PIPA Global

PIPA Global Report

1st QUARTER
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Alice Miceli, PIPA Prize 2014 winner,
“In depth (landmines) #03”, Bosnia series, 2016.
Community of Obudovac, Samac town, BiH,
9 large scale prints.

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Research and Analysis

GOVERNANCE

Those who have followed us over the decades know the importance we place in Corporate Governance, being second only to People quality and integrity. Actually when there is a great "People factor" all the rest flows as a consequence, from business model optimization to succession planning and execution.

Unfortunately, occasions when we have truly exceptional people in executional and ethical fronts are quite rare. And since business quality and execution are much easier and faster to evaluate, we invest quite some time in studying the broader issue of general Governance and each particular case.

We've lived enough and are small enough that we don't need to function by strict rules. Nothing by itself is a deal-breaker. There are situations where multi-class stocks make sense, or where poison pills make sense, and other quite creative arrangements, as well. One needs to look no further than Berkshire Hathaway, where there are two share classes and Buffett holds most of his position in the supervoting class. We like to think that we have a checklist or yellow flags that call for further analysis, and the existence of supervoting shares is certainly one of them.

Both cumulative and specific recent events made us think it's time to re-address the subject.

Supervoting shares - the Facebook case

We do understand that in the case of new companies, it might be in everyone's best interest to have some kind of protection to the founders and key people. But generally speaking, we'd expect to see that combined with a sunset provision of about 5 years. And still haven't seen the case where the supervoting shares being transferable[1], as Zuckerberg's shares were initially, makes any sense.

What we've seen in the tech arena is an indiscriminate generalization of supervoting shares, just because everyone else is doing it (kudos to Amazon and Bezos, who since listing have had only common shares).

The most common example used to justify them is Steve Jobs having been fired from Apple in 1985. Well, it may have been a bad thing, but we're not so sure. Not only did he have some timeout to nourish new ideas without the daily pressures of running a business, get more mature by having gone through all the process, but more and foremost, he came back without formal long term control, out of love for the company and the obsessive need to prove himself (we always think that there are many situations where money is not the most important incentive).

On the other hand when we mention the apparently never-ending governance imbroglio at Viacom, where a senile Sumner Redstone has control through supervoting shares, we usually get the "that's a long term issue" answer and the implied "we're concerned about next quarter"... As most people with some experience know, long term expectations do have influence in short term behaviour and consequently, results.

We have specially more concern with companies like Google and Facebook, who were already profitable and free cash flow generators since their respective IPOs, granting

[1] As in, if the owners of supervoting shares, to whom those powers were given due to their special perceived capacity to run the business, decide to sell most of their shares, they must first be converted into common shares.

supervoting shares to their founders. At the end of the day, supervoting shares imply in control with (much) less skin in the game, undeserved and value-destroying disproportionate power concentration and, we believe, a negative incentive to easily distracted young multi-millionaires (or billionaires).

Again Amazon is a great example of how things could be. Bezos, pre-divorce, still had about 15% of Amazon[2] and I doubt that any investor would like to see him walking away. And Amazon's business was much less free cash flow generator than Facebook or Google. Microsoft would be another great example. Ultimately, the discipline and focus imposed by having to keep a much more relevant stake throughout years and years led both Gates and Bezos to much bigger wealth. Although two data points[3] obviously are not enough to allow any rulemaking ambition, we don't believe it's a coincidence.

Going back to Facebook, there were plenty of cautionary warnings. As of early 2018 (and definitely not too early at all…), the Financial Times published an article with quite the objective title: "Facebook's dual-class share structure is akin to a 'dictatorship'". Some excerpts:

- Cornell University research shows that as companies move further from their IPO date, there is a decline in the value added by a dual-class structure. The authors suggest that best practice in corporate governance, such as moving from dual-class to single-class, should mature too.

[2] And in his divorce arrangements, he transferred about 4% to his former wife, but retained the voting power over those shares.
[3] We could come up with others, like Berkshire, where Dual Class shares came quite late in the game, but we'll spare you the time.

- The Securities and Exchange Commission has shown that three to six years after an IPO, a perpetual dual-class stock trades at a substantial discount to a dual-class stock with a sunset provision.

- The Council of Institutional Investors, using an analysis of SEC filings, has listed 22 dual-class companies with time-based sunset provisions incorporated into their charters.

Indeed, some practices adopted by the company would more likely have been questioned, should Zuckerberg had not absolute power: The following has been extracted from a very well researched article on a recent Financial Times' Weekend Magazine:

- Facebook's data on user retention showed that if new users could not find their friends reasonably quickly once they'd registered, they would leave, and rarely return. So Facebook needed to rush them to what Schultz and others have called the "magic moment" where a user has at least 10 friends.

- To do this, they created the feature People You May Know. New users were told "Facebook is better with friends" as they were pushed to allow the platform to access their contacts — then from email address books; now from smartphones. This simple tool transformed the company's prospects, says one former Facebooker. "It was supremely important," he says. But the feature — now common across many apps — warped people's social networks. Facebook acted like a "digital drug lord", Harris says, prodding people to invite their entire address book — not because users necessarily wanted to spend time with these people, but because Facebook wanted new potential users.

- *The feature violated privacy, encouraging users to expose their friends' contact details without their permission, even if they were not on Facebook. People often did not understand that if their phone number was in anyone's contact book, that person could then allow Facebook to see they were connected and access their contact details. Even insiders realised this was dubious: in a controversial internal memo that leaked after the Cambridge Analytica revelations, Zuckerberg's close lieutenant Andrew Bosworth described it as "questionable contact-importing practices".*

The bottom line is: we tend to think that it would be quite unlikely that Zuckerberg, Sandberg & Co would not be fired after presiding over the amount of unethical behaviour that gets clearer and more widespread almost every day. It always sounded crazy to us or at least naıve to grant control to someone whose motto was "Move fast, break things" and whose behaviour reflected an ethos of we'd rather ask for forgiveness than permission.

Other currently case is that of Lyft, who recently listed its shares, granting 20/1 supervoting shares to its founder.

As Paul Singer, the founder and co-CEO of the activist investment firm Elliott Management recently wrote:

- As a cautionary tale, consider Lyft's rival Uber, which is also planning an IPO this year. In 2017, Uber, then private, had a dual-class structure in place when serious questions were raised about then-CEO Travis Kalanick's behaviour. The board, led by its early investors, lacked the votes to remove him so they turned to activist tactics. They wrote public letters, made a case for change and persuaded him to step aside. Now imagine if Mr Kalanick's limitations had surfaced after its IPO. Uber's public shareholder base — dispersed, disorganised and lacking voting rights — would have struggled to act with the effectiveness of the private owners.

- Those with the insight who dare to found a business deserve our respect. But once they sell the vast majority of the company to the public, they should not be allowed to run it forever without any shareholder input. Public ownership must mean public accountability.

Or as reported in Market Watch:

- Lyft, like many other hot tech companies to test the public waters, plans to concentrate voting power with founders Logan Green and John Zimmer, though the company hasn't yet said what concentration each co-founder will have.

- Green, currently the chief executive, and Zimmer, Lyft's president, each own 1,180,329 shares of Lyft's class A shares, about 0.5% of the 240,597,591 shares currently outstanding, but are expected to have voting control.

- Lyft will have 271.37 million class A shares outstanding and 12.78 million Class B shares outstanding. Class A shares will have one vote and Class B shares, which are convertible to class A shares at any time, will have 20 votes. After the IPO, Green will have 29.3% of the voting power, and Zimmer will have 19.5% of the voting power.

But things sometimes are even worse. Let's take the example of Snap, IPOed in 2017 when the company sold shares with no votes at all. Or Google, that through a convoluted restructuring that seemed to us quite misleading to those who don't delve deeper, changed the ticker of the already reduced voting shares GOOG to GOOGL and started to issue no voting shares with the old GOOG ticker. Ouch!

In addition, let us not forget that there are many others in the "Evil Box of Corporate Governance Tools". Supervoting shares are only one of the most visible.

Such is the case of Tesla, where Elon Musk holds about one-fifth of the carmaker's single class of shares, but a pending lawsuit contends that he effectively controls the company through bylaws requiring decisions by a supermajority.

Again a Financial Times article synthesizes the issue quite well:

- We are saddling the market with really bad structures. They may not be bad for the IPO investors who aren't going to be around long-term, but it's really bad for the rest of us.

Usually, something that has intrinsic flaws in the way it is structured in terms of power, risks and incentives, is much more likely to bring on bigger problems than otherwise, and faster - a typical issue of the short-termism that distorts the market until it gets quite far from what would be rationally expected. Most of the crises we've gone through, from emerging market debt in the '80s to the credit crash of 2007/08, at least with the benefit of hindsight, were clearly caused by flawed structures in terms of power, risks and incentives.

At least, in this case, we're noticing an increasing pressure against the practice, and the fact that LYFT's shares have fallen since the IPO, while not a proof in itself, could help bring more attention to the issue.

Nasdaq letter on proxy advisors

Another Governance issue that arose recently was the obvious "over automation" and conflict of interest riddle in the process of proxy voting.

According to a Financial Times article:

- "...600 billion shares are voted each year at 13,000 shareholder meetings. Hence the attraction of using proxy advisers [like ISS - Institutional Shareholders Services] to handle "an enormous volume of information in a short period of time", to give "investors a meaningful voice in corporate governance"
- But the other odd factor is that ISS not only advises shareholders on how to vote, but also has consultancy services that help companies win the support of shareholders.

- "…the incentive for executives to clip those proxy wings, particularly when they support shareholder proposals that criticise boardroom pay or strategy. Turkeys do not vote for Christmas, least of all in the C-suite."

