



Antonio Obá - 2017 PIPA Prize Finalist
"Malungo: rito para uma missa preta" ["Malungo: rite for a black mass"], 2016,
performance, duration: 30 minutes, photo by Miguel Pinheiro.

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RESEARCH AND ANALYSIS

RESEARCH AND ANALYSIS

As our more regular reader will know, we place a lot of value in actively searching for opportunities to expose ourselves to completely unrelated worlds, people, and information. This time our efforts took us to Oxford, and it was certainly one of the highlights of the quarter. So, here are the main points from the Challenges of Government Conference.

CHALLENGES OF GOVERNMENT CONFERENCE (COG) 2017

Actually, it was one of the most relevant conferences we've ever been to, including the dearly missed "Hot Emerging Growth" conferences and "Field Trips" organized by far gone but not forgotten DLJ in the 80s, and the Garage.com bootcamps in the late 90s.

If a government conference sounds a bit unlike us, that's because it is. That being said, Professor Ngaire Woods, Dean of the School of Government at Oxford is someone that constantly leaves a positive impression on us and fuels some optimism at every meeting. Her brilliance, commitment, and empathy are a very powerful combination.

Also, the "hub" of best people and practices she imagined and so brilliantly executed is very impactful. Never before have we met so many smart people with different backgrounds and motivations so intensely focused on discussing issues of foremost relevance. While there, we felt like we were the only ones around without at least one PhD or holding/having held senior government/corporate offices.

For people like us that love to learn and measure our lives by if we go to bed wiser than we were in the morning, these last few years in the UK and more specifically the relationship with Professor Woods and others at the Blavatnik School of Government at Oxford, confirm the saying that sometimes "ignorance is bliss".

We had a great time learning so much of a subject we consider ourselves to be complete amateurs on. More so than for personal pleasure, it felt like a very good place to be at this point in time when so many values, laws and traditions are being questioned. It seems to us like a safe bet that many solutions to these problems will be driven by the people that were present here.

The sessions were opened by Oxford's Vice-Chancellor Louise Richardson. What registered strongest with us from her short remarks was that $\frac{3}{4}$ of both Bush and Brexit voters didn't have a college degree. Below are some of the main topics discussed during the event.

WE'RE SCREWED, BUT ARE WE MOVING IN THE WRONG DIRECTION?

As much as we agree with all the Conference's key points and admired most of what was said, we'd start by questioning the general feeling that we're doing bad. It's more likely that we're making a simplistic analysis. Are we really not progressing in general or is it that problems are more visible and expectations are higher?

Although no economist from our team was present, we couldn't help but poke around some ideas, putting us closer to Schumpeter's "creative destruction". So yes, the world is about to break. Again. But are we marching towards the End? Not so soon².

One has to take into account that we moved very fast from a world with approximately 1.6 billion souls in the 1900s to more than 7.5 billion today. Meanwhile, life expectancy has risen brutally almost all around the world, billions of people have access to safe water, instant communication devices, education (think Khan's academy!), very few people die from infections nowadays, and even with growing fears like terrorism life is still safer in most places.

At the same time, we moved from a world where few people travelled (and if ever, only by ship or train) and news flew by telegraph, to one where more than 3.5 billion travelled by plane in 2015, and billions are connected via television and the internet. So differences became shockingly apparent. People are different and we might have to "design" for that. No wonder someone at the conference mentioned that both the UK and the US are "withdrawing" from the world. Also, when surveyed on where they are from, more people said they were from London than from England, the UK or... Europe. People need to relate on a human scale³. Most states have gotten too big, too

impersonal, too unaccountable, and too unrelated to its inhabitants.

So in sum, it's possible that the very concept of a big "Nation State" will suffer a slow and painful death, and that society will rearrange itself physically around what each one considers the most important values and fair trade-offs. Maybe that would address the trust gap. Some of us feel like Benjamin Button from the homonymous 2008 Benjamin Button movie. The "young fat capitalist pig" aging into an "old hippie". Life in reverse...

How should we accommodate this view with recent events, like Donald Trump's election? In our opinion, this battered and bruised version of nationalism is on its "dead cat bounce". Someone mentioned in one of the panels that the economic cohort that emigrates the most is billionaires. We're no billionaires ourselves, but chose to move to the UK because we believe that's where we belong, where its current values, climate, and trade-offs most closely match what we like.

To put it in "elevator pitch" format, human diversity doesn't allow for a "one size fits all" solution. Each individual is multidimensional and unstable (or dynamic). Passion and focus will drive us into the bumpy future. Clusters like Silicon Valley, Hollywood, Wall Street, Milano, and renowned universities like

² As an interesting aside, we'd refer to "The Last Question" short story written by Isaac Asimov in 1956: http://multivax.com/last_question.html. We find it brilliant and strongly recommend it.

³ That doesn't mean they must consider themselves citizens of only one place. We can see that very clearly at PIPA Prize, where in many artists' pages they describe their living places along the lines of <http://www.pipaprize.com/pag/artists/carla-guagliardi/> "Lives and works in Rio de Janeiro, Brazil, and Berlin, Germany", <http://www.pipaprize.com/pag/daniel-beerstecher/> "Schwäbisch Hall, Baden-Württemberg, Germany, 1979. Lives and works in Rio de Janeiro, Brazil, <http://www.pipaprize.com/pag/raul-mourao/>, Lives and works between New York, USA and Rio de Janeiro, Brazil, <http://www.pipaprize.com/pag/daniel-steeermann-mangrane/>, Barcelona, Spain, 1977. Lives and works in Rio de Janeiro, Brazil. <http://www.pipaprize.com/pag/artists/laercio-redondo/>, Paranavai, Brazil, 1967. Lives and works between Rio de Janeiro, Brazil and Stockholm, Sweden. <http://www.pipaprize.com/pag/artists/marcus-galan/>, Indianapolis, USA, 1972. Lives and works in São Paulo, Brazil, and on it goes.

Oxford, Harvard and Berkeley, just to name a few, are the ultimate proof of that.

NEW NORMAL, MEAN REVERSION OR EVOLVE?

This links with brilliant Professor Archon Fung's⁴ question on a new normal: Would we "mean reverse" or "evolve"? We were among the majority who raised their hands to "we'll evolve". We're technology enthusiasts and strong believers of Charlie Munger's saying that "change is inevitable, except for vending machines".

After the mechanical and digital revolution, it's possible that we'll move into an entertainment/spiritual era. That's also one of the reasons why we decided to try to give our humble contribution to society, and focus on art.

We see art both as informal avant-garde research, much in line with what Mr. Kazuo Inamori argues in his "A Compass to Fulfillment" book, and also as a good indicator of society's problems and values. We also agree with him that the "meaning of art is the refining of the soul".

So how do we combine the view that we're making great and accelerated progress with the unequivocal fact that we're at a crossroad facing a likely relevant crisis?

The issue, as hypothesized by Prof. Fung, is that we're too close to see the macro changes in what could

be called the "primary trend" and tend to focus on secondary or tertiary ones instead. And those, as we well know, are always "bumpy" and many suffer. Then again, taking a look at history, all changes led to winners and losers. We certainly can and should attenuate the pain for the losers. We will once again end up better as a whole than if we try to stop it (which we personally think we can't).

