

# THE WALL STREET JOURNAL.

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★★★★ \$4.00

DJIA 21553.09 ▲ 20.95 0.1% NASDAQ 6274.44 ▲ 0.2% STOXX 600 386.14 ▲ 0.3% 10-YR. TREAS. ▼ 7/32, yield 2.348% OIL \$46.08 ▲ \$0.59 GOLD \$1,216.30 ▼ \$1.80 EURO \$1.1399 YEN 113.28

## What's News

### Business & Finance

Vanguard named Tim Buckley, the firm's chief investment officer, to succeed F. William McNabb as CEO of the world's second-largest asset manager. A1

♦ Uber, in a retreat, is combining its Russian operations with Yandex.Taxi, the most popular ride-hailing service in that country. A1

♦ Clients of Einhorn's Greenlight Capital withdrew more than \$400 million from the fund at midyear. B1

♦ Manulife is exploring a possible IPO or spinoff of the Canadian insurer's John Hancock unit. B10

♦ Yellen said a strong labor market and rising import prices supported her expectation that soft inflation would prove transitory. A2

♦ Draghi is expected to signal the ECB's growing confidence in the eurozone economy at the Fed's Jackson Hole conference. A6

♦ Roku is preparing an IPO that the maker of streaming-media devices expects to launch before year-end. B4

♦ Beleaguered retail shares are being stalked by traders, fueling a surge in volume and sharp price swings. B11

♦ The U.K.'s FCA is weighing a plan that would ease listing rules for state-owned firms ahead of Aramco's IPO. B10

♦ AstraZeneca shares fell after a media report fueled speculation on whether CEO Soriot is leaving for Teva. B3

♦ The Dow industrials inched up to their 24th record of the year, closing 20.95 points higher at 21553.09. B11

### World-Wide

♦ Senate Republicans unveiled a revised health bill in an effort to shore up its faltering GOP support, but the measure's future remained precarious. A1

♦ Trump's budget proposal would shrink federal deficits by nearly a third over the coming decade but not eliminate them, the CBO said. A5

♦ A federal judge ordered a loosening of Trump's temporary ban on U.S. entry for some travelers from six Muslim-majority countries. A3

♦ Lawmakers will be able to delay steps to address imbalances in the system for federal disability payments due to a decline in Americans receiving such benefits. A2

♦ Trump and Macron met in Paris and touted the growing bond between the U.S. and France, a pointed bid to move past divisions. A6

♦ Brazil's ex-leader da Silva vowed to overturn his conviction and declared his intent to return as president. A8

♦ The Justice Department said it has charged over 400 people with committing health fraud that generated \$1.3 billion in false billings. A2

♦ A GOP activist who mounted an effort to obtain Clinton emails died on May 14 after asphyxiating himself, according to authorities. A4

♦ A federal appeals court vacated the conviction of former New York state Assembly Speaker Silver. A3

♦ Died: Liu Xiaobo, 61, Chinese dissident and Nobel Peace laureate. A7

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# U.S. NEWS

## Federal Disability Program Gets a Reprieve

By JOSH ZUMBRUN

Lawmakers will be able to postpone steps to address long-term imbalances in the system for federal disability payments because of a declining number of Americans receiving such benefits.

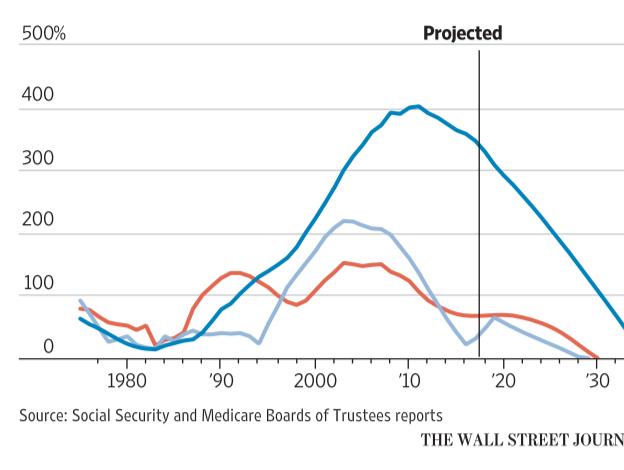
The annual report from the trustees of the nation's largest entitlement programs revealed Thursday that the trust fund for Social Security's disability program will last until 2028, five years longer than previously projected, in part because of lower-than-expected applications for disability benefits.

The Social Security system has two trust funds, one for disability and one for retirement. The fund for disability benefits is the smaller of the two—\$46 billion for disability, compared with \$2.8 trillion for retirement.

The longer projection for the smaller fund means Congress isn't immediately forced

### Road to Depletion

Trust-fund balances as a percentage of expenditures at the beginning of each year



Source: Social Security and Medicare Boards of Trustees reports

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to grapple with looming shortfalls in any of its programs.

The overall financial health of the entitlement programs hasn't improved, according to the report. If Social Security's

retirement and disability funds were combined into one program, their funds would be exhausted in 2034, unchanged from last year.

The trust funds were built

when more people paid into the system than received benefits.

As the population ages, benefit payments are projected to exceed revenues, drawing down fund balances. Under current law, when the trust funds are emptied, benefits from the programs will be abruptly reduced.

The latest projections say retirement benefits would be slashed by 25%. The status of the funds is thus a potential trigger for reforms in the programs.

Still, the report card on the finances of the entitlement programs, which are responsible for about 42% of federal spending, serves as a reminder that Social Security and Medicare are bound to face changes in coming years.

The report also provided an update on the Medicare trust funds, which will be depleted in 2029 under current estimates. That is a one-year extension compared with last

year's estimate.

In 2016, more than 50 million Americans received retirement benefits from Social Security, and Medicare benefits were received by 56.8 million people. Spending on the programs is poised to grow as the nation's population ages.

Shifting demographics explain part of why disability payments have come down, as those who reach retirement age leave the disability program and enter the retirement program.

The number of people receiving disability-insurance benefits fell to 10.6 million in 2016, down from 10.9 million in 2014.

U.S. Labor Secretary Alexander Acosta said an improving economy may also be contributing to the decline.

"As the labor market tightens, I think it's natural to see individuals have more work opportunities," Mr. Acosta said. "We must build on this good news."

## Yellen Expects Inflation Pickup

By NICK TIMIRAO

WASHINGTON—Federal Reserve Chairwoman Janet Yellen said a strong labor market and rising prices of imported goods support her expectation that a recent downturn in inflation will prove transitory.

In raising interest rates last month and penciling in one more increase later this year, Fed officials so far have looked past recent soft inflation readings by pointing to several idiosyncratic price declines, such as for wireless-phone plans.

Ms. Yellen cited those factors in testimony to the Senate Banking Committee on Thursday but nodded to uncertainty in near-term inflation figures. "There may be more going on. We're watching inflation very carefully in light of low readings," she said. "I think it's premature to conclude that the underlying inflation trend is falling well short of 2%. I haven't reached such a conclusion."

Fed officials next meet July 25–26 and are likely to leave short-term interest rates unchanged. At their meeting last month, officials raised rates for the third time in as many quarters to a range between 1% and 1.25%.

While the economy has largely performed in line with the central bank's forecasts, inflation has been weaker than expected. Excluding the volatile food and energy categories, the Fed's preferred inflation gauge slowed to a gain of 1.4% over the year ended in May, versus 1.8% in February. The Fed has fallen short of its 2% inflation target for most of the past five years.

Ms. Yellen cited rising import prices as one reason why global factors aren't "mainly responsible" for the low inflation readings. She also pointed to continued declines in labor-market slack, which would traditionally point to rising wages. "We're not seeing very substantial upward pressure on wages, but we may begin to see upward pressure on wages and prices," she said.

Ms. Yellen said little about the timing of the Fed's next moves. Most economists polled recently by The Wall Street Journal expect the central bank to start shrinking its \$4.5 trillion holdings of bonds and other assets in September and to next raise short-term interest rates in December. That would allow officials to monitor inflation trends for several months before deciding whether to lift borrowing costs.

The central-bank leader also offered her assessments on other topics.

With respect to her future at the Fed, Ms. Yellen implied she hadn't discussed with the White House whether President Donald Trump might want to nominate her to continue as chairwoman after her term ends in February. "It's not been something that's come up," she said. If Mr. Trump asked her to stay on, that is "something that I would discuss with the president, obviously."

Regarding the likelihood of another financial crisis, Ms. Yellen clarified comments she made in London last month when she said she didn't believe there would be another crisis "in our lifetimes." On Thursday, she said, "We can never be confident that there won't be another financial crisis," but she pointed to postcrisis changes to bank-capital and regulatory standards that have made the financial sector more resilient.

◆ ECB's Draghi is scheduled to address Fed conference..... A6

## U.S. WATCH

### ECONOMY

#### Forecasters Lower Growth Expectations

Early optimism that President Donald Trump would be able to revitalize the U.S. economy is fading as Congress struggles to pass major legislation.

Forecasters in The Wall Street Journal's monthly survey of economists marked down their outlooks for growth, inflation and interest rates this month, a partial reversal of a postelection bump.

Forecasters assess whether they think the economy is more likely to outperform or underperform their forecasts.

The number of economists seeing those risks to the downside climbed to 57% in this month's survey, the highest since before the election. That was up from 51% last month and 37% just two months ago.

The survey of 63 business, financial and academic economists was conducted from July 7 to July 11. Not every economist answered every question.

Growth forecasts for the last three quarters of 2017 were all down from May. Forecasts for growth in 2018 were unchanged at 2.4%, but the average forecast for 2019 dropped to 1.9%.

—Josh Zumbrun

### PRODUCER PRICES

#### Gauge Indicates Subdued Inflation

A gauge of U.S. business prices ticked up in June, another signal of moderating inflation pressures.

The producer-price index for final demand, which measures changes in the prices that U.S. companies receive for their goods and services, increased a seasonally adjusted 0.1% in June

from a month earlier, the Labor Department said Thursday.

The month-over-month increase was slightly higher than economists expected, but overall price pressures continued to remain soft in June.

The index for core prices, which excludes the often volatile food and energy sectors, rose 0.1% in June. From a year earlier, core prices were up 1.9%, below the pace seen in previous years and suggesting little momentum for price pressures.

"In short, fairly tame and fairly close to expectations, although the core measures still show a pickup in the past year," said Jim O'Sullivan, chief economist at High Frequency Economics, in a note to clients.

—Sarah Chaney

### EDUCATION

#### Requests for Financial Assistance Increase

The number of students who completed applications for federal financial aid increased 6% in the latest cycle.

The increase, to just over 14 million students through June 30, reverses four-year downswing, according to Education Department data collected by the National College Access Network, a nonprofit group that supports expanded access to higher education.

The Free Application for Federal Student Aid, known as the Fafsa, is used not just to determine eligibility for federal aid programs, but also for a number of state-level aid programs and schools' own institutional awards.

College-financing experts say that even students from wealthier families should complete the Fafsa to be considered for merit aid or to show the financial burden of having multiple kids in college.

—Melissa Korn

## U.S. Files Health-Fraud Charges

By DEL QUENTIN WILBER

WASHINGTON—The Justice Department said that it has recently charged more than 400 people, including 56 doctors, with committing healthcare fraud that generated \$1.3 billion in false billings.

"Too many trusted medical professionals like doctors, nurses and pharmacists have chosen to violate their oaths and put greed ahead of their patients," Attorney General Jeff Sessions said on Thursday at a news conference where he was joined by other top U.S. law-enforcement officials.

"They seem oblivious to the disastrous consequences of their greed," the attorney general said.

Justice Department officials

said the charges were filed in the past few weeks, and the initiative was the "largest health-care fraud takedown operation" in U.S. history, Mr. Sessions said.

The Justice Department has conducted similar initiatives in recent years, and its Medicare Fraud Strike Force has charged more than 3,500 people since 2007 with falsely billing Medicare for more than \$12.5 billion.

Among those charged in this year's operation were 120 accused of crimes tied to abuse of prescription opioids and other narcotics, the officials said.

"Last year, an estimated 59,000 Americans died from drug overdose, many linked to misuse of prescription drugs," said Chuck Rosenberg, the acting administrator of the Drug Enforcement Administration.

Mr. Rosenberg and other law-enforcement officials said those who abuse prescription opioids often later turn to more dangerous substances, including heroin.

Mr. Rosenberg said that the country needs to "dramatically reduce the demand for prescription pills and other dangerous drugs such as heroin to which they lead."

"This is truly an epidemic," Mr. Rosenberg said.

## Thank You for Your Service



COMING HOME: Bella Preister, left, of Omaha, Neb., hugged her father, Maj. Jeremy Preister, as he stepped off a bus to a welcoming ceremony Thursday in Lincoln after spending nine months in Iraq.

NATHAN HARNIK/AP

## FUND

Continued from Page One

planned of longer-than-normal customer wait times to speak with Vanguard representatives at call centers as assets have swelled, and earlier this year the firm suffered a website outage that left many clients unable to log into their accounts for part of a trading day.

Vanguard apologized for the website outage and said at the time that it was "unrelated" to

the firm's growth. The money manager is in the process of hiring about 2,000 new workers, some of whom are focused on customer service.

Vanguard's clients now range from millions of mom-and-pop investors to some of the world's largest pension plans and sovereign-wealth funds.

It is a sizable shareholder in a number of giant American corporations giving it increasing power over the fates of chief executives, takeovers and other crucial boardroom decisions.

Passive Vanguard mutual and exchange-traded funds owned 5% or more of shares in 485 companies in the S&P 500 at the end of March, up from 12 in 2008, according to a Wall Street Journal analysis of data from Morningstar Inc. and S&P Global Market Intelligence.

Mr. Buckley, 48 years old, will also face pressure to keep Vanguard's fund fees low and control operational expenses.

Mr. McNabb, 60, started an internal campaign to reduce Vanguard's average asset-weighted fund fee to 0.10% by 2020. That figure stood at 0.12% at the end of 2016, a spokeswoman said.

Continually lowering fund costs for the firm required both continued asset gathering and controlling spending. Head

count has fallen more than 10% during Mr. McNabb's tenure.

Mr. McNabb revised Vanguard's strategy overseas, paring its network of offices and making the U.K. a bigger priority. Earlier this year, Vanguard began selling funds directly to investors there for the first time.

He halted plans to build a new campus for Vanguard on an old dairy farm because of concerns over the expense. He Mr. McNabb told Vanguard executives about the planned leadership changes in the company's Majestic Building, which like all of the buildings on the firm's sprawling Malvern, Pa., campus is named after a British battleship.

That building is where Mr.

McNabb typically holds his annual meetings with staff, referred to as crew. "My goal has always been to leave the woodpile higher than where I found it," Mr. McNabb said in an interview.

"I think that's the right amount of time for someone to run an organization like Vanguard," he said referring to his tenure as CEO. "It's complex, it's all consuming, and it's good to get fresh perspective, even with the kind of continuity we have here."

When asked if he would consider a role elsewhere in the money management industry, he said: "All my money is at Vanguard. It will always be at Vanguard."

Mr. McNabb and Mr. Buckley are both longtime insiders at Vanguard who have worked together on a variety of firm-wide projects. Mr. Buckley started as an assistant to Mr. Bogle in 1991 and Mr. McNabb met him during his interview.

Mr. McNabb began his career with Vanguard in 1986 and became CEO in 2008, when Vanguard had \$1.25 trillion in assets.

Mr. McNabb will remain as chairman next year and eventually pass that role to Mr. Buckley as well.

After passing the chairman role to Mr. Buckley, Mr. McNabb says he plans to spend time with his family and on philanthropic work in addition to advising or teaching at universities he attended.

◆ ECB's Draghi is scheduled to address Fed conference..... A6

## CORRECTIONS & AMPLIFICATIONS

Single-serve coffee sold by Brandless and Whole Foods' 365 costs 50 cents and 75 cents per serving, respectively; Target.com sells Green Mountain single-serve coffee for 61 cents per serving. A graphic with a Business & Finance article Wednesday about online retailer Brandless incorrectly said those prices

were per ounce.

Siemens AG said it delivered gas turbines to a Russian customer in August 2016. A Business News article Thursday about the transaction incorrectly said the turbines were delivered in June 2016 because of erroneous information from Siemens.

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

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## U.S. NEWS

# N.Y. Corruption Conviction Overturned

Supreme Court ruling is cited in vacating verdict in ex-legislator Sheldon Silver's case

BY CORINNE RAMEY

A federal appeals court vacated the conviction of former New York state Assembly Speaker Sheldon Silver, saying a U.S. Supreme Court ruling had narrowed the definition of certain public-corruption crimes.

In its ruling Thursday, a panel of judges for the Second U.S. Circuit Court of Appeals in New York said the Supreme Court's decision in the case of former Republican Virginia

Gov. Bob McDonnell, which occurred after Mr. Silver was convicted, had clarified what counts as official acts of government power. In that ruling, the court said the jury instructions could criminalize ordinary behavior such as setting up meetings or hosting events for constituents.

The ruling in the case of Mr. Silver, once one of the most powerful politicians in New York, was a significant test of the McDonnell decision's impact on the corruption convictions of other public officials. On Thursday, prosecutors said they would retry the case.

It also raises the possibility of a new trial for ex-state Republican Senate Majority

Leader Dean Skelos, who was convicted in 2015 of public-corruption charges and sentenced to five years in prison.

Mr. Silver, a Manhattan Democrat and once one of the state's most powerful politicians, was convicted in 2015 of extortion, honest-services fraud and money laundering. He was sentenced to 12 years in prison but has remained free during his appeal.

Manhattan prosecutors argued Mr. Silver, 73 years old, engaged in quid pro quo schemes in which he used his government power in exchange for kickbacks and bribes. Mr. Silver earned a total of about \$4 million in referral fees, prosecutors said.

Seven months after his con-

viction, the Supreme Court vacated the conviction in the McDonnell case, in which the former governor and his wife accepted \$175,000 in loans and gifts from a businessman. Prosecutors had argued Mr. McDonnell performed official acts including arranging meetings and contacting government officials.

The Supreme Court offered

new tests for determining official action, including that it involve "a formal exercise of government power," such as a hearing before a committee or determination before an agency. Last year, prosecutors said they wouldn't retry Mr. McDonnell or his wife.

In their appeal, lawyers for Mr. Silver argued that the jury instructions were too broad, in light of the new standard established in the McDonnell case.

Writing for the three-judge panel, Judge Jose Cabranes said: "The plain language of the instruction at Silver's trial captured lawful conduct, such as arranging meetings or hosting events with constituents."

In the appeal, lawyers also

argued that there wasn't sufficient evidence for a conviction. The appeals court rejected the latter argument.

Former Manhattan U.S. Attorney Preet Bharara, who oversaw the prosecution, said on Twitter: "I expect Sheldon Silver to be retried and reconvicted."

Acting U.S. Attorney Joon Kim said he looked forward to retrying the case, noting that "the Second Circuit also held that the evidence presented at the trial was sufficient to prove all the crimes charged against Silver, even under the new legal standard."

Lawyers for Mr. Silver said: "We are grateful the court saw it our way."

## Judge Exempts Some in Travel Ban

BY BRENT KENDALL

WASHINGTON—A federal judge in Hawaii late Thursday ordered a loosening of President Donald Trump's temporary travel ban on U.S. entry for some travelers from six Muslim-majority countries, ruling the administration's strict approach contradicted a recent Supreme Court ruling.

The decision is a fresh legal blow for the president just two weeks after a middle-ground Supreme Court ruling allowed the administration to implement its travel ban on refugees and foreign nationals from six countries who have no connection to the U.S.

A spokeswoman for the Justice Department, which is defending the ban, had no immediate comment on the order.

The Supreme Court justices said Mr. Trump's administration couldn't enforce the ban against people with bona fide relationships to people or organizations in the U.S. Days after, the Trump administration adopted a narrow view of what relationships counted for an exemption from the ban.

Administration officials said visa applicants and refugees with U.S.-based spouses, children, parents and siblings would be allowed in. But those with only lesser ties—such as grandparents, grandchildren, aunts, uncles and cousins—would be subject to the ban.

U.S. District Judge Derrick Watson in Hawaii took issue with that interpretation. He issued an order Thursday, which applies nationwide, saying people with broader family ties are also exempt from the ban.

"The Government's definition of close familial relationship is not only not compelled by the Supreme Court's June 26 decision, but contradicts it," the judge wrote.

Mr. Trump's restrictions sought to impose a 90-day ban on U.S. entry for people from Iran, Libya, Somalia, Sudan, Syria and Yemen, and to suspend temporarily the U.S. program for admitting refugees. Mr. Trump said the order would help prevent terrorism.

## California Governor Pushes Cap and Trade

BY ALEJANDRO LAZO

SAN FRANCISCO—California Gov. Jerry Brown may have seized the role as a global-warming crusader abroad, but back home he is struggling to unite fellow Democrats and environmentalists around a key piece of his climate-change agenda.

Mr. Brown wants the state Legislature to extend California's cap-and-trade program, which requires businesses here to pay for their carbon-dioxide emissions while also reducing those emissions over time. The extension would be from 2020 through 2030.

Facing a key test on his home turf after pledging to defy Republican President Donald Trump on climate change, Mr. Brown gave a full-throated endorsement of the program Thursday.

Turning to the audience of a packed Sacramento committee room and shouting, the 79-year-old governor warned of a potentially apocalyptic future if climate change continued unabated, with vector-borne diseases, mass migrations, forest fires and a "Southern California burning up."

"That's real guys—that is what the scientists of the world are saying, so I am not here about some cockamamie legacy that people talk about," Mr. Brown said. "This isn't for me—I am going to be dead! It is for you!"

The program—a key aspect the state hopes to use to reduce CO<sub>2</sub> emissions to 40% below 1990 levels by 2030—has faced questions as business groups have criticized it as an unconstitutional tax on industry. An attempt to extend the program last month failed because of a lack of Democratic support.

The California Chamber of Commerce and the Pacific Legal Foundation had sued the state, saying the program was an illegal tax on businesses. A state appeals court rejected their arguments in April, and the California Supreme Court left that decision in place last month.

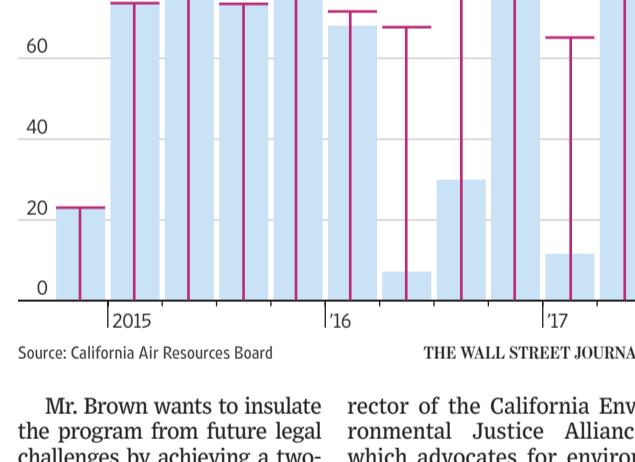
The state's Chamber of Commerce now supports a cap-and-trade program as an alternative to more direct regulations. The chamber endorsed the governor's plan on Thursday, saying it "will provide the least costly path to achieving our climate goals."



California Gov. Jerry Brown is hoping to extend the state's cap-and-trade program from 2020 through 2030.

### On the Rebound

Uncertainty over legal challenges and a 2020 expiration date caused California's cap-and-trade auctions to suffer in 2016, experts say. The market for the carbon allowances has rebounded in 2017.



Source: California Air Resources Board

Mr. Brown wants to insulate the program from future legal challenges by achieving a two-thirds vote of approval in the Legislature—the threshold for all new taxes in the state. But he is struggling to get Democrats on board, with some more business-friendly members concerned about the effects on jobs.

Environmentalists are also raising objections.

Amy Vanderwarker, co-di-

rector of the California Environmental Justice Alliance, which advocates for environmental policies aimed at low-income and minority communities, said she opposed the plan.

"We feel like the proposal put forward is actually a step backward for California climate policy, with way too many loopholes for industry that actually make it harder to achieve our 2030 targets," she said.

### Establishing a Price Helps Cut Emissions

Determining a price for greenhouse gas emissions has been a goal of certain economists for years as a means of curbing those emissions, which most scientists believe contribute to global warming.

The argument is that by putting a price on emissions, industry can factor those costs into production and search for greener alternatives.

There are various methods for pricing emissions of carbon dioxide, but the most widely discussed are a carbon tax and a cap-and-trade system.

In 2013, California began

using a cap-and-trade program to curb greenhouse gas emissions. Under cap and trade, the state imposes a limit on the amount of CO<sub>2</sub> that can be released by industry and then issues a finite number of permits for emissions. Those permits are auctioned or given away.

Businesses under nearly every industry are covered, including refineries, food processors, manufacturers and utilities.

Businesses are free to sell excess permits that they don't need, allowing market forces to distribute and price these allowances. Futures and options to buy California's carbon allowances can be traded on the Intercontinental Exchange.

