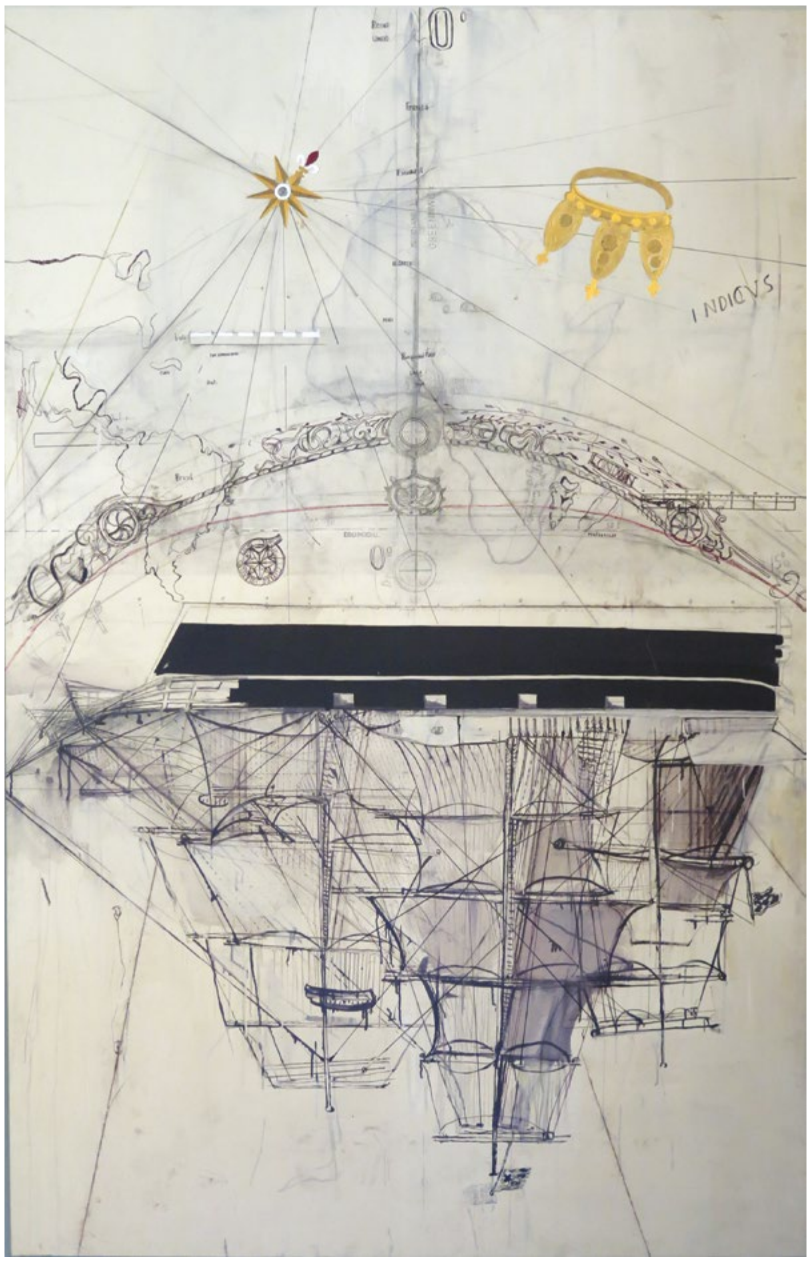
PIPA
GLOBAL INVESTMENTS

1st QUARTER 2017

PIPA GLOBAL REPORT



Arjan Martins, ''Rio Setecentista'', 2013 , acrylic and oil on canvas, 310 x 200 cm
Work acquired by PIPA Institute collection on February 2017.
On display at Villa Aymoré, Rio de Janeiro, Brazil

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RESEARCH AND ANALYSIS

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BONDS VS. EQUITY

A particular clause in the prospectuses of some newly issued bonds has been causing some stir, and the FT has reported on its emergence[1]:

"The clause details how bondholders will be deprived of certain premiums if the company breaches its covenants — extra cash to which investors have long been accustomed. Having first appeared in corporate bond documents last autumn, similar language has since appeared in a dozen sales, including delivery company FedEx and insurance broker Marsh & McLennan.

Bondholders typically reap a premium if a company decides to pay off its debts before they are due. So-called make-whole redemptions compensate investors for missed earnings when a bond is retired earlier than promised, and the value is often spelt out explicitly in prospectuses. The make-whole claims extend to breaches of covenants, which can occur if a group's debt surpasses certain levels or if a dividend is paid in excess of the bond document's stipulations, triggering a technical default.

The trend "will cost investors tens of millions of dollars on deal after deal after deal," says Adam Cohen, the founder of Covenant Review, a firm that analyses indentures and credit agreements. Mr. Cohen, who characterises the development as "abominable", warns that the new language could be "beginning of the end of bond covenants" and weaken investor protections."

[1] https://www.ft.com/content/f79ac888-d7bb-11e6-944b-e7eb37a6aa8e

The clause often reads "no premium in respect of the notes shall be payable as a result of any default". From the companies on our radar, both Nike and Roper Technologies have managed to issue bonds with that clause.

Bond investors are now trying to fight the clause, but the wall of money poured into corporate credit funds has sharpened the appetite for new bond offerings, making it difficult for money managers to exert influence over companies.

From the perspective of equity investors, it seems to be good news. If it sticks, savings with bond investors will be split among the acquiring company and its investors and, on the other side of the deal, equity investors in the company being sold.

Talking from experience, it might also be one more sign of the end of a cycle of easy money...

EQUITIES X ?!#$&%?

The recent Snap IPO put the spotlight on the issue of non-voting shares. Those that have been following us for a while know of the distortions we've highlighted. Many argue that in the case of Facebook and Google, the issue has seemed moot. After all, both became great successful companies. Some would say because of it, others despite it.

We favour clear, committed ownership, and we also believe that it's better if the commitment is displayed the old fashioned way, like at Microsoft, Danaher, Apple and Amazon, to name a few. While we can understand the reasons for supervoting shares during the initial phases of a risky entrepreneurship, we think it eventually becomes more of a value-destructing feature than anything else.

In cases like Snap, our take is very simple: we won't touch it. Even so, let's look at some other examples where we see the value destructruction issue becoming clear. Take, for instance, three companies: GoPro, FitBit and Under Armour. All have strong brands, distribution channels in the hot sports/health/ wellness business. All with super-voting shares that give control to their founders. Each of them recently experienced a big fall in their stock price due to both inflated expectations and under-delivering on the operational side. We can't help but think that without the supervoting shares, they would have already been targeted for a buyout. Even a consolidation among the three could make sense. And we tend to believe that in all three cases, these alternatives would likely be much better for minority shareholders.

	Share price performance 2015 - 2017[2]	**Current market cap[3]** USD Bi	**Total revenue in FY 2016** USD Bi
UAA[4]	-44%	8.3	4.8
GPRO	-86%	1.2	1.2
FIT	-70%	1.3	2.2

KRAFT HEINZ/UNILEVER

Probably the most relevant event of the quarter was the (so far) short-lived bid by KHC to buy Unilever for USD 143 billion. The price represented a premium of about 20% to the stock's closing price the day before the bid went public.

Unilever made all the usual noise about the price being too low and that they will do much better on their own, reigniting the campaign about National Champions. Nothing sounds more cynical than a multinational company, especially one with a two-pronged head (UK and Netherlands), crying for nationalistic protection.

We regret Unilever's decision for all it represents: incumbent management of underperforming companies taking decisions much more focused on their personal interests than their shareholders', and worse, dressing it as political issues.

In our view, it's only a matter of time until companies like Unilever and Nestlé will be taken over. As much as their current managers claim to have gotten religious about costs, experience taught us that it's very hard to "teach new tricks to old dogs". After all, what companies like ABI, Henkel[5], Kraft Heinz, and Reckitt Benckiser have achieved was a direct consequence of bringing in new management focused on economic performance. Even accounting for the political pendulum backlash,

[2] Since FIT only had its IPO in June 2015, all share price performance are from June 2015 - March 2017
[3] On March 31st, 2017.
[4] We looked at UAA instead of UA. UA came about in the April 2016 stock split. UAA usually trades at a premium to UA due to voting rights.
[5] (under Kasper Rorsted's management)

we think companies like Unilever, Nestlé, Mondelez and the like, are racing against the clock to go through radical changes, either by a shareholder-led revolution or a takeover. Like it or not, the world is a global village and there's no place to hide.

CALIFORNIA FIELD TRIP

During this first quarter, we invested some time on a trip to California, where we met everything from single-person ultra early stage entrepreneurs to Angel Investors, VCs, Bankers and established companies. Our key takeaways follow:

1. The "feeling" reminded us of 1999 (been there, done that...). The main difference is that given AWS and crowdsourcing, barriers to entry are now much lower. Further differences are that the exit strategy moved from Yahoo, Microsoft and AOL to Google, Microsoft and Facebook, and media spending moved from traditional media to Google and Facebook.

2. Cloud migration is happening at ultra high speed and accelerating. Everyone is surprised by it, even the providers. Google is clearly trying to play catch-up with Amazon and Microsoft but is still very far behind. Security is always a concern but everyone realised that it's part of the inevitable (and cloud or not, it will still be a big concern).

3. Amazon, Microsoft and Google are fully committed to offering AI infrastructure over the cloud (with some vertical AI specialised companies focusing on specific applications). So far, so good. The biggest surprise, however, was to learn that AMZN is well advanced in implementing specialised AI server chips that can get rid of all floating point, sounds, graphic and other frills in a way that will allow the new dedicated servers to run AI/Machine learning algorithms (and algorithms that write algorithms) 1,000 times faster and with 99% less energy, to be commercially available in one year (MSFT and GOOG are a little behind the curve). Considering that testing an average system costs about USD 20 to 30 thousand in processing time, cutting that by 500 times initially (quite likely that AMZN will use their time advantage to "skim the milk" and manage the elasticity curve) many new things will emerge and the law of unintended consequences will fatally kick in.

Those with troves of organised data will be able to accelerate quite a lot and eventually build huge competitive advantages through scale. That applies to everything from retail to biotech. It might also mean that the bandwagon of investing in GPU providers such as NVIDIA might not last. They're faster than general purpose CPUs but much less suitable to parallel/networked processing. The most interesting will likely be what some young people will concoct in their proverbial garages with all that affordable AI power in their hands.

4. AR and VR are being pushed hard, and many things are quite amazing, but we can't see them becoming 2017 blockbusters. Still too cumbersome. More likely to be used in specialised professional applications.

5. True to its virtualisation tradition, VMWare's NSX seems to be ramping up. Basically it's a software layer that rests over all your private networks and cloud providers, dividing the info among them, thus making the hacker's job much more difficult and the IT managers' much easier. Pat Gelsinger, their CEO since 2012, is an Intel old-timer. Quite an improbable guy: humble, articulate, IT knowledgeable and strategic. It's worth noting he was ecstatic about signing a semi-exclusive deal with Amazon, which has become somewhat of a God-like company (and we'll say that this is a rare occasion where we agree with the majority).

