural Resources product has deteriorated significantly and could remain a drag on flows going forward.



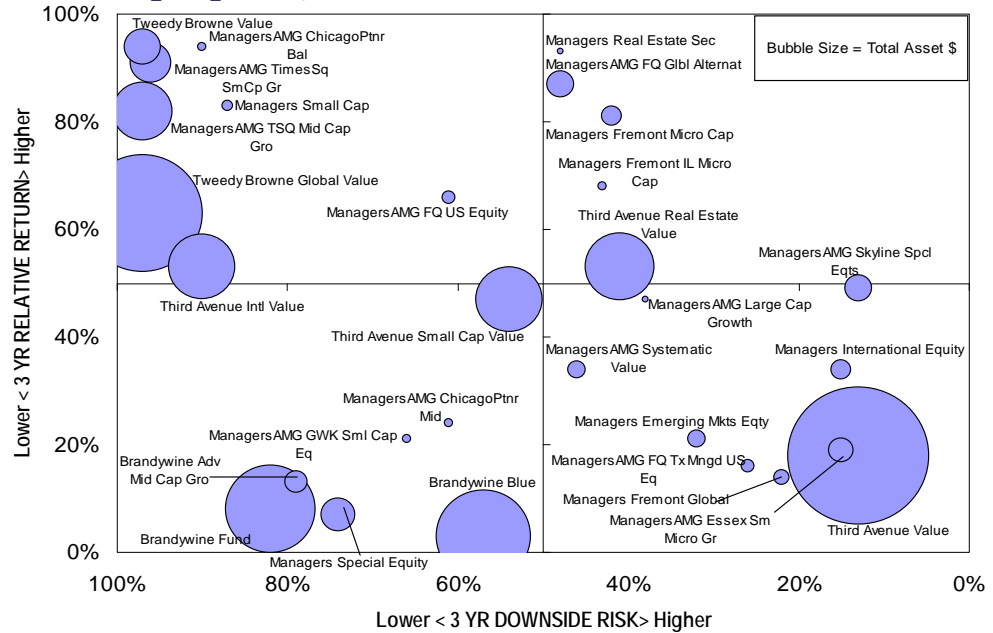
Affiliated Managers Group

Exhibit 1a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 1b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



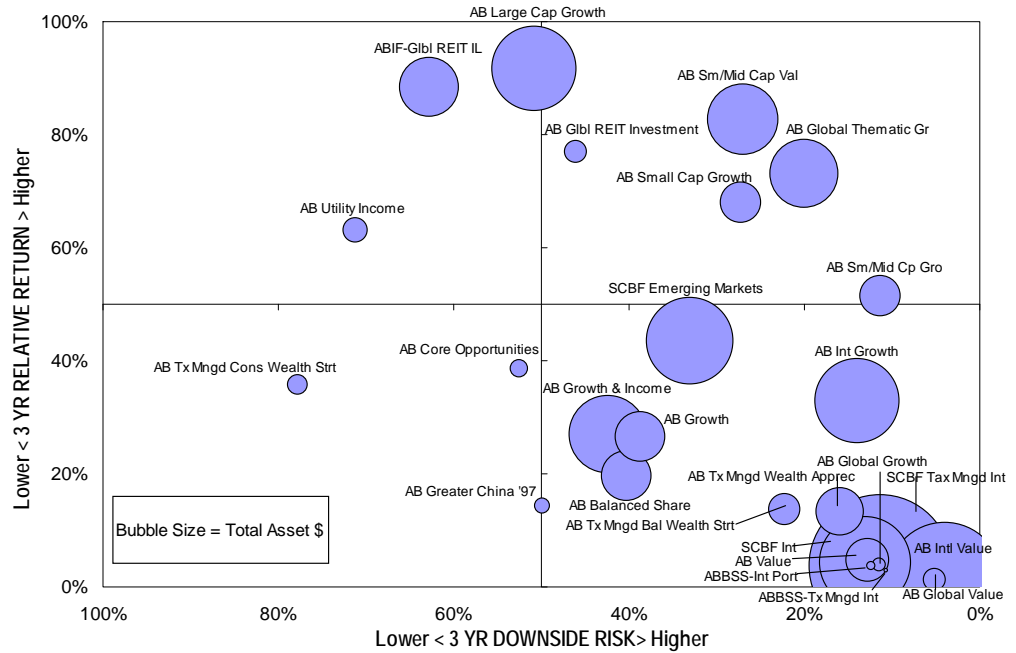
Source: Strategic Insight.

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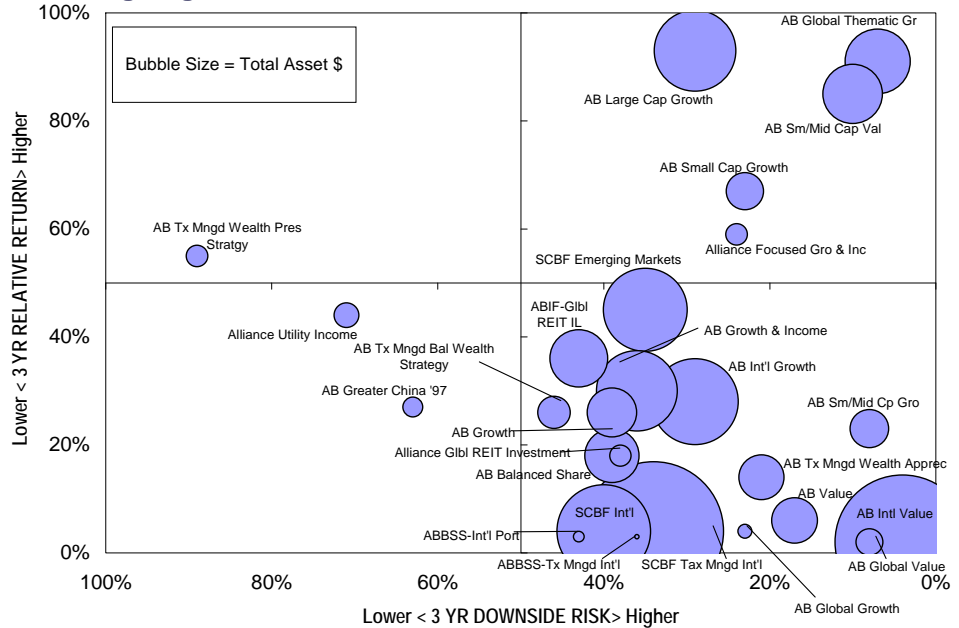
AllianceBernstein Holdings

Exhibit 2a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 2b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



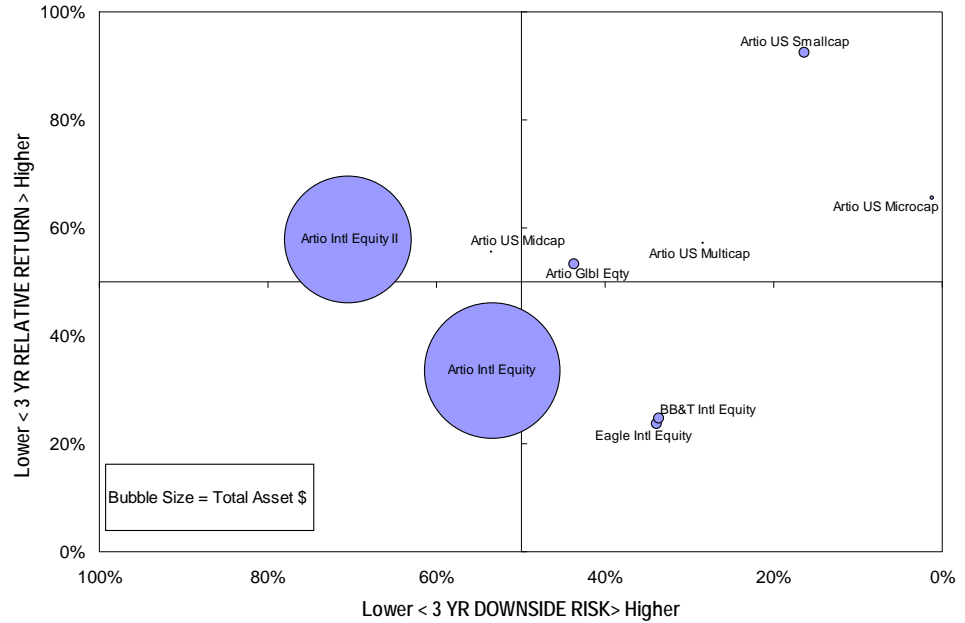
Source: Strategic Insight.

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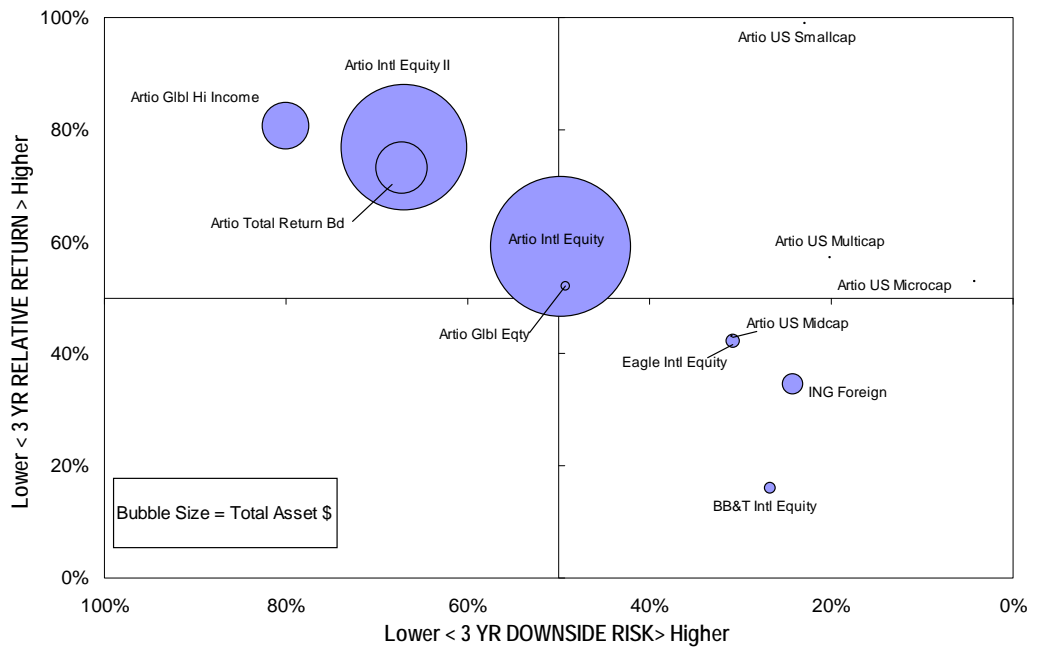
Artio Global Investors

Exhibit 3a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 3b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



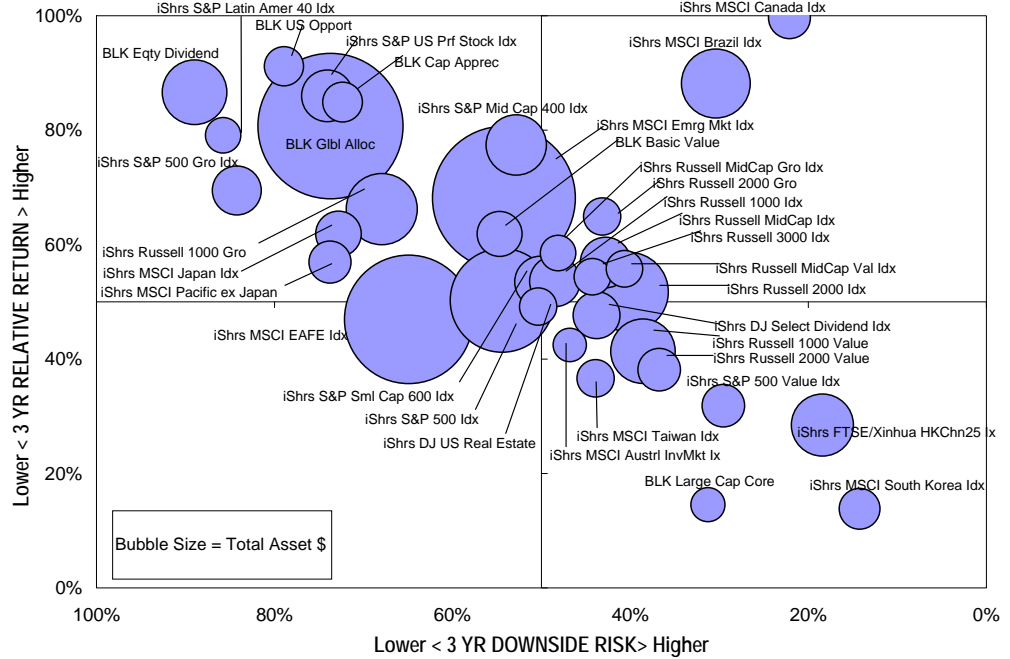
Source: Strategic Insight.

