

# THE WALL STREET JOURNAL.

DOW JONES | News Corp

WEDNESDAY, APRIL 19, 2017 ~ VOL. XLI NO. 160

WSJ.com

ASIA EDITION

As of 12 p.m. ET DJIA 20486.51 ▼ 0.73% NIKKEI 18418.59 ▲ 0.35% STOXX 600 376.35 ▼ 1.11% BRENT 54.69 ▼ 1.21% GOLD 1290.50 ▲ 0.09% EURO 1.0699 ▲ 0.52% DLR \$108.47 ▼ 0.41%

## What's News

Business & Finance

**Goldman Sachs'** first-quarter trading results fell well short of those notched by rivals, an uncharacteristic stumble that caused its earnings to miss analyst estimates. **A1**

◆ **The British pound** rose to its highest point in four months after May called an early general election. **B1**

◆ **A missing Chinese** billionaire who did business with the highest echelons of the Communist Party has previously undisclosed ties to China's military. **A1**

◆ **Bank of America** said its first-quarter profit rose following a long-awaited rise in interest rates. **B6**

◆ **Daewoo Shipbuilding** was given a lease on life after creditors agreed to a massive debt-for-equity swap as part of a bailout plan. **B3**

◆ **Post Holdings** agreed to acquire Weetabix Food for \$1.76 billion, a move that allows Post to expand in the U.K. and other international markets. **B1**

◆ **Fidelity & Guaranty** Life terminated its agreement to be purchased by Anbang Insurance Group. **B6**

◆ **PayPal** said it will make its offerings available on Alphabet's Android Pay. **B6**

◆ **Theranos and its founder** pledged to stay out of the blood-testing business for at least two years. **B3**

◆ **Netflix** said subscriber growth slowed, but profit rose as content costs were lower than expected. **B2**

### World-Wide

◆ **Britain's May** said she would call an early general election in an apparent effort to give herself more leeway in coming exit negotiations with the EU. **A1**

◆ **U.S. and Afghan forces** fought to dislodge Islamic State from a stronghold near where a massive U.S. bomb struck last week. **A3**

◆ **Marwan Barghouti**, a jailed Palestinian political leader, was moved to an isolation cell after he organized a hunger strike by inmates. **A3**

◆ **Indian tycoon Vijay Mallya** was arrested in London by British police, following a request from Indian authorities looking to extradite him. **A2**

◆ **Applications for H-1B visas** for highly skilled workers dropped this year after years on the rise. **A6**

◆ **Australia's government** plans to abolish a visa system used to bring thousands of skilled foreign workers into the country. **A5**

◆ **Two Frenchmen** suspected of planning an imminent terror attack were detained in Marseille. **A5**

◆ **Gorsuch took the bench** at the Supreme Court for the first time, hearing three technical cases. **A6**

◆ **The pace** of home-price gains in China in March was at its fastest on a month-over-month basis since October. **A5**

**CONTENTS** Markets Digest... B8  
Business News... B3 Opinion... A10-11  
Crossword... A12 Property Report... B9  
Heard on Street... B10 Technology... B4  
Life & Arts... A92 U.S. News... A6-7  
Management... B5 Weather... A12  
Markets... B11 World News... A2-5  
  
China: RMB28.00; Hong Kong: HK\$23.00;  
Indonesia: Rp25,000 (incl PPN);  
Japan: Yen620 (incl JCT); Korea: Won4,000;  
Malaysia: RM7.50; Singapore: S\$5.00 (incl GST)  
KDN PP 9315/10/2012 (03275); MCI (P)  
NO. 066/01/2017; SK MENPEN RI NO. 01/  
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 03779920 4.116.0  
9 770377 992000

Copyright 2017 Dow Jones & Company. All Rights Reserved

WEDNESDAY, APRIL 19, 2017 ~ VOL. XLI NO. 160

WSJ.com

ASIA EDITION

# U.K.'s May Calls for Early Election

Prime minister says she seeks a stronger mandate in Brexit negotiations

BY JENNY GROSS  
AND JASON DOUGLAS

LONDON—British Prime Minister Theresa May said she would call an early general election on June 8 in an apparent effort to give herself more leeway in coming exit negotiations with the European Union.

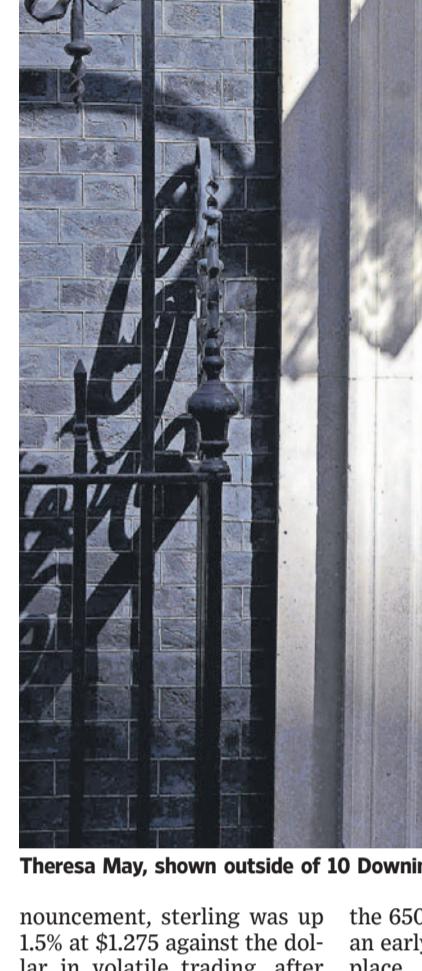
In a surprise announcement Tuesday, she said divisions in Parliament "will risk our ability to make a success of Brexit and it will cause damaging uncertainty and instability to the country. So we need a general election and we need one now."

If voting follows recent opinion polls, Mrs. May's Conservative Party could expect to significantly increase its majority in the House of Commons, currently a slim 17 seats.

That would give her more freedom to maneuver in EU negotiations and make her less dependent on the support of the euroskeptics in her Conservative Party who favor a definitive break with the EU.

In Brussels, the initial reaction was positive. "The chances for a good outcome of the Brexit negotiations have just gone up tremendously," a senior EU official said.

Following Mrs. May's an-



Theresa May, shown outside of 10 Downing Street, says divisions in Parliament imperil Britain's ability to make Brexit a success.

nouncement, sterling was up 1.5% at \$1.275 against the dollar in volatile trading, after falling more than 0.3% early Tuesday. It was the highest sterling has traded since December.

The House of Commons on Wednesday will vote whether to approve an early election. Under U.K. law, two-thirds of

the 650 lawmakers must back an early election for it to take place. General elections are held every five years, but early elections can be held if approved by a supermajority in the lower house or if a motion of no confidence is passed and no alternative government is formed within two weeks.

The decision to call an elec-

tion represents a significant U-turn for Mrs. May, who took office in July following the resignation of David Cameron after the U.K. voted to leave the EU. She has repeatedly said she wouldn't call an early election, saying the U.K. needed stability to deal with the issues it is facing. On

Tuesday, however, she said she was reluctantly calling one because it was necessary to ensure "the strong and stable leadership the country needs to see us through Brexit."

She told ITV News that she made the decision while on a

Please see BREXIT page A4

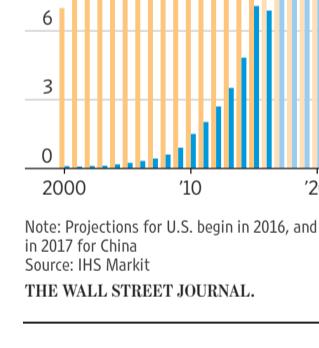
◆ News of vote triggers surge in the pound..... B1

# CHINA REWRITES HOLLYWOOD'S SCRIPT

The U.S. film industry has become reliant on Chinese investors and moviegoers—a relationship with strings attached

### Screen Rivals

China's movie box-office totals are projected to surpass the U.S.



Note: Projections for U.S. begin in 2016, and in 2017 for China  
Source: IHS Markit

BY ERICH SCHWARTZEL

LOS ANGELES—February's premiere of "The Great Wall" showcased the calculated balance between two superpowers.

Matt Damon walked the red carpet with his Chinese co-star, Jing Tian. Director Zhang Yimou thanked co-producers Universal Pictures and China-owned Dalian Wanda Group Co. The afterparty had sweet-and-sour chicken.

The movie's poor showing didn't slow the trans-Pacific collaboration. Hollywood has become so entangled with China that the movie industry can't run without it.

Chinese investors and more than a billion potential moviegoers have made China indispensable to the film business. The country's box-office total last year, at \$6.6 billion, was the world's second-largest compared with the first-place U.S., \$11.4 billion. In a few years, analysts predict, China will be No. 1.

While the U.S. movie-ticket sales have remained relatively flat, China's have more than tripled since 2011.

"We never thought of China 10 years ago. Now, we're at a point where Hollywood can't exist without China," said Adam Goodman, a former production chief at

Paramount Pictures. He now runs a film-production company backed by Le Eco, a Beijing-based technology company.

Private and state-backed Chinese companies have invested tens of billions of dollars in U.S. film ventures over the past decade. The relationship comes with

strings attached. Chinese authorities, censors and consumers influence nearly every aspect of American moviemaking in China, from scripts to casting to green-lighting sequels.

"We're in a moment of significant disruption," said Richard Lovett, president of

Creative Artists Agency, which represents such clients as Sandra Bullock and J.J. Abrams. The firm announced Monday it was expanding its footprint in the country with a division called CAA China.

China's ambition befits the big screen—to compete with the U.S. as a global storyteller and spread its perspective in the same fashion American filmmakers have for a century.

The U.S. dominated the industry from the start, with its stories of heroism, romance and adventure. Over the years, it has drawn in

Please see FILMS page A8

# Goldman Sachs Trips Up In Trading as Rivals Roll On

BY LIZ HOFFMAN

Goldman Sachs Group Inc.'s first-quarter trading results fell well short of those notched by rivals, an uncharacteristic stumble for the Wall Street powerhouse that caused its earnings to fall short of analysts' estimates.

The firm reported profit of \$2.26 billion, or \$5.15 a share. That was higher than the \$2.68 a share it reported a

year ago—Goldman's worst first quarter in 12 years—but below the \$5.31 a share expected by Wall Street analysts.

Revenue grew 27% to \$8.03 billion, again short of expectations for \$8.45 billion.

Goldman shares were down 5.4% at early afternoon Tuesday, hitting their lowest level since late November. It is the worst-performing stock among big banks this year as investors' exuberance about the

Trump administration's agenda has worn off.

Many investors expected a strong quarter from Goldman after rivals J.P. Morgan Chase & Co. and Citigroup Inc. last week reported double-digit increases in their trading revenue, with fixed income, currencies and commodities leading the way.

Bank of America Corp. joined the wave on Tuesday, reporting trading revenue that

Please see BANK page A2

### INSIDE



### HOW TO BE THE BEST DEPUTY

LIFE & ARTS, A9



### GALAXY S8: EVOLUTIONARY MILESTONE

BUSINESS & FINANCE, B1

### Embraceable You: When the CEO Is a Hugger

\* \* \*

Bosses greet business associates with open arms; the 'HR hug'

BY RACHEL FEINTZIG

Felicia Flewellings starts her workday with coffee, a quick Facebook check and a whirling embrace with her boss.



"You go in for like a regular hug and then you just spin in a circle," the 31-year-old receptionist says of her morning ritual with the chief executive of her company, Dovico Software Inc. "It makes it a lot easier to come into work."

Handshakes have given

way to bear hugs, back pats and lingering embraces in some corners of the corporate world. At luxury clothing brand Ted Baker PLC, TurboTax maker Intuit Inc. and Wheels & Deals Ltd. (called "Canada's Huggable Car Dealer"), top bosses greet employees, customers and other business associates with open arms.

Huggers say their touchy-feely approach breeds teamwork, trust and better busi-

Please see HUGS page A8

### Chinese Tycoon Has Ties to Military

BY JAMES T. AREDDY

NANXIAHUI, China—A missing Chinese billionaire who did business with the highest echelons of the Communist Party has previously undisclosed ties to China's military.

Firms linked to Beijing's formidable arms-trading conglomerate, China Poly Group Corp., executed at least three recent transactions involving the billionaire, Xiao Jianhua, including a \$10 million donation to Harvard University, according to corporate filings and interviews with people familiar with the transactions.

The military connection casts new light on the business dealings of Mr. Xiao, who disappeared in late Janu-



Xiao Jianhua in 2013

ary from his residence in a luxury Hong Kong hotel, raising questions in China's business community about the financier's potential enemies and his fate.

Mr. Xiao, a 45-year-old naturalized Canadian citizen with vast holdings in banks,

Please see TYCOON page A2

## WORLD NEWS

# Indian Tycoon Arrested in U.K. for Fraud

Authorities in India seek extradition of once-highflying magnate Vijay Mallya

BY DANIEL STACEY AND DENISE ROLAND

Indian tycoon Vijay Mallya, once feted as the country's "King of Good Times," was arrested in London by British police, following a request by Indian authorities who are seeking to extradite him to face allegations of fraud back home.

Mr. Mallya, previously one of India's most flamboyant and successful entrepreneurs with investments ranging from an airline to the country's biggest beer brand, has been living in the United King-



Vijay Mallya in February. He was arrested on Tuesday in London.

dom since March 2016 when he left India amid a raft of court actions. India's government canceled his passport and has been seeking to extra-

dite him to face creditors owed \$1.4 billion.

British police in a statement said Mr. Mallya was arrested after going to a central

London police station this morning.

In a Twitter statement, Mr. Mallya played down coverage of his arrest as "Indian media hype," and said he had attended an extradition hearing this morning "as expected."

Mr. Mallya didn't return requests to comment by email and phone.

A spokesman for Westminster's Magistrates' Court said Mr. Mallya was released from custody following a bail payment of £650,000 (\$816,725), and was due to appear in court again for an extradition hearing in May.

While his extradition may drag on for some time, back in India the collapse of Mr. Mallya's empire has already led to the arrest of a former chairman of one of India's major state banks.

As Indian banks face a debt hangover from lax lending policies during India's heady days a decade ago, Mr. Mallya—who was his own brand ambassador for the good life, throwing wild parties at which pop stars including Enrique Iglesias performed—has been singled out as an example of a tycoon who borrowed heavily, lived lavishly and then didn't repay debts.

Mr. Mallya's troubles stem from his failed Kingfisher Airlines, which was grounded in 2012 after high fuel prices and a slowing Indian economy caused a slump in profits. Since then, seeking to steady his empire, Mr. Mallya has sold stakes in his liquor and beer businesses to Diageo PLC and Heineken NV, but still hasn't been able to repay creditors. A number of attempts to

reach a settlement agreement have failed.

In a range of court actions led by his creditors, and government investigations, Mr. Mallya has been accused of fraud and money laundering. India's securities regulator has banned him from trading shares in the major Indian stock exchanges or holding board positions in Indian companies.

Subrata Roy, another fallen Indian tycoon, has been punished harshly after not paying back bond investors. Indian authorities locked up Mr. Roy in 2014, demanding \$1.5 billion in bail for his release.

### Notice to Readers

Andrew Browne's China's World column is on hiatus.

## BANK

Continued from Page One  
was 23% higher, driven by a 29% increase in revenue from fixed income.

Higher interest rates, raised twice by the Federal Reserve in recent months, bode well for fixed-income revenue as investors buy products to protect themselves from future increases and to bet on divergence among rates.

But Goldman, which often lives or dies by its core trading business, didn't get the same boost. Trading revenue fell 2.4% from a year earlier, with equities down 6% and fixed income essentially flat.

"Hard to put lipstick on these results," UBS Group AG analysts wrote in a note to clients Tuesday.

The majority of questions on Goldman's earnings call—the first for the firm's new finance chief, E. Martin Chavez—concerned the trading results. "Ultimately, we didn't navigate the market well," Mr. Chavez said. "But no quarter defines the franchise. There are always things we can do better."

He blamed the trading performance on calm markets, which make it harder for trading clients to find bargains and rebalance their portfolios. Mr. Chavez added that currencies, commodities and corporate

bonds were weaker. The latter was a bright spot at Bank of America, which beat Goldman in fixed-income trading by more than \$1 billion in revenue.

The first quarter is typically the strongest for trading desks, as investors return from the holidays and reposition their portfolios for the new year.

Last year, the quarter was terrible, but equally rough across Wall Street. Now, a slow start relative to peers puts Goldman on its heels.

*A slow start to the year relative to its peers puts Goldman on its heels.*

The news is also likely to raise questions about whether the firm has the right mix of trading clients. Goldman's traditional strength in peddling complex, bespoke trading products to hedge funds became a liability in recent years, as these clients struggled with poor returns.

The firm has pushed over the past year or so to do more trading business with corporations and asset managers. Mr. Chavez said Tuesday that the firm's effort in that area was still under way.

Goldman's other businesses

performed better. Revenue in the investment-banking division, which helps companies merge and raise capital, rose 16% to \$1.7 billion.

Merger fees fell 1.9% to \$756 million year-over-year, and the bank said its pipeline of future deals shrank. But stronger underwriting more than made up the difference, with a 70% increase in stock offerings leading the way.

"The operating environment was mixed, with client activity challenged in certain market-making businesses and a more attractive backdrop for underwriting in our investment banking franchise," Chief Executive Lloyd Blankfein said.

Goldman made \$1.46 billion on its own portfolio of equity stakes and loans, a segment called investing and lending. Revenue in that division tends to swing wildly.

Revenue from the investment-management business, which handles the money of wealthy individuals, pension funds and others, rose 12% year over year to \$1.5 billion.

Goldman's return on equity, a closely watched measure of profitability, stood at 11.4% in the quarter. The firm has been regularly exceeding 10%, the minimum return bank investors typically demand. And Goldman increased its quarterly dividend to 75 cents a share, a 10-cent increase—its first such increase in two years.

Partners Ltd. through a 32% stake held by its asset management division and corporate executives.

Firms linked with Pohua JT Capital were critical to the transactions involving Xiao Jianhua. Those companies share directors or addresses, and in some cases use variations of the corporate name, including JT Capital. The Journal received no response to questions submitted to secretaries at Pohua JT Capital and firms linked to it at three offices in Hong Kong.

The Journal also submitted questions to Poly about its relationship with Mr. Xiao; a spokesman said they are under review.

Around three years ago, Mr. Xiao offered a major donation to Harvard's Ash Center for Democratic Governance and Innovation.

Mr. Xiao proposed \$20 million, according to a former Harvard executive, but caused anxiety among administrators about the origin of the money when he indicated a third party would pay.

"There was some question about what entity was going to write the check," the former executive said.

Harvard's Ash Center never publicized a pledge from Mr. Xiao but in its Spring 2014 newsletter briefly mentioned receipt—from JT Capital Management—of a "major gift of \$10 million."

Harvard spokesman Patrick McKiernan said JT Capital Management supports a China governance program proposed by Mr. Xiao. Fellows named to the program have included Chinese government officials and an executive from a bank partially controlled by his Tomorrow Group.

In another matter two years ago, the Caribbean nation of Antigua and Barbuda credited Mr. Xiao for mobilizing Chinese investment into its leading industrial business, West Indies Oil Co., a distribution hub for Venezuela

## Trash Piles Up in Sri Lanka After Deadly Accident



CARRYING ON: A man takes his belongings from his damaged house in the wake of a garbage-heap collapse in the Sri Lankan capital of Colombo. The death toll from the Friday accident rose to 31.

Ian and Russian producers. Prime Minister Gaston Browne described Mr. Xiao in a recent interview as a man of "significant financial resources and influence," and said he issued Mr. Xiao a diplomatic passport and appointed him ambassador-at-large for his work.

The \$14.4 million invested in the oil company for a 24% stake came from a Hong Kong entity called Fancy Bridge Ltd., which also lent \$15 million to Antigua in exchange for rights to offer 120 passports, according to Mr. Browne and official statements.

Fancy Bridge operates from the 46th floor of a Hong Kong office tower, according to the Antigua government's list of authorized investment agents. The Journal went to that location, where the only name on the wall was Pohua JT Capital, and left questions with a secretary about Mr. Xiao, Poly and the business in Antigua.

The Journal returned hours later and the name Pohua JT Capital had been removed. New people staffing the office said they had never heard of the company.

A third matter involves Nanxiahui, a flat corn-growing village of 420 households.

In the village, a blue sign credits Mr. Xiao for a \$200,000 solar-power installation in October and cites the name of the company that

made the panels: a division of Kong Sun Holdings Ltd., which stock-exchange records show is controlled by Pohua JT Capital.

Though villagers say Mr. Xiao rarely visited after he became the first resident accepted to prestigious Peking University in the 1980s, they praise his contributions. Last year, he put \$75,000 into an ancestral hall that celebrates the Xiao lineage, from a Ming Dynasty military strategist to a People's Liberation Army commander who battled Japanese forces.

The tycoon is also honored as a hero with a sample of his calligraphy and a citation: "He never forgot his hometown."



The Beijing offices of the Tomorrow Group, Xiao Jianhua's firm.

## CORRECTIONS & AMPLIFICATIONS

**China's President** Xi Jinping visited President Donald Trump in Florida earlier this month. A World News article Monday about U.S. Treasury criticism of China's exchange-rate policies incorrectly said Mr. Xi also visited Washington.

**Apple Inc.** has a data center near the Tahoe Reno Industrial Center in Reno, Nev. A Technology article Tuesday incorrectly said Alibaba controlled Ant Financial.

about Google's purchase of land in the center incorrectly said Apple's operations were also in the industrial park.

**Ant Financial Services** Group is controlled by Jack Ma, the leader of **Alibaba Group Holding** Ltd. A Finance & Markets article Tuesday about Ant Financial's bid for MoneyGram International Inc. incorrectly said Alibaba controlled Ant Financial.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

## THE WALL STREET JOURNAL.

Dow Jones Publishing Company (Asia) 25/F, Central Plaza, 18 Harbour Road, Hong Kong

Tel: 852 2573 7121 Fax 852 2834 5291

Andrew Dowell, Asia Editor

Troy McCullough, Senior News Editor, Asia

Darren Everson, International Editions Editor

Hugo Restall, Editorial Page Editor

Mark Rogers, Advertising Sales

Jacky Lo, Circulation Sales

Jacquelyn Drozoff, Communications

Simon Wan, Technology

Jonathan Wright, Managing Director Asia & Publisher

Advertising through Dow Jones Advertising Sales: Hong Kong: 852-2831 2504; Singapore: 65-6415 4300; Tokyo: 81-3 269-2701;

Frankfurt: 49 69 29725390; London: 44 207 842 9600; Paris: 33 1 40 17 17 01; New York: 1-212 659 2176.

Or email: [Mark.Rogers@wsj.com](mailto:Mark.Rogers@wsj.com)

Printers: Hong Kong: Euro Limited, 2/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Printing Group, Jalan Palmerah Selatan 22-28, Jakarta 10270; Japan: The Mainichi Newspapers Co., Ltd, 1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051; Korea: JoongAng Ilbo, 100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher: Song, Pil-Ho; Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; No. 0488596; Singapore: Singapore Printers Holdings Limited, 82 Gelingting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.

USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Printing Group, Jalan Palmerah Selatan 22-28, Jakarta 10270; Japan: The Mainichi Newspapers Co., Ltd, 1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051; Korea: JoongAng Ilbo, 100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher: Song, Pil-Ho; Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; No. 0488596; Singapore: Singapore Printers Holdings Limited, 82 Gelingting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.

USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Printing Group, Jalan Palmerah Selatan 22-28, Jakarta 10270; Japan: The Mainichi Newspapers Co., Ltd, 1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051; Korea: JoongAng Ilbo, 100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher: Song, Pil-Ho; Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; No. 0488596; Singapore: Singapore Printers Holdings Limited, 82 Gelingting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.

USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Printing Group, Jalan Palmerah Selatan 22-28, Jakarta 10270; Japan: The Mainichi Newspapers Co., Ltd, 1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051; Korea: JoongAng Ilbo, 100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher: Song, Pil-Ho; Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; No. 0488596; Singapore: Singapore Printers Holdings Limited, 82 Gelingting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.

USPS 337-350; ISSN 0377-9920

Printers: Hong Kong: Euro Limited, 2/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong Kong; Indonesia: PT Gramedia Printing Group, Jalan Palmerah Selatan 22-28, Jakarta 10270; Japan: The Mainichi Newspapers Co., Ltd, 1-1 Hitotsubashi, Chiyoda-ku, Tokyo, 100-8051; Korea: JoongAng Ilbo, 100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher: Song, Pil-Ho; Malaysia: Basar Cetak (M) Sdn Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor, Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; No. 0488596; Singapore: Singapore Printers Holdings Limited, 82 Gelingting Lane Media Centre Singapore 349567

Trademarks appearing herein are used under license from Dow Jones & Co.

©2017 Dow Jones & Company, All rights reserved.

# WORLD NEWS

## ISIS Battle Grinds On at Site of Big Bomb

U.S. bombing was part of an offensive to dislodge militants from their stronghold

By JESSICA DONATI

ASAD KHEL, Afghanistan—Near the blast site of the “Mother of All Bombs,” U.S. and Afghan forces are trying to dislodge Islamic State from a mountain stronghold where the militant group recently established a new front.

Afghan commandos and U.S. Special Forces clustered with their armored vehicles on Monday by a river at the foot of the Spingar Mountains, less than a mile from where the powerful U.S. bomb struck last week. Apache helicopters and fighter jets buzzed constantly overhead, and blasts echoed across the valley.

Remains of Islamic State fighters lay strewn in the grass yards away, casualties of a battle for control of the area that began more than two weeks ago, Afghan commandos told the first journalists to arrive in Asad Khel since Thursday’s bombing. The bombing came days after an American soldier was shot in the neck and killed in a nearby village.

The bomb—often referred to by its nickname but officially called the GBU-43, or Massive Ordnance Air Blast—is one of the largest nonnuclear



An Afghan commando stands outside a damaged school in Shadal, a village near where the U.S. targeted Islamic State militants.

weaponry to fight a new brand of militants in the same area, Islamic State.

But just as the militants have lost substantial ground in Iraq, Syria and Libya, the Islamic State presence in eastern Nangarhar province has shrunk by about 150 square miles since early March, according to the U.S. military. The Islamic State affiliate in Afghanistan doesn’t have a spokesman.

Yet the valley around Asad Khel hasn’t yet been secured and the Afghan government presence in Achin is minimal. Two Islamic State fighters on Saturday tried to attack the government’s district headquarters several miles away with a car bomb, but a U.S. airstrike intercepted the vehicle, according to security sources.

The Islamic State fighters in the area include Afghans and foreigners, according to the Afghan commander. He said identification cards found among the fighters were from Arab countries, Pakistan, Uzbekistan and other places. The Wall Street Journal could not independently verify those claims. A U.S. soldier in command at the site declined to be interviewed.

The U.S. military dropped its 15,000-pound “Daisy Cutter” bombs there at the time. Sixteen years on, the U.S. has again resorted to its heaviest

weapons in the U.S. arsenal and was used to target caves and tunnels in the valley beyond the village of Asad Khel.

A spokesman said the U.S. military is still assessing the damage from the bomb. An Afghan special forces commander, who was seeking shelter from the sun in a grove of trees by the river, said the bomb left a “big hole in the ground” and showed a picture of the bombing site on his

phone.

In the days leading up to the blast, U.S. and Afghan forces killed more than a dozen Islamic State fighters, driving the militants out of much of the surrounding Achin district and into the mountains, according to the commander, who declined to give his name.

“It gives us a lot of pleasure to kill them,” said the commander, who also showed pic-

tures of commandos posing with the dead bodies of two men with long black hair and beards.

Islamic State first appeared in Afghanistan in late 2014, as the U.S.-led coalition reduced its presence in the country. The following year, the militant group expanded to as many as a dozen districts in Nangarhar province, its main Afghan stronghold, including Achin.

## Erdogan Vote Victory Stirs Anger

ISTANBUL—While many Turks were struggling with the aftermath of the hotly contested vote over Turkey’s presidential powers, scattershot demonstrations against the constitutional changes formed around the country, attracting committed civic activists and dismayed voters alike.

By Burcu Cura  
in Istanbul  
and Margaret Coker  
in Ankara



Opponents of the vote to grant the president greater powers showed their displeasure Monday.

The amendments on the ballot Sunday would radically alter Turkey’s democracy by concentrating power in the office of President Recep Tayyip Erdogan, abolish the traditional parliamentary system and reorganize the judiciary.

The weighty nature of the vote—coupled with the swirling stories of alleged irregularities—brought many Turks to the streets to express their anger over the fact that President Erdogan has claimed victory, even as opposition politicians demanded the results be annulled. Unofficial results showed “yes” winning 51% and “no” garnering 49%.

Koral, a 19-year-old freshman at Istanbul University who voted in his first election Sunday, decided to join his first political protest Monday evening after finding on social media that a band of like-minded citizens were gather-

ing in his neighborhood.

“I don’t want cheaters to win. I wanted to take to the streets to show who was the real winner of the election,” he said as he marched through Istanbul’s Kadikoy district with about 600 others who, like him, had voted “no.”

Supporters from the “yes” campaign gathered in droves to hear the president give a victory speech on Sunday, but they didn’t have any major public events planned Monday.

For his part, Mr. Erdogan and his supporters in the ruling Justice and Development Party kept a business-as-usual mood. Mr. Erdogan headed a regular cabinet meeting and

denounced critics alleging the vote wasn’t fair.

For many Turks, controversy about the ballot didn’t change the pressing tasks of the day. Working families across the country were consumed not by politics, but with everyday tasks of getting children to school and dinner on the table.

In Turkey’s southeast, where the country’s largest ethnic group lives, the mood was more anxious.

No public protests were organized Monday in Diyarbakir, a stronghold of the “no” campaign mainly due to fears of retribution during the continuing state of emergency

called after the failed July 2016 coup. Since that time, dozens of lawmakers and hundreds of local elected officials from the region have been jailed.

Within Istanbul’s historic hotbed of political gossip—its coffeehouses—talk was of little else except the election.

In the Emek Coffeeshop in Kadikoy, a swiftly urbanizing part of Istanbul’s Asian district, opinions about the vote were as divided and polarized as the contested results.

Regulars who voted “yes” on Sunday were in cheerful moods, saying they felt the country was entering a bright, new chapter.

## Israel Cracks Down on Hunger Strike Leader

By RORY JONES

TEL AVIV—Israeli authorities placed a jailed Palestinian leader in solitary confinement Tuesday after he organized a mass hunger strike to demand better prison conditions.

Marwan Barghouti, whose role as head of the hunger strike poses a challenge to the leadership of Palestinian Authority President Mahmoud Abbas, was transferred into an isolation cell on the second day of the strike, which involved more than 1,000 of the roughly 6,500 Palestinians in Israeli jails, Palestinian and Israeli officials said.

Israeli Minister of Public Security Gilad Erdan said Israel wouldn’t negotiate with the prisoners. “There is no real justification for this



Protesters wave flags of Palestinian leader Marwan Barghouti.

## Saudi-Led Antiterror Coalition Sharpens Its Focus

A Saudi-led coalition force of 41 countries is now taking shape and has found a focus: protecting member nations against the threat from Islamic State as the militant group’s strongholds in Iraq and Syria disintegrate.

By Saeed Shah in Islamabad, Pakistan, and Margherita Stancati in Dubai

The coalition, sometimes referred to as the “Muslim NATO,” is expected to have its first substantive meeting over the next few months in Riyadh when defense ministers from member states, from Morocco to Malaysia, will gather to agree on its structure and mission.

However, these are Sunni-majority nations and absent from the alliance is Saudi Arabia’s major rival in the Middle East, Shi'i powerhouse Iran, which sees the grouping as a sectarian show of force.

The new coalition—concerned over where in the Middle East and Africa militants from Islamic State could lodge themselves as their “caliphate” in Iraq and Syria collapses—

will set up a mobile military force to aid member countries that don’t have strong counterterrorism capabilities. It also will battle other jihadist groups spilling out of war-torn Libya and Yemen, and Boko Haram in west Africa.

Under pressure from Riyadh, close ally Pakistan will provide a separate force of some 5,000 men to Saudi Arabia to help guard its vulnerable south, close to the border with Yemen, Pakistani officials said.

At Saudi request, the coalition force will be led by the former head of Pakistan’s army, Gen. Raheel Sharif, said Pakistani officials. Gen. Sharif was lauded for taking the fight to Pakistani militants.

Pakistan had said it wanted to focus on its battle with terrorism at home and stay out of the big confrontation in the Middle East between Riyadh and Tehran, aspirations that will be challenged by its participation in the coalition.

“This alliance is against terrorism, especially to help those countries which are threatened, but don’t have the necessary wherewithal to combat terrorists,” said Khawaja

Muhammad Asif, Pakistan’s defense minister, in an interview. “We will not act against Iran.”

However, experts say that the coalition will inevitably antagonize Tehran. The Saudis also see Iranian-backed groups as terrorists.

“They [Saudis] live in fear of Iranian expansionism. And when they realized they couldn’t rely on the U.S., they turned to allies who have armies,” said a Gulf-based Western diplomat.

The military component is

the focus of the alliance,

which officials say is expected

to be fully operational by

year’s end. Its command and

control center in Riyadh re-

cently began hiring staff.