6. Google hired some gray hair to try to push their corporate cloud. Diane Greene has an impressive CV, professional accomplishments and nearly limitless funds, but the culture clash and Google's lack of corporate service heritage seems like a very high obstacle to overcome. Despite her "street cred", she looked quite confused and uninspiring.

7. On the other hand Julia White, her counterpart at MSFT, impressed us a lot. She seems to be on top of every tech and commercial detail, and to be creating an interesting culture to the point where distributors or representatives only get bonuses if the clients actually use Azure. Our impression is that a person of that caliber wouldn't be so fired up if things weren't going quite well in MSFT as a whole. And we've been getting this kind of signal on all fronts: from retired competitors to young students putting MSFT on top of their dream workplaces again.

8. Amid all the deafening noise around fintech, we managed to meet our old friends from Western Union. Bottom line is that they are very disciplined, spend more on compliance than most of their competitors have in revenues, operate in hundreds of countries and currencies (which results in thousands of channels and more than 30 transactions per second), have a strong brand, an immense network and pricing power. We haven't seen any fintech startup capable of even aiming at their market, especially since all the new players require that clients have a bank account, which Western Union doesn't. At 9x EV/FCF, it sounds like a bargain again. Their legacy business grows about 3% a year (depending on FX) but online transfers in the US and UK are growing at high rates, becoming relevant and being rolled out in more countries. They continue to buy back stock and pay dividends like there's no tomorrow. In our opinion, the fintech revolution is definitely going to happen, but in a much slower pace than most expect due to regulatory issues.

9. Amazon was the great "presence" in the biggest event we attended, although not being present itself. As in many cases, what is not said is most relevant and it was almost funny to see the contrivances that Diane Greene had to do to avoid the "A" word. On the other hand, for most other companies, it was the golden standard, the great enabler and/or the greatest menace. Julia White, from MSFT corporate cloud, defined her target as "closing the gap to AWS". Whoever had a partnership with Amazon felt like the luckiest person in the world.

AMAZON

We usually don't feel comfortable being aligned with consensus, and when it happens, we try to work extra hard to make sure our opinions are independently well founded. In this next piece, we attempted to consolidate the most interesting aspects that have led us to think Amazon is one of the most excepcional companies ever, and that despite all the hype, it might not yet be fully valued.

For that purpose, we took a long ride down memory lane and into our notes (both digital and good-old paper). One thing that clearly stood out is the difference in what the company was supposed to be, what could have been and what has happened.

It was especially important because it's no news that most acquisitions and business plans fail to deliver on what was put on paper. We can remember the second half of the 90s and the many opportunities for AOL and Yahoo, not to mention Altavista, GoTo.com, CMGI[6], Garage.com.

Those who have been following us over the last couple of decades know that what guides us is the belief that great things happen to great companies and the contrary to bad ones. Moreover, it takes a great culture, nurtured over years to make it happen. In our view, Amazon is quite a case in that regard: as we compare what we get and see from Amazon with most other companies, the differences couldn't be more striking, comparing a Bezos speech about Amazon to most "suits" talking about "their" companies is almost like comparing apples to... Saturn.

Reflecting as we took our highly productive walk[7] through our beloved Battersea Park, we connected some notes, thoughts and conversations we had. What struck us was how successful the company has been in introducing new **relevant commercial services** and how they've **managed to ramp them up** as these prove some viability. We don't use the bold font lightly here.

Most companies, especially in the tech sector, suffer of "featuritis". New ideas and touches are easy to come by and, as they say, ideas are one dollar a dozen. Most of them turn out to be a burden if not a liability[8]. **Turning those into businesses people pay for is the billion (soon to be trillion) dollar question.** That's where we think Amazon really stands out.

[6] They used to have the motto: "Creating Net Value"
[7] Angus Deaton, 2015 Economics Nobel Laureate mentioned in an interview to the FT that "After a day's fishing I'll know the solution to something or have good ideas that were not accessible before."
[8] In our opinion, failing fast is one of Silicon Valley's key concepts for success.

Over the years, the book retailer morphed into an international[9] multi-category retailer, a giant that includes a tech infrastructure… you know the drill. The combination of the frequency with which they come up with new ideas and their selective (fail fast) and successful implementation is where we see the Big Bang.

As a great friend once told us: "This reminds me of a movie with Sandra Bullock, Wesley Snipes and Sylvester Stallone. Both the good guy (Stallone) and the bad one (Snipes) are kept in suspended animation for a few decades. One day they are brought back to life and Sandra Bullock's character invites Stallone to dine out. Stallone gets all excited and dressed up for the date. As they reach the place set for the date, it's a Pizza Hut. As he asks why, she answers: 'That's all that's left after the franchise wars…'"

Many people question the company's lack of consolidated reported earnings. We tend to think of it as a giant incubator with outstanding capital allocation discipline, brilliant long term vision and extraordinary execution. As one of our idols put it: "Amazon is the new GE". Those who were around in the eighties and nineties realize what that means.[10]

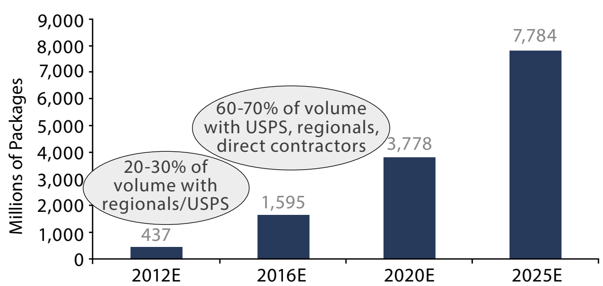
Just to bring some concrete examples forward, a recent FT analysis of flight data shows that Amazon has ramped up the use of its new fleet of 767 cargo jets extremely quickly. Apparently they are using their fleet to put more pressure on Fedex and DHL, on top of cutting the time to deliver packages even further. Some say they're being forced into it as Fedex and UPS have reached the limits of their spare capacity and aren't willing to add more at current prices.

[9] We deliberately avoid the global word here due to the glaring China omission.
[10] For those who weren't, it should suffice to say that Jack Welch started working at the company in 1960 and while he was General Electric's CEO, between 1981 and 2001 the company's value rose more than 20 times on top of huge dividends. And remember, it was already a big company when he took over.

As we can see from the chart below, they've been taking advantage of USPS' willingness to lose money in order to gain share. However, as USPS is not a private company and will need Congress' approval to get a bigger chunk of the Government's Budget, one possibility is that Amazon didn't want to take the risk of waiting and decided to take advantage (again) of their unique scale and execution capabilities to build their own capacity. We've seen anecdotal evidence that there's been a major talent move from FedEx Ground (the famous last mile) to Amazon.

Amazon shifting more towards an in-sourced delivery model

Estimated number of packages fulfilled by AMZN



Source: US Census, corporate reports and commentary, Bernstein analysis and estimates

+ As new buildings are built, new transport options open up – e.g., sortation centers
+ As network gets larger, expedited replenishment (chartes air) used to sweat buildings
+ As new service levels are introduced, new relationships are needed – e.g., on demand couriers for Prime Now, contractors for Fresh
+ As marginal capacity at UPS and FDX is utilized, carriers are pushing back on low rate / marginally priced volume...and they have to do it alone

[11] Trailing Twelve Months

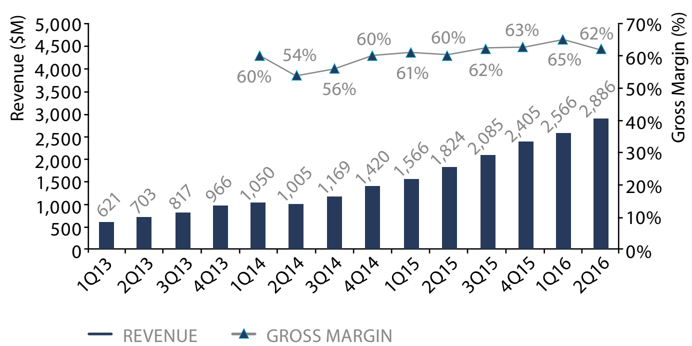
Anyway, if Amazon does it right, once they get this done, it'll mean another big moat. Judging from their traffic and the company's execution track record…

Amazon Web Services - (AWS)

On a different front, according to Amazon, attendance at Amazon's AWS re:Invent conference rose 68% to 32 thousand this year vs. 19 thousand (+41% YoY) in 2015. Also, in the next chart we can see that Amazon keeps maintaining AWS margins, even as it grows. Considering its size and growth speed, it probably means that the barrier to entry for other players that don't add their proprietary stack (a.k.a Microsoft, our other favourite in the category) is getting ever higher, even allowing for hardware deflation.

AMAZON AWS HAS ~ 60% PF GROSS MARGIN

Amazon: Revenue and Gross Margin

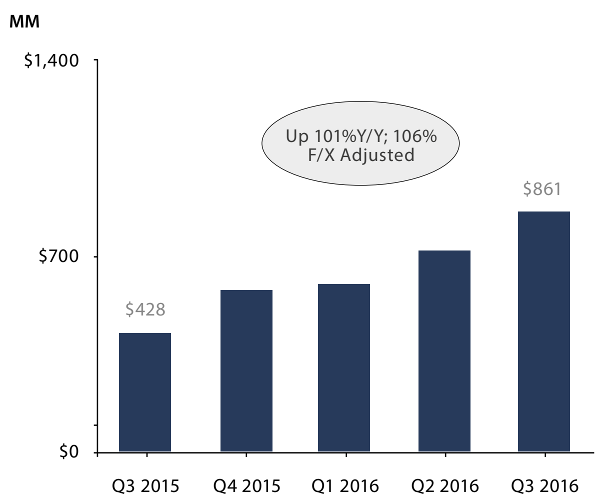


Source: Corporate reports, Bernstein estimates and analysis

As we're writing this, expectations by some investment banks are in the USD 3.5 billion range in revenues for AWS alone in 4Q16, bringing the TTM[11] total to USD 11.1 billion. This means an astronomical growth (50%+ both when compared with a year ago and with 3Q16).

Let's keep in mind that AWS is a much more scalable and higher margin business than e-commerce, as we can see from the following chart from AMZN Q3 presentation[12]:

OPERATING INCOME



Therefore, we expect it to be a really big business with operating margins well above those Amazon manages to get in Books, Music and Video (8% is our estimate). In the case of Microsoft and Google, they're also building a consumer business to boost sales of AWS capacity. Witness Amazon Drive: with a prime membership, one gets unlimited storage for photos and 5GB for videos, music and other files. Paying USD 59.99 a year, one gets unlimited storage for all types of files. And the most important aspect in both cases, as their website states: "When you upload a file or photo to Amazon Drive, you're saving a backup copy in Amazon's secure servers. Your content is safe and easy to get to, and we'll never change or reduce the quality of your images".

In sum, when it comes to AWS, we always remember Bezos' words, also included in our 2Q15 report:

> "I believe AWS is one of those dreamy business offerings that can be serving customers and earning financial returns for many years into the future. Why am I optimistic? For one thing, the size of the opportunity is big, ultimately encompassing global spend on servers, networking, data centers, infrastructure software, databases, data warehouses, and more. Similar to the way I think about Amazon retail, for all practical purposes, I believe AWS is market-size unconstrained."

