Vista Multiestrategia Fund and Vista Hedge Fund registered returns of -4.75% and -1.44% respectively in November and 21.08% and 8.58% respectively in 2021.

November was another challenging month for the markets. Oil, in particular, registered losses above 20%, being responsible for a large part of the fund's negative result. Unlike the month of October, hedging positions contributed positively for the performance, albeit insufficient to offset the outcome of the fund's core strategies.

November repeated the pattern observed throughout the year - excessive volatility in some specific assets, albeit without major changes in fundamentals. The year's accumulated performance in the stock market and long-term interest rates in the United States and in commodities such as oil, wrongly suggest that the year did not bring major shocks to global markets.

Coming out from the surface, we find an ocean of large var shocks and major drops on various assets. In January, there was the short squeeze event associated with the Gamestop phenomenon. In February, the fall in technology shares. In recent weeks, a sharp drop in oil prices and a very significant correction in global tech stocks. Throughout the year, other shocks were seen in assets linked to China, both from technology and commodities, such as iron ore. More recently, we have seen important reversals in the slopes of yield curves in several countries, with direct effects on the yield curve in Brazil and in our portfolio.

Furthermore, these movements were especially concentrated in global hedge fund positions. As a reference, according to a recent report by Goldman Sachs[1], Long & Short strategies had an average accumulated return in the year of 0%, compared to 23% in the S&P. In the same follow-up report from Goldman Sachs, the “Hedge Funds VIP List” basket rose 9% until November, compared to a 20% rise in the “Hedge Fund Very Important Shorts” basket, a relevant underperformance by historical standards.

Faced with this scenario, we ask ourselves repeatedly what is causing so many shocks. Without an assertive answer, we understand that the movements are in line with what we have been discussing since 2020. We have selected below some excerpts from our December 2020 letter, where we illustrate the impacts of this environment of negative global real interest rates on asset management.

"The rentier is the big loser of this new framework. In the light of theory, we could say that this tax will not work. Agents will realize that cash is being taxed and will run en masse for financial and real assets. Reality is harder than theory. First of all, it is necessary to consider risk profiles. It seems very unlikely that, on

[1] *Goldman Sachs US Weekly Starts, 03/12/2021*

average, agents will seek to allocate all equity into assets.

On one hand, the current environment encourages investors to maintain a very high risk allocation. On the other hand, the limited hedging availability and high volatility encourage a greater cash position.

We noted, then, an extremely benign scenario for asset allocation for the reasons we discussed throughout the letter. However, the allocation need to face the taxes on the rentier, in a more volatile environment, poses challenges to portfolio management."

This process, which tests managers' conviction quite frequently, only reinforces the importance of a robust investment process with a permanent focus on the long term, necessary conditions to navigate these unstable waters.

With no further news regarding the topics discussed in recent months, we will share below some impressions about the American markets and the electoral framework in Brazil, which are still quite incipient. Such matters should be discussed in depth on the next monthly letters.

* * *

American exceptionalism?

The dynamics of global financial markets over the last decade, reinforced since the outbreak of the pandemic, reflect an important phenomenon – the consistent superior performance of US stock indexes compared to stocks in developed and emerging countries.[2] As a benchmark, US equities now represent 56% of the market cap of global equity markets[3].

The significant inflationary acceleration in recent months (much higher than that seen in other developed economies), the very troubled and polarized political environment, the decline of the American role in the global geopolitical scene and the valuation premium over other markets[4] have been sources of internal debate. In the next 10 years, will we look to present times as the symbol of the end of American exceptionalism, at least as far as financial markets are concerned?

We do not have definitive answers to these structural concerns, but growing evidence of a very tight labor market, unlike the rest of the world, profit margins around historic peaks, and the beginning of a monetary tightening process do not seem to us a trivial combination for the continuation of this long trend in favor of American equities.

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[2] *In the last 11 years, the S&P has risen 387%, compared to 6% in the EEM and 41% in the MSCI in the Eurozone*

[3] *DIMSON, Elroy, MARSH, Paul, & STAUNTON, Mike. American Exceptionalism: Long-Term Evidence. The Journal of Portfolio Management Non-US Financial Markets. 2021*

[4] *The 24-months price/earnings ahead of the Ibovespa compared to the S&P is around the worst moments of the Dilma Government*

Brazil

The major outcome of the scenario has been the consolidation of Sergio Moro as the central political force capable of challenging the two main candidates in the 2022 presidential election.

Although we lack confidence in the candidacy's political muscle, the initial steps are interesting. As a rule of thumb, we understand that the most important thing in an election is ownership of the agenda and not the candidate. Bolsonaro did it very effectively in 2018 by incorporating for himself agendas against the PT, corruption, the system and in favor of the family, public safety, religion and a liberal economic policy. Besides, of course, the national flag.

Sergio Moro launched his candidacy by stealing the space of the third way, while the PSDB sank into its own problems. Moro indicated that he pursued a liberal economic agenda, openly defended the spending cap in Congress and has sought to approach military representatives, with, for example, the affiliation of General Santos Cruz to Podemos party. The recent nods to evangelical groups and the constant attack against the PT on their social networks complete the range of agendas associated with those in favor of Bolsonaro.

Although incipient, this capacity for political articulation surprised us.

In the coming months, the eventual consolidation of the Moro candidacy, which should seek to expand its political coalition, and the definition of the vice-presidential candidate on the slate headed by the PT party will be important developments for the markets that we will monitor.

We remain at your service.

Vista Capital