

In the second quarter of 2023, Vista FIA Fund return was 21.4% compared to 15.9% of the IBOV in the same period.

The Vista Long Biased Fund return was 24.6% compared to 3.1% of the CDI in the same period.

Since its inception on January 1st, 2015, the Vista FIA Fund return is 206.1%, compared to 136.1% of the IBOV in the same period.

Since October 26, 2018, The Vista Long Biased Fund return is 54.1%, compared to 37.5% of the CDI in the same period.

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The positive highlights were the investments in Hapvida, Lojas Renner, and Natura, all associated with the domestic business environment. The result of Petrobras also contributed positively and, given the appreciation of the stock, we ended our exposure to the thesis throughout the quarter.

After the harsh and rapid monetary tightening – 1175 basis points increase in the SELIC rate in less than two years –, the first signs of a reversal in the monetary policy cycle came with much more benign inflation data in the quarter, encouraging a reduction in the risk premium of listed assets in the second quarter of 2023.

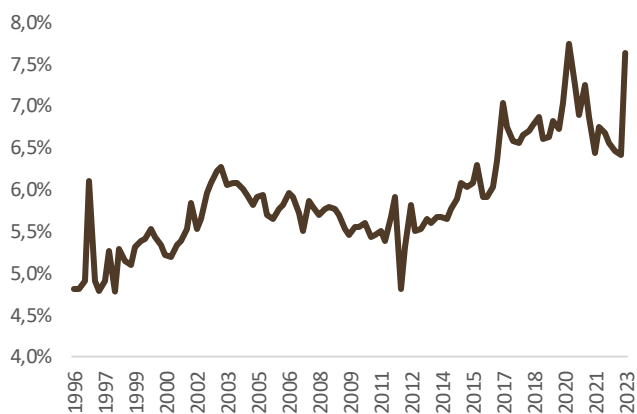
Still regarding macroeconomic data, the annual GDP growth of +1.9% in the first quarter of 2023, compared to the same quarter of the previous year, was a positive surprise. It is worth noting, however, the significant

contribution of agribusiness, which grew by +21.6%. Excluding the agribusiness sector, we would see GDP growth much closer to stability.

The event is not a one-off but a long-term trajectory: the agribusiness sector has been the driving force behind the country's anemic growth, continuously increasing its share in the GDP over the last decade.

Figure 1: Agribusiness Sector

% of GDP, quarterly



Source: Treasury.

Brazil's vocation for agribusiness is evident: good availability of land, water, and a climate that is very conducive to the development of agricultural activities. These are natural competitive advantages that can be leveraged with investments in technology, innovation, and logistics infrastructure.

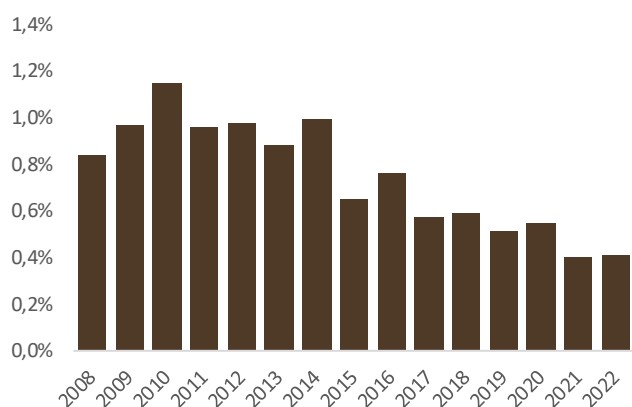
In the public sector, we have in Embrapa a rare public agency that is a world reference acting at the frontier of research in the sector, developing innovations in grains and technologies to improve productivity.

On the other hand, investments in logistics infrastructure to address bottlenecks receive only 18%

of the very limited budget capacity of public investments in Brazil¹. It is up to the private sector, in the country's volatile business environment, to make the long-term investment to address the existing gaps.

Figure 2: Public Investments

% of GDP



Source: Treasury.

Despite the natural vocation for the activity, until the last IPO cycle, the representation of agribusiness in the stock market did not reflect the sector's relevance for the domestic economy, not even in terms of number of companies.