Amazon Payments

Of course... since they already have your wallet in their hands, what about Amazon Payments? This is not a "pie in the sky", and we have been finding it as a valid alternative offered by merchants. Most interesting is the fact that it transcends Amazon's website. We have been prompted to use it even when we access other websites directly, right beside the options to pay with the usual debit and credit card providers.

The advantages for merchants are pretty obvious. Below are a few testimonials:

[12] Stock based compensation is allocated among business lines.

- "Amazon is synonymous with online shopping. And being the size that it is and having the reputation that it does, there's a high degree of trust when a customer sees the Amazon logo."

- "Because there's no chance of entering the wrong credit card information, the vast majority of Fon and BT customers who choose Pay with Amazon successfully complete their purchases on the first attempt — specifically 91%, which is higher than those paying by credit card."

- "With Pay with Amazon, customers have been able to check out with an average of five clicks, compared to the 16 to 20 previously required of shoppers who didn't have an account. As a result, the average customer can complete payment in just one minute — versus six minutes before."

- Through Pay with Amazon, cart abandonments have decreased by a dramatic 67%. The speedier checkout process is improving conversion rates, leading to more revenue for the company. What's more, shoppers who use Pay with Amazon spend on average 10% more than those using other payment methods available on the site.

- Pay with Amazon customers generate 10% more revenue in the three months after their initial purchase than users of any other payment method. "Once people use Pay with Amazon and see that it works smoothly, it becomes their go-to payment method for future purchases"

As always, in Amazon's case, they do the best for their clients but make no mistake, they're in business to make money. Below is the fee schedule paid by merchants to use Amazon Pay:

Monthly Payment Volume (GBP)	Processing Fee	Authorisation Fee (GBP)
Less than 1,500	3.4%	0.20
1,500.01-6,000	2.9%	0.20
6,000.01-15,000	2.4%	0.20
15,000.01-55,000	1.9%	0.20
Above 55,000	1.4%	0.20

Advertising at Amazon

In our view, that's another under-appreciated Amazon business that can bring BIG positive surprises, notwithstanding Google's dominant position in general search (and in videos via YouTube), and some "niches" dominated by other companies. Just as Expedia is the primary destination site for travel, LinkedIn (now a Microsoft subsidiary) for job searchers and HR departments, Amazon is one of the greatest shopping-specific search engines. Especially if one excludes China/Alibaba.

Despite network externalities, this category has proven to be more fluid than predicted. In our view, Amazon is building its business with much wider and deeper moats.

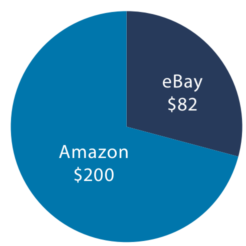
eBay had the e-commerce marketplace in its hands and just like former Yahoo (soon to be "Altaba") did with the general search business, they let it flow through their hands. eBay had about 165 million global active users by September 2016 while Amazon had already surpassed 300 million by the end of 2015. Plus, roughly half of all online shoppers start their product searches on Amazon—much higher than Google, Bing or Yahoo's shares.

eBay quarterly revenues have been stagnant between USD 2 and USD 2.2 billion and its operating margin has been stuck in the 25% to 30% range.

Amazon doesn't disclose its advertising and marketplace revenues separately, but Amazon Media Group is estimated to be reaching a run rate of about USD 2 billion. That's still pocket money compared to Google or Facebook, but it's growing fast. As we discuss in the Fulfilled by Amazon (FBA) part below, that could turn out to be THE profit machine from the e-commerce platform.

From another perspective, the following chart published by Piper Jaffray also gives us a hint of how well things can be going:

GMV 2015 $ BILLIONS



GMV = Gross Merchandise Value, i.e. total money spent by customers.

It is not total revenue received by the companies. That would be a fraction of this number. In Amazon's case, marketplace revenues are about half of the total e-commerce sales and the percent it receives from merchants is higher due to aggregate services like Pay, Fulfillment, etc. Still, rest assured that areas like Fresh and Pantry, which include CPG goods are growing fast, on top of what is already big. Total grocery revenues are estimated to have been USD 4.5 billion in 2016 and looking at the first quarter of 2017, it seems to be growing in the 50% YoY range.

Anyone who knows a bit of retail (or art, for that matter), knows about the power of context. When someone is at Amazon, that someone is quite likely in "buying mode", just as when on Expedia is in "travelling mode". So that's the best moment to advertise. The brilliance of Amazon is that they've recognized their own business generates inordinate amounts of traffic, so it could also sell advertising. And those revenues have extremely high margins, as we well know from Google.

Think for a second: how much is it worth for a merchant to be present in an Amazon page that shows the results of a product search? Take into account all the traffic, the fact that you'll be able to get many reviews and questions about the products answered by Amazon clients and if you so chose, to give the client the confidence associated with Amazon's fulfillment and payment. How much capital, time and hassle are you getting rid off? In other words, the have created "The Market".

How Advertising at Amazon works[13]

1. Buy data from Amazon which shows you who buys products in your category, at what price levels etc.

2. Select your products and choose your keywords, or use Amazon's suggested keywords.

3. Decide how much you want to spend on your campaigns.

4. Your ads may appear on product detail pages, alongside and below search results. It also allows the manufacturer to target individual shopper segments, based on specific interests, like "music fans" or "coffee enthusiasts," or search and browsing history, like people who may be looking to buy "camera lenses." It can customize ads based on real-time data, across different formats, including video and mobile, too.

5. Shoppers who click your ad are taken to the product detail page where your offer is listed.

6. Amazon Advertising Platform lets advertisers systematically shoot ads to Amazon-owned sites or third-party sites, across different types of devices. Amazon also sells sponsored products, regular display ads and even video ads. Some job postings indicate it may branch out to solutions that work with the Alexa voice system as well.

7. One can also opt to add rich media ads, including video etc… It seems to us that most companies still haven't got what's available here and now. But some big CPG companies like P&G are going full throttle on it. From what we've been able to check, it works like a charm for manufacturers/advertisers. Given the high ROI obtained, we believe it's only a matter of time until others will follow.

8. And remember, most shoppers are "one click away" from closing the transaction and in most cases

[13] From: https://advertising.amazon.co.uk/sponsored-products

with free shipping. That's a world of difference from Google or Facebook advertisements.

The return is high, measurable and total investment is easily managed. In fact, Amazon is telling suppliers, specially Consumer Product Companies ("CPGs") to instead of opening Seattle offices and hiring "suits" to try to push their products to Amazon buyers, hire data scientists, buy their data and experiment what works on Amazon and its marketplace. They'll need the data scientists in order to translate the unimaginable overflow of data into insights and information that is truly actionable, they can even experiment with different formats. We're tired of seeing companies storing troves of data that just accumulate and remains unstructured and unused, that end up only increasing overall costs. In sum, Amazon is redefining the supplier/retailer relationship to a whole new level, what they call a "hands-off-the-wheel model.”

To quote a recent conference call on the subject:

> *"The hands-off-the-wheel model is basically saying, you know what, we actually don't need suppliers to come in here and talk to our buyers. We're going to do everything from an automation perspective. What we really want you guys to do is to spend less time with buyers, and more time with our media group.*
>
> *They're saying hey, rather than spending that $100 million you were going to spend on a different media campaign, why not spend that with Amazon? We know that we're the number one product search site. Spend your dollars to drive conversion with your shopper when she's ready to spend her money.*
>
> *CPG companies are very much focused on building brand campaigns and building brand equity, and that's great, and that's important. However in a world that has product detail pages and really driving conversion at the item level, it's really critical for marketers to start to think that way and get really good at not just brand marketing, but product and item marketing as well.*
>
> *And this is quite a shift in how CPG companies are used to doing business, and so this idea of being able to automate to keep up with how Amazon is doing business is going to be absolutely critical… the buying function, it's going to be completely or mostly automated. So to the extent that companies can automate insights, merchandising, buying, et cetera, they will have huge benefit from that. So you really need to start training your people to think like an Amazonian, so that you can properly negotiate."*

For Amazon, the key point is that they can even sell products at cost, since it can make money out of selling data, FBA, Prime, other products and services in general. It's Bezos' "Flywheel model" gaining traction.

Oddly enough, when we talk to media and advertising people, they are only thinking about Google (pull) and Facebook (push). We think at the very worse, Amazon's marketplace/advertising (sans Amazon Pay and Fulfilled by Amazon) business should compare with eBay[14] in terms of margins.

They're also forgetting that Amazon has just passed venerable WalMart in terms of access to US households over the last Holiday season, meaning more people visit Amazon than Walmart. Again, those are people "on a mission to buy", not funny video cat fanatics or selfie addicts simply browsing. No supplier can ignore such distribution channel.

One thing that has puzzled us in the past is when we asked WPP CEO Sir Martin Sorrell which ones he considered the main media companies of the future, he shot from the hip: Google. He didn't even consider Amazon as an alternative. Well, things apparently have changed. He mentioned in WPP's most recent earnings call that his company recently set up an agency in Seattle “specifically to deal with” Amazon and that Amazon’s ad business growth is a “threat” to Google.

It goes without saying that as this model gains traction and relevance, AMZN will have another relevant high margin business integrated into its Fly Wheel...

More importantly, that isn't the same thing as "Fulfilled by Amazon", which is a much more integrated business.

[14] Which had about 165 million global buyers by the end of Q3 2016

Fulfilled By Amazon (FBA)

This is a much deeper integration of third party retailers into Amazon's juggernaut, when compared with an Advertising-only solution or the Amazon Pay alternative. Usually sellers will use the three in tandem.

There's an inside joke at Amazon the the service should be called: “make-more-money-and-grow-your-business-fast-and-save-time-and-delight-your-customers-by-Amazon”

On top of advertising, the retailer essentially becomes a merchandiser: transferring, for a fee, most of traditional retail operations (storing inventory, display, delivery, billing and customer service) to Amazon. Since Amazon is highly efficient and has unrivalled scale, the business logic is perfect.

When you list your products with FBA on Amazon.com (US), your products are eligible for free shipping, too. Plus, when you register for an Amazon.com seller account, you can sell on Amazon marketplaces in Canada and Mexico. If you also enable FBA for products you list on Amazon.ca and Amazon.com.mx, you can reach even more customers across North America who love Amazon's trusted fast and free shipping.

Customers get Amazon's trusted customer service and return policy through FBA. Listings are displayed with the Prime logo, those who are Prime clients know how comforting that is and the impact on sales is immediate and huge.

Sellers will comply with their pay as you go system - "you are charged for storage space and the orders we fulfill. The cost of shipping is included in your fees, with no extra charge for Amazon Prime FREE Two-Day Shipping and FREE Shipping on eligible orders. Fees for Selling on Amazon and optional services may apply."

