



Works from PIPA 2016 finalists shown clockwise from top left:
GUSTAVO SPERIDIÃO, "Iconoclast Phase", 2013, Collage and ink on paper, 30x21cm
LUIZA BALDAN, "Terra encantada I", 2013, Inkjet print on cotton paper, 40x50cm
PAULO NAZARETH, "CA - criado mudo", 2013, Bronze sculptures, cardboard and paper, Edition: N/A, 51 x 34 x 24 cm
CLARA IANNI, "Free Form (Brasília)", 2013, Video installation (2 channel), 7'

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RESEARCH AND ANALYSIS

RESEARCH AND ANALYSIS

This has been a particularly intense quarter when it comes to “fun”, which in our case means reading, meeting interesting people and thinking. As a consequence, we have indulged ourselves with a longer piece than would normally be the case for an intermediate report.

Some people question why we spend so much time and energy preparing this report. Despite the risks of being ignored, we opted to go for it as, at the very least, writing these quarterly reports not only answers some questions put to us, but also helps us organize our minds and, over time, it allows people we find relevant to get to know us better and track our evolution. We think it is more than fair that those entrusting us with their savings get to know as much as possible about our values, processes, how we think and our world-view.

We keep receiving great feedback, especially on our Random Bits and Miscellaneous sections. That makes us very happy, since the main objective of this report as a whole is to transmit as clearly as possible not only our thoughts, but also what we value, what we’re researching, what we’re being exposed to... essentially how our minds are constantly being built and remodelled. Also, we see them as nice “launching pads for thoughts and debate”. If you have some comments, criticisms, suggestions or inputs, please do contact us at rg@pipaglobal.com.

MENTAL MODELS

Time management – a few more musings

We frequently get asked questions about our processes, more specifically about idea generation. Last quarter we mentioned the issue of time management. In fact this is our number one issue, for everything else comes as a consequence. How do we do it?

Actually this is (hopefully) an ever-improving process. We’re always searching for new ways to become more efficient. Two recently read books on the subject:

Daily Rituals – How Great Minds Make Time, Find Inspiration and Get to Work, by Mason Currey. Very easy to read book, devoting a couple of pages to each of the selected “Great Minds”. Cutting a long story short, take long walks (check), have insomnia (check), read a lot (check) and be a heavy drinker (we’ll pass on this one).

Your Brain at Work – Strategies for overcoming distraction, regaining focus and working smarter all day long, by David Rock. A bit on the self-help side, but worth the time (fast read). Actually the subtitle gives most of it away: avoid interruptions. I’d say the book is aimed more at younger, less experienced people, but the idea of organizing some situations and procedures into “algorithms” is interesting.

All our processes, our agenda, our trips, what we read, who we talk to depend on a “daemon”³ that constantly compares the “opportunity cost of our time, weighed by experience and potential upside and risks”. It’s always asking: “Is there a better use of our time or an easier way to make money?”

Needless to say, this “algorithm” only exists in our heads, but it’s something that we’ve purposely trained ourselves to do over the years. And our answer to the problem has always been to simplify, keep a sharp focus, accept immense and infinite lost opportunities without regret, as long as we keep finding and executing well at an amount and frequency that allows us to attain our objectives: to reach at least a low teen average compounding rate with very little risk of permanent loss.

Actually we can say without fear of straying too far off the mark that we spend about 20% to 30% of our time and mental energy selecting and convincing/enforcing priorities. After all, it’s worse to run in the wrong direction than to stay put...

As you implement more stringent filters based on experience to save time you’re almost certainly going to throw some babies (false negatives) out with the bathwater. But we see the capacity to accept that without suffering or getting “frozen” as paramount. This is an ever-present issue that one should never forget, but rather learn to live with on the best possible terms.

Also, we are always trying to learn and develop ways to be more efficient, considering our objective of building our scuttlebutting capability and determining people’s reputations, strengths and weaknesses, companies’ true culture, etc... And one that has proven to be very efficient, albeit long-term in building, is what we call our exo-team, a.k.a. a high quality network of contacts.

Last but not least, the way to best structure one’s time depends on what you’re trying to accomplish. Nonetheless, it is definitely something that you should be proactive about and take control of, rather than let all the pushes and pulls of daily life guide you.

The forest and the trees

Another way we try to be more efficient when it comes to using our time is by following the mantra that “it’s more important to be approximately right than precisely wrong”.

People are sometimes surprised by the level of detail (or lack thereof) in our knowledge about companies (and us, conversely, over the unreal expectations they have). For instance, if we were to know every Berkshire or Danaher company in detail in real time, we would fall into a “universal computer” situation.⁴ We strive to follow Einstein’s postulate that “everything should be made as simple as possible, but not simpler”. Our strategy is to figure out what we should know (people quality, alignment of interests and business quality) and go for those answers, alert for other relevant

³ In multitasking computer operating systems, a daemon is a computer program that runs as a background process, rather than being under the direct control of an interactive user.

⁴ It’s impossible to build a super-computer capable of calculating all future events in the Universe, or to put it another way, the Universe IS a super-computer determining all that’s going to happen next. But enough of science for this letter.

signals but definitely trying to avoid noise. There's a big difference between things that are "nice to know" and those that are important to know. Being intellectually curious, one of our biggest challenges is to avoid getting sucked into nice things and sacrificing precious time that should be allocated towards the important category.

Organic Growth vs Acquisitions

Since major M&A has a deservedly bad reputation, the knee-jerk reaction most people have towards growth through acquisitions is basically ... knee jerking. But as we briefly discussed at the end of our last report, there are different types of platform companies, for example.

Especially in mature markets, high organic growth is difficult and expensive, for you tend to have entrenched competitors and the end result tends to be higher advertising costs, price wars and lower prices for all.

But let's take our old friends at ABI or DHR as very sensible and successful examples of M&A. If you're smart and disciplined as they are, you focus on having the lowest costs and expenses and using that advantage to torture your competitors until it's possible to buy them. When you buy them, you apply your competence in lowering costs and expenses, with the added scale advantage. And repeat. With

each cycle, you're more experienced and your scale favours you.

Of course there are issues like integrating systems, distribution challenges, market peculiarities, etc... but that is their problem, and one they're good at. So we summarize our ABI and DHR cases as guys that are very wise and disciplined when it comes to capital allocation, and among the best at structuring incentive systems and effectively⁵ putting into practice a long time ago a deliberate "people-developing machine" strategy, focused on costs and expenses efficiency.

An intermediate case is Berkshire, which combines exceptionally low cost of capital through relevant negative cost float (to the tune of USD 88 billion at the end of last quarter), spectacular discipline, opportunism and carefully and deliberately constructed "most desired investor/buyer status" in capital allocation in a plethora of good business models managed mostly by apt people (but with ample room for improvement in that respect).

Of course Kraft-Heinz seems to be a combination of the best of both worlds: the combined capital allocation/business selection skills of Buffett/Munger + Jorge/Marcel/Beto, the Berkshire magnet (which increases by the day for Jorge/Marcel/Beto) and their cost/expenses and people development/management/incentives/execution skills.

⁵ To say that "people are our most valuable asset" is standard IR BS. Those guys, like our friends at Danaher, mean and deliver it.

