

# PIPA Global

PIPA Global Report

3<sup>rd</sup> QUARTER  
2018



Arjan Martins, PIPA Prize 2018 winner  
"Atlantic", 2016, Acrylic paint on canvas  
78.7x153.5 inches

Photo: Jayme Acioli

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Research and Analysis

# Research and Analysis

## GENERAL ELECTRIC

In our last report, we dedicated a significant part of our writing to GE. Much of our text consisted on pointing out the main reason they caught our attention: joining the Board was a man who we considered to be the most significant signalling factor to the future success of the company, Larry Culp. With him having just been named Lead Director of GE's Board, in our quarterly letter we made a thorough case to why we "wouldn't prefer anyone in the world" leading GE's board and dreamt about Larry becoming Chairman and eventually CEO of the Healthcare spinoff<sup>2</sup>.

As we started writing this letter, we got more than a dream come true. On October 1st, Larry was named Chairman and CEO of the whole General Electric Company, replacing John Flannery who had been appointed to the job 14 months ago. That same day, GE announced another charge of about USD 23 Bi (mostly related to its Gas Turbine business), and still, the stock soared increasing the company's market cap by more than USD 15 Bi in a few days. Fair to say Mr Culp can deservedly be called the "40 Billion Man". So much for those who don't grasp the value of an outstanding person in the right place. This case should give them some food for thought.

To this point, Mr Culp is yet to make any public announcements about his plans for the company. We are expecting to get the first glimpse when the 3<sup>rd</sup> quarter results are presented, which have been postponed by five days to October 30<sup>th</sup>. Based on what we know about him, one of the most goal-driven people we've met, there will be blood, sweat and tears.

<sup>2</sup> See page 28 of our 2018 Q2 Report (or 38 of our 2018 Q2 Shareholder Report)

Overall, we don't expect Mr Culp to change the push started by Mr Flannery towards decentralization and empowerment of businesses. After all, that's how he built Danaher into a powerhouse. As stated in our previous reports, we believe that most of the steps Mr Flannery started were pointing in the right direction. Our only issue with his plan is that we still don't think they were enough.

Perhaps because his 30-year GE tenure made him too much of an insider, Mr Flannery was not moving sufficiently fast or making the required management changes whilst maintaining his predecessor's habit of constantly having overly ambitious profit targets for too long. He settled for changes that were tough, but not tough enough that they would upset the current investor base or drastically rewrite the corporate culture. Take the case of GE's dividend. After noticing a harsh investor reaction when he did not guarantee future dividends (as would be expected given the nature of GE's current investor base), Flannery had no problem in backtracking his words and guaranteeing them for another 12-18 months. Given his history at Danaher, we hope the dividend is one of Larry's first cuts adopting a policy that makes much more sense for a company in the position GE is in, and being one with so much room for profitable growth.

Part of our excitement in having Larry take the CEO job is that we know how capable he is of implementing the necessary management changes and transforming GE's culture. As opposed to Mr Flannery, Mr Culp is the perfect "outsider" and a believer in the importance of people, efficiency and execution. While at Danaher, he ran its 48,000 employees and over 80 business with fewer than 100 people in

corporate functions and from the eighth floor of a nondescript office building in Washington, D.C. In that sense, Danaher's differences to GE could not have been more dramatic, but we do hope that Mr Culp takes advantage of his 100 days grace period to enact all of the hard actions and people renovation that could prove much tougher to pass afterwards.

In strategic terms, something we increasingly think about is whether it would not be more appropriate to also split/spin-off GE's renewable energy and aviation divisions, making power the company's core. We believe that the spinoff of Healthcare will create one of the best companies in the world and will be a great unleash of value to GE and its shareholders. Just so, allowing the three areas that formed the "core" of GE under Flannery's plan to each follow their path might make a lot of sense, in particular for GE Aviation. Even with the argument that keeping these businesses together due to their synergies might be coherent, the impact of them being together can go both ways. The fear of troubles, for example, in the Power turbines could affect the aviation and renewables divisions. Agreeing to share technologies (especially as these new companies wouldn't necessarily be direct competitors and often have a very different client base) is not impossible and might just be the necessary wake-up-call and efficiency push that its research labs need in order to become self-sustainable.

Additionally, one of the immeasurably positive effects this split could bring is numerous new investors (voluntary and involuntary) who, interested in a single division of GE which they can comprehend and see clear moats, might decide to invest. Fostering a positive shift in GE's investor base is something which we have

long been strong advocates for and have recently started to notice that funds such as Viking, Apollo and TCI are building relevant stakes of GE stock.

We are quite aware of the significance and irreversibility of a complete GE split and, to be fair, this is an issue that concerns us much less now that Larry has been appointed CEO<sup>3</sup>. In a sense, given GE's size and complexity, the following statement which we made in our Q4 2014 report about our Danaher position (which we started back when he was still their CEO, and have since reduced) still very much applies:

“Analyzing Danaher is, in many aspects, like analyzing Berkshire, GE, or gas in a box, so to speak. By attempting to scrutinize and understand every detail of all its segments and components, analysts will spend a good deal of time and effort with decreasing marginal gains. And when they finally think they understand it, it will have changed completely.”

This is why we trust that Mr Culp, knowing all the internal information we don't, will make the best decision to GE and its shareholders. In the end, having already made a lot of money and a stellar reputation for himself, he wouldn't have taken this challenge if he didn't have a rough plan of action.

In practical terms, we expect from him more of the same as he did at Danaher. Firstly, we expect him to push most of the decision-making to the level of the units, focusing on implementing a strong initial shock of cultural inoculation. Secondly, having calmed the financial markets, we also hope he'll focus relentlessly on attracting, evaluating, mentoring and promoting people. Thirdly, we foresee he will make firm,

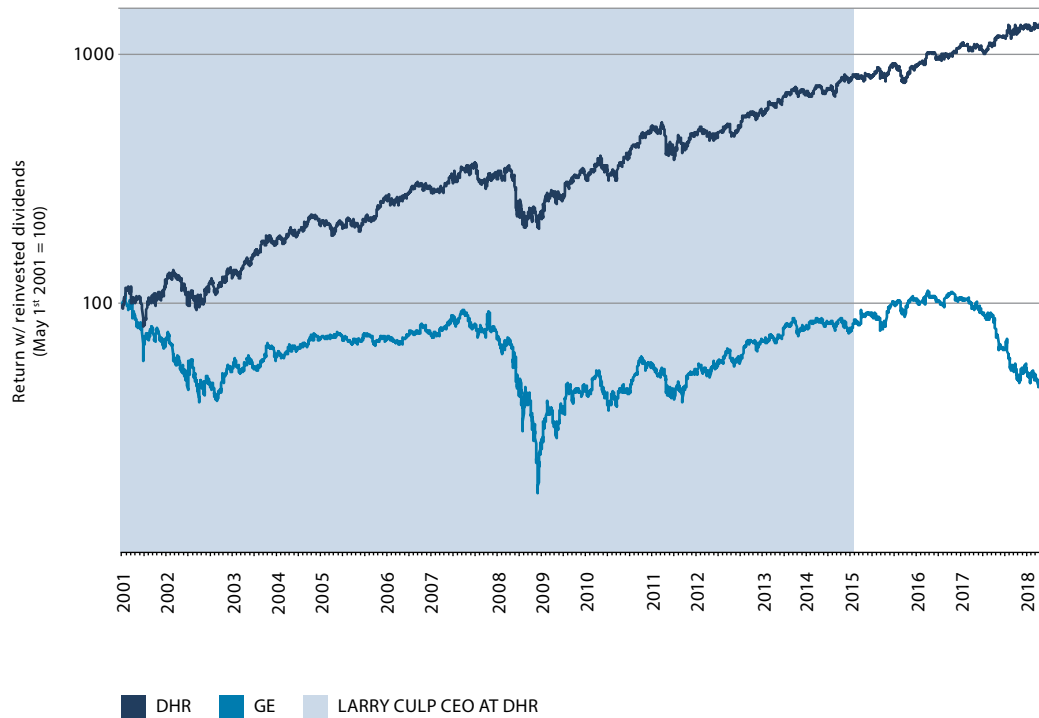
<sup>3</sup> Unlike Berkshire which often buys and hold for perpetuity, Danaher carried out sales and spin-offs regularly. For more on this, see our Q2 2015 report.



reason-based capital originating and allocation decisions. We expect a GE that will be much more hands-on, humble, accountable and WAY more reliable.