- advisory firms "hold companies hostage and make them buy services"

According to the www.proxyreform.com website:

- "Proxy advisory firms have been criticized on a number of issues: Rampant conflicts of interest that can impact the objectivity of voting recommendations made to institutional investors. A one-size-fits-all approach to voting recommendations that ignores the unique characteristics and operations of individual companies. A lack of willingness to constructively engage with issuers, particularly small and midsize issuers that are disproportionately impacted by proxy advisory firms. A lack of transparency throughout the research and development of voting recommendations. Frequent and significant errors in analysis and an unwillingness to address errors."

Contrary to the previous obvious cases of conflicts of interest among investment banks that used to compensate sell-side analysts based on the amount of Investment deals they brought to their respective banks, or the rating agencies which were paid to grade the disastrous CDOs and CMOs, this time even the NASDAQ is being proactive. On an open letter dated Feb 4th, 2019, “The U.S. proxy process is critical to public company governance, and we appreciate the Commission’s recognition that areas within the process need to be reformed.

These issues have real effects on the economy, job creation and global competitiveness. As many have communicated to the SEC in the past several years, these issues are part of a poorly-calibrated regulatory ecosystem that is producing fewer IPOs and driving many companies out of the public markets.

As publicly traded companies, we urge the SEC to address the following critical items:

- **Proxy Advisory Firms:** The SEC must take strong action to regulate proxy advisory firms to address critical frustrations with their current operations.

- **Conflicts of Interest:** The SEC should adopt strong protections for both companies and users of proxy advisory services to ensure that conflicts of interest are eliminated where possible, minimized and/or mitigated where appropriate, and transparent to the users and subjects of reports. Conflicts should be disclosed on the front page of proxy advisor reports on companies so that investors make fully informed voting decisions.

- **Accuracy:** The SEC should require transparent processes and practices that allow ALL public companies, regardless of their market capitalization, to engage with proxy advisory firms on matters of mistakes, misstatements of fact and other significant disputes so that timely resolution of those disputes and corrections to the record can be made to minimize the negative impacts that such mistakes can have on the subject company's proxy voting outreach and its shareholders. Such policies and procedures are absolutely critical to any reforms considered by the SEC.

Given the impact of the proxy advisory firms' decision-making and recommendations on the capital markets, and the large percentage of institutional voting that follows their recommendations, the ability to identify and correct errors is crucial for accuracy and accountability."

The letter was signed by hundreds of listed companies.

In conclusion, it's important to make clear that we don't discard any structure, a priori. We might be quite comfortable with Berkshire's dual-class structure just as we are with Tesla's all common shares structure. As the legend has it, the Devil is in the details, and for us, the key point is **people**. We'd pretty much prefer to grant super-power to people with proven character and competence that surround themselves with similar kind than support an apparently strong Governance structure that ticks all ISS boxes, run by lesser quality people.

COMPANIES

GE

4th Quarter Call

Larry & Co brilliantly maintained focus on what matters, made no "projections" and gave no guidance. It's incredible how much people are willing to pay (or demand) for assurances that nobody can give. Meanwhile, many are overlooking tangible things like the fact that Larry has been able to attract new top talent, focus on getting processes in order (as he clearly stated, the HOW to get things done - DBS anyone?) and managing the problems as they inevitably arise.

Living on Tusa Time[4]

An interesting "data point" was how Stephen Tusa, a JP Morgan Analyst that has been an influential force preaching the demise of GE, (mis)behaved in the 4Q earnings call. He arrogantly and in an ungentlemanly way cut Mrs Jamie Miller (GE's CFO) in a way that clearly shows he "lost it". Larry's intervention cutting him short was brilliant both as a gentleman and as a LEADER, firmly stating that they wouldn't provide the information Tusa wanted (no matter his insistence).

Tusa's reports over time show that he might eventually be good with numbers but fails to give the due credit to the fact that they are a consequence of people and

[4] A pun with Eric Clapton's "Tulsa Time", where a part of the lyrics, in our view, is quite applicable:

"Well, there I was in Hollywood thinking I was doing good
Talkin' on the telephone line
But they don't want me in the movies and nobody sings my songs
Guess I'm just wastin' time"

HOW they proceed. To make it clear, we don't necessarily disagree with his algebra, and, certainly, the scenario he paints is possible. Actually, almost every scenario is, and a significant part of an investor's job is to attribute odds to each of them, using Einstein's idea that "every problem should be made as simple as possible, but no more".

His assumptions disregard so many key variables that the fact that "the market" (so far) gives so much credibility to what he writes only proves, once again, how biased and inefficient the system is and how, given all alternatives and complexities, sometimes the market will blindly follow those that seem to be "in the know" and emphatic. Think Kenneth Lay & Jeffrey Skilling at Enron, Dick Fuld at Salomon, Bernie Ebbers at Worldcom, Dennis Kozlowski at Tyco, the rating agencies, many sell-side analysts and yes, even among our kin, in the buy side.

Besides overlooking Larry's extraordinary personality and skills, we think analysts are overemphasizing risks. Risk is all around, known and unknown. And that is why having capable, committed and credible people makes so much difference[5].Just shooting from the hip we can remember many cases in the corporate world where great companies had big problems and managed to not only survive them, but return to a better version of its former self.

Danaher was an undisciplined, highly leveraged LBO machine with many unrelated businesses heading to a major crash when the Rales Brothers brought in Mr Sheridan and, afterwards, let Mr.Culp run the show for 14 years.

[5] Those who read the Foundation Trilogy by Isaac Asimov certainly "get it" in the most profound way.

How many times have we heard that tobacco companies were doomed? We even remember the say that regulation impacted investor analysts much more than the companies themselves. And yet more than 25 years went by and they're still "minting cash".

In the big Pharma industry we're old enough to remember the Tylenol and Vioxx scandals, that many feared would bring Johnson & Johnson and Merck to their knees, and just this quarter mighty Rekitt Benkiser was fined in GBP 1 billion and lost more than GBP 3 billion of its market cap due to its formerly Pharma subsidiary Indivior, which has been recently spun off and lost 75% of its value in a single day.

Still recently, there was the VW emissions tests scandal (which now appears to spread to BMW and Mercedes as well…)

Even Berkshire had a quite bad experience when Salomon Brothers - where Buffett used to have a huge stake - was about to go bust due to manipulation of the primary market in Government bonds. The company was saved by Mr Buffett agreeing to get into the mess and stake his credibility[6]. In a quite interesting article[7] by Buffett's long time friend and "editor" of Berkshire's letters, Mrs Carol Loomis, Buffett was quoted as saying "the most important day of my life," was Sunday, Aug. 18, 1991— when the U.S. Treasury, that had banned Salomon from bidding in government securities auctions, rescinded the ban, as a result of Buffett's efforts. And there was also the insider trading by David Sokol, seen by many as Buffett's successor to be. Risks were dealt with and Berkshire thrives away.

[6] Only to see Mr Fuld destroy it a few years later with his arrogance
[7] http://fortune.com/1997/10/27/warren-buffett-salomon/

Not to mention structural economic, health, wars, sun tempests, terrorism and pandemics. Bottom line is: the bigger risks are the unknown and unexpected ones. After all the soul searching and auditing that has been going on at GE we tend to think that there might be much bigger risks at other big companies, that lie unsuspected by now. For us, the bigger risk at GE is the key man risk.

On the other hand, over the last 2 to 3 decades we've seen companies like Amazon, Apple, Google, Facebook, Alibaba, Tencent shot from nothing (or almost nothing, in Apple's case) into the hundreds of billions. So chance cuts both ways. Identifying a key predictor is quite hard, but the best single one we've found is People.

Going back to Tusa, he might be right sometimes (as even a broken watch is), but given the fact that he followed Danaher during Larry's tenure, his comments show, at best, some intellectual blind spots. A stock analyst perhaps, but definitely not a business analyst. Someone so focused on being precisely right that misses the proverbial elephant in the room. Or focusing on the trees and missing the forest[8]. As the famous Clinton campaign against Bush that ran as "it's the economy, stupid". In this case: it's the PEOPLE, stupid! Character, execution, leadership and the capacity to determine the priorities of what and HOW things are to be done are of the essence. And **credibility** matters A LOT!

As a last thought, it doesn't cease to amaze us how the "same" market players pay billions of USD for companies with a bunch of inexperienced guys, arguably with great ideas, and fail to recognize the value of some companies with so many hard-to-

[8] Which by the way is what we tried to communicate with PIPA Art Prize's 2014 winner Alice Miceli work - In Depth (Landmines) - Bosnia Series - on the cover of this report.

build competitive advantages (patents, clients, processes) and led by brilliant, proven people. We're grateful that's the way it is. It makes life easier for us, just requiring discipline and patience for the opportunities that this dynamic consistently generates from time to time.

This quarter also marked a very important development in our view. GE's Board, that by the beginning of 2018 had 18 (eighteen) members who presided while the company was going through its slow-motion train crash, is now down to 10, out of which 7 are new, selected by Larry and with no "ownership" of the mistakes of the past, which makes it easier to change things into Larry's way.

And to make things even better in that regard, two of the members that remain are Ed Garden who owns more than 70 million shares (approximately USD 700mm at current prices) and James Tisch, CEO of Lowes Corp, a much admired conglomerate, who owns about 3,5 million shares and has also been a FED Director, a member of the Council on Foreing Affairs and a Director of the NY Public Library (gotta love this guy!), among others. Adjusting for the retirement of Jim Mulva and Geoff Beattie, the number of Board members will decline to 10, but the company has stated its idea of getting back to 12, **if** the right persons can be found and available.