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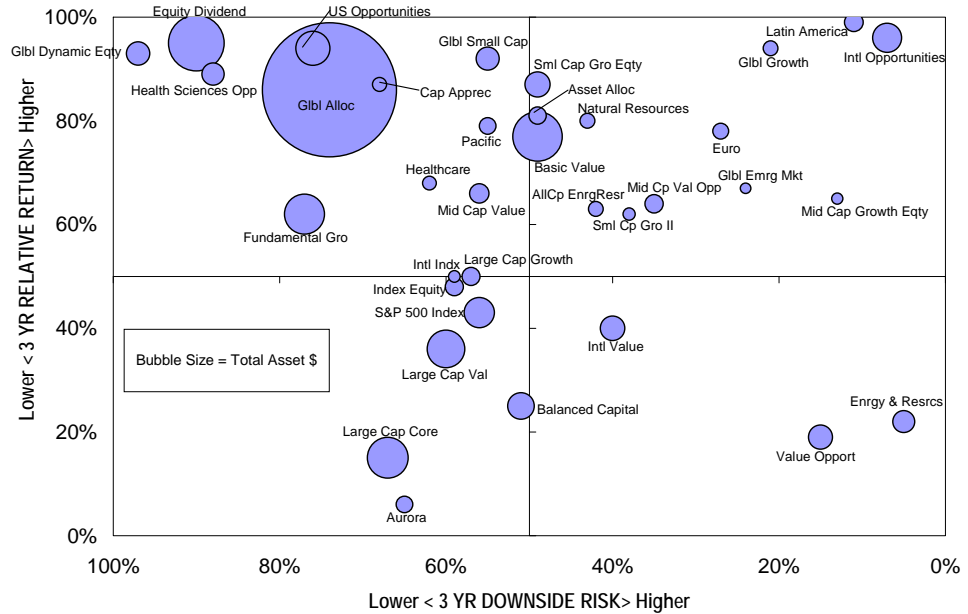
BlackRock Inc.

Exhibit 4a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 4b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



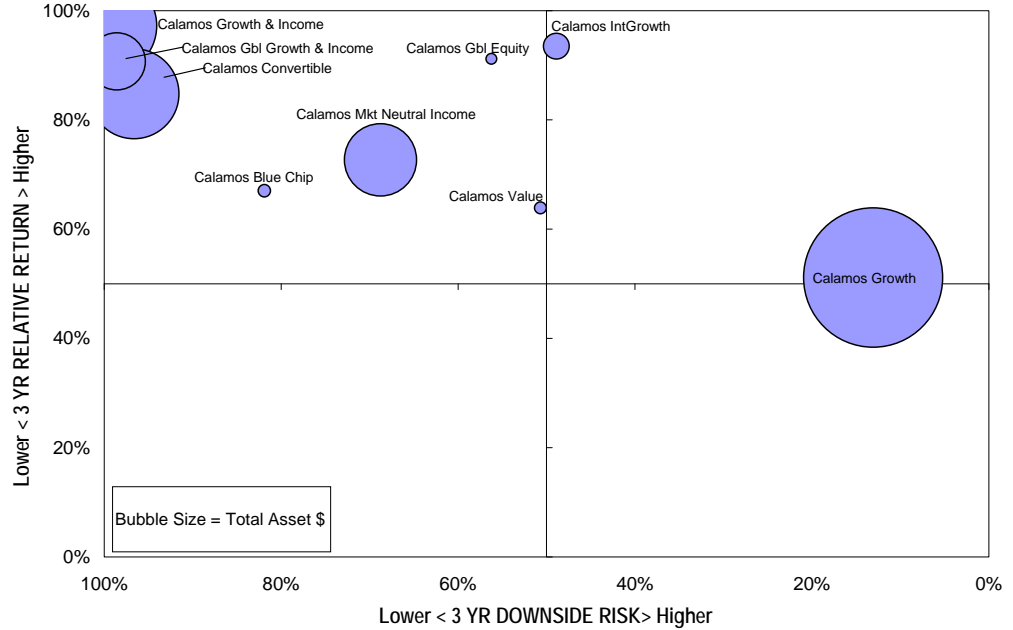
Source: Strategic Insight.

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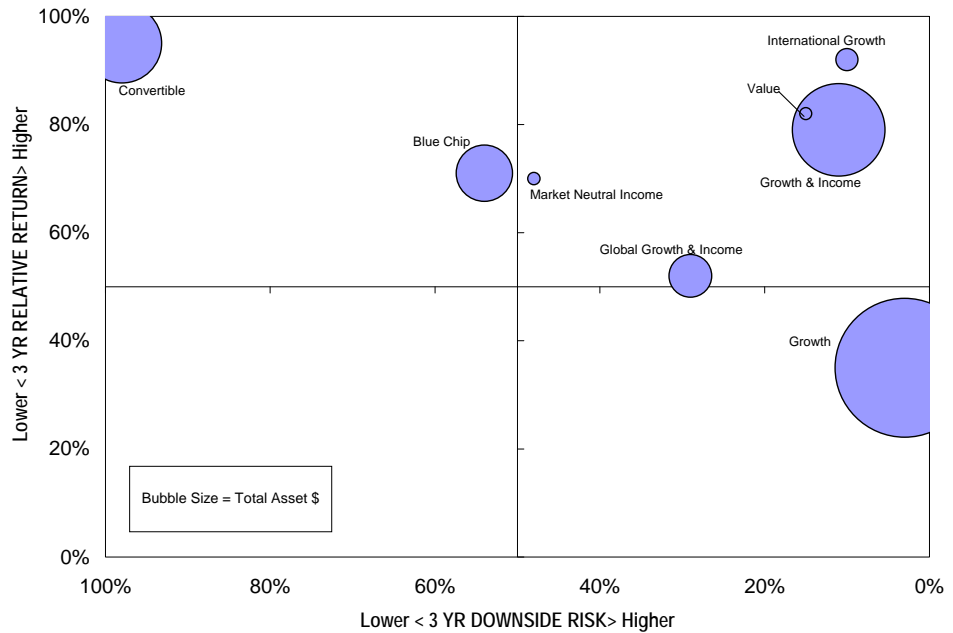
Calamos Asset Management

Exhibit 5a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 5b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



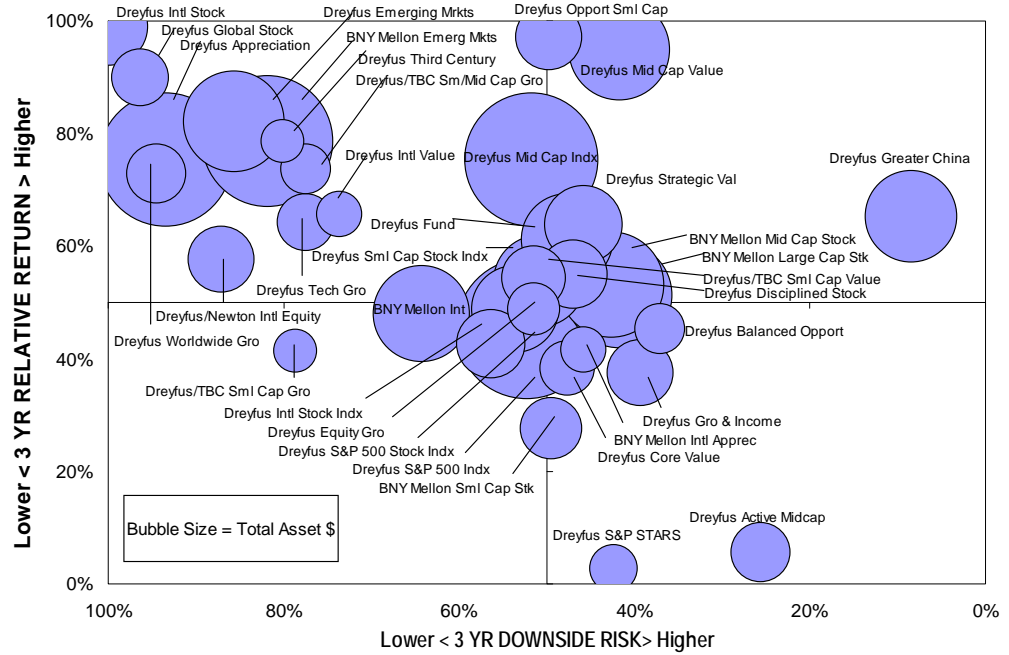
Source: Strategic Insight.

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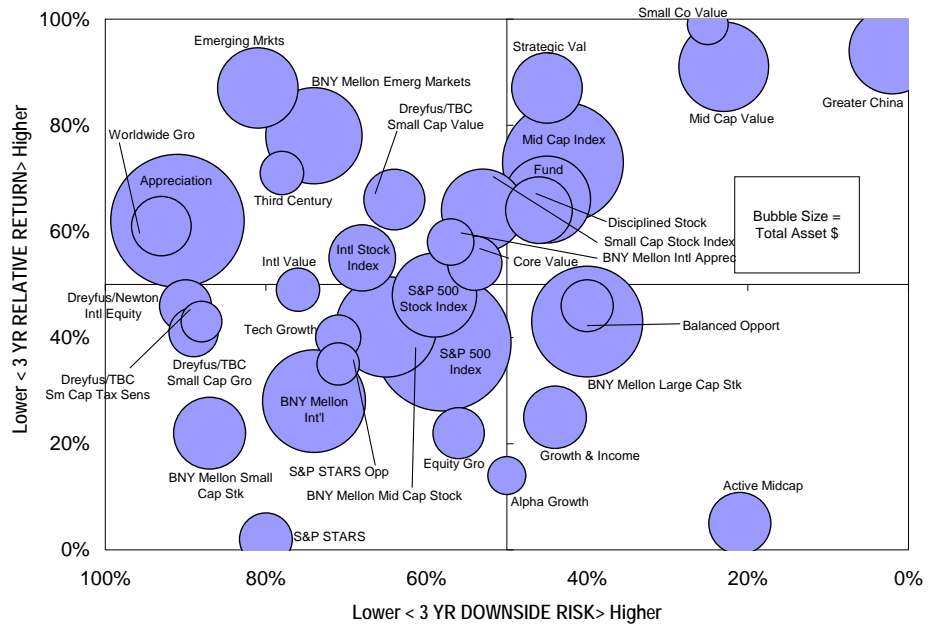
Dreyfus (A subsidiary of Bank of New York Mellon)

Exhibit 6a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 6b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



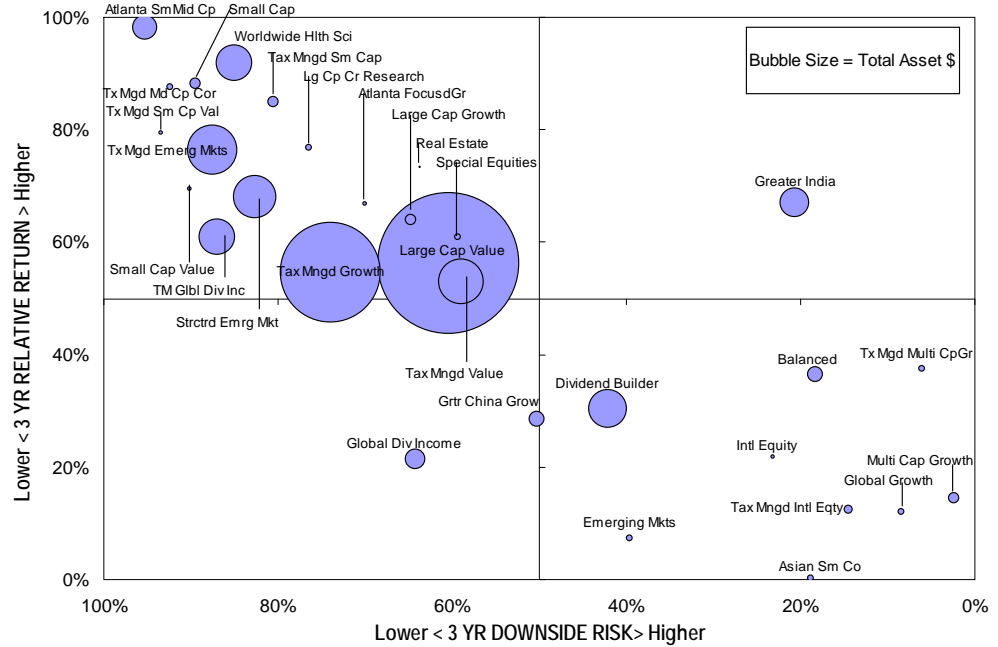
Source: Strategic Insight.