The following tables give an idea of how much it costs to use FBA. Imagine you're a startup or a growing business. Instead of having to rent a place, hire people to run it and having to work out agreements with mailing/shipment companies, you can hire Amazon, pay a Per Item scale and use their whole fulfillment centers' footprint. How big do you have to be to justify building your own operations?

FBA Fulfillment Fees (standard Non-Media)				
Prior to February 22, 2017				
Older Handing, Pick & Pack, and Weight Handing fees (per-unit total)				
	Small standard-size (1lb. or less)	Large standard-size (1lb. or less)	Large standard-size (1 to 2 lbs.)	Small standard-size (over 2 lbs.)
January-October	$2.56	$3.02	$4.01	$4.01 + $0.39/lb. above the first 2 lbs.
November-December	$2.53	$2.88	$3.72	$3.72 + $0.35/lb. above the first 2 lbs.
Effective February 22, 2017				
Fulfillment Fee (per-unit total)				
	Small standard-size (1lb. or less)	Large standard-size (1lb. or less)	Large standard-size (1 to 2 lbs.)	Small standard-size (over 2 lbs.)
January-September	$2.41	$2.99	$4.18	$4.18 + $0.39/lb. above the first 2 lbs.
October-December	$2.39	$2.88	$3.96	$3.96 + $0.35/lb. above the first 2 lbs.

FBA Fulfillment Fees (standard-size Media)				
Prior to February 22, 2017				
Older Handing, Pick & Pack, and Weight Handing fees (per-unit total)				
	Small standard-size (1lb. or less)	Large standard-size (1lb. or less)	Large standard-size (1 to 2 lbs.)	Small standard-size (over 2 lbs.)
January-October	$1.56	$1.91	$2.30	$2.30 + $0.41/lb. above the first 2 lbs.
November-December	$1.53	$1.77	$2.01	$2.01 + $0.37/lb. above the first 2 lbs.
Effective February 22, 2017				
Fulfillment Fee (per-unit total)				
	Small standard-size (1lb. or less)	Large standard-size (1lb. or less)	Large standard-size (1 to 2 lbs.)	Small standard-size (over 2 lbs.)
January-September	$2.41	$2.99	$4.18	$4.18 + $0.39/lb. above the first 2 lbs.
October-December	$2.39	$2.88	$3.96	$3.96 + $0.35/lb. above the first 2 lbs.

FBA Fulfillment Fees (oversize)				
Prior to February 22, 2017				
Older Handing, Pick & Pack, and Weight Handing fees (per-unit total)				
	Small oversize	Medium oversize	Large oversize	Special oversize
January-October	$6.15 + $0.39/lb. above the first 2 lb.	$7.93 + $0.39/lb. above the first 2 lb.	$72.38 + $0.80/lb. above the first 90 lb.	$135.11 + $0.92/lb. above the first 90 lbs.
November-December	$5.94 + $0.35/lb. above the first 2 lb.	$7.30 + $0.35/lb. above the first 2 lb.	$64.97 + $0.76/lb. above the first 90 lb.	$126.26 + $0.88/lb. above the first 90 lbs.
Effective February 22, 2017				
Fulfillment Fee (per-unit total)				
	Small oversize	Medium oversize	Large oversize	Special oversize
January-September	$6.85 + $0.39/lb. above the first 2 lb.	$9.20 + $0.39/lb. above the first 2 lb.	$75.06 + $0.80/lb. above the first 90 lb.	$138.08 + $0.92/lb. above the first 90 lb.
October-December	$6.69 + $0.35/lb. above the first 2 lb.	$8.73 + $0.35/lb. above the first 2 lb.	$69.50 + $0.76/lb. above the first 90 lb.	$131.44 + $0.88/lb. above the first 90 lb.

MONTHLY INVENTORY STORAGE FEES

Effective March 1, 2017, the monthly inventory storage fee for standard-size items will increase from $0.54 per cubic foot to $0.64 per cubic foot. This fee applies to standard-size items stored in fulfillment centers during the months of January though September. The fee for oversize units stored during these months will not change.

Effective October 1, 2017, the monthly inventory storage fee for October will be increased for standard-size and oversize items to be consistent with the monthly inventory storage fees for November and December. On the same date, we will also reduce the Fulfillment Fee for all items shipped in October to be consistent with fulfillment fees in November and December.

Monthly Inventory Storage fees		
Prior to March 1, 2017		
	Standard-size	Oversize
January-October	$0.54 per cubic foot	$0.43 per cubic foot
November-December	$2.25 per cubic foot	$1.15 per cubic foot
Effective March 1, 2017		
	Standard-size	Oversize
January-September	$0.64 per cubic foot	$0.43 per cubic foot
October-December	$2.35 per cubic foot	$1.15 per cubic foot

But in order to be able to stay as marketplace participants, the merchandiser should comply with Amazon customer satisfaction standards:

> "Your seller performance is measured per marketplace, so keep an eye on it:
> - Your order defective rate: less than 1% of orders with negative feedback, A-to-Z or chargeback.
> - Late shipment rate: less than 4% of your orders later than promised (increase delivery or handling time).
> - Contact response time: reply to more than 90% of buyer messages in less than 24 hours."

That helps Amazon keep its stellar customer satisfaction level and sellers know what they should strive for. As per what we've been able to investigate, this becomes a matter of life or death for sellers. Being kicked out is like losing your space in the best shopping center or district in a brick-and-mortar operation.

Also, by growing FBA and its logistic juggernaut, Amazon has created a formidable moat. It now represents a key client to most logistical companies such as Fedex, DHL and the like, it has been able to negotiate volume prices way out of the possibilities of smaller businesses. Same goes for payment systems. The result is that, in many cases, it's not only cheaper to use FBA when one considers all the indirect and administrative benefits, but also that's also true when simply comparing the algebraic sum of costs of buying the services from the different providers in a smaller scale.

Last but not least, sellers who use FBA have a better chance of being listed higher in Amazon search results, the importance of which we've all learned from Google. By doing that, Amazon creates a self-reinforcing situation, where it's better and cheaper for sellers to use FBA, which as a consequence increases Amazon's efficiency and allows it to charge less for it.

Amazon Go

And then there's Amazon Go. Admittedly the less proven from the businesses mentioned here. What is it? Besides the prototype store, details are not clear just yet. Looking at Amazon's website, we learn:

> "Amazon Go is a new kind of [physical] store with no checkout required. We created the world's most advanced shopping technology so you never have to wait in line. With our Just Walk Out shopping experience, simply use the Amazon Go app to enter the store, take the products you want, and go! No lines, no checkout."

Is Amazon going heavily into conventional retail, opening thousands of stores? Not clear. It seems to us that it might just do as it did with marketplace: they provide the technology, visibility, logistics and payments. So far, we can't attribute any value to it. On the other hand, as more and more CPG companies adhere to the marketplace and plug themselves into Amazon's selling machine, that's an alternative to be considered and monitored. But we tend to agree with a comment from a recent Bernstein research piece that mentions:

> "It is not a coincidence that Amazon is a first mover in both warehouse automation and now, in new concept retail automation. The underlying technologies have lots in common."

We'll touch more on that in a future letter…

Amazon [for] Business

There's a less visible part of Amazon and one that has been left for dead by analysts in general: Amazon Business. They might as well be right, but given what we know about the MRO (Maintenance, Repair and Operations) business and how Amazon's core competences fit with it, we think it deserves a closer look.

First things first: MRO sector consists of companies that sell screws, helmets, gloves and the likes to businesses, mostly industrial and construction. The

MRO business is a silent global business, lead by Grainger and Fastenal in the US.

Low and behold AMZN's business to business (B2B) is gaining traction. As a recent Morgan Stanley Multi-Industry Report highlights:

> "We also note that 29% of respondents view Amazon as a threat to their business model – a new survey high and this keeps us cautious on MRO-levered distributors such as GWW"

We're no strangers to Grainger and Fastenal. Actually we have done quite a bit of homework on both and asked them specifically about Amazon as a competitor. What we got was a mix of confidence and denial, here are some of the answers:

1. From Grainger: "Amazon is our customer, we have vending machines installed in some of their Fulfillment Centers".

2. "Our customers need speed." GWW and FAST even have vending machines installed at customers' premises, where workers can select supplies using passwords and/or swiping cards.

"Problem" is, as we know, Amazon is more than willing to compete in price to conquer any market and can easily match (and surpass) on the fulfilment and shipping side of the business. Not to mention they are the most data-centric company we've ever seen. It's second nature to them and it wouldn't be any different here[15].

So far, in the MRO space, competitors have stood their grounds as Amazon hasn't been able to strike deals with a lot of key manufacturers and has yet to establish a strong and loyal customer base. We should remind you: these are business customers that still buy from catalogue books by calling "their guy".

The effect Amazon will have on the sector will, as usual, first punish the companies with the weakest moat. The strongest companies in this sector establish themselves as part of their customers' production process, through services like inventory management and vending machines.

However, when one considers what Amazon is developing with "Go", vending machines start sounding more like a liability than an asset…

Alexa

Last but not least, since AI is the "flavor of the month", let's talk Echo and Alexa. One more case where we believe Amazon has an advantage over Google **from an investor's point of view**. While Google, Microsoft and IBM clearly had and still have the lead in AI technology, Amazon leapfrogged them all and is selling Echo by the millions[16] , and with it selling Alexa, Amazon's AI business.

At this year's CES[17], Amazon manifested its hopes to make Alexa into an operating system. Being heavy users ourselves, this seems quite possible. It's amazing

[15] https://www.amazon.com/b2b/info/analytics?layout=landing
[16] As usual, the company doesn't disclose numbers, but one only has to ask around to see it's big.
[17] CES - Consumer Electronics Show, organized by the Consumer Technology Association, is the biggest yearly event on consumer electronics, held early January in Las Vegas.

how many things we already "moved" from keyboard and mobile phone interface to Alexa. The fact that it's always on[18] and hand's free makes up for a lot of issues.

Also at this year's CES, Ford and Amazon officially announced their partnership and will be rolling it out in the weeks to come. Ford claims it will be the first automaker to offer real-world integration with Amazon's popular smart home device. Other car companies have also been working to get Alexa in their vehicles, but it looks like Ford may have won the sprint to get there first.

According to The Verge, Ford owners will be able to play and resume audiobooks, order items on Amazon, and search for and transfer local destinations to the in-car navigation system. From home, Ford vehicle owners will be able to remote start, lock or unlock doors, and get vehicle information using voice commands.

We've had the opportunity to try Google's "Alexa" as well. We were quite optimistic given Google's voice search capabilities, but the first thing that really stood out to us was that it was not as easy to set-up as Echo.

It's clearly early times in the AI and home automation games, the end game being quite scary to think about as we mentioned in our 3Q16 letter, and many things will change. For now, every day that goes by is another day when many thousands of people get used to saying:

"Alexa, what's my schedule for today?"

"Alexa, add XXX to my shopping cart"

"Alexa, ask Uber to request a ride"

"Alexa, what's the weather like?"

