PIPA Global

PIPA Global Report

4th QUARTER
2018

Henrique Oliveira, PIPA Prize 2010, 2011 and 2012 nominee
Permanent site-specific commissioned by Instituto PIPA
Villa Aymoré, Rio de Janeiro, 2018

Photo: Thaysa Paulo

PIPA GLOBAL INVESTMENTS

Index

Research and Analysis

CHALLENGES OF GOVERNMENT CONFERENCE 2018

Once again we had the Honor to participate in the Challenges of Government Conference so brilliantly organized by Mrs Ngaire Woods at the Blavatnik school of Government at Oxford. This year's conference discussed what will be the 'future of government' in this era of changing politics, technological revolution, and growing inequality. Like a breath of fresh air, attending this conference was once again a reminder of how often it is more productive to explore around one's field than about the field itself.

Investing is not really (for its most part) the study of finance. For us, investing is the study of human behaviour and it incorporates the lessons from the most various disciplines ranging from psychology and sociology to politics. This is why we challenge ourselves to explore outside of the areas we are familiar with and it proves to be very rewarding.

One of the talks which we found particularly relevant was a panel on the transformative opportunity that governments have if they are smart about how they use and leverage their citizen's data. Featuring distinguished guests such as the current Prime Minister of Serbia Ana Brnabic, who has been instrumental on the digitalization of its government, and Diego Piacentini, a brilliant ex-Amazonian who took the task of revamping the Digital Agenda for the government of Italy with astonishing results, the topic of "e-government" was discussed in length.

Listening to how small countries like Serbia in many ways seem to be the ones best adopting and implementing this idea of "e-government" was logical. Through digitalization, common databases and a friendly legal framework, Serbia is in the process of reaping the benefits which come from open data policies, meta registries and cutting the red-tape. However, especially in such a small scale, we ask ourselves whether what is being done is sustainable. JPMorgan alone is spending more than USD 10 billion per year on IT. That's more than 20% of Serbia's GDP! Creating and maintaining a unique, reliable and minimally flexible database is astonishingly complex. There are so many details and exceptions.

To a certain extent, it can be said that Apple, Google, Facebook, Amazon and Microsoft are all in the identity business (not to mention Alibaba and Tencent). The moments you can use your account with them to login in other services, make payments, etc. increases every day, simply because the advantages of simplicity and trust are a giant moat. Of those, we believe Amazon and Google are heads and shoulder above the others. They're simple and reliable. Great solution to a very complex problems. We can check all our purchases in Amazon since 1996 and it works. On the other hand, our dear BA (British Airlines) simply can't keep track of travel logs, despite (or more likely as a consequence of) all the touch points each time one travels. Talk about digital priorities and skills…

That begs the question: why not outsource the identity and other services to them? They have the skills, infrastructure and capable people. As Mr Diego Piacentini mentioned, "Systems cannot change from the inside". Even the USA government, including the CIA, outsources data management to both Amazon (via AWS) and Google. They are special contracts, but manageable.

Then there is the issue of sovereignty. Really? It doesn't feel that there's much left on that front when anyone opening an investment account has to sign the infamous W8-Ben form for the USA tax authorities, even if neither you or the financial institution is American. Or when FACTA regulation makes it mandatory for signatory countries to share financial information from investors.

If someone gets cold feet about having private sector companies handling citizens data, we are sorry to inform that ship has sailed. Most of the processes to get a UK visa, for example, is handled by private companies. On a more stringent note, Governments all over the world have transferred the 'know your client" process to the banks, who do it under the risk of immense fines if they misbehave.

Oddly enough, banks, who are already regulated, have all the data and context to be the natural leaders in record keeping but apparently didn't fit their priorities and/or frame of mind.

Why not do the same with most of the other services? Obviously this is not simple, but we tend to believe it would be much cheaper, efficient and overall better. Especially if you make it in a way which changing providers is doable. As we've discussed a few times, we're not big fans of democracy as it is, more and more becoming a "one world catches all", and therefore meaningless. But a competitive market definitely accelerates our heartbeats.

Bottom line, our points are:

Shouldn't governments focus on legislation and its application? Unfortunately they have already proved so inept as a group at most other activities for too long. The world is changing so fast and the gap between public and private sectors is just widening and if nothing changes, will continue to do so. As we always say, it's all about people, and even when someone like Mr Diego takes a job in a Government, it's like a gig, or a voluntary "military service".

Certainly a far shot, but imagine the experiment of having an AI system running based on all "unaltered" internet data to pick best policies, officials, design laws, etc. It could be tuned to avoid extremes and minimize the most rejected ideas. After all, it is no secret that not only what people say they want can be drastically different from what they really want, but in reality, most people don't even know what they really want.

The worst case scenario to us seems the one we're experimenting right now, i.e. information technology is successfully being used to create cartoon-like candidates. Time to change fast!

WESTERN UNION

Well, here we are back at it again. With the fintech "revolution" at full blast, we could not help but come back to a company which most have quite a dissonant perspective from ours. Often evaluated and framed with other companies that don't even compete with it, Western Union (WU) has been an example of a company catering to a (sizable) neglected part of the population, using an effective network of technologies while simultaneously returning big portions of its free cash flow to its shareholders.

To put all in the same page, Western Union is the unquestionable leader in the person to person (P2P) transfer segment. And more, about 80% of its transactions involve cash in at least one side of the transaction. Competitors are MUCH smaller and banks don't want to get involved with a segment where "client potential" is small, average transaction is about USD 300, and there's an "800-pound-gorilla" with a global network, ultra strong brand recognition in its segment, more than 550.000 physical stores and 150,000 ATMs and kiosks where one can remit or receive cash, plus a compliance system in place on over 200 countries. The most common solution is to refer or partner with WU.

Would you like to wire some money to Eritrea with that bag, Madam?

So please let us begin with the very basic. **A recent MIT Tech Review reminded us that 71% of the world population lives with USD 10/day or less**[5]. So it's quite important not to lose the perspective of what could be done and what's really going to be done over the next years[6].

[5] https://www.technologyreview.com/s/610781/in-blockchain-we-trust/
[6] As an aside, we believe that's why iPhones sales had hit a wall. Absent some quantum change in features, mostly everybody in the world that wanted and could afford and iPhone, already has it.

A recent Credit Suisse report highlights again the growing gap between the super-rich and everyone else, "The globe's richest 1% own half the world's wealth"… At the other end of the spectrum, **the world's 3.5 billion poorest adults have assets of less than $10,000, each. Collectively, these people, who account for 70% of the world's working age population, hold just 2.7% of global wealth**."

The report said the poor are mostly found in developing countries, with more than 90% of adults in India and Africa having less than $10,000 while 36 million people with over USD 1 Million of wealth are collectively worth USD 128.7 Trillion. More than two-fifths of the world's millionaires live in the US, followed by Japan with 7% and the UK with 6%.

This picture of demographics, income and assets is one of the most important numbers to start with when studying consumer products companies. As the phrase often attributed to Comte says, "demography is destiny".

Given China's closed market, we came to a "generally addressable market" which starts at 6 Billion notwithstanding Apple and Microsoft success there. But if you're talking to someone from Amazon, Facebook or Netflix, to name the most usual suspects, be polite and don't even mention China[7].

Going back to the 71% that lives with USD 10/day or less per day, they are about 5.5 Billion people that you're not likely to see shopping for Hermes scarfs, Louis Vuitton bags or premium Bordeaux. But they're a market nonetheless, for a tiny quantity of aspirational goods, but mostly for the absolute necessities. Even assuming

[7] As an apart, luxury companies in general are doing well in China (including Hong-Kong). That's probably because they address the very top of income and asset rich segment, and 1% of China's population is approximately 14 million people. Those are the ones according to different studies that make USD 100k/year or more.

an average monthly expenditure of about USD 5/day, they represent about a USD 10 Trillion annual aggregate market.[8]

That's why most companies with global ambitions now talk about India all the time. It's big, relatively open compared to China and has fewer "champions" like BABA, Tencent, JD.com, Huawei… But that's also why we were skeptic about rosy "click and drag" perspectives for companies like Apple, Amazon, Netflix, Spotify, and many others. The number of people that can afford all those subscriptions, plus rent, insurance, etc., is a tiny fraction of the population.

There's this sentence that "the problem with Silicon Valley companies is that they are trying to solve problems and make life better for the 20 years olds who live in San Francisco". Obviously there's an exaggeration in it, but it's not entirely out of bounds.

Actually, we think it's easy to make the case that the ones that prospered are the ones that solve more general problems. Things will change, more people will make more money and scale and technology will help, but that will take much more time than most people expect to gain global penetration. Driverless cars all over the world? CRISPR-Cas9 gene editing for the masses? Don't hold your breath.

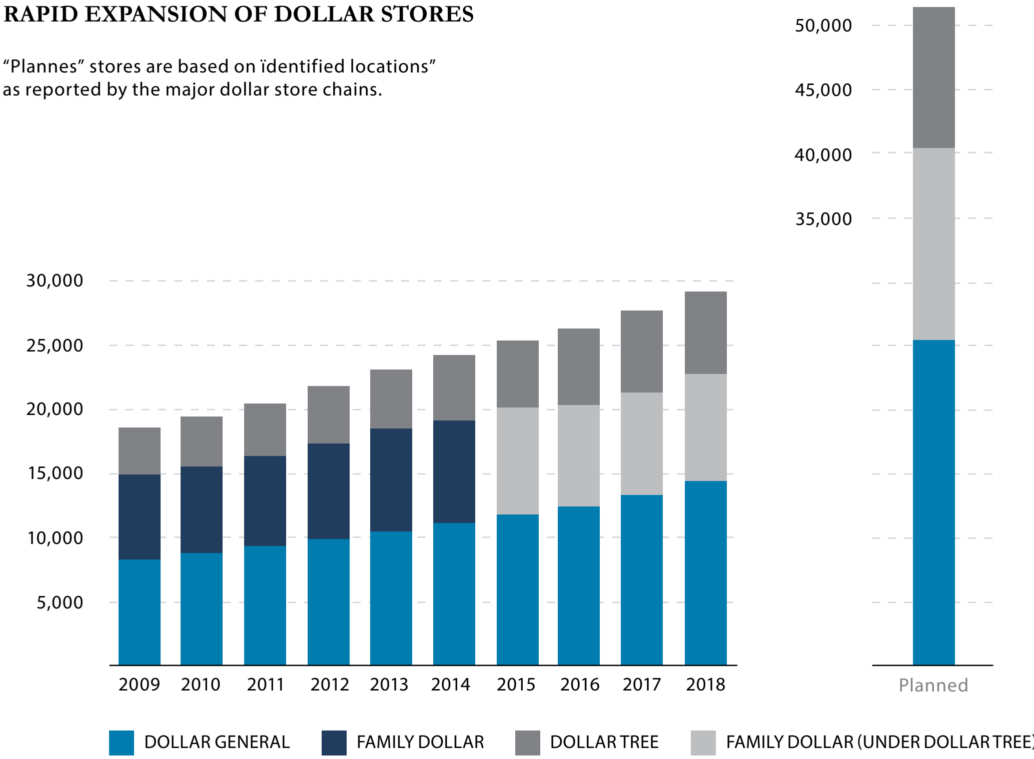
Change for a Dollar?

