

Vista Multiestrategia Fund and Vista Hedge Fund registered returns of 10.21% and 3.48% respectively in May and 17.73% and 6.05% respectively in 2021.

The positive results came from commodities, stocks and the Brazilian Real.

In our last monthly letter, we highlighted that the fund was more exposed to Brazil risk and with reduced hedges. Faced with what we believe to be a medium-term positive asymmetry, we are long in Brazilian Reals and we have increased our directional allocation on equities.

At that time, we highlighted that an extremely positive commodities cycle, accommodative financial conditions, and the continuity of the vaccination process could produce economic growth above expectations. Surprises in the federal tax collection seemed like clues in that direction.

In recent weeks, the market consensus has moved in that direction. With the release of the first quarter GDP, it is not possible to rule out a growth of up to 6% in 2021. It is becoming more evident the positive implications of the commodities boom on the external accounts and, especially, on our fiscal framework. With the GDP deflator growing at more than double digits and negative ex-post real interest rates, the arithmetic around the trajectory of public indebtedness becomes much more favorable.

In some ways, we are seeing how a higher inflation can deal with the fiscal machine, even temporarily.

The strong recovery in investment also calls our attention. Even though gross fixed capital formation in national accounts is 8% below the peaks of 2014 and the accounting import of oil platforms makes that number stronger, the growth compared to the same quarter of the previous year is 17%. There is evidence that the agribusiness and the advances in companies' digitalization explain an important part of the investment boom that we have been experiencing for a few quarters. As a reference and already using the figures available for April, the production of capital goods for agricultural usage grows more than 60% in the year in relation to the same period in 2020.

Despite the positive cyclical moment, our issues regarding the structural problems of the Brazilian economy remain. Even if GDP grows 6% in 2021, our average growth will be 0.5% in the last ten years and we will hardly have an average growth much higher than 1.5% over the four years of this government. In other words, our potential growth is low, and we do not see that the recent reforms having enough fuel to change this scenario.

Recent advances such as the privatization of CEDAE, which was only possible with the new sanitation framework, must be celebrated. However, we are skeptical that we will have relevant productivity gains without deep changes in the tax system and without a more aggressive trade liberalization policy. The debate regarding the quality of our human

capital, the potential effects of persistent unemployment on part of the workforce, the end of our demographic bonus and our distance from the global production function are a separate chapter.

The recent concern with the hydrological scenario – the current year's wet season was the worst in the 90-year historical series – is symptomatic of our supply-side constraints. GDP is 3% below 2014 peaks and there is a relative stability in energy consumption throughout this prolonged stagnation. Such frailty at this stage of the economic cycle deserves to be highlighted.

Our assessment, for the time being, is that the availability of thermal plants and the greater participation of alternative sources in the electricity park are important risk mitigators and that the central scenario is one of more costs for the consumer and a lower probability of rationing in relation to other cycles. The persistence of drought and new positive growth revisions could change this picture.

In the inflationary field, the recent exchange rate appreciation is welcome and helps mitigate part of the risks associated with the transfer to tradable goods. However, with the advance of several productive activities reopening, we will be watching the potential recovery of margins in sectors that suffered strong cost pressures on producers and a possible inflationary pressure in some services. To put it another way, we are skeptical that the Central

Bank will have an easy task in converging inflation towards the center of the target. The hydrological crisis has the potential to further complicate this scenario, including the impact of water restriction on irrigated crops, which suggests that the Central Bank may aim at a more gradual disinflation.

In summary, our short-term optimism about Brazilian assets is partly reflected in price and we are still concerned about the long-term. We have adjusted the position size accordingly.

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On the international side, which accounts for the largest portion of our risk allocation, we continue with our exposure on commodities – oil, gold, and uranium. In turn, fund's exposure to international equities and currencies remains relatively low.

In the macro field, the debate around the transitory nature of inflationary pressures in the United States remains a central issue and will not be concluded in the coming months. The obvious sectoral imbalances between supply and demand will not be resolved in the short term, and we will not know any time soon how households will distribute their substantial excess savings.

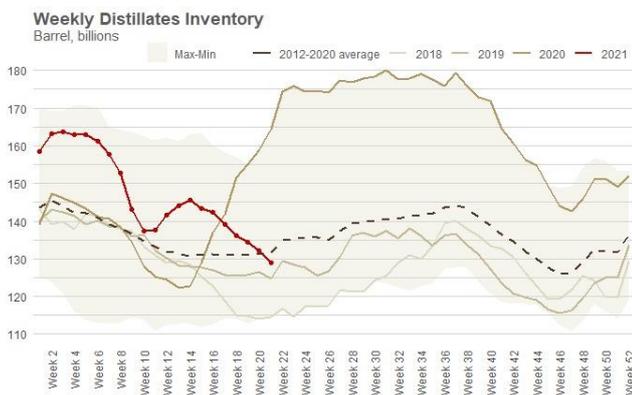
The credit cycle in China has gained increasing space in our risk mapping. The impacts of the global boom on Chinese exports reinforce the central policy mantra there – it's time to minimize the risks to financial stability, which involves steering a credit

slowdown, historically associated with a cooling of the real estate market and investment in infrastructure. Therefore, the impacts of this scenario on iron ore and steel are on our radar.

Anyway, our main risk allocation remains in commodities, especially in oil. The successive fall in inventories (see graph below), the recurrent signs of discipline on the supply side and the accelerated reopening of developed economies are consistent with our long-term thesis and only reinforce our conviction. Furthermore, commodities, especially oil, are the ones fueling tensions around the inflationary process.

We remain at your service.

**Vista Capital**



In the next monthly letter, we will go into more details about the oil thesis, given the importance of coming months for the position.

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