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Inês Oliveira can tell a lot about a manager from the way they handle a phone call, but she has many other reference points. Millennium BCP's head of fund selection tells Chris Sloley about how her wide experience helps narrow down the contenders

It's good to talk – unless it becomes apparent that the information you wanted isn't forthcoming. In her role as head of fund selection, Millennium BCP's Inês Oliveira is all too aware of how conversations can veer off course.

Lisbon-based Oliveira, who oversees €2.1 billion in discretionary portfolios at the Portuguese private bank, uses conference calls as an integral part of her investment process and has been led up her fair share of conversational cul-de-sacs.

'We've had several cases of red flags coming up on conference calls, mainly due to lack of information or an inability to understand some aspects of the investment process,' she says. 'For instance, we were selecting a Japan equity fund and were unable to communicate with the Japanese manager, even with a translator, because they both ended up speaking Japanese just to each other.

'It was a very funny call, as we got to the end and we didn't understand anything about the process, so we just had to give up.'

In a further example Oliveira mentions a long/short equity specialist who proved frustratingly elusive.

'He was very strange on the call as he was not able to explain, or was unwilling to explain, a lot about the fund and we were just about to give up on it, despite liking it very much.

'The company then arranged a second call with another portfolio manager who was working very closely with the lead manager and he gave us all the answers we were looking for.'

Oliveira and her four-strong team of fund selectors and analysts believe the discussion phase is a key opportunity to dig deeper into a fund manager's approach, so the clarity of their response can be key.

'Initially we try to understand whether the manager knows what he is doing and whether he has generated alpha consistently over time and across different market periods. We need to determine that their success was not just luck, and that the manager can explain exactly where these returns came from.

'That is why these conversations are important, so we can confirm what is written in the RFPs. Sometimes it feels like the material comes from a marketing team that gives the same answers to everyone, so we want to look at it more closely.'

POLE POSITION

Oliveira's considerable experience helps her cut to the chase in these situations. She joined Millennium BCP in 2000 when it was still known as Banco Comercial Português.

Her subsequent work across the trading desks, as well as a short stint as head of treasury in the bank's Polish subsidiary, Bank Millennium, has given her multiple perspectives which feed into any fund selection decisions.

'I took the opportunity to go to Poland, for example, which was very interesting. It was a difficult time for the bank then, but it was a great experience.

'Culturally it is quite different but it's always good to learn from other ways of working. I can trace that back to the start of my career, as I have always focused on markets but from a different perspective.'

Oliveira says this professional variety has helped her tailor discretionary portfolios for her clients, who are primarily based in Portugal and Switzerland, and make fund of funds recommendations for those in Poland.

In addition, her company still has a crossover with its former asset management arm, which was sold off in May 2015 as part of an enforced restructuring. This was imposed on Millennium BCP as a condition of accepting a €3.8 billion bailout from the Portuguese government in 2013.

The team now oversees about €2.1 billion in its fund selection account and offers clients one of five discretionary portfolios, ranked on a sliding scale of risk. Those with a greater emphasis on bonds are deemed more conservative, while increased equity weighting indicates a more aggressive stance.

'Based on our main objective, which is selecting funds for discretionary portfolios, we broadly cover fixed income, equities and alternatives, and, within that, we try to cover the main regions. In equities, in the US or Europe, we tend to have some alternatives in terms of market cap size and also towards value or growth. However, in other areas we look at large regions like emerging markets and Asia, and then separate Japan,' she says. 'It's the same on the bond side. We break it down into broad regions such as Europe, the US, emerging markets and we also have a global fund. Then we select by credit quality, such as government, investment grade and high yield.'

LIQUIDITY CRUNCH

The most pressing market concern for Oliveira is liquidity, and how it is affected by increased regulatory demands. 'What worries me is how this can influence performance and the way funds are managed,' she says.

This is now a hot topic in group discussions and has had a significant impact on her team's fund selection.

'We have been paying more and more attention to liquidity constraints and the way portfolios are constructed, so we are not caught with underperformance and/or illiquid funds.'