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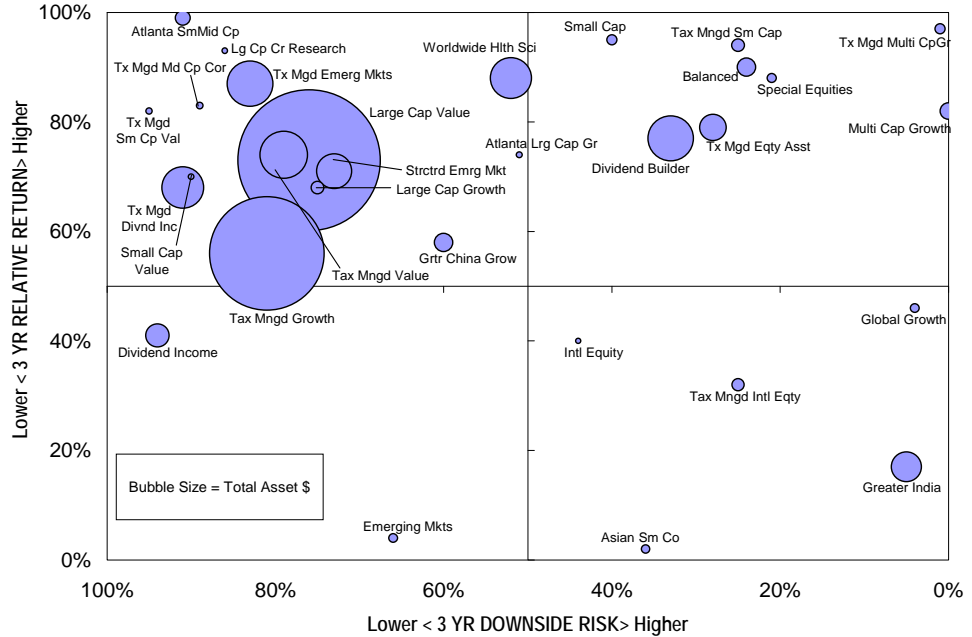
Eaton Vance Corp.

Exhibit 7a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 7b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



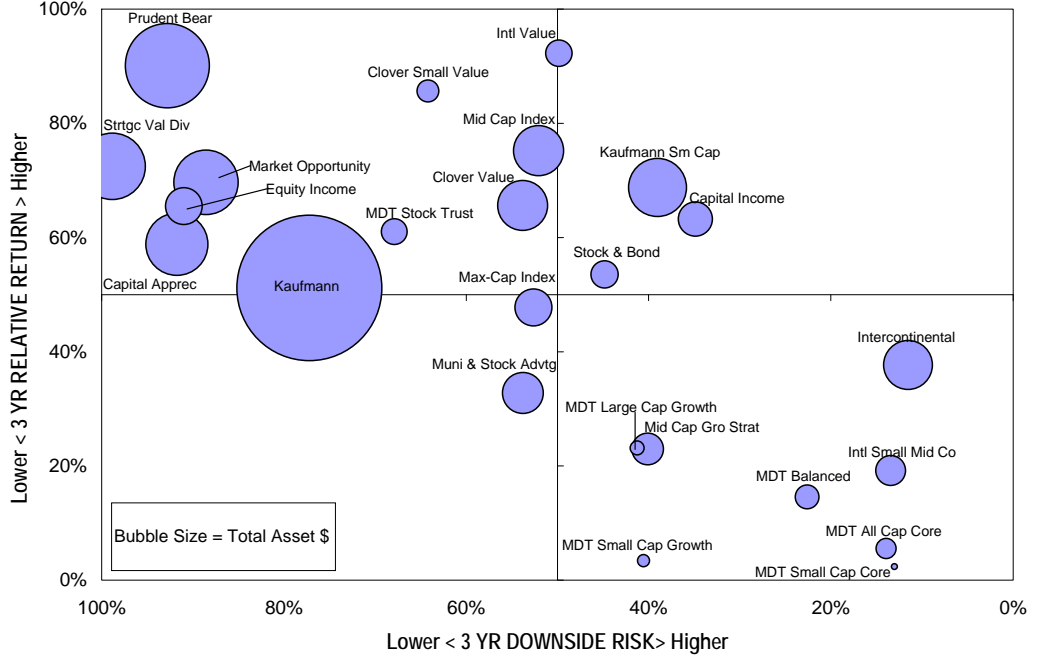
Source: Strategic Insight.

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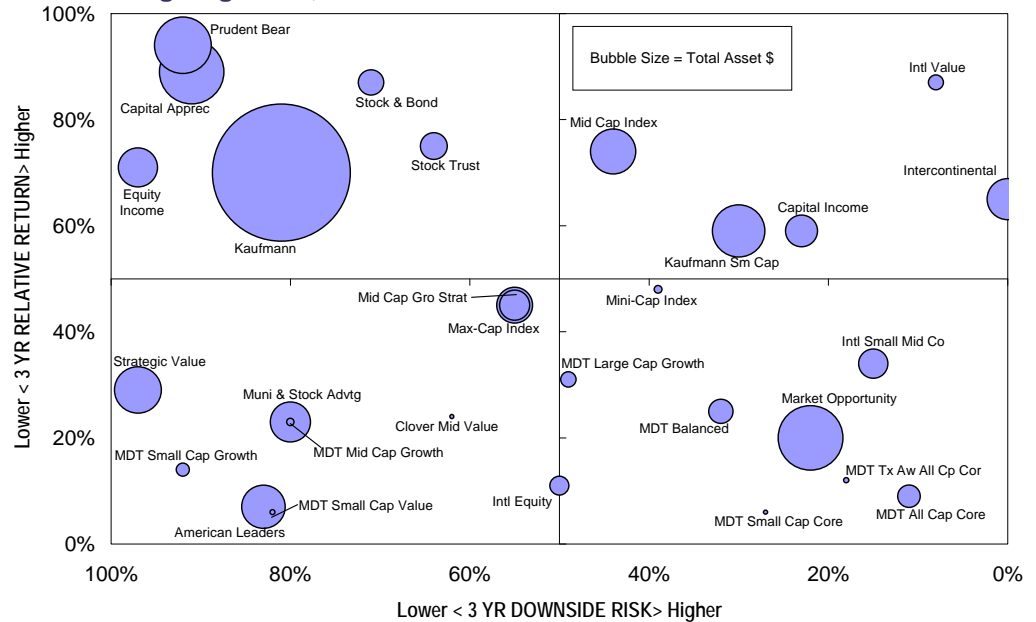
Federated Investors, Inc.

Exhibit 8a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 8b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



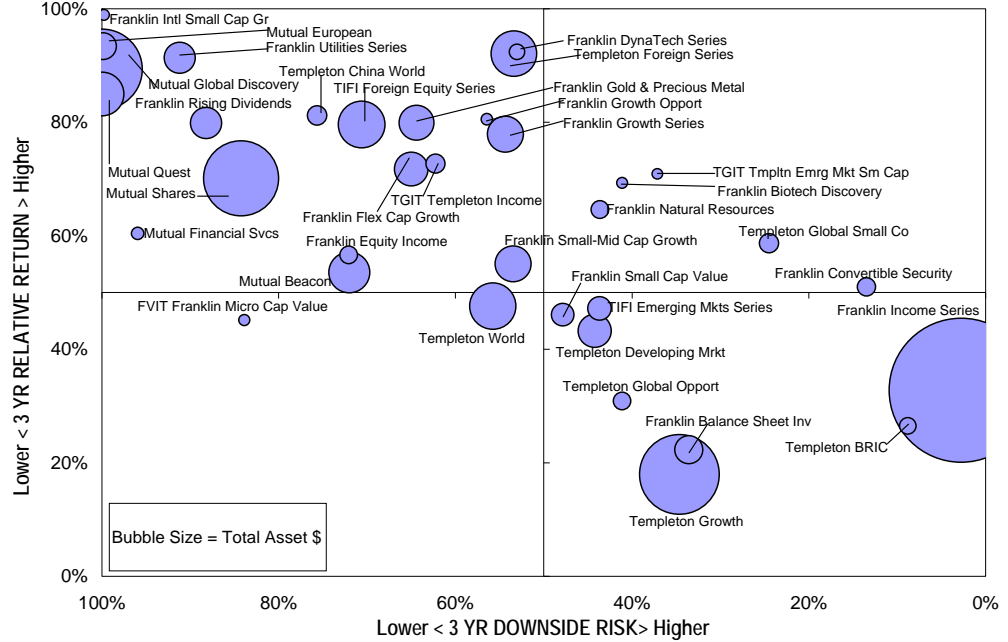
Source: Strategic Insight.

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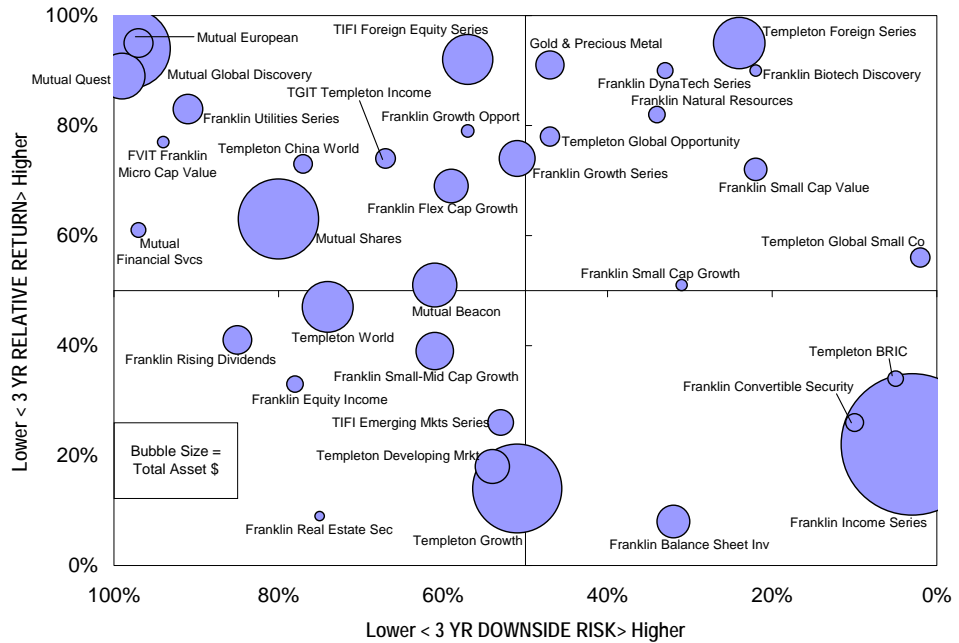
Franklin Resources

Exhibit 9a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 9b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



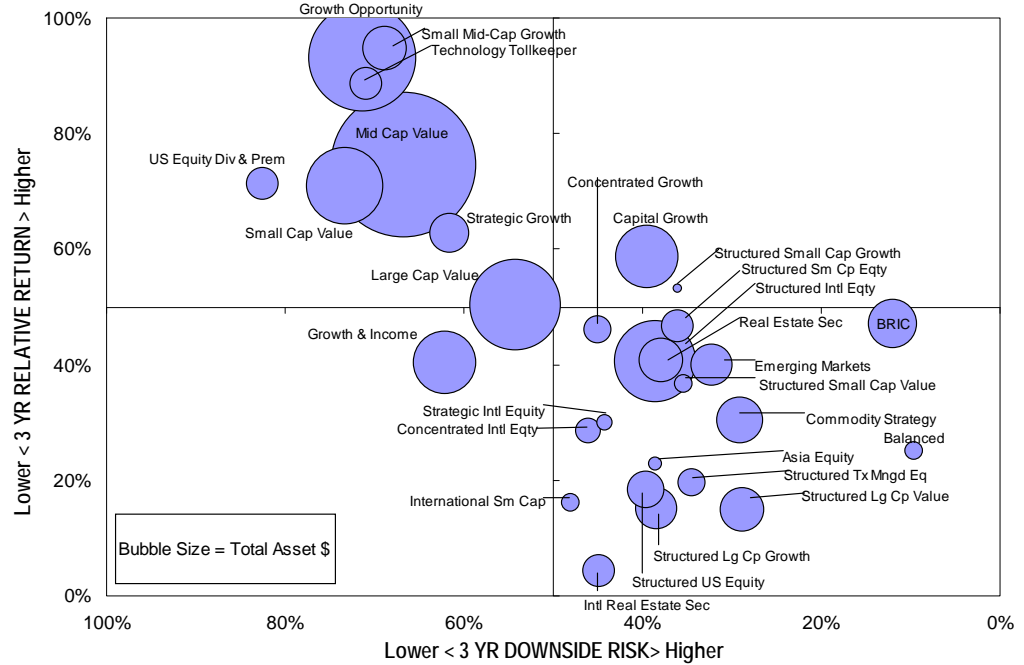
Source: Strategic Insight.