“All countries will put effort into combating terrorism in the member countries, regardless

of the nature of the terror

groups. That is the main goal,”

said Maj. Gen. Ahmed Asiri, an adviser to Saudi Arabia’s min-

ister of defense who is involved

in assembling the new alliance.

The alliance isn’t restricted

to confronting terror groups

like Islamic State and al

Qaeda, said Gen. Asiri. In re-

sponse to a request from a

member state, he said the co-

alition could move against

rebel groups and militias that

pose a threat to member coun-

tries such as Yemen’s Houthis,

which is supported by Iran.

Iran’s ambassador to Islam-

abad, Mehdi Honardoost, said

this month that he had pro-

tested Gen. Sharif’s appoint-

ment to Pakistan and that

Muslim countries “should

come together to form a coali-

tion of peace to resolve their

issues rather forming a con-

troversial military alliance.”

Riyadh has pursued a more

muscular foreign policy under

the leadership of King Salman,

partly a response to its grow-

ing frustration with the re-

gional policy of its most impor-

tant strategic ally, the U.S. Ties

between the longstanding allies

soured under the presidency of

Barack Obama, largely over

Washington’s outreach to Iran.

President Donald Trump

has since embraced closer co-

operation with Riyadh, step-

ping up its support for Saudi

Arabia’s war in Yemen, and it

has vowed to take a harder

line against Iran.

### U.S. Defense Chief Visits Middle East

Mattis arrives in Saudi Arabia at start of five-nation journey

RIYADH—U. S. Defense Secretary Jim Mattis arrived Tuesday in Saudi Arabia at the start of a five-nation tour of the Middle East and North Africa aimed at pressing for a political settlement of the war in Yemen and solidifying counterterrorism efforts with American allies in the region.

He was to meet Saudi King Salman and Crown Prince Mohammed bin Nayef, as well as the defense minister, Deputy Crown Prince Mohammad bin Salman. At the start of a trip that will also take him to Cairo, Tel Aviv, Djibouti and Doha, Qatar, Mr. Mattis called the Saudis a “pillar of our security framework” and said he would discuss ways to “deepen and broaden” Washington’s strategic relationship with Riyadh.

—Gordon Lubold



Coalition troops took part in military exercises last year.

## WORLD NEWS

# IMF Gives Thumbs-Up to Global Economy

Fund sees positive signals despite geopolitical angst, forecasts 3.5% growth

BY IAN TALLEY  
AND HARRIET TORY

WASHINGTON—The global economy is on course for its best performance in several years despite trade tensions and looming geopolitical threats, the International Monetary Fund said ahead of a meeting of world finance chiefs in Washington this week.

Investors are skittish over a potential U.S. standoff with North Korea, France's elections and Washington's fresh use of force in the Middle East and Afghanistan. But global investment, manufacturing and consumer confidence are signaling strength. U.S. growth is projected to accelerate. Europe and Japan are finally showing signs of recovery.

Meanwhile, oil prices have risen from 2016 lows, boosting inflation readings from exceptionally low levels and offering hope for economies dependent on commodity exports that the worst of the two-year price rout might be over.

The International Monetary Fund, in its flagship report on the state of the global economy, nudged up its forecast for world growth this year a tenth of a percentage point to 3.5%, which will be the fastest rate in five years if the IMF is cor-



IMF Managing Director Christine Lagarde and World Bank President Jim Yong Kim

rect.

"Acceleration will be broad-based across advanced, emerging, and low income economies, building on gains we have seen in both manufacturing and trade," said IMF Chief Economist Maurice Obstfeld.

While the IMF kept its forecast pickup for U.S. growth at 2.3% for the year—up from 1.6% last year—it notched higher outlooks for all five of Europe's largest economies.

In Asia, another dose of government stimulus has pushed China's growth forecast up a tenth of a percentage

point to 6.6%, and the fund lifted Japan's outlook by 0.4 percentage point to 1.2%. Growth in cross-border trade of goods and services this year—while still well below precrisis levels—is projected to nearly double to 3.8%.

Consumer price inflation across advanced economies is projected to pick up to 2% on average, more than twice the previous year, and is gathering pace in emerging markets, too.

"The global economy is accelerating after a period of expansion that has been the most gradual of the past cen-

tury," Bank of Montreal Chief Executive Officer William Downe told shareholders earlier this month.

Like many of the largest banks in the U.S., Canada's fourth-largest lender reported a better-than-expected first-quarter profits, with earnings up nearly 40% on the year.

Measures of optimism of households, businesses and investors show high hopes about growth prospects and expectations of higher inflation. Consumer confidence isn't just strong in the U.S.: It also ticked higher in March in the

eurozone, underpinned by a eurozone unemployment rate that in February hit its lowest level since mid-2009.

Surveys of purchasing managers showed that activity in the first three months of the year in the eurozone's manufacturing and services sectors hit its highest measure since 2011, before the eurozone economy entered a slowdown caused by its government debt crisis.

Bellwether companies in Europe, such as German car maker Daimler AG, reported sharply higher earnings in the first three months of the year. And French car-parts maker Faurecia SA said first-quarter sales rose 9.8% on strong growth in the U.S. and China.

"A strengthening of the U.S. and global economy...allow us to make some positive assumptions about business conditions for the remainder of our fiscal year," said William Furman, chief executive officer of international railroad giant Greenbriars Company, based in Lake Oswego, Ore.

Even with the generally positive projections outlined by the IMF, however, trade frictions, political uncertainty and China's debt problems still threaten to erode and potentially upend global growth.

Those and other headwinds are expected to keep world growth capped at 3.8% for the foreseeable future, according to the IMF's outlook.

"The world economy may be gaining momentum, but we cannot be sure that we are out

of the woods," said Mr. Obstfeld.

Investor sentiment in U.S. growth is reliant in part on the Trump administration delivering on promises of a tax overhaul and infrastructure spending, though the president has hit speed bumps advancing his agenda.

Productivity growth around the world—a critical component of economic expansion—is still slow. Growth is also held back by still-sluggish trade growth, aging populations and the failure of the European Union to resolve the legacies of its sovereign debt crisis.

Precrisis growth rates were an exceptional time for major emerging markets. Many are now bumping up against the ceiling of growth gains that could prove hard to extend.

The rapid economic liberalization of China, India and Eastern Europe and the development of global supply chains made the precrisis trade-growth trend at twice the pace of the global economy a unique period, says World Trade Organization chief economist Robert Koopman. The WTO economist said he only sees an acceleration of trade to around 1.5 times the global growth rate.

Economic growth in China, the world's second largest economy, has also come at a cost of an unprecedented credit buildup that many economists warn could mean much weaker growth ahead and even financial turmoil.

## Growth Forecast Raised as U.K. Fears Recede

BY JASON DOUGLAS

LONDON—The International Monetary Fund on Tuesday raised its forecast for U.K. growth this year, saying the economy has proved more resilient to June's Brexit vote than it expected.

The fund added, though, that it still anticipates subdued growth in Britain in the years ahead, as voters' 2016 decision to take the country out of the European Union will likely weigh on trade and investment.

The IMF said in its latest World Economic Outlook that it forecasts growth of 2% in the U.K. in 2017, a faster pace than the 1.5% annual growth it predicted in January.

It also upgraded its growth forecast for 2018, saying it expects the U.K. to expand 1.5% next year, compared with a January projection of 1.4%.

**The negative effect from Brexit will affect growth more slowly than thought.**



Prime Minister Theresa May, speaking outside 10 Downing Street on Tuesday, said she called the vote to try to end divisions over the U.K.'s plan to leave the EU.

## BREXIT

Continued from Page One

hiking vacation with her husband in Wales before Easter. The prime minister said she "thought about this long and hard" before deciding.

The U.K. is on course to leave the EU by March 2019 after a two-year negotiating window with the EU. The final deal will likely involve a limited time period in which certain EU rules still apply to smooth Britain's exit from the bloc.

A government official said Treasury chief Philip Hammond and Brexit secretary David Davis had advised Mrs. May to "take the opportunity" of an early election to strengthen her hand in negotiations.

They also advised that a snap poll would ensure that the next time Mrs. May faces a public vote, in 2022, any post-negotiation transition should be over and Britain will be fully outside the EU.

Jeremy Corbyn, leader of the main opposition Labour Party, said he welcomed Mrs. May's decision to call an early election, signaling his party would support the move.

"We look forward to showing how Labour will stand up for the people of Britain," Mr. Corbyn said, saying the party provides an effective alternative.

Opinion polls suggest Mrs. May would increase that majority significantly in an election.

Several experts said Mrs. May stands to win at least 100 additional seats in Parliament because of her support among voters who backed Brexit and the deep divisions within the Labour Party.

However, changes in Brit-

ish politics in recent years—including the rise of the Scottish National Party—mean that large parliamentary majorities are more difficult to achieve than in the past.

Tony Travers, politics professor at the London School of Economics, said that, given the weakness of Labour, Mrs. May could win a majority of as many as 150 to 200 seats. That would be in line with the biggest election landslides since World War II won by her predecessors Tony Blair in 1997 and 2001 and Margaret Thatcher in 1983.

"She's relying on the Labour Party being such a mess that whatever happens, she'll end up with a significantly bigger majority," Mr. Travers

said.

Henry Newman, director of think tank Open Europe, said an election win would enable Mrs. May to return to the negotiating table with a fresh mandate as an election in Germany could lead to uncertainty about leadership there.

An election is unlikely to hold up Brexit negotiations because they aren't scheduled to start until the 27 remaining EU countries settle their initial negotiating positions, which is unlikely to happen before late May.

In calling for an election, Mrs. May trumpeted the U.K.'s recent economic strength, saying growth has "exceeded all expectations" since Britons chose to leave the bloc in

June. Propelled by consumer spending, the U.K. had one of the fastest growth rates in the Group of Seven advanced economies in 2016, expanding 1.8% over the year as a whole in defiance of widespread expectations of a post-referendum slowdown.

Economists warn resilience may soon begin to fade, as quickening inflation from a weakened pound eats into households' spending power and uncertainty over the U.K.'s future ties to the EU stunts business investment.

Peter Dixon, U.K. economist at Commerzbank in London, said a June election "almost certainly" represents an attempt by the government to boost its parliamentary strength

"before the bad news on the economy kicks in."

The International Monetary Fund on Tuesday raised its forecast for U.K. growth this year to 2%, reflecting the stronger-than-expected performance of the U.K. economy since the Brexit vote.

"But the fund said that it still expects the referendum decision to bear down on growth, albeit more gradually than previously thought."

Proponents of Brexit say the U.K. will flourish outside the EU, where it will be able to cut red tape and sign new trade deals with faster growing parts of the world.

—Valentina Pop in Brussels and Wiktor Szary in London contributed to this article.

The changes "reflect the stronger-than-expected performance of the U.K. economy since the June Brexit vote," the IMF said.

The fund said it still expects the referendum decision to bear down on growth but that the "negative effects" will materialize more gradually than it previously thought. Those effects include weakened consumer-spending power from a battered pound, higher barriers to trade from exiting the EU's single market, and the likely relocation to other European capitals of parts of Britain's financial services industry, the fund said.

Proponents of Brexit say the U.K. will flourish outside the EU, where it will be able to cut red tape and ink new trade deals with faster growing parts of the world.

U.K. Prime Minister Theresa May on Tuesday said she would seek parliament's approval to hold a general election June 8 in an effort to strengthen her government's position as Brexit approaches.

### WHAT'S INVOLVED

#### 5 Things to Know About an Early Election in Britain

U.K. Prime Minister Theresa May said Tuesday she would seek Parliament's approval to hold a general election on June 8—three years earlier than scheduled and just before Brexit talks with the European Union are due to kick off in earnest.

Here are five things you should know:

#### THE U.K. SYSTEM OF GOVERNMENT

The U.K. has a parliamentary system of government. Voters, by and large, choose the local representative of their favored political party. The leader of the party that wins the most seats then forms a government and serves as prime minister. There are 650 seats up for grabs and Mrs. May hopes to

strengthen public support for her stance on negotiating the terms of the U.K.'s exit from the EU.

#### PARLIAMENTARY ARITHMETIC

Britain's "first-past-the-post" electoral system tends to deliver outsize rewards to the party that wins the most votes, even if its margin of victory overall is thin.

Mrs. May's sizable poll lead over her rivals could translate into a considerable parliamentary majority, perhaps of 100 seats or more.

Some analysts urge caution, though, saying the rise of the Scottish National Party means that it is now much harder for either of the two main parties to win the sort of 100-plus majorities of some past prime ministers.

#### FIXED-TERM PARLIAMENT ACT

Mrs. May's push for an election will be the first test of a newish feature of the U.K.'s an-

cient parliamentary system: the Fixed-Term Parliament Act. This 2011 law established five-year terms for governments and was drawn up to help stabilize a rare coalition government from 2010 to 2015 under former prime minister, David Cameron.

This law meant the next U.K. general election was scheduled for 2020. But Mrs. May is seeking to use a provision of the act that allows for an earlier election if there is support from two-thirds of lawmakers in the House of Commons.

#### WHY NOW?

Mrs. May took over the leadership of the ruling Conservatives in July after Mr. Cameron stood down following June's Brexit vote, which he had campaigned against. Victory in an election would silence Mrs. May's critics who say she lacks the mandate to govern because she has never won a popular vote to be party leader.

A bigger factor is her slim majority of only 17 seats in Parliament, which leaves her vulnerable to defeat on major issues if rebel Conservatives side with opposition lawmakers in parliamentary votes.

Mrs. May said Tuesday that an election would root out opposition to Brexit in Parliament and strengthen her hand in negotiations with the EU.

#### WHAT DO THE POLLS SAY?

Opinion polls suggest Mrs. May will comfortably win the election. A YouGov poll in April put support for the Conservatives at 44%, against 23% for Labour.

Mrs. May's personal popularity trumps that of Labour leader Jeremy Corbyn, a veteran left-winger.

The same YouGov survey found 50% of respondents thought Mrs. May would make a better prime minister than Mr. Corbyn. Only 14% thought the opposite.

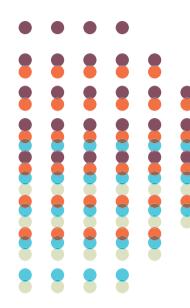
—Jason Douglas



# TURKISH AIRLINES

SOME CHEFS COOK THEIR BEST AT 30.000 FEET

Our Flying Chefs prepare your special and delicious meals  
just the way you like it, right on board. Enjoy your meal.



THE WALL STREET JOURNAL.  
**D.LIVE**  
ASIA

# TECH'S MOST AMBITIOUS MINDS, ON STAGE AND ON THE RECORD.

JUNE 8-9, 2017  
HONG KONG & SHENZHEN

The Wall Street Journal's premier technology event is coming to Asia for the first time. D.LIVE Asia will assemble an elite group of global executives, founders and innovators to discuss the latest technology developments in the Asia-Pacific region and beyond.

The exciting Hong Kong program features CEOs and founders of some of the most influential companies and valuable pre-IPO startups emerging from Asia. Attendees will also take a trip to Shenzhen to visit some of the hottest companies in China's Silicon Valley, including HAX Accelerator, Seeed Studio and BYD.

#### FEATURED PARTICIPANTS INCLUDE:



**BHAVISH AGGARWAL**  
Co-Founder and CEO  
Ola



**YURI MILNER**  
Founder  
DST Global



**CONNIE CHAN**  
Partner  
Andreessen Horowitz



**KAVIN BHARTI MITTAL**  
Founder and CEO  
Hike Messenger



**ERIC JING**  
CEO  
Ant Financial



**ANDREW NG**  
Adjunct Professor, Stanford University  
Co-Chairman and Co-Founder, Coursera



**JENNY LEE**  
Managing Partner  
GGV Capital



**JI-HOON RIM**  
CEO  
Kakao Corp.



**RICHARD LIU**  
CEO  
JD.com



**JANE JIE SUN**  
CEO  
Ctrip.com

*Additional speakers to be announced soon.*

D.LIVE is by invitation.  
For more information please visit [DLIVEAsia.wsj.com](http://DLIVEAsia.wsj.com)

Proudly supported by:



**MetLife Foundation**

**ULYSSE NARDIN**  
SINCE 1846 LE LOCLE - SUISSE

THE WALL STREET JOURNAL.  
Read ambitiously

## WORLD NEWS



Shinzo Abe welcomed U.S. Vice President Mike Pence to the prime minister's official residence in Tokyo on Tuesday.

# U.S. Vows to Back Japan

BY PETER LANDERS

TOKYO—Vice President Mike Pence on Tuesday mixed tough words on North Korea with a gentle touch on trade, refraining from pressing Japan for economic concessions at a time of regional tension.

Mr. Pence was in Tokyo to start a U.S.-Japan economic dialogue after a campaign in which President Donald Trump frequently denounced Tokyo on trade issues such as the minuscule market share of U.S.-made cars in Japan.

But at a news conference after meeting Prime Minister Shinzo Abe, Mr. Pence spent much of his time on security, describing the U.S.-Japan military alliance as a "cornerstone of peace, prosperity and freedom in the Asia-Pacific."

Reiterating language used by Mr. Trump during a visit by Mr. Abe to the U.S. in February, Mr. Pence said his message to Japan was that, "We are with you 100% in the face of provocations across the Sea of Japan" by North Korea.

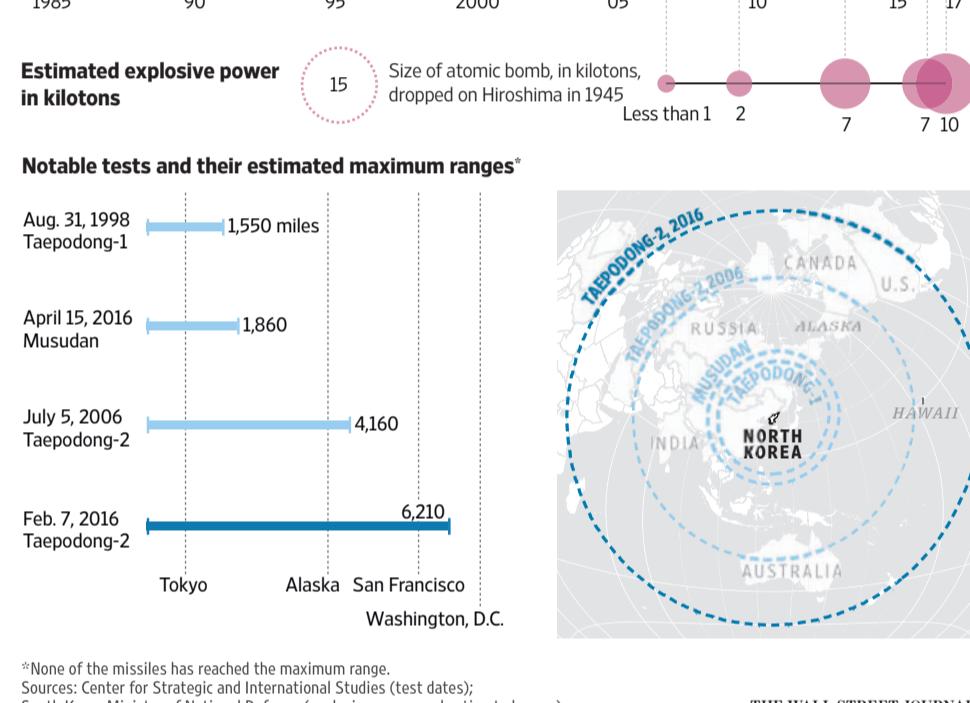
He described North Korea as the "most ominous threat" in the region and said "our resolve could not be stronger" to rid the Korean Peninsula of nuclear weapons.

On trade, Mr. Pence avoided criticism and didn't mention the U.S. trade deficit with Japan. He alluded to Japanese companies that built factories in his home state of Indiana and said the two countries had a strong business relationship.

He said the two-way dialogue started Tuesday "may result in bilateral trade negotiations"—a forum where Washington could press directly for concessions in ar-

## The Threat From North Korea's Missiles

Pyonpong has accelerated its tests of missiles and nuclear bombs as it tries to develop a nuclear-armed missile that could hit the U.S. mainland.



\*None of the missiles has reached the maximum range.  
Sources: Center for Strategic and International Studies (test dates);  
South Korea Ministry of National Defense (explosive power and estimated range)

eas such as agriculture—"but I'll leave that to the future."

Mr. Pence's counterpart, Deputy Prime Minister and Finance Minister Taro Aso, was all smiles after meeting the vice president, saying, "We've moved from the era of friction to the era of cooperation."

The two officials differed somewhat on the shape of future trade talks, with Mr. Pence saying that two-way deals were the best way to achieve results while Mr. Aso expressed hope that the U.S. and Japan could lead the way in setting broader regional-trade standards.

Shortly after taking office, Mr. Trump withdrew the U.S. from the 12-nation Trans-Pacific Partnership trade deal, which had been a top priority for Tokyo. Mr. Pence called the TPP "a thing of the past."

The two men said they planned to meet again by the end of the year on economic cooperation. A joint statement said the U.S. and Japan aimed to "generate concrete results in the near term," without setting a deadline.

Mr. Pence is on the second stop of an Asia-Pacific tour that started in South Korea, where he also focused on the

North Korean threat.

In Seoul earlier Tuesday, he praised the U.S.-South Korea free-trade deal, known as Korus, that went into effect in 2012, telling business leaders that Korean companies are a fast-growing source of investment in the U.S. But he said it was concerning that the U.S. trade deficit with South Korea has more than doubled since the deal.

Mr. Pence said that he looked forward to working with South Koreans "as we reform Korus in the days ahead."

—Jonathan Cheng  
contributed to this article.

THE WALL STREET JOURNAL

# Australia Moves To Curb Entry of Migrant Workers

BY ROB TAYLOR

has drawn the center-left opposition Labor Party and labor unions into a rare convergence with members of Mr. Turnbull's own conservative coalition and the One Nation Party of anti-immigrant firebrand Pauline Hanson.

While the number of 457 workers is small—95,000 in a 12 million-strong workforce, or 0.8% of workers—complaints have taken a sharper edge in recent months with several surveys showing the government's popularity at record lows and pointing to possible defeat in general elections in two years.

"These visas are not really a huge problem," said Jill Sheppard, a political analyst at the Australian National University. "But it's a wise move. It's something the prime minister can do to appease voters drawn down the populist Trump path."

The switch came hours before Mr. Trump was expected to order a review by federal agencies aimed at strengthening decades-old "Buy American" and "Hire American" directives.

"

This is about jobs for Australians. We always will be an immigration nation," Mr. Turnbull told reporters at Australia's Parliament. "The foundation is that our migration system is seen to work in the national interest, is seen to deliver for Australians, is seen to ensure that Australian jobs are filled by Australians."

"

Australia's immigration system last year was held up as a model in the lead-up to Britain's Brexit vote. Conservative lawmakers such as Boris Johnson and far-right UK Independence Party leader Nigel Farage called for the U.K. to adopt elements of the skilled-visa framework for Britain.

"

But since Mr. Trump was elected after promising to restrict immigration and bring back American jobs, lawmakers on all sides in Australia have sought to deliver a similar message. Criticism of the skilled 457 visa in particular

was replaced by a new system that better targets skill shortages, Mr. Turnbull said, while curbing opportunities to gain Australian residency. Two replacement visas, he said, would have rules including an English-language proficiency requirement and a police background check for applicants, while employers would have to prove Australian workers were unavailable to fill the vacancies. Australia's unemployment rate edged up in March to 5.9%, from 5.8% in February.

The Business Council of Australia—a lobbyist group representing large multinational employers including energy majors such as Chevron Corp. and mining giant BHP Billiton PLC—said the new visas could help repair public confidence dented by frequent reports of foreign workers edging out locals. Such reports have helped swing recent election outcomes in constituencies with high jobless rates.



Prime Minister Malcolm Turnbull, left, discusses the new visa policy with Immigration Minister Peter Dutton by his side.

## WORLD WATCH

FRANCE

### Two Suspects Held In Terror-Attack Plan

Two young men suspected of planning an imminent terror attack were detained in Marseille, reviving security fears days before France's presidential elections begin.

The suspects—two Frenchmen born in 1987 and 1993—were planning an attack "in the next few days," said Interior Minister Matthias Fekl. On Tuesday, police raided their homes in the southern port city and detained them.

French authorities didn't say if the men were suspected of targeting presidential candidates or sites linked to the two-round election to be held on April 23 and May 7.

However, officials quietly circulated photos of the two suspects to each candidate's security services on Thursday, according to a person familiar with the matter. Prosecutors in Paris say they investigating the alleged plot for ties to terror groups.

Presidential candidates seized on the news of the police operation to rally supporters. Incumbent President François Hollande has been criticized by Marine Le Pen of the National Front and other presidential candidates for his government's failure to prevent attacks in Nice and Paris.

—Noémie Bissere

CHINA

### Average New-Home Prices Rise 10.3%

The pace of home-price gains in China in March was at its fastest on a month-over-month basis since October, when a first round of government controls sought to rein in property speculation and frothy prices.

The average price of new homes in 70 cities rose 0.7% in March from February, excluding government-subsidized housing, according to calculations from The Wall Street Journal based on data released Tuesday by the National Bureau of Statistics. That compares with a 0.3% sequential gain in February. Average new-home prices rose 10.3% in March from a year earlier, compared with a 10.6% increase in February.

Haikou, the capital of Hainan province—an island off the southern tip of mainland China that is known for its white beaches—led the nation with the highest month-over-month gain of 2.6% in March.

Gains also spread to inland cities such as Shaoguan, up 1.8%; Anqing, up 1.4%; and Luoyang, up 1.4%. They were among the top 10 cities with the largest month-over-month surge in prices.

Persistent home-price gains worry policy makers because they are fueled by a rapid

buildup of developer and household debt, raising concerns about risks to the financial system. The People's Bank of China reported that long-term household loans—a close proxy of mortgages—made up 44% of total new yuan loans in March. That was up from a 32.5% share in February, albeit still down from more than 70% late last year.

—Dominique Fong

BRAZIL

### Central Bank Signals Slower Recovery

Brazil's central bank signaled that a recovery from recession could take longer than previously expected, despite some signs of economic improvement.

The bank said in the minutes from its monetary-policy committee meeting last week, at

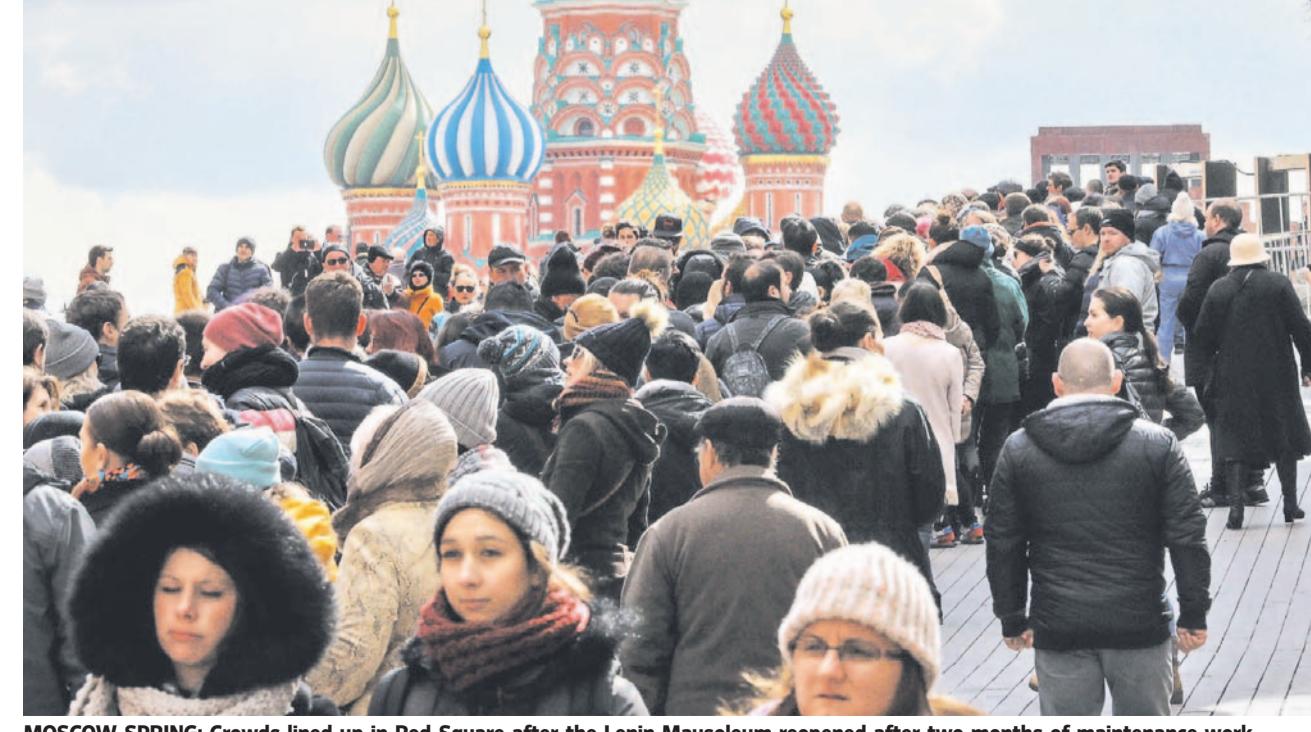
which it cut its benchmark Selic interest rate to 11.25% from 12.25%, that the outlook for inflation is still positive and suggested it is ready for another full-point cut at its next meeting, at the end of May.

At the first two meetings this year, in January and February, the bank cut the Selic by three-quarters of a point, and all of the members of the monetary-policy committee agreed

that the more-aggressive cut last week is "at the moment, adequate," the minutes said.

The 12-month inflation rate has slowed since the start of last year, from 10.7% in January 2016 to 4.57% in March. The bank has forecast a rate of 3.6% at the end of this year. Meanwhile, the economy is sluggish, after contracting last year and in 2015.

—Jeffrey T. Lewis  
and Paulo Trevisani



MOSCOW SPRING: Crowds lined up in Red Square after the Lenin Mausoleum reopened after two months of maintenance work.

## U.S. NEWS

# Presidency Hits Growth Of Business

Separating office from Trump firms seen as drag

By PETER GRANT

In the decade leading up to Donald Trump's election as president, his company added 15 golf courses and 13 hotels.

Keeping up such a rate of expansion won't be easy, according to Eric Trump, the president's son, who with brother Donald Trump Jr. took over running the Trump Organization after the inauguration in January.

While the company's revenue and income are expected to continue to rise during Mr. Trump's term in office, the increases will likely be at a slower rate, Eric Trump said, because of efforts to separate the Trump presidency from the family businesses. "We would be doing 30 deals across the globe" were his father not the president, Eric Trump said in an interview.

The Trump Organization's financial information is tightly held, and Mr. Trump, unlike all other recent presidents, has refused to release his tax returns. Eric Trump declined to provide statistics on how the company's growth rate has flattened.

But Dubai investor Hussain Sajwani confirmed earlier this year that the Trump Organization backed away from a licensing deal involving \$2 bil-

lion in property Mr. Sajwani was developing. The Trump Organization has said it also has canceled real-estate licensing agreements in Brazil, Azerbaijan and Georgia.

The latest example of lost potential business—and the first one domestically—came last week with the collapse of talks between the Trump Organization and Turkish-born developer Mukemmel Sarimsakci over a deal for a Scion-branded Trump hotel in Dallas. Mr. Sarimsakci didn't respond to a request for comment.

The president's critics say any forgone business doesn't mitigate the enormous conflict-of-interest issues he faces both in terms of legality and perception.

These critics say the steps Mr. Trump has taken to separate his presidency from his business interests—including turning over management to his children and transferring his ownership to trusts—have been inadequate, largely because he remains the beneficiary of those trusts.

They also point out the potential conflicts in Mr. Trump's Mar-a-Lago club in Florida, where he frequently hosts foreign dignitaries and where the membership fee was raised to \$200,000 earlier this year.

"He gets the money," said



Eric Trump, seen after stepping off Air Force One in Maryland on Sunday, said forgoing foreign deal hurts the family business.

Richard Painter, the chief ethics lawyer for former President George W. Bush who recently became vice chairman of the Citizens for Responsibility and Ethics in Washington, a government watchdog. "You follow the money."

Ethics experts also point out that even if the Trump Organization forgoes deals now, it is in a position to benefit greatly after Mr. Trump leaves office. "There might not be a signed deal while the president is in office," said Kathleen Clark, a legal-ethics expert and professor of law at Washington University in St. Louis. "But

the concern is he could do favors for people in office with the expectation that he would receive a benefit sometime in the future."

A White House spokeswoman didn't return calls for comment. Eric Trump said Mar-a-Lago was able to raise its fees thanks to market forces.

The Trump Organization is a private, family-run business that owns billions of dollars worth of assets, including golf courses, hotels, office buildings and stores, and has management and licensing agreements.

An analysis by The Wall

Street Journal last year of candidate Trump's financial disclosures concluded his company had pretax profits of about \$160 million a year. The company said the figure was incorrect.

During two interviews in his New York office, Eric Trump said he is careful to not speak to his father about business other than to "chitchat" about such things as "how's the ninth green doing" at the company's Scotland golf course.