ON CORPORATE RESPONSIBILITY/OWNERSHIP - OUCH!

This was a subject "closer to home" since it's an area we've been delving into for about 40 years. As deep believers in focus, it's hard to agree that we should expect or demand companies to modify their DNAs to include more corporate responsibilities, as is the norm at the moment. Companies are an arrangement between people: shareholders, managers, and workers in the business of using capital. They exist to supply the best goods and services required by the market at the best price, while generating profits for their shareholders. This sounds like a robber baron, but it's hard for one who lives and dies considering focus one of the most important factors in attaining objectives to think otherwise.

We fully agree with Mr. Jonathan Day (from "The Tapestry Network" - who also impressed us quite a lot): most humans are terrible at multitasking. And the job description of the CEO and the Board is to make decisions that will maximize profits.

⁴ Academic Dean and Ford Foundation Professor of Democracy and Citizenship.

Obviously, corporate responsibilities make sense if it means providing constant training and advancing opportunities, respecting the law and, all other things being equal, doing the "right" thing. There's also the immense pressure that they are under from short term market investors, especially by the so-called "activist investors". That, however, can easily be addressed by making voting rights accrue gradually, linked to the time of shareholding.

Expecting more from companies is a distraction for them and a classic government move of "problem shifting". It only tries to deflect the fact that government failure is still the norm (and unless deep changes are implemented, will continue to be) and some companies do assume some level of social responsibility.

As Margaret Thatcher famously said, "there's no such thing as government money, only taxpayer money". We believe the analogy holds for companies: there's no such thing as company money; it's all shareholders' money.

In most cases, company initiatives become "vanity projects" for CEOs: projects that allow management to brag, cost way more than they should, have strong biases, usually rely on tax benefits, and are internally viewed as part of the company's marketing strategy (a department usually seen as "soft" and that can get away with relevant chunks of the budget without solid proof of the benefits they generate⁵). No

wonder most are seen with skepticism. People may be ignorant, but most aren't dumb. Even in cases where it's done "right and efficiently" in a public corporation, what makes sense to some shareholders doesn't for others. For example, the concerns of a young investor of minimizing the consequences of Global Warming 30 years down the road are different from pensioners who depend on the company's' dividends to survive.

If not companies or the government, who will take on most of the social challenges?

As Professor Colin Mayer from Oxford's Saïd Business School highlighted, families are by far the biggest business owners in the world, followed by the big institutional asset managers (BlackRock, Fidelity, UBS...). The latter are representing pensioners, insured people, etc., who are entitled to their share of profits, which company managers have a fiduciary obligation to maximize. And so it should be. Companies don't suffer conscience problems or empathize with people. People do. So this whole discussion should be had at the shareholder level.

He also highlighted a few examples of "great companies" owned or controlled by foundations, and how a randomly selected group of 20 companies that scored high in social responsibility also had better financial performance over the years compared to those with low social responsibility scores. As long term investors in public companies, we'd raise a few issues:

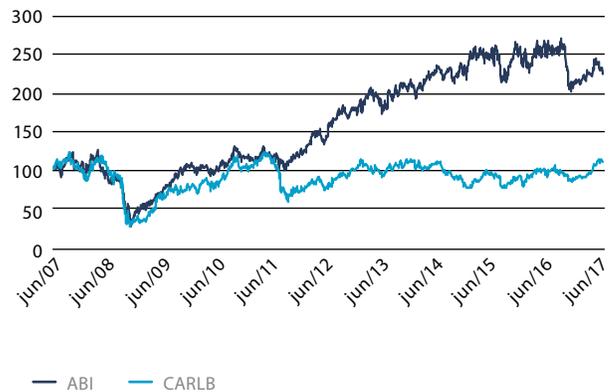
⁵ Buffett famously once said that "half the money Coca-Cola spent on marketing was money thrown away, but unfortunately they couldn't know which half". Gladly this is slowly changing with the migration to digital media when it comes to advertising, but we're still to see similar measurement improvements when it comes to sponsorships.

1. How do the sales, profits, and enterprise value CAGRs of those socially responsible companies compare to the S&P 500 Total Return index?
2. Is it the same thing when compared to explicit and truthful shareholder-value-oriented companies? It could also be relevant to take a look at quantity and quality of jobs created, innovations introduced, taxes paid...
3. Couldn't there be a bias in the fact that those that opted for taking on more social responsibility were better businesses than the others in the "control group" to start with?
4. We've looked into many foundation-controlled enterprises where the founders are gone. We consider none of them successful. We can remember he specifically mentioned Danish beer company Carlsberg. The following chart compares its share price (in USD) with that of AB Inbev over the last 10 years.

Even if one assumes that part of Carlsberg's value creation was diverted directly into company-sponsored projects, that performance difference led to quite a few dozen billions of dollars difference in value creation for shareholders, and many more billions in taxes and dividends. In sum, we think foundation-owned enterprises

usually look good, but don't resist the test of the opportunity cost of focusing on innovation, profit generation and profit distribution.

AB INBEV vs CARLSBERG



Last but not least, a good part of those extra profits from went to many social projects via the Lemann foundation (we met a few Lemann fellows at Blavatnik) and its myriad of sub-projects, and Beto Sicupira's social investment contributions, just to name a few. Add to it the fact that quite a few ABI long-term investors also created and/or help other NGO's based on the gains made with ABI shares.

It's a multidimensional issue, where scientific analysis would be quite time-consuming, if not impossible. To us this is one of those cases where we can safely move on based on Munger's principle that "it's better to be approximately right than perfectly wrong".

When it's a private company one where the founder or family still controls the business, the point generally becomes clear. As owners are entitled to a relevant share of the profits and it's in their best interest to provide for the long term sustainability of the business and their environment, they usually set up NGOs to improve conditions for those around their businesses. In our opinion, they should do that with their share of profits or proceeds from selling their own stock (as Bezos is doing with Blue Origin and The Washington Post by selling part of his Amazon shares), not forcing all other shareholders' money into their dreams and personal interests⁶.

5. Governance tends to be a big issue in NGOs as well. One just has to look at what happened with The Barnes Foundation in Washington DC. Talk about institutional capture.
6. Both Bill Gates and Warren Buffett opted to have their foundations go through their endowments fast. No more than 10 years after their deaths. In their view, they should contribute to certain issues less covered by government and market incentives in the short term, while their fingerprints are fresh, and leave long-term issues to be addressed by future philanthropists. On that note, the concepts and ideas we found most relevant are those in Isaac Asimov's fascinating "Foundation Trilogy" books⁷.

7. Lastly, it's worth mentioning that there are a few exceptions (which almost always exist...). Sometimes it's a smart way to take advantage of tax benefits. One could argue, in those cases, that the benefits are wrong and the net results are detrimental to society as a whole, when compared with lower taxes at the corporate level for all enterprises.

So, a better way could be for taxes to be lower, just like expectations on what the government should do (simplicity works!). With lower taxes, people would find it in their own interest to be altruistic. This has happened since immemorial times and is already taking place at levels close to the point where it'll be recognized as an integral part to the equation.