Plus, sometimes the base of the pyramid is right next to you. Just witness the growth of the Dollar Stores category in the US[9]:

[8] https://www.theguardian.com/inequality/2017/nov/14/worlds-richest-wealth-credit-suisse
[9] All data by the Institute for local Self-Reliance - www.ilsr.org/dollar-storest.

RAPID EXPANSION OF DOLLAR STORES

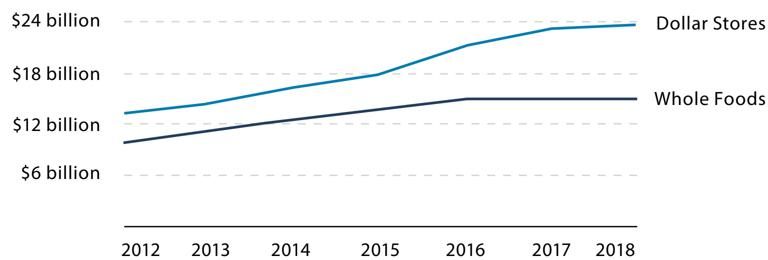
“Plannes” stores are based on ïdentified locations” as reported by the major dollar store chains.



Source: Dollar General, Dollar Tree, and Family Dollar Annual Reports

Isn’t it interesting that during a period when Amazon and other e-commerce are destroying traditional main street names like Sears, Macy’s, Circuit City, Toys R Us and others, these super simple, no-frills companies are prospering? We believe that the main cause for this is that they are addressing the least charming base of the pyramid, where average transactions are much smaller, scale is more relevant but the number of prospects is more than enough to make the leaders quite profitable. And there is more: they are trouncing upscale Whole Foods. We believe there's a lesson here: there's a lot of money to be made in less glamorous and visible businesses.

DOLLAR CHAINS VS. WHOLE FOODS



Source: Chain Store Guide | Note: "Dollar Stores"combines data from Dollar General and Dollar Tree, which owns Family Dollar

In small towns, which are often served by a single locally owned supermarket, a dollar store's arrival typically cuts sales at the supermarket by about 30%. In many cases, that's enough to put a local grocer out of business.

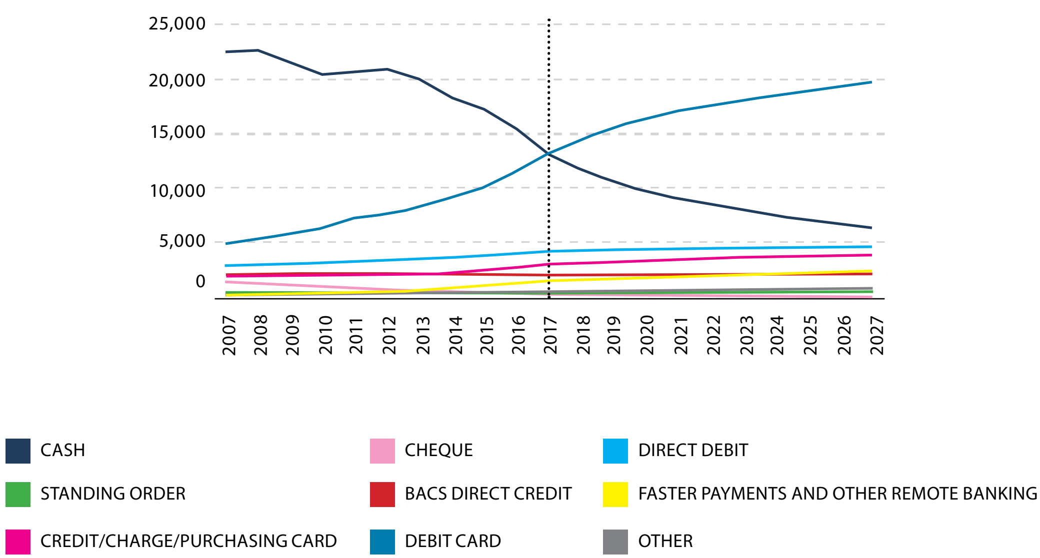
Well, if you've been wondering if there are WU's stores in Dollar Stores and Walmarts, the answer is yes, in thousands of them. But none has been spotted in a Cartier or Apple store. The closer it gets to "our world" is that Amazon recently announced that if you don't have a credit or debit card, you can pay for your purchases at… Western Union.

And what about the end of cash - (and the cooling of the sun?)

We have all been reading articles about a new app to transfer money and about the "end of cash". From the point of view of controlling crime and tax evasion, the end of cash would be a good step. Indeed, cash usage in countries like UK, Sweden, China or others ravaged by inflation like Venezuela has been falling continuously. But again, lower doesn't mean becoming irrelevant.

The following chart is from UK Payment Markets Summary 2018, an annual report about payments in the UK.

PAYMENT VOLUMES (MILLIONS) 2007 TO 2027



So even in a country where credit/debit card penetration is close to 100%, that was one of the pioneers in the "touch" technology, the number of cash transactions was only recently equalled by debit card and is forecasted to continue to be the second most used way for at least a decade.

Actually, WU's total revenue and total transactions have been gradually increasing while costs have been decreasing and, as usual, channels/regions contributions vary according to economic and political variables.

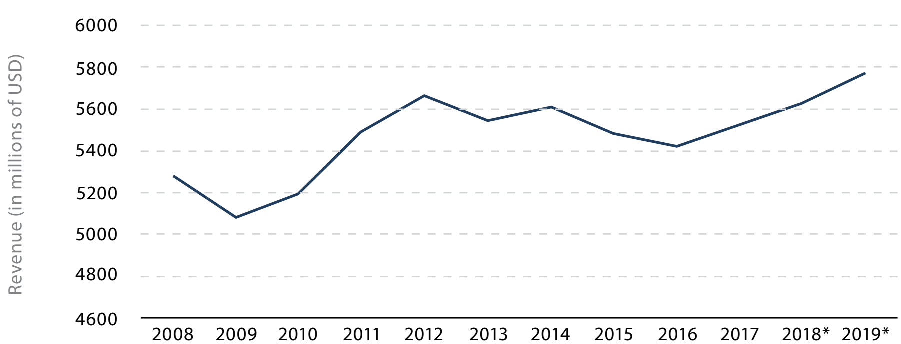
But one has to understand that the fact that most WU transactions involve cash doesn't mean that it's the preferable way for the company. With around 60% of its total cost of service consisting of agent commissions[10] which would not incur in a strictly online scenario, it is rather the case that it accepts cash because most of their clients don't have access to a bank or credit card account. The cold data is that around 1.7 Billion adults, or 31% of adults, don't have access to a bank account or a financial institution via a mobile phone or any other device[11]. Of these adults, more than 20% receive wages or government transfers in cash[12] and essentially are locked out of the global economy because banks don't trust the records of their assets and identities.

[10] The "last mile" where the cash part of transactions actually occur.
[11] https://openknowledge.worldbank.org/bitstream/handle/10986/29510/9781464812590.pdf
[12] https://globalfindex.worldbank.org/

And what about growth?

One of the most decisive questions about the future of WU as an investment, assuming it isn't a "cigar butt", is about its growth. We might consider that due to that fact, being the most capacitated to handle cash transaction is a competitive advantage that it might, *gradually* over time, lose. Although we believe that its core business faces far less disruption than many analysts would estimate, over the past 10 years its revenue has remained roughly the same. This is something that we believe is more than already precified into its current price. This is where its other initiatives - which often offer higher operating margins - come in, and we see quite a few promising examples of where the company is testing the waters.

WU REVENUE



*Estimates

For example, WU has recently announced a deal with JD.com, where its more than 400 million Chinese customers will be able to transfer money across borders. The deal comes less than a year after Ant Financial (Alibaba's Payments sister company) tried to purchase MoneyGram (Western Union main competitor) but was blocked by the US government. In our view, it is clear that both JD.com and Alibaba understand the power of tapping into the physical cash transfer customer base. As a country that rapidly jumped from being mostly cash-based to having USD 17 trillion of its payments in 2017 carried out by Ant Financial and Tencent, China remains the world's second largest remittance market. Second only to India, it received USD 63.8 Billion and while sending only USD 2.8 Billion last year, according to the World Bank. So let's make it extra clear: while intra China financial market has leapfrogged most of the world, its expats are in many cases working in countries where they don't get access to the financial system.

Another partnership recently announced is with Kenya's M-PESA. As one of the world's leading mobile-phone-based financial service in the developing world, it has over 28 million mobile wallet holders and processes over 1.7 billion transactions annually, equivalent to more than 50 percent of Kenya's GDP value. Now, users can send money from their M-PESA wallets to any Western Union retail Agent across the world and vice versa. Again, a case of WU identifying a mutually benefiting partnership where it can serve its target audience (the unbanked, migrants, etc.) and better connect them to the world.

As a more experimental partnership, WU has also been testing a cryptocurrency from Ripple called XRP for carrying out its international transfers. Aimed at being a tool to cut costs and transaction times between and within financial institutions, and not a competitor to WU, XRP relies on a decentralized shared ledger to transfer "tokens" associated with currencies or assets. Nevertheless, as WU's CEO Hikmet Ersek said, "it's still too expensive", especially considering it brings few truly meaningful improvements when compared to WU's own system.

WU has also been expanding its mobile app to more and more countries. With approximately 70% of Western Union's digital transactions globally now originating on mobile devices, last year alone places like Singapore, Hong Kong and Malaysia gained access to its app and and the company is expanding this list (not only in Asia) at a fast pace[13].

