Paulo Nazareth, Untitled, 2011, photo printing, 90 x 67 cm

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RESEARCH AND ANALYSIS

RESEARCH AND ANALYSIS

MENTAL MODELS - MIND X MACHINE (CONTINUED)

As one could have told from our last report, we've been investing some time in trying to understand what the algorithm-based funds with the best track record and reputation have been up to.

The motivations are quite obvious: not only are the best of them doing quite well, growing both through performance and net investors (though many have reached their size limits already), but if they're getting it right, the ever-accelerating advances in processing, storage, connection speeds, AI and AGI work in their favor.

Naturally we didn't want to get to the party empty-handed, so we are doing quite a lot of research on AI in general. If anything, the process has been quite interesting and helped us be exposed to, understand a bit of and feel a little more able to speculate on what can be in terms of AI in the near/medium term, and its potential influences on everything, from healthcare to…whatever you want.

As always, we like to take a theory and try to identify its failures. One analogy we found particularly interesting to help us reflect on AI as it's practiced now, is to compare it to natural selection. Not only do you have a statistical approach displacing an intelligent design one. You also have a system growing through MANY iterations (as in billions of billions) and which selects

what works from what doesn't in each scenario. As we all know, a quite powerful algorithm that transformed living beings from amoebas into US!!! But what does "work" mean? We're pretty sure that dinosaurs, to stay with the most glaring and fascinating case, wouldn't agree the system worked for them.

This brings us to our key point: learning systems based on the processing of an unfathomable number of organisms leads to the famous survival of the fittest, "fittest" being the key word. If conditions change fast and drastically into an unforeseen scenario, the discontinuity feeds into the system's outcome. Meteors, or whatever the cause that brought dinosaurs to extinction, led to a huge change among winners and losers. That's our main concern with AI systems based on big-data learning, whether they are applied to investment or another activity. They tend to work until the proverbial relevant "never before" event occurs. When that comes about, anything can happen.

Going back to our research of investment management AI applications, that's been quite a challenge, not only because funds are secretive about their ways but also because their resulting model is quite different from ours. They manage extra-highly diversified portfolios (we're talking about many thousands of securities in their portfolios) mostly selected by having computers run through unfathomable realms of data, from weather forecasts to Twitter posts and obviously

company files, while we study a select group of companies. However, the key "sudden and relevant discontinuity" issue continues to lead us to question them as a long-term investment strategy. One could argue that they're diversified, have many stops, etc… But then execution and counterparty risks, to name a few, could come into play.

What we learned led us to believe that, at least for the time being, we're playing a different game on the same court.

So basically, what is our "algorithm"?

KISS! - Keep It Simple, Stupid!
To start, we strive to make it VERY simple, which is not to say it's easy.

Of the many daemon we keep running in the back of our minds, one brings us back to what Mr. Catmull[6] wrote in his book: "we'd been asking ourselves and each other: Had we, in the interest of governing production and making it efficient, created habits and rules that were unnecessary?"

Over the decades we've seen plenty of reports nobody used. In some cases the supposed internal "clients" didn't even know they existed, but they kept being produced nonetheless. Other examples were the "nice guys" that everybody kept saying were essential but nobody could define exactly what they did. That's when the zero-based process made world-famous by

InBev kicks in. Complexity creeps in. It reminds us of the famous Neil Young song: "Rust never sleeps"…

So how does it work in practice? Since the realm of possibilities is infinite, we start by establishing limits. And there are quite a few, in different dimensions. Remember: axiom number one is to avoid complexity.

In terms of portfolio management, the most important rule is that despite the continuous flow of offers, **you don't have to do (invest in) anything**.

So, in order to keep it simple we started by deciding to focus on a portfolio with no more than 20 positions, and recommend our investors use brokers and one big and ultra-safe custodian.

We like to say we play Tinder[7], running prospective companies against the following short-list of factors:

- Who is "The Boss"?
- Succession
- Culture
- Ownership
- Dilution
- 10-year cash flow and margin analysis
- Balance sheet (leverage, debt yields, covenants, defined benefit pension liabilities, leases)
- P&L (cash conversion, account criteria, working capital trends)
- Key drivers
- Key risks

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[6] Author of "Creativity, Inc."
[7] The matchmaking app where one is shown a picture of a potential partner and swipes left for disapproval and right for approval. If both parties swipe right, they're put in contact

- Competitors (overall and by segment/activity)
- Benchmarks (overall and by segment/activity)

Obviously answering some of these questions can be quite difficult, but at least one clear negative allows us to move on.

That is quite important, since we definitely have neither the inclination nor the capacity to manage lots of people. Since the beginning of our Global research effort, one of the key points has been a minimalist structure so that management consumed a very small fraction of our time and energy, allowing us to focus on what we love: investment research.

So a few rules apply to managing our research team. Again Ed Catmull's Brain Trust for managing movie-development teams is a nice analogy:

> "You're building as you're breaking down, making new pieces to work with the stuff you've just ripped apart. That's an artform in itself. I always feel the note you give should inspire the recipient - like 'How do I get that kid to want to redo his homework?' So, you've got to act like a teacher. Sometimes you talk about the problems in fifty different ways until you find one sentence that you can see makes their eyes pop, as if they're thinking 'Oh, I want to do it'",

> and

> "How could we enable the talents of these people, keep them happy, and not let the inevitable complexities that come with any collaborative endeavour undo us along the way?"

Therefore everybody is encouraged to have their opinions and take some risks with their time, but that's no Woodstock. Everybody has the right to different opinions, but at the end of the day, someone must be in charge of setting individual limits, and trying to convince by argument repetition is unacceptable. Build a decent facts-based case or die!

How we come up with possible investment ideas and how we answer some of the intangible questions above and suggest position sizing among a multi-dimensional set of variables are frequently recurring questions. They are absolutely relevant questions which eventually revert to the "Is it Art?" section of our last report.

Over the years we've always imagined and toyed with the idea of an ad-hoc collaborative network of independent, complementary and ideally aligned minds.

We can half-mockingly say that we use a combination of neural network systems, which is absolutely correct as it's the combination of our whole team's experience in research, analysis, trading and operational risks. Most Artificial Intelligence systems (AI) are called Neural networks for a reason. They emulate how our brains work. So a nice analogy would be to consider our team as a combination of specialized processors, connected by a communication protocol

developed over years of working in the same team, and that follow some ground rules (our values, culture and philosophy).

By now some of you might be rolling your eyes, but we'll push it a little further, since we consider analogies a very powerful way to frame issues. Especially one that actually is the analogy of an analogy, i.e. using artificial systems that emulate Human processes to explain Human processes.

The Exo-Team

Erdös, connectivity, "six degrees of separation", echo chambers and network attributes

One question that relates directly to the time management issue is team size. Many managers and advisors opt to grow headcount in order to face the ever-increasing supply of information to be processed. Having tried that ourselves in the past, we concluded it doesn't work for us. Information has to be processed and concatenated in the "leading heads" and percolation process is time consuming in itself, not to mention that one ends up with the task of managing people, which is a topic where we humbly admit our limitations. We'd rather be reading, listening, watching and thinking. We gladly defer the task of managing to our idols in the companies we study.

One solution we've been implementing over time, and on which one gets better as one gets older and

behaves adequately, is to process more information through networking. Let us be clear, this has to be a deliberate process. Some might call it cynical, but since there are only 24 hours in a day (approximately) and we have a clearly infinite task at hand, which we fundamentally love, most of the time we allocate to social endeavours need to be more than just fun. They should be mentally stimulating, challenging and educational. And we try to pay back in kind.

It's quite obvious that talking to experienced people who understand our visions, motivations and ideally are aligned with us is way better than hearing a twentysomething-year-old's report on sell-side conferences and investor days. At PIPA Global we try to have our small, cautiously selected by character, competence and shared values team focused on building their mental framework, tools and contacts network.

One of the consequences is that we end up with a minimalist structure, which has both a good and a "bad" side. The good is that everything tends to be within everyone's line of sight (which doesn't preclude us from clearly allocating responsibility). The "bad" is that it forces us to keep everything simple and liquid. Those are constraints we happily embrace.

So let's talk networks. Being old hands at hard sciences, we decided to remove the dust from our old books and review them with an eye toward our challenge of optimizing our exo-analysis team via better networking.

As it happens in so many cases, the fundamentals come from Paul Erdös, the XX Century Hungarian - a mathematician known to be "a machine capable of turning coffee into theorems".