We don't have to look too far to see good examples of individuals wisely allocating their money into good causes. At the Conference we saw many examples. It goes all the way up from Blavatnik, Bill & Melinda Gates, George Soros, Sir Michael Moritz, Warren Buffett, Lemann Foundation & Co, the life choices of Ngaire Woods and, on a very small scale, PIPA Institute.

Passion and focus eat bureaucracy for breakfast. We'd quote Mr. Inamori again: "If our approach to life is altruistic, our thoughts focused on the good

⁶ Again a very interesting alternative comes from Mr. Buffett. All class B (the original "unsplit" shares) shareholders are entitled to nominate the charities of their preference to receive their proportion of Berkshire Hathaway's NGO contributions. Buffett's famous contribution to The Bill and Melinda Gates Foundation were made from his personal Berkshire shares, not by the company itself.

⁷ https://www.amazon.co.uk/Foundation-Trilogy-Everymans-Library-Alfred/dp/184159332X/ref=asap_bc?ie=UTF8

of all, our heart filled with love, and our efforts consistent, this force will buoy us and our lives will be fulfilling...Most of them base their decisions and actions on the simple truths and principles that generally are accepted as standards of decent human behaviour".

And still, "if you want to achieve a particular outcome, the first step is to focus your mind on the image of who you want to become or the situation you want to come to pass. You must hold that thought with greater determination than anyone else and desire it with passionate intensity... While sleeping or awake, stay passionately focused... No dream can be achieved if we never dream it. Dreams and desires are the springboard for life". The individuals mentioned above are the dreamers that fully commit and that to have the aforementioned fulfilled life, they have to help others.

To make our perspective on this very controversial issue crystal clear: if it's a public company, our experience has led us to strongly prefer them 100% focused on optimizing performance, creating new products and services and lowering costs. If successful, the profits will be passed on to the shareholders who are either pension funds (and already have a fiduciary obligation towards pensioners) or other shareholders, who should follow their needs, interests, and conscience.

That addresses the "money gap" issue as well. We agree with Professor Emerita from Berkley, Arlie Hochschild when she says that people don't have a problem with

inequality. They have a problem with unfairness and injustice. We'd bet most reasonable people are way more uncomfortable with a lottery millionaire than with Bill Gates being a multi-billionaire.

ON SCALE

Like many things in life, scale can be beneficial or detrimental.

Another discussion that hits closer to home. Back in 1994, Goldman Sachs published a report on the asset management industry. The key point was classifying participants into two groups: asset gatherers and asset optimizers. Based on experience, that's a very pertinent and relevant issue. Nowadays we see big institutional investors (asset gatherers) basically indexing their clients' portfolio, while small successful boutiques keep the portfolios they manage relatively small by closing the funds, returning capital to investors and even converting into family offices / proprietary trading enterprises. Venerable Buffett's opinion notwithstanding, it seems evident that as it grows, indexing is a self-defeating proposition.

Indexing has gotten so widespread and big that it became the proverbial "tail that wags the dog". Today there are more index-based ETFs than companies being traded. Furthermore, if you could see what we see in our "day jobs", not only would you probably wonder how can people go on with it, but possibly agree that it could very well be the trigger for "the next big one".

When indexing, few people are actually evaluating capital allocation, compensation and incentives at the corporate level. The bottom line is that indexing is an idea that makes sense in the beginning, works up to a certain scale, but like many things that "work" in the market, can be overdone and implode.

We were really shocked when Dr. Geraldine Buckingham from BlackRock publicly stated that "We have to Index most of our portfolios because we're too big to move and 'vote with our feet' at each company." Is that asset management? Is it beneficial for society?

We loved it when Professor Yael (Yuli) Tamir - Former Minister of Immigration (1999-2001) and Education (2006-2009) of Israel, PhD in Political Philosophy stated: "every ideology taken to the extreme is dangerous. Even love taken to the extreme can be dangerous".

To conclude this section, we note that things seem to scale up well when they're focused, have a clear mission and leadership, resulting in an identity which purpose. That's why companies like Amazon, ABI and Danaher seem to be able to operate well on a global scale. We'd bet most of their employees have a stronger sense of belonging and loyalty to their companies than to whatever country they were born or happen to live in.

People are individuals, but human nature is to be social. Empathy, belonging, and trust are not only

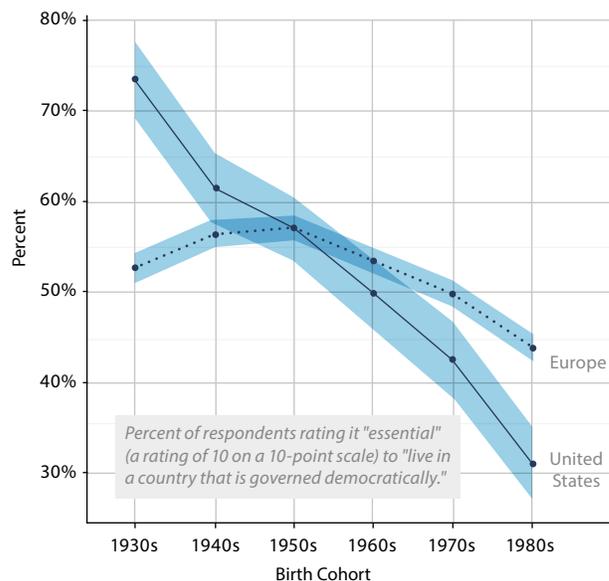
possible, but hardwired into us. However, they require identity on various dimensions that people deem relevant. We evolved into tribes of dozens, hundreds, and even thousands. "Global village" is a catchy soundbite but an oxymoron, nonetheless.

ON DEMOCRACY

One panelist mentioned, based on an Edelman Group research, that 60% of the US and the UK say the system is not working, that the numbers are worse among the "young", and that based on Journal of Democracy, more than 70% of young cohort says it is not necessary to live in a democracy⁸.

Roberto Stefan Foa and Yascha Mounk

"Essential" to live in a country that is governed democratically, by Age Cohort (Decade of Birth)



Source: World Values Surveys, Waves Sand 6 (2005-14). Data pooled from EU member states. Valid responses: United States, 3,398; European Union, 25,789. Bootstrap 95 percent confidence intervals are shown in blue.

⁸ We found the likely source: <http://www.journalofdemocracy.org/sites/default/files/Foa%26Mounk-27-3.pdf>

Again, another case of a good concept stretched too far. It seems that when you have to poll 300 million people, like in the US today, the system can't cope and what should be a very detailed and nuanced decision becomes a binary act based on doctored soundbites modeled to serve an immediate outcome.

It appears to us that we got to a point quite different from what the US's "founding fathers" had in mind in that regard.

There was a brief mention of the possibility that democracy would not be the system best suited for current times. There's a book called "China's New Rulers"⁹ that raised some eyebrows when it was published back in 2003. Although their system has worked better than democracy over the last two decades in many aspects, it still seems that it brings trade-offs the Western world would be unwilling to accept. However, it's an alternative and it's gaining ground. Plus, there are no grounds to believe that we've attained a final, steady place when it comes to a government system for billions of people, or even to claim that one exists.

