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# Why First Global's Devina Mehra expects interest rates to stay high

Jash Kriplani

Devina Mehra, founder of First Global group.

Volatility has reinforced asset allocation's importance, investors should not ignore risk management, says Mehra

When will interest rates start falling? The question continues to haunt investors across the globe even as market experts look for telltale signs of inflation cooling. But, don't expect the rates to come down anytime soon, says Devina Mehra, founder of First Global group. Interest rates are expected to stay at elevated levels for sometime, she adds.

"I am not in the camp that sees the US Fed cutting interest rates anytime soon. The only way the Fed will start cutting rates soon is if things take a turn for the worse on the banking and financial side. At the last US Fed meet, chairman Jerome Powell said if tightening of the financial conditions achieves the same purpose as monetary tightening, we won't have to tighten as much. But something has to get you there to bring down inflation by basically inducing recession," said Mehra, during an interaction with Mint for the Guru Portfolio series. In this series, leaders in the financial services industry share how they are handling their finances and investments.

Mehra, who is also the chairperson and managing director of First Global— an investment management firm that offers globally diversified investment solutions across geographies and asset classes, says last year was very unusual in terms of how different asset classes performed. The year was marked by the beginning of the Russia-Ukraine war, which contributed to rising inflation and rising interest rates as central banks tried to curb inflationary pressures.

### 1 WHAT'S YOUR CURRENT ASSET MIX?

| | |
|---|---|
| A India equity | 18% |
| B Global assets | 82% |
| C Real estate | Nil |
| F Alternate asset class | Nil |

### 2 HOW HAS YOUR PORTFOLIO PERFORMED IN PAST YEAR?

▶ Both global and Indian investments have delivered 1-2%.

### 3 HOW MUCH OF YOUR INVESTMENTS ARE IN YOUR OWN FUNDS?

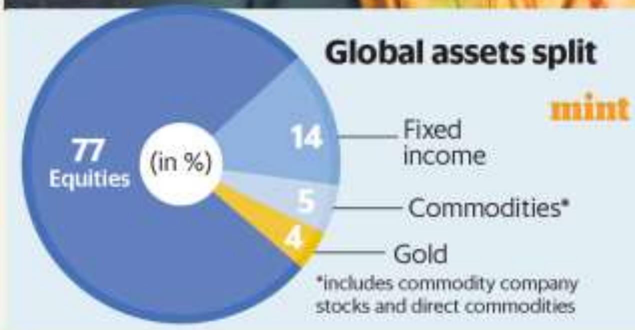
▶ Roughly 85-90% are in First Global's funds, barring some legacy stocks.

### 4 WHAT'S THE SPLIT OF YOUR GLOBAL PORTFOLIO?

| | |
|---|---|
| US equity | 48% |
| France equity | 4% |
| China equity | 3.7% |
| UK equity | 3.4% |
| Germany equity | 2.4% |
| Fixed income | 17% |
| Commodities | 6% |
| Other equity markets | 15.5% |

### 5 DO YOU PLAN TO INVEST IN REAL ESTATE?

▶ No, in general I don't invest in illiquid assets. I give a lot of premium to liquidity.


### 6 WHERE ARE YOUR DEBT INVESTMENTS?

▶ In India, gilt-type funds. Globally, mix of high-yield and investment-grade investments through diversified funds.

### 7 WHAT EMERGENCY CORPUS DO YOU MAINTAIN?

▶ No specific allocation. Have sufficiently invested in liquid assets that can be used.

### 8 ONE STRATEGY THAT WORKED LAST YEAR AND ONE THAT DIDN'T?

▶ Entering and exiting Chinese tech and Hong Kong at the right time. What didn't work was missing the bounce back in Europe.

### 9 ONE IDEA THAT CAN DISRUPT INVESTING?

▶ With machine learning, whole lot of information can be analysed consistently & without bias.

### 10 WHAT'S THE SMALL-CAP, MID-CAP AND LARGE-CAP SPLIT OF YOUR INDIAN PORTFOLIO?

| | |
|---|---|
| A Large-cap | 54% |
| B Mid-cap | 27% |
| C Small-cap | 17% |
| F Cash | 2% |

### 11 DO YOU EXPECT INTEREST RATES TO REMAIN HIGH?

▶ Yes

### 12 WHAT'S YOUR ADVICE TO INVESTORS?

▶ Asset allocation delivers 85-90% of returns. Get it right. Investing is a loser's game, don't ignore risk management.

Each investor has their own preferences and risk appetite, do your own research before investing. Mint does not independently verify non-public data reported by interviewees.