"Alexa, tell me a joke"

If anything seems clear so far about AI, it's that having loads of data is key. While Google and Facebook have plenty of personal data, Amazon has an immense amount of personal transactional data. As we know, Facebook is all about how people would like to be seen, but transactions are a whole different ball game. At the end of the day, "money talks, bullshit walks."

"Alexa, play Imagine, by John Lennon"...

Show me the Money!!!

That's all fun and games, but one must not forget the investor's point of view. Our way to get it through to our team is to remind them of the legendary Cuba Gooding[19] and Tom Cruise scene in "Jerry Maguire[20]". But back to real life.

A bit over year ago, in our 4Q15 letter we presented the following "Back Of the Envelope" (or BOE, as we call it) exercise.

In the first one, we estimated revenues would grow 20% per year (AMZN gets to WMT's current revenue in 10 years) and operating margins grow less and slower, at 100bps per year:

[18] You can turn it's microphone off simply pressing a button at its top and it acknowledges it by turning the feedback LEDs into red, The advantage against simply turning it completely off is that there's no boot time.
[19] Who won the Oscar for Best Supporting Actor for his performance.
[20] http://www.imdb.com/title/tt0116695/?ref_=nm_knf_t1. Incidentally, IMDB (Internet Movie Data Base) is … an Amazon company which they use to drive qualified traffic to their media offerings…
For those who have never saw it, you can check the scene at https://www.youtube.com/watch?v=mBS0OWGUidc .

TABLE 1

Year	Revenue	Operating Margin	Operating Income	Tax rate	Net income	NPV
1	100	2.0%	2	5%	2	2
2	120	3.0%	4	10%	3	3
3	144	4.0%	6	10%	5	4
4	173	5.0%	9	10%	8	6
5	207	6.0%	12	10%	11	8
6	249	7.0%	17	15%	15	10
7	299	8.0%	24	15%	20	14
8	358	9.0%	32	15%	27	17
9	430	10.0%	43	15%	37	22
10	516	11.0%	57	15%	48	27
Op. margin growth	1.0%			Term value	724	404
Revenue growth	20%				NPV	517
Disc Rate	6.0%			Current Mkt Cap	AMZN	$310,860
Terminal multiple	15					

In the second one, revenues and operating margins grow faster. 25% a year for revenues and 2% for operating margin.

TABLE 2

Year	Revenue	Operating Margin	Operating Income	Tax rate	Net income	NPV
1	100	2.0%	2	5%	2	2
2	125	4.0%	5	10%	5	4
3	156	6.0%	9	10%	8	7
4	195	8.0%	16	10%	14	11
5	244	10.0%	24	10%	22	16
6	305	12.0%	37	15%	31	22
7	381	14.0%	53	15%	45	30
8	477	16.0%	76	15%	65	41
9	596	18.0%	107	15%	91	54
10	745	20.0%	149	15%	127	71
Op. margin growth	2.0%			Term value	1900	1061
Revenue growth	25%				NPV	1319
Disc Rate	6.0%			Current Mkt Cap	AMZN	$311,117
Terminal multiple	15					

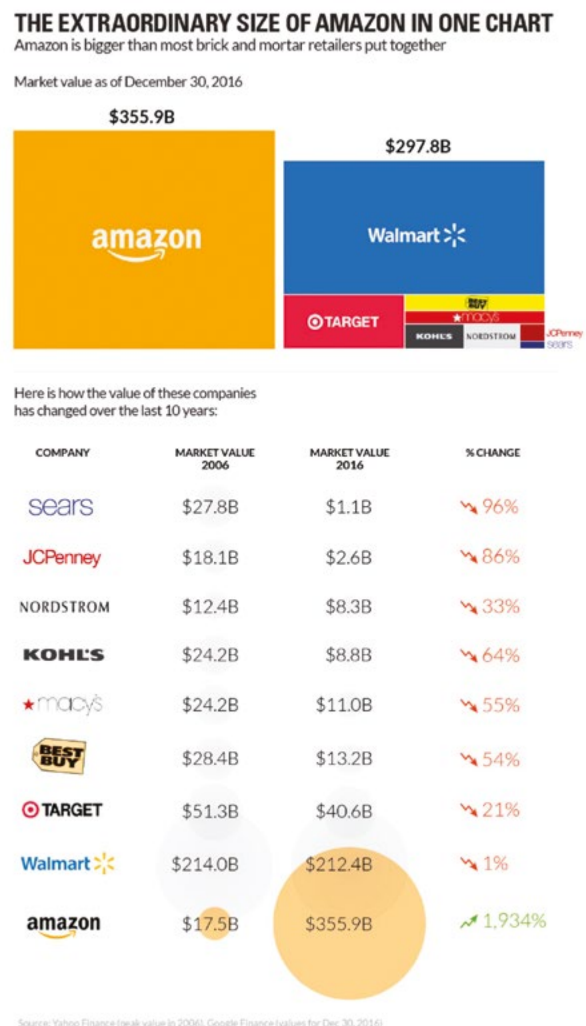
Amazon's 2015 revenues were USD 107 billion and Market Cap by 2016 year-end was about USD 355 billion

In 2016, the company posted USD 136 billion in revenues, a 27% increase over 2015, despite obviously starting from a higher base. As we've been trying to convey, growth is not only happening, but it's also being done in an integrated[21] way and into higher margin businesses.

At current prices around USD 900 per share, market cap is about USD 430 billion. So if growth and margin expansion continue, there might be a nice upside.

Some numbers to put things in perspective:

- Best Buy's annual revenue from 2013 to 2016[22] has been steady around USD 40 billion, which means that in 2016 alone, Amazon grew over 2/3 of BBY's entire revenue.
- Walmart's operating margin, which could be a proxy for Amazon's "legacy" e-commerce business, has hovered around 4% to 5%.
- Microsoft's operating margin, which could represent a proxy to AWS business has floated in the 35% to 40% range.
- Amazon Prime rose 38% to 65 million members in the US as of Sept. 30, according to Consumer Intelligence Research Partners.
- In 2006, big box and department stores in the US had sales of over USD 250 billion. It is estimated that this year, revenues are equal to just 62% of their totals in 2006.



Of course one can make the case that Amazon's market cap has moved "ahead of its business".

At the end of the day, that's anyone's guess. However, we do think that Amazon is a different "animal".

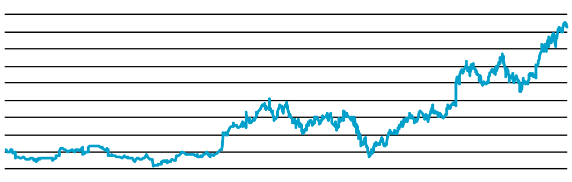
[21] Actually "sinergic" would be a more appropriate word, but it has been so abused, misused and discredited that we're for the more humble "integrated".
[22] Fiscal year ends by the end of January.

Many of the revenue streams we mentioned in this report that have been growing faster, have much higher margin scalability and ROI than conventional retail and are global in nature.

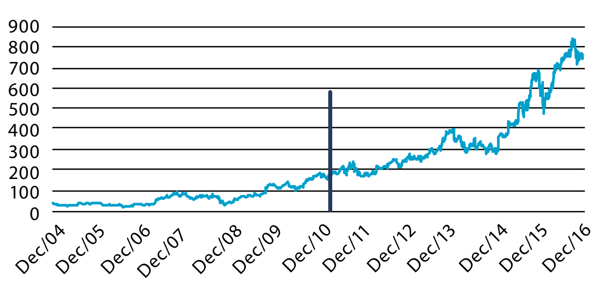
A company that grows this fast with much better business and bigger addressable markets should, in our opinion, be valued higher. How much? Well, we refer to the two BOEexercises presented above.

Looking at the following chart, some concern about overpaying seems natural:

AMZN PRICE



But things might feel a bit different when we reveal that it is in fact AMZN's price from 2005 to 2010, and the "peak" is about USD 200/share…



Hmmm… Maybe it really was cheap back in 2005. Or maybe it's quite expensive now. Or even yet, maybe it delivered more than expected. In our view, the latter is most likely. Investing is about learning from the past and thinking about the future to make decisions.

Obviously there are many risks from all sides: regulatory, executional, competitive, Bezos… Whenever something is going well, we should be concerned that they can, and often do, take a turn for the worse. As an investor, one should try be quite aware of those risks, and compare with other alternatives and the upside. Again, our experience shows us that good surprises happen to good companies, and the opposite to bad ones.

So, a bit more than a year has passed since we made that BOE exercise and things clearly appear to be on the better side when it comes to revenues. In terms of operating margins, Bezos has made it clear that whenever he sees an attractive investment opportunity, he doesn't think twice about sacrificing short term profits for more growth and stronger competitive position, something we agree with and tend to see as a virtue.

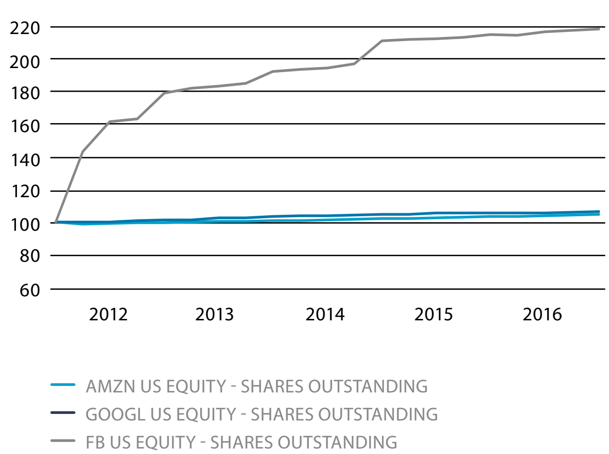
It all goes back to the beginning of this section where we mentioned that while some people question the company's lack of consolidated reported earnings we tend to think of it as a giant global holding/incubator with outstanding capital allocation discipline, taking money from mature businesses, like BMV (Books Movies and Videos) and investing in new, better businesses based on a brilliant long term vision combined with extraordinary execution.

> *"We manage by two seemingly contradictory traits: impatience to deliver faster and a willingness to think long term."* **- Jeff Bezos**[23].

The thing that continually bothers us is the fact that trees don't grow to the sky. A recent article in the FT mentioned the huge effort that's going on in terms of recruiting MBAs to help sustain all that growth. Of course it seems to be the logical thing to do, but moving so fast and getting so big certainly strains the culture and is one more BIG challenge for Bezos and Co.

One thing that helps is the the governance issue. While the founders of Google and Facebook have supervoting shares and even went beyond by allowing themselves to issue non-voting shares, Bezos has the same stock that anyone can buy. Issuing new shares or piling up vanity losses is less likely here.