At the other extreme in the growth models spectrum we have Amazon. Although they've done some acquisitions, most of their growth is organic. Their core competency is to disrupt established markets and create new ones, combined with rational capital allocation and cost controls.

At the end of the day, if capital allocation is rational, we're agnostic when it comes to how growth is attained. Obviously, what has been the Microsoft way for quite a while (low capex, standard-based monopoly, leading to strong growth and pricing power) and still is for significant parts of its business, is our favourite.

Capital structures

The imbroglio at Viacom, due to the super-voting shares held by Sumner Redstone is a "gentle" reminder of what may be on the horizon for GOOG and FB investors. As a recent article in the FT put it, "Mr Redstone was once a dynamic, innovative young business mogul".

We find the fact that someone else worries about it very refreshing. Even more that Mark Zuckerberg has recently relaxed the super-duper powers he had, which included not only the super-voting rights (more than one vote per share), but also the right to transfer those rights. On the other hand, in the recent bylaws' restructuring he followed Google's terrible

(in our view) initiative of creating non-voting shares. After participating in and following many cases of restructurings, lawsuits, regulatory and legislative reviews in Brazil over the last 30 years, we've come to the conclusion that odd capital structures (i.e. different from the traditional one share one vote) usually leads to unintended consequences, i.e. value destruction, either for minority shareholders or for the company as a whole. Usually both.

We do recognize exceptions, but they should be VERY well funded and usually taken into account in valuing the shares (usually via a discount). After many discussions over the last few years on why Google and Facebook adopted such structures, the best explanation so far has been "Steve Jobs trauma", referring to the fact that he was ousted from Apple in 1985. But this argument seems weak to us and has led us to "pass" on their shares.

Digital Disruption 2.0 – The Cloud, Big Data and Singularity

OK, those are all buzzwords by now, but the implications get more and more concrete by the day, so indulge us.

The first victims of digital disruption were intangible assets, mostly media (newspapers, music, movies and books). This next wave is reaching cars (rental companies and taxis), apartments (hotels), offices

(the old Regus-like model is being revolutionized by companies like ShareDesk, LiquidSpace and WeWork) and, lo and behold, industrial equipment.

We've been hearing and seeing more and more about IoT (Internet of Things), which is basically a network of connected devices that communicate without human participation. Google's Nest, which was born as an intelligent house thermostat based not only on temperature differentials, but also as a function of homeowners being "sensed" and logged, is now branching out into other areas, aiming at "total" home automation.

But this is the "cute" one. Industrial and transportation companies already have a lot of interconnected equipment. One of the issues thus far is that each manufacturer uses its own communication protocol, which has been a limiting factor both in terms of operations and of measurement. And we know that what gets measured, gets done. Once all spare capacity existing in companies is known, coming up with shared economy solutions (AirBnB, Uber...) will be just one step away. Just as Uber is a solution for the fact that, despite being the second most expensive asset in most households, cars are used only 4% of the time, many companies are bound to find optimization opportunities. There already are services monitoring and intermediating spare capacity in tools, from drillers to Caterpillar heavy equipment.

Oddly enough, despite all the thunder about Uber, the transportation industry was one of the pioneers in spare capacity utilization (necessity is the mother of invention). Since empty seats are such a terrible economic catastrophe, airlines developed shared networks early on and, as those become more valuable than the physical stuff, they sold the JVs to fill their ever-growing hole.

Banks with their payment networks and telecoms with their network intercommunication arrangements also scratched the surface. But they stopped at simply reducing some costs among a limited number of parties.

GE and Cisco have been the most proactive in trying to create a standard protocol for IoT. That would be the Holy Grail. But that's not the only possible solution. Whenever we hear of these grandiose projects, we remember TMT conferences in the early nineties, where Mallone, AT&T and other cable guys would pontificate about the "Information SuperHighway", just as the internet was sprouting right beneath their feet. What's the analogy here?

Imagine that companies start (as many are doing) to open their APIs (application protocol interfaces). All of a sudden, one can make his device communicate with one from another manufacturer or service provider. Or an app that's connected to all MRIs or other high-cost medical equipment in a city in real time.

The opportunities are immense. On the other hand, once you get better capacity utilization, incumbent capacity suppliers tend to lose, if they stand still.

When you combine all that with big data storage and analysis, it becomes quite clear that, as Ray Kurzweil has been highlighting for quite some time, *The Singularity is Near...*

Great companies are quite aware of that. At least, this is very much the case with all our core holdings. According to an E&Y report, non-tech companies acquired USD 148 billion of technology and digital assets in 2015, more than 2012, 2013 and 2014 combined.

As we never get tired of pointing out: it's not that we're technology investors. Everyone is (or at least should be). Just like with globalization (or having an email account), you might try to stay outside, but you do so at your own risk. We continue to devote a HUGE percentage of our time to these issues for we think the ability to recognize and interface at a minimum level with investable companies and tech providers is a key element in allowing us to recognize good management.

DIGITAL MONEY

As we mentioned before, attending "industry" conferences has proven a much better way to do our scuttlebutting than sell side conferences. Not only

because the context is different, but also because you get to meet people at the cutting edge, the disrupter wannabes.

This quarter we attended Wired Money here in London, as this is a relevant issue not only for banks and insurers (and Itausa, Wells Fargo, Admiral and Western Union all have a long-time place if not always in our portfolio, at least on our wish list). Below are the key take-aways.

1. A number of online-only banks are coming to the market. They are already attacking the retail side of the industry – so far not very successfully but we wouldn't be surprised if one of them gained traction in 1-2 years. However, the new entrants are focusing mostly on banking customer experience, with a very restricted portfolio of services, not enough to pose a real threat – at least in the short/medium term – to the full banks.
2. Insurance – new entrants also coming to play. These threats sound more credible as the challengers make heavy use of data and interfaces that were previously unavailable. They can, for instance, monitor users' mobile phone sensors to help determine whether they are prudent drivers in order to give them better scores. Some are also leveraging IT to improve the relationship with the client, an area in which the incumbents don't usually put a lot of effort. Think about what

you get when you buy an insurance policy: an envelope with pages and pages of terms and conditions and the result is you are never sure if you are really covered in a particular scenario. Newcomers are addressing this opportunity, for example by transforming agreements into friendly apps that can be navigated in a natural way and compared among providers. They aim to become a new layer between the customer and the insurer – and we know how strategic the relationship with the end customer can be. Other companies still are going even further and rethinking the insurance agreements from scratch, questioning traditional assumptions such as yearly agreements and fixed prices. Wouldn't it be nice to buy a bike accident policy just as you put on your helmet to go cycling?

3. Remittance – also a favourite of the fintech entrepreneurs and relevant for our Western Union case. It caught our attention that all of these new companies are only able to take digital money; none of them begin transactions in cash. It looks like this will continue to be Western Union's domain for the foreseeable future. Still, in private talks we had with some of these entrepreneurs there seemed to be a consensus that cash isn't going away any time soon. Instead they are trying to build a competitive advantage by bypassing the

international money transfer systems, currently comprised of a handful of banks and international intermediaries. If they succeed, it could even end up being a good thing for WU and the remittance market in general, as all players would benefit from reduced costs. Anyway, from the consumer standpoint, it gets clearer by the day that, despite their selling pitches, these new companies are competing between themselves and with PayPal, not with WU or MGI.