—Alejandro Lazo

# Man Admits to 4 Murders, Lawyer Says

BY SCOTT CALVERT

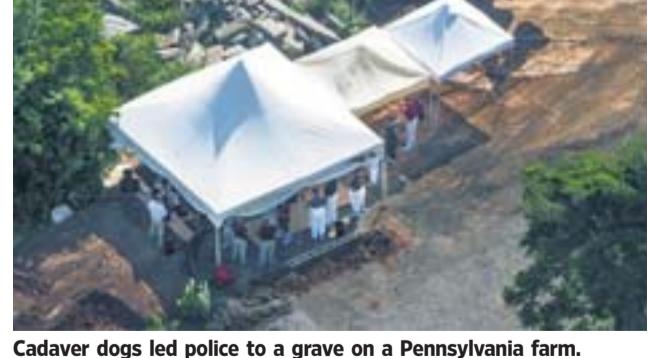
A 20-year-old man confessed to murdering four young men whose whereabouts have been the subject of an intense search on farmland north of Philadelphia since Sunday, the man's lawyer said on Thursday.

Cosmo Dinardo "confessed to his participation or commission in the murders of four young men," defense attorney Paul Lang told reporters. "In exchange for that confession Mr. Dinardo was promised by the district attorney that he will spare his life by not invoking the death penalty."

The Bucks County District Attorney's Office said on Twitter Thursday evening it had "no response at this time" to Mr. Lang's statement.

Investigators announced early Thursday the discovery of a deep grave containing human remains, including the body of one of the men.

Authorities named Mr. Di-



Cadaver dogs led police to a grave on a Pennsylvania farm.

Patrick, 19, who hasn't been heard from since July 5.

Dozens of police officers have spent days scouring properties in Solebury Township. Early Sunday, authorities found Mr. Meo's 1996 Nissan Maxima on land owned by the Dinardos; inside were the car's unsigned title and Mr. Meo's insulin kit for diabetes.

"We're going to bring each and every one of these lost boys home to their families one way or another," Mr. Weintraub said.

On Tuesday evening, Cosmo Dinardo was released from the county jail where he had been detained on an unrelated gun charge, after his father posted 10% of \$1 million bail.

On Wednesday the younger Mr. Dinardo was arraigned on the charges related to Mr. Meo's car. In arguing for higher bail, prosecutors said they noted Mr. Dinardo has a history of severe mental illness and had been committed to a mental-health facility after firing a shotgun.

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## U.S. NEWS

# Defense-Policy Bill Faces Hurdles

Lawmakers blocked a measure that would have barred money for gender surgery

BY SHARON NUNN

An annual defense-policy bill still faced difficulties as it moved toward a likely House vote this week after lawmakers on Thursday defeated a controversial amendment to bar defense funds from being used on medical care during gender transition.

House leaders are hoping for a vote on Friday, and Senate Majority Leader Mitch McConnell (R., Ky.) said he would like to complete Senate work on the measure before the congressional August recess.

The bill has drawn a series of objections from the White House, which among other things wants more leeway to determine whether to close military bases as a way of controlling spending.

House members voted 214-209 against an amendment to bar defense dollars from being spent on gender-transition surgeries and related hormone treatments, a measure introduced by Rep. Vicky Hartzler (R., Mo.). Twenty-four House Republicans joined 190 Democrats in voting against the amendment, a measure that was described as discriminatory by Rep. Nancy Pelosi of California, the chamber's Democratic leader.

Ms. Hartzler's amendment had been contested by House Democrats and LGBT advocacy groups.

"I'm deeply concerned because of the harmful impact



Twenty-four House Republicans joined 190 Democrats in voting against the amendment involving transgender surgeries.

[the amendment] will have not only on service members, but family members who receive health-care military benefits from the Department of Defense," said Ashley Broadway-Mack, president of the American Military Partner Association.

President Donald Trump's GOP administration has changed other policies regarding transgender issues that were instituted under the administration of former President Barack

Obama, a Democrat.

In February, the Education Department and Justice Department rescinded protections for transgender students in public schools that allowed them to use restrooms that correspond with their own gender identities, arguing that states and local school districts should establish those policies.

In June, the administration delayed by six months a decision to open military enlistment to transgender people. That de-

lay let stand a policy change by Mr. Obama's administration that allows transgender service members to remain in the military.

The White House has outlined more than two dozen other objections to the defense authorization measure, with the bill's price tag chief among them. It is \$18 billion above what Mr. Trump outlined for military spending in his 2018 budget proposal.

Other White House concerns

include the removal of a provision allowing the Defense Department to close bases through a formal process if deemed necessary.

Though Mr. McConnell wants to see the defense-authorization measure passed by the end of August, Senators also face an increasingly contentious healthcare debate and backlog of nominations to key administration positions.

—Kristina Peterson

contributed to this article.

# Activist Who Sought Clinton Emails Killed Self

BY SHANE HARRIS  
AND REID J. EPSTEIN

WASHINGTON—Peter W. Smith, a Republican political activist and financier from Chicago who mounted an effort to obtain former Secretary of State Hillary Clinton's emails from Russian hackers, died on May 14 after asphyxiating himself in a hotel room in Rochester, Minn., according to local authorities. He was 81 years old.

Mr. Smith's body was found in the Aspen Suites hotel, lo-

cated across the street from the Mayo Clinic, according to a medical examiner's report. An associate of Mr. Smith said that he had recently visited the clinic. A representative for the facility wouldn't confirm if Mr. Smith was a patient.

It wasn't clear who found Mr. Smith's body.

Mr. Smith died about 10 days after an interview with The Wall Street Journal in which he recounted his attempts to acquire what he believed were thousands of emails stolen from Mrs. Clin-

ton's private email server. He implied that Lt. Gen. Michael Flynn, then serving as the senior national security adviser to presidential candidate Donald Trump, was aware of his efforts.

Mr. Smith's attempts to obtain what he believed would be politically damaging emails marked the first potential evidence of coordination between members of the Trump campaign and Russian hackers, a central issue in probes by Congress and the Federal Bureau of Investigation into Russian

meddling in the 2016 election.

When the Journal reported on Mr. Smith's efforts last month, it wasn't clear how he died. His obituary listed no cause of death, officials in the town where he lived didn't release information, and messages left at Mr. Smith's home went unanswered.

The Chicago Tribune, which first reported Mr. Smith's cause of death on Thursday, said a pile of documents and a statement that police called a suicide note were found with his body. The note said that

Mr. Smith had been ill and that he held a life-insurance policy that was due to expire, the Tribune reported.

In emails and documents meant to recruit others to his efforts to find Mrs. Clinton's deleted emails, Mr. Smith and an associate identified Mr. Flynn's company, Flynn Intel Group, and Michael G. Flynn, the general's son, as allies in the operation.

Neither Mr. Flynn nor his son responded to requests for comment at the time of the original article.

## Hospitals May Gain Under Revised Bill

Among the provisions in the revised version of the Senate Republicans' health bill is a provision that would restore certain federal funding to some hospitals—but with a catch.

Under the Affordable Care Act, hospitals were set to lose out on extra funding known as Medicaid "disproportionate share" payments meant to help cover uninsured patients.

The Senate GOP's early health bill restored the funds,

but exclusively to hospitals in states that didn't expand Medicaid. The provision sparked tension across the hospital industry, which has lobbied aggressively for the funds should the Republican efforts to undo the ACA leave them with more uninsured patients.

Under the revised bill, hospitals in states that expanded Medicaid could also get the extra funds, but they won't automatically see them.

States must first roll back Medicaid expansion for hospitals to be eligible. States have until Dec. 31, 2020, to roll back expansion under the revised

legislation.

"It creates a Sophie's choice," for state officials who will be forced to choose between hospital finances and Medicaid expansion, said Kenneth Raske, chief executive officer of the Greater New York Hospital Association.

The ACA had originally slashed disproportionate share money to hospitals because the law expanded insurance coverage, reducing the need to subsidize care for the uninsured. Cuts scheduled to take effect in 2018 would squeeze funding by \$43 billion through 2025.

—Melanie Evans

surers that offer policies that follow ACA requirements to also sell less-comprehensive policies that don't comply.

Mr. Cruz said this would cut premiums for many Americans, but centrists worry it would drive up costs for people with pre-existing medical conditions. Mr. Cruz, who had opposed the initial bill, applauded the inclusion of his measure.

"It's very significant progress," Mr. Cruz said.

But not all conservatives were sold. Sen. Mike Lee (R., Utah) said Thursday afternoon he was undecided on the bill. He is concerned that modifications made by GOP leaders to Mr. Cruz's amendment could affect premiums.

Democrats derided the new bill as essentially the same as the old one, which polls suggested was deeply unpopular. And they said the Cruz measure would let insurers sell barebones policies that do little to protect consumers.

"That is like allowing car companies to sell cars without air bags, bumpers, or emergency brakes," said Sen. Chris Coons (D., Del.). "It might make the cars cheaper, but the cars are too dangerous to drive."

Republicans, including President Donald Trump, acknowl-

edged it was hard to bridge the gap between conservatives and centrists.

"I'd say the only thing more difficult than peace between Israel and the Palestinians is health care," Mr. Trump told reporters as he traveled to Paris.

GOP leaders took fewer steps to address some members' concerns about the Medicaid program. The Senate bill would phase out enhanced federal money that the ACA sent to states that expanded Medicaid, and would also make steep cuts

to the underlying program.

Yet other Republicans said the bill's Medicaid cuts were crucial to bringing costs under control, and they took issue with some GOP governors who oppose the cuts.

"If we can't even deal with our governors back home, how will we ever deal with Medicare and Social Security?" said Sen. Bob Corker (R., Tenn.) "Our governors, if they were in our position, would be doing exactly the same thing we're doing."

The revised bill did make

some changes to court centrists, establishing a fund to give federal money to insurers so they could offset the cost of covering people with expensive medical conditions who buy ACA-compliant plans.

The legislation also would give significant aid to Alaska, which has especially expensive medical costs. The state's Republican senator, Sen. Lisa Murkowski, has also been considered an uncertain vote due to concerns about the impact of Medicaid cuts on Alaska.

Republican leaders now have just a few days to unify their party behind the new bill. A key moment will come early next week, when the Congressional Budget Office releases its estimate of the bill's impact on cost and coverage.

Many senators said they would wait for CBO's assessment before deciding how to vote. Sen. John Hoeven (R., N.D.), who opposed the initial bill, said he is reserving judgment until he sees a CBO score, but that he was encouraged by some of the changes.

The Senate procedural vote could come shortly after the CBO report, probably by the middle of next week. If the bill survives, a debate on the underlying measure would follow, including the offering of numerous amendments.

In a surprise twist Thursday, Sens. Lindsey Graham (R., S.C.) and Cassidy (R., La.) pitched their own health plan, describing it as a fallback if Mr. McConnell is unable to secure enough votes for his bill.

The Graham-Cassidy plan would retain most of the ACA's taxes and send that money to the states. The senators hope that might appeal to centrist Republicans and possibly some Democrats, since states could use the money any way they like, including re-creating state-level versions of the ACA.

—Michelle Hackman

and Louise Radnofsky

contributed to this article.

# At NIH, Morale Falls After '16 Report

BY THOMAS M. BURTON

More than a year after the National Institutes of Health published a study that criticized its own hospital, the renowned research facility continues to suffer the fallout as the patient census lags behind and morale languishes.

A draft report prepared for the NIH hospital board concluded that many NIH staff continue to believe that the year-ago outside panel inquiry, commissioned by NIH Director Francis S. Collins, wounded the institution.

The current report, prepared by an NIH team led by former U.S. Health and Human Services Assistant Secretary Stewart Simonson, is based on 70 interviews of more than 600 NIH participants between July 2016 and May. It concluded that the inquiry by the outside group, called the Red Team, "had a profound, negative impact on staff morale" at the Bethesda, Md., hospital, which is called the NIH Clinical Center.

Recent internal reports of the patient census at the hospital, reviewed by The Wall Street Journal, also support the conclusion that the report damaged the hospital's reputation and still affects its operations and research capacity.

The outpatient census, a measure of the number of research patients who come into the hospital for chemotherapy and other treatment, has fallen to 7,836 patient visits a month in June, compared with a high of 9,601 in March 2016. NIH doctors said the lower census results in less research overall and potentially fewer groundbreaking scientific findings.

Meanwhile, the inpatient census of monthly patient days—the measure of research participants hospitalized—has rebounded some in the past six months, but at 3,528 patient days is down far from 4,256 last April.

The NIH said Thursday that "some of the changes—both up and down—can be attributed to the natural ebb and flow of completed and new research protocols."

April 2016 was a pivotal time. That month the Red Team commissioned by Dr. Collins published its conclusions that NIH doctors had allowed patient safety "to be subservient to research." It is this central contention that has been most disputed by NIH physicians.

This claim "evoked the strongest response" of the year-ago findings, concluded the draft Simonson report, which was prepared for the Friday meeting of the hospital board. "Many at the Clinical Center rejected the Red Team report outright because of this statement," the report reads.

The NIH hospital has long been internationally acclaimed for treating thousands of patients under research protocols designed to create treatments for rare diseases. It has pioneered a range of new medical treatments such as chemotherapy for cancer and artificial mitral heart valve surgery.

The entire episode was touched off in 2015 when fungus was found in two medicine vials at the hospital's pharmacy. The Food and Drug Administration found multiple deficiencies in the production of study drugs at the pharmacy. Dr. Collins subsequently convened the Red Team inquiry and removed the hospital's leadership.

## NIH Hospital Struggles

Outpatient visits to NIH Clinical Center

10,000 visits



Source: National Institutes of Health Clinical Center

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## U.S. NEWS

### WASHINGTON WIRE

#### SECURITY

#### Trump Modifies Plan For Border Wall

President Donald Trump, who is struggling to win congressional approval for his promised border wall with Mexico, said the project doesn't have to stretch along the entire southern border.

"It's a 2,000 mile border, but you don't need 2,000 miles of wall because you have a lot of natural barriers," he said as he traveled to Paris.

Mr. Trump, who had previously suggested he wanted a wall that would run along the entire border, said the wall could run "anywhere from 700 to 900 miles."

It wasn't clear whether that estimate included the 654 miles of border that already have some sort of fencing.

—Laura Meckler

#### CAPITOL ATTIRE

#### Amid Heat, House May Relax Dress Code

While the nation's capital withers and sweats under a July heatwave, House Speaker Paul Ryan hinted he would soon help people in the Capitol stay cool.

The Wisconsin Republican suggested Thursday he would relax the dress code in the House Speaker's Lobby, a room in the Capitol directly in front of the House chamber, in response to a social media uproar over a longstanding prohibition on sleeveless dresses and tops—and complaints from men about mandated jackets and ties.

"Decorum is important, especially for this institution, and a dress code in the chamber and the lobby makes sense," Mr. Ryan said. "We also don't need to bar otherwise accepted contemporary business attire, so look for a change on that soon."

The longstanding dress code, which isn't codified in House rules, is enforced by security guards. But those guards often don't enforce the rules on lawmakers.

—Natalie Andrews

# CBO Challenges Trump Budget

By KATE DAVIDSON

**WASHINGTON**—President Donald Trump's budget proposal would shrink federal deficits by nearly a third over the coming decade but not eliminate them as the White House says it would do, the Congressional Budget Office said Thursday, presenting a challenge to the administration's economic-policy plans.

Under the Trump budget, the federal deficit would total \$720 billion in fiscal 2027, compared with a \$16 billion surplus estimated by the White House, the CBO said in an analysis of the proposal.

The main reason for the difference: The White House projects the economy will grow much faster than the CBO.

The White House estimates economic output will expand at an average annual rate of 2.8% over the next decade—implying more federal revenue and less spending on safety-net programs like unemployment insurance—while the CBO projects 1.9% growth a year on average under the Trump budget.

Critics have called the administration's economic projections overly optimistic. The administration has said its estimates are justified by its plans for a broad rewrite of the U.S. tax code, an overhaul of financial and other regulations, infrastructure spending, tougher trade positions and other policies.

The CBO said it wasn't provided with enough information about some of the proposals to conclude they would charge up the growth rate.

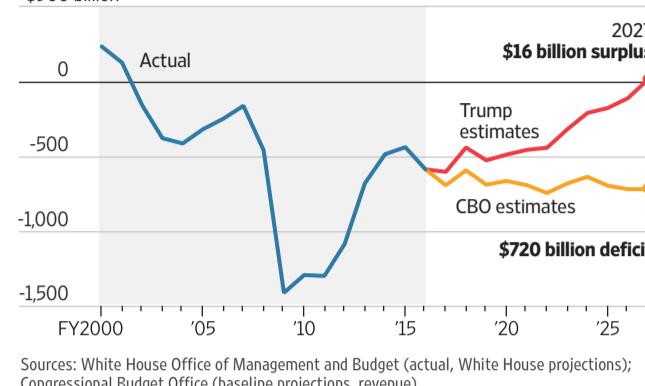
"The president's proposals would affect the economy in a variety of ways; however, because the details on many of the proposed policies are not available at this time, CBO cannot provide an analysis of all their macroeconomic effects or of the budgetary feedback that would result from those effects," the report said.

The CBO assessment shines a light on a challenge the ad-

#### Wide Gap

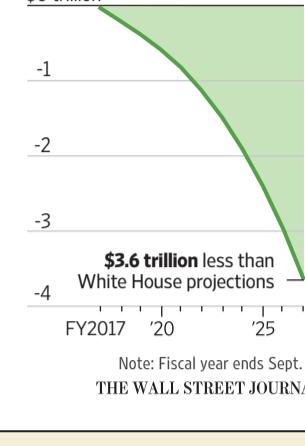
The Congressional Budget Office projects the federal deficit will reach \$720 billion in 2027 under President Trump's proposed budget, a far cry from the administration's own projections. The CBO projects weaker revenue growth than the administration.

#### Federal budget surplus/deficit



Sources: White House Office of Management and Budget (actual, White House projections); Congressional Budget Office (baseline projections, revenue)

#### Difference in CBO's revenue estimates over 10 years compared with White House projections



Note: Fiscal year ends Sept. 30

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#### June Deficit Grew As Spending Rose

**WASHINGTON**—The U.S. budget deficit grew in June from a year earlier amid higher spending and steady revenue.

Government spending exceeded revenue by \$90 billion last month, the Treasury Department said Thursday. The deficit was about \$96 billion higher than in June 2016, when the government recorded a \$6 billion surplus.

Through the first nine months of the fiscal year, which began in October, the overall budget gap was about 31% bigger compared with the same period a year earlier.

The Treasury said receipts

ministration could face later this year when it tries to advance its tax-overhaul proposals. Administration officials have said the proposals will partially pay for themselves because they will spur faster economic growth. If congressional scorekeepers disagree, it could become harder to pass the overhaul.

Democrats pointed to the

totaled \$339 billion in June, and were up 2% in the first nine months of the fiscal year, which started Oct. 1. That tracks with a report last week from the Congressional Budget Office, which also said receipts for the fiscal year so far were up 2%, but still lower than it projected at the beginning of 2017.

Trump administration officials and analysts have flagged lackluster receipts as potentially compressing the period of time the government has before it runs out of cash. The Treasury has been employing cash-conservation measures since mid-March, when government debt hit the federal borrowing limit.

Analysts estimate those measures will last until early to mid-October. Administration officials have urged lawmakers to

CBO analysis as evidence that Mr. Trump's first fiscal blueprint doesn't provide a realistic path for eliminating deficits. The Trump budget is "built on fantasy projections," said Rep. John Yarmuth (D., Ky.), the top Democrat on the House Budget Committee.

A spokeswoman for the Office of Management and Budget, which is part of the presi-

dent's executive office, said the administration is "thrilled" with the analysis. "CBO agrees that this is the largest deficit reduction package in American history," OMB spokeswoman Meghan Burris said.

The Trump White House in the past has been critical of the CBO, arguing its forecasts are often inaccurate and possibly politically motivated. In an

interview in late May, OMB Director Mick Mulvaney suggested the day of the CBO "has probably come and gone."

In its report, the CBO said the Trump budget would reduce federal deficits to a range of 2.6% to 3.3% of gross domestic product over the next 10 years, down from the CBO's projection that the deficit will total 3.6% of GDP this year.

Federal debt held by the public would total 80% of GDP by 2027, 11 percentage points below the CBO's projection under current policy.

The bulk of the savings would come from significant cuts to mandatory federal spending, including Medicaid, food stamps and Social Security disability insurance—programs that some Republicans have been unwilling to trim given their popularity among constituents.

The CBO and Congress's Joint Committee on Taxation,

*'The president's proposals would affect the economy in a variety of ways.'*

which helped evaluate the proposal, relied on administration cost-saving estimates for some policy proposals that it deemed "achievable targets." In some cases when proposals lacked specificity, including a plan to save \$139 billion by reducing improper government payments and \$35 billion by easing financial regulations, the CBO and JCT didn't count the potential savings in their estimates.

The CBO also said the White House proposal for tax overhaul "lacked the specificity necessary to evaluate any [economic] effects from such a change." For that reason, the report used the administration's estimate that the proposal would have no net budgetary effect.

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# WORLD NEWS

## Trump and Macron Stress the Positive

In Paris, French and U.S. leaders signal comity despite discord on trade and climate

By REBECCA BALLHAUS AND WILLIAM HOROBIN

PARIS—President Donald Trump and his French counterpart, Emmanuel Macron, lavished praise on one another as they touted the growing bond between their two nations, in a pointed effort to move past the deep divisions on display at last week's Group of 20 summit.

Speaking at a joint news conference at the Élysée Palace on Thursday, Mr. Trump said the two allies are "together, perhaps more so than ever" and called Mr. Macron a "great leader" and a "tough president." Mr. Macron said the two leaders would "dine as friends" at the lavish restaurant Le Jules Verne on the second floor of the Eiffel Tower later in the evening.

The two sought to use Mr. Trump's whirlwind trip in honor of Bastille Day to bolster what has been a short but sometimes rocky relationship. Doing so serves both leaders, as Mr. Macron seeks to cultivate a powerful ally and Mr. Trump seeks a bridge out of his growing isolation abroad.

In perhaps the clearest sign of newfound bonhomie between the two leaders, Mr. Trump dangled the prospect of rejoining the Paris Climate Accord in the future after deciding earlier this year to withdraw the U.S. from the international pact.

"Something could happen with respect to the Paris accord, but we'll see what happens," Mr. Trump said. "The U.S. remains committed to remaining a leader in environmental protection."

French officials interpreted the proclamation as more of an olive branch than an actual policy announcement. "It's not completely new, but it's a bit more balanced than what he said June 1," a French official said, referring to the date Mr.



Emmanuel Macron, left, with Donald Trump on the steps of the Élysée Palace. Mr. Trump called Mr. Macron a 'great leader.'

tured by a video on the French presidential Facebook account.

Mr. Trump said early last month he would begin negotiations to either re-enter the Paris agreement under new terms or craft a new deal that he judges fair to the U.S. and its workers—an assertion viewed skeptically by the nearly 200 countries that signed the pact, many of which have said they aren't interested in renegotiating.

On Thursday, Mr. Trump called for "reciprocal and fair" trade deals but didn't voice his typically harsh rhetoric on countries with which the U.S. has trade deficits. "Both President Macron and I understand the responsibility to prioritize the interests of our country and at the same time be respectful of the world in which we live," he said.

At last week's G-20 summit, Mr. Macron took swipes at Mr. Trump and others for equating fair trade with avoiding bilateral deficits.

Mr. Trump's effusive praise of France marked a reversal from his previous comments. In the fall of 2016, ahead of his election victory, Mr. Trump called the country "a disaster"; on Thursday, he said it was "beautiful."

When Mr. Trump last month announced the U.S. withdrawal from the climate accord, he said he had been elected to "represent the citizens of Pittsburgh, not Paris." Mr. Macron retorted provocatively, parodying Mr. Trump's election campaign slogan to "Make America Great Again" with a call to "Make the Planet Great Again." He also set up a website inviting investors and climate academics to emigrate to France.

Mr. Trump touched down in Paris early Thursday morning for a whirlwind trip to celebrate Bastille Day and commemorate the 100th anniversary of the U.S. entry into World War I. On Friday, Mr. Trump and first lady Melania Trump will be the guests of honor at a military parade down the Champs-Élysées before returning to Washington in the early afternoon.

### French President Assumes Royal Bearing in Office

PARIS—The air of regal authority surrounding the young presidency of Emmanuel Macron was on full display as he played host to President Donald Trump.

Flanked by Mr. Trump, the 39-year-old French president strode through the courtyard of the Hôtel des Invalides inspecting a line of soldiers before descending beneath the golden

dome of the grandiose former military hospital to pay homage at Napoleon Bonaparte's tomb.

The visit's martial overtones were no accident for a president who has called for more imperious leadership, inviting comparisons to Louis XIV, the "Sun King" who held court at the Palace of Versailles, and even to Jupiter, the king of the gods in Roman mythology.

Mr. Macron's penchant for pomp and monarchical authority has surprised many supporters who hailed him upon his election in May as a champion of

liberal democracy for defeating Marine Le Pen of the far-right National Front.

Since then, however, the president has eschewed the consensus-seeking approach of his former boss and immediate predecessor, François Hollande, who memorably described himself as a "normal" president.

