

# THE WALL STREET JOURNAL.

DOW JONES | News Corp \*\*\*\*\*

THURSDAY, FEBRUARY 15, 2018 ~ VOL. CCLXXI NO. 38

WSJ.com

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DJIA 24893.49 ▲ 253.04 1.0% NASDAQ 7143.62 ▲ 1.9% STOXX 600 374.53 ▲ 1.1% 10-YR. TREAS. ▼ 21/32, yield 2.913% OIL \$60.60 ▲ \$1.41 GOLD \$1,355.50 ▲ \$27.40 EURO \$1.2452 YEN 107.01

## What's News

### Business & Finance

**Consumer prices** in January rose more than forecast, teeing up the expected first interest-rate increase of the year in March. **A1**

◆ **The 10-year Treasury's** yield closed at a four-year high. Stocks advanced for a fourth day, with the Dow rising 253.04 to 24893.49. **B11, B12**

◆ **AT&T is considering** the gambit of seeking testimony from the Justice Department's antitrust chief in the trial over its bid to buy Time Warner. **A1**

◆ **Google's Chrome browser** has begun blocking certain types of online ads, a move the firm said is user friendly but critics call self-serving. **B1**

◆ **Cisco said** it would repatriate \$67 billion of its foreign cash holdings to the U.S. this quarter, following changes to U.S. tax law. **B1**

◆ **Fannie reported** a \$6.5 billion loss, triggering what is expected to be a \$3.7 billion taxpayer-funded infusion. **B6**

◆ **The FCC chairman** recommended approving SpaceX's plan to use satellites to provide broadband service. **B3**

◆ **British officials** blamed Russia for a June cyberattack that crippled networks at multinational firms. **B4**

◆ **Sky shares rose** above the price that Fox offered for the U.K. pay-TV firm for the first time since the bid. **B3**

◆ **Credit Suisse posted** an annual loss as the U.S. tax overhaul forced it to write down deferred-tax assets. **B10**

◆ **Saudi Arabia said** the kingdom and OPEC were committed to sticking to oil-output cuts through 2018. **B11**

### World-Wide

◆ **A gunman** opened fire at a South Florida high school, leaving 17 people dead and more than a dozen injured in one of the deadliest U.S. school shootings. **A1**

◆ **South Africa's Zuma** bowed to intense pressure and resigned as president after his party, the ANC, moved to oust him. **A7**

◆ **Trump urged** senators to vote against any immigration proposal other than his own, courting a showdown with lawmakers. **A4**

◆ **Netanyahu, who is facing** corruption allegations that threaten his government, is arguing that he is the best person to keep Israel safe. **A6**

◆ **Iraq's allies pledged** up to \$30 billion in aid, but the sum falls short of what is needed to repair the damage from the war with ISIS. **A6**

◆ **Islamabad is hoping** to head off a U.S. attempt to exert further pressure over terrorism by putting Pakistan on a terror financing watch list. **A6**

◆ **A House panel** asked for more information about White House security clearance for a former aide accused of domestic abuse. **A4**

◆ **The VA secretary** improperly accepted a gift and misspent taxpayer funds in a trip to Europe last year, an inspector general's report said. **A5**

◆ **Defense chief Mattis** pressed NATO allies to continue increasing their military budgets. **A7**

◆ **Died: Morgan Tsvangirai,** 65, Zimbabwe's longtime opposition leader. **A7**

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THURSDAY, FEBRUARY 15, 2018 ~ VOL. CCLXXI NO. 38

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## Gunman Kills 17 at Florida School

Suspect is identified as a 19-year-old former student who had an 'AR-type rifle'

By JON KAMP  
AND SCOTT CALVERT

A gunman opened fire at a South Florida high school at the end of the school day Wednesday, leaving 17 people dead and more than a dozen injured in one of the deadliest U.S. school shootings.

Broward County Sheriff Scott Israel said at a news conference that the suspect, who is in custody, is 19-year-old Nikolas Cruz, a former student who had been expelled for disciplinary reasons.

The sheriff said that the suspect had "countless" gun magazines and one "AR-type rifle."

The victims include both students and teachers, the sheriff said. Twelve people were killed inside Marjory Stoneman Douglas High School in Parkland, Fla., three outside the school and two people died at the hospital.

The school, which has an enrollment of 3,200 students, is in an affluent suburb northwest of Fort Lauderdale.

Security expert Joel Leffler was on a business trip in Dal-



Students were reunited with family members after the fatal gun attack Wednesday at a high school in Parkland, Fla.

las when he reached his 14-year-old daughter on the phone.

"She was whispering, hiding," he said. "She's 14 years old and she had to see multi-

ple dead bodies....It's something that you hear about all the time, and you never think it will happen to you."

By Wednesday evening authorities had identified 12 of

those killed, including a high school football coach, Mr. Israel said. The work was hampered by the way students scattered in the chaos.

"Some of these children had

no ID," the sheriff said. "They left their backpacks."

The Florida school shooting is the deadliest since the 2012 shooting at Sandy Hook Elementary.

Please see ATTACK page A2

## Prices Rise as Economy Heats Up

By HARRIET TORRY

WASHINGTON—Prices rose more than expected for U.S. consumers last month, offering fresh evidence that a long run of exceptionally low inflation is ending and teeing up the expected first interest-rate increase of the year in March.

Fears that rising inflation would prompt the Federal Reserve to pick up the pace of rate increases in 2018 stoked the stock market's turmoil in recent weeks.

A monthly measure of what households pay for everything except gasoline and food rose a seasonally adjusted 0.349% in January—the strongest one-month increase since March 2005—driven by broad-based

increases in costs like rent, clothing and medical services.

Wednesday's inflation data, which were highly anticipated because of the recent market tumult, caused bond yields to jump. The 10-year U.S. Treasury note rose to its highest level in four years—2.913%—while the two-year Treasury yield reached a level last seen in early September 2008.

Yet stocks took the inflation data and yield increases in stride. After meandering in the wake of the consumer-price release, the Dow Jones Industrial Average advanced strongly to

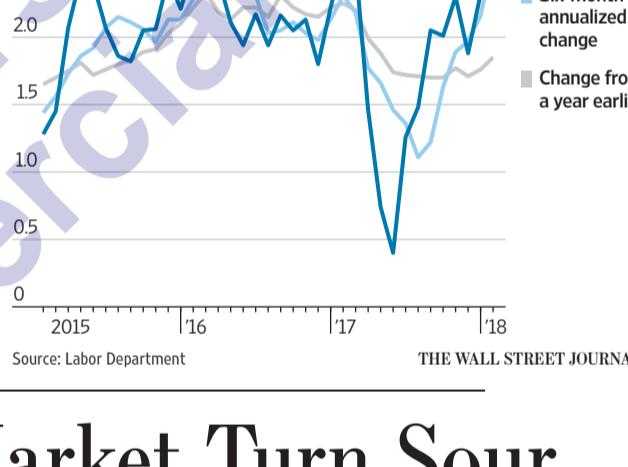
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◆ **Consumers ramp up debt...** B6

◆ **Heard on the Street: Fed's big worry is inflation..... B12**

### Lift Off

Change in consumer-price index, excluding food and energy



Source: Labor Department

## AT&T Eyes Rare Move In DOJ Trial Over Merger

BY BRENT KENDALL  
AND DREW FITZGERALD

WASHINGTON—AT&T Inc. is considering an unusual gambit in the coming trial over its \$85 billion bid to buy Time Warner Inc.—seeking testimony from the Justice Department's antitrust chief, who wants to block the merger.

In the months since the Justice Department sued to stop the deal last November, AT&T has publicly questioned the department's motives in light of President Donald Trump's campaign pledge to disallow the merger and his repeated disparagement of CNN, a unit of Time Warner.

AT&T and Time Warner have drafted a list of people they may put on the witness stand at trial, and, according to people familiar with the matter, the roster includes the head of the Justice Department's antitrust division, Makan Delrahim, a Trump nominee who made the decision to challenge the deal in court.

AT&T could choose not to call Mr. Delrahim at trial. But if he is called, it could escalate tensions in a dispute that already has seen its share of tense moments and is shaping up as a pitched legal battle between a corporate giant and an

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◆ **Stocks continue to march higher..... B11**

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## Wagers on Calm Market Turn Sour

into challenges paying pensioners and filling university budgets, and added riskier bets on hedge funds and venture capital in the hopes of winning better returns.

More recently, some of these investors also made big, unpublicized wagers seeking to benefit from what had been an unusually long period of low volatility, according to pension-fund consultants and others who deal with these institutions. The strategies, often involving the writing of complicated options contracts, were for years a source of

easy money. Markets hadn't been so calm since the 1950s.

Among those making such bets were Harvard University's endowment, the Employees' Retirement System of the State of Hawaii and the Illinois State Universities Retirement System.

Yet volatility has now returned to markets, with a vengeance. When the Dow Jones Industrial Average lost more than 2,400 points in a week, intraday market swings also surged. The Cboe Volatility Index, or VIX, a measure of expected swings in the S&P 500,

closed at its highest level last week since August 2015, recording its biggest one-day jump ever on Feb. 5 as it surged to 37.32 from 17.31 the prior day.

The \$16.9 billion Hawaii fund in 2016 began earning money selling "put" options—essentially a bet that markets would stay calm or rise. When markets fall, Hawaii is on the hook to pay out.

"We've taken some losses that you'd expect with these

Please see CALM page A8

◆ **Stocks continue to march higher..... B11**

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Please see CALM page A8

### Lovers? Spouses? Good Friends? On Olympic Ice, It's Hard to Tell

\* \* \*

Some skating pairs really are couples; fans' romantic notions about Tessa and Scott

By LOUISE RADNOFSKY  
AND BRIAN COSTA

Madison Chock and Evan Bates had known each other very well for six years before they finally started dating in 2017. It wasn't the best timing.

They skate together in ice dance and the biggest competition of their lives, the Olympics, was months away.

"Skating and dating doesn't work for some people," Mr. Bates said, "but we decided that we would make it work."

They know all too well the pitfalls. Their rivals and U.S. teammates Madison Hubbell and Zachary Donohue had

dated a few years earlier when they decided there was only one way they could stay together: break up. Each now dates one member of a Spanish ice-dancing couple.

It's always tricky dating a co-worker. But what if you're an Olympic athlete and your co-worker is your partner on ice?

This is the dilemma facing competitors in mixed-gender sporting disciplines from figure skating, where athletes train for years to perform the story of their relationship, to mixed doubles curling, which made its Olympic debut this year.

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### INSIDE



### SOUTH AFRICAN PRESIDENT RESIGNS

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### THE PROFIT IN AN AIRLINE TICKET

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## World's First "Self-Driving" Database

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[oracle.com/selfdrivingdb](http://oracle.com/selfdrivingdb)

Human labor refers to tuning, patching, updating, and maintenance of database. Copyright © 2017, Oracle and/or its affiliates. All rights reserved.

# U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

## Trump's Real Object: Spending, Not Deficits



"I will always be a deficit hawk," President Donald Trump's budget director, Mick Mulvaney, declared Monday.

Come again?

Those words don't mean what Mr. Mulvaney seems to think they mean. He is, after all, about to preside over a historic rise in the budget deficit due in great part to a tax cut he and Mr. Trump enthusiastically supported.

Mr. Trump's deficits will be the largest relative to the economy of any president in more than 50 years save for Barack Obama, who took office amid a devastating recession, according to J.P. Morgan.

In fact, Mr. Mulvaney is not really a deficit hawk. He is a spending hawk, motivated less by an abhorrence of debt than of big government. Small government is a longstanding and principled goal of Republicans. But big government is not why deficits are about to explode. Republicans have already shrunk government quite a lot. And much of the remainder is now off limits: defense, homeland security, veterans, the elderly.

Some of Mr. Mulvaney's deficit rhetoric doesn't stand up to scrutiny. This past weekend he warned interest

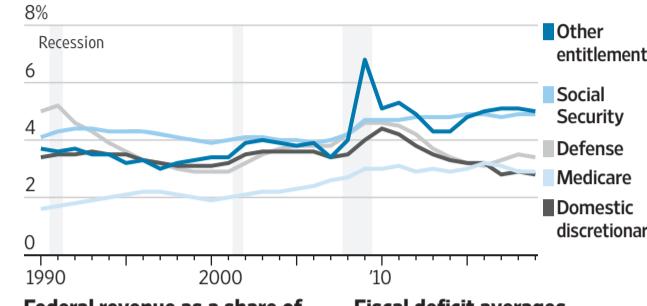
rates might surge because Congress approved higher spending for this year and next. Yet as the past decade has demonstrated, countries that control their own currencies can run up considerable debts with no obvious impact on interest rates. Japan's debt is double that of the U.S. relative to gross domestic product and its bond yields are about zero.

**M**r. Mulvaney warns that "limited resources require tough decisions" as if the U.S. has hit some sort of a wall on taxes. Yet the U.S., a low-tax country to start with, has just cut them again: the new tax law will reduce federal revenue in fiscal 2019 to 16.3% of GDP, a figure normally seen only around recessions. The Trump administration projects this will rise to 17.8% of GDP by 2028, but that assumes economic growth most independent forecasters consider extremely optimistic.

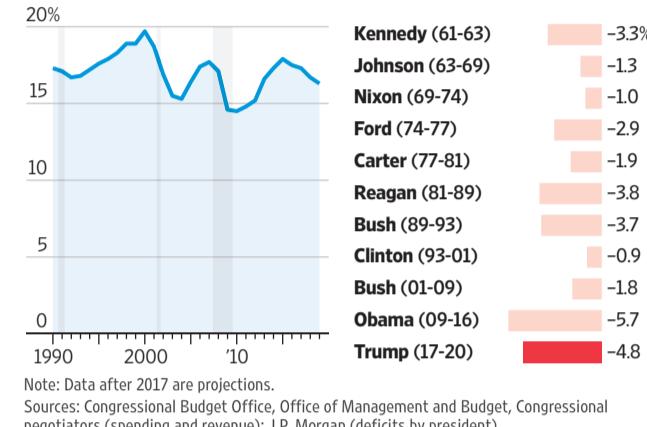
Mr. Mulvaney was elected to Congress in 2010 as part of a Tea Party contingent horrified by soaring budget deficits, financial bailouts and the expansion of government embodied by the Affordable Care Act. In 2011, he helped take the federal government to the brink of default on its obligations by

**A Spending Problem? That Depends**  
Federal spending excluding entitlements is near a 50-year low. Donald Trump's deficits reflect rising entitlement spending and the tax cut.

### Federal spending as a share of GDP



### Federal revenue as a share of GDP



Note: Data after 2017 are projections.  
Sources: Congressional Budget Office, Office of Management and Budget, Congressional negotiators (spending and revenue); J.P. Morgan (deficits by president)

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opposing a higher debt limit. To resolve that crisis, Republicans forced Mr. Obama to accept tight caps over discretionary spending. And in

2013 those caps were tightened even further with across-the-board spending cuts called a sequester.

Congress first loosened

those caps later in 2013, and again last week, drawing plenty of finger-wagging from deficit scolds across the political spectrum. Mr. Mulvaney says he probably would have voted against it. Mr. Trump blamed it on Democrats insisting on more domestic spending in return for a bigger military budget.

There is something surreal about the angst. Even with the higher cap, domestic discretionary spending in fiscal 2019 will be less than in 2012, without adjusting for inflation. At less than 3% of GDP, it would be near the lowest in at least 50 years. This category encompasses almost everything other than defense and entitlements, from environmental protection to education and research grants. In that narrow sense, the federal government is getting smaller. Its civilian workforce today is the smallest as a share of total employment since World War II.

Where is the federal government getting bigger? The safety net did grow under Mr. Obama, but mostly because of the Affordable Care Act. Food stamps, welfare and other programs targeted at the poor, sick and unemployed consume the same share of GDP today that they did under Bill Clinton and George W. Bush.

The real growth has been

in the big entitlements: Social Security, Medicare and Medicaid, and the ACA, and much of this is the unavoidable consequence of an aging population. Mr. Trump, like Mr. Obama before him, has ruled out cutting Social Security and Medicare benefits.

**S**o how to reduce spending? Mr. Trump's infrastructure plan is a model of frugality, as it relies less on added federal dollars than on faster approvals and better incentives to spur construction. His proposals for Medicare and Medicaid to pay less for drugs and some provider charges, such as bad debts, drew praise from the Committee for a Responsible Federal Budget, which advocates for deficit reduction. And Mr. Trump will let states experiment with work requirements to reduce Medicaid and food stamps case loads. These steps may make government more efficient, but it is doubtful how much money they would save—assuming Congress even agrees to them.

With taxes and most federal spending off the table, the room for Mr. Mulvaney to meaningfully cut the deficit is small. But talking about the deficit helps keep the pressure on those parts of the government that aren't off limits.

## ATTACK

*Continued from Page One*  
mentary School in Newtown, Conn., where 20 children and six adults were killed. It is the third-deadliest school shooting in modern U.S. history, after Sandy Hook and the 2007 shooting at Virginia Tech.

Wednesday's incident is the sixth high-school shooting so far this year that resulted in injury or death, according to Everytown for Gun Safety, a nonprofit group that advocates for gun control and against gun violence. There have been about 30 school days in 2018.

Researchers at the Federal Bureau of Investigation and Texas State University tracked 44 active-shooter incidents at schools from 2000 through 2015. They looked for incidents where individuals were "actively engaged in killing or attempting to kill people in a confined or other populated area."

A total of 268 people were shot and 132 killed in those 44 school shootings, according to the study.

President Donald Trump tweeted "prayers and condolences to the families of the victims of the terrible Florida shooting." Florida Gov. Rick Scott's office said he had spoken with the president and went to Broward County.

Broward County Public Schools Superintendent Robert Runcie said he was unaware of any sign that an attack was coming.

"We didn't have any warnings, there weren't any phone calls or threats that we know of that were made," he said.

Just before 3 p.m., at the end of the school day, the Broward County sheriff's office said it responded to reports of a shooting at the school. A fire alarm sounded before dismissal time.

Nina Berkowitz, a senior at the school, said she and other students walked out of the school for what seemed like a fire drill. Then she said a teacher started shouting, "Code red! Code red! Everyone back in the building!"

"We thought it was a drill, but we all sprinted back into the building," she said.

Ms. Berkowitz said she took shelter with a large group of people in a windowless television-production room, and stayed there for about 90 minutes. Then she and the others were ushered to a classroom, where about 160 other students and six staff members waited to be evacuated.

—Valerie Bauerlein,  
Zolan Kanno-Youngs  
and Zusha Elinson  
contributed to this article.



Students were brought out of the Marjory Stoneman Douglas High School in Parkland, Fla., after the shooting on Wednesday.

### A Look at Recent School Shootings

**Jan. 23, 2018:** Two students were killed and 14 wounded by gunfire when a student opened fire before classes began at Marshall County High School in west Kentucky, authorities said. A grand jury is meeting to consider charging the 15-year-old boy as an adult.

**Dec. 7, 2017:** Two students at Aztec High School in New Mexico were killed by a gunman disguised as a student. Police said the shooter later killed himself.

**Sept. 13, 2017:** A 15-year-old girl died of a self-inflicted gunshot

boy was killed at Freeman High School in Rockford, Wash., and three students were wounded when authorities say another 15-year-old boy opened fire.

**April 10, 2017:** A gunman opened fire in the special-education classroom of his estranged wife at North Park Elementary School in San Bernardino, Calif., killing her and an 8-year-old boy, and wounding another child.

**Sept. 28, 2016:** A 6-year-old boy was fatally shot on the playground of Townville Elementary School in South Carolina by a 14-year-old boy who had just killed his father, authorities said.

**Sept. 8, 2016:** A 14-year-old girl died of a self-inflicted gunshot

wound after shooting and wounding another female student at Alpine High School in West Texas.

**Dec. 14, 2012:** A 20-year-old gunman killed 20 first-grade children and six educators inside Sandy Hook Elementary School in Newtown, Conn., and then killed himself. He also fatally shot his mother before entering the school.

**Feb. 27, 2012:** Three students were killed and two wounded in a shooting that started in a school cafeteria in Chardon, Ohio, as students waited for buses. Police charged a suspect, 17 years old, as an adult.

**April 16, 2007:** Twenty-

three-year-old Seung-Hui Cho fatally shot 32 people in a dorm and a classroom at Virginia Tech in Blacksburg, and then killed himself.

**April 20, 1999:** Students Eric Harris, 18, and Dylan Klebold, 17, opened fire at Columbine High School in Littleton, Colo., killing 12 classmates and a teacher and wounding 26 others before killing themselves.

**Dec. 1, 1997:** Three students were killed and five wounded at a high school in West Paducah, Ky. Michael Carneal, then 14, later pleaded guilty but mentally ill to murder and is serving life in prison.

—Associated Press



Victims of Wednesday's shooting, in an affluent suburb northwest of Fort Lauderdale, included both students and teachers.

JOHN MCCLAIN/SOUTH FLORIDA SUN-SENTINEL/ZUMA PRESS

### CORRECTIONS & AMPLIFICATIONS

Ryan Murphy produces the television show "9-1-1." In some editions Wednesday, a Business & Finance article about his deal with Netflix Inc. misidentified the show as "Rescue 9-1-1."

**Since 1964,** the S&P 500 has moved in a range of 4%-5% on average about 0.3% of trading days a year, or 0.8 day a year. A graphic with a Page One article on Feb. 6 about the stock market incorrectly said such moves occur on average 0.2 day a year.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com or by calling 888-410-2667.

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### Location of shooting



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## U.S. NEWS

# Idaho Plans to Test Limits of ACA's Rules

By ANNA WILDE MATHEWS

Blue Cross of Idaho said it plans to use new rules set by state regulators to sell insurance that doesn't meet all the requirements of the Affordable Care Act, a move that could force the Trump administration to take a stance on the legality of such products.

The not-for-profit company's efforts will be closely watched by officials and insurers around the U.S. who want to understand the limits of states' ability to carve out their own insurance rules.

The Idaho Department of Insurance last month became the first state regulator to say it would let insurers begin offering "state-based plans" for consumers that involved prac-

tices generally banned under the ACA, including tying premium rates to enrollees' pre-existing health conditions. Idaho officials said they wanted lower-cost options for consumers after increases in ACA plans' premiums.

Legal experts have suggested that such products would violate the ACA.

A spokesman for the Department of Health and Human Services said it was monitoring the situation in Idaho. "HHS is committed to working with states to give them the flexibility to provide their citizens the best possible access to health care, within the bounds of the law," he said.

Blue Cross of Idaho said it filed late Tuesday with state regulators to begin marketing

five products under the new rules. After a state review, the insurer said it hoped to begin selling the new "Freedom Blue" plans in early March, with coverage first taking effect at the start of April.

## \$195

Estimated best rate for a healthy 45-year-old under a new plan

Blue Cross is the biggest ACA insurer in Idaho. Company officials said they plan to continue to offer plans that comply with the law alongside the new products, a require-

ment of the state rules.

"This is about, how do we make a choice available to people who can't afford coverage," said Dave Jeppesen, an executive vice president at Blue Cross.

The insurer said the proposed new plans would include a maximum benefits payout of \$1 million per person annually. Under the ACA, insurance plans aren't allowed to limit the total coverage. Some of the new state-based plans proposed by Blue Cross would also have a higher cap on the out-of-pocket charges consumers pay for their care than is authorized by the ACA.

The new Blue Cross state plans' premiums would vary based on an enrollee's health status. For instance, in one of

the new plans, the insurer suggested that the best rate for a healthy 45-year-old could be around \$194.67 a month, while a person of the same age with worse health could pay as much as \$525.69. For one of its "bronze"-level ACA plans, the premium for a 45-year-old, regardless of health history, would typically be around \$343.09, the insurer said.

The premiums on the Blue Cross state-based plans could also vary by age up to a ratio of five to one, while the ACA allows plans to charge older consumers only up to three times as much as young ones.

If the new plans are sold as proposed, "a number of the provisions violate the ACA," said Timothy S. Jost, an emeritus professor at Washington

and Lee University. "States are not free to authorize the violation of federal law." Federal officials "have the obligation to enforce the federal law" if a state fails to do so, he said.

Blue Cross's Mr. Jeppesen said the insurer was "confident we have clear guidance from our local regulator," and has "really thought through the risk here as well as the opportunities."

Richard Epstein, a professor at New York University who is advising the insurer, said the Trump administration had the flexibility to allow the products if it chooses.

Other Idaho insurers said they are weighing whether to sell the new state-based plans, and some said they were awaiting greater legal clarity.

## Romney Delays Statement On Utah Senate Run

By REID J. EPSTEIN

WASHINGTON—Former Massachusetts Gov. Mitt Romney said Wednesday he would delay a planned announcement regarding a run for the open Senate seat being vacated by Utah Republican Orrin Hatch, following the school shooting in Florida.

"Out of respect for the victims and their families, I will not be making an announcement [Thursday] about the Senate race," he wrote on Twitter.

Mr. Romney's anticipated run for the office could potentially add a frequent critic of President Donald Trump to the ranks of GOP senators.

When Mr. Romney was seeking the 2012 nomination, he appeared with Mr. Trump at the Trump International Hotel in Las Vegas to accept his endorsement.

Four years later, Mr. Romney emerged as the leader of the wing of the party opposed to Mr. Trump's presidential campaign. As Mr. Trump closed in on the party's nomination, Mr. Romney called him a "phony" and a "fraud" while urging fellow Republicans to forgo a contested convention to choose a different candidate.

Following Mr. Trump's surprise victory, Mr. Romney entertained the possibility of joining the new president's cabinet as secretary of state. The two dined together in New York, after which Mr. Romney said Mr. Trump offered a "message of inclusion and bringing people together."

Mr. Romney and Mr. Trump again clashed once Mr. Trump took office.

Last August Mr. Romney called on Mr. Trump to apologize for his remarks following August racial violence in Charlottesville, Va. The president said both white supremacists and counterdemonstrators were to blame for the clashes; Mr. Romney said the president had "caused racists to rejoice, minorities to weep and the vast heart of America to mourn."

Mr. Romney, a Mormon who led the 2002 Winter Olympics in Salt Lake City, is widely viewed as a favorite son in Utah despite being born in Michigan and having spent most of his adult life in Massachusetts.

## A Day for Love, and a Mass Wedding, in Texas



**PUCKER UP:** Couples got hitched Wednesday on the steps of the Bexar County Courthouse in San Antonio. The Valentine's Day ceremonies are a tradition at the courthouse.

## Executive Pushes Gifts to Public Schools

By TAWNELL D. HOBBS



**Billionaire Stephen Schwarzman, shown in Davos in January, will address superintendents this week.**

**Blackstone Group LP CEO** Stephen Schwarzman is donating \$25 million to his public high school in Abington, Pa., a move he said he hoped would inspire other wealthy individuals to step up to address public-school funding gaps.

The billionaire private-equity executive said he would throw his name behind a campaign focused on supporting public schools on Thursday in Nashville, Tenn., at a national conference of school superintendents.

He said he planned to give the roughly 3,000 superintendents in attendance a tutorial on raising money the way private institutions do.

"I'm going to talk to them about how you ask people to support something that's very worthy, how to organize themselves, what it's like to be rejected," Mr. Schwarzman said.

Abington School District Superintendent Amy Sichel said, adding

she visited Mr. Schwarzman in New York to ask for the money. "This gift is going to let us dream and reimagine our schools," she said.

Abington Senior High School, the suburban Philadelphia school where Mr. Schwarzman graduated in 1965, will use his gift to help pay for a major renovation of the 1950s-era building, a new science and technology center, and expanded course offerings, Dr. Sichel said, adding

that she visited Mr. Schwarzman in New York to ask for the money. "This gift is going to let us dream and reimagine our schools," she said.

Some major foundations and associations said they didn't know of any previous donation to a single public school as large as Mr. Schwarzman's, though wealthy individuals and foundations have made big contributions to entire school districts.

Facebook founder Mark Zuckerberg has given \$100

### Big Donations in Recent Years

Donor	School	Amount (in millions)	Year	State
Mark Zuckerberg	Newark Public Schools	\$100	2010	NJ
Bill & Melinda Gates Foundation	Shelby County Schools	\$84.5	2009	TN
Robertson Foundation	Success Academy Charter Schools	\$25	2016	NY
Stephen Schwarzman	Abington Senior High School	\$25	2018	PA
KLE Foundation	IDEA Public Schools	\$16	2016	TX
Andre (Dr. Dre) Young	Compton Unified School District	\$10	2017	CA
Bill & Melinda Gates Foundation	Denver Public Schools	\$10	2013	CO
Paulson Family Foundation	Success Academy Charter Schools	\$8.5	2015	NY
Kinder Foundation	Houston Independent School District	\$7.5	2016	TX
Kinder Foundation	High School for the Performing and Visual Arts	\$7.5	2016	TX

that the improvements would also allow ninth-graders to join grades 10 to 12 at the school.

Some major foundations and associations said they didn't know of any previous donation to a single public school as large as Mr. Schwarzman's, though wealthy individuals and foundations have made big contributions to entire school districts.

Private contributions to public schools have been a thorny issue in public education, with some saying they can exacerbate inequality, as affluent schools are more likely to have wealthier supporters.

To alleviate disparities, some districts set up foundations as collection points for donations and apportion money based on need.

"We want to make sure from an economic standpoint that there's equality throughout our school district," said Gail Pinsker at the Santa Monica-Malibu Unified School District in California, which took that route.

"The education foundation has really leveled the playing field."

# Infrastructure Plan Faces Hurdles Funding Airport Revamps

By ANDY PASZTOR  
AND NATALIE ANDREWS

President Donald Trump's infrastructure plan promises few immediate benefits for U.S. airports and airlines, primarily because current aviation laws block many types of public-private projects envisioned by White House officials.

Mr. Trump's initiative anticipates that roughly \$100 billion in federal grants over a decade will generate several times that much in state and local funds to build roads, bridges, waterways and other big-ticket projects.

But when it comes to terminal expansions, gate improvements or other upgrades of passenger amenities at the nation's airports, some tough legislative barriers need to be overcome before specific projects that would divert airport revenue are even considered.

Congress has established tight restrictions against using certain airport revenues for purposes outside the airport, which aviation officials and lawyers said pose major hurdles to the industry's participation in the White House's strategy.

Revising those statutes,

these officials said, is bound to require a lengthy lobbying effort and formation of new business and local government coalitions pushing for change.

For now, however, Congress is unlikely to take up such issues as part of another short-term Federal Aviation Administration reauthorization measure, according to lawmakers, staffers and industry officials. U.S. airports employ an estimated 1.3 million people and account for roughly \$1.2 trillion in economic activity annually, according to the leading global airport trade association.

The Senate also appears as

unwilling as ever to approve shifting control of the federal air-traffic control system to a proposed nonprofit corporation—still another goal included in the infrastructure package.

As a result, proponents of ramping up capital projects focused on airports or air-traffic control modernization see little progress in the near term.

The U.S. "is sorely lagging behind the rest of the world" in injecting private capital and management expertise regarding ownership and management of airports, according to Ken Quinn, who heads the

global aviation practice for the law firm Baker McKenzie. Historically, Mr. Quinn said, "airport trade groups have largely stayed on the sidelines" of the debate, while carriers have worried about losing control of airport upgrades and fees.

One White House legislative recommendation urges Congress to loosen current statutes restricting the number of cities that can participate in certain FAA pilot programs permitting private operators to take control of airports. Another White House recommendation aims to reduce the percentage of airlines at a specific airport

needed to approve a private operator taking over. The requirement would slip to 50% from 65% of carriers.

The North American arm of Airports Council International, representing locations that handle virtually all domestic and international flights in the U.S. and Canada, requested more details after the White House plan was unveiled Monday. In a statement, the trade group called on "the Trump administration and Congress to identify a clear funding mechanism to address the significant infrastructure needs of America's airports."

## U.S. NEWS

# 'Dreamers' Plan for the Unknown

Immigrants brought to the U.S. as children consider options as March deadline looms

BY ALICIA A. CALDWELL

Trinity Washington University, a few miles from the White House, is lining up donors to boost scholarships for about 10% of its students—immigrants who likely can't afford tuition if they lose their permission to work in the U.S.

Eli Oh, a 30-year-old rapid response nurse at Stanford Medical Center, is exploring his employment options in Canada, Australia and his country of birth, South Korea, if he can't stay in the U.S.

A March 5 deadline is looming for Washington to come up with a resolution for nearly 700,000 immigrants brought to the U.S. as children and currently protected from deportation. The young people, their schools and employers are beginning to make contingency plans in case they have to leave the country, or face unemployment.

For months, Congress has been unable to resolve the fate of immigrants protected from deportation under an Obama-era program known as Deferred Action for Childhood Arrivals or DACA. President Donald Trump ended DACA in September, and gave Congress six months to come up with a solution. On Tuesday, a second federal judge ordered the administration to temporarily restore the program. The Supreme Court could announce as early as Friday whether it will take up the issue.

The Senate is debating immigration proposals this week. If there is no deal on DACA by the deadline, the program will end when the last work permit expires. In a tweet Tuesday, Mr. Trump said: "Wouldn't it be great if we could finally, after so many years, solve the DACA puzzle. This will be our last chance, there will never be another opportunity! March 5th."



Demonstrators at an immigration rally in Washington, D.C., in December. The Senate is debating immigration proposals this week.

## Group Aims to Help Its Teachers at Risk

Teach for America, a nonprofit that places teachers in rural and low-income school districts, is establishing an emergency fund to help immi-

grant teachers return to their home countries if they decide to leave, or pay for legal fees if they try to stay.

Elisa Villanueva Beard, CEO of Teach for America, said DACA's pending expiration could mean that 164 current and former program members who are teaching in schools in

11 states could lose their permission to work—40 of them as early as this year. The program has a total of about 7,000 teachers.

It is too late to recruit and vet possible replacements, Ms. Villanueva Beard said. Teach for America officials aren't legally allowed to notify schools of the

teachers' immigration status, so it is up to each teacher to decide how and when to tell school officials.

Losing DACA members means fewer teachers to match with schools "in places where demand greatly outpaces resources," Ms. Villanueva Beard said.

Mr. Oh moved to the U.S. in 1998, when he was 11, after his family overstayed a tourist visa. His work permit expires in October, and without an extension he won't be able to stay on as a nurse at Stanford. Leaving the U.S. would likely mean being barred from returning for at least a decade. In Canada or Australia, it could take a year or more to get his paperwork in order to be a nurse. In South Korea, he would likely face compulsory military service and have to learn to read his native language, he said.

"We grew up with uncer-

tainty all of our lives, it's not like it's new," Mr. Oh said of his fellow DACA recipients. "Before I had nothing to offer. Now it's a little different. I can go to Canada. I can go to Australia. I have five years' experience. I have a lot more to lose, but I have a lot more to offer."

David Entwistle, president and CEO of Stanford Health Care, said his organization and Stanford University support a legislative solution for DACA. He hopes to keep Mr. Oh.

DACA work permits have to be renewed every two years. Former President Barack Obama

created the program in 2012 as a stopgap to give Congress time to approve an immigration overhaul. That never happened.

Multiple proposals have been floated in Washington, including an offer from the White House to offer permanent protections for as many as 1.8 million young immigrants, often referred to as Dreamers, in exchange for \$25 billion for a border wall and other security measures.

At Trinity Washington University, a small liberal-arts college, about 10% of the school's roughly 1,000 female students

are DACA recipients. University President Pat McGuire said those students pay tuition primarily with the help of private scholarships and jobs they work outside of school.

If DACA expires, the students won't be forced out of school, but without permission to work, staying in the U.S. may be difficult. The first class of DACA students is set to graduate from Trinity Washington in the spring.

"The thing that they are most worried about...they are worried if they won't be able to work," Ms. McGuire said.

# Trump Hardens Stance on Immigration Bill

**WASHINGTON**—President Donald Trump urged senators to vote against any immigration proposal other than his own plan, courting a showdown with Republican and Democratic

bipartisan plan, which also provides \$25 billion for Mr. Trump's proposed wall, falls short of meeting his demands. Voting could begin as soon as Thursday, forcing politically tough choices for both parties. "We're not there yet," said Sen. Dick Durbin (D., Ill.), a main negotiator, about whether the bipartisan plan had enough votes to pass. "We still have to solidify our caucus and...there are people with serious issues over this compromise," he said, listing both the restrictions on the parents and the border wall as Democratic concerns.

Mr. Trump's stance amounted to a demand that the Senate significantly cut legal immigration. The impasse threatened to derail bipartisan efforts to craft a compromise

in the Senate, as lawmakers faced dwindling time left in the week allotted to pass a bill protecting hundreds of thousands of young, undocumented immigrants.

In a statement Wednesday,

the president urged senators to back his four-part plan, translated into legislative text by a group led by Senate Judiciary Committee Chairman Chuck Grassley (R., Iowa).

"I am asking all senators, in both parties, to support the Grassley bill and to oppose any legislation that fails to fulfill these four pillars—that includes opposing any short-term 'Band-Aid' approach," Mr. Trump said.

The Trump plan provides a pathway to citizenship for 1.8 million young immigrants brought to the U.S. illegally on the condition that Congress also provide \$25 billion to secure the border; end a diversity visa lottery program aimed at immigrants from underrepresented countries; and restrict the ability of citizens and permanent residents to sponsor relatives for green cards.

That fourth pillar—scaling back what detractors call "chain migration"—has be-

come the most controversial component. Currently, citizens can sponsor their spouses, children, parents and siblings, and green-card holders can sponsor spouses, minor children and unmarried sons or daughters of any age.

Mr. Trump would tighten those rules to allow sponsorship of only spouses and minor children—cutting out parents, adult children and siblings. Overall, the proposal would reduce legal immigration to the U.S. by about a third, according to the Migration Policy Institute, a nonpartisan think tank.

With Mr. Trump's plan likely to fall short of the 60 votes needed in the Senate, senators said a compromise plan stood a better chance of passing in the chamber.

# Aide's Clearance Gets More Scrutiny

BY REBECCA BALLHAUS

The House Oversight Committee asked chief of staff John Kelly and FBI Director Christopher Wray to answer questions about White House security-clearance policy and their handling of domestic-abuse allegations against former adviser Rob Porter.

"The committee is investigating the policies and processes by which interim security clearances are investigated and adjudicated within the Executive Branch, and the extent to which any security clearance issued to Porter comport with those policies and processes," the committee wrote in letters to both Messrs. Kelly and Wray signed by its chairman, Rep. Trey Gowdy (R., S.C.).

Mr. Gowdy said the committee was seeking to learn what information was available to the White House when it granted Mr. Porter an interim security clearance in January 2017, who granted the clearance and what "derogatory information" was subsequently provided to the White House about Mr. Porter, and to whom.

Mr. Gowdy asked both men to provide "the date on which any White House employee became aware of potential derogatory or disqualifying information on Porter from the date of his appointment to Feb. 12, 2018, and which individual was so notified," according to the letter. He also asked for the date on which Mr. Porter was granted an interim clearance.

In the letter to Mr. Wray, Mr. Gowdy asked whether the Federal Bureau of Investigation had "played any role" in adjudicating Mr. Porter's security clearance and if that adjudication had been consistent with standard practice. The FBI is responsible for conducting background checks on West Wing officials, but the decision on whether to issue a security clearance rests with the White House, legal experts said.

The committee gave Messrs. Kelly and Wray a deadline of Feb. 28 to answer. The White House didn't respond to a request to comment.

Mr. Porter served in the White House for more than a year with a temporary security clearance despite accusations from two former wives that he had been physically abusive. Mr. Porter has denied the accusations and resigned a week ago. The White House recently has said he was allowed to stay in the job because the background check was ongoing.

On Tuesday, Mr. Wray told the Senate Intelligence Committee his agency had first flagged parts of its background check on Mr. Porter to the White House in March—more than 10 months before Mr. Porter resigned—providing a timeline that conflicted with the West Wing's chronology.

want it to shoot much higher. The Fed's 2% goal is based on officials' preferred price measure, the Commerce Department's personal-consumption expenditures price index. This index was up 1.7% in December from a year earlier, and prices excluding food and energy rose 1.5% over the year. Data for January are due to be released March 1.