Danaher/Fortive

The end of the quarter saw the final steps in splitting "Old Danaher + Pall" into New Danaher and Fortive. FTV (Fortive's ticker at NYSE) shares started to trade in July. We expect Fortive to trade at a lower Enterprise Value / Sales and will write more on the subject in upcoming reports as the facts become clearer.

Amazon

This continues to be the company we spend the most time on. As we posted in our year-end 2015 report, we had two fundamental questions to answer.

The first question was enunciated in our 4Q15 report. "Can AWS (Amazon Web Services) become a race to the bottom kind of business, where high capex / low marginal cost lead to a predatory competition with others like Google, Microsoft, IBM, Rackspace?"

That would be a catastrophic scenario where all competitors would tend to pour in more capital in order to have bigger scale / lower costs, only to be matched by the competition. As a result, none would have pricing power or profits.

On the other hand, if Amazon, the undisputed leader in the category, could build switching costs into its offering, it would be possible to have low churn, control pricing and manage a profitable growth. According to our research, that seems to be the case. In tech parlance, it seems to have managed the migration from IaaS (Infrastructure as a Service) to PaaS (Platform as a Service).

In our last report (1Q16) we mentioned that we were gradually becoming more comfortable with the assumption that AMZN is handling the introduction of switching costs and the price x capex curve well. This conviction increases by the day.

Lastly, we should make a correction. On re-reading our report we noticed a mistake. We mentioned we “keep asking ourselves”. Actually, what we meant was that we keep asking other people and searching for evidence one way or the other.

In addition to the execution question, which we still keep digging to find something against all the tangible evidence we’ve got, we devoted some

time to the “rest of the business” formerly known as e-commerce.

In sum, we see Amazon migrating from a conventional e-commerce company to a platform for all your media and material needs, from classic books to sex toys (which don’t influence “your Amazon Page suggestions”!) Third party sales through Amazon’s web site keep growing faster than its own products, which is a highly desirable outcome, since this trend reduces inventory and merchandising risks, and brings in advertising, billing and logistics income, all of which have low marginal costs and therefore high marginal profits as the whole juggernaut grows.

That helps explain why the company keeps pushing the envelope on the fresh food and pantry front, leasing airplanes, etc... They want to become one of the “inevitable” companies Buffett mentioned years ago. After you pay your annual Prime fee and have your “one click” settings on, and they have a delivery for you and your neighbours every day, the famous “moat” becomes quite relevant. And to top it all off, you’ll likely get hooked by one (or more) of their TV series, have many books on Kindle (or on a Kindle app for Android tablet or iOS), audiobooks in Audible, music via Prime (it even automatically rips and includes all the CDs you’ve bought from Amazon in your library), free picture storage, etc... As we read somewhere:⁶

⁶ We apologize for not having taken note of the source since, with all we lay our eyes on, some sources get a bit fuzzy ...

“If Amazon was as big in online food as it is today in non-food, it would have 20 times more vans on the road for home delivery, due to food being 100X bulkier than non-food. Once it had got the food final-mile logistics to work, it would be able to get most of its non-food final-mile logistics virtually for free.”

Microsoft

That’s another “old friend company” that we always keep on our radar due to its management quality (the migration from shrink-wrapped software to Office 365 is being brilliantly executed), scale, costs and expenses discipline and free cash flow generation, which are all happening in the right timing. The negative side has been the failures in the major acquisitions “department”, mobile and advertising.

Digging a bit deeper on the positive side, which is clearer for us, few people realize that our thesis presented back in 2010, when we filled the bucket with MSFT shares, has proven right. The iPhone has been a huge success, but that hasn’t precluded MSFT from growing, specifically in the professional/corporate area. Today less than 20% of MSFT’s operating profits come from the “Personal/consumer business”, which includes the under-appreciated Xbox division. Furthermore, less than 5% comes from Windows OEM non-pro. On the other hand, according to IDC, almost 69% of the world’s servers run on Windows Server, versus 21% for Linux, 7% on Unix

and 3% on mainframes. No sign of Apple here, which discontinued its server business...

The table at the end of this section gives a good long-term view of what MSFT has accomplished in financial terms.

LinkedIn

The big news in the quarter was the LinkedIn acquisition. Shooting from the hip, our first reaction (before entering price considerations) was that it could be interesting. At USD 26 billion, we must admit we have no clue as to whether it will be value adding, with a negative bias. The best numeric indicator we could reach is a back of the envelope calculation (in our experience usually the best predictor) that MSFT paid about USD 260 per active user.⁷ In theory at least, it could work, but as we always keep reminding everyone around us, **it all depends on execution**. In that regard, there’s a tendency to compare past MSFT acquisitions like Skype, Nokia and Minecraft. We tend to be less sanguine in that regard and give Satya (the “new” CEO) the benefit of the doubt.

MSFT in the clouds with diamonds

Just as Amazon has the clear lead in IaaS, Microsoft managed to grasp a firm leadership in the SaaS (Software as a Service) segment (one layer above the PaaS – Platform as a Service), where the provider also offers the user-level software. Obviously, Office 365 is

⁷ Assuming active users to be those who access LinkedIn at least once a month.

a powerhouse in that area (Adobe and Salesforce are also examples in this category, but both companies operate in much smaller segments). As it transitioned from the upfront licence for on-premises software to the cloud and subscription, MSFT sacrificed a bit of short-term cash flow for a higher total price over the software update cycle. Cloud-based LinkedIn certainly adds to this category. It's worth noting that we're at the end of the lower cash-flow phase of the transition, so Office 365 is one of the fronts where we expect accelerated growth over the next few years.

Still on the cloud-based business, one has to understand that MSFT (and Oracle, but on a smaller scale, since it rules only on the database segment) benefit from offering the whole stack, from the infrastructure through the platform (Azure) to the software. That way, not only can it offer an integrated solution which is of paramount value for many customers, but it can also attain higher margins assuming a similar scale...

And there lies what we see as many underpriced (free?) options. For instance, MSFT has just created a partnership with Toyota, the world's biggest and best car maker, which will use Azure to help develop new connectivity-based products and services into Toyota cars.

The following table gives a very nice overview of the competitive situation, which shows why we hold both MSFT and AMZN...

Microsoft charges less per GB for Cloud storage than its competitors Apple and Google, and the price is even cheaper than Cloud storage vendors (e.g., Box.com), even if we place no value on the Office apps or anything else

Company	Product	Price / Yr	Total GB	Net Cash USD Bi
Microsoft	Office 365 Personal	\$ 69,99	1,000	31
	Office 365 Home	\$ 99,99	5,000	
Apple iCloud	5GB of Total storage	Free	5	34
	20GB of Total storage	\$ 11,88*	20	
	200GB of Total storage	\$ 47,88*	200	
	500GB of Total storage	\$ 119,88*	500	
	1000GB of Total storage	\$ 239,88*	1000	
Google	Google Docs	Free	5	41
	100Gb of of Total storage	\$ 23,88*	100	
	1000GB of Total storage	\$ 119,88*	1000	
Box.com	Personal Free	Free	10	61
	Personal Pro	\$ 120,00*	100	
	Business Starter	\$ 60,00*	100	

* Price / year = Price / month x 12
Source: Corporate websites and Bernstein analysis.