Normalcy isn't Mr. Macron's style. "He has a lot of authority. He's perhaps authoritarian," said Jean-Hervé Lorenzi, an adviser to previous governments who worked with Mr. Macron on the 2012 Hollande campaign.

Mr. Macron has adopted what he once described as a "Jupiterian" posture: staying above the fray and unleashing an occasional thunderbolt to impose order.

Mr. Macron told the business magazine Challenges in October that the presidency should embody "a new form of democratic authority."

The regal bearing isn't merely a question of style. In tackling the third rail of French politics, labor reform, Mr. Macron intends to make rare use of special presidential powers.

—Stacy Meichtry

Trump announced the withdrawal.

The two touched on other issues that have divided them, including trade, but emphasized their joint efforts on counterterrorism and in Syria.

The two nations have encountered no trouble finding common ground on combatting terrorism, Mr. Macron said, adding he hoped the countries could in coming months increase their cooperation to fight a "global threat."

The two leaders appeared, for now, to have made an effort to move past disagreements, as Mr. Macron said world leaders must do. "Does that mean we

have to stop talking about the other subjects? No, resolutely and in no case," he said.

At one point, Mr. Trump clapped Mr. Macron on the back as he described an "unbreakable" friendship between the two nations—"and ourselves." Later, the French leader threw a wink at his U.S. coun-

terpart as Mr. Trump praised him for his plans to shrink the French bureaucracy.

Mr. Trump's diplomacy efforts extended to the French first lady, Brigitte Macron, too. "You're in such good shape," he told her after their joint tour of the museum at the Hôtel des Invalides, in comments cap-

ture of the French entry into World War I. On Friday, Mr. Trump and first lady Melania Trump will be the guests of honor at a military parade down the Champs-Élysées before returning to Washington in the early afternoon.

## France Presses Germany on Eurozone Investment



MATTHIEU ALEXANDRE/PRESS POOL

Angela Merkel, back to camera, and Emmanuel Macron, center, in Paris with cabinet members.

BY WILLIAM HOROBIN

PARIS—French President Emmanuel Macron pushed Germany to step up commitments to the eurozone with more investment as he met with Chancellor Angela Merkel, saying Berlin has benefited from a dysfunctional currency bloc and the weakness of other economies.

The French leader said Thursday that the eurozone has deepened disparities, loading indebted nations with yet more debt and making competitive countries even more competitive.

France's public debt stands at more than 96% of economic output, compared with 68.3% in Germany at the end of 2016. Unemployment is above 9% in France but closer to 4% in Germany.

Mr. Macron is calling for a

shared eurozone budget that could be used to for a variety of reasons, including helping currency members in economic distress, believing that would help address flaws revealed by the 2010 debt crisis.

Mr. Macron's leaning on Germany is his latest salvo in an attempt to strike a new deal for the eurozone.

As part of France's side of the bargain, the 39-year-old has set in motion a fast-track parliamentary procedure to loosen rigid labor laws and is taking austerity measures to bring the country's deficit within European rules. Berlin has long called for such policies, but successive French governments have resisted when confronted with street protests and political opposition.

Ms. Merkel has signaled Germany is open to Mr. Macron's ideas on changing how the eu-

rozone works. But she has also expressed caution about Germany underwriting the liabilities of countries she says should accept their responsibilities on a national level.

Ms. Merkel instead puts greater emphasis on countries harmonizing their tax regimes and labor laws.

"A standstill in Europe is close to being a setback," Ms. Merkel said after meeting Mr. Macron. "In this respect, we need a dynamic, and part of this is economic convergence of eurozone member states as much as instruments that help make us independent."

Mr. Macron stepped back from criticism of Germany's competitive advantage in the eurozone. Instead, he stressed that Germany implemented economic overhauls 15 years ago from which the country is now benefiting.

### U.S. Visit Offers a Chance For the ECB to Signal Shift

By TOM FAIRLESS

FRANKFURT — European Central Bank President Mario Draghi is scheduled to address the Federal Reserve's Jackson Hole conference in August for the first time in three years, according to a person familiar with the matter, in a speech expected to offer a further sign of the ECB's growing confidence in the eurozone economy and its reduced dependence on monetary stimulus.

The ECB's €60 billion-a-month (\$68.5 billion) bond-buying program is currently due to run through December. ECB officials say the bank is likely to signal at its Sept. 7 policy meeting that the program, known as quantitative easing, will be gradually wound down next year.

Mr. Draghi's speech in Wyoming will take place less than two weeks before the ECB's September policy meeting, and will provide an opportunity to

### Bill Would End EU Law Primacy in U.K.

BY JASON DOUGLAS

LONDON—The U.K. government published its first draft legislation on Brexit since a June election cost Prime Minister Theresa May her parliamentary majority, marking the first step in what looks set to be a bitterly fought domestic battle at the same time Britain negotiates its departure with Brussels.

The government's bill is designed to revoke a 1972 law that made European Union law applicable in the U.K., while simultaneously pasting thousands of EU laws and regulations into domestic statute.

The proposals will end the supremacy of EU law in British courts after Brexit—a key goal of leaving—and allow Parliament to keep, alter or ditch the 19,000 EU laws currently enforceable in the U.K.

But Mrs. May's chances of steering such a complex process through Parliament without concessions to her opponents have been severely

weakened by her disappointing showing in last month's national election.

The loss of her majority means she is vulnerable to rebellion from both pro- and anti-Brexit lawmakers within her own party. Meanwhile, opposition leaders on Thursday began setting out the price of their support, calling for assurances on issues such as workers' rights and environmental protection.

Lawyers say failing to pass such legislation before Britain leaves the EU, expected in March 2019, risks exposing businesses and households to legal chaos at the moment of departure.

"If you don't have something like this, we will end up with a massive hole in our domestic legal system," said Kieran Laird, head of constitutional affairs at the Brexit unit of law firm Gowling WLG.

Brexit Secretary David Davis described it as "one of the most significant pieces of legislation that has ever passed through Parliament" and a milestone on the road to Brexit.

makes an existing law unworkable, for example if it refers to an EU agency that no longer has authority in the U.K.

Ministers said the use of these powers will be subject to parliamentary scrutiny, but Labour Brexit spokesman Keir Starmer described them as "undemocratic, unacceptable and unacceptable." The Scottish National Party described the bill as "a power grab."

The government also looks set for a fight over a decision not to incorporate the EU's Charter of Fundamental Rights, which lays down legal, social and economic rights, into U.K. law along with other EU statutes, an omission opposed by both Labour and the smaller, pro-EU Liberal Democrats. The government said existing British law protects human rights.

Tim Farron, leader of the pro-EU Liberal Democrats, said the differences between the parties mean Mrs. May will face a "parliamentary version of guerrilla warfare" when lawmakers debate the bill.



Theresa May arrived at 10 Downing Street on Thursday.

The bill isn't due to be debated in Parliament until the fall but opposition parties were quick to signal they will oppose it becoming law without major changes.

One of their shared concerns is that the bill proposes giving government ministers so-called correcting power, or the ability to alter the law where withdrawal from the EU

## WORLD NEWS

# Activist Won Peace Prize From Prison

By JOSH CHIN

**OBITUARY**  
**LIU XIAOBO**  
1955-2017

BEIJING—Nobel Peace laureate Liu Xiaobo, who embodied the hopes of China's 1989 Tiananmen Square democracy movement long after the protests were crushed, died in detention on Thursday after a battle with liver cancer, according to a government statement. He was 61 years old.

Mr. Liu, who was serving an 11-year prison sentence for inciting subversion, had been granted medical parole in early June and was receiving treatment under police guard at a hospital in northeastern China.

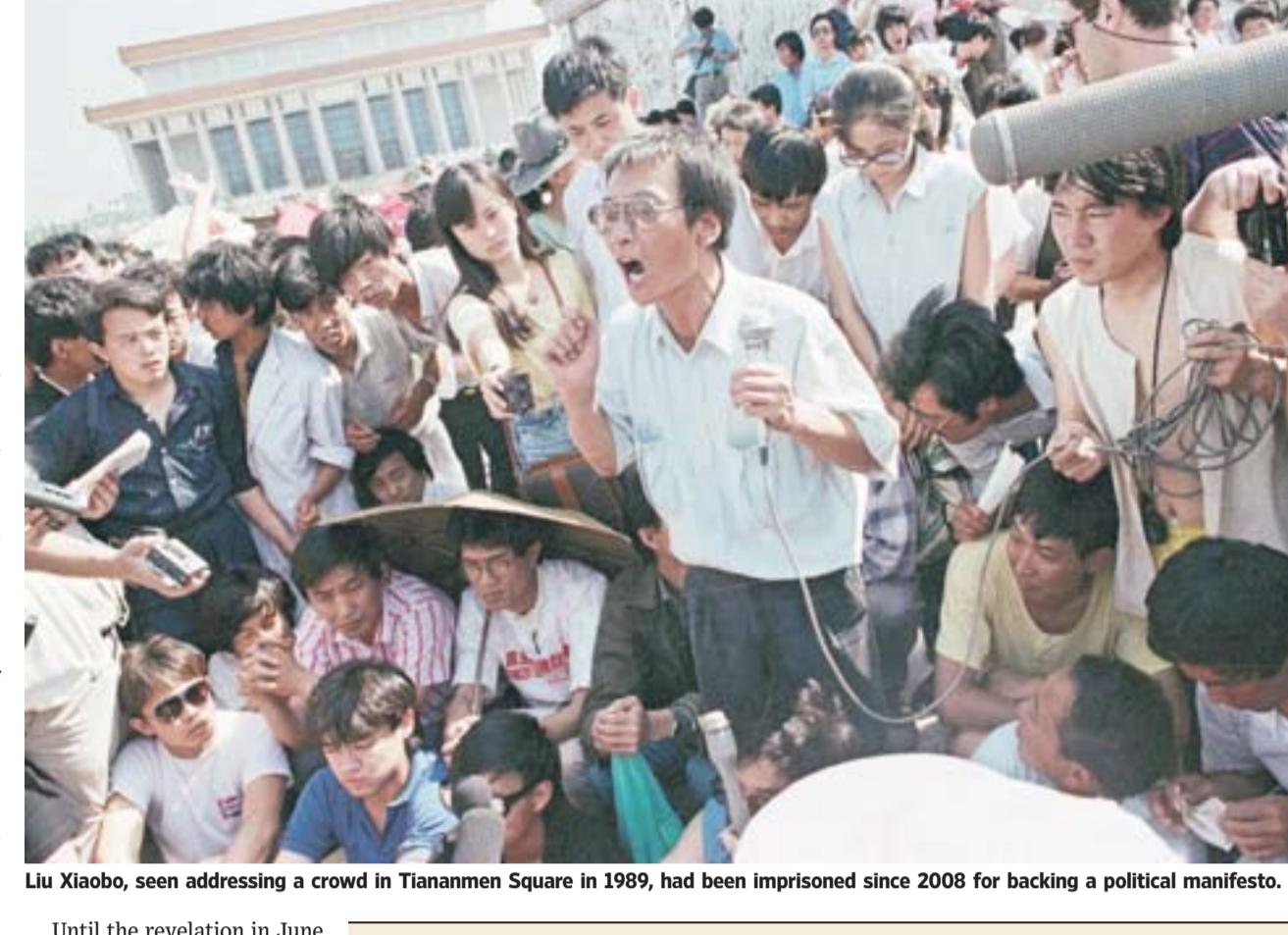
Mr. Liu had been in custody since late 2008 for his role in drafting and promoting a manifesto calling for peaceful political change. Censors have scrubbed any mention of him from China's media and internet since, and while his 2010 Nobel brought Mr. Liu international acclaim, he was virtually unknown in his own country. China's government described Mr. Liu as a criminal, and said international calls for his release amounted to interference in the country's judicial affairs.

A brash writer and literary critic, Mr. Liu was an influential figure at Tiananmen Square. He wrote prolifically about the value of individual freedom and nonviolent resistance, despite being banned from publishing inside China. He was an effective organizer and a serial hatcher of petitions and open letters. He spent most of his last 28 years in prison or another form of detention.

Over time, many in Chinese pro-democracy circles came to see Mr. Liu as a potentially transformative leader, likening him to South Africa's Nelson Mandela and Czech dissident-turned-president Václav Havel. Mr. Havel supported Mr. Liu's Nobel Prize nomination.

At the award ceremony in Oslo, Mr. Liu was represented by an empty chair. Norwegian actress Liv Ullmann read the final statement he gave in court, in which he proclaimed, "I have no enemies and no hatred."

The award infuriated Chinese authorities. Although the Norwegian Nobel Committee is independent, Beijing blasted Norway's government and curtailed imports of Norwegian salmon. It also placed Mr. Liu's wife, the poet Liu Xia, under de facto house arrest.



Liu Xiaobo, seen addressing a crowd in Tiananmen Square in 1989, had been imprisoned since 2008 for backing a political manifesto.

Until the revelation in June that Mr. Liu was diagnosed with late-stage cancer, there had been little news of the dissident. He was the first Nobel Peace laureate to die in custody since Carl von Ossietzky, a journalist and critic of Adolf Hitler, succumbed to tuberculosis in a prison hospital in Nazi Germany in 1938.

Mr. Liu's death was announced in a statement posted to the website of the judicial bureau in the city of Shenyang, where he was being treated. It said he died of multiple organ failure.

### Tributes Pour In For Democracy Icon

BEIJING—Tributes to Chinese Nobel Peace laureate and democracy icon Liu Xiaobo poured out across the globe following his death, and calls that had focused on letting him seek treatment outside China shifted to his widow's right to leave.

Tributes came from foreign governments, friends and admirers. A White House statement

praised Mr. Liu as a "poet, scholar and courageous advocate" who "dedicated his life to the pursuit of democracy and liberty."

Comments that were posted onto Chinese social-media sites were often quickly censored. Still the discussion of Mr. Liu, even obliquely, stood in contrast to the silence that surrounded him in the last years of his life, as he served an 11-year prison sentence for inciting subversion.

"With his passing, a monument of the Chinese people's relentless struggle for freedom

has been erected," said a statement announcing an alliance dedicated to preserving Mr. Liu's memory signed by several dozen supporters.

Senior European Union officials on Thursday called on Beijing to permit Mr. Liu's family to bury him in a manner of their own choosing and to allow Liu Xia, his wife, and Liu Hui, his brother-in-law, the freedom to leave China. U.S. Secretary of State Rex Tillerson also called on Beijing to release Ms. Liu.

—Josh Chin

## Iran's Stature Grows as Its Adversaries Quarrel

MIDDLE EAST CROSSROADS

By Yaroslav Trofimov

It has been more than five months since President Donald Trump declared that he was putting Iran "on notice."

For the Iranian regime, that is turning out to be a rather comfortable place.

While the Trump administration is still formulating its Iran and Syria policies, a series of international events have combined to bolster Iran's influence, at least for now.

Top among them is the crisis over Qatar, which erupted days after Mr. Trump's high-profile trip to a summit in Riyadh in May.

Saudi Arabia, the United Arab Emirates, Bahrain and Egypt have shut their embassies in Qatar, closed borders and banned travel and trade with the emirate.

The conflict has already turned what used to be a two-way confrontation between the Saudi-led Sunni axis and the Iran-led Shiite camp into a three-way regional fracture that offers

"The Saudi effort to build a consensus against Iran in the region has hit the rocks with Qatar. This split is something that Iran is enjoying," said Hassan Ahmadian, a senior fellow at the Center for Strategic Research think tank in Tehran.

In fact, the measures the Saudis and their allies have adopted against Qatar are sometimes harsher than their policies toward Iran.

The U.A.E. and Iran, for example, maintain diplomatic and trade relations, and extensive air links.

With regional heavyweight Turkey taking Qatar's side, the collapse of the Sunni alliance isn't the only good news for Tehran.

The growing alienation between the Trump administration and European nations, particularly Germany and France, is also making any new concerted international effort to pressure Iran increasingly unlikely.

Some Iranian leaders appreciate this trans-Atlantic discord "as giving Iran some short-term advantages and breathing space," said Brian Katulis, a senior fellow at the Center for American Progress, think tank close to the Democrats, who recently participated in informal discussions with Iranian representatives. "America looks distracted and unfocused—and besides the rhetoric of putting Iran 'on notice' and a few tactical policy shifts, Iran right now seems to see



A banner of Iranian President Hassan Rouhani at an election campaign rally in Tehran in May.

the gap between Trump's bluster and actions."

This month, France's Total SA said it would push ahead with a \$1 billion investment into Iran's South Pars gas field, the first major injection of Western money since international sanctions against Iran were lifted as part of a nuclear agreement last year. Iran and Qatar share ownership of this gas field, the world's largest.

Iran's position has strengthened, too, in the Middle East's actual battlefields. In Iraq and Syria, advances by Iran's Shiite proxies against Islamic State and moderate Sunni rebels are making possible the establishment of an overland

"resistance highway" that would link, through friendly territory, Tehran to Damascus and Beirut for the first time since the Syrian war began in 2011—a major geopolitical gain.

The war in Yemen remains at a stalemate, at great cost to Saudi Arabia and the U.A.E. The Iranian-backed Hezbollah Shiite militia keeps consolidating its influence over the Lebanese state. Even the low-grade Shiite insurgency in parts of eastern Saudi Arabia has flared up of late.

The Saudi-led campaign against Qatar, meanwhile, has allowed Tehran to improve its relationship with the embattled emirate—and with Qatar's main ally, Tur-

key.

While Iran and the Qatar-Turkey camp agree on some key regional issues, such as support for the Palestinian Islamist movement Hamas, their rapprochement can go only so far, of course.

Turkey and Qatar remain military allies of the U.S., and Turkey in particular views itself as Iran's geopolitical rival and equal.

The Sunni Islamist ideology of the Muslim Brotherhood, a Pan-Islamic group that is backed by Turkey and Qatar alike, is also fundamentally at odds with Iran's Shiite theocratic doctrine.

This means that Iran's overriding interest is for both sides of the Qatar crisis to get bruised by the dispute.

## Islamic State Turned Desperate in Mosul Fight, Iraqis Say

By ASA FITCH  
AND ALI A. NABHAN

MOSUL, Iraq—In their final days in Mosul, Islamic State militants dispatched dozens of suicide bombers—including women with babies in their arms—and searched homes for young boys they could force into battle, said Iraqi commanders who led the fight and residents who survived.

Almost all of the terror group's remaining fighters in Mosul's Old City wore suicide vests during gunbattles, and the extremists also strapped bombs to disabled civilians, according to Iraqi commanders who described the fierce resistance Islamic State put up as the last stage of the battle unfolded over the past week.

Civilians who fled late in the battle said Islamic State fighters searched homes periodically. Hassan Yunis Khidhir,

a bakery worker who fled his neighborhood last week, said he had his three sons, aged 14, 17 and 20, wear full niqabs, the black face coverings worn by conservative Muslim women, when Islamic State came.

"When we finally made it out to the security forces, we were so happy that we never expected to make it out alive," Mr. Khidhir said.

lieved to be holed up.

But the fighting seemed to have died down to a large extent on Thursday.

Iraqi counterterrorism forces cleared the last buildings in their area of operations on Wednesday afternoon, commanders said, though the forces brought a gray-bearded man wrapped in a blanket on the hood of a Humvee to their headquarters west of the Old City on Thursday—a newly captured Islamic State suspect, according to an Iraqi soldier.

The Iraqi army was also still battling groups of three or four Islamic State fighters in the Old City on Thursday, according to a commander with those forces who asked not to be identified.

Iraqi forces recaptured eastern Mosul in January, and had cornered Islamic State fighters into a shrinking portion of the Old City in the west.

Surrounded, the militants

recalled fighters from other areas of the Old City, said Lt. Col. Salam al-Obaidi, a top field commander in Iraq's counterterrorism forces.

The final push against the militants began on Saturday, at which point Iraqi forces had Islamic State fighters pinned in a long strip of territory in the Old City, according to commanders.

As the U.S.-trained counterterrorism forces tried to push from south to north, Islamic State fighters turned to desperate tactics, commanders said.

The militants wore suicide vests with the aim of detonating themselves if they encountered Iraqi forces in close combat, according to a high-ranking officer who asked not to be identified.

Women, some carrying babies, also wore suicide vests and blew themselves up when they reached Iraqi forces, said Col. Obaidi.

## Tillerson Urges Arab Nations To Talk

BY FELICIA SCHWARTZ

WASHINGTON—Secretary of State Rex Tillerson urged Qatar and four other Arab nations to meet directly to end a feud between the crucial U.S. allies now in its second month.

The chief American diplomat's shuttle diplomacy over the past several days didn't break a stalemate between the sides on Thursday. And Arab officials said it was unlikely all of the parties would meet together soon. But Mr. Tillerson said he saw more willingness between the Middle Eastern nations to communicate.

"Right now the parties are not even talking to one another at any level," he said on a plane from Qatar to Washington. "We'd love to get them to the table, face to face, to begin a discussion around addressing these issues."

Saudi Arabia, the United Arab Emirates, Bahrain and Egypt cut diplomatic ties and imposed a transport ban against the tiny Gulf nation on June 5 in response to what those countries described as concerns about support for terrorist groups and meddling in their domestic affairs.

The U.S. has taken on a diplomatic role in the dispute because the five countries are vital allies to Washington. Some are major suppliers of oil and cooperate on regional security and the fight against Islamic State militants. Qatar is home to the U.S.'s largest Middle East military base, a hub for aircraft involved in the air campaigns against the militants in Iraq and Syria. Bahrain is home to the Navy's Fifth Fleet.

"We need this part of the world to be stable and this particular conflict between these parties is obviously not helpful," Mr. Tillerson said.

He said the U.S. backs Kuwait as the main mediator, but the U.S. would suggest ideas for progress. Mr. Tillerson this week circulated documents among the feuding nations he said that laid out "some ways that we might move this forward."

After cutting ties, the four-nation Arab bloc later issued a list of 13 demands for Qatar to meet, including closing state broadcaster Al Jazeera, curbing ties with Iran and ending Turkey's military presence on its soil. Qatar has rejected those demands.



A bullet pulled from an injured soldier at a trauma site in Mosul.

Iraqi Prime Minister Haider al-Abadi declared victory over Islamic State in Mosul on Monday after nearly nine months of fighting to recapture Iraq's second-largest city.

Some fighting continued in subsequent days as Iraqi forces coordinated airstrikes with a U.S.-led military coalition on buildings in the Old City's narrow streets where Islamic State fighters were be-

lieved to be holed up. But the fighting seemed to have died down to a large extent on Thursday.

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Surrounded, the militants

## WORLD NEWS

# Brazil's Defiant da Silva Vows Comeback

Ex-president maintains his innocence after corruption conviction, looks to win next vote

BY SAMANTHA PEARSON  
AND JEFFREY T. LEWIS

SÃO PAULO—Former President Luiz Inácio Lula da Silva, Brazil's most popular politician, vowed Thursday to overturn his conviction for corruption, declaring his innocence and his intention to return as the leader of Latin America's biggest country in elections next year.

Mr. da Silva was found guilty Wednesday of corruption and money laundering as part of Brazil's vast Car Wash graft investigation and was sentenced to 9½ years in prison. He is allowed to remain free while he appeals the verdict.

Speaking publicly for the first time after his conviction, the charismatic former metal-worker turned working-class hero said the verdict against him is part of a plot to prevent him from being re-elected next year.

"They want to take me out of the game," he said at a raucous press event in São Paulo that was also attended by crowds of chanting supporters. "I'm still in the game," he said, declaring openly for the first time his intention to run for his leftist Workers' Party in



Former Brazilian President Luiz Inácio Lula da Silva on Thursday in São Paulo said he would seek re-election in next year's vote.

While groups of Brazilians donned the national yellow-and-green colors and gathered across several cities Wednesday night to celebrate the conviction, Mr. da Silva's backers also staged protests against the move.

Mr. da Silva left office in 2011 with approval ratings above 80% and has polled in recent months as a favorite for next year's elections. Much of Brazil's political establishment has been tarnished by corruption scandals, and there are few other obvious presidential candidates besides him, especially on the left.

If Mr. da Silva loses his appeal against the conviction, he would be expected to go to prison and be barred from public office.

Wednesday's conviction deepened Brazil's political turmoil as the current president, Michel Temer, fights for political survival after he was also charged with corruption in the Car Wash case.

A congressional committee on Thursday voted against putting Mr. Temer on trial in the Federal Supreme Court on corruption charges. However, it is still up to the full lower house, which will vote Aug. 2 on whether to authorize a trial.

If the chamber decides to permit the trial and the Supreme Court agrees to go ahead, the president would be removed from office for up to six months.

presidential elections in 2018. "The poor can no longer stand to be governed by the elite—they need to be governed by someone who knows their soul, who knows what hunger and unemployment are and who knows how hard life is for the poor of this country," said Lula, as he is universally known.

Sergio Moro, the crusading judge heading the Car Wash probe, on Wednesday found Mr. da Silva guilty of corruption following charges he received a luxury beachside apartment from construction

group OAS in exchange for securing contracts with state-owned oil company Petrobras.