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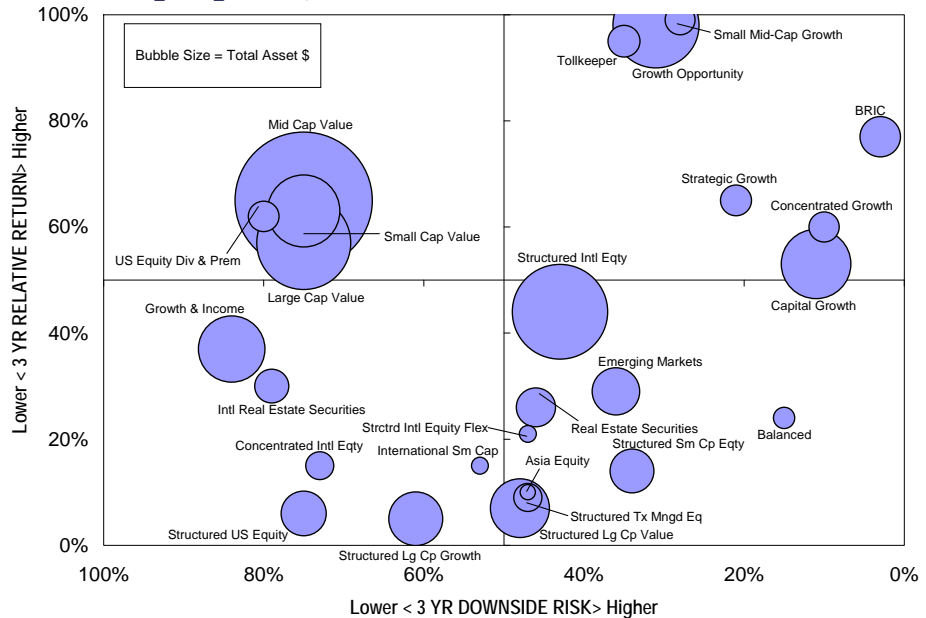
Goldman Sachs

Exhibit 10a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source Strategic Insight.

Exhibit 10b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



Note: Year-ago chart unavailable.

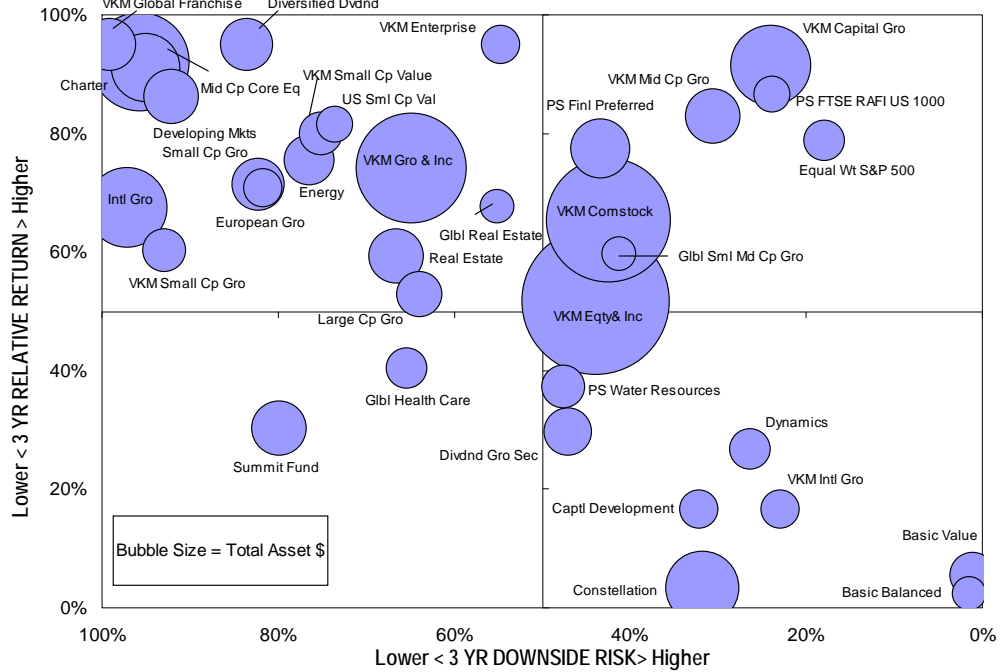
Source Strategic Insight.

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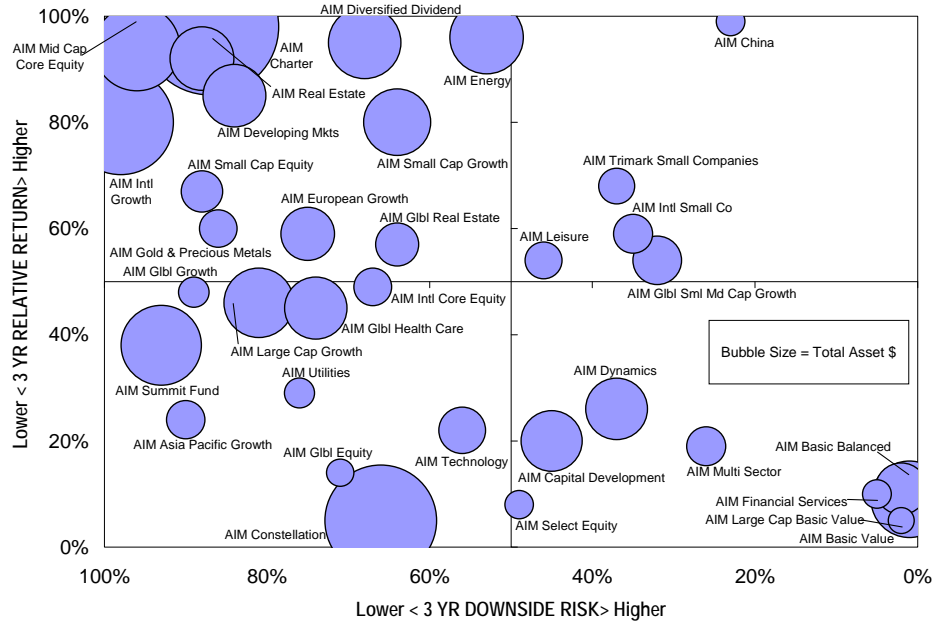
Invesco Ltd.

Exhibit 11a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 11b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



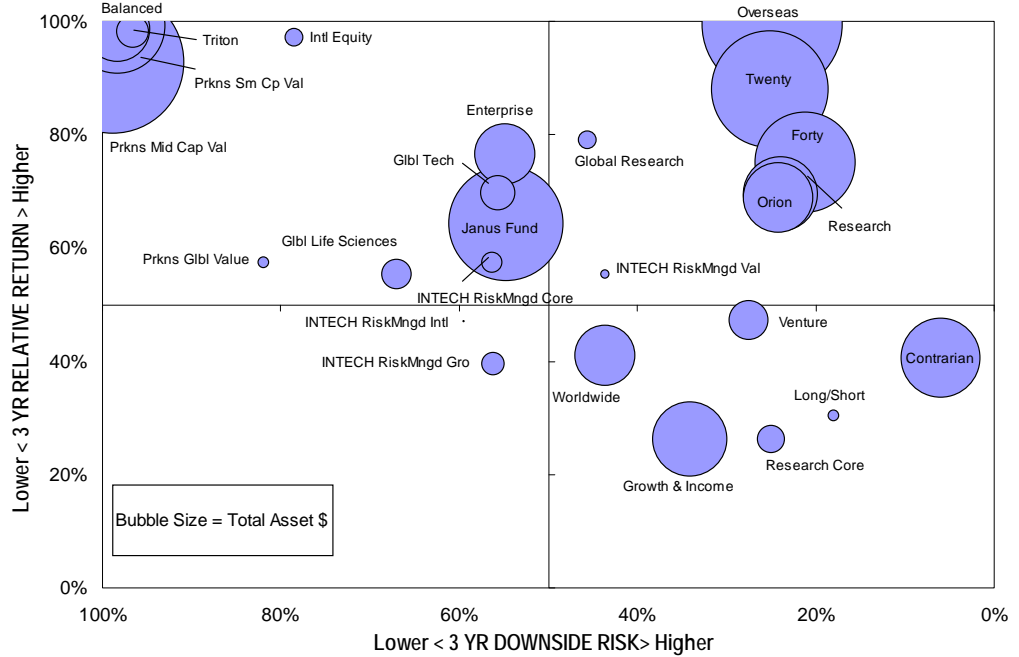
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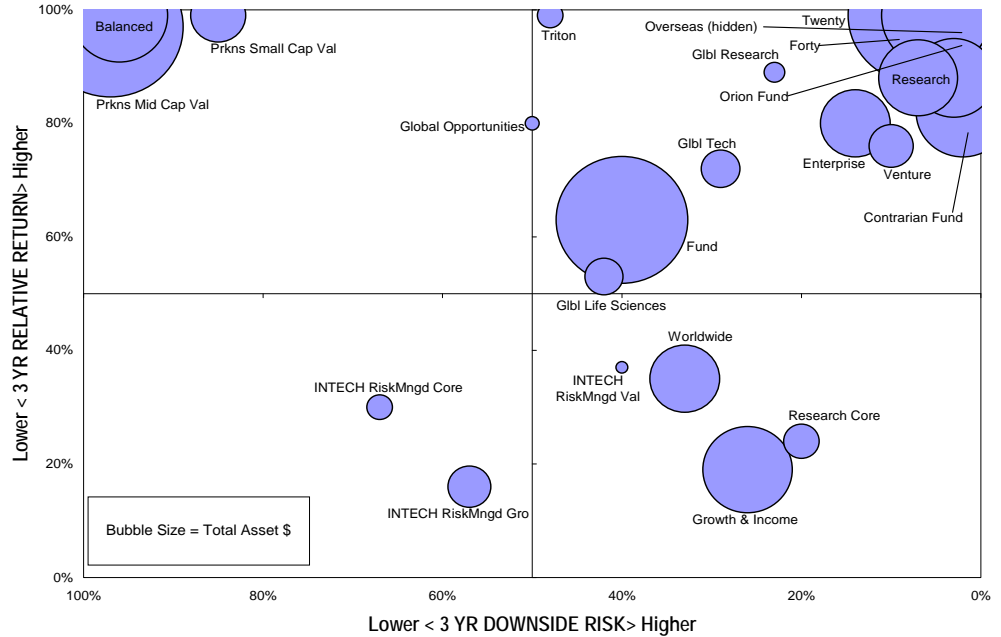
Janus Capital Group

Exhibit 12a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 12b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