The Fed's next policy meeting is March 20-21. Fed officials in December penciled in three rate increases this year. Investors currently see an 83% probability that the central bank will raise rates a quarter percentage point from their current range of between 1.25% and 1.5% at the March meeting, according to CME Group's Fed-funds futures tracked by CME Group.

Market participants are pricing in a 63% probability of at least three interest-rate increases by the end of the year and a 26% probability of at least four, according to CME.

Wednesday's higher-than-expected consumer-price index reading "does not constitute an inflation disaster, but it's clearly a threat to markets which still don't fully price in the three hikes the Fed expects," Ian Shepherdson, chief economist at Pantheon Macroeconomics, wrote in a note to clients.

—Andrew Tangel

contributed to this article.

# PRICES

**Continued from Page One**  
notch a fourth consecutive session of gains, closing up 253 points, or about 1%, to 24893.4.

While the consumer-price data suggested that inflation is growing, some analysts said it is doing so at a manageable pace. That is unlikely to cause the Fed to alter radically the pace of interest-rate increases it has signaled, analysts said.

Stock investors' measured approach was a contrast to

in January, the Labor Department said Wednesday. In the 12 months to January, overall prices rose 2.1%, beating economists' expectations of a 1.9% rise. A jump in gasoline prices in January helped drive the increase. When stripped of volatile energy and food prices, the index was up 1.8% from a year earlier.

These aren't huge increases, but they do suggest an uptrend after years of inflation running below the Fed's 2% target.

Last month, Amazon.com Inc. raised its monthly Prime membership fee 18.2% to \$12.99 from \$10.99, though it said it would keep its annual fee at \$99. In a sign services inflation appears set to continue rising, Walt Disney Co. said this week it was raising rates at its U.S. theme parks.

"Firms are testing their pricing power," said Sarah House, an economist at Wells Fargo Securities, which she said is "a good sign" that they are confident enough to pass higher costs on to customers.

Analysts cautioned that a few components of the consumer-price report could prove to be aberrations. Apparel prices reversed three months of declines in January, rising 1.7%, the largest monthly boost since February 1990. That category has experienced deflation for large parts of the last two de-

cades because of a flood of cheap imports, and few analysts see it becoming a new source of inflation now.

In another potential aberration, the cost of vehicle insurance rose 1.3%, its largest monthly increase since November 2001.

Still, the broad inflation trend shows signs of firming as U.S. unemployment falls and the global economy heats up, pressuring the costs of labor

and globally traded goods.

Higher commodity prices, driven in part by world-wide economic growth, made PPG Industries Inc., the Pittsburgh-based maker of paints and coatings, focus on "further offsetting this persistent inflation" by raising the prices it charges consumers, Chief Executive Michael McGarry said in a Jan. 18 call with Wall Street analysts.

More increases in the con-

sumer-price index could be in store. Price drops last spring for a handful of items, such as wireless-phone plans, led to a string of soft inflation readings. Fed officials said they expected this would prove transitory. With last year's price cuts fading into the past, annual measures of inflation are on track to pick up in the months ahead.

Fed officials view 2% inflation as consistent with a healthy economy, but don't

want it to shoot much higher.

The Fed's 2% goal is based on officials' preferred price measure, the Commerce Department's personal-consumption expenditures price index. This index was up 1.7% in December from a year earlier, and prices excluding food and energy rose 1.5% over the year. Data for January are due to be released March 1.

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—Andrew Tangel

contributed to this article.



Shoppers browsing at Whole Foods 365 in the Fort Greene neighborhood of Brooklyn in New York City last month. The latest consumer-price data suggest that inflation is growing.

Richard B. Levine/Q Roll Call/Newscom/ZUMA Press

## U.S. NEWS

# VA Head Misused Official Funds, Watchdog Says

BY BEN KESLING  
AND PETER NICHOLAS

**WASHINGTON**—Veterans Affairs Secretary David Shulkin improperly accepted a gift of Wimbledon tennis tickets, misspent taxpayer money and misused department resources in an official trip to Europe last year, according to an inspector general's report released Wednesday.

The report also said a department employee acted as a "personal travel concierge" during the trip, and that Dr. Shulkin's chief of staff made false claims to a VA ethics official by altering an email to get official approval for Dr. Shulkin's wife to take part in the trip as an "invitational traveler," a status that meant

**Shulkin received free Wimbledon tickets and wife's airfare, according to report.**

the VA would cover her expenses. Her airfare cost taxpayers \$4,312.

The inspector general referred the matter involving the chief of staff, Vivieca Wright Simpson, to the Justice Department for possible criminal prosecution. The report said the Justice agency chose not to prosecute the case.

At issue is Dr. Shulkin's trip to Copenhagen and London from July 11 to July 21, 2017. A total of 11 people made the trip, including security agents and Dr. Shulkin's wife, Merle Bari, a dermatologist. The trip cost the VA at least \$122,000, the report said.

The entourage traveled first to Copenhagen, where Dr.

Shulkin attended meetings with Danish officials, and then went to London for a meeting devoted to veterans' issues.

The report said Dr. Shulkin attended a total of 3½ days of meetings while spending "significant personal time for sightseeing and other unofficial activities."

In an interview Wednesday, Dr. Shulkin said the inspector general had given the department only a week to respond, which he said was inadequate, but that the dozens of pages of rebuttal provided by him and included in the report address the issues.

"It's important that people take a look at the full facts of the case to make sure they're making their own objective assessment," he said. "If they consider both what the IG has said, as well as the information I've provided, I think the facts speak for themselves."

The VA didn't make Ms. Simpson available to comment on Wednesday.

Dr. Shulkin's response, submitted by his attorneys, said the trip was "immensely valuable" to the VA. They wrote that Dr. Shulkin violated no "ethical regulations" in accepting the Wimbledon tickets. They said that Dr. Shulkin had no role in obtaining approval for his wife's travel, and that the department employee, "on his own initiative," had undertaken the "detailed planning of tourist activities."

Dr. Shulkin said that he has offered multiple times to reimburse the cost of the Wimbledon tickets, and that a British veterans official obtained them through a personal, not a professional, connection and gave them on a personal basis.

Rep. Mike Coffman (R., Colo.), a member of the House Veterans' Affairs Committee, called on Dr. Shulkin to resign.

# Primaries Roil Senate GOP

BY JANET HOOK

**WASHINGTON**—Steve Bannon's war on the GOP establishment seems to have pestered out, but the party is still roiling with primary fights and fundraising woes that hang over its effort to hold or expand its Senate majority.

In Nevada, Sen. Dean Heller and allies are pouring money into ads against his primary opponent, Danny Tarkanian. In Arizona, a three-way primary is pitting party leaders' favorite against two GOP outsiders.

And just when the party thought the field was set in Tennessee, GOP Sen. Bob Corker is reconsidering his decision not to run for re-election, his spokeswoman said.

Mr. Bannon abruptly lost political standing after a book quoted him saying negative things about President Donald Trump's children, and mainstream GOP leaders hoped that ended one of their biggest headaches of the midterm elections: Mr. Bannon's vow to back challengers to Senate Republicans he deemed insufficiently loyal to Mr. Trump.

But even with Mr. Bannon off the field, the party is riven by factions.

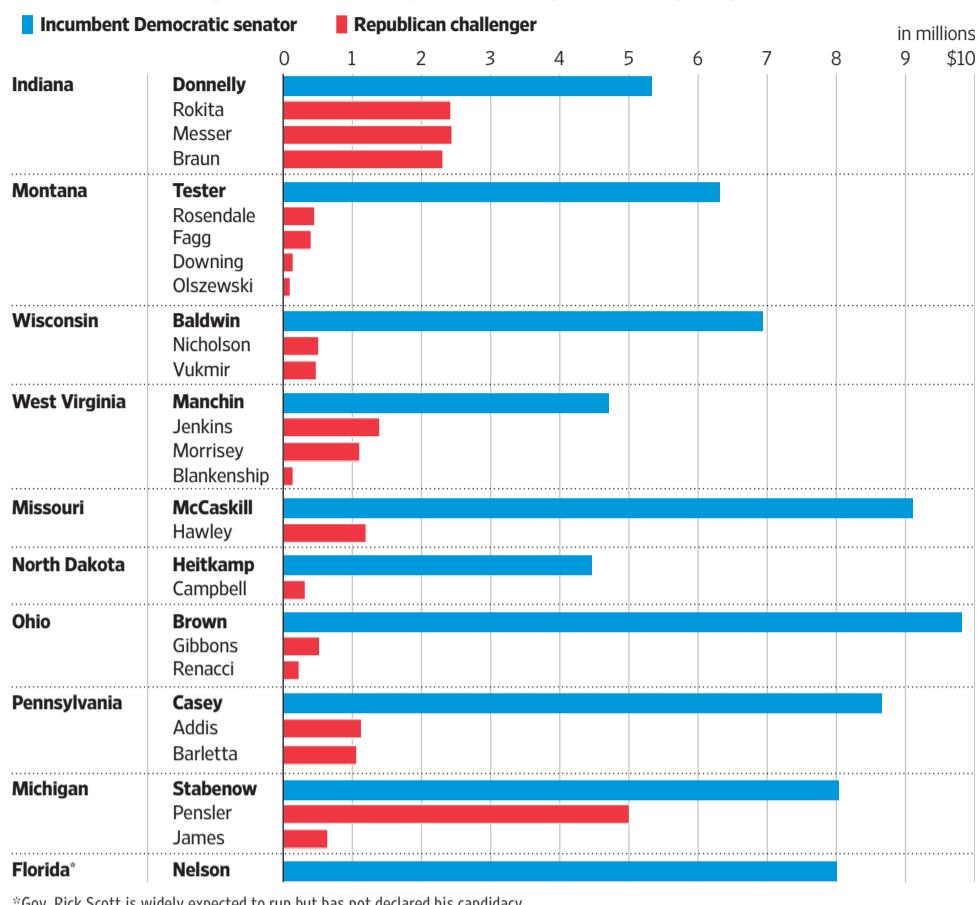
In only two battleground states—Missouri and Florida—are Republicans expected to coalesce around a nominee without a major primary fight. In the other eight states where they hope to knock off Democrats and in the two states they are struggling to hold, contested primary elections are under way.

Republicans are also scrambling financially. Their top 10 Democratic targets—incumbents in states won by Mr. Trump in 2016—were sitting on more than \$71 million in cash at the beginning of this year, compared with \$22 million for the major GOP candidates challenging them, a Wall Street Journal analysis found.

In the last three months of 2017, none of those GOP challengers raised more than \$1 million from donors. Even Mr.

## Campaign Cash Piles

Democratic senators facing re-election in 10 states that President Donald Trump won had a \$22 million cash-on-hand advantage over their major Republican challengers at the beginning of the year.



\*Gov. Rick Scott is widely expected to run but has not declared his candidacy.

Source: Federal Election Commission

THE WALL STREET JOURNAL.

said Rob Jesmer, former executive director of the National Republican Senatorial Committee. "But this quarter will be a real improvement."

Republican squabbling could help Democrats if it drains GOP resources and leaves candidates bruised. "We're preparing to take advantage of every opportunity we can," said David Bergstein, spokesman for the Democratic Senatorial Campaign Committee.

Heading into the 2018 election cycle, the Senate looked to be the GOP's best opportunity to expand its majority in the midterm elections. Republicans are defending only eight seats this year, while Democrats and allied independents are trying

to hold on to 26.

The prospect of an ugly Senate primary season suddenly loomed larger when Mr. Bannon, after leaving his post in the White House last year, announced he would rally support for GOP primary challengers who would test the reign of Senate Majority Leader Mitch McConnell (R., Ky.).

Mr. Bannon backed former state Sen. Kelli Ward in her bid against Arizona GOP Sen. Jeff Flake, who then announced he wouldn't run for re-election. Meanwhile, Mr. Tarkanian associated himself with Mr. Bannon as he has tried to tap into the anti-Washington mood.

—Julie Bykowicz contributed to this article.

**The Face of Change**

Cory Gaines  
Head of Product,  
Network Solutions  
San Francisco, CA

Cory is all about collaborating with customers to create a better user experience. He and his team work tirelessly to develop smarter payment solutions that are technically feasible, business viable, and loved by his customers. It's one more way our people are helping accelerate the transformation to a value-based healthcare system.

Change Healthcare. Inspiring a better healthcare system.

[changehealthcare.com](http://changehealthcare.com)

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**CHANGE**  
**HEALTHCARE**

## WORLD NEWS

## Israel's Embattled Premier Touts Security

Facing corruption allegations, Netanyahu says he is best person to keep country safe

By RORY JONES

Prime Minister Benjamin Netanyahu, battling corruption allegations that threaten to bring down his government, is arguing that he is the best person to keep Israel safe amid sharply rising tensions with its Middle East foes.

After weekend clashes that brought Israel to the brink of conflict with Syria and Iran, Mr. Netanyahu made a televised address to the nation on Tuesday, saying his "sense of mission...is the reason I am here. Not for cigars from friends and not for better media coverage."

Known at home as "Mr. Security," Mr. Netanyahu is facing accusations from police who recommended he be prosecuted for regularly receiving expensive cigars, champagne and other gifts from businessmen in return for favors and for trying to improperly influence newspaper reporting on his government.

On Wednesday, Mr. Netanyahu said his government was stable and he would remain in office, adding that his overarching goal was to protect the Israeli state. He reminded Israelis that he fought in an elite combat unit and was part of a team that dramatically and famously helped rescue a hijacked flight in 1972.

Opposition lawmakers are calling for the prime minister to step down.

"You cannot represent us in the world, when every foreign leader knows that you stand accused of serious offenses,"



Premier Benjamin Netanyahu, right, on Wednesday, said his government would remain in office.

Yair Lapid, leader of the Yesh Atid party, said on Wednesday. "For the good of the citizens of Israel, the prime minister needs to vacate his post."

Mr. Netanyahu, who is serving his fourth term in office, has denied any wrongdoing and has labeled the police investigation a political witch hunt designed to force him from power.

Two important factions in Mr. Netanyahu's slim governing majority issued statements

backing the prime minister, at least until prosecutors decide on whether to formally indict the leader. The Kulanu party, headed by Minister of Finance Moshe Kahlon, and Naftali Bennett's Jewish Home party both said on Wednesday that they would remain in government while the attorney general considers evidence against the prime minister.

Mr. Netanyahu "is dedicated and committed to the security

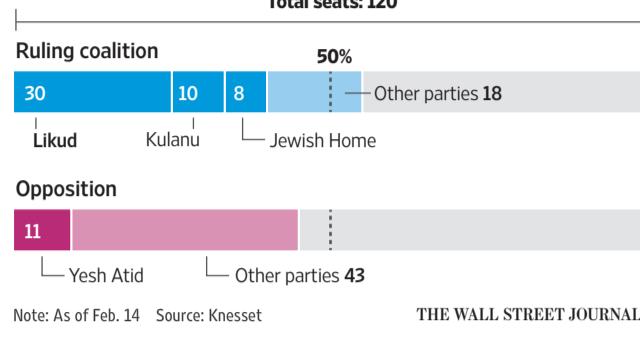
of the state, and I have no doubt he will never hurt Israel's security," Mr. Bennett, whose party holds eight seats in the government and who is often critical of the prime minister, said at a conference in Tel Aviv. "A prime minister is not meant to be perfect or live an over-modest lifestyle."

Mr. Netanyahu's predecessor, Ehud Olmert, was forced from office in 2009 after police launched an investigation into

### Coalition Support

Israeli Prime Minister Benjamin Netanyahu's coalition partners have agreed to back him and ensure his Likud party stays in power, despite police recommendations that he should be indicted for corruption.

#### Israel's parliament seats



Note: As of Feb. 14 Source: Knesset

THE WALL STREET JOURNAL.

allegations of corruption, and he later served 16 months in prison after being convicted of bribery and obstruction of justice.

At the time of the investigation into Mr. Olmert, Mr. Netanyahu said a prime minister "sunk up to his neck" in police inquiries had "no moral and public mandate."

For now, the backing from coalition partners dispels the specter of a government collapse and elections that would usher in a period of political instability and could reorder Israel's relations with the U.S., Palestinians and wider Mideast.

The political turmoil comes as Israelis warily watch their northern border in Syria, where Iran and Lebanese group Hezbollah are attempting to establish a long-term presence to threaten Israel.

On Saturday, an Iranian drone breached Israeli airspace from Syria before it was shot down by an Apache helicopter. In response, eight Israeli jets launched airstrikes on the drone's control car in Syria.

Syrian antiaircraft missiles

then shot down one of the F-16 fighter aircraft, the first time Israel had lost a jet in more than 30 years, and Israel then launched another larger attack on Iranian and Syrian military sites. The strikes took out half of Syrian President Bashar al-Assad's air-defense capabilities, Israeli officials said.

The fighting was the closest Israel has come to a direct confrontation with Iran. Mr. Netanyahu has made it one of his main goals to stop Tehran from entrenching permanently in Syria. He has warned about Iran's nuclear ambitions and expansion in the Middle East, but he is also viewed by many Palestinians and Arab leaders as intransigent on appeals for Israel to cede territory for peace.

Mr. Netanyahu rules with a coalition of 66 seats in the 120-member Knesset, and his coalition is considered one of the most right-wing in years. Many of his partners don't want to pull the plug on the government for fear of losing seats to more left-leaning partners in a future election.

## Financial Pledges to Rebuild Iraq Fall Short

BY ISABEL COLES  
AND ALI NABHAN

U.S. and its Persian Gulf allies are also seeking to contain Iran's influence in Iraq.

Jan Kubis, the United Nations secretary-general's special representative for Iraq, said the total pledged at the conference was between \$25 billion and \$30 billion through a variety of instruments, including guarantees for loans, from several countries and organizations.

A big chunk of the funds pledged Wednesday came from the Gulf states, with Saudi Arabia and Qatar each giving \$1 billion, and the U.A.E. \$500 million. Kuwait contributed \$1 billion via its development fund and a further \$1 billion in investment. The Arab Fund pledged \$1.5 billion and the Islamic Development Bank \$500 million.

Turkey extended a \$5 billion line of credit plus \$50 million in humanitarian assistance. Germany pledged €350 million (\$435 million) and smaller amounts were pledged by other European states.

Around \$88 billion is needed to get the seven provinces where most of the fighting took place back on their feet, according to a recent assessment by experts at the World Bank and the Iraqi gov-



Buildings were destroyed in Mosul during the fight to expel Islamic State from Iraqi territory.

ernment, which factored in the costs of improving governance, upgrading oil and gas infrastructure and other recovery expenses.

Having taken the lead in fighting Islamic State at the head of an international coalition, the U.S. has proved less willing to commit funds to repair the damage. The U.S. Export-Import Bank on Tuesday signed a memorandum of understanding with Iraq guaranteeing \$3 billion of loans to spur private-sector investment, but Washington didn't

commit to any aid at the conference.

Instead, it has encouraged its Gulf allies to shoulder some of the costs. That is part of a broader effort by the U.S. to bring the Gulf states and Iraq together as a means of countering Iran, which expanded its influence across the Middle East during the conflict.

Iran was present at the conference but didn't make any pledge of assistance. In a meeting with Iraqi Prime Minister Haider al-Abadi on the sidelines of the conference,

however, Iranian Foreign Minister Javad Zarif expressed support for Iraq's reconstruction and said Iranian companies were keen to work there.

Hundreds of international companies attended the conference, including big U.S. names such as Halliburton Co., General Electric Co. and Honeywell International Inc.

Iraqi officials sought to reassure investors that they were taking steps to reduce red tape and corruption, which have deterred investment in Iraq since 2003.

## Pakistan Moves to Avert Curbs

BY SAEED SHAH  
AND IAN TALLEY

Pakistan is hoping to head off an attempt by the Trump administration to exert further pressure over terrorism by putting the country on a global terror financing watch list, according to a senior Pakistani official.

Miftah Ismail, adviser to the country's prime minister and Pakistan's de facto finance minister, said that the country had in recent days undertaken a wide-ranging crackdown on the Jamaat-ud-Dawa group, which also is known as JuD and is blamed by the United Nations for the 2008 attack on the Indian city of Mumbai, which killed 166 people.

Washington has pressed Pakistan to take action against Islamist militants on its soil and blamed the country for giving sanctuary to Afghan insurgents, announcing last month that it is withholding \$2 billion in security assistance. U.S. officials wouldn't confirm that it had proposed Pakistan for the terror financing watch list.

## FROM PAGE ONE

## AT&amp;T

Continued from Page One  
unorthodox administration whose president is given to off-the-cuff comments.

The trial, scheduled to start March 19, represents one of the biggest antitrust cases in a generation.

Legal observers said they couldn't recall a situation in which merging companies sought court testimony from the government official who made the decision to sue them. "It's quite remarkable that they listed him," said Wayne State University law professor Stephen Calkins.

Legal impediments could arise in obtaining testimony from Mr. Delrahim, especially on internal deliberations that led to the lawsuit.

In their initial response to the lawsuit, AT&T and Time Warner listed six defenses to the government's claims, including cost savings and benefits for consumers. Another of

the defenses argued that the case reflected "improper selective enforcement of the antitrust laws."

AT&T has been combative in public, saying the lawsuit defies logic. Time Warner has kept a lower profile, but in a meeting between top company officials and the Justice Department before the lawsuit was announced, its general counsel, Paul Cappuccio, told Mr. Delrahim and his colleagues to be ready for a "shit show" if they challenged the deal, people familiar with the matter said.

Mr. Delrahim, for his part, has offered veiled criticisms of AT&T's claim that it needs the deal to compete effectively.

Daniel Petrocelli, the lead trial counsel for AT&T and Time Warner, said "this is a matter to be discussed in court, not the press."

The case isn't a typical antitrust dispute. Mr. Trump has been a relentless critic of CNN and referenced the news network when he vowed as a candidate to block the deal, saying, "AT&T is buying Time Warner,



Makan Delrahim is the Justice Department's antitrust chief.

and thus CNN, a deal we will not approve in my administration because it's too much concentration of power in the hands of few."

Mr. Delrahim was a private practice lawyer in October 2016 when the deal was announced and Mr. Trump made his remarks. He appeared on Canadian television at the time and said the deal didn't seem to be "a major antitrust problem," though he did say it

could raise some concerns.

AT&T has sought to make use of Mr. Delrahim's 2016 television interview. The company played the clip during a press conference last November. Nothing would appear to prevent the companies from playing the video in court unless U.S. District Judge Richard Leon in Washington disallows it.

In a CNBC interview Friday, AT&T Chief Executive Randall

Stephenson cited Mr. Delrahim's previous remarks on the deal as well as Mr. Trump's opposition, saying, "Those are all the kinds of things that everybody looks at and says, 'What's going on?'"

Last July, Mr. Trump tweeted a video of himself punching a figure with the CNN logo. In December, after the network issued a correction on a story, the president tweeted that "Fake News CNN made a vicious and purposeful mistake."

Mr. Delrahim has pledged to keep politics out of enforcement decisions and has said he didn't talk to the White House about the deal. Roughly 30 career staffers at the Justice Department signed the lawsuit.

The Justice Department's review of the AT&T-Time Warner transaction had been under way for about a year when Mr. Delrahim took over as the department's antitrust chief.

The Justice Department alleges the merger would create a giant corporation that could hobble rivals, force higher

prices for video programming and slow innovation in the age of cord-cutting.

Advocates for strong antitrust enforcement have argued the government's concerns are legitimate, though some also say Mr. Trump's comments were ill-advised.

AT&T and Time Warner's main defense will likely focus on what they see as the deal's potential benefits to media consumers and advertisers. They say integrating AT&T's video and wireless distribution with Time Warner's movie and television content will allow the newly combined company to compete with disruptive companies like Netflix, Google and Amazon that are offering video content in nontraditional ways.

AT&T also emphasizes that its deal is a "vertical" merger of complementary companies, rather than one that eliminates a direct competitor. The Justice Department hasn't litigated a challenge to a vertical merger in decades.

## WORLD WATCH

NATO

**Mattis Urges More Military Outlays**

U.S. Defense Secretary Jim Mattis pressed allies to continue boosting military budgets, even as fresh evidence emerged that increases in European military spending have yet to erase the impact of years of cuts.

The North Atlantic Treaty Organization has in recent days touted an expansion in European military spending, pressured by concerns of a newly aggressive Russia and by a Trump administration push for alliance members to spend at least 2% of gross domestic product on defense by 2024.

—Julian E. Barnes

ZIMBABWE

**Opposition Leader Tsvangirai Dies at 65**

Veteran opposition leader Morgan Tsvangirai has died at age 65. He had been seeking treatment in South Africa after announcing in 2016 that he had colon cancer.

Mr. Tsvangirai for years was the most potent challenger to longtime ruler Robert Mugabe, who stepped down in November.

He came close to the presidency in 2008 when he won the most votes in the election but wasn't seated after Mr. Mugabe's officials verified the count, giving the challenger less than was needed to win outright.

—Associated Press

By GABRIELE STEINHAUSER AND JOE PARKINSON

JOHANNESBURG—South African President Jacob Zuma bowed to intense pressure and resigned, ending a nine-year tenure that dragged the liberation party of Nelson Mandela into a series of political and financial crises that inflicted severe harm on Africa's most-developed economy.

Wednesday's announcement, made on live television just hours after Mr. Zuma said he was resisting his African National Congress party's orders to relinquish his office, came as police units launched dawn raids to arrest some of the president's allies.

Mr. Zuma's resignation leaves the ANC—the party that defeated white-minority rule and whose message of reconciliation and unity spurred South Africa's image as the "Rainbow Nation"—one year until national elections to win back its core constituency.

That task will fall to Mr. Zuma's deputy and new ANC leader, Cyril Ramaphosa, a former union leader who became one of Africa's richest men before returning to politics. Many poor and black voters have been disappointed by the party's failures to end racial inequality and a sense that its



People in Pretoria watched President Jacob Zuma speak Wednesday.

leadership was more concerned with its own enrichment than improving the lives of its people.

"Even though I don't agree with the decision of my organization, I have always been a disciplined member of the ANC," Mr. Zuma, a 75-year-old former ANC spy master who spent years in prison on Robben Island with Mr. Mandela, said at the end of a lengthy television address on Wednesday.

The weeklong dithering over who should be in charge of the country leaves the ANC in its weakest state since Mr. Mandela was elected president in 1994. The party could be in danger of slipping below 50% in next year's elections, having lost control of major cities, including Johannesburg and Pretoria.

"We don't have time to be bickering about who should be president," said the party's treasurer-general, Paul Mashatile.

**Terms of Office For Presidents in Post-Apartheid Era**

◆ **Jacob Zuma**

May 2009 to Feb. 2018

◆ **Kgalema Motlanthe**

Sept. 2008 to May 2009

◆ **Thabo Mbeki**

June 1999 to Sept. 2008

◆ **Nelson Mandela**

May 1994 to June 1999

phosa, too, has pledged to restart his country's economy after a period of lackluster growth and downgrades to junk status by ratings agencies.

The rand currency was little changed against the dollar by late Wednesday after an earlier surge, but is up 8.3% in the nearly two months since Mr. Ramaphosa was chosen to succeed Mr. Zuma as ANC leader.

"There will be extremely high expectations," said Susan Booyens, professor at the Wits School of Governance. "South African society has become much more cynical and observant than it was before Zuma."

Mr. Zuma's submission—which kept citizens guessing until the last moment whether he would resign or fight on—came after a political career largely defined by drama and scandal.

"Theft and corruption in the private sector is as bad as that in government," he said in his final speech as president of the ANC in December, shortly before Mr. Ramaphosa beat Mr. Zuma's preferred choice to succeed him, his ex-wife Nkosazana Dlamini-Zuma.

Mr. Zuma's allies have said in recent days that he had expected a monthslong transition to Mr. Ramaphosa.

Yet Mr. Ramaphosa has moved quickly to cement power.

**Retired Cardinal Opposes Vatican's China Detente**

BY EVA DOU

HONG KONG—As a priest in the 1980s, Joseph Zen helped revive links between the Vatican and Catholics in China after decades of religious repression by the Communist government. Now, the retired octogenarian cardinal is trying to block Pope Francis' detente with Beijing.

Cardinal Zen calls a Vatican plan to recognize seven bishops appointed by Beijing a betrayal of Chinese Catholics who have refused to recognize the authority of government-backed church organizations and faced persecution for their participation in "underground" communities loyal to the pope.

"You are telling them, 'You are stupid for being loyal for so many years. Now surrender,'" Cardinal Zen said in an interview in the Hong Kong seminary he joined seven decades ago.

Vatican officials and Chinese supporters of the plan say healing the 70-year-old rift with Beijing is a way to bring together China's state-backed and unauthorized church communities.

Pope Francis' recognition of the excommunicated bishops would open the way for an already negotiated agreement with Beijing to give him the right to veto its future appointments.



Joseph Zen, 86, once welcomed closer relations between the Catholic Church and Beijing, but became disillusioned by 2012.

Cardinal Zen, 86 years old, ramped up his opposition to the plan after Vatican officials in December asked two underground bishops to cede authority to two Beijing appointees.

"They are appointing bad people to be the shepherds of the flocks. How can you do

that?" he said.

Cardinal Zen says the Vatican risks making the same mistake with China as it did in compromising with Communist regimes in Eastern Europe during the Cold War. His critics call his fierce anti-Communist stance a relic of the past.

Vatican Secretary of State

Cardinal Pietro Parolin, in an interview with the Italian daily La Stampa last month, said repairing ties with Beijing would help all Catholics in China to be in communion with each other and the pope.

Cardinal Zen once shared that view. In the 1980s, after Pope John Paul II called for

building bridges to Catholics in China recovering from persecution under Mao Zedong, Cardinal Zen forged ties with the government-backed church community, teaching in official seminaries.

At the time, he was optimistic for an acceptable compromise. Under Pope John

Paul's successor, Pope Benedict XVI—who elevated him to the College of Cardinals in 2006—Cardinal Zen tried to negotiate the long-sought breakthrough with Beijing.

He thought the two government-run organizations overseeing China's Catholics could be modified to become acceptable to the Vatican. He later became convinced that Beijing wouldn't allow it.

"I had been one of the very first to plead with the Vatican on behalf of the aboveground church," he wrote on his blog in February 2012.

By then, he was disillusioned, having reached the conclusion that Beijing was unwilling to cede any meaningful authority to the Vatican, a view he still holds.

"The atheist government absolutely did not change its policy of total control of religion," he wrote at the time.

Born to Catholic parents in Shanghai in 1932, Zen Ze-kiun grew up during the Chinese Civil War and left shortly before the Communist victory and the beginning of Mao's 27-year rule.

He arrived alone in Hong Kong to join the Catholic Salesian order in 1948.

Taking contentious stands became a familiar role. His fellow Salesians dubbed him "tiger" for his sharp tongue, according to longtime acquaintances.

**China's Catholics Wary at Prospect of More Control From Beijing**

BY EVA DOU

LUOJIANG, China—An emerging rapprochement between the Vatican and Beijing is unsettling communities of Chinese Catholics and increasing pressure on them to join the government-backed church after decades of resistance.

There have been many Catholics in Luojiang since Spanish Dominicans came to farming villages along China's southeast coast four centuries ago. Today most of the 84,000 Catholics in the area, including the community's popular bishop, worship outside the state-sanctioned church.

Now the Vatican is asking Bishop Guo Xijin to step aside in favor of a bishop approved by Beijing as part of a compromise to mend a seven-decade rift with China and bring together state-backed and unauthorized communities.

Loyal followers of Bishop Guo are aghast that he may be replaced by a cleric who takes orders from Beijing, not the pope, and that the diocese might be subsumed into the government-backed entity, known as the Chinese Patriotic Catholic Association, that oversees churches and clergy and advocates independence from Rome.

"It's like a tree with no roots," said one of Bishop

Guo's followers, referring to the association.

Over the weekend Bishop Guo prepared Catholics in Luojiang for the possibility, saying he wouldn't disobey if the pope orders him to step down.

He urged them to keep faith with the pope.

"If one day I'm no longer bishop, then you listen to the next bishop," the thickset 59-year-old told some of his closest followers on Saturday.

The spiritual tumult tugging at some inside the Mindong diocese here compounds an existential crisis for many communities of Catholics in China. Catholics are dwindling in number in an overall aging society and losing out to evangelical Protestants and other religions in competition for converts, according to researchers.

While many of the estimated 10 million Catholics in China worship outside the state-backed church, new government regulations that took effect this month threaten to shut churches that refuse to become part of the patriotic association.

Under the Vatican-Beijing compromise, Pope Francis would recognize seven bishops whose ordination was carried out without the Holy See's approval. In exchange, the pope would have veto authority over

bishop candidates and stop the government from ordaining bishops without the Vatican's permission.

The Vatican secretary of state, Cardinal Pietro Parolin, has defended the negotiations, telling the Italian daily La Stampa last month that there are no "perfect solutions."

The important thing, he said, is finding a way for Catholics in China to be in communion with each other and the pope.

A member of China's top leadership, Vice Premier Wang

Yang, met with Catholic bishops and other religious leaders over the weekend and reiterated that religious organizations must be "Chinese in orientation," meaning independent of foreign control.

In Luojiang, people profess their faith openly. Posters of crosses adorn the red doors of their brick houses, which are lined with papaya trees and chicken coops. Some rise before dawn to pray together in the local Fuan dialect at the Our Lady of Rosary Church.

Many still abstain from eating meat on Fridays, a religious requirement that was relaxed in the U.S. in the 1960s.

When the Communist government under Mao banned religion, Luojiang Catholics gathered and prayed in secret.

"When I was little, we could only pray at home," said Luo Luoyi, a 65-year-old farmer. His father spent 11 years in a labor camp for taking part in church activities in 1955.

Many lay members of the congregation don't know about

the emerging deal with the Vatican, which has received little coverage in state media.

Qi Jinlong, 60, a pious villager who attends Mass seven days a week, calls Bishop Guo a "good bishop." She thinks reconciliation between the Vatican and Beijing would be good for China's Catholics.

"Whether Rome and Beijing come to a deal or not, we will still go to church," said Mr. Luo, the farmer.

In April, Bishop Guo disappeared for a month. After showing up for what he believed was a routine meeting with local officials, he was detained in a house on a mountain, in a room watched around the clock by guards and three security cameras, according to people with knowledge of the incident.

Over several weeks, the officials sought to persuade him to join the patriotic association, those people said. He refused.

At Sunday's evening Mass, Bishop Guo centered his sermon on the biblical story of Jesus healing a leper, emphasizing its message of selflessness.

"Jesus sacrificed for all of us," he told several hundred people packed into the pews, and the dozens standing without seats. "So we should be willing to sacrifice ourselves for those around us."



A parishioner receives communion in April at an underground church near Shijiazhuang, China.

KEVIN FRAYER/GETTY IMAGES

## IN DEPTH

## PAIRS

*Continued from Page One*

It's especially prevalent this year in American ice dance and pairs skating, the two male-female skating events best distinguished by the fact that, in the former, a man whisks around a woman, and in the latter, he lifts or throws her over his head.

It also fuels an ongoing sport for skating fans: Are they a couple off-ice, or aren't they? After all, there are so many mixed signals to decipher—awkward hand placements in programs and prolonged gazes, scowls or lingering hugs while scores come through.

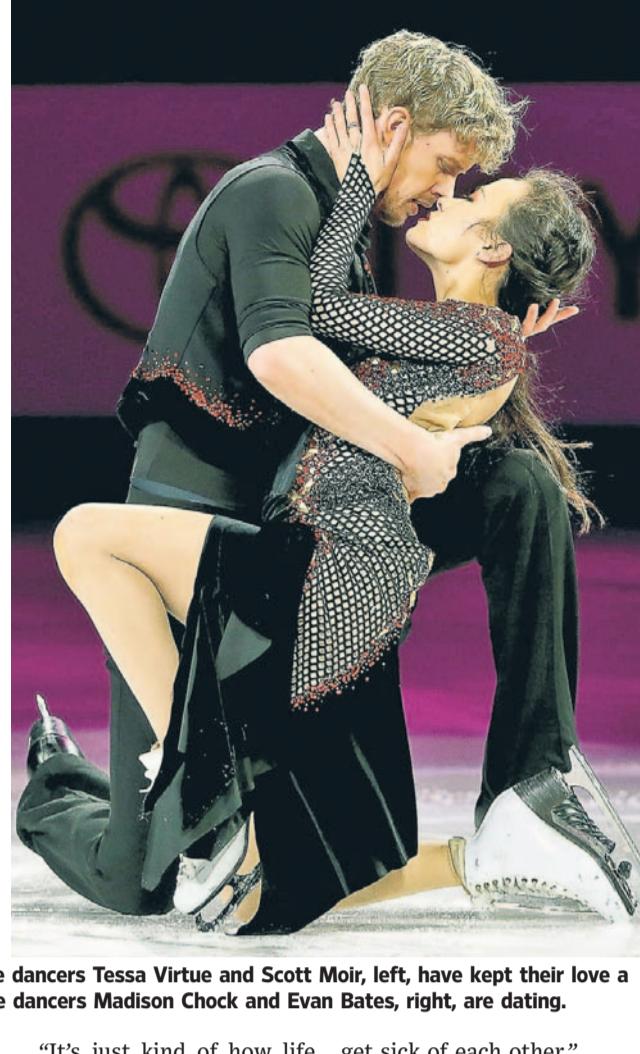
Canada is currently gripped by the possibility that two-time gold-medalist ice dancers Tessa Virtue and Scott Moir, Canadians who do a passionate "Moulin Rouge!" free dance, have kept their love a secret for the two decades they have skated together. The theory revives every four years when they compete at the Games; they have said a brief period of dating is as far as it's gone. She was eight and he was 10.

There are benefits to dating WHILE training: the convenience of a shared commute, hours close together in chilly arenas—and maybe even a performance boost.

In pairs skating, U.S. officials are enjoying the benefits of harmony after watching teams that openly loathed each other split up, scuttling years of training. American pairs skaters Alexa Scimeca and Chris Knierim married each other in June 2016. Their coach was their officiant. They are the lone U.S. pairs entry for Pyeongchang.



**Canada is gripped by the possibility that two-time gold-medalist ice dancers Tessa Virtue and Scott Moir, left, have kept their love a secret for the two decades they have skated together. American ice dancers Madison Chock and Evan Bates, right, are dating.**



FROM LEFT: STEVE RUSSELL/TORONTO STAR/GETTY IMAGES; MATTHEW STOKMAN/GETTY IMAGES

But there is an equal set of downsides: never-ending proximity, the pressure of high-intensity training and competition, and the risk to relationship or career if things sour.

"You're upset with your boyfriend and now you're going to go out there and do a triple twist, have him lift you above his head? You're not going to want to go ice skating and hold hands," said Tarah Kayne, a U.S. alternate in pairs skating who lives with her

skating partner Danny O'Shea but declines to say whether they're romantically involved.

"It's a double-edged sword," she said of the hypothetical considerations involved. "Do I really want to date my skating partner? On the other hand: It's hard to go out and date someone else."

The U.S. ice dancers Ms. Hubbell and Mr. Donohue insist they are better for their breakup, winning their first national title in January with a characteristically sultry performance.

"It's just kind of how life happens," Mr. Donohue said. "If you can handle training with your ex every day, that's great."

American freestyle skier Torin Yater-Wallace has long dated American ski jumper Sarah Hendrickson. Both are in Pyeongchang—and he is married to 2006 Olympic silver medalist Tamith Belbin White. One half of the top-ranked Italian ice dancers here, Anna Cappellini, is married to one half of the top Italian pairs team, Ondrej Hotarek.

get sick of each other."

The ice dance champions of 2014, Americans Meryl Davis and Charlie White, see other people—she is engaged to the son of their coach, and he is married to 2006 Olympic silver medalist Tamith Belbin White. One half of the top-ranked Italian ice dancers here, Anna Cappellini, is married to one half of the top Italian pairs team, Ondrej Hotarek.

