Vista Hedge Fund and Vista Multiestratégia Fund registered returns of 3.87% and 11.78% respectively in February. In 2021, the funds posted cumulate returns of 2.55% and 7.56%.

This month, the funds incurred significant losses from the investment in Petrobras. Other investments had positive results, with emphasis on the results on commodities, international stock markets and local and international fixed income.

Discussed repeatedly in this forum, the allocation in Petrobras is a relevant position and part of the risk allocation related to the oil position. Our thesis is based on the understanding that the company's assets are undervalued, despite skepticism with the supposed liberal orientation of the current government since its inception.

Brazilian pre-salt, like the onshore wells in the Middle East, is consolidating itself as the most prolific play in the world. The 7-BUZ-10-RJS well, located in the Buzios field, produced stunning seventy thousand barrels a day at the end of 2020 and reached a new record in the industry. By way of comparison, a normal *shale* well produces five to seven hundred barrels a day.

Pre-salt production is advancing and now represents 70% of the oil volume produced by the company, compared to 30% at the beginning of 2016. Only Tupi and Buzios fields are responsible for more than half of this total.

With high output per well, great oil quality and, consequently, very low breakevens, the continued development of the Buzios field - which, although relevant, has only four of the twelve modules expected in this decade - will add even more value to the company.

Evidencing its competitiveness and the quality of its assets, Petrobras presented robust results in the challenging year of 2020. Despite the collapse in commodity prices, the company generated US$ 20 billion from its operations[1] and reduced its net debt by almost US$ 16 billion, from US$ 79 billion to US$ 63 billion between the end of 2019 and 2020.

The outstanding change in the quality of its assets and the considerable reduction in debt are not the only differences from Petrobras of 2015/16. The politicians abuses in the company had generated internal and external effects. On one hand, the new law on state-owned companies created strong legal ties for the controllers. On the other hand, a new social statute imposed obstacles to the implementation of public policies through the result of Petrobras. The political effects of undermining the country's largest company, one of the important negative marks of the Dilma government, should also not be underestimated.

In operational terms, the company's condition as a net importer has been reversed since the

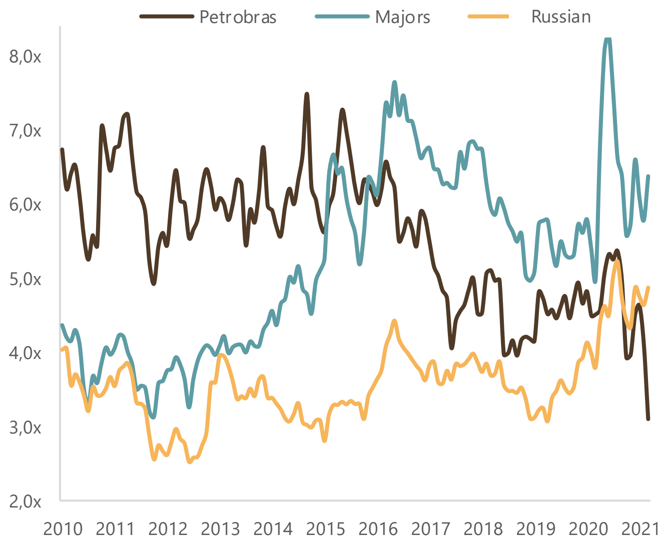
[1] resources generated for the operational activities less interests and *leasing*

intervention episode in the middle of the last decade. The current situation as a net exporter means that the company's results continue to benefit from the high oil prices, even in the scenario in which subsidies are considered. In other words, even if the new managers decide to face the legal risks of freezing the price of oil by-products for an indefinite period of time, the company's result will still be positively exposed to the rise in oil prices.

The evolution of assets, the improvement of the debt profile, the effects of Car Wash operation and the strengthening of governance make Petrobras more resilient to heterodox adventures, although not immune.

This significant improvement in the company did not translate into an appreciation of its shares. After the correction generated by the materialization of the known governance risk, the current valuation embeds a discount for Petrobras valuation, observed during the worst moments of the PT government and even for the valuation of Russian oil companies. At the current prices of the commodity and the exchange rate, assuming that equity does not appreciate and the company does not distribute additional dividends, the company's multiple EV/EBITDA would move towards 2 times at the end of 2022, with a reasonably comfortable leverage level. On geopolitical tensions worse moments, the Russian oil companies[2], of inferior quality, traded at 2,3x.