(What's up with these guys? They gave us Erdös[8], and Von Neumman and Leo Szilard and Edward Teller, just to name a few).
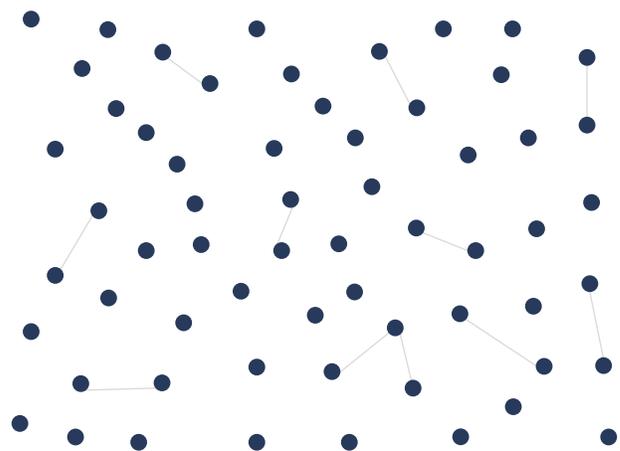
"Small world and 6 degrees of separation"

It all begins with social chatter where you meet someone and usually find out that you have friends or acquaintances in common. It seems we live in a small world. Then there were the "Six Degrees of Separation"[9] book and movie that implied that we can all reach anyone in the planet by going through six friends of friends.

The less cautious would fall for the math argument that if we each know 100 people (10ˆ2), through our friends we could reach 10,000 (10ˆ4) people, through our friends' friends 1,000,000 (10ˆ6), and next 100,000,000 (10ˆ8), one more step and there we are: 10,000,000,000 (10ˆ10). Ten billion people. In just five steps, we would have reached more than the Earth's current population. The flaw in this line of thought is pretty obvious. We're falling for the very common and expensive mistake of double-counting, for we tend to live and maintain relationships in clusters. People that live nearby, that went to the same school, work in the same company, the same building, go to the same restaurants, have the same interests, etc.
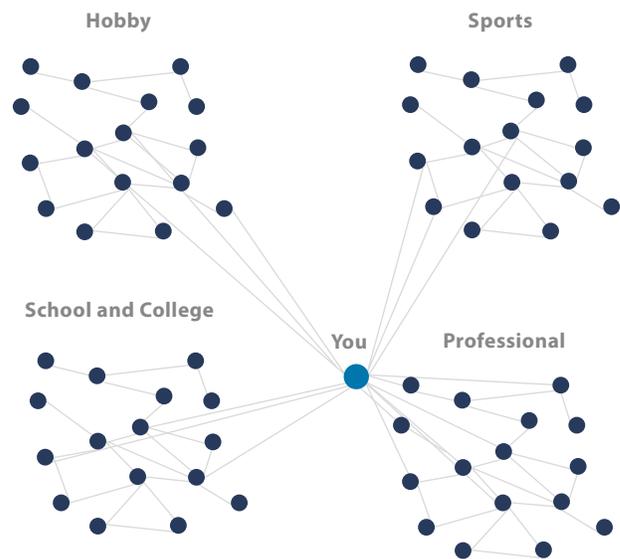
Enter graph theory, Erdös and random graphs. Suppose you have a large number of unconnected points and start to randomly connect them.
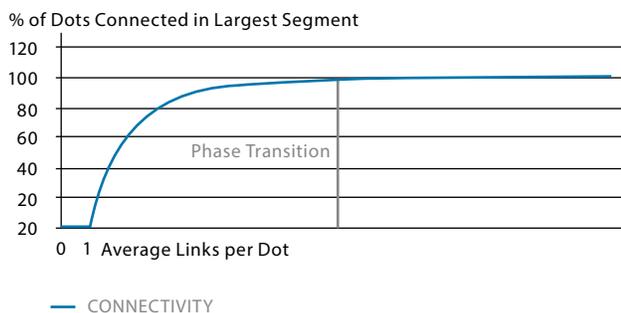
Imagine these are a bunch of young professionals as they enter their professional lives. As they gradually connect one point to another, very little happens in terms of overall connectivity, defined as the largest number of connected dots divided by the total number of dots. For a good while, adding connections randomly will only get you more pairs of connected dots.

If they persevere, however, suddenly something happens. When you reach the stage where each point (person) has on average one connection, you start to have longer strings and soon most or all of the dots are connected. That's the critical point which leads you to a "phase transition" point. Think of it as heating water. If you keep adding heat to water between 0 and 100 degrees Celsius it just gets warmer, but when it hits 100 degrees[10] it changes phase from liquid to gas and starts to evaporate.

CONNECTIVITY GRAPH

% of Dots Connected in Largest Segment

However, as we've discussed above, *our social connections are not random*. We live in clusters and that means we're in the middle of the phase transition which by itself means that by carefully adding new connections, we can greatly amplify our reach/connectivity.

On the other hand, if we don't do that and lazily stay in our cozy and comfortable group, we risk falling in what can be called echo chambers, i.e. the news/information we send and receive just keeps turning round and around in the same groups and we're led to believe that everybody has an iPhone, has been to London, New York and Paris, etc.

The critical role of connectors

Besides the randomness, we assumed that everyone has 100 friends, which is pretty obviously false. We know that some people have many friends/acquaintances while others have just a few. Soon it becomes clear that one can benefit from a deliberate multidimensional networking strategy.

One model that has always called our attention in that regard has been the movie production industry. From the "consolidated" model when Studios owned everything and kept actors and other contributors as salaried employees, it evolved into a certain "ad-hoc swarm", a highly connected network of mostly free

[10] Assuming normal pressure conditions of 1 atm.

agents. The trade-offs and executional challenges seemed clear and we had difficulty in separating signal from noise in the plentiful successful cases and extreme failures.

Ed Catmull provides insight again:

> "For example, when you're building a team for a film, if you have a team that's worked together before and it's exactly the same team, you know they know how to work with each other and that they can be very efficient. If you keep doing this, though, you're going to end up with an ingrown team.
>
> On the other hand, if you build a team with all new people, then they won't see looming hazards, and they can fall apart. So you put together a blend. The mix of new and experienced people is a conscious risk taken at the beginning—stage one. The second stage then is getting the group working as a coherent whole for the heavy-duty work at the end of a production.
>
> Without trust, creative collaboration is not possible"

Well, after all that is said and done, let's get back to the practical implications for our exo-research team strategy. In mathematical terms, **what we're striving to do is to deliberately and selectively increase our connectivity and avoid echo chambers**.

The following chart is a simplified version of what we try to accomplish. Obviously each balloon representing a cluster encompasses many people and the same person might be in different clusters.

PIPA GLOBAL INVESTMENTS TEAM
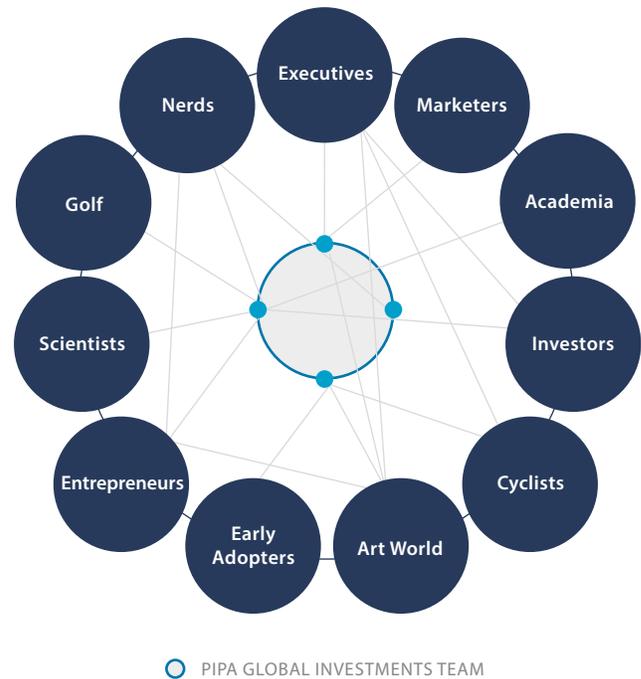
The drawback of the network above is that one gets too many triplicate or more connections.

As one gets more experienced, and if he is intellectually curious and focused on having the best use of his time, both in terms of fun and learning, the solution is to focus on nurturing high quality (and mutually interesting) contacts. One should have hyper-connected people in each cluster, and add gender, geographic and age diversification as we build our network. Our objective is to be at the smallest degree of separation (one or two) to any person of interest.