Current board members are not "talking heads", they are highly accomplished people and constitute a quite diversified group in terms of core competences and diversity.

One might say that it's a risk in developing an Imperial CEO. Generally speaking, we would agree, but knowing Larry, it's a risk we gladly take.

These are his comments on the subject before the retirement of two of the old guard Board members in this year's proxy, which will not be replaced:

> "If you look at what we're talking about in terms of performance, from a governance perspective, you have a board at GE that is very engaged. We have a board now of 12 people down from 18 a little over a year ago, right? 6 of those 12 are new within the last 18 months. That's a lot of change. 8 of the 12 actually had been with us for 3 years or less, if I have the census right… this is a board that I have a lot of respect for, diverse range of experiences and perspectives that is very engaged. And they understand our reality and are keen to help the leadership team make sure that we fix our problems and we seize our opportunities."

<u>True Guidance</u>

On the 5th of March, Larry Culp went to a JPM conference that started:

- Tusa:

  - You did not have to come here, and it's very meaningful to us.

- H. Lawrence Culp General Electric Company - Chairman & CEO:

  - Thank you, Steve. We're happy to be here, right? We don't have enough civil conversation in our country these days and -- we don't. We don't. So I think we're going to have a good conversation here today….

And we highlight some points by Larry (the bolds are ours):

- I think if you look at where the company is today, we are very much embracing our reality.

- We know we have a number of issues to work through, both with respect to the balance sheet and the way we run a number of the businesses. And we've tried to be abundantly clear, not only with you as shareholders or potential shareholders but, frankly, with everybody on the payroll, nearly 300,000 people at GE.

- We want to make sure that we are running the businesses, so that we realize their full potential. And that starts, first and foremost, with Power. It's not limited to Power, but that's really where the action and the focus is for us.

- Certainly, as I've come into the company the last 5 months, I've seen a number of situations where we're probably a little more focused on yesterday at the expense of tomorrow, reporting rather than managing, if you will. We're going to change that as well because the more we're focused on tomorrow, the more we're going to influence and affect future performance.

- We're going to be laser sharp with our priorities. GE is a large company. GE has a lot of hungry, ambitious, talented people, who tend to put a long list of objectives up on the screen. We're going to narrow those down. **My philosophy is, if we get down to a few that are critical and make them a**

reality, we're better off. We can do that year in, year out. We'll make more happen than trying to pursue a wide agenda but only making a couple of inches worth of progress.

- If I talk about how we're running the business, I'm going to just give you a higher-level look here before we talk about some of the specifics at Capital, talk about the importance of putting the customer at the center of what we do. Quick story here. When I've asked about quality, as I travel around, the instinctive response I get from a lot of folks is cost of quality, which is an accounting convention. **It's a bucket full of the costs that we incur on our P&L when something goes wrong with our product at our customer site. That's not the way a customer sees that, right? They see it through their own experience and what it means in their operations and in their P&L, whether it's a lost customer, a lost hour of operation, what have you. We need to do more to put ourselves in a position where we see GE the way our customers do.** And the more we do that, I think the better off we're going to be because we're going to be focusing on improving the things that matter most to our customers, and there's usually nothing wrong with that.

- One of the things that we're trying to do operationally, which will ultimately have cultural effect, is run the business in a way that's geared more toward the businesses and less toward Headquarters.[9]

- There are a whole host of, if you will, middle layers, middle levels in the organization, which really aren't operating entities. They're collection points.

[9] Indeed, at his times at Danaher, the company was segmented into Platforms, united primary by the now famous Danher Bussiness System (DBS). Headcount at headquarters was minimum. Berkshire style.

And the less that we have of that, the more we're focused on the folks, the engineers, the salespeople that serve customers, we think the better off we are and more impact we're going to have day in, day out in running the business.

- Part of that is making sure that where we have, what we would call, a headquarter's level that doesn't add value, that is just a reporting vehicle, a consolidating point that we take that out.

- As we go forward, we really want to make sure that we set our best businesses up to play offense, both organically and inorganically.

- And then finally, many of you know, I'm a student of Toyota. And one of the core tenants of the Toyota Production System is daily management. There's a good bit of quarter-end rush that goes on at Power. It has the last couple of years. We're really trying to break that down. So whether we're talking about quality, whether we're talking about on-time delivery, productivity, you name it, we're going to manage that every day, not just run hard the last 4 weeks of a quarter.

- I've only been here for 5 months. What I can speak to is what I'm doing. And again, you talk to a lot of people. You read a lot, your stuff included, and you try to understand reality. You try to make a market for reality inside the company, right, by asking tough questions, encouraging honest, tough answers, flipping over stones that maybe haven't been flipped over. And I think, over time, right, you unearth things. You learn things. You see things differently. You help others see things differently, and you begin to change the conversation.

- This is an organization that is very mindful of where we are. It's one of the best things about leading this company right now. I spend no time convincing the organization that we can and should be better. They know it. It's really a question of how. How do we do that? How do we change? How do we make delivery a competitive advantage? How do we change the way we think about running an industrial company differently? Those are great conversations to have. Those are the conversations we're having every day. **I just wish I could compact 25 years of what I did in my prior job into 5 months at GE, but that's not within the realm of the possible**.

Then on March 14, GE's management made a "Company Outlook" call. There were many important things said, but for us, the most important was to "feel" much firmer and confident voices, especially Mrs Jamie Miller (CFO), who had been quite defensive in previous calls. We tend to think that it's the effect of a great leader setting clear priorities and moving towards them. This "halo" effect some leaders have - and which comes through in different styles - is what makes "the" difference. Also, as we expect from Larry, the focus was on the "whats" and "hows". Follows some selected passages from the call:

- "Our priorities remain the same: to improve our financial position and to strengthen our businesses. First, we are making our balance sheet healthier. We are measuring our progress through our stated leverage targets at both

GE Industrial and GE Capital and expect to make significant progress against those targets by the end of 2020. We've already accelerated several portfolio actions, and we are committed to running the company with a higher cash balance and less reliance on short-term funding. That is priority #1, and we've made a lot of progress."

- "I have recently been spending the majority of my time on priority 2: strengthening the businesses, starting with Power. There are several actions we are taking across the businesses and at corporate, but it comes down to 3 guiding principles: first, put customers at the center of everything that we do; second, manage for operational performance first; third, set fewer and more impactful priorities."

- "As I've said before, Power is in a serious turnaround mode. This is not going to be quick by any stretch. We pointed to 3 root causes of our performance on the fourth quarter earnings call. One, we were slow to embrace market realities, and as a result, we were slow to address our cost structure. Two, there are a number of nonoperational headwinds or what we call inheritance taxes that we need to pay off, legacy legal obligations, some of which are rooted in the Alstom acquisition. And three, execution. At Power, it has been undermanaged over the last couple of years."

- "With the reorganization of our Power business, we'll have better line of sight into the 4 discrete power portfolio P&Ls: grid, steam, power conversion and nuclear, which together represent approximately USD11 billion in

> annual revenues. All of these businesses have meaningful profit improvement potential, and we are managing them from the bottom up as a result of the reorganization."

And Jamie on corporate costs:

> - You've heard us talk before about moving more activities from corporate into the segments and fundamentally focusing corporate on activities that support and enable the businesses. If a centralized function doesn't do this, that capability will be transferred to the businesses. These decentralized functions are ultimately run more efficiently and with greater accountability when decisions are made at the business. As a result, we see the value GE corporate can provide for the businesses as ultimately focused around strategy, capital allocation, research, talent and governance. Our total corporate headcount is already down 36% from 2017, and we have more transfers and actions underway… By 2021, we expect those actions to bear fruit and retained corporate costs to come down by 1/3 or more.

One has to look no further than Danaher to see how effective this can be, both from the cost side and the benefits of having the divisions (or platforms, as they're called at Danaher) taking more responsibilities and initiatives.

And Larry's wrap up:

> - Our challenges are complex but clear. We understand them and are facing them head on as we execute against our 2 priorities of improving our financial position and strengthening the businesses.
>
> - Even as we get our house in order, we will continue to go on offense. We have some great businesses that are operating today from a position of real strength. We have incredible technology with a valuable installed base, a large backlog and recurring revenue streams. We have a global network of close customer relationships, an impressive local network and a highly respected brand. And most importantly, we have a dedicated team with grit, resilience and commitment. It's also evident to me that our businesses can be much better cash generators over time. And that's where I see the upside at GE.
>
> - But let me remind you, **this is a game of inches every single day**, and I want us to keep score together along the way. Our goals are aligned with yours[10]. **This year will be more about what we do than what we say.**

Given the infinite ways the company may configure itself, the most we can do is look for the incentives and the history of what Larry did at Danaher. The conclusions are:

- There were no "sacred cows"; mature businesses were sold or spun off, and even good businesses were sold if someone was willing to pay more than it was worth for them.

[10] This years proxy informs that:
For 2018, the bonus pool was redesigned to make payouts for business executives based on business unit performance, rather than overall company results. This was reflected in the bonuses paid to our Aviation and Healthcare teams, who exceeded expectations this past year. Smaller or no bonuses were paid to businesses that fell short of expectations. We have also shifted pay for our top executives to be increasingly weighted towards equity, rather than cash, to drive alignment with shareowners.
And also that the top 6 people in the executive team have almost 20mm shares and stock options.

- They were always on the look and prepared for opportunities. They even had their Danaher Business System "SWAT Team" go into new acquisitions at the first hour and devise a very clear plan of what to focus on, who were key people and who must leave.

