Vinci Partners Listed Equities
Mosaico Fund – Quarterly Letter
2Q 2020







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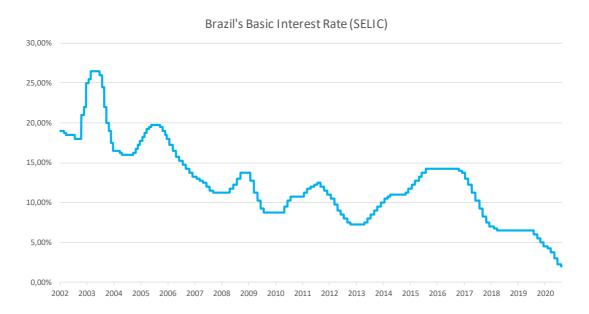
Dear investors,

In the first half of 2020, the Vinci Mosaico fund fell 15.3%, while the Ibovespa lost 17.8%. Since its inception in July 2010, the fund has had an average annualized return of 17.7% versus 4.2% of the Ibovespa.

Gradually during the second quarter we reduced the defensive positions that were built between March and April and cut our cash position. We changed our stance as we saw the political crisis dissipating as the government forged an alliance with the center parties and adopted a more pragmatic approach. The benefits of such alliance are already being reaped, with an important improvement in the Congress agenda that brought the approval of the new sanitation law and the return of discussions on the tax reform.

Another important point for becoming more optimistic was the stabilization in the number of COVID-19 cases in several regions of the country, which allowed for the partial reopening of the economy. In addition, the latest economic data has come above analysts' expectations, partially supported by the stimulus created by the government's emergency aid program. As a result, GDP projections for 2020 have improved, moving from around -7.0% in May to around -5.5% today (Vinci's economic team recently revised this year's GDP decline from -6% to -5%).

Nevertheless, interest rates continued to fall. The Selic rate reached an incredibly low level of 2% p.a. in August and should remain at these levels (or a little lower) until the end of 2021, reflecting the great idleness in the economy.



Source: Vinci Partners





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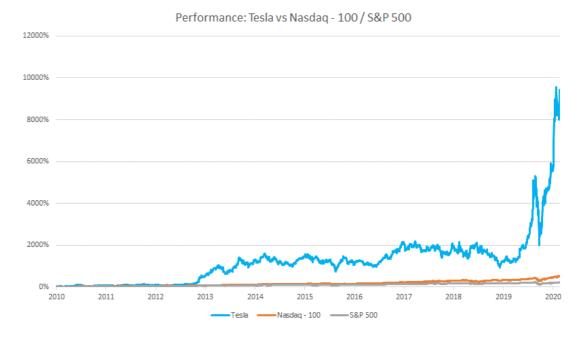
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We believe that this environment of an economic recovery with very low interest rates and the continuous progress in the development of a vaccine for COVID-19 should keep Brazilian stocks in their recovery path. Our portfolio remains concentrated in utilities, financials and commodities stocks.

Elon Musk's Brave New World¹

Interestingly, the best performing stock in the Nasdaq 100 this year was not an online retailer, like Mercado Libre, or even a virtual meeting platform like Zoom. While the world has seen its mobility hijacked by quarantines, the biggest jump in the US technology index came ironically from a vehicle manufacturer, Tesla Motors (+ 250% so far this year).

Behind Tesla's rise is the increase in production of its Model 3, a more affordable electric vehicle (priced in the U.S. at \$ 35,000), which is enabling the company to finally become profitable. Tesla is now the most valuable automaker in the world, at \$ 265 billion.



Fonte: Vinci Partners e Tesla

Time will tell if there is an excess of optimism in Tesla's stock, but we can already say, with no doubt, that its founder, Elon Musk, is one of the most influential and innovative entrepreneurs of this century. His companies shook with a breath of innovation important segments of the

¹ The major source of information for the following text was the book "Elon Musk: Tesla, SpaceX, and the Quest for a Fantastic Future" by Ashlee Vance. In cases where the information came from alternative sources, we indicate the origin of the information in a footnote.



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economy such as the automotive, aerospace, energy and banking industries. In recent corporate history, the disruption brought by Musk to such diverse sectors can only be paralleled by Steve Jobs' legacy, which revolutionized the personal computer, animation, music, telecom, among other industries.