The ruling, the highest-profile sentence yet in the Car Wash case, is the first verdict to emerge from five graft-related indictments against Mr. da Silva, who has long denied wrongdoing. Mr. Moro has said the investigation of Mr. da Silva and other politicians is based on evidence.

Left-wing politicians across Brazil and the rest of Latin America took to social media to express support for the 71-year-old former president.

## Rival Venezuela Polls Reflect Divide

BY RYAN DUBE

CARACAS—Venezuela's opposition plans to hold a vote on Sunday that its leaders hope will reject President Nicolás Maduro's strategy to rewrite the constitution and possibly dissolve the national legislature, giving him what critics say would be near-dictatorial powers.

The vote, open to Venezuelans at home and abroad, is unauthorized and will almost certainly be denounced by the government. But opposition leaders are betting that a mass repudiation of Mr. Maduro's plan will undermine its legitimacy.

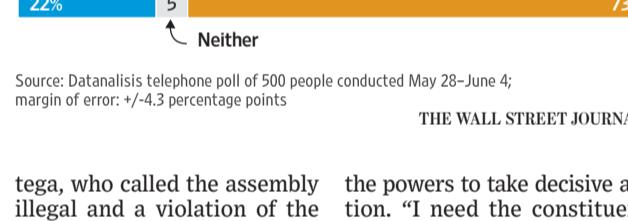
Polls show that 80% of Venezuelans are against the Socialist government's plan for a national vote to be held on July 30 that would pick a 545-member special assembly. The body would have powers to remake Venezuela's charter and its political system, including dissolving the opposition-held National Assembly.

"What is at play is freedom and the future," said Attorney General Luisa Ortega, who recently broke with the government and has warned of its authoritarian drift. Ms. Or-

### Season of Discontent

Most Venezuelans want to keep the nation's constitution and are unhappy with President Nicolás Maduro's leadership.

#### The constitution is fine as it is



Source: Datanálisis telephone poll of 500 people conducted May 28–June 4; margin of error: +/-4.3 percentage points

THE WALL STREET JOURNAL.

tega, who called the assembly illegal and a violation of the Constitution, said, "We can't lose Venezuela."

The rival votes come as Venezuela suffers a debilitating economic crisis that has led to a shrinking economy, soaring inflation, food shortages and rampant crime. More than 90 people have died in confrontations with state security services since April as the highly unpopular Mr. Maduro faces violent antigovernment protests.

The president says the new assembly would help resolve the deepening political and economic crisis by giving him

the powers to take decisive action. "I need the constituent assembly, give me the constituent and we will definitely have economic victory," he said recently.

The Venezuelan government didn't respond to requests to comment.

Opposition members say Mr. Maduro's disguised purpose is to retain power. Polls show he would decisively lose in the next scheduled presidential election in October 2018, and the opposition worries the new assembly will cancel the election, arguing the country can't be distracted by a vote while it

is debating a new constitution. The ruling Socialist party has about 20% support, polls show.

The government has already said the new assembly will dissolve the country's existing National Assembly and remove legal immunity for lawmakers, posing the threat of prison for the body's opposition members.

Election experts and academics say the way the vote's design almost guarantees a majority for the ruling party.

"They've fixed it a way where it is impossible for them to lose," said Antonio Canova, a law professor at the Andrés Bello Catholic University.

Former President Hugo Chávez, who died four years ago, also rewrote the constitution after winning power in 1999. But in that case, he held one referendum to approve a constitutional convention and another to approve the wording once it was finished. In this case, almost no one in Venezuela expects a referendum.

"It will be an illegal constituent assembly," said Gabriela Ramírez, a former government official and Chávez loyalist who opposes rewriting the constitution.

Beijing defended a 10.5% rise in its trade with North Korea in the first half as part of a normal economic relationship with its neighbor in areas not covered by United Nations sanctions.

The rise in trade was driven by a 29.1% increase in exports from a year earlier, while imports fell 13.2%, said Huang Songping, spokesman for the General Administration of Customs. He said China was abiding by U.N. sanctions "comprehensively, carefully, accurately and seriously."

—Liyan Qi and Han Wong

NATO

### Russians Discuss Coming Joint Drills

At alliance headquarters in Brussels, Russian representatives outlined the troops and weaponry that will participate in the joint Russian-Belarusian exercises scheduled for September, partly on Belarus's border with Lithuania and Poland.

Alexander Grushko, Russia's permanent representative to NATO, afterward declined to

specify how many soldiers would take part in the maneuvers, but a European official said Russian officials put the number at 12,700, including those sent by Minsk.

Deploying more than 9,000 troops for the exercises would require Moscow to notify international authorities. More than 13,000 would require it to allow international observers to attend the drills. —Julian E. Barnes

UNITED KINGDOM

### U.S. Doctor Testifies In Case of Sick Child

A U.S. doctor offering to treat Charlie Gard, the terminally ill British baby whose case has generated international attention, told a British court that new evidence suggested an experimental therapy could give the immobile and brain-damaged child as much as a 10% chance of improvement in his muscle strength.

The physician in the U.S. offering to treat Charlie can't be named for legal reasons. The doctor has never met the 11-month-old child and has seen only summaries of his medical notes and brain-scan results, the court heard Thursday.

—Joanna Sugden

Walter Y. Elisha was born December 10, 1932, in Gary, Indiana, son of Elizabeth Yonan and Youchia B. Elisha. In addition to his parents, Walter was preceded in death by his brother, Charles J. Elisha, who died during World War II; his sister, Louise E. Elisha, his younger son, Michael E. Elisha and Michael's wife, Cathleen Moran Elisha.

Walter married his high school sweetheart, Arlene Thompson Elisha. They had three children: Lynn E. and Allan D. Hansen; Jody T. and W. Robert Elisha; Cathleen M. and Michael E. Elisha; six grandchildren: Laura H. and Brian J. Eisner; Ian A. Hansen; Carolyn E. and Scott J. Stockberger; Elizabeth A. Elisha; W. Robert Elisha, Jr.; and Kate A. Elisha.

Upon graduating Wabash College, Walter joined his family's rug business. He later entered Harvard's MBA program. With MBA in hand, he joined the Jewel Companies in Chicago, rising to vice chairman and director. He joined Springs Industries, Inc., a textile

company in Fort Mill, SC, in 1980, serving as president, chairman and CEO, and director, retiring in 1998.

His directorships included AT&T, AT&T Wireless, Cummins, Inc., Jack Eckerd Corporation, Stone Container Corporation, and American Textile Manufacturers Institute. He was a trustee of Wabash College, the Brookings Institution, and a member of the Board of Directors of the Associates of the Harvard Business School, The Business Council, served as a member of the President's Advisory Committee for Trade Policy and Negotiations, and The Business Roundtable.

Walter received the Distinguished Service & Alumni Achievement Award from the Harvard Business School; the Alumni Award of Merit from Wabash College; honorary degrees from Limestone College, Philadelphia College of Textiles and Science, the University of South Carolina, Wabash College, and Winthrop University.

Walter Elisha's father served as a U.S. Army photographer during World War I. That history added to Walter's delight in learning of Springs' involvement with art, particularly photography. Under his tenure, Springs continued to sponsor photographic art exhibitions at such major venues as the Chicago Museum of Art, the Metropolitan Museum, the Museum of Modern Art and the National Gallery. Iconic artists featured included Ansel Adams, Atget, Edward Burtynsky, Eugene Cuvelier, Yousef Karsh, Andre Kertesz, Nadar, Georgia O'Keeffe, Alfred Stieglitz, and Garry Winogrand.

In the mid-80's, as part of the observance of Springs Industries' Centennial, Walter led the creation of a special art program to focus on the company's unique values. He commissioned Bruno Lucchesi to create seven life-size bronze sculptures depicting each of the seven Springs stated values—Quality, Service, Education, Personal and Family Well-Being, Creativity, Respect for History, and Planning for the Future. All of the sculptures were installed in the Fort Mill area for the enjoyment of school children and the entire community. Several of the sculptures remain in a public space now called "Walter Elisha Park"—the site where the company began in 1887.

Walter was well-read and loved to write his own speeches. He had a sly, quick sense of humor combined with a naturally compassionate nature. While his colleagues knew firsthand of his intense pursuit of his business goals, many also knew of his unadmitted, thoughtful kindnesses to individuals inside and outside of the company and his charitable generosity.

Off-duty and into retirement, Walter enjoyed spending time with his family, playing tennis, sailing the islands off Nantucket and the Caribbean, raising cattle, and driving his ATV around his farm near Charlotte, NC.

A service to celebrate the life of Mr. Elisha will be held at 1:00 p.m. Saturday, July 15th at Unity Presbyterian Church in Fort Mill, SC.

Memorials may be made to Alzheimer's Disease Research, 22512 Gateway Center Drive, PO Box 1950, Clarksburg, MD 20871-1950, or the charity of one's choice.

## DEAL

Continued from Page One  
Chuxing Technology Co. after both companies spent hundreds of millions of dollars bitterly vying for market share.

Uber sold its UberChina unit to the competitor in exchange for a 20% stake in Didi and a promise it would invest \$1 billion in Uber, the companies said at the time.

In Russia and several neighboring countries where the new venture will operate, Uber said it had lost roughly \$170 million over the past three years as it battled Yandex.Taxi on its home turf.

The Russian company launched three years earlier than Uber and demonstrated an eagerness to slash fares to attract riders.

The agreement with Yandex is structured differently than the Uber-Didi deal in that the companies are creating a new venture, which doesn't yet have a name.

As in China, though, Uber is effectively relinquishing control in a major market while earning potential future profits as an investor. Uber is investing \$225 million in the company, while Yandex is putting in \$100 million.

Rapid global expansion is no longer the priority at Uber, as investors exert greater pressure on the company to address its cultural and financial

challenges. Benchmark was among a group of investors in the ride-hailing startup that last month pressured co-founder Travis Kalanick to relinquish his role as chief executive in the wake of an investigation into sexual harassment and sexism at the male-dominated company, people familiar with the matter have said.

Uber began discussing a merger with Yandex in February in talks that were led in part by Emil Michael, the former chief business leader who was a confidant of Mr. Kalanick, and corporate development executive Cameron Poetscher, according to people familiar with the deal.

Mr. Michael resigned last month after an investigative report by the law firm of former U.S. Attorney General Eric Holder recommended his ouster to the board.

Uber was able to sign the Russian transaction despite having no CEO, no finance chief or operating chief. A 14-person committee of top executives is currently steering decision-making.

The move in Russia suggests Uber may be willing to capitulate in some markets where it is bleeding capital in order to shrink its losses and make the business more palatable to investors in an eventual initial public offering. Uber reported sales of \$6.5 billion last year but its losses swelled to well over \$3 billion.

Rapid global expansion is no longer the priority at Uber, as investors exert greater pressure on the company to address its cultural and financial

### Ride Sharing

The combined company will operate in Russia, Armenia, Azerbaijan, Belarus, Georgia and Kazakhstan.

#### Ridership

**Yandex Taxi**

**UBER**

**11.2 million**

**23.8 million rides in June**

**\$47.2 million**

**\$87.3 million**

Note: Uber data are for operations in Russia, Azerbaijan, Belarus and Kazakhstan.

\*Reflects sales before fees paid to drivers

Source: the companies

THE WALL STREET JOURNAL.

"Combining Yandex's local expertise in search, maps and navigation with our leading global experience in ride-sharing will enable us to build the best local services and provide a credible alternative to car ownership across the region," Pierre-Dimitri Gore-Coty, Uber's head of Europe, the Middle East and Africa, said in an email to employees on Thursday.

The combined company will operate in 127 cities in six countries, including Armenia, Azerbaijan, Belarus, Georgia and Kazakhstan. For riders, the Uber and Yandex.Taxi apps will remain unchanged, while the app for drivers will even-

tually look the same across both services.

Yandex had dominated the market for ride-hailing in Russia, where the firms competed not only with traditional cabs and personal cars, but also with overcrowded public transportation.

Yandex in June had nearly double the amount of rides and revenue as Uber in Russia and neighboring countries, according to data the companies provided investors on Thursday, as seen by The Wall Street Journal.

In June, Yandex expected to be on track to book about 285 million rides a year for roughly \$1 billion in gross revenue, before giving a cut to drivers.

In that period, Uber expected to book about 134 million rides for gross revenue of about \$566 million, according to the data shared with investors.

Yandex.Taxi was the first taxi-hailing service to launch in Russia in 2011, a year after Uber launched its first app in the U.S. Uber expanded to Russia in 2014.

After the close of the deal, expected in the fourth quarter, Uber's U.S. customers who are traveling to Russia will be able to open an Uber app and summon cars from the combined company's pool of drivers, an Uber spokesman said.

Russian users of Yandex will be able to do the same in the U.S.

## IN DEPTH

# STOCK

*Continued from Page One*  
the British Virgin Islands firm, on such a scale that virtually every share in existence has been created since November.

In an apparent effort to counter the downward pressure that this new supply of shares put on the price, DryShips used another technique: reverse stock splits.

In a typical stock split, a company whose share price has grown high makes the stock more affordable by giving investors two or more shares for each one they hold. The price of each share becomes lower, but an investor's proportional ownership of the company doesn't change.

In a reverse split, a company with a low share price forces it higher by making each share represent a larger piece of the company.

On Nov. 1, for example, DryShips did a 1-for-15 reverse split. A holder of 15 shares now



DryShips, an operator of vessels like the one above, sold millions of shares to a firm that quickly resold. Ingmar Bueb and Jane Karp, below, lost heavily on the stock.

Economou, the founder of DryShips, which has offices in Athens but is domiciled in the Marshall Islands. The CFO said he met with Mr. Bistricer about helping DryShips raise capital.

On June 8, 2016, DryShips sold Kalani securities convertible into new DryShips common shares valued at \$5 million, which was equivalent to a little under 10% of the company's market value then. It was a foretaste of what was to come.

Kalani didn't report a 5% or more stock ownership, as U.S. regulations require, indicating it rapidly sold many of these new DryShips shares. And in succeeding weeks, DryShips' stock tumbled.

By September, DryShips was preparing paperwork to do two things: execute a reverse stock split and issue a far larger batch of securities to Kalani.

Issuing so many new shares would normally be unrealistic for a company with a tumbling stock, but on Nov. 9 DryShips' stock suddenly tripled, ending the day up 133%. The Nasdaq Stock Market, where the stock trades, temporarily halted trading four sessions later with the shares up 1,500%.

What caused the rally is unknown; there is no evidence Kalani, DryShips or their principals took any steps to trigger it.

When trading resumed two days later, DryShips said it would sell a second batch of securities to Kalani, securities the offshore firm could convert into \$100 million of new DryShips common stock.

That was nearly 20 times what the entire company was valued at before its stock's mysterious rally.

DryShips gave no information about Kalani in securities filings or public statements

Ingmar Bueb, a 48-year-old

when it sold the firm shares, except to say that Mr. Economou wasn't affiliated with the firm. Details of Kalani's ownership are protected by secrecy laws in the British Virgin Islands.

Despite this extreme common-stock dilution, Mr. Economou was in no danger of losing his control of DryShips. Just two months earlier, he had converted some loans to the company into a new class of preferred shares that carried 100,000 votes apiece.

DryShips shares by this time were plunging, thanks to the news that many more of them were being created.

Even so, investor chat rooms lit up with speculation that another epic rally could be in store, given the sudden inflow of cash to the company's coffers. Mentions of DryShips on an investing site called StockTwits, which had totaled only about 77 a week before the November rally, soared to an average of about 18,000 a week over the following four months.

The enthusiasm allowed DryShips to create and sell still more shares. In three additional deals with Kalani, the shipper agreed to sell it securities convertible into \$626.4 million of new DryShips common shares.

That was equal to about 100 times DryShips' stock-market value in early November.

### Split infinity

To keep its stock price from falling below \$1, necessary to avoid delisting, DryShips kept doing reverse stock splits—not only one on Nov. 1 but also one on Jan. 23, one on April 11, one on May 11 and one last month, on June 22. All had the appraise of Nasdaq.

That was nearly 20 times what the entire company was valued at before its stock's mysterious rally.

DryShips gave no information about Kalani in securities filings or public statements

Ingmar Bueb, a 48-year-old



opera singer, invested \$220,000 in DryShips over the years, the bulk of his nest egg. The High Bridge, N.J., resident had hoped to use the profits from this long-term holding to build a small opera house, he said.

Already nursing losses by early November of last year, Mr. Bueb noticed the sudden price surge. "I went to the cafe to sell it, but then it was halted and crashed," he said.

He didn't look again until he was doing his taxes this year and was shocked to discover that, because of the many reverse splits, he then owned only two shares. The investment now is worth less than \$1.

"I would rather have given that money to poor, hungry people," Mr. Bueb said.

What about Kalani—the offshore firm that paid hundreds of millions of dollars to DryShips for shares—did the stock drop punish it, too?

Evidently not; Kalani appears to have earned tens of millions of dollars by immediately selling the stock, which it purchased at a discount to the stock-market price.

The sales were by design, because Kalani's agreement with DryShips didn't permit Kalani's stake in the shipper to go above 4.9%, according to a securities filing. Kalani had to sell quickly to stay below that level.

Kalani didn't respond to requests for comment. In addition, emails and calls to a Toronto investment partnership Mr. Bistricer runs, Murchinson Ltd., weren't returned.

### Was it underwriting?

Legal observers said the quick sales raise questions for regulators. "If [Kalani] is buying it with the intent to resell, then they're acting as an underwriter and this is a public offering," said Jill Fisch, a University of Pennsylvania law professor who specializes in securities regulation. In an underwriting, a licensed entity, normally a bank, sells shares to the public and gives the proceeds to the company.

James Angel, who studies financial markets at Georgetown University, said the deal sounds like a "pseudo-underwriting."

Kalani isn't registered with the Securities and Exchange Commission as an underwriter. So it is possible "both the company and the intermediary are on the hook for violating securities laws," Ms. Fisch said.

Mr. Kandylidis, the DryShips CFO, said "our understanding is different" but he preferred not to comment on legal matters. There is no indication the SEC is investigating DryShips or Kalani, and it wouldn't comment.

The tens of millions of new DryShips shares created have hammered long-term investors because far more shares now have a claim on the company.

Investors who bought DryShips shares last fall and held on have lost almost all of their money. A \$10,000 investment in DryShips stock at the beginning of November was valued at \$167,000 two weeks later, during the brief price spike, but

only about \$2 today.

For DryShips, however, the cash that poured in from Kalani for new shares put the shipper on a strong financial footing. Its net assets have soared. It has used the money from Kalani to roughly double the size of its fleet to about 36. Mr. Economou, who was buying ships from DryShips last year when it was hurting for cash, lately has been selling it ships from his private fleet.

Paid to maintain DryShips' expanding fleet are offshore companies DryShips refers to collectively as the TMS Entities. Mr. Economou controls them, securities filings show.

A firm Mr. Economou controls bought most of DryShips' bank debt late last year, and this spring Mr. Economou said DryShips was raising the interest rate it pays on this debt.

Though DryShips' value has surged, at least on paper, its shares would seem unlikely to rally unless the company stops issuing a host of new ones.

A civil suit filed on July 3 seeks to halt further issuance.

Filed in the Marshall Islands by a U.S. shareholder, the suit accuses Mr. Economou of unjustly enriching himself by having DryShips issue millions of new shares at a "devastating loss" to existing shareholders.

The mechanism, the suit says, was that DryShips sold discounted shares "to co-conspirator Kalani Investments, a shell corporation run by Mark Bistricer...which would then dump them on the market regardless of price."

DryShips called it "without merit." The plaintiff, Michael Sammons, couldn't be reached for comment. The court has set a Monday hearing on a request for a preliminary injunction.

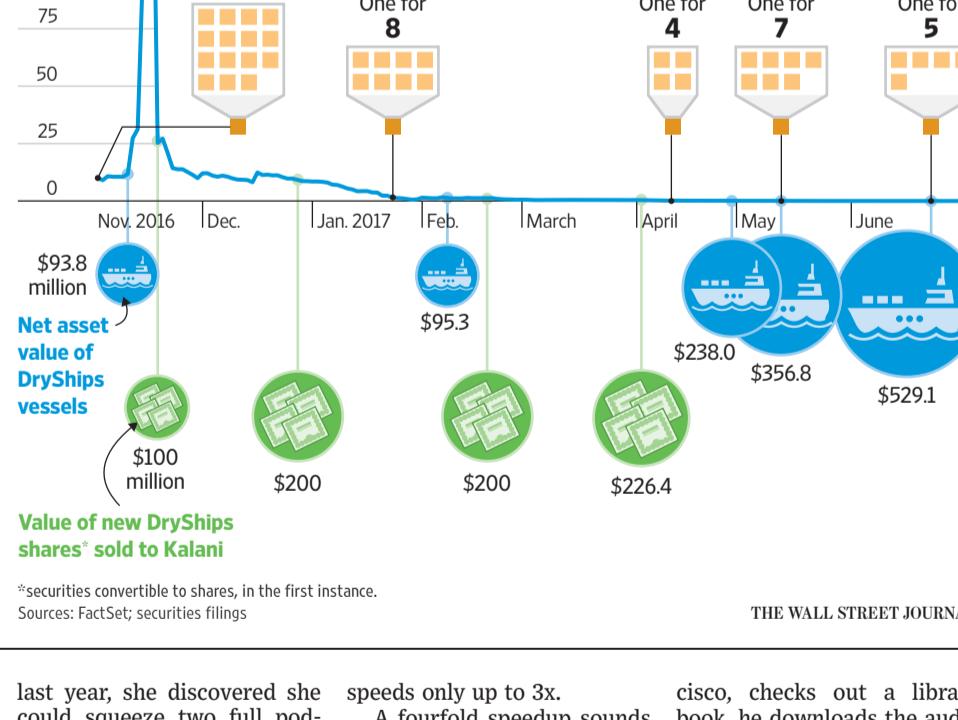
Mr. Kandylidis, the DryShips CFO, said Mr. Economou doesn't need the cash he is reaping from DryShips. He hinted that his uncle could stop the share issuance soon.

"I know that, obviously, George has a lot of control," Mr. Kandylidis said, "but I think that the interests of George and the stockholders will converge."

—Jacquie McNish contributed to this article.

### Sinking Feeling

Shipping company DryShips has taken investors on a wild ride since November, repeatedly issuing new shares to an offshore firm, called Kalani, and also repeatedly reducing shares outstanding through reverse stock splits.



last year, she discovered she could squeeze two full podcasts into her drive to and from work if she pushed their speed to as fast as 2.3x. Ms. Nichols proselytizes the joys of speed-listening on Twitter. "I like pushing the cause," she says.

Ms. Nichols was a guest recently on "The Lowe Post," a show hosted by ESPN colleague Zach Lowe, and she made a plea to the audience as soon as she was introduced: "I'm going to ask everyone to now go to their app and speed up the rest of this podcast."

Mr. Lowe says: "It's insane that anyone listens to podcasts at that speed."

Pádraig Ó Cinnéide, co-founder of the podcast app Castro, agrees with Mr. Lowe. "We once got a request for 4x," he says in an email, "from a (presumably) insane person."

Castro still offers playback

speeds only up to 3x.

A fourfold speedup sounds entirely sane to Max Deutsch, 24, who says he has speed-listened to 69 audiobooks this year. The faster the speed, he found, the more engaged he was. "That's when I asked myself: I wonder how fast I could actually listen?"

The San Francisco tech-product manager, unable to find apps with speeds over 3x, created Rightspeed, a \$2.99 app that accelerates podcasts in nearly unnoticeable 0.1x increments every two minutes. A one-hour podcast that begins at 2x, ends at 5x and takes 17 minutes.

"It's sort of like the Roger Bannister, four-minute-mile effect," Mr. Deutsch says. "Until you're told it's possible for a human to listen at this speed, you just decide you can't."

When Andy Mullan, a government employee in San Fran-

cisco, checks out a library book, he downloads the audio version. He listens at 3x and follows in print. Mr. Mullan, 32, says his reading consumption has increased and his comprehension has improved.

Hundreds of thousands of Audible listeners use higher speeds, according to the audio-book company's data. Audible says speed-listeners prefer nonfiction but do binge on mysteries and thrillers.

The 'Game of Thrones' guy," Mr. Mullan says. "Oh my god. He speaks so slowly." A daughter of the "guy," 94-year-old Tony Award winner Roy Dotrice, said he wasn't available for comment.

Mr. Mullan listens to podcasts more slowly, at 1.5x. "Fast enough so they're a little faster," he says, "but not so fast they sound like Alvin and the Chipmunks."

Ben Carlson, 35, a Grand

Rapids, Mich., portfolio manager, believes speed-listening may offer performance-enhancing benefits. When he began using podcasts on lunchtime runs, he found them so slow they nearly put him to sleep.

When he made them faster, "I felt like I was running faster," he says. "I was more in sync with being sped up. Which is crazy. But I think there's something to it."

He did slow down for an interview with Silicon Valley venture capitalist Marc Andreessen, who spoke too fast. Mr. Andreessen declined to comment.