One might be tempted to assume that since the average WU transaction is about USD 300, it shouldn't be the object of much scrutiny by financial authorities, but that would be wrong. One of the most common questions in the Financial Services Authority "FSA" tests to allow someone to participate in the UK financial industry is: "what's the difference of money laundering and terrorism financing?". The answer is that money laundering involves large amounts of money while financing terrorism often doesn't. Therefore, international money transfer networks are highly regulated and scrutinized by the authorities, which contributes to drastically increase costs and prices. Not incidentally, Western Union spends more than double in compliance than MoneyGram has in operating income…

[13] www.businesswire.com/news/home/20181218005035/en/Western-Union-Digital-Expands-Asia-Mobile-App

So what all that means to our WU case? Basically, it is the unquestionable leader in a segment that provides a “must have” service to a very big population contingent (which is invisible or ignored by most investors). Its numbers are a testament to that. With the second biggest money transfer network in the world being MoneyGram, which appears incapable of making money at their scale and whose stock prices are down over 80% in the last 12 months- to a market cap of USD 120 Million versus WU’s USD 7.7 Billion - , it could, it could be just a matter of time for these numbers to become EVEN more impressive given the lack of relevant alternatives as MoneyGram implodes. This is especially the case if we consider it is not passively watching the Fintech revolution. Actually, given its brand and platform, it can be one of the biggest beneficiaries.

This is where WU.com, the company’s online transfer platform, gets into the picture. The platform is already relevant in terms of volume and has been constantly growing in excess of a 20% annual rate since it started being reported separately in 2011. Now representing more than 10% of its C2C revenue, it is already live in 50 countries, with plans to eventually reach 200. If we were to value WU.com at 5x revenues (similar to PayPal’s acquisition of Xoom) its current intrinsic value approximates $2.5 billion, representing 28% of WU’s market cap and 21% of its EV. So while WU’s ability to handle cash might become less of a competitive advantage, it seems to be doing the right things to continue to explore its other competitive advantages, brand image (trust), global compliance systems and scale.

Considering all of this, we often think of why has WU’s share price stayed roughly the same over the past 5 years - albeit with solid dividends and intensive repurchasing that form a yield of nearly 10%[14]. Between bitcoin bubbles and Fintech crazes, part of the company's fate might have come down to very few working in the investment management industry being a WU customer. Although we very much prefer the managers who just execute quietly, and do not spend much time and energy with promotional exercises, it can be said that WU very much needs to raise awareness to its capabilities, in particular those of its WU.com subsidiary. This is why **we strongly believe that the company should list its WU.com subsidiary**. Drawing the line between transaction fees from WU.com and its core business would certainly require agreements to be drawn between the two companies, and a degree of complexity would be added but, in this case, we believe that the additional visibility both companies would get and their ability to attract and compensate a focused team (in particular to WU.com) would likely make it a wise decision.

To finish this (rather long) writing on WU here are a few more points we'd like to make:

1. The financial services firms have historically been the most advanced in the use of technology. In Brazil, for example, a pioneer in the creation of a satellite service network back in the 1980s was not a telecommunication company but Bradesco (at the time Brazil biggest bank, although it had to partner with state-owned Embratel due to state monopoly regulation then).

2. The financial sector historically has been one of the most regulated, and became even more so after 9/11. Thus increasing the inexorable concentration of the category leaders, given the scale required to bear the consequent costs.

[14] Let's not forget it has carried on a 40% share shrink over the past 12 years and now delivers a dividend yield of 4.2%.

3. Banks, who in our view have been the most affected by fintech in cross-border transfers, don't want to get involved in small cross border transactions. They just can't see how to make it a relevant profit center, especially considering the existence of a clear leader with a huge distribution network (remember, more than 550.000 physical points worldwide). Also, most of these clients would likely not be future credit card holders, mortgage clients, etc..

4. Brands matter, especially in the financial sector. Imagine you're someone that makes USD 1,000/month and will be remitting USD 300 to your family back to Eritrea. Would you like to take the risk of doing so with an unknown brand?

What can go wrong

1. Global economy enters into a deep and protracted recession, leading to lower income levels to migrants and consequently, lower remittances. That seems quite possible but temporary.

2. WU shares continue to be cheap or even get cheaper in a more prolonged crisis and a takeover squeezes out minority shareholder at a very low level, robbing them of the long-term upside.

3. A Chinese-like almost all digital payment kicks in play across the rest of the world. If there's a relevant market where "the death of cash" is close, that is China. Key points are that they jumped from communism to capitalism

and BABA and Tencent were ultrasmart in establishing their paying systems which, added by the prevalence in games and e-commerce, quickly became dominant. The value of Chinese mobile payments reached RMB 120 Trillion (USD 17 Trillion) in 2017, up from RMB 59 Trillion a year earlier, according to figures from iResearch.

3.1. We believe those things are path dependent. It’s easier to implement a new system or concept where there was none than change one that has been established for decades.

3.2. Despite - or because - of Tencent’s and Ant Financial’s success, China’s Central Bank is fighting back, as expected. No Government will accede control of the currency without a very well thought-out agreement. From January 2019, all third-party payment groups will be required to hold 100% of customer cash deposits in non-interest-bearing accounts at the PBoC, depriving Ant Financial and Tencent of up to USD 1 Billion in interest income.

3.3. Also important to note that this is working in a closed system. Although China itself is quite big, it might become a segment of its own (like many other sectors). But remember: the US Government blocked their attempt to buy MoneyGram, and now JD.com, the second biggest and seen by many as China’s best Retailer, has just made an agreement with Western Union to allow for remittances from China to the ROW.

4. A “below the radar” new company manages to do what WU does with the same scale and much lower costs. From the ones listed, we believe this one to be the less likely, given the regulatory complexities.

What can go right

1. Nobody buys MoneyGram, it continues to lose customers and WU gains a significant amount of its business. As we mentioned, MoneyGram announced that it was selling itself to Ant Financial (Alibaba’s payments sister company), mentioning that it didn’t have the scale to compete, only to have the US Government blocking the transaction. The following chart makes it crystal clear what happened and now it has a market cap of around USD 120 million.

MGI

Getting a significant part of MoneyGram's business probably is already happening and, should it continue, will represent relevant growth. WU's revenue in 2017 was about USD 5.5 Billion while MGI's was USD 1.5 Billion.

2. WU.com continues to grow rapidly and the company lists about 20% of it, in order to give it more visibility and help attract and motivate great people, and most of "the market" realize that it's not only dark mini-bunkers over the world.

3. Its new partnerships with firms such as JD.com, WeChat, M-Pesa and Ripple turns into a new window of growth and/or lower costs. These, along with the other dozens of firms WU partners with, are often leaders in their own field.

4. As more and more Governments force companies to keep clients and transaction data in their territories, we wonder how Blockchain based systems will deal with it, since by definition, the Blockchain file (currently about 200Gb for Bitcoin alone) contains ALL transactions made using Bitcoin.

Blockchain

Having talked in length about WU, we decided to briefly talk about blockchain. According to MIT Tech Review, Bitcoin still can't process more than seven transactions a second, and transaction fees can sometimes spike, making it costly to use. That compares to the 32 transactions per second handled by Western Union in 2017.

Also related to the subject and straight from "If it walks like a duck, quacks like a duck..." and Human Nature Department, comes: On Nov 27 the FT ran a cover piece[15] on the fall of 75% of Bitcoin prices. The article offers some explanations, but to us there's nothing better than the fact that it highlights the difference between what people want and what is possible. People are fed up with banks and governments and want to have a global currency unfettered by Central Banks. That's a fact. But the reality is that the establishment is quite strong. Bank concentration and government regulation of the financial sector has only increased since the 2008 crisis. Believing that a Global "free currency" is possible in the near future is a 10 in the naıvity scale. That has nothing to do with the merits of blockchain concept or the possibilities of digital only "cash". It all got tangled in the Bitcoin and other crypto currencies bubble. The only thing that has been proved so far is how hard it is to reach the goal of frictionless transactions with major penetration and light regulation. We're not holding our breath on that.

[15] https://www.ft.com/content/5a95d240-f162-11e8-ae55-df4bf40f9d0d

Will blockchain technology change our lives?

Founders were asked to share their perspective on the practical uses of blockchain and cryptocurrency technology. While the majority reports that players in their industry are at least experimenting with cryptocurrency or blockchain, less than 1% say it's been revolutionary for them or their peers. Only 13% believe these will become dominant technologies in their industry in the future. YET only 40% of founders said they personally owned cryptocurrency[16]. Even if many banks and established financial houses have said to be experimenting with Blockchain technology, including WU since 2015 when it first started testing Ripple's XRP protocol, for most areas, it is hard to argue that their current financial benefits outweigh their risk.

And last but definitely not least, WU trades at less than 10 times free cash flow, which it has consistently distributed to shareholders through dividends and shares buybacks, as presented in our 1Q18 report[17].

GENERAL ELECTRIC

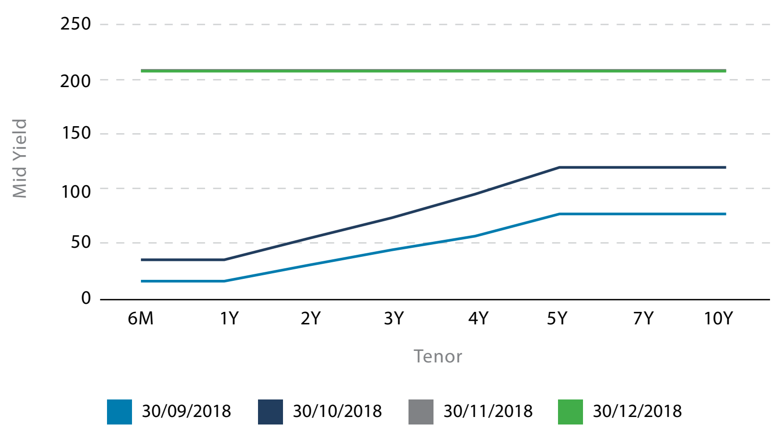
Anyone that expects the details of a turnaround of a USD 100 Billion dollars mismanaged businesses that went from life insurance to Aviation to be defined by a new Chairman/CEO in his first public function, either is clueless about business or is trying to mislead someone.

[16] Read the full report here: http://stateofstartups.firstround.com/2018/

[17] https://www.pipaglobalinvestments.com/wp-content/uploads/2018/04/1tri18-PIPAGlobal-nonshareholder-web.pdf

The “bank run” that followed JPM’s Tusa report was the main driver in bringing GE shares down from around USD 10 to USD 6.71 at its nadir. By questioning GE’s ability to manage its balance sheet, the report automatically made it more urgent and difficult, as can be seen by its Credit Default Swaps.