Born in South Africa in 1971, Elon had a troubled childhood, the result of a bad relationship with his father and a reclusive temperament, which made him a bullying target. As a child, Musk developed a strong taste for reading, science fiction and computing. Despite having a privileged memory and intelligence, he was not a great student.

At seventeen, Elon moved alone to Canada, the birthplace of his maternal grandparents, to work and study. He joined Queen's University in Ontario and two years later transferred to the University of Pennsylvania, where he majored in economics and physics.²

In 1995, Musk, who was 24 at the time, moved to California to pursue a PhD in physics at Stanford University, but soon dropped out of the course to work with start-ups in Silicon Valley.

Shortly after, still in 1995, Elon founded his first company, Zip2, together with his brother Kimbal. With a privileged understanding at that time of internet's potential, Musk intended to make his website a kind of "online yellow pages", where, in addition to the ads, there would be maps showing how to reach the advertisers.

Elon was the company's programmer, while Kimbal led the sales force. In that first endeavor, Musk's determination was already evident. The brothers literally lived in the office and Elon hardly left the place. Several other characteristics of Elon's personality could already be noticed at this stage, such as his harsh and impatient style, as well as the tendency to set unrealistic and optimistic deadlines.

Zip2 was sold to Compaq in 1999 for \$ 307 million and Elon pocketed \$ 22 million from the sale. This outcome brought the resources and confidence for Musk to embark on his second start-up. That same year, X.com was born, an ambitious project to create a fully digital bank still in the 20th century. At Musk's bank, there were fewer fees and it was possible to transfer money via the website or by email - absolutely revolutionary ideas at that time.

Coincidentally, X.com's biggest competitor was its building neighbor, a company called Confinity, whose online payment service was called PayPal. The two start-ups embarked on an unremitting struggle for market share, as both knew there was only room for one winner in that dispute. After each side burned millions of dollars in promotions, the two companies decided to merge. The company would adopt the name PayPal but its main shareholder and CEO would be Elon.

Despite the merger, internal feuds remained and added to serious operational problems. Faced with these challenges, Musk ended up the victim of one of the most famous coups in the history

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² Source: Wikipedia



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of Silicon Valley. Upon leaving for honeymoon in 2000, Elon was surprised by a board decision to remove him from the company after many PayPal employees rebelled against him. This passage bears some resemblance to the legendary decision by Apple's board to expel its then young founder Steve Jobs in 1985.

Although distant from the company, Musk retained his Paypal shares and cashed \$ 165 million when the payment service company was sold to eBay in 2002 for \$ 1.5 billion.

Away from the pressure imposed by Paypal's corporate war, Elon turned to themes that populated his imagination as a child and the main one was the dream of colonizing Mars. Musk believed that it would be essential for the survival of humanity that men created the means to inhabit other planets and Mars would be our best bet.

Musk's initial idea was to build a small greenhouse on Mars to grow a plant. For that, he would need a rocket to take the greenhouse. Elon tried to buy some old Russian ballistic missiles to turn them into rockets, but he was frustrated by the high cost of the missiles and the fact that the Russians did not take him seriously.

Then, after months of study, Musk envisioned the possibility of building his own rockets. He believed that there would be a market for small rockets that could mean a low-cost alternative for transporting satellites and cargo into space. This cheap alternative would greatly expand the satellite market. And the new venture could reinvigorate the aerospace industry, which had entered a stage of lethargy since the 1970s and, therefore, contribute in an economically viable way to its goal of populating Mars. With that in mind, SpaceX was born in 2002.

The secret to SpaceX's success would be to make engines more efficient and cheaper than those of its competitors, who lived on large government contracts and placed an excessive emphasis on performance while neglecting cost control. With lean teams, the use of state-of-the-art technologies and materials and an almost complete verticalization, SpaceX intended to make its rocket (Falcon 1, named after Star Wars' Millennium Falcon) cost 10 times less than Boeing and TRW's alternatives.

SpaceX employees were brilliant engineers who followed the motto of start-ups to find cheap and creative solutions and worked with the determination of those who act on behalf of a greater cause.

Nevertheless, the company set itself unrealistic targets and went through a series of setbacks. Its first launch, which was supposed to happen in 2003, only occurred in 2006 and culminated in the rocket's explosion due to a technical failure. The next two attempts (2007 and 2008) also failed.