He said the only information he can provide his father about the business under ethics procedures the company

adopted is a quarterly report that shows profit and loss without any details.

"He'll probably never ask," he said of his father. "He has bigger fish to fry."

Eric Trump said foreign markets have faster growth rates than domestic ones and, as such, forgoing any new foreign deals cuts off the source of as much as 80% of the Trump Organization's new business. Typically in overseas deals, high-end hotels and golf courses are owned by local investors and licensed and managed by the Trump Organization.

## Trump, on Twitter, Pledges Immigration Move

By ELI STOKOLS

With early-morning tweets Tuesday, President Donald Trump appeared to have resumed his briefly dormant practice of reaching out directly to his supporters and the millions of others who follow him on the social-media platform.

The president declared at 5:39 a.m. local time that he is taking action to overturn what he considers the lax immigration policies of his predecessor, former President Barack Obama.

"The weak illegal immigration policies of the Obama Admin. allowed bad MS 13 gangs to form in cities across U.S. We are removing them fast!" Mr. Trump tweeted from his personal account.

Six minutes later, the president encouraged Twitter followers to tune in to watch his interview on Fox News Channel.

Roughly an hour after that, the president again attacked Jon Ossoff, the Democratic candidate in Georgia's Sixth Congressional District, who was expected to finish ahead of 11 GOP rivals Tuesday night. Mr. Ossoff, who has benefited from a national Democratic backlash toward the president and raised more than \$8.3 million in the battle for this vacant House seat, needed to capture more than 50% of the vote to avoid a likely runoff and win the seat outright.

"Democrat Jon Ossoff would be a disaster in Congress. VERY weak on crime and illegal immigration, bad for jobs and wants higher taxes. Say NO," Mr. Trump tweeted at 6:39 a.m.

He followed up at 6:46 a.m. with a second tweet, his fourth related to Mr. Ossoff in a 24-hour period, urging GOP voters not to sit out. "Republicans must get out today and VOTE in Georgia 6. Force runoff and easy win! Dem Ossoff will raise your taxes—very bad on crime & 2nd A," he

tweeted, in apparent reference to the U.S. Constitution's Second Amendment, which refers to the right to bear arms.

The morning marked the third straight that Mr. Trump, who seemed to have taken a break from his habit of early-morning tweets the last week, fired off Twitter missives to his more than 28 million followers.

Throughout the presidential campaign and since, Mr. Trump would frequently frame news coverage of the day and beyond with tweets attacking his political opponents and more. In a 6:49 a.m. tweet on March 4, Mr. Trump accused Mr. Obama, without any evidence, of "wire tapping" his campaign.

In the Fox interview, which was recorded Monday, Mr. Trump said he didn't want to say if he is considering military action against North Korea, which over the weekend



Democratic House candidate Jon Ossoff, shown Tuesday, was targeted by President Trump on Tuesday.

tested a missile.

"I don't want to telegraph what I'm doing or what I'm thinking," Mr. Trump said, declaring that prior administrations had failed to deal effectively with the country's leader, Kim Jong Un.

Asked what would happen if North Korea successfully carried out a sixth nuclear test, Mr. Trump said: "We'll find out."

The president also blamed the "fake media" for characterizing his recent policy shifts on China as a flip-flop. Throughout his campaign, Mr. Trump said China was a cur-

rency manipulator and vowed action. Last week in an Oval Office interview with The Wall Street Journal, he said that is no longer the case.

"I haven't changed my stance," he said. "China's trying to help us."

Mr. Trump also said his administration is working to round up criminal undocumented immigrants who were a lower priority for Mr. Obama. Last week, Mr. Trump's attorney general, Jeff Sessions, directed federal prosecutors to pursue harsher charges against undocumented

immigrants who commit crimes or repeatedly cross into the U.S. illegally, and he promised to add 125 immigration judges in the next two years to address a backlog of immigration cases.

The moves are part of the administration's efforts to deter illegal immigration, though nonviolent migrants could also face more severe prosecutions.

Mr. Trump was headed to Kenosha, Wis., later Tuesday to sign an executive order aimed at tightening "Buy American" and "Hire American" requirements.

## Applicants For Visa Program Decline

By LAURA MECKLER

WASHINGTON—The number of applications for the H-1B visas used by high-tech companies and others to bring highly skilled workers to the U.S. dropped this year, the government said.

The exact reason is unclear, but experts pointed to Trump administration promises to crack down on abuses in the program, discussion of tougher vetting of foreigners and business decisions by Indian outsourcing firms that are heavy users of the program.

A total of 199,000 applications were received in five days for just 85,000 visas for the fiscal year that begins Oct. 1, the fifth year running that the cap was exceeded in a week or less and a sign that demand still badly outstrips supply. As a result, U.S. Citizenship and Immigration Services again distributed the visas by lottery.

But the number was down from 236,000 applications, known as petitions, the previous year. The number had been rising every year since 2013, when it took 73 days to receive 85,000 applications.

"It is definitely a stark drop after years of an upward trend," said Leon Rodriguez, who was the director of USCIS during the Obama administration and is now an attorney in private practice.

He said President Donald Trump's efforts to restrict travel to the U.S. by certain foreigners and to increase vetting of visa applicants may have made the positions less attractive to some would-be foreign workers. In addition, he pointed to Trump administration promises to increase enforcement of the program's rules.

The Trump administration hasn't made major changes to the H-1B program that Mr. Trump promised as a candidate. This month, the administration did announce that it would direct more inspectors in the H-1B program to the outsourcing companies, which have drawn scrutiny for displacing American workers.

The companies say they are adhering to the program's rules and that they only hire foreigners because they can't find Americans for the jobs.

## Technical Cases Greet Gorsuch at Supreme Court

By JESS BRAVIN  
AND BRENT KENDALL



Justice Neil Gorsuch at his swearing-in last week.

WASHINGTON—with the yearlong struggle over a Supreme Court vacancy now complete, Justice Neil Gorsuch took the bench this week, but his debut crashed into the drabness of the day's cases.

The three cases the high court heard on Monday fell into the category of "dogs," the informal term at the Supreme Court for boring, technical disputes that excite no one but require resolution for the legal system to function consistently.

Justice Gorsuch was quick not only to demonstrate his command of the issues but also to argue that his preferred method of legal interpretation—textualism, which focuses on the specific words of a statute to the near-exclusion of other factors—should easily resolve things.

About 10 minutes into the

a Census Bureau employee who claimed he was forced to retire, in violation of civil-service rules and antidiscrimination laws. Because civil-service cases normally are appealed to the U.S. Court of Appeals for the Federal Circuit, while discrimination suits go to federal district court, the question was where a case involving both types of allegations should be appealed.

"By what authority does a district court ever have the power to hear a civil-service claim?" Justice Gorsuch asked. "Wouldn't it be a lot easier if we just followed the plain text of the statute?" he added later. "What am I missing?"

Plenty, his new colleagues answered. "The one thing about this case that seems perfectly clear to me is that nobody who is not a lawyer—and no ordinary lawyer—could read these statutes and figure out what they are supposed to do," said Justice Samuel Alito.

Justice Elena Kagan suggested that Justice Gorsuch's proposed approach was contrary to decades of practice.

"This would be a kind of a revolution," she said, adding: "I mean, to the extent that you can have a revolution in this kind of case."

In the second case, court watchers were mainly interested in whether Justice Gorsuch would participate at all, given that one of the lawyers arguing had been an outspoken Democratic supporter of President Donald Trump's Supreme Court nominee.

The case, involving a real-estate development in Chester, N.Y., included arguments by Neal Katyal, a former Obama administration lawyer who formally introduced Justice Gorsuch at his Senate confirmation hearings in March.

Ethics experts have said that under traditional conflict-of-interest guidelines, the new

justice wasn't required to recuse himself from Monday's case, but some said it would be understandable if he did so.

Justice Gorsuch did participate, however, asking a few questions, though none of Mr. Katyal. The court typically hears two cases on argument days, but a scheduling quirk subjected Justice Gorsuch to a third technical dispute.

The case stemmed from the subprime-mortgage crisis that nearly tanked the U.S. economy. The specific issue had to do with how to calculate a deadline for the California Public Employees' Retirement System to file suit against underwriters of securities sold by Lehman Brothers before its 2008 bankruptcy. Because Calpers had been represented by a separate class-action lawsuit, the question involved whether its later suit in the Northern District of California was exempt from a three-year time limit.

The companies say they are adhering to the program's rules and that they only hire foreigners because they can't find Americans for the jobs.

## U.S. NEWS



Gary Mendell with a photo of his late son Brian in 2014. Mr. Mendell founded the addiction-advocacy group Shatterproof.

# Addiction Fighters Unite

By JEANNE WHALEN

Addiction experts have issued multiple tomes of guidelines about how best to treat the disease, but too few rehabilitation clinics around the U.S. are following the advice, public-health officials say.

Now, amid the nation's escalating opioid-addiction crisis, some of the country's top substance-abuse experts and a handful of insurance-company executives are uniting to try to force some standards on the fragmented and erratically regulated field.

The group aims to scrutinize the approaches to treatment that clinical evidence has demonstrated to be most effective—and then draft a plan for ensuring that state agencies and insurers require clinics use those methods as a condition for licensing and payment.

The need for more-rigorous treatment standards has intensified alongside soaring rates of opioid abuse, which has pushed U.S. overdose death rates to all-time highs. Many addicts and their families express frustration with the available treatment options, saying they are often too expensive, not covered by insurance or fail to produce long-term results.

Members of the 11-person

group, dubbed the Substance Use Treatment Task Force, include Penny Mills, chief executive of the American Society of Addiction Medicine; Michael Botticelli, executive director of Boston's Grayken Center for Addiction Medicine and former director of the White House's Office of National Drug Control Policy; Jay Butler, chief medical officer at Alaska's health department; and officials from insurers Cigna Corp. and UnitedHealth Group Inc.

*The group is pushing for the uniform adoption of effective methods of treatment.*

Gary Mendell, who founded the addiction-advocacy group Shatterproof after losing his son to the disease, is organizing the task force.

Mr. Mendell said he was motivated to start the effort after watching his son cycle through eight different rehab programs that he later realized weren't offering scientifically sound treatment. In an interview, Mr. Mendell said he wants "to spare other families from the horrific tragedy my

family suffered."

One of the main changes the task force wants to prompt is ensuring that more rehab facilities offer medications such as buprenorphine to treat opioid addiction. Clinical studies have shown buprenorphine reduces illicit opioid use and helps people stick with counseling and other forms of treatment, but many U.S. rehab centers don't offer the medication or don't allow patients to continue it while in treatment, according to the American Society of Addiction Medicine.

That is partly because many treatment centers were founded on the total-sobriety approach long advocated by 12-step programs, and see buprenorphine as the unhelpful replacement of one drug with another. In a report last year, the Surgeon General called this view "scientifically unsound."

One option the task force may consider is requiring all rehab centers to report their medication policies to state authorities, Mr. Botticelli, the former White House drug-control official, said in an interview.

The states could then check that clinics offer or allow buprenorphine or other opioid-treatment medications before issuing or renewing licenses,

he said.

The state licensing process could also be used to ensure clinic staff have the appropriate training to provide one-on-one counseling, and to check that the clinic is offering this service, Mr. Mendell said. The task force plans to comb through treatment guidelines advocated by experts including the Surgeon General and the American Society of Addiction Medicine, and focus on how to require or encourage the practices that can be tracked and measured, Mr. Mendell said.

Requiring clinics to report their patient outcomes to some central authority would be another useful step that would help patients and insurers know the best centers to give their business to, said Linda Rosenberg, chief executive of the National Council for Behavioral Health, which represents nonprofit substance-abuse treatment providers and is participating in the task force.

Mandatory reporting of clinic practices and patient outcomes would allow insurers to pay more to centers that have "higher-quality outcomes," says Doug Nemecek, chief medical officer for the behavioral-health business at Cigna, which is on the task force.

# Arkansas Court Halts Executions

By JOE PALAZZOLO

The top court in Arkansas halted the executions of two inmates scheduled for Monday night, fraying plans by Gov. Asa Hutchinson to put to death a group of men before the state's lethal-injection drugs expire at the end of the month.

The Arkansas Supreme Court agreed in two orders to postpone the executions of Bruce Ward and Don Davis pending the outcome of a case at the U.S. Supreme Court called *McWilliams v. Dunn*.

The U.S. justices are considering whether poor criminal defendants are entitled to independent experts to help them prepare their defenses. Arguments in the case are scheduled for April 24.

Before Messrs. Ward and Davis received their death sentences, courts denied their requests for funding for independent experts to evaluate their mental health, though both exhibited signs of severe mental illness, according to their lawyers.

Nicholas Bronni, Arkansas deputy solicitor general, said in a court filing that the decision by the state Supreme Court was "based on a misinterpretation of federal law."

The U.S. Supreme Court later declined a request by Arkansas officials to lift the hold on the executions.

The orders don't affect the state's plans to carry out the

remaining executions, scheduled for April 20, 24 and 27, Mr. Bronni said.

State and federal courts are working through legal challenges filed in response to Mr. Hutchinson's announcement in February that Arkansas would execute eight men in less than two weeks' time.

Messrs. Davis and Ward were scheduled to be the first to die in back-to-back executions in Arkansas, followed by Stacey Johnson and Ledell Lee on Thursday, Marcel Williams and Jack Jones on April 24 and Jason McGhee and Kenneth Williams on April 27.

A court separately halted the execution of Mr. McGhee earlier this month.

U.S. District Judge Kristine Baker in Little Rock paused the remaining executions on Saturday, ruling that the use of midazolam in Arkansas's lethal-injection protocol "qualifies as an objectively intolerable risk that plaintiffs will suffer severe pain."

The Eighth U.S. Circuit Court of Appeals vacated Judge Baker's ruling on Monday evening, saying that her findings "would not support a conclusion that the prisoners have a likelihood of success in showing that the execution protocol is sure or very likely to cause severe pain."

The ruling means those executions will continue as planned, unless the U.S. Supreme Court intervenes.



# Warrants Shed Light on Prince Inquest

By KRIS MAHER

Nearly a year after Prince's death from an accidental drug overdose, investigators released 11 search warrants on Monday that opened a new window on the investigation into the source of powerful opioids found in his system and at the scene of his death.

The search warrants indicate that investigators have focused attention on a longtime bodyguard and a Minneapolis-area physician who prescribed pain medication to Prince shortly before his death.

The musician was found at his Paisley Park residence outside Minneapolis on April 21, 2016, with prescription painkillers in his possession. He was 57 years old and died on the day he was set to meet with the son of a well-known addiction specialist. An autopsy found that he died from an accidental overdose of the synthetic opioid fentanyl.

Investigators have tried to discover who provided those drugs to Prince. The investigation led by the Carver County Sheriff's Department is still under way, and officials didn't provide an update on its sta-



Prince was 57 when he overdosed at his home nearly a year ago.

tus. The search warrants, from April through September 2016, were released following an October court order.

Police arriving at Prince's home the day he died found more than 100 pills in various locations, according to a search warrant from April

2016. The white, green and orange pills, some with markings denoting a combination of hydrocodone and acetaminophen, were found in a variety of CVS pharmacy bottles and others marked Bayer and Aleve.

Other pills were found in Prince's bedroom and in a suit-

case with the nametag "Peter Bravestrong," which investigators said was a name the notoriously private pop star used when he traveled.

Investigators sought search warrants to access Prince's Apple MacBook, Gmail accounts he used and cellphone records for his close associates, according to the documents released Monday. The search warrants don't say what investigators found when they accessed those sources.

The search warrants show investigators have sought information on what Prince's longtime bodyguard, Kirk Johnson, and a Minnesota doctor, Michael Schulenberg, might have known about the pop star's use of painkillers and the source of medications in his system when he died.

Mr. Johnson told investigators he wasn't aware that Prince was addicted to pain medication, but the law enforcement officer concluded that it was "reasonable that Johnson would have had knowledge of Prince's abuse of prescription/narcotic medication."

Neither Mr. Johnson nor Dr. Schulenberg could be reached to comment.

# Utilities' Output Lifts Industrial Production

By JEFFREY SPARSHOTT AND SARAH CHANEY

WASHINGTON—U.S. industrial production rose in March as demand for home heating surged, masking a drop in manufacturing activity.

Industrial production—a measure of output at factories, mines and utilities—climbed 0.5% in March from a month earlier, the Federal Reserve said Tuesday. Output for February gained 0.1%.

Capacity use, a measure of slack in the economy, increased 0.4 percentage point to 76.1%. Capacity use remains below the long-run average of 79.9%, a sign the economy is operating below its potential.

Overall industrial production was boosted by an 8.6% jump in output at utilities, the largest rise in the index's history, "as the demand for heating returned to seasonal norms after being suppressed by unusually warm weather in February," the Fed said.

Manufacturing output, the biggest component of industrial production, decreased 0.4% in March, the first decline since August 2016, while gains for January and February were revised down. Motor vehicles and parts were the

biggest drag last month.

U.S. factory activity was stagnant through much of 2016 but picked up a little early this year. March manufacturing output was up 0.8% from the year-earlier month. Factory output increased at an annual rate of 2.7% in the first quarter, the Fed said.

U.S. businesses have been anticipating stronger demand from domestic consumers. Overseas, economic activity also has brightened, though a stronger dollar could make American goods more expensive for buyers outside the U.S.

The Institute for Supply Management said its index of factory activity fell to 57.2 in March from 57.7 in February, which had been the strongest reading since August 2014. Despite the downshift, the gauge marked a seventh consecutive month of industrial growth—a reading above 50 indicates sector expansion.

Output in the mining sector rose 0.1% in March. The mining index, which includes oil and natural-gas extraction, was up 2.9% from a year earlier. The sector had been weighed down by weak commodity prices.

Utility output surged 8.6% from the prior month and was up 4.6% from a year earlier.



A California bed-frame factory. Manufacturing fell 0.4% in March.

## CRIME

### Facebook Murder Suspect Kills Self

Pennsylvania State Police said a man who killed a retiree in Cleveland and posted a video of the shooting on Facebook shot and killed himself on Tuesday.

State Police said officers spotted Steve Stephens earlier in the day in Erie County, which borders Ohio. Authorities said police tried to pull Mr. Stephens over and, after a brief pursuit, he shot and killed himself in his car.

Federal, state and local law-enforcement agencies had launched

a nationwide manhunt for Mr. Stephens, who was wanted on a murder charge. Mr. Stephens, who was 37, posted video on Facebook of his seemingly random killing of 74-year-old Robert Godwin Sr. in Cleveland on Sunday.

On Monday, Cleveland officials announced a \$50,000 reward for information leading to the capture of the suspect.

Officials said they had received "dozens and dozens" of tips on the case. They also were in touch with several people Mr. Stephens had been in contact with and said they had been cooperative with investigators.

—Kris Maher

## ECONOMY

### Housing Starts Fall After Strong Winter

Housing starts declined in March, but not enough to signal a reversal of the long-term trend of improvement in new-home construction. Starts dropped 6.8% to a seasonally adjusted annual rate of 1.215 million from a month earlier, the Commerce Department said.

The decline came after an unusually strong winter, buoyed by temperate weather. Single-family housing starts in February hit their highest level since October 2007.

"We had a lot of projects that probably would have started in March, but they started in January or February, so there's a little bit of backlog there," said Gus Faucher, chief economist at PNC Financial Services Group.

Building permits, which can signal future home construction, rose 3.6% to an annual pace of 1.26 million last month and were up 17% from a year earlier. The permit numbers "should quash any concerns that home builders might be pulling back," said Ralph McLaughlin, chief economist for the real-estate website Trulia.

—Laura Kusisto and Ben Leubsdorf

# FILMS

Continued from Page One

vestors from Wall Street, Japan and Germany who appeared more starry-eyed over movie premieres than profits. Hollywood executives called it dumb money.

China, seen as the next sucker, instead proved an exceptional student. Its companies formed partnerships with Hollywood studios to learn about plotlines and character development, as well as soundtracks and visual effects—similar to how it uncovered the secrets of semiconductors and aircraft engines.

"They think they can make money, but they're also engaged in knowing every bit of the building blocks to jump-start [on] the U.S.'s hundred-year advantage," said John Penotti, a producer and founder at SK Global, a film finance and production company with offices in Los Angeles and China that is backed by the China Cultural and Entertainment Fund, a private-equity group.

In November, China passed the U.S. in the number of movie theaters—the most in the world—adding screens at the rate of more than 25 a day. Some are the first theaters in small towns, drawing a new generation of fans.

China's movie box office dipped slightly last year. Even so, Mr. Penotti said, "Social and cultural habits are being formed. It's like the U.S. in the 1950s."

China flexed its box-office power this past weekend, when "The Fate of the Furious" opened to \$99 million in the U.S. and Canada—and \$192 million in China, the biggest Hollywood opening ever in the country.

Chinese investors bring the support of a Communist Party

that under China's leader, President Xi Jinping, has made cultural influence a piece of its long-term growth plans.

"We must make patriotism into the main melody of literature and art creation, guide the people to establish and uphold correct views of history, views of the nation, views of the country and views of culture, and strengthen their fortitude and resolve to be Chinese," said Mr. Xi at the Beijing Forum on Literature and Art in October 2014.

Tensions between China and the White House have accelerated since the presidential election. Mr. Xi seeks to contrast with President Donald Trump as a champion of globalism, and he appears eager to advance China's narrative—both by pressuring Hollywood studios to portray the nation favorably and, in the long term, by adopting Western filmmaking techniques for China's movie industry.

## Full house

Like a movie plot, China's rise was driven by conflict—in this instance, the financial crisis. Hollywood's Wall Street financing dried up in 2008; U.S. movie-theater attendance stagnated; DVD sales, once a studio cash cow, slumped with the growth of streaming services, including Netflix Inc.

Around this time, China began an effort to introduce itself to the world as a cultural force with the 2008 Summer Olympics in Beijing as its opening act. Chinese officials announced investments of hundreds of billions of dollars to urbanize the country, transforming farmland into urban grids that included new, high-tech movie theaters. The seats began filling with members of China's new middle class, a generation born under the one-child policy who had dis-

posable income and an appetite for Western entertainment. Like other young people, they also wanted an excuse to get out of the house.

"I remember talking to Chinese citizens, hearing that they liked American movies, and the Chinese authorities knew that," said Dan Glickman, chief executive of the Motion Picture Association of America from 2004 to 2010.

China, however, wanted more than Hollywood movies on its new screens. Authorities wanted Chinese filmmakers producing movies for Chinese audiences that would compete with the U.S. imports.

That desire got a push from a Hollywood panda named Po. The animated star of "Kung Fu Panda" was created by DreamWorks Animation SKG Inc., the Glendale, Calif., studio then run by Jeffrey Katzenberg.

Mr. Katzenberg didn't cook up "Panda" to win over Chinese audiences. He and the DreamWorks team conceived of the movie in 2004, when China sales were barely an afterthought. At its 2008 release, China's market was small but growing.

Yet "Kung Fu Panda" was a hit in China, grossing \$26 million, a surprise to everyone. Members of the Chinese People's Political Consultative Committee—a top political advisory body—debated how a U.S. company could understand Chinese culture well enough to make the movie.

"The film's protagonist is China's national treasure and all the elements are Chinese," said Wu Jiang, an arts executive, at a Consultative Committee meeting, according to a contemporary account in a state-owned newspaper. "Why didn't we make such a film?"

China's box office exploded in 2010 with the release of "Avatar," director James Cameron's 3-D epic. Chinese moviegoers waited in line for hours, and scalped tickets sold for as much as \$100. "Avatar" grossed \$204 million in China, more than triple the record at the time.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

"I prefer to watch Hollywood films because the chance of a domestic film being crappy is much bigger than a Hollywood film," said Liu Jing, a 25-year-old postgraduate student studying finance policy in Beijing.

Ms. Jing said she became a fan of superhero films from Marvel Studios as a high-school student and now goes to movie theaters at least once a month.

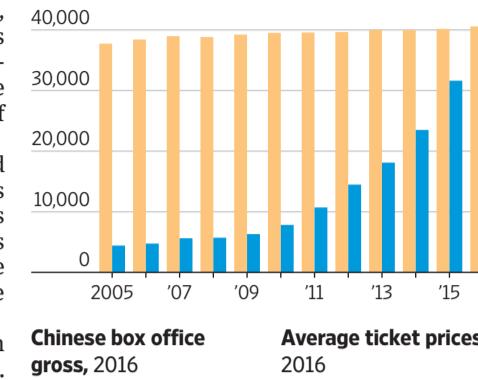
Hollywood executives can rattle off the rules for getting a movie approved by Chinese censors: no sex (too unseemly); no ghosts (too spiritual). Among 10 prohibited plot elements are "disrupts the social order" and "jeopardizes social morality." Time travel is frowned upon because of its premise that individuals can change history.

U.S. filmmakers sometimes anticipate Chinese censors and alter movies before their release. The Oscar-winning alien-invasion drama "Arrival" was edited to make a Chinese general appear less antagonistic before the film's debut in China this year.

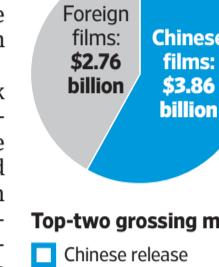
## China Goes Hollywood

Hollywood has become so entangled with China that the movie industry can't run without it. At stake is money, influence and the world's largest sources of new moviegoers.

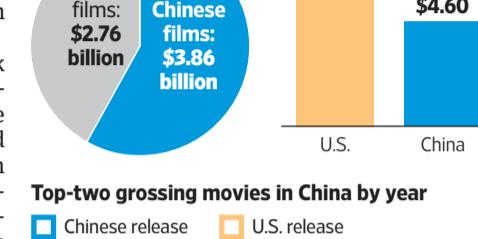
### Number of movie screens in the country



### Chinese box office gross, 2016



### Average ticket prices, 2016



### Top global exhibitors by number of screens, as of Q4 2016

Exhibitor	Screens
Dalian Wanda Group* (China)	13,884
Regal Entertainment Group (U.S.)	7,267
Cinemark Holdings (U.S.)	5,903
Cinépolis (Mexico)	4,900
Guangdong Dadi Cinemas (China)	3,003
CJ CGV (South Korea)	2,877
Cinemex (Mexico)	2,565
China Film Digital (China)	2,511
China Film South Cinema Circuit (China)	2,166
Cineworld Group (U.K.)	2,115

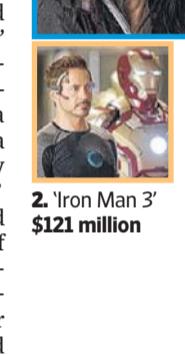
### Top-two grossing movies in China by year

■ Chinese release ■ U.S. release

2013

1. 'Journey to the West: Conquering the Demons'

\$197 million



2. 'Iron Man 3'

\$121 million

2014

1. 'Transformers: Age of Extinction'

\$320 million



2. 'Breakup Buddies'

\$188 million

2015

1. 'Furious 7'

\$391 million



2. 'Monster Hunt'

\$382 million

2016  
1. 'The Mermaid'  
\$527 million



\*acquired Kansas-based AMC Entertainment Holdings in 2012

Sources: IHS Markit (screens, exhibitors); Wanda Cinemas and MPPA (box office, ticket prices); Box Office Mojo (top movies)  
Photos: Magnet Releasing/Everett Collection (Journey); Walt Disney Co./Everett Collection (Iron Man); Paramount/Everett Collection (Transformers); Toronto International Film Festival (Buddies); Universal Pictures (Furious); FilmRise (Monster); Sony Pictures/Everett Collection (Mermaid); Disney (Zootopia)

THE WALL STREET JOURNAL.

sal Pictures and Lions Gate Entertainment Corp. have sold a stake in their films to Chinese firms. New movie companies have risen with help from Chinese investors, some headed by former executives of Warner Bros. and Walt Disney Co.

No company has been more aggressive in pursuing Hollywood partnerships than Wanda, a conglomerate run by Wang Jianlin, China's richest man, that made its name building shopping malls across China in the 1990s.

The superhero hit "Logan" was 14 minutes shorter in China after Chinese censors cut scenes of beheading and impalement.

For "Passengers," the space adventure starring Chris Pratt and Jennifer Lawrence, a scene showing Mr. Pratt's bare backside was removed, and a scene of Mr. Pratt chatting in Mandarin with a robot bartender was added.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed objectionable—would be shown in China.

Two years later, the quota of imported movies permitted into China was raised to 34 from 20 in a deal negotiated between then-Vice President Joe Biden and then-Vice President Xi. The deal all but guaranteed that most big-budget Hollywood features—except those with content deemed

# LIFE & ARTS

WORK & FAMILY | Sue Shellenbarger

## How to Be the Best Deputy

**GREAT BOSSES** get applauded, but an able No. 2 doesn't get much attention.

When done right, though, the deputy's job can be a rich and rewarding role. It takes finesse to make it a winning hand. The role offers access without having to take the spotlight or the main blame when things go wrong. The most-fulfilled deputies, however, also challenge the boss, call out mistakes, and still carry out the leader's plan.

Rhonda Haynes doesn't need the spotlight to be motivated. She derives her rewards from knowing things are getting done, the organization is running smoothly and her colleagues' morale is good, says Ms. Haynes, deputy executive director of a Chicago nonprofit.

She doesn't confuse that with being selfless and has her demands, of course. A deputy can't succeed without the boss's support. On a previous job as a No. 2, Ms. Haynes says, her boss hampered her work by withholding information. In her current post, her boss Linda Listrom, executive director of the National Association for Urban Debate Leagues, gives her latitude to oversee operations and programs for the group, which support a network of student debate groups nationwide.

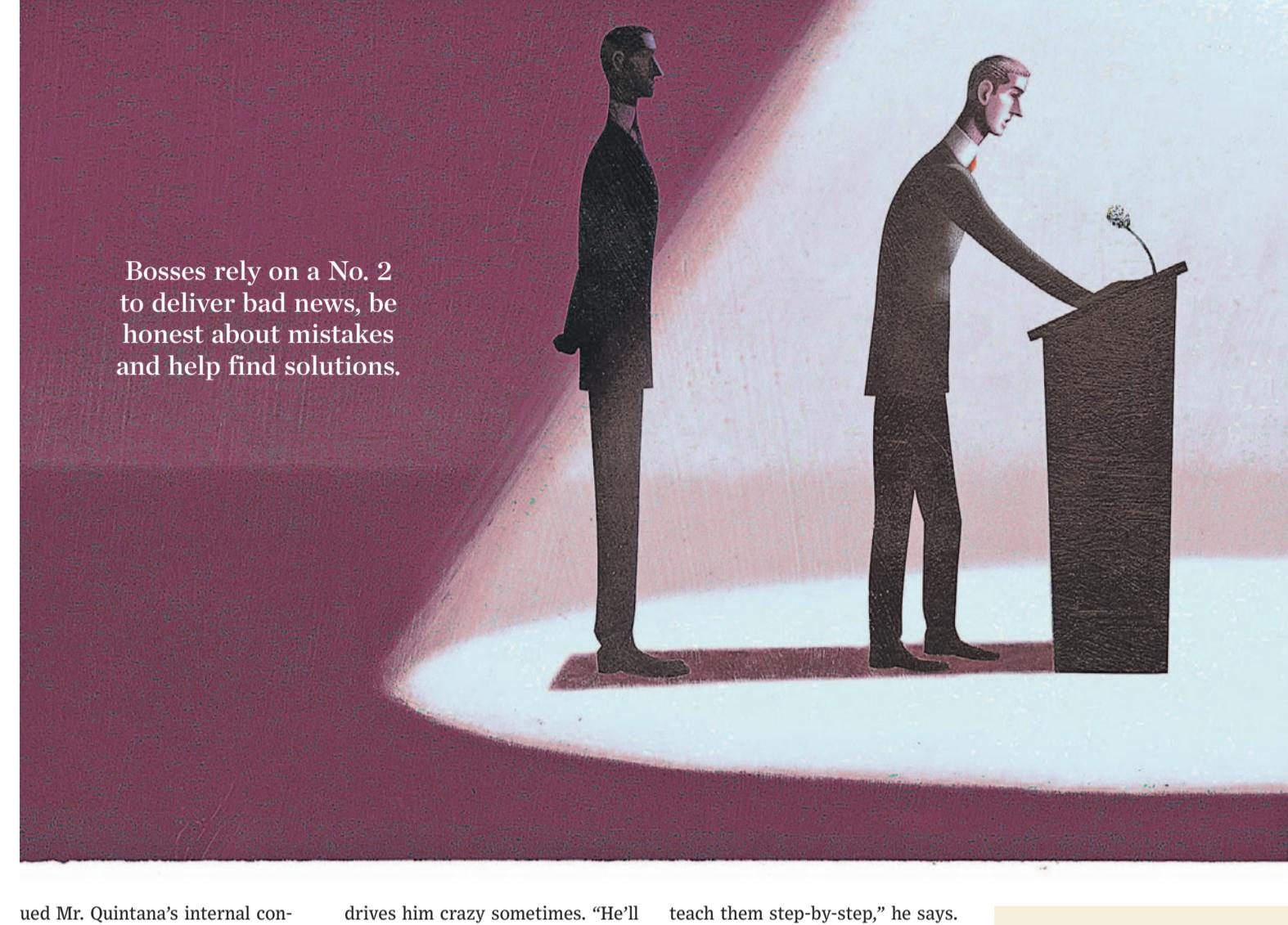
The second in command should be prepared to step in for the CEO when necessary. "You have to be able to take on anything the leader takes on, without having had all the experience," says Marc Hurwitz, Toronto consultant and co-author of a book on cultivating effective followers.