Cyclists · Management Consultants · Art lovers · Company H · Company A · Company B · Company C · Company D · PIPA · Like Minded Investors · Company E · Company F · Company G · Golf Players · Book Lovers

● HYPER-CONNECTED INDIVIDUALS
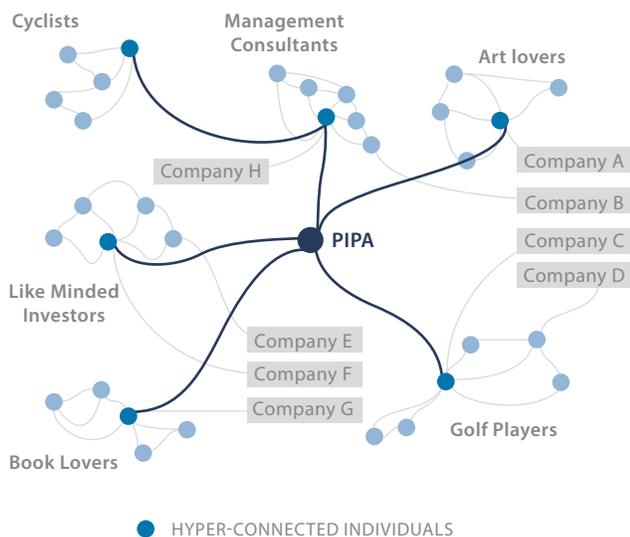
Some question us for being so open about our ideas and processes.

First we shall say that we think it fair to share this with our friends, for they are an integral part of all we do, as one can easily infer from the paragraphs above.

Secondly, something we never get tired of mentioning is that ideas are a dollar a dozen. The key differentiator is discipline and execution.

The Final Cut

All that is fun and games, but the day only has 24 hours and one can know too many people. So after all is said and done externally, we must do our final pruning. In that regard, there are a few rules we follow.

First we are adept of the divide and conquer rule. So in maintaining our network we try to keep two people

from our team connected to each outside node. This not only expands the bandwidth but also adds stability to our network.

And last but definitely not least, it must be fun and fair, meaning that we have to rely on mutually selected contacts where empathy is high, but also be at least as generous with our contacts as we'd expect them to be with us.

EVENTS - WEBSUMMIT AND MICROSOFT FUTURE DECODED

As always we have been to a few events this quarter, but two of them were particularly thought provoking.

The first was the WebSummit, an event we also attended last year and from which we left with a new - and slightly scary - perception of the speed of changes driven by technology.

This year the event departed its home city of Dublin to a new one: Lisbon. The greatest gathering of technology entrepreneurs in the world - 50,000 attendants! - again impressed by the sheer amount of innovative ideas.

The word "disrupt" has got out of flavour and is now seen as close to vintage. The new business models don't have to replace old ones - it's not "the new this" or "the new that". They exist and stand by themselves. Or at least, it's what the founders seem to believe.

The move from Dublin, an R&D center of the traditional tech companies, to Lisbon may also prove prescient. Portugal is investing heavily to become an entrepreneurial powerhouse and may well become the next Dublin - despite similar efforts by France and England who are also trying but, unlike Lisbon now and Dublin a couple decades ago, have a legacy to defend.

Obviously many of the ideas exposed there and fiercely defended by their creators will not survive the first one or two years. Nevertheless, many will. Some will be acquired, injected with professionalism (and cash) and thrive. Others, less lucky, may die a slow death if they happen to survive the first years but end up in the wrong hands. The way we look at them, besides the obvious medium/long term risks (for industries across the board), is as opportunities for some of the companies we like - specifically Amazon and increasingly Microsoft.

Amazon's ecosystem is already part of many of these new businesses. AWS is a staple for the startups. We have also seen a number of startups that are built around Amazon itself - they aim to provide merchants with better insights, competitive intelligence, inventory optimisation, access to selected suppliers, etc. Somewhat like the SEO[11] market that thrived around Google's search engine a few years ago (and still does).

Another entrepreneurial avenue that seems to be opening is around voice interfaces, represented in the most pure form by Amazon Echo (a.k.a. Alexa) and Google Home. These interactive devices have no screens, keyboards or mouses. Everything is done using only your voice, in natural language, as if you were really talking to a real person. No training or previous experience is required. A close friend of ours even developed the habit of religiously wishing Alexa good morning, to which she (it?) always responds with interesting facts about the date… but I digress.

The point is that in a little more than two years since the product was launched, initially only in the US, the progress made by the technology is remarkable. Alexa's "intelligence" is progressing fast, fuelled by a growing number of so-called skills (programs developed by third parties) and by the huge amount of real interaction data amassed from its millions of users (estimates are of some 4 million active users today and another 10 million "coming to life" in the next year). And this is just the number of Echo devices - be prepared to start finding Alexa in a number of non-Amazon gadgets.

This brings us to the next trend that gained quite a lot of visibility everywhere but particularly in these tech events: Artificial Intelligence. The term itself is quite old and John McCarthy, one of the early researches in the field, used to say that "As soon as it works, no

[11] Search Engine Optimization

one calls it AI anymore." In its current incarnation, however, AI means amassing huge quantities of data and processing it through a specific type of algorithm (deep neural networks) in order to discover and learn patterns that wouldn't be evident otherwise. AI fuels not only Alexa, Google Home and Apple's Siri but also quantitative investment models, genetics and cancer research and is being tested in numerous other processes that currently only human brains are able to execute.

In its current form, AI has a characteristic that always calls our attention when it crosses our path: network effect. Being fundamentally dependent on data and on feedback (that's how neural networks "learn"), it will likely create winner-takes-all scenarios. The best AI will provide the best results, which will attract more real life cases, which in turn will provide more feedback and amass more data, and the cycle starts again.

Maybe the fact that Alexa is amassing tons of this valuable data - and already monetizing it - explains Amazon's CTO Werner Vogels' excitement during his speech at the WebSummit. A character himself, he spent all his time on stage speaking enthusiastically about Alexa, the amazing future he sees for voice interaction and boasting about things users are creating with it. Self-fulfilling prophecy: the more Alexa's AI is used, the better it gets.

Another company that appears to be particularly well positioned to surf the AI trend is Microsoft[12]. The second most interesting event we attended recently was Microsoft's Future Decoded, here in London. Also a staple of startups at many levels, Microsoft is making huge investments in the AI field. Despite being traditionally oriented to developing and selling tools for others to explore, it seems that when it comes to AI Microsoft may be willing to verticalize, from providing the tools to offering the services themselves.

Besides offering access to its Machine Learning infrastructure to any developer, no matter how small, through its Azure cloud platform, Microsoft has been building its own capabilities in resolving real world problems. In one example, Microsoft has been working with doctors and hospitals to train neural networks that can plan radiology treatments in seconds, a task that used to take well-trained technicians hours to complete. In another recent announcement, Microsoft's claimed that its speech transcription AI-based software is now consistently more accurate than humans. It's not clear whether we'll see GE and Philips equipments being replaced by Microsoft in the hospitals (how would you feel about a "blue screen of death" on your bedside monitor?), but it's a fact that when we are talking about AI, first player advantage is exponential and Microsoft is not waiting to act.

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[12] IBM has also been making sounds in the AI field for some time, but its culture and bureaucracy don't seem to be helping. One should not discard it, as it seems destined to be confined to some specialsed segments, such as weather.

CONTENT X DISTRIBUTION

Over the quarter we've had many examples of power clashes among content providers and distributors. From Unilever x Tesco over price adjustments to Google x Axel Springer over Google showing Axel's properties results "for free". Mathias Döpfner, Axel Springer's CEO complained to the FT:

> "You will have a monopoly of content distribution that will be mainly driven by user-generated content, and by professional content by commercially interested players.
>
> You will have a total mix-up of rumours and facts — a pretty traumatic scenario of information or propaganda. It will be very painful for democracies."

A year earlier, the German government introduced a new law to force Google to pay for listing German publishers' content. It backfired spectacularly after the search engine delisted those titles demanding fees and, according to Mr. Döpfner, **led to an 85% fall in traffic for Axel Springer's titles online**.

At the end of the day, the strongest companies own most of both content and distribution, like ABI and DHR, or are moving in that direction, like Disney. Even Google, Facebook and Amazon are hybrids, at least. That's a business model feature we definitely keep an eye on.

RISKS

One of the must-read books of the season is "Homo Deus", from Yuval Noah Harari, of "Sapiens" fame. As interesting and thought provoking as "Sapiens", it also requires close attention given Mr. Harari's habit of jumping from a few loose assumptions into conclusions he then uses to build his whole case.

One thing we agree with him on is that a few years down the road we will look back and get startled by the fact that we breed and raise animals into a life of confinement, suffering and early death in order to consume them as food. If we are right, this would lead to major shifts in most of the food industry. We're not investing in Soylent yet, but if we're right, companies like Thermo Fisher could benefit, and this is a trend we keep an eye on.

Another more questionable idea he finds so relevant as to start a chapter with is:

> "Liberals uphold free markets and democratic elections because they believe that every human is a uniquely valuable individual, whose free choices are the ultimate source of authority. In the the twenty-first century three practical developments might make this belief obsolete:
>
> 1. Humans will lose their economic and military usefulness, hence the economic and political system will stop attaching much value to them.

2. The system will still find value in humans collectively, but not in unique individuals.

3. The system will still find value in some unique individuals, but these will be a new elite of upgraded superhumans rather than the mass of the population.