But Russian curlers Anastasia Bryzgalova and Aleksandr

Krushelnitckii are married and won the bronze medal on Tuesday. The team they beat, Norway, features the boyfriend-girlfriend duo of Magnus Nedregotten and Kristin Skaslien.

The Norwegians first met at a curling club in Oslo years ago. In a notoriously social sport, they became fast friends. "One thing led to another," Ms. Skaslien said. They soon became a mixed-doubles team.

Their partnership off the ice, they say, has advantages on the ice. Neither curler wants to let the other down. Communication is key, assessing strategy or airing frustrations productively. "Usually you have a high level of tension—good tension," Mr. Nedregotten said. "A good couple is a good team."

Well, not always. The Canadian Olympic curling trials featured several teammates who were couples. For one pair, the competition was more heated than steamy.

"They were really bickering on the ice," said Canadian curler John Morris. "It was quite comical. You're watching this game and you're like, 'Holy smokes! That's how my wife and I talk when we're not doing very well.'"

Mr. Morris won the Olympic gold medal with his platonic teammate Kaitlyn Lawes.

The Norwegian curling lovebirds say maintaining separation between their relationships is essential. In curling, Mr. Nedregotten plays the role of sweeper, using a broom to reduce friction on the ice in front of the stone pushed by Ms. Skaslien. In their Oslo apartment, Ms. Skaslien makes sure to reciprocate.

"He does all the sweeping on the ice," she said, "so I have to do that at home."

## CALM

*Continued from Page One*

sharp moves," said Vijay Chattergy, the fund's chief investment officer, on Feb. 8. He also said "they're within expectations."

For now, investors express confidence these strategies will work out. Others in the market, however, worry that any additional turmoil could spur institutions to quit their "low-vol" strategies. "Our fear is when these strategies unwind," said Alberto Gallo, a portfolio manager at Algebris Investments in London.

Mr. Gallo estimates more than \$500 billion of investment strategies globally are dependent on volatility remaining low. These trades include funds that target or sell volatility by using various derivatives.

The rise of low-volatility bets is among the reasons this downturn is different, investors say, and difficult to predict. Some trades are hard to track. It's also challenging to quantify how much money is in investments betting against volatility or dependent on placid markets. One thing seems certain: with central banks gradually withdrawing their support for the market, the subdued calm of recent years is unlikely to return.

Wagers on low volatility vary by investor. In one popular move, investors bought two exchange-traded products that bet on continued stability for stocks—the ProShares Short VIX Short-Term Futures exchange-traded fund and the VelocityShares Daily Inverse VIX Short-Term exchange-traded note. These were a wager that the key volatility index would fall and stay low.

Together, these funds managed \$4 billion until the recent market turbulence, with much of that money coming from the likes of big investors such as Harvard University.

Harvard's endowment, Harvard Management Co., owned over 100,000 shares of the ProShares Short VIX fund as of the end of the third quarter of 2017, filings with the Securities and Exchange Commission show. Its fourth-quarter filing indicate it sold the position, though Harvard's current holdings are unclear.

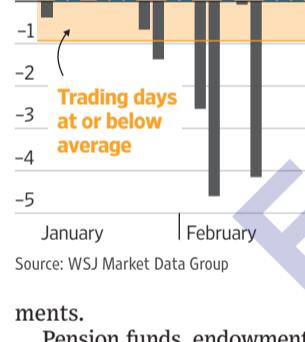
## 'Tsunami of money'

"There's a tsunami of money going into" these types of strategies, said Don Dale, a managing member of consultant Equity Risk Control Group. The firm advises large pension funds and endow-

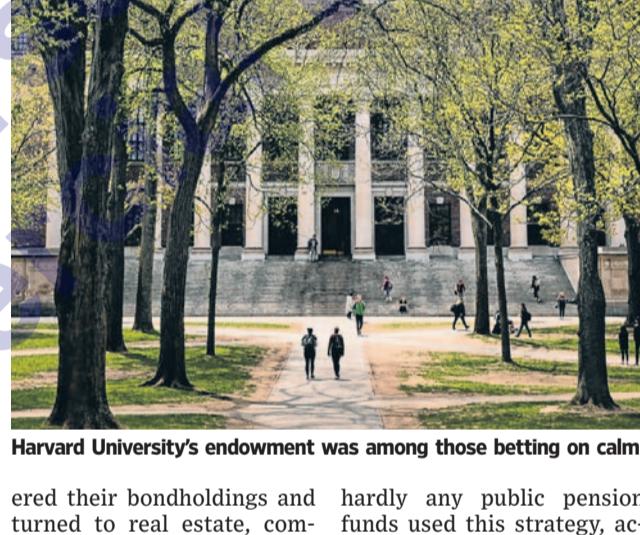
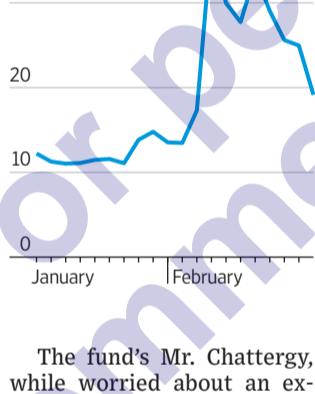
## Return to Volatility

Since the beginning of February, U.S. stocks have become more volatile...

## Dow Jones Industrial Average



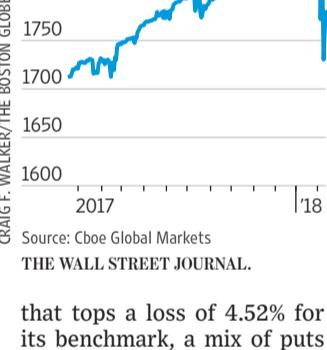
...causing the Cboe Volatility Index, or VIX, to jump in response.



**Harvard University's endowment was among those betting on calm.**

## Sudden Fall

Returns on the Cboe S&P PutWrite Index, which approximates the value of bets against the possibility of a volatile bear market, plunged in February.



that tops a loss of 4.52% for its benchmark, a mix of puts on stock indexes and compares with a 5.90% loss for the S&P 500 through that date.

The Neuberger Berman products have outperformed their benchmarks in recent years and the firm notes the price for the puts rises when markets tumble, making the fund a lower-risk way to invest in stocks.

"The efficacy of these strategies manifests itself over months and quarters," said Doug Kramer, who oversees the strategy at Neuberger. "Everything's functioning as designed. We're happy to have higher volatility and be able to underwrite higher option premiums."

Public pension plans including the Illinois State Universities Retirement System have invested in these products. Illinois SURS declined to be interviewed for this article.

The market's rebound over the past few days has sparked a new round of investments in some of the riskiest of the volatility trades. The ProShares Short VIX fund, which posted a 97% drop in net asset value last week from its high price in January, has since rebounded—even though volatility indexes such as the one the fund is designed to track can have outsize moves, and likely would see heavy losses and face possible liquidation if volatility spikes again.

On Tuesday, it closed at \$11.29, up from a low of \$9.58 on Feb. 8, and its market value is now nearly \$800 million, up from \$300 million just last week.

"People are jumping back into this product again," said Pav Sethi, chief investment officer of Gladius Capital Management, an investment firm focused on volatility strategies, "despite the clear structural risks."

The fund's Mr. Chattergy, while worried about an extended downturn, says Hawaii has taken steps to mitigate losses. He said Hawaii will continue to sell these put contracts, convinced the income will offset market turbulence. "We're continuing to trade the strategy."

The low-vol trade has worked every year since markets began rebounding in early 2009. Until Feb. 6, the S&P 500 had enjoyed 404 consecutive trading days without a 5% correction, the longest such streak since September 1959, according to Bianco Research LLC. The average close of the Cboe Volatility Index was 11.09 last year, the lowest average on record going back to 1990.

Many big investors who flocked to these products have been under unique pressures to generate returns.

Pension funds, endowments and family offices took other steps, including selling VIX futures and options, selling options on the S&P 500 or other indexes and selling options on individual shares or other indexes.

Pension funds, endowments and family offices took other steps, including selling VIX futures and options, selling options on the S&P 500 or other indexes and selling options on individual shares or other indexes.

As a result, many have low-

ered their bondholdings and turned to real estate, commodities, hedge funds and private-equity holdings. These so-called alternative investments rose to 26% of holdings at about 150 of the biggest U.S. funds in 2016, compared with 7% more than a decade earlier, according to the Public Plans Database, which is

hardly any public pension funds used this strategy, according to Wilshire Consulting President Andrew Junkin. He estimated more than 60 of the nation's more than 6,000 pension funds now do.

## Puts for sale

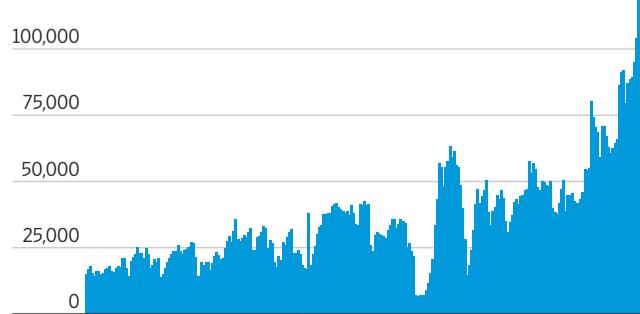
A growing number of Wall Street firms have been selling volatility-related strategies to pension funds and other big investors. Neuberger Berman's U.S. Equity Index PutWrite Strategy sells puts on stock indexes. Part of the value of a put relates to the volatility of underlying stocks. By selling the puts, the fund aims to generate steady income in stable markets.

In a document prepared for an Illinois pension fund, the firm argued that behavioral biases in financial markets mean investors "ultimately overpay for protection." The Neuberger Berman options products have attracted about \$3 billion over the past two years.

But the strategy suffers losses when stocks fall. So far this month, the fund has lost 4.37%, through Feb. 12, though

## Betting Against Fear

The number of bets against volatility, as measured by the Cboe Volatility Index, held by asset managers, including pensions, endowments and others



Note: Includes futures and options  
Source: FactSet



THE WALL STREET JOURNAL.

# GREATER NEW YORK

## Bribery Trial Is a Lesson in Stereotypes

Ex-Cuomo aide's case is peppered with ziti and other terms linked to Italian-Americans

BY ERICA ORDEN  
AND MIKE VILENSKY

For New York Gov. Andrew Cuomo, who has long expressed an aversion to stereotypes relating to Italian-Americans, the testimony from the federal bribery trial of one of his former top aides may be particularly hard to stomach.

Over the past few weeks, the trial of the former aide, Joseph Percoco, has been laced not only with dozens of references to "The Sopranos," from which prosecutors say Mr. Percoco derived the use of "ziti" as a code word for bribes, but also talk of home-cooked white sauce, Italian eateries and the construction industry.

Mr. Percoco and three private executives are on trial for allegedly exchanging more than \$300,000 in payments for government favors. Mr. Cuomo, who is seeking re-election, hasn't been accused of wrongdoing.

The case has inspired New York City tabloid covers screaming "Pasta La Vista!" with the Democratic governor's face placed aside a plate of sauced noodles, and prompted GOP operatives to protest outside the courthouse, armed with oversize boxes of "Cuomo's Brizbeni."

A spokeswoman for Mr. Cuomo declined to comment.

Hank Sheinkopf, a former adviser to the governor, said such stereotypes were "something that would offend any decent people, including the governor." He added: "Especially ziti. For a very fine form of food to be turned into a term for a felony is quite extraordinary."

When the "ziti" charges first emerged in 2016, Mr. Cuomo remarked it was "the first time I didn't miss [my father] being here," he told reporters, "because it would have broken his heart."

Mr. Cuomo has long made clear his aversion to clichéd images linked to his heritage. His father, former Gov. Mario Cuomo, also a Democrat, was so repulsed by Italian-American stereotypes related to organized crime that he famously

### A Glossary of the Trial Terminology

#### ZITI

**Trial definition:** Cash received in bribery schemes, as used in HBO drama "The Sopranos" and in emails of former associates of Gov. Andrew Cuomo.

**Usage:** "Don't burn the ziti!!!" or "Don't want to tip over the ziti wagon."

#### FAT MAN

**Trial definition:** A nickname for energy-company executive Peter Galbraith Kelly Jr., who allegedly

refused to see "The Godfather" until 2013, when he was 81 years old. The elder Mr. Cuomo died in 2015.

In 2010, Andrew Cuomo said his father had experienced bias in his law and political careers due to his background. "He is the model of decorum and civility and grace," Mr. Cuomo told the New York Times, "and he was on the stage at the same time that you were watching Italian-Americans depicted in movies and television as thugs

paid bribes to Joseph Percoco in exchange for government favors.

**Usage:** When worried that Mr. Kelly would get angry and have a heart attack, Mr. Percoco emailed: "fat man is down for the count."

#### A LOW-SHOW JOB

**Trial definition:** A job that provides excessive compensation for minimal work, often given as a favor.

**Usage:** At Mr. Percoco's request, witness Todd Howe secured a job connected to an energy company for Mr. Percoco's wife, Lisa, that paid her nearly \$300,000 over

three years for minimal work.

#### HERB

**Trial definition:** A nickname for men who work in New York politics, and each other. Herbert, a variation on the nickname, was given to Howard Glaser, a former aide to Gov. Andrew Cuomo, because, per Mr. Howe, he went to Harvard and deserved a more dignified nickname.

**Usage:** "Lay it on heavy Herb!" or "I have no ziti Herb. none. but...enjoy your vacation. I will send my kids in the backyard with the garden hose."

The judge didn't allow prosecutors to play the clip, but the jury has spent weeks hearing testimony peppered with talk of Italian pasta. Mr. Percoco and a self-described co-conspirator, Todd Howe, traded hundreds of emails about their efforts to obtain "ziti."

Asked if he had used the term "ziti" in an email before the alleged bribery schemes began, Mr. Howe replied, "Look, I don't know the difference between ziti and angel hair. I eat Italian food, that's all I know."

The ethnic overtones of the trial have prompted a political skirmish outside the courtroom. Republican gubernatorial candidate Joel Giambra, while noting that he, too, is Italian-American, put out a statement last week saying, "Cuomo and Percoco ran the Governor's office like the mafia—with bribery, a pay-to-play protection racket and a life-long membership that punished individuals who tried to leave."

His comments elicited a response from the founder of the National Organization of Italian American Women, Aileen Rivotto Sirey, who chided Mr. Giambra for using a "disgusting and archaic ethnic slur."

and people who were crude."

Such sensitivities have arisen in the trial of Mr. Percoco, who also worked for the elder Mr. Cuomo—though largely out of earshot of the jury. In one instance, prosecutors attempted to show the jury a clip of "The Sopranos" in an effort to illustrate that Mr. Percoco had used "ziti" to mean a bribe. Mr. Percoco's attorney said the video would prejudice the jury because it would associate Mr. Percoco with a show

about criminals.

A lawyer for one of the three other defendants agreed.

"I just want to point out that in this particular case—and I'm not ascribing any sinister intent to the government—but you happen to have three Italian-Americans on trial, and there's a construction industry, and many ethnicities deal with different types of stereotypes, and this one fits right into it," said the attorney, Milt Williams.

## Millennials Are Whipping Up New York Politics

BY MIKE VILENSKY

Democratic candidates in New York City's primaries this year are energized and growing in numbers. Their targets aren't Republican adversaries—they are veteran Democratic incumbents.

In Brooklyn, 30-year-old Adem Bunkeddeko, a recent Harvard Business School graduate, is taking on Rep. Yvette Clarke, who has held her House seat for 11 years. In Queens, Alexandria Ocasio-Cortez, a 28-year-old former Bernie Sanders volunteer, is challenging Rep. Joseph Crowley, who is 55 years old and chair of the House Democratic Caucus. And in Manhattan, Suraj Patel, a 34-year-old lawyer and former Barack Obama aide, is running against Rep. Carolyn Maloney, 71, who has held her seat for 25 years.

Ms. Ocasio-Cortez drew a comparison to the Tea Party Republicans who ousted established conservatives in the wake of Mr. Obama's 2008 presidential victory.

"We have a chance to do here in New York what happened to Eric Cantor," she said, referring to the Republican House Majority Leader's defeat in Virginia by a right-wing insurgent in the 2014 primary.

Democrats are eager to channel Republican President Donald Trump's low approval

ratings into a strong showing in November. However, challenges to their own seats aren't part of the playbook to regain control of the House, and Republicans are hoping it strengthens their candidates.

Chris Martin, spokesman for the GOP Congressional Committee, said contested primaries could hurt Democrats in general elections when candidates have to appeal to a broader electorate. "It ends up pulling mainstream candidates to the left," he said.

In New York City, where Democrats outnumber Republicans by seven to one, the winners of some Democratic primaries are considered de facto victors because of the lopsided party-registration numbers. Manhattan hasn't had a Republican elected officeholder at the city, state or federal level since Michael Bloomberg first ran for mayor in 2001. Mr. Bloomberg later became an Independent.

New York City's Democratic establishment has been able to handily hold off primary challengers in the past. For instance, Ms. Maloney won with more than 90% of the vote in 2016.

The old guard is sanguine about their chances. A spokesman for Mr. Crowley noted the longtime representative's large past victory margins and said "this year will be no different."

Please see RACES page A8B



**Suraj Patel, left, Alexandria Ocasio-Cortez and Adem Bunkeddeko are challenging Democratic incumbents in New York this year.**

## Mirror, Mirror on the Wall, Who's The Fairest Big City of Them All?

BY MARA GAY

Mayor Bill de Blasio is kicking off his second term with a new favorite superlative, a promise to make New York City the "fairest big city in America."

The goal is as lofty as it is ill-defined, and the mayor has offered a 12-point plan to accomplish it. It mostly includes his longstanding policies, such as building affordable housing and taxing millionaires to fixing the subways.

At his annual State of the City address Tuesday night, Mr. de Blasio used the word "fairest" at least 10 times, and the word "fair" about 40 times. The phrase first appeared in his reelection victory speech last November, and then again at his January inauguration. Weeks ago, it popped up on official New York City literature, on a

title page of the city's \$88.7-billion budget book.

"Three years, 10 months and 15 days. That's how long this administration has to ensure New York City becomes the fairest big city in America," the mayor said Tuesday from the stage of Brooklyn's Kings Theatre. He then held up the evening's program, which featured the "fairest" phrase on its cover.

Mr. de Blasio doesn't shy away from using superlative language to describe his vision for the city. During his first term, he described his policies as "historic" or "transcendent." He frequently refers to New York as "the safest big city in America." The city had its lowest number of murders since the 1950s last year.

But the city is a place of extremes. The booming economy has come with soaring real-es-

tate prices that have put pressure on the middle class and the poor. More than 70,000 people are living in shelters. The city's ailing public-housing authority has left more than 320,000 people without heat or hot water at times this winter.

A report from the Brookings Institution this month found that New York City had the eighth-largest gap between the wealthy and the poor of any major city in the U.S. last year. The report found that income inequality had worsened during Mr. de Blasio's first term.

"If you're going to say that, great, but what does it mean when 80% of public housing residents have no heat or hot water?" said Councilman Jumaane Williams, a Brooklyn Democrat.

Outside Kings Theatre on Tuesday, tenants-rights activi-

sts, corrections officers and public-housing residents came out in protest, taking issue with evictions, conditions at the Rikers jail complex, and the widespread heat and hot water woes.

The mayor's goal is to extend the prosperity and opportunity of our city to residents long left out of it," said Mr. de Blasio's spokesman, Eric Phillips. "Being the greatest city in the world requires a level of fairness that has too often eluded our city's growth."

Some political insiders said that in politics, that kind of sweeping language can lead to trouble.

George Arzt, who was a spokesman for former Mayor Ed Koch, a Democrat, said he advised Mr. Koch to steer clear of superlatives. "You can never live up to them," he said.

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## GREATER NEW YORK

# The Bronx Is Back, Baby!

The once burned-out borough is attracting interest from renters and buyers priced out of hot areas

BY JOSH BARBANEL

The Bronx is the new Brooklyn. Sort of.

Following in the footsteps of Queens, Hoboken and Jersey City, the Bronx—especially the gritty, once scorched South Bronx—is attracting new interest from renters and buyers priced out of Brooklyn and other trendy areas.

The latest evidence: data showing that home prices in New York

**PROPERTY** City's northernmost borough have eclipsed the previous record high set in 2006, fueled by a surge in prices in the South Bronx, according to the Real Estate Board of New York.

The benchmark, already reached by the other boroughs, shows the relentless demand for housing in neighborhoods with easy public transportation to Manhattan.

"It is all about transportation and value compared with Brooklyn, Queens and Manhattan," said Charles Brophy, a Douglas Elliman real-estate broker, who has watched the ups and downs of the housing market in Kingsbridge Heights in the northwest Bronx for more than four decades.

The median price for a house in Kingsbridge Heights and nearby neighborhoods rose 15% in the fourth quarter to \$470,000 compared with \$407,000 in the same quarter the year before, according to the Real Estate Board.

That included a Tudor house near Van Cortlandt Park that Mr. Brophy sold for \$565,000 in December. The buyer, he said, was from the Midwest by way of Brooklyn, and was attracted to the diversity and transportation in the area.

Across the Bronx, the average sale price for one-to-three-family houses was \$515,000, up 2% from a peak set in the fourth quarter of 2006. The median price of \$499,000 was 1% below the peak set in the second quarter of 2017.

John H. Banks, the president of the Real Estate Board, said he remembers vividly the 1970s, when the Bronx was known for widespread arson fires and other crimes.



A rendering, above, of a six-tower complex with about 1,280 apartments along the Harlem River. Below, homes also located in the Bronx's Mott Haven neighborhood.



Since then, he said, the Bronx, like the rest of the city, had undergone a significant transformation.

"The Bronx is coming to that transformation a little bit later, but it is happening nonetheless," he said.

The borough has a way to go, even after large public investments in affordable-housing developments over many years. It has the highest poverty and unemployment rates and lowest me-

dian-household income of any borough, according to 2016 data from New York University's Furman Center.

Crime in the Bronx has fallen sharply, though somewhat less than in other boroughs, with major crimes in the Bronx, down 75% since 1990, and robbery down 80%, according to police data. But the population, which fell more than 20% during the 1970s, has been edging up since 1980, including a gain

of more than 70,000 people since 2010, according to the Census Bureau.

The reinvention of the Bronx is most evident in Mott Haven in the South Bronx, where a small supply of homes on the market caused a jump in real-estate prices toward the end of 2017. Luke Selimaj, a broker at Weichert Properties, said prices have been rising steadily in parts of the South Bronx below East 149th Street.

Last August, Mr. Selimaj put a modest two-family brick house on East 144th Street in Mott Haven on the market for \$669,000. It was built in the 1990s as part of an affordable-housing program. After a bidding war among several buyers, the property sold in December for \$705,000, according to real-estate website StreetEasy.com.

Soon after, Mr. Selimaj listed a similar house with a larger yard, at 425 East 144th St., for \$925,000, a price above what anything similar has ever sold for. It, too, went into contract

quickly, for more than \$850,000, he said. "I took advantage of the low inventory," he said. "Either you want it or you don't. You have no other option."

The buyers, he said, are moving from Long Island, and wanted a location an easy drive to visit family in New Jersey and in Westchester.

Now, developers are focusing on the southern edge of Mott Haven, within about a half-hour subway ride to Midtown Manhattan. They are reclaiming old redbrick industrial buildings, former ice plants and piano factories, and bringing in restaurants and bars to add buzz.

"Mott Haven reminds us of SoHo 30 years ago and, similarly, Dumbo 15 years ago," said Robin Schneiderman, a managing director of Halstead Property Development Marketing.

In a market analysis, Mr. Schneiderman predicted a "rapid gentrification," with at least 10 multifamily projects in Mott Haven under de-

velopment, attracting more than 2,000 rentals and condominiums, along with 400 hotel rooms nearby. The idea, Mr. Schneiderman said, would be to set rents and sale prices close to but below those available in more hip neighborhoods such as Long Island City, Downtown Brooklyn or Harlem.

One new six-story luxury rental building with 130 apartments at 25 Bruckner Blvd. has just begun leasing, with a one-bedroom unit listed at \$2,200 a month after concessions.

The biggest project planned is a six-tower development with about 1,280 apartments, planned by Somerset Partners and the Chetrit Group along the Harlem River in Mott Haven.

A few blocks away, a Bronx-based developer, Joshua Weissman, is constructing a 91-unit rental building with views of Manhattan and the Harlem River.

"The fact is, the Bronx is safe and the Bronx has a cool story," he said.

## 'Cute Counts for a Lot' at the Westminster Dog Show

BY LAURA KUSISTO



Flynn, a bichon frise, posed after winning the 142nd Westminster Kennel Club Dog Show in New York.

tween winning and losing is often a steak dinner. But for committed humans, the stakes can be much higher. Top show dogs typically live full-time with professional handlers, who often take them to 150 or more dog shows a year. Owners can spend upward of \$100,000 a year on campaigning a top dog, who rarely lives with them.

"You either have to be crazy or have a lot of money," said Ernesto Lara, who handled one of the finalists, a 5-year-old Norfolk terrier named Winston. Like most wire-haired terriers that compete in the show ring, Winston can't be clipped—he must have his hair hand plucked.

Dog show participation has generally declined over the past decade, and many of the two-legged participants are aging, as the sport struggles to attract younger recruits. But every year the Westminster Kennel Club, where roughly 2,800 dogs vie for the top purebred prize, injects the 19th century pastime with more widespread attention and energy.

The runner-up in Tuesday's competition, a 4-year-old Giant Schnauzer named Ty, was the top-ranked dog heading into the competition, according to DN Dog News Magazine.

## RACES

Continued from the prior page

A spokeswoman for Ms. Clarke said the congresswoman is "an advocate on critical issues" and is "running on her record."

A Maloney spokesman cited the lawmaker's work bringing publicly funded health care to 9/11 responders and securing financing for the Second Ave-

ne subway stations that opened last year.

"In these crazy times, I want someone who is going to fight for me and deliver," said Jessica Lappin, a supporter of Ms. Maloney and a former Manhattan councilwoman.

Primary candidates say this year is different: There are more of them, they are younger and more energized. They also have backing from new activist groups, and some have raised considerable money in a

short period.

On the New York state level, five of the eight Democratic legislators who are part of a bipartisan majority coalition in the state Senate are facing primary challengers from a group of largely young candidates working in concert.

Largely first-time candidates under 40, these challengers at the state and federal levels say they are coordinating, helping each other strategize and fundraise

as they take on politicians flush with campaign cash and aided by longstanding political relationships.

"What a lot of people learned from the Trump election is anyone can run," said Monica Klein, a Democratic strategist and former aide to Mayor Bill de Blasio. "The game has changed."

The crowded Democratic primary landscape in New York City this year mirrors a national deluge of Democratic

candidates declaring bids for office. A spokesman for the Democratic Congressional Campaign Committee said the party has fielded "viable candidates" in 99 of the 101 seats they consider competitive.

Mr. Patel, Ms. Maloney's challenger, cited a "generational divide" among Democrats on issues such as criminal-justice, Wall Street regulation, and Mr. Obama's Iran nuclear deal. "I think we need to turn the page," he said.

—Mike Vilensky

TRANSPORTATION

## NJ Transit Board Confirms New Chief

Kevin Corbett, a former vice president at multinational engineering firm Aecom, has been confirmed as the next leader of NJ Transit.

NJ Transit's board of directors approved New Jersey Gov. Phil Murphy's nomination of Mr. Corbett at a meeting in Newark on Wednesday.

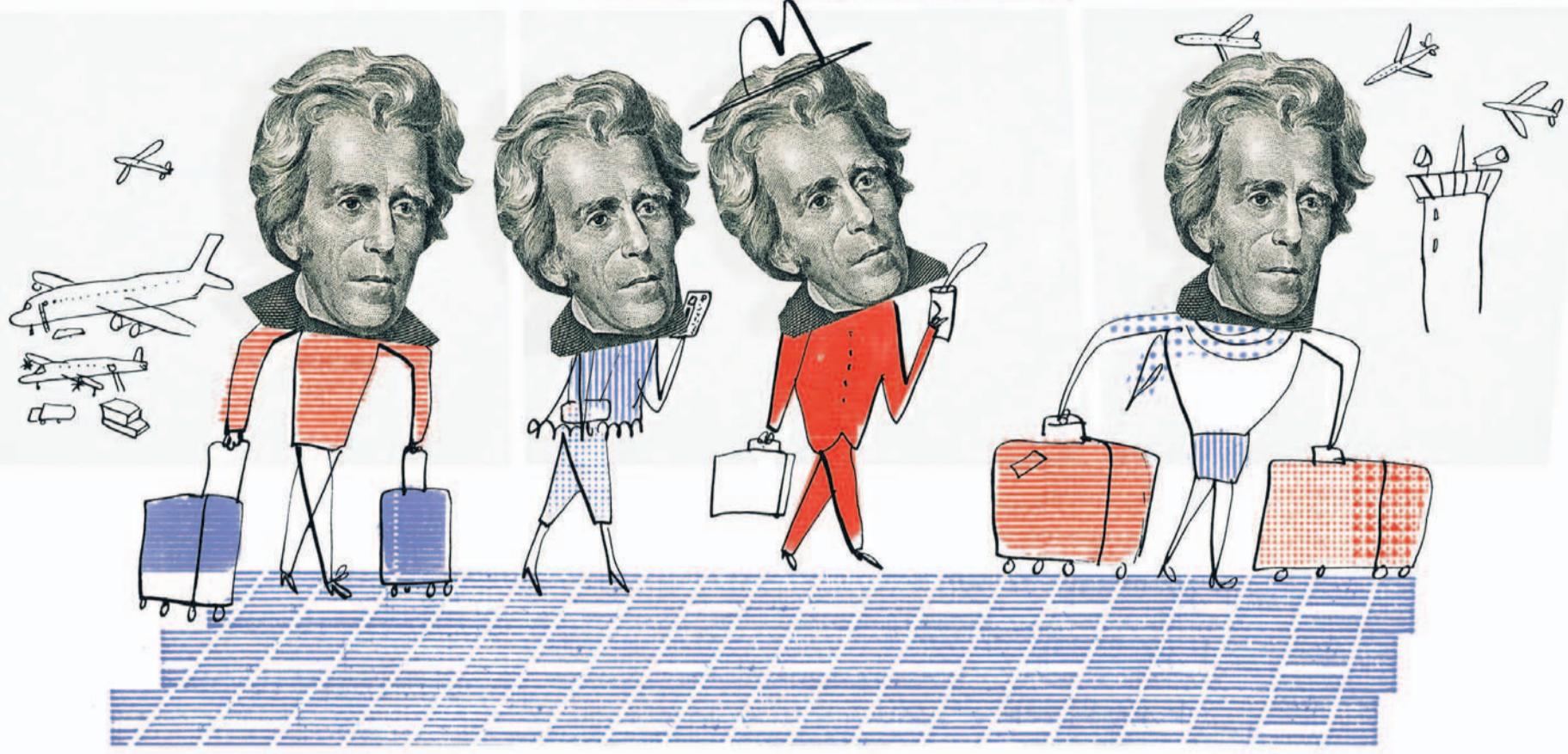
Mr. Corbett's position running one of the largest bus and rail systems in the U.S. pays \$280,000 a year, according to NJ Transit documents.

He takes over at a difficult time. Customer satisfaction and staff morale are low following years of financial cuts, poor service and safety concerns.

—Paul Berger

# LIFE & ARTS

## GATE 20



**NEXT TIME YOU** board a flight, just imagine you're putting a \$20 bill in the airline's tip jar.

Profit per passenger at the seven largest U.S. airlines averaged \$19.65 over the past four years—record-setting profitable years for airlines. In 2017, it stood at \$17.75, based on airline earnings reports.

In truth, airlines now cover their costs with tickets and get their profits from baggage fees, seat fees, reservation-change fees and just about all the other nickel-and-diming that aggravates customers. You might also call those extra 12 to 15 passengers now crammed onto each flight "Andrew Jackson" for the profit they bring.

It takes a lot to earn a little moving people.

U.S. airlines experienced plenty of years of steep losses, when creditors were subsidizing tickets for travelers. But now, profit margins—about 9% in 2017—are healthy. Keeping around \$20 from every passenger is about twice the profit airlines in the rest of the world get, according to data from the International Air Transport Association.

"It's certainly high by airline historic standards. But it's not high if you look across other companies in the U.S. economy. It's average," says Brian Pearce, IATA's chief economist.

U.S. airlines were on pace to take in more than \$4 billion in baggage fees and \$3 billion in reservation-change and cancellation penalties in 2017, according to Transportation Department data. (The full year hasn't been tallied yet.) Most of that drops straight to the bottom line. The two categories add up to about more than half of the net profits airlines posted last year.

Airline earnings are further boosted by other fees for things like seats assignments, extra legroom, early boarding and pets, plus sales of frequent flier miles to banks for credit-card rewards.

**THE MIDDLE SEAT** | By Scott McCartney

## How Much of Your \$355 Ticket Is Profit?



ILLUSTRATION BY SERGE BLOCH; PATRICK T. FALLON/BLOOMBERG

A Southwest plane is refueled at John Wayne Airport in Santa Ana, Calif., in April 2016. As fuel prices rise, so do costs.

Given the \$20-per-passenger haul (\$40 round-trip), it's easy to see why airlines are so intent on cramming in more seats, even when they know travelers hate the lack of space and complain bitterly about shrunken bathrooms, slim seat padding and skinny rows.

Last year, the average round-trip fare on the seven largest U.S. carriers—American, Delta, United, Southwest, Alaska, JetBlue and Spirit—was \$355, based on their financial reports, up from \$351 in 2016. Getting an extra two rows of seats on a plane can mean the

difference between profit and loss.

Of course, some passengers are far more profitable than others. First-class and business-class travelers are more valuable when they pay for their tickets; less when they get a free upgrade. But even then, road warriors are often upgraded from high-dollar, last-minute coach tickets. Frequent travelers account for a large percentage of airline revenue—and profit.

Low-fare passengers shoehorned into the back of the plane may not even be covering what it costs to

### FLIGHT CHANGE

Airlines earned an average \$18 per passenger in 2017, down slightly from the four-year average of \$20.

Airline	Average Profit Per Passenger 2017	Average Fare
JetBlue	\$29	\$157
Alaska	\$23	\$155
Southwest	\$22	\$147
Delta	\$19	\$187
Spirit	\$17	\$109
United	\$14	\$219
American	\$10	\$181
Average	\$18	\$177

Notes: Based on each time a passenger boards a flight, including fees that contribute to passenger revenue. American, Delta, United and Spirit include frequent-flier award passengers; Southwest, Alaska and JetBlue count only revenue-paying passengers; all figures rounded. Source: the companies

transport them. But they scored a low fare because the airline was concerned it might not fill all the seats on a particular flight, and some fare is better than no fare.

IATA's Mr. Pearce says airline profits last year were squeezed by higher fuel and labor costs, and that trend is continuing in 2018. Jet fuel prices were up 26% last year compared with 2016, and prices are expected to be about 10% higher this year. Airline fuel efficiency has improved significantly world-wide as newer planes go into service, and older

gas-guzzlers are retired. But higher fuel prices have driven airline costs higher.

At the same time, expanding competition from low-fare carriers has kept fare increases small. Big airlines are building up in competitive markets like Seattle, Boston and Los Angeles. Even some cities that saw dramatic air-service cuts are getting more flights now; Delta recently announced an expansion in Cincinnati, for example. With more empty seats to sell, airlines are finding it even harder to raise ticket prices.

"Fares are too low for oil prices this high," American Airlines Chief Executive Doug Parker said on an earnings call with analysts last month. "Over time you'll see it adjust."

American spent \$1.3 billion more on fuel in 2017 than the previous year, a 22% increase. The carrier also spent nearly \$1 billion more on labor, a 9% increase. The airline grew only about 1% last year, so rising costs meant earnings were down \$757 million. Thus Mr. Parker is pushing for higher fares.

Among the big U.S. airlines, Southwest had the largest net profit margin last year, at 16.5%. Southwest continues to defy conventional airline wisdom. It doesn't charge baggage fees; instead, it believes it attracts more passengers to each flight because many want to avoid the baggage fees charged by competitors.

Alaska, JetBlue and Spirit all had higher profit margins than American, Delta and United. American had the lowest profit margin among the top carriers, at 4.5% in 2017.

Airlines' average profit margin of 9% is about average for a U.S. business. Last year McDonald's posted a net profit margin of 23%; FedEx, 5%. But that average is a leap for an industry that had cumulative losses from 1979 to 2014 of \$35 billion and suffered six major bankruptcies in the 2000s.

### TELEVISION

## ORGANIZED CRIME TAKES ON A CORPORATE SHEEN



Aleksey Serebryakov and James Norton in 'McMafia,' a crime drama coming to AMC later this month.

BY TOBIAS GREY

**GLOBAL CORPORATE** crime comes out of the shadows and becomes a brand with its own logo in "McMafia."

Based on a 2008 nonfiction best-seller of the same title by British investigative reporter Misha Glenny, the eight-part BBC drama began airing in the U.K. in January, where it averaged over seven million viewers per episode. It is scheduled to premiere in the U.S. Feb. 26 on AMC.

"McMafia"—a term Mr. Glenny coined for the franchise-like nature of modern criminal organizations—stars James Norton ("War & Peace," "Happy Valley") as Alex Godman, a financier of Russian-Jewish descent who turns to money-laundering when his London-based hedge fund goes into a tailspin. His financial problems lead him to strike a deal with an Israeli casino operator (played by Oscar nominee David Strathairn) who dabbles in heroin and sex trafficking on the side.

After the first two episodes of "McMafia" aired in the U.K., the U.K. Lawyers for Israel, an advocacy group, accused the show of anti-Semitism, saying it added "gratuitous slurs" against Israeli businessmen and Israel itself that weren't in Mr. Glenny's book. The Russian Embassy in London tweeted that the show depicts "Britain as a playground for Russian gangsters" and said that crime among Russians in the U.K. is well below the national average. The BBC declined to comment.

Yet the series also has its supporters, including British security minister Ben Wallace, who praised it as "very close to the truth" and said it should be used to raise awareness of corruption by foreign criminals and politicians in the U.K.

"I like to think that what the show does is highlight a corrupted system, which anybody with the opportunity will take advantage of," says Mr. Glenny, who worked on the script with five other writers. "It is not a critique of a particular nationality or a particular culture."

Please see *MCMafia* page A10

## LIFE &amp; ARTS

## TELEVISION

## New Pot Channels Face Hurdles

BY JOE FLINT

**WITH MARIJUANA-CENTRIC** shows like HBO's "High Maintenance" and Netflix's "Disjointed," and seemingly constant references to the drug on other mainstream television series, it would seem the time is right for a channel devoted to those who like to get high.

But as entrepreneurs Dan Goman and Alex Nahai are learning with 420TV, their Beverly Hills, Calif.-based video-on-demand and streaming service, there are hurdles upon hurdles when it comes to cannabis content.

Set to launch online on Feb. 22, 420TV has struggled to find major TV distributors willing to carry the service and advertisers to sponsor it. Getting insurance coverage to produce shows has been a challenge, since many insurers are reluctant to get involved with programs featuring marijuana or that have it on set.

There are scores of legal issues, ranging from when and how marijuana use can be shown, to how the programming and channel—its name is a nod to a popular time of day for pot consumption—can be marketed. Laws vary from state to state, further complicating matters.

"No one seems to have a very firm grasp of what you can and can't do," said a frustrated Mr. Goman, who co-founded the service with Mr. Nahai. "It didn't seem to me that it would be that complicated."

Mr. Nahai added: "When there isn't any precedent, that leads to very long, drawn-out, unclear discussions."

Even the online launch of the channel isn't without headaches. The channel operates a Facebook page, for example, but isn't al-



Dina Browner hosts a new show on 420TV, one of two marijuana-focused streaming services launching this year.

lowed to buy advertising through the social-media service. A Facebook spokeswoman said 420TV violated its policy against misleading or false content but declined to elaborate.