A deputy's skills also should complement those of the leader. "If No. 1 is strong in thinking at 30,000 feet, then you'd better be the one who's thinking at ground zero," says Robert Kelley, a management professor at Carnegie Mellon University. "You get less ego-stroking. You're not seen as a leader. For somebody who has those psychological needs, the No. 2 role can be very hard."

John Quintana built a strong internal network while serving as deputy chief operating officer of Argonne National Laboratory in Argonne, Ill., for six years. "You have to talk to people, and even more important than talking is listening" for problems that need attention, says Mr. Quintana, who is currently an interim deputy director at the lab.

Mr. Quintana's boss, Paul Kearns, who joined Argonne as chief operating officer, says he val-

Bosses rely on a No. 2 to deliver bad news, be honest about mistakes and help find solutions.



ued Mr. Quintana's internal connections and his ability to keep him informed about day-to-day issues at the lab. When a problem arose several years ago with tracking inventories of materials, Mr. Quintana alerted him to it and suggested possible solutions, says Mr. Kearns, who is currently Argonne's acting director.

"Being able to bring bad news forward is a critical aspect of the role, and also giving some early thought to the first step or two toward a solution," Mr. Kearns says.

A deputy shouldn't be afraid to challenge the boss. Joseph Basile, CEO of Catania Oils, an Anya, Mass., edible-oils processor and packer, says he is more reserved than his outgoing brother Stephen, an executive vice president and the No. 2 executive, but sees the contrast as a strength. "We feed off each other in generating ideas, and we have fun doing it," Joseph says.

Stephen says Joseph's analytical approach to decision-making

drives him crazy sometimes. "He'll just spreadsheet and graph a question to death, and I'm like, 'Come on, can we make a decision already?'" He sometimes sees later, however, that his hasty decision would have been wrong. "We challenge each other," Stephen says, "and in challenging each other, everybody wins."

A deputy can have a major impact by working quietly behind the scenes. Rosy Pal worked her way up from a part-time cake-decorating job to the No. 2 spot at Saisethsons Hospitality Group Inc., a Toronto franchisee with 41 Tim Horton's restaurants. Ms. Pal, who is director of operations, measures her own success partly by tracking how many employees she coaches each week, teaching them the skills they need to rise in the ranks.

CEO Amit Seth credits Ms. Pal for the company's ability to promote 90% of its managers from within. "She has the ability to bring people up and patiently

teach them step-by-step," he says.

It is also important to figure out how serving as No. 2 fits into your career plans, Mr. Quintana says. Ask yourself: "How long do you want to stay in the role? What do you want to do after that?" he says.

For some, it is a launchpad. The pool of experienced No. 2 executives is often the first place recruiters look for candidates for top jobs, Dr. Kelley says.

For others, it is a lifestyle. David Lassman was the No. 2 executive at six different companies earlier in his career. Being free to coach employees and help companies run more smoothly were among the biggest rewards, says Mr. Lassman, who is now a professor of organizational management at Carnegie Mellon University.

"You have to get rid of your ego. You have to be comfortable not getting all the credit—but you also typically won't get all the heat either" if things go wrong, Mr. Lassman says.

### A Good Number Two Must be Willing to...

- Bury your ego
- Help the boss avoid mistakes
- Tell the boss when he/she's made a mistake
- Carry out someone else's plans
- Be satisfied with behind-the-scenes wins
- Get things done via personal influence rather than overt power
- Translate the boss's plans in a way that motivates others
- Serve as a dumping ground when the boss is frustrated
- Step in when the boss can't lead



MUSIC REVIEW | Jim Fusilli

## ANIMATING VOCALISTS ACROSS GENRES

**GORILLAZ RESUMES** its terrifically inventive career with "Humanz" (Warner Bros.), its fifth album and first since 2011. A virtual band represented by animated characters created by Jamie Hewlett, Gorillaz has grown well beyond that original concept and established itself as a loose affiliation of musicians rather than a set lineup. Under the guidance of Damon Albarn, who plays most of the instruments and had a hand in writing all of the songs, the ad-hoc group remains free to make any kind of music it can muster. On "Humanz," Gorillaz explores deep house, hip-hop, funk and soul. The album arrives on April 28.

The infectious music often springs from early-'80s drum-machine beats and relies on modest patterns on synthesizers; thus, it manages to be retro and right now at the same time. As he was on its previous recordings, Mr. Albarn proves supremely democratic when choosing who will provide the voices on top. Guests here include rap and hip-hop's Danny Brown, De La Soul and Vince Staples; experimental pop's Kali Uchis; and soul and funk's Anthony Hamilton, Grace Jones, Kelela and Mavis Staples. Noel Gallagher and Savages' Jehnny Beth join in on "We Got the Power," while Benjamin Clementine adds Nina Simone-style melodrama to "Hallelujah Money." Carly Simon appears on a track on the deluxe edition.

Animation remains a part of Gorillaz's world: The maladapted cartoon quartet was featured exploring a haunted house in a video by Mr. Hewlett released last month to introduce "Saturnz Barz" and snippets of three other songs from "Humanz." But long ago Gorillaz's focus shifted to the music



made largely by Mr. Albarn, who has fashioned an admirable career following his stint as the leader of the 1990s Britpop group Blur (which reunited briefly in 2015 for the album "The Magic Whip"). He has wide-ranging musical interests, having recorded in various settings with African musicians and formed the Good, the Bad & the Queen with Nigerian drummer Tony Allen, ex-Clash bassist Paul Simonon and guitarist Simon Tong.

His eclecticism and openness give Gorillaz a distinctive approach that is too imaginative and spirited to be confined to recordings by a virtual group. Concerts feature all-star lineups: One version of the live band, with

Mr. Albarn on guitar and keyboards, included Mr. Simonon, former Clash colleague Mick Jones and guest vocalists Neneh Cherry, Lou Reed, Snoop Dogg and Bobby Womack. Thus, a Gorillaz concert is like an old-fashioned variety show with an emphasis on quality music, entertainment and good fun.

And so it is on "Humanz." The diversity and sheer number of vocalists give the album its freshness and swagger. Engaging performances abound. Over popcorn synths and a wobbly chorus, Kelela sings with seductive strut on "Submission," which features a comedic rap by Mr. Brown. "Charger," the next track on the album, builds on a battery of harsh sounds as Ms. Jones,

"Humanz" is the new album by Gorillaz, the virtual band started by Jamie Hewlett and Damon Albarn

whose voice drips with defiance, provides the counterpoint. Over skittish high-energy rhythms, Mr. Staples spits a politically charged rap in "Ascension," an ironic title for a song whose hook is "the sky is falling, baby." Like much of "Humanz," the song rushes by and is so jammed with musical ideas that it all but demands an immediate second play.

Mr. Albarn goes to the source for authentic soul and funk vocals, though not with the best success. He deploys the 77-year-old Ms. Staples and the soul singer Mr. Hamilton on "Let Me Out" and "Carnival," respectively, but their contributions are overwhelmed by a riot of synthetic percussive sounds. Peven Everett, though, is out front in the extra-funky dance number "Strobelite," and he excels. Mr. Albarn sings "Andromeda," a track inspired by a dance club of his youth that sways nicely.

"Humanz" has modest political overtones in its lyrics, particularly in Mr. Staples's "Ascension," a dizzying harangue against racism. In some new promo videos, the animated Gorillaz wander a landscape so grim it appears post-apocalyptic. Yet the album emerges as another example of how Mr. Albarn deploys his contact list and musical toy box to indulge in his gift for whimsy. Whatever problems there may be in the world, on "Humanz" his counsel is to continue to dance with joy. Gorillaz's new music makes it possible to do so.

Mr. Fusilli is the Journal's rock and pop music critic. Email him at [jfusilli@wsj.com](mailto:jfusilli@wsj.com) and follow him on Twitter @wsjrock.

## OPINION

### REVIEW & OUTLOOK

## Theresa May's Election Opportunity

Theresa May surprised her countrymen Tuesday by calling for a new British election on June 8, and it's a reasonable if daring bet. The Prime Minister wants a new and larger majority in Parliament as she negotiates Britain's departure from the European Union. Let's hope she uses the campaign to offer a vision for a competitive Britain that meets the post-Brexit challenge.

The next election wasn't scheduled until 2020, and the safer play was to negotiate Brexit first. But Mrs. May is still living with David Cameron's pre-Brexit Tory majority, and she figures she'll be in a stronger negotiating position if she can win a larger majority in her own right. You have to admire her nerve, and her faith in democracy, especially in this era of populist surprises.

Mrs. May continues to be popular since taking over from Mr. Cameron last year, and her Tories lead in the polls. Markets reacted well to Mrs. May's election news, with the pound rising on expectations that she will be able to grow the current 17-seat Tory majority.

She is also striking when the Labour Party is divided under Jeremy Corbyn. The unreconstructed socialist is nostalgic for nationalized railroads and a union-dominated economy that modern Britain long ago left behind. His foreign policy is of the global left, with a soft spot for Hamas and dislike for NATO. Many Labour MPs think Mr. Corbyn didn't do enough to fight Brexit last year, so he has his own challenge laying out a coherent post-Brexit policy.

Then again, anything can happen in a democracy, especially these days. Britain has more than a little post-Brexit anxiety and even buyer's remorse. Some of this is the uncertainty of change but some relates to real economic developments since the Brexit vote.

## Erdogan's Tainted Triumph

Sunday's referendum to expand his presidential powers didn't go as Turkey's Recep Tayyip Erdogan had planned. The Islamist strongman had hoped for a rousing endorsement, but he won narrowly amid voting irregularities that will taint his victory. The result leaves Turkish society even more polarized and may produce more instability.

The pro-Erdogan camp won a mere 51.2% of the vote, according to the state-run news agency. More telling is that the referendum lost in Turkey's urban areas, including Ankara and even Istanbul, where Mr. Erdogan was mayor. The country's election board made a last-minute decision to accept ballots that didn't bear official stamps normally required to validate ballots. The secular Republican People's Party said that move and other verification problems cast doubt on the validity of some 2.5 million ballots.

Observers with the Council of Europe and the Organization for Security and Cooperation in Europe criticized the election board's decision. They also noted that civil-society groups had been barred from holding campaign

The plunge in the pound since last summer is expected to push inflation above 3% this year. Wages aren't keeping up, and households feel the squeeze. Business confidence is flagging as the EU's line on trade talks has hardened and the difficulty of concluding other trade deals comes into focus. Separatism is flaring again in Scotland.

Mrs. May's challenge amid this ferment will be articulating a vision of what Brexit is for. Economic liberalizers supported Brexit as a way to free Britain from EU statism, but that hasn't been Mrs. May's governing identity. She has been offering a form of Christian-democratic solidarity instead of Thatcherite reform and a new dynamic Britain. Immigration restrictionists supported Brexit to preserve Britain's national identity, but Mrs. May now admits Britain will continue to need immigrants.

Mrs. May is hoping an election victory will help her transcend those differences and present a united Tory government in talks with the EU. But to win that majority she'll need to offer a vision of a greater Britain than the kind of communitarian conservatism she has offered so far. Her politics is dominating the political center in Britain, thanks in part to Mr. Corbyn's incompetence and radicalism.

But the economic and political challenges of Brexit are so formidable that Mrs. May will need to challenge the public to take risks to meet the competitive moment. Britain can't succeed as a solo version of the EU welfare state. It can only prosper post-Brexit if it becomes a mecca for investment and human capital. Mrs. May wants a mandate to negotiate, but she'll be in a stronger position if she also has a mandate for pro-growth reform. She should ask for it.

events, and Mr. Erdogan's camp dominated the media. All of this occurred amid Mr. Erdogan's crackdown on political opponents, journalists and independent judges since last July's failed coup against him.

The opposition says it will formally challenge the result, but overturning it is unlikely given Mr. Erdogan's control over public institutions. Barring a Turkish Spring uprising, Mr. Erdogan will consolidate even more power in the office of the president. The referendum would allow the 63-year-old to remain as president through 2029, and perhaps 2034.

All of this will complicate Turkey's relations with the West, as Mr. Erdogan advances his Vladimir Putin-like control. The U.S. will have to work with its NATO ally. But without more evidence the U.S. should resist demands to extradite Fethullah Gülen, the Pennsylvania-based imam Mr. Erdogan accuses of masterminding the summer putsch. Mr. Erdogan has staged his own internal coup by abusing the levers of democracy to create an Islamist authoritarian state.

## Trump's Deregulation Project

U.S. health reform may be on life support and tax reform uncertain, but one part of the Donald Trump economic growth project is succeeding: deregulation. The question is whether the President will now rev up the effort.

Mr. Trump last week signed the 13<sup>th</sup> bill repealing regulations through a potent tool called the Congressional Review Act (CRA), which allows Congress to reject rules in a majority vote within 60 legislative days of publication. The 1996 law had previously been used only once, when Congress and George W. Bush nixed an ergonomics directive from the Occupational Safety and Health Administration. Two other repeal resolutions have passed the House and are pending in the Senate.

The list of rejects includes the Interior Department's Stream Protection Rule, which would have eliminated a third of coal-industry jobs and usurped state authority over mining, for little environmental improvement. Awaiting Senate repeal is the Bureau of Land Management's venting and flaring rule for natural-gas fracking. That aimed to reduce methane emissions, though they have already dropped more than 15% since 1990 even as U.S. energy exploration has doubled in a decade.

Other worthy targets: A Federal Communications Commission regulation that would have forced Comcast to abide by consumer-privacy standards that Amazon and Google could ignore. Sen. Ben Sasse (R., Neb.) moved a bill to deep-six a teacher-training mandate that features incentives for teachers to avoid struggling schools that need talented instruction most. The left is spreading panic about potential sludge rivers or killer toys, but these reversals merely restore the status quo of six months ago.

Congressional Review actions don't include Mr. Trump's executive orders, which have directed agencies to reconsider the trillion-dollar Clean Power Plan, the Labor Department's financial advice diktat known as the fiduciary rule, among many others.

Then there are the rules that agencies have delayed and may eventually scrap, from micromanaging ceiling-fan efficiency to organic-farming standards. Sam Batkins at the American Action Forum estimates that 15 delayed rules alone

would require 10 million hours of paperwork. That time could be devoted to activities that produce wealth and innovation, and the main losers would be compliance lawyers.

The White House and Senate Republicans have said the 60-day review period for Congressional Review Act measures will end next month. But our colleague Kimberley Strassel has explained how the law applies to past rules that agencies failed to report to Congress as required. The same is true for "guidance" letters, such as the Education Department's sexual assault "Dear Colleague," that were imposed with the force of law without having to go through a public-comment period.

The Administration could require agencies to work up lists of rules that weren't properly reported, and send them up for rejection. Bonus: If Congress disproves a rule, the CRA stipulates that an agency cannot issue the same regulation again. That is much more powerful than perennial blue-ribbon regulatory commissions or a pledge to identify two old regulations to replace for every new one, which usually achieve less than advertised.

The minds behind this interpretation are the Heritage Foundation's Paul Larkin and the Pacific Legal Foundation's Todd Gaziano, who helped write the CRA. They are combing federal records for potential candidates. There appear to be hundreds, and here's an example: The EPA's interpretation of the Supreme Court's *Rapanos* opinion, which has let the agency pummel property owners with tenuous claims about drainage into navigable waters.

Some Republicans may want to move on to other legislative priorities, and floor time is limited. But agencies could report a handful of rules at a time so as not to swamp the House and Senate as they consider the budget or Mr. Trump's nominees. Democrats will inevitably protest, but the point of the review act was to create an accountability mechanism for agencies that refuse to follow the law.

Many Republicans campaign against regulations but then merely pump out rules at a slightly slower pace. So far the Trump Administration is a welcome improvement, rolling back more regulations than any President in history. Now we will see if he's willing to deploy the full power of the law.

## The Impoverishment Of Politics in France



As part of a new worst-case scenario for France, the extreme left-wing candidate Jean-Luc Mélenchon is using a vocabulary of violence to warn the French about the wounds they face if he isn't elected president.

"You're going to be spitting blood if you elect those three," he said in a speech last week. Mr. Mélenchon was shouting out his version of the peril of putting any one of his campaign rivals—Marine Le Pen of the far right, reformist candidate Emmanuel Macron or the Gaullists' François Fillon—in the Elysée Palace.

It was the kind of language that scars French democracy and points to the country's political impoverishment. The blood-spitting phrase stood out all the more pertinently because new polling shows Mr. Mélenchon, with stronger momentum than his opponents, having a largely equal chance alongside Ms. Le Pen to survive Sunday's first-round election and make it to the final round two weeks later.

A head-to-head Mélenchon-Le Pen presidential clash is now plausible. It means a presidential victory by a French extremist, left or right. Virtually in common, even though they detest one another, each has devastating plans for the West: spending the groggy French economy into a deeper coma, partnership with Vladimir Putin's Russia, and exits from NATO, the European Union and the euro.

If a Mélenchon-Le Pen run-off becomes a sure thing Sunday—leaving a choice between plague and cholera, as the French say—a crisis could come the next day. Neither of the two has a program seriously considering French debt obligations. According to the news magazine Le Point, estimates in Paris of France's debt held by American and Asian investors runs to more than a trillion euros.

Mr. Mélenchon, at 65, seems to make up his economics in another world. But his chief campaign economist, Jacques Généreux, doesn't deny the prospect of an immediate financial shock. "If Mélenchon and Le Pen both reach the second round, the markets will overreact," Mr. Généreux told a French reporter. Then he offered this consolation: "When he wins the presidency things will quiet down because the markets will have escaped the worst."

But not from Mr. Mélenchon. Gaining support, the former Trotskyist feasted on the Socialist Party's weakness and absence of authority, and stroked the French tolerance for disruption dating back to the Jacobins and the French Revolution.

He reveres Robespierre, the leader of the revolution's Great Terror; admires Fidel Castro, the Cuban murderer; and supported Hugo Chávez, the Venezuelan dictator.

The right-wing extremist weekly *Minute*, which finds Ms. Le Pen a softie, boosted Mr. Mélenchon with a cover photo last week and the headline, "Jean-Marie Le Pen the Orator Has Found His Heir." As for the more conventional press, it has often portrayed the candidate as witty and literate. (Think of Yuri Andropov, the Soviet leader and KGB boss, who was once said to have liked jazz and had a sense of humor.)

The first real hard shot at Mr. Mélenchon came last week from Laurent Berger, head of the CFDT, the country's largest trade union. He paired Mr. Mélenchon with "a rather totalitarian vision" that "risks a brutal vision of human, social and political relations."

**The country is finding it increasingly difficult to muster a defense of its democracy against the challenges of the fringe.**

At the same time, the essayist Roger-Pol Droit, writing in the sober business newspaper *Les Echos*, leapt over the standard, extrasafe designation of Mr. Mélenchon and Ms. Le Pen as populists. Rather, he said, they represent the authoritarianism and rigidity that partially defines fascism.

In fact, Ms. Le Pen's slightly depressed polling results recently has diminished her status as an absolutely safe bet to get into the final round, although it remains a strong probability.

An explanation: In electoral terms, Ms. Le Pen had become domesticated, less deliberately divisive. In her attempts to broaden her base and sound "reasonable," she no longer stepped to the edge of political obscenity. Mr. Mélenchon, who initially profited from her cover as the presumed greater evil, set himself up as the real savior of the powerless against "the system," which, for him, includes the U.S. and Germany, plus "Rothschild bankers."

Playing catch-up, Ms. Le Pen retreated into repulsive politics, deciding to assert that France has no lingering responsibility for the roundup by French police of 13,000 Jews sent in 1942 from the Vel d'Hiv cycling arena to the concentration camps, the majority to Auschwitz.

Last week, she denounced the "systematic repentance" she said was forced on the French, and stuck the label of pro-Islamism on Mr. Macron, who the polls say would defeat either extremist—if, overcoming stagnant poll scores, he makes it to the final round on May 7.

But so much of the political soul of the French has gone missing. In the worst-case scenario, there is less than a week for them to find an honorable response to the challenge of holding on to their democracy.

## Avoid the Temptation Of Crony Capitalism

By Stanley A. Weiss

The White House announced last month that it would establish a new Office of American Innovation, led by Jared Kushner, to work with business leaders on making government more effective. Skeptics immediately panned the initiative, arguing that it was only the latest attempt in a long history of ineffectively trying to apply business smarts to government. All this reminded me of an encounter I had with then-Sen. Sam Nunn in 1984.

I met with Mr. Nunn to discuss my work with the nonpartisan group Business Executives for National Security, which I had founded two years earlier. The senator and I talked about nuclear nonproliferation and Pentagon spending. Afterward, he noticed something missing. "Mr. Weiss," I recall him saying, "you are the first businessman who ever came to see me who wasn't asking for something for himself or his business!"

That should be a lesson for Mr. Kushner. If he pursues practical solutions to tough problems—and prevents the new office from becoming a venue for crony capitalism—he could implement reforms that would help millions of people. Here are three pieces of advice to keep the Office of American Innovation on the right track.

First, find a broad purpose and stick to it. If business executives participate only because they believe they can get something for their companies, the new office will be useless. The success of Mr. Kushner's group will depend on rejecting this sort of transactional politics and finding a clear agenda.

Second, empower problem-solvers whose practical ideas transcend political ideology—and actually listen to them. As the Cold War was end-

ing, the process for closing redundant U.S. military bases was self-evidently broken. Bill Tremayne, a board member of Business Executives for National Security, had an idea: Cut pork-barrel politics out of the process by forming an independent commission. The group would recommend certain bases for closure, and Congress would then vote on them as an entire package. That became the prevailing process for base realignment and closure between 1988 and 2005.

**The new Office of American Innovation could do a lot of good.**

Third, seek to build bridges in ways that defy conventional wisdom. Mr. Kushner should never underestimate the power of business to create ties where others have failed. In 1997 a delegation from Business Executives for National Security visited India and built relationships with senior officials there. These connections went on to play a role in Bill Clinton's becoming the first American president to visit India since Jimmy Carter.

Business is not government, and not every idea that works for one part of the economy will work in the other. Yet the U.S. will always need people who understand how to do things that government officials and policy wonks can't. That's the tradition Mr. Kushner should seek to build on, and I hope he succeeds.

*Mr. Weiss, founder of Business Executives for National Security, is the author of "Being Dead Is Bad for Business" (Disruption, 2017).*

## OPINION

# Why Trump Might Win With China

By Charles W. Calomiris

In its first months, the Trump administration has pivoted on trade, backing off from threats to overhaul the North American Free Trade Agreement and reversing Mr. Trump's campaign pledge to label China a currency manipulator. Those changes are welcome, but in an interview last week with The Wall Street Journal, the president went further, saying that he might soften his trade stance in exchange for help with "the problem in North Korea."

Mr. Trump may be ceding too much ground. In fact, he may have more leverage over China than he thinks.

**Beijing may be ready to deal as it eyes slowing growth, a weakening yuan and other challenges.**

Claims that Beijing manipulates the value of the yuan never made much sense as an explanation for Chinese growth or for the persistent U.S. trade deficit with China. First, it's impossible for monetary policy (including exchange-rate policy) to produce long-run growth or trade consequences. This principle of long-run "monetary neutrality" is one of the few tenets of economics that is nearly universally accepted.

Second, the facts show that the Chinese government hasn't been

trying to keep its currency weak. The opposite is true. The yuan appreciated 26% from 1995 to 2014. And China's "real exchange rate" (which captures the relative competitiveness of the prices of goods sold by China and its competitors) increased even more, 53% over the same period.

When a country's real exchange rate appreciates, economists understand it as reflecting high productivity growth. This is called the Harrod-Balassa-Samuelson effect. Circa 1978, China's total factor productivity—a measure of how much value an economy adds to a basket of inputs—stood at roughly 3% of America's. Starting from that very low efficiency, China was able to improve quickly for more than three decades by removing some of the limits that the Communist government had placed on markets. Today China's total factor productivity stands at about 13% of America's.

Lifting restrictions on market transactions has propelled China's growing share of world exports and foreign direct investment in recent decades. China has also kept its tariffs relatively high, and government policies favor domestic producers while limiting the ability of foreigners to compete, factors that boost its trade surplus.

Since 2015, China's currency has depreciated, but Beijing has tried to limit this weakening, partly with an eye toward the possibility of a political backlash in the U.S. On Thursday, for example, government intervention in the foreign-exchange market raised the value of the yuan 1%.



REUTERS

Presidents Xi Jinping and Donald Trump at Mar-a-Lago in Florida on April 6.

Despite such interventions, it will be hard for the government to resist yuan depreciation. The weakening reflects a long-term growth slowdown—the natural diminishing returns of economic development. Autocracy contributes to China's financial fragility. As Minxin Pei predicted in his 2006 book, "China's Trapped Transition," the Communist Party ensures its survival by propping up inefficient state-owned enterprises that fund its operations. The financial system cannot truly liberalize because it must remain an instrument for channeling credit subsidies to these firms.

Moreover, as the Chinese economy cooled off over the past decade, the government juiced growth with high spending, especially on buildings and infrastructure. These investments

were also mainly funded with debt guaranteed, explicitly or implicitly, by the state. China's combined household, government and non-financial corporate debt now stands at roughly 2.5 times gross domestic product. In 1999, China paid off its banks' bad debts, but since then a combination of slow growth and high borrowing imply a nonperforming debt bill of about \$3 trillion—10 times the cost of the 1999 bailout. The likely path of least resistance would be for China to let inflation solve some of the problem.

In any case, a combination of slower growth, debt defaults and inflation will continue to weaken the yuan and reduce capital inflows. Foreign reserves, which grew for decades, have declined since 2014. The Chinese elite are cognizant of these

problems, hence their increasingly desperate attempts to smuggle wealth out of the country.

In this environment, the Chinese regime could fracture or lose popularity. That is a scary prospect for Beijing, which already faces other major challenges, such as an aging population, a lack of pension funding to support the elderly, and life-threatening levels of pollution. Despite the regime's autocratic nature, protests directed at its shortcomings are becoming common. The government is not immune to public pressures.

Negotiations between China and the U.S., which are now beginning in earnest, may actually bear fruit. Chinese leaders cannot afford a significant drop in exports to the U.S., which would be interpreted at home and abroad as evidence that the bellicose American president got the better of them.

Mr. Trump has been dealt a stronger hand than he could have asked for on trade with China, which has more incentive to negotiate than ever. He should walk away with a better deal from Beijing than any of his predecessors were able to extract. Mr. Trump may even be able to make progress on geopolitical issues, such as limiting China's military adventures in international waters and securing its help on North Korea.

If he plays his cards right.

*Mr. Calomiris is a professor of financial institutions at Columbia Business School and a fellow of the Manhattan Institute.*

## How to Say Goodbye to Europe's Negative Rates and Asset Purchases

By Richard Barwell

The era of negative rates and asset purchases at the European Central Bank will soon be over. Indeed, the ECB has already taken its first steps by slowing the monthly pace of asset purchases. Investors now need to think about the how and when and where it will ultimately end.

The ECB has consistently signalled that its first move will be tapering, or gradually reducing the pace of asset purchases to zero. Only then will it start raising interest rates. But recent leaks from within the ECB have called this guidance into question. Some policy makers apparently prefer to raise rates first or in tandem with the taper.

Such mixed messages are unfortunate. More serious still would be a sequence reversal. If investors can't rely on the ECB to do what it says it will do, the central bank will find it much harder to steer expectations in

the future. Fortunately, ECB President Mario Draghi and Chief Economist Peter Praet reaffirmed recently their belief in the taper-pause-hike strategy.

The most important thing is getting the overall policy stance right. The stock of asset purchases and the level of interest rates must between them deliver the right amount of stimulus. However, the specific exit strategy deployed will have micro implications.

Europe's banks might benefit if the ECB starts with a raise in interest rates. The rates that banks charge on loans may then rise by more than the rates they pay on deposits. But even if such a hike would help the banks, it doesn't mean the ECB should do it.

For one thing, the ECB would have a hard time justifying the strategy, as the banks' benefit would be coming at the expense of their customers. Tailoring the exit strategy to suit banks would also be hugely problematic for an institu-

tion that is responsible for supervising banks as well as monetary policy and is supposed to keep the decision-making process in those two realms separate.

**The European Central Bank needs to send clear and consistent signals. But the sequence of moves also matters.**

Second, markets may perceive a sequencing reversal and an early rate hike as an implicit admission that the negative-interest rate experiment was a mistake unlikely to be repeated. That would leave the impression that the ECB will have less scope to support the economy in a future downturn.

As for the question of timing, the ECB's exit hinges on three issues: what the future holds, how the ECB

interprets its mandate and whether politics interferes.

Clearly, the faster the rise in underlying inflation, the sooner the ECB can exit. But the temptation for the prudent policy maker is to be overly cautious. The ECB could face economic and legal constraints on cutting rates further or buying more bonds down the road should the economic outlook deteriorate.

Better to overstimulate the economy now than to find itself unable to act tomorrow.

The central bank's ambitions also matter. When the eurozone was flirting with outright deflation, the ECB insisted that it would drive inflation back to target as fast as possible. Now that the ECB's emphasis is on the more modest ambition of avoiding deflation, an exit is more likely. But if the bank is serious about not pulling back until underlying inflation is back on track, then it shouldn't even be thinking about exit.

The wild card in this debate is the potential for political interferences.

There is constant pressure from the core of Europe to exit prematurely in order to strong-arm politicians in the periphery into implementing reforms. Now there may be pressure from outside, too, with the Trump administration questioning whether ECB policy puts European companies at an unfair advantage by undervaluing the euro.

The ECB will ultimately raise rates back to normal levels and reduce the size of its balance sheet, ideally in that order. Some European central bankers are so squeamish about buying bonds that it may take a full-blown crisis to force them to resume purchases. If the ECB wants to guarantee that it will have the capacity to ease policy in the future, it needs to raise rates rather than reduce the balance sheet at every opportunity. The balance sheet should stay big for the foreseeable future.

*Mr. Barwell is a senior economist at BNP Paribas Investment Partners.*

## Complexity Is the Root of All Evil (at Least in the U.S. Tax Code)

By Nina E. Olson

As America's national taxpayer advocate, I oversee an independent unit within the Internal Revenue Service that has helped more than four million individual and business taxpayers resolve their IRS account problems, and I am required to report to Congress annually on the most serious problems encountered by U.S. taxpayers.

If I had to distill everything I've learned into one sentence, it would be this: The root of all evil is the complexity of the tax code.

There is currently considerable support in Congress to take up corporate-tax reform, and corporate reform is certainly needed. But I urge policy makers to remember that, as compared with about two million taxable corporations, there are 151 million individual taxpayers, including 27 million who report sole-proprietor or farm-business income with their individual returns. There are also nearly nine million pass-through entities (S corporations and partnerships), the income from

which is reported on individual income-tax returns. These taxpayers desperately need relief from the extraordinary compliance burdens the tax code imposes.

I have long believed comprehensive tax simplification is achievable by following the model of the landmark Tax Reform Act of 1986. Skeptics point out that asking taxpayers to give up tax breaks from which they currently benefit will generate pushback, and that's certainly true.

But if policy makers pair substantial reductions in tax expenditures with substantial reductions in tax rates, and maintain current tax-burden levels by income decile, I believe taxpayers will appreciate that their tax burdens on average won't change much—and they will actually end up better off because they will save money on compliance costs. That approach prevailed 30 years ago, and despite some significant differences in circumstances, it could prevail again today.

I recommend that policy makers consider the following core principles in developing tax-reform legislation:

First, the tax system shouldn't be so complex as to create traps for the unwary.

Second, the tax laws should be simple enough so that most taxpayers can prepare their own returns and compute their tax liabilities on a single form, and simple enough so that IRS customer-service personnel can accurately answer taxpayers' questions over the phone.

Third, the tax laws should anticipate the largest areas of noncompliance and minimize the opportunities for such noncompliance.

Fourth, the tax laws should provide some choices, but not too many, since choices can be confusing and lead to taxpayer errors.

Fifth, when the tax laws provide for refundable credits, they should be designed in a way that is minimally burdensome both for the taxpayers claiming the credits and for the IRS in administering them.

Sixth, the law should incorporate a mandatory periodic review of the tax code—a sanity check to guard against creeping complexity.

If policy makers decide comprehensive simplification is too heavy of a lift, there are still many steps Congress could take to simplify the tax code in smaller bites. Among them:

Consolidate and simplify the six "family status" provisions in the tax code. These include filing status, personal and dependency exemptions, the child tax credit, the earned-income tax credit, the child-and-dependent-care credit, and the separated-spouse rule. Every individual taxpayer is affected by at

**As U.S. Congress takes up reform, it should consider radically simplifying the rules for individuals.**

least two of these provisions, and many taxpayers are affected by five. I have proposed a family credit and a worker credit to replace them, which would have the added benefit of reducing improper EITC payments.

Simplify other provisions that govern taxation of the family unit, including "joint and several liability" and the "kiddie tax."