Sounds bad, but isn't it already like that? As we mentioned before, we see the Declaration of Human Rights as a "wish list" which is far from having any resemblance to reality. Just compare the life of a baby born into a poor family in an emerging (or worse) country with that of one born into the top 1% of any developed country. We tend to think that fairness is like the proverbial efficient market theory. It would be nice, if it was possible. The bottom line seems to be that despite all technology, we're in for a lot of turbulence.

Regulatitis

We continue to follow and try to learn the pros and cons of the mind-boggling advances in technology and regulation. Below are two examples to highlight what we mean.

The FT reported on October 28th that:

"A major cyber attack disrupted traffic to hundreds of websites including Twitter, the Financial Times, Airbnb and Spotify, disabling access for millions of users particularly on the US east and west coasts.

The total number of distributed denial of service attacks, where hackers bombard sites with traffic, has risen 129% YoY according to a report by Akamai, a cloud security company, released in September. The intensity of recent attacks has increased sharply because hackers are using 'internet of things' devices — including routers, webcams and baby monitors — to launch the attacks."

"Reckitt-Benkiser recently made a GBP 300 million provision in compensation for families whose relatives suffered fatalities or illness linked to poisonous chemicals in its humidifier sterilisers in South Korea, which have been blamed for 73 deaths."

And now from Vivek Wadhwa - MIT Technology Review

"Employers can get into legal trouble if they ask interviewees about their religion, sexual preference, or political affiliation. Yet they can use social media to filter out job applicants based on their beliefs, looks, and habits. Laws forbid lenders from discriminating on the basis of race, gender, and sexuality. Yet they can refuse to give a loan to people whose Facebook friends have bad payment histories, if their work histories on LinkedIn don't match their bios on Facebook, or if a computer algorithm judges them to be socially undesirable.

These regulatory gaps exist because laws have not kept up with advances in technology. The gaps

are getting wider as technology advances ever more rapidly. And it's not just in employment and lending—the same is happening in every domain that technology touches…

The Genetic Information Nondiscrimination Act of 2008 prohibits the use of genetic information in health insurance and employment. But it provides no protection from discrimination in long-term-care, disability, and life insurance. And it places few limits on commercial use. There are no laws to stop companies from using aggregated genomic data in the same way that lending companies and employers use social-media data, or to prevent marketers from targeting ads at people with genetic defects.

Today, technology can read-out your genome from a few stray cells in less than a day. But we have yet to come to a social consensus on how private medical data can be collected and shared. For the most part, we don't even know who owns an individual's DNA information. In the US, some states have begun passing laws to say that your DNA data is your property."

Clearly we're in the middle of a very complex process that touches upon all walks of life. In the absence/obsolescence of rules, many surprises are in store. One may ignore that at his own risk…

Exuberance

Softbank announced the conclusion, ahead of schedule, of the process of raising a USD 100 billion fund to invest in technology. When you top this off with MSFT's nearly USD 25 billion YEARLY free cash flow and FB's and GOOG's "free equity printing[13]", to name a few, it seems we can draw three basic conclusions:

1. It won't be for lack of capital that Tech won't continue to accelerate,

2. That's almost a "put" written to anyone with two neurons doing something in the sector, and

3. Let's not forget that capital oversupply goes hand-in-hand with lower future returns. If History is any guide, the main beneficiaries will likely be users (individuals and corporations), entrepreneurs and early investors that manage to cash out on these guys.

PERSPECTIVES

Accepting the risk of falling into a much repeated line, we think it's important to introduce our reasoning. Suppose someone came up with the predictions that in 2016, we would have Brexit and Trump. And to top it off, that both the FTSE and S&P would close 13.9% and 8.5% higher, respectively. Our point is that short term predictions aren't something profitable as an investment strategy[14]. In order to succeed, we believe that it's fundamental to acknowledge this assumption.

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[13] Both companies are controlled by founders via super-voting shares and have non-voting shares listed.
[14] Exceptions made to the cases that confirm the rule… for a while (as in remember Madoff)

In the Risks section above and in previous reports, we highlighted a few examples of what can go wrong. What is going to be the proverbial straw that will break the camel's back? And more importantly, when will it happen. Obviously nobody knows for sure. So the best we think we can do is look at valuations and keep in mind that markets are cyclical. Experience has led us to believe that it's better for one to wait for an opportunity that clears most of our hurdles than to lower them.

Obviously there are many things that could be highlighted on the plus side. By definition, all reading this report have survived. Also, Mrs. Hillary wasn't elected to the presidency of the US (Ha!).

Furthermore, this semester marked the definition of standards for 5G technology. Despite the traditional over-hype by one side and the "people don't need it" and "who will pay for it" arguments on the other, we have few doubts it will lead to many positive surprises, besides driverless cars and IoT. In the biotech area, low and behold some things in the stem cell, cancer and many other diseases' treatment research continue to make huge inroads. And that's not to mention the new unfathomable things that some guys are concocting in a proverbial garage.

When and where the money will be made is the question that interests us the most. Besides the off the scope new companies, once again Amazon, with its openness to new services and insurmountable execution capacity remains our favorite company, although not necessarily with the stock at current prices.

We shall finish by reminding our readers that this letter was only possible due to the countless contributions by many of our friends, and also that all we mentioned above leads to the fact that returns for those who follow a strategy like the one we preach will be unevenly distributed over time. We would rather see a decent but uneven long-term return rather than a smooth and mediocre one (or worse). As always, let's hope for the best but be prepared for the worst.

Happy 2017!

RANDOM BITS

- Just as we were finishing this Report, Amazon disclosed a few data points:

    - Orders for Amazon's Echo -- the company's flagship USD 180 smart speaker -- are still backed up significantly. At the time we were writing this, the company's website says the black Echo won't be in stock until Jan. 26 and its white Echo won't be available until Jan. 20.

    - Over a billion Prime and "Fulfillment by Amazon" items were shipped globally during the holiday season.

    - Over 72% of Amazon customers shopped on a mobile device.

    - On Cyber Monday, Amazon's customers purchased an average of 46 electronics items per second, up from 33 per second on last year's Cyber Monday.

- Those go on top of:

    - 94% of consumers plan to shop on Amazon over the holidays.
    — Bloomreach "State of Amazon 2016", September 2016

    - 22% of shoppers **do not plan to shop in-store at all** this holiday season.
    — Rubicon Project "Millions of Consumers Have Already Begun Holiday Shopping", September 2016

- Now we got why Bezos is investing in rockets (via Blue Origin). Conquering the Earth is a foregone fact (Ha!).

- What can we expect from 5G wireless:

Downloading a HD movie over **3G**: 9 minutes 31 seconds

0%   50%   100%

Downloading a HD movie over **4G**: 31 seconds

0%   50%   100%

Downloading a HD movie over **5G**:

0%   50%   100%
At 7.5Gbps, it takes around 1 second

FT graphic Alan Smith Source: FT research   FT
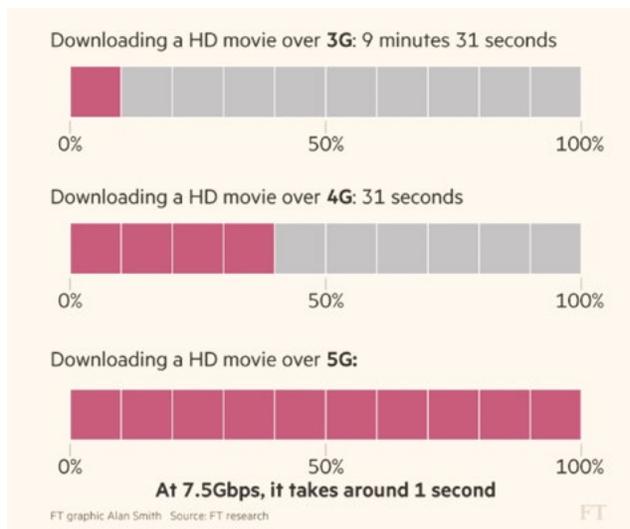
- "According to an ALM Intelligence research based on information about actual fees paid by a sample of banks which is then used to model fees for the global industry… retail banks across the globe spent USD 200 billion on consultancy fees in the aftermath of the financial crisis…The surge in consultancy spending from the almost USD 17 billion ALM recorded in 2008 to the USD 30 billion they will spend this year…Fees paid for capital markets and other investment banking activities are not covered by the research and would add tens of billions of dollars to the global tally."

  — FT - The industry is facing all kinds of problems and every day brings a new fintech entrant. Will the incumbents hold or are we on the brink of a major industry redesign?

- "Evolution is an algorithm, paraphrasing Charles Babbage, the Victorian-era computer pioneer, God created not species but the algorithm for creating species… Evolution is the ultimate example of how much a simple learning algorithm can achieve given enough data. Its input is the experience and fate of all living creatures that ever existed."