Between 2020 and 2022, a series of initial offerings allowed investors in the stock market to access the capital of companies that operate in different parts of the chain – producers of pesticides or seeds, retailers of inputs, logistics companies, etc. –, where results are less volatile and less dependent on the price of grains and the return on capital employed is more adequate.

¹ Investments in transportation as a percentage of the Central Government's investments. Source: Treasury.

In this letter, we will comment on the investment in Rumo, a company in which we have invested for years, and which became, during the second quarter, the largest position of our equity funds.

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Rumo

Background

The Brazilian railway sector underwent a privatization process between 1996 and 1998, after decades of decay and underinvestment under state control.

At that moment, GP Investimentos acquired the railway network that covers the south of the country, taking the first step towards the creation of what would become América Latina Logística (ALL). After the merger with Brasil Ferrovias and Novoeste in 2006, the group took over the concession of the stretches that are currently known as the Paulista, Midwest and North networks, consolidating a large part of the independent railroads in Brazil.

ALL adopted a strategy focused on cutting costs and investments, which initially multiplied accounting profits and pleased market agents. GP Investimentos sold its stake in the operation in 2008 and control of the company remained in the hands of pension funds, which did little to change the company's culture and management strategy.

For over 15 years after privatization, underinvestment in a capital-intensive business made operational bottlenecks pile up: slow train transit speeds, constant unscheduled stops, and countless accidents. ALL started to break a series of contracts with customers and to receive fines and assessments from ANTT (Brazil's Land Transportation Agency) for not complying with investment and track maintenance agreements, displeasing practically all its stakeholders.

One of these was the client Rumo, a subsidiary of Cosan created in 2008 to operate in the origination and logistics of transportation of sugar in São Paulo. What was supposed to be a partnership turned into a corporate and legal dispute. To finalize the processes that put the continuity of both operations at risk, the solution found by the partners of Rumo and ALL was the merger concluded in 2015, which transformed Cosan into the controller of what is now *Rumo ALL*.

The team of executives that led the turnaround challenge, headed by Júlio Fontana, radically changed its strategy: the priority became investing in improving the network and expanding transport capacity.

The new management renegotiated the debt, called in new capital, closed long-term contracts with the main customers to guarantee volumes, and approved the new business plan with ANTT, the concession's regulatory body.

The restructuring allowed the total transported volume to grow by 14% per year since 2016. Investments also brought efficiency gains, reflected in the 30% drop in costs per TKU² in real terms over the same period. Rumo EBITDA rose from 1.5 billion BRL in 2014, the year before the change of control, to 4.6 billion BRL in 2022. Under the previous management, the former ALL had never invested more than 1.0 billion BRL in a single year. The new Rumo more than doubled the capital allocated annually, having invested around 20 billion BRL between 2015 and 2022.

The return on invested capital has already shown substantial improvement – the marginal ROIC of new investments made so far was above 12%, comparable to the ROIC of -4% realized in 2014 –, but we believe that it will increase as recent investments, such as the acquisition of Malha Central and addition of capacity in the North and Paulista networks, reach maturity.

Current scenario of the company's grain flow and pricing power

The differential pricing method consists of charging different prices based on the usefulness of the service provided to each customer. In the case of Rumo, the practice is reflected in different tariffs, according to the region of origin of the cargo to which the customer wants to transport. The further away from the railroad the cargo to be transported is, the lower the rail tariff

² TKU = Ton per kilometer. Metric of volume per distance traveled.

needs to be to compete with other logistical alternatives, while maximizing the amount charged.

It is notorious that Brazil is a predominantly road logistics country, especially in Mato Grosso where Rumo owns the only existing railroad. In the countryside of the state, Rumo competes mainly with *Corredor Norte*, whose flow depends on a combination of road and water transport. In this way, Rumo benefits from inflationary road freight scenarios, such as what we are currently experiencing in Brazilian agribusiness.

