Vista Multiestrategia Fund and Vista Hedge Fund registered returns of 13.10% and 5.07% respectively in March and 27.85% and 10.91% respectively in 2022.

In March, the positive outcome was much explained by commodities positions. We also had relevant contributions in long positions in Brazil, both in the domestic equity portfolio and in BRL and interest rates positions. In contrast, although to a lesser extent, international equities were performance detractors.

We will avoid, as usual, giving an opinion on the complex geopolitical scenario or seeking assertive opinions around the Brazilian elections or economic indicators, but rather exploring potential imbalances or updates on the main positions of the fund.

Today we can divide the fund into three positions, with decreasing risk allocations: long positions in commodities, especially oil, and Brazil, and hedge in short positions in the United States. Throughout this letter, we will briefly explore some issues around these theses of investment.

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Looking beyond the important disruptive potential that accompanies the two largest oil producers in the world in some form of military conflict, the imbalance of supply and demand of the commodity, even in times of peace, draws our attention.

After the end of the year holidays and still far from summer, this time of the year is usually a recomposition of oil stocks. In 2022, as we discussed in the last letter, demand has surprised, despite the important mobility constraints that still exist in Asia and the low demand for aviation kerosene. We have been wondering, with some concern, what will happen during the *driving season* in rich countries and with the acceleration of the economic reopening.

It is noteworthy, in this environment, the clumsy political reaction in the West to the current energy crisis. The speech against fossil fuels and environmental concerns are left in the background. The watchword is to subsidise fuel prices directly or indirectly. Have political leaders forgotten the important price signal to discourage demand and stimulate supply or do the very short-term concerns of the political cycle stand out?

The recent decision of the American government to reduce the strategical reserve of oil to dangerously low levels is, in our evaluation, a clear example of this dichotomy. What is the real reason for reducing its reserves, considering that the fall in Russian production is lower than the reduction in global demand still explained by the pandemic? What is the strategic reason to decrease your reserve when the coming years promise a tighter market than the current one? Would not the correct way be to increase the reserves?

Strategic Petroleum Reserves (*SPR*), constituted by President Ford in 1975 as an answer to the embargo crisis of 73/74, aimed at preventing natural disruptions at moments of war or disasters. Over the past few years, the US government has parsimoniously reduced these reserves, which is partly explained by the reduction in the US's external energy dependence. The latest announcements change this dynamic. The current 565 million barrels will be reduced to less than 385 million in 6 months, reaching the constitutional minimum of 360 million.

Despite the still present risks of disruption in Russian production, it seems to us that the decision to release reserves is more associated with discomfort with the current price level of the commodity and not with its initial and strategic objectives. Anyway, in 6 months this excess in supply will basically be over.

Other oil inventory metrics also tell a concerning story. The commercial one, as previously mentioned, is in the opposite direction to its seasonal pattern and with low levels compared to recent years. The float one, in turn, is also at minimum levels. Then there is the extra capacity of OPEC, probably the most important variable for the future dynamics of oil.

As discussed in other letters, this extra ability is somewhat unknown. Despite this, we can state two points: i) compliance with OPEC+ quotas continues to increase and is already at 136%, reflecting the inability of some members to deliver their quotas; ii) Saudi Arabia's production, mainly responsible for extra capacity, will soon reach its highest level at 11 million barrels (excluding April 2020).

The result of this depletion of reserves leads us to three options: i) a significant increase in the supply of countries under sanctions, such as Venezuela and Iran; ii) the demand for oil, highly correlated with nominal GDP, begins to contract; iii) or, alternatively to the two previous scenarios, the oil equilibrium price will have to be much higher than that embedded in the future curve.

We can draw some parallels between these official inventory sales programs and foreign exchange interventions in central banks in emerging countries. The first interventions are usually effective, the following have decreasing returns and afterwards the market starts to count down how long the foreign exchange reserves last.

Alongside these discussions, we were surprised by the low growth of American production. When we first invested in the position, still in 2019, geological and well quality challenges were a relevant part of our low growth scenario, but the most recent production stagnation has surpassed even the most pessimistic projections.

The lack of investment in the sector with a *ROIC* well above the cost of capital, either by political pressure or by discipline in the capital allocation required by shareholders, is symptomatic of current challenges and impresses even the most skeptical investor.

Faced with the inflationary challenges present in the world and particularly in the United States, this is an example where economically inefficient decisions and populist political choices must have relevant effects on potential growth.

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Regarding the optimistic allocation in Brazil, it seems to us that the market overestimates the economic effects of the electoral cycle and underestimates the positive effects of the commodity cycle and the post-pandemic reopening.

Over the past few months, we have commented on our expectation of a better-than-expected performance of the economy. Despite recent bullish revisions of the 2022 GDP consensus, we understand that further acceleration is yet to come.

As much as the lagged effects of high interest rates and consumer indebtedness weigh heavily on forward-looking activity, the expansionary impulses associated with *the commodity boom,* strong reopening and a less tight fiscal policy should stand out. We translated this scenario in an allocation in local equities but ended the recent exposure long in Brazilian reais and in nominal interest rates.

We remain at your service.

Vista Capital