Xbox

The LinkedIn acquisition eclipsed the launch of the new generation of Xbox consoles which seems to us an under-appreciated part of MSFT. We are old enough to remember Bill Gates' vision of dominating the living room and building a subscription-based model. In that regard, they've made steady and consistent progress, despite all the hype generated by Google/Android TV (has anyone ever seen one around?) or Apple TV (which we view as over-priced and vastly inferior to Amazon Fire TV). Xbox is already a USD 10 billion/year business, including console, games and subscriptions. Not too shabby.

Xbox has a blade/razorblade business model. The console is subsidized. MSFT makes its money, again, in the subscription business (seems that Gates managed to get where he wanted, again, even from a distance...). Far from just being game-playing devices, Xbox and the new Playstations are communication platforms that allow for remote game playing, social networking, communicating and media consumption.

Despite the negative impact of growing a blade/razorblade business (since you sell consoles at a loss, the more you grow, the more you lose in the short term), estimates are that the Xbox business as a whole is generating about USD 2 billion of positive gross margins, as the installed base has already turned into cash cows. Just as in the case of the professional software migration to the cloud, here again we see

MSFT today sowing greater profits to be harvested in the future.

And one has to keep in mind that the percentage of players grows as the generation that grew up with videogames as an integral part of their lives gets older but doesn't kick the habit. And gradually and inexorably they replace the "luddites".

Last but not least, there's the growing trend to reverse the negative view on games, clearly illustrated by the recent article in Scientific American on cognitive science: "The Brain-Boosting Power of Video Games – Shooting zombies and repelling aliens can lead to lasting improvement in mental skills". Although one might call the article a bit over-favourable to the gaming industry and we find it healthy to maintain a bit of scepticism, here are some key points:

- For psychologists, information-processing speed is a key measure of the efficiency of cognition functioning – and action games appear to be excellent tools to make a person's reaction time faster.
- Game playing seems to confer the ability to make correct decisions under pressure.
- Unsurprisingly, individuals who regularly play action games demonstrate improved ability to focus on details, useful for reading the fine print in a legal document.

- Better ability to mentally rotate objects.
- Enhanced capacity to shift between a state of mental focus, while monitoring the game scene for potential enemies, switching purposely between what psychologists call focused and distributed attention.
- Players detect targets better than non-players and avoid becoming distracted by any single event that occurs as a fast-paced game progresses. The player who gets hung up on pursuing any single member of the walking dead risks attack by legions of others.

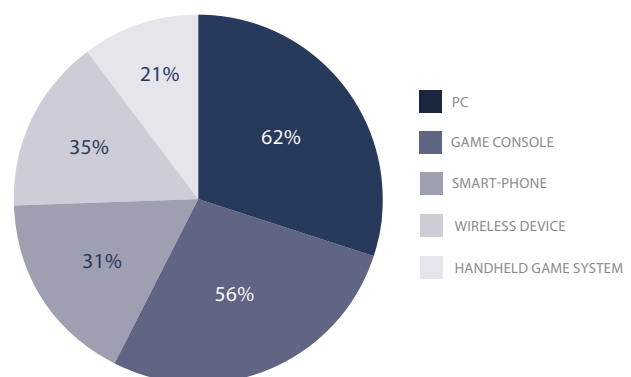
The process seems to have been carefully carried out. They conducted tests with control groups and are careful to highlight that the benefits accrue for those who play for short periods every day. You don't have to be a compulsive player. Also, they leave the question of whether or not violent games induce violence to another study.

Looking at how these effects relate to our industry segment, from all the above only the last point seems to clearly be a positive for portfolio management. The others are better suited for traders.

For us, who are more research-focused, all that speed is not necessary. We still value more ruminating, permanent focus and discipline. When we want to let "the back of our minds" work a bit, we'd rather go for a walk...

Saving what may possibly be the best for last, the new console generation launched by MSFT and Windows 10 are now capable of playing the same games. In our view, that's a master coup that's been overlooked, since PCs are still the most used platform for playing games. By making PCs and Xbox interchangeable, they vastly increase scale and therefore the all-important attractiveness for developers. And this is a strategy that Sony, the main competitor via its Playstation franchise, can't copy.

The PC is still the dominant gaming platform - Microsoft expanding its PC gaming offerings could essentially double its TAM



Note: Numbers do not add up to 100% due to consumers owning more than one platform.
Source: ESA and Bernstein analysis.

As a comparison, in a recent FT article, Sony said it expects revenues of JPY 1.8 to 1.9 trillion (about USD 18 billion) for its games and network services division for the fiscal year through March 2018 and an operating profit margin of 8 to 10%.

Electronic Arts and Activision Blizzard, Inc. are the two main listed game developers. The comparison is not

immediate as they don't manufacture consoles, which leads to lower revenues and higher margins when compared to MSFT and Sony. However, since MSFT has its own game-publishing arm (led by "Halo"), it receives about 30% royalties from game developers, and console launches have a huge impact on developers, so it's worth keeping an eye on them. Below you'll find the numbers for the two core companies in the sector.

USD Million	Electronic Arts*		Activision Blizzard, Inc.	
	Revenue	Net Profit	Revenue	Net Profit
FY 2012	4,143	76	4,856	1,149
FY 2013	3,797	98	4,583	1,010
FY 2014	3,575	8	4,408	835
FY 2015	4,515	875	4,664	892
FY 2016	4,396	1,156	Not over yet	Not over yet

*EA's FY ends in March, ATVI's and ZNGA's in December

USD Million	Electronic Arts	Activision Blizzard, Inc.
Current Mkt Cap	22,913	29,660
EV	19,550	27,912

In conclusion, besides being a B2B powerhouse, MSFT has managed to build a very relevant consumer entertainment business that, as per our conversation, is being overlooked.

Final considerations – for now

Oddly enough, both MSFT and AMZN have hugely successful B2B and B2C businesses and both failed in the mobile segment, which one could see as strategically critical. Meanwhile, Apple, Google and Samsung dominate the mobile segment, with Apple grabbing the lion's share of the segment's profits, Google living off the advertising business and Samsung making its living out of being a Chaebol.

At the end of the day, every business has to take risks, including doing nothing, and those who try will typically have hits and misses. Obviously it's the aggregate that counts. Over the last 10 or 15 years, MSFT has managed to grow while consistently generating and distributing vast amounts of cash, so they deserve some credit.

	Revenues USD Bi	Net Profit USD Bi	Outstanding Shares (10 ⁹)	Dividends paid since year to June 2015 USD Bi	Net Profits since year to June 2015 USD Bi	Net Cash USD Bi
FY 2001	25,2	7,3	10,7	96,9	214	35
FY 2006	44,2	12,6	10	58,1	174	41
FY 2011	69,9	23,1	8,4	37,8	96	50
FY 2015	93,6	12,2	8	9,9	12	66

1- MSFT's fiscal year ends on June 30, with Earnings release only

2- Includes Nokia write-off, as it should. But as a reference, FY 2014 USD 21.9.