GE CDS CURVE



After a week in the US speaking with investors, former investors, prospective investors, Board Members and analysts, the key takeaways were:

1. The balance-sheet situation obviously got worse due to a credibility crisis. But it’s still manageable.

2. Most people don’t grasp what a difference Larry can make to the industrial businesses over medium-term. As a consequence, they talk “crystallization of soft

liabilities", "lack of transparency" and "clear guidance". It never ceases to amaze us the shameless way analysts demand "guidance" from management, only to complain they were not as aggressive or not reached. In our understanding, the business of managers is to run the business and analysts' to evaluate that. It's OK and even desirable that each has their own point of view.

3. In reading an article at the Scientific American[18], a sentence called our attention: *"Fakes are often a response to sudden bursts of demand for a particular product."*. Well, GE's product for decades has been "consistent growth, with ever-increasing dividends and 'precise guidance'", i.e. the perfect environment that generated fertile conditions to fraud or, at the very least, to explore the leeway that GAAP and markets allow them.

Those analysts seem to be victims of a half-empty glass view, focusing exclusively on the liabilities side and at best assuming Power, Aviation and Healthcare "as is". It would be naıve to ignore the liabilities, but we've been seeing lots of action in that regard over the last few months. The company, even during Flannery's tenure, had realized the importance of it.

But the great divergence we see is on the assets side. The 3 main businesses have been poorly managed over the last decade, at least, as usually is the case when a great CEO is substituted for a weak one in overseeing a portfolio that includes wonderful businesses. The strong brands, distribution and leadership position allow for years of lax cost controls and lazy salesforce.

[18] Food Science - Whisky Fakers - December 2018 edition

We remain committed to the idea that Larry is THE best Industrial CEO in the world and with his experience and time, will restore GE's best businesses to the top of their games.

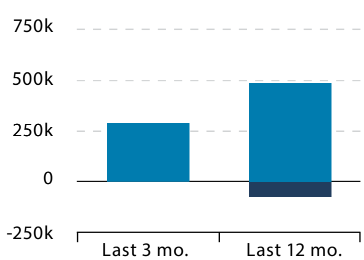
For those who question Larry as an outsider, we have two answers:

1. Companies never change from inside. Mr Flannery's short term tenure was one more data point in that regard to our long curve.

2. Citing Albert Einstein: "We cannot solve our problems with the same thinking we used when we created them"

3. Larry and other insiders keep on buying GE shares. With his position now amounting to over 600k shares, we hope other members of the board follow his example and increase their "skin on the game".

NUMBER OF INSIDER SHARES TRADED



	3 MO.	12 MO.
# of Shares Bought	295,000	488,689
# of Shares Sold	695	73,702
Total Shares Traded	295,695	562,391
Net Activity	294,305	414,987

Turnarounds

One of Munger's great quotes is "turnarounds seldom turn", and we are the first to agree with that. But we do note the word "seldom". There are quite a few significant examples that lead us to take this advice with care, for the risk of throwing out the baby with the water could be high.

Recently a Financial Times Lex column article called "Microsoft x Apple: core values" mentioned[19]:

> "The ascent of Microsoft is a victory for pragmatism (...)
> Microsoft is immune to the whims of gadgetry fashion (…)
> Boss Satya Nadella can take credit for his focus on high margin, cash-generating businesses."

This story reminds us when, back in 2009, we loaded up in MSFT around USD 20/share (it's now above USD 100/share). As the years passed, MSFT was often still considered doomed and the argument was that Apple would conquest the world. We think there are a few things to be highlighted from that:

a. The fact that one company is doing well doesn't necessarily mean that one that competes with it in some segments will fail.

[19] https://www.ft.com/content/cb49926a-f243-11e8-9623-d7f9881e729f

b. Switching costs are high, especially in the corporate world. We argued that although the iPhone was an increasingly ubiquitous presence in “high circles”, the Apple logo was nowhere to be seen in the IT departments of big companies. We often joke that a CTO is more likely to resign than to follow orders to migrate a company’s platform to Apple.

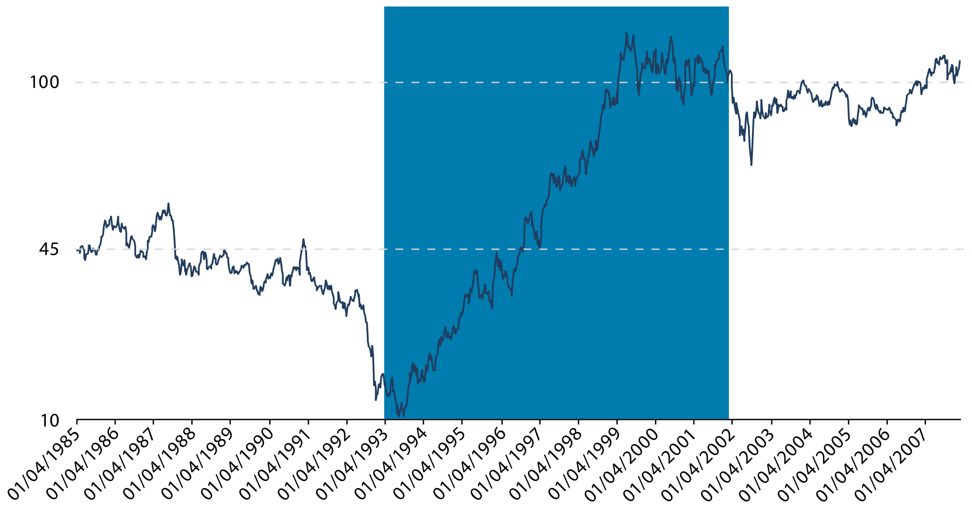
c. New leadership, especially when taking over great assets can work wonders.

d. Great opportunities arise from low expectations.

Oddly enough, Apple itself was left for dead by the market, with a market cap of less than USD 10 Billion, just before the triumphal return of Steve Jobs to its leadership. Again, as we expect to be the case with GE, the figure of the keyman can easily be spotted.

Even IBM was on the brink of bankruptcy when Louis Gerstner, whose “People will do what you inspect, not what you expect” is quite applicable to GE’s recent woes, took the helm. Again, the combination of great leadership with great assets proved its power as can be seen by IBM’s share price during his tenure:

IBM 1993 TO 2002: GERSTNER PERIOD



In this case, the whole cycle was proven, for after Gerstner was gone, IBM lost a pragmatic leadership and succumbed to market imperatives, guidances, EPS growth no matter the costs and re-initiated its route to oblivion.

Coming back to GE, we would like to highlight four important developments that have taken place since the last report:

1. GE launched an industrial software company that is born with revenues of USD 1.2 Billion, by grouping the company's Internet of Things (IoT) assets in an independently run enterprise - another step that brings to light a valuable asset previously hidden deep in the conglomerate´s vast structure.

2. Steve Tusa, a prominent sell side J.P. Morgan analyst that has been calling the stock overvalued for a long time, finally adjusted its view to a "neutral" bias. The market followed. Easing off the pressure on how the business is valued should give the new management precious time for positive outcomes of their actions start to appear.

3. Apollo Global Management is said to be considering a bid for the company's GE Capital Aviation Services jet-leasing business, which operates its commercial airline leasing/financing which, according to Bloomberg[20], could be worth as much as USD 40 Billion. Not to be confused with GE Aviation, its engine manufacturer and in our view its main crown jewel, this sale could raise considerable capital and accelerate the dismantling of GE Capital. Like the IoT initiative, those are two of many opportunities "lost" into GE's vast range of assets. We like to see it as an analogy to a mining operation. GE is an ultra rich mine and Larry Culp, with his Danaher experience, is building the teams to mine them. So far they're still in open mine mode, just scratching the surface. The scale of Intellectual Properties that lies in Healthcare operations, for example, is amazing, and how to slice and dice it before the listing of that unit, although certainly not trivial, will bring attention to many of them.

[20] www.bloomberg.com/news/articles/2019-01-04/apollo-is-said-to-consider-bid-for-ge-s-jet-leasing-business

4. The arrival of Paula Rosput Reynolds to GE's Board, replacing Vanguard Group's CEO Jack Brennan. As we regularly emphasize, our focus on "people" is second to none - so it should come as no surprise to those familiar with Ms Paula's track record why we are optimistic about her joining and giving GE her "stamp of approval". In addition to having successfully served as CEO of both utility-class power generation and insurance companies, two of GE's most troubled business, Ms Reynolds experience in restructuring companies and executing assets sales is also extensive. After leading the insurer Safeco all the way to its selling at about a 50% premium in 2008, right before the crisis, she accepted the job of chief restructuring officer at AIG and led the sell-off of its broad portfolio of insurance assets to repay the government bailout. Through the use of alternative sale methods[21], her strategy and insight led AIG to safe land - a company facing risks of a much larger scale of magnitude compared to those of GE. Also important to note that this movement is relevant to highlight two things. The first is the continuous ability of GE, thanks to Larry's credentials, to attract top senior talent. And the second s the fact that contrary to what usually would be the case, Mrs Paula **substituted** Mr Brennan. There was no "accommodating" addition to the number of Board members. To us, who know Mr Culp for quite a while, this is "vintage Larry": you do what you have to do, straight as an arrow. It gives us even more confort about how much he is effectively in charge, one of the most important points to our case.

[21] "including public offerings or deals that offered stock payments or contingent value rights tied to an acquired business's future performance." - www.bloomberg.com/opinion/articles/2018-12-10/ge-has-reason-to-cheer-larry-culp-and-paula-rosput-reynolds

AMAZON

With the general market shakedown, one group that was particularly affected was the so-called FANGS. Albeit after a long rally, all of these companies closed the third quarter with losses (to different extents) in their share price led by Apple which has since fallen over 35%. Amazon, even if still mingling with Microsoft as the most valuable company in the world, saw its shares shred around 20% of their value, despite the great numbers posted on Q3. What's our take? Well, no news in comparison with what we mentioned in our previous reports this year:

1. Although it's a great company, it was "priced for perfection" over the next 10 years….

2. It's getting too big and complex, and therefore harder to manage. One needs to look no further than GE from 2000 until last year.

3. The "risk" (we'd tend to see it as a certainty) of top management losses as they reach "midlife crisis age" and start to compare the huge amount of money they've made in stock options to the extremely demanding jobs they hold.