- Many acquisitions were companies with business they understood and believed could benefit from Danaher's business approach and scale. Indeed they were one of the most successful "portfolio managers" we've seen. Something many companies try, but very few succeed in. One must look no further than the "old GE", Tyco, etc to confirm Charlie Munger's quote, that he "has seen many more companies die from indigestion than from starvation".

As long term investors that really value observing how companies and managers perform over time, a little bit of History seems to be in order.

We got to know Danaher about 15 years ago during a 3M investor day in Saint Louis. Despite the name of the event and the presence of all senior management, most of the attendance were sell side analysts, who either slept during most of the day, checked their BlackBerries, which 15 years ago were the ultimate "I'm a valuable professional" symbol, or ate sugar glazed bagels, only to have an electrified moment of attention when heard "and now we'll provide our guidance of the year".

For us, who try to keep our participation in events and meetings limited to those that really interest us and always make sure we're fully rested and have brainpower left to process and reflect on all the information gathered, it was Paradise. We basically had the full 3M management for ourselves.

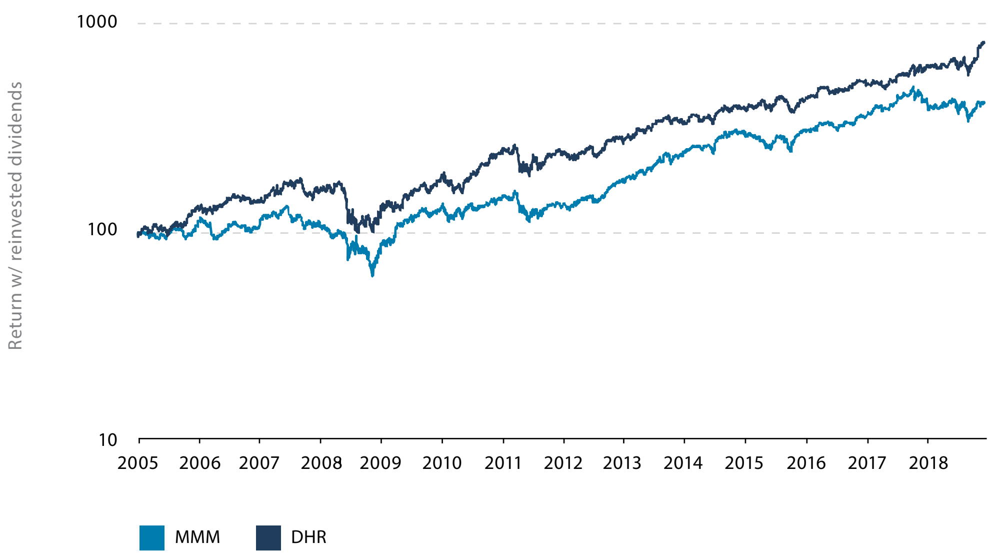
3M was and is a rare case of a highly successful diversified conglomerate that has morphed through times[11]. It's current name derived from the original Minnesota Mining and Manufacturing but is now diversified into Health Care, Consumer (yes, the omnipresent PostIt), Electronics & Energy, Safety and Graphics and sophisticated Industrial Products. It has consistently managed its portfolio and has managed to maintain an operating margin of about 20% over time, with a 1 to 1 FCF conversion. A very decent benchmark for the sector.

The most relevant piece of information we got that day arose when we asked the CEO and CFO which, among their competitors, was the one they respected the most and why. The answer was a "below the radar" company in Philadelphia called Danaher. Many times, when investment bankers got to 3M with an acquisition opportunity, Danher had closed the deal before they could fully analyse it.

Besides the lead to one of our most rewarding investments, we got to learn how effective a decentralized company that abides to a high accountability business model can be[12]. Actually Danaher has a FCF conversion rate greater than 1. And it led us to Larry. The long term comparison of return to investors leaves no doubt. 3M is an outstanding industrial conglomerate, but Danaher is in another league:

[11] It´s life spans more than a century, being founded in 1905.
[12] Berkshire also runs a very decentralized operation, but we tend to think that most of their companies are not as well managed as Danaher's. On the other hand, Buffett makes up for it by having a genial source of better that cash and equity in the form of insurance float **accompanied by underwriting profits**.

MMM VS DHR



Some speculation on the numbers

Tusa's analysis has been focusing on how bad the situation is and can be, making no allowances for how good it can get. We understand the logic and numbers he uses, but we think they are not written in stone, to say the least.

There are critics to the fact that the company turned into negative free cash flow in 2018 and probably 2019 will follow. We know what Buffett says about restructurings, and this is going to be one of the biggest and most complex we have known. However, one cannot expect something different after almost two decades of dismal management. We think we're seeing a radical transformation in the way the company, with a splendid mix of assets and distribution reflected in its market share and competitive position, is run. And we're not shooting in the dark. We believe having followed Larry since its early days at Danaher helps us a lot in terms of what to expect. This is why we are so excited by having him running the show with a mostly new **Board**. **The old one had to go**, so that drastic changes in all fronts could be made. And given this renewed leadership team, we feel more comfortable to talk about some numbers.

So let's go back to the FCF critics. Given the atypical amount of problems in many different fronts, from overstaffed Headquarters to many unsettled legal disputes, a grossly underfunded pension fund, a disastrous Alstom acquisition and a still cash burning GE Capital, first thing was, and is, making changes and cutting the losses. And that costs money.

Relocating and firing people costs money, but they've already got more than a billion dollars a year out of Headquarters costs, and they're not finished yet. So let's suppose that the resizing of Headquarters costs USD 2 billion. If the only gain would be the USD 1 billion a Year[13], that by itself would be a great investment. But even that is myopic, in our view, and underestimates the gains and returns unlocked by giving more authority to the divisions, tied to a much more direct compensation, as can be seen in the proxy[14], where heads of Aviation and Healthcare received 50% and 38% above their bonus for overdelivering, while Power got zero.

[13] In 2018 they saved USD 400mm in Corporate Headquarters. Management expects to reduce Power Headquarters costs by USD 300mm and "as we distribute the remaining cost to the business units, we expect that they will find additional savings over time." this last assumption sound pretty reasonable given the way incentives are now structured.
[14] https://www.ge.com/investor-relations/sites/default/files/GE_Proxy2019.pdf

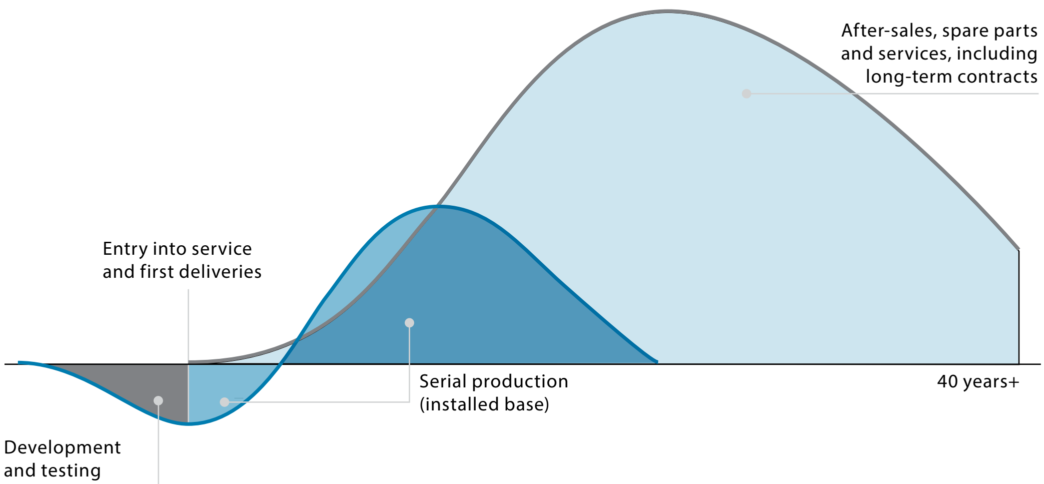
Looking into Health Care and Aviation, we have no difficulty in seeing them as over 20% operating margin businesses going forward. Actually, we expect them to increase those numbers over time.

In terms of FCF, we think that aviation, given its intrinsic long term cycle should oscillate, but get better as well over time. LEAP engines, which are becoming “the workhorse of the airlines industry” with about 1,800 engines delivered per year and still growing, are close to become a “cash minting” machine, probably reaching breakeven in 2020. Most of developing costs will have been amortized, production process has been improved as is the norm with complex systems.

On the other hand, the company is introducing a new engine GE9x to the 777 and 787 widebodies, which are substituting both Boeing’s 747 and Airbus’ A380 due to much improved fuel efficiency among many other “details”, like crew size, safety and flexibility. As opposed to the LEAP engines, those are early on their cost dilution curve, but given the success of both 777 and 787, should have a quite rosy future. Lastly, the company is experiencing a booming market in military aviation demand, which should offset the headwinds of the GE9X’s curve.

The following chart from Safran’s Annual report gives a good idea of the economic life cycle of jet engines:

ECONOMIC LIFE CYCLE OF AN AIRCRAFT ENGINE PROGRAM



Also from Safran Group´s Annual Report:

> "There were around 23,700 commercial aircraft (regional, short-, medium- and long-haul) in service in 2018. In response to the expected two-fold increase in this number, and the need to replace aircraft that will be scrapped or dismantled over the period, some 39,000 commercial aircraft will be manufactured over the next 20 years "

> By the end of 2018, the order backlog for the highly innovative LEAP engine totaled 15,620 units, which represents more than seven years' output at current production rates."

It's also interesting to note that the jet propulsion division is where Safran gets its highest margins, despite a much smaller scale than GE (probably because of GE9X is going through its initial stages of production).