**All about asset mix**

Mehra, who started her professional career with Citibank in 1986 before she founded First Global in 1993, says that about 18% of her personal portfolio is invested in the Indian markets. Of the remaining, fixed income comprises 14%, commodity 5% and gold forms 4%, while the rest (about 77%) is in global equities. Globally, fixed income investments are a mix of high-yield investments and investment-grade investments, all held through diversified funds. A majority of Mehra's investments are channelled through First Global's own funds, barring some legacy stocks.

Considering the way global markets have performed recently, Mehra says, keeping a close watch on macro-economic trends has been more important than ever.

“The world has become very dynamic. Some of the global trends may not even last for a year. That is also the reason why we look at things afresh every quarter. Last year was one of the worst in the history of the global markets. Every other regional equity index was down, every fixed income index was down. The only thing that rose was oil & gas and a few agri commodities. That's why our commodity allocation last year was higher. Metals—industrial metals and precious metals—also went up, but came down later. So, net displacement for the year was zero," Mehra says.

Meanwhile, Europe had a lot of bad news flow to deal with for most part of the last year following the Russia-Ukraine crisis. “Yet, for the period from 1 April 2022 to 31 March 2023, Europe is about the only market which is up in equities and that was quite surprising," she adds.

Pointing out how the macro-economic picture can quickly change, Mehra cites the example of the rupee depreciation. This happened early last year when India’s central bank, the Reserve Bank of India (RBI), was yet to start hiking interest rates and all other emerging market had already done so.

“In the beginning of 2022, I went out on a limb saying that this year we will certainly see the rupee depreciate. At that time, currency was not on anyone’s radar. I said that this year (2022), almost certainly, we will see rupee depreciation and that did happen. Governments and central banks like to control all macro-economic variables but if you try to fit everything, something will pop out, and that was my call. RBI wanted to be pro-growth, but it would have had an impact elsewhere and my bet was that this would most likely be on currency," she says.

**Risk before returns**

Mehra, who is based out of Dubai, says her approach to investing is to look at risk management first and then look at maximizing returns.

That is also the reason why liquidity is an extremely important parameter for Mehra in her investment framework.

“I give a lot of premium to liquidity. So, I will not buy real estate as an investment, I rarely favour buying unlisted equity, not even look at structured products or products where the pricing is opaque and lacks transparency," she says.

“I have a residential home in India, but I don’t look at it as an investment," she adds.

Mehra doesn’t maintain a separate emergency corpus, but says as all her investments are highly liquid, any of these can easily be liquidated as and when required.

While First Global’s fund does invest in small-cap stocks, Mehra says her investment team only goes ahead with ideas that meet the liquidity criteria such as market cap and market turnover, apart from other risk criteria.

“So, small-cap for us is a company that has a market cap ranging between ₹1,000 crore and ₹5,000 crore. Normally, our small-cap allocation will be in the range of 13-20%. When stock prices are going up, it is all gung-ho in small-caps, but when prices go down suddenly and you want to get out, it is difficult to exit from small-caps due to lack of liquidity," she says.

Mehra’s Indian fund has a small-cap allocation of 17%, mid-cap allocation of 27%, large-cap allocation of 54% and 2% in cash.

Mehra’s equity investments are spread across different geographies, with the US accounting for the largest allocation (48%) of the global portfolio, given the sheer size of the US equity markets.

**Advice to investors**

Mehra says if investors can learn anything from last year’s volatility, it is that asset classes will keep going in and out of favour but what will help them in the long run is asset allocation approach to investing, building a well-diversified portfolio and a long-term investment horizon.

“Do not invest based on what the current stories are. Shifting the focus of your entire portfolio with every new trend is not a healthy strategy. For example, gold is doing well now, but investors tend to forget that for a whole 20-year period between 1983 and 2003, gold had given no returns," Mehra points out.

“Asset allocation determines 85-90% of your returns. So, do that in a very focused and deliberate manner. First of all, know what your asset allocation is. Most people don’t even know that," she adds.

The other advice Mehra has for investors is to have global diversification. “Rupee has historically depreciated against the dollar. When I started working, one dollar was trading at ₹12, today it is around ₹82-83. So, the rupee has depreciated by about 85%," she says.

And most importantly, Mehra says risk management is something investors should never ignore. “Always, have your risk management framework, with stop-loss levels in place, set out right at the beginning and have the discipline to stick to it. Everybody right up to Warren Buffet can make investment mistakes, so it is important to have a risk management framework in place," Mehra says.

She says investing is a loser’s game. “So, you need to first make sure that you don’t lose, in order to win," she adds.