4. The "disruption fear" that Amazon generates will not help them in avoiding any form of government backlash.

Having said that, do we continue to monitor the company closely and could eventually buy it again? The answer is a big YES. Price changes (as we have just seen), companies sometime restructure in time (Amazon itself has managed many u-turns and much faster than average), and eventually the combination of lower stock prices and "space to grow" could be enough to keep and bring new fresh blood talent. On top of that, most of AMZN's businesses are highly scalable, and now it has a combination of "mature" businesses with ultra-high moats (e-commerce in the US) and mid-life relevant winners (AWS) - both of which are relevant free cash flow generators, early stage "no-brainers" (media) and potentially needle moving businesses such as GO stores (which they talk a lot) and payments (which they don't). The big question for us is the amount of cash and energy they keep allocating into Fresh and Alexa[22], where they don't seem to have found the way to operate profitably, but keep the pedal to the metal, notwithstanding.

In the case of Fresh and specifically in the UK, which is a quite important market for Amazon due to London relevance given a high concentration and "bragging rights", things are about to get worse with Sainsbury having bought Argus and now buying Asda (Walmart's subsidiary in the UK). It's one thing for Amazon when it has a great product/service with clear advantages. In the case of Fresh, at least in the UK, it'll battle the new J.Sainsbury with a 31% market share and Tesco's 28%...

Another concern, adding to the increasing regulatory scrutiny we mentioned on our last report, and in our takes from the Challenges of Governance above, are taxes. Amazon's consolidated operating margins are around 4%. It still loses money outside the US. But let's assume that sometime down the road they manage to get to 8% operating margin. Considering a tax rate of 20%, that would lead to an equivalent 1.6% tax on revenues. When we compare it with the amount we pay for VAT

[22] They certainly got a lead in pushing Echos (the Alexa enabled devices), but the real target of getting people to use Alexa was to shop, rather than mostly asking for the weather and setting alarms still seem to elude them. The task seems more difficult when we compare the voice recognition effectiveness of Alexa with that from Google. The difference is even bigger than most people realize, given that Alexa is context based through skills and Google's speech recognition is "open ended" and requires no additional skills/plugins. If only Google was not so clueless when it comes to consumer hardware and absolutely unable in selling hardware through all channels, Alexa would possibly be gone by now. Since there's no true competitors (for now), eventually Amazon will find a way to make it "click".

@ 20% of Revenues, makes us wonder if fighting for an Amazon Tax isn't barking at the wrong tree.

Yes they throw many small companies out of business, but also enabled an immense number of other things through its marketplace not to mention through the simplicity, zero set up/lower fixed cost and scalability of AWS. Add that to the productivity they've enabled and promoted in each of our individual lives. Let's not forget their HUGE positive impact they have on climate change.

Coming back to our media study, we continue to think that the best option for the company now would be to buy Disney's IP and consolidate a leadership position in the media business. The whisper number is that AMZN is going to spend about USD 8 Billion in content in 2019 alone. We can't work out how that could be better than paying approximately even USD 200 Billion (a hefty premium) for Disney+Fox intellectual property (after spinning of the parks, media ex-ESPN division and its 60% after-FOX share in HULU).

Obviously, the best moment seems to have passed, as Disney's shares barely moved since we brought up the idea and Amazon has gone from USD 500 Billion all the way to USD 1 Trillion and back to USD 700 Billion.

But still seems to us to make a LOT of sense. All of 20th Century Fox, Fox TV group, Star India (over 720 million viewers a month in a key market to AMZN) together with other key assets such as a 60% stake in HULU ended up costing USD 71.3 Billion to Disney. In our view this was a pittance, considering the vastness and quality of IP included[23], especially if one compares it to the announced USD 12 Billion that Netflix expects(ed) to invest to produce content of highly doubtful quality long-term value. Let's wait and keep an eye on it...

BEST BUY

Just a quick update on a company we have discussed at length in the past: Best Buy. We have made pretty clear what we see as the short case for the company[24], so we will not repeat ourselves here. What we aim to do is provide an update on what has happened in the company recently and how we evaluate such events.

We recently visited the 5th avenue flagship Best Buy store in New York and we were thoroughly underwhelmed, especially given the fact the market prices them as the "last man standing" in electronics physical retailer. The customers are not properly directed to the "click and collect" pick up area, hidden away inside the store with unclear and difficult path and with no assistance. Furthermore, the biggest area is

[23] List of main content owned by Fox/20th Century Fox - Avatar, Titanic, Star Wars, Ice Age, Independence Day, X-Men, Deadpool, Home Alone, The Simpsons, Family Guy, That 70's Show, Joe Millionaire, The X-Files, The O.C., House, American Idol, Glee, Empire, National Geographic cable channel … The list is VERY extensive.

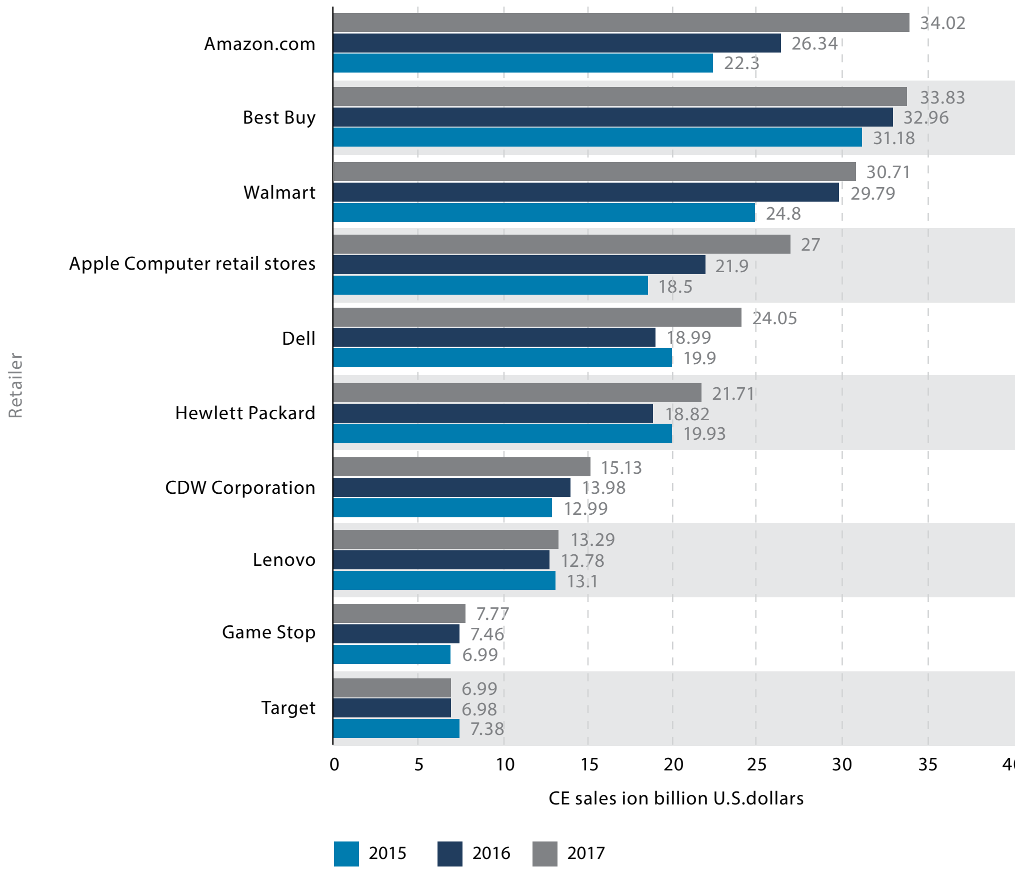
[24] https://www.pipaglobalinvestments.com/wp-content/uploads/2018/01/4tri-PIPAGlobal-nonshareholder-web.pdf; https://www.pipaglobalinvestments.com/wp-content/uploads/2015/03/1tri-pipa-Global-conceitual-web-v2.pdf

underground with no escalator or lift access. Overall organization of merchandise was notably lacking, with boxes of products on the floor in the middle of customer circulation area. The low quality of the store experience is even greater when one goes down a few blocks to the Apple flagship store in 5th avenue. Everything from traffic to mobile checkout to very quick delivery of products can be easily noticed there. It makes it hard to imagine a world where these two compete in equal footing.

Secondly, the arguments that our short thesis were initially based on still hold, but so we don't get repetitive, we will highlight three main points.

- Competition: If history is any guide, it's very rare for a retailer which was top of its category to manage a soft shrink - there are layoffs, leases, "take sizes", buying power etc., all to be negotiated. The electronic sales evolution of the past years shows BBY being squeezed by giants, and current market size makes it hard to see how BBY can compete with them - either in price, service or convenience.

SALES OF THE LEADING 10 CONSUMER ELECTRONICS RETAILERS OF THE UNITED STATES FROM 2015 TO 2017 (IN BILLION U.S. DOLLARS)*

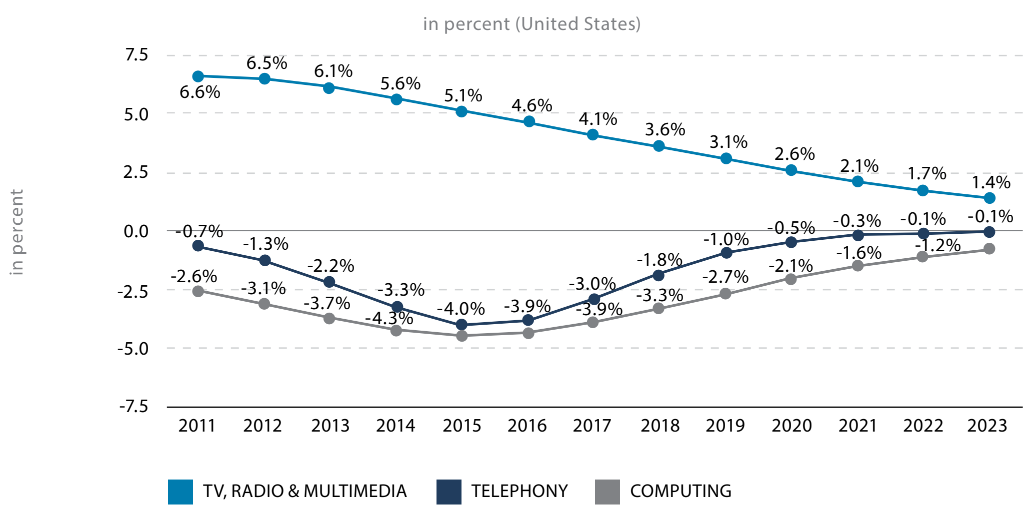


Source: Dealerscope

Additional Information: United States; Dealerscope; 2015 to 2017

- Structural saturation of electronics: Technology changes have already made certain product categories nearly obsolete in stores (movies going to Netflix, music to Spotify etc.). Big TV's, PCs and notebooks are a no-growth business, there's been a slowdown of smartphone penetration, and people are waiting longer to upgrade their devices - the upgrade cycle reached 32 months in 2017, up from 25 months one year prior[25] - as new models offer only marginal improvements. This resulted in a decline both in volume and revenue growth. Combining this with pressure on margins from tariffs, sales from competitors and a less exciting product cycle we can only see further scratches on BBY's armour coming.