That brings us back to the "omelette" saying. It's virtually impossible to find one system that will satisfactorily accommodate 7.5 billion people (and counting) with the current constraints. While we don't reach a stage that makes this possible, we should be more honest and transparent about the trade-offs.

ON GOVERNMENT DELIVERANCE

The fact that Amazon was able to build everything it built in 25 years befuddles us. Consider 60% of US households served by Prime 2-day free shipping, inducing significant deflation in most categories by importing competition into its "marketplace", making a quantum leap in business productivity with AWS, and still generating about USD 500 billion for its investors, which includes many pension funds. Meanwhile, the US government still makes us stand in immigration lines for hours and can't get their healthcare to work. At the same time, they increase public debt by trillions of USD (which doesn't include uncovered entitlements), all while raising taxes.

...WHAT ABOUT BIG DATA - DEEP LEARNING & AI?¹⁰

That leads to something we missed in the Conference: an explicit debate on the possible impact of Big Data, Deep Learning and AI on the whole Government issue, from elections to actual governing.

It seems clear that the processes have already begun, with election consultants mining data from social media and other sources to tailor their candidate's speech. Here's a reflection: what if we invert the process and try to develop a system that, based on "unaltered" information, like searches and transactions, chooses policies, executives and designs laws as a result?

⁹ <https://www.amazon.co.uk/d/Books/Chinas-New-Rulers-Secret-Files-Andrew-Nathan/1862075840/>

¹⁰ I know, I know... These are the hot buzzwords of the moment. But hey, the event was sponsored by McKinsey ;-)

We'd offer a few more arguments in that direction:

1. The academic work of behavioural studies by Professors Amos Tversky and Daniel Kahneman, to mention the most prominent ones, which provided many examples on how what people say they want can be different from what they really want, buy and make.
2. The empirical proof given by the late Steve Jobs, who was always very vocal in telling the world that he didn't believe in customer research because people don't even know what they can want.
3. The capital market's anecdote that the biggest arbitrage is among what people are and what they pretend to be in social media.

Too far-fetched? We think we could get there sooner than most people expect. That would be our best bet for the conference called Big Change with Big Bold Ideas.

To end on a lighter note, one that also brings us closer to our usual ground, "who do you think is making more progress and becoming more capable: Alexa, Cortana, Deep Mind, Watson and their kin, or Donald, the one that also spends lots of time in Florida but isn't a duck?"

AMAZON

We intended to keep quiet on Amazon for a while, but the deep sucking noise from "The Great Black Hole in the Sky"¹¹ makes it unavoidable.

The Whole Foods proposed acquisition, despite representing less than 4% of Amazon's market capitalization, can be a real game-changer. Before getting overly excited, we'll wait for the deal to get shareholder and regulatory approval while reflecting more on it. Given the profusion of ink already spilled over it, we're pretty sure nobody will be having withdrawal syndrome when it comes to news and analysis on the company. It's just that we'd like to have a more clearly defined situation to comment on. However, "shooting from the hip" we'd say it was a case of "Amazon wants to out-WalMart WalMart before WalMart out-Amazon Amazon", especially after the recent aggressive moves made by the House of Bentonville.

That said, we can anticipate a few issues which we'll continue to look into as the deal progresses. Cultural fit is the first to come to mind. Both Amazon and Whole Foods are widely admired by the public and command legions of followers, but while one stands for low prices, the other is known for the opposite. Can Whole Foods lower their prices enough to satisfy Bezos?

The fact that he managed to do well with Zappos bodes in his favour here. Plus, he has done well balancing

¹¹ Pun intended with Pink Floyd's "The Great Gig in the Sky".

the mind-boggling diversity of businesses inside Amazon's bandwagon (and his personal ownership of Washington Post and Blue Origin). Apparently, he lives well with widely different situations and if the Whole Foods deal goes through and is integrated into Amazon's offerings with Amazon's standards, he will have crossed the bridge that leads to the heart of grocery shopping with one brilliant stroke. Let's see.

On the other hand, if on one side his first experimental Amazon shops have impressed no one, Amazon Go, where new technology allows one to go in, pick up their goods and leave without any other interaction appears to be impressing those who've tried it. A nerd friend who visited attempted all tricks he could think of to confound the system and failed to have the slightest "aha" moment. If this really works and Bezos opts for keeping it inside Amazon, doing acquisitions like Whole Foods in a similar way to what he did with Kiva robots and their logistics solutions, competitors will take another punch they hadn't even seen coming.

WESTERN UNION

"Demand for cash continues to grow in the UK and the vast majority of other countries, despite technological advances that allow people to pay using contactless cards, mobile phones and digital currencies.

The value of Bank of England notes in circulation rose by 10 per cent last year, the fastest pace in a

decade. The total value reached GBP 70 billion for the first time.

The number of payments made in cash in the UK fell by 11 per cent between 2015 and 2016 but still accounted for 40 per cent of all payments. Cash also continues to be valued as a budgeting tool and for other reasons, including as a contingency if poor signal prevents someone from making a mobile or card payment.

*Many businesses also prefer to take cash payments as these continue to be cheaper to process than debit or credit card payments. The British Retail Consortium found that the average cost of processing a cash payment was 0.15 per cent of the transaction value in 2015, compared to 0.22 per cent for debit card payments and 0.79 per cent for credit cards. But this gap has been narrowing." - **Financial Times**¹²*

In this disrupting road, we always get questioned and question ourselves about the time we invest in Western Union. Isn't it about to be disrupted by one of the gazillions of new online payment apps? Well, everybody knows how critic we are of the absurd volume of regulation that has accumulated over the last century. However, just like monopolies and switching costs can be bad for most but heaven on earth for its beneficiaries, same goes for regulation.

The company spends around 4% of revenue on compliance-related measures. Half of it is usually

¹² <https://www.ft.com/content/a9bbaf6e-504d-11e7-a1f2-db19572361bb>

spent on people, and the rest is divided between technology and services. They have now built an apparatus of regulatory excellence that we consider to be a fundamental pillar of their business moat and could very well be a business on its own.

Their focus on regulation, fraud and money laundering prevention became even more apparent when, in 2013, WU appointed Ms. Frances Townsend to the Board of Directors. She spent 13 years in the US Department of Justice and 4 years as Homeland Security and Counterterrorism reporting directly to then President George W. Bush, so she is certainly there to enhance WU's capabilities and expertise.

Now let's turn to the business side. Comparing money transfer options can be tricky since it depends on the combination of many variables: payment method, online or in person, pickup location and method, amount transferred. This even holds true when comparing Western Union with Moneygram, their biggest (or at least most similar) competitor.

At WU, most fees start at USD 5 but they can be as much as USD 45 when paying by credit/debit card for a cash pickup in certain countries. However, when sending money to higher traffic countries such as India or Mexico, there are some agents offering free transfer options.

To say that one has a clear and straightforward advantage over the other in all scenarios is impossible,

so this should be evaluated case by case. What is indisputable, however, is that WU has a much larger scale than Moneygram. The first has 550,000 agent locations worldwide while the latter has 350,000. WU also supports more currencies than Moneygram, 130 and 47 respectively.