Lastly, to put things in perspective, we have made the following graph comparing GE and DHR's stock performance during Larry Culp's tenure as CEO of Danaher, as indicated by the blue shaded area. As they say, one image is worth a thousand words:

### DHR VS GE



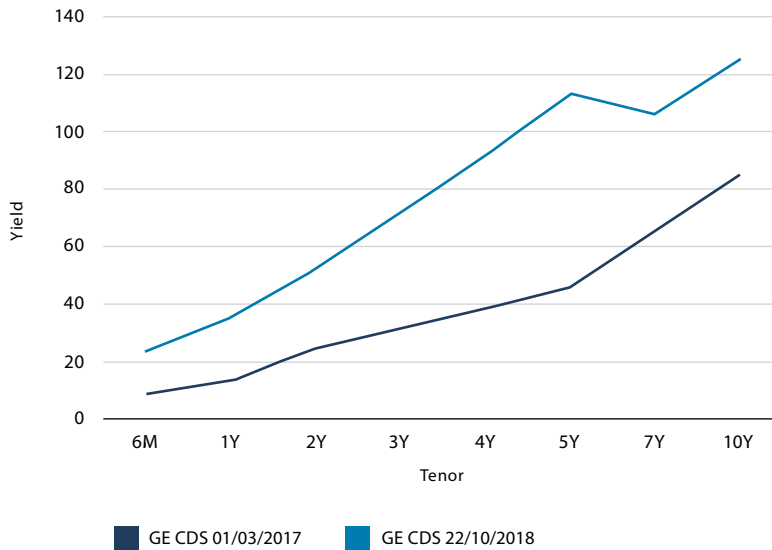
Despite his 14 years tenure as Danaher's CEO with spectacular results and two sabbatical years lecturing at Harvard, Mr Culp is 55 years young and certainly one of the humblest and lowest profile executives we know. This is why we are comfortable and happy with his compensation package which has been recently headlined so much. Although we'd prefer to see some downside exposure as well, the package is overwhelmingly tied to performance and largely dependent on the stock price appreciating from 50% to 150% between 2018<sup>4</sup> and 2022, entitling him to between 2.5M to 7.5M GE shares accordingly. Bottom line, he can make a lot of money but only if he meets targets that will make shareholders extra-happy.

One other aspect of GE is improving is their debt level and composition. As of the second quarter of 2018, Net Debt stood at USD 56.3 Bi. What we want to highlight here is that the market has already priced the GE stock to include further eventual downgrades its credit might suffer, whereas the credit rating agencies are, as always, late to the party on this. On the other hand, the company has been continuously coming up with solutions that improve the situation.

To help illustrate, below is a curve for their credit default swaps (CDS), 2017 and 2018.

<sup>4</sup> More specifically, the average closing price over 30 consecutive trading days during the four-year period from October 1, 2018 to September 30, 2022.

## GE CDS CURVE



In the interest of not repeating ourselves too much, we'll close this section by recommending the following WSJ article published on October 6th<sup>5</sup> and showing you some of the highlights we deem most relevant:

“The new boss didn’t have an ID badge or a work computer, but he wasted little time in addressing GE’s top 150 executives from the Boston headquarters. A few days later, he jumped on a flight to visit the Atlanta offices of GE’s power business, whose troubles forced the company to slash its dividend and financial targets, erasing more than \$100 billion in market value.”

<sup>5</sup> <https://www.wsj.com/articles/can-larry-culp-fix-ge-1538798476>

“[A]n investor who put \$10,000 into Danaher 20 years ago would have more than \$200,000 today. Over that same period, \$10,000 invested in GE would be worth about \$8,700.”

“The Danaher playbook, modelled after similar systems used at Toyota Motor Corp., is defined by a maniacal commitment to efficiency and constant assessment of business units against eight performance metrics.”

“[T]he Danaher Business System, or DBS, is the underlying process that everything else in the company runs on. “DBS is our culture and the foundation of everything we do,” reads a slide from a 2013 presentation by Mr Culp [we couldn’t help a certain smile when GE started to talk about a new OS for the company a few months ago.]<sup>6</sup>”

[A] Danaher executive in Europe until early 2011, recalls spending a late night eating pizza with Mr. Culp on a visit to a factory in Europe for a kaizen event. “He has safety shoes on with steel toe caps and he is completely immersed. He has his phone switched off,”

“Danaher tends to garner little attention and the same goes for Mr. Culp. In his 14 years running the company, he didn’t spend much time talking to media. In contrast to his GE predecessors, Mr. Culp didn’t have a public account on Twitter until this week. He declined to be interviewed for this article.”

<sup>6</sup> For those interested in Danaher, we recommend reading our previous reports written between Q4 2014 and Q3 2016. Particularly our Q2 2015 report where we delved into DBS and the company’s culture.

“Rather than bring executives into Danaher headquarters to conduct business reviews, Mr Culp would go to the units, camping out in the office and walking the factory floor to get a hands-on view, former colleagues say. Since joining the GE board, he has visited several GE operations, including overseas.”

## AMAZON

We received many questions recently on why we ceased to be bullish on AMZN’s stock. There were a few reasons, but the key points were: price, size/complexity and the potential effect that a less ebullient share price might have on senior managers that have hundreds of million dollars in stock options. The funny thing is that some of the people that are bullish on the company as the stock reaches the USD 1 Tri market cap are the same that questioned our sanity when we were extremely bullish and AMZN’s market cap was “only” a few USD hundred billion.

Business complexity is usually a very dangerous issue. As Mr Munger likes to say: “More organizations die of indigestion than starvation”<sup>7</sup>. One needs to look no further than GE over the last couple of decades to see a clear example of this. We do understand the flywheel effect and still see more good things than bad in the company - and certainly still love it as customers. However, price and size matter, much of the low hanging fruit is likely to be behind it. Witness the growing competition at AWS and consider the fact that no one would be happy to rely on a single digital infrastructure provider.

<sup>7</sup> It was originally said by the late David Packard, co-founder and former CEO of Hewlett-Packard.

In sum, to expect a continuous 25% revenue growth to fuel the stock price from the USD 1 Trillion mark strikes us as a bit overly optimistic. Just like when GE, Cisco and Microsoft attained a relevant market cap compared to US GDP and you were left wondering how could it be, the same can be said for AMZN and AAPL now.

Another point is that, with Amazon becoming so ubiquitous, it is no longer able to be the secretive and press-shy company it was in the past, as the risk of government scrutiny only increases. Nowadays, everything Amazon does draws outsized media attention. Luckily, this is something that, through some PR savviness, has been used to their advantage. Even if they still refuse to release figures on Kindles or Echoes sold, they are quite happy in publicly announcing price cuts at Whole Foods or launching a pageant-like contest for cities to apply to host their new headquarters. It is not only the company that has been getting all this attention as Bezos has become a pop-culture icon who is now comfortable with being in the public eye. Whether attending the Golden Globes or going on Twitter to fire back Trump's Amazon-directed-tantrums, he no longer avoids politics and is quite happy allocating his time between Amazon, Blue Origin, The Washington Post and numerous press engagements.

