Dear Clients,

Vista Capital announces a new partner:

Arthur Braga will be a member of the investment team. Prior to joining Vista, Arthur has worked as portfolio manager at Stone Ridge Asset Management in New York. Between 2011 and 2016, he was a trader and market maker at Goldman Sachs proprietary trading desk. Prior to that, he has worked for Barclays Capital in London as a trader at the structured products desk. He began his career in 2006 at UBS Bank in London at the EM equities derivatives desk. Arthur holds a degree in Control and Automation Engineering from PUC/RJ, with a double degree from the *Institut National des Sciences Appliqués* at Toulouse, France.

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Vista Multiestratégia FIM and Vista Hedge FIM returned 7.04% and 2.38% in August 2020, and had cumulative returns of 23.68% and 8.75% in the year, respectively.

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The result of the month was concentrated in the long position in the US stock market. Brazil's Interest rates, implicit inflation, and gold long positions added to the result.

As we expected, at the last event in Jackson Hole, the FED ratified a change in the US monetary policy regime, which is key to some of our investment theses. The flexible average inflation targeting regime and the strong emphasis on creating "maximum employment" conditions will allow the FED to have a much more accommodating monetary stance for the same cyclical condition than in other periods of the modern central banks era.

So this new environment will likely lead to lower real interest rates and higher implicit inflation. The breakage in historically positive correlation will have a double effect on asset prices, with effects on both nominal revenue and discount rate.

In such scenario, we look for scarce and non-replicable assets, as we detailed in previous monthly letters.

The fund has undergone few changes in its portfolio recently, but the main one was a reduction in the position on the U.S. stock exchange in favor of further diversification. The recent performance, combined with the proximity of the elections, has weight in this decision.

Within this diversification, after a long follow-up period, we decided to invest in Russia, yet a small position.

We will enter in this subject in future monthly letters as the position gains momentum. However it should be noted that Russia has three characteristics that are scarce in the post-Covid world: discounted valuation, extremely solid fiscal position and high dividends.

On the negative side, the main risk for investing in Russia is political, noted even in recent days. Nevertheless it is worth mentioning that recent changes in the sphere of international relations, especially involving the USA and China, have generated some convergence of political risks between these two countries. In other words, Russia's fiscal soundness is an increasingly scarce asset, while political risk is increasingly common among both rich and emerging countries.

Anyway, we don't expect a relevant performance before the U.S. elections, but we'll probably use the period to search for more investments.

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From our observations on how the global macro scenario fits in Brazil and considering the low exposure to Brazilian assets, we will talk about some points that, in the future, may be the basis for an investment thesis.

Brazilian asset prices have a relatively high short-term correlation with politics, higher than observed in their peers. It is not clear to us whether the reason is greater political stability in other countries or a large volatility of the political cycle in Brazil. It seems that it is a complex exercise to mull over which reforms will be sent to Congress or which minister will be in government in six months. Isolating this factor and looking only at the macroeconomic picture, what are the effective restrictions that Brazil should have in the medium term?

On the one hand, we walk towards a comfortable external accounts framework, reinforced by the government's position in dollars. In addition, our public debt is domestically financed and the effects of the new level of interest rates and the depreciated exchange rate are still to come.

On the other hand, potential growth is noticeably very low and advancing a necessary fiscal consolidation agenda is a huge challenge. This scenario tells us that we should have assets with discounted valuations, even if the macro framework provides us with some buffers. Signs of a setback in the ESG agenda, an expensive theme for a growing segment of international investors, also help to create this scenario.

For a good part of the Real age, Brazil was considered an expensive country. The overvalued exchange rate worked together with high stock multiples, which no longer relates to an old economy and low growth expectations country like Brazil.

However, it seems exaggerated to us the idea that Brazil would be led to a more acute crisis by a political crisis, or even by the breach of the expenses ceiling, a hypothesis quite possible in 2021. The domestic buffers described here and, mainly, the external environment of greater complacency with the country's debts can stretch the rope for longer.

Our country is in transition and we are getting poorer. In the end, part of the solution is to become more competitive and attractive to the external capital. We are not convinced that Brazil is cheap enough and this reflects in our fund's positions.

However, we understand that Brazil is probably going down a slightly more inflationary path than the current one. The aggressive tax restriction model in discretionary expenditures and the long shrinking cycle of public banks, which have made room for significant interest rate reduction, seem to be close to an end.

Historically, tax contraction processes do not last many years and at some point there is a certain adjustment fatigue, even if a crisis can trigger a new cycle of adjustments, as was the case in Greece. Social costs and the shutdown of public investment, a common part of fiscal adjustment in emerging countries, make political engineering around a prolonged cycle of fiscal consolidation more complex.

In Brazil, the budget constraint imposed by the expenses ceiling was significant. Considering that since 2015 mandatory spending corresponds to all the net revenue of the central government, discretionary expenditures had to be the adjustment variable. Compared to 2015, the actual drop in this item accounts for more than 30%. It does not seem reasonable to assume that such adjustment will be sustainable, as the functioning of the country's machinery and infrastructure begins to be compromised.

Despite the approval of the pension reform and the administrative reform submission, that will have positive long-term effects, the growing share of the budget related to expenditures with working and retired servants reflects the inability of our political class to address such restrictions.

At the same time, as discussed earlier, the transformation of emergency aid programs into minimum income programs seems to be a trend in the post-pandemic world. In emerging countries, recent decades growth models had its days, after all China's external momentum will be much lower than in previous decades and credit cycles are much more mature. Added to these factors are the worsening demographic and especially the technological acceleration, which makes it difficult to imagine where the generation of jobs will come from.

In the case of the Brazilian economy, where we run into difficulties to grow even with favorable external scenarios, only about 30% of the workforce is formally employed in the private sector. Within this universe, we have several jobs that no longer exist in part of the world. How will we employ the millions of unemployed in a world where technology giants have a growing share of global income that needs an increasingly skilled workforce, and trends in automation and digitization will be increasingly strong even in the competitive agribusiness and commodities sectors?

Therefore it seems inevitable the maintenance of some sort of financial aid for the poorest by means of a minimum income program. The few policies for the supply side, such as those aimed at the survival of small and medium-sized enterprises, and the emphasis on demand-side stimuli help to make up a picture of bullish asymmetry to inflation risks. The recent scarcity of construction materials and the inflationary pressure on some foods are preliminary signals in this direction.

This scenario made us carry a short position in interest rates throughout the month as a hedge of the investment in Petrobras. The position has been undone, but bias is still present. We are still invested in implicit inflation, based on both the continuity of income programs and very clear signs of economic activity acceleration, which can also benefit the stock market.

We remain at your service.

Vista Capital