Vista Multiestrategia Fund and Vista Hedge Fund registered returns of 2.28% and 0.93% respectively in August and 19.43% and 7.14% respectively in 2021.

In the month, the main positive contributions to the fund came from hedging, especially from local fixed income. As reference of the importance of hedging for portfolio construction, long positions in DI (Brazilian Interbank Deposit rate) and on the slope of the interest rates curve account together for more than 1/3 of the result of the fund in 2021. Long positions in international equities and more defensive positions in the domestic equity market, highlighting a short position in VALE were main contributors. Positive contributions in interest rates and equities more than offset losses in commodities.

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Brazil

Throughout the year, we shared our greatest skepticism with the prospects for the Brazilian scenario and its impacts on assets. Persistent frustrations with the inflationary environment, growing concerns about the hydrological framework, pressures for more social spending, and our limited enthusiasm for the Lira-era reforms were issues recurrently discussed in our letters.

In an excerpt from our January 2021 letter, for example, we highlighted some concerning issues in the inflationary field and the inevitable pressures that would pile up in the social field:

"On the other hand, inflation still is a growing concern. The supply and demand imbalances resulting from losses on some supply chains and the inefficient response to the pandemic, with excessive stimuli on the demand side and little attention on the supply side, have taken their toll.

The microeconomic breakdown together with the important export stimulus from the devalued exchange rate creates a shortage of products and inputs.

The result has been not only an important relative price shock, usual in an environment of abrupt changes in the consumption basket, but also a more widespread process of price hikes. The recent strong appreciation of commodities in reais helps to exacerbate our concern. While the supposedly contractionary fiscal policy in 2021 contributes to reduce some pressures, there is no longer any safety margin in inflation to accommodate a new shock and, without an adequate monetary policy response, inflation expectations can be contaminated.

There are also signs that inflationary pressures are beginning to bother political agents, which can be illustrated by the delay in transfer of the rise in diesel prices to the final customer. In parallel, it also seems clear to us that there is a certain adjustment fatigue after a few years of fiscal austerity. So the pressure *for cash transfer programs is likely to continue, which will eventually make the spending ceiling unsustainable without an aggressive reform of compulsory expenditures."*

Eight months after that letter, the 12-month inflation measured by the IPCA is not far from double digits and our real interest curve shows that the "low interest rate regime" was not as permanent as imagined. In addition to the economic policy errors, there are also the city of Brasilia, with its noise-generating machinery, the tangle of new fiscal rules that undermine the solidity of the framework implemented in 2016 and the uncertainties regarding the electoral framework.

The risk of a compulsory energy rationing program, now very well mapped by market consensus, also explains part of the recent deterioration of the Brazil risk premium and was part of what we wrote in the May 2021 letter:

"The recent concern with the hydrological scenario – the current year's wet season was the worst in the 90-year historical series – is symptomatic of our supply-side constraints. GDP is 3% below 2014 peaks and there is a relative stability in energy consumption throughout this prolonged stagnation. Such frailty at this stage of the economic cycle deserves to be highlighted.

Our assessment, for the time being, is that the availability of thermal plants and the greater participation of alternative sources in the electricity park are important risk mitigators and that the central scenario is one of more costs for the consumer and a lower probability of rationing in relation to other cycles. The persistence of drought and new positive growth revisions could change this picture."

Also in the May letter, we discussed the origin of the fiscal improvement, a major theme in the market at that time:

"*With the GDP deflator growing at more than double digits and negative ex-post real interest rates, the arithmetic around the trajectory of public indebtedness becomes much more favorable.*

In some ways, we are seeing how a higher inflation can deal with the fiscal machine, even temporarily "

After the euphoria surrounding the fiscal improvement, explained in large part by the significant acceleration of inflation, comes the aftermath of the need for higher *ex-ante* real interest rates and the intensification of distributive conflicts, where economic agents pressure politicians to recover their share of income eroded by inflation. The proximity of the election only accentuates these tensions.

Due to the factors mentioned above, we have positioned ourselves more defensively in Brazilian assets and, despite the recent deterioration in risk premiums, we are finding it difficult to foresee a strong improvement in the markets without the emergence of a competitive third electoral way. We will therefore remain careful about the other side of the Bolsonaro *smile*, where a further deterioration of the scenario could lead to a more intense weakening of the incumbent, allowing a viable candidacy of the center, which would have very positive impacts on the markets.

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China

We have strengthened our concern with China outlook and its repercussions on commodities that would be more sensible to the cycle of investment in China. We understand that the regulatory frenzy against various sectors, in particular internet platforms and the education sector, has eclipsed the important change underway in relation to the *property* sector.

"Housing is for living in, not for speculation"

In 2017, Xi Jinping already warned of the government's low tolerance for alleged speculative excesses in the real estate market. Since then, however, markets have become accustomed to *stop-and-go* policies, when the slightest sign of a slowdown already produced a reversal of previous tightening policies.

The new *common prosperity mantra*, however, reinforces an issue we've been debating - the burden of mortgages and high home prices are perceived as central obstacles to family formation, which is a major constraint on potential long-term growth from China. Furthermore, the government understands that the property sector has absorbed excess savings and it is time to allocate resources, for example, in hard tech sectors, such as semiconductors.

The sharp debacle of Evergrande, China's most indebted developer, seems to be a sign of the new era. Even if the state eventually assists Evergrande in restructuring its debt, Beijing's message to the industry is to continue deleveraging, selling assets and cutting back on releases. With the bonds of several companies in the sector trading at a significant discount from their face value, we find it difficult to foresee a path that will not face a strong hurdle in private construction over the next quarters.

On the demand side, Beijing wants to interrupt the widespread expectation that real estate prices always appreciate, making access to real estate credit more restrictive and acting firmly with administrative measures of a prudential-regulatory nature.

In any case, even if economic policy makers in China deserve a vote of confidence and the hard landing scenario is avoided with monetary and fiscal easing measures, it seems clear to us that construction activity will be marginalized in the capital allocation outlined by the “central planners” of the Chinese government, increasingly active in this new, more interventionist phase of the Xi Jinping era.

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Positioning

Our main risk allocation remains in commodities, especially in oil, including here the shares of producing companies from different geographies. The successive fall in inventories, the firm signs of discipline on the supply side and the inevitable reopening of the global economy, cyclically affected by the Delta variant and the delay in vaccination in some countries, reinforce our conviction with the long-term thesis.

Also in the commodities market and in line with our understanding that there are important structural changes taking place in China, we have been hedging with short positions in mining stocks, iron ore and copper.

Finally, the uranium sector has recently been put forth with the surge of a new trust fund on the market. The fund aims to efficiently provide exposure to the commodity's spot price, something unheard of until now. Since it was launched, the trust fund has already received investments equivalent to the purchase of 5 million pounds on the spot market.

During this period, the spot uranium price has risen around 25%, and we believe that it is still below the long-term equilibrium price. The fund recently increased its long position in the strategy and we remain confident in the investment thesis.

We remain at your service.

Vista Capital