Bottom line, assuming a market cap of about USD 380 billion at USD 50/share discounting the USD 66 billion in net cash (before the LinkedIn acquisition) and an FCF generation of about USD 28 billion/year, we get to something around 11x EV/FCF. Not bad for a great global company with good growth prospects and a wonderful history of cash distribution to shareholders. Despite acknowledging the acquisition risks, and the fact that most done in the past have not been very successful, they've been taken into account in the table above. And hey, they might get some right!

We'll continue to follow this one which we regard as one of the greatest companies and business successes of our lifetime. The key point is whether Mr Satya will be able to maintain / improve successful new initiatives while developing the many cash cows...

Last but not least, we always like to think that both Amazon and Microsoft have a nice shot at becoming global utilities in unregulated businesses.

PERSPECTIVES

Risks-of-the-day

Despite years of efforts by our therapist to prove otherwise, we continue to live by the late “Andy” Groves’ motto, “only the paranoids survive”.⁸ In our case, that goes way beyond, or maybe more aptly, in other directions, than the “mainstream concerns”. Those are either too big and fall in the “so be it” category or take care of themselves, precisely because they are mainstream and social systems react to them. Our main concerns are usually of the “fat tail” type, ranging from solar flair and black spots (not for their astronomical curiosity, but for their impact on telecommunications) to gentech misuse or even something great for humankind but potentially devastating for some companies’ industries.

Suppose someone comes up with a pill or treatment that allows you to have the benefits (including the endorphin high) from exercise, without having to spend the time at the gym. Nike, Adidas, Under Armour and others might suffer, if they aren’t the ones coming up with the novelty or they fail to buy the inventor early enough (which would be quite likely, since it would be rather hard to accommodate opposite lifestyle propositions under the same brand).

The same goes for something that stops hair from growing on undesirable places (the chin for some men, legs for most women...). There goes a big part

of the venerable Gillette business... And on and on it goes.

We recently learned a bit more about GPS scrambling devices, for instance. Due to the distance of GPS satellites from the Earth’s surface, the power limitations, and the fact that signal power falls in direct relation to the square of distance from source, GPS signals received by devices are quite weak. From that comes the fact that it’s quite easy (and cheap) to build or buy a device that transmits at the same frequency as GPS satellites and disable GPS receiving devices. Even worse, it’s also fairly easy to obtain devices that fool receptors into interpreting that they’re at a different location.

Why should we worry about that? One might start by thinking about all the unpleasantness it might bring to the transportation industry. From your GPS car or Uber going gaga to ships and planes having to rely on pre-GPS devices, if they still have them...

Cyber-security is a much less visible, and therefore a much bigger, risk. Many security algorithms use GPS time (Coordinated Universal Time abbreviated as UTC) for validation/send. Therefore, if one part of the system/network gets fooled by a scrambling device, the whole kaboodle halts. Not a nice thing for payment systems and other relevant things (after all, if one goes through the hassle of using a security algorithm, it’s quite likely that the issue they’re dealing with is important...). Why do we mention it

⁸ To his credit, we understand that “paranoia” has a different clinical meaning than what we and Grove (we assume) mean by it. Let’s say that only the ones who worry about “fat tails” survive. But then we’re going into statistical language. At the end of the day, there’s no way to avoid using some model. Score one more to Munger and his latticework of mental models...

here? It goes beyond exemplifying our worries. From our talks with CTOs, CIOs and CEOs, it became clear that in many cases these concerns are present at “lower” levels, but haven’t got high on the agenda of top management, which tends to categorize it as too nerdy and irrelevant. We don’t think that’s the case. Since we have a few readers who are in the top level of management, we thought it worth making our 5 cents contribution to the subject. It’s definitely nerdy, but nonetheless relevant.

Lastly, it’s worth noting that legislators are not sleeping at the helm on this one. It’s already illegal to buy, sell or operate a scrambler in the US, and to operate in the UK (though not to buy or sell). But we all know there’s a HUGE gap between being illegal and not being used...

On a different note, health risks abound. Not only do we have killer virus strains like H1N1 around every corner, but also little practical concern is given to the antibiotic crisis we’re heading into. As a recent article in the New Yorker magazine highlighted:

“The consequences of a ‘post-antibiotic world’ are difficult to quantify, but a study commissioned by the British government predicts that, if trends continue, annual fatalities from drug-resistant microbes could exceed ten million by 2050, eclipsing those from cancer.”

The best “hedge” we can have is to be investors in companies such as Thermo-Fisher. We might die, but if we survive...

On a more “mundane” level we continue to devote attention to tax issues. The scenario is clear: governments are generally broken and oversized, while big business in general is playing increasingly sophisticated games. For sure it’s a never-ending story, from the “when we learn all the answers, they change all the questions” departments, but we think average effective taxes will trend up, with some companies that have been too smart for their own sake taking the lion’s share of the impact.

One initiative that in our view has been under-followed is the OECD’s so-called BEPS project, which stands for Base Erosion and Profit Shifting. In plain English that means a coordinated initiative to prevent companies allocating profits disproportionately to where they’re generated so that they minimize overall tax. It goes without saying that it’s easier said than done, for it’s increasingly difficult to determine in good faith where profits are generated. Witness Google, Amazon and Facebook discussions with the EU. But we know that successful multinational corporations are much more attractive targets than cutting governments’ pet projects or reducing overall government spending, and when the monsters “look” in one direction and “make eye contact with the victim”, history shows that some suffering is in store. So we take that very much

into account in our back of the envelope expectations, and generally speaking, it doesn't look good.

On Productivity

That leads us to the macro vs micro point. While we always try to continue building our mental models framework, "stealing" from many disciplines and walks of life, we keep reminding everyone (and ourselves) that the formal/academic macroeconomic analysis is out of our sphere of competence. It falls in the "too hard" category, specially since we see little evidence of success in predictions, despite the many brilliant people and sophisticated resources applied.

At the risk of being naïve, we see the current discussion on the failure of technology to induce productivity gains, as "evidenced" by the fact that the US is enjoying "full employment" and yet failing to experience commensurate growth, as pointless.

First of all because we never could agree with the way GDP is calculated (not that we have a better suggestion, but then again it's not our job...).

But the real issue we take is with most people's tendency to infer that since the whole economy, according to the way it's measured, is not showing signs of productivity gains, technology has failed us. We beg to differ. It seems to us that what has failed us is politics, since we can see the immense gains in productivity in good companies and at individual level for those who use the technology wisely and

don't spend the gains in un-productive endeavours. Wars, corruption, misconceived projects and laws, in the case of states; drink, drugs and the like, in the case of individuals.

So, despite all uncertainties (they will always be there, regardless of our awareness of them. There is no such a thing as a sure thing) so far we feel comfortable with the results stemming from our search for great companies with great and aligned management with great business models. That has been "proven" to work for many investors and to ourselves before and is certainly benefiting from the technological acceleration, be it Amazon or ABI.

Inequality, Brexit, 3rd sector and philanthropy

As we continue to research and think about the social issues facing capitalism that we highlighted in our 4Q15 report, a few new data-points have caught our attention and are included in the Random Bits section below.