Andy Bowers finds speed-listening useful as chief content officer of the podcast network Panoply in Brooklyn, where it is his job to listen to podcasts. (The Wall Street Journal belongs to the Panoply network.) "I have to say very emphatically that I do not think it's an

insult in any way," says Mr. Bowers, 53. "I think it's actually a compliment that you want to find ways to continue to fit them into your day."

It does feel sacrilegious, say several podcast listeners, to rush highly produced shows like "Serial" or "Radiolab." The sound, pacing and silence are crucial. Same for "Song Exploder," in which musicians deconstruct their work. Its host, Hrishikesh Hirway, says he hears from listeners assuring him it is the only podcast they want to hear unaltered.

Mr. Hirway's podcast is the rare show Mr. Reyes enjoys at normal speed. Any faster, he says, "would be almost disrespectful."

There's one smartphone button he won't touch. "What I can't figure out is why they have a 1/2x," he says. "I can't imagine a person who needs to listen to these things slower."

# SPEED

*Continued from Page One*

lar competitor, Overcast, hits 3x and offers "Smart Speed," which shrinks silences. At turbo speeds, podcasters speak faster, but intelligibly, at least to some. Software keeps voice pitches from becoming squeaky.

Kalani's idea was that it would buy newly issued shares directly from the shipping companies at a discount to the stock-market price, thus injecting cash into the companies. Executives of three Greek shipping companies described such an approach by Kalani. All three said Kalani was controlled by Toronto's Mr. Bistricer.

Among the three executives approached was Anthony Kandylidis, DryShips' chief financial officer. He is a nephew of Mr.

# Embracing the Future



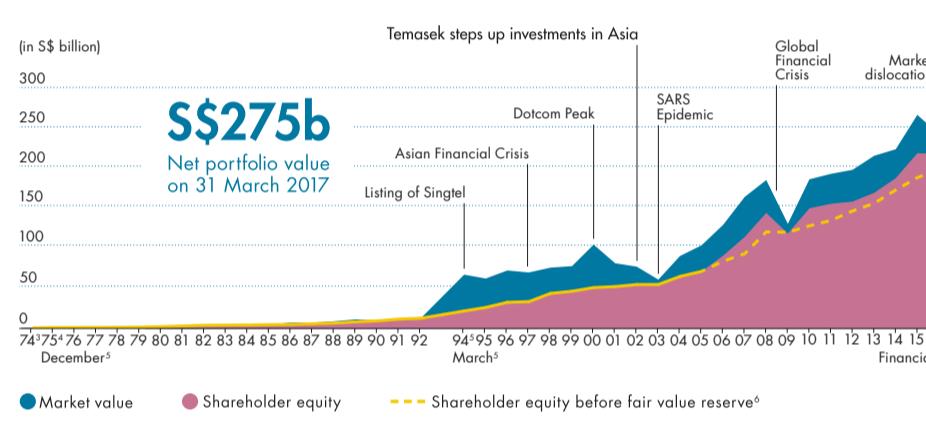
## Shaping a Sustainable Future

We actively shape our portfolio by increasing, maintaining or decreasing our holdings. This enables us to capitalise on opportunities when they arise and build our portfolio towards longer term as well as emerging new trends.

### Global Exposure<sup>1,2</sup>



### Temasek Net Portfolio Value since Inception



1 As at 31 March 2017.

3 Incorporation of Temasek on 25 June 1974.

5 Financial year-end was changed from 31 December before 1993 to 31 March from 1994 onwards.

6 FRS39 *Financial Instruments: Recognition and Measurement*, introduced during the financial year ended 31 March 2006, requires available-for-sale financial assets to be measured at fair value.

## Investing for Generations

To remain nimble and ensure that our portfolio can capitalise on opportunities and withstand shocks, we have continued to rebalance our holdings to align with our four investment themes.

### Transforming Economies

Tapping the transforming economies of China, India, South East Asia, Africa and Latin America

- Crompton Greaves Consumer Electricals Indian manufacturer of consumer products and household appliances
- Moncler Luxury goods company specialising in high-end outerwear and apparel



### Growing Middle Income Populations

Meeting the needs of a growing middle income population

- Amazon Online commerce and cloud computing company
- Ceva Santé Animale Global veterinary health company based in Libourne, France; specialising in pharmaceutical products and vaccines for pets, livestock, swine and poultry

### Deepening Comparative Advantages

Identifying game changers

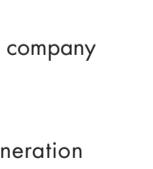
- PPG Industries Global manufacturer of paints, coatings and fibreglass
- Ctrip One of the largest travel websites and online travel agencies in China



### Emerging Champions

Investing in companies that show growth potential

- VoloAgri Group Vegetable seed technology and breeding company headquartered in San Francisco
- Impossible Foods US-based company developing next-generation plant-based meat and dairy products



## Strengthening Our Institution

Temasek's role and reputation as a trusted steward depends on our people and values, and our conduct and governance.



It is our responsibility under the Singapore Constitution to safeguard Temasek's past reserves for future generations.



### Relating to Our Shareholder

We declare dividends annually to our shareholder, based on the profits we earn, in accordance with our dividend policy.



### Relating to Our Portfolio Companies

The companies in our portfolio are responsible for their day-to-day business and operations. Temasek does not direct their business or operational decisions.



### Relating to Our Communities

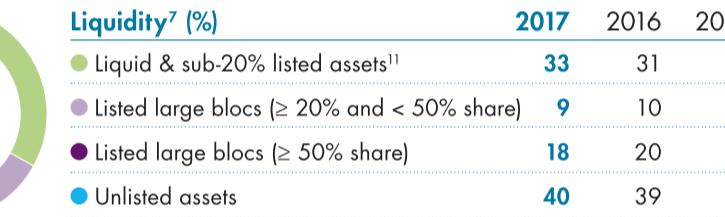
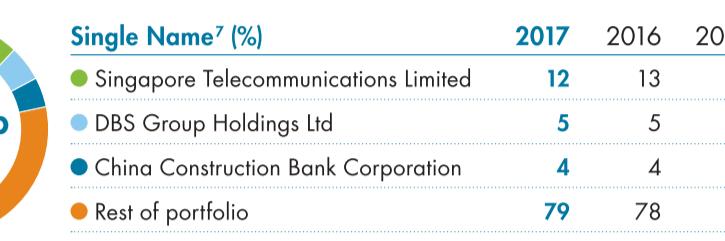
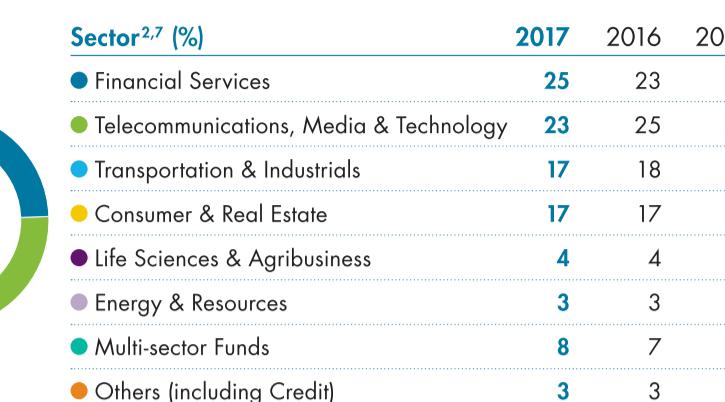
Our family of Foundations supports a broad range of programmes to build people, build communities, build capabilities and rebuild lives.



We manage our assets and portfolio as a long term investor and owner under the strategic guidance of our Board. Our business decisions are independent of the President of Singapore and the Singapore Government. We do not manage Singapore's Central Provident Fund (CPF) savings, Singapore's foreign exchange reserves, or the budget surpluses of the Singapore Government.



TEMASEK



## Our Public Markers

Our Temasek Review, Credit Profile and Temasek Bonds serve as public markers. They anchor our commitment as a robust and disciplined institution through generations.

### Public Markers of Financial Discipline and Credit Quality



We provide credit ratios and key financial parameters to help our stakeholders form their own views on Temasek's credit quality<sup>12</sup> as an investment firm.

### Dividend Income over Interest Expense<sup>8</sup> (x)



### Net Portfolio Value over Total Debt<sup>7</sup> (x)



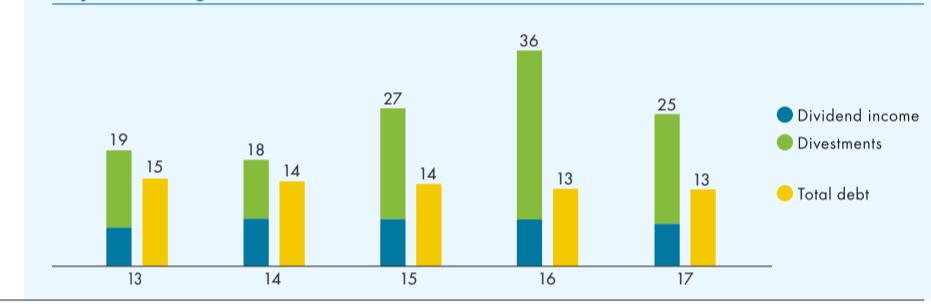
## Balancing Risks, Delivering Sustainable Returns

We manage our finances for a resilient and flexible balance sheet that allows us to take advantage of opportunities and favourable developments in good times and bad.

Our main sources of funds are divestment proceeds, as well as dividends and distributions received from our portfolio. These are supplemented by our Temasek Bonds and Euro-commercial Paper.

We plan for a well distributed debt maturity profile that includes both short term and long term debt for flexibility and cost efficiency. We ensure that our primary sources of cash flow can comfortably cover our non-discretionary expenses.

### Key Recurring Income vs Total Debt<sup>8</sup> (\$b)



# Building an abc World

Our collective action is needed to achieve the 17 UN Sustainable Development Goals (SDGs) for an ABC World of Active economies, Beautiful societies, and a Clean Earth.

These UN goals cover a wide-ranging set of ambitions to uplift human life, and safeguard our world for future generations. They resonate with Temasek's commitment to sustainability and good governance as a steward, institution and investor.

### ACTIVE ECONOMY

Productive jobs  
Sustainable cities  
Fulfilling lives

- 4 QUALITY EDUCATION
- 8 DECENT WORK AND ECONOMIC GROWTH
- 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- 10 REDUCED INEQUALITIES
- 11 SUSTAINABLE CITIES AND COMMUNITIES
- 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

An active, robust economy delivers good jobs and creates opportunities.

It is the foundation of stable, secure and sustainable societies. Productive workers have a sense of pride and dignity, provide for their loved ones and themselves, and look to the future with confidence.

### BEAUTIFUL SOCIETY

Resilient individuals  
Cohesive families  
Inclusive communities

- 1 NO POVERTY
- 2 ZERO HUNGER
- 3 GOOD HEALTH AND WELL-BEING
- 5 GENDER EQUALITY
- 10 PEACE, JUSTICE AND STRONG INSTITUTIONS
- 17 PARTNERSHIPS FOR THE GOALS

A sustainable and beautiful society fosters resilient individuals, cohesive families and inclusive communities.

Shared values that embrace justice and equality, and expand our common spaces, will strengthen our tolerance, mutual respect, and the ties that bind us together.

### CLEAN EARTH

Fresh air  
Clean water  
Cool world

- 6 CLEAN WATER AND SANITATION
- 7 AFFORDABLE AND CLEAN ENERGY
- 13 CLIMATE ACTION
- 14 LIFE BELOW WATER
- 15 LIFE ON LAND

A clean, cool Earth is our home and common inheritance.

We must act today to preserve our living space for ourselves and future generations. Fresh air, clean water and a cool world are Earth's natural gifts, which we must treasure and protect.

# GREATER NEW YORK

## Housing Push Gains Steam

By MARA GAY

More than three years into an initiative Mayor Bill de Blasio said would help New Yorkers afford to live in an increasingly expensive city, officials say the plan is gaining traction.

"This is how you keep the greatest city in the world what it is and what it was always meant to be—a place for everyone," Mr. de Blasio said at a Thursday news conference.

At a briefing earlier in the day, Deputy Mayor Alicia Glen and other senior city housing officials said construction had begun on 20,800 new units of low- and moderate-income housing, and rent protections had been extended on about another 52,000 units. They said 4,145 new units have been completed since the initiative began in 2014. The city lost an estimated 7,500 units of rent-stabilized housing last year, officials said.

City officials said a roughly \$41 billion, 10-year plan eventually would help an estimated half a million people continue to live in New York City.

The initiative is a central piece of Mr. de Blasio's agenda. The Democrat was elected in 2013 promising to address the city's rising income inequality, or what he called, a "tale of two cities." Rents have risen sharply in recent years. Between 2000 and 2014, for example, the median rent in the city rose by nearly 20% in real dollars, according to city data.



Mayor Bill de Blasio visited a couple at their home in an affordable-housing unit in Harlem.

The trend has made it increasingly difficult for people with low- and moderate-incomes to afford to live in New York City and lead the city's shelter population to grow to about 60,000 last year.

The city is using a host of tax incentives, public funds, private investment and city capital dollars to build and preserve the housing. Of the \$41 billion total, about a quarter comes from city funds. The city said this year it will contribute an additional \$1.9 billion.

About half of the affordable housing financed so far under Mr. de Blasio is for families

earning between \$42,951 and \$68,720 a year, while a third is for those earning under \$42,950.

Renata Pumarol, deputy director at New York Communities for Change, a nonprofit group, said the plan doesn't include enough units of housing for extremely low-income residents. Ms. Pumarol said the city's designation of \$42,951 to \$68,720 as "low-income" was disingenuous. "If you go into any truly low-income neighborhood in New York, those numbers are absolutely laughable," she said.

City officials said they use federal income measures in the plan. Officials have said creat-

ing units for extremely low-income residents is difficult because it generally requires substantial rental subsidies.

The city's largest reservoir of affordable housing is its more than 176,000 units of public housing, which the city has struggled to maintain with less and less federal funding in recent decades.

Ms. Glen said public housing had been "starved" of federal support for years now, leaving the city with fewer ways of creating affordable housing. "Are we relying too heavily on the private sector?" she asked. "There is no alternative."

## Reactions Mixed

## On Silver Ruling

By MIKE VILENSKY

Former Assembly Speaker Sheldon Silver was considered one of Albany's most enduring political survivors until his corruption conviction in 2015.

On Thursday, at least temporarily, Mr. Silver overcame another obstacle when a federal appeals court vacated the conviction that ousted him from office and wounded his legacy. Prosecutors said they would retry the case.

The turn of events reverberated through the New York Legislature, which has been grappling with the fallout from Mr. Silver's scandal since his arrest two years ago. And reactions were mixed in Mr. Silver's longtime lower Manhattan district where locals still debate his legacy.

"He still has a mountain to climb," said Mel Miller, the former New York Assembly Speaker who also once had a conviction overturned. "But if he wins his retrial, then people will remember him in a different way than they do now."

Mr. Silver has been known as a skilled advocate for the city's landlords, trial attorneys and labor unions. His reign came crashing down when he was convicted in 2015 on charges he abused his power through extortion, honest-services fraud, and money laun-

dering. He has been replaced in his seat by Assemblywoman Yuh-Line Niou, who ran as a reformer and Silver critic. On Thursday, Ms. Niou, a Democrat, maintained that Mr. Silver had hurt the community. "My district has suffered tremendously from this betrayal," she said.

But some Silver constituents were pleased. "We were all shocked that he got convicted," said Daniel Kronenfeld, an 85-year-old Lower East Side resident. "Silver did a lot of good for this neighborhood."

In Albany, ethics watchdogs raised concerns that the decision could create a more permissive atmosphere in a state capital with a long history of scandal. "There are public officials who might view this as good news," said Blair Horner, who runs the government watchdog New York Public Interest Research Group.

A number of legislators said the ruling shows new state laws are needed to police legislative conduct. "For years we have been relying on federal prosecutors to bring the lion's share of corruption cases," said Sen. Todd Kaminsky, a Long Island Democrat and former federal prosecutor. "We can no longer afford to do so."

—Mariana Alfaro and Corinne Ramey contributed to this article.

## For Some Commuters, Getting to Work Is a Breeze

By MELANIE GRAYCE WEST  
AND MARIANA ALFARO

It is being called the "Summer of Hell" for Long Island Rail Road commuters, but as the water taxi Seymour B. Durst made its way from Manhattan to the North Shore of Long Island, the grind to get home was more like an evening pleasure cruise.

That is how it feels for Jeanne Murasso, 55 years old, who works near Wall Street and is a convert to LIRR's summertime ferry service operating out of Glen Cove, where she lives. During a recent ride, Ms. Murasso had an entire aisle of cushioned seats, plus a window view, for herself on the ferry's lower deck.

"You're sitting here on the water, it's comfortable, you don't have to worry about any crowds of people," said Ms. Murasso. "The train is crowded. The subway is crowded. Penn Station is crowded. It's just a release from all of that."

The LIRR boat rides—designed to lessen some of the commuting hassle related to extensive rail and signal repairs occurring over the next several weeks at New York Penn Station—began on Monday and are expected to last until Sept. 1, according to the Metropolitan Transportation Authority.

While some LIRR customers travel during off hours or plan extra time to get to the office,

### Taking the Long Way

Long-distance ferries serving commuters to New York City

- LIRR/Glen Cove
- NYC Ferry/Rockaway
- Seastreak/Highlands and Atlantic Highlands



Sources: Seastreak; MTA; NYC Ferry  
THE WALL STREET JOURNAL.



A passenger enjoyed a scenic view and plenty of room aboard a ferry traveling from Pier 11 at Wall Street to Glen Cove, Long Island.

other riders of the Oyster Bay and Port Jefferson branches opt to use their LIRR passes for the twice-a-day round-trip ferry service that drops commuters at Wall Street's Pier 11 or at 34th Street. The ferry ride lasts about 80 minutes, roughly equal to a train commute.

The summer runs are something of a market test for a regular ferry service that Glen Cove city officials have long desired. The last such service to Manhattan ended in late 2001, the spokesman declined to share the MTA's cost for the

service.

"We're very happy with the feedback we've received from the riders of the Glen Cove ferry and the consistent service that it's provided," said the MTA spokesman. "We're constantly evaluating all of the alternative options we put on the table."

Still, all the empty seats on the water taxi are part of the attraction to riders such as Reid Pauyo, 53, who was sitting on the ferry's top deck to breathe in the saltwater and

gaze at the skyline as he made his way home from his job working in financial services.

"For me, I love the fact that people are not fighting to get into the train, to get to a seat," he said. "This is the summer of heaven for me right now."

That kind of pleasure is precisely what Barbara Peebles, Glen Cove's deputy mayor, is banking on. When she worked on Wall Street years ago, Ms. Peebles rode the ferry to work, describing

the rides as a balm to her health.

Last year the city put the final touches on a new ferry terminal, which LIRR is using at no charge for the summer, Ms. Peebles said. Glen Cove will begin looking for a full-time ferry operator in the fall, with service to begin sometime in 2019, according to Ms. Peebles.

"I have been dreaming about this ferry for a lot of years," she said. "There's no downside to being on the water."

## A Cool Way to Beat the Heat



RELIEF: A fountain in Manhattan's Washington Square Park provided this man with an escape from the hot weather Thursday.

## Change Sought in Race-Impact Bill

By BETH REINHARD  
AND KATE KING

New Jersey Gov. Chris Christie on Thursday issued a conditional veto of a bill requiring lawmakers to consider the racial impact of proposed criminal-justice measures, saying he also wants them to consider whether such legislation would deter crime in minority communities.

If lawmakers accept the governor's recommendations, New Jersey would become the fourth state to require a racial-impact statement for criminal-justice bills, and one of the first to require an impact statement on public safety.

"I fully support any measure that will combat those disproportionate effects [on minority populations], seeking to ensure that New Jersey laws apply equally to all citizens," Mr. Christie said.

But the Republican governor, a former U.S. attorney, added an unexpected request

for "a complete analysis to assess the broader public safety impact on the affected racial and ethnic communities and the impact of the measures on the victims and potential victims in those communities."

The novel demand marked a twist, partly because it isn't clear how lawmakers would determine a bill's effect on public safety. Experts, advocates and lawmakers often differ strongly on whether a particular punishment or sentence would deter wrongdoing.

African-Americans in New Jersey are incarcerated at 12 times the rate of whites, making the state's racial disparity the widest in the country, according to a report last year by the Sentencing Project, a nonprofit that advocates reducing the prison population. Some black communities in New Jersey and around the country have struggled as large numbers of African-Americans serve long mandatory minimum sentences for drug offenses.

Assemblyman Troy Singleton, a Democrat and sponsor of the bill, said he was "perplexed" by the conditional veto and plans to ask the governor's office to explain its rationale and proposed changes.

"The only thing I can think of is that he's trying to say,

*It isn't clear how lawmakers would determine a bill's effect on public safety.*

We might have a tough law in the books, but has that made the community safer?" He added: "My concern is that we've seen some of the harsher penalties, like mandatory minimums, put in place that have exacerbated the racial disparity in our penal system but not necessarily curbed the violence in the communi-

ties where those victims or potential victims are."

One leading advocate for the bill, Roseanne Scotti, New Jersey state director for the Drug Policy Alliance, said she could support the revised legislation as long as the public safety analysis isn't a "knee-jerk response" that assumes all penalties deter crime.

"This is new territory, but we hope it will allow for a more robust conversation by legislators about criminal justice legislation," she said.

The bill received unanimous support in the Senate and drew only three no votes in the Assembly.

One opponent, Republican Assemblyman Parker Space, said racial-impact statements could distort the administering of justice. "If someone murders or rapes or robs or commits fraud, we should not lessen the prosecution of such because it might, in theory, negatively impact perceptions about some arbitrarily drawn group."

## GREATER NEW YORK

# Musicians Gather to Squeeze a Few Notes

More than 200 people attend annual festival where the accordion is the main attraction

BY CHARLES PASSEY

Don't tell Cody McSherry that the accordion is an instrument more suited to his grandparents' generation. The 14-year-old budding master of the squeezebox says he has too many gigs lined up to worry about whether it meets anyone's definition of cool.

Cody is one of about 200 attendees at the American Accordionists' Association annual festival, a gathering of professionals, students and teachers that is being held this year at the Westin Princeton at Forestal Village in New Jersey through Sunday.

In many ways, musicians like Cody are key to the accordion's future. After years of seeing their instrument stigmatized as a relic of the Lawrence Welk era, accordionists are feeling hopeful that a new generation is starting to embrace it.

Such pop and rock groups as the Lumineers and Mumford & Sons are featuring the accordion. Even Madonna, the ultimate arbiter of cool, has been known to have one on stage.

Still, Cody, who entertained the festival's attendees with a brief set of classic European accordion music (as in polkas and more polkas) during a Thursday lunch, says it isn't so much the hipster factor that attracted him. Rather, it is the very personal nature of the accordion, an instrument that is literally strapped to a player's body.

"It becomes a part of you," said Cody, who lives in Lancaster, Pa. "You breathe with it."

There was a whole lot of such breathing going on at the festival on Thursday. Younger players showcased their skills in a scholarship competition with \$8,000 in prizes at stake. Older musi-



Musicians practiced Thursday for a concert at the American Accordionists' Association annual festival.

cians attended workshops, including one by Brooklyn-based accordionist Will Holshouser that demonstrated how the instrument works in a wide range of international musical expressions, from

French to Argentine to Jewish-style klezmer.

"There's no one overriding accordion tradition," Mr. Holshouser said during the workshop.

To top it off, many attend-

ees gathered for a rehearsal of the festival "orchestra"—essentially, an expanded accordion ensemble. The concert takes place on Saturday night.

Not that there wasn't time for a little socializing—or

shopping. Vendors were on hand, selling accordion-themed novelties—think a bumper sticker that declared, "I'd rather be squeezin'"—and actual instruments themselves.

Frank Busso Jr., an accordion seller at the festival, says business has been good, with his annual sales rising 10% to 15% over the last five years. It helps that some of the newer top-tier models, priced over \$10,000, are more lightweight and portable. Mr. Busso pointed to one instrument, made with what he called a "space-age metal," that came in at 23 pounds—or several pounds lighter than what a previous iteration might have weighed.

Either way, Mr. Busso, an accordionist himself whose father, sister and other relatives also play the instrument, says there is a timeless appeal to the squeezebox. For him, it is about the fact that an accordion can create so much sound.

"It's like carrying an orchestra on your back," he said.

## These Speedsters Are Ready To Electrify Fans in Brooklyn

BY LAINE HIGGINS

Brooklyn isn't exactly synonymous with Monaco or even Daytona in the minds of car racing fans, but this weekend the borough will play host to a fleet of speedsters zipping around at up to 150 miles an hour.

Except when these vehicles pull in for a pit stop, they won't be out of gas—they'll be out of juice.

The Qualcomm New York City ePrix, running Saturday and Sunday at the Brooklyn Cruise Terminal in Red Hook, will feature all electric cars that otherwise look almost exactly like the open-wheel variety that run in Formula One races.

It will be the first race sanctioned by F1's governing body in New York City in modern history. Formula E didn't discuss expenditures nor expected revenues from the event, but said they invested at least \$20 million in staging the race.