EV/EBITDA
(12-month forward EBITDA)



This rare condition seems to us to embody much of the risk perceived by the market for potential governmental interventions in the company. Any sequential change in the company's value would no longer happen due to multiples compression but rather due to an effective drop in results.

Today we see four scenarios for the conduct of the current deadlock in the local fuel prices: ***(i)*** maintenance of the current alignment policy with the import parity price, through the use of the stabilization fund or some tax incentive, which is conditioned to the increase in revenue from some other source; ***(ii)*** increasing spacing and number of

[2] **Majors: ExxonMobil, Chevron, Royal Dutch Shell, Total and BP**
Russian: Lukoil, Gazprom and Rosneft

readjustments to reduce the political toll of tracking international prices; (***iii***) fixing diesel prices, even if the price of the commodity in BRL continues to advance; or (***iv***) effective reduction in diesel prices.

Despite the lack of clarity about the chosen path, we believe that only the last scenario would be effectively negative for the generation of operating cash of the company in the medium term. Solutions that involve the expansion of the Brazilian refining park do not alleviate the current crisis, given that such capacity would only be delivered in the middle of the next president's term.

Although in view of recent events it is not an extreme scenario, it does not seem to us that the rest of the country's assets are traded with the same perspective. Effective interference requires a long regimental path, including appointments from board members, new directors and president willing to take the risk at an "*individual*" risk level in order to tackle the new statute and the State Law, or to submit a public request for the amendment of such devices. Any shift in this direction, which could involve the legal termination of the institutional apparatus, is expected to have even more devastating effects on the country's already fragile perception of risk.

We would also have practical problems in controlling fuel prices, such as a possible shortage due to Petrobras occasional inability to refine what is necessary, smuggling or even official exports to other countries that sell fuels in line with international prices.

It is worth remembering that the ICMS on fuels and royalties are an important source of revenue for some states. In addition, the oil sector is one of the few in which we are internationally competitive. A collapse on Petrobras, the country's largest taxpayer, would have very important fiscal and economic repercussions.

Despite the disappointment with the government interference in the company's excellent management and frustration at not monetizing our optimistic thesis with the price of oil, the funds maintain the long-term view on the company's value and keep the same position.

A large part of hedging that helped throughout the month are still present, especially in this scenario where we identify distortions in the relative value between assets. The risk of state intervention in the company is known and priced, as opposed to a more widespread populist shift by the government.

* * *

In our previous letter, we talked about a potential window of optimism with the agenda led by Arthur Lira. We also understood that we could face a scenario where the combination of low real interest rates and a devalued exchange rate would produce higher than expected growth.

These two developments, together with vaccination and speed of transmission of the virus, made us take more risks in international markets and follow the events.

Since then, the reform agenda in Congress does not look promising, despite the recent approval of the Emergency Constitutional Amendment Proposal in the Senate. The worsening of the covid pandemic generates a sense of priority for more public spending and vaccination is still incipient, which is why we do not rule out the decree of a state of calamity in the coming months. The window starts to close, especially when we focus at the 2022 elections.

Between 2016 and 2019, the funds maintained their position in Argentina, and we followed closely the development of the political and economic cycles. The current Brazilian situation concerns us for having some resemblance to the Argentinian drama.

Macri government had postponed reforms for the second half of its term waiting for congressional control. External shocks and errors in the conduct of the economic policy threw markets in crisis at a time similar to ours now.

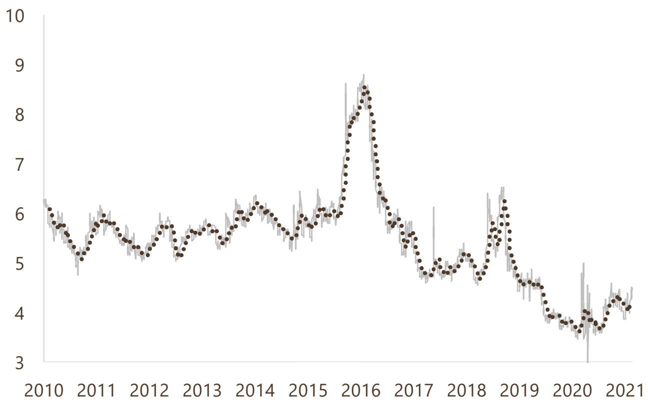
Under the blessing of the IMF package, the Argentinian government has largely resorted to the orthodox path. They raised interest rates significantly, tightened fiscal policy and accelerated some reforms, which had a significant political cost on its popularity. In turn, it increased the expectation of a populism government in the next election and accelerated the worsening of assets, fueling a vicious circle.