  — Pedro Domingos

- 120 million Chinese travellers went abroad in 2015 and that's growing at 18% a year.

  — FT

- "Australians lose an average of USD 1,130 per person each year gambling."

  — FT

- Like all other good ideas, indexation can be overdone, as one can see from the following chart and data from the ETF industry segment.

BERNSTEIN

EXHIBIT 5: **The proliferation of indices**
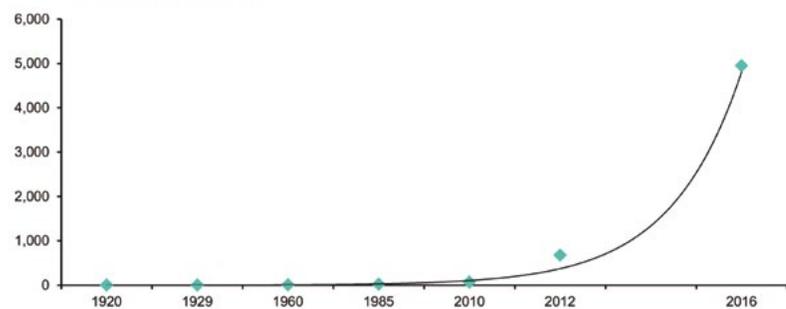
Note: The first five datapoints are based on Wurgler (2011) "On the Economic Consequences of Index-Linked Investing."
The last two datapoints refer to the cumulative number of factor indices (4,274 from ERI Scientific Beta (http://www.scientificbeta.com/#/concept/home-analytics-intro) and 673 ETF's identified by Morningstar (http://www.ft.com/cms/s/0/a5309ec0-43dd-11e4-8abd-00144feabdc0.html#axzz4Ek414pmW). We have fitted an exponential curve though we have left the scale on the x-axis non-linear on purpose as the recent rate of index creation exceeds that fitted by an exponential curve.

Source: Wurgler (2011), *Financial Times*, and ERI Scientific Beta, and Bernstein analysis.

- This year the US industry has shut down a record 108 ETFs of some kind, taking the total toll since 1993 to 568 vehicles, according to Morningstar. The following table shows the ETF survival statistics:

US EXCHANGE TRADED PRODUCT SURVIVAL STATISTICS SINCE 1993

	All ETFs
Number launched	2,526%
Number liquidated or merged	568
Liquidation/merger rate	22%
Survival Rate	78%
Median age at liquidation/merger (years)	3
Median fee of liquidation/merged ETFs	0.65%

— Morningstar Direct

- Resisting the Lure of Short-Termism by Daniel McGinn[15] - Harvard Business Review:

  - "In 2015 turnover among global CEOs reached a record rate of nearly 17%... On average, the world's 100 best CEOs have been on the job for 17 years—and have generated a 2,091% overall return on their stock (adjusted for exchange-rate effects), or a 20.2% annual return."

  - 30 CEOs have made the list for three years in a row. 16 lead companies based outside their countries of birth. 84 are insiders. 24 have an MBA. 24 have an engineering degree. On average, they became CEO at age 44 and have been in office 17 years.

- Simon Kuper's speculations on the impact of driverless cars:

  - The annual death toll on the world's roads is about 1.2 million a year, or double the toll from armed conflict and homicides combined.

  - The old, the disabled and teenagers will suddenly gain mobility.

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[15] This year we have again done some fine-tuning. In 2015 we began utilizing ratings of companies' environmental, social, and governance (ESG) performance as a variable. (Prior to that, our ranking was based purely on financial returns; by that measure Jeff Bezos of Amazon has led the pack for three years running.) One persistent criticism of ESG data is that it can be subjective, and indeed, when you examine how various research organizations rank the same firm using ESG criteria, you'll often find significant differences.

- Congestion will diminish, as driverless cars can drive in dense packs, won't get lost and won't have to circle around looking for parking.
- Governments and cities, too, will lose revenues from parking, speeding fines and petrol taxes.
- Instead of taxi drivers setting Uber cars on fire, we could see taxi and Uber drivers get together to set driverless cars on fire.

- FT Big Read, October 24th:
- The hollowing out of the public markets has reduced US listed companies from more than 8,000 in 1996 to about 4,300 today.
- There have been only 14 tech initial public offerings this year compared with 371 in 1999 at the height of the bubble, and an annual average of 49 since 1980. The reason is simple: world changers like Uber and Airbnb — so-called unicorns valued at more than USD 1 billion — have elected to stay private.

MISCELLANEOUS

- "In the end, it is always our relationships with other people that make our lives worth living."
  — *Wilhelm von Humboldt - via our friend Alexandre Delgado*

- "Anyone who stops learning is old, whether at twenty or eighty, anyone who keeps learning stays young. The greatest thing in life is to keep your mind young."
  — *Henry Ford*

- "It's utterly false and cruelly arbitrary to put all the play and learning into childhood, all the work into the middle age, and all the regrets into old age."
  — *Margaret Mead*

- "Picasso is sitting in the park, sketching. A woman walks by, recognizes him, runs up to him and pleads with him to draw her portrait. He's in a good mood, so he agrees and starts sketching. A few minutes later, he hands her the portrait. The lady is ecstatic, she gushes about how wonderfully it captures the very essence of her character, what beautiful, beautiful work it is, and asks how much she owes him. "USD 5,000, madam," says Picasso. The lady is taken aback, outraged, and asks how that's even possible given it only took him 5 minutes. Picasso looks up and, without missing a beat, says: "No, madam, it took me my whole life.""

- "Conversation enriches the understanding, but solitude is the school of genius."
  — *Edward Gibbon*

- There are now more indices than there are large-cap stocks.
  — *Sanford Bernstein Research*

- Updating imagery shown to the eyes with a delay of less than 10 milliseconds relative to head movements generates a magical sense of being "present" in a virtual space. My own experiments have shown that a second kind of presence—the feeling of really being face-to-face with another person—requires an end-to-end delay (including hardware, software, and network transmission) of around 100 milliseconds or less between your movement and their perception of that movement.

  — MIT Tech Review - Vol 117 / n°.4

- This quarter we had the opportunity to visit Chatsworth, in Yorkshire (UK). Besides the spectacular garden, the "Home exhibition" displays many memorabilia from the family, stories from Grand Tours. One of the things that really caught our attention was a passport from one of the family ascendants. Despite the fact that most travels were done by boat, carriages and train, the passport from the XIX century was very similar to the ones we have today, when we travel mostly by plane.

- "It is possible that we are burdening the boards with so many different tasks that the main task and focus of the board, which is to create long term profitable companies, will be inundated by all other types of issues?"

  — Yngve Slyngstad, chief executive of the manager of the Norwegian fund.

- "Remember, it's the quality of your ideas not the quantity that will result in the big money."

  — Joel Greenblat

- One of the best rules anybody can learn about investing is to do nothing, absolutely nothing, unless there is something to do."
  — *Jim Rogers*

- Under the title "Man v machine: 'Gut feelings' key to financial trading success", FT published an article that continues the discussion we mentioned in the "Is it Art" chapter of our last report (3Q16). Below are some highlights:

  "Sensitivity to 'gut feelings'" is a strong predictor of success in financial trading, according to research led by Cambridge University.The study of 18 hedge fund traders found those with greater "interoception", which is the ability to sense the state of their body, made more money and survived for longer in hectic financial markets. Results are published in the journal Scientific Reports.

  If we focus on conscious mind and model it as a piece of software we will conclude that humans are doomed...But if we recognise that body and brain act as a single functioning unit, that they form a parabolic reflector collecting signals inaccessible to the conscious mind, then we will also recognise how exquisitely we are constructed for rapid pattern recognition. Humans can indeed compete against the machines."

- Some excerpts from Seth Klarman's 2008 annual letter, where he describes some lessons from the financial crisis which, he says, "were either never learned or else were immediately forgotten by most market participants."

"One might have expected that the near-death experience of most investors in 2008 would generate valuable lessons for the future. We all know about the "depression mentality" of our parents and grandparents who lived through the Great Depression.

Risk is not inherent in an investment; it is always relative to the price paid. Uncertainty is not the same as risk. Indeed, when great uncertainty – such as in the fall of 2008 – drives securities prices to especially low levels, they often become less risky investments."

"Give a man a gun and he can rob a bank, but give a man a bank, and he can rob the world." - Reflects the spirit of the last few years.

An interesting article by Raoula Khalaf in the FT after the "if you believe you're a citizen of the world, you're a citizen of nowhere" Theresa May comment.

"I had no idea until then that the concept of a global citizen — which probably applies to me, a Lebanese-born, French-educated journalist who has lived and worked in the US, the Middle East and Britain — bothered anyone, let alone a Prime Minister.