However, with few companies causing the "disruption fear" that Amazon generates nowadays, this might not help them in avoiding government backlash. Like Buffett said, having known Bezos and seen first hand the effect Microsoft's antitrust case in the 90's had on the company, "You're going to get a lot of scrutiny if you're disrupting other people's livelihoods". Amazon is under the microscope for what

critics say is its corrosive effect on jobs and competition, and Bezos has become a *bête noire* across the spectrum. From Senator Bernie Sanders introducing the “Stop Bezos” Bill to President Trump repeatedly scorning Bezos and Amazon on Twitter<sup>8</sup>. Much like all FAANG’s, Amazon is a central player in the debate taking place in the halls of Congress, and in academic and business circles about technology companies becoming too powerful. In this field, the biggest aid playing on Amazon’s side is how much consumers actually love its brand and the number of jobs which they have generated in the US over a short period of time.

On the other hand, we can’t help thinking that one thing AMZN could do that would certainly move the needle is buying Disney’s studios and ESPN while offloading the parks and media division, either to another buyer or spinning it off as a standalone company. It made sense to us when Amazon was worth a mere USD 500 Bi and Disney around USD 150 Bi (for more on this, see our 4Q2017 Report) and it certainly makes much more sense now as Disney has increased its intellectual property holdings with the purchase of Fox while still managing to be saved from itself by Comcast, who won the bid to purchase Sky.

By purchasing Disney, AMZN would be scaling up one already relevant division, leapfrogging all streaming competitors and effectively decreeing a “game-over” for the global media content throne competition. All this while having the unique advantage of being able to monetize content via subscription, merchandising, advertising and other different platforms (including the ongoing physical retail ramp-up). This deal, if consumed, would change our view in terms of valuation. We show a complementary side of the deal in the next section where we discuss Disney and Netflix.

<sup>8</sup> <https://www.nytimes.com/2018/01/12/technology/jeff-bezos-amazon.html>

In summary: we still think Amazon is one of the most fantastic companies of our days, but the combination of stock price movement with the challenges of size and complexity is a very relevant factor that we always keep on top of our minds. Companies are groups of people bound together by a (hopefully tight) common culture. When that culture is one we understand and appreciate, we tend to find keepers. But even then, we are always aware of the limits of size and complexity.

## **STREAMING WAR - DISNEY AND NETFLIX**

As we've mentioned in a number of previous reports, the media sector is one we follow closely. Recently, they've been heavily focused on by analysts and the general news, given the active M&A landscape, largely driven by the need to face content and distribution issues. We have already addressed the DIS and FOX deal in passing, but since then a lot has happened. Therefore we decided to share our take on some of these events, as always focusing on the business side.

With DIS announcing their DTC efforts, and players like Apple, Facebook, AT&T (having closed the Time Warner deal, and now owning HBO) and many other expressing their intention to ramp up original content creation to distribute via streaming. Apple, for one, plans to do it more in the style of AMZN and FB instead of following NFLX's model. That is, by offering original content for free to device owners, hoping to enrich their "ecosystem" in order to establish high switching costs, thus strengthening their business moat.



For now, who benefits the most from this process is the consumer. We have access to a ton of great content, with a wide variety of formats and genres for a very reasonable price when compared with the old bundles we used to have at home. Even with the most comprehensive packages of channels, we never had this much quality content available. Plus, we now have much more convenient ways to watch it.

The consumer does, however, have a limited “wallet”, meaning there will be a point when people are subscribing to too many services, and start concentrating their subscriptions portfolio. The hope of every one of these players is that their content will be the best and therefore the consumer will choose to keep them over its competitors. Quite an expensive bet that is.

Will this lead to major concentration in the industry? Do the first movers really have an advantage over the latecomers? What is really the switching cost here? Will this be a winner-takes-all industry? How will the landscape change if DIS decides to acquire the remaining stake in Hulu? Can AMZN effectively take advantage of Prime Video being integrated into their “flywheel”?

As you can tell, there are more questions than answers at the moment, especially given the pace at which things are changing. What we can say now, DIS (now with FOX) and NFLX are the front-runners here: the first has the biggest and most established collection of content, while NFLX already has the distribution locked down. Even though it seems easier for a massive company like Disney to catch up on technology than it is for NFLX (and others) to catch up on content, we might be underestimating the value of the Netflix brand, as well as the competency of their management.

As DIS' history shows, owning great IP is essential but so is the way one monetizes it, and they are the textbook case for this. Mickey Mouse and Star Wars don't just make great money in box offices around the world, they sell toys, tickets to parks, shirts, pens and licensing agreements. So far, DIS and AMZN seem like the best positioned to implement this particular model. NFLX and Hulu opted for subscription-based revenue, with Hulu even including adds to the mix. Time will tell if the latter strategy will be able to create a profitable, long-term sustainable business model, especially if they continue to spend this much money to create content.

One relevant piece of the whole DIS and FOX deal (including the subsequent bidding wars), is that DIS might end up owning an extra 30% of Hulu, making them owners of 60% of the streamer. The remaining 40% is owned by Comcast (30% via NBCUniversal), and AT&T (10% via Warner Media). Naturally, speculation has already started regarding a possible acquisition of the 40% by Disney.

We particularly see more logic and value if DIS sells its Hulu stake to CSCA and enter in a deal with Amazon, who already has a better platform, much more traffic in the US and globally, and who can extract value from more diverse sources.

It's also worth noting, as we mentioned on the AMZN section of this report, that DIS market cap will change little with the closing of the FOX deal as it was when we daydreamt about a possible deal with AMZN, but with a much larger IP. Meanwhile, AMZN is a lot bigger in market cap size now, which would facilitate a deal of this kind. Important to point out that this would, among many other complex issues, depend on what DIS chooses to do with Hulu.

When it comes to Netflix, it's safe to say we quite admire what Reed Hastings and his team have done up to this point, and we hold the company in high regard in terms of quality of management and culture. However, when we look at the stock price today we don't see our concerns reflected, particularly considering the ramp-up in spending to win this content race amid a much more competitive scenario.

Plus, they've been relying on constant dilutive stock issues and ever increasing levels of net debt, something that might prove unsustainable quite fast if financial markets take one of its unpredictable and periodic turns. Until now, the market still believes they can keep going at this rate, paying a very high multiple for a company generating negative free cash flow. To keep things in perspective as we discuss valuation, consider this:

In the last 12 months, NFLX generated USD 15 Bi in revenues and USD 1.3 Bi in accounting profits but USD 2.1 Bi of negative free cash flow.

DIS generated USD 58 Bi in revenue, USD 10.1 Bi in profits and USD 9.7 Bi in free cash flow.

NFLX's market cap is 156 Bi and DIS' is USD 174 Bi.

Buyers justify that by defending NFLX can still more than double their subscriber base and, once that happens, the content they helped finance, will have paid for itself. They've just reached 130M worldwide subscribers this last quarter, but with an already high level of penetration in relevant markets and difficulty accessing big markets like India. That being said, they have been making a concentrated effort to

adapt their catalogue and original content to each country in order to build up their base (is there any other way if not by increasing their already negative cash flow?). The effect is not immediate so we keep closely following their progress.

It's important to note, as we are discussing competition, that this particular topic doesn't seem to worry investors or analysts. It is certainly not priced in. Neither is the increasingly high debt levels whilst the company demonstrates difficulty in generating cash and improving profitability. In recent quarters, what dictates the reaction of the market to their earnings results are subscriptions added in the period, as opposed to any metric related to financial performance.