Consolidate the incentives that encourage savings for education. There are now at least 12—far too many for most parents and students to make an informed choice.

Consolidate the incentives that encourage savings for retirement. There are now at least 15—again, far too many.

Reduce procedural incentives for Congress to use tax "sunsets." More than 70 provisions currently in the tax code are temporary and require periodic renewal.

Minimize income phase-outs, which affect roughly half of all returns each year. They introduce inflated marginal "rate bubbles" and add considerable complexity to tax computations.

Streamline the penalty regime. In 1955, there were 14 civil penalties in the tax code. Today, there are more than 170, many of which are rarely assessed.

U.S. taxpayers have been struggling under the weight of the current tax code for far too long. The Bush and Obama administrations both produced reports with many good simplification proposals, as have the House Ways and Means and Senate Finance committees and others. There is no shortage of good ideas. Now is the time for the administration and Congress to seize the moment and finally, this year, carry tax reform across the goal line.

*Ms. Olson has served as the national taxpayer advocate since 2001.*

## THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

Rupert Murdoch  
Executive Chairman, News Corp

Gerard Baker  
Editor in Chief

Matthew J. Murray  
Deputy Editor in Chief

DEPUTY MANAGING EDITORS:

Michael W. Miller, Senior Deputy;

Thorold Barker, Europe; Paul Beckett,

Washington; Andrew Dowell, Asia;

Christine Glancey, Operations;

Jennifer J. Hicks, Digital;

Neal Lipschutz, Standards; Alex Martin, News;

Shazna Nessa, Visuals; Ann Podd, Initiatives;

Matthew Rose, Enterprise;

Stephen Wisnieski, Professional News

Paul A. Gigot, Editor of the Editorial Page;

David Henninger, Deputy Editor, Editorial Page

WALL STREET JOURNAL MANAGEMENT:

Suzi Watford, Marketing and Circulation;

Joseph B. Vincent, Operations;

Larry L. Hoffman, Production

EDITORIAL AND CORPORATE HEADQUARTERS:

1211 Avenue of the Americas, New York, N.Y. 10036

Telephone 1-800-DOWJONES

DOW JONES  
News Corp

Robert Thomson  
Chief Executive Officer, News Corp

William Lewis  
Chief Executive Officer and Publisher

DOW JONES MANAGEMENT:  
Mark Musgrave, Chief People Officer;  
Edward Roussel, Innovation & Communications;  
Anna Sedgley, Chief Operating Officer & CFO;  
Katie Vannecque-Smith, President

OPERATING EXECUTIVES:  
Ramin Beheshti, Product & Technology;  
Jason P. Conti, General Counsel;

Frank Filippo, Print Products & Services;  
Steve Grycuk, Customer Service;

Kristin Heitman, Transformation;

Nancy McNeill, Advertising & Corporate Sales;

Jonathan Wright, International

DJ Media Group;

Almar Latour, Publisher;

Kenneth Breen, Commercial

Professional Information Business;

Christopher Lloyd, Head;

Ingrid Verschuren, Deputy Head

Notable & Quotable: Divesting From Everything

Mike Ludwig reporting at Truthout.org, April 11:

In a sweeping move that follows a wave of divestment activism in Portland, Oregon, and across the country, the Portland City Council voted last week to pull all of the city's investments in corporate bonds and securities.

The decision was a major victory for a broad coalition of activists who have pushed for the city to end its investments in corporations that have questionable records on the environment and hu-

man rights, including ties to the Dakota Access pipeline, the private prison industry and the Israeli occupation of Palestine.

"As their decision stands now, it's permanent.... We can rest assured in Portland that our money won't be funding prisons, pipelines and the occupation of Palestine," said Amanda Aguilar Shank, an organizer with the racial justice group Enlace, in an interview with Truthout.

Portland's City Council had originally considered adding Caterpillar, Wells Fargo, JP Morgan Chase and

six other companies identified by a volunteer committee on socially responsible investing to a so-called "Do Not Buy" list, but the council was unable to come to an agreement on which companies to blacklist from the city's investment portfolio. Instead, in December, they voted to place a temporary halt on all new corporate investments until permanent decisions could be made.

After activists organized rallies and packed council meetings with hours of testimony, the council agreed last week to end corporate investments altogether.

## LIFE & ARTS

MY RIDE

# Coast to Coast on Ancient Harleys



Steve DeCosa, 67, a retired high-school teacher from Oswego, N.Y., on his Harley-Davidsons, as told to A.J. Baime.

I had never ridden a motorcycle at the time I retired. Shortly after leaving teaching in 2011, I bought a late-model Harley-Davidson. I passed my road test on a Thursday, and by Saturday, my wife Joan and I were on a 2,500-mile ride.

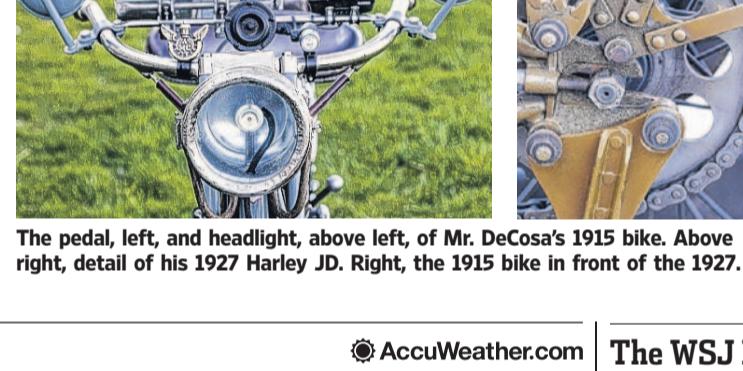
The following year I saw the

send-off of the 2012 Motorcycle Cannonball, a coast-to-coast ride for antique bikes. I thought, I need to be a part of this. Joan and I bought a 1927 Harley JD and began a restoration, with a hard deadline—the 2014 Cannonball.

In our two-car garage, we did our own painting, pinstriping and nickel-plating. We did the mechanical assembly ourselves, too. Anything we did not know how to do, we learned from YouTube videos.

(I joke that we're graduates of YouTube University.)

With Joan as my crew chief, we made the ride successfully from Daytona Beach, Fla., to Tacoma, Wash. But the experience made us



The pedal, left, and headlight, above left, of Mr. DeCosa's 1915 bike. Above right, detail of his 1927 Harley JD. Right, the 1915 bike in front of the 1927.

Steve DeCosa of Oswego, N.Y., with the 1915 Harley-Davidson 11F he rode across the U.S. in the 2016 Motorcycle Cannonball.

long for more. So we pieced together a 1915 Harley 11F from parts we bought from all over the country, with a goal to finish in time for the 2016 Motorcycle Cannonball.

The 1915 Harley is a wonderful bike. It was the first Harley with a three-gear transmission and the last with a bicycle pedal-type start. (You pedal like on a bicycle to start the engine.) The motor thumps out a whole 11 horsepower.

The 2016 Cannonball went from Atlantic City, N.J., to Carlsbad, Calif., on a particularly grueling route. I trained for months—treadmill, crunches, etc.—so I could make the 16-day journey, with seven to eight hours of riding each day. I rode through rain and cold in Missouri, over mountain passes in Colorado and through searing heat in the Mojave Desert.

Just 15 miles from the finish, someone cut me off and I slammed on the brakes, busting the Harley's brake linkage. For the last 15 miles, I cruised through surf towns on the Pacific Coast Highway, stopping the bike Fred Flintstone-style by dragging my feet on the pavement. I won the Cannonball in my class.

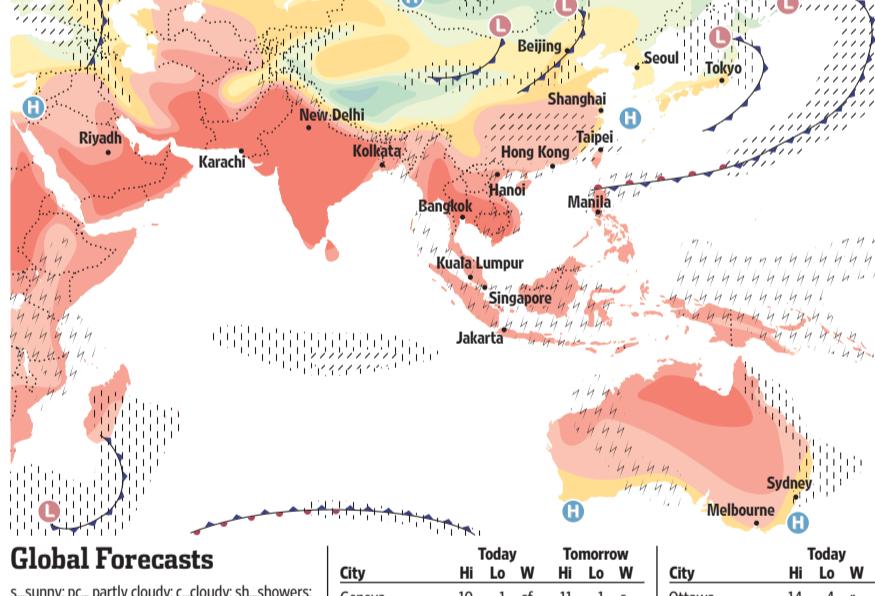
Joan and I are already planning for the 2018 event, which will run from Portland, Maine, to Portland, Ore.

Contact A.J. Baime at [Facebook.com/ajbaime](http://Facebook.com/ajbaime).



CARRIE NILAND FOR THE WALL STREET JOURNAL

### Weather



### Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers; t...storms; r...rain; sf...snow flurries; sn...snow; l...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	10	0	pc	12	7	pc
Anchorage	9	3	s	11	1	s
Athens	22	15	pc	22	12	pc
Atlanta	27	17	pc	29	19	s
Bahrain	28	15	s	32	16	s
Baltimore	17	12	pc	27	17	pc
Bangkok	36	26	c	36	27	t
Beijing	21	8	r	21	11	pc
Berlin	7	-3	c	9	2	pc
Bogota	18	9	r	18	10	r
Boise	18	7	pc	13	2	c
Boston	11	7	c	13	9	c
Brussels	9	-1	pc	11	4	pc
Buenos Aires	20	14	r	23	12	pc
Cairo	30	18	s	32	20	s
Calgary	13	0	pc	15	3	sh
Caracas	31	25	pc	31	25	pc
Charlotte	20	14	c	28	17	c
Chicago	20	11	t	20	5	c
Dallas	28	20	sh	30	19	c
Denver	23	4	s	19	4	sh
Detroit	23	14	c	23	7	t
Dubai	36	27	s	34	27	s
Dublin	13	6	c	14	6	sh
Edinburgh	13	9	c	14	8	c
Frankfurt	10	-2	c	11	0	pc

AccuWeather.com

### The WSJ Daily Crossword | Edited by Mike Shenk



#### TAKE A BITE OUT OF CRIME | By Ned White

Across		
1 "Dear" advice source	28 Criticize harshly	61 Collar
5 Regarding	32 I, in Ingolstadt	62 "Chandelier" singer
9 Snazzy	35 100-cent currency	63 Glove material
14 Bernanke's predecessor	37 Notable period	64 Where those involved in the starred crimes may end up?
16 Some rail riders	38 *Fish caught illegally?	43 Throw wildly, say
17 *Shoplifted spud, ready to be fenced?	44 Assorted collection	67 Gather
18 Site of a wave, at times	45 Sp. lady	68 Original title of Shakespeare's "Henry VIII"
19 Little tunneler	46 Sixth Greek letter	69 Full of attitude
20 Walter Scott title	48 Teri's "Young Frankenstein" role	70 Modernize, say
21 Gamer's likeness	50 Knocks over	71 Match units
22 *Heisted Hershey's treats?	54 *Illegal scheme to sell zucchini?	72 Literary sister
26 Giga-times 1000	58 Bright entrance hall	73 Person in a pool
27 "Vamoose!"		

► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

- 4 "Got that right!" 38 Brick-shaped candy  
5 Sean of "The Lord of the Rings" 39 Valuable extraction  
6 Flint products 40 Creative class  
7 Skin work, informally 41 Trump security adviser Powell  
8 Lennon's love 42 Bust maker  
9 Lose one's shadow 47 Tangential comments  
10 Complicated situation 49 The Governor, jocularly  
11 Collude with 51 "Why not"  
12 Author Jaffe 52 Capital on the Mediterranean  
13 Bygone big shot 53 Mexico has 31 stars  
15 Wine quality 55 Letter to an editor  
21 Their caps feature an H on a star 56 Traffic report source  
23 Secular 57 Elementary learning  
24 Arctic weather phenomena 58 Tag line  
25 First king of Israel 59 Toro, e.g.  
29 Took charge 60 Reviewers of plays  
30 Is for you? 64 Considerably  
31 Spoil 65 Cheer for Manolete  
33 John of "Star Trek Beyond" 66 Some game enders, briefly  
34 It can help you raise your voice  
36 Lord's Prayer start

#### Previous Puzzle's Solution



In-depth analysis from expert journalists



Key gauges, trends, and data points

## STAY AHEAD OF CYBER THREATS

WSJ Pro Cybersecurity is designed to help executives monitor the ever-changing landscape of cybersecurity through a business lens. Our dedicated team of Pro journalists delivers unique, actionable insight on the wide-ranging challenges of cybercrime risk. WSJ Pro Cybersecurity membership includes a daily curated newsletter, along with regular panel discussions, interviews, webinars and white papers.

START YOUR FREE NEWSLETTER TRIAL TODAY  
[wsj.com/procybersecurity](http://wsj.com/procybersecurity)

WSJ PRO  
CYBERSECURITY

# BUSINESS & FINANCE

© 2017 Dow Jones & Company. All Rights Reserved.

THE WALL STREET JOURNAL.

Wednesday, April 19, 2017 | B1

**Yen vs. Dollar** 108.4660 ▼ 0.41% **Hang Seng** 23924.54 ▼ 1.39%

**Gold** 1290.50 ▲ 0.09%

**WTI crude** 52.19 ▼ 0.87%

**10-Year JGB yield** 0.015%

**10-Year Treasury yield** 2.183%

## Pound Leaps on U.K. Vote Plan

By GEORGI KANTCHEV  
AND CHRISTOPHER WHITTALL

The British pound rallied to its highest level in four months as investors bet Prime Minister Theresa May's call for an early election would reduce uncertainty for the U.K.'s Brexit-battered currency.

Sterling jumped to \$1.2761 by midday in New York from \$1.2565 late Monday, after falling more than 0.3% ahead of the announcement.

Most analysts said a general election could be good news for the pound if Mrs. May increases her party's majority, reinforcing her position in bargaining Britain's exit from the European Union. Opinion polls suggest she will win any election convincingly.

"It looks like she is going to get a larger majority and make her government more stable—and markets love stability," said David Stubbs, global market strategist at **J.P. Morgan Asset Management**.

Deutsche Bank, whose analysts were among the most negative on the pound, referred to Ms. May's announcement as a "game-changer" for sterling and dropped their two-year recommendation for clients to sell the currency.

Meanwhile, global stock prices mostly dropped Tuesday. In Asia, Hong Kong's Hang Seng Index fell 1.4% as the market reopened after it had been closed Friday and Monday for Easter. Shares of big Chinese banks fell, in part on worries about tighter regulation. The Shanghai Compos-

ite Index closed down 0.8%, its third consecutive session of losses. But the Nikkei Stock Average rose 0.35% to 18418.59.

In the U.S., losses in banks and health-care companies dragged indexes lower. The Dow Jones Industrial Average was down 146 points, or 0.7%, to 20491 in midday trading. The S&P 500 fell 0.5% and the Nasdaq Composite declined 0.4%.

U.S. bank stocks slid Tuesday after a disappointing earnings report from Goldman Sachs Group, whose first-quarter trading results fell short of those posted by its rivals. Goldman shares dropped 4.8%, and the KBW Nasdaq Bank Index of leading U.S. commercial lenders was off 1.5%.

More than 60 firms in the

### Election Boost

News of the U.K. vote sent the pound higher.

#### How many dollars £1 buys



Note: As of midday Monday in New York

Source: Tullett Prebon

THE WALL STREET JOURNAL.

S&P 500 are expected to report earnings this week, according to FactSet, including several other banks and industrial companies. Continued signs of corporate health will

be key to stocks moving higher, analysts say.

Health-care stocks also fell Tuesday, with Johnson & Johnson shedding 3.5% after the company posted underwhelming sales in the latest quarter. The health-care sector of the S&P 500 was off 1.3%.

The pound's rise put pressure on the FTSE 100, Britain's benchmark stock index, which closed down 2.5% at its lowest level since early February. Nearly 70% of FTSE 100 companies' revenues come from overseas, meaning those earnings are worth less when the pound rises.

Despite the pound's surge Tuesday, it is still down about 15% against the dollar since Britain voted to leave the European Union, and nobody is

Please see POUND page B2

## Weetabix Cereal Is Sold By Bright

By BEN DUMMETT

**Post Holdings** Inc. agreed Tuesday to acquire **Weetabix** Food Co., maker of the iconic U.K. breakfast brand, for £1.4 billion (\$1.76 billion), a move that allows the U.S. cereal maker to expand in the U.K. and other international markets as it targets a broader customer base.

The deal, which confirms a Monday Wall Street Journal article, is the latest in a string of acquisitions by Post to help it offset a slow-growth environment for many packaged foods. St. Louis-based Post beat out a number of other bidders, including Associated British Foods PLC and Italy's Barilla Group.

Post, whose cereal brands include Honey Bunches of Oats and Great Grains, is acquiring Weetabix from China's **Bright Food** Group Co., a Chinese conglomerate operating across Asia Pacific, and minority shareholder **Baring Private Equity Asia**. Bright acquired 60% of Weetabix in 2012 from London-based buyout company **Lion Capital LLP**, in a deal that valued the U.K. cereal company at £1.2 billion, including debt. Baring has owned the remaining stake since 2015.

Bright had bet it could expand Weetabix's customer base by introducing the whole-grain biscuit cereal to Asia, but it underestimated consumer preference in the region for the more traditional rice-based porridge. In Hong Kong, for example, Weetabix's share in 2016 of the breakfast cereal market was almost the same as 2012 levels when Bright acquired its stake, according to Euromonitor. That said, Post said it agreed in principle to establish a joint venture with Bright and Baring to manage Weetabix's China operations.

With Weetabix, which was founded in 1932 and is widely known for its biscuit-shaped cereal, Post gains a global breakfast brand and the top seller in the U.K. Weetabix has also expanded into products such as breakfast drinks and healthy snack bars.

Together Post and Weetabix would own three of the top 10 cereal brands with a combined global market share of about 6.5%, according to Euromonitor. Still, that is below Kellogg Co.'s Kellogg's cereal brand, which has about a 22.2% share.

Post is partly betting on Weetabix's distribution export business to more than 90 countries and its presence in such markets as Africa, where it operates through two joint ventures, to help the U.S. company reach a broader customer base for its cereal brands. Weetabix hopes to accomplish the same in the U.S. market by tapping Post's strong presence in that country.

The combination generates "international cross-selling opportunities through the expansion of Post products in select international markets and further expansion of Weetabix...in North America," Post said.

## INSIDE



### OFFICE TREND: ADD A PENTHOUSE

PROPERTY REPORT, B9

## Samsung Galaxy S8: Evolutionary Milestone

**Samsung** has figured out what we really want: A giant smartphone. That's also small.

The \$720 Galaxy S8, which arrives in stores Friday, boasts more gorgeous screen area than the gargantuan iPhone 7 Plus—and is nearly as capable as my office computer.

**PERSONAL TECHNOLOGY GEOFFREY A. FOWLER**  
Yet it isn't hard to hold the S8 in one hand while riding the train. My thumb can crush all the candy on its far side. And it doesn't look like a paperback stuffed into my jeans.

The S8 is a milestone in the evolution of the phone. Instead of just getting bigger, the phone is becoming more useful by fitting you.

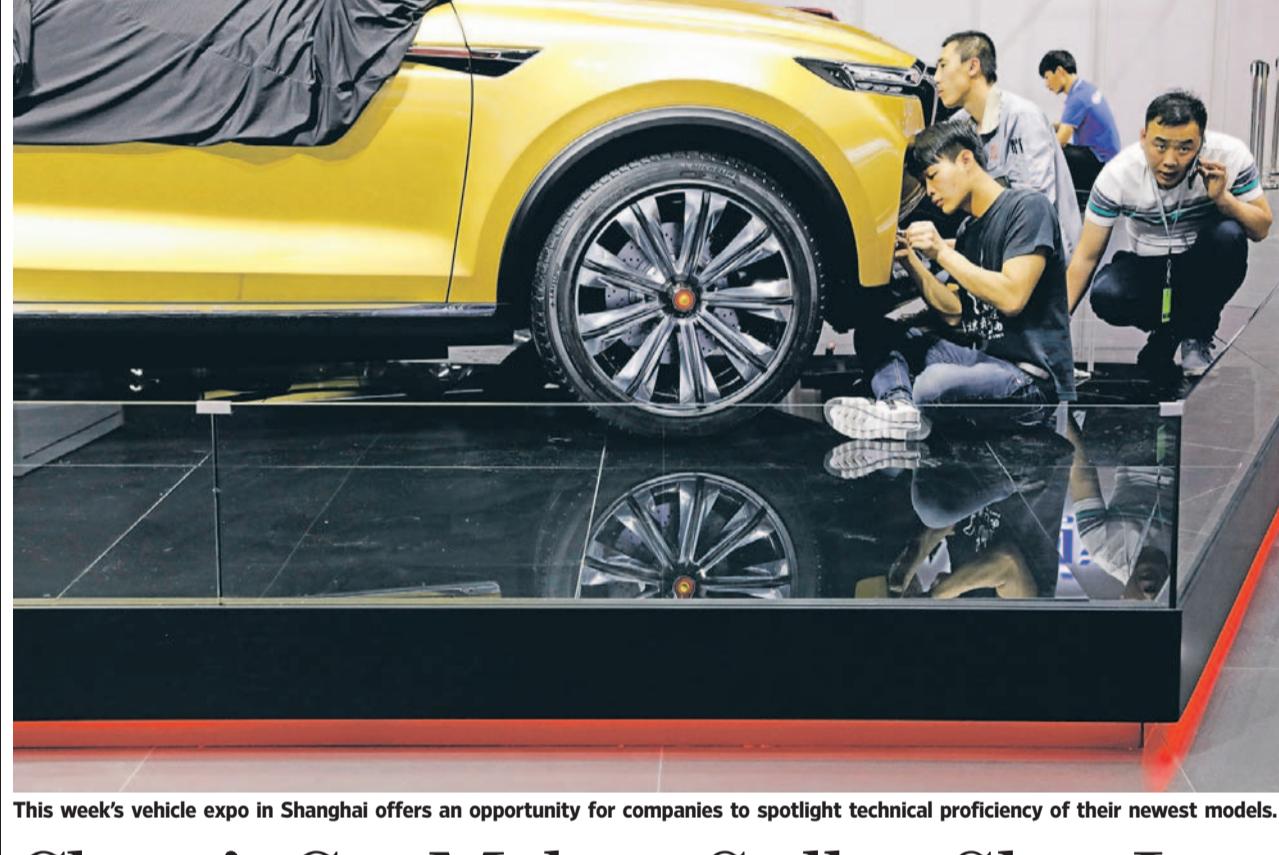
How did they accomplish this? The S8 and its larger sibling S8+ (which costs \$840 at Verizon) are nearly all screen. Sure, phones already have a lot of screen. But Samsung attacked the face of this phone with the gusto of a Beverly Hills surgeon. It snipped all but a sliver of the metal forehead and chin and replaced them with screen to make it taller. Then it tucked the OLED screen into the left and right edges, making it spill over like an infinity pool.

Yet I'm torn. To buy the S8 now requires a leap of faith in Samsung. Its software is incomplete: The hyped talking assistant Bixby won't be functional at launch, and we don't know how it stacks up to the Assistant in Google's excellent Pixel phone. There is a decent chance whenever Bixby is ready, **Apple** will be close to launching a 10th-anniversary iPhone with an improved Siri—and a whiz-bang screen of its own. Besides, Samsung hasn't made me forget how, for months, every airline in America warned passengers Samsung phones catch fire.

This is an important moment for screen tech, which Samsung does better than any other phone maker. Because it no longer needs that frame ("bezel" in nerd-speak), Samsung squeezed a 5.8-inch screen in a form that is taller than the S7 with a 5.1-inch screen. Diagonal measurements can be misleading, but there is a lot more total screen area for reading or watching movies.

This is an ergonomic improvement: A taller phone is preferable to a wider one, because it interferes less with your thumb's ability to grip. And that is a relief, because thumbs aren't evolving.

Please see FOWLER page B4



NG HAN GUAN/ASSOCIATED PRESS

This week's vehicle expo in Shanghai offers an opportunity for companies to spotlight technical proficiency of their newest models.

## China's Car Makers Still in Slow Lane

In striving for global growth, marketing challenges include an SUV called Trumpchi

By TREFOR MOSS

SHANGHAI—China's auto makers hope to shed their reputation as builders of cheap, second-rate cars as they spotlight their newest models at this week's Auto Shanghai, the country's main yearly vehicle expo that opens to the public Friday.

But building good cars is only part of the challenge of turning Chinese vehicles into global best-sellers, according to people in the auto industry. Top Chinese manufacturers have become technically proficient, they say, but are still in the slow lane when it

comes to selling cars to a global audience.

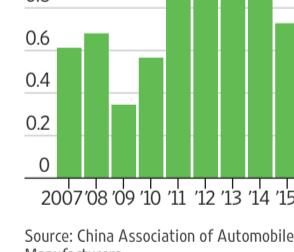
"The market strategy might be more important than the quality of the car" where exports are concerned, said Truls Thorstensen, chief executive of EFS Business Consultancy, which organizes the annual Xuanyuan Award honoring China's automobile industry.

**Guangzhou Automobile Group** Co. is one of the auto makers recently forced to confront the nuances of marketing: It makes a sport-utility vehicle called the Trumpchi.

Guangzhou Auto says the name is an Anglicization of its Chinese name, chuānqì, or "legend," and has nothing to do with U.S. President Donald Trump. At the Detroit auto show in January, a Guangzhou executive said the company was debating

### Stalled Sales

China has struggled to increase its auto exports.



Source: China Association of Automobile Manufacturers

THE WALL STREET JOURNAL.

whether it should use that name when the vehicle hits U.S. shores in 2019.

The company has now decided against using the Trumpchi name in the U.S., a

company spokeswoman confirmed Tuesday, but she didn't elaborate on the reasons why.

The Trumpchi is considered one of China's best hopes of exporting cars in volume to the U.S., a long-held dream of the manufacturers. "As Chinese cars go, the Trumpchi brand's design inside and out is more mature and mainstream than most," Motor Trend magazine said of the marque.

But bold forecasts for overseas sales have been made for a decade, and have yet to happen. Chinese firms exported 708,000 vehicles last year, according to the government-backed China Association of Automobile Manufacturers—about 1% of the global market outside China, and short of the record 1 million in 2012.

Even in China, the world's

Please see CARS page B2

## Foxconn Steps Beyond Apple, to Own Brands

By EVA DOU

SHENZHEN, China—In a corner of a Foxconn Technology Group warehouse in this southern Chinese city, the secretive maker of iPhones is looking beyond Apple Inc. to its own future.

Dozens of young workers sit before computers in blue plastic chairs, drawing up battle plans for Foxconn's sales initiative for its new Sharp-branded television sets. "Sell Sharp with all your might," a red banner hanging from the ceiling commands.

Foxconn's acquisition of Japan's **Sharp** Corp. last year was the Taiwanese company's first big effort toward transforming itself from a contract manufacturer to a technology powerhouse, with its own brands and product lines.

It is now bidding \$27 bil-

Toshiba plays is the conviction of Foxconn Chairman Terry Gou that the company he started 43 years ago must have its own components and brands if it is to survive to become what he has called a

"100-year company."

With sales of Apple's iPhone, Foxconn's bread-and-butter product, declining for the first time last year, analysts endorse Foxconn's new direction. But they caution that going up against bigger, established competitors such as Samsung Electronics Corp. won't be easy.

Acquiring the Toshiba business could help Foxconn shave costs by giving it an in-house supply for memory chips for Sharp TVs and other electronics. But the bid is already hitting headwinds from some Japanese government officials, who see the chip business as a strategic asset, people familiar with the matter say.

That opposition is driving pressure for a Japanese company or a joint U.S.-Japan team to end up with the win-

Please see SHARP page B4



Foxconn, which bought Sharp last year, wants to increase its TV sales.

Please see SHARP page B4

## INDEX TO BUSINESSES

These indexes cite notable references to most parent companies and businesspeople in today's edition. Articles on regional page inserts aren't cited in these indexes.

A	E	P
Alcoa.....B10	Elliott Management.B10	Payless ShoeSource...B9
Alibaba Group.....A2	F	PayPal Holdings.....B6
Alphabet.....B6	Facebook.....B4,B10	Post Holdings.....B1
Amazon.com.....B10	G	Roche Holding.....B5
Apple.....B10	Genentech.....B5	Samsung Electronics..B1
Arconic.....B10	Goldman Sachs GroupA1	Sharp.....B1
B	Great Wall Motors....B2	Snap.....B4
Bank of America.....B6	Guangzhou Automobile Group.....B1	Synovus Financial.....B6
Baring Private Equity Asia.....B1	H	Tata Consultancy Services.....B5
Bass Pro Shops.....B6	Hon Hai Precision.....B1	Ted Baker.....A1
Bill & Melinda Gates Foundation.....B5	I	Tesla.....B4
Bright Food Group.....B1	IG Metall.....B4	Theranos.....B3
C	International Business Machines.....B2	Toshiba.....B1
Cabela's.....B6	Intuit.....A1	U
Capital One Financial.....B6	J	Uber Technologies.....B6
Cardinal Health.....B5	JPMorgan Asset Management.....B1	W
Charles Schwab.....B2,B6	JPMorgan Chase.....A1	Walgreens Boots Alliance.....B6
Citigroup.....A1	L	Walt Disney.....B10
Cnoco.....B3	Lion Capital.....B1	Weetabix.....B1
Comcast.....B10	M - N	Wuhan Iron & Steel.B10
Creative Artists Agency.....A1	Macy's.....B9	
D	Medtronic.....B5	
Dalian Wanda Group..A1		
Dunkin' Brands Group B6		

## INDEX TO PEOPLE

B	O	P
Barrett, George S.....B5	Gopinathan, Rajesh....B5	Osofsky, Justin.....B4
Bettinger, Walt.....B6	Gou, Terry.....B1	
Buffett, Warren.....B5	Guangyu, Yuan.....B3	
C	H	
Chen, Jacob.....B4	Hastings, Reed.....B2	
Chiou, Eric.....B4	Hess, David.....B10	
D	Holmes, Elizabeth.....B3	
Desmond-Hellmann, Susan.....B5	Hua, Yang.....B3	
Donnelly, Jeffrey.....B9	Hughes, Martin.....B6	
Donofrio, Paul.....B6	K	
Dowding, Mark.....B1	Kleinfield, Klaus.....B10	
E	L	
Ellison, Larry.....B5	Lawson, Larry.....B10	
F	M	
Foreman, Doug.....B10	Liao, Arthur.....B4	
G	Mallya, Vijay.....A2	
Georg, Patrick.....B4	May, Theresa.....B1,B10	
	McGee, Tom.....B9	
	Moynihan, Brian.....B6	
	Musk, Elon.....B4	
	Zuckerberg, Mark.....B4	

## Subscriber Growth

### At Netflix Slows

BY SHALINI RAMACHANDRAN  
AND BOWDEYA TWEH

Netflix Inc.'s U.S. and international subscriber growth slowed in the first quarter, coming in below expectations, though profit grew as content costs were lower than anticipated.

The Los Gatos, Calif., company reported 98.75 million total subscribers, up from 81.5 million a year ago. Analysts polled by Thomson Reuters expected 98.9 million subscribers overall. Netflix said in a shareholder letter that it is on track to surpass 100 million subscribers this week.

The company added 3.53 million international subscribers in the quarter, missing its guidance of 3.7 million. In the year-ago quarter, Netflix added 4.51 million international customers.

Its U.S. subscriber growth slowed, as it added 1.42 million customers, missing its target of 1.5 million. It added 2.23 million U.S. customers in the prior-year period.

Netflix ended the first quarter with 50.85 million U.S. customers and 47.9 million international customers.

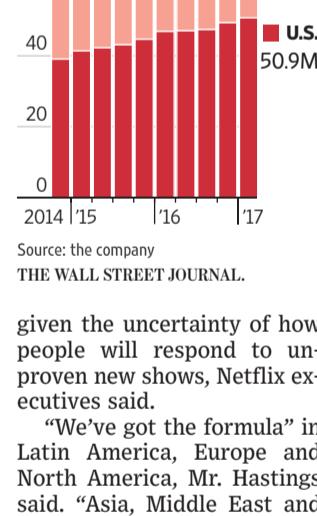
Netflix has been aggressively pursuing international expansion.

The streaming-video company has been aggressively pursuing international expansion as its core U.S. market matures. Following a battery of launches a year ago, Netflix says it now serves customers in more than 190 countries. The company had signaled to Wall Street that it would be tough to sustain the subscriber additions that came with launches in new markets a year ago.