For example, Oliveira's team now closely monitors funds' soft and hard-close limits, and steers clear of those which are approaching size constraints. In some cases, she says, she has been forced to look further down her funds wish-list to ensure she can allocate effectively.

'In the long/short equity space, for example, we had lots of problems because the better ones were closing so it is like getting your second or third choice.

'If we foresee that a fund is going to close then it's withdrawn from the list of candidates. We have fallen foul of this in the past, when we chose one which then closed three months later.

'We need open funds where we can ensure access in our portfolios whenever a client increases the allocation, or if we have new clients coming in.'

Being unable to access her preferred long/short equity funds has come at a difficult time for Oliveira. She is currently seeking to increase uncorrelated exposure in her portfolios, given the lacklustre outlook for bonds and limited opportunities in equities.

'We have a central 10% exposure to alternatives in our discretionary portfolios as a way of increasing returns. We target uncorrelated funds and strategies that help to enhance returns and reduce volatility.

'There are two main factors that would trigger a new selection: either we are seeking an allocation for a new asset/sub-asset class, or we want to substitute a fund that we are not happy with. This is currently the case with alternatives, and we are now selecting new funds on the long/short equity side, as well as within the market neutral and commodities space,' she says.

Oliveira is looking to add commodities at a time when many are shunning the sector. 'This means we can use our limited non-Ucits exposure in areas such as fund of hedge funds, and this has drawn us to different strategies, with CTAs being among areas of interest.'

UNDER THE SPOTLIGHT

The Portuguese banking sector has been under increased scrutiny in recent years following the onset of the sovereign debt crisis. While Millennium underwent a period of restructuring four years ago, having received €3.8 billion in financial support, concerns continue to weigh on the industry. For instance, at the time of writing, Millennium's peer, Novo Banco, which was among those also forced to reorganise after receiving government money, was under fire for retroactively confiscating senior bonds. This situation has thrust Portugal, and the strength of its banking sector, back into the limelight.

While these latest developments will take time to play out, the more immediate issue facing Oliveira is producing the same level of fund selection coverage, as staffing has been reduced since 2012's changes.

Oliveira moved from a more general position to take over responsibility for bond fund selection during this timeframe and is combining this role with overseeing the general team.

However, she says this increased workload has not altered the philosophy and process which the team established when it was created in 2003 and she inherited in 2012. 'We have the same starting points when we select funds,' she says.

'We mainly use quantitative and qualitative measures in the fund selection process. It is quite a detailed process but I have been trying to simplify what can be simplified.'

In step with many of her peers, Oliveira requires a minimum three-year track record for managers she selects, although leeway is given to those who move jobs. 'If the strategy is the same, then we can pick up the history but it is only in those cases,' she says.

Managers are then scrutinised for consistency of performance, while special attention is also paid to calendar year returns and drawdowns.

Returning to the topic of liquidity, Oliveira is mindful of the size of the fund under consideration. 'We don't like too big an allocation in any one fund and, conversely, in some asset classes we don't like those which are too big,' she says.

While navigating size constraints is currently taking up her time, Oliveira relishes the testing nature of fast-moving global markets. 'Markets are always different. Every year you have challenges ahead, which I think is part of life.'

Blast from the past

While Oliveira's job may see her contending with whatever markets in 2016 can throw up, her literary tastes are drawn to a very different era. 'I recently read *Cathedral of the Sea*,which I liked very much. It is a historic romance written by Spanish author Ildefonso Falcones,' she says.

The action takes place in Barcelona in the 14th century during the time of the Inquisition and centres on the construction of Santa Maria del Mar cathedral.

'It is an exciting novel that recreates the feudal epoch in a very interesting, and, often, violent way. It's an insight into the lives of free men, slaves, the church, the Inquisition, merchants, and the way international trade and financing worked.

'It's like having a history class without noticing it, as the reader gets caught up in the amazing adventure. The novel received several awards and is a compelling read.'

CV

2012-present
Head of fund selection
Millennium BCP

2009-2012
Head of treasury
Bank Millennium

2000-2009
Head of interest rates
Millennium BCP

1990-1999
Financial markets expert
Banco Totta & Acores

1988-1990
Fiscal consultant
CCP