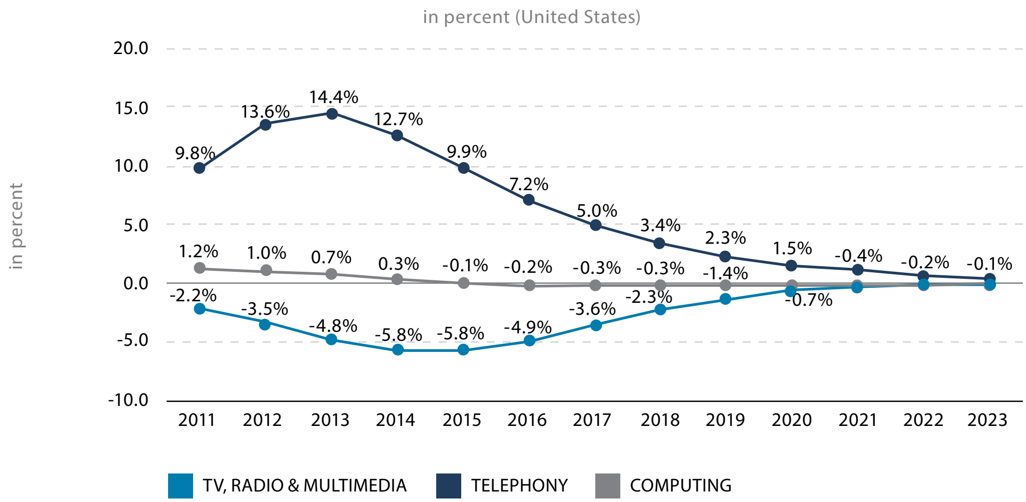
VOLUME GROWTH IN THE CONSUMER ELETRONICS MARKET



Source: Statista, December 2018

[25] According to the latest Mobile Connectivity Report from NPD Connected Intelligence

REVENUE GROWTH IN THE CONSUMER ELETRONICS MARKET



Source: Statista, December 2018

- The company continues carrying what, in our view, is a not sustainable cost-cutting program together with a large share buyback programme and overall misguided capital allocation. By running down its cash to fund M&A activity and boost shareholder returns, the company is quickly depleting its cash & cash equivalent funds which by Q4 2018 reached its lowest level (in the fourth quarters) since 2009. Plus, it doesn't help that the days the firm could easily access cheap money seem to be gone: its last bond issue was undersubscribed by roughly 75% and the firm only raised about USD 500 million.

ALTRIA+JUUL+CRONOS

As we wrote in our previous report[26], tobacco companies have been on our watch-list for a while - especially Altria (MO) and Phillip Morris (PM). Despite the many challenges these sin stocks face, they continue to maintain both top and bottom line growth, a wide competitive moat and deliver value to shareholders. We also shared our view on why a supposed investment in cannabis made a lot of sense. However, we won't be repetitive and get into the details of the case. The idea here is to comment on two relevant developments.

Even though a degree of uncertainty is still present around the marijuana industry - which remains illegal across most of the world -, public attitudes have been changing, and risks are gradually falling behind. On December, Altria announced the purchase of a 45% stake in Cronos (CRON), a Canadian-listed marijuana company, totalling a USD 1.8 billion investment[27]. We viewed it as a smart strategic move. MO is making both a tactical bet on future marijuana legalization and is also hedging its existing business that may suffer from further acceptance of cannabis.

Our view is that this is a win-win situation for both companies. CRON got to sell equity at a premium over which its stock was trading[28]. At the same time, MO was able to put some of the USD 2.65 billion of FCF generated last quarter to work and streamline its entrance in the marijuana sector through Canada (which unlike the US, has already legalized it on a Federal scale). Although CRON is giving significant equity in a fast growing market, it needs capital and know-how to execute and compete, and will massively benefit from Altria's experience on the operational

[26] www.pipaglobalinvestments.com/wp-content/uploads/2018/10/3tri-PIPAGlobal-nonshareholder-web.pdf
[27] The deal has been structured to give MO a warrant to acquire an additional 10% interest at a price of CAD 19.00 per share exercisable over four years from the closing date, and also allows MO to take four of the seven board seats.
[28] CRON stock was trading at CAD 11.60 then, totalizing a 33% premium

side. Another point we always mention, and maybe the most important one is that MO has its finger on the regulatory pulse: expertise in navigating this landscape will be fundamental, especially when planning on entering other markets. Lastly, the deal validates CRON as a top-tier cannabis player (it has MO's stamp of approval) and inserts MO in a sweet spot of exposure to the cannabis high-growth market.

Another player who increased its interest in the marijuana sector this quarter was AB-Inbev. Partnering up with Tilray, another leading Canadian cannabis producer, both announced to invest up to USD 50 Million each on the research of THC and CBD containing beverages. From a cost perspective, we think this restrained approach of partnering up on research can make a lot of sense considering the experimental nature of the area and the positive impact it can one day have on CGP's stodgy growth. Avoiding an expensive direct investment in the industry, such as MO and Constellation have done, puts ABI in a good position to participate in the area without having to further increase its debt load.

Coming back to MO, december had a second game-changing event for the company, as they announced a USD 12.8 billion investment (35% stake) in JUUL, the US vaping market leader mentioned in our last report. This valued JUUL at USD 38 billion, more than twice the USD 16 billion valuation from July 2018. Although a 33x sales multiple seems rather pricey to us, this could be MO's chance to catch up in the race for the next generation product - a space where it remained overly reliant on gaining the approval to distribute iQos which remains illegal in the US. Plus, it also preempts any movement from both BAT and PM towards JUUL.

Hedging its decreasing sales volume and gaining exposure to JUUL's explosive growth, much of the deal's specifics in terms of regulatories and distribution synergies remain unclear. Nevertheless, it appears that MO will withhold its board representation (one third of seats) until after the deal secures antitrust approval, cap its ownership at 35% for a set period of time and some other concessions. For example, it has been reported that MO will be giving JUUL access to its consumer data and distributing JUUL coupon inside its cigarette cartons, two points that make us quite worried of a cannibalistic impact being amplified among consumers of MO brands compared to other companies.

For JUUL, which has positioned itself as anti-tobacco, this deal marks a turning point. Just as FDA scrutiny was dramatically increasing, they got a wise and established company not only to "adopt" them. For MO, however, many questions about this deal remain uncertain: What is the impact of this deal with their Philip Morris International relationships considering JUUL operates outside the US? Why would MO be looking at a minority investment rather than a full takeover? Will Altria's expertise be enough to navigate the dicey regulatory waters JUUL has entered in?... Only time can tell. But it does seem to us that in the long-term, JUUL and Cronos will be jewels in Altria's crown - or textbook examples of desperate corporate acquisitions[29].

[29] In this case we think it won't, but it's always nice to bring up the other scenario.

Miscellaneous

"You can never be comfortable with your success, you've got to be paranoid you're going to lose it."

- Louis Gerstner, former IBM CEO from 1993 to 2002

"Fakes are often a response to sudden bursts of demand for a particular product."

- From and article on how technology is helping to spot frauds in the high-end beverage industries

The following are from Nathan H. Lents highly recommendable "Human Errors".

- "People often combine the power of anecdotes and the confirmation bias to support their positions… The reason that anecdotes are so much more power powerful than data is that once again our minds are trapped in the world of finite math and small numbers. Our brains evolved on a planet where humans came into contact with no more than a couple hundred people in their lives. It was crucial for them to draw conclusions from what they saw and they learned from others so they wouldn't have to learn every lesson themselves… You might be able to compute ten million times three hundred billion in your head, but you can't really comprehend ten million of anything".

- "Old people drive slowly and carefully and always wear seatbelts. Young people are reckless and inattentive behind the wheel. These statements seem so obvious that we often forget how paradoxical they are. Shouldn't young people, with their whole lives ahead of them, be more careful when operating the deadliest machine most of them will ever come in contact with? And shouldn't old people, with such precious little time left, want to get to places quickly?... Of course, this phenomenon goes well beyond driving. Young people are bigger risk-takers in pretty much every way". *We certainly attest to that when it comes to the financial markets!*

On China, Corporate Governance and why we find it so hard to invest in Chinese companies.

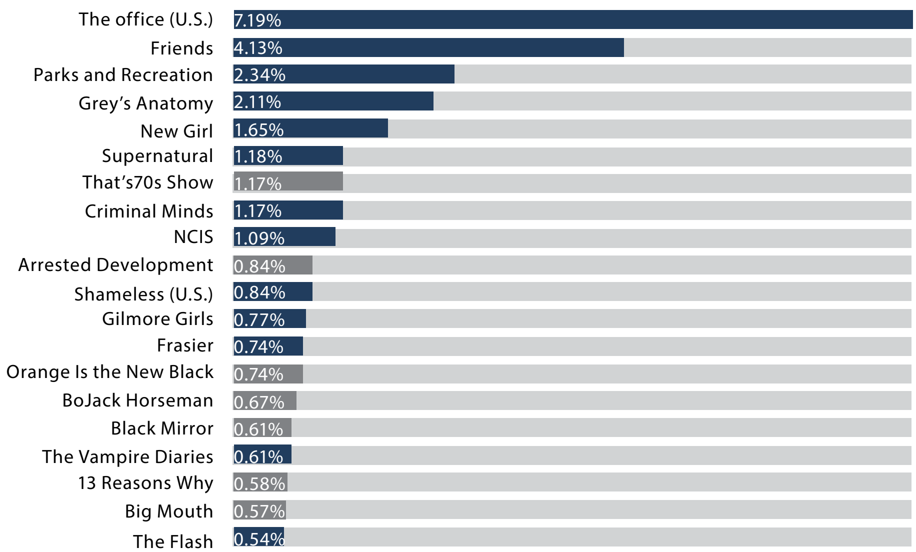
> Jack Ma, Alibaba's founder left his executive functions at BABA, but as highlighted by the FT, "He is a lifetime partner in the Alibaba Partnership, a cadre of three dozen senior executives who, among other things, have the exclusive right to nominate a simple majority of the company's board of directors. As a party member, Mr Ma (and his 90m comrades) take an oath of no golf clubs, no fancy meals and no loose tongues when talking about major policy. More importantly, they pledge to "be ready at all times to sacrifice my all for the party and the people". Alibaba shareholders might wonder how many more party members sit around the company's top table."[30]

"We were the first to assert that the more complicated the forms assumed by civilization, the more restricted the freedom of the individual must become"
- Benito Mussolini

[30] https://www.ft.com/content/4b6e5f9a-f233-11e8-9623-d7f9881e729f

MOST VIEWED NETFLIX SHOWS, AS A PERCENTAGE OF ALL NETFLIX VIEWS

Blue bars are for shows that could be taken away since they are owned by Disney, Fox, WarnerMedia or NBCU



Data for Netflix episode and movie views on web browsers from January though November 2018.