The following table can better illustrate what we're saying:

In Millions (GAAP)	2013	2014	2015	2016	2017	2018 YTD*
<b>Earnings (USD)</b>	112	267	123	187	559	1,077
<b>Free Cash Flow (USD)</b>	(22)	(128)	(919)	(1,659)	(2,013)	(1,580)
<b>Net Debt (USD)</b>	(700)	(722)	61	1,631	3,677	5,269**
<b>Diluted Weighted Average Shares</b>	425	432	437	439	447	451
<b>Total Number of Subscribers</b>	51	63	80	98	121	140

\* First three quarters of 2018.

\*\* Since last quarter's result, NFLX has secured USD 2 Bi from bond investors to continue its expansion. They are not included in this number.

As we show some of the company's numbers, we call your attention to a particularity of the accounting criteria that content-makers can adopt. Edmund Lee, from The New York Times, put it eloquently in his article<sup>9</sup>:

But Netflix can also show a profit because accounting rules allow entertainment companies to record most of their production or licensing costs later on.

A show like "Stranger Things," entirely funded and owned by Netflix, costs as much as \$8 million per episode. Netflix pays for all of that, but the cost isn't counted until the show is available on the service, often a year or more after production.

So, we like to keep a safe distance from Netflix while studying their business and strategic decisions as they occur. Content is the new black, NFLX has the upper hand at the moment but media and tech giants are gearing up to fight, flushed with cash and some with strong brands to go along with it. Only time will tell how much consolidation will take place in the industry, and who the winners will be. What we do know is that it has been, and will continue to be, an extremely expensive race.

## **ALTRIA AND PHILIP MORRIS**

Having talked about companies that tend to be our usual suspects, we now shift our attention to an area which has been in our radar for awhile - the tobacco sector. For reasons we will elaborate, we particularly like Altria (MO) and Philip Morris International (PM), its 2008 spin-off that operates outside the US. As historically

<sup>9</sup> <https://www.nytimes.com/2018/10/17/business/media/netflix-streaming-competition.html>

the number one performing sector in S&P 500<sup>10</sup> with the second lowest annualized volatility<sup>11</sup>. The technological disruption it is undergoing and the uncertainty around their “reputational risk” has led many investors to (once again) flee the sector. Forgetting about their moat-heavy business model, cycle-defensive track record and (almost) unmatched commitment to providing shareholder return, the market again sees this glass as half-empty while we believe it actually still quite full.

Despite being an unloved business with low growth, and having been so for decades, the first thing we must address when we talk about PM and MO is their ability to deliver shareholder return. Both Altria and Philip Morris have dividend yields that remain securely around the 5% threshold while regularly carrying out significant repurchases. In fact, Altria, the best performing stock part of the original S&P 500, holds an annualised return since the 1960’s of around 20% per year - and a total return exceeding one million percent despite this calculation starting around the time smoking rates started to decrease in the US. Still, even with this performance, Altria has spent significant periods being among the 20% “cheapest” companies in the S&P 500 when ranking them in terms of valuation metrics such as EBITDA/EV, Earnings/Price, Sales/Price and Cash Flow/Price.

Furthermore, they belong to one of the most defensive sectors in the S&P 500 and because of their oligopolistic position and addictive nature, historically have had the tendency to fall less and recover faster during crisis. Between 2008 and 2009, tobacco earnings globally fell only 10%, lasting just six months while the broader market experienced a decline of more than 40% and only recovered in nearly six years. We

<sup>10</sup> This claim holds both if measuring the sector’s performance since the inception of the S&P 500 in 1957 but even when looking as far back as the start of 1900, as City academics Paul Marsh and Mike Staunton pointed out.

<sup>11</sup> Trailing only utilities for lowest annual standard deviation of returns.

generally avoid looking at price history - and prefer to look ahead instead - but, as Mark Twain often said, “History doesn’t repeat itself, but it often does rhyme”.

In fact, the tobacco industry is facing a secular decline in smoking rates and never-ending regulatory and legal hurdles. However, maybe an even more remarkable change is the phenomenal pricing power of this sector. Despite falling world volumes of around 2-3%, the big players still manage to increase margins and earnings, shifting to a profit maximization business model. MO, for instance, shows a strong consistency of earnings throughout time, with a CAGR of 8% for the past 5 years, whilst the US market presented falling revenues of 3-4% per year.

Generally speaking, products that have wide and sustainable moats around them are the ones that deliver the best value to investors. As far as economic moats go, few are as wide as the big tobacco companies’. Firstly, there is the unseizable desire consumers have for their products, given its addictive nature and cultural role, which most of the time includes a favouritism for one specific brand. They also have tremendous pricing power, high entry barriers and benefit from economies of scale (for both production and distribution). Considering their already established brand power (where PM and MO definitely are king, holding the world’s #1 brand, Marlboro), tighter regulation was actually godsend putting in huge barriers to entry and virtually erasing the need to spend money on advertising. These companies also learned how to master the lobby sector wherever they operate.

However, as we often repeat: change is inevitable, except for vending machines. In

an industry where the last “real” innovation happened in the 1960’s, when cigarette filters were introduced, we now see a huge surge in popularity of alternative methods of nicotine consumption. E-cigarettes have become a USD 13 Bi global industry - compared to the total USD 560 Bi tobacco industry - and, although most tobacco companies do commercialize different versions of these products (given less strict regulation and fierce competition), they are starting to feel the pressure and in some areas see a slightly accelerated volume decline of their traditional smoking tobacco products.

At the current epicenter of this disruption, particularly in the US, is USB-shaped nicotine vaporizer developed by two Stanford graduate students: Juul. Unlike the first commercial e-cigarettes that were introduced in China around 2004 and tried their best to resemble a cigarette, Juul is made from treated aluminium and resembles a much more familiar item (to young people at least): a USB drive with an Apple-like design. Now, privately valued at over USD 15 Bi, its “coolness” and convenience led it to gain over 70% market share in the estimated USD 3.6 Bi US e-cigarette sector. However, instead of living up to its mission of eliminating “cigarettes by offering existing adult smokers with a true alternative to combustible cigarettes”, Juul has actually been conquering a new generation of young non-smokers. The result, nothing less than expected. A regulatory thunder.

Philip Morris meanwhile, in the lookout for a safer alternative to smoking and a boost in its revenue, has spent over USD 3 Bi developing and commercializing IQOS. As a so-called “heat not burn”, which more closely replicates the traditional smoking experience with allegedly 90% less toxins, the product seems to only be a



reasonable proposition to current smokers but, so far, shows higher conversion rates than e-cigs. Although it is only expected to be approved by the FDA later this year and has yet to “cross-the-chasm” in Europe in order to gain early majority adoption, the product quickly became popular in Japan and Korea, grabbing around 15% market share among smokers. Even if not as exciting as Juul, IQOS appears to be an effective move to gain market share from other tobacco companies. With over 1.1 B smokers worldwide, we certainly believe there can be enough market segmentation for multiple alternatives to cigarettes to co-exist and all be extremely profitable. As for IQOS, its secret in boosting profitability partially lays in its duty. Taxation is often lower for reduced-risk products (or measured by the gram of tobacco sold), thus providing IQOS with much more attractive margins than traditional cigarettes. In the US, where only three states currently would tax it differently, there is still some regulatory path to be uncovered by MO.

