Vista Multiestrategia Fund and Vista Hedge Fund registered returns of -7.09% and -2.24% respectively in July, and 16.8% and 6.2% respectively in 2021.

July was an especially challenging month. The sequential worsening of assets linked to global reflation resulted in losses, mainly in the commodities strategy.

Our investment process consists of reasonably concentrated long-term positions, overlaid by a relentless search for protections. Especially in July, our hedges did not mitigate the losses of the portfolio's core strategies. Despite the good results in positions in local interest rates, the hedges in dollars against emerging markets and short ETF high yield credit resulted in losses.

Since 2020, we have been discussing the difficulty of such hedging strategies for the portfolio in this economic environment where inflation worries agents and there is some financial repression, which makes it difficult to efficiently use bonds as hedging. No wonder we have seen recurrent episodes of excessive volatility in some specific assets, although without major fundamental changes.

* * *

In a 2018 paper, the IMF described automation as a key factor in the destruction of jobs, especially on the low-skilled ones:

"Recent analysis by the McKinsey Global Institute suggests that 15 percent of global jobs could be displaced by automation by 2030, with larger potential impacts in advanced economies. Another analysis by Hawksworth, Berriman and Goel (2018) estimates that automation can potentially replace more than 30 percent of jobs in most OECD countries by 2030".[1]

Three years later, the shortage of labor in the US is discussed as the main constraint on growth of labor-intensive sectors and, therefore, a potential fuel for inflation. Just as we recognize that automation would be a gradual process, we do not understand that current labor supply constraints should be understood as a persistent phenomenon.

In other words, we do not believe in a permanent inflationary process in developed countries. The current shortage of cars, semiconductors and labor is set to normalize in an increasingly technology-intensive world. Our main inflationary concern remains with finite assets such as commodities, where we keep our biggest exposure.

One of the goals of the gold exposure, which has proven to be inefficient so far, was to have a portion of the portfolio allocated in the opposite direction to the consensus of higher interest rates in the US. Even with important falls in the real interest rate yield curve, gold accumulates losses. In seeking to

1 VESPERONI, Esteban et al. Future of Work: Measurement and Policy Challenges. IMF. 2018.

understand the reason for such dynamics, it is possible that the consensus that attributes the lowest interest rates to transitory factors plays an important role. The end of some production bottlenecks and some loss of vigor in the economic recovery in the second half of the year may change this perception.

On the oil strategies side, the result for the month was also below our expectations. Recently we sold part of the position in this commodity to buy stocks of producing companies of different geographies. Although we believe in higher price levels, our biggest conviction is that the oil floor is higher than expected by the market.

With short crude oil trading close to 15% above the 12-months maturity ahead, it is clear that the market disagrees with our assumption. Thus, by shifting the exposure in short crude oil to stocks of producing companies and to longer crude oil, we are exposed to this "carry" plus an asset variation. In the case of companies, the return of cash to the shareholder brings an extra component.

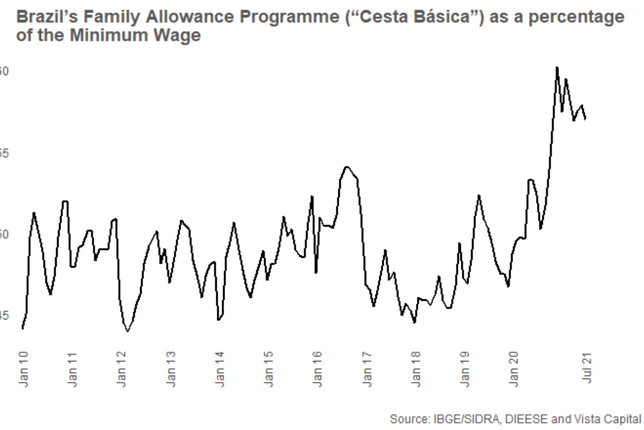
After the month of July it is clear that the exchange was hasty. We do not know if the correlation with global reflation trades or the dismay with the sector prevail over the producer asset, but the fact is that the sector behaved very differently from the commodity itself. Crude oil rose slightly in the month, while the main shale oil ETF fell 14.3%.

As stated earlier, we'll go deeper into our strategies in the oil thesis on the next few monthly letters.

*   *   *

In Brazil, although the election seems distant, the *Palácio do Planalto* (official workplace of Brazil's president) is already in an electoral climate. The marriage with the political center ("Centrão") and the authoritarian affronts about the electoral process are part of the political dance. The expectation of regaining popularity with the advance of vaccination, if frustrated, could bring more populist surges.

Contrary to the consensus, we also believe that GDP growth is not necessarily the best metric for anticipating presidential popularity cycles. Real income and social well-being indicators might better reflect how presidents are perceived by society, especially in an average-income country with as many disparities as Brazil. From this perspective, this chart below calls our attention.



In our opinion, the recent noises surrounding court issued registered warrants ("precatórios") and how to accommodate a new income transfer program reflect the contradiction between the spending ceiling and the electoral cycle. The end of the emergency aid program and a slightly larger new Family Allowance Programme ("Bolsa Família") do not match the livelihood needs of the poorest population and therefore do not seem consistent with the upcoming election year.

Anyway, the food insecurity of part of the population will be a central point of the electoral process. We will closely monitor the developments on this front, maintaining a bias towards more spending, with direct consequences for asset prices.

* * *

Some recent events in China must be considered and may represent implications for both Brazil and the global economy. The ongoing regulatory frenzy, in addition to the obvious impacts on the actions of the sectors involved, will potentially have important implications for China's long-term growth prospects, which are beyond the scope of this letter.

However, the continuous worsening in Evergrande bonds, the main Chinese developer, called our attention, in a context where the expectations of policy easing for the real estate sector has been consistently disappointed and where the implicit guarantee of the central government for a bailout of indebted companies is in check.

The Chinese government is clearly prioritizing the demographic challenges of a country that is aging before getting rich. The weight of mortgages and property high prices is perceived as central obstacles for the formation of families. In addition, the government understands that the property sector absorbs much of the credit growth and contributes to weakening consumption.

Evergrande's problems are no exception, as several developers have struggled to maintain a positive cash flow from their operations after an aggressive cycle of leverage in recent years.

Even if the State in China somehow assists Evergrande in restructuring its debt, therefore avoiding greater systemic risks, the construction activity will be clearly in disadvantage in the capital allocation outlined by the Chinese government's "central planners." That is, the implicit signal of the unknown credit risk of the most indebted company in China has a significant weight in the scenario. In any case, if it becomes clear that the Chinese government will be indifferent to Evergrande's creditors - bail-in and not bailout - the systemic repercussions will be potentially significant.

Therefore, we believe that the effects of the new framework around the property sector will be very important for commodities that are more sensitive to China's investment cycles, especially for iron ore.

We remain at your service.

Vista Capital