Given the unique position in terms of scale and the economics of the industry, where most of the profits are made over time in services (GE has an installed base of 68,000 jet turbines), a non-discretionary item for customers, the cash on cash IRR has been and should continue to be quite high, even allowing for economic slowdowns or eventual crises like a pandemic disease.

Aviation is one of the areas we believe are bringing us the opportunity to buy GE shares on the cheap. Most people look at current indicators and "click and drag" them over time, which we believe can lead to huge distortions.

Again a chart from a Safran presentation supports our optimism (and Buffett's increasing bet in airlines as well):

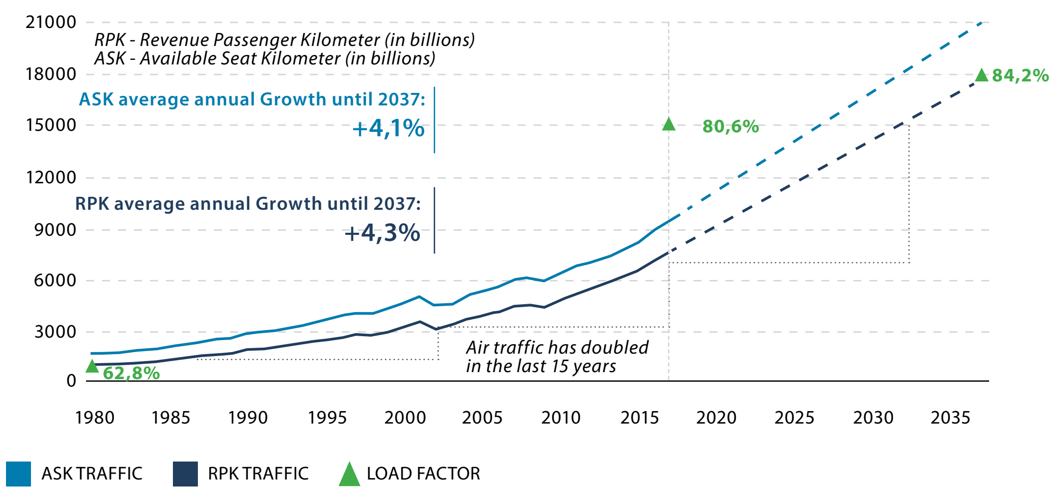
POSITIVE INDUSTRY TRENDS

Commercial outlook

Doubling of air traffic in the next 20 years

Pressure on capacity: load factors peaking and strong profits for airlines

Scheduled Passenger Network, Worldwide

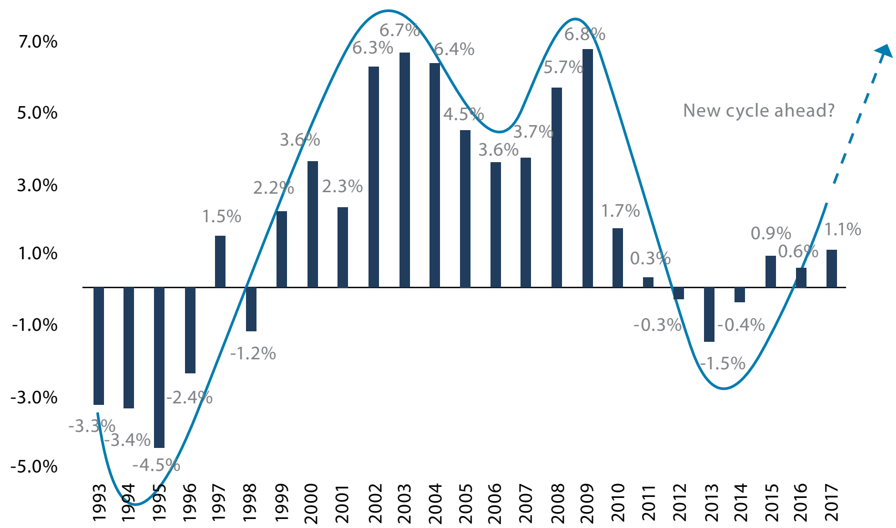


Sources: Safran Aircraft Engines

Military outlook

Increase in military spending (2% GDP NATO spending targets)
New programs and technological transformation

Military spending evolution, Worldwide (as %)



Sources: SIPRI for years 1990-2017

To aid in the understanding of GE aviation business, it's worth highlighting the following table from the 2018 10K:

Orders and Backlog (in billions)	2018	2017
Orders		
Equipment	$ 15.3	$ 10.6
Services	$ 20.2	$ 18.5
Total	$ 35.5	$ 29.1
Backlog		
Equipment	$ 37.8	$ 34.1
Services	$ 185.7	$ 166.1
Total	$ 223.5	$ 200.2

Notice how big service backlog is compared to equipment, which matches Safran's chart above on the "Economic Life Cycle of an Aircraft Engine Program", and also that the values are in USD billions. Obviously, these figures are not written in stone, since a downturn in the aviation industry would impact service revenues, as maintenance depends on age and usage of the engines.

And a flash from Aviation 2018 in terms of Revenues and Profits:

Segment Revenue (in billions)	2018	2017	2016
Revenues			
Equipment	$ 11.5	$ 10.2	$ 11.4
Services	$ 19.1	$ 16.8	$ 14.9
Total	$ 30.6	$ 27.0	$ 26.2

Segment Profit and Profit Margin (Dollars in billions)	2018	2017	2016
Segment profit	$ 6.5	$ 5.4	$ 5.3
Segment profit margin	21.2%	19.9%	20.3%

Assuming total backlog of USD 223.5 + 35.5 billion = USD 259 billion at an operating margin of at least 20% (i.e. the Before Culp Margins), it is difficult for us to imagine such a business being worth less than USD 100 billion.

Healthcare should continue to be a great business, due to all the factors we believe all our readers are familiar with: rapid advancing technology, continued ageing of the population in “rich” countries, changing demographics in emerging countries, etc. Even if the company decides to divest more parts of it or bring in new capital to accelerate reaching its overall targets of Net Debt to Ebitda of 2,5x in the industrial business and Debt to equity ratio of 4,0 in GE Capital, that would very likely be done at a price that reflects the quality of the business and the sellers market in the industry.

With the new business configuration and incentives, we have reason to believe that many positive surprises in terms of past R&D might be unearthed and put to good work over time. And once Power, which is receiving most of Larry's attention due to its size and the disastrous situation brought on by Jeff "two Jets" Imelt acquisition of Alstom, gets sorted out and ceases to be a drag or is divested, we expect Larry to "play offense" in reshaping GE with well managed, high margin and growth acquisitions.

In terms of Debt, we've heard and read many different calculations. And as always, we tend to agree with Buffett that he has no doubt GE Capital net debt should be added to GE Industrial net debt. This is a quite diferent situation from Berkshire since GE Capital debts are guaranteed by the holding (one of the "are you stupid or stoned" legacies left by previous management). So we tend to think that the numbers presented by the company for year-end 2018 of about USD 55 billion net debt for Industrials (including USD 21 billion in unfunded Pension, preferred stocks and operating leases and USD 14 billion due to GE Capital) and the USD 66 billion of net debt for GE capital (including the same USD 14 billion as an asset) are fair estimates. So total net debt would be about 110 billion, but we like to keep them in mind separately, since one is a financial arbitrage while the other is operational financing and this aspect is reflected in the company's stated target mentioned above. On top of that we would add a reasonable "guesstimate" for the company as a whole to be cumulatively FCF negative to the tune of USD 5 billion before turning.

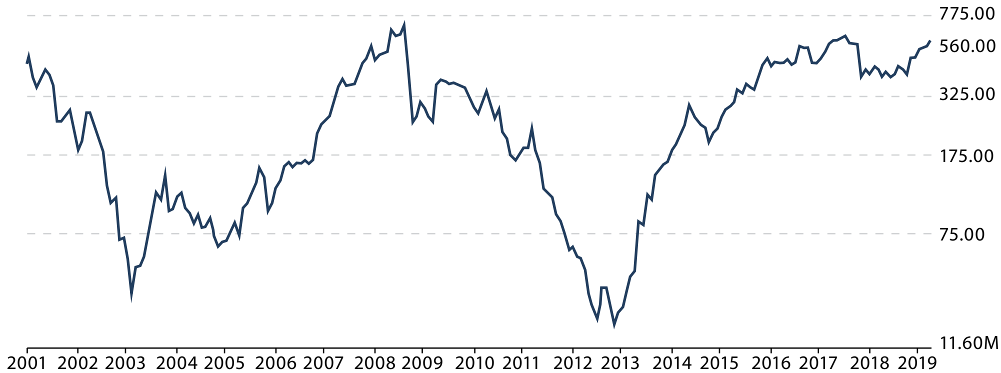
We must reinforce, however, that those are ballpark numbers that can change radically very fast, as we could see in the case of GEBP mentioned below. When you're targeting 2,5x net debt to EBITDA and you make a sale of USD 20 billion at 17x net ebitda, things change fast. Just as they can if GE disposes of its remaining stake at BHGE (Oil and Gas Business), which should be worth north of the USD 13 billion implied by its market valuation, since GE has a controlling stake.

And we also find it worth considering that the targets are dual variable indicators, i.e. not only debt reduction but also operational improvement helps. At least from the Industrial side, we expect the nominator (net Debt) to decrease and the denominator (EBITDA) to increase after 2020.

GE can also sell parts of or the whole power business, to someone that adopts a much less optimistic and uncautious approach than Mr. Immelt underwrote and still get back some money, especially after the improvements being made by current management.

And let's not forget renewable energy which is a USD 10 billion business that suffered from an imbalance in supply and demand recently, but should be a very nice growth business. If any proof of how fast things can change, we can look at Vestas, the Danish pure play in Wind.