On a video interview with analysts, Netflix Chief Executive Reed Hastings said in subscriber additions, "every 10 million is a little harder than the last 10 million, but our content keeps getting better so those forces offset each other." He said he thinks Netflix has room to grow in the U.S. and abroad, and missing guidance one quarter is "nothing that is very concerning to us."

Forecasting subscriber growth is tricky, especially

#### Global Growth



given the uncertainty of how people will respond to unproven new shows, Netflix executives said.

"We've got the formula" in Latin America, Europe and North America, Mr. Hastings said. "Asia, Middle East and Africa, we still have a bunch of work to do."

In a letter to shareholders, Netflix said subscriber growth is no longer the best way to measure the company's progress, and encouraged investors to focus on revenue growth and global operating margins as its primary metrics.

Netflix's first-quarter profit was \$178.2 million, or 40 cents a share. In the comparable 2016 period, the company reported profit of \$27.7 million, or six cents a share. Revenue rose 35% to \$2.64 billion.

Netflix said that profit will be down in the second quarter because of higher content costs including the debut of the fifth season of "House of Cards" and more original movies. It expects to report a second-quarter profit of \$66 million, or 15 cents a share.

Netflix's model rests on signing up new subscribers rapidly enough to offset its mushrooming content costs as it invests increasingly in local original shows that could have global appeal. Streaming content obligations, a measure of its total current and future programming expenses, stood at \$15.3 billion at the end of March.

As it has ramped up spending in a variety of genres including reality TV and comedy, Netflix said early results for comedy specials are promising, with "Dave Chappelle: Collection 1" marking its "most viewed comedy special ever."

## BUSINESS & FINANCE

# A Battle Over Board Access

Some big companies resist as investors demand right to list nominees on ballots

BY JOANN S. LUBLIN

Several big businesses, including International Business Machines Corp. and Charles Schwab Corp., are resisting investors' demands for greater boardroom clout ahead of this year's annual shareholder meetings.

Those firms oppose proxy access, which grants shareholders the right to list board candidates on ballots, giving them greater power to oust directors and influence corporate strategy.

This governance change has been embraced by 408 U.S. companies, according to ISS Corporate Solutions, a unit of Institutional Shareholder Services, a major proxy-advisory firm. Nearly all such firms made the change in the past few years.

About 58% of S&P 500 companies have adopted proxy access, according to ISS. That is up from about 21% in early 2016 and about 1% in 2014.

In coming years, virtually every company will have to decide whether to "give shareholders a voice in director elections or risk investors' ire," said New York City



MATTHIAS BALK/DPA/ZUMA PRESS

IBM is among companies opposed to so-called proxy access.

Comptroller Scott M. Stringer, who manages \$170 billion in pension funds. He launched a drive in 2015 to persuade dozens of companies to adopt or improve proxy access.

An bloc of public-pension funds in various locales has supported the initiative.

Since December, companies such as Texas Instruments Inc., Phillips 66 and Consolidated Edison Co. have agreed to give investors the keys to their boardrooms. All three acted after New York City pension funds submitted proxy-access measures for the companies' 2017 annual meetings.

Thirteen of 18 such resolutions backed by the Stringer campaign won majority support at annual meetings last year.

Companies typically change

their corporate bylaws so owners holding at least 3% of their shares for at least three years can propose a significant portion of board members.

Other big businesses fiercely oppose the idea, however. At IBM, proxy access would undercut the board's role "in evaluating director nominees," the computing giant said in its latest proxy statement. And special-interest groups could "promote their own agendas, potentially at the expense of the long-term interests of stockholders," the statement continued.

IBM investors vote on proxy access for the first time at the company's annual meeting next week. The governance proposal is nonbinding. IBM's board implemented similar ad-

visory measures at least four times since 2004 after they won majority support, an IBM spokesman said.

Charles Schwab also dislikes proxy access. The shareholder resolution "risks disruption in unforeseen ways," the discount brokerage said in its latest proxy. "Contested director elections could occur every year, leading to high turnover [and] inexperienced directors with insufficient knowledge."

If proxy access passes at Schwab's May 16 annual meeting, directors will consider what is in shareholders' best interest, a company spokesman said.

Big asset managers are championing the access efforts. TIAA did a separate letter-writing campaign to its top 100 U.S. holdings in 2015 and urged those companies to improve the ability of investors to nominate directors.

So far, just one investor has taken advantage of improved access to corporate boardrooms—without success. Activist firm Gamco Investors Inc. nominated a director for National Fuel Gas Co. ahead of its 2017 annual meeting, but withdrew the candidate after National Fuel said certain activist shareholders can't use its proxy-access bylaw.

Gamco founder Marco Gabelli couldn't be reached for comment.

## United's Corporate Clients Seek Changes

BY SUSAN CAREY

United Airlines's lucrative corporate clients are pushing the airline to fix its customer service, the carrier's president said on Tuesday.

"There has been concern from corporate accounts, which is totally appropriate," said Scott Kirby, president of United Continental Holdings Inc., on Tuesday. "They want us to fix things. They want us to do the right thing."

Keeping lucrative business travelers happy is key amid public outrage over the airline's handling of an April 9 incident in which police removed

a paying passenger from United Express Flight 3411 in Chicago.

Mr. Kirby said United has reached out to some corporate clients to explain the airline's procedures in instances of overbooked flights and reassured them that it is making changes to its policies.

Mr. Kirby told analysts and reporters in a call following the airline's first-quarter earnings report that the concerns of corporate clients were "totally appropriate."

Chief Executive Oscar Munoz reiterated that the company will no longer call for law enforcement to remove a passenger from a

plane except for reasons of safety and security. He also said crew members traveling as passengers must check in an hour before a flight's departure time.

Mr. Munoz said a full review of other operational and customer policies is under way, with the results expected at the end of this month. He said front-line employees and some customers are participating in the review.

United on Monday reported strong profit in the first quarter, a period that ended before passenger David Dao's forced removal from Flight 3411 last week. The nation's third-largest airline by traffic beat ana-

lyst expectations for the fifth consecutive quarter even as profit fell from the same period a year ago on higher fuel costs. United disclosed that it expects its unit revenue to grow between 1% and 3% year-over year, an improvement from the first quarter when it was flat. Unit revenue measures the amount taken in for each passenger flown a mile.

Mr. Kirby said it is too early for United to say whether furor over the mistreated passenger has hurt bookings. He noted United hasn't changed its expectations in the current quarter to account for any fallout.

Mr. Kirby said it is too early for United to say whether furor over the mistreated passenger has hurt bookings. He noted United hasn't changed its expectations in the current quarter to account for any fallout.

## CARS

Continued from the prior page biggest car market, local auto makers are overshadowed by popular foreign marques from Europe, Japan and the U.S., seen by Chinese buyers as having greater pedigree. Chinese brands only accounted for 43% of the 28 million cars sold in China last year, CAAM's data shows.

However, the nimblest domestic players are gaining ground, outperforming a China market that grew 13.7% last year in volume terms, according to CAAM. They include three companies with big ambitions to sell abroad:

—Trumpchi maker Guangzhou, which sold 1.65 million vehicles, up 27%;

—Great Wall Motor Co., which sold 1.07 million vehicles last year, up 26%; and

—Zhejiang Geely Holding Group, whose sales rose 50% to 766,000 vehicles.

The trio are among Chinese car makers that "have been improving impressively," said Mr. Thorstensen. Measured against the global competition, the top Chinese cars are now average or above average, he said.

Chinese auto makers have learned from past exporting failures, said Namrita Chow, auto-

motive analyst at IHS Markit.

Whereas before they rushed to sell inferior products in dozens of countries, only to achieve weak sales in each, they are now targeting specific markets with much better cars, Ms. Chow said.

Great Wall, Guangzhou Auto and Geely appear to be following that playbook by pitching their best models overseas, or even launching new brands thought to have global appeal.

In Shanghai on Sunday,

the trio showed off their latest

models to a crowd of international buyers.

Continued from the prior page

biggest car market, local auto makers are overshadowed by popular foreign marques from Europe, Japan and the U.S., seen by Chinese buyers as having greater pedigree. Chinese brands only accounted for 43% of the 28 million cars sold in China last year, CAAM's data shows.

However, the nimblest domestic players are gaining ground, outperforming a China market that grew 13.7% last year in volume terms, according to CAAM. They include three companies with big ambitions to sell abroad:

—Trumpchi maker Guangzhou, which sold 1.65 million vehicles, up 27%;

—Great Wall Motor Co., which sold 1.07 million vehicles last year, up 26%; and

—Zhejiang Geely Holding Group, whose sales rose 50% to 766,000 vehicles.

The trio are among Chinese car makers that "have been improving impressively," said Mr. Thorstensen. Measured against the global competition, the top Chinese cars are now average or above average, he said.

Chinese auto makers have learned from past exporting failures, said Namrita Chow, auto-

motive analyst at IHS Markit.

Whereas before they

## BUSINESS NEWS

### Cnooc Shuffles Management

BY BRIAN SPEGELE

BEIJING—Chinese oil-and-gas driller Cnooc Ltd. shook up management following the resignation of Chief Executive Yang Hua, one of China's best-known oil executives globally. In a filing Tuesday with the Hong Kong stock exchange, Cnooc said Mr. Yang—who had steered the company through a period of aggressive cost-cutting—is remaining as chairman, while President Yuan Guangyu takes over as CEO and Vice President Xu Keqiang as president.

The company didn't give a reason for the shake-up, and Mr. Yang, a Cnooc veteran who had been CEO for less than a year, couldn't be reached.

Mr. Yang, educated at the Massachusetts Institute of Technology, has been a driving force in turning Cnooc into arguably China's most global oil company. In his pre-CEO days he was a key player behind the scenes as Cnooc pursued a takeover of Canada's Nexen Inc., a \$15.1 billion purchase that solidified the company's position as an aggressive overseas deal maker.

More recently, after oil prices began their steep decline in late 2014, he helped direct cost cuts at the once free-spending Cnooc, whose dependence on pumping and selling crude oil left it potentially more exposed than its state-owned Chinese rivals, which could mitigate losses through higher refining margins.

Like Mr. Yang, new CEO Mr. Yuan is a Cnooc veteran, with about 35 years there. He has served as chairman of its overseas arm, Cnooc International, since June. After Mr. Yang's cost-cutting, the new CEO is likely to oversee renewed expansion. With global oil prices expected to continue rebounding, the company says it is increasing investment in exploration this year.

# Daewoo's Shipyard Is Throw a Lifeline

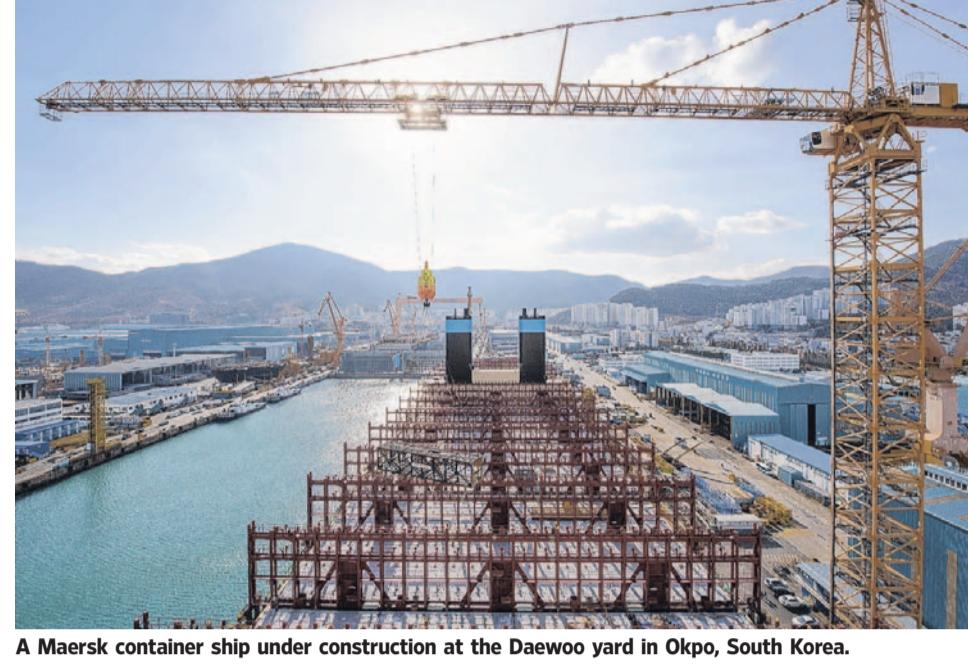
BY KWANWOO JUN

SEOUL—South Korea's debt-ridden Daewoo Shipbuilding & Marine Engineering Co., the world's second-biggest shipyard, was given a lease on life after creditors agreed to a massive debt-for-equity swap as part of a bailout plan.

The agreement came after South Korea's National Pension Service, which holds a quarter of Daewoo's outstanding bonds, decided to convert its bonds into equity as part of a fresh 2.9 trillion Korean won (\$2.6 billion) rescue plan, leading the other bondholders—some of whom were previously undecided—to follow suit during two days of voting that ended Tuesday.

Creditors overwhelmingly voted for the rescue plan that obliges them to convert half of the \$1.4 billion in unpaid bondholdings into equity and roll over the remaining debt until 2020, according to the ballot results.

The ailing shipyard, seen by some in South Korea as too big to fail, will stay afloat for now with the debt rescheduling and fresh cash injections, and may be able to return to profitability in 2017 after two straight years of massive



A Maersk container ship under construction at the Daewoo yard in Okpo, South Korea.

losses, but its survival is uncertain unless it wins high-margin ship orders even as the industry faces one of its toughest periods.

Daewoo has secured around \$1.5 billion of new orders so far this year.

But securing new ones will be challenging. Contracts at China's top 50 yards fell 25% in the first quarter, compared

with the year-earlier period, according to the China Association of the National Shipbuilding Industry.

The National Pension Service, which holds more than 40% of Daewoo's 440 billion won of debt due for repayment later this month, said Monday that "accepting the debt-rescheduling plan will be more favorable in enhancing

the profits of the pension fund" than letting Daewoo go into receivership or bankruptcy.

The NPS had earlier demanded a guarantee of full debt repayment but later softened its stance following weekend negotiations with Daewoo's largest shareholder, the state-run Korea Development Bank, which is leading

the bailout effort. In an 11th-hour compromise, KDB and the state-run Export-Import Bank of Korea, which together own Daewoo, promised the pension fund that they would hold bond payments in an escrow account before maturity and pay bondholders before the state lenders seek their own claims, said officials at the Financial Services Commission, Korea's main financial regulator.

Daewoo epitomizes the trouble of the global shipbuilding industry that is still reeling from stagnating ship orders and a slowdown in China.

Since the global economic crisis in 2008, Korean shipyards have been suffering as lower-cost Chinese rivals bite into their profits.

Daewoo recorded a 2.7-trillion-won loss for 2016, following a 3.3-trillion-won loss a year earlier.

KDB and Export-Import Bank of Korea in 2015 provided a combined 4.2 trillion won in aid to the shipyard.

In March they unveiled a new rescue plan, which they said would improve Daewoo's cash flow.

—Costas Paris contributed to this article.

## Theranos Agrees to Two-Year Ban From Blood Testing

BY CHRISTOPHER WEAVER

Theranos Inc. and its founder pledged to stay out of the blood-testing business for at least two years in exchange for reduced penalties from federal health authorities in an agreement that resolves a yearlong regulatory impasse.

The main lab regulator first proposed barring Elizabeth Holmes from the medical-lab business for two years in March 2016 after the company failed to correct testing problems at its lab in Newark, Calif., ones that inspectors earlier had said put patients in "immediate jeopardy."

The development removes a major overhang for the troubled Silicon Valley startup. But Theranos continues to face other challenges, including criminal and civil investigations into whether it has misled investors, lawsuits by several investors saying they were duped, and claims from patients saying they received inaccurate test results. Theranos is fighting the suits and cooperating with the probes.

The regulator, the Centers for Medicare and Medicaid Services, "continues to protect patient safety which is our highest priority," a spokesman said in a statement. "As a re-

sult of this settlement agreement, Theranos's current and former owners, operators, and directors have agreed not to own, operate or direct any clinical labs subject to CMS' Clinical Laboratory Improvement Amendment for two years."

Theranos already had made major changes in the face of regulators' scrutiny. After CMS completed its proposed sanctions in July, the company began to shift its focus to a business strategy that involves developing laboratory devices to sell to third parties, rather than doing tests itself.

"As part of the agreement,

Theranos affirmed that, consistent with the business plans it outlined last fall, the company will not own or operate a clinical laboratory within the next two years," it said in a statement Monday. "Theranos exited the clinical lab and retail business last year, and is focusing on its miniaturized, automated testing platforms and related chemistries."

In late September, regulators also found problems at Theranos's second lab, in Scottsdale, Ariz. The statement said the agreement resolves "all outstanding legal and regulatory proceedings between CMS and Theranos."

In October, the company announced plans to completely exit from the laboratory business to focus on its planned miniature testing devices, which would need approval by another regulator, the U.S. Food and Drug Administration, before the firm can sell them to U.S. customers.

Theranos had once sought to upend the medical-lab business by performing low-cost tests on just a few drops of blood taken from finger-stick samples using its own technology. But a series of Wall Street Journal articles raised questions about the company's lab technology and practices.

## ASK FOR THE WALL STREET JOURNAL ASIA AT THESE FINE HOTELS

### CHINA

**BEIJING**  
INTERCONTINENTAL BEIJING - FINANCIAL  
STREET  
[www.intercontinental.com](http://www.intercontinental.com)  
JIANGUO HOTEL BEIJING  
[www.hoteljianguo.com](http://www.hoteljianguo.com)  
JW MARRIOTT BEIJING  
[www.marriott.com/bjsjw](http://www.marriott.com/bjsjw)  
PARK HYATT BEIJING  
[www.beijing.park.hyatt.com](http://www.beijing.park.hyatt.com)  
THE REGENT BEIJING  
[www.regenthotels.com/beijing](http://www.regenthotels.com/beijing)  
THE PENINSULA BEIJING  
[www.peninsula.com](http://www.peninsula.com)  
THE RITZ CARLTON HOTEL, FINANCIAL STREET  
[www.ritzcarlton.com/china](http://www.ritzcarlton.com/china)

**SHANGHAI**  
INTERCONTINENTAL SHANGHAI PUDONG  
[www.intercontinental.com](http://www.intercontinental.com)  
INTERCONTINENTAL SHANGHAI PUXI  
[www.intercontinental.com](http://www.intercontinental.com)  
JING AN SHANGRI-LA HOTEL  
[www.shangri-la.com](http://www.shangri-la.com)  
JW MARRIOTT SHANGHAI TOMORROW  
SQUARE  
[www.marriott.com/shajw](http://www.marriott.com/shajw)  
LE ROYAL MERIDIEN SHANGHAI  
[www.starwoodhotels.com/lemeridien](http://www.starwoodhotels.com/lemeridien)  
PUDONG SHANGRI-LA SHANGHAI  
[www.shangri-la.com](http://www.shangri-la.com)  
SHANGHAI MARRIOTT HOTEL PUDONG EAST  
[www.marriott.com/shapd](http://www.marriott.com/shapd)  
THE LONGEMONT SHANGHAI  
[www.thelongmonthotels.com](http://www.thelongmonthotels.com)  
THE PENINSULA SHANGHAI  
[www.peninsula.com](http://www.peninsula.com)  
THE RITZ CARLTON SHANGHAI, PUDONG  
[www.ritzcarlton.com/ShanghaiPudong](http://www.ritzcarlton.com/ShanghaiPudong)  
THE WESTIN SHANGHAI  
[www.westin.com/shanghai](http://www.westin.com/shanghai)

### HONG KONG

CONRAD HONG KONG  
[www.conrad.com.hk](http://www.conrad.com.hk)  
FOUR SEASONS HOTEL HONG KONG  
[www.fourseasons.com/hongkong](http://www.fourseasons.com/hongkong)  
GRAND HYATT HONG KONG  
[www.hongkong.grand.hyatt.com.hk](http://www.hongkong.grand.hyatt.com.hk)  
INTERCONTINENTAL HONG KONG  
[www.hongkong-ic.intercontinental.com](http://www.hongkong-ic.intercontinental.com)  
ISLAND SHANGRI-LA HONG KONG  
[www.shangri-la.com](http://www.shangri-la.com)  
JW MARRIOTT HOTEL  
[www.marriott.com/hkgdt](http://www.marriott.com/hkgdt)  
KOWLOON SHANGRI-LA HONG KONG  
[www.shangri-la.com](http://www.shangri-la.com)  
LANGHAM HOTEL HONG KONG  
[www.hongkong.langhamhotels.com](http://www.hongkong.langhamhotels.com)  
MANDARIN ORIENTAL HOTEL  
[www.mandarinoriental.com](http://www.mandarinoriental.com)  
SHERATON HONG KONG HOTEL & TOWERS  
[www.starwoodhotels.com](http://www.starwoodhotels.com)  
THE EXCELSIOR HONG KONG  
[www.excelsiorhongkong.com](http://www.excelsiorhongkong.com)  
THE LANDMARK MANDARIN ORIENTAL HOTEL  
[www.mandarinoriental.com/landmark](http://www.mandarinoriental.com/landmark)  
THE RITZ CARLTON HONG KONG  
[www.ritzcarlton.com/HongKong](http://www.ritzcarlton.com/HongKong)  
THE UPPER HOUSE HOTEL  
[www.upperhouse.com](http://www.upperhouse.com)

### INDONESIA

**JAKARTA**  
THE RITZ-CARLTON JAKARTA, PACIFIC PLACE  
[www.ritzcarlton.com](http://www.ritzcarlton.com)  
GRAND HYATT JAKARTA  
[www.jakarta.grand.hyatt.com](http://www.jakarta.grand.hyatt.com)  
HOTEL BOROBUDUR JAKARTA  
[www.hotelborobudur.com](http://www.hotelborobudur.com)  
HOTEL INTER-CONTINENTAL MID PLAZA  
JAKARTA  
[www.intercontinental.com](http://www.intercontinental.com)  
LE MERIDIEN JAKARTA  
[www.starwoodhotels.com](http://www.starwoodhotels.com)  
DHARMAWANGSA HOTEL  
[www.the-dharmawangsa.com](http://www.the-dharmawangsa.com)  
THE ASCOTT JAKARTA  
[www.the-ascott.com](http://www.the-ascott.com)

### THE RITZ-CARLTON, JAKARTA

[www.ritzcarlton.com](http://www.ritzcarlton.com)  
HOTEL MULIA, SENAYAN  
[www.hotelmulia.com](http://www.hotelmulia.com)  
CROWNE PLAZA HOTELS - RESORTS JAKARTA  
[www.crowneplaza.com](http://www.crowneplaza.com)  
SHANGRI-LA JAKARTA  
[www.shangri-la.com](http://www.shangri-la.com)  
JW MARRIOTT JAKARTA  
[www.marriott.com](http://www.marriott.com)

### JAPAN

**TOKYO**  
THE PRINCE PARK TOWER TOKYO  
[www.princehotels.co.jp/parktower](http://www.princehotels.co.jp/parktower)  
COURTYARD BY MARRIOTT TOKYO GINZA  
HOTEL  
[www.marriott.com/hotels/travel/tocy-courtyard-tokyo-ginza-hotel](http://www.marriott.com/hotels/travel/tocy-courtyard-tokyo-ginza-hotel)  
PALACE HOTEL  
[www.palacehoteltokyo.com](http://www.palacehoteltokyo.com)  
HOTEL CHINZANSO TOKYO  
[hotel-chinzanso-tokyo.jp](http://hotel-chinzanso-tokyo.jp)  
THE STRINGS BY INTERCONTINENTAL TOKYO  
[www.intercontinental-strings.jp](http://www.intercontinental-strings.jp)  
ROYAL PARK HOTEL  
[www.rph.co.jp/index.html](http://www.rph.co.jp/index.html)  
HOTEL OKURA  
[www.hotelokura.co.jp/tokyo](http://www.hotelokura.co.jp/tokyo)  
THE WESTIN TOKYO  
[www.westin-tokyo.co.jp](http://www.westin-tokyo.co.jp)  
PARK HYATT TOKYO  
[www.tokyo.park.hyatt.com](http://www.tokyo.park.hyatt.com)  
IMPERIAL HOTEL TOKYO  
[www.imperialhotel.co.jp](http://www.imperialhotel.co.jp)  
GRAND HYATT TOKYO  
[www.tokyo.grand.hyatt.com](http://www.tokyo.grand.hyatt.com)  
THE PENINSULA TOKYO  
[www.peninsula.com](http://www.peninsula.com)  
HYATT REGENCY TOKYO  
[www.hyattregencytokyo.com](http://www.hyattregencytokyo.com)  
TOKYO MARRIOTT HOTEL  
[www.tokyo-mariott.com](http://www.tokyo-mariott.com)

### KOREA

CONRAD SEOUL  
[www.conradseoul.com](http://www.conradseoul.com)  
GRAND HYATT SEOUL  
[www.grandhyattseoul.co.kr](http://www.grandhyattseoul.co.kr)  
GRAND INTERCONTINENTAL SEOUL PARNAS  
[www.seoul.intercontinental.com](http://www.seoul.intercontinental.com)  
INTERCONTINENTAL SEOUL COEX  
[www.seoul.intercontinental.com](http://www.seoul.intercontinental.com)  
JW MARRIOTT HOTEL  
[www.jw-marriott.co.kr](http://www.jw-marriott.co.kr)  
LOTTE HOTEL  
[www.lottehotel.com](http://www.lottehotel.com)  
MILLENNIUM SEOUL HILTON  
[www.hilton.co.kr](http://www.hilton.co.kr)  
PARK HYATT SEOUL  
[www.seoul.park.hyatt.com](http://www.seoul.park.hyatt.com)  
THE PLAZA SEOUL  
[www.hoteltheplaza.com](http://www.hoteltheplaza.com)  
THE RITZ-CARLTON SEOUL  
[www.ritzcarltonseoul.com](http://www.ritzcarltonseoul.com)  
THE SHILLA  
[www.shilla.net](http://www.shilla.net)  
THE WESTIN CHOSUN  
[www.echosunhotel.com](http://www.echosunhotel.com)

### MALAYSIA

MANDARIN ORIENTAL KUALA LUMPUR  
[www.mandarinoriental.com](http://www.mandarinoriental.com)  
SHANGRI-LA HOTEL KUALA LUMPUR  
[www.shangri-la.com](http://www.shangri-la.com)  
SAMA-SAMA KUALA LUMPUR INTERNATIONAL  
AIRPORT  
[www.samasamahotels.com](http://www.samasamahotels.com)

### SINGAPORE

THE FULLERTON HOTEL SINGAPORE  
[www.fullertonhotel.com](http://www.fullertonhotel.com)  
THE FULLERTON BAY HOTEL SINGAPORE  
[www.fullertonbayhotel.com](http://www.fullertonbayhotel.com)  
THE RITZ-CARLTON MILLenia  
[www.ritzcarlton.com](http://www.ritzcarlton.com)  
FAIRMONT SINGAPORE  
[www.fairmont.com/singapore](http://www.fairmont.com/singapore)  
SHANGRI-LA HOTEL  
[www.shangri-la.com](http://www.shangri-la.com)  
GRAND HYATT SINGAPORE  
[singapore.grand.hyatt.com](http://singapore.grand.hyatt.com)

For more information about this program, please email to customer services at [service@wsj-asia.com](mailto:service@wsj-asia.com) or visit [www.wsj-asia.com](http://www.wsj-asia.com) to subscribe.

THE WALL STREET JOURNAL.  
Read ambitiously

©2017 Dow Jones & Co., Inc. All rights reserved.

## TECHNOLOGY

WSJ.com/Tech

# Snapchat Tool Augments Reality

Lens feature places artificial images within photos taken on smartphones

BY GEORGIA WELLS

Snapchat is looking beyond the selfie.

On Tuesday Snapchat launched an augmented-reality feature that allows users to add special effects to background scenes and surroundings of photos and videos they shoot on their smartphones. Previously, the feature was largely limited to images of faces. The new "lenses" consist of images such as hearts, clouds and short words such as "cute."

The benefit for parent company Snap Inc. is that it can obtain more data on products users have around them—potentially valuable to advertisers. Snap could also generate revenue by selling sponsorships for the lenses, as it does now with those users apply to



The library of graphics includes a rainbow, above, and hearts, clouds and short words like 'cute.'

their faces.

A spokeswoman for Snap said there would initially be no sponsored lenses and declined to comment on whether the company would consider offering them in the future.

Snap has an interest in learning what products users

have near them: The company wants to be able to tell marketers whether their ad campaigns on Snapchat actually influence the behavior of its users. Snap could also discover whether its users visit certain locations, such as stores or restaurants, or

whether they like certain products, such as a bottle of Pepsi or a Nike jersey.

Until recently Snap didn't share much data about its users with advertisers. When Snap launched advertising on its social network in 2014, the company said its high-produ-

tion ads would be fun and informative, "the way ads used to be, before they got creepy and targeted"—a clear shot at Facebook Inc. and Alphabet Inc.'s Google, which employ extensive user data in advertising.

Since then, Snap's advertising has become more sophisticated—and targeted. In early April, Snap rolled out a tool called Snap to Store to help marketers track correlations between users seeing a "snap" tagged with a specific advertiser and a visit to that advertiser in the real world. The tool works by applying a "geo-filter" to a snap taken while a user is in a specific store.

Snap is prioritizing its users' privacy and product experience, as it explores advertising opportunities within Snapchat, the spokeswoman said. For example, Snap doesn't share information with advertisers about locations that would reveal the identities of its users, and users can opt out of some targeted advertising, she said.

## Tesla Unit Faces Threat of Strike in Germany

Elon Musk is getting a quick introduction to the bare-knuckle world of German labor unions as the country's largest industrial union mulls a strike at Tesla Inc.'s recently acquired industrial robotics subsidiary.

By William Boston in Berlin and Tim Higgins in San Francisco

The labor dispute is over wages for the workforce at Grohmann Engineering, a German manufacturing automation designer that Tesla acquired in a \$150 million deal that closed in January.

IG Metall, the country's powerful industrial trade union, met at the Tesla unit on Tuesday to discuss how to proceed, said Patrick Georg, the IG Metall official responsible for Tesla. It's unclear whether the union reached a decision to strike.

"We don't want to strike," Mr. Georg said. "We will only do so if Tesla refuses to agree to a wage contract with us."

The threat of labor unrest in Germany looms over Tesla as the electric-car company prepares to begin initial production of the Model 3, a \$35,000 sedan that holds the promise of giving the auto maker a broader appeal beyond its niche luxury market.

Disruptions to Mr. Musk's plans to boost annual production to 500,000 next year from about 84,000 last year could shake investor confidence, which has pushed shares to new heights and lifted Tesla's market value to rival General Motors Co. as the largest U.S. auto maker. Grohmann, rebranded Tesla Grohmann Automation, is part of Mr. Musk's plans to boost the young auto maker's production capabilities for the Model 3 sedan and his vision of creating a highly automated and efficient factory able to quickly adapt production to rising demand that he likes to call "machine that builds the machine."

Tesla disputes that it pays Grohmann workers 30% below union wages following changes made by the auto maker after taking over. It noted an announcement last week that everyone would be granted €10,000 (\$10,644) of Tesla shares that vest over four years. Plus, employees were given a €1,000 cash bonus. Those changes were described as among the first made by Tesla as it reviews compensation. The auto maker also disputes a surge of union interest among its German employees, saying more than 100 employees have signed a petition against the union. Grohmann employees 700 people, and more than half of them are union members, according to IG Metall.

"We continue to work directly with Tesla Grohmann employees and are prepared in the event there is an action initiated by the union," Tesla said. "We don't anticipate any impact on the Model 3 timeline."

## Killing Compels Self-Scrutiny at Facebook

BY DEEPA SEETHARAMAN

Facebook Inc. is reviewing how it handles objectionable content after a Cleveland man posted a video of a fatal shooting on the site, sparking outrage over the social-media giant's failure to more closely monitor violence on its platforms.

On Sunday afternoon, 37-year-old Steve Stephens posted two videos on Facebook, one announcing his intent to commit murder and a second video of himself allegedly approaching an older man, Robert Godwin Sr., and shooting him in the head. About 10 minutes later, Mr. Stephens went on Facebook Live, an instantaneous broadcasting tool, to talk about this and other alleged crimes.

Mr. Stephens started posting the videos on Facebook at 2:09 p.m. Eastern time, according to Facebook. Facebook received its first report about the second video, containing footage of the shooting, around 4 p.m., and the company removed Mr. Stephens's Face-



Suspect Steve Stephens

tive Mark Zuckerberg and other executives showcase the new features and tools it plans to introduce to its nearly two billion users.

According to a tally by the Journal, people have used Facebook Live to broadcast more than 60 sensitive videos, including murder, suicides and the beating in January of a mentally disabled teenager in Chicago.

Facebook has strict standards prohibiting using its site to promote violence, and employs content moderation teams to check for violations.