Mr. Goman, 39 years old, previously worked as a program manager at Microsoft and consulted for AT&T Wireless, while Mr. Nahai, 30, has entertainment roots, including stints at talent agencies WME and UTA.

420TV is owned by Las Vegas-based holding company Genesis Media LLC, which is backed by a marijuana cultivator. 420TV said it has received \$20 million in outside

funding and expects to put \$50 million into the service over the next 10 years.

Messrs. Nahai and Goman have heard all the jokes, but they stressed that their channel, in development for a little over a year, is one with a strong lineup and opportune timing. Its programming is to include "420TV News," a daily show that airs, naturally, at 4:20 p.m., along with shows about medical marijuana, cannabis entrepreneurs and "Super Slackers," a cartoon from a former director and animator of "The Simpsons."

"This is a premium product," Mr. Goman said. "This isn't some-

body in their mom's basement, smoking a joint."

Dina Browner, a Southern California dispensary owner nicknamed Dr. Dina by loyal customer Snoop Dogg, is set to host another series, "Top Shelf With Dr. Dina." Think CNN's "Anthony Bourdain Parts Unknown" but for pot instead of food, said Ms. Browner, who also consults for "Disjointed," the Netflix comedy about a dispensary owner starring Kathy Bates.

Despite the setbacks, 420TV said it will follow up its online launch with an over-the-top video service and on Apple TV and Roku in the summer. Apple and Roku

didn't respond to requests for comment. 420TV is also in talks with traditional cable providers, though none have signed on to carry the service yet.

"We had one of the largest cable companies in the country say this is very 'fresh,' but it's a very touchy subject with the people at the top," Mr. Goman said. The hope is that if 420TV attracts viewers, then distributors will reconsider. It will be offered free until it reaches one million subscribers, with plans to move content behind a paywall at that point.

420TV isn't the only platform looking for profits in pot. Another streaming service, Burn TV, is planning a first-quarter launch with existing shows like "The Nug Nation," an animated series whose humor is in the vein of "South Park," and "Jam in the Van," a show about up-and-coming musical acts.

Burn TV Chief Executive Jason Santos said he isn't looking to build a pot channel. "You can only see so many products and dispensaries. We're not focused on how much weed content we can bring, we're here to entertain cannabis users."

With an increasing number of U.S. states legalizing marijuana for recreational or medicinal use, it is becoming more visible in mainstream entertainment such as "Disjointed" and "High Maintenance," a series of New York City vignettes anchored by an affable dealer.

There is reluctance in entertainment, particularly broadcast TV, to sign on, which surprises "Disjointed" co-creator David Javerabaum given the growing social acceptance and economic potential around marijuana.

"In America, everything comes down to money, and there is obviously so much money to be made in this," he said.

## MCMAFIA

Continued from page A9

"McMafia" also portrays criminals from Mexico, India, Egypt and the Czech Republic. "What we were trying to do is show that there are corrupt elements in all of these countries," says the British-Iranian screenwriter Hossein Amini, one of the show's writers. "It would be a mistake to think there was any sort of agenda because there absolutely wasn't."

Some British critics have compared "McMafia" to the John le Carré adaptation "The Night Manager," another BBC series picked up by AMC. Mr. Amini says a more apt comparison is the slow-burning "Gomorrah," which was adapted from a nonfiction best-seller about organized crime's tentacles throughout Italy and beyond.

Some "McMafia" story lines are

lifted from Mr. Glenny's book, such as one about a young Russian woman who is lured to Cairo with the promise of work as a beautician but is instead kidnapped and sold into sexual slavery.

Other story lines were developed from investigations that Mr. Glenny wrote about elsewhere. Some characters in the series are based on real people, such as Alex Godman's father Dimitri (played by Russian actor Aleksey Serebryakov), whose London exile mirrors that of the late Boris Berezovsky, an oligarch and opponent of Vladimir Putin.

"Whenever you see a major crime depicted in the series," Mr. Glenny says, "that has been something at some point I've worked on." The center of the criminal activity in the show is London, which provides entry points into the international financial system.

"Living in London, you feel the sense of how it has developed into a service city," says James Wat-

kins, the director of "McMafia." "People come here from around the world, both to launder their money and launder their reputations."

"McMafia" sets out to show how the line between legal and illegal activities is blurred. "Major criminal organizations behave like corporations now, and modern-day bankers like Alex are often well-versed in the same skills that criminals need, such as being able to move money or being able to construct deals," Mr. Amini says.

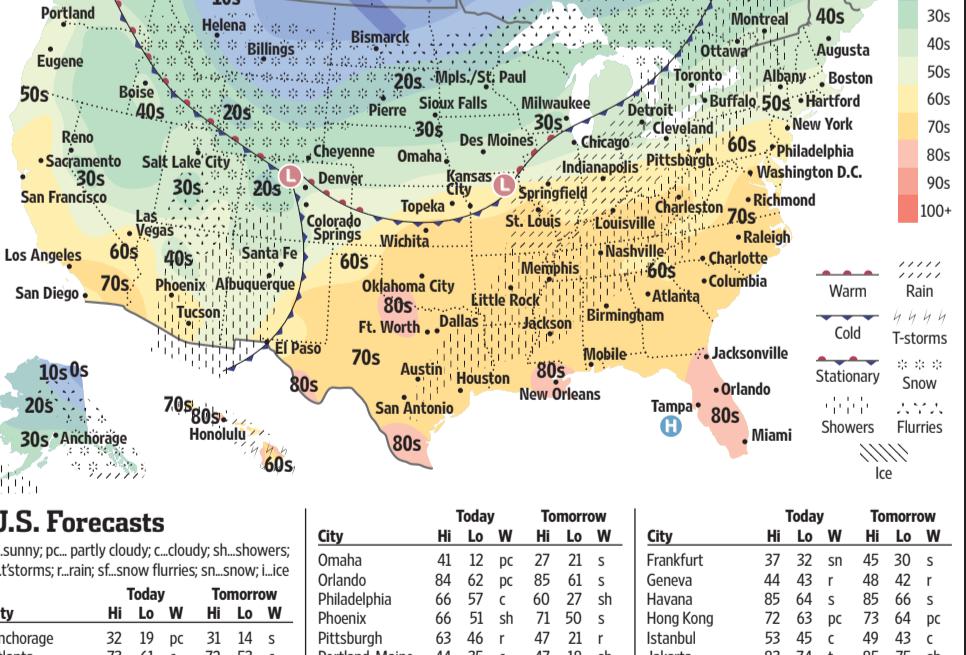
One of the show's running jokes is that Alex's girlfriend Rebecca (Juliet Rylance) works for an organization that promotes "ethical capitalism" and disapproves of how her man has bailed out his company.

"We make the point that the billionaire who founded this organization made his money by stripping down African ports," Mr. Watkins says. "The irony is all around us."



Faye Marsay and James Norton in the 'McMafia' season premiere.

## Weather



## U.S. Forecasts

S=sunny; pc=partly cloudy; c=cloudy; sh=showers; t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Today Hi Lo W Tomorrow Hi Lo W

City Anchorage 32 19 pc 31 14 s

Atlanta 73 61 c 72 53 c

Austin 72 57 sh 63 44 r

Baltimore 68 57 c 62 25 c

Boise 43 28 s 46 31 pc

Boston 55 45 c 51 23 sh

Burlington 47 35 c 40 14 sh

Charlotte 76 61 c 77 49 sh

Chicago 42 27 r 28 9 pc

Cleveland 57 35 r 36 23 c

Dallas 77 53 c 55 40 r

Denver 44 14 c 43 27 s

Detroit 45 29 r 30 13 pc

Honolulu 80 67 sh 80 68 pc

Houston 78 63 sh 73 54 sh

Indianapolis 64 35 r 37 23 c

Kansas City 63 20 c 34 26 s

Las Vegas 65 41 pc 62 41 s

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Minneapolis 35 3 sn 20 15 s

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Oklahoma City 77 30 c 45 30 r

Today Hi Lo W Tomorrow Hi Lo W

City Anchorage 32 19 pc 31 14 s

Atlanta 73 61 c 72 53 c

Austin 72 57 sh 63 44 r

Baltimore 68 57 c 62 25 c

Boise 43 28 s 46 31 pc

Boston 55 45 c 51 23 sh

Burlington 47 35 c 40 14 sh

Charlotte 76 61 c 77 49 sh

Chicago 42 27 r 28 9 pc

Cleveland 57 35 r 36 23 c

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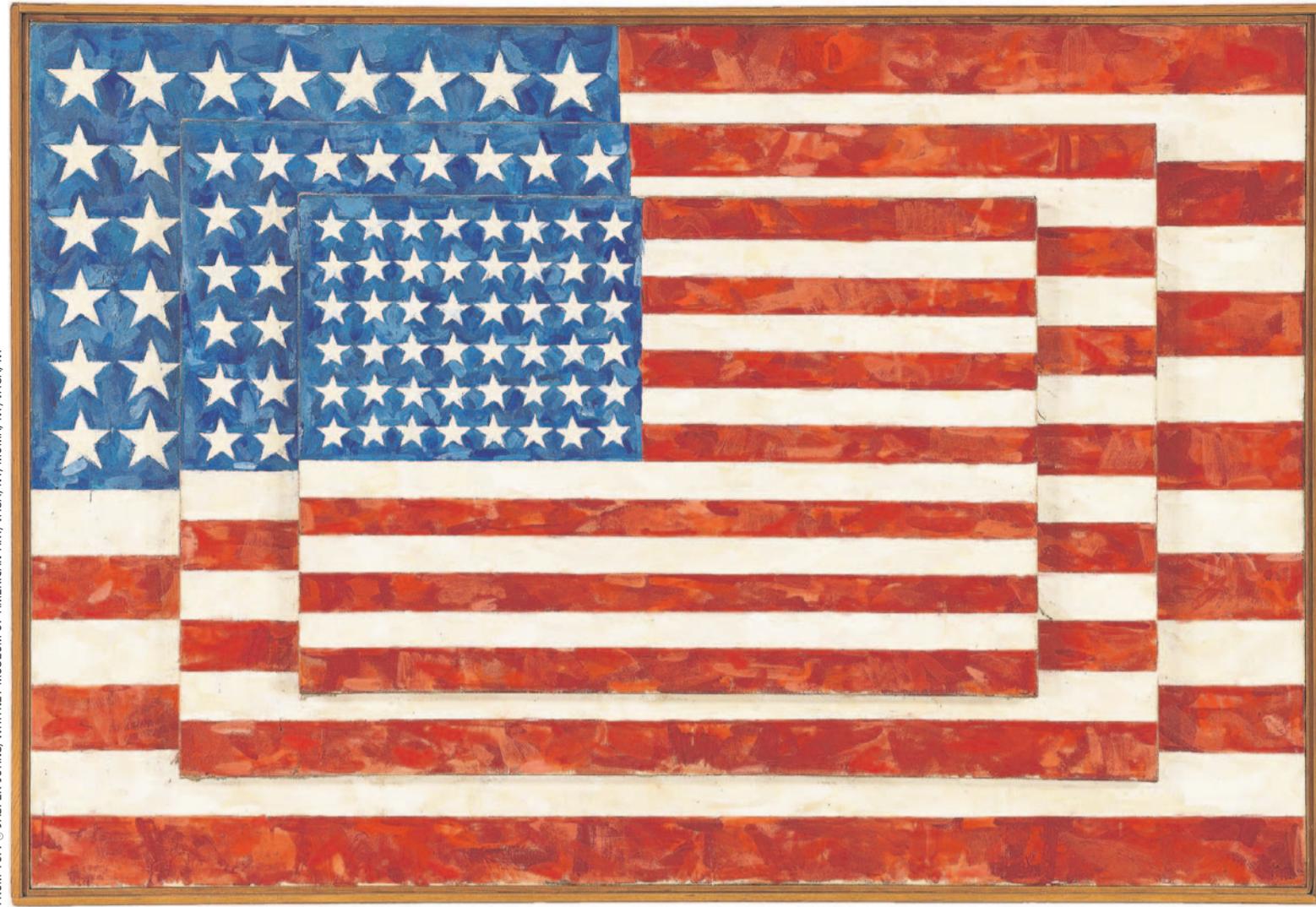
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## LIFE &amp; ARTS



Johns's 'Fool's House' (1961-62), above, 'Target' (1961), below, and in his studio in 1964, bottom left



FROM TOP: © JASPER JOHNS/WHITNEY MUSEUM OF AMERICAN ART/VAGA, NY; MOMA, NY/VAGA, NY

## ART REVIEW

# How Jasper Johns Combines The Best of Hand and Head

BY PETER PLAGENS

**Los Angeles** THE FORMIDABLE catalog for the formidable exhibition "Jasper Johns: 'Something Resembling Truth,'" at the Broad museum, calls the artist the "painterly champion of fundamentally conceptual practices." He could also conceivably be called the conceptual champion of fundamentally painterly practices, which might make him the artistic equivalent of the world's shortest giant or tallest dwarf. It would if Mr. Johns (b. 1930) didn't make such masterly art that combines the best of both head and hand. The show's over 120 works in mostly two-dimensional media that range over a career of more than 60 years are absolutely convincing about that. From his early, quiet rebel days in Lower Manhattan to his grand but enigmatic status today, Mr. Johns has been one of the most influential artists of recent times.

Mr. Johns set up scruffy shop in lower Manhattan in the early 1950s with Robert Rauschenberg as a neighbor. Mr. Johns and Rauschenberg,

who were lovers for several years, broke up as intimates in the early '60s and have been considered ever since as not only the two figures who bridged Abstract Expressionism and Pop Art, but as individual artists who actually outlasted both styles.

Perhaps Rauschenberg's death, at age 82 in 2008, is one reason Mr. Johns—who is still quite active in his studio on an estate in a tony corner of Connecticut—currently looms larger in the art world's collective consciousness. On the other hand, it could be, as a scholar-friend in her mid-30s and not from that world said to me when I encountered her at the show, "Johns's art is a lot more exciting because it's so much more concise than the contemporary art you see these days." Mr. Johns paints (and occasionally sculpts) the already known—flags, targets, lightbulbs, beer cans—in a deceptively exact-replica fashion that belies an obviously interpretive aspect. "Deadpan" is the unaffected term for the way he works.

Mr. Johns deliciously complicates matters, however, with art-historical notes in a bottle. In an all-white target painting (he sometimes drains the color from his subjects), he uses the ancient Egyptian medium of encaustic

(melted wax is the binder) over pages from a newspaper (a more-or-less 17th-century phenomenon) in a quite Cézanne-esque choppy brushstroke (from the turn of the last century). Elsewhere in the exhibition, Mr. Johns alludes to artists as disparate as Pablo Picasso and Matthias Grünewald, and his whole enterprise is redolent of René Magritte's 1929 painting of a smoker's pipe captioned "Ceci n'est pas une pipe."

Now, there are lots of per-

painterly rebuses. He's a supremely, if tightly controlled, visual artist. Mr. Johns's coolly sensuous paint application, and the just-rightness in his choices and placements of added-on objects—rulers, a broom, a small set of stretchers for a painting, and a long, gracefully arced piece of string that ties together the elements of two of the larger canvases—separate him from most everyone else.

Mr. John's range, while staying true to his signature style, is also impressive. "Fool's House" (1961-62), with its attached objects and drawn arrows, is virtually kinetic. An untitled crosshatch abstraction in primaries and white from 1975 is a 90-degree stylistic turn, but somehow remains purely his. And he sums things up in an all-gray untitled picture (1992-94), almost 10 feet across.

The exhibition also benefits from a superb installation and catalog essay. I saw the show on a sunny Sunday when the wait for those who hadn't already bought tickets was 1½ hours. While the galleries were well populated, the sight lines were still generous. Robert Storr's explanatory

catalog essay, "Bewitched, Bothered, and Bewildered," is—like much of Mr. Johns's work itself—a balance of the easily accessible and required heavy lifting. While critics no longer tiptoe around Mr. Johns being gay (the artist has always been guarded about his personal life), Mr. Storr devotes a considerable and sensitive section to what it means within Mr. Johns's art.

The exhibition, though, isn't perfect. Organized the-



Jasper Johns's 'Summer' (1985), above, and 'Three Flags' (1958), top

fectly good artists—e.g., John Baldessari, Joseph Kosuth and Barbara Kruger—who deal with, as the title of that Magritte painting has it, the treachery of images: the disjunction between object and picture, between printed words and their referents, even between tacky popular goods and a fine-arts approach to things. (If you had to throw a blanket over Mr. Johns's method, it would be that last dichotomy.) But Mr. Johns doesn't create mere

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matically (flags, targets, faces, etc.), not chronologically, it wants the viewer to conclude that Mr. Johns's work suffers no dips or lulls in quality after the canonical pieces from about 1955 to the late 1960s. True, there's no precipitous drop-off—we're talking nuances in the upper atmosphere—but things do calm down, get more stately, and not always for the better. Yellows go brownish, reds wax

rusty, and gray infects his blues. Works that seem masterpieces alone or in context with other artists' work take half a step back in this de facto retrospective. The more explicitly autobiographical "The Four Seasons" paintings, from the '80s—a quartet of scrapbook-like pictures, each with a silhouette of a young man—are an example. Nearer

to now, Mr. Johns employs ironic bits of hokey realism—wood grain, pieces of masking tape—that render too jokey what used to be profound.

Still, this is a wonderful show about a genius at what he does. If that doesn't include spelling out exactly what he means, so much the better. Puzzling over Mr. Johns is one of the greater pleasures in American modern art.

**Jasper Johns: "Something Resembling Truth"**

The Broad Museum, through May 13

**Mr. Plagens is an artist and writer in New York.**



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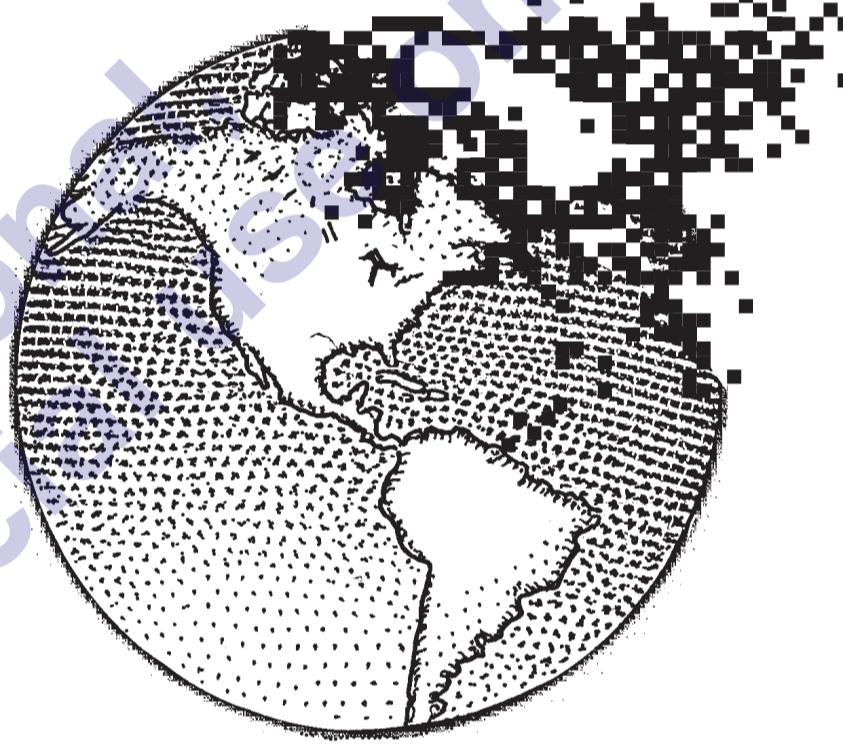
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## PYEONGCHANG 2018

## FIGURE SKATING

## Nathan Chen's NBA Obsession

Respect for the game of Steph Curry leads to a surprise meeting at a Warriors game

BY BEN COHEN

*Oakland, Calif.*  
**THE DAY AFTER** the greatest American figure skater of his generation clinched his spot at the Olympics last month, Nathan Chen allowed himself one night with the most extravagant indulgence he could imagine. He went to an NBA game.

It was a peculiar time in his life. Chen was almost famous. By the end of this week, he could be the next Olympic star, a prodigy whose athleticism has revolutionized his sport.

That he's only 18 means he would be the youngest men's individual champion in more than a half-century if he wins gold in Pyeongchang. It also means he's obsessed with the NBA.

Chen is a total NBA geek. He keeps a secret Twitter account so he can follow the league's melodrama without seeing gossip from his own sport. He scrolls through a small avalanche of phone alerts every night with the latest highlights from ESPN and Bleacher Report. And he streams games on League Pass no matter when he's training or where he's competing.

"Partially to zone out, and partially for fun," Chen said in an interview sitting courtside at a Golden State Warriors game. "Netflix isn't available internationally all the time. But the NBA is. It's nice to have something that feels like home."

Chen takes inspiration from his favorite NBA players when he's on the ice wearing his specially designed Vera Wang costume.

On Russell Westbrook: "To see him charging—he doesn't give a shit," Chen said. "I just really like that attitude, and it's something I try to emulate on the ice. Ignore the distraction, and go do what you want."

On LeBron James: "He's the GOAT," Chen said. "Just year after year after year, game after game, he's consistently amazing. That consistency is something I strive for. It's really inspiring for me to watch that."

On Stephen Curry: "He's just a god," Chen said. "Not from this



BRUCE MACPHERSON

planet."

Which is exactly what most people in his sport would say about him.

There was once a time in men's figure skating when the four revolutions of a quadruple jump were beyond the realm of imagination.

And then Nathan Chen came along. He wasn't the first to land a quad, but he has exploited its value more than anyone. He tries as many quads as most of his rivals attempt triples. He has nailed as many as five quads in a single long program, and he's flirting with the idea of six here in the men's individual competition that begins on Friday.

Chen's quads are like Curry's threes. They have forced their sports to evolve in their favor.

But enough about figure skating. Nathan Chen would rather talk basketball.

Chen never really played the game. He barely watched it. As a child in Salt Lake City, he became a Utah Jazz fan by default, even

though he missed the franchise's glory days of John Stockton and Karl Malone.

Chen plays very casually now—"I'm not at all good," he said—and goes out of his way to watch as much NBA as possible. It's not always possible with his schedule of training at odd hours and traveling overseas. If he misses an important game, he does everything in his power to avoid the score until he catches a replay, though he doesn't have to worry about spoilers from his teammates.

He still hasn't lived down the time he streamed a game on his phone under the table at dinner, and he doesn't bother trying to get his own training partner to watch basketball with him.

"Oh hell no," said Adam Rippon.

Chen was asleep last week on the night before his short program in the team competition when the league went crazy at the trade deadline. It didn't take long for Chen to find out the Cleveland Cavaliers had traded almost half

their team. "Ridiculous!" he said.

Not long after winning the U.S. championships last month in San Jose, Calif., he caught a Warriors game. Inside the arena, he zeroed in on Curry's warm-up.

Chen took his seat behind the Warriors' bench wearing a black hooded sweatshirt, skinny black jeans and gray Jordan One sneakers—he packed at least five pairs of Nikes for the trip—and heard a roar. Curry was coming.

He studied Curry not as a fan but as a fellow athlete. Chen is one of the few skaters confident enough to tweak his program depending on how he feels in warm-ups, said Jackie Wong, the founder of the website Rocker Skating. He noticed the little details of Curry's routine.

That he wasn't already in his ankle brace hours before the game. That he wore long sleeves to actually warm up in warm-ups. That he was somehow able to focus on his practice free throws with the eyes of an entire arena on him.

"His shots are so identical," Chen said. "Every single time."

Few noticed the teenager who could be the next Olympic star as he waited outside the Warriors' locker room after the game. Curry walked right over to a giddy Chen. He didn't need an introduction. "Oh, I've heard all about him," Curry said.

Curry had some questions for Chen. How was he getting ready for Pyeongchang? "I know you get asked this all the time," Curry said. They chatted for a while—there was even a discussion of Curry's neighborhood grocery store—until Curry had to leave. Reporters were waiting for him. It was his turn to answer the questions he gets asked all the time.

But there was one last thing he had to do. After they took one photo together, Curry passed his phone to a nearby security guard. He needed a photo of his own with Nathan Chen.

—Louise Radnofsky and Jake Nicol contributed to this article.

TEAM USA | By Jason Gay

## U.S. OLYMPIANS, AT THE LAST MINUTE



Pyeongchang, South Korea

It's windy at these Winter Olympics, as you've probably heard. Not "Hey, that's a lot of wind" windy. More "Look out for that garbage can!" windy. Events are getting postponed; on Wednesday, organizers closed pedestrian areas in the Olympic Park, urging ticket holders to stay protected in arenas. That's right: You could have gotten trapped at curling! There are worse ways to spend an evening. Curling rocks.

Up in the mountains, the U.S. Alpine skier Alice Merryweather waited. And waited. Wind finally postponed Merryweather's Olympic debut in the slalom, pushing it back to Friday.

Merryweather seemed unruffled. It wasn't unusual for races to get postponed for bad conditions, she said. She could pass the time without climbing the walls. She'd do crosswords, play rummy.

"I think they made the right call," she said in a text message. "The wind was super gusty, and it was blowing straight up the hill, so it would not have been a very fair race."

Until a couple of weeks ago, Merryweather hadn't expected to be in Pyeongchang at all. She was a late call-up, added to Team USA in early February as a replacement for veteran skier Steve Nyman, who was injured in a race at the end of January.

I'd been curious about sudden Olympic call-ups like Merryweather. The Games are most often portrayed as an athlete's single-minded obsession—a target years in preparation, its exact dates virtually carved into the wall.

But what's it like if you don't think you're going—and you get

the call at the last possible minute?

"It's a huge surprise," Merryweather, 21, said in a conversation earlier this week. "I was definitely not expecting to be part of the team."

The way Merryweather learned of her selection sounds like a reality show, or one of those heart-tugging telephone commercials. She was training in Europe when her coach, Chip White, summoned her to a

Their feelings are complicated: elation for making it, sympathy for those they replaced.

meeting—allegedly to talk about what Merryweather should do while the top talent was in Pyeongchang.

Merryweather, who is from Hingham, Mass., had been hoping to fly home and do some racing back on the East Coast.

"So, we found a couple of glitches in your program," Merryweather recalled White saying.

"What if you went to the Olympics instead?"

"And I just started crying."

Merryweather then phoned her mother, Elizabeth. It was five or six in the morning back in Massachusetts, she said.

"She thought I'd hurt myself,"

Merryweather said. "She was like, 'Are you OK? What's going on?'

"I'm fine, I'm fine, I'm great—I'm going to the Olympics."

Another ski team call-up, Tricia Mangan, found out even later than Merryweather—less than a week before the Games kicked off.

Mangan, 20, was competing at the World Junior Championships when

Alice Merryweather, seen here competing in Italy in January, didn't expect to make the U.S. team.



CHRISTOPHE PALLOT/AGENCE ZOOM/GETTY IMAGES

she got a call from the U.S. women's ski team coach, Paul Kristofic.

Like Merryweather's coach, Kristofic tried to play it cool with some small talk, Mangan said.

"He was like, 'Good job in the Super G. What happened this morning?'" Mangan said. "'What are you doing? Do you have a second to talk?'"

Mangan, who is from the Buffalo suburb of Derby, N.Y., is an injury replacement for the U.S.'s Jackie Wiles, a talented downhiller who crashed on Feb. 3.

This is the delicate part of being a last-minute call-up—you're getting your shot because someone else has been injured and can't go, a devastating moment for any would-be Olympian.

Mangan and Merryweather are respectful of the circumstances that have brought them here. It's helped that the athletes they've replaced have been gracious. Merryweather said she got a text from Steve Nyman shortly after her selection.

"He told me—I believe in your talent, I want you to do really well," she said.

Mangan, meanwhile, reached out to Wiles. "I basically was like, I'm so sorry, I admire you so much, and you've been absolutely crushing it....This is a dream come true and an amazing opportunity, but I obviously didn't want it to have happened this way."

"She was really supportive."

Mangan and Merryweather are not just a pair of promising last-minute call-ups—they're good friends who have skied together for years. They're among the Big Green Dartmouth posse that's on Team USA—Mangan is already a student there, and Merryweather intends to enroll at the end of March.

What events will they do here? Merryweather is in for the slalom—where Team USA's Mikaela Shiffrin is heavily favored—and hoping to get a slot for the downhill next week. Mangan is lined up to do the Super G and the Combined. They've

been busy training since arriving, but both got here in time to march in the Opening Ceremony, an experience they each described as surreal.

"When I saw her, she ran up to me and gave me a hug," said Mangan. "I'm really happy we can experience it together."

They got the last-minute call. They got the Team USA clothes, including those fringe-y Ralph Lauren gloves. ("Statement piece," Mangan said.) Now if they can just do something about this wind.

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## PYEONGCHANG 2018

## WOMEN'S HOCKEY

## The Short, Strange Run of Korea's Team Ends

BY ANDREW JEONG  
AND JONATHAN CHENG

GANGNEUNG, South Korea—It took an American to score the first and only Olympic goal for Korea's unified North-South women's hockey team.

With nine minutes remaining in the second period of a showdown with bitter rival Japan, U.S.-born Randi Griffin sent a puck trickling between the pads of goalie Akane Konishi, putting the unified Korean team on the board for the first time in three games and sending an arena full of North and South Koreans into hysteria.

Japan won 4-1, but it didn't really matter. Korea had already been eliminated from advancing to the next round, thanks to a pair of crushing 8-0 losses to the much stronger Swedish and Swiss teams.

But a long history of hostility between the two neighbors, dating to the 16th century, ensured that the symbolic stakes were high—even without any medal hopes on the line.

Korea's lone goal in the tournament couldn't have come from a more unlikely source: Griffin, the daughter of an American father and a Korean mother. Griffin was measuring monkey skulls for a doctorate in evolutionary anthropology at Duke University in 2014 when she received an oddly worded email from South Korea's Ice Hockey Association: Would she like to lace up her skates again?

The 29-year-old Griffin, who had played at Harvard years earlier, ignored the offer at first. Once she accepted, Griffin embarked on a four-year detour from her studies that would bring her to her mother's birth country for hockey training.

The past few weeks brought yet another twist. After an unexpected



Members of the Korean team celebrate after scoring their only goal of the tournament.

BRENDAN SMIALOWSKI/AFP/GETTY IMAGES

rapprochement between the two Koreas, Griffin, who became a naturalized South Korean citizen last year to formally join the squad, was suddenly skating alongside 12 teammates from yet another country—North Korea.

While the inter-Korean hockey team has garnered attention for bringing together the divided peninsula, the uniqueness of the team goes a step further: It's the first-ever Olympic team that includes citizens of the U.S. and North Korea, enemy states that have never established diplomatic relations, and whose leaders have spent most of the previous year exchanging mutual threats of destruction.

For Griffin and the two other American nationals on the original

South Korean roster, that meant learning to pass, and coordinate strategy, with teammates that don't speak any languages in common, and can't even share a hotel for security reasons.

Shortly after the deal to add the North Korean skaters to the Korean team, South Korean hockey officials configured the locker room to encourage integration: Each North Korean locker was surrounded by South Korean ones on each side.

Beyond that, the two sides took great care to limit interactions—even as they sought to quickly jell as a team. The North Korean hockey players were sequestered in a separate residence from the South Koreans, and were shadowed around the clock by two

mystery men, who the South Korean government acknowledged didn't have Olympic accreditations.

There are "challenges with adding new players that close to the Olympics," Team Korea's head coach Sarah Murray said in a recent press briefing. Team meetings, she said, take "three times as long" because there are "three different languages on one team."

The domestic backlash to a unified team was initially fierce. A groundswell of support rose up in South Korea for the hockey players who would be forced to give up their places for North Koreans.

South Korean Prime Minister Lee Nak-yon only added fuel to the fire when he bluntly laid out the case for putting politics ahead of the ath-

letes' sporting dreams: The country's women's hockey team just isn't all that good, he said, so it might as well merge with North Korea. Politics won out. The players were instructed not to complain publicly about the arrangement. When the North Korean players arrived on Jan. 25 to meet their new teammates, the young North Korean players were visibly nervous, remaining dead silent but for a few polite thank yous.

Since then, the awkwardness has faded. Athletes from the two sides have been sharing meals together—and studiously avoiding political topics. "They're young women and hockey players like us" who talk about "everyday stuff, like food and who has a boyfriend," Griffin said.

## FREESTYLE SKIING

## THE FUNNIEST TEAM IN PYEONGCHANG IS...SWISS?

BY JOSHUA ROBINSON

*Bongpyeong, South Korea*  
**NO ONE IS HAVING** a goofier time at these Olympics than the Swiss. Yes, you read that right: the Swiss.

Specifically, the Swiss freestyle skiing team. The squad from one of the most no-nonsense nations on Earth is in South Korea just having a blast. And they have the viral videos to prove it.

Before they got anywhere near a slope here, the skiers gained international fame with a clip of one of them using an escalator in a way you are not supposed to use an escalator. Standing outside the steps, Fabian Bösch held on to the railing with his right hand and simply let himself get dragged all the way up, his legs dangling into space.

"Everyone thinks that Swiss people are serious and strict, but we're not. We're funny!" the team's coach Misra Torniainen said. "I hope we can show with our team how Swiss people are."

Like most freestyle skiers and snowboarders, the bulk of their social media presence is devoted to absurd feats of antigravity. What sets them apart is the Olympic-level horsing around in between.

Their team announcement video

on Instagram was a greatest hits reel. The silliness featured in the clip included: Bösch riding a bicycle off a ramp and flipping backward into a lake; a teammate clocking himself going downhill at 81 miles an hour; the gang buying underwear; and Andri Ragettli wearing only that underwear to jump off the roof of a chalet into powdery snow.

The tone of their Games was set. The athletes had barely arrived in South Korea when they got bored waiting to check into their apartment. And when freestyle skiers get bored, they get creative. That's when Bösch spotted the escalator. He gave it a couple of practice runs and then turned on the camera. The clip spread so widely that it caught the attention of U.S. downhill skiing star Lindsey Vonn.

"I 100% want to find this guy and this escalator and try to do this!" she tweeted. She has yet to answer the team's invitation to join them.

Meanwhile, there are more tricks on the way.

"It's a gift. We do so much with our bodies and we know how to use our bodies to do stuff like this," said the 20-year-old Bösch, who is considering a career as a stuntman after pro skiing. "I would not do it if I'm not 90, 95% sure that nothing will happen."



Swiss athlete Fabian Bösch demonstrates the best way to hang from a staircase or escalator.

side of escalators. Ragettli is the second-ranked slope style skier in the world, according to the Association of Freeskiing Professionals. Bösch is in the top 15 and a candidate for the podium here. Sarah Höflein is the world's No. 2-ranked Big Air skier. They are here to win medals.

And if they do, it won't be in spite of their extracurricular antics. Torniainen believes it will be precisely because they have embraced their place as some of the most fun people in Switzerland.

"If you're that free, I think you can show your whole potential," he said. "This stuff is so easy for them, I'm never worried."

The 19-year-old Ragettli's summer training regime is the stuff of action movie sequences and overnight internet fame. His favorite drill: a self-designed parkour course in a gymnasium. It takes hours to set up and barely 45 seconds to complete, but the result is almost a Rube Goldberg machine of athletic ability.

In the video he posted last September, which was viewed more than 500,000 times on his Twitter and Instagram accounts alone, Ragettli begins by dropping 6 feet onto a yoga ball, bouncing onto a BOSU and springing up onto uneven bars. A few flips, tight ropes and other uncanny feats of balance later, and he is twisting off a trampoline and performing a backward somersault to finish it off.

The video was not a one-take job. "I messed up the last one so many times I almost freaked out," he said. "Actually, I did. Then somehow, after 50 or 60 tries, I made it perfect."



Germany's Tobias Wendl and Tobias Arlt win gold in doubles luge.

## NORWAY'S SVINDAL WINS THE MEN'S DOWNHILL

BY SARA GERMANO

*Jeongseong, South Korea*  
Aksel Lund Svindal won the men's downhill on Thursday, becoming the first Norwegian ever to take gold in the event while the Scandinavian nation became the first country to go 1-2 in 30 years.

At 35, Svindal likely cements his status as the best Alpine skier ever from Norway, eight years since his three-medal performance at the Vancouver Olympics. Since Sochi, Svindal has endured a trifecta of injuries to his meniscus, ACL, and Achilles. His winning run of 1:40.25 just narrowly edged compatriot, Kjetil Jansrud, who took silver. Beat Feuz of Switzerland took bronze.

Thursday could be a pivotal day for Norway's medal haul, with more chances in cross-country skiing and biathlon later in the evening. After the downhill, Norway vaulted from second to first place in the overall medal count with 13. They are tied with the U.S. for golds, with four apiece, while Germany and the Netherlands have



Aksel Lund Svindal won the men's downhill, becoming the first Norwegian ever to take gold in the event.

seven and five, respectively.

The Scandinavian nation of just five million owns the distinction of winning the most medals all time at the Winter Games, most of which from its dominance in cross-country skiing and biathlon. Europeans traditionally own the downhill, the speediest discipline in Alpine skiing with

wider turns sending skiers sailing through the air. Americans have only won the downhill twice and not since 1994. Bode Miller was the last U.S. man to medal in the downhill in 2010.

On Thursday, the top American was Bryce Bennett in 16th place. While the U.S. figures to win several medals in women's Alpine events

with Lindsey Vonn and Mikaela Shiffrin, the men could leave Pyeongchang without a medal for the first time since 1998.

The men's downhill took place in relatively balmy conditions of 37 degrees with barely any breeze, after being postponed from its originally scheduled date on Sunday.

COUNTRY	G	S	B	TOTAL
Norway	4	6	3	13
Germany	7	2	2	11
Neth.	5	4	2	11
Canada	3	4	4	11
U.S.	4	1	2	7
Japan	0	4	3	7
France	2	1	2	5
OAR*	0	1	4	5
Sweden	2	1	0	3
Austria	2	0	1	3

\*Olympic Athletes from Russia

Updated: 11:30 p.m. ET

FOR THE LATEST COUNT GO TO WSJ.com/Olympics

ALEXANDER HASSENSTEIN/GETTY IMAGES

## OPINION

# The Facebooking of Everything



**WONDER LAND**  
By Daniel Henninger

The media's coverage of Kim Yo Jong, the sister of North Korean dictator Kim Jong Un, was a significant cultural event. The state of mind and the vocabulary of the American left, reflected in the media, have become the same no matter the subject—whether Kim Yo Jong or Kendall Jenner. This is the Facebooking of everything.

Here, from the past week, are three separate but unified examples.

A Washington Post writer on Kim's sister: "They marveled at her barely-there makeup and her lack of bling."

**In the era of social media, of course you cover Kim Yo Jong like Kendall Jenner.**

They commented on her plain black outfit and simple purse. They noted the flower-shaped clip that kept her hair back in a non-nonsense style."

A different Washington Post writer several days later, on a makeup artist who is an internet influencer: "What he's known for, besides his woke understanding of gender politics and his sassy humor, is what he calls 'the full-beat face.'"

A New York Times critic's description of a painting of Michelle Obama, which will hang in the National Portrait Gallery: "Amy Sherald's take on Michelle Obama emphasized an element of couturial spectacle and rock-solid cool."



Andy Warhol's 'Mao' (1972), on display at Germany's Kunsthaus.

matter now: being on the right side of climate change and not misaligning with the politics of identity. If you're a public figure and you get them right, what's going on in the world isn't that important, including the North Korean gulag.

The culture isn't dead. Some writers resist. This is from Adam Johnson's haunting 2012 novel "The Orphan Master's Son," about a boy, Jun Do, in North Korea: "And what choice did he have about anything? . . . It wasn't his fault that all the boys in his care were numb with abandonment and hopeless at the prospect of being recruited as prison guards or conscripted into suicide squads."