VWS - VESTAS WIND SYSTEMS A/S



It currently has a market cap of DKK 120 billion (USD 18 billion) with 2018 revenues of about USD 11.5 billion while GE Clean Energy had USD 9.5 billion in revenues. This looks like a place where the 3.3% operating margin is ripe for a "Culp revamp"[15], or a sale for someone focused on the area. If that would be the case, our guesstimate is for it to go for about USD 12 billion.

Power used to be GE's biggest unit[16] and is the one suffering the most. Accordingly, its where current management is focusing most of its attention. Our take is that beyond sunk legacy costs, there are many "low hanging fruits" in operational and commercial terms. It's far from dead. It's a business that is, according to GE's

[15] Vestas is shooting for a 2019 EBIT margin of 8 to 10%.
[16] With its decline and Aviation continued rise, POWER is about 10% smaller that Aviation IN REVENUES.

10k: equipping 90% of transmission utilities worldwide, more than 7,000 gas turbines and nearly 6,000 coal and nuclear stream turbines. And has a backlog of USD 92 billion.

There's no perfect proxy, but a few comparables like, ABB, Siemens, Mitsubishi Heavy Industries could provide some references.

ABB, like GE Power, has annual revenues of USD 29 billion, but that includes the renewables business which is slightly smaller than GE's. Its market cap is about USD 45 billion.

Siemens is a bigger company than ABB and about the same size as GE (USD 95 billion in revenues). Interestingly, it discloses its Gas and Power results with an 8% to 12% EBITDA margin and its Healthcare as a 17% to 21% EBITDA margin business. Its Gas and POWER unit is about half of GE's, with about USD 15 billion in revenues in 2018 and a 3% net margin, down from 10,2% in 2017, which attests the impact of oversupply and the need for restructuring in the Industry. It has a Market Cap of about USD 90 billion (1x revenue).

Emerson is a stable company whose annual revenues have been about USD 17 billion. It reports in terms of Automated Solutions (USD 11,4 billion) and Commercial Residential Solutions USD 6,0 billion. Its market cap is about USD 45 billion (2,6 x revenues). Despite being the least comparable with GE, it is a great candidate to buy or establish a joint venture with GE.

There's also **Shanghai Electric**, but we cannot imagine major deals across the USA/China barrier in such a critical industry.

Obviously, beyond being reference points, those companies are also potential buyers of units, joint venture candidates for some business lines, etc. And since most are in restructuring mode and energy demand tends to continue to increase, a reversal of fortunes is likely. Not today or tomorrow, but when it becomes clear, we'll see the traditional switch from a half-empty class to half-full.

GE is a long term play but one where price more than compensates for risks. Once ongoing improvements start to accumulate, and legacy issues (terrible capital allocation, especially in Power and GE Capital, Pension Fund "Lunacy" and power mis-management) are dealt with, and we're convinced that they are manageable, their effects should start showing up in the numbers.

Since most analysts and investors frequently outweigh the short term (to be polite), are not used to non-linear, hockey stick developments[17] and also, more importantly, underweight the "people factor", we tend to believe there's a rational foundation to our presently dissonant view.

[17] Development path more commonly seen in the technology sector.

Show me the money

Obviously, the most visible positive event of the quarter was the sale of approximately 15% of the healthcare business (as measured by Sales) for a seemingly quite decent valuation of about USD 20 billion after taxes, equivalent to 17x EBITDA and 7x sales. We are used to seeing great and big healthcare businesses trade for about an enterprise value of about 4x to 5x sales. Quite an example of how the market might be getting the wrong balance of focus between liabilities and undervalued assets.

If the company goes through with the idea of reducing its stake in Healthcare to 50.1% of the "Remain HCco" - GEHC, after the sale of GEBP, we will be talking of a USD 17 billion company in revenues and sale of the equivalent of USD 8.5 billion in revenues. Assuming the 5x EV/sales the market is awarding to DHR and TMO (no to mention the 13x for Illumina "ILMN"), we might arrive at USD 42.5 billion value for the remaining business.

So, putting the most relevant parts we know of together, in our BOE "Back Of the Envelope - better to be approximately right than precisely wrong" style, we have:

Aviation	USD 100 billion
Healthcare (50.1% of GEHC after sales of GEBP and 49.9% of RemainCo)	USD 42.5 billion
Renewables	USD 12 billion
Power	USD 30 billion
Total	**USD 184.5 billion**

And that's after collecting 40 billion for the remainder of GEHC, 13 billion for the remainder of BHGE and a few other smaller sales already contracted. So that gets to 0 debt for GE Industrial, which includes USD 14 billion owed to GE Capital and the whole pension provision, that in and by itself is a long term obligation. Obviously, this is just one of infinite configurations the company might select. And one has to account for, if and how much GECAP will need of additional capital. But the difference between our debt free BOE industrial value of USD 185 billion and GE's market cap around USD 80 billion leaves some room for it.

If, despite our efforts to the contrary, this whole affair seems complex, it is actually much more than this. And it's the combination of this hairy ball business situation with the competence and character of Mr Culp that attracts us.

BERKSHIRE

Just a brief note on our biggest position. The 2018 annual report[18] was one of the best "entry points" for one interested in the Berkshire story, how Buffett thinks and manages the company.

He also gave one more step on the succession issue by dividing the responsibilities between Ajit Jain (Insurance) and Greg Abel (operations) and elevating them to Vice-Chairmen, the same position which was only held by Munger.

Interesting enough, Buffett refers to the "trees x forest" issue we chose for this report's cover and think is central not only to Berkshire but to GE, Amazon…

[18] http://www.berkshirehathaway.com/2018ar/2018ar.pdf

- "Focus on the Forest – Forget the Trees. Investors who evaluate Berkshire sometimes obsess on the details of our many and diverse businesses – our economic "trees," so to speak. Analysis of that type can be mind-numbing, given that we own a vast array of specimens, ranging from twigs to redwoods. A few of our trees are diseased and unlikely to be around a decade from now. Many others, though, are destined to grow in size and beauty. Fortunately, it's not necessary to evaluate each tree individually to make a rough estimate of Berkshire's intrinsic business value. That's because our forest contains five "groves" of major importance, each of which can be appraised, with reasonable accuracy, in its entirety. Four of those groves are differentiated clusters of businesses and financial assets that are easy to understand. The fifth – our huge and diverse insurance operation – delivers great value to Berkshire in a less obvious manner, one I will explain later in this letter."

Another point it reinforces is that "not all reported numbers are created equal":

- "Subsidiaries [mostly 100% and always more than 80% owned] earned $16.8 billion last year. **When we say "earned," moreover, we are describing what remains after all income taxes, interest payments, managerial compensation (whether cash or stock-based), restructuring expenses, depreciation, amortization and home-office overhead.**"

- "For example, managements sometimes assert that their company's stock-based compensation shouldn't be counted as an expense. (What else could it be – a gift from shareholders?) And restructuring expenses? Well, maybe last year's exact rearrangement won't recur. But restructurings of one sort or another are common in business – Berkshire has gone down that road dozens of times, and our shareholders have always borne the costs of doing so.

- Abraham Lincoln once posed the question: "If you call a dog's tail a leg, how many legs does it have?" and then answered his own question: "Four, because calling a tail a leg doesn't make it one." Abe would have felt lonely on Wall Street."

- "At Berkshire, our audience is neither analysts nor commentators: Charlie and I are working for our shareholder-partners. The numbers that flow up to us will be the ones we send on to you."

We have always thought that the market hasn't given those very relevant differences to the norm, its fair value.

Assuming a PE of 15, the USD 16.8 billion earned by Berkshire's subsidiaries would lead to a valuation of USD 252 billion. There would be relevant taxes to pay in case of a sale, but we must also factor that those are not only controlling stakes, but usually wholly owned businesses.

As we've seen, operational numbers were good and reported in the fairest way we know, but the final annual results were quite impacted by the mark-to-market of the USD 173 billion of traded equities. However, it seems to us that most people ignored the recovery in those prices, which in our view, don't matter in terms of quarterly fluctuations and the continued growth of float. When we consider the USD 110 billion+ in cash (as of December 31, 2018), the stakes in control groups and subsidiaries and the fact that the debt of those subsidiaries are not guaranteed and have no recourse by Berkshire we easily surpass the USD 490 billion BRK was trading as of March 31st.

As Mr. Munger loves to say, "I have nothing to add…"

GOLD

The Gold Miners industry is going through a quite relevant M&A activity. Although hardly a quarter has ever gone by without some transaction in the segment, they usually involve at least one small player, not being of major relevance to the industry as a whole. This time is different.

Barrick, one of the majors, merged with RandGold and by doing it, got an asset much more relevant than mines. It got the best CEO in the industry: straight talking Mark Bristow, who founded RandGold and built a unique track record of 7.000% appreciation of its stock price since 1995 (about 20% per year compounded rate). Unfortunately, we never considered it as an investment possibility due to the fact that most of its mines are in quite unstable African countries, making the key-man risk too high for our appetite. Indeed, a recent profile in the Financial Times on Mr Bristow mentions:

> “He has driven motorcycles across Africa for charity, run marathons, hunted big game and enjoys flying. With characteristic bluntness, he has said that any gold miner “needs to have balls”.
>
> “A long-time critic of the gold industry’s wasteful mergers, he has also taken pot shots at investment bankers, accusing them of “mixing ice cream and cow shit” in order to pocket big advisory fees.”

After the merger, and the ensuing dilution of African mines in the combined company, we started to invest more time on the case.