Before I became a UK citizen more than a decade ago, I was also a "foreign worker" — which, by today's rhetoric, would indicate that I had done harm to my British hosts by taking someone's job.

Luckily, back then, globalisation and multiculturalism still had a good name so Britain was glad to welcome me.

Describing oneself as a global citizen used to reflect, most of the time, a sense of belonging to the wider, interconnected world — and, perhaps, also a commitment to shared concerns such as human rights and global warming.

It's not just immigrants or those with more than one nationality who could be alienated. Young people attached to the EU and glad to be called global citizens do not feel any less British than their parents. In a digital age, they feel part of a community that transcends borders.

A few months ago, a poll for the BBC World Service by GlobeScan, a consultancy, found that for the first time in 15 years of tracking, more people around the world saw themselves as global citizens than citizens of their own country."

Whenever political rhetoric gets in the way of rational trends, the whole world takes a hit, socially and economically. When it comes from a British PM… well let's just hope it was a minor slip.
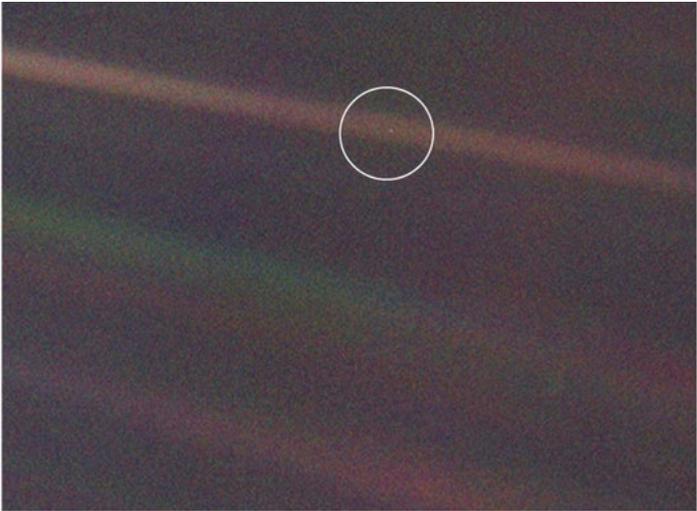
- "Maturity is the realization that adults do not know what they are doing. Grown-ups are not omniscient, just fallible humans trying their best in a difficult world."
  — Janan Ganesh

On that note, we find it appropriate to finish this year-end report with the famous "Pale Blue Dot" text, by Carl Sagan:

Image Credit: NASA

"Look again at that dot. That's here. That's home. That's us. On it everyone you love, everyone you know, everyone you ever heard of, every human being who ever was, lived out their lives. The aggregate of our joy and suffering, thousands of confident religions, ideologies, and economic doctrines, every hunter and forager, every hero and coward, every creator and destroyer of civilization, every king and peasant, every young couple in love, every mother and father, hopeful child, inventor and explorer, every teacher of morals, every corrupt politician, every "superstar," every "supreme leader," every saint and sinner in the history of our species lived there - on a mote of dust suspended in a sunbeam.

The Earth is a very small stage in a vast cosmic arena. Think of the endless cruelties visited by the inhabitants of one corner of this pixel on the scarcely distinguishable inhabitants of some other corner, how frequent their misunderstandings, how eager they are to kill one another, how fervent their hatreds. Think of the rivers of blood spilled by all those generals and emperors so that, in glory and triumph, they could become the momentary masters of a fraction of a dot.

Our posturings, our imagined self-importance, the delusion that we have some privileged position in the Universe, are challenged by this point of pale light. Our planet is a lonely speck in the great enveloping cosmic dark. In our obscurity, in all this vastness, there is no hint that help will come from elsewhere to save us from ourselves.

The Earth is the only world known so far to harbor life. There is nowhere else, at least in the near future, to which our species could migrate. Visit, yes. Settle, not yet. Like it or not, for the moment the Earth is where we make our stand.

It has been said that astronomy is a humbling and character-building experience. There is perhaps no better demonstration of the folly of human conceits than this distant image of our tiny world. To me, it underscores our responsibility to deal more kindly with one another, and to preserve and cherish the pale blue dot, the only home we've ever known."

PIPA PRIZE
PIPA INSTITUTE

PIPA PRIZE

WHY ART?

In reviewing the PIPA Institute's by-laws we started, as always, looking at what people wiser and smarter than us have done. Thankfully, many friends were kind enough to share with us their thoughts and experiences.

Our objective is to build a world-class organization, contributing to raise the bar, knowing it will motivate our friends.

In the process, as we went through many different organizations we were forced to confront the mission statement again, and re-evaluate why do we opt to focus on ART.

First there's our strong belief that one can only aspire to do something relevant in the long term with Passion. And we're certainly passionate about Art, for all the free space for thought it provides and the brilliant and interesting people it tends to put together. In an age when we talk so much about disruption and the need for meaning, new social pacts, etc., Art certainly seems to be part of the way to a better world.

Secondly, not only are we fond of Focus, but cognizant of our own limits as well, obsessive about maximizing the net results of our efforts. So we also considered what we could add to the party in Education or Health Care, for instance, when compared with what Mssrs. Jorge Paulo Lemann and Bill Gates, to name just the most glaring examples, are doing? Art, Brazilian art

in particular, is quite an underdog, but we believe it's sufficiently important to deserve all help we can gather.

At the end of the day, the shortest suitable answer, as is frequently the case, is the one we once saw on a bumper sticker (ah… the power constraints…):

"Because the eARTh without ART is just EH..."

PIPA Prize 2016

There is no doubt 2016 has been one of the most turbulent and unstable political years of our time. A year of Brexit, the rise of Trump, Ms. Rousseff's impeachment and a "net new high" in bribery and corruption in Brazil.

Contemporary art, as a means and form of expression, undeniably manifests itself as a reflection of the current situation of our times. The political momentum was directly inscribed at finalists exhibition at MAM-Rio during the seventh edition of the Prize, which took place from September 3rd until November 13th. The four shortlisted artists, **Clara Ianni**, **Gustavo Speridião**, **Luiza Baldan** and **Paulo Nazareth**, all presented political works, through different poetics and themes.

PIPA Prize continues fulfilling its original mission: stimulating and giving visibility to the domestic production of Brazilian contemporary art by presenting an annual exhibition at the Museum of Modern Art of Rio de Janeiro. Each finalist donates a

work to the Museum and the winners also donate one to PIPA Institute. Since PIPA's first edition in 2010, more than 30 works by the leading Brazilian contemporary artists have been donated to the permanent collection of the Museum and more than 20 to PIPA Institute's collection (more on PIPA Institute's collection below).

PIPA Prize and PIPA Popular Vote Exhibition

"The main prize hopes to highlight and qualify artists whose national and international circulation is somehow consistent, as well as showcasing these artworks in one of the most prestigious art institutions in the country, the Museum of Modern Art of Rio de Janeiro" – **Luiz Camillo Osorio, curator of PIPA Institute**

The winner of both main categories of the prize was Paulo Nazareth. He was chosen by the 2016 Award Jury (composed by Fernando Cocchiarale, Marisa Flórido, Júlia Rebouças, Milton Machado and Luiz Camillo Osorio) and will benefit from a three month residency programme at Residency Unlimited in New York plus a financial donation totaling about BRL 130,000, on top of extra pages and highlights in PIPA's yearly printed catalogue and online presence (www.pipaprize.com). Nazareth was also chosen PIPA Popular Vote winner by the MAM-Rio Finalists Exhibition visitors, receiving an additional donation of BRL 24,000.

Over his entire trajectory, he has collected paradoxically iconoclastic iconographic readings of objects, places, alleged discourses and socio-cultural customs, executing in all his work a picturesque narrative that goes beyond ordinary techniques.

Born in 1977 in the city of Governador Valadares, Minas Gerais, Paulo Nazareth carries with him the baggage of a wanderer, having traveled long distances, from the village of Caiová to New York, from Miami to Mumbai, among several curious destinations. Of these experiences, one might conclude that Nazareth's narrative signals have been lost, but no, the artist succeeds in combining different references to foster a pluralist relationship between Brazil's aesthetic historiography and mankind's path stretching back to its origins.

The artist exhibited at MAM-Rio, the series "Produtos de Genocídio"/"Products of Genocide" (2015-2016), which gathers screen prints, an installation composed of "ready-made" objects and a video. The series reflects on the extermination of indigenous populations and the appropriation of culture as consumer goods. They make us reflect on the logic of the appropriation of capital, on an identity and culture that don't belong to us.