Too often, though, political commentary is running more toward this pallid tweet from NBC News about the involuntary North Korean cheerleaders. "This is so satisfying to watch."

The American left has become increasingly theatrical in its politics. After President Trump suggested a military parade, activists quickly said they'd recruited 50 people who would lie in front of tanks on Constitution Avenue, like in Tiananmen Square. What matters most is making a cool elision between totalitarian China in 1989 and an American presidency they process through YouTube videos.

Donald Trump long ago saw the Warholian turn of things, recently likening Davos to the Academy Awards, "except we have more photographers." He upsets people for a lot of reasons. But in these times, what it comes down to is that none of them would ever let Donald Trump or anyone around him be their Facebook friend. Get that, and everything else in politics becomes clear.

Write [henninger@wsj.com](mailto:henninger@wsj.com).

## At Least Congress Isn't at Fistcuffs

By Karl Rove

If you think American politics is confrontational and ugly today, here's some context. Feb. 15 is the 220th anniversary of the first brawl in the House.

The seed of the fight was planted weeks earlier when Democratic-Republican Rep. Matthew Lyon of Vermont questioned the Connecticut delegation's competence and Federalist Rep. Roger Griswold of Connecticut responded by raising Lyon's dishonorable discharge from the Continental Army. Lyon spit tobacco juice on Griswold, who lunged at Lyon. Other members quickly separated them.

Griswold would have his revenge. On Feb. 15, 1798, he hobbled onto the floor on a hickory cane, accompanied by Virginia Federalist Daniel Morgan, a large man and Revolutionary War hero. Griswold approached his Vermont adversary, whose friends now called him "Sputin' Lyon," and began beating Lyon with his cane. Other representatives rushed to stop the assault, but Morgan held them at bay.

The fight was one-sided until Lyon maneuvered to a fireplace, grabbed fire tongs and began returning blows. Members appealed to Speaker Jonathan Dayton, a Federalist, but he was content to watch Griswold make Lyon pay. Colleagues separated the men but they went at each other again, before finally being pulled apart.

The fight was one-sided until Lyon maneuvered to a fireplace, grabbed fire tongs and began returning blows. Members appealed to Speaker Jonathan Dayton, a Federalist, but he was content to watch Griswold make Lyon pay. Colleagues separated the men but they went at each other again, before finally being pulled apart.

A motion to expel the men failed, 21-73. Lyon apologized, claiming he didn't know the House was in session when he insulted Griswold. Neither man's career suffered; Griswold served until 1805 and was later Connecticut's governor. Lyon won another term in the House from Vermont before moving to Kentucky, where he was elected to Congress four times.

**DACA is contentious, but lawmakers used to hit each other with canes and fire tongs.**

Temper flared in Congress this year, but so far there has been no re-enactment of the Lyon-Griswold fracas. Members can make sure it stays that way by resolving the immigration issue. This may be more plausible than conventional wisdom suggests.

Public opinion points to an acceptable compromise. Take the issue of the Dreamers, brought to America illegally as children. The Jan. 19 Harvard University-Harris poll found 77% of voters, including 66% of Republicans, believe Dreamers "should be given a path to U.S. citizenship." Other surveys have found similar numbers.

President Trump's "wall" proposal, by contrast, polls poorly. In a Feb. 6 Quinnipiac University Poll, just 37% supported "building a wall along

the border with Mexico" while 59% opposed it. But this may reflect its association with Mr. Trump. The Harvard-Harris poll found 61% say "current border security is inadequate" and 54% support "a combination of physical and electronic barriers across the U.S.-Mexico border," which is a more precise description of the administration's approach.

Opinion on family reunification also depends on how the question is framed. Quinnipiac found that 43% of voters felt immigrants should be allowed to bring "only minor children and spouses" to the U.S. while 49% said "all immediate family members should be eligible." By contrast, 79% told Harvard-Harris that "immigration priority . . . should be based on a person's ability to contribute to America" while 21% said it "should be based on a person having relatives in the U.S."

Different descriptions of the diversity visa lottery also produce significantly different responses. In Quinnipiac, 48% said people "from countries with low immigration rates" should be allowed in through the lottery, while 39% said the program should be ended. By contrast, Harvard-Harris found that 68% "oppose the lottery that randomly picks 50,000 people to enter the U.S. each year for greater diversity."

The contours of a broadly acceptable deal are visible: Harvard-Harris found that 65% favor giving Dreamers work permits and a citizenship path

to Korus would sour diplomatic ties at an inopportune time. That in turn would undermine the credibility of the alliance's military option. It would also make it harder to expand coordination in interdiction of commercial activity that violates United Nations Security Council resolutions, such as the at-sea fuel transfers to North Korean tankers.

If the Trump administration is serious about denuclearizing the Korean Peninsula, it must convince the Kim regime that the world stands united against it. It's hard enough to signal global solidarity against North Korea's nuclear ambitions with China playing a double game. It would be impossible without South Korea.

**Korus has increased U.S. exports to South Korea and added 87,000 jobs to the U.S. economy. But its real strategic purpose was to shore up the security relationship between Washington and Seoul. A notification of withdrawal from**

Recent reports of continued negotiations between U.S. and South Korean trade representatives are encouraging, but saber-rattling about withdrawal from Korus is still dangerous. The Trump administration must clear the decks of issues that detract from the central focus on the North Korean crisis. Anxieties over U.S.-South Korea trade ties are distracting, but formally notifying South Korea of U.S. intent to withdraw from Korus would wreck a critical partnership at its most consequential hour.

**Mr. Allen was special assistant to the president and senior director for counter-proliferation under George W. Bush.**

By Michael Allen

Donald Trump tells us in "The Art of the Deal" that his negotiating style is to gain leverage first and cut a favorable deal later on. That may serve U.S. interests in many circumstances, but it could undermine the top national-security priority: denuclearizing North Korea.

The administration is waging a campaign of "maximum pressure" to isolate the Kim regime and force a settlement. South Korean President Moon Jae-in's cooperation is indispensable. At the same time, the U.S. and South Korea are renegotiating their bilateral free-trade agreement, known as Korus. Mr. Trump

has threatened to trigger Korus's six-month "notice of withdrawal" provision. That could be a cost-free move to gain leverage in trade negotiations. But it risks wrecking the North Korea pressure campaign.

**A hard trade line on Seoul would wreck unity against Kim.**

Korus has increased U.S. exports to South Korea and added 87,000 jobs to the U.S. economy. But its real strategic purpose was to shore up the security relationship between Washington and Seoul. A notification of withdrawal from

**BOOKSHELF** | By Jeffrey Wasserstrom

## A Restless Generation

### Young China

By Zak Dychtwald  
(St. Martin's, 295 pages, \$25.99)

It's easy to focus on the differences between China's 20-somethings and Americans of the same age. Mainland residents of this generation are much more likely than their foreign compatriots to be only children, and they are much less likely to have created a Facebook profile, done a Google search, seen a television show mock a national leader, or voted.

Yet when I meet Chinese who were born in the 1990s, I mostly notice something else: how much more they have in common with Americans their age than I did with Chinese of my generation when I first traveled to China as a 25-year-old. Xinyong, the best friend I made in 1986, did not know the songs I had grown up listening to or the television shows I watched as a kid. As a child, I'd been driven around in cars my parents owned, but in those years no one he knew could drive. I met my wife at college; Xinyong met his in a village, where he'd been sent as part of a Mao-era campaign to instill proper revolutionary values in urban youths.

Flash forward to the 2010s and what leaps out from Zak Dychtwald's engrossing "Young China" are the many contemporary parallels between growing up in China and the United States. The urban 20-somethings whom Mr. Dychtwald befriends during his travels grew up watching "Friends" and playing computer games like "World of Warcraft." Today

they ride around in cars, sometimes hailed via ride-sharing apps, and they routinely use smartphones to communicate via social media platforms and to figure out where to eat, what to buy and whom to date. What was once a chasm is now often just a gap.

Mr. Dychtwald, who graduated from Columbia in 2012, has spent much of his 20s in China, working in several cities and crisscrossing the country by train as he's honed his Mandarin skills. Along the way he's met many members of this "restless generation"—his apt term for the large cohort of Chinese born during the final years of the last century (an average of about 20 million children were born in China annually during the 1990s).

The author, who writes with an infectious energy, lets us eavesdrop on the conversations he's had with scores of young Chinese, often referring to them by the Western names they were given by teachers or chose for themselves. In venues ranging from cacophonous Karaoke bars to opulent office parks, these Toms, Zizis, Renées, and Lin Lins share their life stories and offer opinions about everything from skyrocketing real-estate prices to parent-child relations.

A lot of writing about China still suffers from the Cold War era tendency to think of residents of any country run by a communist party as a faceless mass of automatons. What's refreshing about "Young China" is that each of the individuals we read about are, well, individuals. There's Bella—for whom "study became a way of life" at age 6, and who remains obsessed with doing well on tests—and Lulu, who throws herself into get-rich-quick schemes, "driven by her desire to have the financial means to take care of her parents."

We also meet Wendy, who shares an apartment in Suzhou with Mr. Dychtwald, in a platonic arrangement, while she suffers from the consequences of a messy affair with a married man. And in a Chengdu hostel, Mr. Dychtwald encounters Xiao Guo and Mei, who have such an easy way with each other that other guests assume they must be married. It turns out they are virgins who have come there to "try sex" in a setting away from those they know.

**China's youth grew up watching sitcoms and playing videogames. Today they use phone apps to decide what to buy and where to eat.**

There is a refreshingly ordinary, as opposed to sensationalistic, feel to many of the stories recounted in "Young China". The author is such a lively spinner of tales that he can tease humor and pathos out of even run-of-the-mill interactions, as when a friend introduces him to Ou Lei, a 21-year-old political conformist who seems prematurely middle-aged. "I thought he had brought his uncle," Mr. Dychtwald writes of the friend. "[Ou Lei] was dressed like the Communist Party cadre they film for CCTV news pieces, bland men in generic polo shirts tucked into generic slacks."

I do have a few problems with the book. We do not, despite the subtitle, get much of a sense of how the "restless generation" will or even might "change their country and the world." In particular, I wondered: What does it mean that the lifestyles of youths in China and other places are converging, while the political structures within that country stay so distinctive and certain forms of control there have been tightening?

Mr. Dychtwald also too rarely acknowledges valuable work that has been done by scholars and other journalists who know China well. Two books from 2015—"China's Millennials" by Eric Fish and "Little Emperors and Material Girls" by Jemimah Steinfield—treated exactly the same age cohort. Other worthwhile references could have included works without a tight generational focus, such as "Restless China" (2013), an excellent interdisciplinary collection with chapters on everything from courtship to consumerism.

The lack of deeper dialog with past publications is a shame, since the results are impressive when Mr. Dychtwald does engage with the investigations of others, as in a section on changing views of homosexuality that draws on the writings of sexologist Li Yinhe. The author uses Ms. Li's work to help readers better understand the stories of people like William, a gay man who still aims to be filial and carry on the family line—something his father encourages him to do via either "adoption or a surrogate mother."

To make sense of contemporary China, it is crucial to understand the varied aspirations, anxieties, fears and fantasies of the many millions of Chinese—as big a group as the entire populations of some sizeable countries—who were born after the year that soldiers killed protesters near Tiananmen Square. "Young China" provides an excellent starting point for doing just that.

Mr. Wasserstrom is the co-author of "China in the 21st Century: What Everyone Needs to Know," an updated third edition of which will be published in March.

## OPINION

## REVIEW &amp; OUTLOOK

**The Inflation Surge**

**N**ew Federal Reserve Chairman Jerome Powell can thank predecessor Janet Yellen for another parting gift: rising prices. The Labor Department reported Wednesday that consumer inflation rose 0.5% in January, or 2.1% over the past year, a bigger spike than most economists predicted.

The markets reacted better than expected with stocks rising after early losses. But the yield on the 30-year Treasury bond popped above 3.16% and is near its two previous peaks of the past three years. The yield on the 10-year Treasury note also climbed above 2.9%. The cost of money is going up, which by itself isn't alarming as economic growth accelerates.

The bigger question is whether the Fed is repeating its mistake from the early 2000s when it kept interest rates too low for too long even as the economy surged after the 2003 tax cut. This fed the housing bubble, commodity price spikes and a general financial mania that ended in panic and crash.

The January report is at least a warning. Core prices, which exclude food and energy, were more restrained, rising 0.3% for the month, or 1.82% over the past 12 months. The price of oil rose above \$66 a barrel in January and has since fallen below \$61. But the overall increase in prices is still notable amid modest wage gains.

The price trend of recent months should certainly rid the Fed of any residual deflation worries. That delusion drove the monetary mistakes of 2003-2005. Recall Ben Bernanke's famous speech in late 2002 in which he warned of deflation even after the GOP midterm election victory and plans to cut taxes were developing. The current Fed has stuck to its accommodative policies because prices haven't

**Republicans should be worried about the impact on real earnings.**

climbed above its 2% inflation target, and some on the Federal Open Market Committee have wanted to push even past 2%.

The potential game-changer now is faster economic growth from the new policy mix of tax reform and deregulation. The Fed has been operating under the assumption of Obama-era "secular stagnation," in economist Larry Summers' phrase, and even today it is assuming tax reform won't help growth. New York Fed President William Dudley said recently that growth in 2018 will increase to 2.75% but tax reform will hurt the economy overall.

But what if he's wrong and growth does accelerate above 3%? Mr. Dudley and Ms. Yellen have left Mr. Powell to play the bad cop and raise rates faster to avoid a rerun of the Alan Greenspan-Ben Bernanke mid-2000s.

The political risk of rising prices is clear from the Labor Department's other report Wednesday on real earnings. Average hourly earnings for production and nonsupervisory workers—that is, Trump voters—fell 0.5% for the month. Average wages rose modestly but that was erased by the increase in consumer prices. One reason Americans were never thrilled by the GDP growth of the Bush era is because earnings gains were undercut by rising food and energy prices.

Faster growth amid tight labor markets should lead to higher wages, but the Fed needs to make sure the gains aren't stolen by higher prices. That's what has happened in the United Kingdom, where inflation is above 3%. The Tories can tell you how that played in last year's election. Ms. Yellen recently said she regretted not being reappointed to a second term as Fed Chair, but she is underestimating the challenge she left Mr. Powell.

**Iran's Ailing Hostages**

**E**nvironmental activist Kavous Seyed Emami, a dual Canadian-Iranian citizen, became the latest victim of Iran's government last week when he died in Evin Prison under suspicious circumstances. An ailing American may be next on the regime's death list.

The 63-year-old Seyed Emami was a founder of the Persian Wildlife Heritage Foundation, which works to preserve wildlife in Iran. The foundation's website says it's funded by "individuals as well as companies with a sense of social responsibility," and that it works with "commercial ventures," other conservation groups and Iran's "hard-working officials in charge of our natural resources at the Department of Environment." Not exactly foes of the regime.

Yet Seyed Emami and several colleagues, including Iranian-American board member Morad Tahbaz, were detained in January on espionage charges after anti-regime protests roiled the country. The government says Seyed Emami committed suicide by hanging, which is what the regime claimed about Sina Ghanbari, a young protestor who died in Evin prison in January. Odd how prisoners keep killing themselves in authoritarian dungeons.

Meanwhile, concerns are growing about the health of 81-year-old former Unicef diplomat

**Western prisoners keep dying in the Rouhani regime's dungeons.**

Bacquer Namazi, an Iranian-American with a heart condition who is also detained by the regime. Our sources say Mr. Namazi is in failing health and in danger of dying. He was arrested in 2016 after being lured to Tehran with the promise that he could visit his son, Siamak, who had been arrested the prior year. The two were later given a sham trial and sentenced to 10 years on charges of "collusion with an enemy state."

The Namazis also weren't critics of the regime. Their Atieh Group promoted foreign investment in Iran, and Siamak was a vocal supporter of Barack Obama's nuclear deal. They were snatched after the nuclear deal was signed, in a familiar Iranian tactic to hold pawns to extract concessions from Western governments. In 2016 Mr. Obama settled a 1970s-era legal dispute for \$1.7 billion and arranged for \$400 million in cash to be flown to Tehran in exchange for the release of five American hostages. The Iranians took the money and promptly took more hostages.

All of this is the work of the government of President Hasan Rouhani, who we keep hearing is a "moderate." Tell that to the Westerners suffering in prison, or their families who fear that at any moment they may be told their loved ones mysteriously killed themselves.

**Private Jet-Setters Against Better Air Travel**

**P**resident Trump's 2019 budget proposal again includes a good idea to improve American air travel: separating air-traffic control from the Federal Aviation Administration. But oddly the idea wasn't part of Mr. Trump's infrastructure plan this week, and one reason may be implacable opposition from the lobbyists for the paupers known as the corporate jet lobby.

House Transportation Chairman Bill Shuster wants to leverage private expertise to run the U.S. air-traffic system, which has failed to evolve with technology. The bill would replace taxes with user fees, as Canada and other countries have done.

Yet some who think they benefit from the current system are running a misinformation campaign, and a ringleader is the National Business Aviation Association. President and CEO Ed Bolen said in a November op-ed that a spinoff would hand airspace to a board "dominated by the airlines and their allies" and "threatened needed upgrades at airports in small towns and communities across the country," among other charges. The head of the Aircraft Owners and Pilots Association co-wrote the piece.

The contention that the airlines would own the sky is a powerful political argument because the public imagines the traffic director of the heavens as a United gate agent. But the major airlines would nominate only one seat on a 13-member board, as the Reason Foundation's Robert Poole has pointed out, down from four in a previous proposal.

Also on the board are members nominated by cargo airlines, regional airlines, airports, business jets, unions and others, none of whom will be easily reaccommodated to whatever the major airline agenda is. Board members cannot be employed or paid by any aviation business or group during their tenure. The bill also exempts general aviation from paying any air-traffic user fees. This includes business jets.

**The folks who don't fly commercial are blocking air-traffic reform.**

Another canard is that small communities will be stranded. The bill continues to throw money into the Airport Improvement Program,

which exists to funnel money into runway and other updates, especially for rural airports. The bill also maintains Essential Air Service that pours cash into rural routes that are often barely patronized. One near certainty: Congress won't end these subsidies.

What's really going on? The business jet industry pays 0.6% of aviation user taxes but accounts for 11% to 13% of controlled traffic, as Marc Scribner of the Competitive Enterprise Institute has noted. The industry would like to keep it that way.

Then again, perhaps his members should ask Mr. Bolen for a refund. The point of a spinoff is that private expertise could implement new technology that allows planes to take off and land in more efficient patterns and fly more direct routes. A CEO flying to Los Angeles for lunch is sensitive to 30 minutes awaiting takeoff.

The status quo comes at your expense. The Eno Center for Transportation recently compared weight and distance fees like Canada's with U.S. taxes. Fees on an Airbus A320 from New York to Fort Myers, Fla., would be 43% lower than today's taxes, and on some routes the figures dipped to a 60% reduction. This translates to a radical cut in the annoying list of costs tacked on to your ticket price.

If business jets try to tank the bill no matter the details, then Republicans ought to subject them to fees, same as commercial flights. Air travel is becoming less pleasant, and according to one analysis the average time from push back to arrival is increasing on many routes—more than 80 minutes from D.C. to New York LaGuardia, up from 67 minutes in 1990. Apparently that hasn't been an issue for the folks flying in and out of Teterboro.

**LETTERS TO THE EDITOR****Debating Fake News and the Tet Offensive**

Regarding William J. Luti's "Did Fake News Lose the Vietnam War?" (op-ed, Jan. 30): I am a journalist who covered the 1968 Tet Offensive in Hue for West German newspapers. There were three different sets of reporters accredited in Saigon at that time. The first category accounted for some 70% who hardly ever left the Saigon region. Category II consisted of fewer than 30% who did spend a lot of time in the field. I knew many of those well, including Peter Braestrup. We were far too busy reporting what we had seen to squander our time producing fake news. These combat reporters knew and wrote that the North Vietnamese and Viet Cong had lost the Tet Offensive militarily. But they were overshadowed by category III. These were the media stars flown in from New York or Washington for brief stints who often made ideologically motivated pronouncements on camera that were really a form of malpractice.

I remember how furious Peter Braestrup, I and others were when Walter Cronkite stated in front of millions of U.S. viewers that the war couldn't be won, when in fact we had just witnessed American and South Vietnamese soldiers shed their blood vanquishing the communists and destroying their infrastructure. I stood next to Braestrup at a mass grave filled with the bodies of old men, women and children. A U.S. television team walked idly about this site. Braestrup asked them: "Why don't you film this scene?" "We are not here to spread anticommunist propaganda," one answered.

UWE SIEMON-NETTO  
Laguna Woods, Calif.

If the Tet Offensive had been reported differently, eventually the result would have been the same.

RICHARD ALLISON  
Grosse Pointe Woods, Mich.

I spent much of 1965 and 1966 in Saigon in daily contact with the press as the Navy public affairs officer representing the Seventh Fleet. The news business was intensely competitive; "fake news," or its peddlers, couldn't survive. There was plenty going on—both in the war and politics—and the correspondent had his hands full just to get it right, every time.

Walter Cronkite didn't have to correct the record because he was right.

CAPT. BILL GRAVES (USN, RET.)  
Ranch Palos Verdes, Calif.

Given the political and military realities in South Vietnam in the early 1960s, which, like South Korea, was essentially a false construct created

JAMES S. POULOS  
Park Ridge, Ill.

I think of the 1944 Battle of the Bulge and what the outcome might have been with the same press coverage.

JAY CAMPBELL  
Watkinsville, Ga.

The real fake news was the "light at the end of the tunnel" and other government propaganda to make the home front feel warm and fuzzy. We, "in country," were shocked that the North Vietnamese Army (NVA) and Viet Cong could mount such a massive, countrywide attack and we knew little to nothing of its coming or intensity. Yes, the enemy suffered horrible losses, but the objective of Uncle Ho Chi Minh was met: The U.S. audience realized we were in a losing war that we did not want to win due to feared massive escalation from Russia and China were we to actually try to win. It still pains me when I think how many good men (and women) died in this war of attrition. If one is going to fight, fight to win or don't fight at all.

The NVA and VC were also fed warm and fuzzy propaganda (fake news) by their leadership to encourage this massive assault, full well knowing they would lose the battle, but win the war.

GERALD P. VARGO, VIETNAM, CLASS OF '67  
Lakewood, Colo.

**A Comedy Tonight? Maybe a Political Lecture**

Regarding Joseph Epstein's "Comedy Is Not Pretty, and Nowadays It Isn't Even Funny" (op-ed, Feb. 7): One might well say that "humor is in the eye of the beholder." His criticisms of the late-night TV hosts were undoubtedly well received by Trumpians. However, judging by the audience reaction as Bill Maher, et al., walk on stage and recite their monologues, there is a segment of the population that thoroughly enjoys their brand of humor. Were that not the case, then ratings would likely drop and replacements would be sought. Mr. Epstein is free to flip to Fox News any time he wishes. Meanwhile, nothing is likely to change until President Trump stops shooting himself in the foot, or a Democrat once more occupies the White House.

MARTIN JACOBSON  
Lincoln, Calif.

Mr. Epstein's lament that "one can no longer turn to comedy as a relief

ALAN D. LEWIS  
Jupiter, Fla.

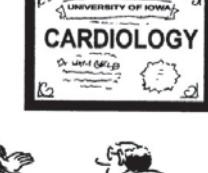
**House Calls Yield Bilateral Joy and Healing Connection**

At 71, I'm a relative pup compared with the delightful country doctor Charles Kemper ("A Country Doctor Can't Forget His 40 Years of House Calls" by Bob Greene, op-ed Feb. 9), yet I have discovered the fulfillment of the house call after 35 years as a family physician in a cushy suburban practice. New reimbursement models are allowing me to grab my care team (R.N. and social worker), toss my roller bag in the back seat of my SUV, go back to my Detroit roots and spend meaningful time with generally housebound lonely, frail, elderly patients in and around the city. Like Dr. Kemper, I, too, see relief in my patients' eyes when I appear on their doorstep. I wonder if they see the joy in mine?

AL JUOCVS, D.O.  
Rochester, Mich.

**Pepper ... And Salt**

THE WALL STREET JOURNAL



"I'm worried. Money doesn't make my heart go pitter-patter anymore."

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# Trump's Style Is His Substance

By Bobby Jindal

You hear it all the time from Trump supporters: "I like a lot of what he's done, especially the judges and tax cuts. But I wish he'd stop tweeting and picking fights. I wish he acted more presidential and stopped insulting reporters, entertainers, senators, foreign leaders and Gold Star families."

Sounds right, seems smart. Yet for millions of Trump voters it misses the point entirely. Mr. Trump's style is part of his substance. His most loyal supporters back him because of, not despite, his brash behavior. He would not be in the Oval Office

**Primary voters chose him because he promised to fight. Party leaders need to learn to be less timid.**

today had he followed a conventional path or listened to the advisers telling him to tone down his rhetoric and discipline his behavior. If Republican primary voters had wanted a border wall, tax cuts and sound judges without the drama, they could have picked Ted Cruz. Instead they elected Mr. Trump for exactly the reasons that the mainstream media, late-night comics, and party elites cannot stand him.

GOP voters have traditionally demanded their leaders demonstrate fealty to conservative principles through life experience: by offering a spiritual conversion story, standing with a supportive spouse and children, talking about the deer

bagged during last year's hunting season. The apparent authenticity mattered, given that many competing politicians converged around the same policies. Hence the damage when a candidate came across as inauthentic, as in 2007 when Mitt Romney said he had hunted "a number of times," mostly "small varmints."

The reality was that voters trusted candidates who were like them in beliefs, habits and appearance. Knowing this, candidates tried to find common ground with regular people. That's why Democrats in red states cut ads showing them shooting guns and professing their faith. It's why Marco Rubio repeatedly told the story of his father, the immigrant bartender, and why John Kasich offered paens to his father, the mailman.

But what was really achieved by all those years of supporting politicians with perfect church attendance and lifetime memberships in the National Rifle Association? Relatively little in enacted legislation. That's why in 2016, after years of broken promises about repealing ObamaCare, balancing the budget and imposing term limits, conservative voters decided they'd had enough. They decided to support someone whose primary virtue was that he would not back down from fighting for them.

Mr. Trump may not have grown up in a log cabin, and he has at best a mixed record on conservative social issues. But he delights in taking on the Washington elites, the mainstream journalists and the Hollywood



The president in Blue Ash, Ohio, Feb. 5.

sophisticates who mock his voters and their cherished beliefs. Mr. Trump may not actually succeed in Washington, but how could he do any worse than the Republicans who paid lip service to conservative goals only long enough to get elected?

Many Trump voters are unapologetic social conservatives who reject secularism and multiculturalism while embracing patriotism. At the same time, they are economic populists. They want to cut federal funding for Planned Parenthood, but don't share Paul Ryan's eagerness to limit the growth of their Social Security and Medicare benefits. They don't view Mr. Trump's break from Republican orthodoxy on legal immigration and free trade as problematic. They cheer his denunciation of kneeling football players.

These voters suspect, with not inconsiderable evidence, that the GOP's leaders have less in common with them than with the cultural elite. In their lifetimes, they have watched both parties, all three branches of government, and the popular culture move from embracing many of their core values to, at best, tolerating them.

In the same way that feminists like Gloria Steinem were desperate enough for victories to give Bill Clinton's boorish behavior a pass, many conservatives are now willing to overlook each new revelation about Mr. Trump. After all, he is delivering wins: withdrawing the U.S. from the Paris climate deal and the Trans-Pacific Partnership; moving the U.S. Embassy to Jerusalem.

Yet this conservative coalition,

built on a potent combination of anger, frustration and resentment of its previous leaders and the cultural elites, may not be sustainable. These voters will not abandon Mr. Trump as long as they believe he will not abandon them, but they also won't attract many new adherents. There must be a path forward that restores conservatism's natural optimism, confidence and universalism.

Republican leaders can start by being honest with voters. They pretended for eight years they were going to repeal ObamaCare, even when they had no realistic plan to do so. For years they promised simple solutions and blamed others for America's problems. The Chinese are indeed exploiting trade and intellectual property to their advantage, but China isn't to blame for the appalling state of many urban schools.

The GOP needs to spend political capital accomplishing the priorities not merely of its donors but also its voters—for instance, by protecting religious freedom. Finally, Republican leaders have to lead. They have to persuade instead of pander, to expand the conservative coalition by building bridges where possible and evangelizing where not. Simply making another Trump joke may help party bigwigs feel good about themselves, but it only enhances the resentment that put him into office.

*Mr. Jindal was governor of Louisiana, 2008-16, and a candidate for the Republican presidential nomination in 2016.*

## Forget the Media Caricature. Here's What I Believe

By Rebekah Mercer

Over the past 18 months, I have been the subject of intense speculation and public scrutiny, in large part because of the philanthropic investments of the Mercer Family Foundation and the political contributions made by my father and me. I don't seek attention for myself and much prefer to keep a low profile. But my natural reluctance to speak with reporters has left me vulnerable to the media's sensational fantasies.

Some have recklessly described me as supporting toxic ideologies such as racism and anti-Semitism. More recently I have been accused of being "anti-science." These absurd smears have inspired a few gullible, but vicious, characters to make credible death threats against my family and me.

Last month a writer for the Financial Times suggested mysteriously that my "political goals are something she has never publicly defined." In broad strokes this is what I believe:

I believe in a kind and generous

United States, where the hungry are fed, the sick are cared for, and the homeless are sheltered. All American citizens deserve equality and fairness before the law. All people should be treated with dignity and compassion. I support a United States that welcomes immigrants and refugees to apply for entry and ultimately citizenship. I reject as venomous and ignorant any discrimination based on race, gender, creed, ethnicity or sexual orientation.

As a federalist, I believe that power should be decentralized, with those wielding it closely accountable to the people they serve. There is obviously a role for the federal government. But I support a framework within which citizens from smaller political entities—states, counties, cities, towns and so on—can determine the majority of the laws that will govern them. Society's problems will never be solved by expensive, ineffective and inflexible federal programs.

I am deeply committed to research and the scientific method. I have degrees from Stanford in biology, mathematics, and operations research

and engineering economic systems. I believe that genuine scientific discovery flourishes only in an atmosphere of dispassionate, open-minded inquiry, with research evaluated according to neutral, evidence-based criteria. I oppose politicized science, in which researchers cannot study certain subjects—or even ask certain questions—for fear of career-ending backlash and persecution.

I support U.S. generosity, decentralized power, evidence-based science, and open discourse.

These beliefs shape my philanthropy and my political activity. I support ideas and policies, not individual politicians as people. The only thing I ask of the politicians I back is that they be true to the promises that they made to their constituents during their campaigns.

I supported Donald Trump's 2016 presidential campaign because he

promised to tackle entrenched corruption on both sides of the aisle. I continue to support President Trump, which does not mean I agree with every position he has taken or every thought he has tweeted. I remain hopeful that he will continue striving to fulfill his campaign promises.

I own a minority stake in Breitbart News (where I have no editorial authority) because I believe it adds an important journalistic voice to the American conversation. Stephen Bannon, its former chairman, took Breitbart in the wrong direction. Now that Mr. Bannon has resigned, Breitbart has the opportunity to refine its message and expand its influence.

I have chosen to involve myself with important policy issues, and with some of the institutions that discuss them, because I am, first and foremost, a mother. I am raising my children to be humble, productive citizens who will treat all people with dignity, respect and empathy. I want them to accept personal responsibility and to be aware that they alone will have to answer for their choices and actions. I hope that my children will show stoicism and perseverance

through adversity, as well as an ability to think for themselves and challenge conventional wisdom when necessary.

I also hope that they will embrace debate as a vital part of human progress. I am devoted to protecting individual rights to ensure that my children will mature in a country where they cannot be persecuted or imprisoned or have their livelihoods destroyed because of their thoughts and beliefs.

This country was founded on the principle of open discourse. Intellectual diversity and vigorous, reasoned debate have been fundamental to America's success, making us the freest, most prosperous and most innovative society in human history. But we have lost our way. As my family and I know firsthand, America is now a society that threatens, pillories, and harms those who dare to question the status quo.

But questioning the status quo is more important now than ever. America's future depends on it.

*Ms. Mercer is president of the New York-based Mercer Family Foundation.*

## As Boomers Go Gray, Even 2% Growth Will Be Hard to Sustain

By Jason Furman

Most of what was good in the American economy last year was unsustainable, and most of what was sustainable was not good. A decade after the financial crisis, there is still no sign the economy can generate the consistent growth of 3% a year many continue to hope for. The growth rate for 2017 was just 2.5%, and even that seems unlikely to last. Is this the new normal?

Not exactly. Instead it's a return to the old normal, a reversion that was widely expected after baby boomers began to retire. While policy makers should do what they can to increase the economy's long-run growth rate, they also need to avoid making decisions based on unrealistic expectations.

Economic growth comes from two

sources. First is a cyclical rebound in demand as the economy gets closer to full capacity (or even exceeds beyond it). Second is an increase in the economy's underlying potential output—also called the supply side—driven by growth in either the workforce or productivity.

The trouble is that more than half of last year's economic growth came from the cyclical factors, which have little left to contribute given that we're at or near full employment. What this means is that absent much bigger productivity improvements, it will be a challenge for the U.S. to achieve sustained economic growth of even 2%.

The stock market's recent travails provide a vivid illustration of unsustainable growth. Last year the market went up 19%, which boosted consumer spending through a wealth effect. This surge in consumption

probably accounted for about 0.75 percentage point of the growth in gross domestic product. For four straight years, consumer spending has risen faster than GDP, causing the personal-savings rate to drop to 2.4%—nearly the lowest on record.

Now a market correction has happened, and even with their recent rebound stocks are still 6% off their highs, as of close on Wednesday. Whatever may happen in the market, it's sobering to listen to the people arguing that stocks are correctly valued. The theory that today's high price/earnings ratios are justified—meaning it simply has become more expensive to buy a given return—implies lower earnings going forward.

That, too, would undercut the consumption-fueled growth the U.S. has been enjoying, leaving households vulnerable after the past several years in which they took on increased debt and reduced their personal savings.

Another unsustainable boost to the economy has been the falling dollar. Last year the dollar's effective exchange rate—a measure that compares the dollar against a basket of currencies weighted by trade volume—fell 7%. Although the U.S. pursued a de facto strong-dollar policy through higher interest rates and larger budget deficits, this was more than offset by unexpectedly strong global growth. The weak dollar helped roughly stabilize the trade deficit, meaning net exports only subtracted 0.1 percentage point from GDP growth in 2017, compared with an average of 0.5 point a year from 2013-16.

The momentum in GDP growth could continue into 2018, especially given that tax cuts and the recent spending bill will provide about \$250 billion in new demand-side fiscal stimulus this year. The unemployment

rate, now 4.1%, could fall into the 3% range, a welcome development.

Lagging benefits from the weakening of the dollar may arrive. Beyond 2018, however, these factors will begin to lose their force, especially since the Federal Reserve is sure to raise interest rates to offset any additional fiscal stimulus. More important, while predictions about markets are uncertain, it is a mathematical fact that the unemployment rate cannot indefinitely fall by 0.6 percentage point a year, as it did in 2017.

**Hoping for 3% or more is folly. The fundamentals—people and productivity—seem unlikely to provide it.**

Growth will therefore have to come from the supply side. But a bigger workforce is an unlikely candidate.

Assuming that current immigration rates continue and that employment rates by age are stable, the workforce will expand by 0.5 percentage point a year over the next decade. It is theoretically possible that people out of the workforce today could return. Betting on this, though, would be imprudent, given the steady decline in labor-force participation for men since the 1950s and for women since around 2000.

That leaves productivity growth, which is even less certain. The statistics usually reported exclude farms and the government, meaning they cover only a faster-growing subset of businesses. Instead let's look at economywide productivity, which is what's relevant for predicting overall economic growth. In 2017 economywide productivity increased 0.9%,

slightly below its 1% annual pace over the past decade. If that average rate continues, overall economic growth in coming years will average only 1.5%. But maybe the productivity figure for 2007-17 is too pessimistic, reflecting a combination of fallout from the global financial crisis and bad luck. In that case we might look to the average economywide productivity growth of the past 50 years, 1.6%. That would push the baseline for overall growth to 2.1%.

Actual growth over the next five or 10 years could vary from this range of 1.5% to 2.1%, but there is little basis for a forecast that diverges significantly. As an analogy, imagine you're asked to predict the high temperature in Boston on Christmas Day. You might say 43 degrees (the average over the past decade) or 40 degrees (the average over the past 50 years). It could well end up being 20 degrees or 60 degrees, but those would be foolish predictions.

Slower growth is less the fault of President Trump than of his generation. Mr. Trump, born in 1946, was in the first wave of boomers. Forty percent of the people born that year have left the workforce. This was predictable, which is why in 2005 the Social Security Trustees projected that the economy would grow 1.8% a year from 2020-30. If anything, additional data since then would lead us to revise that forecast down. Americans simply have forgotten this basic reality. To the degree that policy and business decisions are based on false hopes for much higher growth, the result can only be dashed expectations.

*Mr. Furman, a professor of practice at the Harvard Kennedy School, was chairman of the White House Council of Economic Advisers, 2013-17.*

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Karen Miller Pensiero

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## WORLD NEWS

# Global Trade Boom Snags Kenya's Roses

The world economic recovery created a logistical logjam for the flower powerhouse

By MATINA STEVIS-GRIDNEFF

NAIROBI, Kenya—A logistical logjam with global airborne trade threatened to ruin the most profitable—and romantic—time of the year for Kenya, one of the world's top flower exporters.

In recent months, the accelerating global economic recovery, a boon for blooms, has diverted cargo aircraft to more-profitable routes in Europe, the U.S. and Asia, and away from less-profitable ones in Africa.

The trend couldn't have come at a worse time for this fertile East African nation that has blossomed to become a global flower powerhouse: It is now fourth in the export of all cut flowers by value, and third in the export of their king—the rose. With air carriers insisting on flexibility and waiting until the last minute to commit to cargo flights, Kenya's freight crunch around Valentine's Day is hard to circumvent, given the short life of cut flowers.

"If we were flying iPhones,



Workers packaging roses in a warehouse at a flower farm in Naivasha, on Feb. 10. The farm grows only roses in its greenhouses.

we'd just leave them to one side for a week," said Conrad Archer, a managing director at Swiss freight forwarder Panalpina, which carries about a quarter of Kenya's perishables including flowers, fruits and vegetables. "The rose starts dying the minute it's cut. It can't wait."

The disruptions caused by the freight crunch lay bare the

continued weakness of African

export markets despite a decade of better integration through trade and growth. The air-freight shortage is also affecting South Africa and Nigeria.

"It's not a Kenyan problem, but the aircraft coming here is empty, so the route is unprofitable even if we load it up on its way back," said Mr. Archer, adding that air carriers are charging more to ensure the

flights are profitable despite poor inbound cargo.

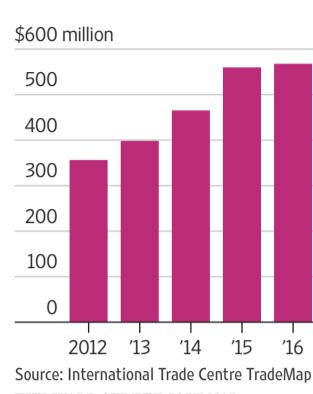
The freight crunch has punctured some Kenyan growers' expectations for a robust crop in 2018 at flower farms spreading across the banks of Lake Naivasha and slopes of Mount Kenya. On average, a Kenyan farm's output spikes by 30% around Valentine's Day, as growers hire extra labor, and

the entire supply chain that delivers the roses to florists across the world kicks into overdrive.

"Unprecedented weather conditions, with erratic rains and low temperatures in the evenings, have made this year's crop unpredictable," said Neil Hellings, managing director at Oserian, a major Kenyan farm. "But roses are getting good prices at the auc-

## Blooming Nicely

Kenya's exports of fresh cut roses and buds



tion this year," he added.