For Juul, that doesn't have the same level of *savoir-faire* as the big players, we don't expect their regulatory path to be easy. As part of its expansion strategy, the company modified its formula and decreased its nicotine level to comply with the European Union Tobacco Products Directive. However, at the same time Juul says it'll work with the FDA to fight underage use, the vaping culture seems to be evolving faster than any health regulatory organ can keep track. Plus, they're right under the FDA's spotlight as became evident earlier this month when they raided Juul's headquarters and seized thousands of documents. The big questions remain: will they stay private or sell out? Are they in it for the long run? Is the hype overblown? To what extent can they be copied or disrupted by newcomers?

This makes it seem like tobacco is a dying market, so why are we so interested in Altria and Philip Morris? There are in fact many drives. First and foremost are the wide moats provided by these companies as we already mentioned.

As contrarians, we avoid believing in euphoria and rather prefer companies that are out of favour, especially if they have just experienced a recent price decline<sup>12</sup> - as it is the case with PM and MO. We also see both companies as great beneficiaries of a US tax reform - even PM which does not commercialize within the US - meaning a significant tailwind and even better margins.

This is where we enter another topic, which we just see as a bonus and that speaks to the potential of these companies: weed. The world trend over the last few years has been towards a more liberal approach to Cannabis, and while other CPG's such as Coca-Cola and Heineken are already investing in it, we are confident that MO and PM have the segment high in their priority list. With Canada getting the green light for recreational Marijuana just this month, the top 12 Canadian marijuana companies are now worth over USD 40 Bi. Even though weed is still illegal in the US on a federal scale, hemp is in the process of being classified as an agricultural commodity, and is there any industry more equipped than tobacco to navigate the regulatory hurdles this segment will have to endure?

There are many reasons why this investment makes (a lot of) sense. Having operated in a regulated industry for decades, and by also having extensive experience in supply chain, distribution and regulators, tobacco companies are already experts at all these

<sup>12</sup> Just life Buffet, we like being greedy when others are fearful.

moves. In many ways, the marijuana business is complementary to their existing tobacco business: specialized vapes, rolled cigarettes and other popular products being sold with the magic formula of THC and tobacco would mean a possible rocket fuel for tobacco companies, once they will be able to utilize technology in ways that no one has really tried. Additionally, the strong financials, positioning and branding of these big players can develop and launch marijuana brands successfully with less incremental costs and diminished risk. Plus, given the microscope that lower-risk tobacco products are under, they are increasingly coming under attack for their health hazards. In contrast, sentiment is building about the benefits of cannabis, as its risks are gradually falling in the background. Just imagine Marlboro Reds next to Marlboro 'Greens' at gas stations.

Another bonus point from our favourite player in this sector, Altria Group, is that although only operating in the US - which latterly given the tax cuts has been a blessing - the company also owns and reaps the benefit from a 10.2% stake in Anheuser-Busch InBev. Initially a 27% position in SABMiller (which originated from a USD 230M investment during the 70's), it got converted into a 10.2% stake in ABI, together with two seats on the company's board and approximately USD 3 Bi in pre-tax cash. The investment is not only (for now) a beautifully oiled dividend machine (USD 751M in dividends in 2017), as it also gives MO exposure to different markets, allowing it to have no dividend tax benefits.

We see the future of the tobacco industry with the same three current givens: higher taxations, higher regulations and lower volumes. Generally speaking, these factors

have been present for a while and tobacco companies still managed to grow their earnings at around 7% per year over the last ten years. If these “sin stocks” track records has shown us something, is that despite these challenges, they can ride out the storm pretty well. Adding new products like IQOS, vape, and weed puts businesses in direct confrontation with legal, regulatory, and (yes, still) moral issues, that can limit both potential competitors and access to capital. So, as we’ve shown, these big players would be better suited to face these challenges, making the results quite enticing.

## ON GEOPOLITICS

We’re not big fans of investing time in macroeconomic or geopolitics unless they slap us on the face. Since Kissinger’s warning about the bad times we’re living we certainly became more sensible to the theme. A recent article in the FT<sup>13</sup> certainly caused us to lift an eyebrow. Even understanding that it’s all part of a continuous posturing in a much bigger “scheme of things”, the wording has become quite aggressive.

“Sergei Ryabkov, Russia’s deputy foreign minister, said a “complete malfunction of the American system” meant vital treaties could lapse and leave nuclear powers without constraint in the event of a conflict.”

“If some believe that this makes an impression on Russia and somehow causes Russia to hesitate, then that is a very wrong conclusion. On the contrary, a consolidated effort to pressurise Russia only diminishes chances of any real engagement towards resolution.”

<sup>13</sup> <https://www.ft.com/content/66073924-cbd9-11e8-b276-b9069bde0956>

“We have a situation that is much, much worse than even during the most heated moments, or rather the coldest moments, of the past.”

“Security experts say the mutual mistrust has left the two nuclear superpowers at risk of an unmanageable escalation in the event of a crisis, while a new generation of weapons and cyber warfare capabilities could leave existing arms-control treaties in tatters.”

“We do not believe that the broader west...are friends with us. Rather, we see the west as an adversary that acts to undermine Russia’s positions and Russia’s perspective for normal development,” he said. “So why should we care so much about our standing among adversaries?”

The question for us, of course, is what can we do about it? First, to acknowledge that a continuous escalating dispute is certainly not built into equity prices. The second would be to buy gold, which is what China and Russia have been quietly but consistently doing. And last, but definitely not least, to enjoy life!

### Data, Friends and Population

#### Only 150 of Your Facebook Contacts Are Real Friends - Scientific American<sup>14</sup>

- Yet despite running up hundreds of friends on Facebook and thousands of followers on Twitter, we are fooling ourselves, scientists say. We can really only maintain about 150 meaningful relationships at any time. Study after study confirms that most people have about five intimate friends, 15 close friends, 50 general friends and 150 acquaintances (*green bars*).
- He found that despite social media's explosion, our network of significant contacts still maxes out at around 150. This threshold is imposed by brain size and chemistry, as well as the time it takes to maintain meaningful relationships, Dunbar says. "The time you spend," he adds, "is crucial."

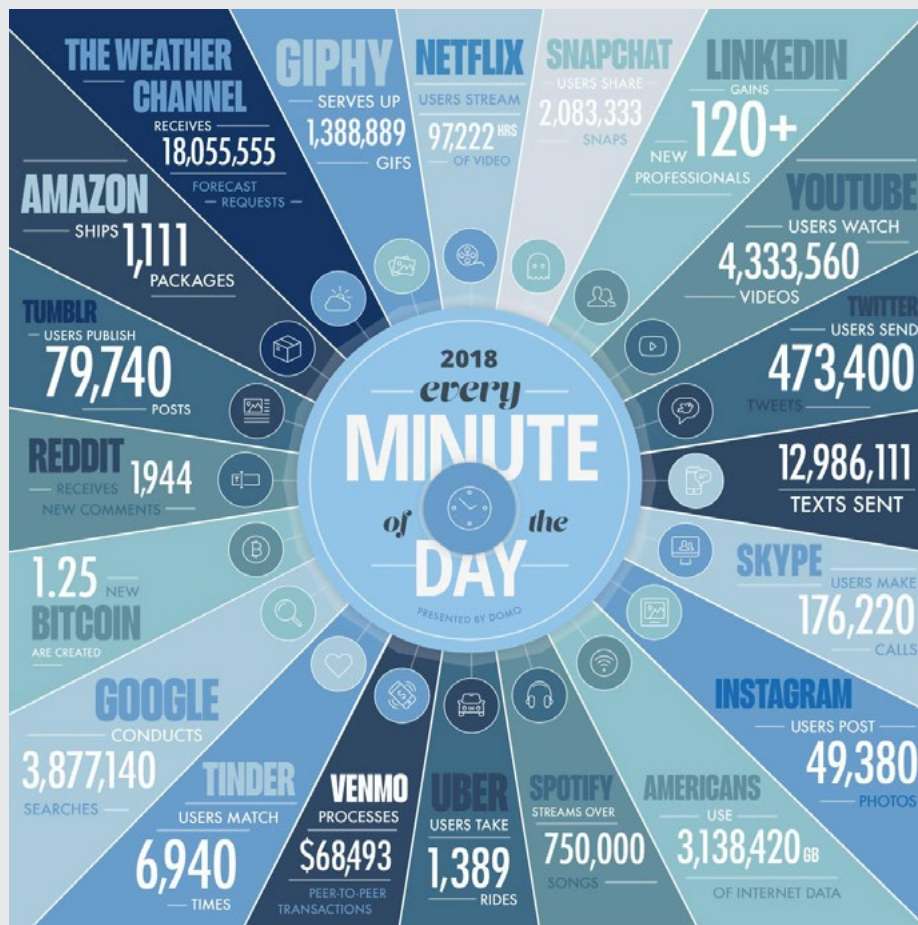
#### Millennials Lead in Sharing Netflix, Hulu, Amazon, Cable Passwords | Fortune<sup>15</sup>