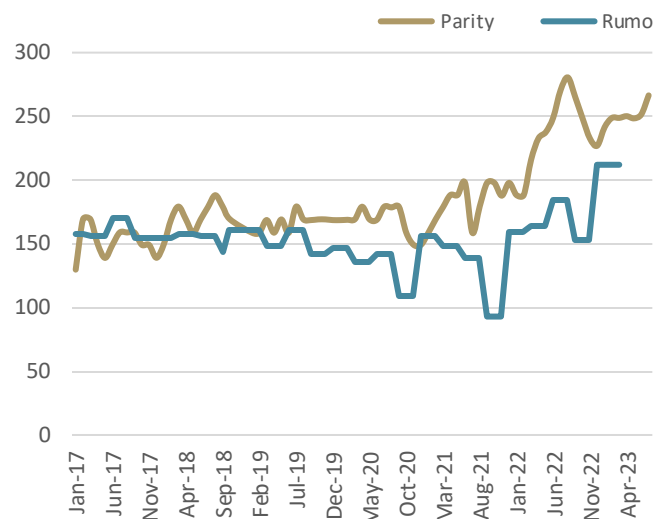
Heated demand for logistics – 23% growth in the grain harvest in the last two years – associated with unprecedented inflation in the cost of acquiring trucks – data from the FIPE⁴ table show an average increase of 100% in the price of a new truck over the past three years – boosted road freight. In the important export corridor between the city of Sorriso and the port of Santos, road freight increased from 311 BRL per ton transported in July 2021 to 506 BRL in July 2023.

A well-executed pricing strategy enabled Rumo to capture part of this competitiveness differential in relation to trucks through real tariff readjustments (around 30% in the first quarter of 2023).

Despite the recent rise, we believe there is still room for further readjustments. Currently, we see the company with around 25% discount to marginal competitor parity (Figure 3).

Figure 3: Parity Price X Rumo Tariff

In Brazilian Reais per ton



Source: IBGE and Vista Capital.

Extension of the railroad in Mato Grosso

The *Lucas do Rio Verde* Project – approved in 2021 – will expand the railroad’s area of influence in Mato Grosso, reaching the north of the state. The first additional terminal will be in Campo Verde, 210 kilometers away from Rondonópolis, where Rumo’s main terminal is currently located. This phase should be completed by December 2025 and the expected investment is between 4 to 4.5 billion BRL.

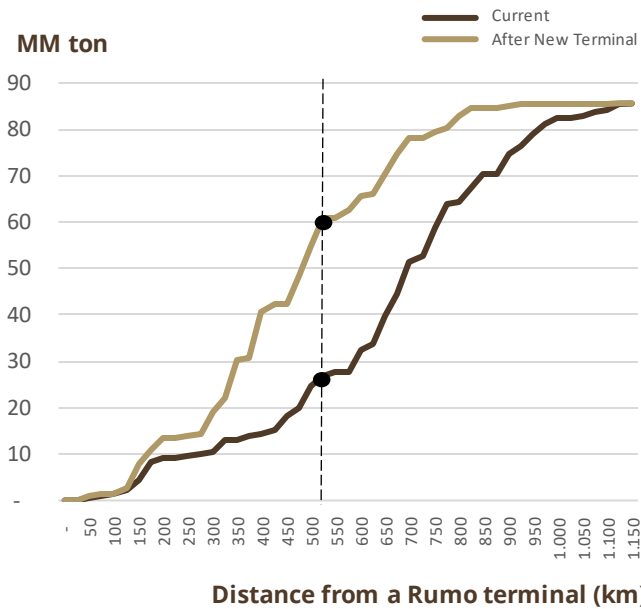
The Campo Verde terminal will be closer to the main grain producing regions in the state (Figure 4), increasing the railroad’s competitiveness compared to other logistical options in the countryside.

The grain will travel a shorter distance by truck before reaching the railroad, which will allow Rumo to capture

⁴ Institute of Economic Research Foundation.

part of the road cost avoided with an increase in the rail tariff. Considering the current rail network, there are about 25 million tons of grain produced at a distance of up to 500 kilometers from the nearest shipping terminal (influence area). With the new terminal in Campo Verde, that number will jump to 55 million tons of production in the same area of influence.