The point we'd like to get across is that WU, in our view, has a clear competitive advantage in their main business which is money transfer between the unbanked people of the world, through its massive scale, regulatory expertise and brand recognition/trust. Add to that the fact that the company keeps repurchasing stock at attractive levels (decreasing share count by 36% in the last 10 years), has an overall sound capital allocation and trades at a decent price.

PERSPECTIVES - "THE DELICATE SOUND OF THUNDER"

Many may think that we're overly impressed by V&A's "Pink Floyd: Their Mortal Remains". This is how it feels: you're at sea. On the horizon you see the scary black clouds with intense lightning, and they're coming in your direction.

Rest assured that we have not become macro theorists nor are we foreseeing the end of the world. As we stated in the section on the Challenges of Government above, we're optimistic about humankind's advances, or shall we say its "primary trends". The main fact is we think it's quite difficult to reconcile the situation we're

in with current asset prices. It seems prices have gone a bit ahead of their underlying assets in general. In our experience, when that occurs the best thing is to lay low, study a lot and wait for our friend Mr. Market to change its view from a glass half full one half empty. Then, when the time comes that most decide to throw away all the water, it's time to pick up the babies.

RISKS

Through the first quarter, we saw a few of the issues that can stop the world. First was BA's catastrophic system failure¹³ that left hundreds of planes grounded and around 75,000 passengers stranded, apparently due to a glitch in the electrical backup systems. They were similar to the shutdowns suffered by Delta and Southwest last year. Then there were the ransomware attacks. Despite being quite disruptive for those involved, they're another signal of what could be in store for us. And it makes us question Buffett's decision to get back into a sector with so much intrinsic risk.

So it all remains the same. Technology advancing by leaps and bounds, and many people that seem to be thinking and diving deeply into these problems, are very concerned about where we're heading. All that combined with asset prices continuing to act as if we're in Goldilocks again.

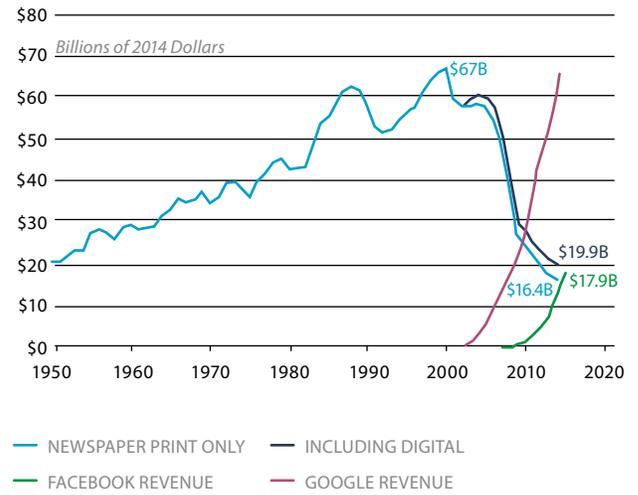
Before getting into the Pipa Prize section itself, we'd like to thank you all, as it's the profits we made over the years that enabled us to keep the project going and expanding, which only increases our fiduciary responsibilities.

¹³ <https://www.ft.com/content/d7617ffa-446a-11e7-8519-9f94ee97d996>

RANDOM BITS

- Let's wait for Amazon's curve in the chart below

Newspaper Advertising revenue: Adjustes for Inflation, 1950 to 2014



Source: Newspaper Association of America

MISCELLANEOUS

- "It's frightening to think that you might not know something, but more frightening to think that, by and large, the world is run by people who have faith that they know exactly what's going on"
— **Amos Tversky**
- "When I was working with Syd, Nick, Rick and David I'd been very lucky. It was a great platter. The name of that band is sort of irrelevant. It's being there and having the opportunity to do the work that's priceless"
— **Rogers Waters, 2017. "Pink Floyd: Their Mortal Remains." at the Victoria and Albert Museum.**
- "The tsunami is moving fast towards the beach. Those who opted to lie down and sunbathe will be dragged and drown."
— **A friend with whom we discussed how many people in advertising and consumer products industry are still unaware of Amazon Media.**
- "Public health emergencies are a fact of life in a world as interconnected as ours. In just the past five years we have witnessed unexpected outbreaks of devastating diseases—Ebola, chikungunya, yellow fever and Zika—each of which has spread far beyond its historical geographical range. No one can say what the next large-scale emergency will be, whom it will affect or when it will strike, but we do know that it is inevitable. Yet the US is woefully unprepared to meet this threat because it does not set aside money to beat back an outbreak before it can spread."
— **Scientific American, July 2017 edition.**
- "Even at the 'bottom billion' - the population that have experienced the weakest economic growth in the last few decades - quality of life has increased dramatically. In 1950, life expectancy in sub-Saharan Africa was just 36.7 years. Now it's 56 years, a gain of 50%."

In the same book, MacAskill notes that merely eradicating smallpox, which was attained in 1977, saved up to ~300 million lives in the twentieth century, while having attained world peace by 1973, meaning no Khmer Rouge or Rwanda Genocides, the two Congo Wars, 9/11 and subsequent wars in Iraq and Afghanistan and all terrorist attacks would have avoided 12 million deaths.

— **William MacAskill in "Doing Good Better".**

- "In late 2016 IBM and Rice University unveiled the Multi-Purpose Eldercare Robot Assistant (MERA), a customized version of the Pepper robot developed by Soft-Bank Robotics in Japan. Pepper, an ivory-colored android about the height of a seven-year-old, can detect and respond to human emotions via vocal cues and facial expressions. It has already been deployed as a friendly assistant in Japanese stores and houses specifically designed as an at-home companion for the elderly, records and analyzes videos of a person's face and calculates vital signs such as heart and breathing rates...

The need for socially assistive robots may arise from a shortage of human companions for the elderly, but Mataric points out that robots could also offer some benefits over their flesh and blood counterparts. 'Machines are infinitely patient' she explains. They have [fewer] biases to begin with and they have no expectations."

— *Scientific American*, July 2017 edition.

- "Once upon a time, people bought books because they liked reading. Now they buy books because they like books."
— *The Guardian*.

**PIPA PRIZE
PIPA INSTITUTE**

PIPA PRIZE

The Turner Prize was first awarded in 1984. It has become one of the most prestigious international visual arts awards and has both reflected and contributed to a growing public awareness and interest in contemporary art. It was founded by a group called the Patrons of New Art, which had been formed in 1982 to encourage wider interest in contemporary art¹⁴ and assist the (then) Tate Gallery in acquiring new works.

PIPA Prize was inspired by the British award with the objective to contribute to the expansion of the contemporary art collection of the Museum of Modern Art of Rio de Janeiro (MAM-Rio), and to assist in the dissemination of the domestic art production, motivating and supporting new (but not necessarily young) Brazilian artists, besides being an alternative model for the third sector.