Depending on size and quality, a stem from Oserian farm can cost anywhere from 16 euro cents to 3.7 euros (20 cents to \$4.57) at the Dutch auction, the world's biggest, and this year's prices are better than last year's across the board.

Kenya has long been a big flower producer because of its excellent growing conditions, but the industry scaled up and became more professional over the past few decades as routes opened to Europe and technological advances helped traditional farming.

## South Korea Picks Up the North's Expenses at Winter Games

BY JOHN LYONS

SEOUL—At the Winter Olympics, North Korea's athletes, cheerleaders and performers are trying to score charm points for a regime seeking to improve its image. They are also racking up hotel bills they don't plan to pay.

On Wednesday, South Korea approved a \$2.7 million fund to cover North Korean costs such as the bill at the Grand Walkerhill Seoul, the five-star hotel in the capital where North Korean leader Kim Jong Un's sister and a 137-member orchestra spent a few nights.

The tab could change depending on a final accounting, a South Korean Ministry of Unification official said.

South Korea agreed to pay Pyongyang's bills during talks about its participation in the Games, South Korean officials said. From international loans to hotel bills, North Korea has earned a reputation as a country that rarely pays.

These Winter Games are no different. While South Korea is picking up most of the tab for North Korea's performers, the International Olympic Committee—which cleared the way for the North's participation—

is meeting the costs of North Korean athletes' stays in the Olympic Village, officials said.

In the early 1970s, Kim Il Sung, the current leader's grandfather and founder of the totalitarian regime, took shipment of 1,000 green Volvo sedans from Sweden but never paid for them. Swedish export-finance officials have continued to calculate the debt over the years: as of 2014 it was more than \$300 million, including interest.

North Korea is a poor nation whose access to hard currency is squeezed by international sanctions intended to

force it to negotiate.

At the same time, it is investing in nuclear-weapons and missile programs and its leaders live lavishly.

In January, when Mr. Kim reached a last-minute deal with Seoul to participate in the Games, there was little question that the South would pay. South Korea paid when the North participated in other sports events it hosted, such as the Asian Games in 2002 and 2014. Representatives of North Korea couldn't be reached to comment.

—Min Sun Lee contributed to this article.

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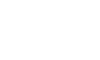
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# BUSINESS & FINANCE

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## Google Ad Blocker Called Biased

Critics say browser fails to filter out type used by Alphabet unit; company denies sway

By DOUGLAS MACMILLAN

Google's Chrome browser has begun blocking certain types of online advertisements, a change Google is describing as user friendly.

But some in the industry say the ad giant's move, which took effect Thursday, is self-serving, and they contend Google overly influenced the

process that selected which ad types to block.

Google, a unit of **Alphabet** Inc., describes the new policy as the work of a collective, industrywide effort designed to rid the internet of spammy ads like pop-ups, and make other ads more appealing.

Some people involved in that initiative say it wasn't a true joint effort but a Google-dominated one that, while reducing ads widely considered annoying, also could ultimately help Google's bottom line.

Google is a behemoth in the digital ad industry. About \$3

out of every \$10 spent on digital ads goes to Google, which generated more than \$95 billion in ad sales last year. Some critics of the company's new policy say advertisers may shift more dollars to Google sites and products, which are less likely to be blocked by the Chrome browser. The browser is used by more than 59% of internet users.

Google's ad-blocking effort is unfolding as the U.S. and European government officials have raised concern about the growing economic power of tech giants. Margrethe Vestager, the European Union's competition chief, last year said she would follow the Chrome ad blocker's effects closely.

"This looks like an effort by Google to use its strong market position in browsers in order to prevent users from adopting third-party apps that block ads Google wants to make money from," said Gary Reback, a Silicon Valley antitrust lawyer who helped persuade the Justice Department to launch its antitrust case against **Microsoft** Corp. in the 1990s. He now represents an ad-blocking company that has filed an

EU antitrust complaint against Google in a separate matter.

Google denies having undue influence, saying it is one of many companies involved in developing the rules through the Coalition for Better Ads, a group of advertisers, publishers and tech companies that set the ad-blocking rules.

A Google spokeswoman said the company remained "committed to improving the online ad experience, working in collaboration with the advertising industry" through

*Please see GOOGLE page B2*

## Cisco to Repatriate \$67 Billion In Cash

By AUSTEN HUFFORD AND JAY GREENE

**Cisco Systems** Inc. is the latest technology giant to bring home huge sums of cash held overseas, a beneficiary of the new U.S. tax law.

The networking-gear maker said Wednesday it would repatriate \$67 billion of its foreign cash holdings to the U.S. this quarter following recent changes to U.S. tax law, in one of the largest repatriation plans yet revealed.

Cisco expects to spend much of the newly repatriated cash on share buybacks and dividends, amounting to about \$44 billion over the next two years, the company said Wednesday while reporting earnings.

Critics of the U.S. tax law have said increases in share repurchases and dividends show money saved from the law is going to shareholders instead of being invested in new U.S. jobs, infrastructure, research and development, and related areas.

Investors welcomed Cisco's

### \$44B

How much of repatriated funds Cisco will return to shareholders

move. Shares rose more than 6% in after-hours trading, as the networking-gear maker also said it returned to revenue growth for the first time in more than two years in its fiscal second quarter.

"There's a great deal of confidence right now on a global basis, probably more consistent than we've seen in a very long time," Chief Executive Charles Robbins told analysts on a conference call.

At the end of the quarter, Cisco had \$73.7 billion of cash and equivalents, with the vast majority held outside the U.S. Under the new tax law, the company will be able to access its money at a significantly lower rate than was previously required.

On Wednesday, Cisco raised its quarterly dividend to 33 cents from 29 cents. It also added \$25 billion to its share-repurchase program, bringing its total buyback authorization to \$31 billion, which the company intends to use over the next two years.

The focus on stock buybacks and an increased dividend suggests Cisco isn't likely to use the cash on a major acquisition, said RBC Capital Markets analyst Mitch Steves.

Instead, he expects Cisco to focus on smaller deals, perhaps in a range of \$1 billion to \$10 billion.

On a conference call with *Please see CISCO page B2*

◆ Heard on the Street: Cisco's older lines help it reboot....B12

## Nordstrom Defies Retailing's Retreat

By SUZANNE KAPNER

Many retailers, beset by online competition and shifting consumer tastes, are slashing costs and closing hundreds of stores. **Nordstrom** Inc. is doing the opposite.

The family-run company has been investing heavily as it tries to outrun the forces battering the industry. It is revamping some of its 122 department stores and spending more than \$500 million to gain a toehold in Manhattan. It has snapped up e-commerce companies including flash-sale website HauteLook and subscription service Trunk Club. And it has launched new concepts, including a store in Los Angeles called Nordstrom Local that doesn't stock any clothes.

So far, those efforts have failed to pay off in rising profits. As Nordstrom has been ramping up capital spending, revenue for the six years ended in January 2017 increased by more than half to \$14.76 billion but profits over that period fell. Much of the revenue growth has come from opening Rack off-price stores and e-commerce. Sales at the department stores have declined each year since 2012. The Seattle-based company is scheduled to report results for its recently completed year on March 1.

Tired of trying to convince Wall Street that its invest-for-the-long-term strategy will generate results, the family attempted last year to take Nordstrom private. Although the effort failed when they were unable to raise enough financing for the more than \$10 billion deal, the family restarted talks with bankers this year, people familiar with the situation said.

"About the worst thing that could happen is to be known as the generation at Nordstrom that screwed it up," Pete Nordstrom, 56 years old, said in a recent interview.

He shares the title of co-president with his brothers Blake, 57, and Erik, 54, great-

*Please see RETAIL page B2*



Inside the central building of a Taikang Life senior community complex. To gain a spot, people have to buy an expensive life policy.

STELLA XIE/THE WALL STREET JOURNAL

## Insurers Turn Builders in China

By CHUIN-WEI YAP

China's insurers have offered an ever-widening range of financial products in the face of rapid aging in the world's second-largest economy. Now, some of them are building high-end retirement homes.

For example, about an hour's drive from downtown Shanghai, a resortlike community houses hundreds of senior citizens. It is an ambitious experiment in retirement care in China.

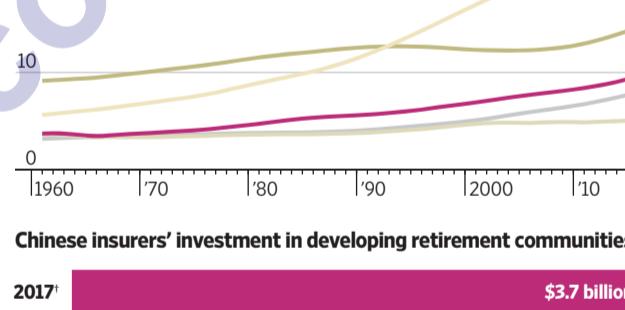
The multistory complex, which can house as many as 2,000 households, has a hospital, places of worship, a cinema and a gym. Residents gather to eat buffet meals, play mahjong and sing folk songs. To gain a spot in this luxury development, people have to buy a life-insurance policy from **Taikang Life Insurance** Co., a privately held Chinese company.

The world is entering a retirement crisis where millions of people lack a safety net in old age if they require significant help for daily care. In China, the situation is starting to pose major challenges. Unlike the U.S., which for decades has had a long-term-care in-

### Fading to Gray

The percentage of China's population aged 65 and above is rising rapidly, leading some Chinese insurers to develop retirement communities.

30% of total population



### Chinese insurers' investment in developing retirement communities\*



\*China Insurance Regulatory Commission doesn't publish data annually; 2017 as of September

Sources: World Bank (population); China Insurance Regulatory Commission (investment)

THE WALL STREET JOURNAL

surance market, some Chinese cities and counties only recently began piloting insurance plans that help pay for elderly care and home assistance for senior citizens in need.

A third of China's 1.4 billion

population will be 60 or older by 2050, according to United Nations data, up from 10% at the start of this century. More than three decades of a government policy that limited parents to having only one

child is straining the society's traditional reliance on its own citizens to take care of their aging relatives.

Chinese insurers have so far spent more than \$10 billion building retirement communities, according to the China Insurance Regulatory Commission, and more are planned.

The developments are primarily targeted at wealthy individuals, who have to buy a term-life insurance policy with a minimum single premium of \$300,000, payable upfront or in annual installments over 10 years.

In addition, individuals living in the communities pay monthly fees of about \$2,000 to cover meals, cleaning and other services.

"Against the backdrop of an aging population, such health care on a large scale is a 'sunrise' industry," said Chen Dongsheng, chairman of Taikang Life, in a recent statement.

Hua Dasi, a 68-year-old resident, said his daughter, who lives in Germany, last year picked out an apartment for him and his wife that costs 15,800 yuan (\$2,514) a month after the purchase of an insurance policy.

A retired property developer, Mr. Hua previously lived

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## INSIDE



EMPLOYERS GET CREATIVE ABOUT HIRING

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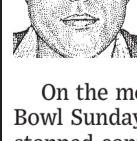


CONSUMERS TAKE ON MORE DEBT

FINANCE, B6

## PERSONAL TECHNOLOGY | By David Pierce

### For Starters, Internet TV Kills Pain of Cable



A couple of weekends ago, my life became a cable-cutter info-commercial.

On the morning of Super Bowl Sunday, my remote stopped connecting to my Comcast cable box. After an hour spent mostly waiting for Comcast customer service to "send signals" to my box, I finally had help—in the form of a Tuesday morning appointment. With kickoff coming a bit sooner, I fired up my Roku player and opened YouTube TV, the live-TV service from **Alphabet**'s video giant. Other than a brief hiccup

when my Roku rebooted itself, all things Super Bowl streamed flawlessly for the next eight hours.

People who watched the Super Bowl on Hulu and **Sony**'s PlayStation Vue, two of YouTube TV's competitors, experienced a compelling endorsement for cable, though.

Both services suffered outages during the game, including one during the thrilling final moments.

Super Bowl snafus aside,

streaming live TV from the internet works far more reliably now than it used to. Between the five big names in the space—the other two are **AT&T**'s DirecTV Now and

Dish Network's Sling TV—you can get everything from a \$20-a-month bare-bones replacement to a \$75 option that almost resembles your cable lineup.

My current pick in the shifting landscape is YouTube TV.

It recently released apps for Roku and Apple TV devices, and on Wednesday added TBS, CNN and more to the service.

(The others have recently added new channels, too.) It is raising its price to \$40 a month on March 13 to adjust for the new lineup, but that's still a far cry from the \$100 or more that people on average pay for cable, according to the media analysis

firm Leichtman Research Group.

So far, the best thing about ditching satellite or cable is a sweet release from the constant pain of dealing with your cable company: annoying set-top boxes, inscrutable bills, limited mobility.

But in some ways, especially channel count and that vague-but-important sense that it'll always work when you need it, cable still feels like the safer bet.

Here are the four biggest benefits of internet TV:

**Portability.** Signing up for internet TV is like joining Instagram: Download the app,

*Please see TECH page B4*

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## CHINA

Continued from the prior page  
in an apartment in downtown Shanghai and now rents it out, using the income to pay for the Taikang unit.

"I've moved all my old furniture over to make it feel more like home," said Mr. Hua, adding he doesn't see the development as a nursing home and has made many friends in the community. "With so many housekeepers around, it's a luxury we can't afford if we live by ourselves."

Taikang bills itself as the largest of such insurer-builders in the country and since 2015 has set up retirement communities in three major Chinese cities with a total of 6,600 apartments, spending \$1.7 billion to build them. The units range from 750 square feet to around 1,800 square feet in size and resemble serviced apartments. The company's insurance-and-property package is marketed as a "Happiness About Old Age Plan."

China's insurance regulator in 2014 began actively encouraging insurers to pursue such developments, a year before China's working-age population saw its largest decline on record, a drop of 4.87 million people to 911 million workers, according to the National Bureau of Statistics.

The insurance commission has described the communities

as a way "to increase the supply of resources to take care of the old, and ensure the joint development of insurance and aged-care industries."

It isn't without risk. Insurers have to lure a critical mass of people to justify their heavy investments, and often "do not have the expertise in operating such projects," said Moody's Investors Service analyst Sally Yim.

The insurers don't regularly disclose take-up rates; some analysts estimate occupancy rates start at about 30% in the first year but can rise quickly in major cities to 90% or more.

At Taikang's senior facility near Shanghai, named the Taikang Community Shen Garden, more than 400 residents so far have filled up two high-rise buildings, and four more are under construction and scheduled to open this year, according to an employee of the insurer.

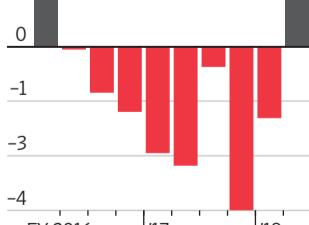
Alex Kimura, a former Taikang director, said some company representatives traveled to Arizona about a decade ago and visited some retirement communities. "They looked at the aging population in the U.S., at how people were unable to take care of their parents," he said in an interview, adding they saw a looming "customer pain point." Mr. Kimura left Taikang's board in 2011 and is now Asia chief strategy officer for British life insurer Aviva PLC.

—Stella Yifan Xie contributed to this article.

### Back in Black

Cisco Systems reported revenue growth for the first time in over two years.

Quarterly revenue, change from previous year



Sources: S&P Capital IQ; the company THE WALL STREET JOURNAL.

increased 2.6%.

Revenue from services rose 2.9%. The company has made several acquisitions to bolster its services offerings to corporate customers, a move aimed at reducing its dependence on declining hardware markets.

For Cisco, the tax law's impact reduced earnings by \$1.1 billion, including \$9 billion from a transition tax.

Cisco said revenue rose 2.6% to \$11.89 billion, topping the \$11.81 billion expected by analysts polled by Thomson Reuters. Product revenue, which makes up 73% of the top line,

## BUSINESS & FINANCE



From left, brothers and co-presidents Blake, Erik and Pete Nordstrom, whose great-grandfather helped found the retailer a century ago.

## RETAIL

Continued from the prior page  
grandsons of the Swedish immigrant who co-founded the company a century ago. Along with their father, aunt and a cousin, Jamie Nordstrom, they control a third of Nordstrom's shares.

It's a risky time for any retailer to pile on debt. Department stores are fighting uphill to retain shoppers who are migrating to the web and funneling more of their disposable income to dining out, travel and other experiences.

"Nordstrom is subject to the same pressures all department stores face," said Paul Lejeune, a Citi analyst. Such stores are "at a disadvantage because they sell other people's goods, and they are located in malls where foot traffic is down," he said.

Nordstrom says it is different from its peers. It has fewer locations than rivals, and most are in the nation's top malls, which continue to draw shoppers. "We like to think of ourselves as more of a specialty retailer," said Jamie Nordstrom, the 45-year-old president of stores.

While other department stores are retrenching, Nordstrom has shown a willingness to take risks. It is jumping into the competitive New York City market with a men's store opening in April followed by a women's store next year. "We don't have all the answers," said Erik Nordstrom, who oversees e-commerce. "But we've been investing signifi-

cantly against these changes."

At a store in Irvine, Calif., Nordstrom recently completed a test of a showroom that carried samples of 19 brands such as Rag & Bone and Veronica Beard in every size and color; they could be tried on but had to be ordered online. For shoppers, it solved the problem of visiting a store only to find their size sold out.

"They've done a good job of merging online and offline shopping," said Samantha Yarock, a 32-year-old resident of Portland, Ore. She says she is a fan of a service Nordstrom introduced in 2016 that shoppers use to reserve goods online and try them on at their local store, avoiding the hassle of a return.

Other changes meant to appeal to customers are smaller. In November, the company unlocked the fitting rooms in its department stores. To discourage shoplifting, many retailers keep them locked until a staff member grants access, but the practice annoys customers. Although theft has increased slightly since Nordstrom made the change, executives say, the retailer is sticking with the new policy.

"Analysts don't like it," Jamie Nordstrom said. "But I'm thinking about the next 50 years, not the next quarter."

Nordstrom weeds out weaker-selling brands regularly, replacing laggards with new labels. The Ivanka Trump brand, which Nordstrom dropped last year, setting off a political firestorm and earning the ire of President Donald Trump, was one such casualty.

### Nordstrom by the Numbers

0 Clothing items that can be purchased at Los Angeles concept store

4 Venture-capital funds in which it is invested

5.5 Capital expenditures as a percentage of revenue vs. 3.5% at Macy's

20 Percentage of brands eliminated annually for poor performance

26 Percentage of total sales from e-commerce

232 Number of off-price Rack stores vs. 122 traditional department stores

its department-store merchandise at full price, it is harder for Nordstrom to compete in a world where promotions are the norm.

The company says it combats the problem by selling labels that aren't widely distributed. A third of its goods are either exclusive to Nordstrom or have limited exposure elsewhere, from Ayr jeans to Le Labo fragrances.

As of this year, the clothing label Vince can no longer be found in Bloomingdale's and Saks Fifth Avenue, but is still available in Nordstrom, one of the few department stores it continues to sell to.

"Even when the industry goes through tough times, Nordstrom doesn't cut back on service," Vince Chief Executive Brendan Hoffman said.

Nordstrom currently is rippling up carpets and fixtures that divide the stores into departments. The goal is to make the space more flexible and switch out merchandise categories that aren't working, said Dawn Clark, the senior vice president of store design.

While analysts applaud these moves, some worry they aren't enough to prevent Nordstrom from going the way of other defunct department stores. The flagship Nordstrom in Seattle is in a landmark building that once housed Frederick & Nelson, a chain that went bust in 1992.

"They are doing all the right things, but it's not clear how it will shake out," said William Dreher, an analyst with Susquehanna Financial Group.

Continued from the prior page  
the coalition.

In a press release announcing the coalition in September 2016, Google's name appeared once, in the final paragraph, in an alphabetical list of 18 members, including Facebook Inc., Procter & Gamble Co. and News Corp, owner of The Wall Street Journal.

Several coalition members said Google conceived of the coalition and performed the bulk of the research that informed its rule-making process. Google executives were among the most influential voices on its committees and helped steer its decision-making to favor its own ad formats, the people said.

Google began conducting research on what types of ads consumers found most annoying in 2015.

The following year, Google executive Scott Spencer met with advertising and publishing executives to gather support for a new initiative that would essentially curb the role played by ad blockers, according to people who were present.

In the meetings, Mr. Spencer proposed blacklisting certain types of ads, the people said. The ad standards could be voluntarily adopted by industry groups, or even enforced by browsers or ad-blocking software, he said. Executives were asked to sign nondisclosure agreements barring them from discussing the meetings.

Venable LLC, a Washington-based law firm, was hired by three ad trade groups including Interactive Advertising Bureau to set up and manage

### To Block or Not

A new feature in Google Chrome will block ads on websites with too many spammy ads. A sampling of ads allowed and not:

- Ads Google will block
- Ads Google will allow

#### Static inline image



Source: Coalition for Better Ads

the coalition, said the firm's chairman, Stuart Ingis.

Soon after the coalition was established, it voted to adopt Google's research, Mr. Ingis said. Google had surveyed consumers on dozens of ad formats and ranked them by how "annoying" they found each one. Long, skinny rectangles on the side of the screen were found the least annoying; full-screen messages with countdown timers were among the most annoying.

The coalition worked with Google to improve the research, including deciding on a number of additional ad formats to test, said one person involved in the process.

Google tested 55 desktop ad formats and 49 mobile formats and presented the findings to the group.

The coalition ultimately deemed 12 ad formats unacceptable.

#### Pop-up with countdown



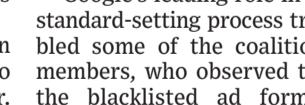
CLOSE THIS AD IN 5

NEWS

STICKY

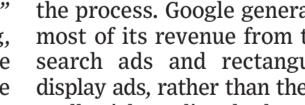
NEWS

Autoplay video with sound



NEWS

Autoplay video without sound



NEWS

THE WALL STREET JOURNAL.

Google's leading role in the standard-setting process troubled some of the coalition's members, who observed that the blacklisted ad formats generally don't apply to Google's own business, according to people who were part of the process. Google generates most of its revenue from text search ads and rectangular display ads, rather than the visually rich media ads that will be banned by the coalition.

"They are creating a standard that doesn't apply to them," said Ryan McConville, president of mobile-ad startup Kargo, one of 17 members on the coalition's board.

Some of the members lobbied the coalition to make exceptions, including Facebook, which argued that the social network should be excluded from a rule banning videos that automatically play with sound. Bounce Exchange Inc., a pop-up ad

## BUSINESS NEWS

# FCC Chief Backs SpaceX Web Plan

By JOHN D. MCKINNON  
AND ANDY PASZTOR

**WASHINGTON**—A top federal regulator recommended approving **Space Exploration Technologies** Corp.'s plan to provide internet service through huge arrays of earth-orbiting satellites, in a move that could expand broadband availability across the U.S. and beyond.

The move gives a boost to the firm, known as **SpaceX**, and its founder, Elon Musk. **SpaceX** scored an attention-grabbing success last week with the test-launch of its massive Falcon Heavy rocket.

But questions still linger over the broadband project. **SpaceX** has said it plans to launch its first prototype sat-

given to an American-based company for broadband services using a new generation of low-earth-orbit satellites.

Over the past year, the FCC has approved similar requests by **OneWeb**, **Space Norway** and **Telesat of Canada** to provide broadband in the U.S. using satellite technology.

It isn't clear how far along **SpaceX** is in firming up its plans. Company officials have said little publicly. And when there were comments, they generally indicated the broadband effort was on the back burner until the company completed efforts involving bigger rockets and crew capsules to take astronauts into orbit. Work, testing and government approval on the manned space vehicles is still under way.

When it was conceived, the satellite initiative was viewed inside **SpaceX** as vital for the closely held Southern California company's long-term success. The vision of Mr. Musk, chief executive and top designer for **SpaceX**, was spelled out in internal documents drafted in 2015.

The project has progressed more slowly than anticipated. Those documents projected 4,800 low-earth orbit satellites would be launched by 2025, creating a system with a capacity of nearly 50 million subscribers. At the time, the first 800 satellites were anticipated to be launched by the end of 2019. The plan projected satellites costing less than \$1 million apiece, a price also targeted by **OneWeb**.

**SpaceX** envisioned launching 32 of its Falcon 9 rockets over two years to deploy the first phase of the proposed satellite constellation. Its highest annual launch rate so far is 18 missions, and it already has contracts with dozens of customers waiting to have their payloads blasted into orbit before **SpaceX** satellites become primary payloads for company rockets.

Mr. Pai said the proposed approval would be the first



TOBY MEVILLE/REUTERS

Shares of the British pay-TV company rose after it retained broadcast rights to English Premier League soccer matches.

# Sky's Rise Pressures Fox

By STU WOO AND BEN DUMMETT

**LONDON**—**Sky PLC** shares rose above the price that **21st Century Fox Inc.** offered for the British pay-TV giant for the first time since the bid—putting pressure on Rupert Murdoch's **Fox** to increase the figure.

The jump was a response to **Sky** retaining rights to broadcast English Premier League soccer matches and could complicate the much larger \$52 billion deal by **Walt Disney Co.** to buy a big chunk of **Fox** assets, including **Sky**.

Late Tuesday, **Sky** extended a deal for TV rights to the games for three years starting in 2019, for £1.2 billion (\$1.7 billion) a year, or 16% less a game than the previous auction.

**Sky** shares rose 3.4% to £10.97 in early London trading Wednesday. That exceeded the £10.75 per-share price **Fox** agreed to pay in December 2016 to buy the 61% of **Sky** it doesn't already own. The deal

is currently valued at about \$16 billion.

Should **Fox** secure regulatory approval for the deal, it still needs 75% of **Sky** shareholders, excluding **Fox**'s stake, to approve the deal. **Fox** could also try a more complicated process that requires a simple-majority approval. With the stock now trading higher, **Fox** may be forced to raise its bid.

Some **Sky** shareholders, including hedge-fund manager Crispin Odey, said before the soccer rights auction that **Fox** should increase its offer.

**U.S.** hedge fund **Elliott Management Corp.**, which has about a 2% stake in **Sky**, declined to comment. Elliott is known for its activist campaigns and for getting involved in deals and holding them up to increase the price.

**Fox** and Mr. Odey didn't immediately respond for requests for comment Wednesday morning.

If **Fox** raises its offer for **Sky**, it might need the approval of **Disney** to do so. **Dis-**

ney in December struck a deal to buy the majority of **Fox** assets, including its 39% stake in **Sky**, for \$52 billion. A decision on whether the **Disney-Fox** deal receives regulatory approval isn't expected until months after a regulatory decision on the **Fox-Sky** deal. If **Fox** successfully acquires 100% of **Sky**, then **Disney** would assume the debt that **Fox** would take to finance the deal.

Under the **Fox-Disney** deal, **Fox** would need **Disney's** permission to raise its bid for **Sky** if **Fox** requires fresh financing. Cable-giant **Comcast Corp.** is also considering renewing its pursuit of **Fox** assets, including the **Sky** stake, **The Wall Street Journal** reported this week.

**UBS** estimated that the terms of the soccer-rights auction could boost **Sky's** earnings before interest, taxes and amortization to about £2.2 billion for fiscal year 2020. That compares with analysts' previous estimates of about £1.7 billion, and would give **Sky** in-

vestors more reason to seek a higher bid.

Before the vote goes to shareholders, **Fox** first needs to win approval from the U.K. government. Antitrust regulators reviewing the merger have said **Fox's** full ownership of **Sky**, which runs a popular news service, might give Mr. Murdoch and his family too much influence in British media.

The Murdoch family controls a 39% voting interest in both **21st Century Fox** and **News Corp.**, which publishes major British newspapers, including the **Sun**, the **Times of London** and the **Sunday Times**. **News Corp** also owns **The Wall Street Journal**.

To mollify regulators, **Fox** on Monday offered to create an independent board to oversee **Sky's** news operations. Regulators are scheduled to deliver final recommendations in May to the U.K. government, which can approve the deal, approve it with conditions or reject it.

# Bunge Loss Fuels Deal Talk

By JACOB BUNGE

The chief executive of **Bunge Ltd.** said agricultural firms can't count on deals alone to boost profitability, as the farm economy struggles under a global crop glut that has hurt grain prices.

The grain-trading firm reported a quarterly loss Wednesday, pushing its shares down and fueling speculation the company could be bought by a larger rival. Chicago-based **Archer Daniels Midland Co.** has approached **Bunge** about a takeover, **The Wall Street Journal** reported last month.

On **Bunge's** first quarterly conference call since the **ADM** report, CEO Soren Schroder declined to comment on potential deals. While Mr. Schroder has said that the grain-trading industry could benefit from some consolidation, such as partnerships in the U.S. grain sector and in soybean processing, he said consolidation won't necessarily translate to higher profit margins.

"It's more how you operate that determines your profitability," Mr. Schroder said.

Investors are betting firms that dominate the global trade in crops such as corn, soybeans and wheat will consolidate to better withstand the recent low prices. Before **ADM's** approach, mining-and-trading giant **Glencore PLC** last May confirmed it separately had approached **Bunge** about a deal.

For both **ADM** and **Glencore**, acquiring **Bunge** would add an



VINCENT MUNDY/BLOOMBERG NEWS  
The firm has struggled amid a crop glut depressing grain prices.

extensive network of transport and processing assets, particularly in South America, which has come to rival the U.S. in harvests and exports.

**Bunge**, based in White Plains, N.Y., has struggled as farmers in North and South America have raised massive crops for five straight years, building up global stockpiles and pushing down prices. That has made it harder for **Bunge**, along with competitors like **ADM**, **Cargill Inc.** and **Louis Dreyfus Co.**, to profit from buying, selling and processing crops, as farmers hold out for higher prices and major buyers make fewer long-

term purchases of grain or food ingredients.

**Bunge** on Wednesday reported a \$60 million loss for the fourth quarter, citing higher costs of goods as well as pressure on profits from soybean-crushing operations, where **Bunge** is the world's largest player, and in wheat milling.

Shares of **Bunge** dropped 5.6% Wednesday but remain about 12% higher since the beginning of the year, as investors have wagered that the 200-year-old company could be acquired.

—Allison Prang contributed to this article.

# Dr Pepper Reports Flat Revenue

By CARA LOMBARDO

**Dr Pepper Snapple Group Inc.** reported flat revenue in its fourth quarter, a few weeks after **Keurig Green Mountain** announced it was buying the soda giant for nearly \$19 billion in cash.

**Dr Pepper**, whose brands include A&W root beer and Bai fruit drinks, said Wednesday its fourth-quarter revenue was little changed from a year ago at \$1.6 billion. Analysts polled

nounced Jan. 29, closed down 0.9% at \$114.94. Shareholders are set to receive a \$103.75-per-share special cash dividend in the **Keurig** deal, which the companies expect to close in the second quarter.

**Dr Pepper** reported a fourth-quarter profit of \$508 million, or \$2.81 a share, compared with \$165 million a year ago. The latest year's results included a \$297 million benefit related to the U.S. tax law overhaul.

**TOTAL**



## BEST PROFITABILITY AMONG THE MAJORS DIVIDEND GROWTH FORECAST

Total demonstrated its ability to capture the benefit of higher oil prices by reporting adjusted net income of \$10.6 billion, a 28% increase from 2016, and a return on equity above 10%, the highest among the majors. The Upstream, in particular, increased its results by more than 80% and its operating cash flow by close to 40%, compared to a 24% increase in Brent, especially thanks to production growth.

Financial discipline was successfully maintained. Production costs fell to \$5.4/boe in 2017 down from \$9.9/boe in 2014.

The Downstream confirmed again this year its ability to generate around \$7 billion of operating cash flow and reported a return on capital employed of more than 30%.

In E&P, the Group is preparing for future growth with the announced acquisition of Maersk Oil and finalized its entry into the Lapa and Iara fields in Brazil in early 2018. In the framework of reinforcing its integrated gas

strategy, it announced the acquisition of the LNG<sup>(1)</sup> business of Engie to take full advantage of the fast-growing LNG market. Total also partnered with EREN Renewable Energy to accelerate its growth in solar energy and move into the wind power market.

The strategy implemented since 2015 has enabled the Group to reduce its pre-dividend organic breakeven to \$27/b in 2017 and generate \$22 billion of debt-adjusted cash flow. The Group also continued to strengthen its balance sheet, ending the year with 14% gearing.

In this context, the Board of Directors has decided to propose a shareholder return policy for the coming three years by increasing the dividend by 10%, maintaining the scrip dividend option with no discount and buying back newly issued shares to avoid dilution, and buying back up to 5 B\$ of shares over the period 2018-20 to share with investors the benefits of the oil price upside.

### Adjusted net income

**10.6**  
billion dollars

### Hydrocarbon production

**+5%**  
compared to 2016<sup>(2)</sup>

### 2017 dividend

**€2.48**  
per share<sup>(3)</sup>

### Dividend growth forecast

**+10%**  
over the next 3 years<sup>(4)</sup>

## 2017 HIGHLIGHTS

### Investments that strengthen our positions

- Launched 5 Upstream projects including Libra in Brazil
- Petrochemical platforms expansions in the United States and South Korea

### Acquisitions that shape the future

- Maersk Oil, strengthening our position in the North Sea
- Engie's upstream LNG<sup>(1)</sup> business to rank second in global LNG
- EREN Renewable Energy, renamed Total Eren, to expand into wind and solar energy

### New offers designed for our customers

- Launched Total Spring in France to target residential market with gas and green power
- Entered petroleum product retail sector in Mexico

### INDIVIDUAL SHAREHOLDER RELATIONS

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United Kingdom: 020 7719 6084 - Other countries: +33 1 47 44 24 02

✉ shareholders@total.com

@ total.com/en/investors

□ Total Investors Application

(1) Liquified Natural Gas

(2) Hydrocarbon production was 2,566 thousand barrels of oil equivalent per day in 2017 vs 2,452 in 2016.

(3) Pending approval by the Annual Shareholders' Meeting on June 1, 2018. Corresponding to an increase of 1.2% compared to the full-year 2016 dividend.

(4) The 2018 interim dividends will be increased by 3.2% to 0.64 €/share, with the intention of proposing to the Combined Shareholders' Meeting a full-year 2018 dividend of 2.56 €/share. The target for the full-year 2020 dividend would be 2.72 €/share.

## TECHNOLOGY &amp; MEDIA

# London Blames Russia for Cyberattack

Last year's 'Petya' malware hit networks at FedEx, Maersk and other multinationals

By STU WOO

LONDON—British officials blamed Russia for last June's massive "Petya" cyberattack, which crippled computer networks at multinational firms including FedEx Corp., container-ship giant A.P. Moeller-Maersk A/S and pharmaceutical firm Merck & Co.

Ukraine, which bore the brunt of the attack, accused Russia at the time of orchestrating the attack. Wednesday's allegations by London represented the first time a major Western government has pinned blame on Moscow for the incident.

The findings add to a litany of complaints by the West accusing Russia of cyber meddling, including U.S. allegations that Moscow influenced the 2016 U.S. presidential election. U.K. lawmakers also have raised questions about whether Russia tried to influence a 2016

referendum in which Britain voted to exit from the European Union. Russia has denied meddling in the U.S. and U.K. elections.

U.K. intelligence officials said late Wednesday that they concluded that Russia's military was "almost certainly responsible" for the attack, according to a statement by Britain's foreign office. It said it decided to publicly point the finger to show that the U.K. and its allies "will not tolerate malicious cyber activity."

The U.K. didn't provide specific evidence for its conclusion that Russia was to blame. The Russian Embassy in Washington didn't respond to requests for comment late Wednesday.

The Petya computer "worm," or malicious software, also known as NotPetya, spread among corporate computer networks running Microsoft Corp.'s Windows systems. Similar to last May's "WannaCry" worm, it locked computer files and demanded about \$300 in digital currency to unlock them.

Security experts said the worm appeared to stem from

## Breaches Can Stir Interest in ETFs

MELBOURNE, Australia—Cyberattacks are a growing risk for companies, but some investors are trying to turn them into a money-making opportunity.

Exchange-traded funds that invest in companies focused on tackling data-security threats are becoming more popular with investors, garnering particular attention whenever there is a high-profile breach.

"If an attack is in the headlines, it is front of mind for investors," said Tim Mackay, a planner at wealth-management firm Quantum Financial, based in Australia. Mr. Mackay said since last year, he has been recommending a Sydney-listed ETF managed by BetaShares, an Australian fund manager.

The BetaShares Global Cybersecurity ETF, which had net

assets of 58.6 million Australian dollars (US\$46 million) as of Monday, was launched in August 2016. It invests in companies providing cybersecurity software, hardware or services, including VMware Inc., Cisco Systems Inc., NXP Semiconductors NV, Palo Alto Networks Inc. and Symantec Corp.

Interest in the BetaShares ETF has surged in the aftermath of prominent cyberattacks, including when credit-reporting company Equifax Inc. said hackers gained access to its systems, potentially compromising the personal information of about 145 million consumers in the U.S. The following day in September, trading volume for the BetaShares ETF was nearly five times its average daily level. Volume jumped more than seven times the day after news broke of the Petya virus that attacked major global companies in July.

To date, the fund has out-

performed the local market as well. The ETF is up 16% since its listing, against a 7.7% rise for the broader Australian market. This year, it is up 1.2% while the market is 3.7% lower.

The BetaShares ETF is aimed at investors in Australia, where there aren't a lot of large listed technology stocks. Similar products exist in the U.S. Cboe Global Markets Inc. offers an ETF that launched in 2014, just days before Sony Pictures Entertainment Inc. said it had been the victim of a cyberattack. The fund—**ETFMG Prime Cyber Security ETF**, raised \$1 billion in just seven months. It now has \$1.2 billion in assets under management.

Since the American fund's launch, whenever cyberattacks have been in the news, inflows have risen by between four and 10 times the normal daily average, according to ETF.com, the arm of Cboe that runs it.

—Robb M. Stewart

the attack dented quarterly earnings by about \$300 million after Petya disrupted operations at Dutch subsidiary TNT Express.

Britain's foreign office said the attack targeted Ukrainian financial, energy and government sectors, but that its "indiscriminate design" caused it to spread to other European and Russian businesses. British officials said the attack caused hundreds of millions of dollars of losses throughout Europe.

Britain has blamed Russia for meddling across U.K. media, telecommunications and energy sectors. The head of its National Cyber Security Centre, an arm of an intelligence agency, said in November that "Russia is seeking to undermine the international system."

In the U.S., top intelligence officials said Tuesday that the November midterm elections were vulnerable to the Russian interference that plagued the 2016 presidential race, especially through cyber means. The Justice Department had identified members of the Russian government involved in hacking the Democratic National Committee's computers and swiping sensitive information that became public during the 2016 campaign.

# Earlier Home Release for Movies Is Off the Table

By BEN FRITZ

Hollywood's push to offer movies at home sooner for a premium price has become a casualty of Walt Disney Co.'s deal to acquire most of 21st Century Fox Inc.

There are currently no talks happening between the main proponents of so-called premium video on demand, including Comcast Corp.'s Universal Pictures and Time Warner Inc.'s Warner Bros., and major theater chains, according to people with knowledge of the fizzled discussions.

That is because the Twentieth Century Fox movie studio was also a key backer of the move, while Disney is not. Since deal talks between those two companies became serious this past fall, Fox has withdrawn from the discussions, the people said. Disney in December agreed to buy key parts of Fox for \$52.4 billion.

Currently, major studio movies are available to purchase online no fewer than 75 days after they premiere in theaters, and to rent or buy on disc two weeks later. The lag period has been shrinking in recent years, but theaters believe a significant "window" of exclusivity is critical to keep people buying tickets.

Many Hollywood executives, however, believe that practice isn't in keeping with the emerging world of on-demand digital entertainment and that the re-



Fox has withdrawn from talks between major theater chains and movie studios over so-called premium video on demand.

sult is increased piracy and a long-term decline in studios' economic fortunes. Making movies available sooner to watch at home, even at a high price, would relate better to current consumer behavior, executives have argued.