"Our biggest dream when we started Formula E was to race in New York City," said Alejandro Agag, CEO of Formula E, which was started in 2014.

The race aims to minimize its environmental footprint, and cars competing produce zero emissions, according to Formula E. But it also marks a test of whether Americans will embrace the young format.

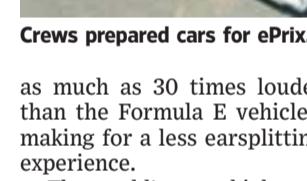
Formula One and open-wheel racing in general has

never been as popular in the U.S. as stock-car racing, and organizers admit that many people aren't accustomed to the idea of high-speed electric cars.

"People will be shocked at how fast these cars go. They're race cars, but people expect them to be like grandma's Prius," Mr. Agag said.

A bonus: Their boisterous

Formula One counterparts are



Crews prepared cars for ePrix.

as much as 30 times louder than the Formula E vehicles, making for a less earsplitting experience.

The world's most high-profile electric-car maker, Tesla, won't have a vehicle in the race, which is somewhat ironic given that New York City's lone Tesla dealership is just one block from the track's hairpin curve.

Organizers say the event is sold out, with 8,000 fans ex-

pected each day in the newly erected grandstands facing the Statue of Liberty and lower Manhattan.

The event will start with 20 drivers from 10 teams. Due to the limited capacity to charge the lithium ion batteries, drivers switch cars midway through each race, which run 43 laps of the 1.21-mile course on Saturday and 49 laps Sunday.

Keeping with Formula E's mission of sustainability, race organizers joined with the city's Economic Development Corp. to bring the New York Water Ferry to Red Hook by way of the South Brooklyn Line and repaved surfaces surrounding Atlantic Basin.

Carolina Salguero, president of nonprofit Portside New York, is hopeful the influx of people will be a boon for exposure, commerce and donations for a neighborhood still recovering from superstorm Sandy in 2012.

"If this is a huge success and transformative it would be historically appropriate that it happens at this spot," Ms. Salguero said.

Mr. Agag hopes to boost Red Hook but said the race also has a broader agenda.

"Formula E has one objective: That every car in the world one day is electric," he said. "The revolution is happening and Formula E wants to accelerate that change."



Jacqueline Kennedy Onassis' childhood Manhattan apartment had been on the market for years.

## Former Jackie O. Home Sold

BY CANDACE TAYLOR

The Park Avenue apartment in Manhattan where Jacqueline Kennedy Onassis lived as a child has sold for \$25.25 million, after several years on the market and multiple price cuts.

The duplex, located at the famed 740 Park Avenue, first went on the market in 2014 for \$44 million, but after several price cuts most recently was listed for \$29.5 million with Sotheby's International Realty and Douglas Elliman Real Estate.

The sale closed Thursday, according to a spokeswoman for Sotheby's, who declined to name the buyer.

The sellers are hedge-fund

founder David Ganek and his wife, Danielle, who bought the apartment in 2005 for \$19.1 million, public records show.

Mr. Ganek's former hedge fund, Level Global Investors, closed months after a 2010 raid by FBI agents. In 2015, Mr. Ganek sued then-Manhattan U.S. Attorney Preet Bharara and others, arguing that evidence was fabricated to obtain the search warrant that allowed the FBI to raid Mr. Ganek's office at Level Global.

The suit is ongoing. Mr. Ganek wasn't charged with wrongdoing.

Ms. Onassis, then Jacqueline Bouvier, lived in the apartment with her parents as a child in the 1930s, according

to the book "740 Park: The Story of the World's Richest Apartment Building," by Michael Gross. The building was developed around 1930 by her grandfather, James T. Lee.

The Ganecks renovated the four-bedroom duplex, which occupies the sixth and seventh floors of the building. The apartment has a living room, dining room and library, all with fireplaces, and a media room.

The master suite has two bathrooms, two dressing rooms and two offices. There are two staff rooms off the kitchen.

Another one of the former first lady's childhood homes, the Merrywood estate in Virginia, is on the market for \$49.5 million.

REPUBLICAN GOV. CHRIS CHRISTIE IS AGAIN BLOCKING DEMOCRATIC LAWMAKERS' ATTEMPT TO HAVE THE STATE REJOIN A REGIONAL ENVIRONMENTAL PACT.

MR. CHRISTIE ON THURSDAY VETOED A MEASURE APPROVED IN THE LEGISLATURE THAT WOULD REQUIRE THE STATE TO REJOIN THE REGIONAL GREENHOUSE GAS INITIATIVE.

NINE MID-ATLANTIC AND NEW ENGLAND STATES HAVE AGREED TO CAP CARBON DIOXIDE EMISSIONS AND TRADE THE EXCESS IN AUCTIONS.

MR. CHRISTIE PULLED OUT OF THE INITIATIVE IN 2011, SAYING IT AMOUNTED TO A TAX ON UTILITY CUSTOMERS.

—Associated Press

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MANHATTAN

### Woman Found Dead In Central Park

A woman's body was found in Central Park Thursday, the fourth corpse discovered in the park since early May, New York Police Department officials said.

The body of the woman, who appeared to be in her late 20s or early 30s, was face down atop rocks near East 62 Street and East Drive, police said. The fully clothed body had no obvious signs of trauma, they said. A bag of unlabeled prescription medications was found next to the

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NINE MID-ATLANTIC AND

# LIFE & ARTS



Evan Rachel Wood in HBO's 'Westworld.'

## TELEVISION

### Newcomers Dominate Emmy Nods

BY JOHN JURGENSEN

#### WITHOUT PERENNIAL

"Game of Thrones" and "Downton Abbey" in the mix, a gaggle of new shows stormed into television's most prestigious club Thursday when nominations were announced for the 69th Primetime Emmy Awards.

"The Crown" (Netflix), "The Handmaid's Tale" (Hulu), "Stranger Things" (Netflix), "This Is Us" (NBC) and "Westworld" (HBO) were first-time nominees for Outstanding Drama Series. "Better Call Saul" (AMC) and "House of Cards" (Netflix) were the only repeat honorees in the category.

With a rare triple nomination, Netflix has its strongest showing yet for best drama, a category it has yet to win. Other networks have cause to celebrate, too. NBC's tear-jerker "This Is Us" is the first series from one of the big four broadcast networks to be nominated in the category since 2011. And the nomination for "The Handmaid's Tale," a dystopian drama, helps Hulu demonstrate that it is on the level of fellow streamers Netflix and Amazon as a conduit for premium TV.

By contrast, Outstanding Comedy Series saw an almost exact repeat of last year's nominees, with only Amazon's "Transparent" missing this year. FX's "Atlanta," starring series creator Donald Glover, was the only new series and first-time nominee. It will compete against "Black-ish" (ABC), "Master of None" (Netflix), eight-time nominee "Modern Family" (ABC), "Silicon Valley" (HBO), "Unbreakable Kimmy Schmidt" (Netflix) and "Veep" (HBO).

The awards show is scheduled for Sept. 17 on CBS.

"Saturday Night Live" and HBO's futuristic "Westworld" lead the competition with 22 nominations each. As usual, HBO took the most nominations by network (110), followed by Netflix (91) and NBC (60).

The loudness of American politics seemed to play a role in the nominations for late-night talk shows. "Full Frontal With Samantha Bee" and "The Late Show

Please see EMMYS page A13



Claire Foy in the Netflix series 'The Crown.'

TWENTIETH CENTURY FOX

FILM REVIEW | By Joe Morgenstern

### 'Apes' Evolves to Deep Feelings, High Drama



**IF YOU LISTENED** to "War for the Planet of the Apes" with your eyes closed, the music alone would let you know you were in the presence of a grand adventure. This improbably magnificent film and Michael Giacchino's majestic score are a perfect match. The apes are the good guys here, but the humans who made the movie do our species proud. (Matt Reeves, who directed the previous episode, returns for this one; he also wrote the screenplay with Mark Bomback.)

It's been almost half a century since the first "Planet of the Apes" hit the big screen. After eight iterations we've come to accept the conventions of the series—apes on horseback, apes with weapons, clever apes, talented apes and, more recently, in the first two parts of a rebooted trilogy, genetically enhanced apes with startling intellects and evolving powers of speech. This ninth feature, which completes the trilogy, asks us to accept some of the apes speaking more eloquently than the human creatures who want to kill them (though others still use sign language), and makes that easy to do by giving the animals vibrant souls. "They will see we are not savages," says the apes' leader, Caesar, whose intelligence is exceeded only by his naivety.

Caesar is played, as he was twice before, by the medium's pre-eminent practitioner of motion capture, Andy Serkis. Volumes have been written about Mr. Serkis since he appeared as Gollum in "The Lord of the Rings" films. I've written my share too, but this time around his performance, enhanced and transformed by ever more elegant technology, is so subtle, complex and convincing that I caught myself wondering at one point where they'd found an ape capable of conveying such an extraordinary range of emotions.

The whole production is complex, both emotionally and thematically, and sometimes moves at a deliberate pace, but the

narrative line is luminously clear. Coexistence between man and ape has failed. Humanity has been decimated by a simian virus and may not survive. Unless Caesar and his fellow apes can escape from a forest that once served as their refuge, they face extermination in their turn at the hands of an American special forces unit and its commander, a mad renegade and self-styled godhead known only as the Colonel. Woody Harrelson makes the Colonel a commanding figure in more ways than one, with seething ferocity that functions as a grand-opera



Woody Harrelson as the Colonel, above right; Caesar, top

homage to Marlon Brando's Colonel Kurtz in "Apocalypse Now."

That's not the only resemblance to the Francis Coppola classic. The "Planet of the Apes" series has always had overtones of racial conflict, but this film uses imagery straight out of the Vietnam War to summon up a vision of cultural dominance, and there's no mistaking the culture in question. The Colonel is obsessed by building a wall with slave labor. The stars and stripes wave over a vast concentration camp that houses ape slaves in subhuman, never mind subhuman, conditions. (In addition to filming a succession of shattering combat scenes, Mr. Reeves and his colleagues, including the cin-

ematographer, Michael Seresin, and the production designer, James Chinlund, have staged a huge prison break in classic style.)

The apes are consistently affecting—as sharply drawn individuals, not just endangered species—yet they're never sentimentalized. One of their number, Koba, has already turned on Caesar, started a war with the humans and paid the price for his betrayal; other defections loom. And the apes' leader must confront not only the crazed Colonel, but his own rageful need to avenge the loss of his loved ones; showdowns don't get much more suspenseful than the one in which Caesar finally comes upon his nemesis and closes in for the kill.

The dominant tone of the film is dark, though with plenty of dramatic and visual relief. Some of it comes in comic form—tragicomic, really—courtesy of Bad Ape, a desperate little chimp, voiced to plaintive perfection by Steve Zahn, who's been living as a hermit when he's discovered by Caesar's tribe. (Bad Ape picked up his name and his fractured English in a zoo where he lived until the simian flu outbreak.) Other sequences carry religious connotations, some of them lyrical—the tribe's arduous journey to a promised land—and some needlessly literal. (Caesar's quasi-crucifixion in the concentration camp may have seemed a good idea on paper. On screen it's an off-putting cliché.)

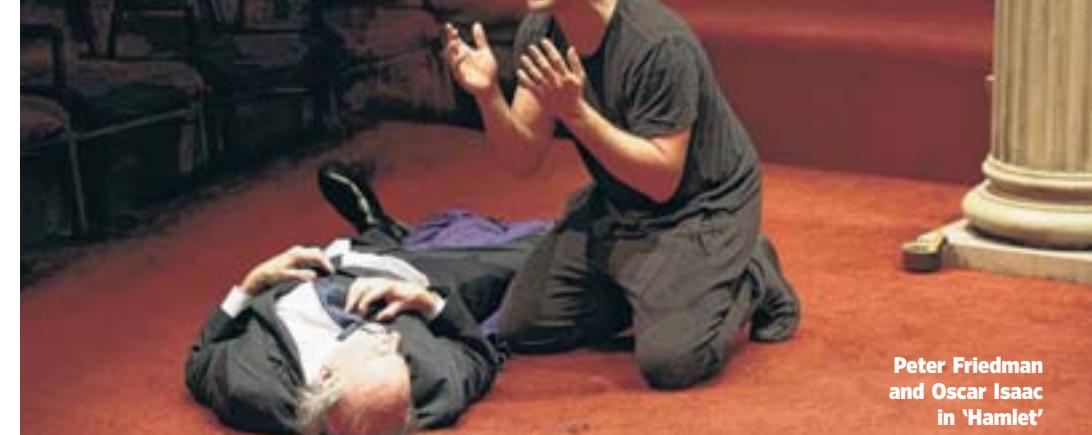
The most human of the humans, a girl called Nova, is a mute war orphan played by Amiah Miller. In the first two installments of the original series a character with the same name was played by Linda Harrison. This child, though, befriended by the apes and given a name they've borrowed from an old Chevy Nova nameplate, is a touchingly new creation in a film that feels newly minted, and daringly conceived on an epic scale. It's as if no one bothered to tell the filmmakers that Hollywood doesn't do grandeur anymore.

THEATER REVIEW | By Terry Teachout

### A STAR VEHICLE THAT'S WORTH THE RIDE

**New York**  
**SAM GOLD** is a top contender for the title of America's Hottest Stage Director. A still-new face who made his professional debut less than a decade ago, everything he does these days attracts attention. Nor is he any kind of phony: I've been quite impressed by some of his shows, "Fun Home" in particular. On the other hand, certain of Mr. Gold's other productions have shown signs of an ostentatious, self-regarding austerity that is the mark of a director who cares more for his interpretations than the plays that he's interpreting. It's suggestive that his revivals tend to be less sure-footed than his productions of new plays, and the "Othello" that he directed for the New York Theatre Workshop last December, his first Shakespeare production ever, was more a flashy medley of Shakespearean contemporary clichés than a fully realized piece of creative work.

Please see THEATER page A13



Peter Friedman  
and Oscar Isaac  
in 'Hamlet'

CAROL ROSEGG



# SPORTS

## TOUR DE FRANCE

# ARU SEIZES TOUR LEAD

BY JOSHUA ROBINSON

**CHRIS FROOME** has owned the Tour de France's yellow jersey so regularly in recent years that he'd be forgiven for stitching his name into it.

Since the 2015 race began, he has worn it in precisely half of the 54 stages, the same amount of time as every other cyclist in the world combined. Which made Thursday's stage in the Pyrenees a cycling rarity. Froome not only faltered, he faltered badly enough to cough up his yellow jersey.

On the day's last climb to the finish in Peyragudes, Frenchman Romain Bardet and Italy's Fabio Aru managed to run away from him and put 21 seconds of daylight behind them. Bardet won the stage and Aru (pictured, below) took the overall lead. Froome now trails Aru by six seconds in the general classification and has Bardet on his heels, only 19 seconds back.

"I don't have any excuses," Froome said. "I just didn't have the legs."

The Tour de France has often been criticized in recent years—the Team Sky era—for how few mano a mano battles it has delivered between the protagonists. Much of that is down to Team Sky's crushing dominance.

"I turned around and saw that Chris Froome was late, so I quickly did the math quickly realized I was going to take the yellow jersey," Aru said in Italian.

How long Aru can keep it remains to be seen. His Astana team is somewhat depleted and doesn't run nearly as deep as Froome's corps of lieutenants. But in the unlikely event that Froome doesn't bounce back, it has left the door ajar in this race with nine stages left. Now, even Bardet is in contention to become the first Frenchman to win the Tour since Bernard Hinault in 1985.



Venus Williams beat Johanna Konta on Thursday to advance to the Wimbledon women's final.



JULIAN FINNEY/GETTY IMAGES

## WIMBLEDON

# Venus Williams's Smashing Run

BY MATTHEW FUTTERMAN

London

**ONE WIN FROM** becoming the modern era's oldest Wimbledon women's singles champion, Venus Williams is still shredding younger opponents with a singular weapon that few outside her family can handle: a paralyzing serve.

The 37-year-old Williams proved Thursday she can still bring the heat—even facing 15,000 fans at Centre Court desperate for Johanna Konta to become the first British woman in 39 years to make a Wimbledon singles final.

Her 6-4, 6-2, 73-minute dismantling of Konta was so simple that Williams's run to the final at 37-years-old suddenly seemed completely logical and unsurprising. Williams set out to serve the ball as hard as she could, as many times as she could. Williams repeatedly dared Konta to return her 115 mph bullet.

Konta couldn't, not effectively anyway. Williams will now be favored to win a sixth Wimbledon championship against Garbine Muguruza of Spain, in a year when a few of the game's most dangerous players (like her kid sister Serena) either weren't here

or arrived out of form.

"I'm just trying to compete and produce whatever I can," Williams said of the power game she has rarely wavered from. "Just trying to compete."

The key moment of the match against Konta arrived in the ninth game of the first set with the score knotted 4-4 and both players refusing to crack. Facing a second break point, Williams handcuffed Konta with a 106 mph second serve that was three miles per hour faster than the first serve she had just missed. Konta couldn't return the ball and appeared shaken by what Williams had just sent her way. She lost the next five points, and moments later lost the first set.

"Her being able to do that is why she is a five-time champion here," Konta said of all those triple-digit serves. "She makes it difficult for you to dictate the play and a lot of the time you are at her mercy."

Williams never allowed Konta to take a lead, which kept the fans mostly out of the match. For 11 days they had served as a proxy for the country during Konta's captivating five-match run, which included a trio of three-set triumphs.

Not Thursday. With Williams

leading 2-1 in the second set, Konta double-faulted, and then two of Williams' shots ticked the top of the net and dropped in for eventual points, giving her the decisive break. Down in the next game, she cranked a 103 mph second serve that bounced straight at Konta's face. Konta merely dodged it in self-defense. Over the day, 65% of Williams's second serves resulted in points for her.

This is by design. David Witt, Williams' coach, said the pair have spent much of their time here and before the tournament focused on the serve in an effort to crank up the pace, especially on the second ball.

"Her mindset is she is going to attack," Witt said. "That is her game. Her whole mentality is moving forward and attacking."

Williams attacked and ended points so quickly against Konta, that it turned age and the challenges she has overcome to make her second grand slam final of the year into mere afterthoughts.

Williams suffers from Sjögren's syndrome, an autoimmune disease that causes fatigue and joint pain. Last month Williams was involved in a two-car accident in Florida. Two weeks later, the passenger in the other car died. The family has

filed a wrongful death lawsuit against Williams. Local police have released evidence showing that Williams was not at fault, but the experience has shaken her psyche, if not her game.

Now, this tournament is there for the taking. There will be no asterisks next to Williams's name if she wins, but her sister Serena, arguably the greatest player ever, is pregnant and absent. Multiple slam winner Victoria Azarenka recently gave birth and had little time to prepare. Maria Sharapova, just back after serving a drug suspension, opted not to try to gain a spot through the qualifying tournament.

Williams plans to approach the final with the same super-simple tactics she has used all along. She pays little attention to what her opponents bring to the fore. Witt said they will spend 90 minutes on the courts on Friday, mostly working on that serve—as well as some returns. On grass, a surface that feels very friendly to Williams's 37-year-old knees, that serve can seem even a few clicks faster than the radar readings say.

As a child, Williams worshiped the way Boris Becker boomed his way to three titles here. "I loved his serve," she said. "I just loved how big he played."

## MAYWEATHER VS. MCGREGOR | By Jason Gay

# BOXING'S F-BOMB CIRCUS

The upcoming boxing match between Floyd Mayweather and Conor McGregor is—and I say this with Barnum-like admiration—a cockamamie stunt: One of the greatest boxers of all time, fighting a swaggering mixed-martial arts champion with as much professional boxing experience as you, me, or the cat.

This week, Mayweather and McGregor are out on the road pumping their Aug. 26 Las Vegas tangle with a cross-continent/transatlantic string of press conferences—Los Angeles this past Tuesday, Toronto Wednesday, New York City Thursday, then over the pond to London on Friday. It's a road trip garish in both its carbon footprint and shameless codswallop, and yet in a quiet summer deprived of an Olympics or World Cup, I can't be the only one happy this fight will arrive to break the late summer doldrums. Do you want to talk some more about the Knicks' free-agent signings? I don't.

I'd planned to go to Mayweather and McGregor's Thursday event in Brooklyn, but after checking out the feeds from L.A. and Toronto, I think I get the picture. Spoiler alert: Both fighters say they will win the fight. McGregor claims the 40-year-old Mayweather is well past his prime, which may be true. Mayweather claims the 27-year-old McGregor is inexperienced, which definitely is true. Back and forth the two men have gone at each other, with so much arm-flailing and foul-mouthed shouting, I started to think I was in line at the airport. McGregor even wore a pinstriped suit to L.A. where the

stripes were revealed to spell the words: "F--- Y--." Try ordering that at Brooks Brothers.

This whole clambake is a money grab, which mercifully neither man denies. The pay-per-view, via Showtime, will cost \$99.95 to watch in HD, which hopefully you can sucker your next-door neighbor to pay. Tickets to see it in the flesh are expected to cost many thousands. The pressers are thunderous rallies for capitalism. In

They need to amp up the hype, because from every standard, what they're offering is a mismatch.

L.A., Mayweather held up a check for \$100 million and hailed himself as a "nine-figure fighter," while demeaning McGregor as, at best, an "eight-figure fighter." An eight-figure fighter! Now that's what Ayn Rand would call crossing the line.

Mayweather is the pure boxer here, but outside of the ring, he's far from likable, and at the microphone, he's easy work for McGregor, a volatile Irishman who has established himself as the most outlandishly profane talker in sports.

McGregor's mouth has been compared to Muhammad Ali's, but that comparison is a crime—McGregor's game is taunting and preening, with hardly a trace of Ali's wit or poetics. In Toronto, the UFC champ kicked off by puffing out his chest and commanding the crowd to crudely chant "F--- the Mayweath-

ers!" which the crowd merrily did. (Compare that to an Ali bon mot: "I've seen George Foreman shadow-boxing—and the shadow won.") McGregor had lots of fun with Mayweather's age, attire and alleged tax debts, but he's also been criticized for calling Mayweather "boy" and commanding him to dance—a dig that, done intentionally or not, carries ugly overtones. I'm guessing McGregor could not care less about offending anyone, but after a while, the shock of his ranting wears off, and he begins to sound like someone yelling on the train.

That's McGregor before the cameras. I spent time with the former plumber's apprentice a couple of years ago in his home city of Dublin, and in that environment, McGregor was soft-spoken and cerebral as he talked about his origin story, the under-appreciated skills of mixed martial arts—and, I should add, his admiration for the entrepreneurialism of Floyd Mayweather. "He collects everything," McGregor told me. "He knows his numbers. I have respect for his business mind." In public, McGregor is basically doing a Mayweather homage: taking Floyd's cash-flaunting/CEO-against-the-world schtick, adding a dose of clever, and turning the volume to 12.

Every prizefight asks its participants to play roles, to ratchet up tension—real or perceived—in order to goose public interest. They may get there, but I don't think Mayweather and McGregor despise each other at all. There have been moments of eye contact between the two that have signaled a shared appreciation of the ruckus they've already been able to stir up. After promoting fights with se-



Floyd Mayweather Jr., left, and Conor McGregor in Toronto on Wednesday.

rene talkers like Manny Pacquiao, you can almost see Floyd thinking of McGregor: *I can't believe how good this lunatic is at this.*

They need to amp up the hype, of course, because from every reasonable standard, what they're offering is a mismatch. (McGregor's agreed to conventional boxing rules; there will be no leg kicks or arm bars.) Mayweather vs. McGregor is basically a bar bet come to life: how long can an elite cage fighter last in the ring with a boxing hall-of-famer? The boxing in-crowd has already decided it's just a one-sided pile of silliness, but there's probably enough noise to intrigue casual sports fans. Public turnouts at the first two press events were massive, and every sports talk show in America should

cut Mayweather and McGregor a check for the easy content they'll provide over the next six weeks.

Is it enough to make you pay for it? That's the only question that matters in the end. Watching the hype thus far, it's hard to not be briefly captivated by the absurd theater of it, but I feel there's something asymmetrical about this match-up, and not merely in terms of the comparative ring experience. Fights are most memorable when there are sharp contrasts between the combatants in style and character. While Mayweather and McGregor are opposites in the ring, on stage they're selling the same, loud formula. This is a fight without a hero—it's all heel. But you don't need a hero to tune in on Aug. 26. You just need \$99.95.

## OPINION

# Ethics for the D.C. Ethicists



POTOMAC WATCH  
By Kimberley A. Strassel

We interrupt this week's Don Jr. loop to tell a tale of a real ethics scandal. It's one perpetrated not by the Trump administration, but by

the man atop Washington's ethics-industrial complex: Walter Shaub.

If you've never heard of Mr. Shaub, you soon will. He is resigning as director of the Office of Government Ethics—effective next week—so that he can continue more publicly the war he's been waging against the administration internally since last fall. Unquestioning media outlets are providing him a big podium for his accusations, so it's worth noting some facts.

Mr. Shaub was already playing the indignant watchdog on Sunday, as he explained his resignation on ABC's "This Week." He complained that the White House was consistently "challenging OGE's authority to carry out its routine and most basic functions." Understanding those "functions" is critical to realizing the Shaub drama is so much grandstanding.