If we are to choose (which would be quite irresponsible given our ignorance concerning many of the issues involved), we'd opt for a smaller government and a system that takes into account that, for most people, money doesn't come naturally as the key indicator of success. Generally speaking, we think it's an acquired trait. We can see a system where other values can move people just as much, and this becomes more and more evident as we see the growing size, professionalism and efficacy of "the Third Sector". We

see it from the micro and up close “inside our own house” with the PIPA Institute, which doesn’t take money from any government or offer any tax benefits to the macro and distant, through the Bill & Melinda Gates Foundation. Below is a brief part of an interview given by Sean Parker (FB investor):

“I don’t even see it as giving away money so much as trying to solve a set of social or political problems that are not easily addressable with for-profit companies and investments...” Hacker philanthropy is meant to be the antidote to what Parker calls the conservative, incremental work of most charitable foundations; a timidity he says is born of institutional self-preservation and a need to assuage philanthropists’ “deep-seated anxiety that their capital may not be accomplishing anything”.

In conclusion, we reaffirm our opinion that what we viewed as an already problematic situation, the zero interest rate policy, developed into even wilder territory with more than USD 10 trillion of public debt being traded with negative yield. Again, we’re not economists, but we like to think we have a bit of common sense and like to see things from a logical perspective, starting from assumptions and making our way through logic and by respecting some basic mathematical rules. Having said all that, we’d say we spent most of the semester focused on fear rather than greed. The market crisis precipitated by the Brexit vote could lead to a good opportunity, price-

wise. Speaking of which, the only opinion we have on the issue is:

1. That it might prove to be a nice shake-up to an unstable system.
2. That the “final” set-up will certainly be different from what people were thinking at the time of voting.
3. That it’s more likely to be better for the UK than for Europe. It reminds us of a famous newspaper headline: “Heavy fog on the Channel. Continent isolated.” Call us Anglophiles if you will. We plead guilty ;-)

Other than that, we won’t add to the deafening noise on the subject.

“The breaking of so great a thing should make a greater crack.” – William Shakespeare

RANDOM BITS

The International Energy Agency estimates that 90% of new global electricity generation came from renewable sources in 2015.

— **MIT Technology Review**

In 2010, Europe spent close to 25% of the world's energy expenditures, Americans close to 20%, and Japan 6%.

— **Nathalie Desbrosses, World Energy Expenditures, Leonardo Energy, 2011**

Investment firm GSV Advisors recently estimated the annual global outlay on education at USD 5.5 trillion... The figure is nearly on a par with the global healthcare industry, but there is no Big Pharma yet in Education. Most of that money circulates within government bureaucracies.

— **Wired**

According to a recent Sanford Bernstein study, the US retail market today is composed of approximately USD 1 trillion non-food retail with 17% online penetration and USD 1 trillion food retail market with 1.5% online grocery penetration.

According to the MIT Tech Review, "By just about any measure, Baidu is China's most successful Internet business: over 92% of the country's more than 536 million search users employ its portal services and mobile apps." Life can be sweet when you have a huge protected market and copy what works in the US...

From the MIT Technology Review "The People's Robots" article:

- "Approximately 100 million people are employed in manufacturing in China (in the US, the number is around 12 million), and the sector accounts for almost 36 percent of China's gross domestic product."
- "China accounted for just 3 percent of global manufacturing output in 1990. Today it produces almost a quarter, including 80 percent of all air conditioners, 71 percent of all mobile phones, and 63 percent of the world's shoes."

The shipping industry is (so far) going through one of its cyclical “race to the bottom” (no pun intended) phases.

- In April the Shanghai Containerized Freight Index – one of the few public sources of information on what lines are charging to ship a container – reached the lowest level since its inception in 1998.
- 2016 could be the fifth straight year of sub-par expansion in trade... Maersk Line expects container volumes – a proxy for global trade – to expand by only between 1 and 3%.
- In February, AP Møller-Maersk, Maersk Line’s parent company, warned that freight rates were lower than during the financial crisis.
- In the first quarter of 2016, Maersk generated USD 1,857 of revenue for each 40ft container it carried on its ships, 25% less than one year earlier, and USD 203 below the average cost of moving each box.

The following comes from an interview given by Dr David Argus to Pictet & The Entrepreneurs. As he touches both on the issues of personalized medicine (related to some of our investments) and on redesigning work life, an issue that links with our social concerns, we thought it worth highlighting.

- From the 1920s onwards, medicine has been mostly focused on threats from the outside, like bacterial infections. It is not right for diseases from within the body – like heart diseases, Alzheimer’s and cancer. We have kept looking at the diseased cell, but we should be looking at the whole system... more movement during the day has a dramatic effect on disease and life expectancy... Humans were designed to move... The richer you are, the more bathrooms you have and you don’t have to walk so far to the bathroom. We should design offices and schools to maximize walking during the day...
- There’s an amazing European study showing that for every year of delay in retirement, the incidence of Alzheimer’s is reduced by almost 3 per cent. If you don’t use it, you lose it! **We need to redesign working life to keep the brain active** – learn a language, take up a hobby, give back and challenge yourself.
- It is time to throw “one-size-fits-all medicine” out of the window.

More than 90 million vehicles were produced in the world in 2014 and slightly fewer than that were licensed.

Records continue to be broken in the antiques, jewelry and art markets. But “there’s no inflation and all is under control”, according to the Central Banks.

MISCELLANEOUS

“When you’re surrounded by people who share a passionate commitment around a common purpose, anything is possible.”

— **Howard Schultz**

“I think it’s highly unlikely you’ll ever see losses in this business again. We’re in a whole new world.”

— **Douglas Parker, American Airlines CEO at Aviation Week’s MRO conference. (He says consolidation has put the industry on a much sounder footing.) We’d put that in the “remains to be seen” category...**

In the same vehicle, there’s an interview with Professor Arturo Bris, Head of the IMD World Competitive Center in Lausanne on Global Competitiveness. Our selection:

- Q: Which countries are the most and least competitive?
- A: The most competitive are largely Western economies. The US is the most competitive, followed by Hong Kong, Singapore, Switzerland, Canada, Luxembourg, Norway, Denmark, Sweden and Germany. The least competitive countries include Venezuela, Ukraine, Argentina, Croatia and Brazil.
- Q: Wasn’t Brazil one of the greatest hopes?
- A: When I started work on this ten years ago, the BRICS were seen as the future, but that future has not materialized. Brazil lacks good government and good public services. India will take two generations...

- Q: Which countries are next?
- A: ...it needs less democracy to focus on the future which is why Singapore is so successful.
- Q: You've mentioned education, but what are the other factors behind a competitive economy?
- A: It starts with good government which passes the right regulations and creates the right conditions – health, education, transport, infrastructure, for example. Its leaders must understand that they cannot create jobs in a competitive economy. Then it requires an efficient business environment with right values and the right talent which takes risks and has access to capital – these will facilitate innovation. Economic growth is not an input: it is an output.

On networks:

- “The trouble with systems like the power grid is that they are built up of many components whose individual behavior is reasonably well understood (the physics of power generation is nineteenth-century stuff) but whose collective behavior, like that of football crowds and stock market investors, can be sometimes orderly and sometimes chaotic, confusing, and even destructive.”
- “Perhaps the most perturbing aspect of cascading failures, and one that was starkly exhibited by the August 10 outage, is that by installing protective relays on the power generators – by reducing, in effect, the possibility that individual elements of the system would suffer serious damage – the designers had inadvertently made the system as a whole more likely to suffer precisely the kind of global meltdown that occurred.”