PVOD, as the concept is known, would provide an urgently needed new revenue

stream at a time when the biggest global blockbusters continue to deliver profits but other types of movies are struggling.

Universal and Warner executives wanted many movies to be available to rent digitally 17 days after they premiere in theaters, while Fox was proposing 30 days, the people familiar

with the discussions said. Proposed prices ranged from \$30 to \$50, much more than the current cost of a video-on-demand rental. The studios offered to share some of that revenue with theaters to alleviate concerns about reduced ticket sales.

Because antitrust laws prevent studios from coordinating, each studio separately dis-

cussed their proposals with theatrical exhibitors. That has made coalescing around a single plan complicated, people involved in the talks said. Even before Fox pulled back, it wasn't certain a deal could be achieved.

Several digital and cable companies also have attempted to spur premium video on de-

## A Quicker Trip Home

Average number of days between movies' theatrical and home-entertainment release:

150 Days



Source: Kagan, S&P Global Market Intelligence  
THE WALL STREET JOURNAL.

mand. Apple Inc. was pushing a 30-day plan with studios, one person with knowledge of the discussions said.

Disney has been the only major studio absent from the talks. That is because it produces fewer, bigger-budget titles than competitors, which generate more on average at the box office than rivals' releases.

Fox Executive Chairman Lachlan Murdoch said at a September investor conference that the current system of delays between theatrical and home release is "highly inefficient" and that it "has to change." 21st Century Fox and Wall Street Journal parent News Corp share common ownership.

Even as programming gaps continue to shrink, no service can replace all of cable. Nearly every one of the 100 most-popular channels exists somewhere, but no service has them all. And by the time you get close, that \$20 Sling plan you thought you were signing up for becomes more like \$50 or \$60 before you even get to HBO or Showtime.

Cable and the other traditional pay-TV providers may be more expensive and frustrating, but at least they offer everything. And Comcast, Verizon and the rest are watching their new competition. Soon, you'll likely get many of the features of internet TV with your existing subscription. So where does all that leave you? Maybe still paying your cable bill for a while, if it isn't too high. If it is, call your cable company and threaten to leave. Reps can often find a way to reduce your monthly fees.

But if you're willing to miss out on a few shows, and suffer through the occasional outage, you can already get a TV experience that's much more fun and modern—and mobile—than cable, and usually saves money, too. We're heading toward the future of TV. It's just buffering a little on the way.

David Pierce has joined Joanna Stern as a Personal Technology columnist. He can be reached at [david.pierce@wsj.com](mailto:david.pierce@wsj.com).

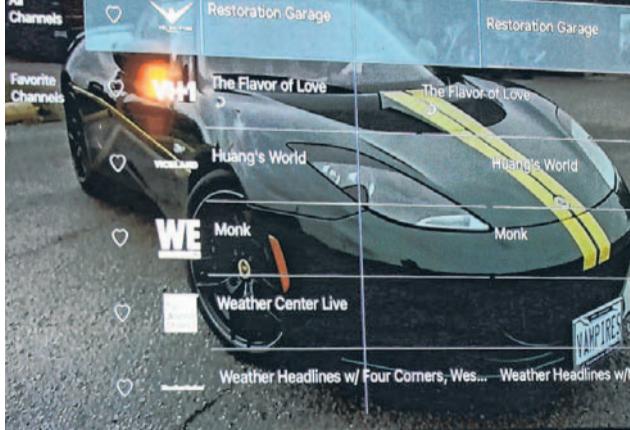
## TECH

Continued from page B1  
get a username and password, off you go. The apps work on your phone and your iPad, in your web browser and (usually) on the box you already use to get Netflix in your living room. You'll now be using a different remote to watch TV, but in many cases your viewing experience won't change much.

**Recommendations.** You probably watched only a fraction of the 487 scripted shows that aired in 2017, not to mention the decades of content also readily available. Every time you open their app, Hulu and YouTube find you new stuff—if you watch football they'll recommend more football. But YouTube TV also guessed that my "Parks and Recreation" affinity might transfer to "Party Down." And it did.

**Usability.** These services tend to be far more modern in design than your average, blocky white-on-blue cable interface. They use large images and bold text to help you surf. Lots of services let you watch shows while searching for other content. And these apps all work well on the phone's smaller screen.

**Time-shifting.** Here's a tip: When you first sign up for an internet TV service, go in and immediately pick your favorite handful of shows, so the system starts automati-



DirecTV Now's on-screen program guide, which is being redesigned.

cally recording all new episodes. You can even record shows you won't find on demand.

YouTube TV lets you record as much as you want and keep it all for nine months. PlayStation Vue keeps unlimited recordings for 28 days. Hulu and Sling store just 50 hours of video, and Sling even charges you \$5 a month for the privilege. DirecTV Now doesn't offer recording yet, though it says the feature is coming.

If you could combine the best parts of each service—Sling's price flexibility, Hulu's on-demand content, YouTube TV's interface and recording powers, PlayStation Vue's device compatibility, DirecTV Now's channel selection—your internet-TV

Voltron would be nearly perfect. Over time, they're all likely copy each other. Still, for now you have a bunch of solid options and no truly great one.

Among them, though, YouTube TV feels the most ready. It combines live and recorded TV with the massive YouTube library, so I could watch an episode of "The Good Place" then dive into bloopers and late-night interviews with the stars. Now that it's available on the Roku I use every day, YouTube TV has become my go-to internet TV service.

Yet it doesn't work on Amazon's popular Fire TV devices. (Come on, Amazon and Google, can't we all just get along?) Its updated 60-ish channel lineup still doesn't include HGTV or Comedy Central.

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## MANAGEMENT

## WORKAROUNDS

## Tight Job Market Makes Winners of 'Silver Medalists'

In the fierce contest for employee talent, "silver medalists" are becoming winners.

The term isn't just for Olympians: It's what some employers call job candidates they almost hired but passed over for someone else. Now, as companies struggle to fill jobs in a tight labor market, many are tracking, courting and hiring their so-called silver, and even bronze, medalists.

"Before, those candidates tended to fall into a black box," says Kurt Heikkinen, chief executive of recruiting-technology firm Montage. Now, he says, "companies are asking: How can they quickly pivot and find a fit for them somewhere else in their organization?"

In a 2017 survey of more than 800 U.S. recruiters and hiring managers by recruiting-software firm Jobvite Inc., 88% said they had tapped silver medalists to fill jobs. The year before, 59% said they made a point to keep in touch with and consider such candidates.

Oliver Cooke, executive director at financial-services recruiter Selby Jennings, says about 10% of the 500 people his firm placed with major banks and asset managers in the U.S. last year had been finalists for previous jobs with those firms.

Cloud-computing company Citrix Systems Inc. deploys what it calls a "keep-warm" strategy with a database of candidates from previous job openings, flagging which ones finished in second place and mining it to see which are a match for new positions.

Melissa Ebeling, vice president of talent acquisition at Citrix, says the 8,000-employee company has roughly 450 unfilled positions, and "it helps us fill roles faster."

—Vanessa Fuhrmans

## Employers Get Creative With Hiring

Many jettison old requirements, seeking workers with transferrable skills; a bank teller becomes field engineer

By LAUREN WEBER  
AND RACHEL FEINTZIG

Employers might have better luck finding workers if they approach hiring as Heather Terenzio does.

Ms. Terenzio, founder of Boulder, Colo.-based software company **Tectonic Group** Inc., found one of her most surprising hires after she gave a talk to prospective computer programmers at a vocational school. The young man she hired wasn't a student. He was a school employee who had helped to set up coffee and snacks at the back of the room. He had never graduated from high school but had taught himself some programming.

That hire became one of the models for how Ms.

Terenzio now approaches recruiting: look for potential along with basic or transferable skills. As she aims to bring in 40 apprentices this year, she gets excited when she meets candidates like the workers from the local Verizon retail store. "They're trained in the soft skills of customer service but they also have some technical training," she says.

Employers, educators and policy makers are wrestling with the question of how best to transfer workers' current skills into digital-ready skills and then rapidly prepare them for new opportunities.

Answers are urgently needed. There were 5.8 million open jobs in December, and scant prospects for filling many of them at a time when only 4.1% of Americans in the labor force are out of work.

One obstacle: Employers are often stuck in old ways of thinking about whom to hire, workforce experts say, as companies load job descriptions with unnecessary requirements and think narrowly about labor pools they can tap. Ms. Terenzio is working



with a Colorado workforce-development initiative called Skillful to help other employers think more creatively about how to fill job openings.

This week, that initiative expanded to 19 other states, led by Republican and Democratic governors who signed on to the program with the

**Many firms list needless requirements or think too narrowly on labor pools to tap.**

goal of helping workers recalibrate their skills. The program, called the Skillful State Network, is based on the pilot that Colorado began in 2016. The multimillion-dollar effort is largely funded and coordinated by the Markle Foundation.

Workforce programs are difficult to scale up since they require communication

among employers, educators, career counselors and workers. Congress passed the Workforce Innovation and Opportunity Act in 2014 to help coordinate federal job-training programs, but the most successful initiatives tend to be long-term local or regional collaborations, says Jack Mills, a workforce expert at research and advocacy group Insight Center for Community Economic Development.

Skillful will help states share information on how to, for example, retrain a bank teller to be a cybersecurity worker. "We have 9,000 job openings in cybersecurity in Colorado, and 60% don't require a college degree," says Colorado Gov. John Hickenlooper. A relatively short certification class could take a teller's skills—being numerate and precise and having a grasp of privacy and security issues—and bolster them for cybersecurity roles, he says.

RK Mechanical Inc.'s search for workers has reached "crisis" levels, says co-owner Jon

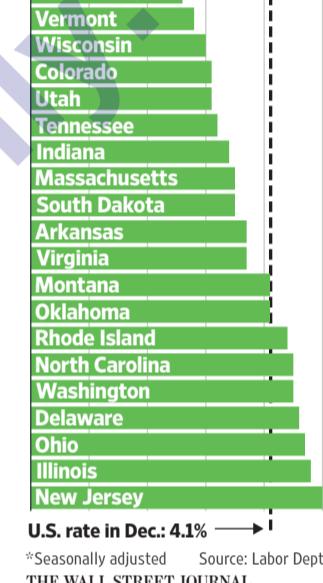
Kinning. The Denver-based construction and manufacturing firm currently spends an average of about \$270,000 on overtime each week because it can't increase its 1,922-person workforce fast enough. It has given two rounds of raises, totaling about \$4.5 million, over the past year in a bid to keep talent.

With help from the Skillful pilot, the company has removed requirements, such as a bachelor's degree and a decade of experience, from some job descriptions. It has also ramped up an apprenticeship program for those who are new to the field.

Michelle Brown, an RK Mechanical manager who teaches plumbing classes in the apprenticeship program, says she is "surprised every day" by which participants excel. One woman transitioned to construction after more than a decade as a bank teller; she's now a field engineer. "Her skills from that career path directly translated to what we do," Ms. Brown says.

**Labor Pains**

Twenty states are taking part in a workforce development effort to help employers fill open jobs as regional labor markets tighten.

**December unemployment rate\***

U.S. rate in Dec.: 4.1% →

\*Seasonally adjusted Source: Labor Dept.



**SIXTY LEADING GLOBAL CEOs**, who are part of **CECP: The CEO Force for Good**, and more than 200 investors representing more than \$25 trillion in assets under management, will gather on February 26, 2018 at the **13th annual Board of Boards and 3rd CEO Investor Forum** in NYC to discuss engaging key stakeholders—such as community, employees, investors, and consumers—through business and social strategies that will drive a company's competitive edge.

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## BUSINESS &amp; FINANCE

# Fannie Mae to Seek Billions in Government Cash

BY AUSTEN HUFFORD  
AND ANDREW ACKERMAN

**Fannie Mae** reported a net loss of \$6.5 billion for the fourth quarter, triggering what is expected to be the first taxpayer-funded infusion for the mortgage-finance giant in six years.

The quarterly loss was due to a one-time accounting charge due to the reduction in the corporate tax rate. But Fannie, which has been under government conservatorship since the financial crisis, said Wednesday that its regulator, the Federal Housing Finance Agency, would seek a fresh taxpayer infusion of \$3.7 billion from the Treasury Department as a result of the loss. The company is operating with limited capital under terms of its federal bailout.

Though Fannie has telegraphed for months that it may require a new cash infusion, it is a politically fraught issue and the latest illustration of the awkward nature of the

government's indefinite stewardship of Fannie and its smaller counterpart, **Freddie Mac**.

House Financial Services Committee Chairman Jeb Hensarling (R., Texas) criticized the infusion, which he called another "bailout request," adding that "taxpayers are sick and tired of getting ripped off by Fannie and Freddie."

Lawmakers from both parties and the Trump administration have worked for months to craft complex legislation that would eventually dial back federal ownership of the two companies. With no deal imminent, it is increasingly unlikely Congress will agree to overhaul the companies this year, according to industry lobbyists and congressional aides.

Company officials said they didn't expect any adverse market reaction to the cash infusion.

"I don't think anyone is surprised by this event," said Timothy Mayopoulos, Fannie's chief executive.



The average repayment period for loans issued to buy new cars hit a record of 69 months in the third quarter of 2017.

LUKE SHARRETT/BLOOMBERG NEWS

# Consumers Ramp Up Debt

Credit cards and auto loans drive growth in borrowing as some banks tighten rules

BY ANNAMARIA ANDRIOTIS

Interest rates are on the rise, but that hasn't curbed Americans' appetite for consumer debt.

If anything, consumers are borrowing more on credit cards or through auto loans than they have in years, and lenders seeking growth are happy to oblige them.

Abe Schilling, a 33-year-old car salesman in Great Falls, Mont., said he signed up for more than five credit cards over the past year, from issuers including **Capital One Financial Corp.** and **Discover Financial Services**, after he received offers in the mail. He also took out a \$36,000 loan to buy a new Jeep Grand Cherokee.

Mr. Schilling, who rents his home, said the offers have been arriving as his credit score has improved. He previously had dozens of collections and other negative marks on his credit reports after failing to pay back bills. With a steady income and months of debt counseling behind him, Mr. Schilling says he feels confident in his ability to pay for his debts.

So do plenty of other Americans. In the fourth quarter, consumer debt, excluding mortgages and other home loans, rose 5.5% from a year earlier to \$3.82 trillion. That is the highest amount since the Federal Reserve Bank of New York began tracking the data in 1999. Moreover, consumers' nonhousing debts accounted for just over 29% of their overall debt load, also the highest amount on record.

Many observers say they aren't worried yet. Their concerns about nonhousing credit are nascent because delinquencies are rising from historically low levels. Also, household debt including

## Away From Home

Student, auto and credit-card debt represent an increasing share of overall household debt.

### Nonmortgage share of consumer balances



Note: The 'other nonmortgage' category includes personal loans and private-label store credit cards.

Source: Federal Reserve Bank of New York

THE WALL STREET JOURNAL

mortgages, the biggest category, barely edged up from the third quarter and remains well off the crisis-era highs as a percentage of U.S. economic output.

"In good times, people tend to take on a little more consumer credit because they think 'Well, my income looks good, my job looks very stable,' and when the economy turns down, they dial that back," said Tom Miller, professor of finance at Mississippi State University.

*'In good times, people tend to take on a little more consumer credit....'*

ter Federal Reserve data. This figure, which is at the highest level since the end of 2008, bottomed out at 4.9% in 2012.

An improving economy has fueled much of the growth in consumer borrowing. Low unemployment and rising confidence have increased consumers' appetite for big-ticket purchases and made lenders more willing to dole out larger loan balances while increasing credit-card limits. The boost to loan volume and balances has helped lift bank earnings and overall retail sales.

The shift to nonmortgage debt, including credit cards and personal loans, carries some drawbacks for consumers, including higher interest rates. "This type of debt is problematic," said Cris deRitis, senior director and economist at Moody's Analytics. "It should really be temporary," but for some consumers "it can be hard to get off that treadmill."

The boom in nonhousing consumer debt is in part the result of lingering effects of the last recession that have kept many consumers from buying homes.

Some banks are tightening lending requirements in an effort to get in front of any problems. Discover's chief executive, David Nels, said in October that the bank lowered spending limits on some of its credit cards and it is scaling back on some of the personal loans that it is originating.

The average charge-off rate for eight of the largest U.S. credit-card lenders by purchase volume was 3.25% in the fourth quarter, up 0.36 percentage point from a year earlier, marking the seventh straight quarter of year-over-year increases, according to Fitch Ratings.

Already, the average repayment period for loans issued to buy new cars hit a high of 69 months, according to third-quarter data from credit-reporting firm **Experian PLC**. Personal loans extended to consumers during the first half of last year averaged \$6,285, according to the latest data from credit-reporting firm **TransUnion**, up 7.8% from a year earlier.

## House Bill Would Facilitate Efforts By Fintech Firms

The House approved a bill that would make the resale of high-interest loans more attractive to third-party buyers such as debt collectors and bolster financial-technology firms' partnerships with banks.

The bill passed, 245-171, on Wednesday. Nearly all Republicans voted for the measure, while Democrats were divided.

The legislation would ensure that loans retain the original interest rate issued by a bank, even if they are sold to nonbanks, which, unlike nationally chartered banks, are bound by state interest-rate caps.

The bill is a response to a 2015 ruling by the Second U.S. Circuit Court of Appeals that affects loans taken out by residents of New York, Vermont and Connecticut, the three states within the court's jurisdiction. The Supreme Court had declined to review the case.

In the *Madden v. Midland Funding LLC* decision, the appeals court sided with Salina Madden, a New York resident who had taken out a loan from a **Bank of America** Corp. unit at 27% interest. The loan was later sold to Midland, a debt collector.

Ms. Madden argued that because the interest-rate cap for short-term loans in New York is 25%, the loan had become usurious, even though it was legal when originated.

Supporters of the legislation argue it will bring clarity for companies that buy loans from banks and will allow a new crop of financial firms to reach underserved borrowers.

But some liberal Democrats worry that it could help predatory lenders skirt state laws and reach customers nationwide.

A similar bill was introduced in the Senate last year.

—Lalita Clozel

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## INTERNATIONAL NOTICES

IN THE GRAND COURT OF THE CAYMAN ISLANDS, FINANCIAL SERVICES DIVISION IN THE MATTER OF THE COMPANIES LAW (AS AMENDED) AND IN THE MATTER OF GOLDEN KEY LTD. (IN RECEIVERSHIP)

CAUSE NO: FSD 10 OF 2018 (IKU)

ADVERTISING AND PUBLISHING UP PETITION

TAKE NOTICE that a petition for an order that GOLDEN KEY LTD. (IN RECEIVERSHIP) whose registered office is situated at Maples FS Limited, PO Box 1093, Queensgate House, 113 South Church Street, Grand Cayman KY1-1102, Cayman Islands (the "Company") be put into liquidation and wound up in accordance with the provisions of the Companies Law as amended to the Grand Court of the Cayman Islands.

The petition was presented by the Company, acting through its Joint Receivers, Neville Kahn and Philip Bowers of Deloitte LLP, PO Box 810, Athene Place, 66 Shoe Lane, London, United Kingdom EC4A 3WA (the "Receivers"). Copies of the petition and supporting affidavits may be obtained free of charge from the petitioner's attorneys, Walkers, 190 Elgin Avenue, George Town, Grand Cayman KY1-001, Cayman Islands.

The petition presents an order that Kris Brighton and Jeffrey Stover of KPMG, PO Box 493, Yard, Cricket Square, Grand Cayman KY1-1106, Cayman Islands be appointed as joint official liquidators of the Company.

AN ORDER WILL BE MADE ON NOTICE THAT the hearing of the petition will take place on Thursday, 4 March 2018

at the High Court of Justice, Grand Cayman, Grand Cayman at 10:00am. Any creditor or shareholder of the Company may be heard on the questions whether or not a winding up order should be made and, if a winding up order is made, who should be appointed as official liquidator(s) of the Company. Any creditor or shareholder who opposes the appointment of Kris Brighton or Jeffrey Stover as joint official liquidators of the Company must nominate an alternative qualified insolvency practitioner(s) who consents to act and has sworn an affidavit complying with the requirements of the Companies Winding Up Rules, Order 3, rule 4.

The petition presents an order that Diane Adebowale and/or by email to lehman.affiliates@uk.pwc.com.

Persons so proving are required, if so requested, to provide such further details or produce such documents or other evidence as may appear to the Joint Administrators to be necessary.

The Joint Administrators will not be obliged to deal with proofs lodged after the last date for proving but they may do so if they think fit.

Creditors who wish to have dividend payments made to another person or who have assigned their entitlement to someone else are asked to provide formal notice to the Joint Administrators.

For further information, contact details and proof of debt forms, please visit <http://www.pwc.co.uk/services/business-recovery/administrations/lehman/esh-ltd-in-administration.html>. Alternatively, please call Diane Adebowale on +44 (0) 20 7212 3515.

Joint administrators' details:

Derek Anthony Howell (IP no. 6604), Anthony Victor Lomas (IP no. 7240), Steven Anthony Pearson (IP no. 8832), Julian Guy Par (IP no. 8003), Gillian Eleanor Bruce (IP no. 9120), all of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT, United Kingdom

IN THE HIGH COURT OF JUSTICE, CHANCERY DIVISION, COMPANIES COURT NO. 11056 OF 2008

Notice is hereby given, pursuant to Rule 14.29 of the Insolvency (England and Wales) Rules 2016 (the "Rules") that the Joint Administrators intend to declare an eighth interim dividend to unsecured non-preferential creditors within two months from the last date of proving, being 16 March 2018. Such creditors are required on or before that date to submit their proofs of debt to the Joint Administrators, PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT, United Kingdom, marked for the attention of Diane Adebowale or by email to lehman.affiliates@uk.pwc.com.

Persons so proving are required, if so requested, to provide such further details or produce such documents or other evidence as may appear to the Joint Administrators to be necessary.

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For further information, contact details and proof of debt forms, please visit <http://www.pwc.co.uk/services/business-recovery/administrations/lehman/esh-ltd-in-administration.html>. Alternatively, please call Diane Adebowale on +44 (0) 20 7212 3515.

Joint Liquidators' details:

Derek Anthony Howell (IP no. 6604), Anthony Victor Lomas (IP no. 7240), Julian Guy Par (IP no. 8003), Gillian Eleanor Bruce (IP no. 9120), all of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT, United Kingdom

Date of administration appointment: 9 December 2008

Dated: 15 February 2018

G E Bruce, Joint Administrator

NOTICE OF INTENDED DIVIDEND PURSUANT TO RULE 14.29 OF THE INSOLVENCY (ENGLAND AND WALES) RULES 2016

ELDON STREET HOLDINGS LIMITED - IN ADMINISTRATION REGISTERED NO. 04108165

REGISTERED OFFICE: 7 MORE LONDON RIVERSIDE, LONDON SE1 2RT, UNITED KINGDOM

IN THE HIGH COURT OF JUSTICE, CHANCERY DIVISION, COMPANIES COURT NO. 11056 OF 2008

Notice is hereby given, pursuant to Rule 14.29 of the Insolvency (England and Wales) Rules 2016 (the "Rules") that the Joint Administrators intend to declare an eighth interim dividend to unsecured non-preferential creditors within two months from the last date of proving, being 16 March 2018. Such creditors are required on or before that date to submit their proofs of debt to the Joint Administrators, PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT, United Kingdom, marked for the attention of Diane Adebowale or by email to lehman.affiliates@uk.pwc.com.

Persons so proving are required, if so requested, to provide such further details or produce such documents or other evidence as may appear to the Joint Administrators to be necessary.

The Joint Administrators will not be obliged to deal with proofs lodged after the last date for proving but they may do so if they think fit.

Creditors who wish to have dividend payments made to another person or who have assigned their entitlement to someone else are asked to provide formal notice to the Joint Administrators.

For further information, contact details and proof of debt forms, please visit <http://www.pwc.co.uk/services/business-recovery/administrations/lehman/esh-ltd-in-administration.html>. Alternatively, please call Diane Adebowale on +44 (0) 20 7212 3515.

Joint Liquidators' details:

Anthony Victor Lomas (IP no. 7240), Julian Guy Par (IP no. 8003) and Gillian Eleanor Bruce (IP no. 9120), all of PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT, United Kingdom

Date of liquidation appointment: 1 November 2012

Dated: 15 February 2018

G E Bruce, Joint Liquidator

NOTICE OF INTENDED DIVIDEND PURSUANT TO RULE 14.29 OF THE INSOLVENCY (ENGLAND AND WALES) RULES 2016

THAYER PROPERTIES LIMITED - IN LIQUIDATION REGISTERED NO. 04108259

REGISTERED OFFICE: 7 MORE LONDON RIVERSIDE, LONDON SE1 2RT, UNITED KINGDOM

IN THE HIGH COURT OF JUSTICE, CHANCERY DIVISION, COMPANIES COURT NO. 5893 OF 2010

Notice is hereby given, pursuant to Rule 14.29 of the Insolvency (England and Wales) Rules 2016 (the "Rules") that the Joint Liquidators intend to declare a seventh interim dividend to unsecured non-preferential creditors within two months from the last date of proving, being 16 March 2018. Such creditors are required on or before that date to submit

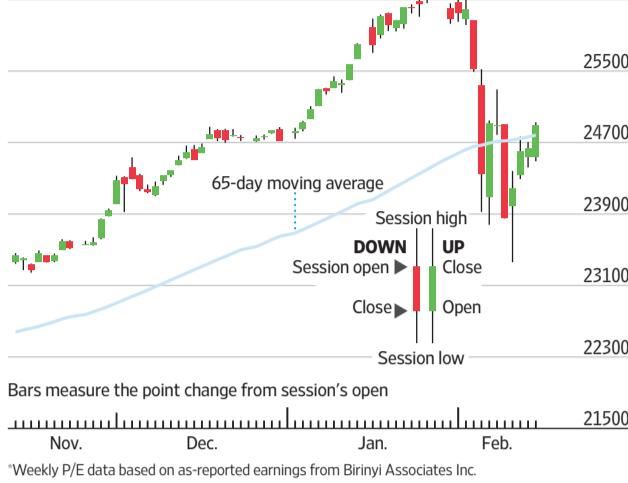
## MARKETS DIGEST

## EQUITIES

## Dow Jones Industrial Average

**24893.49** ▲ 253.04, or 1.03%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 25.41 Last 20.93  
P/E estimate \* 16.03 17.38  
Dividend yield 2.12 2.35  
All-time high 26616.71, 01/26/18



Bars measure the point change from session's open

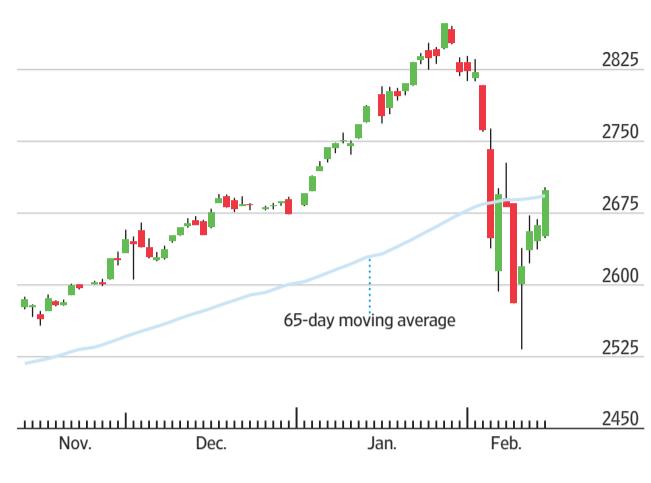
Nov. Dec. Jan. Feb. 21500

\*Weekly P/E data based on as-reported earnings from Birlin Associates Inc.

## S&amp;P 500 Index

**2698.63** ▲ 35.69, or 1.34%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 19.00 Last 24.48  
P/E estimate \* 16.35 17.75  
Dividend yield 2.00 2.04  
All-time high 2872.87, 01/26/18



Nov. Dec. Jan. Feb. 2450

## Nasdaq Composite Index

**7143.62** ▲ 130.10, or 1.86%  
High, low, open and close for each trading day of the past three months.

Trailing P/E ratio 24.32 Last 25.15  
P/E estimate \* 18.92 19.65  
Dividend yield 1.09 1.15  
All-time high: 7505.77, 01/26/18



Nov. Dec. Jan. Feb. 6300

## Major U.S. Stock-Market Indexes

	Latest			52-Week			YTD		
	High	Low	Close	Net chg	% chg	High	Low	% chg	3-yr. ann.
Dow Jones									
Industrial Average	24925.95	24490.36	<b>24893.49</b>	253.04	<span style="color: green;">1.03</span>	26616.71	20404.49	<b>20.8</b>	0.7 <b>11.4</b>
Transportation Avg	10495.45	10294.08	<b>10482.16</b>	101.45	<span style="color: green;">0.98</span>	11373.38	8783.74	<b>9.7</b>	-1.2 <b>5.1</b>
Utility Average	668.65	660.10	<b>662.25</b>	-7.83	<span style="color: red;">-1.17</span>	774.47	647.90	<b>-0.3</b>	-8.4 <b>3.7</b>
Total Stock Market	27910.76	27338.33	<b>27876.99</b>	390.28	<span style="color: green;">1.42</span>	29630.47	24125.20	<b>14.1</b>	0.7 <b>8.4</b>
Barron's 400	716.66	698.25	<b>715.81</b>	13.91	<span style="color: green;">1.98</span>	757.37	610.89	<b>14.1</b>	0.7 <b>8.8</b>

## Nasdaq Stock Market

Nasdaq Composite	7152.05	6977.07	<b>7143.62</b>	130.10	<span style="color: green;">1.86</span>	7505.77	5793.83	<b>22.8</b>	3.5 <b>13.4</b>
Nasdaq 100	6684.15	6520.39	<b>6675.03</b>	121.17	<span style="color: green;">1.85</span>	7022.97	5300.64	<b>25.9</b>	4.4 <b>15.0</b>

## S&amp;P

500 Index	2702.10	2648.87	<b>2698.63</b>	35.69	<span style="color: green;">1.34</span>	2872.87	2328.95	<b>14.9</b>	0.9 <b>8.8</b>
MidCap 400	1880.18	1832.89	<b>1878.27</b>	34.54	<span style="color: green;">1.87</span>	1995.23	1681.04	<b>8.3</b>	-1.2 <b>7.7</b>
SmallCap 600	930.57	905.93	<b>929.29</b>	16.55	<span style="color: green;">1.81</span>	979.57	815.62	<b>8.3</b>	-0.7 <b>9.6</b>

## Other Indexes

Russell 2000	1523.89	1483.29	<b>1522.10</b>	27.15	<span style="color: green;">1.82</span>	1610.71	1345.24	<b>8.4</b>	-0.9 <b>7.6</b>
NYSE Composite	12761.43	12504.24	<b>12746.72</b>	172.35	<span style="color: green;">1.37</span>	13637.02	11324.53	<b>10.7</b>	-0.5 <b>4.9</b>
Value Line	554.63	541.49	<b>553.86</b>	9.37	<span style="color: green;">1.72</span>	589.69	503.24	<b>5.1</b>	-1.5 <b>2.7</b>
NYSE Arca Biotech	4659.08	4481.28	<b>4651.35</b>	128.14	<span style="color: green;">2.83</span>	4939.86	3377.11	<b>34.4</b>	10.2 <b>7.8</b>
NYSE Arca Pharma	539.06	529.24	<b>538.30</b>	6.01	<span style="color: green;">1.13</span>	593.12	498.46	<b>7.0</b>	-1.2 <b>-1.2</b>
KBW Bank	113.31	109.95	<b>113.23</b>	3.03	<span style="color: green;">2.75</span>	116.52	88.02	<b>16.9</b>	6.1 <b>16.0</b>
PHLX® Gold/Silver	86.01	80.59	<b>85.50</b>	4.45	<span style="color: green;">5.49</span>	94.46	76.42	<b>-8.5</b>	0.3 <b>3.5</b>
PHLX® Oil Service	139.11	133.33	<b>137.87</b>	2.31	<span style="color: green;">1.70</span>	180.81	117.79	<b>-23.6</b>	-7.8 <b>-12.3</b>
PHLX® Semiconductor	1309.05	1269.91	<b>1307.05</b>	28.54	<span style="color: green;">2.23</span>	1392.86	960.01	<b>34.7</b>	4.3 <b>22.8</b>
Cboe Volatility	25.72	18.99	<b>19.26</b>	-5.71	<span style="color: red;">-22.87</span>	37.32	9.14	<b>60.9</b>	74.5 <b>9.4</b>

\$ Nasdaq PHLX

Sources: SIX Financial Information; WSJ Market Data Group

## Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Amer. and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

## Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
VanEck Vectors Gold Miner	GDX	9,798.1	23.02	0.01	<span style="color: green;">0.04</span>	23.08	22.84
SPDR S&P 500	SPY	7,204.2	269.42	-0.17	<span style="color: red;">-0.06</span>	269.75	264.79
Bank of America	BAC	5,217.7	32.37	0.37	<span style="color: green;">1.16</span>	32.50	31.52
iShares MSCI Emg Markets	EEM	4,991.9	48.70	...	<span style="color: red;">unch.</span>	48.75	48.60
Cisco Systems	CSCO	4,257.2	44.87	2.78	<span style="color: green;">6.60</span>	45.17	41.23
General Electric	GE	3,523.8	14.89	-0.01	<span style="color: red;">-0.07</span>	14.90	14.82
Teva Pharmaceutical ADR	TEVA	3,009.6	20.79	1.46	<span style="color: green;">7.55</span>	21.70	19.14
Lowe's Cos	LOW	2,736.0	96.90	-0.03	<span style="color: red;">-0.03</span>	96.93	95.52

## Percentage gainers...

Liberty TripAdvisor A	LTRPA	17.5	13.15	2.35	<span style="color: green;">21.76</span>	13.25	10.76
TripAdvisor	TRIP	1,283.9	47.75	7.03	<span style="color: green;">17.26</span>	49.85	40.46
AMAG Pharmaceuticals	AMAG	25.4	16.00	2.10	<span style="color: green;">15.11</span>	16.00	13.90
SolarEdge Technologies	SEDG	106.1	42.45	5.55	<span style="color: green;">15.04</span>	43.90	36.58
Teva Pharmaceutical ADR	TEVA	3,009.6	2				

## COMMODITIES

WSJ.com/commodities

## Futures Contracts

## Metal &amp; Petroleum Futures

	Contract	Open	High	hi lo	Low	Settle	Chg	Open interest
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.								
Feb	3.2275	3.2275	3.2275	3.2285	3.0740	986		
March	3.1635	3.2375	3.1390	3.2360	0.0735	86,777		
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.								
Feb	1332.80	1355.50	1324.00	1355.50	27.40	1,147		
April	1331.90	1358.60	1319.10	1358.00	27.60	351,848		
June	1336.70	1363.60	1325.00	1363.10	27.70	79,985		
Aug	1342.30	1368.80	1333.60	1368.20	27.80	24,610		
Oct	1350.00	1374.00	1337.30	1373.50	27.80	5,761		
Dec	1355.50	1379.70	1343.60	1379.20	27.90	36,648		
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.								
March	978.30	999.75	973.05	997.30	16.60	18,697		
June	980.50	996.10	969.90	994.20	16.70	9,528		
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.								
March	993.00	998.20	993.00	997.10	23.30	167		
April	976.20	1002.20	971.20	999.10	23.40	76,532		
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.								
Feb	16.525	16.905	16.325	16.878	0.351	56		
March	16.525	16.905	16.325	16.878	0.350	88,272		
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.								
March	58.95	60.90	58.20	60.60	1.41	175,355		
April	58.81	60.79	58.09	60.51	1.46	453,594		
May	58.53	60.53	57.87	60.27	1.52	237,133		
June	58.21	60.18	57.57	59.92	1.51	281,067		
July	57.83	59.70	57.22	59.48	1.56	158,034		
Dec	56.00	57.47	55.30	57.25	1.22	238,835		

## Interest Rate Futures

	Contract	Open	High	hi lo	Low	Settle	Chg	Open interest
<b>Sugar-World (ICE-US)</b> -112,000 lbs.; cents per lb.								
March	13.48	13.60		13.35	13.40	-.08	176,961	
May	13.40	13.48		13.26	13.31	-.13	361,288	
<b>Sugar-Domestic (ICE-US)</b> -112,000 lbs.; cents per lb.								
May	25.87	25.87	25.87	25.87	25.87	...	2,886	
July	26.55	26.55	26.55	26.55	26.55	-.07	2,471	
<b>Cotton (ICE-US)</b> -50,000 lbs.; cents per lb.								
March	76.45	76.45	76.45	75.41	75.60	-.78	30,770	
May	77.33	77.41		76.75	76.97	-.43	117,335	
<b>Orange Juice (ICE-US)</b> -15,000 lbs.; cents per lb.								
March	148.00	148.55		146.85	148.40	.60	3,977	
May	147.60	148.00		146.55	147.80	.35	5,420	

## Interest Rate Futures

	Contract	Open	High	hi lo	Low	Settle	Chg	Open interest
<b>Treasury Bonds (CBT)</b> -\$100,000; pts 32nds of 100%								
March	144-250	145-090		143-070	143-120	-1-06.0	817,883	
June	143-260	144-080		142-060	142-110	-1-05.0	11,918	
<b>Treasury Notes (CBT)</b> -\$100,000; pts 32nds of 100%								
March	121-010	121-075		120-085	120-105	-21.5	3,578,344	
June	120-155	120-210		119-210	119-230	-23.0	103,452	
<b>5 Yr. Treasury Notes (CBT)</b> -\$100,000; pts 32nds of 100%								
March	114-207	114-247		114-050	114-065	-14.0	3,310,261	
June	114-120	114-155		113-270	113-285	-17.7	118,948	
<b>2 Yr. Treasury Notes (CBT)</b> -\$200,000; pts 32nds of 100%								
March	106-212	106-225		106-162	106-170	-4.2	1,966,748	
June	106-140	106-152		106-082	106-087	-5.2	65,537	
<b>30 Day Federal Funds (CBT)</b> -\$5,000,000; 100-daily avg.								
Feb	98.583	98.583		98.580	98.580	-.002	262,993	
April	98.365	98.365	98.345	98.350	98.350	-.015	378,948	
<b>10 Yr. Del. Int. Rate Swaps (CBT)</b> -\$100,000; pts 32nds of 100%								
March	94.391	94.500	94.500	93.578	93.641	-.672	30,391	
<b>1 Month Libor (CME)</b> -\$3,000,000; pts of 100%								
March	98.1750	98.1750	98.1675	98.1725	98.1725	-.0200	398	
<b>April</b> 98.1250	98.1250	98.1200	98.1200	98.1250	98.1250	-.0250	1,017	
<b>Eurodollar (CME)</b> -\$1,000,000; pts of 100%								
Feb	98.1375	98.1375	98.1150	98.1150	98.1150	-.0200	163,063	
June	97.8500	97.8600	97.8000	97.8000	97.8000	-.0550	1,550,717	
Dec	97.6200	97.6500	97.5300	97.5350	97.5350	-.0850	1,733,466	
<b>Dec'19</b> 97.3200	97.3400	97.1900	97.2050	97.2050	97.2050	-.1100	1,570,415	

## Currency Futures

	Contract	Open	High	hi lo	Low	Settle	Chg	Open interest
<b>Japanese Yen (CME)</b> -\$12,500,000; per 100Y.								
Feb	.9292	.9373	.9285	.9277	.9342	.0053	1,077	
March	.9292	.9389	.9285	.9285	.9357	.0053	256,428	
<b>Canadian Dollar (CME)</b> -\$100,000; \$ per CAD								
Feb	.7957	.7986	.7909	.7988	.0045	518		
<b>British Pound (CME)</b> -\$62,500; \$ per £								
Feb	1.3910	1.4007	1.3811	1.3989	.0110	892		
March	1.3905	1.4034	1.3816	1.4003	.0110	187,084		
<b>Swiss Franc (CME)</b> -\$CHF 125,000; \$ per CHF								
March	1.0718	1.0797	1.0693	1.0770	.0042	621		
<b>Australian Dollar (CME)</b> -\$AU 100,000; \$ per								

## BIGGEST 1,000 STOCKS

**How to Read the Stock Tables**

The following explanations apply to NYSE, NYSE Arca, Nasdaq and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq BX (formerly Boston), Chicago Stock Exchange, Cboe, NYSE National and Nasdaq ISE. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. the previous day.