The OGE isn't a watchdog or an inspector general's office. As its own website makes clear, it doesn't adjudicate complaints, investigate ethics violations, or prosecute misconduct. Rather, it was set up in 1978 to help the White House. Its job is to "advise" and to "assist" the executive branch in navigating complex

ethical questions, a job undoubtedly more frustrating and messy under President Trump. Nonetheless, Mr. Shaub's attempt to act as ethics czar, to ride herd on the Trump operation, is outside his office's mission. It's the act of a pious political operator who doesn't like this president.

Only weeks after the election, as speculation swirled about how Mr. Trump would handle the ethical complexity of his business dealings while president, Mr. Shaub was already trolling, posting a series of sarcastic tweets about divestiture to the Office of Government Ethics' official account. When Mr. Trump released his plan for his assets, Mr. Shaub blasted it at a public event with press in attendance. So much for the "help" part.

The best insight into Mr. Shaub's methods can be seen in the long fallout from Kellyanne Conway's bone-headed February attempt to defend Ivanka Trump by calling on Americans to buy her clothing line. Deputy White House counsel Stefan Passantino, who leads the internal ethics team, reached out within minutes to reassure Mr. Shaub the situation would be reviewed. Mr. Shaub nonetheless waited only four days before dropping a public letter essentially demanding action against Ms. Conway.

In a Feb. 28 response to Mr. Shaub, Mr. Passantino noted that some of the OGE's ethics regulations do not apply to White House staff. He nonetheless immediately reassured

Mr. Shaub that a separate regulation did hold them to some of the same standards and that he had reschooled Ms. Conway in them.

Mr. Shaub's response was to ignore this White House reassurance and instead to fan a firestorm over Mr. Passantino's first point—which he clearly saw as an affront to the OGE's power. In a March 9 letter he slammed the White House for failing to discipline

### Walter Shaub's exit is the grandstanding of a pious political operator.

Ms. Conway, going on to say he remained "more concerned about the extraordinary assertion that 'many' of OGE's regulations are inapplicable," Democrats and the media fell all over this Shaub claim, never bothering to read Mr. Passantino's real words.

And Mr. Shaub didn't let up. In a separate letter in May to Mick Mulvaney, director of the Office of Management and Budget, he blasted the White House for thinking that it was "beyond the reach of basic ethics requirements universally applicable to millions of executive branch employees." That letter was also sent to hundreds of government ethics officials, every inspector general, and the chairmen and ranking members of numerous congressional committees.

Mr. Shaub also ginned up

outrage over a blanket waiver to the Trump ethics pledge—a waiver allowing staffers to communicate more freely with the media. Never mind that Mr. Trump was under no obligation to create the pledge in the first place.

Then Mr. Shaub worked with Democratic senators like Elizabeth Warren to cause a hullabaloo over whether Mr. Passantino violated rules by not recusing himself from ethics questions involving a former client, Carl Icahn. Never mind that Mr. Icahn isn't an employee of this administration and thus not subject to ethics rules.

None of this is to criticize the OGE's staff, which has worked diligently on the tough job of getting this particular administration's nominees compliant with the rules. But wait for the howls when Mr. Trump appoints as the OGE's acting head someone who isn't a Shaub-like showboater and who tries to return the office to its core mission. The left and media will skewer him or her as a sellout.

As for Mr. Shaub, he's taking a job with the liberal Campaign Legal Center to push for greater OGE powers. No word on whether he negotiated that job even as the legal center was interacting with government, or whether he signed the Trump pledge barring officials from "lobbying" for five years after leaving government. (The OGE did not return a call for comment.) Maybe the ethics rules are different for ethics pooh-bahs.

Write to [kim@wsj.com](mailto:kim@wsj.com).

## After 500 Years, an Italian Jewish Rebirth

HOUSES OF WORSHIP  
Catania, Sicily  
By Michael Ledeen

Late last month a Jewish community was established here in southern Italy—the first such founding since King Ferdinand and Queen Isabella ordered the expulsion or forced conversion of the Jews more than 500 years ago. On the same day the community was revived, the Catania city government gave the top floor of a palace overlooking the Mediterranean Sea to the International Institute for Jewish Culture. The small community is now looking for a rabbi and raising money to furnish the space, which will be used as a synagogue.

State support for the Jews extends beyond helping to revive communities. The federal government helped finance the Italian translation of the first volume of the Talmud. The new volume was first presented at the country's most prestigious cultural institution, the Accademia dei Lincei, on the banks of the Tiber river in Rome. The first two runs of the translation sold out almost immediately, and the buyers are overwhelmingly non-Jewish, according to the publisher.

Perhaps the clearest indicator of the strength and depth of Jewish popularity comes at mealtime. Jewish food, including kosher food, is suddenly chic. Restaurants in Rome's Jewish ghetto are regularly packed. You can even

get fried artichokes made "Jewish style" at takeout stands. Kosher food and wine are now regularly featured at national food fairs and can be purchased at upscale stores throughout the country.

### Long-dissolved communities form anew, and kosher food is suddenly chic.

"Regular people are selling and buying Jewish food precisely because it's Jewish," says the Italian journalist Carla Reschia. "Food is an example, but you can see it also in literature: In a country where Jews number less than 0.1%, Jewish authors are disproportionately popular."

Italian historians, archaeologists and anthropologists are hard at work to document the presence of Jews from ancient times into the early modern period. There is no lack of evidence, some of which dates back to the first century, following the Roman conquest of ancient Israel. Yet many museums are not aware of the considerable quantity of evidence they have in their archives and deposits. In recent years, Sicilian cities have begun to publish catalogs of

this material, and I recently attended a public meeting in southeastern Sicily that featured professors and government officials intent on creating a tourist guide to Jewish Sicily, from Taormina to Siracusa and Noto.

It is hard to overstate the enthusiasm for the Jewish revival. Cooperative ventures between Italian and Israeli universities are under way. These efforts should produce new experts and new historical finds in the coming years. Such activities will be reinforced as other communities emulate the Catania model and new centers of Jewish life are created.

There is a lot of work to be done before the Italian Jewish revival is fully realized. Anti-Semites are particularly active in northern cities like Milan and Turin. The country is also a landing point for many Islamic immigrants, many of whom are openly anti-Semitic. Possible descendants of the old communities will want to formalize their faith by converting, and there is a shortage of rabbis qualified to do that. But in an era when European Jews are under siege, that's not a bad problem to have.

Mr. Ledeen is a scholar at the Foundation for the Defense of Democracies.

By Peter J. Wallison

President Trump showed his independence last week at the Group of 20 meeting in Hamburg by opposing an international consensus on climate change. Yet in another area, the G-20's attempt to regulate global finance, Mr. Trump signed on to a communiqué that runs counter to his promises on the campaign trail and in office.

The summit's official statement lauds the Financial Stability Board's "considerable progress" in developing new international regulations. It says G-20 leaders "welcome the FSB assessment of the monitoring and policy tools available to address risks from shadow banking."

The FSB is a group of central bankers and regulators deputized by the G-20 in 2009 to set up an international system to supervise finance. The U.S. is represented on the board by the Treasury Department, the Federal Reserve and the Securities and Exchange Commission. But most of its members are

European officials. It is difficult to understand how Mr. Trump, who has promised to reduce financial regulation in the U.S., could possibly endorse the FSB's effort to create an even more stringent global system of financial regulation.

### Let's hope that G-20 communiqué he signed was a mistake.

Once the FSB received its mandate in 2009, it moved aggressively—with the full support of the Obama administration—to create a regulatory structure covering all financial services and institutions in developed countries, including the U.S.

As the G-20 communiqué suggests, the FSB's particular focus has been developing a framework to capture what it calls "shadow banks," which it broadly defined as any financial firm engaging in "credit intermediation" outside the regulated banking system.

That includes, according to a 2013 FSB statement, "securities broker dealers, finance companies, asset managers and investment funds, including hedge funds."

During the previous administration, it was realistic to believe that the U.S. would join this scheme. President Obama was a supporter of the G-20's international regulatory program. Not only that, in the U.S. the Dodd-Frank Act created the Financial Stability Oversight Council, which was given the power to regulate and prohibit "activities" it judged as a threat to financial stability.

This power alone would enable it to impose in the U.S. virtually all the regulations the FSB might develop.

The FSB's rules were not intended to be voluntary. The group's chairman, Bank of England Gov. Mark Carney, made clear in memorandums to other FSB members that all G-20 countries, including the U.S., were expected to adopt its regulations in their own jurisdictions. Compliance, he said, would be monitored.

Mr. Wallison is a senior fellow at the American Enterprise Institute.

BOOKSHELF | By Laura Landro

## Priming The Pump

### Open Heart

By Stephen Westaby  
(Basic Books, 287 pages, \$27)

Heart surgeons are among the superstars of the medical profession, possessing finely tuned skills and a combination of detachment and sheer guts that enables them to carve open fellow human beings and hold the most vital human organ in their hands. In "Open Heart," British cardiac surgeon Stephen Westaby shares often astonishing stories of his own operating-room experiences, illuminating the science and art of his specialty through the patients whose lives he has saved and, in some cases, lost.

Because the heart is "complex and idiosyncratic," as Dr. Westaby puts it, there are all sorts of problems that can get in the way of its fundamental function: pumping roughly 2,000 gallons of blood daily through the body. Fortunately, he notes, advances in medicine have enabled patients to escape a death sentence from conditions such as heart failure, a progressive disease that renders the heart unable to pump the blood the body needs.

Despite the advent of heart transplants in the 1960s, donor hearts were not an option for many, and by the 1990s Dr. Westaby and other surgeons began using new artificial heart devices, including pumps that were implanted in the chest or temporarily attached outside the body. Connected via a cable in the belly to power sources such as battery packs, they could maintain circulation and rest

failing hearts. For some patients, such devices served as a bridge to an eventual transplant or as a permanent alternative to one; for still others, they became a temporary "bridge to recovery."

In 1996, Dr. Westaby opened his own surgical heart-failure service at his Oxford hospital to treat the thousands of heart-failure patients in Britain, where there were fewer than 200 heart transplants each year. His vision was to provide lifetime blood-pump support, a solution "that didn't need a dead person or frantic donor-heart retrieval by helicopter in the middle of the night." It is a mission he has pursued ever since, adopting every technological advance possible and collaborating with colleagues around the world.

Long before medical school, Dr. Westaby tells us, when he had a porter's job at a local hospital, he was fascinated by autopsies, watching a scalp "incised from ear to ear and peeled forward over the face like an orange." Early signs of his inventiveness came as a surgical resident, when, after a pub visit, he realized that he couldn't stand through a four-hour operation without having to take a bathroom break. He decided to run a rubber tube used for incontinent men from his groin down into the big rubber operating boots that surgeons wear to stand in sloshing puddles of blood and guts. Unbeknownst to others on the team, he slowly filled the boots.

One procedure involved implanting a turbine heart-pumping device and screwing a titanium plug, Frankenstein-like, into the skull.

During his training, Dr. Westaby learned to handle stress but did less well with the detachment that also comes with the territory. Early on he was told to "get over it if you want to be a surgeon," because empathy can bring unsustainable misery. What makes Dr. Westaby's stories so compelling, though, is that he can't quite suppress his humanity. When he meets the mother of an African child with a grievous injury or a pregnant woman with a failing heart who is fighting to keep her baby, it is the desire to help them that drives him the extra mile when the case seems hopeless.

Mastering cardiac surgery required learning how to operate on the lungs and esophagus as well, and Dr. Westaby was frequently called on for extreme trauma cases. An engineer working in an industrial complex when a boiler explodes, for instance, sustained burns to the inner lining of his windpipe so severe that "whole sheets of necrotic membrane sloughed off from the lining of his bronchial tubes," obliterating his airways. Dr. Westaby relied on instinct and ingenuity while elbow-deep in the victim, fashioning a tube long enough to pass through the burned larynx so that the patient could cough up secretions and begin to heal.

Patients get their due in Dr. Westaby's account, such as Peter Houghton, a man suffering from heart failure who agreed to be Dr. Westaby's guinea pig for one of the first permanent artificial hearts. The American physician and inventor Robert Jarvik personally brought his Jarvik 2000 high-speed miniature turbine device from New York, and a surgeon from the Texas Heart Institute came to assist. The procedure involved implanting the turbine pumping device and screwing a titanium plug, Frankenstein-like, into the skull to carry electricity to the pump through a cable in the neck and chest. Houghton, thereafter a bionic cyborg, became a fierce advocate for Dr. Westaby, working tirelessly to draw attention to his efforts.

One theme in "Open Heart" is Dr. Westaby's frustration with Britain's National Health Service, which, he says, values saving money over saving lives. He grows frustrated as he tries to get the reluctant government-run payer to cover the costs of advanced interventions. There are other problems too: Dire situations often get worse, he says, because of treatment delays and poor attention to best practices, like administering clot-busting drugs after a heart attack. Medical directors, he says, seem intent on ensuring that "no one does anything new or interesting."

Regrets, he has a few, including neglect of his family: "While I spent many hours striving to save other people's children, I never spent enough time with my own." And he can no longer operate due to a job hazard for surgeons: Metal instruments slapped into the hand may eventually deform it. But he is looking ahead, he says, to working on new heart-saving devices and other breakthroughs. Let's hope he keeps his heart in the field for years to come.

Ms. Landro, a former Journal health columnist, is the author of "Survivor: Taking Control of Your Fight Against Cancer."

### Coming in BOOKS this weekend

Cyberwar gets real • Thoreau at 200 • Why your child

should read 'Swallows and Amazons' • The science of

improvisation • Daphne du Maurier • Bix Biederbecke

• Debut fiction • London's lonely hearts club • & more

## OPINION

### REVIEW & OUTLOOK

## ObamaCare Moment of Truth

R epublican leaders unveiled a revised health-care bill on Thursday, setting up a Senate watershed next week. Few votes will reveal more about the principles and character of this Congress.

Months of stations-of-the-cross negotiations between conservative and GOP moderates have pulled the bill towards the political center, and for the most part the new version continues the journey. This leftward shift is Majority Leader Mitch McConnell's bid to meet the demands of still-recalcitrant Republican moderates. The bill remains a net improvement over the ObamaCare status quo, but the question now is whether they'll take yes for an answer.

In the new bill, the GOP's economic growth wing made a major and bitter concession by retaining the 3.8-percentage-point surcharge on investment income. This political capitulation doesn't even phase out the tax. Repealing this millstone on investment and rising wages has allegedly been a Republican goal for years, and the Senate voted to do so as recently as 2015. Markets have also been expecting relief, meaning the retreat will undercut an economy that can't afford many political shocks.

As worrisome is what this capitulation shows about GOP fortitude against relentless progressive opposition. Moderate Republicans folded amid a false if completely predictable tax-cuts-for-the-rich narrative, as if they'll somehow get credit for reneging. Has opposition to the bill lessened even an iota? Choking over the tax doesn't bode well for tax reform, when Democrats will be invoking "the affluent" at every turn.

The priority has to be growth and increasing incomes, not the short-term politics. Or maybe Republicans could do a better job making a political argument about jobs and wages instead of nothing. Any reform worth passing is difficult, and Republicans have sent a signal they'll give up at the first whiff of grapes.

The new bill uses the revenue from the investment tax to pay for spending the moderates favored, which might once have been called tax-and-spend liberalism. This includes expanding eligibility for insurance subsidies, increasing subsidies for out-of-pocket expenses and higher up-front spending in Medicaid, such as for hospitals that provide uncompensated care for the uninsured. Financing for high-risk pools and insurance market stability is tripled.

It also dispenses \$45 billion for heroin and opioid abuse treatment. In February 2016, President Obama proposed a \$1.1 billion plan that would increase access to addiction therapy,

boost public-health education, stockpile the anti-overdose medicine naloxone, deter fentanyl trafficking, expand needle-exchange programs and make sundry grants to law enforcement and rural communities. The Senate bill is 40 times as large. Don't believe anyone who claims this isn't enough money, because it probably reaches the limit of what government can do to mitigate the crisis.

The most important residual virtue of the McConnell rewrite, and the main reason it is still worth passing, is that it maintains the original Medicaid reform. This would transition the program to per capita block grants and equalize payments for the poor and the disabled compared to ObamaCare's Medicaid expansion population of able-bodied adults. The revision is too generous in the early years and has a long runway to give Governors time to plan and adjust, but it shifts to a budget growth rate in a decade that is fiscally sustainable.

Moderates intensely opposed this transformation, but structural changes are the only way to make the entitlement state even remotely affordable. The discipline will save \$772 billion over 10 years.

Conservatives gained a modest expansion of Health Savings Accounts and a version of Ted Cruz's "freedom option," which would allow insurers that sell ObamaCare-compliant plans to also sell deregulated plans. Combined with state waivers, this could lead to significantly lower premiums for most consumers.

The Senate bill has never been the "root and branch" repeal that some Republicans overpromised, but any legislation with a chance of passing must negotiate both political reality and health-care conditions that have developed over decades. The bill is now a pragmatic, modest compromise that tries to satisfy all camps.

Most Senate conservatives like Mr. Cruz are warming to the bill despite previous concerns about ObamaCare Lite, and we'll support it too despite its watered-down tax cuts and reform. Moderates now have to decide if they can say the same, having extorted almost everything they asked for and then some.

Moderates never objected to the repeal-and-replace agenda and surely benefitted from the slogan politically, yet some are still threatening to vote against even allowing a debate. If what they really want is ObamaCare, they should have said so earlier, though now at least they'll be accountable for their true position. Mr. McConnell is right to hold a vote next week to force Republicans to honor their avowed principles—or betray them.

## China's Empty Nobel Chair

L iu Xiaobo, the 2010 Nobel laureate, died on Thursday, only weeks after he was moved to hospital from a prison cell. The Chinese government bears responsibility for failing to competently diagnose and treat his liver cancer. To Beijing's shame, the only other Peace Prize winner to die in custody was Carl von Ossietzky, a prisoner of Nazi Germany who won in 1935 and died in 1938.

Liu played a pivotal role in the 1989 student protests in Tiananmen Square, helping to negotiate the peaceful departure of the last students to occupy the square. He kept the spirit of that movement alive in 2008 when he helped to write Charter 08, a democracy manifesto. Shortly thereafter he was sentenced to 11 years in prison for "subversion."

China's rulers have worked hard to make sure their citizens learned little about Liu's ideas. That fear of one man's courage testifies to the illegitimacy of their power. Liu could have played an important role in China's transi-

tion to democracy, but his example will serve as an inspiration to future generations.

Beijing has used the fruits of economic reforms started by Deng Xiaoping in 1979 to prolong authoritarian rule far longer than most thought possible. But its obsession with social control is hampering further moves toward a free-market economy. The resulting tensions are building and increase the risk of instability.

At the Nobel prize ceremony in 2010, Liu was represented by an empty chair. His death is a reminder of the world's obligation to keep attention on China's rights abuses. Without political reform, China will continue to use its growing economic and military clout to spread its authoritarian model. Pressuring Beijing to free the imprisoned human-rights lawyers who have taken up Liu's freedom fight would serve the interest of China's people, as well as the rules-based international order that its undemocratic government seeks to subvert.

## California's Cap-and-Trade Problem

C alifornia Governor Jerry Brown plans to host a global climate summit next year, and there's no better exhibit of the tension between the left's environmental and social justice goals. Witness the Democratic rupture over reauthorizing cap and trade.

Democrats control a supermajority in both legislative chambers that lets them increase taxes without GOP support. Because the state raises revenues by auctioning emissions permits, a two-thirds vote is needed to extend cap and trade through 2030 (from 2020) and insulate the program from legal challenges.

The Governor says cap and trade is essential to meet the state's statutory requirement to reduce greenhouse gas emissions to 40% below 1990 levels—the same goal that Europe committed to in Paris. His problem is that Democrats from low-income areas are reluctant to extend cap and trade after voting this spring to raise gas taxes and impose a new vehicle registration fee.

Manufacturers, oil refiners and food processors—major employers in low-income areas—will have to buy permits or expensive new equipment to comply with the state's emissions cap. Cap and trade has raised the cost of gas by about 12 cents a gallon and this surcharge will increase as emissions controls tighten. Californians already pay about 65 cents more per gallon than the national average.

To win support from business and balky Democrats, Mr. Brown has offered to extend a partial sales tax exemption (3.94%) for manufacturing equipment that renewable companies could also exploit. So businesses will get a small discount on the millions of dollars they will have to spend

to comply with the emissions restrictions while the renewables lobby gets another fillip. What a deal. Mr. Brown has also agreed to suspend a fee on rural residents for fire prevention—which may be struck down in court anyway—through 2031 and prohibit local air quality management districts from imposing more stringent emissions standards than those of the California Air Resources Board.

The California Chamber of Commerce and Business Roundtable suffer from Sacramento syndrome and have endorsed Mr. Brown's green bargain. They fear a more liberal Governor like Gavin Newsom or Tom Steyer would impose more costly regulations. But there's nothing to stop Democrats with a simple majority from doing the same as they have repeatedly ratcheted up the state's renewable mandate.

This year the state Senate passed legislation doubling the renewable mandate to 100% by 2045—and, by the way, California is producing so much solar power on some days that it has to pay other states to unload it. Senate Democrats have also proposed jacking up the price of emissions permits and imposing a border carbon fee to tax out-of-state imports.

Yet groups like the Sierra Club say the Governor's deal gives businesses too much flexibility. Facing opposition from his party's progressive and moderate factions, Mr. Brown wants Republicans to provide the votes he needs to extend cap and trade. GOP support would let Democrats in competitive districts off the hook and make it harder to break their supermajority in 2018. If Republicans go along, they can look forward to being a permanent superminority.

### GOP moderates get all they want and they still won't commit to yes.

## OPINION

## LETTERS TO THE EDITOR

### Who Decides How the Terminally Ill May Die?

J.J. Hanson is entitled to oppose physician-assisted suicide (PAS) based on his own experience with incurable cancer. He isn't entitled to fudge facts in an attempt to impose his beliefs on others ("I Want My Doctors to Help Me Live, Not Die," op-ed, July 7).

Mr. Hanson writes: "A study conducted in Oregon in 2006 found 25% of patients requesting assisted suicide were depressed, and several of them went on to receive the lethal medication." In fact, that study (Battin et al.) found that 20% of such patients were clinically depressed, and that none of them progressed to physician-assisted suicide. None.

That very statistic indicates that the vast majority of those choosing PAS are not suffering from clinical depression, but instead are making a clear-minded choice for reasons that have nothing to do with the other factors Mr. Hanson claims for PAS—finances, hopelessness, expense or insurance profits. Instead, the most recent Oregon study (Blanck 2017) confirms that most patients cite decreased quality of life or loss of dignity as the reasons for considering PAS. Too many patients cite unbearable pain, which points to the continuing need for medical professionals to more successfully treat pain issues, but the study indicates that PAS laws continue to work as intended.

Like Mr. Hanson, I have incurable cancer but am doing unexpectedly well. I will not live in a state that doesn't allow physician-assisted suicide because if at some point my disease devastates my personal dignity, before it takes my life I intend to exercise my freedom to choose the option to die as myself, rather than as a drugged-up, hooked-up shell of myself.

MIKE GAYNES  
Brookings, Ore.

Mr. Hanson should consider having his advance directive or living will updated while he is not depressed and is of sound mind, so he can prepare for the end of life as he sees fit. In this document he might advise that he opposes assisted suicide for himself un-

der any circumstance. Don't deny choice to those who may feel PAS is appropriate for them.

MICHAEL P. CARTER, M.D.  
Savannah, Ga.

I want the comfort of a law that makes it possible to end my life should I care to. I also expect to be depressed in my final days. Dying is a depressing process. Lucky for me that the law in question requires two doctors to certify that I am capable of making this decision, and if either one believes my judgment is impaired by psychiatric or psychological disorder, I must be referred for a psychological examination.

America was founded on the principle of freedom of choice—the freedom to chose where one lives, how one lives, where one prays, etc. It should also include the freedom to choose how one dies. It is nobody else's decision but one's own.

HUGH STAFFORD  
Bettendorf, Iowa

I hope Mr. Hanson's physician told him that life expectancy with his diagnosis is, on average, four months. That means half of all patients live longer than that and half live less. This didn't mean Mr. Hanson had four months to live. PAS laws specifically require that the attending physician inform the patient of the feasible alternatives or additional treatment opportunities, including comfort care, hospice care, palliative care and pain control. Finally, insurance companies' policies, e.g., life, health, accident or annuities, cannot be conditioned or affected by the patient's request for aid-in-dying medication.

GRANT E. STEFFEN, M.D., M.A.  
Berthoud, Colo.

I agree wholeheartedly with Mr. Hanson that doctors should help people live. That is part of our Hippocratic Oath. None of us relish the opportunity to help someone die, but sometimes it might be true that living well includes dying well.