The release of the names of the four Turner Prize shortlisted artists is a long-awaited moment of the year in the British art world. This year, two events concerning the award were brought to our attention. The first regards media selection. After several editions of controversial works consisting of unmade beds (Tracey Emin, in 1999) and a pickled sheep (Damien Hirst, in 1994), Turner unveiled a 2017 shortlist featuring two painters, a woodcutter and a filmmaker specialized in 16mm – respectively, Hurvin Anderson, Andrea Büttner, Lubaina Himid and Rosalind Nashashibi. The second surprise was that, for the first time since 1991, the jury abolished the age limit rule of 50 years old.

Alex Farquharson, Tate Britain Director and chair of the judging panel, said the remit of the Prize for new

work was now widely accepted, so older artists could once again be considered. “Artists can experience a breakthrough at any age, without any risk of the Prize becoming a lifetime achievement award,” he said in an interview for the Financial Times in May 2017.

In Brazil, too, the date of PIPA Prize’s Finalists announcement is an important milestone for those who follow the award since its inception in 2010. Selected amongst the 56 artists who were nominated for this edition of the Prize, the four finalists will be running for BRL 130,000 (approximately GBP 30,000) – a sum that includes a three-month participation in an artistic residency program¹⁵ at Residency Unlimited, in New York. They also compete for a BRL 24,000 (app. GBP 5,700) grant, donated to the artist with the highest number of votes given by the public during the course of the Finalists' exhibition at MAM-Rio.

The four of them are also invited to participate in the PIPA Online category together with the other 52 nominees, in which the two most voted artists on our website earn, respectively, BRL 10,000 (app. GBP 2,400) and BRL 5,000 (app. GBP 1,200).

In June 2017, PIPA Prize Board members got together to select the four shortlisted artists amongst the 56 nominees who participate in this edition of the award. The nominees are chosen by critics, curators, collectors, and gallerists from all regions of Brazil and abroad. The contribution and commitment shown by Fernando Cocchiarale, Kiki Mazzucchelli, Luiz Camillo Osorio and Moacir dos Anjos – the critics and curators

¹⁴ The term contemporary art is loosely used to refer to art of the present day and of the relatively recent past, of an innovative or avant-garde nature

¹⁵ **Artist-in-residence programs** and other **residency** opportunities exist to invite **artists**, academicians, curators, and all manner of creative people for a time and space away from their usual environment and obligations. They provide a time of reflection, research, presentation and/or production.

who compose the PIPA Prize Board – were crucial in deciding the shortlist.

MEET PIPA PRIZE 2017 FINALISTS

<http://www.premiopipa.com/finalistas-2017/>

<http://www.pipaprize.com/finalists-2017/>

The PIPA Prize 2017 finalists work with several different media, including installation, painting, performance, photography and video. They are two women, and two men. Three of them have not yet reached their forties and one of them is over sixty years old. Amongst the four, only one was born in the Southeast region of Brazil, but none are from the state of São Paulo.

Antonio Obá

Born in 1983 in Ceilândia, a satellite city of Brasília, Antonio Obá reconfigures in his work aspects of a rural tradition that permeates the Brazilian religious universe, which reflects critically on the idea of a so-called syncretism and historical situations linked to ethnic prejudice. He brings in his works an affective memory, which proposes the intimate reflection on the body (his miscegenated body, black), but that occurs (in the strictness of the term) in sacrifice in narratives that tell a Brazilian history seen from a body that plunges its feet in the roots of a tradition, in various contexts, still marginalized.



“Acts of Transfiguration: Recipe of how to make a Saint”, (2015), performance, duration: 30 minutes

Obá has had solo exhibitions, and participated in group shows since 2001. In 2017, the artist was part of “South-South: Let me begin again”, group show held by Goodman Gallery, South Africa. Obá has also worked as an art-educator for over 10 years, teaching Visual Arts at public schools of the Federal District of Brazil since 2012.

Bárbara Wagner

Wagner was born in 1980 in Brasília and lives in Recife, in the Northeast region of Brazil. The artist has a Master’s Degree in Visual Arts by the Dutch Art Institute (2011) and is represented by Fortes D’Alôia & Gabriel (Brazil) and Extrapazio (Italy). Wagner was nominated for PIPA Prize for the first time in 2010, the first edition of the award.



“Mestres de Cerimônias”, 2016, Mineral pigment on cotton paper, 80 x 120cm

Although she favours exploration of straightened or ‘peripheral’ situations in her native Brazil or in Holland and China (as in her most recent photographic series), Wagner is not interested in a documentary type slant. Far from photojournalistic essays, her photos do not present her subjects as ‘victims’ (in accordance with a predefined perspective, as often occurs). What they put forward is a less orthodox and conventional method of approaching these subjects: through posing (as in the studio photograph), which brings the subjects onstage in an active and aware manner, representing them as they choose to be represented; and through stylistic features such as the use of the flash outdoors, saturation of colours, compositional care and attention. With these elements Wagner builds up lively frames that capture the subjects’ free and often self-ironical performance: in a natural way they take over

and play with the photographic space and with the eye of the beholder.

Carla Guagliardi

Guagliardi was born in 1956, in Rio de Janeiro, Brazil, and has been living between her native city and Berlin, Germany since 1997. Similar to Bárbara Wagner, Guagliardi was a first-time nominee in 2010. The artist studied at the School of Visual Arts of Parque Lage (1987/1989) and pursued a Postgraduate degree in Art and Architecture at the Pontifical Catholic University of Rio de Janeiro (1990/1991).



"Partitura" (I) / vertical, 2012, 7 pieces of wood, hinges, 7 foam balls, mixed technique, variable dimensions, woods: 42 x 30 cm each

"The crude delicacy of her poetics is always seeking the meeting points between immobility and mobility, temporality and timelessness, weight and lightness," writes PIPA Institute Curator, Luiz Camillo Osorio, about her work. "The contrast between materials makes explicit the ownership of each thing, a singularity that is born of the very coexistence between them produced by the sculpture." Guagliardi is represented by Anita Schwartz Galeria de Arte (Brazil) and Galerie m Bochum (Germany).

Éder Oliveira

The artist, nominated for PIPA Prize 2015 and 2017, was born in 1983 in Timboteua, in the Amazonian state of Pará, and currently lives in its capital, Belém. Oliveira graduated in Arts Education–Fine Arts from the Federal University of Pará. Since 2004, he has been developing works that deal with the issue of cultural identity. Oliveira's main focus is the Amazonian man and his identity, image, and marginalization, topics that have inspired a number of site-specific works, interventions, and oil paintings on canvas.



Untitled, 2016, site specific, acrylic on wall. Kunsthalle Lingen, Lyngen, Germany

The artist participated in the 31st São Paulo Biennial (Pavilion Ciccillo Matarazzo, Ibirapuera, 2014), and has received the following awards: Funarte Visual Art Production Grant (2014), SIM Visual Arts Award by the Sistema Integrado de Museus (2008), and the 2nd Grand Prize at Salão Arte Pará (2007).

Oliveira's works can be found in the permanent collection of the following cultural institutions: Museum of Contemporary Art of Rio Grande do Sul, Casa das Onze Janelas, Museum of the Federal University of Pará, and Museum of Art of Rio de Janeiro. The artist is represented by Periscópio Arte Contemporânea.