**Wednesday, February 14, 2018**

**Net** Stock Sym Close Chg

**A B C**

ABB ABB 24.87 0.51

AES AES 10.27 -0.05

Aflac AFL 87.65 -1.55

AGNC Inv. AGNC 18.87 -0.09

ANGI Homesvc ANGI 14.19 0.30

Ansys ANSS 15.70 3.50

ASML ASML 19.14 3.61

ATT T 36.41 -0.19

AbbottLabs ABT 58.28 1.22

AbbVie ABIV 113.06 1.22

Abiomed ABMD 25.49 2.14

Accenture ACN 159.79 2.95

ActivisionBlitz ATVI 69.65 1.62

AcuityBrands ACRV 80.19 0.18

Adient ADNT 63.68 1.23

AdobeSystems ADBE 19.71 3.65

AdvanceAuto AAP 109.00 2.82

AdmicoRvns ADM 22.00 0.42

AdvSemErg ASSX 6.82 0.10

Aegon AEG 6.67 0.17

AerCap AER 52.67 1.01

Aetna AET 17.67 -1.75

AffiliatedMtrs AMG 189.45 7.52

AgileTech AGN 69.70 1.36

AignicoEagle AIG 45.49 1.57

AlpInnovate APPD 161.27 1.83

AkamaiTechnl ALGN 24.63 1.21

Alkermes ALKS 59.29 4.60

Allegany APLS 58.09 12.03

AlliGen All 79.97 0.32

Almac All 67.93 7.91

AllianceData ADS 250.00 3.79

AlliantEnergy LNT 38.11 -0.52

AllisComtrans ALSN 42.25 0.53

Allstate ALL 95.29 2.35

AllyFinancial ALYF 20.49 0.18

AlmudraChn AMH 119.98 0.72

AlpharettaBldg AMT 107.20 18.56

Alphabet GOOGL 106.79 17.60

Altaba AABA 73.66 2.35

AlticeUSA ATUS 19.97 0.43

Altiris ADOV 68.61 -0.84

AlumofChina AMU 15.50 0.62

Amazoncom AMZN 145.10 36.54

Ambev AMB 6.87 2.00

Amdocs DOX 65.97 0.66

Americo UHL 355.90 3.54

Ameren AEE 54.68 -0.57

AmericaMovil AMOV 18.60 0.83

AmericaMobile AMV 18.69 0.85

AmericanAirlines AAIR 51.07 0.20

AEP AEP 65.30 -2.28

AmericaExpress EXP 92.63 1.67

AmericanFinl AFN 110.61 1.30

Amgen AMGN 179.52 2.95

Amphenol APL 87.34 0.46

AnalogyDevicz APAC 25.90 1.02

Andeaorr ANDV 86.81 0.79

AndeaorLndg ANDX 49.94 0.11

ANB InBev ADOV 104.20 4.60

ANB InBev ABV 104.20 4.60

AnscoPharm ASHD 56.99 9.00

AscondiPharma ASHD 56.99 9.00

AssemblyBldg ASMB 58.57 1.23

AtaraBiotherpt ATRA 49.90 7.33

AtteonRelnct CTI 80.12 1.66

AtivadineArts CTI 80.12 1

## MONEY &amp; INVESTING



An Indonesian market. Data suggest the surge of money into emerging markets could continue, with selloffs luring investors back in.

## 'Buy the Dip' Goes Abroad

**Emerging-market stocks and bonds in portfolios are still below peaks**

BY SAUMYA VAISHAMPAYAN

Investors have relentlessly bought U.S. stocks after market pullbacks in the past nine years, largely because the U.S. was the most attractive destination for their cash.

Though it is early days, recent fund flows suggest that similar behavior may be starting to reveal itself in emerging markets.

During the early part of this month's market rout, emerging-market stock and bond funds notched net inflows in the week through Feb. 7—even as data from EPFR Global showed investors yanking a record amount out of U.S. equity funds. Typically, investors tend to sour on risky emerging-market assets in periods of market stress.

"There's a 'buy the dip' mentality in emerging markets," according to JC Sambor, deputy head of emerging-market fixed income at BNP Paribas Asset Management. On the debt side, that is especially the case for high-yielding local currency bond markets like Indonesia, he added.

Investors have poured money into emerging markets since last year, drawn by the allure of high bond yields, relatively cheap equity valuations, and a recovering global economy. "Every single dedicated investor we have met in the last few weeks is bullish [on emerging markets]," Bank of America Merrill Lynch strategist Claudio Irigoyen said in a note.

The U.S. economy is also growing, but Mr. Sambor called that a well-known story that many investors have already accounted for in their portfolios.

February's stock-market slump left few countries un-

### Not There Yet

Investors have poured money into emerging-market stocks and bonds, but remain less invested than at peaks earlier this decade.

#### Share of emerging markets in portfolios



Source: Institute of International Finance  
THE WALL STREET JOURNAL.

touched. Investors also dumped bonds, which drove yields higher around the world.

But there is a key piece of support for emerging markets: Investors haven't yet had their fill. And that senti-

ment is no longer as strong for U.S. markets, Mr. Sambor said.

Billions of dollars have already been poured into emerging markets in the past year. Even so, shares of those stocks and bonds in investors' portfolios remain below recent peaks hit earlier this decade, according to data from the Institute of International Finance.

That suggests the powerful surge of money into emerging markets could continue—with selloffs in bonds and stocks luring investors back in.

The share of emerging-market bonds in investors' portfolios stood at 11.9% on Feb. 7, below its decade high of 13.8% in May 2013, and just before the now infamous taper tantrum that sent investors running from risky assets.

The share of emerging-market stocks rose to 13.6% last week, well below the decade high of 21.1% in November 2010.

## Credit Suisse Posts An Annual Loss as Tax Overhaul Bites

BY BRIAN BLACKSTONE

ZURICH—Credit Suisse Group AG posted a third consecutive annual loss as the U.S. corporate-tax overhaul forced the Swiss banking giant to write down over \$2 billion in deferred-tax assets and erased what would have been a healthy return to profit.

The bank was upbeat on its outlook, with Chief Executive Tidjane Thiam saying Wednesday that "our strategy is working" as it enters the final year of a three-year restructuring plan. Its pretax income for 2017, excluding that one-time hit, jumped from the previous year on strong revenue growth in its wealth-management arm.

Credit Suisse's shares rose 5.5% in New York.

While the bank reported a loss of 2.1 billion Swiss francs (\$2.3 billion) for the fourth quarter and a full-year loss of 983 million francs because of changes to the U.S. tax system, the losses were less than analysts had expected. Excluding the tax-related charges—mostly from the signing of the U.S. tax law—Credit Suisse would have earned about 1.8 billion francs in profit last year, Mr. Thiam said.

Credit Suisse disclosed in December that it expected a \$2.3 billion hit from the value of its deferred-tax assets—past credits and deductions that companies can use to offset future tax payments. The new U.S. corporate-tax rate—lowered to 21% from 35%—makes these assets less valuable.

Credit Suisse said it expects "positive business uplift" from the tax reform.

Still, the accounting adjustment drove the bank to its third consecutive year of red ink. Because the law was signed in 2017, it had to be accounted for in that year's earnings, which has affected earnings at other big banks too. Last month, UBS Group AG wrote down \$2.9 billion in these assets.

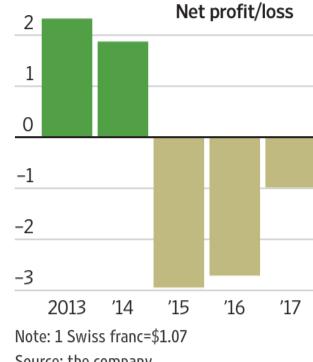
Credit Suisse's 2015 loss was prompted by impairment charges as it scaled back its investment-banking business. In 2016, the bank had a loss of 2.7 billion Swiss francs after reaching a settlement worth about \$5.3 billion with the U.S. Justice Department related to mortgage securities sold before the financial crisis.

After a rocky 2015 and 2016, 2017 was a year of relative tranquility. The bank's strategic shift toward wealth management—while maintaining a streamlined investment-banking unit—proceeded without big disruptions and it didn't have costly litigation issues. Its share price, which briefly fell below 10 francs in mid-2016, rose by 20% in 2017.

### Losing Streak

Credit Suisse's yearly loss in 2017 was its third in a row.

3 billion Swiss francs



Note: 1 Swiss franc=\$1.07

Source: the company

THE WALL STREET JOURNAL.

Mr. Thiam rejected the idea that his bonuses and those of other top executives would be affected by the accounting-driven loss.

"You're asking me because [President Donald] Trump decided to sign the U.S. tax cut and jobs act on Dec. 22, and not Jan. 1, which means that the bonuses should be cut? Because if he would have signed it Jan. 1 we would have had a 1.8 billion [franc] profit," he said at the press conference. "So I don't think the board is going to take that view."

Credit Suisse said that its outlook for the global economy "remains positive," though it alluded to the recent period of turbulence in the financial markets.

"In the first six weeks of 2018, we have seen a significant pickup in market volatility, which on the one hand had

*The bank's outlook was upbeat, with the CEO saying 'our strategy is working.'*

a positive impact on our secondary activities, and on the other hand, negatively impacted our primary calendar as clients wait for calmer markets in order to transact," it said.

Last week, the bank said it was closing a fund it had created in 2010 that allowed investors to bet on a period of tranquility in financial markets. The fund, known as XIV, plunged in value early last week, though Credit Suisse said it didn't suffer trading losses.

Mr. Thiam said the fund generated only about 10 million Swiss francs a year in revenue. "Any notion that this is material to us is fanciful," he said.

—Pietro Lombardi contributed to this article.

## PwC to Sell Unit to Veritas Capital

BY MICHAEL RAPORT

Accounting firm PricewaterhouseCoopers LLP is selling its U.S. public-sector consulting business to private-equity fund Veritas Capital.

The business, which has about 1,500 PwC partners and staff, provides management and technology consulting and other services to federal-government agencies, such as the departments of Defense, Homeland Security and Veterans Affairs, and to state and local governments. Terms of the deal weren't disclosed.

PwC and other Big Four accounting firms have been pushing into consulting for the

past several years, so a move away from any aspect of consulting has been relatively rare. Since 2010, PwC's global advisory revenues have nearly doubled and have now grown to nearly one-third of the firm's world-wide revenues. The public-sector unit is "a tremendous business" but needs investment, and PwC decided to sell it in order to focus on investing in other areas, said Tim Ryan, PwC's U.S. chairman and senior partner.

"We're focusing on where we can be the most capable," Mr. Ryan said in an interview with The Wall Street Journal. "It allows us to focus on the commercial space."

For Veritas, the acquisition of the PwC business adds to an existing focus on government.

Its portfolio companies include

Alion Science & Technology Corp., which serves the U.S.

government and other customers over defense, homeland security and energy issues; Key Point Government Solutions Inc., which provides security-clearance investigations and employment-screening services for government agencies; and Peraton Corp., which provides technology services to government agencies.

Ramzi Musallam, Veritas's chief executive and managing partner, said the firm plans to "embark on the next stage of expansion" for the business.

The public-sector business will operate as a stand-alone company. Current leadership will remain. The deal is subject to regulatory approvals.

BY GRETCHEN MORGENSEN

Wells Fargo's botched efforts to repay customers hurt by improper fees on car loans and home mortgages are coming under congressional scrutiny.

In a Feb. 13 letter to Wells Fargo Chief Executive Timothy Sloan, Democratic Sen. Elizabeth Warren of Massachusetts posed almost a dozen questions about the bank's troubled customer-remediation programs, reported by The Wall Street Journal. She asked Mr. Sloan to answer the questions by Feb. 28, and to make good on his pledge to take care of the bank's customers in the wake of widespread abuses, according to a copy of the letter reviewed by the Journal.

"Wells Fargo remains focused on making things right for our customers" and the bank is working with its regulators to insure customer repayments "are completed accurately and as quickly as possible," a spokeswoman said in a statement. She added that Wells Fargo "will address any questions Sen. Warren or her colleagues on Capitol Hill have about these plans under way."

In response to regulatory

actions in recent years, many banks have created remediation programs to reimburse wronged customers. Because such programs are conducted behind the scenes, it is difficult to assess how effectively they are designed and carried out.

Sen. Warren's request could shed light on the Wells Fargo repayment programs. For instance, Ms. Warren asked Mr. Sloan to explain why Wells Fargo is making customers

opt in to receive refunds of improper mortgage rate-lock fees. Because the bank's customers must respond to a mailing to get repaid, Wells Fargo has estimated that half or fewer will do so—a typical response rate for direct mailing, according to a person familiar with the matter.

"What do you intend to do for the victims that do not 'opt in' to receive a refund?" Sen. Warren asked.

Mr. Sloan also was asked how Wells Fargo will repay customers it forced to buy unnecessary auto insurance, especially those whose cars were repossessed or whose credit scores were hurt.

Wells Fargo's efforts to compensate its customers have been "utterly inept," Sen. Warren said in her letter. The bank "has caused thousands of people to spend valuable time and money trying to deal with a problem Wells Fargo created."

## Goldman Appoints Co-Head of Mergers

BY LIZ HOFFMAN

Goldman Sachs Group Inc. is promoting an industrial banker to co-run its merger advisory business, Wall Street's leader.

Dusty Philip will be co-head of M&A alongside Michael Carr and London-based Gilberto Pozzi, according to a memo reviewed by The Wall Street Journal.

Mr. Philip joined Goldman in 1991, was named a partner in 2000 and was previously co-head of Americas M&A alongside Mr. Carr.

He advised railroad operator Burlington Northern Santa Fe in its sale to Warren Buffett's Berkshire Hathaway Inc. in 2009 and paint company PPG Industries Inc. in its failed \$27 billion hostile bid last year for a Dutch rival.

Co-heads are the norm at Goldman, meant to foster collaboration and ensure no executive has too much leverage over the firm.

Goldman's merger advisory business regularly tops Wall Street's deal rankings.

It generated \$3.2 billion in revenue last year and has widened its lead over perennial No. 2 Morgan Stanley in

recent quarters.

The deals group is looking to press its lead and contribute its share of a \$5 billion firmwide growth initiative at Goldman. It has moved bankers to U.S. cities including Atlanta and Seattle to cultivate relationships with local companies and hired bankers from rivals to fill out holes in its network.

And the firm is angling for roles on smaller deals it once disregarded as small-time.

Goldman has better than 50% market share on mergers larger than \$5 billion but just 10% on those smaller than \$5 billion, Chief Executive Lloyd Blankfein said Tuesday.

"There are revenues in these smaller transactions," he said.

Mr. Philip will be succeeded as industrial head by Matt McClure, an industrial banker who co-heads M&A in the Americas.

Goldman is also hiring a senior JPMorgan Chase & Co. banker, Chris Gallea, as an investment-banking partner, according to a person familiar with the matter. Mr. Gallea's clients include United Technologies Corp. and Emerson Electric Co.



In a letter, Sen. Elizabeth Warren asked Wells Fargo's Timothy Sloan about repayment.

actions in recent years, many banks have created remediation programs to reimburse wronged customers. Because such programs are conducted behind the scenes, it is difficult to assess how effectively they are designed and carried out.

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## MARKETS

# Stocks Continue Their March Higher

Major indexes have climbed every session since entering a correction last week

BY AMRITH RAMKUMAR

U.S. stocks climbed for a fourth consecutive session, temporarily easing fears of a prolonged market downturn despite fresh signs of a pickup in inflation.

Consumer prices increased more than expected in January, another

**WEDNESDAY'S MARKETS**

data point showing inflation is firming after a long run of softness. The rise was largely driven by higher prices for gasoline, rent and apparel, which some analysts said are more volatile and might not be able to consistently drive future increases.

Fears about inflation have taken center stage in markets since the beginning of the month, when strong wage growth sparked concerns the Federal Reserve would have to raise interest rates more quickly than expected. The

Dow Jones Industrial Average and S&P 500 slumped last week into correction territory—a 10% decline from their Jan. 26 highs—but have climbed every session since then. They remain down more than 6% from those highs.

The Dow rose 253.04 points, or 1%, to 24893.49 Wednesday. The S&P 500 added 35.69 points, or 1.3%, to 2698.63, and the Nasdaq Composite closed up 130.10 points, or 1.9%, at 7143.62. All three indexes pared early losses and are back in positive territory for the year.

Meanwhile, the yield on the 10-year U.S. Treasury note surged to a four-year high, closing at 2.913% from 2.837% Tuesday. Yields rise as prices fall.

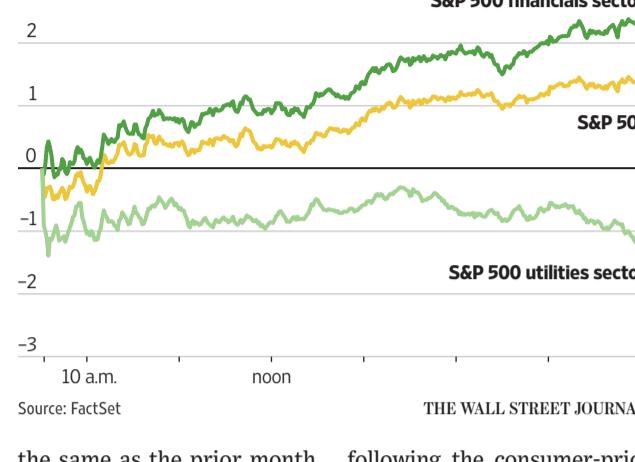
Wednesday's data showed that the consumer-price index gained 0.5% in January after rising a seasonally adjusted 0.2% in December. Economists surveyed by The Wall Street Journal expected consumer prices to add 0.4%.

Some analysts said the data showed core inflation pressures are still likely to grow gradually, as the increase in the 12 months to January was

## Diverging

A rise in Treasury yields benefited financial stocks while weighing on shares of firms that pay high dividends, reversing a recent trend.

3%



Source: FactSet

THE WALL STREET JOURNAL

the same as the prior month.

"When you dig in, it's all gas prices and clothes, which does not make long-term upward pressure on inflation," said Steven Chiavaroni, assistant vice president and portfolio manager at Federated Investors, which increased stock positions last week.

The S&P 500 and Dow industrials fell more than 1% in the futures market immediately following the consumer-price data and opened lower, with the Dow falling as much as 150 points before rebounding.

Some traders said they were pondering whether the rebound in recent sessions indicates the worst of the market pullback is over. Many

have said the underlying earnings backdrop remains in place for stocks to move higher even as they continue readjusting to

the prospect of higher rates.

"It does feel like things have settled down...It's quieter than it had been over the past week," said Yousef Abbasi, global market strategist at JonesTrading.

Investors also reacted to data that showed spending at U.S. retailers fell in January. Some analysts noted the figures were influenced by cyclical factors around the holidays.

"Inflation pressure is mounting, but it's not out of control," said Jeff Carbone, managing partner at Cornerstone Financial Partners, which has been increasing positions in smaller companies and emerging-markets firms recently. "Could we get a fourth rate hike [in 2018]? Yes we could, but I think the market could also handle a fourth rate hike with all the stimulus ahead of us."

Some investors have said they remain anxious because recent market moves haven't always been fully consistent with expectations for higher interest rates, pointing to recent declines among financial firms that should benefit from higher Treasury yields and outperformance in utility stocks. Those firms are known

as bond proxies because of their hefty dividend payments.

On Wednesday, the S&P 500 financial sector was among the best performers, while utilities and real-estate stocks fell.

"Some things are returning to normalcy," Mr. Abbasi of JonesTrading said, though "there are still some disconnects." He cited the dollar, which pared early gains. The WSJ Dollar Index, which tracks the U.S. currency against a basket of 16 others, fell 0.7%. It has stayed around multiyear lows despite the prospect of higher interest rates and quickening U.S. economic growth.

The dollar's decline supported commodities by making them cheaper for overseas buyers.

Elsewhere, the Stoxx Europe 600 climbed 1.1%. Japan's Nikkei Stock Average fell 0.4% amid a rallying yen. Gains in Samsung Electronics and Tencent Holdings supported South Korea's Kospi and Hong Kong's Hang Seng Index, while Chinese stocks rose. At midday Thursday in Tokyo, the Nikkei was up 1.3%. Markets in China and South Korea are closed for the rest of the week to celebrate the Lunar New Year.

# U.S. Considers 'Asset Recycling' for Infrastructure Plan

BY CEZARY PODKUL

When President Donald Trump unveiled his long-anticipated infrastructure plan on Monday, there was one word that caught the attention of many investors: recycling.

It isn't the garbage variety. Since early last year, infrastructure fund managers, bankers and lobbyists have been pitching the administration on the concept of infrastructure asset recycling.

Here is how many on Wall Street hope this might play out in the U.S.: The federal government would set up a pot of money to give state and local governments a bonus payment when they privatize or lease one of their existing assets to investors. To earn the bonus, governments would have to commit to using the sale proceeds to fund new bridges, roads or other infrastructure projects in need of money.

President Trump's \$1.5 trillion infrastructure plan stopped short of recommending such a fund. But it eased a requirement that investors who buy or lease public infrastructure assets must repay all of their existing tax-exempt



Australia used asset recycling to fund billions of infrastructure improvements. A wharf in Sydney.

debt—an expensive proposition that makes such deals harder to finance. The plan proposes that governments could recycle deal proceeds into new projects, and if they do, the tax-exempt debt could remain outstanding.

"Getting to \$1.5 trillion

without a significant asset-recycling effort will be a challenge, unless states decide to implement other revenue measures such as big tax or fee increases," said Geoff Segal, senior vice president at Macquarie Capital, the investment-banking arm of Austra-

lia's Macquarie Group Ltd.

If it takes root in the U.S., asset recycling could create a pipeline of new deal flow for Macquarie, the world's largest infrastructure fund manager, and its peers. Macquarie estimates U.S. state and local governments could earn as much

as \$1.25 trillion from privatizing their infrastructure assets.

Australia's ambassador to the U.S., Joe Hockey, has pitched the idea to senior administration officials. He has also met with Rep. Bill Shuster (R., Pa.), chairman of the House Transportation and Infrastructure Committee, which will have a big say in any legislation implementing Mr. Trump's infrastructure push. A spokesman for Mr. Shuster said he believes "Australia's experience with asset recycling is something we should give serious consideration."

The idea also came up in late June, when executives from Goldman Sachs Group Inc., Morgan Stanley and a handful of other pension and infrastructure funds met with White House officials to discuss Mr. Trump's plans to jump-start investment in U.S. infrastructure. Morgan Stanley and Goldman Sachs declined to comment.

The meeting was held to broadly discuss how to level the playing field between private investors and governments, which have long enjoyed an advantage in funding U.S. infrastructure thanks to their lower cost of borrowing. One

suggestion, according to two attendees, was asset recycling.

"That's how you get lots of cranes up in the air," said Mr. Hockey, who says he coined "asset recycling" as Australia's treasurer from 2013 to 2015.

During his tenure, Australia launched a 5 billion Australian dollar (roughly US\$4 billion) asset-recycling fund to incentivize its states and territories to privatize assets and plow the proceeds into new infrastructure projects. In exchange, they would get a bonus equal to 15% of the value of the privatized asset.

In the U.S., the need for other sources of revenue is paramount. Most of the \$1.5 trillion plan must be financed by state and local governments, and private investors. But census data show that state and local tax revenues have been recovering from the 2007 recession at the slowest rate of any economic downturn since 1980.

"Asset recycling" sounds like a fancy term for enriching investment bankers while undermining public services," said Lee Saunders, president of the American Federation of State, County and Municipal Employees.

# Saudis Hold to Oil Stance

BY SUMMER SAID

RIYADH—Saudi Arabia's energy minister said the kingdom and OPEC were committed to sticking with oil-production cuts for the rest of the year, even if they "overbalance the market a little bit."

The re-

commodities market Wednesday by the top Saudi oil official, Khalid al-Falih, came a day after an International Energy Agency report contended that a new wave of U.S. crude production could undermine the kingdom's efforts to raise oil prices with output cuts.

"We believe we have to err on the safe side and make sure that the market has balanced," Mr. Falih said at a news conference. "And if we have to overbalance the market a little bit, then so be it."

The Organization of the Petroleum Exporting Countries and 10 allies, including the world's largest crude producer, Russia, began a long-term effort to draw down a global oversupply of oil by cutting their own production. The 1.8 million-barrel-a-day effort has helped drain oil in storage and contributed to prices rising as high as \$70 a barrel last month.

Crude prices have fallen in the past two weeks on investor worries about higher U.S. crude output, which the IEA said Tuesday was increasing at a record pace. It has surpassed Saudi production and could soon rival Russia's.

Mr. Falih said he wasn't concerned about U.S. production. He pointed instead to oil



Russia's Alexander Novak and Saudi Arabia's Khalid al-Falih

## Crude Pares Losses To End Day Higher

Oil prices gained, reversing losses after government data showed that crude stockpiles rose less than expected.

Light, sweet crude for March delivery advanced \$1.41, or 2.4%, to \$60.60 a barrel on the New York Mercantile Exchange. Brent, the global benchmark, climbed \$1.64, or 2.6%, to \$64.36. Prices pared losses Wednesday after the U.S. Energy Information Ad-

ministration reported that crude in storage rose by 1.8 million barrels in the week ended Feb. 9. The number was smaller than analyst expectations for a 2.6 million-barrel build and estimates from the American Petroleum Institute for a 3.9 million-barrel increase.

Those forecasts "put everyone on the defensive," said Donald Morton, senior vice president of Herbert J. Sims & Co., who oversees an energy trading desk. Sentiment recovered as stocks rose and the dollar declined.

—Stephanie Yang

storage levels going down in the Organization for Economic Cooperation and Development, a sign that the global glut of oil is diminishing.

"You have to look at it from a bigger perspective," he said. "What matters to me is inventories are going in the right directions and supplies are in the right direction."

Mr. Falih and his Russian counterpart, Alexander Novak,

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## MARKETS

## U.S. Treasurys Weaken After Price Data

BY AKANE OTANI

The yield on the benchmark 10-year U.S. Treasury note, which affects everything from mortgage rates to corporate loans, rose to four-year highs Wednesday after consumer-price data showed inflation continuing to firm.

Increases in consumer prices in recent months have fed concerns among investors that long-dormant inflation could be accelerating. At the same time, some investors worry an expanding federal budget deficit could lead to an oversupply of bonds in the market.

That backdrop made Wednesday's data on consumer prices particularly important for traders, many of whom feared an unexpectedly strong reading that leads bond yields to jump could send global markets reeling again. Inflation poses a threat to bond prices because it chips away at the value of the securities' fixed payments.

In recent weeks, such fears caused investors to sell bonds, which led yields to rise, pressuring shares from New York to Tokyo.

"Much of the 2017 market environment rested on a number of assumptions which are now being repeatedly challenged—in this case, the assumption that inflation was 'dead,'" said James Athey, senior investment manager at Aberdeen Standard Investments.

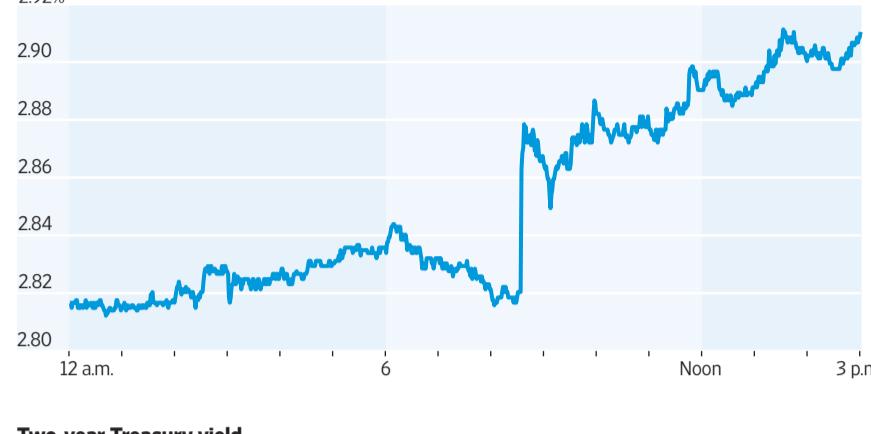
Yields rose early Wednesday after the Labor Department said its consumer-price index, a measure of what Americans pay for everything from theater tickets to breakfast cereal, rose 0.5% in January, while so-called core prices—which exclude the volatile food and energy categories—rose 0.3%.

Economists surveyed by The Wall Street Journal had expected CPI to rise by 0.4% and core prices to increase by 0.2%.

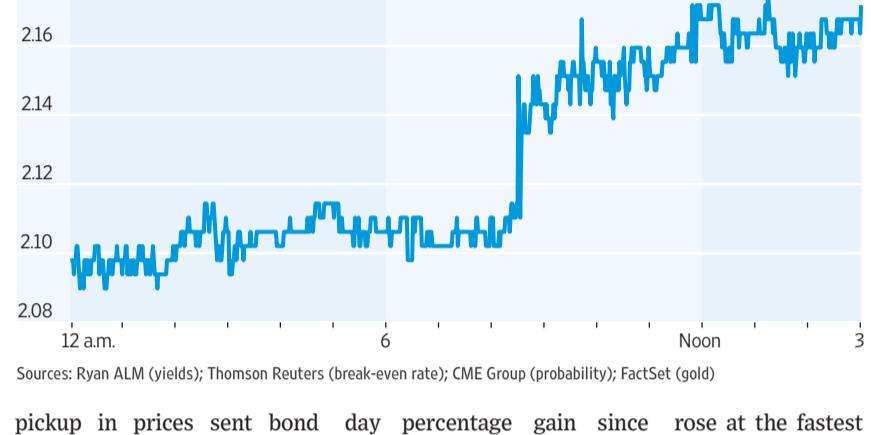
The stronger-than-expected

Investors sold U.S. government bonds Wednesday, sending yields higher, after Labor Department data showed consumer prices rising faster than expected in January.

## 10-year Treasury yield

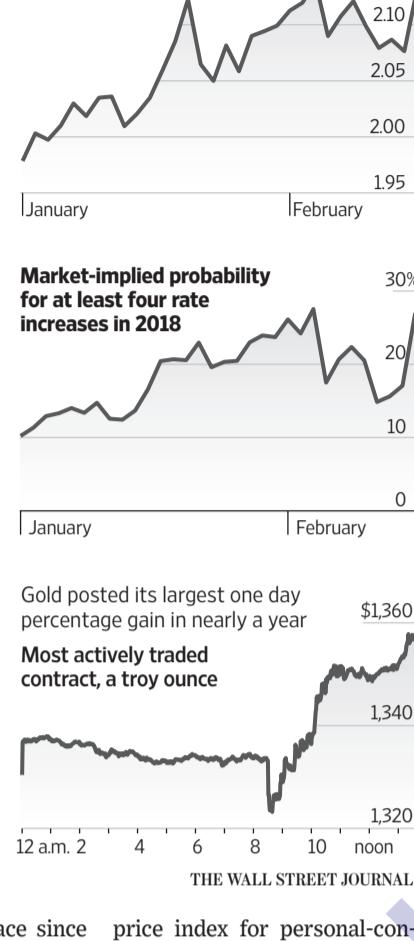


## Two-year Treasury yield



Sources: Ryan ALM (yields); Thomson Reuters (break-even rate); CME Group (probability); FactSet (gold)

## 10-year break-even rate

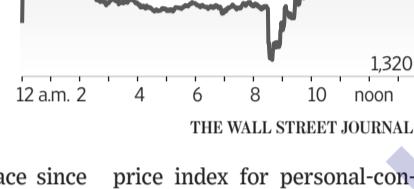


## Market-implied probability for at least four rate increases in 2018



Gold posted its largest one day percentage gain in nearly a year

## Most actively traded contract, a troy ounce



vestors and analysts have said a yield of 3% or higher on the 10-year Treasury would mark the point at which bonds could pose a threat to stocks. For years, those have looked attractive to yield-seeking investors because of ultralow interest rates around the world.

The last time the yield on the 10-year note closed above the 3% level was the end of 2013.

Still, others remain concerned that a faster-than-expected pickup in prices could hurt bonds by pushing the Fed

As prices rise, there is concern the Fed could act faster than expected to lift rates.

ederal Reserve to pick up its pace of interest-rate increases.

After the Labor Department's report, federal-funds futures, used by traders to place bets on the course of interest rates, showed a slightly higher chance of the Fed accelerating its pace of rate increases in 2018. The market on Wednesday priced in a roughly 26% chance of at least four interest-rate increases by year-end, according to data from CME Group, compared with 17% one day earlier.

That put pressure on bonds carrying shorter maturities, sending yields higher.

The yield on the two-year Treasury note, which tends to be highly sensitive to the path of the Federal Reserve's interest rates, jumped to 2.173%, compared with 2.104% Tuesday, settling at the highest level since Sept. 12, 2008.

Meanwhile, the yield on the five-year Treasury note rose to 2.640%, its highest close since April 6, 2010.

—Daniel Kruger contributed to this article.

pickup in prices sent bond yields to multiyear highs, with the 10-year Treasury note climbing to 2.913%, the highest closing level since Jan. 9, 2014, compared with 2.837% Tuesday.

Yet the reaction in other markets was more sanguine, a contrast to two weeks ago, when a leap in bond yields sent asset prices around the world tumbling.

U.S. stocks rebounded, further chipping away at the losses that had sent them into correction territory earlier this month. Meanwhile gold, which typically suffers when investors expect higher rates and inflation, notched its biggest one-

day percentage gain since March.

The U.S. dollar, which tends to rise with inflation expectations, headed for its fourth consecutive decline, deepening its losses for the year.

However, the extra yield investors demand for holding junk-rated debt remains near multiyear lows, even after ticking higher lately.

Some analysts said the relative calm in other markets partly reflected skepticism about whether January's figures pointed to a longer-term pickup in inflation, as opposed to transitory gains in prices. For instance, apparel prices

rose at the fastest pace since 1990 in January, which some analysts blamed on cold weather across the U.S., while gasoline prices—which have since retreated from earlier highs—also helped drive inflation higher.

"We're not talking about runaway inflation," said Putri Pascualy, portfolio manager and senior credit strategist at Pacific Alternative Asset Management Co. Rather, investors are seeing the latest uptick in prices as having come from "a context where inflation was nonexistent."

The Federal Reserve's preferred measure of inflation, the

price index for personal-consumption expenditures, has largely undershot the central bank's 2% target, suggesting there is still room for prices to rise.

Some investors also said the relatively gradual pace of bond-yield increases in recent sessions appeared to be keeping pressure off other markets. The yield on the 10-year note, for instance, posted a bigger one-day move on Feb. 7, a day before U.S. stocks fell into correction territory.

Treasury yields have yet to reach levels that many say could mark the start of a more severe bond selloff. Many in-

## HEARD ON THE STREET

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## The New Wizards of Wall Street Are Here

## Big Spenders

Share of global investment-banking fees paid by private-equity firms



link with co-investors at an early bidding stage and decide with them what offer to make. With Q-Park, that process was reversed. Similarly with debt raising, private-equity firms normally pay banks to underwrite their financing. In this case, KKR only paid itself to find the lenders it required.

Private-equity companies

say this ability to act quickly and share out investment opportunities themselves is a growing competitive advantage and that they strictly manage any conflicts.

All the big-four firms, **Apollo Global Management**, **Blackstone Group**, **Carlyle Group** and KKR, have long charged transaction and advisory to their funds and

portfolio companies when they do deals or raise debt to pay dividends, for example.

But now they are doing more capital-markets work, including in KKR's case by leading initial public offerings when it sells portfolio companies, and even by doing work for third-party companies.

KKR, the only firm to separately report these revenues, made \$440 million in fees in capital markets last year, more than half of its groupwide transactions fees. That is much larger than rivals, but remains relatively small compared with banks: KKR's 2017 capital-markets revenues were little more than one-fifth of what **Goldman Sachs**'s investment bank earned in the fourth quarter alone.

The big firms still use investment banks as well, and are among the biggest fee payers on Wall Street. And being such big clients of investment banks, they say, is

another competitive edge: They get to see deals first and can push for their funds to get access to debt syndications. This is helpful while the fight for assets is intense, but using different funds in the same deal and having the power to pick between funds throws up potential conflicts of interest.

Funds and regulators are alive to this: Investors quiz firms about their incentive structures and compliance processes, while legal and regulatory costs are rising. Some investors say they draw comfort from simple greed. Managers get paid only when their own funds do well. But that isn't true everywhere. At KKR, bonuses rely partly on firmwide performance.

While firms do well, investors won't worry too much about their expanded ambitions. It is when things go pear-shaped that the complexities will spell trouble.

—Paul J. Davies

## OVERHEARD

H&M is reaching out to customers online. What about investors?

Fashion chain **Hennes & Mauritz**, which experienced its worst sales performance in at least 15 years in the quarter through November, unveiled its response to the challenge of e-commerce in its first-ever investor day Wednesday.

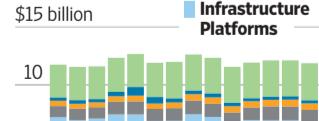
H&M didn't broadcast the event online, instead holding it in Stockholm, its hometown. The company did disclose some figures to those who wouldn't go to Stockholm in February. Online sales accounted for 12.5% of the total in the year through November and are expected to grow by 25% this year.

H&M stock, down 60% over three years, fell nearly 5%. Investors might be a bit more receptive to the modernization message if the company also brings its approach to communications up-to-date.

## Cisco's Older Businesses Help It Reboot

## Switch Up

Cisco's segment revenue, quarterly



Note: Fiscal year ends in July

Source: the company

Historically, firms would

lift the company's overall revenue by nearly 3% year over year to \$11.9 billion for the period ended Jan. 27. That was Cisco's first quarter of growth after eight straight periods of declines. The applications and security segments each grew revenue by about 6% year over year.

Those results, along with a better-than-expected forecast, were good enough to boost Cisco's share price in after-hours trading.

Investors also are enthusiastic about the company's cash hoard of \$34 billion, net of debt, that could fuel future deals. Cisco still has plenty of diversification ahead of it, but a revived core businesses should make the process less painful.

—Dan Gallagher

With the economy throwing off more heat, the biggest risk for the Federal Reserve is that it falls behind on raising interest rates. And if investors suffer as a result? So be it.

Inflation picked up again last month. The Labor Department on Wednesday reported that consumer prices rose 0.5% in January from December, putting them 2.1% above their year-earlier level. Core prices, which exclude food and energy, rose 0.3% for a 1.8% gain on the year. Both measures were stronger than economists expected.

That got investors worrying again that the Fed will raise rates more than expected. The yield on 10-year Treasurys rose to a four-year

high.

The inflation figures were just the latest batch of data suggesting the economy is running up against capacity constraints.

The January job report, which kicked off this month's sharp drop in stocks, showed unexpected wage growth—a sign that the job market has tightened to the point that companies need to pay workers more. The National Federation of Independent Business on Tuesday said the share of small businesses raising employee compensation was at the highest level since 2000.

Fed policy makers expect to raise rates more aggressively, financial markets aren't likely to take it well. But if it is trying to lower the danger of the economy running too hot, the Fed will consider its actions as necessary, even if the markets suffer collateral damage.

—Justin Lahart

Given its long history in the router business, **Cisco Systems** knows well the difficulty of changing lanes.

The storied tech giant has been working hard over the past few years to diversify its business away from the type of expensive networking equipment on which it made its name.

Cisco's fiscal second-quarter results, reported Wednesday afternoon, still showed 56% of the company's revenue coming from its "infrastructure platforms" segment, which includes its legacy switch-and-router businesses. That is down from 60% three years ago. The company's application and security segments together accounted for 15% of revenue for the recent pe-