Facebook relies on thousands of contractors worldwide to review content, but live-video reports are handled by a small, specialized team of contractors in the Bay Area who work around the clock in eight-hour shifts, the company confirmed. Current and former employees at Facebook said its content-moderation teams were trained to remove offensive or violent live videos, such as beheadings and pornography.

If a video hits a certain

number of concurrent views, it is automatically sent to the contractors for review, according to people familiar with the matter and Facebook.

But content-moderation experts say it is difficult for tech companies to uphold their standards because of the sheer amount of content posted online every day and the comparatively small number of content reviewers. Facebook is developing technology to detect violent and objectionable content, but understanding what is happening in a video is still complicated for software.

"Because these processes cannot be easily and reliably automated—particularly those videos that are running as live streams—there is no reason to think that people will not continue to find terrible ways to use the platform," said Sarah T. Roberts, an assistant professor of information studies at the University of California, Los Angeles and a researcher studying tech companies' reliance on contract workers to moderate content.

## SHARP

Continued from page B1

ning bid, these people say.

Foxconn had faced similar resistance in its bid for Sharp, which it ultimately overcame. But the jury is still out on whether the \$3.5 billion Foxconn paid for its 66% ownership of Sharp was a good investment.

The Sharp brand was once an industry leader, but has lost its shine in both Asia and the West, says Mark Stocker, managing director of Taiwan-based brand consultancy DDG. "In the past five years, Sharp hasn't really been part of consumers' consideration," he said.

Sharp's global TV market share was 2% last year, and even lower in China where local brands such as Hisense and TCL dominate, said Eric Chiou, senior research director of TrendForce WitsView.

The challenge could be seen

at a Suning electronics outlet in Beijing, where Sharp's display was tucked away in the back. A salesman said shoppers preferred either budget Chinese brands or upscale models with curved screens.

Freddie Yuan, Foxconn's new chief marketing officer, says he recognizes the Sharp

brand needs a reboot.

"In our designs, we need to appeal to younger consumers," said Mr. Yuan, at his temporary office in the Foxconn warehouse.

Foxconn is aiming to double Sharp's TV sales to 10 million units this year—and China is the primary market, because

U.S. rights were previously sold to China's Hisense. The company is sponsoring Chinese reality shows and rolling out billboard and TV ads with the slogan "Sharp powered by Foxconn."

"We'll be launching new products every month," said Mr. Yuan, who declined to disclose the advertising budget. "That's the only way we can adapt to the fast China market."

Foxconn's key advantage is its manufacturing scale, which allows it to slash Sharp's prices, said Jacob Chen, Foxconn's vice chairman overseeing the brand's China push.

"We can make most key components ourselves," Mr. Chen said. "This has a big effect on our efficiency and costs."

The company has offered deep promotional discounts, such as a buy-one-get-one-free TV sale on Nov. 11, China's annual shopping day.

But cost-cutting itself isn't enough to build a brand. Some

longtime Foxconn executives privately express doubts that a company known for penny-pinching would ever lavish big money on marketing.

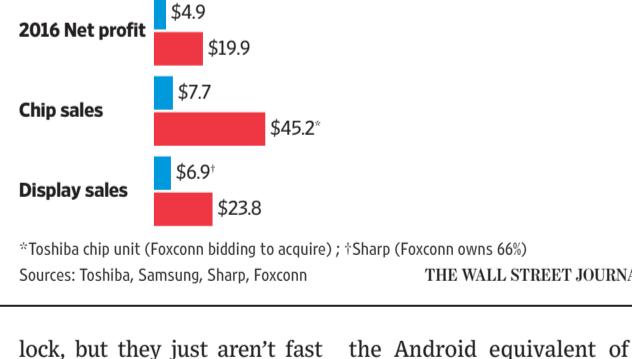
A longer-term challenge for Foxconn could involve launching its own brands without annoying longtime customers such as Apple. Taiwanese manufacturers Acer Inc. and Asustek Computer Inc. previously faced a similar challenge, and ultimately split their businesses to avoid client conflicts.

For now, Foxconn has carefully steered the Sharp business to avoid conflicts with Apple, which still supplies more than half of its revenue, says Fubon Securities analyst Arthur Liao. But Foxconn last year also quietly acquired the Nokia phone brand, a potential conflict if the company pushes its own phones in the future.

—Yang Jie in Shenzhen and Takashi Mochizuki in Tokyo contributed to this article.

### Foxconn vs. Samsung

Foxconn is seeking to build a tech conglomerate that can rival top global brands such as Samsung. How the two companies stack up:



\*Toshiba chip unit (Foxconn bidding to acquire); †Sharp (Foxconn owns 66%)

Sources: Toshiba, Samsung, Sharp, Foxconn

THE WALL STREET JOURNAL

lock, but they just aren't fast enough on the fly.

Even with that extra screen real estate burning up battery, Samsung managed to improve battery life. In my S7 test last year, I got over seven hours. This year, using the same test and parameters on the S8, I got under 10 hours. That's still short of the iPhone 7, however.

(For people who go for a bigger phone, even at the cost of some grip, the S8+ matches performance in most ways and its battery lasted about half an hour longer.)

The S8's evolution in usefulness isn't just about shape. It's got a magic trick for those times when even 5.8 inches aren't sufficient to get work done: It can transform into a surprisingly full-featured desktop computer. Yeah, you read that right. I wrote this column on the phone with a keyboard, mouse and a 32-inch monitor. There are resizable windows, a file manager, even

the Android equivalent of a Start menu.

This mode requires Samsung's \$150 DeX cradle, into which you plug an HDMI screen and USB peripherals. There were a few rough edges, but for the most part I marveled at how smooth it was to use, and—with access to my whole mobile life—at times superior to my Windows laptop.

With Android, this desktop has access to apps that are core to my life. Some, including Microsoft Office and Adobe Lightroom, are updated to take advantage of desktop mode. Most other apps are just stuck as vertical windows, but are still somewhat usable. The only app that wouldn't open for me at all was Spotify.

These fundamental evolutions might be enough to make me overlook that the S8 costs \$50 more than last year's S7, and has only a marginally improved rear camera (which was already great).

But—and this is a super awkward "but"—it is hard to recommend the S8 when it is incomplete. It is increasingly clear the future involves operating smartphones (and lots of other things) with our voices. Bixby's voice control, which Samsung bills as an improvement on Google's Assistant and Apple's Siri, won't be in the phones arriving in the U.S. Friday. And Samsung has a checkered history with software sometimes making its phones more confusing. Software is what gives an edge to Apple's iPhones and Google's own upstart Android phone, the Pixel. (Google's Assistant works on the S8, but is limited. For example, you can't call "OK Google" while the phone is locked and unplugged.)

And I wish Samsung would be more transparent about the changes it has made to ensure the S8's batteries don't catch fire. It has a new 8-point plan to test for manufacturing de-

fects, but it's difficult to evaluate its impact in the secretive electronics industry. Samsung says it has an advisory group of outside experts, yet it hasn't been able to put any of them on the phone with me.

As strong presales of the S8 have shown, loyalty to Samsung phones seems to be relatively fireproof.

Customers are loyal because—despite Apple's reputation—it is actually Samsung that has been on the leading edge, particularly with evolving the design of phones. That is clearly the case with the S8, which pushes the whole smartphone game forward in ways I expect will soon become the new normal.

JASON HENRY FOR THE WALL STREET JOURNAL

## FOWLER

Continued from page B1

fast as phones.

LG's G6 phone actually went long-screen first—the S8 goes further by curving it all the way down. In past Samsung designs, like the S7 Edge, the curved screen made the phone feel slippery, but the S8's new symmetrical shape is easier to grip. Still, I wish the phone's back weren't made of glass.

There are new annoyances. It took me a while to get used to the pressure-sensitive home button in the screen, which remains lit up when the phone is locked, but isn't carved into the glass like on an iPhone. And since the fingerprint reader is on the back next to the camera, I smudge the lens a lot. (This is a serious crime against photography, Samsung.) I would use the new iris reader or facial recognition capability to un-

lock, but they just aren't fast enough on the fly.

Even with that extra screen real estate, the S8's screen area is still smaller than the Galaxy S7's. The S8's screen is 5.8 inches, while the S7's is 5.5 inches. The S8's screen is also less sharp, with a resolution of 1440x2960 pixels compared to the S7's 1440x2560 pixels. The S8's screen is also less bright, with a maximum brightness of 600 nits compared to the S7's 650 nits. The S8's screen is also less durable, with a Gorilla Glass 5 protection compared to the S7's Gorilla Glass 4 protection.

Despite these disadvantages, the S8's screen is still excellent. It has a wide color gamut, accurate colors, and good contrast. The screen is also very responsive, with fast touch response times. The S8's screen is also very bright, making it easy to see in direct sunlight. The S8's screen is also very durable, with a Gorilla Glass 5 protection that makes it less likely to break.

## MANAGEMENT

### Why Letting Best Workers Go Elsewhere Is Beneficial

By VANESSA FUHRMANS

Companies loathe losing top performers to rivals, but recent research suggests letting them go on to better things has its benefits.

Young professionals are among today's biggest job hoppers: A 2016 LinkedIn survey found millennials have worked at roughly four companies in their first decade after college, compared with about 2.5 companies for the generation before them. It takes time, training and money for businesses to replenish star talent, and executives who leave take institutional knowledge, and sometimes clients, with them.

Yet in the right circumstances, departures can create a competitive advantage for the company left behind, according to a study published by the Strategic Management Journal. Researchers at the University of Washington and Georgetown University analyzed industry data on U.S. law-firm hiring, and annual surveys by career website Vault.com asking legal associates to rate the prestige of law firms.

The researchers found increased departure rates led to improvements in a firm's status among survey respondents when the exits were for promotions at high-status law firms.

Christopher Rider, an associate professor at Georgetown's McDonough School of Business and one of the study's authors, said the results suggest it is plausible such departures—and subsequent boost in prestige—could help companies attract new, junior talent at lower wages, though more research is needed to show a link.

The competitive advantage applies to sectors beyond law, including technology, advertising and others that rely on human capital, said Sydney Finkelstein, faculty director of Dartmouth College's Tuck Center for Leadership. In his book "Superbosses: How Exceptional Leaders Master the Flow of Talent," he examined leaders who helped protégés move to other opportunities, often outside their companies.

Prof. Finkelstein points to Oracle Corp. co-founder Larry Ellison. Between 1994 and 2004, he said, nearly a dozen executives who had worked closely with Mr. Ellison at Oracle went on to become a chief executive, board chief or other high-ranking executive at another company—helping to seal Mr. Ellison's reputation as a talent magnet.

More people are managing their careers as a series of stepping stones at different companies, Prof. Finkelstein said. "As a boss, are you going to accept that reality and do something about it, or are you going to fight it?" he said. "Those who fight it are going to have a more difficult time finding good people."

# This CEO's Bottom Line: Lives Saved

Susan Desmond-Hellmann guides the Bill & Melinda Gates Foundation in fighting poverty, disease

By BETSY MCKAY

As chief executive officer of the **Bill & Melinda Gates Foundation**, Susan Desmond-Hellmann steers an organization with a lofty goal: Ending global poverty and disease.

The 59-year-old physician came to her post nearly three years ago from the **University of California, San Francisco**, where she had been chancellor. Previously, she was president of product development for **Genentech**, now part of **Roche Holdings AG**. There, her work on gene-targeted cancer drugs such as Herceptin and Avastin put her on the leading edge of the precision medicine movement.

Now, she says, she measures return on **BOSS TALK** investment not by profit but "by number of lives saved; number of people who have a chance at a healthy, productive life; how much students can aspire to in their lives."

Her experience helps her lead the foundation's roughly 1,400 employees and marshal its \$39.6 billion endowment. She is applying the concepts of precision medicine to public health, pushing for better data to target the right interventions to people who need them. She has stressed the importance of U.S. foreign aid to White House officials; the Trump administration has proposed federal budget cuts that could reduce it. She says she has seen firsthand how those investments lead to "lives saved around the world and a safer America."

Dr. Desmond-Hellmann talked with The Wall Street Journal recently about what it is like to lead charitable work. Edited excerpts:

**WSJ:** You're the first Gates Foundation CEO to come from outside Microsoft. What do you bring to the job that your predecessors did not?

**Dr. Desmond-Hellmann:** I had a life-sciences background. I'm a product developer. It is not difficult for me to say, "I don't understand why we do it that way." I think an outsider has an opportunity, particularly early on in your



Susan Desmond-Hellmann has headed the foundation for nearly three years. It has roughly 1,400 employees and a \$39.6 billion endowment.

tenure, to ask questions about why—and couldn't we try something different.

**WSJ:** What have you done differently?

**Dr. Desmond-Hellmann:** The most important thing I've really pushed us to look at is how we think about investment. When you have, as we do in malaria, some opportunities for regionally controlling it, there may be a need for an uptick in investment while we're working on a backup strategy for something that needs a little bit more work in tuberculosis. We can maximize use of the money by thinking across our portfolio of investments rather than one at a time.

**WSJ:** When your job is saving the world, how do you prioritize?

**Dr. Desmond-Hellmann:** When they hired me, they didn't say, "Come in and figure out our strategy." I knew that the foundation has ambitions in global health, especially infectious diseases that affect the poor disproportionately. I knew that there was a big focus on agriculture.

**WSJ:** How do you keep people engaged in mission-driven jobs?

**Dr. Desmond-Hellmann:** You've got sleeplessness, overwork, burnout. It's hard work.

Very importantly, there is a focus on mobile money, financial services for the poor, water sanitation and hygiene, and in the U.S., our education programs.

**WSJ:** You work with some powerful co-chairs and trustees, including [founders Bill and Melinda Gates and] Warren Buffett. Who's the better boss?

**Dr. Desmond-Hellmann:** Warren will say, "Tell me about head count. Tell me about how you spend the money. Tell me about overhead." He reads every number. Bill will ask the incredibly deep, hard question. "What problem are you trying to solve?" Melinda asks the question that brings in the humanity of what we do. I love trying to solve a problem so that Bill thinks it's technically sound and Melinda thinks it's got humanity and Warren's happy with me running a tight ship.

**WSJ:** How do you keep people engaged in mission-driven jobs?

**Dr. Desmond-Hellmann:** You've got sleeplessness, overwork, burnout. It's hard work.

### How I Work

**Sitting or standing desk?** Standing.

**Secret vice?** Fashion.

**On the ski slopes?** Powder or moguls? Deep powder.

**Watch the video**

WSJ.COM  
and find more management coverage at WSJ.com/Management

tist who once worked at the Gates Foundation. What was his advice on becoming the CEO?

**Dr. Desmond-Hellmann:** It was from 2005 to 2007, when HIV was undergoing this incredible shift and Nick just went all in. He worked like crazy. It was life-changing for him. He said, "You've really got to get your head set, so you show up with great energy and passion."

**WSJ:** A recent employee survey showed morale among some to be lower than you would like. What are you doing to improve it?

**Dr. Desmond-Hellmann:** We've increased the ability to do question and answer.

When Bill and Melinda told the foundation about the annual letter, we added a big, open Q&A piece because the employees wanted to talk to Bill and Melinda about their current thinking. The world's got a lot going on right now, so transparency is really important. We made sure every employee in the foundation talked about the survey and what it meant for them.

## BUSINESS WATCH

TCS

### Profit Rises Amid Visa Plan Scrutiny

**Tata Consultancy Services**

Ltd. reported a slight rise in profit for the first three months of 2017 amid fears President Donald Trump will clamp down on the visa program it uses to send its workers to the U.S.

Mumbai-based TCS, India's largest software exporter by revenue, said profit in its fourth quarter ended March 31 rose

4.2% to 66.08 billion rupees

(\$1.03 billion), from 63.41 billion rupees a year ago.

Revenue grew 4.2% to 296.42 billion rupees.

Chief Executive Rajesh Gopinathan said the firm had seen "broad-based growth amidst economic and political turbulence in our key markets."

Indian outsourcing firms like TCS are under increasing scrutiny for their use of the H-1B skilled worker visa program, which they use to send workers to the U.S.—their biggest market.

Meanwhile, with demand for traditional information technol-

ogy services declining, TCS and its Indian peers are eager to provide more complex services to clients that use tools like big data analytics.

Separately, TCS said it received shareholder approval to buy back up to \$2.4 billion worth of shares.

—Newley Purnell

CARDINAL HEALTH

### Company Makes Deal With Medtronic

Cardinal Health Inc. struck a deal to buy part of **Medtronic**

PLC's patient monitoring and recovery unit for \$6.1 billion, bringing businesses under Cardinal's roof that it has sought for years but also boosting its debt load.

Cardinal said it would fund the acquisition with \$4.5 billion in new debt plus existing cash.

Cardinal hopes the acquisition will help offset competitive pressures in its drug-wholesaling business, where the company is lowering generic-drug prices to maintain its market share among independent pharmacy retailers.

The company said it expects the prices it charges customers

for generic drugs to fall in the low-double digit percentage range in its fiscal year ending in June.

Pharmaceutical companies have tempered their price increases somewhat recently in response to growing political pressure in Washington.

But Cardinal CEO George S. Barrett said the generic pricing pressure it is experiencing relates mainly to the prices it charges its pharmacy customers, rather than unexpected price cuts by drug manufacturers.

—Anne Steele and Joseph Walker

## WSJ PODCASTS

### Look Behind the Numbers

Join Miriam Gottfried for an in-depth look at the stories driving global business. Get incisive analysis of the companies, sectors and securities making news with WSJ's **Heard on the Street** podcast.

Listen now at [WSJ.com/listenHeardontheStreet](http://WSJ.com/listenHeardontheStreet)

WSJ Podcasts are also available on iTunes, Amazon Echo, Spotify, iHeartRadio, Google Play Music and Stitcher

THE WALL STREET JOURNAL.  
Read ambitiously



## FINANCE & MARKETS

# Bitcoin Exchange Glitches Disrupt Trading

BY GREGOR STUART HUNTER

Bitcoin suffered a series of setbacks over the past few days, when the biggest exchange said it couldn't enable customers to withdraw or deposit money except in other virtual currencies, while another exchange said a technical glitch sparked a crash in prices that caused investor losses.

Hong Kong-based Bitfinex—which handles nearly one-quarter of all bitcoin trading, according to cryptocurrency data provider [bitcoincity.org](https://bitcoincity.org)—said Monday that its Taiwanese banks, which are responsible for handling transactions in currencies such as U.S. or Hong Kong dollars, were blocking all incoming transaction requests.

Bitfinex asked customers to refrain from withdrawing or depositing funds in anything other than another cryptocurrency such as Ether or Zcash for an indeterminate period, keeping investors from putting money in or taking money out of the most active bitcoin exchange.

Bitfinex said it is working on ways for customers to deposit or withdraw funds.

The exchange said Friday that it is a victim of banks reducing their risks by limiting exposure to money-service businesses in general and virtual-currency exchanges in particular.

It didn't respond to requests for comment on Tuesday.

**The problems at Bitfinex follow a crackdown on bitcoin trading in China.**

Bitfinex has recently suffered from withdrawal delays and was hacked last year in a high-profile incident.

The problems at Bitfinex follow a crackdown on bitcoin trading in mainland China, previously the currency's biggest market.

China regulators ramped up oversight and tightened anti-money-laundering controls at the start of the year.

Three of the biggest mainland exchanges said they would suspend withdrawals of bitcoin into Chinese yuan in March, after China's central bank told them to follow its rules on money laundering and foreign-exchange management.

Volumes on Chinese exchanges have plummeted this year.

Separately, the No. 4 bitcoin exchange by trading activity, San Francisco-based Global Digital Asset Exchange, said a technical problem after system maintenance resulted in low numbers of buyers in its market.

The problem caused the currency to trade briefly at 6 cents on Sunday, compared with an earlier price of \$1,182.

Within five minutes, the problem was resolved and the price recovered to \$1,178.85.

Global Digital Asset Exchange said on its blog that it would "compensate traders who were affected by this low liquidity."

But the selloff pummeled the value of an index that tracks bitcoin prices across several exchanges, causing a crash in the price of bitcoin swaps and futures traded on bitcoin-derivatives exchange BitMEX.

BitMEX said on its blog that positions for "a number of users" were liquidated as a result of the problem.

The exchange said the problem wasn't related to its own trading systems or prices.

Fewer than 100 users were affected, involving contracts valued at \$2 million, according to BitMEX Chief Executive Arthur Hayes.

The exchange said it would refund money to the affected investors.

# BofA's Earnings Increase

Lender's first-quarter profit beats estimates as jump in trading and interest rates helps

BY RACHEL LOUISE ENSIGN

**Bank of America** Corp. said its first-quarter profit beat expectations as trading jumped and the lender started to see the benefits of a long-awaited rise in interest rates.

Some analysts and shareholders cheered the results as a sign that the bank's turnaround plans are finally coming to fruition. But the recent reversal in U.S. Treasury yields threatens the expected benefits from higher interest rates.

Quarterly profit at the Charlotte, N.C.-based bank was \$4.86 billion, up from \$3.47 billion a year earlier. Per-share earnings were 41 cents. Analysts had expected 35 cents a share.

Revenue was \$22.25 billion, up from \$20.79 billion a year ago. On an adjusted basis, revenue of \$22.45 billion compared with analysts' estimate of \$21.61 billion. The results benefited from the comparison to a particularly weak quarter one year ago.

After heavy loan losses during the financial crisis and debilitating legal fees in its wake, the bank has set out to reshape itself as a stable lender focused on responsible growth. Investors have recently cheered the approach: Through Monday, Bank of America shares had risen



Some investors say the results vindicated the strategy taken by Chief Executive Brian Moynihan.

about 61% over the past year, among the best of the six largest U.S. banks, buoyed by the prospect of a stronger economy and an election result that led to optimism about regulatory and tax relief. For a period earlier this year, the stock traded above its book value for the first time since the financial crisis.

Some investors said the first-quarter results vindicated the strategy taken by Chief Executive Brian Moynihan, a lawyer who took the helm of the bank in 2010 as it struggled. "You're talking about a guy who everyone said, 'How is this lawyer going to turn this around?'" said Bank of America shareholder Bill Smead of Smead Capital Management. "Here, this guy has done ex-

actly what we would have wanted him to do."

The bank has been expected to get a bigger boost from rising interest rates than peers. Most consumer banks' lending businesses benefit from a Federal Reserve rate increase. But Bank of America's balance sheet—full of deposits and mortgage securities—is particularly well positioned.

The lender's net interest income increased 7.4% to \$11.058 billion during the quarter from the prior quarter, surpassing the lender's projection that the income metric would advance about \$600 million.

But the bank warned that recent moves in interest rates could hamper future gains in net interest income. Banks generally earn more when

rates rise. While the Federal Reserve raised a key short-term rate in March, the 10-year U.S. Treasury, an important long-term interest rate, has fallen in the first weeks of the second quarter.

The gains in net interest income will be "much more modest" next quarter, Chief Financial Officer Paul Donofrio said. He pointed to the bank's earlier disclosures that indicate that the Fed's short-term rate increase would boost the metric by about \$150 million.

Trading has started 2017 strong, compared with a weak 2016 start. Trading revenue at Bank of America, excluding an accounting adjustment, rose 22.5% to \$4.029 billion, from \$3.288 billion in the first quarter of last year.

# FGL Ends Buyout Bid By Anbang

BY BOWDEYA TWEH AND LESLIE SCISM

After spending more than a year locked into a deal, U.S. life insurer **Fidelity & Guaranty Life** terminated its agreement to be purchased by **Anbang Insurance Group Co.**, freeing it to pursue other offers.

Fidelity & Guaranty said Monday that it would continue to evaluate strategic alternatives despite not completing the \$1.6 billion deal with China's Anbang. Monday was the deadline for the purchase to clear regulatory hurdles from state insurance regulators in Iowa and New York.

"We have determined that it is no longer in the best interests of FGL's shareholders to continue to pursue the transaction with Anbang," said Chris Littlefield, president and chief executive of Fidelity & Guaranty. He said Fidelity & Guaranty's business remains strong and "we continue to focus on delivering on our plan for the year."

Anbang agreed to buy Fidelity & Guaranty in November 2015 for \$26.80 a share. The Wall Street Journal reported in February that challenges to the agreement began in May 2016 when Anbang withdrew its application with New York's Department of Financial Services for approval of the deal after discussion with the regulator. It was expected to refile, but hadn't done so by the deadline for the merger agreement to be completed, the Journal reported.

Anbang's withdrawal of the application last year came after it balked at providing detailed information about its ownership structure to the New York regulators, the people said. New York regulators had challenged the sufficiency of answers provided by Anbang about relationships among its shareholders and the source of its funding for the transaction, people familiar with the matter said.

The deal "just went out with a whimper" once Anbang failed to refile the application, one of the people said.

Wall Street analysts have said Fidelity & Guaranty might be attractive to rival insurers that could consolidate market share in indexed annuities, which are a specialty of the insurer, and cut costs. Analysts have speculated that **Athene Holding Ltd.** could acquire all or part of Fidelity & Guaranty. Athene is one of the insurer's largest rivals in selling indexed annuities.

A spokeswoman for Athene on Monday declined to comment on the speculation.

# PayPal Hooks Up With Android Pay

BY PETER RUDEGEAIR

**PayPal Holdings** Inc. said it would make its offerings available on **Alphabet** Inc.'s Android Pay, marking one of the payment company's biggest steps to bringing its digital wallet to physical stores.

Starting in a few weeks, customers of the San Jose, Calif.-based company will be able to use their PayPal balances to shop at store locations of **Walgreens Boots Alliance** Inc., **Dunkin' Brands Group** Inc., and other traditional retailers that enable in-store payments through Android devices, said Bill Ready, PayPal's chief operating officer, in an interview Tuesday.

Over the ensuing months, PayPal users who link credit cards to their accounts will be able to use them on Android Pay thanks to agreements PayPal reached last year with Visa Inc. and Mastercard Inc., Mr. Ready said.

Android Pay is also accepted within a number of mo-



Android Pay and similar services have had limited success so far.

cess in persuading customers and merchants that tapping a smartphone is less hassle than swiping a debit or credit card. Those types of transactions account for only 5% of the volume of payments sent via mobile devices, lagging far behind online purchases and domestic money transfers, according to Juniper Research.

PayPal is in a unique position to encourage more people to sign up for in-store mobile payments because it can more easily deploy the payment information on the 197 million customer accounts it maintained at the end of 2016 onto those services.

"The initial barrier for a user to try an experience like that, this makes it lower," said Mr. Ready.

Pali Bhat, global head of payment products for Alphabet's Google unit, says the new feature will be appearing in Android Pay and PayPal apps within the next few weeks, helping users to "speed through checkout."

## FINANCE WATCH

CHARLES SCHWAB

### Earnings Rise 37% As Clients Get Busy

**Charles Schwab** Corp. Chief Executive Walt Bettinger said a flurry of activity by investors helped lift quarterly earnings at the discount brokerage by 37% from a year earlier.

New retail brokerage ac-

tions tallied 235,000 during the quarter, up 44%. The San Francisco company said about 38,000 clients held financial-planning conversations, up 12% from a year earlier.

U.S. financial markets have enjoyed a bounce since the election of President Donald Trump. Investors have been hopeful the businessman would cut regulations and enact business-friendly policies.

In all, Schwab said Tuesday it posted a profit of \$564 million, up from \$412 million a year prior. —Ezequiel Minaya

TOSCAFUND

### Hedge-Fund Firm Reports a Rebound

The hedge-fund company Toscafund Asset Management, whose flagship portfolio was hit in the wake of the U.K. vote to leave the European Union last summer, is among the top-performing hedge funds globally this year thanks to bets on rising European stocks, according to investor information reviewed by The Wall Street Journal.

Toscafund, set up by trader

Martin Hughes, the former chief executive of Tiger Management Europe, has told investors that its Tosca fund, run by Johnny de la Hey, gained 7.8% in the first three months of the year. Last year, the fund lost 7.45%.

The chief economist of Toscafund, which manages around \$2.6 billion in assets, argued vocally for Brexit last year. But its Tosca fund was nevertheless caught off guard by the sharp sell-off that followed the surprise result in June.

—Laurence Fletcher

CABELA'S

### Outdoor Retailer Sells Banking Assets

**Synovus Financial** Corp. said it had agreed to buy the banking assets of **Cabela's Inc.**, allowing the outdoor retailer's \$4.2 billion sale to rival **Bass Pro Shops** to proceed.

**Capital One Financial** Corp. will buy Cabela's credit-card portfolio, while Synovus, a small lender in the southeastern U.S., will acquire the bank's \$1.2 billion in deposits.

Capital One had planned to buy both financial pieces, but ran into trouble with its regulator. That raised concerns it wouldn't be able to complete the deal quickly enough, and left Bass Pro and Cabela's seeking an alternative buyer for the bank.

Synovus will receive \$75 million for stepping in to help save the deal.

—Liz Hoffman,  
AnnaMaria Andriotis

Advertisement

## INTERNATIONAL INVESTMENT FUNDS

[ Search by company, category or country at [asia.wsj.com/funds](http://asia.wsj.com/funds) ]

# MORNİNGSTAR®

Data as shown is for information purposes only. No offer is being made by Morningstar, Ltd. or this publication. Funds shown aren't registered with the U.S. Securities and Exchange Commission and aren't available for sale to United States citizens and/or residents except as noted. Prices are in local currencies. All performance figures are calculated using the most recent prices available.

FUND NAME GF AT LB DATE CR NAV YTD 12-MO 2-YR

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: [www.cam.com.sg](http://www.cam.com.sg) CAM-CF Limited OT MUS 04/13 USD 31348.35 3.8 8.7 -3.5

Value Partners

Investing through discipline

Website: [www.valuepartners-group.com](http://www.valuepartners-group.com) Tel: (852) 2143 0688

China A-Share Fund Cls A AUD H OT HKG 04/13 AUD 12.70 7.7 12.1 -4.0

China A-Share Fund Cls A AUD M H OT HKG 04/13 AUD 11.73 7.3 11.0 -4.5

China A-Share Fund Cls A CAD H OT HKG 04/13 CAD 11.73 7.4 10.6 -4.3

China A-Share Fund Cls A EUR H OT HKG 04/13 EUR 12.29 7.0 9.1 -5.3

China A-Share Fund Cls A GBP H OT HKG 04/13 GBP 12.51 6.5 14.1 NS

China A-Share Fund Cls A NZD H OT HKG 04/13 NZD 12.32 6.9 13.0 -3.2

China A-Share Fund Cls A USD H OT HKG 04/13 USD 12.52 7.5 21.8 4.6

China A-Share Fund Cls A HKD H OT HKG 04/13 HKD 12.52 7.0 10.8 -4.7

China A-Share Fund Cls A NZD H OT HKG 04/13 NZD 12.43 11.5 7.5 -5.4

China A-Share Fund Cls A NZD M H OT HKG 04/13 NZD 12.51 7.8 12.4 -3.3

China A-Share Fund Cls A NZD H OT HKG 04/13 NZD 11.00 10.4 7.1 NS

China A-Share Fund Cls A SGD H OT HKG 04/13 SGD 13.69 9.2 14.6 -2.0

China A-Share Fund Cls A USD H OT HKG 04/13 USD 12.38 11.2 8.4 -5.4

China A-Share Fund Cls A USD H OT HKG 04/13 USD 12.48 7.4 11.1 -4.8

China Greenchip-A Units AS EQ CYM 04/13 HKD 57.99 14.0 19.2 -9.6

China Greenchip-A Units AUD H AS EQ CYM 04/13 AUD 9.81 14.2 19.9 -10.1

China Greenchip-A Units CAD H AS EQ CYM 04/13 CAD 9.52 13.9 18.6 -10.9

China Greenchip-A Units NZD H AS EQ CYM 04/13 NZD 10.07 14.2 20.6 -9.2



**JON HILSENRATH** ECONOMICS EDITOR

## The Face of Real News

Jon Hilsenrath's investigation into the economic workings of America's heartland uncovered the brewing dissatisfaction that led to the election of Donald Trump.

Real journalists and real news from America's most trusted newspaper.

**WATCH HIS STORY AT WSJ.COM/JON**

#TheFaceOfRealNews

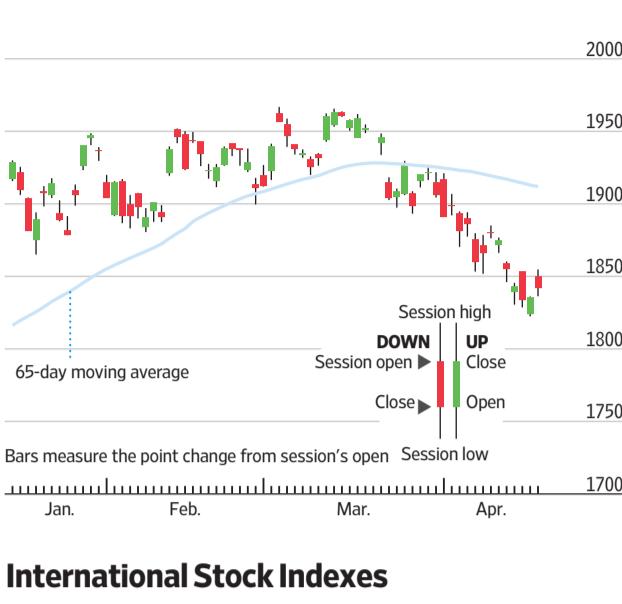
**THE WALL STREET JOURNAL.**  
Read ambitiously

## MARKETS DIGEST

### Nikkei 225 Index

**18418.59** ▲ 63.33, or 0.35%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open Session low  
Session high Session open ▶ Close Open

Jan. Feb. Mar. Apr.