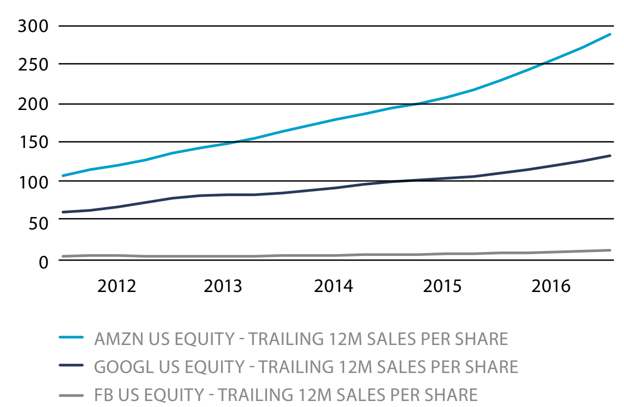
NORMALIZED SHARES OUTSTANDING - AMZN, GOOG AND FB (2012-2016)



[23] in Amazon's Q1 2015 earnings release

What that means is that while the three companies are growing quite fast, in Google and Facebook's cases, per share revenue is growing much slower than the company itself, as you can see in the graph that follows. Over time, that makes quite a difference... After all, there is only so much one can increase margins by.

TTM REVENUE IN USD/SHARE AMZN, GOOG AND FB (2012-2016)



Our point becomes clear once one compares FB, GOOG and AMZN's 5 years revenues CAGR per share, the more relevant number from an investment point of view. Facebook has a much faster revenue growth rate, but is a much newer and smaller company. Even then, when we look at revenues/share the dilution effect gets clear.

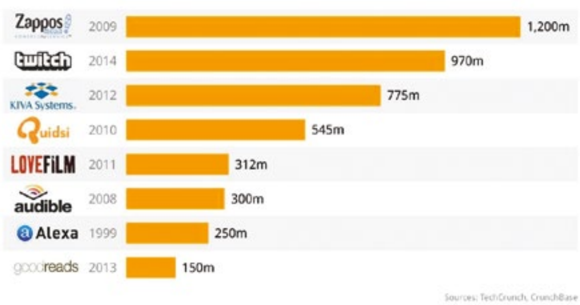
	Amazon	Facebook	Google
Revenue CAGR last 5 years	22.1%	52.7%	15.8%
Shares outstanding CAGR last 5 years	1.2%	5.1%	1.2%
Revenue/Share CAGR last 5 years	20.6%	45.3%	14.5%
Share buybacks last 5 years	USD 5 bn	-	USD 12 bn

CAGR = Compounded Average Growth Rate

M&A Track-Record

We strongly believe that it all gets reflected when it comes to M&A, another big difference among most "popular" companies. No USD 20 billion for Whatsapp or USD 26 billion for LinkedIn here. In Amazon's case, most acquisitions are much more humble and clearly integrated in the (admittedly ever-expanding) company's scope.

M&A TRACK-RECORD



In conclusion, when we consider all factors we deem the most relevant: leadership quality, alignment of interests and business quality, we can still find other companies on the same level, like ABI and DHR, but when we include the growth factor (both present and future) and margin expansion possibility, Amazon stands out head and shoulders above the rest.

If on the one hand its diversification makes competitive issues less worrisome than in DHR's case, for example, on the other hand the scale and synergy of its business is unrivalled. We still believe that the scenario where they continue to grow revenues 20% per year and expanding margins well above it has ever experimented is quite possible. So, from a valuation perspective, as we've shown, that leaves a significant margin of safety.

By integrating along an impressive line of businesses, Bezos has created a critical infrastructure for the internet economy. Reason leads us to believe that the path ahead will likely be bumpy, but hey, what's safe today? Investors are better off betting on the leader in growth and innovation.

PERSPECTIVES

There's an interesting article in the Jan/Feb edition of the MIT Tech Review on the FBI's work against Bioterrorism. They highlight how "Barriers to entry are lower for doing something malicious, and that jeopardizes all of us", according to Nevin Summers, executive director of MIT's Synthetic Biology Center. They add that "home kits to modify the genes of bacteria using CRISPR are on sale online for USD 140."

Further, the article highlights some of the strategies (many of them "social") that the FBI is using to its "network of sources as a 'web of detection' that allows him to learn what scientists are worried about."

However, as things become more widely available and widely distributed, the bar gets lower and the possibility of an incident gets higher.

Even though the risk is very clear and upsetting, we're seeing more and more investing in the biotech area (many talks in Davos), all of which bodes well for companies like Thermo-Fisher.

Plus, geopolitical risks seem to be on the rise in every front. There was a quite strong piece written by SImon Kuper for the FT that said:

> *"Already Trump is creating a new generation of anti-americans. True some religious despotic regimes such as Saudi Arabia also practice religious discrimination. But I don't go on Holiday in Saudi Arabia either, and I thought the US's standards were higher…*
>
> *In America's big liberal cities, with their non-racist, non-sexist speech codes designed to trip up the unwary, the rich sealed themselves off through house prices. The poor were free to wait tables, fight in Iraq and devote much of their remaining mindspace to worrying about health insurance.*
>
> *I disagree with Brexit, but I accept that's a reasonable choice to make. Handing a country and its nuclear codes to a volatile, narcissistic, lying, Putin-supporting, sexually harassing, law-defying racist is not.*
>
> *Reality changes so fast these days that I wake up some morning feeling like I've landed on a new planet. I hope one day we'll return to the old one".*

Our visits to the US also revealed much greater tension, even bigger than post-2001 in our opinion. Suffice to say that right out of immigration at O'Hare airport there were civil rights groups and immigration lawyers offering support and advertising services. In California, even as they think about how to mine asteroids, clearly bringing Trump to conversations wouldn't have been a good idea.

At the end of the day, integrating 5 or 6 or 7 billion people in an intercommunicating system might prove a much harder task than any one faced by humankind before. Most senior people in companies and government are certainly befuddled.

In some forums, we see many from our generation (and older) discussing what we have done and what are we going to leave behind. That we all know. Our hope is that the newer generation, which is treated as inert cargo in most discussions, will be able to surprise us all positively. We remain quite jumpy, always hoping for the best but preparing for the worse.

RANDOM BITS

- Prime Power - those who know us for a while, know about our almost freakish obsession with Prime numbers. That only reinforced out fascination with what Bezos has created with the Prime program. Follows a few bits:

    - "Amazon Prime members spend more on the company's website - an average of USD 1.500 annually, compared to USD 625 spent by non-prime members"

      — The evolution of Amazon Prime and their Followed Success - Chab Rubin.

    - "Sixty-three percent of Amazon Prime members carry out a paid transaction on the site on the same visit, compared with 13% of non-Prime members. For Walmart and Target, those figures are 5% and 2%, respectively."

      — Walmart and Target being crowded out online by Amazon Prime - Forbes

    - "A recent study found that less than 1% of Amazon Prime members are likely to consider competitor retail sites in the same shopping session."

      — ID.

    - In the words of a former Amazon employee who worked on the Prime team, 'It was never about the USD 79. It was really about changing people's mentality so that they wouldn't shop anywhere else.'

      — What's in Amazon Box? Instant gratification - Bloomberg

- According to an october 2015 Bloomreach report, forty four percent of American shoppers begin their online shopping on Amazon's platform.

- 80% of males born in 1923 Soviet Union did not survive WWII.

- Microsoft created an AI team of more than 5,000 academics and engineers to design the operating system of the future...The most exciting thing to me is beyond what we are doing ourselves, which is to take the same AI capability we have and make it available so everybody can use it
— FT.

- Skype is serving more than 300 Million conversations a month, more than 3 billion minutes.

- A Twitter survey by MIT Tech review said that 52% of those asked would get in a self-driven Uber, 14% said "maybe in 5 years" and 34% responded "never".

Follows a few details from a FT article on the incentives that Chinese tour guides receive from luxury goods companies.

- "Typically, tour guides and their agencies broker deals with luxury retailers: commission of 10% for the guide for each transaction and 2.5% for the agent. It is discreetly paid, long after the client has bought the jewellery or watch, and a top-performing Chinese tour guide can earn GBP 250,000 a year."

- Flight bookings from China to the UK are 38% higher for December 2016 to February 2017, compared with a year earlier.

- EastSong provides tour guides with a smartphone app showing them which stores offer a commission, information about the products on offer and tips on, among other things, how to help tourists claim back value added tax. It also arranges the back end: the tour guides are paid by the luxury brands through its computer systems.

- "There are 75 hours of beauty content uploaded daily on YouTube," explains Slater, "with over 800,000 beauty tutorials. How does a heritage brand cut through all this?"
  — FT.

- Researcher estimates say there will be nearly 6.4 billion connected objects this year, up 30% from 2015 and growing to reach 20.8 billion by 2020. IoT is on track to connect 50 billion "smart" things by 2020 and 1 trillion sensors soon after, according to the National Science Foundation.
  — WIRED.

- "… and the silicon chip inside my head gets switched to overload..."
  — Bob Geldof.

- The world's largest luxury group — home to brands from Louis Vuitton to Tag Heuer — reported its highest revenues of EUR 37.6 billion in 2016, a 5% year-on-year increase. The group's operating profit grew 6% in the year to EUR 7 billion..."We have reached an inflection point for the luxury sector," said Caroline Reyl, head of premium brands at Pictet Asset Management. "The slowdown we've seen in the past two years is now coming to an end."

- FT.

MISCELLANEOUS

- “If you can be a leader with kindergarten children, you can be a leader anywhere.”
  — Jørgen Vig Knudstorp (Lego CEO from Oct. 04 - Dec. 16) on his 18-month stint as a trainee kindergarten teacher.

- "Established electric utilities are facing challenges they had not dreamt about five years ago. Many are starting to push back. It is a battle that will shape the future of the industry… As Nevada’s energy regulator tries to work out how to manage the explosive growth of rooftop solar, it has become a battleground for the competition between NV Energy, the monopoly electricity utility, and the upstart residential solar companies. NV Energy has proposed a complex system of different charges for customers taking advantage of net metering, which the solar companies say would put people off installing systems, in part simply because they would not understand it." FT "Sunshine Revolution". Having tried to install solar panels at "Villa Aymores" a commercial retrofit of historical buildings project we invested in Rio de Janeiro, we can attest to the regulatory warfare incumbents are adopting. It's about time group movements identify and face this hidden obstacle, which is becoming more relevant both in relative and absolute terms.

- "The automation paradox": As automated systems become increasingly reliable and efficient, the more likely it is that human operators will mentally "switch off" and depend on the automated systems. And as the automated systems become more complex, the odds of an accident or mishap may diminish, but the severity of a failure is often amplified.
  — MIT I.o.T

- "The next step in this new age of metadata is that we’re going to see patterns that no one knew existed… Sensors are rapidly bringing us to a place where we can gather, synthesize, and understand enormous amounts of data very quickly"
  — Wired

- "Trump turns out to be a traditional Republican with an overactive thyroid"

  — FT

- "One chief equated life under the new president to dealing with a "natural disaster": no one in corporate America knew where he would strike next."

  — FT

- "Populists say that conventional politicians lie. It would be more accurate to say that conventional politicians mislead. Only now is outright lying taking off in politics. That's because the nature of politicians is changing: whereas traditional parties are like old established companies, Trump and the Brexiters resemble pop-up stores… Trump and the Brexiters campaigned thinking exclusively about the short term. Like pop-up stores selling fake Rolexes, they were only ever aiming to convince the public once. That allowed lies with impunity… There is an incentive for a one-off campaign to say whatever it wants, and to make outlandish promises and say things that are demonstrably untrue. That was what Vote Leave exploited"

  — Simon Kuper

- " 'Nothing is agreed until everything is agreed' is a well established rule in Brussels"

  — Philip Stephens on Brexit negotiations.