- “What makes the problem hard, and what makes complex systems complex, is that the parts making up the whole don’t sum up in any simple fashion.
– Six Degrees: The New Science of Networks by Duncan Watts

“Worrying about potential existential threats to a sector is part of being an investor. In terms of existential threats, it doesn’t get much worse than Amazon entering your category.” – From a sell side report

“Airlines are gaining tremendous value from their aircraft and engine suppliers. Today’s A320s and 737s are more fuel efficient and reliable than 15 years ago yet they are 20% cheaper in real terms... Boeing’s recent USD 20-25 million per aircraft with United Airlines...” – Kevin Michaels in Aviation Week. So much for a duopoly...

From Bill Gates’ interview to MIT Technology Review:

- “It’s possible there’s some guy in a laboratory today who’s inventing something miraculous, but because of climate change and the value of having cheaper energy, we shouldn’t just sit around and hope for his miracle; we should tilt the odds in our favor by doubling the R&D budget.”
- “The ability to model materials comes up in almost all energy breakthroughs.”
- “The wind guys need really strong materials, and they need really good magnets.”

- “I wish just writing a bigger check was the solution. I’ll be fascinated as we get this fund together how quickly we’ll be able to invest. If we can effectively invest the first couple of billion dollars, then absolutely – not only will I put more money in, but I’ll call up the institutions and individuals and say, ‘Hallelujah, they found enough companies that now we are financially limited; we want more money.’” – At the end of the day, execution and implementation is always a big issue...
- “The IT world created a model in terms of timeframe, patience, and even the amount of capital required that doesn’t exist in the energy sector in most cases.” – The timeframe/patience issue is one that is also very close to us...
- “About half of all the nuclear plants being built in the world are being built in China, and China’s ability to do engineering is very impressive.”
- “I’m in five battery companies, and five out of five are having a tough time... I don’t regret having invested, but all the battery things I’m in are finding both the size of the market and proving the technology more difficult than they expected.”
– Let’s see if Elon Musk/Tesla can prove to be the miracle makers...

From the MIT Technology Review “The People’s Robots” article:

- “Wages in Shanghai have more than doubled in the past seven years.”

- “Human labor in China is no longer as cheap as it once was, especially compared with labor in rival manufacturing hubs growing quickly in Asia. In Vietnam, Thailand, and Indonesia, factory wages can be less than a third of what they are in the urban centers of China. One solution, many manufacturers – and government officials – believe, is to replace human workers with machines.”
- “Some displaced factory workers could find employment in the service sector, but not all of the 100 million now employed in factories will find such jobs a good match. So a sudden shift toward robots and automation could cause economic hardship and social unrest. ‘You can make the argument that robotic technology is the way to save manufacturing in China,’ says Yasheng Huang, a professor at MIT’s Sloan School of Management. ‘But China also has a huge labor force. What are you going to do with them?’... ‘At one point during our tour we had passed a group of about 20 people taking an afternoon break. Everyone was apparently snoozing, heads rested on arms folded in front of them. That’s hardly something a robot needs to do. But I couldn’t help wondering what will happen to these workers once robots have taken their jobs. Wong says they will most likely return to their hometowns and find employment there, on a farm or perhaps in a shop or restaurant. That may be so, but for some it won’t be so simple.’” – That’s one of our biggest concerns, as we mentioned in our 4Q16 letter.

From "The Future is Not What it Used to Be" – University of Oxford paper:

- "Since 2013, China has bought more industrial robots each year than any other country. By the end of this year, China will overtake Japan to be the world's biggest operator of industrial robots, according to the International Federation of Robotics, an industry lobby group... China's technological transformation still has far to go – the country has just 36 robots per 10,000 workers, compared with 292 in Germany, 314 in Japan and 478 in South Korea."
- "The march of the machines, not just in China but around the world, has been accelerated by sharp falls in the price of industrial robots and a steady increase in their capabilities."
- "Today's low-income countries will not have the same possibility of achieving rapid growth by shifting workers to higher paying factory jobs."

Year	2010	2013	2016*
Avg selling price (RMB k)	463	400	332
No workers replaced	3	3	3
Workers annual wages (RMB k)	31	46	60
Payback period (years)	5,3	2,5	1,5

Source: Citi Research
*Estimated

"The S&P lowered Exxon Mobil Corporation (XOM) credit rating two notches from its impeccable AAA to AA+. Microsoft Corporation (MSFT) and Johnson & Johnson (JNJ) are now officially the last men standing after the ranks of American AAA-rated companies just got thinned by one."

— *"Sign of the times" or "who cares about ratings" department?*

"Today fads and panics seem to ripple continuously through our society, causing overreactions and stress and distracting us from the slower, more patient work of building a better world."

— *Social Physics: how good ideas spread – the lessons from a new science by Alex Pentland.*

"I really like the idea of artificial intelligence because we're so short of the real thing."

— *Charlie Munger*

"Great companies don't hire skilled people and motivate them, they hire already motivated people and inspire them."

— *Simon Sinek. We'd add "enable" to that.*

"The goal of business should not be to do business with anyone who simply wants what you have. It should be to focus on the people who believe what you believe. When we are selective about doing business only with those who believe in your WHY, trust emerges."

— *Simon Sinek.*

"The best time to plant a tree was 20 years ago. The second best time is now."

— **Anonymous. Same goes for investments.**

The following were sent to us once again by our wise and brilliant friend André Jakurski, who always feeds us with ideas and comments. Tks! Keep them coming. We're a small and close community. If you'd like to contribute with ideas, Random Bits and/or Miscellaneous, please do it.

- "An investment in knowledge pays the best interest."
— **Ben Franklin**
- "The more corrupt the state, the more numerous the laws."
— **Tacitus**
- "There is no subtler, no surer means of overturning the existing basis of society than to debauch its currency."
— **Lenin**
- "Unexpected money is a delight. The same sum is a bitterness when you expected more."
— **Mark Twain**
- "Everybody wants to live at the expense of the state. They forget that the state lives at the expense of everyone."
— **Frédéric Bastiat**

- “All governments lie, but disaster lies in wait for countries whose officials smoke the same hashish they give out.”
— **I.F. Stone**
- “A politician is a fellow who will lay down your life for his country.”
— **Texas Guinan**

PIPA PRIZE

PIPA PRIZE

PIPA INSTITUTE

With the arrival of Luiz Camillo Osorio as Curator and the total discretionary control of funds by Lucrécia and Roberto Vinhaes granted by the restructuring process at IP group, we're currently reviewing the PIPA Institute's strategic plan.

It goes without saying that the PIPA Art Prize, now in its seventh edition, continues to be our number one priority. Just as we proceed when it comes to financial investments, we read, listen, think and discuss a lot in order to end up choosing to do very little. Hopefully the best possible, given our limited resources of time and money.

In that regard, it is nice to have a very clear WHY we do all that.

The first one is that we LOVE art. It really helps us to think, reflect, meet new interesting people and ideas.