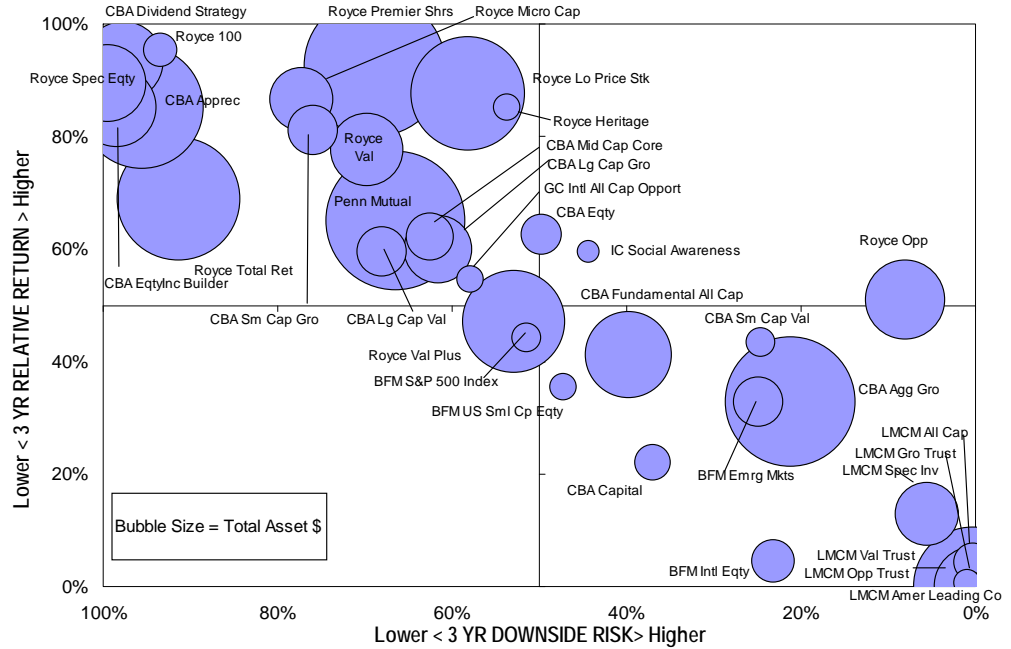
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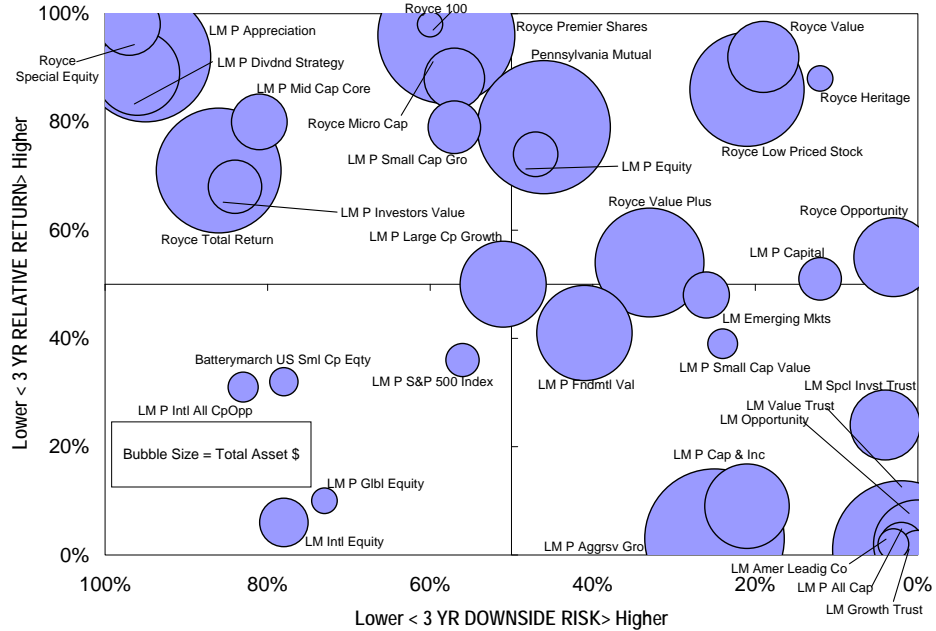
Legg Mason Inc.

Exhibit 13a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 13b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



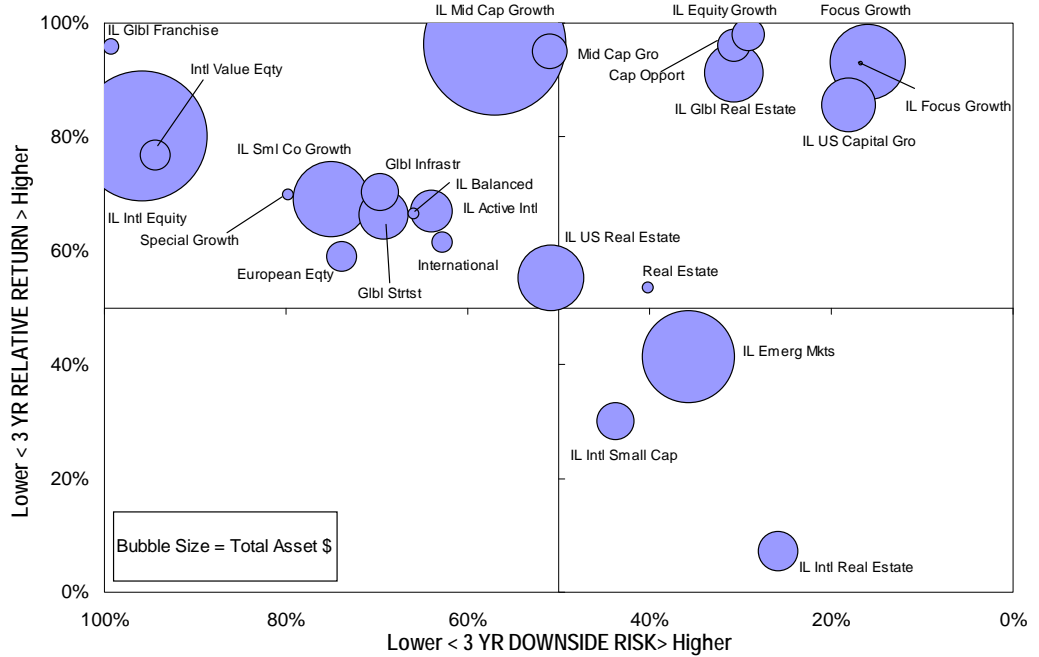
Source: Strategic Insight.

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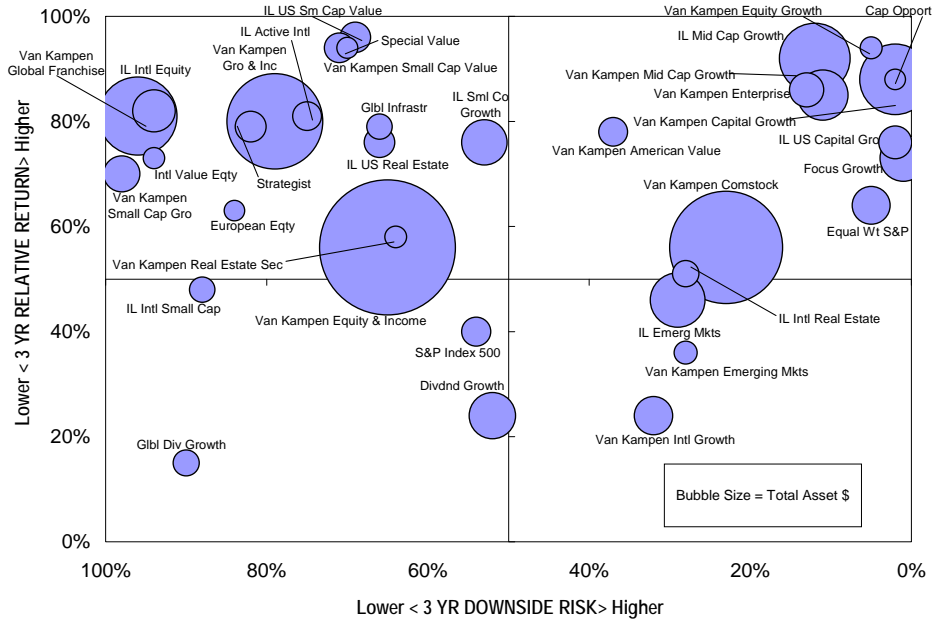
Morgan Stanley Investment Management

Exhibit 14a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 14b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



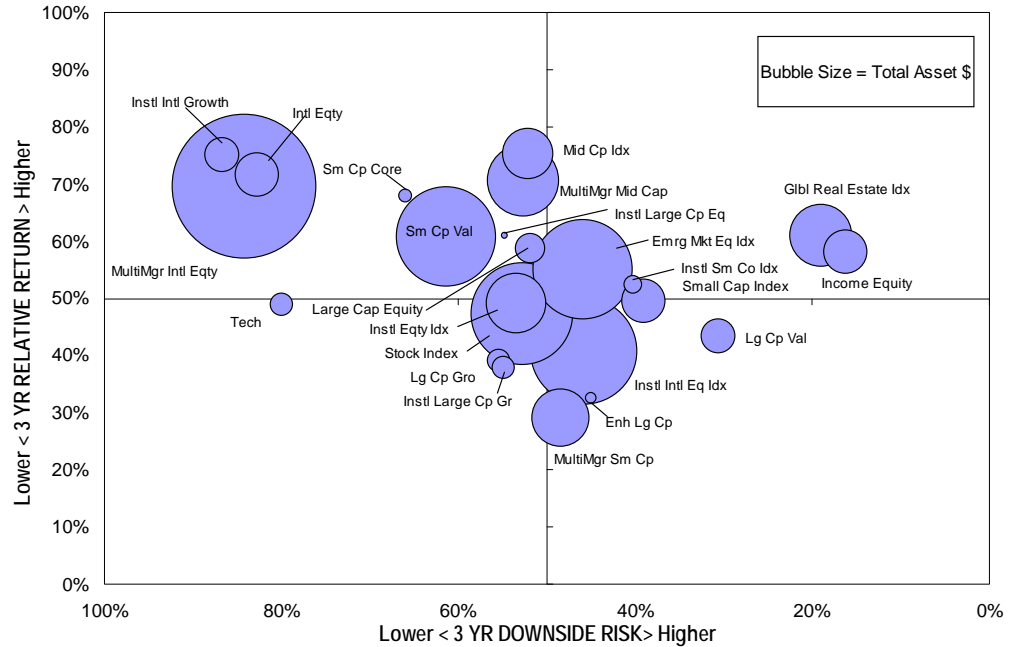
Source: Strategic Insight.

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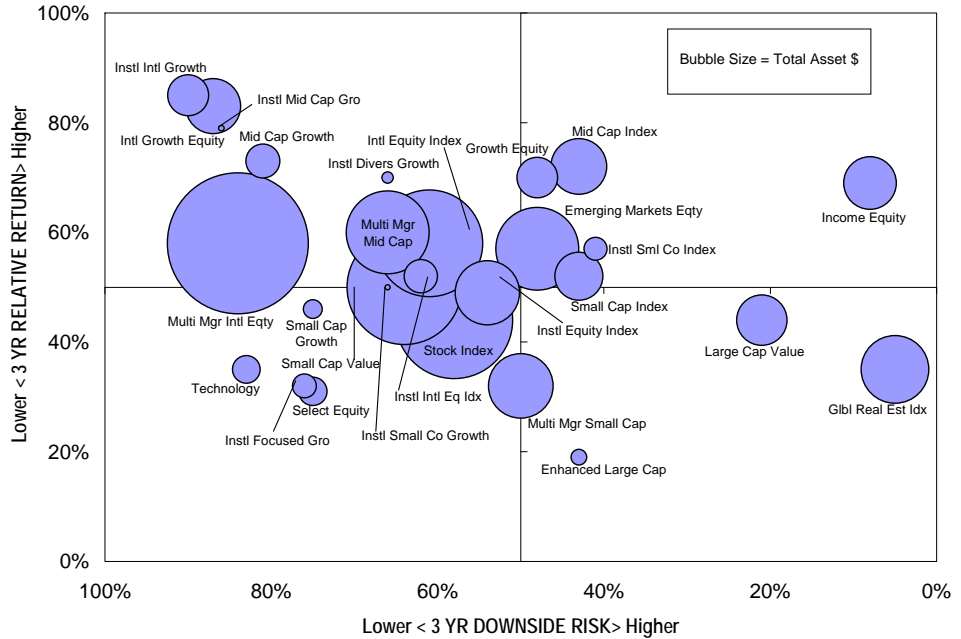
Northern Trust Corp.

Exhibit 15a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 15b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



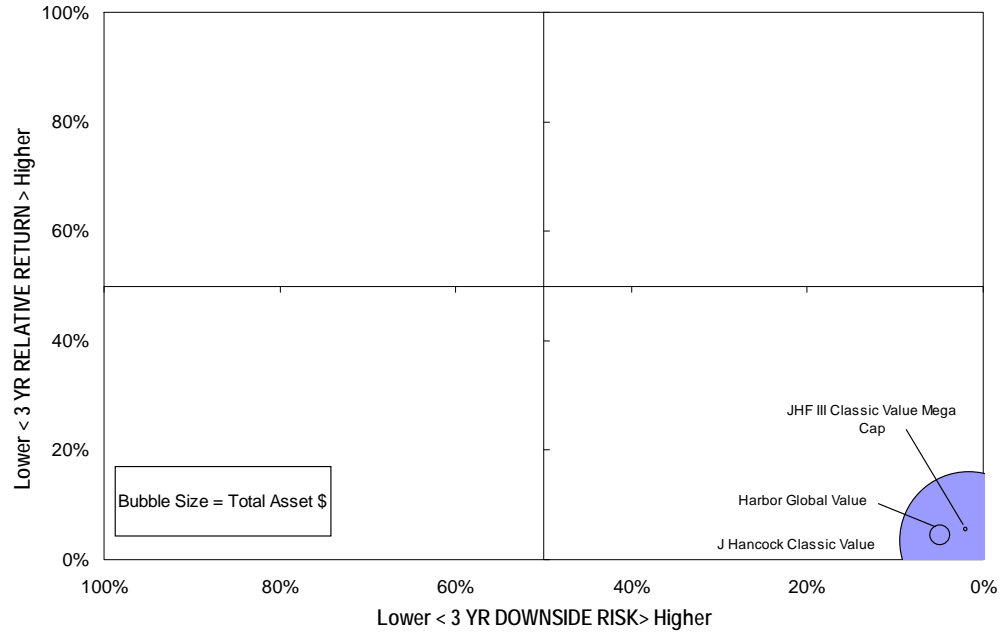
Source: Strategic Insight.