- "The irony that investors now "have gotten excited about market hugging index funds and exchange traded funds (E.T.F.s) that mimic various market or sector indices.. One of the perverse effects of increased indexing and E.T.F. activity is that it will tend to 'lock in' today's relative valuations between securities, stocks outside the indices may be cast adrift, no longer attached to the valuation grid but increasingly off of it The inherent irony of the efficient market theory is that the more people believe in it and correspondingly shun active management, the more inefficient the market is likely to become."

  — Seth Klarman

- Question: What is the least talked about or most misunderstood moat?

  Munger: You basically want me to explain to you a difficult subject of identifying moats. It reminds me of a story. One man came to Mozart and asked him how to write a symphony. Mozart replied, 'You are too young to write a symphony.' The man said, 'You were writing symphonies when you were 10 years of age, and I am 21.' Mozart said, ' Yes, but I didn't run around asking people how to do it.'"

- The BBC reported that Robert Marchand has clocked up 105 years and now a new record for the furthest distance cycled in one hour.The French cyclist managed 22.547km (14 miles) at the national velodrome, taking the top spot in a new category - for riders over 105. Mr Marchand already holds the record for those aged over 100 - 26.927km - set in 2012. He "could have done better", he says, but missed a sign showing 10 minutes to go.

- Add to that Serena Williams and Roger Federer winning their 23rd and 18th singles Grand Slam titles at the Australian Open both at 35 and it seems "old" folks seem to be defying age. Is that a trend or just coincidence?

- We have been fortunate to attend a talk by (and be introduced to) Sir Chris Hoy, British Cycling multi golden Medalist. Apart from being an extremely admirable person in all aspects and a great role model, the talk itself was exemplary. Humble, illustrative, sharp, inspiring and educative. Follows some key points:
  - When asked about veiled insinuations by other teams about the amazing British cycling team performance, first he was smart enough not to throw gasoline on the fire of media debate. He elegantly defended most of the accusers, and in said that in the few cases where there are the inevitable bad people he pointed out that things don't go as one would like, basically he has two options:
    - Look at himself and think about what has he done wrong, or less them he could have done, or
    - Blame someone else.

  - He told the story about the boys in racing and the father that kept accusing the fastest boy from using illegal equipment. After all was said and done, the man's son was the one doing illegalities.

- The importance of mental toughness and having a long term plan, discipline and realizing the impact of all you do on your way to your target.

- Told that when his childhood/early adolescence sport friends discussed who among them were more likely to be a great athlete, he was never a favorite. He wasn't the strongest or tallest.... Then he decided he would train extra-hard.

- On a "meta note", this was by far the most attended event promoted by this financial institution. Forget about market predictions, Brexit, Trump…. People are interested in positive examples. There's hope!
- Bottom line his message was: "don't believe in all the skeptics that say it can't be done in a clean way. He can speak not only from himself but from many people he know well that they have done it without taking shortcuts".

- "Insurers such as USAA and American Family have lately begun offering to strike a high-tech bargain: wire your home with Internet-connected devices such as new thermostat, and get a discount on your home insurance policy on return."

  — MIT TechReview.

- "The secret to doing good research is always to be a little underemployed. You waste years by not being able to waste hours."

  — Amos Tversky.

- "He who sees the past as surprise-free is bound to have a future full of surprises"

  — Amos Tversky on his "Creeping determinism" critique.

- Daniel Kahneman on where the world is going: "People in their 30s know where the world is going because they're going to do it. I'm in my 80s so I have no idea."

- When George Orwell wrote 1984 he was foreseeing Jeff Bezos...

- Regulatitis:

    - Nobuchika Mori, head of Japan's Financial Services Agency, likened banking regulation to "dozens of specialised doctors" injecting "different strong medicines for every symptom"
      — FT.

    - "The first thing I would ask for is nothing new, no new rules. If you haven't figured out yet how all the existing rules work together, don't put on anything else."
      — John Gerspach, Citigroup's Chief of Finance.

- "Yes, you can create a situation where you can…withstand the 1,000-year flood, but that's going to have consequences for your ability to deploy capital and credit"
  — Kenneth Bentsen, president and chief executive of the Securities Industry and Financial Markets Association.

- Our strategy is not "buy and hold"; it's "buy and question our position on a regular basis."

- From time to time we like to review some texts and annotations we made over the decades. Some are mistakes to avoid, some new ideas and some just validation to some of our beliefs. The following are from the venerable Sequoia Venture Capital:

    - The team is small. We prefer a few people with diverse strengths focused on a small number of companies, and we are always mindful of lessons learned -- some painfully -- that are eternal truths.

    - Our style is not for everyone. We push when we see potential. We are direct. Some don't like our approach.

- "We are up for growing people, no rehabilitating them; some people have to go."
  — Ray Dalio, on Bridgewater's culture.

- "An opinion without conviction is worth zero."

PIPA PRIZE
PIPA INSTITUTE

PIPA PRIZE

Janus was, in Roman religion, the animistic spirit of doorways and gates. Usually depicted as a two-faced figure, it was in honor of this god that the month of January got its name: capable of looking simultaneously back to the past, as well as to the new and uncertain future ahead, there is no better symbol for the ending of past cycles, and the beginning of new ones.

It is mimicking the act of Janus that PIPA Prize began its eighth edition in the past January. The chore of the Prize remains the same: to support and stimulate Brazilian contemporary art production and to give visibility to it in Brazil and abroad. So do most of its established guidelines. The Prize continues to have three categories (PIPA Online, PIPA Popular Vote Exhibition and PIPA, the main prize, worth R$130,000), and the edition's participating artists are, as before, selected by a Nominating Committee. This year, the Committee was composed by 25 art professionals from Brazil and abroad invited by PIPA's Board to select from one to three artists "with a recent trajectory, consistent production, and whose works are already in evidence and known in the Brazilian contemporary art scene".

It's interesting how, every year, we observe that these professionals have very different interpretations of the statement above. On the one hand, that happens due to the various locations where each of these members is based on: the viewpoint of someone who lives in the interior of Brazil is evidently very distinct from that of someone who lives abroad. It's also true that, in a country with continental proportions such as Brazil, contrasts between regions can be astounding by themselves. As a result, the 56 artists who participate in PIPA Prize this year – 32 for the first time – may have strikingly divergent artistic proposals, experiences, and backgrounds. Over time however, our experience is that the Law of Big numbers kick in and votes tend to concentrate on those who are PIPA Prize's core target: artists with about ten to twenty years "on the road" who are at the hockey stick point of their careers, having recently created and presented work of outstanding quality.

This year 71.4% of participants are from the Southeast of Brazil, 10.7% were born the Midwest region, 7.1% in the South, 5.4% in the Northeast, 3.6% in the North and 1.8% abroad.

All 56 artists are invited to run for PIPA Online category that, which will happen from July 16th to August 6th this year, and awards the artists with the most votes on our websites (www.premiopipa.com and www.pipaprize.com).

Furthermore, all are also granted the opportunity to record an exclusive short (about 3 minutes) video interview, later available on their PIPA website pages, which helps to strengthen PIPA's database of Brazilian contemporary art. These videos, which currently sum over 350 interviews with artists who have participated since the first edition of the Prize, in 2010, are all available on our YouTube channel, as well as in the Museum of Modern Art of Rio de Janeiro (MAM-Rio) archives. One can expect some different approaches in the 2017 videos, though, since for the first time the film company DoRio Filmes will be responsible for them.

The biggest change introduced by PIPA Prize 2017 was, however, the decision to strengthen what was already one of its greatest vocations: to be an assiduous research platform on Brazilian contemporary art. If our websites are already well-established, showcasing today 335 artists pages (with an additional 32 which are on their way), this time it's PIPA Prize' s catalogue that was brought into our focus.

Committing to publishing more – both in terms of quantity and quality – critical content about the participating artists and, above all, the four finalists, who are featured in the PIPA Prize exhibition at MAM-Rio, two changes have been made.

The first is to have each of the four finalists to invite an art critic or curator of their choice to supervise a project or specific work and write a critical text about it. The four critical texts will be included in the PIPA Prize 2017 catalogue, along with information pertaining to this year's edition: the winners list and images of the exhibition, items which, in previous editions, were only published in the following year. Those transformations implicated in the second innovation concerning the catalogue: instead of being launched in the opening day of the Finalists exhibition, at MAM-Rio from September 23rd to November 26th, it will be launched one week prior to its end.

Imbued with the spirit of Janus, we would like to conclude this report by proposing some reflections on one of the most pressing enigmas when it comes to the future of humanity: technology. Here, Luiz Camillo Osorio, Curator and Founding Member of PIPA Institute, reflects on the impact of technology on the audience's interaction with art.

Art is not information

For Madá

What makes us like Art? What is its role in our life? What is the difference between liking Art and knowing it, and how are the two related? Do new technologies facilitate or harm the way we deal with a work of art? A while ago, while visiting a great museum and its collection, I noticed that many people would spend the same amount of time reading the labels as they did observing the works. I would say, 15 seconds for each, to be optimistic. Between one and the other, there would be time for a comment or a sigh, followed by remarks such as "Manet!" "Monet!" "Cézanne". Curiously enough, it was as if knowing who the artist was, and recognizing a familiar name, would free them from needing to pay attention to the work of art itself – in that case, paintings.

The presence of labels, presentation texts and comments on the walls of museums is part of their informational and educational purpose. Apps for mobile phones or tablets might be regarded as a step forward. It's worth knowing the technique used in a work of art, the date of its creation, and, eventually, the title of the work. Some texts developed by curators often help us understand the works and the conceptual framework of the exhibition, enhancing our ability to relate to the works of art and their historical, cultural and political contexts.

However, the fundamental point here is to observe the work of art, to notice its details, to dedicate one's time and attention to what is being viewed (or imagined), to discuss it, to highlight specific aspects of it and state what we like and don't like about it; to allow room for any lack of knowledge to step in and learn how to deal with it when facing a work of art. Of course, observing and talking about a work of art is a crucial determinant of personal taste and knowledge. This happens naturally, and it is always a comparative and cumulative process. If there is a real interest, the more you see it, the more you like it, and the more you like it, the more you will want to know about it. However, this is a very personal experience; no one else can live it for us. Knowing about the works and gathering information is not the path to enjoy Art. Art must be experienced.

These issues came back to my mind recently, when I was reading an article on the Brazilian version of the *El País* newspaper entitled "O Shazam da Arte"[23] ["The Shazam of Art"] about an app that helps people recognize and have more information about works of art in museums, books and even on the streets. According to the journalist, this new technology developed by Smartify "is a real-time, high-speed image processing system designed to recognize the work of art (painting, sculpture or object) to which the viewer is orienting his/her phone camera. Once the work of art is detected, the system provides the user with related information, including reviews and comments, history, videos and a bio of the artist." Apparently, another great tool that will bring relevant information and help us learn more. But I would like to move a bit further But is it all there is to it?