- 35% of those classified as millennials share passwords, while only 19% of Gen Xers, and 13% of Baby Boomers do so.
- 21 and younger, the number rises to 42%, although many of them gain access via their parents' accounts.
- HBO's CEO in 2014 said HBO Go account sharing had "no impact on the business." In 2016, Netflix's CFO said at a conference that cracking down wouldn't necessarily lead to converting account sharers to paid users.

<sup>14</sup> <https://www.scientificamerican.com/article/only-150-of-your-facebook-contacts-are-real-friends/>

<sup>15</sup> <http://fortune.com/2018/08/20/netflix-hulu-amazon-video-streaming-password-sharing/>

## Data never sleeps



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<sup>16</sup> <https://www.domo.com/blog/data-never-sleeps-6/>

From an excellent piece at the FT on accounting and auditors<sup>18</sup>:

“Accounting prudence is the common sense solution to protect investors and other stakeholders. The idea is simple — there should be a higher threshold for recognising anticipated gains than for anticipated losses.”

“There is something bigger at stake, which is whether the rules somehow circumvent the legal framework requiring a “true and fair” assessment, and thus permit companies to present misleading figures... Do that and it’s simply a case of ‘rubbish in, rubbish out’”

“...the use of anticipated gains in the calculation of profits and asset values, it has given too much scope to self-interested bosses to push for an aggressive interpretation that augments the payout on their bonus schemes or long-term incentive plans.”

“The problem with fair value accounting is that it’s very hard to differentiate between mark-to-market, mark-to-model and mark-to-myth”

<sup>18</sup> <https://www.ft.com/content/29ccd60a-85c8-11e8-a29d-73e3d454535d>



## Miscellaneous

“The older I get the more I realize how many kinds of smart there are. There are a lot of kinds of smart. There are a lot of kinds of stupid, too.”

- *Jeff Bezos*

“I can’t give you a surefire formula for success, but I can give you a formula for failure: try to please everybody all the time.”

- *Herbert Bayard Swope, American editor and journalist, and first recipient of the Pulitzer Prize*

“Only the disciplined ones in life are free. If you are undisciplined, you are a slave to your moods and your passions.”

- *Eliud Kipchoge*

“Delayed gratification isn’t about surrounding yourself with temptations and hoping to say no to them. No one is good at that. The smart way to handle long-term thinking is enjoying what you’re doing day to day enough that the terminal rewards don’t constantly cross your mind.”

- *Morgan Housel on an article for the Collaborative Fund*

“The saddest aspect of life right now is that science gathers knowledge faster than society gathers wisdom”

- *from Isaac Asimov*

“Paying attention to simple little things that most men neglect makes a few men rich.”

- *Henry Ford*

“Show me the incentives and I will show you the outcome.”

- *Charlie Munger*

“Being right is the enemy of staying right because it leads you to forget the way the world works.”

- *Jason Zweig*

“In 1976, Mao single-handedly and dramatically changed the direction of global poverty with one simple act: he died.”

- *International Development economist Steven Radelet*

“As time goes on, I get more and more convinced that the right method in investment is to put fairly large sums into enterprises which one thinks one knows something about and in the management of which one thoroughly believes. It is a mistake to think that one limits one’s risk by spreading too much between enterprises about which one knows little and has no reason for special confidence. One’s knowledge and experience are definitely limited and there are seldom more than two or three enterprises at any given time in which I personally feel myself entitled to put full confidence.”

- *John Maynard Keynes in a letter to a business associate, F.C. Scott, on August 15, 1934*

“The Japanese have a word for the act of acquiring books and letting them pile up unread. Tsundoku—a play on the words tsunde (“to stack things”), oku (“to leave for a while”) and doku (“to read”)—is recognizable to book hoarders worldwide.”

- *Rachel Withers*

“NBC has the most nominations of any broadcast network, which is kinda like being the sexiest person on life support”

- *Colin Jost and Michael Che hosting the Emmys*

“So who is the ideal adviser? ‘A person who likes you and doesn’t care about your feelings’ ”

- *Daniel Kahneman at the 71st CFA Institute Annual Conference*

“If you were listed in the S&P 500 in 1935, the lifespan of a company was 90 years. Today, it is 18 years.”

- *Mckinsey MD, Dominic Barton*

“The only unforgivable sin in business is to run out of cash.”

- *Harold Geneen*

“I think we’ve always been afraid of going out of business.”

- *Michael Moritz, explaining Sequoia’s four decades of success*

PIPA Prize

# PIPA Prize

## PIPA INSTITUTE

How does the physical location affect the perception of an artwork and possibly extend its meanings? The opposite question is also curious: how could an artwork change the experience of a space and provoke different reactions to the environment?

Spiral Jetty is an earthwork sculpture constructed in 1970 considered to be the most important work of American sculptor Robert Smithson. It is located at Rozel Point peninsula on the northeastern shore of Great Salt Lake, Utah. Using over 6,000 tons of black basalt rocks and earth from the site, Smithson formed a coil 1,500 feet long and 15 feet wide that winds counterclockwise off the shore into the water. Smithson wanted to reconnect with the environment. It is a man-made artistic creation, but unlike most art galleries, it lies horizontal and dwarfs the human spectator, who experiences the sense of smallness when in the presence of nature's magnificence, or perhaps, when contemplating the stars.

In 1990, Dan Flavin created a permanent installation at Richmond Hall, at Menil Collection. Executed in the artist's signature sensuous but utilitarian medium of fluorescent-light tubes, the Flavin installation radiates an environment and atmosphere likened to both "carnival and cathedral" by the Boston Globe.

Another well-known site-specific work is Richard Serra's Tilted Arc (1979), created particularly for a public plaza in Lower Manhattan. Due to intense public protests and complaints, it had to be removed ten years later. Serra reacted with what can be considered a definition of site-specific art: "To move the work is to destroy the work."

Those are examples of site-specific art, which came to prominence in the 1960s, exploring the idea of an artwork created specifically for a particular location. It resulted in the formation of an inseparable identity relation between the space, its surroundings and the artwork itself.

One of the hallmarks of site-specific art is the possibility to make elements of a location a crucial part of the viewers' experience. PIPA Institute recently invited the three times PIPA Prize nominee Henrique Oliveira to create a permanent installation for Villa Aymoré. After visiting the space, he chose the stairs of the main entrance to develop his work: here, the installation directly changes the viewer's experience of spatial displacement since climbing the stairs also means to immerse into the work. Using pieces of wood to wrap the stairs, the artist is creating a sculpture that resembles the branches of a tree, seeming as if it's taking over the stair's structure. The aim is to merge the work to the original wooden stairs, in a way that it becomes hard to distinguish the former wood from the added one used to the site-specific.