We have been wondering if Brazil will follow a similar path. Issues discussed in previous letters such as the excess of stimuli in 2020 and the error in the microeconomic conduct of the crisis take their toll. This is quite evident in the rise in inflation and in the increase in the country risk premium. *How to reconcile the need for adjustments in economic policy with the political cycle ahead? How we will believe in the institutional frameworks and in the economic policy framework after 2022, if even the current government does not show conviction about which way to go?*

Furthermore, foreign capital is unlikely to be enthusiastic about a timid reform agenda and promises of privatization. After all, Brazil is unable to offer growth, political security and the minimum alignment with relatively consensual international guidelines. We are a country with a huge cost to produce and import, we remain trapped in subsidies that prolong inefficiencies, we have not progressed in the technological race and our public policies in the education and health sectors have been disastrous. *Where will international investments be allocated? In the oil sector?*

In addition to the discussions we have about the low insertion of the Brazilian economy in the new global production function, we have also been asking ourselves whether there is an excessive emphasis by the markets on our fiscal risk. *Why don't we discuss our persistent low productivity and the limited degree of openness in our economy?* Although the answers are unclear, the current long-term implicit inflation levels do not seem to embody a greater concern,

Long-term Implicit Inflation
(Fixed term of 7.5 years, in %)



both from fiscal risk and price control perspectives.

An important question is the extent to which we can revisit the 2002 scenario, where economic agents, realizing the initial fragility of fundamentals and political risk, promote an escape from the local currency and trigger a financial crisis. Doubts about the fairness of the elections, such as a local replay of what happened in the USA, can be an additional fuel for this combination of uncertainties. We remind you that, unlike many other emerging countries, domestic savings in BRL are enormous[3], after so many years of positive real interest rates. *With what percentage of equity in BRL will agents observe such an uncertain election?*

Among the potentially positive results for the markets, we see two possible scenarios: ***(i)*** the current government is able to reverse the strong loss of credibility with the intervention in Petrobras, regaining confidence in the reform agenda and in his re-election; and ***(ii)*** a third political route proves to be electorally viable.

Despite the distance to discuss the second scenario, if the first does not come to pass, the window will continue to close and the low popularity will bother the market and, above all, the President himself.

* * *

Finally, it should be noted briefly that we are still comfortable with our external scenario. In our previous letter, we highlighted both the progress of vaccinations, quite evident in the USA and England, and the political advances around the Biden Government's ambitious fiscal plan, themes that have been consolidated in recent weeks.

The recent repricing of the US interest curve largely responded to the understanding that we will have very powerful cyclical triggers for the American economy. Later on, the infrastructure plan, which

[3] in the last 15 years, the M4/GDP ratio went from 60% to 113%

has still no defined budget or financing source, will be a relevant topic for the markets and should add momentum to the economic activity from 2022 onwards.

We still believe that the market underestimates the FED's commitment to the new monetary policy framework. In other words, we do not believe in high interest rates before we have, at the same time, very clear conditions of overheating in the labor market and inflation achieved and projected comfortably above 2%.

On the oil side, vaccination continues to bring positive news to the demand. On the supply side, the inaction of *shale* production in the face of the 60 "*magic*" dollars in the market makes us comfortable with our thesis. Recently, Saudi Arabia kept the production cuts strengthening its intention to retake the role of market monopolist, which has relevant effects on the prices.

We intent to dwell on these issues in the following communications. The funds' exposure remains concentrated in commodities and stocks, for the reasons discussed throughout 2020 and 2021.

In addition, there is a short position in emerging currencies and the maintenance of the hedging position in local fixed income.

We remain at your service.

Vista Capital