### STOXX 600 Index

**376.35** ▼ 4.23, or 1.11%

High, low, open and close for each trading day of the past three months.

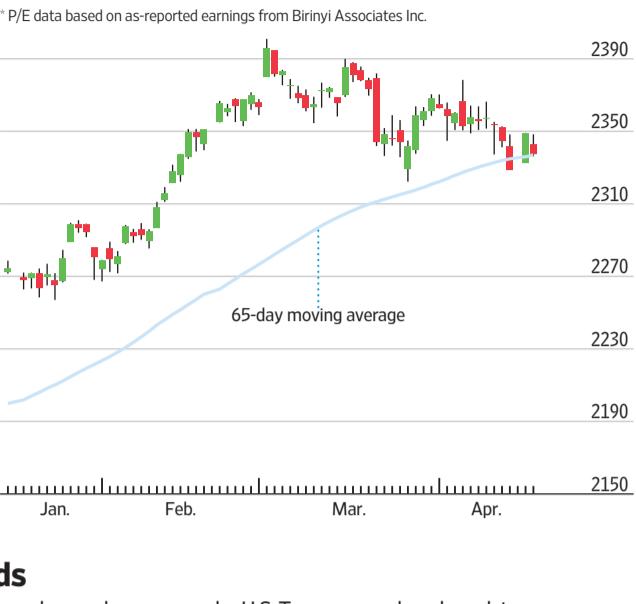


Jan. Feb. Mar. Apr.

### S&P 500 Index

**2337.31** ▼ 11.70, or 0.50%

High, low, open and close for each trading day of the past three months.



Jan. Feb. Mar. Apr.

Data as of 12 p.m. New York time

Last Year ago

Trailing P/E ratio \* 24.45 24.15

P/E estimate \* 18.25 18.50

Dividend yield 1.98 2.19

All-time high: 2395.96, 03/01/17

\* P/E data based on as-reported earnings from Birinyi Associates Inc.

### International Stock Indexes

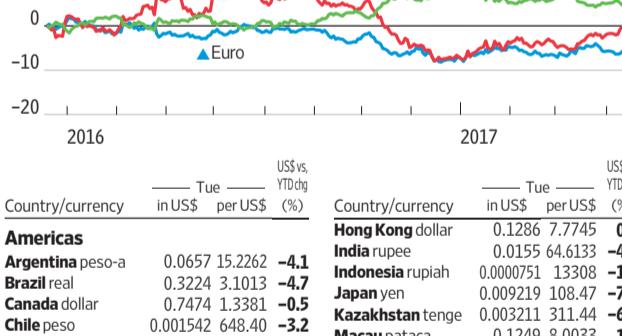
Data as of 12 p.m. New York time

Region/Country	Index	Close	NetChg	% chg	52-Week Range	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2646.21</b>	-20.10	<b>-0.75</b>	2193.75	2720.47	4.7	
	<b>MSCI EAFE</b>	<b>1776.15</b>	-11.43	<b>-0.64</b>	1471.88	1956.39	3.5	
	<b>MSCI EM USD</b>	<b>956.80</b>	-5.91	<b>-0.61</b>	691.21	1044.05	20.5	
<b>Americas</b>	<b>DJ Americas</b>	<b>564.17</b>	-3.13	<b>-0.55</b>	480.90	577.65	4.4	
Brazil	<b>Sao Paulo Bovespa</b>	<b>64151.74</b>	-183.19	<b>-0.28</b>	48066.67	69487.58	6.5	
Canada	<b>S&amp;P/TSX Comp</b>	<b>15592.41</b>	-92.48	<b>-0.59</b>	13535.54	15943.09	2.0	
Mexico	<b>IPC All-Share</b>	<b>48636.49</b>	-375.07	<b>-0.77</b>	43902.25	49753.57	6.6	
Chile	<b>Santiago IPSA</b>	<b>3740.57</b>	-11.26	<b>-0.30</b>	2998.64	3786.05	16.1	
<b>U.S.</b>	<b>DJIA</b>	<b>20486.51</b>	-150.41	<b>-0.73</b>	17063.08	21169.11	3.7	
	<b>Nasdaq Composite</b>	<b>5834.04</b>	-22.75	<b>-0.39</b>	4574.25	5936.39	8.4	
	<b>S&amp;P 500</b>	<b>2337.31</b>	-11.70	<b>-0.50</b>	1991.68	2400.98	4.4	
	<b>CBOE Volatility</b>	<b>15.23</b>	0.57	<b>3.89</b>	9.97	26.72	8.5	
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>376.35</b>	-4.23	<b>-1.11</b>	308.90	381.90	4.1	
	<b>Stoxx Europe 50</b>	<b>3107.09</b>	-39.56	<b>-1.26</b>	2626.52	3182.84	3.2	
France	<b>CAC 40</b>	<b>4990.25</b>	-80.85	<b>-1.59</b>	3955.98	5142.81	2.6	
Germany	<b>DAX</b>	<b>12000.44</b>	-108.56	<b>-0.90</b>	9214.10	12375.58	4.5	
Israel	<b>Tel Aviv</b>	<b>1380.24</b>	1.58	<b>0.11</b>	1372.23	1504.42	-6.2	
Italy	<b>FTSE MIB</b>	<b>19442.71</b>	-330.97	<b>-1.67</b>	15017.42	20540.39	1.1	
Netherlands	<b>AEX</b>	<b>509.73</b>	-6.04	<b>-1.17</b>	409.23	521.48	5.5	
Russia	<b>RTS Index</b>	<b>1077.21</b>	-17.06	<b>-1.56</b>	873.58	1196.99	-6.5	
Spain	<b>IBEX 35</b>	<b>10264.50</b>	-61.60	<b>-0.60</b>	7579.80	10534.50	9.8	
Switzerland	<b>Swiss Market</b>	<b>8529.28</b>	-99.74	<b>-1.16</b>	7475.54	8710.26	3.8	
South Africa	<b>Johannesburg All Share</b>	<b>52672.75</b>	-837.47	<b>-1.57</b>	48935.90	54704.22	4.0	
Turkey	<b>BIST 100</b>	<b>91373.78</b>	719.98	<b>0.79</b>	70426.16	91982.28	16.9	
U.K.	<b>FTSE 100</b>	<b>7147.50</b>	-180.09	<b>-2.46</b>	5788.74	7447.00	0.1	
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1541.44</b>	-5.21	<b>-0.34</b>	1308.52	1570.38	8.3	
Australia	<b>S&amp;P/ASX 200</b>	<b>5836.70</b>	-53.20	<b>-0.90</b>	5103.30	5934.00	3.0	
China	<b>Shanghai Composite</b>	<b>3196.71</b>	-25.45	<b>-0.79</b>	2806.91	3288.97	3.0	
Hong Kong	<b>Hang Seng</b>	<b>23924.54</b>	-337.12	<b>-1.39</b>	19694.33	24593.12	8.7	
India	<b>S&amp;P BSE Sensex</b>	<b>29319.10</b>	-94.56	<b>-0.32</b>	25101.73	29974.24	10.1	
Indonesia	<b>Jakarta Composite</b>	<b>5606.52</b>	29.03	<b>0.52</b>	4704.22	5680.24	5.8	
Japan	<b>Nikkei Stock Avg</b>	<b>18418.59</b>	63.33	<b>0.35</b>	14952.02	19633.75	-3.6	
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1740.60</b>	6.67	<b>0.38</b>	1614.90	1754.67	6.0	
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7233.61</b>	3.81	<b>0.05</b>	6664.21	7571.11	5.1	
Pakistan	<b>KSE 100</b>	<b>46874.37</b>	-250.75	<b>-0.53</b>	33572.13	50192.36	-2.0	
Philippines	<b>PSEI</b>	<b>7588.98</b>	0.45	<b>0.01</b>	6563.67	8102.30	10.9	
Singapore	<b>Straits Times</b>	<b>3137.54</b>	-0.76	<b>-0.02</b>	2729.85	3187.51	8.9	
South Korea	<b>Kospi</b>	<b>2148.46</b>	2.70	<b>0.13</b>	1925.24	2178.38	6.0	
Taiwan	<b>Weighted</b>	<b>9746.56</b>	30.16	<b>0.31</b>	8053.69	9972.49	5.3	
Thailand	<b>SET</b>	<b>1574.42</b>	-1.49	<b>-0.09</b>	1381.69	1591.00	2.0	

Source: SIX Financial Information/WSJ Market Data Group

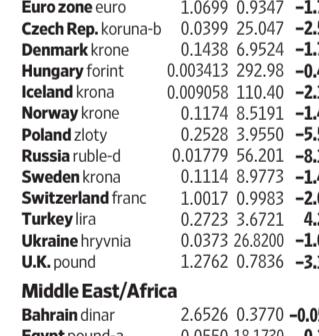
### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



London close on April 18

US\$ vs. Yen Euro



Country/currency      Tue      YTD chg (%)

Country/currency	In US\$	per US\$	(%)
<b>Hong Kong dollar</b>	0.1286	7.745	<b>0.2</b>
<b>India rupee</b>	0.0155	64.6133	<b>-4.9</b>
<b>Indonesia rupiah</b>	0.000751	13308	<b>-1.6</b>
<b>Japan yen</b>	0.1549	108.47	<b>-7.3</b>
<b>Kazakhstan tenge</b>	0.003211	311.44	<b>-6.7</b>
<b>Macau pataca</b>	0.1249	8.0033	<b>1.1</b>
<b>Malaysia ringgit-c</b>	0.2267	4.4105	<b>-4.5</b>
<b>New Zealand dollar</b>	0.7029	14.227	<b>-1.5</b>
<b>Pakistan rupee</b>	0.0095	104.845	<b>0.5</b>
<b>Philippines peso</b>	0.0201	49.642	<b>0.1</b>
<b>Singapore dollar</b>	0.7156	1.3975	<b>-2.0</b>
<b>South Korea won</b>	0.0008730	1145.50	<b>-5.2</b>
<b>Sri Lanka rupee</b>	0.0065707	152.19	<b>2.5</b>
<b>Taiwan dollar</b>	0.03288	30.412	<b>-6.3</b>
<b>Thailand baht</b>	0.02910	34.360	<b>-4.0</b>

Country/currency      Tue      YTD chg (%)

Country/currency	In US\$	per US\$	(%)
<b>Hong Kong dollar</b>	0.1286	7.745	<b>0.2</b>
<b>India rupee</b>	0.0155	64.6133	<b>-4.9</b>
<b>Indonesia rupiah</b>	0.000751	13308	<b>-1.6</b>
<b>Japan yen</b>	0.1549	1	

# THE PROPERTY REPORT

## Manhattan Office Trend: Add Penthouse

Landlords put glass-walled spaces on older buildings to compete with newer towers

By KEIKO MORRIS

At the top of the MetLife Building towering above Grand Central Terminal, construction workers a few years ago removed fans, piping and other equipment for the building's water, heating and electrical systems to make way for a more profitable use of the space: a penthouse addition.

The landlord, Tishman Speyer, revamped the former mechanical room and a long-vacant space that had been a lounge for a defunct helipad at 200 Park Ave., creating an airy 24,000-square-foot, glass-walled penthouse on the 58th floor with dramatic views of Manhattan's iconic peaks. The project cost \$24 million, according to a person with knowledge of the matter.

"You feel like you can reach out and grab the spire of the Chrysler Building," said Tishman CEO Rob Speyer.

The space was quickly leased by a private-equity firm, and now Tishman is under way with another office penthouse addition, this time with a terrace, at 520 Madison Ave. That project is expected to cost \$35 million, according to the person with knowledge of the matter.

"We're always looking around the corner and pursuing ways to unlock additional value," Mr. Speyer said.

Though often a tricky feat to accomplish, the addition of glass-walled office spaces atop older buildings is an invest-



Landlord Tishman Speyer built a 24,000-square-foot office space atop the MetLife Building on Park Avenue in Manhattan. The project cost \$24 million.

ment a number of owners are making in hopes of boosting income and competing with newer office buildings on the rise on the far West Side and in downtown Manhattan.

Such penthouse spaces, many coupled with landscaped decks, often command \$10 to \$20 a square foot above rent for other space in the building, said Mitchell Konsker, vice chairman at real-estate-services firm JLL.

"I am talking to a lot of landlords who want to add an additional structure on top, because if you add a structure you are competing with new product, and new product today is getting over \$90 a square foot," said Mr. Konsker. "Because there are so few available, it commands a premium."

Typically, the penthouse additions feature high ceilings, lots of light through glass facades or large windows, and connecting outdoor space. Landlords often have to be creative in finding the space to build these structures, sometimes moving mechanical equipment to another part of the building, tapping undeveloped space or transferring air rights from adjacent lots, said real-estate lawyer Jonathan Mechanic.

New office penthouse structures are cropping up throughout New York City, but for owners of older Midtown buildings, it is a way to stay relevant, said Ed Wood, a principal at architecture and design firm Gensler.

"That's why we're seeing people reskinning buildings,

replacing windows and architecture being added to the tops," Mr. Wood said. "It's basically to entice tenants to stay in those zones."

These office-penthouse additions are part of a broader push by owners to carve out more dynamic amenity spaces to appeal to tenants looking to embellish their brands and recruit top employees, said Brian Waterman, vice chairman at real-estate-services firm Newmark Grubb Knight Frank. Mr. Waterman is part of the team representing One SoHo Square, the redevelopment joining two buildings and creating more than 100,000 square feet of glass penthouse office space.

Creating penthouse space is logically challenging. At 787 11th Ave., Georgetown Co. and

its partners are adding a two-story, 90,000-square-foot glass box with terrace space, a tennis court for its top-floor tenant, Pershing Square Capital Management LP, and a separate 13,000-square-foot rooftop deck for the now eight-story building.

The owners are able to do this by using floor space removed between floors six and seven to create a double-height space, said Adam Flatto, Georgetown's chief executive.

The roof had to be demolished, waterproof roofing materials installed on the sixth floor and a crane lifted to the top of the building to haul up and maneuver steel beams from below. Because the lower floors house Jaguar Land Rover Manhattan, Infiniti of

Manhattan and Nissan of Manhattan dealerships, the construction process is a delicate one, Mr. Flatto said.

Likewise, Tishman has had to carry out its renovations at the top of 200 Park Ave. and 520 Madison Ave. without disrupting service to tenants below. At 200 Park Ave., advances in technology allowed Tishman to bring in smaller mechanical equipment and stack it vertically on top of other equipment on other floors within the building. On the 43rd floor of 520 Madison Ave., the company plans to more than double the 7,100-square-foot space once dedicated to mechanical equipment and build a 21,000-square-foot penthouse with a 2,200-square-foot terrace and views of Central Park.

## Malls Are Killed by Other Malls, Not by the Internet

By ESTHER FUNG

on.

"Relocation of an anchor department store from the weaker property to the newer mall was a common tipping point for the downfall of the weaker mall," said Jeffrey Donnelly, senior analyst at Wells Fargo Securities. He said weak malls are typically the fourth or fifth mall in a town with a population insufficient to support that much shopping.

Of the 72 malls that closed, 23 were redeveloped into other types of retail property, such as strip centers or open-air shopping centers, while 18 were reused as civic centers or converted into residential towers or industrial or office campuses.

Plans for the remaining 31 malls have yet to be determined, though most of them already have been demolished. The average dead mall was about 752,000 square feet, compared with the 1.2 million square feet for an average class-A mall and the average

910,000 square feet of a class-B mall.

Ohio suffered the most mall closings—six, in Akron, Canton, Columbus, North Randall, Northwood and Toledo—followed by Texas and Missouri, with five each.

Landlords have grappled with numerous threats over the years. Two decades ago, Blockbuster was eating into the revenue of movie chains, while big-box stores were battering smaller stand-alone retailers, noted Sandler O'Neill Partners analysts in a recent report.

This time, factors such as consumers being more thoughtful about purchases after the recession, the overbuilding of retail centers and retailers' focus on investing in more online shopping channels are pressuring mall landlords.

Property owners generally try to court trendier brands and avoid outdated retailers. In recent years, they have started shaking up their ten-



The shuttered Randall Park Mall in the Cleveland suburb of North Randall, shown in 2012.

ant mix more radically, moving away from full-price apparel brands and toward entertainment and food offerings.

That is resulting in a more significant separation of the strongest and weakest malls, with top-tier malls in cities with strong population and income growth receiving more investment and weaker malls suffering from neglect.

When developers build a mall, they generally expect it to serve the community for 40 years or longer, according to the International Council of Shopping Centers. The Southdale Mall in Edina, Minn., for instance, celebrated its 60th anniversary last October. NorthPark Center in Dallas and South Coast Plaza in Costa Mesa, Calif., recently turned 50.

"Malls view themselves as community hubs, and as market shifts occur, mall owners throughout the industry have effectively curated new customer offerings to meet changing consumer behaviors and expectations," said Tom McGee, president and chief executive officer at the ICSC.

## Retail Landlords Use Tech to Lure, and Keep, Shoppers

By ESTHER FUNG

Mall landlords faced with declining sales and disappearing stores are deploying smartphones, social media and other technology to lure customers—and then keep them spending.

In the past, malls dished out paper coupons or reward cards for shoppers to carry around. Now, as mall anchors such as Macy's Inc. are shutting stores and retailers including Payless ShoeSource Inc. are filing for bankruptcy reorganization, mall owners are getting more sophisticated.

These landlords are introducing phone apps and credit-card-linked programs that identify individual customers' spending habits and then target them with special offers on their favorite brands.

At the Chicago Ridge Mall, a shopper can swipe his or her credit card at a kiosk to sign up for the Oh So Simple Rewards Program. For every \$250 spent in total at the mall's stores the consumer receives a \$10 reward that can be redeemed at the next purchase.



The Shops at Crystals in Las Vegas is part-owned by Simon Property Group, which is among the mall companies using smartphones and other technology to try to boost customer loyalty.

Starwood Retail Partners, the mall's owner, tapped the services of Spring Marketplace Inc., which creates rewards programs for malls that link online and mobile marketing to in-store sales through shoppers' credit cards.

"It's a competitive market

out there in retail," said Chelsie Petererit, vice president of marketing at Starwood Retail. "People have got a computer in their pockets and these rewards are just enough to tip them over to make the purchase, especially if they are already in the center."

By tracking customers' purchases at a mall, Spring is able to send coupons for neighboring stores via text messages that can prompt shoppers to fan out to other retailers. For instance, shoppers getting a coffee at a Starbucks using a credit card might get a text message with a \$5 coupon for a nearby J. Crew store.

"You get an SMS congratulating you in real time. It's very engaging and it makes you want to do it again," said Jonathan Dyke, chief operating officer at Spring Marketplace, which also counts mall real-estate investment trusts such as Simon Property Group, Taubman Centers Inc. and Pennsylvania Real Estate Investment Trust as its clients.

Customers choose whether or not to opt in to the loyalty program; no shopper's purchases are tracked across a mall without an agreement to participate. Spring Marketplace said the credit-card data is encrypted in its database and the information is shared only with the mall landlord and the retailers in the mall, and not sold to others.

In Gretna, Neb., a 350,000-square-foot outlet mall invested \$2 million to install fiber-optic lines as well as \$10 million in an app that has racked up 300,000 downloads since it was launched three years ago.

The mall, Nebraska Cross-

ings Outlets, uses the app as a data-mining tool to segment customers by the brands they shop for, said Rod Yates, principal at OTB Destination LLC, a closely held real-estate firm that operates the mall.

Retailers at first were wary because they were protective of their brands, according to Johanna Boston, chief marketing officer at OTB Destination. But the outlet mall positioned itself as a laboratory for new marketing techniques, including sending messages through email and Facebook.

The mall also plans to roll out a loyalty program that would collect data on shoppers' purchases and offer personalized promotions. That helped win over skeptical retailers, said Ms. Boston.

The app also has been helpful in the landlord's leasing efforts, as the information gleaned from shoppers' interactions with the app gives retailers a better idea of how many customers they can reach in the area.

"Is it becoming more competitive to get tenants? You bet," Mr. Yates said.

# MARKETS

## Just 10 Stocks Fuel Half of S&P's Gains

Investors' focus on these few large shares show herd mentality thrives on Wall Street

By CHRIS DIETERICH

Ten big stocks are exerting an unusually large influence on the S&P 500 in 2017, the latest sign that the herd instinct is alive and well on Wall Street.

Those 10 large stocks have powered nearly 53% of the S&P 500's 4.7% advance this year, according to Fundstrat Global Advisors' data through the middle of last week. During an average year, the 10 stocks with the greatest impact typically account for only 45% of the market's price moves, according to analysis of data from AQR Capital Management.

Technology-oriented companies dominate the list: **Apple Inc.**, the world's largest company by market capitalization, is up more than 22% this year through Monday.

Social-media company **Facebook Inc.** has risen nearly 23%, while e-commerce powerhouse **Amazon.com Inc.** has climbed 20%.

Combined, shares of these three companies account for almost one-third of the S&P 500's 2017 advance through this past Wednesday.

The recent strength in tech and internet companies marks a reversal from late last year, when investors piled into banks, industrials and small-cap stocks in the weeks following U.S. elections. They bet that Republican control of Congress and the White House would lead to pro-growth policies. But as investors began to lose confidence that the policies would be enacted quickly, these sectors have trailed the S&P 500 in recent months. Instead of focusing on companies that could outperform

### Shoulders of Giants

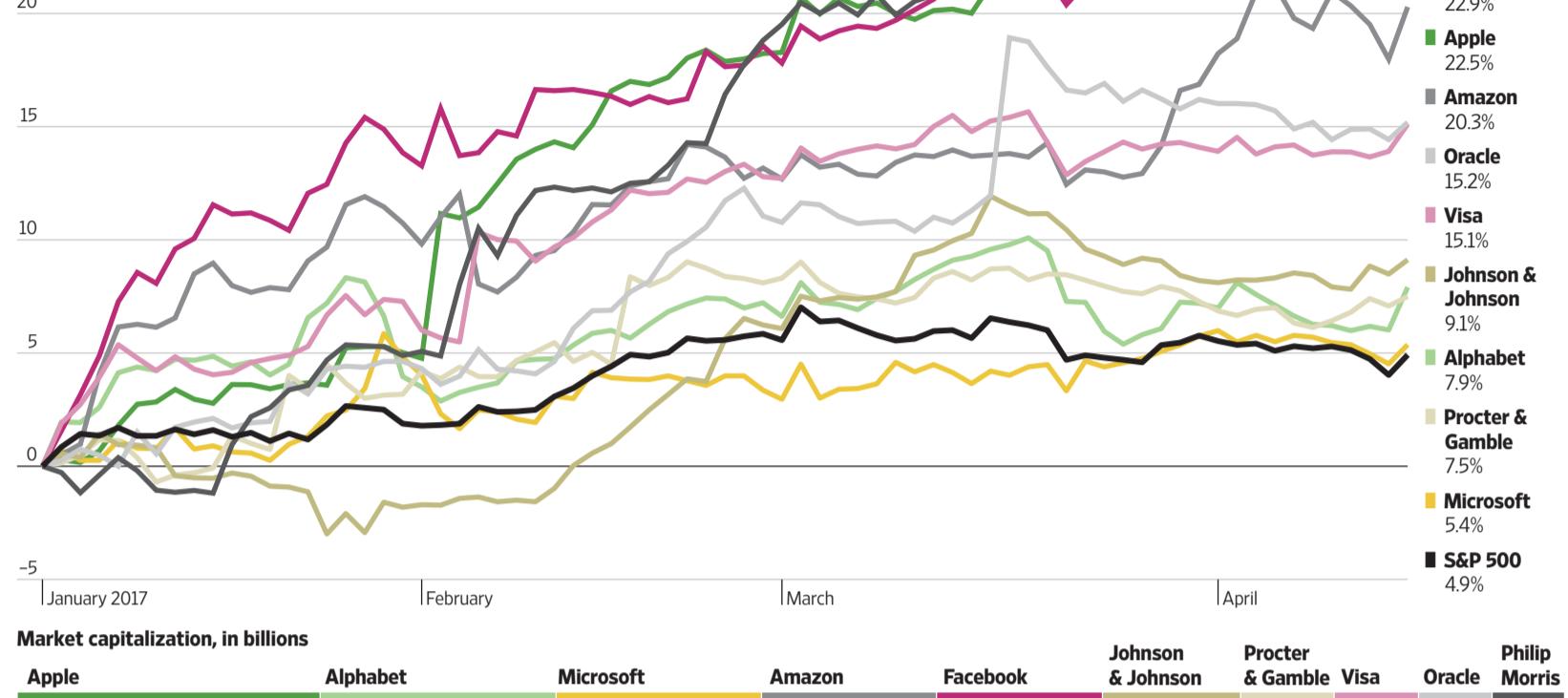
Gains in a handful of stocks, mostly technology and internet, are responsible for 52.5% of the S&P 500's advance in 2017 through Wednesday. Apple, Facebook and Amazon.com by themselves account for nearly a third of the increase.

#### Share of S&P 500's percentage change\*



25%

#### Stock and index performance YTD



#### Market capitalization, in billions

Apple	Alphabet	Microsoft	Amazon	Facebook	Johnson & Johnson	Procter & Gamble	Visa	Oracle	Philip Morris
\$744.1 billion	\$582.3	\$506.0	\$431.1	\$409.2	\$340.8	\$231.1	\$208.9	\$182.2	\$178.0
3.7%	2.9%	2.5%	2.2%	2.0%	1.7%	1.2%	1.0%	0.9%	0.9%

↑ Share of S&P 500 weight

\*Year-to-date through Wednesday

Sources: Fundstrat (share of gains); FactSet (market cap); WSJ Market Data Group (performance)

during faster economic growth, many investors returned to large-cap favorites with a track record for boosting revenue during slower growth periods.

"If these businesses keep growing, then the stocks are going to keep going," said Doug Foreman, chief investment offi-

cer and portfolio manager at Kayne Anderson Rudnick.

Big-cap tech and internet stocks have been popular even though they look pricey based on earnings expectations,

which has turned off some investors. Facebook, for example, trades at a multiple of 24.3 times analysts' earnings

expectations over the next year, well above the 17.6 for all tech stocks in the S&P 500, according to FactSet.

But Facebook is also forecast to grow sales in 2017 by 37%, the most of any company in the technology sector, according to analysts at Goldman Sachs Group. Another

highflying stock, Netflix, has a forward price/earnings ratio of 109, but analysts expect the video-streaming company's sales to rise 27% and earnings to more than double. Netflix late Monday reported that sales grew 35% in the first quarter from a year earlier.

Some investors say the

popularity of index-tracking funds that assign greater heft to the market's largest companies helped boost the most widely held stocks. Some \$2.1 trillion in assets were directly linked to the S&P 500 at the end of 2015, according to the most recent data available from S&P Dow Jones Indices.

THE WALL STREET JOURNAL.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

Email: heard@wsj.com

## U.K. Vote Won't Make Brexit Easier

U.K. Prime Minister Theresa May has called a snap election in June. This looks likely to strengthen her hand at home. But it won't make closing a post-Brexit trade deal with Europe any simpler.

Mrs. May became prime minister last June without facing a vote and is betting an election now will legitimize her mandate and give her Conservative Party a larger parliamentary majority, and thus a stronger hand to govern. An election is always a gamble. But a wide polling lead suggests she should win. Mrs. May's political opponents are weak, especially the unpopular Labour leader, Jeremy Corbyn.

The real trouble for Mrs. May is whatever happens at home, she still must negotiate with a political bloc whose own approval process is complex and multifaceted. The initial Brexit divorce agreement requires only a qualified majority of EU member governments at the European Council and a vote in the European Parliament. That isn't too bad.

But getting a new trade deal approved will likely need to be ratified by every single member state.

The pound rose against the dollar and euro on Tuesday as investors saw a potentially stronger government as having the freedom to compromise where necessary to get a good trade deal with the EU. However, Mrs. May could use the power to take a harder line in talks, prompting greater economic disruption as the U.K. quits Europe.

The election might kill off local difficulties in the U.K., but that isn't even half the battle.

—Paul J. Davies

## Arconic Set Back in Activist Feud

A management change at Arconic Inc. didn't cool tensions with its largest investor.

The aerospace and auto-parts manufacturer said Monday that Chief Executive and Chairman Klaus Kleinfeld has stepped down, effective immediately. This comes after Mr. Kleinfeld sent a letter to activist shareholder Elliott Management Corp. that Arconic said "showed poor judgment."

News of the change might suggest a winding down of hostilities. Elliott, which owns an 11.6% stake in the company and is running a proxy campaign against Arconic, had called in January for Mr. Kleinfeld to be ousted.

But everything except Mr. Kleinfeld's departure signals that the feud is far from over. Arconic, recently spun out from aluminum producer Alcoa, said the exit of its CEO was mutually agreed upon and doesn't reflect flaws in the company's strategy or dissatisfaction with its performance. In a line that seemed to signal its in-

### Help Wanted

Arconic's free cash flow\*

Fourth quarter Full year

\$600 million

Operating cash flow less capital expenditures

Sources: the company (data); Luke Sharrett/Bloomberg News (photo)

THE WALL STREET JOURNAL.

tention to keep fighting, Arconic said that Elliott's "central objective—a CEO change—has been realized."

It called Elliott's efforts "highly disruptive and distracting." Elliott fired back that Mr. Kleinfeld's departure was a "necessary first step" in a larger overhaul at Arconic.

Given Elliott's slate of demands, the CEO change won't be enough. Elliott is nominating four directors to

join Arconic's 13-person board. That vote will take place next month. Elliott also has called for greater capital investment in Arconic's higher-return business lines and cutting corporate overhead costs to boost margins.

Arconic hasn't gotten off to a great start. The company cut its profit forecast twice last year, citing underperformance in its aerospace unit, as well as weakness in the North American heavy-

duty truck market. Another risk is flagging U.S. automobile sales.

The interim CEO named by the board isn't exactly a concession to Elliott, which has its own pick for CEO. The board's choice is David Hess, formerly of United Technologies, who takes over as interim chief executive while a search committee hunts for a permanent replacement.

Mr. Hess joined Arconic's board just last month. And Mr. Kleinfeld will be supporting the company during the transition. Elliott had called for former Spirit AeroSystems CEO Larry Lawson to get the top job in a presentation launched this winter.

Arconic has far from surrendered in this fight. Elliott is highly unlikely to walk away.

But Arconic was Mr. Kleinfeld's baby; with him out of the picture, the company may not battle Elliott with the same vigor.

The battle has claimed its first victim. There will likely be more to come.

—Charley Grant

## OVERHEARD

"The Fate of the Furious" isn't just another movie about fast cars.

The eighth installment in "The Fast and the Furious" franchise brought in a record-breaking \$532.5 million in global box office proceeds last weekend.

It beat out "Star Wars: The Force Awakens," which collected \$529 million during its opening weekend back in 2015.

That movie earned big profits for Walt Disney by hewing to a classic story line reminiscent of the original three "Star Wars" features.

Comcast's NBCUniversal has boosted revenue on its "Fast and Furious" franchise by offering a wilder ride.

The film's finale features a submarine crashing through an arctic ice field and chasing down a fleet of high-end sports cars.

What can they do in "Fast 9" to top that?

Maybe take a page from "Star Wars" and move this automobile battle into outer space.

## Dangers Are Lurking in China's Two-Track Debt Cycle

### Divergent Debt

Nonperforming-loan ratios of companies in China

Private

State-owned

15%

10%

5%

0%

2011 12 13 14 15 16\*

Note: Including debt previously written off

\*First half of 2016

Source: Deutsche Bank

THE WALL STREET JOURNAL.

accounting for over half the credit in the system, and the other for private companies, accounting for about a quarter. Data from Deutsche Bank

suggest that private companies' debt problems are being cleaned out quicker; over the past five years, about 13% of all their loans have been deemed nonperforming. The ratio for state-owned firms is just 1.3%.

The two-track cycle is of Beijing's own making. While struggling state-owned companies have been kept afloat by their state banking peers, weak private companies have been forced to refinance at higher interest rates. Some have tapped shadow banking; others have closed down altogether. One corollary is a pileup of unproductive debt: Evergreened credit—loans,

mostly to state-owned firms, to pay off older debts—now amounts to almost 9% of all credit, according to Deutsche Bank.

Cleaning all this up will strain the financial system. China's banks have been the main financiers and will surely have to suffer more. But it's also likely that much of the bill will fall indirectly onto ordinary Chinese consumers. A rising portion of the credit is being provided by the shadow-banking system through a ballooning number of new forms of finance—like peer-to-peer loans and wealth-management products

wrapped in other wealth-management products—sold to individual investors eager for higher returns for their trapped household savings.

These wealth-management products, along with China's national social-security funds, provided around 80% of the funding in the debt-to-equity restructuring of state-backed Wuhan Iron & Steel. As China works through its debt problems, there will likely be more such episodes. As the process grinds on, it seems likely that Beijing will once again rely on the Chinese people to bear the brunt.

—Anjan Trivedi