The second is that we think despite the disaster Brazil is as a nation, or maybe in some cases because of that, there are many interesting artists working there in very adverse conditions. Unlike other critical parts of Brazilian society, it's a segment we think we can make a sizable difference to with our scarce resources.

One key idea is to increase our support to PIPA Prize participants, in different ways such as "earmarking" an annual budget for ramping up the creation of

a collection of contemporary Brazilian Art for the PIPA Institute (exclusively with PIPA participating artists), either through commissioning and/or buying artworks, documents and studies and acting as business developers for them in London, where interest in pre-selected Brazilian artists is high.

At the end of the day, the mission is to help the careers of PIPA Artists, defined as all those who have ever participated in the Prize. And there are already more than 300...

PIPA PRIZE 2016 – YEAR 7

This is a time of the year when the PIPA Prize team has a lot of work to do.

After releasing the nominees' list, last February, our team had to create and update profile pages for the participating artists, and also organise the data for the catalogue.

As we are always trying to improve our website, we've decided to make changes and standardize all of the 335 artists' pages (in both Portuguese and English versions).

A lot of work for a small team, so we hired some trainees in Brazil, including an American on her semester abroad, as well as a Brazilian student living in the UK, to provide some extra help.

"One country many worlds"

Connections are easily made through passions in common.

When part of the PIPA Prize team moved to London, the Prize itself made the relocation easier.

We've been participating in many art-related events. As London is one of (or THE) most cosmopolitan cities (city) in the world, in these events (exhibitions, dinners, talks, workshops, private visits to artists' studios, etc) we've been meeting different people from all around the globe.

Through this network, the PIPA Prize was invited to take part in the Camden Sentido, a London-based festival, from June to October, highlighting Brazilian culture, to celebrate the Olympic Games and the São Paulo Biennale.

Luiz Camillo Osorio (Curator of the PIPA Institute, former Chief-Curator of MAM-Rio and Director of the Philosophy Department at PUC-Rio) created a curatorial theme exclusively for the event:

'Brazil – one country, many worlds'

The issue of a Brazilian identity is a very problematic one. From colonialism to postmodernism what have been Brazil's main features are its diversity and its adversity. It is a continental country mixing mega-cities such as São Paulo with a gigantic forest like the Amazon. There co-exist, in conflict and tension, many different religions, ethnicities, skin colours, cultural backgrounds.

In this critical moment, where the social, economic and political crisis has grown, it is up to artists to be the voice of resistance, bringing to the fore our diverse adversity.

For curatorial objectivity, there were selected four topics (under the main idea of one country, many worlds / diversity, adversity) with a selection of two artists in each of them: 1 - post-coloniality and altermodernity; 2 - religion and politics; 3 - tropicalism and gender; 4 - social conflict and class issues in a fractured society.

Video was the media chosen to present the art works through online screening.

Osorio selected films by ten artists from different regions of Brazil and also foreigners living in Brazil, from among those who had been nominated by a committee of art experts for the PIPA Prize, since its first edition in 2010 to its current one in 2016.

The video screening programme can be found on our website. (www.pipaprize.com)

Last but not least, we encourage you to visit and read the monthly articles written by Luiz Camillo Osorio exclusively for PIPA. They can be found at: <http://www.pipaprize.com/category/pipa-news/texts/exclusive-texts/>

PIPA 2016 FINALISTS

On June 17th we announced the four finalists of the PIPA Prize 2016. The awards which they will be running

for are: PIPA Prize 2016, in which the winning artist receives BRL 130,000 – including an artistic residency programme in New York; and PIPA Popular Vote Exhibition 2016 award, for which the winner receives BRL 24,000.

They are (in alphabetical order):

Clara Ianni, from São Paulo, whose works are characterized by a critique on contemporary society through the investigation of the relations between art, politics, history and ideology. Her work makes use of different media such as installation, intervention, sculpture and video.

Gustavo Speridião, from Rio de Janeiro, works with drawings, collages, paintings, installations and sculptures. His actions are sustained by the idea that the artistic world should imitate the human eye and he uses this technique to explore situations in daily life.

Luiza Baldan, from Rio de Janeiro, is a professor at the School of Visual Arts of Parque Lage, in Rio de Janeiro, and works with photographs and videos. The places in her works are full of memories and traces. Most of her photographs speak of absence. She was awarded, in 2010, the XI Marc Ferrez Photography/Funarte Prize.

Paulo Nazareth, from Minas Gerais, works around the world, where through long walks / performances he produces his work on social contexts and about people he meets on his path. In one of them he walked,

for nine months, about 700km, from Minas Gerais to Miami. The conclusion of this long journey has been shown through photographs, notes and drawings at the Miami Art Basel. Amongst his main exhibitions are his participation in the 55th Venice Biennale and in the 12e Biennale de Lyon, both in 2013.

PIPA Online

On July 17th the voting for the PIPA Online award starts, for which all the participating artists of PIPA Prize 2016 are invited to take part. The contest takes place on our website and has the goal of making the artists known to a wider audience. It mainly helps the nominees who live outside the big city centres. It happens in two rounds and the two most voted-for artists will be announced on August 8th. They receive BRL 10,000 and BRL 5,000 respectively.

PIPA MISCELLANEOUS

- “To be on PIPA’s platform is of great importance for us artists, as this is a space of extreme relevance for the diffusion of contemporary artistic production in our country.” – Fabio Magalhaes, Artist (February 2016)
- “I believe Prêmio PIPA – PIPA Prize project is a set of successful actions.” – Guilherme Gutman, Curator, Critic and Psychoanalyst (February 2016)
- “My almost-only condition to be part of it was that the Prize should be developed and maintained.

That it shouldn't happen only once. Thinking that it could be modified and improved over time, so to turn itself into a process of reflection about all this system and all this production." – Marcelo Matos Araújo, Secretary of Culture of São Paulo and former member of the PIPA Prize's Board (October 2010)

- "Art isn't utilitarian, and if it is, perhaps it isn't art. Art serves a non-practical role in our lives, but that does not mean that it is not vital or necessary. One's individual identity and our collective identity as a culture have no clear serviceability, but they are critical to our ability to function as a society."

The following have been extracted from one of the monthly texts written by Luiz Camillo Osorio, for PIPA's website. He discusses two recent exhibitions, where sound and visuality intercalate, Guilherme Vaz at CBBB-Rio and Cecil Taylor at Whitney Museum-NYC:

- "What the two exhibitions reveal (along with many others of sonic art that we have seen in recent decades) is how much the field of visual arts is sensorially tonified by the extra-visual, and semantically transformed by the non-specific (that which escapes the specificity of the expressive medium, but which is a constituent part of a unique way of being the art of that which is presented)."

- "In the same sense of a broad experience of art, Cecil Taylor writes, in an annotation on show at the exhibition, that music, in addition to saving his life, introduced him 'to literature, dance, architecture, people. (...) *If you make a commitment to one art, you begin to see there is no single art, and if you get into different kinds of art they nurture you. If you are fortunate, they lead to an expansion of your knowledge.*' It is this expansion that the two exhibitions explore. There is something magical there, but that is another story..."

PIPA
PRÊMIO □ PRIZE

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