The idea of working with wood – a material that the artist has been exploring for years now – addresses the notion of renovation and natural cycles: something that was once an element of the nature, like an oak tree, was transformed into a wooden object, and that could finally be resignified as part of an artwork. This is how Oliveira imagines his structures: reinserting pieces of compensated wood that had their own geometric forms and aesthetics into artificial boughs and trunks. What was once raw material ought to be raw again after having assumed another function.

Villa Aymoré’s history resembles this transformation concept: it was first a historical place to the monarchy, followed by a residential area in the last century and now standing out for disseminating culture and symbolizing resilience, a word that can conceptualize Henrique Oliveira’s installations. Although Oliveira had already produced some long-term projects to other national institutions, the installation at Villa Aymoré is his first site-specific in Brazil and it is also the first site-specific commissioned by PIPA Institute. The artist has national and international recognition, having developed projects and participated in exhibitions at important Institutions, such as Palais de Tokyo (Paris, France), Museum of Fine Arts (Gizu, Japan), MASP (São Paulo, Brazil), amongst many others.

The installation is expected to be completed in mid-November.



*Partial view of the site-specific artwork by Henrique Oliveira on progress at Villa Aymoré.*



## PIPA PRIZE

Although the death of painting has already been declared - especially now that art has expanded its media and languages - the practice persists over time, proving its capacity of reinvention more than any other medium. The question “is painting dead?” has been asked for roughly a century, and yet we remain fascinated by what the use or meaning of painting might be, and perhaps even most importantly, what place painting should hold in our society.

One could say that painting is the winner on this ninth edition of PIPA Prize, represented by Arjan Martins’ work, who accumulated the two main awards this year. The PIPA Prize six times nominee, who was born in 1960, in Rio de Janeiro, was the finalist selected by the Award Jury 2018 as PIPA Prize 2018 winner, was the most voted artist by the audience at MAM-Rio, and elected by PIPA Popular Vote Exhibition 2018 winner. Martins is showcasing three great scale paintings at the finalists’ exhibition at the Museum of Modern Art of Rio de Janeiro (MAM-Rio).

These acrylic on canvas paintings are good examples of Martins’ work, which is characterized by the question of ethnic identity, addressing the issue of the African diaspora and the Afro-Atlantic migrations that occurred during the Brazilian colonial period. He uses images of African descendants in everyday situations and also produces cartographic paintings in which the migratory circuits take the form of large caravels, sextants and globes, as if carrying all the weight of the deported slaves.



*Works by Arjan Martins at PIPA Prize finalists' exhibition at MAM-Rio*

The other finalists, avaf, Romy Pocztaruk and Vivian Caccuri, with their potent works, contributed to making this year one of the best PIPA finalists' exhibitions ever.

avaf, led by Eli Sudbrack, reunited different works produced between 2004 e 2018 in an installation made especially for the PIPA Prize 2018's exhibition. "reTRANSpectiva #1" mixes tapestry, neon, painting, masks, plants, wallpapers, a LED panel, etc., and proposes a remixing of his own work. The installation is penetrated by the transgender's image, theme/symbol that permeates avaf's work. The trans person becomes the central strategy in the exhibition, where the artist recontextualizes different periods of work in a single place.



*“reTRANSpectiva #1”, installation by avaf at PIPA Prize finalists’ exhibition at MAM-Rio*

Romy Pocztaruk is showing the work “Bombrasil” at the exhibition, a photographic and documental investigation about the nuclear arms race unfolding in Brazil during the Cold War. The project, secretly conducted by the Military Regimen between 1960 and 1980, used to long for the uranium enrichment technology development and construction of both atomic bomb and submarine at Brazil. That resulted in the construction of the nuclear power plants in Angra dos Reis, in Brazil, the place where the artist photographed at. Alongside the photos, Pocztaruk also exhibits posters that reproduce headlines about the Brazilian atomic program after the Dictatorship’s ending.



*Works by Romy Początaruk at PIPA Prize finalists' exhibition at MAM-Rio*

Interested in exploring sound as a mean of misleading and broadening the perception, Vivian Caccuri showcases a series of three works with both religious and musical themes. One of the works is “Oratório” (“Tidal Wave”), a sound-based art that uses subwoofers and lit candles which brings together the bass sound experience to ritual and religious cults. A version of this work was also shown at the Future Generation Art Prize 2017 in Venice and Kiev. In the second work, the element rests on a photograph of Saint Ambrose tomb. He was, as the artist wrote on the wall “a jurist, one of the founders of the Catholic Church, one of the first to compose religious hymns, murdered pagans, set fire to synagogues, patron saint of bees, one of the few

who could read in the fourth century.” The third work is a piece derived from the ‘Pagodes’ series, whose shape alludes to the “walls” of sound used in popular music parties, made by nets.

The exhibition is on view at MAM-Rio until 27th of October, when the 2018 catalogue will be launched.



*Works by Vivian Caccuri at PIPA Prize finalists' exhibition at MAM-Rio*

## PIPA ONLINE

PIPA Online is the democratic category open to all the participating artists in which the winner is chosen by the public through an online voting system. The voting is usually split into two rounds, and this year had an extra requirement: each person had to vote for at least 3 artists. With this, more people have met more artists and seen more of their works.

The 1st round of PIPA Online 2018, featuring 60 of the 70 artists nominated for the ninth edition of the Prize, had a total of 15,495 votes. Nine artists obtained the minimum score of 500 votes to participate in the 2nd round of PIPA Online. Totalizing 1,659 votes, Íris Helena was the top voted artist and Babu 78 was the runner-up with 1,217 votes. Both artists donated an artwork to PIPA Institute.

This year, we also had a third place: Daniel Escobar, who accumulated 1,179 votes and received an extraordinary incentive of R\$ 2,000. The extra donation was introduced in PIPA Online 2018 as a way of raising the benefits of the voting, aiming to reinforce the mission of promoting Brazilian contemporary art through the unlimited reach of the Internet. All the 60 artists who participated in the 1st round of the competition were running for the incentive, including the nine artists who obtained over 500 votes and were ranked for the 2nd round. Only the ranked artists, however, were running for the R\$10,000 and R\$5,000 donations reserved for the official winners of the 2nd round of PIPA Online 2018.

The online award seeks mainly to include, give visibility, and promote artists who do not have a strong institutional presence, who are not represented by galleries and that are based outside the main cities.

The following is a conversation between Luiz Camillo Osorio and Arjan Martins, PIPA Prize 2018 winning artist:

**Osorio:** Arjan, tell us a little about your training as an artist and your decision to become a painter.

**Arjan:** My training began at Parque Lage in the 1990s. There I had classes with important teachers, such as Beth Jobim, Paulo Sérgio Duarte, Fernando Cocchiarale and João Magalhães, with whom I took practical painting classes. It was a time when many artists were exploring different media, and I didn't exactly know that I was moving in the direction of a practice that people were actually abandoning: the experience of painting. At this time my production was very plural. I produced works based on materials that I saw in the streets. I did some interventions on walls. I also did a lot of drawing, more at the time that I was leaving Parque Lage. I felt that I had to walk on my own two feet. Drawing was a kind of tool, a way of organizing my ideas. I wandered about Frei Caneca collecting materials in the street, discovering, in fact, the possibility of using these materials, which weren't necessarily available in stationery shops.