SAVE THE DATES

We are very happy with this year's shortlisted selection, and we are looking forward to the opening of the Finalists' exhibition on **September 23rd** at MAM-Rio, which we expect to be an excellent one. The show will be on view until November 26th, and on **November 18th**, as well as announcing the winners, we will be launching the PIPA Prize 2017 catalogue.

PIPA ONLINE 2017

There will be 53 artists participating in PIPA Online. The first round will take place from **July 16th** through the **23rd**. The second and last round, in which only the artists who have received over 500 online votes are qualified to participate, will happen from **July 30th** through **August 6th**.

Visiting the artists' pages is the best way to learn more about the current Brazilian contemporary art scenario.

VIDEO INTERVIEWS

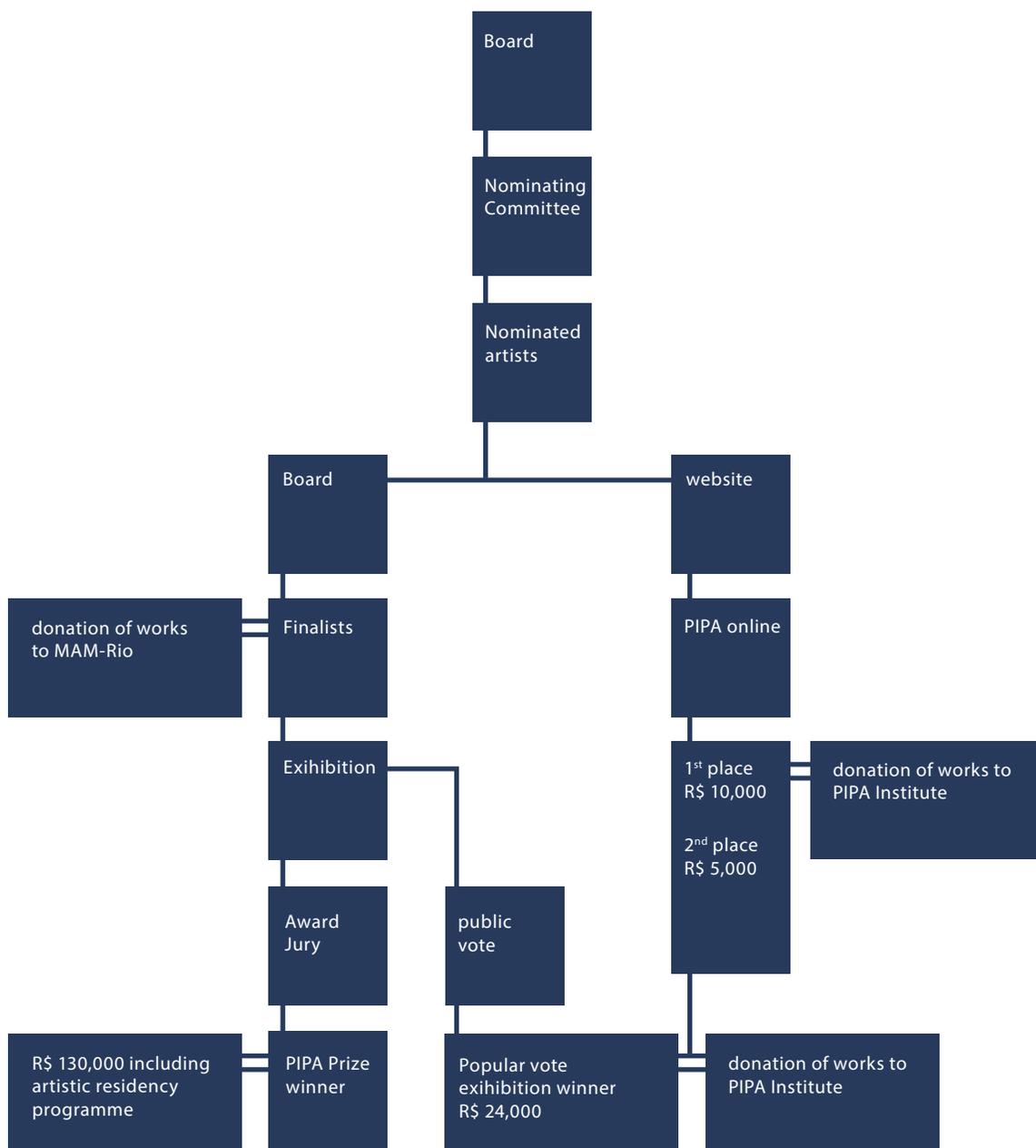
By the time you read this report, all of the 2017 nominated artists' videos will be available on our websites <http://www.premiopipa.com/2017-todos-os-videos/> or <http://www.pipaprize.com/2017-all-videos/> (with English subtitles). You can also view the videos in the artist's individual pages on the website.

The majority of the nominees were interviewed by the film company DoRio Filmes, and we currently have 32 new video interviews uploaded on our YouTube

Channel. Some of the artists have also recorded interviews in previous editions of PIPA Prize, and you can watch them on their profile pages. On that note, it's interesting to watch interviews with this year's finalists Barbara Wagner and Carla Guagliardi produced in 2010, and their most recent ones, produced seven years later. It is also worth comparing Éder Oliveira's 2015 interview with this year's one.

PIPA PRIZE DIAGRAM

Just to remind you how PIPA Prize works, we present you once again the Prize's diagram:



PIPA INSTITUTE

PIPA Institute is a nonprofit institution created in order to contribute to the third sector. Its inception was a consequence of the PIPA Prize initiative, which has been receiving most of our efforts since 2010.

In 2016, when Luiz Camillo Osorio was appointed the Curator of the PIPA Institute, we decided to help PIPA Prize artists by acquiring works for the Institute collection and commissioning art projects focusing on the theme of "Displacement"¹⁶.

Moving ahead in that direction, we decided to support Daniel Beerstecher¹⁷ "Liberation" project. Read below the project's description as told by the artist:

"The Idea

Two drones are flying like birds in love, performing a courtship in the air, high above the city of Rio de Janeiro. They circle around; One breaks out and flows ahead to be caught back by the other, reunited together they fly side by side, tune each other, bump into each other and find each other again again...

The sensation of flying, Brazilian music and the overwhelming scenery of Rio de Janeiro.

The city lies calmly at the waterside, the sky bright blue, the sun is shining. The beach, the beach, the beach, the beach, the beach, the beach. Altogether the scenery gives the viewer the feeling of tropical freedom, freedom, vacation and entertainment.

The almost romanticized pictures are, however, ambivalent and contradictory. Two birdcages attached to each drone act as a strong contrast. The birds caught inside them will grasp freedom solely as an ostensibly tangible ideal.

Why do we want to realize this project?

The high point of technical development seems to lie in the absolute networking and independence of (virtual) communication systems. So - called killer robots decide independently whether a potential enemy is shot or not; People describe their relationship with sex robots; Robots in factories know what they need to do without human intervention; Cars drive themselves and act "smart" in road traffic.