In parallel, Musk was getting involved with another topic that fascinated him since his youth: building an electric car and, thus, helping to make the world less dependent on oil.

In 2004, Elon financed the creation of Tesla Motors. Tesla's plan was to make a luxury sports vehicle with an electric motor and lithium batteries, called Roadster. The electric motor allowed



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for an incredible start (0 to 100 km / h in 4 seconds) and the wealthiest people would probably agree to pay an extra price to have the status of driving an environmentally friendly car. As the production of the electric car would grow, its cost would fall, allowing for its massification.

Like SpaceX, Tesla suffered from the over-optimism of its founders. The development of the Tesla Roadster, which was expected to cost \$ 25 million, required \$ 140 million and its launch, scheduled for early 2008, was delayed by more than a year. The lack of costs control led to the oustering of Tesla's CEO and co-founder, Martin Eberhard, in 2007.

In 2008, Musk found himself in a critical situation. He had put almost all of his fortune in SpaceX and Tesla, and the two ventures were in deep trouble. His visionary aura began to be questioned. In addition, the world economy was heading for the biggest recession in decades and venture capital funds' risk appetite was gone. And to complete, SpaceX's third launch attempt in August 2008 had just exploded in the air.

Elon's response to the brutal pressure was to persevere. His workaholic and almost tyrant profile pushed the Roaster project forward. And in September 2008, in its final attempt, Falcon 1 successfully ascended to the skies. That December, Musk coordinated yet another \$40 million capital round at Tesla, which was on the brink of bankruptcy, and was informed that NASA had elected SpaceX as its supplier for the International Space Station, providing the company a \$1.6 billion of cash advance.

From late 2008 onwards, Musk's luck changed for the better. SpaceX was successful in creating the Dragon capsule, used to take supplies to the International Space Station. Dragon's development cost only \$ 300 million, 30 times less than its competitors would spend on similar projects. One of the advantages of Dragon is that, unlike the previous capsules, it manages to land at a predetermined location on the return to Earth and, thus, can be partially reused. Last May Dragon took crew members to the International Space Station for the first time.

At Tesla, head winds also started to blow from 2009 onwards. That year, the company announced the prototype of its sedan, the Model S. The car was launched in 2012 and became the first electric vehicle to be elected as the car of the year by Motor Trend. With an autonomy to run 480 km, a huge touchscreen on the dashboard, absence of buttons and car updates via software, Tesla achieved the feat of transforming its car into a gadget. In addition, the car purchase process was also innovative, as it could be done either over the internet or through its own stores that resemble Apple Stores.

Tesla's reckless financial situation was resolved step by step. Between 2009 and 2010, Daimler and Toyota injected US \$ 100 million into the company and became its shareholders. Tesla inherited a plant that Toyota decided to close in California, which became the production base for the Model S. And in June 2010, Tesla went for its IPO, raising \$ 226 million.

Tesla is expected to produce around 400,000 cars this year and remains committed to the idea of massifying its products. About 80% of its sales are concentrated in the Models 3 and Y, which have entry prices of less than US \$ 40 thousand. Another differential of Tesla is the free recharge

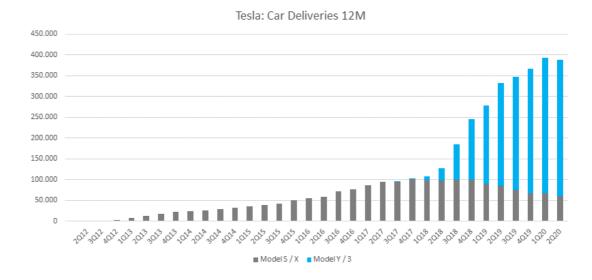




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network the company implemented for its users, currently composed of almost 2 thousand stations. Additionally, Tesla believes that its vehicles will soon be autonomous.³.



Fonte: Vinci Partners e Tesla

Many luxury car makers, such as Jaguar, Volvo and Audi, are responding to Tesla's challenge to create electric cars. However, when thinking about mass electric vehicles, the American manufacturer appears to be years ahead of the competition. The best example in this regard was Tesla's decision to build its "gigafactory" for making lithium batteries. Thus, the company, which is already responsible for a large part of the global demand for these batteries, has guaranteed itself a huge leap in supply, while its competitors only hope that independent manufacturers expand their capacity.