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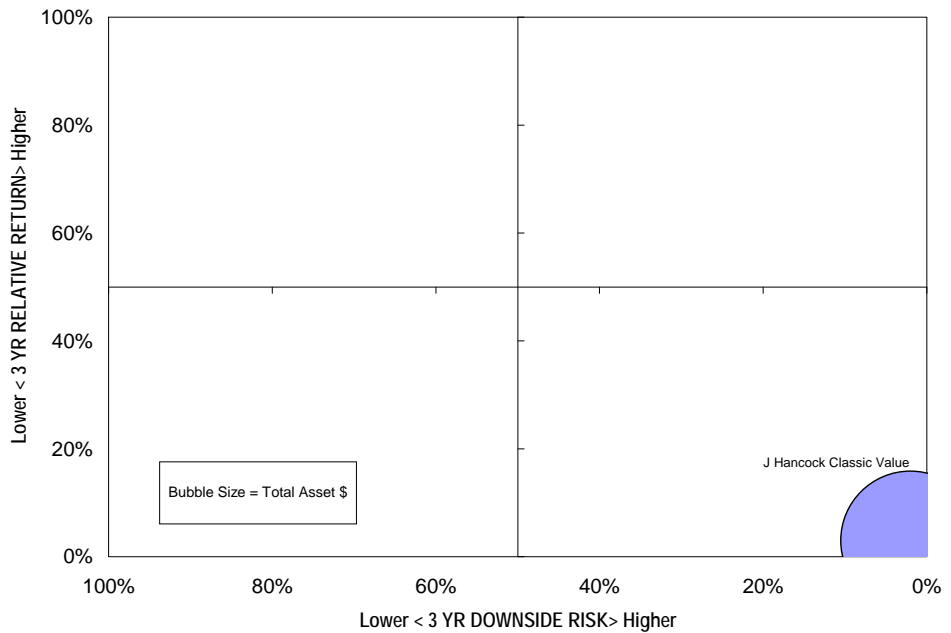
Pzena Investment Management

Exhibit 16a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 16b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



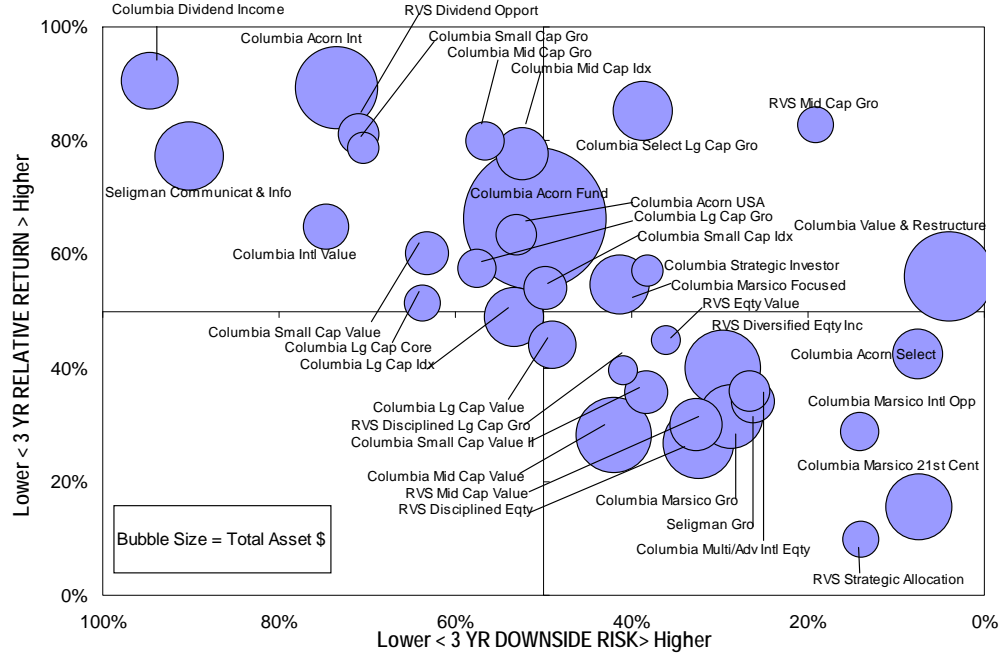
Source: Strategic Insight.

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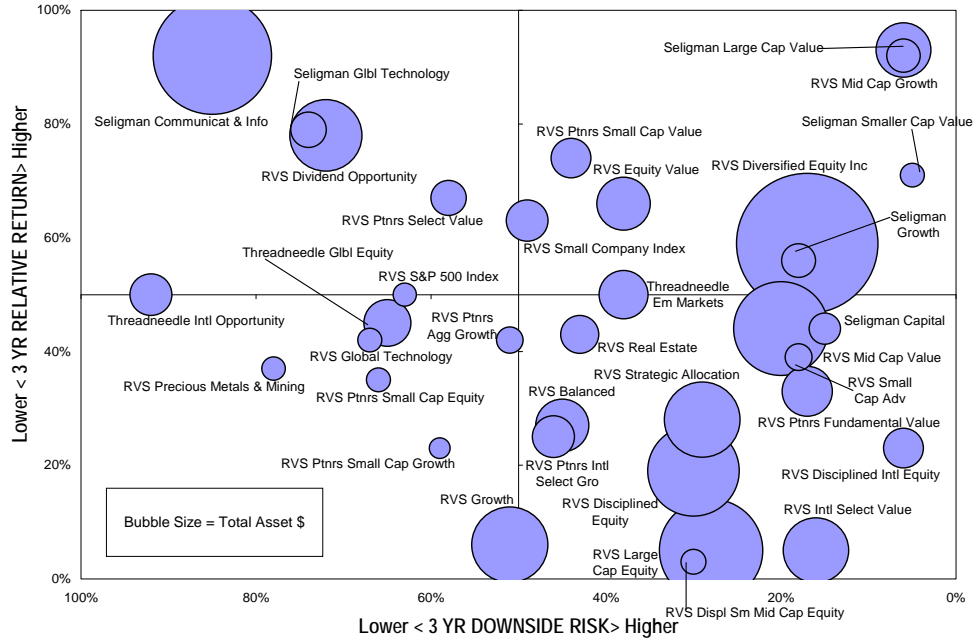
Columbia (formerly Riversource Funds, a subsidiary of Ameriprise Financial)

Exhibit 17a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 17b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



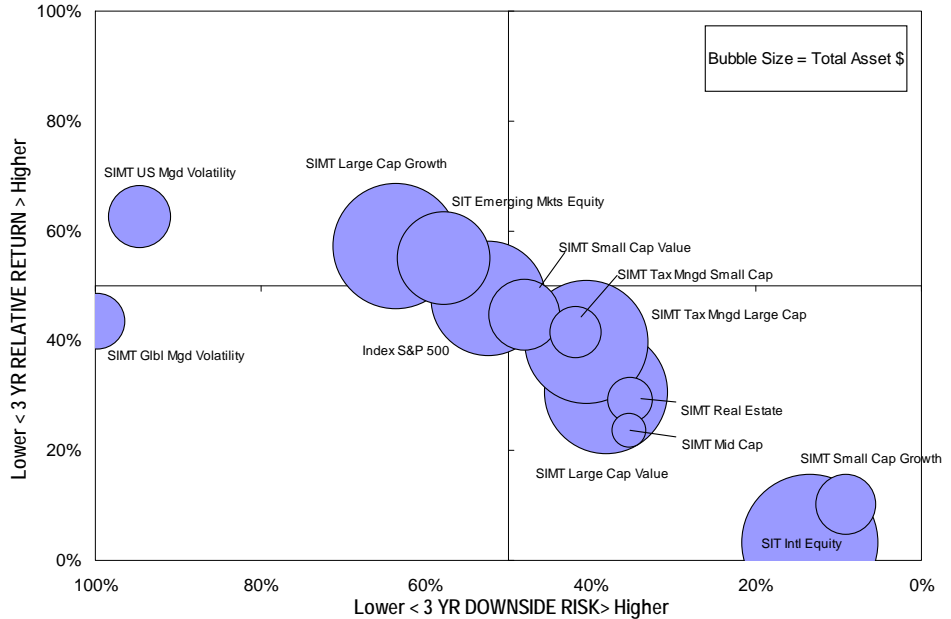
Source: Strategic Insight.

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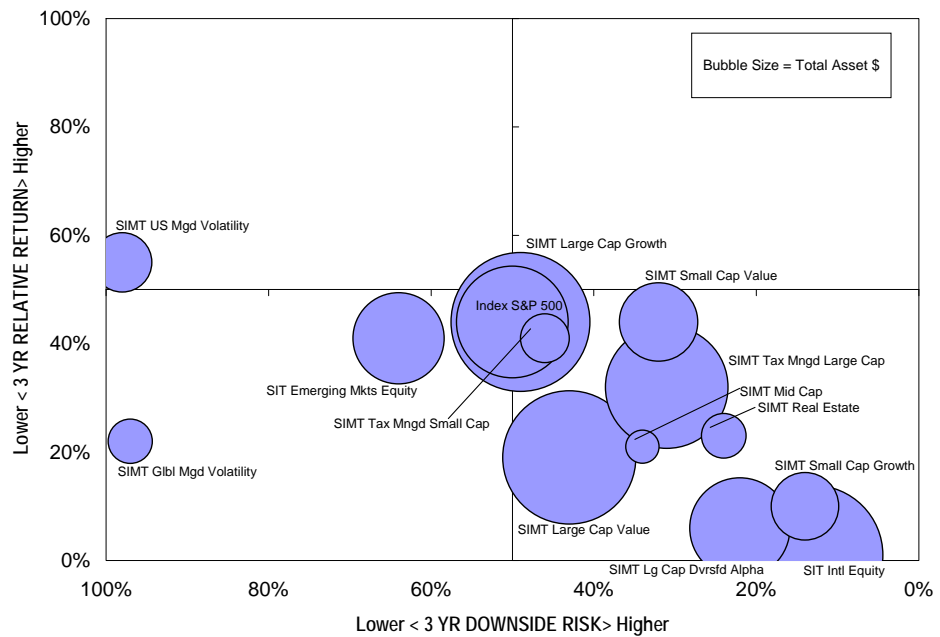
SEI Investments Company

Exhibit 18a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 18b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



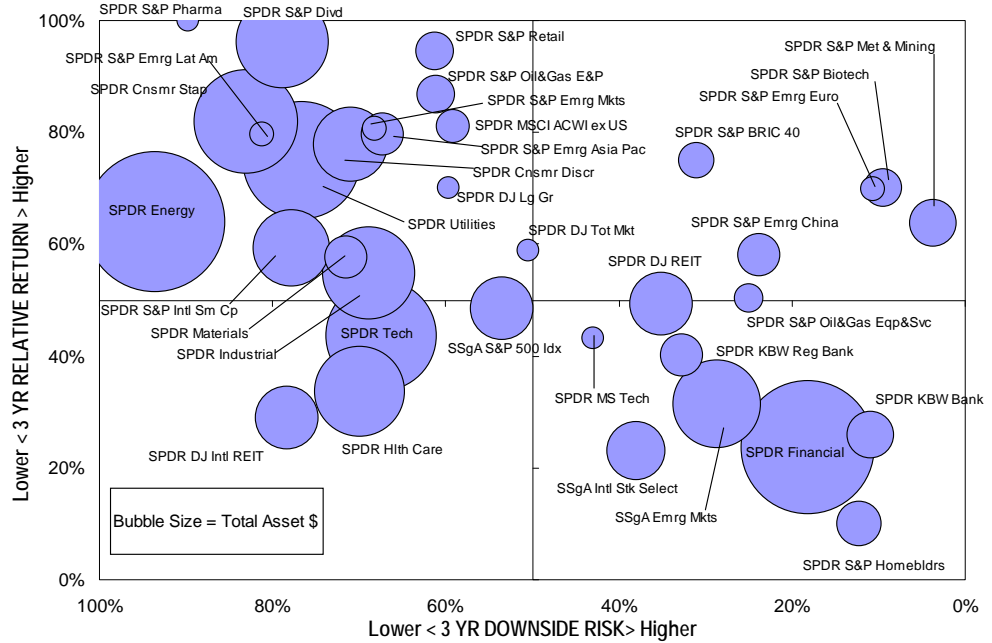
Source: Strategic Insight.