Recently, Newmont has entered an agreement to buy GoldCorp, a deal that would create the biggest gold miner as measured by annual gold production. Now Mr Bristow wants Newmont to abandon the GoldCorp deal and merge it into the combined Barrick-Randgold instead, which would then be the biggest producer under the best CEO.

By its side, Newmont proposed a mega special dividend to its shareholder IF they approve the GoldCorp acquisition AND refuse Barrick’s bid.

Some analysts complain that Barrick’s bid doesn’t include a premium over Newmont’s undisturbed price, while RandGold was able to command a premium when sold to Barrick. We think this view as myopic.

First, because Barrick would have to pay a USD 650mm breakup fee to GoldCorp.

And second, this analysis underestimates, as often is the case, the value of superior management. When Barrick bought RandCorp, it got Mr Bristow to be the CEO of the combined entity. In the case of Barrick buying Newmont, on top of the great synergies available in combining both companies, the incorporation of important Nevada operations, and the benefits of becoming, by far, the largest Gold Miner in the world, Newmont will be getting Mr. Bristow as a CEO.

On the other hand, Newmont executives are trying to make their case for shareholders to approve its bid to buy GoldCorp and reject Barrick's offer, by raising the prospect of paying a special mega-dividend. We can't be sure that it is the case, but if history is of any guidance, and knowing the style differences between Mr Bristow and Newmont's management, it seems a typical case of a management that doesn't want to lose its job...

Miscellaneous

To many people, Miscellaneous - focused Conceptual information, and Data Bits - pieced data we deem relevant and interesting, are their favourite parts of the report. Bite size, unrelated notes on everything that relax, inform and are supposedly easy reading. But we like to think that there's more to it. It offers a different view into our brains and reflect, first and foremost a general (some would say holistic) view of the world. Munger talks about a latticework of mental models, but we think that these days, with "Big Data" based AI, some data points are the basis to build a model as well. So here we go.

"Great things are not done by impulse but by small things brought together"
- Vincent Van Gogh

"The unpredictable and the predetermined unfold together to make everything the way it is."
- Tom Stoppard

"The point of a library is to have more to discover, to have a stock into which to retreat and retire, a longed-for if mythical future of endless time to read"
- Financial Times, "Tome Management"[19]

Packing my Library, by Alberto Manguel is a wonderful book. Straight to small but always interesting and with curious structure in which, in between chapters, the author allows itself a brief Digression inspired by the previous chapter.

[19] https://www.ft.com/content/afcc59f6-1e2a-11e9-a46f-08f9738d6b2b

In his Eight Digression "On dictionaries", he comments on **the importance of using words correctly, to increase the chances of an effective communication**. A great reminder in times of "Brexit only in name", "Adjusted Cash Flows", etc.. And he gives a splendid example:

> "Think of Noah Webster [Author of the Famous Webster Dictionary], who was caught by his wife in the arms of the maid. Legend has it that:
>
> "Doctor Webster" she exclaimed, "I'm surprised!"
>
> "No Madam," he corrected her. "I'm surprised. You are astonished."

"Our writing tools participate in the writing of our thoughts"
- Friedrich Nietzsche

Shane Parish from Farnam Street Blog on timeless knowledge:

Expiring information is sexy but it's not knowledge. Here are a few telltale signs you're dealing with expiring information. First, it's marketed to you. Second, lacking details and nuance, it's easily digestible. This is why it's commonly telling you what happened, not why it happened or under what conditions it might happen again. Third, it won't be relevant in a month or a year. Expiring information is one reason I stopped reading most news. (...) Will you care about what you're reading in a month? In a year? In five years? [20]

[20] https://fs.blog/2019/02/compounding-knowledge/?mc_cid=91e5b1cff3&mc_eid=dd606979a7

"The chains of habit are too weak to be felt until they are too strong to be broken
- Samuel Johnson

The following are extracts from JPMorgan's Jamie Dimon Annual Letter:

On buybacks:

"As you know, we believe tangible book value per share is a good measure of the value we have created for our shareholders. If our asset and liability values are appropriate — and we believe they are — and if we can continue to deploy this capital profitably, we think we can continue to exceed 15% return on tangible equity for the next several years (and potentially at or above 17% in the near term), assuming there is not a significant downturn. If we can earn these types of returns, our company should ultimately be worth considerably more than tangible book value.

In the last five years, we have bought back almost $55 billion in stock or approximately 660 million shares, which is nearly 20% of the company's common shares outstanding."

On Tax competitiveness:

"In last year's letter, we emphasized how important a competitive global tax system is for America. Over the last 20 years, as the world reduced its tax rates, America did not. Our previous tax code was increasingly uncompetitive, overly complex, and loaded with special interest provisions that created winners and losers. This drove down capital investment in the United States, which reduced domestic productivity and wage growth. The new tax code establishes a business tax rate that will make the United States competitive around the world and frees U.S. companies to bring back profits earned overseas. The cumulative effect of capital retained and reinvested over many years in the United States will help cultivate strong businesses and ultimately create jobs and increase wages."

On Risks:

"The near-term economic and political backdrop is increasingly complex and fraught with risks — both known and unknown. And we face a future with less overall confidence in virtually all institutions, from corporations to governments to the media."

On the Principles and strategy section:

"We do not worry about some issues.

Since we shared issues that are high priorities, it is almost as important to describe the issues we don't worry about daily – and why. A few are listed below.

We do not worry about the stock price in the short run. If you continue to build a great company, the stock price will take care of itself.

We do not worry about quarterly earnings. Build the company for the future, and you will maximize earnings over the long run.

While we worry extensively about all of the risks we bear, we essentially do not worry about things like fluctuating markets and short-term economic reports. We simply manage through them.

We do not worry about loan growth. It is most definitely an outcome of how we manage credit and client decisions. We will not stretch, ever, to show growth in loans.

While we fanatically manage our company, we do not worry about missing revenue or expense budgets for good reasons. This is not a mixed message. We want our leaders to do the right thing for the long term and explain it if they have good reasons to diverge from prior plans.

We do not worry about charge-offs increasing in a recession – we fully expect it, and we manage our business knowing there will be good times and bad times.”

A few points we highlighted in the “Comments on Current Critical Issues” part of the letter called our attention:

1. We need to continue to restore trust in the strength of the U.S. banking system and global systemically important financial institutions.

2. We have to remind ourselves that responsible banking is good and safe banking.

3. We believe in good regulation — both to help America grow and improve financial stability.

4. **We believe stock buybacks are an essential part of proper capital allocation but secondary to long-term investing.**

5. **On the importance of the cloud and artificial intelligence, we are all in.**

6. We remain devoted and diligent to protect privacy and stay cyber safe — we will do what it takes.

7. We know there are risks on the horizon that will eventually demand our attention.

8. **We are prepared for — though we are not predicting — a recession**.

“But, I will say this — when it was a very good idea for companies to buy back their stock, they didn’t do very much. And the stocks got so high priced it’s created a bad idea. They’re doing it a lot. Welcome to adult life. This is the way it is,” “But, it’s questionable at present levels whether a lot of it is smart.”
- Charlie Munger - Feb 21st, 2019. Daily Journal’s annual meeting in Los Angeles

Vitaliy N. Katsenelson on investing as a creative subject:

If you work in a GM or BMW factory, then hours worked has a direct relationship to your output – widgets per hour. But if you are in investing or any other creative profession, then the number of hours you spend in front of your computer has little to do with the quality of your output – your creative ideas. In fact, it may have an inverse relationship with your creativity.

Ellen J. Langer writes, in On Becoming an Artist:

“Mindfulness is an effortless, simple process that consists of drawing novel distinctions, that is, noticing new things. The more we notice, the more we become aware of how things change depending on the context and perspective from which they are viewed. Mindfulness requires, however, that we give up the fixed ways in which we’ve learned to look at the world.”

Charlie on living simply, a lesson from Mozart:

"Now there's another Mozart story. Here's the greatest musical talent, maybe, that ever lived. And what was his life like? Well, he was bitterly unhappy and he died young. That's the life of Mozart. What the hell did Mozart do to screw it up? … Well, he did two things that are guaranteed to create a lot of misery. He overspent his income, scrupulously. That's number one. That is really stupid. Then the other thing was, he was full of jealousies and resentments. If you'll overspend your income and be full of jealousy and resentments, you can have a lousy, unhappy, life and die young. All you gotta do is learn from Mozart.

This business of controlling the costs and living simply and — that was the secret. How much money — Warren and I had tiny little bits of money. We always underspent our incomes. We invested. Well, you know, you live long enough, you end up rich. It's not very complicated."

The problem with hate speech is that it is fundamental to the business model of Google and Facebook

- Roger McNamee, a former adviser to Mr Zuckerberg - OOOuch!

“There’s this ‘tyranny of the articulate’ that happens at companies, but there’s only a loose correlation between how good they are at communicating and how good they are at actually building.”

- Ben Silbermann, founder and CEO of Pinterest

“What information consumes is rather obvious: it consumes the attention of its recipients. Hence a wealth of information creates a poverty of attention, and a need to allocate that attention efficiently among the overabundance of information sources that might consume it.”

- Herbert Simon

“Knowledge rests not upon truth alone, but upon error also”

- Carl Jung

“Sudden illumination is a manifest sign of long, unconscious prior work

- Henri Poincaré

Random Bits

Actively managed investment funds in the US experienced a record $143 billion “exodus” in December.

The volume of assets in ETFs soared to more than $4.6 trillion at the end of 2018, according to data from the consultancy ETFGI, up from less than $100 billion at the turn of the century.