Who meets in a world where machines communicate with each other, Actually the decisions? And on what basis and in whose sense? How 'smart' is Big Data? What is the role of empathy in technical development and independent communication? And where in this structure of automation and algorithms does man ultimately have his place?

As the project grew in ambition and sophistication, Daniel is also offering the opportunity for those interested to support the project by buying pictures, collages, video or even the Drones to be used in the execution.

We strongly encourage you to learn more and participate through:

¹⁶ We have explained in details in the previous report.

¹⁷ <http://www.pipaprize.com/pag/daniel-beerstecher/>

<https://www.kickstarter.com/projects/1112589845/liberation-40>



One of the 40 x 60cm collages, edition: 10 + 1 AP (pledge # 7 & 11)



One of the 40 x 60cm collages, edition: 10 + 1 AP (pledge # 7 & 11)

ART WENT TO THE TOILET: CRISIS OR SOLUTION?

By *Luiz Camillo Osorio*¹⁸, June 2017

America¹⁹ (2017), by Maurizio Cattelan, can be considered a site-specific work. The piece was recently presented at the Guggenheim Museum, in New York, after being acquired by the institution. It is an individual-use 18-karat solid gold toilet placed in one of the bathrooms of the Museum, located on the famous Frank Lloyd Wright ramp gallery. If you want to see it, and use it – yes, the gold toilet can be used by anyone – just get in line and wait for your turn. It should be noted that this is the first piece produced by the Italian artist after his “sabbatical” period, during which he produced no work since his spectacular retrospective, five years before, in the same Museum.

Cattelan is, beyond any doubt, one of the most critical artists of the contemporary landscape. And the word

critical here carries all the ambiguity inherent to the moment we are living, to the current meaning of the word and to how art was captured by the market and by its immediate institutionality. It is within the spirit of this capture that one can expect some critical positioning, some noise, some insertion that might be unsettling to the established discourse. Paradoxically, such inadequacy brings with it the inevitable capture. Even the explicit political engagement is fully inserted (and settled) – although this does not take away from engagement its *raison d'être*, but no doubt significantly reduces the intensity of its inadequacy, i.e., its critical power.

Is there a way to escape from it? What is the role of art as a critical power if one considers its institutional insertion? What is the meaning of a work such as America to this discussion? Since the 1962 Adorno essay – appropriately named ‘Engagement’ – the

¹⁸ Luiz Camillo Osorio is the Curator of PIPA Institute, PIPA's founder and Board Member. He is a Professor and current Director of the Philosophy Department at PUC-Rio. Camillo was the Curator of MAM-Rio between 2009 and 2015.

¹⁹ <https://www.guggenheim.org/exhibition/maurizio-cattelan-america>

issue of how art resists exploitation and consumption has been examined from the perspective of its articulation with its own autonomy. By autonomy I mean here not isolation or aestheticism, but rather indeterminacy of meaning, the defense of some degree of communicative opacity.

One should displace the forms of identification and circulation of art. In other words, there's a logic inherent to art, a work of construction of meaning that occurs within its language game, its historicity and its institutionality that traverses art's possible forms of resistance. Using a more current terminology – to displace and confront political art to the politics of art. As we know, one can make politics leaving art behind; however, the question we want to pose here is about how political can art be. Issue raised, it is always important to preserve space in order to allow the making of art with no specific political concern, so that we can keep the solitary dimension of an artist such as Morandi, isolated between 1930 and 1960 in Bologna in his family home, surrounded by his sisters and bottle vases. Contrary to what we're trying to discuss here, this possibility – why not? – is also political in its own way.

Our interest in emphasizing the politics of art is to say that making art should also be a form of intervention in the real, a way to denaturalize reality, to make it a field of conflict and disagreement.

And of enchantment as well. This means that such intervention should produce a heterogeneous sensitive experience, making us think from within a block of sensations and affections that are always indefinite and undetermined. If, for Da Vinci, art was *cosa mentale*, an activity of the spirit, we should now underline, or better, remember, that there is no spirit without a body, that we, ourselves, make and experience art in an unique and immanent world.

But what does the gold toilet have to do with all this? Well, it combines trash and luxury, art and non-art, the body and the work, the glamorous 18-karat fetish and the communism of taking a good pee (or whatever else it may be). Exactly 100 years ago, Marcel Duchamp created his Fountain. A urinal, bought in a houseware store, turned upside down, put on a pedestal and signed with the pseudonym Richard Mutt. The impossible condition of a mere object, not made by the virtuous artist's hand, but by a gesture of brilliant irony, becoming art.

For that to happen, this "mere object" had to start out as non-art. Let me explain myself: when submitting the piece to the Society of Independent Artists in New York in 1917, and after its refusal by the Organizing Committee (of which Duchamp was part), the urinal was turned into non-art. The defense of Richard Mutt's "work" in a letter signed and published by Duchamp adopted the poetic sense of this gesture and opened

the possibility of art to the “ready-made”. None of this happens out of nowhere. Duchamp’s urinal-fountain made its way into art history just because it had behind it a “tradition” dating back to the Impressionist’s works that had been refused at exhibitions, pushing the possibilities of art out of the conventional poetics determinations. A history of refusals was enabling Duchamp’s extreme gesture and the understanding of making art that incorporates its own production and circulation conditions. That’s the artist taking to the limit the awareness of devices that go beyond the ways we make and see the work of art. Between Duchamp’s Fountain and an identical urinal is the artistic gesture that enables the emergence of irony – an irony that is not present when the object is used for its original purpose. Perceiving such an irony is seeing something that does not manifest itself materially, but rather reveals itself in specific circumstances.

For the Romantic poet Friedrich Schlegel, “irony is the form of the paradox”, i.e., irony is what allows us to equate reflexivity with humor, conscious with unconscious. Cattelan, in his strategic buffoonery, embodies the paradox of making art when everything else seems to be reduced to price and sameness. One hundred years after Duchamp, returning art to the bathroom is to assume the paradox of being, at the same time, an activity of supreme freedom and

maximum capture. Amongst the 18-karat solid gold toilet and the urine or feces that are dumped into it, the “toilet artwork” seeks desperately an escape line in order to regain power. The market and the Museum, with their sarcastic voracity, take care of flushing it all down and keeping everything clean and sleek. I didn’t discuss the title America. There was no need. After all, Duchamp had already written in his letter in Richard Mutt’s defense that toilets and bridges were the best works of art America had ever produced.

PIPA MISCELLANEOUS

- *"Instead of looking at things, look between things."*
- **John Baldessari**
- *"Ultimately, art is trying to see things that other people don't see."* - **Trevor Paglen**
- *"Even the act of peeling a potato can be a work of art if it is a conscious act"* - **Joseph Beuys**
- *"Being an artist is a very long game. It is not a ten-year game"* - **Anish Kapoor**
- *"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**

- *"The people who weep before my pictures are having the same religious experience as I had when I painted them"- Mark Rothko*
- *"Success is dangerous. One begins to copy oneself, and to copy oneself is more dangerous than to copy other" - Pablo Picasso*
- *"I think the moment you think you are successful, failure will be there for you" - Maurizio Cattelan*

PIPA
PRÊMIO □ PRIZE

Ajude a divulgar o PIPA.
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