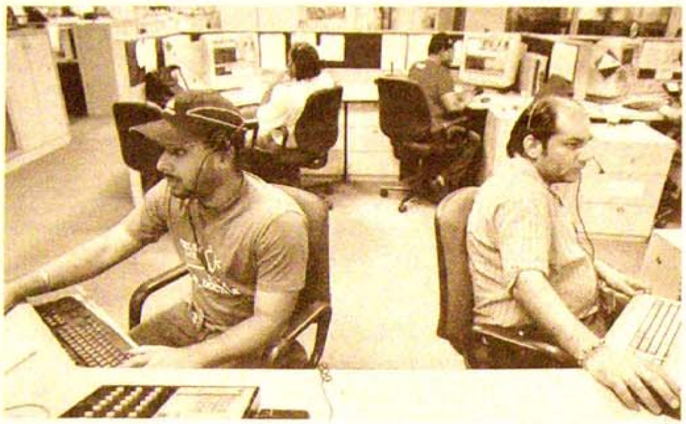
**To cut costs, funds are outsourcing research to India. The results, boasts an Indian executive, are "equivalent to Harvard MBAs'."**

# Quietly, Bangalore Connection Grows

**by Leslie P. Norton**



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Tech call centers like this are an Indian staple. But offshore financial research is a burgeoning business; the cost savings should someday accrue to Western investors.

EVERY DAY, MALTESH Somasekharappa talks about stocks or interest rates with his fellow analyst at a mutual fund in London. But Maltesh, as he's known, doesn't work directly for that fund. Instead, he does research for it from Bangalore, where he's employed by Wipro, one of India's most prominent blue-chip companies.

Maltesh, who has been working with the London fund for four months, is at the forefront of a development that few mutual-fund investors know of. Increasingly, fund companies in Europe and the U.S. are outsourcing stock research to India, where it can be done more cheaply.

The bright 32-year-old grew up four hours outside Bangalore, where his parents still own an auto-parts maker and a rice farm. His international resumé is impressive. After graduating from the London School of Economics in 2001, he worked in the British capital as a European small-cap analyst for Dresdner Kleinwort Benson, now part of Germany's Allianz.

Midway through 2003, he happened to look at a chart comparing the ascent of Indian shares with those of European and U.S. stocks. It was a startling revelation. "I realized that England was growing 2.5% a year; India, 8.5%. If I wanted to grow faster, I needed to be in the tide that flows faster."

So Maltesh—whose sister is a software engineer in Illinois—moved back to his homeland to start a firm that did research for corporate-finance teams in the U.K. Later, he worked for Infosys Technologies, India's top information-technology outsourcer. There, he met his future boss, Ramit Sethi. Last fall, the two joined NYSE-listed Wipro (ticker: WIT), which does, among other things, investment research for a growing roster of U.S. financial outfits.

For some years, fund companies have outsourced back-office operations and some aspects of marketing. Now they're taking a page from Wall Street firms like Goldman Sachs and JPMorgan and from hedge funds, dipping a toe into off-shoring investment research. The funds are being very low-key about this; Maltesh would speak to *Barron's* only on condition that we didn't identify the London fund he deals with.

Fidelity Investments has 4,700 people in India doing back-office work and the like. Fidelity is generally tight-lipped about the operation but does say it has 20 analysts there, focused on quantitative, credit and equity research—a handful compared with its 300 analysts in the U.S. But people in India familiar with the operation say the fund giant has been hiring heavily.

Franklin Templeton has its global library in Mumbai, which provides research for the U.S. team and risk-management analysis. Capital Research readily admits it outsources about 5% of its research, although it does so to Wall Street firms. Other big firms are beginning to follow suit but either wouldn't comment or denied it outright.

Soon, the analyst you hear on the corporate conference call grilling management about quarterly earnings could be in Chennai or Bangalore rather than Chicago or Boston. Says Mark Halverson, the senior executive handling investment-management services for Accenture: "I'm not sure I know any active manager with at least $150 billion in assets that isn't looking at it."

Comments Girish Paranjpe, chief of Wipro's banking and financial-services operation: "There's a large pool of people with mathematical [skills] and the ability to express themselves in India—and the cost advantage goes without saying. I'd say it's about five times."

Thus far, any savings haven't been translated into lower costs for fund investors. On average, equity funds still charge 1.46% of assets each year to manage your money. "I would think that an investor would do best buying shares of the companies that are outsourcing their research rather than buying the company's funds," says Daniel P. Wiener, CEO of Adviser Investment Management, a Newton, Mass., money manager.

Ultimately, however, to justify the outsourcing, funds will have to pass some of the savings to investors.

Historically, asset managers bought research from investment banks. Then came the 2003 settlement between securities firms and New York's then-attorney general, Elliot Spitzer, after a scandal over allegedly tainted research and conflicts of interest. Fidelity moved to spend $100 million to beef up research, and other buy-side firms followed suit. Meanwhile, India's outsourcing industry was spreading from information technology to other areas, including investment research. Among the providers: Adventity, Copal Partners and Irevna (part of a Standard & Poor's unit).

According to the Tabb Group, which tracks research outlays, buy-side firms in the U.K. and the U.S. spent more than $15 billion on research last year. From 2000 through 2006, Tabb reckons, the number of sell-side equity analysts fell in the U.K. and U.S. by more than 40%, to 9,300. And even as the number of Americans taking the chartered-financial-analyst exam fell by 25% in that period, the number taking it in India rose fivefold.

Over all, banks and funds could be spending $20 billion by 2011 on outsourced financial analytics, estimates Niket

**The Bottom Line**

**The outsourcing of investment-research work to India is in an early stage. It's likely to grow substantially over the next decade.**