Source: Jumpshot
https://bgr.com/2018/12/25/netflix-popular-shows-the-office-friends/

Watching the red screens as markets meltdown from irrational levels reminded us of the remarkable sentence of the US Captain (Robert Duvall) in the unforgettable "Apocalypse now" from Francis Coppola: "I love the smell of napalm in the morning!"

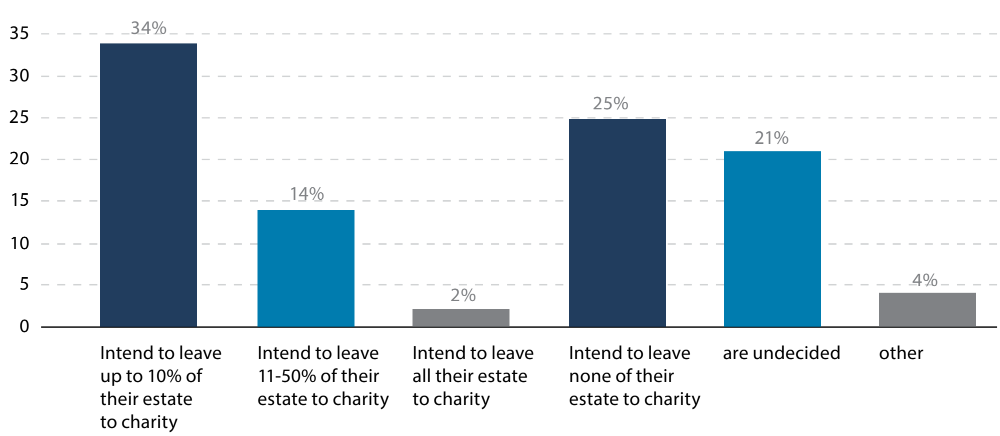
From the article: Should people inherit money from their 30s? Readers have their say
- FT [31]

- One interesting discovery from the 102 responses was that not all readers want to give the same amount of money to each child. (...) One stated frankly - errant grandkids take note - that it would depend on "how well I get on with them, how often I see them and what efforts they make to keep in contact with me".

- When asked whether they had discussed wealth transfers with their advisors, the response was mainly 'no', with comments such as: "They don't have the expertise or experience to help like in the past"; "No point, they just want to sell you inappropriate and expensive "products"; and my personal favourite: "Yes. Some. But they nod out of deference. Silly people."

- 56% of people think dependants should be at least 30 before they receive.

INTEND TO LEAVE MONEY TO CHARITY



[31] https://www.ft.com/content/f780e9d4-ad22-11e8-94bd-cba20d67390c

Random Bits

One of the facts we found the most amusing this year was the reinforcement of the distorted perceptions brought by some "magic numbers". It seemed that "the market" (mostly the media and sell-siders in that case) felt compelled to prove it could bring a company to the USD 1TTTTrillion market cap. We ourselves perceived this obsession (and as commented in our Q2 2018 report, how wrong the average was) when we made our famous query on the subject with a group of friends in 2017. In the end, it seemed that the mark was just a "touch point", as both Apple and Amazon reached only to fall back into the "mid-cap" category. Both ended the year in the USD 600/700 Billion range.

"Roughly 80 per cent of the world's existing and planned battery production capacity is in Asia, according to Bloomberg data. China alone has 69 per cent, with the US at 15 per cent and the EU at under 4 per cent". - FT [32]

"If you're good at something, that's like having loaded dice, if you only roll once, you're wasting your chances. You have to roll over and over again!" - Professor Albert-László Barabási, a physicist at Northeastern University

[32] https://www.ft.com/content/097ff758-cec3-11e8-a9f2-7574db66bcd5?kbc=9e2ec2eb-10c5-3300-90c9-4f033ff5a156

"I have always described my vision of hell as having to value GE over and over and over again, for eternity," - New York University finance professor Aswath Damodaran
"But the match that starts the fire is identical to all the other matches being struck all the time. What you need to do is work out if the forest is vulnerable." - WSJ[33]

"The superior man, when resting in safety, does not forget that danger may come. When in a state of security he does not forget the possibility of ruin. When all is orderly, he does not forget that disorder may come. Thus his person is not endangered, and his States and all their clans are preserved." - Confucius

[33] https://www.wsj.com/articles/how-worried-should-you-be-about-a-stock-market-selloff-1542972834?mod=hp_lead_pos3

PIPA Prize

PIPA Prize

"Big things have small beginnings." Depending on how old you are, this is either a famous quote by T. E. Lawrence in *Lawrence of Arabia* (1962), or by the android *David* featured in Prometheus (2012), Ridley Scott's prelude to Alien, in which the fictional character repeated it as a homage to Lawrence of Arabia.

If PIPA Prize is today "The window into the Brazilian contemporary art", that is because it was once a new and daring initiative. The Prize started with the intention of helping the Visual Arts, a branch with little investment in the third sector. The idea was to create an award to encourage young people to follow their dreams of art as a professional career with a relevant cash donation and also to help institutional collections, with artwork donations.

PIPA Prize websites were created, both in Portuguese and in English, to gather basic information related to the Prize. Over the course of almost 10 years, they have become an important online research platform in Brazilian contemporary art, featuring 405 profile pages containing information on the participating artists (such as portfolios, critical texts, images and more than 700 exclusive video interviews). It has become a space where contemporary art can be discussed, presented and encouraged. They also include a daily updated agenda of the exhibitions that the nominees are taking part, critical exclusive texts and interviews with the finalists by Luiz Camillo Osorio, and critic texts by other collaborators. There's also an online award featuring all nominees of the current edition, besides having a strong presence in social media[34].

[34] Follow us at Facebook, Instagram , Twitter and Youtube

The Prize also publishes a catalogue for each edition, available for download at the website. Since the beginning, all the year's nominees appear in the annual issue. The publication has improved over the years. It became bilingual, the number of pages for the artists increased and critical texts were included for the finalists. The catalogues are not for sale and they are distributed to more than 1,000 people and institutions around the world.[35]

This ever increasing database forms a meaningful archive. It is a significant effort of documentation and promotion of art. Luiz Camillo Osorio once pointed out the relevance of memory, archive, registration of facts and, focusing on the PIPA videos, he writes in the text "Hunger for files" (June 2013) :

"These interviews seek to hear them briefly talking about their works, their creative processes, work environment, questions and demands.

The open and decentralized record widens the angle of attention recording the diversity of the local scene. Between the closed market and the indifference of non-criterion, interviews and pages of PIPA nominees are a panoramic portrait of Brazilian contemporary art.

In these three years, 195 interviews have been done with 159 different artists, living in cities as distinct as Riachão do Jacuípe in Bahia, Belém and Piraquara in Pará, Berlin, Stockholm, and, of course, Rio, São Paulo and in major Brazilian capitals. The many micro-scenes that compose the Brazilian contemporary scene can be viewed and evaluated, revealing differences and convergences. To what extent are all these artists contemporary? Which Brazil – plural – speaks through its creative questions? How do they share common poetic horizons?

[35] If you are reading this text and haven't received your copy of PIPA Prize 2018 catalogue yet, or is missing a copy of any other year for your collection, please send an email to premiopipa@premiopipa.com

We are sure that the continuity of these records and their combination with the updating of the artists' pages – that has to be made in partnership with the artists and their respective galleries – will maximize the relevance of this database. A growing number of interested people, from researchers to collectors, have begun using the PIPA website for the benefit of all. It is common for us to get emails by researchers, national and international (the site is bilingual, Portuguese/English), who used the website and are thanking us for making everything available on the web.

It will be with the construction of archives and a critical Brazilian art memory that our circuit will be able to answer, without running over itself, by the growing euphoria of the international markets, whose interests, its most legitimate interests, are myopic and don't value the intensive time necessary for the construction of poetics with the density proper to them. Archives, all of them, need filters, criteria, conflicts and, above all, heterogeneous temporality, non-synchronic and non-immediate. PIPA tries to do its part." [36]

Talking about memory let's check the highlights and numbers of the PIPA Prize 2018.

This year there were 28 Nominating Committee members consisting of:

- 22 critic/curators, 3 established artists, 2 art dealers and 1 collector
- 17 from Southeast, 3 from Midwest, 3 from South, 3 from North of Brazil and 2 foreigners

[36] Extracted from the text "Hunger for files", Luiz Camillo Osorio, June 2013.

Amongst the 70 participating artists:

- 54% of them were first time nominees
- 55% are in the 31-40 years old range, and none were over 60 years old
- 56% were born in the Southeast, 17% in the Northeast, 14% in the South and 13% in the Midwest of Brazil
- 69% live in the Southeast, 14% in the Midwest, 13% in the Northeast, 11% in the South of Brazil and 6% is living abroad
- 68% are represented by art galleries
- 58% of them are men and 39% women.

PIPA Online had 60 nominees participating in the contest, and there were 12,463 people voting and meeting the artists. The winner was Íris Helena and the runner-up was Babu 78. They donated artworks to the PIPA Institute. The main goal of the PIPA Online is to get more people knowing more and better the artists from all around Brazil, helping those who are not represented by galleries and are outside the big cities.