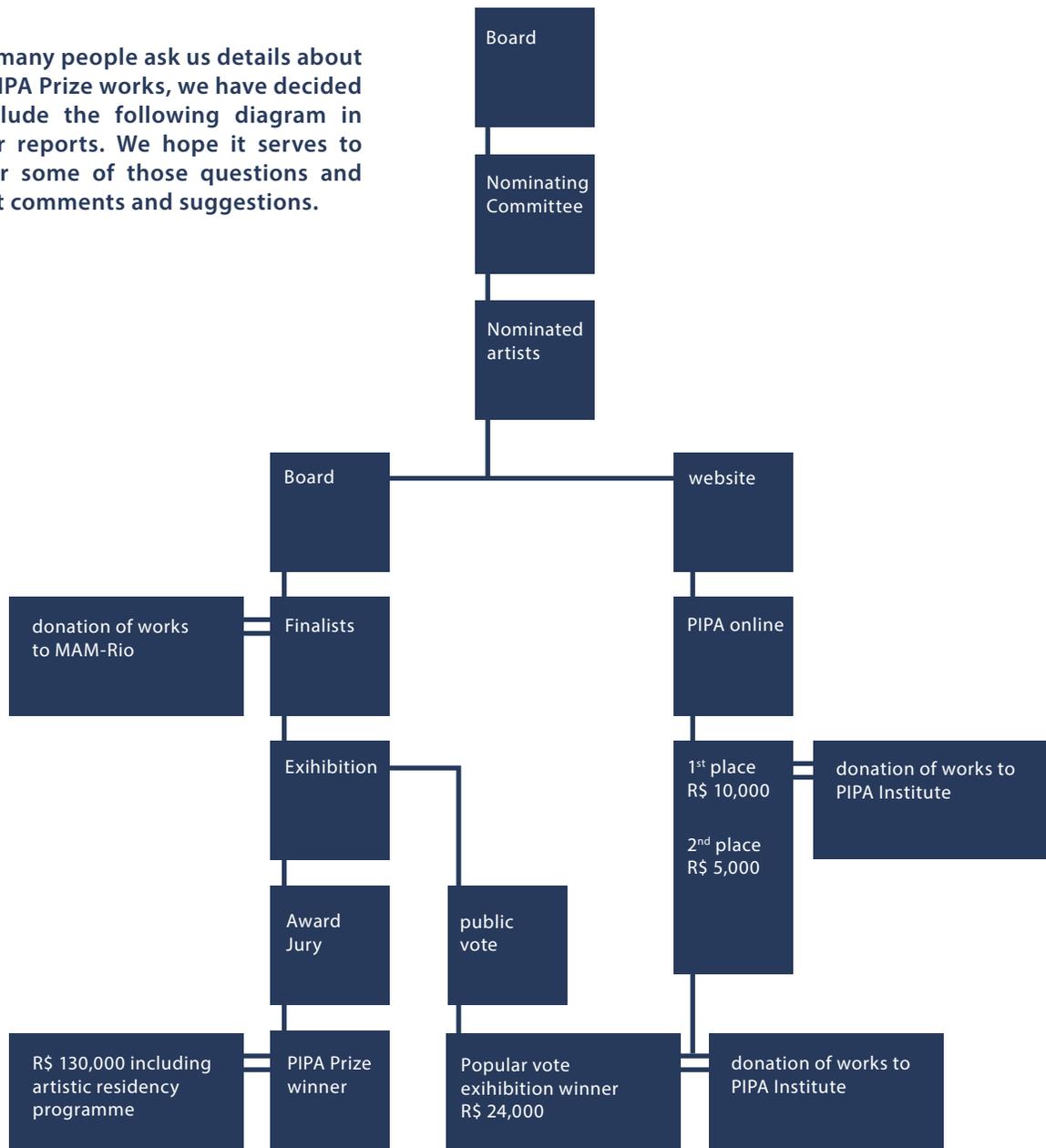More details on his work can be found at: www.pipaprize.com/pag/paulo-nazareth

PIPA Online

"PIPA Online aims primarily to give visibility and promotion to artists whose institutional presence isn't quite preeminent yet." – **Luiz Camillo Osorio**

Nazareth wasn't the only artist whose works dealt with the Indigenous as a thematic in 2016. Amongst the 71 nominees, three indigenous artists, from different regions of the country, were nominated to participate in the Prize for the first time ever. Jaider Esbell, a Makushi, from Amazonia and Arissana Pataxó, from the Pataxó ethnicity, in Bahia, were the most voted artists on PIPA Online, the online category of the Prize. Thus, the category continues to fulfill its mission of presenting to the public, artists from the most diverse regions and cultures of our country.

Since many people ask us details about how PIPA Prize works, we have decided to include the following diagram in all our reports. We hope it serves to answer some of those questions and attract comments and suggestions.

Board

Nominating Committee

Nominated artists

Board

website

donation of works to MAM-Rio

Finalists

PIPA online

Exihibition

1st place R$ 10,000

2nd place R$ 5,000

donation of works to PIPA Institute

Award Jury

public vote

R$ 130,000 including artistic residency programme

PIPA Prize winner

Popular vote exihibition winner R$ 24,000

donation of works to PIPA Institute

Statistics

The 2016 Nominating Committee was composed by 30 art professionals in Brazilian contemporary art, amongst critics, curators, collectors, gallerists, artists and researchers from all over the country and abroad. Nominated by them, 71 artists participated in the seventh edition of the Prize, out of which 45, or almost 60% of them, for the first time. Most artists were 31 to 40 years-old, and most were born in South East of Brazil, although an expressive number were born (14%) or reside (10%) abroad.

Website and catalogue

"The up-to-date diffusion of the Brazilian contemporary production promoted by PIPA—by means of a printed catalogue, focused on registering the production of the participants; and of a bilingual website with international coverage—allows a free access to these publications and to the permanent and updated information on around 300 artists who have taken part in the history of this project." – Fernando Cocchiarale, Visual Arts Curator of Museum of Modern Art of Rio de Janeiro (MAM-Rio)

The 2016 catalogue contains 212 pages which, in both Portuguese and English, explain the dynamics of the Prize, presenting each of the seventh edition's 71 nominees, including photographs of their works, and discuss and showcase the work of the four 2016 finalists, Clara Ianni, Gustavo Speridião, Luiza Baldan and Paulo Nazareth. You can also find critical texts, an evaluation of the educational activities held at PIPA Prize Exhibition 2015 and also the works donated by the artists to the Museum and the Institute by 2015 finalists.

We have sent catalogues to all of our mailing. If by any chance you haven't received a copy, please do not hesitate to contact us at premiopipa@premiopipa.com You can also request copies of the catalogue from previous editions. PIPA Prize catalogues can also be downloaded in PDF format directly at www.pipaprize.com.

The website continues on its mission of being "The window into Brazilian contemporary art," by constantly updating the profile pages of the 335 nominated artists from 2010 to 2016, and presenting a daily agenda of cultural events in Brazil and abroad.

This year we introduced a monthly column with critical texts and interviews with the finalists written by Luiz Camillo Osorio. We also published two texts kindly sent by the 2016 Nominating Committee member Guilherme Gutman. Gutman is an art critic and curator, psychiatrist, psychoanalyst, professor at PUC-Rio and at the Visual Arts School of Parque Lage.

In one of these texts Gutman reflects and comments on PIPA Prize, based on an article titled "Digital Archive – Wikipedia of Art - Created in 2010, PIPA Prize will transform its website into a database of artists of

the new generation," published in the newspaper O Globo on February 2016. In the article the journalist Nani Rubin interviews Luiz Camillo Osorio, as he was announced curator of PIPA Institute, about new project developments for the Institute and the Prize. In the interview Camillo asserts: "We want to qualify the site as a platform for consultation and research on the recent art in Brazil."

Read below a translated version of the original text written in April 2016.

Guilherme Gutman writes critical reflection about PIPA Prize

I would like to make a few observations on the article, written by Nani Rubin published on the (Brazilian) newspaper – O Globo, including a testimony by Luiz Camillo Osorio:

I believe Prêmio PIPA – PIPA Prize project is a set of successful actions. From all, I highlight two:

1. The plurality of the nominating committee

2. The fact that the long list of participating artists (seven editions up until now) configures it as a research platform – which is mandatory abroad but also has a greater growing relevance here (in Brazil) – to a consistent selection and representative group who still have substantive work and a more or less recent trajectory, and still deserves a valuable recognition for the serious and careful work of PIPA team, in direction towards a more consolidated position.

It seems to me that both items deserve more deep and long discussions, but I would like, at least, to briefly articulate these. There are representatives of all the "characters'' of the artistic scene in the nominating committee: curators, critics and professors, gallerists, collectors and, of course, artists (adding to the fact that there are participants of all regions of the country).

It seems to me that this selection model is an anti-hypocrite decision, since, in fact, all these figures are articulated and seem to move trajectories in a time in which one can not "ask" a single place or character, what are the most interesting productions, powerful and provocative at this particular point in time, that is what we live now.

Of course, there are artists and nominators who have not been appointed or invited yet; but one can imagine that in the following years the next editions will keep expanding and this circle will become increasingly broad and plural.