Figure 4: Grain Supply Curve in Mato Grosso 2022

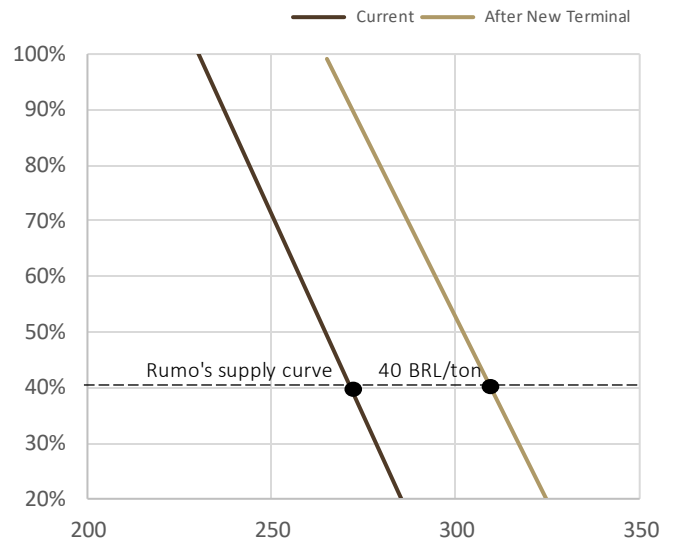


Source: IBGE and Vista Capital.

Currently, Rumo's main competitor for grain produced in Mato Grosso is *Corredor Norte*. In this logistical alternative, cargo crosses the troubled BR-163 highway by truck, is transferred to barges in Mirituba, and travels along the Tapajós River to the port terminals located in the State of Pará, where they board export ships. Using market references for the cost of road and waterway freight, we were able to draw Rumo's theoretical demand curve with the current network and

after the entry into operation of the new Campo Verde terminal.

Figure 5: State Production (%) x Average Parity Tariff (BRL/ton)



Source: IBGE and Vista Capital.

We see that the demand curve shifts to the right – a higher tariff for the same level of volume accessed – reflecting improved competitiveness, as a result of the shorter distance traveled by truck. We estimate a potential average tariff increase of 35 to 40 BRL per ton, or 15% in relation to the company's current average tariff.

In November 2022, Rumo presented an upward revision of the total expected investment value for the *Lucas do Rio Verde* Project, reflecting higher costs than those initially expected. This was not the first time that the company raised the expected investments in projects, which naturally compresses its profitability, everything else remaining constant.

However, we have never seen the company as well positioned as the marginal outlet for grains in Mato Grosso, with the ability to pass on prices due to any additional pressures if necessary.

The strength of the Brazilian agribusiness sector comforts us that there is still a large market to be explored on the demand side. Production in Mato Grosso should continue to grow by 6% per year over the next 10 years⁵ and Rumo's share of exports, 45% in 2022, falls short of its maximum potential. In this environment, we understand that new opportunities for capital allocation may arise so that the private sector continues to play its leading role in addressing bottlenecks on the supply side.

We remain at your disposal.

Vista Capital.

⁵ IMEA outlook 2032.

Vista FIC FIA Historical Performance

Year	Vista FIA	IBOV
2015	3.2%	-13.3%
2016	53.7%	38.9%
2017	26.7%	26.9%
2018	24.5%	15.0%
2019	46.2%	31.6%
2020	9.9%	2.9%
2021	-20.8%	-11.9%
2022	-9.5%	4.7%
2023	6.2%	7.6%
Jan	4.3%	3.4%
Feb	-7.6%	-7.5%
Mar	-9.2%	-2.9%
Apr	-1.1%	2.5%
May	13.1%	3.7%
Jun	8.6%	9.0%
Since Inception	206.1%	136.1%

Vista Long Biased FIC FIM Historical Performance

Year	Vista LB	CDI
2018	2.9%	1.1%
2019	36.4%	6.0%
2020	21.8%	2.8%
2021	-14.7%	4.4%
2022	-6.0%	12.4%
2023	12.4%	6.5%
Jan	5.5%	1.1%
Feb	-7.5%	0.9%
Mar	-7.5%	1.2%
Apr	-1.0%	0.9%
May	14.1%	1.1%
Jun	10.3%	1.1%
Since Inception	54.1%	37.5%

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