Another initiative that Musk was involved in was SolarCity, a company founded in 2006 by his cousins, of which Elon was the largest shareholder and chairman. SolarCity sells and installs solar panels in residences. After becoming the largest player in the USA, SolarCity went on to manufacture its own panels. In 2016 Tesla, which supplied batteries to SolarCity, bought the company for \$ 2.6 billion.

We believe that analyzing Musk's trajectory and personality traits brings us many useful lessons to our mission of selecting attractive companies. This is especially true nowadays, when the Brazilian capital market is experiencing a renaissance and many entrepreneurs have turned to the equity market in order to finance their projects.

³ Source: Tesla Motors





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When Tesla went public in 2010, there were countless doubts about the company's future, but a detailed look at Musk's history would reveal that he had already successfully completed his investment in two other companies (Zip2 and PayPal) and had managed to make SpaceX viable, a virtually impossible mission at the beginning. In addition, Elon's fanatical commitment and technical ability were easily noticeable.

While Tesla's IPO was taking place in 2010, the X Group was experiencing its heyday in the Brazilian market. Their projects were also grandiose and visionary, but their execution track-record was not comparable to that of Musk's companies. Perhaps the Brazilian financial community lacked a deeper analysis of the trajectory of X Group⁴.

Another important lesson that can be learned from Musk's business is the enormous advantage of being a low-cost provider. SpaceX has managed to overcome Nasa's resistance, the lobby of incumbents like Boeing and the competition from Russia by creating irresistible savings for its customers and, thus, greatly expanding the satellite market. When we look at our portfolio, we see some companies that have this sort of competitive advantage, such as Tenda, which is working on a plan to provide large-scale low-cost prefabricated houses⁵.

It is also worth reflecting on the impacts that Musk companies may have on different sectors of the economy. An intuitive conclusion is that the massification of electric cars should bring, in the long run, important disruptions in a series of industries, such as oil and auto parts, as well as strengthening the producers of electric motors.

The time it will take for electrification to be adopted is a key variable for understanding the materiality of these threats and opportunities. It is important to remember that the useful life of a car is over 10 years, so it should take a few decades for electric vehicles to have a relevant representation in the total fleet. On the other hand, concerns about global warming may force faster adoption.

Elon Musk may not live long enough to see humanity's escape route to Mars materialize, but he will surely see his name go down in history as someone who helped us save the planet.

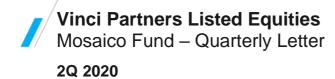
Kind regards,

Vinci Partners Listed Equities Team

⁴ According to Malu Gaspar's book "All or nothing: Eike Batista and the true history of the X group", long before MMX went public in 2006, TVX, a gold miner created by Eike Batista in Canada, had serious financial problems in 2001 due to overly optimistic expectations about its reserves and budget overruns. Similar problems occurred with X Group companies later on.

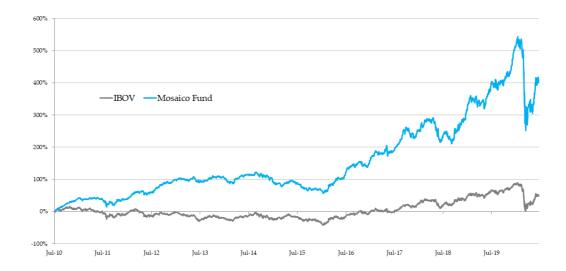
⁵ For more information, see our 4Q19 Letter about the Tent at: https://www.vincipartners.com/uploads/146647440.pdf





in R\$	jan/20	feb/20	mar/20	apr/20	may/20	jun/20			2020 YTD**	ITD*
Mosaico Fund	1,7%	-5,4%	-31,7%	10,1%	7,1%	9,4%			-15,3%	409,7%
Ibovespa	-1,6%	-8,4%	-29,9%	10,3%	8,6%	8,8%			-17,8%	51,0%
**Until juu/2020										
in R\$	2010*	2011	2012	2013	2014	2015	2016	2017	2018	2019
Mosaico Fund	38,7%	-0,2%	43,2%	5,6%	-1,9%	-16,2%	44,9%	40,6%	14,8%	49,5%
Ibovespa	10,1%	-18,1%	7,4%	-15,5%	-2,9%	-13,3%	38,9%	26,9%	15,0%	31,6%

*Since 12/07/2010





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