Vista Multiestratégia FIM and Vista Hedge FIM returned -7.2% and -2.7% in September 2020, and had cumulative returns of 14.8% and 5.8% in the year, respectively.

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At the beginning of the month, we sold the long position in U.S. Equities, expecting that the electoral uncertainty in the United States and the already less attractive valuations could drive a price correction. Such movement in fact happened, but it was followed by an important fall in some asset classes. Gold, oil and Petrobras were the main detractors of the month.

At the present time, according to our risk management rules, we apply a lower level of the stress limit for both funds.

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Our main investment thesis was the same in the last letters. We understand that the persistent environment of negative real interest rates and the expansion of global central bankings' balance sheets require a structural allocation in real assets.

The thesis is reflected in our core portfolio through long positions in shares of gold mining companies (gold risk), Petrobras and oil.

The challenge of finding hedging intensifies every day, as the world migrates to a new volatility regime, impacted by the new negative correlation between the real discount rate and the growth of profits.

We do not see in the American election - an important short-term risk for markets behavior - a relevant driver for the current portfolio positions, so we remain focused on the long term, despite the short-term above average volatility.

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The optimistic thesis about oil is usually antagonized by the expectation of the accelerating adoption of clean energy around the world, especially after the likely victory of Democrats in the USA.

We do not see the failure of the clean energy movement as fundamental to the positive oil performance. We are enthusiastic about the success of the green economy and endorse the need for changes in the way the environmental policy is conducted.

However, some information helps explain how such perceptions can coexist.

The production of American electric cars has shown difficulty in scaling, even with all government stimuli. According to the US Office of Energy Efficiency & Renewable Energy, electric car penetration has stalled at around 2% since 2018.

Oil consumption in the United States is twenty-two barrels per capita per year, while China is just over three. It is expected that the gradual convergence of the average Chinese income continues, as observed in richest economies, with implications on the oil consumption. In 2020, despite the impacts of COVID, the Chinese demand was higher than in 2019.

What will happen if the strategy of accelerating the rebalancing of the Chinese economy towards domestic demand, an explicit government objective, is successful?

The reality of the demand still defies the expectations of a green revolution in the next years.

On the supply side, the oil market requires high investments just to keep production at current levels.

If countries fulfill the Paris Agreement's ambitious carbon reduction target, oil demand will fall less than the global production depletion, 8% per year on average.

In December 2019, at *Vista Day* we talked about our vision of the challenging future reserved for the American *shale.*

Technology gains were depleted, companies were burning cash with oil above USD 60 per barrel, cost of capital was increasing and the best basins lost their productivity.

We foresee a shortage of oil in the world, considering OPEC's idle capacity of 2.5 million barrels, EIA's demand projections and the absence of further growth in shale production.

COVID was a surprise and the resulting demand shock made the discussion of supply in the short term harmless. However, the current structural scenario is more positive than it was before the pandemic.

First, the tactic adopted by OPEC and Russia seems appropriate. The reminder that the cartel may stop controlling prices in an environment of excess supply generates a ripple effect: (i) changes the perception of the risk associated with investments in production, (ii) raises the cost of capital for projects and (iii) increases the breakeven value of production.

Second, American production is weaker than expected. The decline is expected to increase over the next few months with the reduction in new drilling wells, bringing American production to more than four million barrels below that we estimated at the end of 2019.

Finally, perhaps the most important point. The new scenario for the sector is a shortage of capital, the need for greater returns and, possibly, greater regulation.

In summary, the balance of supply and demand, which already seemed fragile at the end of 2019 when the barrel was quoted at USD 60, is even more complicated and sensitive.

The fall in American production in volume greater than OPEC's idle capacity combined with the recovery of demand to 2019 levels puts the market in deficit one more time and makes OPEC again have a monopoly power.

In this scenario, prices must react to two important points:

i) *From what price per barrel does shale production resume?* In 2019, companies burned cash with oil at USD 60 per barrel. We understand that the capital market will have a much greater scrutiny about the sector's profitability. In addition, the geological issue poses additional challenges to this return to production.

ii) *What is OPEC's target price?* Historically, the cartel sought to bring the level of inventories in line with the five-year average, which was normally reflected in a price well above the current price. Upon reaching this rebalancing, the cartel avoided stronger cuts to avoid stimulating the growth of shale. OPEC's recent speech drew our attention to the goal of balancing the market in the first quarter of 2021 and then keeping it in deficit. This reveals a confidence in the shale's lack of reaction not seen in recent years, which coincides with our assessment.

The optimistic thesis is also partly reflected in the long position in Petrobras. With few changes in fundamentals, the country risk premium and the de-rating of the shares of oil companies around the world have more weight in the stock price in the short term.

The recent authorization by the STF (Brazilian Supreme Court) for the sale of refineries is another relevant step in the trajectory of reducing political risk. The discipline in capital allocation remains strict and the company reaffirmed that it will direct investments only to resilient projects or with low breakeven. Finally, the increase in the export share also helps reduce the impacts of an interventionist adventure.

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Except for Petrobras, we continue with low exposure in Brazil in our portfolio. The recent rise in premiums makes the search for hedging in the fixed income and foreign exchange markets more complex, but we are not convinced that the current premiums are sufficiently robust vis-à-vis the risks in the macroeconomic and political fields. We therefore maintain a cautious position.

In particular, the maintenance of the spending ceiling, the main fiscal anchor in recent years, has run into several political, economic and social restrictions.

The so-called Emergency Aid for People in Vulnerable Situations, which has decisively mitigated the social costs of the pandemic still underway, clearly spells out these restrictions. The program, which sinned due to over-coverage and it extremely high cost in a country already heavily indebted, has been instrumental in increasing the popularity of the current government, which seeks to transform it into a permanent income transfer project. Although we recognize the relevance of having more comprehensive income programs in such an unequal country, we understand that the fragility of the fiscal framework does not give space to accommodate such expenses without a structural overhaul of expenses of a mandatory nature.

Furthermore, an abrupt end of the Emergency Aid can impact negatively the government's popularity and reveal electoral ghosts that could remind us of what happened recently in the Argentine elections, for example. If the market, as it usually does, discount this risk in a relevant way, the degrees of freedom of economic policy will become increasingly scarce.

The resolution of this political and fiscal equation is not trivial and requires political and negotiating skills from all the agents involved, which we have not seen clearly in Brasilia.

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Regarding the long position in gold mining companies (gold risk), the risk we observed is the occurrence of inflation at levels well above expectations. In that case, central banks would be required to raise real interest rates significantly.

Historically, oil has been a hedge against inflationary outbreaks. The inverse also seems true. An additional drop in oil would likely open the way for central banks to implement even more expansionists policies, with potentially positive effects on gold prices.

At the end, we are still optimistic regarding the two positions that can also be considered as a hedge against each other. Throughout 2020, the very different performances of oil and gold are consistent with this thesis, although the correlation of the two commodities was positive in the correction of the markets that occurred in September.

To express this view, we believe that the best investment is an exposure in gold miners, with free cash flow yield between 13 and 20%, and in Petrobras, with free cash flow yield above 20%.

Such estimates consider the current price levels. Naturally, if gold and oil prices rise, the asymmetry that we see in these investments will become even more evident.

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