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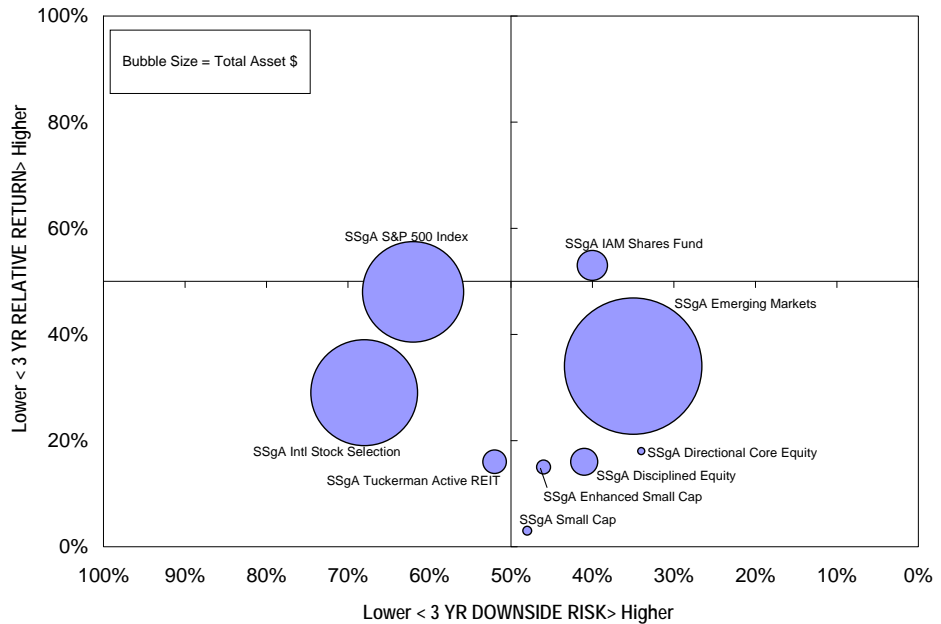
State Street Corporation

Exhibit 19a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 19b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



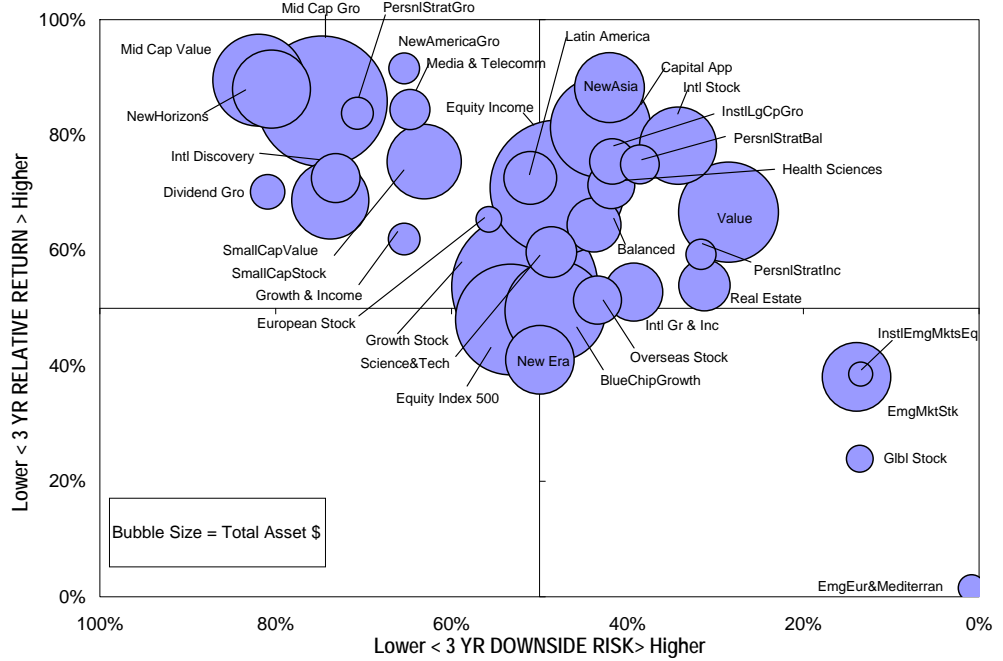
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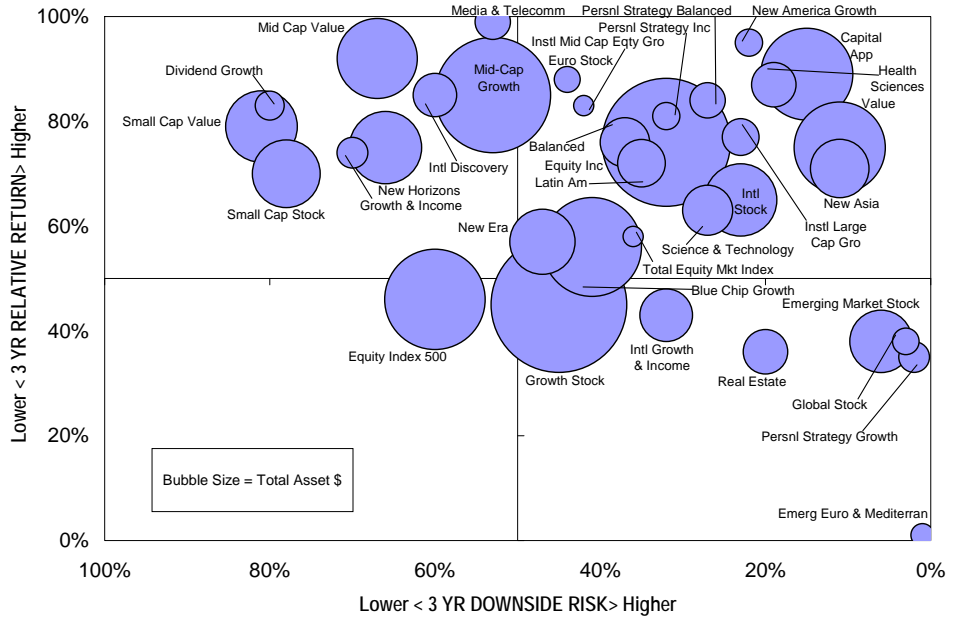
T. Rowe Price Group

Exhibit 20a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 20b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



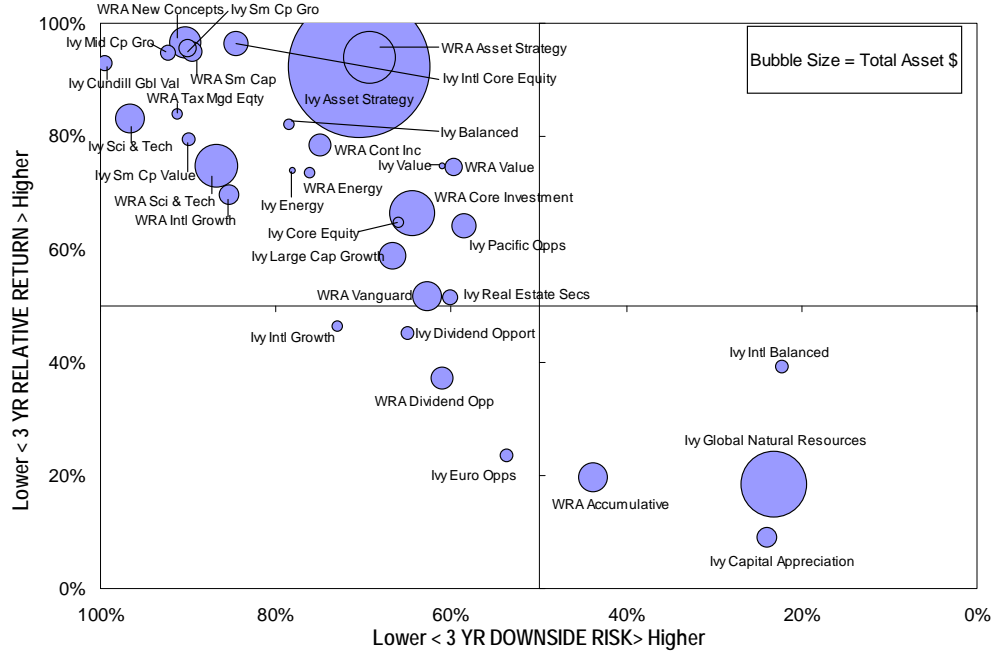
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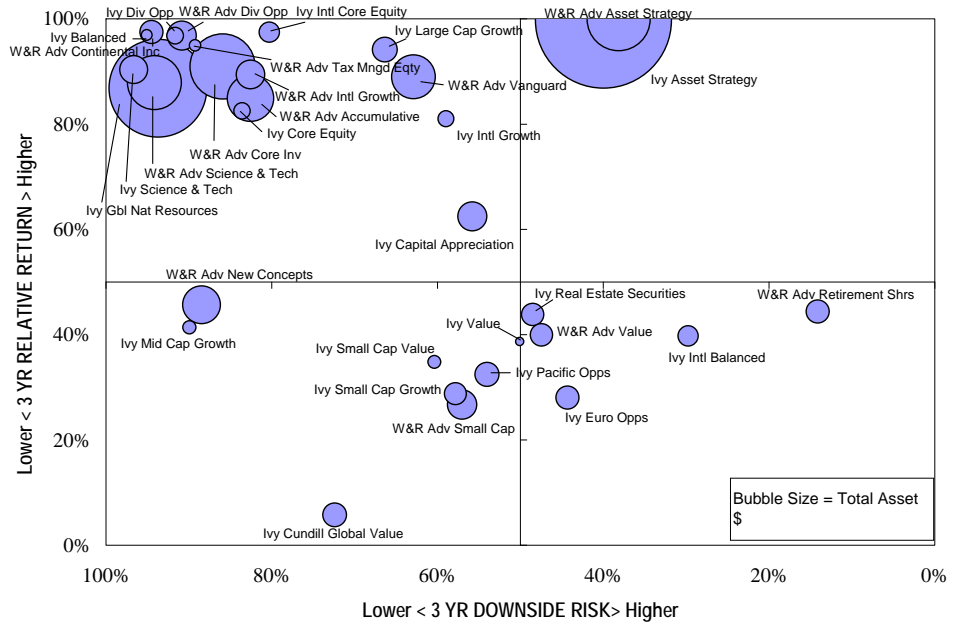
Waddell & Reed Financial

Exhibit 21a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 21b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



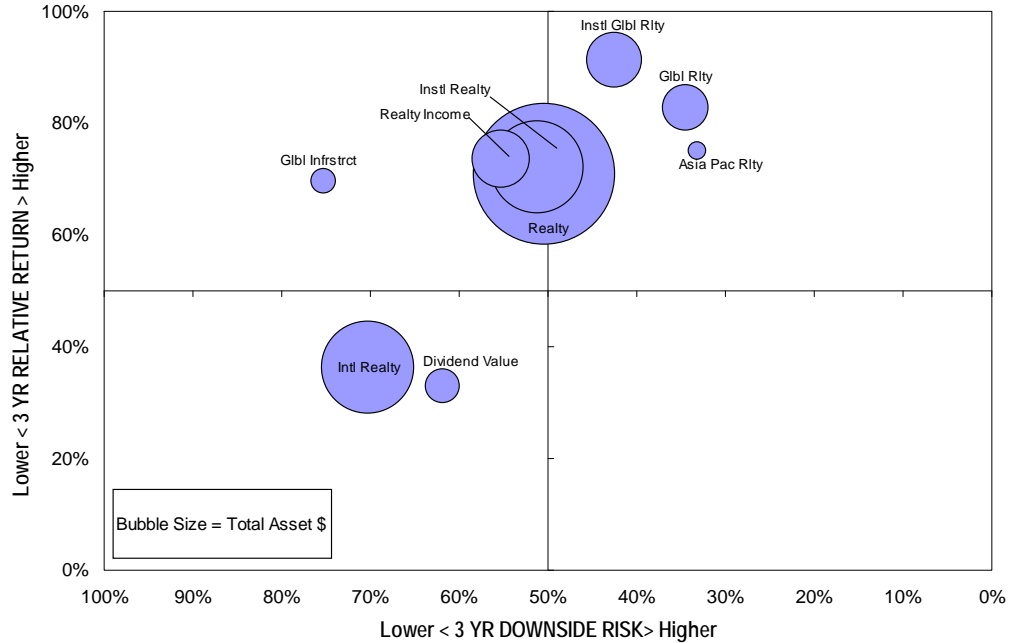
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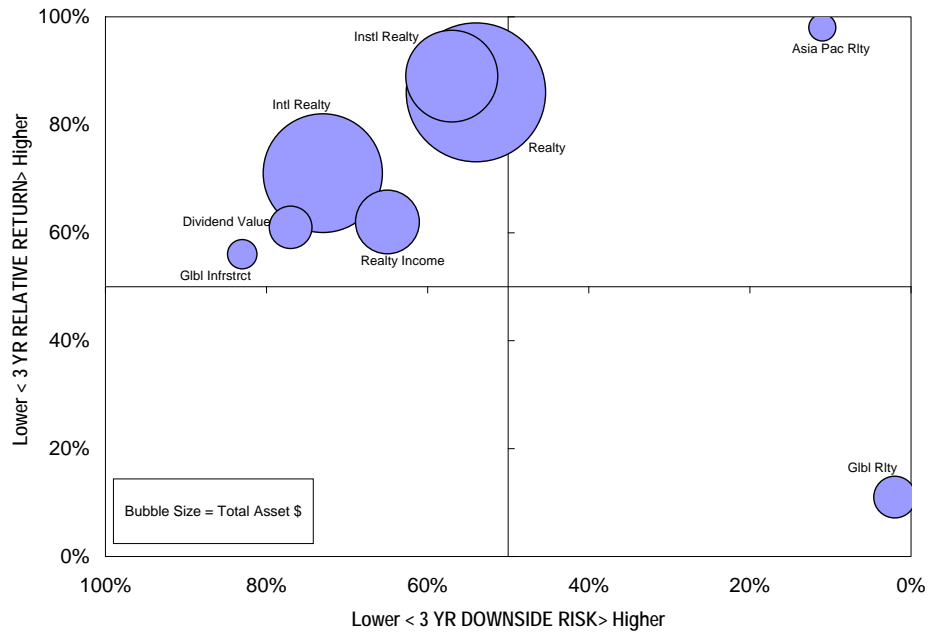
Cohen & Steers