This brings us to the second item; it leads to a kind of relief, just the fact that a platform like PIPA, is not drawn by one or two, but for something that resembles an electoral process that results in this "expanding pool" of new works and emerging contemporary artists.

One should not be fooled, what is in fact an "electoral process?" It the best of cases – and this is the case of PIPA, I can securely afirm – is the expression of divergences, of conflicting positions, of interests which do not touch and for last, different perspectives on a complex object.

Ensuring the presence and representativity of all elements constituting what Roland Barthes could have called System of Art, the Prize and the Platform achieve what all contests should achieve: the precision of an imprecise moment, the instantaneous in a present of a Polaroid which, not long ago or a bit further ahead, would already be another one.

Recognition in the arts world

*"Created in 2010 and curated by Luiz Camillo Osorio, the PIPA Prize has become a thermometer of the recent production in contemporary art. With the partnership of MAM-Rio where the works are exhibited, the award created an actual database of Brazilian art, with videos, photos, interviews and essays" - **O Globo - 29 Nov.16***

PIPA Prize was nominated in 2016 for O Globo newspaper's Prêmio Faz Diferença 2016 [Making a Difference Award], a leading Brazilian award. Created by O Globo in partnership with the Rio de Janeiro State Industry Federation (FIRJAN), it acknowledges the work and talent of Brazilians who made history in their areas of activity. It is an honour for PIPA Prize to be nominated along with the art collector José Olympio da Veiga Pereira and the artist and poet Wlademir Dias-Pinto, for the award's Visual Arts category.

PIPA INSTITUTE

"The new PIPA Institute strategies for this year, as an unfolding of the success of PIPA Prize in these last 7 years, hopes to potentialize new ways of fomenting

*and promoting the artistic production of those who are somehow linked to PIPA, which accounts for over330 artists from all over the country." – **Luiz Camillo Osorio***

Many relevant events took place in 2016. This is also true when it comes to the year at PIPA Institute, which sponsors and coordinates PIPA Prize, that implemented a number of new strategies, initiatives and projects in these past months. Here, we remember some of the main highlights of the Institute this year.

The "curator" position, until then non-existent in the Institute, was created so that Osorio could guide PIPA Institute in its efforts to start a proper PIPA art collection, composed by former PIPA Prize nominees' artworks, as well as strengthening PIPA Prize websites' as a research platform for Brazilian contemporary art. Osorio also started to write a monthly column on the website.

*"I will write a monthly article on the contemporary Brazilian and international art scene in addition to producing critical texts and relevant material for the website, which will also be featured in the newsletter. Having in foresight the internationalization of the art system and PIPA's partnerships abroad, all of our material is already published in both Portuguese and English." - **Luiz Camillo Osorio.***

Read Camillo's texts, including interviews at:

http://www.pipaprize.com/category/pipa-news/texts/exclusive-texts/critical-texts-by-camillo/

PIPA Institute collection

Over the last 7 years, PIPA Institute has reunited artworks by over 20 artists in its collection, since the winners of each of the three categories of the Prize (PIPA, PIPA Popular Vote and PIPA Online) each donate an artwork to the Institute.

"Another important objective is to constitute an art collection for PIPA Institute, acquiring works by the nominated artists (initially focusing on the finalists) and trying to create significant assemblages that would shape the development of individual poetics. Eventually, in accordance to each case, we can comission original projects, pertaining to the interest of the artist, which would directly be included in the collection upon its completion. The idea is to encourage artists who have been part of PIPA to maintain a relationship, through the website and the collection." - Luiz Camillo Osorio.

To start the collection Osorio has established a theme: "Displacement."

Following this direction the Institute has recently acquired the work by 2016 finalist Luiza Baldan shown at PIPA Prize 2016 Finalists Exhibition at MAM-Rio. The video installation "Perabé" (2014-2015), in which the artist presents a narrative account of her relationships with the cities she has lived in. "São Paulo was the first city where I lived that is not on the coast. I realized how much I miss the sea in my relationship with the city." The installation is constituted by a collection of photographs and a text written by the artist, read in four different voices through four separate sound channels, adding an immersive quality to the work.

We are also commissioning a project by the 2016 nominee Daniel Beerstecher, who has donated to the Institute the video "Mas Continua a vida…." ["Life goes on…] , 2014, 4'55." The video explores the exuberance of tropical nature set against the backdrop of German narration of the massacre suffered by Brazil in the 2014 World Cup. The megalomaniac dream of the 'country of football', whose ambition to host the World Cup and Olympics through unedifying political deals, ended up producing an economic and political crisis whose most tragic consequence was the tsunami of mud from the burst steelworks dam that engulfed many small towns in the Brazilian southeast, killing people, animals, forests and rivers en route to the Atlantic Ocean. The "tragedy" of the Maracanã that we hear in this narration in the video, in an unpolluted landscape, hinted indirectly at the tragedy of Mariana: the artist continues to be an antenna that metaphorically captures what is to come.

You can watch the video "Mas Continua a vida…." ["Life goes on…"] , 2014, 4'55" at:

http://www.pipaprize.com/2016/06/pipa-camden-sentido-luiza-baldan-daniel-beerstecher/

A STEP TOWARDS INTERNATIONALIZATION

Another step towards PIPA Institute's internationalization was taken when, in the second

semester of 2014, part of its team was transferred to London. Since then, many new contacts with the international art circuit have been established. The result of such efforts have just started to reaped, such as the PIPA Prize name gaining recognition worldwide.

In 2016, PIPA Prize participated in Camden Sentido, an annual arts programme hosted by the Borough of Camden (London, UK). Themed "all things Brazil" in honour of the 2016 Olympics in Rio de Janeiro and the São Paulo Art Biennale, the programme joined artists who gained international prominence during the last decade together with curators, researchers, and arts professionals in order to present a brief overview of Brazilian contemporary art today. Curator of PIPA Prize Luiz Camillo Osorio was responsible for curating the video exhibition "Brazil, one country, many worlds," selecting 10 video installations produced by former PIPA Prize nominees and screened exclusively on the PIPA Prize websites from June to October. You can watch the entire video exhibition at:

http://www.pipaprize.com/2016/06/pipa-prize-participates-camden-sentido-curated-online-screening-programme/

NEW PROJECTS & PARTNERSHIPS

Starting in September, PIPA Institute joined forces with the Jacaranda art space at Villa Aymoré (Rio de Janeiro), when the Institute loaned some of its collection's artworks by Virginia de Medeiros, PIPA Prize winner in 2015, to the art venue.

"To initiate the partnership between PIPA Institute and Jacaranda we present the video "Sérgio and Simone," by Virginia de Medeiros, PIPA Prize 2015 winner, parallel to the Finalists Exhibition on view at MAM-Rio. This work, which currently integrates PIPA Institute's collection and was shown in the São Paulo 2014 Biennial, as well as in the PIPA Prize Finalists Exhibition of 2015, investigates the radical and contradictory invention of the self, putting body and spiritual transformations side by side."– *Luiz Camillo Osorio*

PIPA PRIZE MISCELLANEOUS

"It's a fantastic thing, there are people who would never have access, you would never be able to promote it ... I think this is the great motto of the project." - *Berna Reale, artist*

"Such forward and lasting action by PIPA has been building an essential archive for the exchange of information amongst cultural agents and interested parties that contribute to the comprehension and promotes the diffusion of our art both nationally and internationally." – *Fernando Cocchiarale, Visual Arts Curator of Museum of Modern Art of Rio de Janeiro (MAM-Rio)*

"It is very important the existence and continuity of the prize - and you can not imagine how much I use it in class and in lectures to all the data gathered in the site - it's really nice the work you do." - *Flora Sussekind*

"Creativity is allowing yourself to make mistakes. Art is knowing which ones to keep." - *Scott Adams*

*"The purpose of art is washing the dust of daily life off our souls." - **Pablo Picasso***

*"To me, photography is an art of observation. It's about finding something interesting in an ordinary place... I've found it has little to do with the things you see and everything to do with the way you see them." - **Elliott Erwitt***

*"A good collaboration produces universal thinking"- **Robert Rauschenberg***

*"I Have a very definite theory - let's call it theory, so that I can be wrong - that a work of art exists only when the spectator has looked at it." - **Marcel Duchamp***

*"In the tragic recovery of figuration, there is something in common between Iberê Camargo and Giacometti. In both the human figure came as a tragic response to the feeling of abandonment, of loss of a shareable world. They are absurd, asexual beings, short of all human distinction. Abandonment, perplexity, and loneliness are characteristics of the modern man in a post-metaphysical world, and also of the painter in a world obsessed with the immediacy of technological images." - **Luiz Camillo Osorio on his recently released book "Olhar à Margem" ["Seeing at the Edge"], Cosac Naify, 2016***

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