Every medicine is also poison. For me, obsessing with knowing more and considering knowledge and information as equivalents ultimately prevents the development of another relationship that, in the case of Art, seems to be crucial: the relationship between knowledge and pleasure. Pleasure comes not with what we know about the works of Art, but precisely with what escapes this knowledge, what is left other than information and intrigues us, provokes us, makes us think. Pleasure does not come from knowing that Cézanne painted Mont Sainte-Victorie, or from knowing that it is a post-impressionist painting. Such knowledge will not summon us, pull us into the artist's brush strokes, or force us to keep watching a painting it and enjoying every minute of it. You see,

[23] http://brasil.elpais.com/brasil/2017/03/10/tecnologia/1489151406_512872.html?utm_source=meio&utm_medium=email

I'm not saying that information should be ignored. I'm just saying that this would be comparing apples and oranges. They are related, that´s for sure, but one does not determine the other.

The danger of this new technology tool – don't take me wrong, I am not trying to demonize its already established presence in our lives – is that it ends up introducing another element between our eyes and the piece of art before us; an element that subtracts even more time from the pleasure with whatever we don't know, with what does not belong to the knowledge sphere, with what is not information, but rather expression. Of course, optimists will always argue that one thing does not eliminate the other. In theory, that´s fine. However, our subjectivity is already damaged, addicted to information, absolutely unused to not knowing and being summoned by it. The not knowing that summons us is rare, but it is precisely what characterizes the aesthetic experience, the unnamed power that makes us feel and think without necessarily already knowing, and will transform new forms of knowledge into action. It is precisely in the interval among perception, recognition and knowing that imagination comes into play: the ability that makes us go beyond what´s known and risk new possibilities of knowing.

We are living in a fast paced world. We no longer have time to stop and notice things; we must be on the move, gathering (and discharging) information. When it comes to provide us more and more informative material, without questioning if we have time to read all of it and know that much, nothing compares to technology. I mean, technological mediation may allow us to hold a great deal of knowledge (and power), but, at the same time, I suspect, it may be turning us into experience-poor, aesthetically hindered individuals, with limited ability to imagine. That´s why I find apps such as Smartify cool, but remain a bit skeptical about them.

Luiz Camillo Osorio – March 2017.

PIPA INSTITUTE

For the past few months we have been debating upon the importance of developing, within the universe of PIPA artists, the PIPA Institute collection. At this moment, it is important to distinguish the donation of works via the Prize from the acquisition of works by the Institute. Since 2010, all winning artists in each category of the Prize donates a work to the Institute – a collection which currently comprises of 30 works.

At the end of 2016, we began the process of acquisitions and/or comissions via Institute. This independent project focuses on the topic of "Displacement".

"Displacement" has, in truth, many definitions. It can mean the situation in which people or objects move from one place to another. It can be spontaneous, or forced. Finally, according to Freud, displacement is an unconscious defense mechanism whereby the mind substitutes either a new aim or a new object for goals felt in their original form to be dangerous or unacceptable.

By defining the subject, we are instigating a spectrum of possibilities of artists whose works relate to it. Hopefully, new ideas and point of views will emerge from it. It was also decided that the acquisition and commission project would be restricted to artists who have participated in at least one edition of the Prize, with the aim of acquiring a diversified set of works, documents and studies pertaining to a specific project/series.

We believe in the importance of encouraging the development of artistic practices by supporting the production of new works and projects, with the mission to contribute to the international recognition and dissemination of Brazilian contemporary art. However, our greatest mission yet will be to share our passion and cultural knowledge by making the collection accessible to the public. The PIPA Institute collection will soon be available for viewing online and hopefully, in the future, in public spaces.

At that point, we find it interesting to quote from a recent interview by Daniel Pink, author of a "A whole new mind", among others, in a discussion about the educational system and how to prepare the new generation to cope with the ever accelerating changes.

> *"The traditional educational system is still very rigid and routine. However, if we want students to be better equipped for conceptually creative work, they must have an element of autonomy and freedom.*
>
> *I also believe recognizing the importance of the arts is critical to a well-rounded education system. Rather than thinking about the arts as ornamental to a child's education, it should be thought of as fundamental, whether that is the visual arts, performing arts, musical arts or literary arts. I say this not for soft-hearted reasons, but for very hard-headed ones. For example, what ultimately separates a mediocre coder from an outstanding one are aesthetic skills – the ability to imagine, see the big picture, and think across disciplines. Integrating arts throughout the curriculum would be an extremely positive step."*

Our latest acquisitions were three works by the painter Arjan Martins, who participated in five out out the eight editions of PIPA Prize. Martins was born in 1960, in Rio de Janeiro, studied at the Escola de Artes Visuais do Parque Lage and held his first solo exhibition in 2002. The work *Rio Setecentista*, which is illustrated on the cover of this report, is currently on view at Villa Aymoré in Rio de Janeiro.

Follows a critical text by Luiz Camillo Osorio on the work of Arjan Martins.

*Published in January, 2017, exclusively on PIPA's websites.

"Arjan: painting and its unexpected voices"

Luiz Camillo Osorio

What makes an artist paint these days? The speed with which we photograph and disseminate images around the world reaffirms the Benjaminian theory of reproducibility and appears to render painting, with its dense materiality, a thing of the past. It's as if the image had completely detached itself from any physical presence and become a mere formless reflection. Turning our attention back to painting, however, does not imply rejecting the possibilities of the virtual world, the empire of the simulacrum or the seduction of speed. Nevertheless, there is something in the pictorial process that merits special critical attention and which forces us to consider its necessity, not because of its historical actuality, but precisely because of its anachronism – for not being adapted to this time, for not being in conformity with the hegemonic conditions of contemporary feeling. It takes time to make and see a painting – when the latter touches us, we are forced to stop and notice every detail and the whole.

It is from the perspective of this powerful anachronism, which opens new forms to current feeling, that I want to talk about the painting of Arjan Martins – recently exhibited at the Gentil Carioca Gallery in Rio de Janeiro. His painting exists simultaneously as a modern exercise in exploring the facts of perception and as a contemporary affirmation of excluded voices that are mobilized by the creation of other imagetic repertoires. On the one hand, it is painting that rejects communicative transparency in search of a pictorial materiality that is known to belong to the symbolic universe of the "imaginative museum". On the other hand, we notice a desire to speak of painting as breaking the limits of this enchanted universe of the museum and seeking to incorporate into it historically excluded codes and signs.

The fact that Arjan is a black painter is extraordinary but it may also be a problem. Extraordinary because he has faced and overcome all the barriers of class and race that historically inhibit the mobility of significant elements of the Brazilian population, condemned not to live fully – not to have a voice or social representation. However, it may also be a problem if his painting is relegated to being simply and exclusively a voice of exclusion and the affirmation of an identity. It is necessary that acquiring a voice should be simultaneously an affirmation of, and a separation from, the problem of identity, which is to say, it should guarantee his painting unexpected transformations derived from the pictorial fact. Based on this, one can imagine the relationship between what is expected of his painting (the affirmation of a minority visuality) and what makes it move beyond any expectation (the affirmation of a difference in common visuality).

In Arjan's painting we perceive an intense dialogue with the modern tradition of western painting – Goya, Manet, Bonnard, Iberê – and a desire, no less true and important, to incorporate a visual repertoire and an Afro-Brazilian narrative that historically lacked a space for articulation *or visualization. This combination of traditions – of the modern pictorial form and the contemporary imagetic narrative – does not imply an opposition between them. It is necessary to incorporate the voice of exclusion into the matter (and the seduction) of painting as such. Brushing history against the grain implies revising and reworking the way history was told. What we see in Arjan's painting is the composition of two powerful practices of intransigence with the status quo. He wishes to tell history from the point of view of the oppressed, which is to say, to make the other visible. However, to this practice of resistance is added another, which resists being mere narrative, mere information about the fact of oppression and imposes on the appearance of otherness an opacity inherent to pictorial expression. In this regard, the decision to paint (with its anachronism and its traditions) was an interesting aspect of Arjan's poetics and politics.*

The faces of many of his black figures are repeatedly smudged with paint and disturbing elegant brushstrokes. At the same time as they suggest an erased identity, they convey this negation of the image/identity with a gestural forcefulness that multiplies the expressive directions contained in the form. It is another way for us to understand what Deleuze called, in the painting of Francis Bacon, a transposition of cerebral pessimism into nervous optimism. This transposition is something contained in the gesture of the hand that thinks and makes us see something which was not previously seen or felt.

In a highly explicit way, Arjan's paintings evidence the pain of colonization and slavery oppression – still so present in our everyday social conflicts in Brazil – but they do so with a violent exuberance of form, which does not allow itself to be domesticated into illustration. The violence of sensation and not of spectacle, as Deleuze said. Their being more than illustration and spectacle is what pulls us into the brushstrokes, holds our attention, and places us in a state of amazed intensity before the mere appearance of forms and colours. The images intensify the forms and vice versa.

The affirmation of an ethnic identity should not limit the affirmation of an aesthetic difference. The fact that Arjan is a black painter imposes on him a certain imagetic repertoire, which makes him speak of a certain place; but the aesthetic quality of his painting ensures that this place, even when affirmed, is not tied to a specific address and multiplies its effects and affects. Its identity unfolds and translates into indeterminate expressive forms that simultaneously speak of exclusion and inclusion, of belonging to a particular story and of relocating it to other places of speech and visibility.

PIPA MISCELLANEOUS

"Find your eyes" ***- Alec Soth, American photographer***

"For the next week try the best you can to pay attention to sounds. You will start hearing all these sounds coming in." ***- Robert Irwin, American installation artist***

"Stare. It is the way to educate your eye, and more. Stare, pry, listen, eavesdrop. Die knowing something. You are not here long" - ***Walker Evans, American, one of the most influential photographers (1903-1975)***

"The art challenges the technology, and the technology inspires the art" ***- John Lasseter, American film director***

"The transformation of nature, a total fusion of science, art and technology in a sublime statement of human dignity and intelligence through the settlements we build for ourselves." - ***Paulo Mendes da Rocha, Brazilian architect***

"I think I'm a mutant" ***- Terence Koh, Canadian artist***

"The one that I am, composed of narratives that overlap, run parallel to, and often contradict one another" ***- Glenn Ligon, American conceptual artist whose work explores race, language, desire, sexuality, and identity.***

"I want to show that there is no distance in the world anymore" ***- Chantal Akerman, Belgian film director.***

"What I want to say is, this is what we were like as people, and this is how we lived. These are the places. And here are some of the faces." - ***Steve McCurry, American photographer.***

"I wanted to experience forever the people and places before me, because I knew they were about to vanish. I wanted to change history and preserve humanity, but in the process, I changed myself and preserved my own." ***- Danny Lyon, american photographer and filmmaker.***

"Space is a material, it is physical" - ***Anish Kapoor, British sculptor.***

"Art is my capital" - ***Paul Gauguin, French post-Impressionist artist.***

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