Íris Helena, "Notas de Esquecimento VIII", from the series "Lembretes", 2009, photography-installation, inkjet print on post-its, 208 x 147 cm, donated to PIPA Institute

The four finalists of PIPA Prize were: Arjan Martins, avaf (Eli Sudbrack), Romy Pocztaruk and Vivian Caccuri. Martins was acclaimed by the Award Jury (the art critics - Fernando Cocchiarale, Luiz Camillo Osorio, Michelle Sommer, Paulo Miyada and the artist Iole de Freitas) and by the visitors at the exhibition at the MAM-Rio.

Martins is showing options of works for his donation and getting prepared to go, between May and July 2019, to the residency program at Residency Unlimited, in New York, which is part of his award.

PIPA INSTITUTE

There are about 300 private collections of contemporary art worldwide that are currently open to the public[37].

Some of those collections are huge and famous ones such as The Broad Art Foundation, in Los Angeles, the Louis Vuitton Foundation in Paris, and Francois Pinault palaces in Venice. Also, there are other smaller independently operated gallery spaces and institutions that are helping stimulate audiences' enthusiasm for art. Many good things flow from this kind of philanthropic investment. Developing and housing an art collection can involve acquisitions, the commissioning of artworks, and the regeneration of urban environments. They open and broaden the opportunities for artists.

The PIPA Institute, which has its share on this contribution to the contemporary art, ended 2018 with good news.

[37] The fifth edition of the BMW Art Guide lists 270 private yet publicly accessible collections of contemporary art in 43 countries and 196 cities

After two months of work, it was inaugurated on the 8th of December, the first permanent site-specific by Henrique Oliveira in Brazil, at the entrance of Villa Aymoré, in Glória, Rio de Janeiro. Commissioned by the PIPA Institute, the sculpture was conceived to occupy the staircase of the building, in a passing area connecting to the exhibition hall of the Institute. According to Luiz Camillo Osorio, PIPA Institute's curator, "Dislocating the architectural space, transforming the stairs into sculpture and the sculpture into a means of movement, his piece intensifies our experience of space, simultaneously producing a sense of strangeness and belonging".

To celebrate the opening, it was organized "*Between collapse and construction*", an exhibition from the Institute's Collection with artworks that dialogue with Henrique Oliveira's intervention. Using different media they discuss construction and precariousness, from places such as the wilderness areas of Brazil (as in the photographies by Luciana Magno, Rodrigo Braga, Paulo Nimer Pjota and in Berna Reale's video) or India (photographies by Gaio Matos), to the streets of New York City (collage of billposters collected from walls of construction sites by Luiz d'Orey), and aldo using poetics that remind Oliveira's work (video by Tatiana Blass and object by Renata Lucas, both PIPA Prize former winners).[38]

At the end of the year we had another piece of good news that was the arrival of Sofia Borges' installation "Gesture, mask and role", consisting of 20 photographies of large format, a result of the artist's trip to Brasilia at the moment in which the congress action gained weight in the political dispute.

We are happy that 2018 was a year of great acquisitions for the Institute.

[38] The exhibition (until February 2019) and the Henrique Oliveira's installation (permanent) are on view at Villa Aymoré, Ladeira da Glória, 26 - Glória - Rio de Janeiro

Partial view of "Between collapse and construction", exhibition of PIPA Institute collection at Villa Aymoré, Rio de Janeiro

Critical text by Luiz Camillo Osorio

The anonymous British-based street artist, known as Banksy, called the world attention once again. In last October, in one of the most audacious stunts in art history, arranged for one of his best-known works, "The girl with balloon" to self-destruct after being sold at an auction at Sotheby's, in London, for just over GBP 1 Million.

In the following exclusive text, the PIPA Institute's curator, Luiz Camillo Osorio discusses the complex relationship between art and market. He questions the capitalization of the art and reflects on how Banksy's "performative" episode shakes the notions of value, object, status and market.

" Just another joke or something more? Banksy and the Sotheby's"

Don't expect an answer to this question. The relationship between art and the market is full of contradictions. It couldn't be otherwise. On the one hand, it is a determining factor in ensuring the circulation, visibility and price of the works. On the other, it tends to be unforgiving to the artist, especially when success knocks at the door, sucking up processes and works. Unquestionably, great artists are great when they know how to deal with the mark, which is to say, when they don't do what the market wants, but, rather, impose what they produce on the market. This is no small achievement and since Yves Klein, Joseph Beuys and, especially Andy Warhol, appropriating the market, interfering with it and constantly dislocating it, have been part of this poetics and way of engaging with the art world.

For some time, this relationship with the market has been becoming ever more complex. Art fairs are almost outstripping, in importance and visibility, the biennales – in a serious crisis of purpose and scale. Many galleries have assumed the role of cultural centres, staging historic exhibitions of established artists, group shows designed by independent curators, producing voluminous publications, disseminating debates and creating an institutional circuit for the artist that would often be impossible without this mediation. Finally, the auction houses are achieving *astronomical prices for contemporary works and a hysterical appetite has been unleashed on the part of delirious collectors and billionaires.*

In 2008, at the same time that the global financial market was in melt-down, Damien Hirst held an auction of his works at Sotheby's. Over the course of two days, he sold 223 works and raked in 200 million dollars, a better result than forecast despite the generalized bankruptcy. Cutting out galleries and going straight to the secondary market of auctions was a daring gesture. I would even say, inspired. Intervening in the market in this way and creating such a stir is no mean feat. He didn't bypass any gallery, but Gagosian and White Cube, two monsters. He ended up being frozen out for some years before returning in grand style during the London Olympics with a retrospective at the Tate and a simultaneous exhibition in all the Gagosian spaces spread around the planet.

So the latest development in this agonizing and impassioned game between contemporary art and the market, once again, sees Sotheby's on the one side, and, Banksy (say no more), on the other. After having one his paintings – Girl with a balloon – auctioned for the record price of 1.3 million dollars, he activated a shredding device which dilacerated the work, in loco, producing a kind of kinetic-Dadaist performance. This contraption was concealed within the big, ostentatious frame. It was to be activated should the work ever be sold at auction.

Some questions immediately arose in the specialist press: did the auction house know about the "performance"? Given that the painting was dated 2006, how long had this mechanism been concealed? Who was the owner who put it up for sale? Why was it exhibited in the main room *(an unusual circumstance given the size of this specific piece)? In the aftermath of the episode, the following questions remain: What must be done to maintain the credibility of Sotheby's and the works of the artist? Is credibility still a matter of importance to the art market?*

All these questions are pertinent, but they become entangled when they adopt parameters of evaluation which accept works, the market and art prices as entities that respect a certain rationality. Banky's importance is directly related to his capacity to do the unexpected, to create situations of friction, to disorient the mechanisms of valuation, to destabilize expectations and norms. Inserting an inflatable doll dressed as a prisoner from Guantánamo Bay into Disneyworld. graffitiing the US presidential airplane and wall separating Palestinian territory; introducing fake objects into the Tate and the Louvre: all this seemed impossible until it was done. Above all, the most incredible thing, in the case of this specific artist, is the achievement of his identity's continuing to remain secret in a world of celebrities.

All his actions have huge public resonance. He produces little explosions and discretely disappears off stage. He is a street artist desired by collectors and, thus, by the auction houses. He deconstructs this desire and makes it even greater. After shredding Girl with a balloon he possibly made this work even more valuable and historic. The collector has already confirmed that it wants to keep the piece and will rename it to give it its due historical importance. Was everything all pre-arranged? This matters little. We will never know for sure. Ultimately, what matters in this case is that everything that involves Banksy generates buzz, and this has market value.

Also, using a frame as a performance element does not lack a certain charm. For centuries it was what demarcated the symbolic field of representation. It has been incorporated by modern *painting until it has become a plastic element of integration with the external space. Breaking the frame and the pedestal is a determining factor for an art that projects itself into reality and interferes in the visuality of the world. Museums have been gradually incorporating modern art and the white cube has become a new frame separating art from the world. Graffiti was born in the street and was always noisy. But the market domesticates noise, in the same way that it incorporated the ripped jeans of punks.*

When an auction house like Sotheby's opens its doors to a street artist, in yet another iconoclastic move, it incorporates the frame and its destroying mechanism as a poetic agent. Art no longer knows how to breathe freely without immediately having a price wishing to dictate its value. The trick is to play with the price of art, to provoke it into being what it always was – an abstract value defined by a desire to consume and no specific utility. As Richard Serra once said, "the only way for public art to exist is for it to redefine its context". Each new poetic move by Banksy forms part of this process, where the market is the defining element of the public context of contemporary art.

PIPA PRIZE MISCELLANEOUS

"When the hammer came down last week and the work was shredded, I was at first shocked, but gradually I began to realise that I would end up with my own piece of art history,"

- anonymous female European collector who bought, at the Sotheby's auction, the shredded "Girl With Balloon" (renamed "Love Is in the Bin") , which has been granted a certificate by Pest Control, Banksy's authentication body

"Great things are not done by impulse, but by a series of small things brought together"

- Vincent Van Gogh

"The best introduction to art is to stroll through a museum. The more art you see, the more you'll learn to define your own taste."

- Jeanne Frank

"The fact that not every man is an artist, but only a few, and that not everyone is capable of comprehending or appreciating a work of art, is not a valid argument against the importance of art in people's lives."

- Buehler, Barrow, and Mountford, The Art of the South Sea Islands 1962

You're a collector when you stop decorating - when you buy something, don't have a blank spot on the wall for it and have to take something down to put it up."

- Steve Oliver in Art and Antiques, November 2001

"A lot of my work is about sales. And it was about being independent from the art market"

- Jeff Koons

"I am not opposed to the art market. I have lots of friends who are collectors. But the whole idea of the art market is complex. Sadly we have a situation where auctions houses and secondary market dealers are creating a lot of confusion and unnecessary pollution"

- Olafur Eliasson

"The art market does represent a sort of hyper-capitalism: it produces added value without any actual work being done"

- Thomas Koerfer

"The art market is global now, and there's becoming more of an international consensus about what constitutes good art"

- Larry Gagosian

"Sometimes the art world can be a scary place, and you feel like you should know more than you do, but it's okay to not know everything!"

- Abbi Jacobson

"Art should comfort the disturbed and disturb the comfortable"

- Banksy

PIPA
PRÊMIO PRIZE

Ajude a divulgar o PIPA.
Torne-se um amigo no Facebook:
www.facebook.com/premioPIPA
www.pipa.org.br

PIPA
GLOBAL INVESTMENTS