Also, I had no funds to visit those sophisticated stationery shops – that artist's challenge of having to think about the material, what to do, how to do it, how



to produce it. As a solution I tried to make the practice more flexible, to not be a hostage to these sophisticated materials, focusing on experimentation, immersing myself in the process. In this search for material, I sometimes felt that there were other materials out there, ready for a certain project. At this time, when I was drawing a lot, I was using sheets of A3 paper, school paper, which I used in my first show, at the Museum of the Republic, in 2002, with the curatorship of Fernando Cocchiarella. They were drawings in which I felt the strength of the blot and the line. I worked with a reduced palate and this struggle with formats, small formats. Painting gradually began to emerge with the paper I found in Frei Caneca. It was paper that consisted of formic sheets and was really basic. But, at the same time, it had a very seductive colour. It was brown and had something strange about it, a strange beauty. So I collected the sheets, placing them one on top of another until they formed a kind of skin. And in the studio they took up a lot of space.

Then, somehow, starting with this question of scale, I found myself discovering this physical painting, this need for the body and the gesture: the space, the broom, the rake. I was experiencing this for some time, and somehow, one's posture, in this case, is different. It consisted of the medium on the floor, watercolours and a graphic element, without necessarily caring about the beginning or the end.

**Osorio:** Historical questions from the point of view of the defeated, which is to say, the counterfactual of the official history, frequently surface in your paintings. However, at least in my case, I'm initially attracted by the pictorial power of the



canvases before wondering about the subject matter. How do you regard these two aspects of your painting, how do they define your working process?

**Arjan:** Concerning this pictorial pungency, the fact is that there is, a priori, a plastic intention which precedes the historical question. But sometimes they are almost amalgamated. They practically move towards each other and end up being born together.

Through my research, through this figurative work that I began to develop, it was with a certain naturalness that I began to appropriate subjects which don't just concern me but also, in some way, us. At a certain moment, I bought some photos at the market at Praca XV, and on returning to the studio, I spread them out.

At that time, I had some works on the go and it was then, like a flash, that the characters from these photos migrated to the works. They migrated just like people, not like Afro symbols, or like thematic elements. I wanted to paint those old ladies.

Exploring the photos, I realized that there was no indication of the identity of the photographer and no reference to the people represented. These images at first received a certain honesty in relation to the colour – they were black and white. So in the first painting they were also black and white – which was a challenge. The second challenge was to respect the anonymous identity of these people – so I hid their faces. These figures, which appear in the works, caused critics, academics and researchers to seek identities in these people, based on ethnography, etc. In

those characters, I wanted to capture that atmosphere: they were old women. They seemed to be close to something that looked like a farm, nothing more than that. But these images brought me a feeling of great dignity. That was the point of the work; it was not just a matter of gender.

But obviously, there was a question there that we need to talk about, which is that of the Brazilians. We're talking about a painting that comments on a large proportion of the population, who are not necessarily in places of possible opportunities. They are on the margins; they are on the streets, as in those photographs. I became interested in these people. We are talking now about black people, about a social divide, about opportunities, education, ethnocide. We are talking about various layers and black people. And the layers of the Afro-descended community are emerging in my work.

**Osorio:** After a long and arduous career, in recent years your work has been gaining recognition on the national circuit with a growing number of invitations and participation in group shows. What has it been like responding to this demand, bearing in mind the slower rhythm of your working process in the studio?

**Arjan:** I have a tendency to enjoy the work. I need to feel it. It is not just a question of what I want to put out there but also of wanting to hear what the work has to say. I am a new artist in the market. I don't put myself in this position of having to produce so many works per year. I see no need to frantically respond to this demand since my work process requires time, which for me is a priority. I

have a commitment to art but I don't know if I necessarily have a commitment to this urgency of the marketplace. My urgency is about doing interesting work and this has to do with my time itself and the market has to be flexible about this.

**Osoario:** In addition to national recognition, you have also taken part in international exhibitions and done some residencies. Do you notice that your work is seen differently abroad? Is there anything that caught your attention in the international reception of your work?

**Arjan:** I took part in the Dakar Biennale, in Senegal; I'm taking part in Ex-África at the CCBB; I took part in an artistic residency in Lagos, in Nigeria; and I'm going to Azerbaijan. I was also in Haiti; I was at the Mercosul Biennale, this year; I have work in the collection of the Pam Museum, in Miami. There was an acquisition at SP-Arte, by the Pinacoteca of São Paulo. I say this because there are people responsible for my projection, both in Brazil and abroad. Jochen Volz, of the Pinacoteca of São Paulo, Alfons Hug, of the German Goethe Institute, Hans Ulrich Olbrist who approached me, based on a list containing the names of 90 Brazilian artists and, wondering if there were any black artists in Brazil, had my name included as number 91. Somehow these interventions have ended up positively affecting the international perspective of my work.

Obviously, supported by the national perspective, where I have important people in this regard, such as Paulo Herkenhoff and Cildo Meireles, who introduced me to Gilberto Chateaubriand, and also the investment in my artistic work, both in Brazil and abroad, by the gallery which represents me, A Gentil Carioca. Somehow,

the curatorial world became curious about the subject matter that also appears in my work. Today these subjects are an agenda - reconsidering the modern project -, which has been favourable to the emergence of artists like me, Dalton Paula, Jaime Laureano, and Rosana Paulino.

**Osorio:** How do you regard painting today and who are the artists that have most influenced your career?

**Arjan:** I continue to regard painting with respect. It is a practice that will persist over time, even in these very plural times with so many languages. A painting has the generosity to not demand much of your time. Either you like it or you don't like it; it's as simple as that. And it also manages to be a practice that can be obtained like this, with its own accent, personality and stamp. May painting, new painters, good painters come to Brazil. What I have done is to begin a process. I don't do something that is closed, tied down, definitive – even if for some critics my art has a historic agenda. I can cite Alexandre Vogler, an artist who also comments on the Afro-Brazilian question, who has also engaged in this research in some way. “Fumacê do Descarrego” (“Discharging Fumigator”), for example, is a work that says a lot about this.

## **PIPA PRIZE MISCELLANEOUS**

“One of my favourite definitions of the difference between architecture and sculpture is whether there is plumbing or not”.

- *Gordon Matta-Clark*

“It’s a lot of pressure to produce something for \$25 when you really need \$25. It doesn’t matter if the pressure is for \$2,500 or \$25,000 - it’s the same pressure.”

- *Frank Stella*

“The function of art has always been to break through the crust of conventionalized and routine consciousness, common things, a flower, a gleam of moonlight, the song of a bird, not things rare and remote, are means with which the deeper levels of life are touched so that they spring up as desire and thought. This process is art.”

- *John Dewey*

“Just as the development of earth art and installation art stemmed from the idea of taking art out of the galleries, the basis of my involvement with public art is a continuation of wall drawings. As soon as one does work on walls, the idea of using the whole wall follows. It means that the art is intimately involved with the architecture. It is available to be seen by everyone. It avoids the preciousness of gallery or museum installations. Also, since art is a vehicle for the transmission of ideas through form, the reproduction of the form only reinforces the concept. It is the idea that is being reproduced. Anyone who understands the work of art owns it. We all own the Mona Lisa.”

- *Sol LeWitt*

“Art enables us to find ourselves and lose ourselves at the same time.”

- *Thomas Merton*

“Art washes away from the soul the dust of everyday life.”

- *Pablo Picasso*

“You use a glass mirror to see your face; you use works of art to see your soul.”

- *George Bernard Shaw*

“Learn the rules like a pro, so you can break them like an artist.”

- *Pablo Picasso*

**PIPA**  
PRÊMIO □ PRIZE

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