At year-end, actively managed funds controlled 61% of the investment market in the US compared to the UK, where active funds account for 74% of the market, according to the Investment Association.[21]

[21] https://www.ft.com/content/4b863bbe-1a7a-11e9-9e64-d150b3105d21

PIPA Prize

PIPA Prize

Another edition of PIPA Prize begins and we get excited to meet the new nominated artists. This year is special, as we are celebrating the 10^{th} edition.

During the last nine years, PIPA Prize has established itself as a reference when it comes to promoting Brazilian contemporary art production. The website now covers over 400 artist's pages and gathers exclusive content that represents a rich searching source towards the current Brazilian art scene. Relevant names, which have been gaining international projection, have crossed the award, such as Bárbara Wagner, PIPA 2017 Winner, who will be representing Brazil at Venice Biennial 2019 (from May to November).

Important developments and changes are being introduced into the PIPA Prize's original project, that has already been modified over time. From 2010 to 2018, in an association between PIPA and the Museum of Modern Art of Rio, the finalists' exhibitions were held at the museum. These nine years of the partnership were constructive and valuable for both Institutions. On the one hand, PIPA became even more consolidated in the art scene – considering the important history that the museum represents for Brazilian art – while, on the other hand, through the Prize, 36 works were added to the museum's contemporary art collection.

This year the exhibition of the four finalists will be held at the Villa Aymoré's gallery, in Glória. The venue has been settling its presence in the Rio de Janeiro's cultural scene with exhibitions and actions of the Art Club Jacaranda, as well as exhibitions of other institutions and curatorships. Since 2017, the PIPA Institute has also been holding exhibitions of its own collection there. Also showing its artistic and cultural vocation, Villa Aymoré has two permanent site-specific, one by Henrique Oliveira wrapping the stairs, and the other by the established Brazilian artist Iole de Freitas at the facade of the gallery's building.

There were also changes in the awards itself. There was always a question about the sharing of the prize among the four finalists. This year, each of the finalists will receive a donation of R$30,000. The winner chosen by the Award Jury will be entitled to an additional donation of R$30,000 to develop a project or work. This project can be a publication, a commissioned work, a research trip, an artist residency program, a website, an exhibition, etc. The change reinforces the mission of stimulating Brazilian art and aims to contribute to the development and production of new projects of interest to the artist. In this new edition, there will be no Popular Vote Exhibition category, but the public may point their choice. The highest number of votes received by one of the finalists will be a factor to be considered, by the Award Jury, when choosing the winner.

The selection process remains the same. Everything starts with the invitation for the new Board Members. The Board has its representatives from the Institute: Roberto Vinhaes, Lucrecia Vinhaes and Luiz Camillo Osorio. The others are invited.

Flavio Pinheiro (Executive Superintendent of Instituto Moreira Salles), Kiki Mazzucchelli (Independent Curator, working between London and São Paulo) and Moacir dos Anjos (Fine Arts Coordinator at Fundacão Joaquim Nabuco, Recife) who have been members and contributing with their knowledge for some years, will remain.

We are happy to announce that Tadeu Chiarelli (Head of Pinacoteca do Estado de São Paulo from 2015 to 2017 and professor at USP), is joining the Board for the first time and Luís Antônio Almeida Braga (art collector) and Marcelo Mattos Araújo (President of Japan House, São Paulo, President of IBRAM, from 2016 to 2018, and Secretary of Culture of the state of São Paulo from 2012 to 2016), are members once again (they were Board members in the first editions of the Prize).

At each edition, the PIPA Prize Board invites collectors, curators, professors, critics, artists, and gallerists, from all over the country and foreigners to compose the Nominating Committee. This year there are 30 nominators, seven of which are members for the first time. Each of them has nominated up to three artists to run for the tenth edition of the award, keeping in mind PIPA Prize awards Brazilian contemporary visual artists with a recent trajectory, consistent production, whose works are already in evidence in the Brazilian art scene.

There were 76 nominees and 66 of them have confirmed their participation, 29 of whom running for the first time.

Here are some statistics about the 2019 participating artists:

- 38 artists are between 31-40 years old, 14 are between the age of 41-50, 8 are between 20-30 years old, 5 between the age of 51-60 and only one is over 60 years old.

- A large majority was born in the south-eastern region of Brazil, 40 artists. 8 were born in the northeast, 6 in the south region, 6 in the north region, 4 were born in the centre-west and 2 were born out of the country.

- Regarding where they reside, 47 live in the south-eastern region, 6 live in the centre-west, 5 in the south region, 4 live out of the country, 3 in the north region and one of them lives in the northeastern region.

Most of the nominees will be running for the PIPA Online 2019, the category open to all of them, which happens through internet voting in two rounds. Just like last year, in the first stage, it will be required to vote for at least three participating artists. We believe it encourages the audience to meet more artists. This virtual showcase, which seeks to be 100% democratic and decentralized, is especially useful for artists from outside the Rio-São Paulo axis who are not represented by galleries: they find in the voting a way to mobilize people and, in this way, propagate their work even more. From this year, PIPA Online will only award one winner, who will be the artist who receives the most votes at the end of the second round and who will receive a R$ 15,000 cash donation.

Now we are preparing the profile pages of the 2019 first-time nominees and also updating the pages of those who have already participated in previous editions.

Together with the pages, we are starting to post new video interviews, produced exclusively for PIPA Prize, with the 2019 participating artists.

The next milestone dates on PIPA's 2019 calendar are:

- 24 May (Friday) – Announcement of PIPA's 2019 finalists
- 30 June (Sunday) – 7 July (Sunday) – PIPA Online's first round
- 14 July (Sunday) – 21 July (Sunday) – PIPA Online's second round
- 22 July (Monday) – PIPA Online Winner announcement
- 10 August (Saturday) – PIPA Prize 2019 exhibition opening at Villa Aymoré
- 20 September (Friday) – PIPA Prize 2019 Winner announcement
- 29 September (Sunday) – End of PIPA's exhibition and launching of the catalogue

If you want to receive the weekly PIPA Newsletter, to be updated with PIPA news, exhibitions and critical texts please sign up at our websites: http://www.premiopipa.com/ and https://www.pipaprize.com/

PIPA INSTITUTE

The PIPA Institute was created in 2009, having the PIPA Prize as its first and main initiative. At the end of 2016, when Luiz Camillo Osorio became the curator of the Institute, we began the process of acquisitions and commissions to build a collection complementing the array of works donated by the winning artists of the PIPA Prize awards.

The PIPA Institute collection focuses on works by artists who have participated in the PIPA Prize, irrespective of whether they were just nominees, finalists or winners.

Recently we have sponsored Alice Miceli on her trip to Angola to complete her "In Depth (landmines)" series. The Institute already had the Cambodia's series, donated by the artist in 2014, when she was awarded PIPA Prize and PIPA Popular Vote Exhibition winner, and later acquired the two remaining parts of the series, Bosnia (pictured in this report's cover) and Colombia. The series is now complete, with Angola.

Alice Miceli is a Brazilian artist, born and raised in Rio de Janeiro. Her exhibition record includes the São Paulo Biennale, Nara Roesler Gallery, São Paulo, and Max Protetch Gallery, New York. Her work has been shown in venues such as the Japan Media Arts Festival, in Tokyo, the TRANSITIO_MX Festival, in Mexico City, the Transmediale Festival, in Berlin, and Documenta XII, in Kassel. Alice is the recipient of the 2015 Cisneros Fontanals Art Foundation Grants & Commissions Award, Miami.

On her works, she applies formal experimentation, investigative travel, and archival research to chart the visual, physical, and cultural manifestations of trauma inflicted on social and natural landscapes. Her current research focuses on photographic representations of landscape, looking in particular into the space of landmine fields.

On an interview to Karen Kubey at http://workuntitled.com/micelikubey.html, Alice Micelli explains about this project. Below are some excerpts from the article:

“The minefield work explores issues of vantage point and perspective, through the photographic medium’s intrinsic physical and optical constituents, by looking into how the parameters that create an image’s depth-of-field shape the physical position of the photographer in the out-of-frame, as the means to penetrate these spaces where “position” is such a crucial element.

“An important point in the work is that I did walk across the minefield towards the tree in the distance and every inch of that ground could have been the last moment of my life; last instants that one can contemplate as far as the eye can see.”

“There is that risk, for everyone involved. But I try to be as safe as possible. That is why I only go to minefields where a demining program has started, and I only go across in the company of the deminers, who know the land the best. The risk is a given of the situation I have chosen to implicate myself in.”

From May 18th, the complete series ‘In Depth” will be on view, for the first time, at Villa Aymoré

PIPA PRIZE MISCELLANEOUS

"Art insists on opening possibilities, facing the ruins and seeking to think/jump beyond the abyss that lies before us".

- Luiz Camillo Osorio

"Let frustration fuel inspiration"

- Sonia Boyce

"Try to put well in practice what you already know: and in so doing, you will, in good time, discover the hidden things which you now inquire about"

- Rembrandt

"Works of art make rules; rules do not make works of art"

- Claude Debussy

"The first time you do something only happens once"

- Chris Burden

"Art has always been the raft onto which we climb to save our sanity"

- Dorothea Tanning

"Only when a work is not explainable other than in terms of itself can we say we are in the presence of art"

- Carlo Mollino

“Any fool can paint a picture, but it takes a wise man to be able to sell it.”

- Samuel Butler

“If a painting can be forged well enough to fool experts, why is the original so valuable?”

- George Carlin

“Rembrandt painted 700 pictures. Of these 3,000 are in existence.”

- Wilhelm Bode

I hate flowers. I paint them because they’re cheaper than models and they don’t move.”

- Georgia O’Keefe

PIPA
PRÊMIO PRIZE

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