Exhibit 22a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 22b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



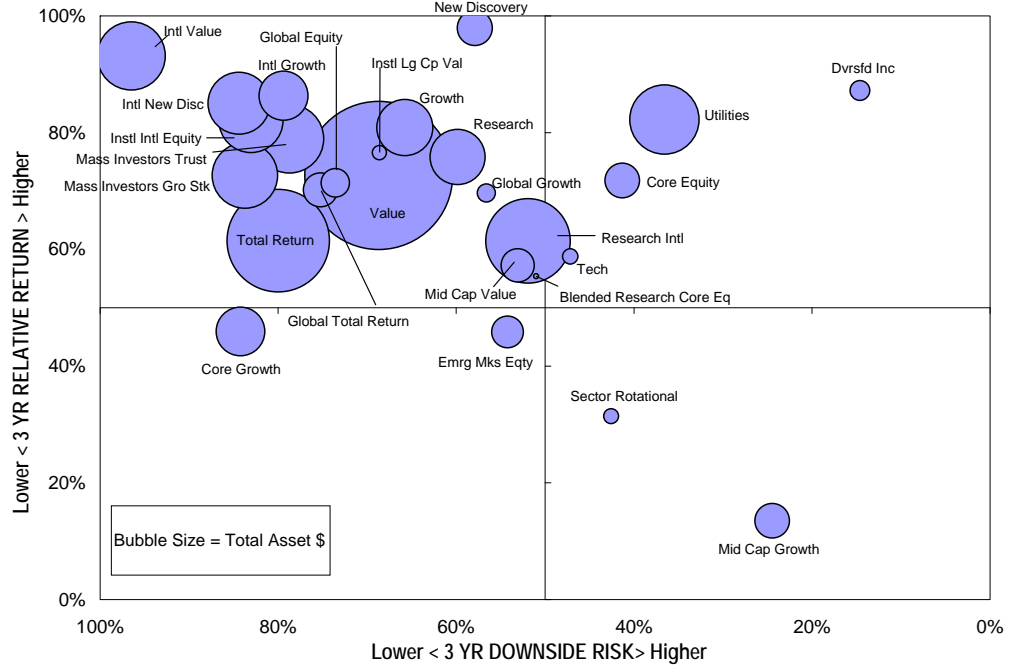
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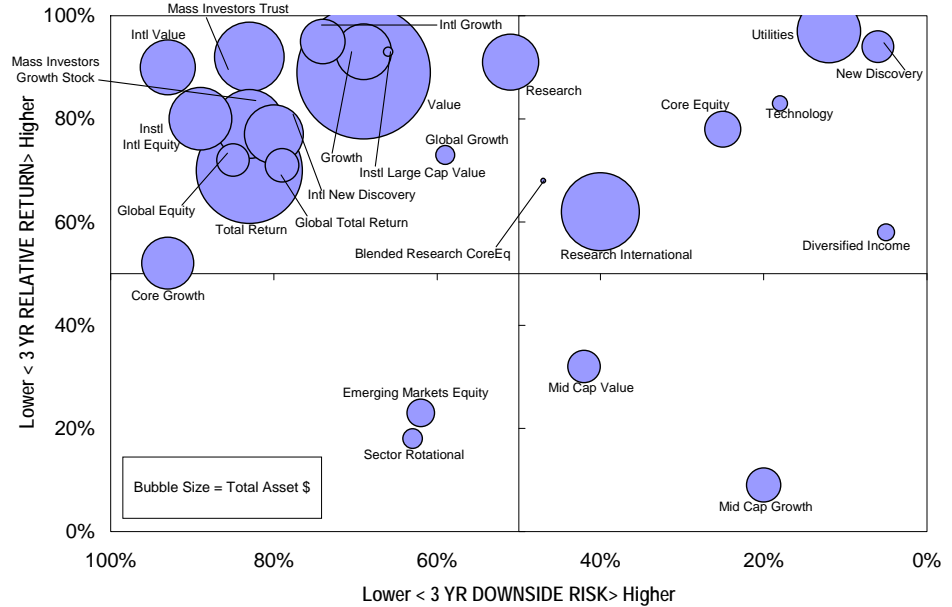
MFS (A subsidiary of Sun Life Financial)

Exhibit 23a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight.

Exhibit 23b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



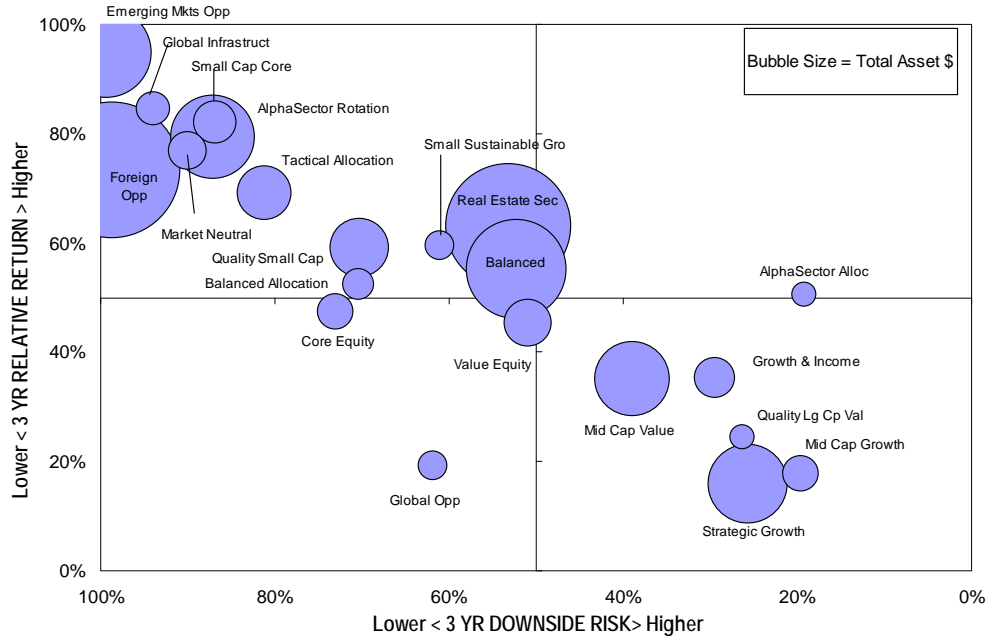
Source: Strategic Insight.

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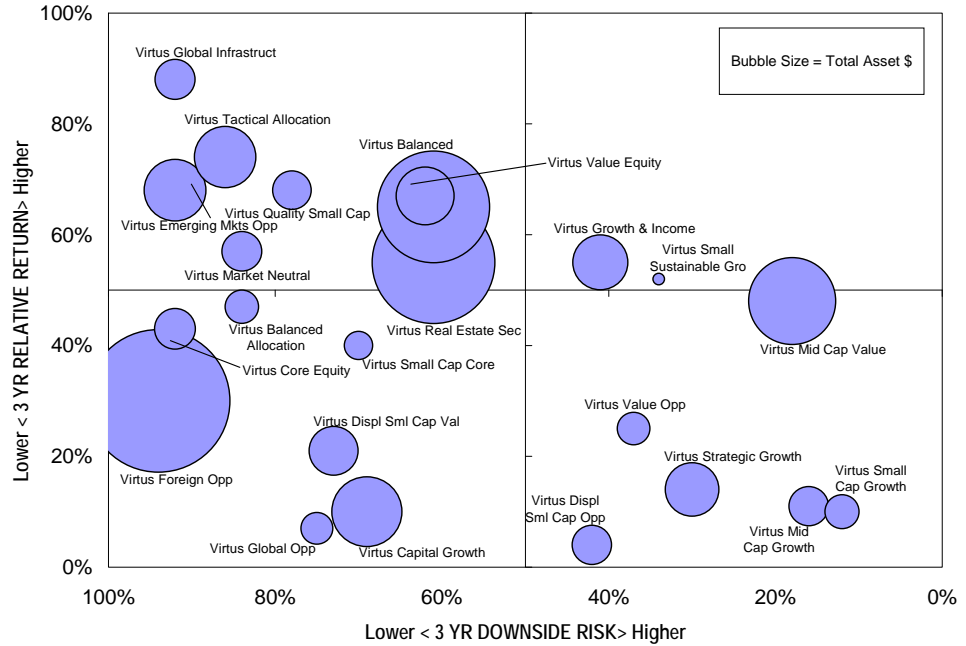
Virtus Investment Partners

Exhibit 24a: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2010



Source: Strategic Insight

Exhibit 24b: Three-Year Risk and Return, Relative to Morningstar Peer Group for the Period Ending August 31, 2009



Source: Strategic Insight.

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Company Name	Ticker	Price	Rating
Affiliated Managers Group	AMG	\$78.00	Outperform
AllianceBernstein Holdings	AB	\$25.74	Market Perform
Artio Global Investors	ART	\$14.50	Market Perform
Bank of New York Mellon	BK	\$25.43	Market Perform
BlackRock Inc.	BLK	\$165.05	Outperform
Calamos Asset Management	CLMS	\$10.61	Market Perform
Eaton Vance Corp.	EV	\$28.92	Market Perform
Federated Investors Inc.	FII	\$22.96	Market Perform
Franklin Resources	BEN	\$105.76	Outperform
Goldman Sachs	GS	\$150.98	Outperform
Invesco	IVZ	\$20.98	Outperform
Janus Capital Group	JNS	\$10.50	Market Perform
Legg Mason Inc.	LM	\$29.88	Outperform
Morgan Stanley (Morgan Stanley Investment Management)	MS	\$26.47	Market Perform
Northern Trust	NTRS	\$49.04	Market Perform
Pzena Investment Management	PZN	\$6.72	Market Perform
SEI Investments Company	SEIC	\$19.84	Market Perform
State Street	STT	\$38.21	Outperform
T. Rowe Price Group	TROW	\$49.66	Market Perform
Waddell & Reed Financial	WDR	\$27.05	Outperform
Ameriprise Financial	AMP	\$47.62	Market Perform
Virtus Investment Partners	VRTS	\$28.70	Not Rated
Cohen & Steers	CNS	\$28.48	Not Rated
Sun Life Financial	SLF	\$26.62	Not Rated

Note: Pricing is as of the close, September 17, 2010.



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Restricted [RES]	0	0.00	0	0.00
Suspended [SP]	13	2.08	1	7.69

Rating Distribution as of the end of September 17, 2010.

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787 Seventh Avenue, 4th Floor New York, NY 10019 1 212 887 7777 1 800 966 1559	One Constitution Plaza 17th Floor Hartford, CT 06103 1 860 722 5900	3455 Peachtree Road NE Suite 450 Atlanta, GA 30326 1 404 231 6565	225 Franklin Street Suite 1720 Boston, MA 02110 1 617 848 2777
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Keefe, Bruyette & Woods Limited

One Broadgate
7th Floor
London EC2M 2QS
+44 20 7663 5260

Keefe, Bruyette & Woods Asia Limited

18 Harbour Rd
Central Plaza, Suite 3101
Wanchai, Hong Kong
+852 3973 8300

Moto-Akasaka MI Building 4F
1-3-26 Moto-Akasaka, Minato-ku
Tokyo 107-0051, Japan
+813 5770 2550