MARVIN H. THOMAS, M.D.  
Columbus, Ohio

## Mission Investing Helps Our Charitable Goals

Regarding James Piereson and Naomi Schaefer Riley's "Big Foundations Double Down on Government Mistakes" (

## OPINION

# Putin's Dangerous New Ukraine Doctrine

By Adrian Karatnycky

**S**anctions were not discussed at my meeting with President Putin," Donald Trump tweeted Sunday. "Nothing will be done until the Ukrainian & Syrian problems are solved!" Hours before the two presidents met, Secretary of State Rex Tillerson underlined this tough line on sanctions by appointing Russia hawk Kurt Volker as chief U.S. envoy on Ukraine.

Messrs. Trump and Putin made limited progress on Syria, but Moscow has been intensifying its efforts to destabilize Ukraine. Mr. Putin has been reluctant to deploy large military forces, but fighting in Eastern Ukraine claims five or six lives a

**Russia tries to absorb breakaway regions while stepping up terror in Kiev and elsewhere.**

week. Of late the Kremlin has escalated its aggression with military attacks on civilian targets, assassinations, cyberattacks to cripple the state and economy, and the economic and partial political integration of the occupied region into Russia.

Mr. Putin's war against Ukraine has boomeranged. His aggression has consolidated popular opinion, with one recent poll showing that 92% of those on territory controlled by Kiev now see themselves as Ukrainians. A decade ago that number stood at 75%. Mr. Putin is further stymied by Ukraine's growing military capability and frustrated by

signs of its economic recovery, both results of President Petro Poroshenko's reforms.

For Mr. Putin, this is unacceptable. Russia is paying a large economic price because of Western sanctions. It also faces a growing threat of social discontent in the impoverished parts of Ukraine it controls. With 1.8 million residents internally displaced on Ukraine-controlled soil and 600,000 resettled in Russia, the self-styled Donetsk and Luhansk "peoples republics," known by the acronyms DNR and LNR, have a combined population of more than 3.5 million. Many are retirees dependent on Ukrainian state pension payments. Others are miners and industrial workers whose plants were deeply integrated into the Ukrainian economy.

Mr. Putin's response has been to step up the aggression. The first five months of 2017 saw a steep increase in attacks on hospitals, schools, factories and other civilian targets, resulting in 44 fatalities. Terrorist bombings and assassinations in Kiev and elsewhere have become commonplace. On June 27 and 28 car bombs killed two colonels from Ukraine's security service. On June 1 a Russian citizen posing as a correspondent for the French newspaper *Le Monde* shot but failed to kill a Chechen volunteer in the Ukrainian militia. In late March an assassin from Russian-annexed Crimea killed a former Russian parliamentarian and Putin critic who had received asylum in Ukraine.

Russia is also accelerating the integration of occupied Donbas into Russia. On Feb. 18, Mr. Putin issued a decree enabling Russian state and private institutions to accept passports and other identity documents



TASS/ZUMA PRESS

Presidents Putin and Trump meeting in Hamburg, July 7.

issued by the self-styled DNR and LNR. The Russian press widely promoted the view of Luhansk separatist leader Igor Plotnitsky that the decree is a "step along the path of international recognition of our sovereignty."

The DNR and LNR economies have begun rapidly converting to the Russian ruble. A further step came March 5, with the confiscation by the "republics" of some 40 major privately held Ukrainian companies. These enterprises had provided employment for locals while paying taxes to Kiev and scrupulously withholding them from the renegade authorities.

Although these "nationalizations"—a war crime under the Geneva Conventions—had been accelerated by an unofficial embargo of trade with the region started by Ukrainian civic activists in January, the swiftness of the confiscations suggested they had long been planned. On the day of the takeovers,

senior Russian managers appeared at the "nationalized" workplaces to announce they were taking charge.

In mid-March, Kremlin-controlled media publicized the launch of a "Committee for the Integration of the Donbas and Russia" in Russian-annexed Yalta, Crimea. The Russian media trumpeted a call there by Mr. Plotnitsky for a referendum on the accession of the LNR to Russia.

In early April, Vladimir Pashkov, a former deputy governor of Russia's Irkutsk region, arrived to administer Eastern Ukraine's key industrial holdings, according to Russia's RBK news agency. On April 25 came news that the Russian Parliament was readying legislation backed by Foreign Minister Sergei Lavrov to simplify the procedure for granting Russian passports to residents of the occupied Donbas. A group of lawmakers called the Russian Friends of the Donbas announced they would

set up centers to assist in the naturalization process.

Russia is also escalating its interference in the internal political life of the rest of Ukraine, including cyberattacks against government and business targets and the use of fifth columns. These steps come from the well-known playbook that Russia used to foment separatism in Georgia's Abkhazia and South Ossetia regions. There, too, Russian military forces helped seize territory from a sovereign state, installed Russian advisers, and distributed Russian passports. The Kremlin now recognizes both entities as independent states.

None of this means the Kremlin is irrevocably committed to the permanent separation of the DNR and LNR from Ukraine. What Mr. Putin wants above all is to ensure that whatever the future status of these regions, Moscow, not Kiev, will call the shots. Still, the radical steps Russia is taking, including terrorism, make clear that Mr. Putin seeks to derail the 2015 Minsk II process, even as he points the finger at Ukraine for lack of progress toward peace.

The U.S. and Europe must respond forcefully to this new intensification in Russia's hybrid war. The engagement of Mr. Volker to shape diplomacy on the Russia-Ukraine conflict signals that the U.S. will adopt a pragmatic hard-line policy. It is a welcome sign that the personal chemistry between Messrs. Trump and Putin won't override the physics of power politics and diplomacy.

*Mr. Karatnycky is Senior Fellow at the Atlantic Council and co-director of its Ukraine in Europe initiative.*

## Governors and Mayors Should Be Begging for Trump's Tax Cut

By Arthur Laffer  
And Stephen Moore

**T**hese are brutal days for state governments, especially progressive ones. Last week Illinois passed its first budget in two years, raising taxes by \$5 billion—despite already having a state and local tax burden that's among the highest in the nation. Connecticut's deficits are so big, according to the fiscal watchdog group Truth in Accounting, that every taxpayer would have to pony up an extra \$49,500 to pay off all the liabilities. In Oklahoma, where low oil prices have tanked state revenue, some public schools open only four days a week.

Liberal groups warn that President Trump's proposals would make things worse by reducing the funds Washington sends states under programs like Medicaid. Governors and mayors, the argument goes, would be forced either to slash social services or raise taxes to make up the difference.

But focusing on federal support obscures the real problem. The biggest cause of states' budget woes is the anemic condition of the national economy. Over the past eight years,

growth in state and local revenue has slowed to a crawl. In fiscal 2017, total state revenue rose by less than 1% after adjusting for inflation, according to the National Association of State Budget Officers.

What states need most to regain fiscal health are national policies that accelerate the growth of the economy. Governors and mayors should be lobbying nonstop for the tax cuts proposed by Mr. Trump, which would revitalize state finances.

When the federal government cuts taxes, more money is left in the hands of businesses and workers. The Trump plan would free up an estimated \$2 trillion to \$4 trillion over 10 years—an enormous influx of cash for state and local economies.

Compare state finances during the go-go Reagan years with President Obama's tenure, beginning after the end of the recession each president faced. After the recession of 1983, the national economy grew an average of more than 4% a year through 1990. During the Obama recovery between 2009 and 2016, the economy grew just over 2% annually. Remember that those effects compound:

Strong growth year on year increases the size of the economy over time.

If state and local tax revenue had grown under President Obama at the rate it did under President Reagan, receipts in 2016 would have been greater by about \$650 billion, or 26%, according to national income and product account data. If the

### Expanding the economy means more revenue for states and cities—just as it did in Reagan's day.

economy in the Obama years had grown at 3.5% to 4%, the average rate for postrecession recoveries, states and cities would have had about \$430 billion more. Think what they could do with nearly half a trillion dollars in additional tax revenue each year.

Even if Republican tax reform eliminates the federal deduction for state and local income taxes—a move we support—it's effect on states

would still be overwhelmingly positive. When federal income taxes were high in the 1970s, people could write off as much as 70% of their state and local taxes. Slashing rates in the 1980s brought that figure down to as low as 28%. Yet state fiscal health improved dramatically in the '80s. The main effect of eliminating the deduction today would be to reduce the federal subsidy to high-tax states.

Critics will say this forecast for economic and revenue growth is wishful thinking, but it is based on the historical record. In the seven years after the Kennedy tax cuts, real state and local receipts grew by more than 60%, according to data from the Federal Reserve Bank of St. Louis. In the seven years after the Reagan rate cuts, the real increase was 37%. After Mr. Obama's tax increases, real growth was a meager 10%.

The nonpartisan Tax Foundation estimates that after 10 years the Trump tax reform would increase America's long-run gross domestic product by up to 8.2%. State and local governments capture about 13% of GDP in taxes according to 2016 Internal Revenue Service data, meaning

the growth spurred by the proposed cuts would give them about \$200 billion more each year by 2027 to balance their budgets, reduce taxes, or spend on education and social programs.

With the Trump tax cuts in place, the cumulative increase in state and local revenue over the following 10 years would be roughly \$1 trillion. Could any imaginable tax increase raise that kind of money?

Amazingly, the bean counters at the Congressional Budget Office and Joint Tax Committee completely ignore this effect when they tally the "cost" of tax cuts in terms of forgone revenue. Almost a third of the lost federal revenue from Mr. Trump's tax reform would be recouped by states and cities.

We only have one question: Why aren't more governors and mayors—especially those in economically depressed areas—demanding the Trump tax cuts?

*Mr. Laffer is chairman of Laffer Associates. Mr. Moore is a senior fellow at the Heritage Foundation. They are co-chairmen of the Committee to Unleash Prosperity.*

## Why the Post Office Gives Amazon Special Delivery

By Josh Sandbulte

**I**n my neighborhood, I frequently walk past "shop local" signs in the windows of struggling stores. Yet I don't feel guilty ordering most of my family's household goods on Amazon. In a world of fair competition, there will be winners and losers.

But when a mail truck pulls up filled to the top with Amazon boxes for my neighbors and me, I do feel some guilt. Like many close observers of the shipping business, I know a secret about the federal government's relationship with Amazon: The U.S. Postal Service delivers the company's boxes well below its own costs. Like an accelerant added to a fire, this subsidy is speeding up the collapse of traditional retailers in the U.S. and

providing an unfair advantage for Amazon.

This arrangement is an underappreciated accident of history. The post office has long had a legal monopoly to deliver first-class mail, or nonurgent letters. The exclusivity comes with a universal-service obligation—to provide for all Americans at uniform price and quality. This communication service helps knit this vast country together, and it's the why the Postal Service exists.

In 2001 the quantity of first-class mail in the U.S. began to decline thanks to the internet. Today it is down 40% from its peak levels, according to Postal Service data. But though there are fewer letters to put into each mailbox, the Postal Service still visits 150 million residences and businesses daily. With

less traditional mail to deliver, the service has filled its spare capacity by delivering more boxes.

Other companies, such as UPS and FedEx, compete with the Postal Service to deliver packages. Lawmakers, to their credit, wanted a level playing field between the post office and its private competitors. The 2006 Postal Accountability and Enhancement Act made it illegal for the Postal Service to price parcel delivery below its cost.

But with a networked business using shared buildings and employees, calculating cost can be devilishly subjective. When our postal worker delivers 10 letters and one box to our home, how should we allocate the cost of her time, her truck, and the sorting network and systems that support her? What if the letter-to-box ratio changes?

In 2007 the Postal Service and its regulator determined that, at a minimum, 5.5% of the agency's fixed costs must be allocated to packages and similar products. A decade later, around 25% of its revenue comes from packages, but

their share of fixed costs has not kept pace. First-class mail effectively subsidizes the national network, and the packages get a free ride. An April analysis from Citigroup estimates that if costs were

### A Citigroup analysis finds each box gets a \$1.46 subsidy. It's like a gift card from Uncle Sam.

fairly allocated, on average parcels would cost \$1.46 more to deliver. It is as if every Amazon box comes with a dollar or two stapled to the packing slip—a gift card from Uncle Sam.

Amazon is big enough to take full advantage of "postal injection," and that has tipped the scales in the internet giant's favor. Select high-volume shippers are able to drop off presorted packages at the local Postal Service depot for "last mile" delivery at cut-rate prices. With high volumes and warehouses

near the local depots, Amazon enjoys low rates unavailable to its competitors. My analysis of available data suggests that around two-thirds of Amazon's domestic deliveries are made by the Postal Service. It's as if Amazon gets a subsidized space on every mail truck.

I do not know which stores in my neighborhood will be gone five years from now, but I am certain my household will continue to receive numerous boxes from Amazon. I also believe that society would be better off if competing retailers, online or brick-and-mortar, continue to thrive. Congress should demand the enforcement of the Postal Accountability and Enhancement Act, and the Postal Service needs to stop picking winners and losers in the retail world. The federal government has had its thumb on the competitive scale for far too long.

*Mr. Sandbulte is co-president of Greenhaven Associates, a money-management firm that owns FedEx common stock.*

## Notable & Quotable: Sidewalks and Civil Rights

*From a July 11 article by Seattle Times staff reporter Christine Clarridge:*

Two King County Superior Court judges are asking for help cleaning up the courthouse at Third Avenue and James Street after they say two jurors and half a dozen employees have been assaulted.

The judges, Laura Inveen and Jim Rogers, acknowledged Tuesday that there are difficult underlying

circumstances contributing to the unsanitary and potentially frightening atmosphere around the courthouse....

Although cleaning and patrolling the area immediately surrounding the courthouse would not address some of the deep-seated issues faced by denizens of the space, it would send a signal that somebody was paying attention, [Inveen] said.

She and Rogers asked the county to take immediate steps to clean up

the courthouse with a daily power-wash of the surrounding sidewalks, which reek of urine and excrement....

Some committee members expressed concern about addressing the symptoms of the area's problems without getting to the cause. Councilmember Larry Gossett said he didn't like the idea of power-washing the sidewalks because it brought back images of the use of hoses against civil-rights activists.

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— Tim Atkin, Master of Wine



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— Sam Kim, Wine Orbit



#### 91-Point Chianti Reserva

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— James Suckling



#### 90-Point California Cabernet

"Lush and juicy with bright blackberry fruit."

— The Tasting Panel Magazine



#### 91-Point Spanish Gold-Medalist

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# BUSINESS & FINANCE

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## Redemptions Hit Einhorn's Fund

Greenlight, down 2% in first half, has to pay back \$400 million as investors cash out

By ROB COPELAND

Nearly half a billion dollars is out the door at David Einhorn's hedge fund.

Mr. Einhorn's **Greenlight Capital** Inc. hedge fund was forced to pay back more than \$400 million in clients' withdrawals at midyear, as more than 15% of eligible investors chose to cash out, people close to the firm said. Greenlight, a U.S.-stock specialist, was down 2% in the first half of the year,

while the S&P 500 gained 9%, including dividends.

A fixture at investment conferences, Mr. Einhorn made his name during the financial crisis with an aggressive call against Lehman Brothers Holdings Inc. just before the bank's collapse. He is the latest of that era's hedge-fund stars to be humbled, following struggles for the closely followed hedge-fund traders John Paulson and Kyle Bass, who bet against subprime housing.

Hedge-fund managers salivated earlier this year at President Donald Trump's election, hoping for new bouts of unpredictability in the markets. Instead, volatility is holding at

longtime lows as investors shrug off political headlines and bid up stocks ever higher. The hedge-fund industry recorded a record six consecutive quarters of investor outflows, according to researcher HFR.

Mr. Einhorn, 48 years old, is among the most well-known hedge-fund managers, attracting attention not just for his investment ideas, but for a flamboyant streak in pitching them. His 2011 presentation against **Green Mountain Coffee Roasters** Inc. was titled "GAAP-uccino."

Mr. Einhorn has repeatedly predicted a yet-unrealized swoon for highflying technology companies such as Tesla Inc.

"Most of his successful calls have been on the short side, and it's been really difficult to make money there in this environment," said hedge-fund investor Ketu De-

ously against the firm's push to split its stock, and shareholders sided overwhelmingly with the auto maker. Firmwide, Greenlight manages around \$7 billion, down from \$10 billion in 2014.

Greenlight is just two years removed from its worst year ever, with double-digit losses in 2015 that led Mr. Einhorn to confess at the next annual investor dinner that he had "failed miserably."

Mr. Einhorn isn't alone, as hedge funds of all stripes are under sustained pressure.

Some other high-profile funds, such as **Eton Park Capital Management**, have shut down. Many of those that re-

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15%

Percentage of eligible investors who cashed out of Greenlight.

sai of **i-squared Wealth Management** Inc.

Lately, Greenlight has also found itself the target. General Motors Co. fought back furiously

## Plaintiffs Ramp Up 401(k) Lawsuits

By ANNE TERGESEN

As 401(k) fee lawsuits have proliferated over the past year, a wider array of retirement-industry practices have come under fire. Now, the results are starting to come in, with some big settlements, and losses, for plaintiffs.

Many of the recent cases involve firms that furnish 401(k) plans with their own investments or allegedly profit from the retirement-plan arrangements. Several suits have been filed by plaintiffs' firms that are relatively new to 401(k) litigation.

"The plaintiffs' bar has definitely gotten more aggressive," said Susan Mangiero, an economist and managing director of Fiduciary Leadership LLC in Trumbull, Conn., who serves as an expert witness in 401(k) cases. "New competitors see it as a very big business. The allegations have expanded in scope."

Fueling the litigation boom, observers said, is a handful of multimillion-dollar settlements by companies such as **American Airlines Group** Inc.—which disclosed a \$22 million settlement this month—as well as a 2015 Supreme Court victory for plaintiffs in *Tibble v. Edison*, which put retirement plans on notice that they have a duty to monitor plan investments, including fees.

Since 2006, plaintiffs' firms have filed more than 90 lawsuits against employers and other parties alleging excessive fees in 401(k)-style retirement plans, according to **Groom Law Group** in Washington.

Last year alone, firms representing 401(k) participants filed more than 25 such cases, a record annual number.

Many of the latest suits target companies, including a number of financial-services firms, for using their own investments in retirement plans. The suits allege that by selecting proprietary mutual funds, the companies acted in their own interests, rather than exclusively in the interests of the employees in their 401(k) plans.

American Airlines settled allegations that it had breached its fiduciary duty by offering high-cost mutual funds from an affiliated investment company called American Beacon Advisors Inc., an arrangement that

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A fleet of vehicles with Baidu's autonomous driving technologies on a road test.

## Roadblock: China's Grip on Maps

Beijing limits digital mapping that can be done by foreign firms, citing national security

China is creating roadblocks for U.S. auto makers and tech companies to bring self-driving cars to the world's largest auto market.

Citing national security concerns,

By Liza Lin in Shanghai and Tim Higgins in San Francisco

China is limiting the amount of mapping that can be done by foreign companies, as **General Motors** Co., **Ford Motor** Co., **Alphabet** Inc. and **Apple** Inc. rush to develop self-driving cars or the software behind them. High-definition maps are crucial for autonomous cars to help them discern their exact location, navigate tricky intersections and

avoid fixed objects such as buildings.

Global car makers already need to form a partnership with a local company to open factories in China, but some are skeptical they will be able to find a way to operate their autonomous-car software in China because of the mapping restrictions.

Brian McClendon, an industry pioneer who helped created Google Maps and later led Uber Technologies Inc.'s self-driving effort, said he doubted U.S. software would ever be adopted for self-driving cars in China.

"We're going to have a bifurcated market for self-driving—China will do China and the U.S. will do U.S. and the rest of the world will quickly choose and do one or the

other," said Mr. McClendon, now a research professor at the University of Kansas.

To secure turn-by-turn navigation maps, foreign car makers currently work with Chinese mapping companies. But auto makers and tech companies might have reasons to hesitate before working with a third-party map provider in China on the high-definition maps needed by autonomous cars.

James Wu, co-founder of U.S. mapping startup DeepMap Inc., who formerly worked at **Alphabet** Inc.'s Google, Apple and China's **Baidu** Inc., said ownership of mapping data is crucial in self-driving cars.

"If a non-Chinese company works with a Chinese local map company

with a license, then who owns the data? Who would be responsible for safety issues, privacy issues, security issues associated with the map data? It is a pretty messy problem to sort out," Mr. Wu said.

GM, Apple and Ford declined to comment on the issue of mapping data in China. Alphabet's autonomous-driving unit, Waymo, didn't reply to an email seeking comment.

Earlier this year, Li Shufu, founder of **Geely Automotive**, the Chinese auto maker that owns Volvo, urged the National Committee of the People's Political Consultative Conference to relax the mapping barriers, which he cautioned could hurt the country's development of self-driving.

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## Kalashnikov Finds Success Without U.S.

By JAMES MARSON AND THOMAS GROVE

IZHEVSK, Russia—Russian arms manufacturer **Kalashnikov Concern** once had America in its sights: The iconic rifle designer aimed to open a U.S. production facility to meet demand in the world's largest civilian gun market.

Sanctions imposed by the U.S. against the company in 2014 ended those plans. But after a quick pivot, sales are booming as the company looks to governments in Asia, Africa and elsewhere that want to upgrade their militaries' equipment at an affordable price and seal closer ties with the Kremlin.

"The sanctions turned a civilian-focused company into a military one," said Alexey Krivoruchko, chief executive of Kalashnikov Concern.

Revenue at Kalashnikov more than doubled last year to the equivalent of \$300 million and is forecast to increase a further twofold this year.

Kalashnikov no longer produces its renowned AK-47—the rugged assault rifle that became the symbol of the

global reach of the Soviet Union's arms industry—but executives and analysts say its latest assault rifles retain the same selling points: simplicity and reliability even in the most unforgiving environments, and at a cheaper price than competitors. The company, which also offers a variety of hunting and sporting weapons, is expanding: It recently acquired a drone manufacturer and a shipbuilder.

The company's turnaround represents a rare bright spot in Russia's stagnant economy, which remains dominated by the state a quarter-century after the fall of the Soviet Union. Over a decade and a half in power, Russian President Vladimir Putin has promoted a brand of state-led capitalism that has strengthened the Kremlin's sway over key sectors of the economy.

In a first for Russia's tightly controlled arms industry, Kalashnikov was revived by a partnership of state and private investors that invested about 12 billion rubles, or roughly \$200 million, over the past three years.

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STREETWISE | By James Mackintosh

## Emerging Stocks, Tech and Yellen

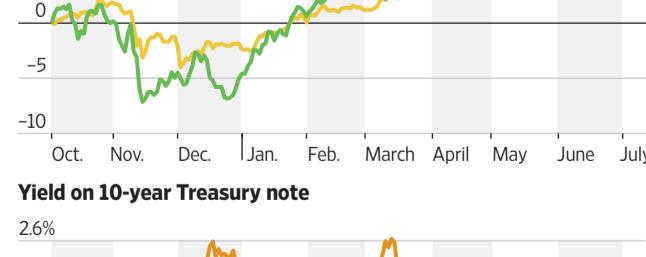
### Crosscurrents

Lower bond yields provide a supportive backdrop for technology stocks and emerging markets—while higher yields hurt.

MSCI Emerging Markets Index

S&P 500 tech sector relative to S&P 500

15%



Yield on 10-year Treasury note



Sources: Thomson Reuters Datastream; MSCI

THE WALL STREET JOURNAL.

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## STREET

Continued from the prior page  
Portugal, two weeks ago turned into a Sintra conspiracy theory of coordinated global tightening, helped along by the Bank of Canada and others. The market priced in higher interest rates even as inflation expectations fell.

Ms. Yellen's testimony to Congress on Wednesday suggested investors had made a mistake. Sure, the Bank of Canada had indeed turned hawkish, raising rates for the first time in seven years, but Ms. Yellen made clear the Fed would change course if recent weak inflation persists. If there is a global conspiracy for tighter money even in the absence of inflation, the Fed isn't part of it.

The second lesson is that this matters for emerging markets. Many investors have been arguing that there will be no repeat of the 2013

Profits far in the future are worth more when interest rates are low, so tech stocks are more sensitive to rates than others.

Equally, a weak economy—one cause of low rates—leaves a dearth of rapidly growing companies, making tech stocks one of relatively few options for investors who want to chase growth. Bring back growth, and there is less need to pay up to hold expensive tech stocks.

Tech stocks have performed wonderfully so far this year, with the sector leading the S&P 500, as hopes for a U.S. stimulus faded. The same was true Wednesday.

Tech, in turn, matters to emerging markets, because the vision many have of these countries as poverty-stricken and backward isn't accurate—at least as far as their main stock-market index goes.

Technology is now the biggest sector in the MSCI Emerging Markets Index, and five tech companies alone make up 17% of its value.

Three of those—South Korea's Samsung Electronics, Taiwan Semiconductor Manufacturing and Taiwan's Hon Hai Precision Industries—are in countries richer per capita than Italy, adjusted for purchasing-power parity.

Four of the five big emerging-market tech companies are up more than 46% in dollar terms this year, with Alibaba, China's answer to Amazon.com, up 70% through Wednesday. Even laggard Taiwan Semi is up 23%. All suffer the same sensitivity to the economy and interest rates as America's tech giants, as they demonstrated after the U.S. election briefly brought rising bond yields and hopes of economic stimulus.

Investors even in such apparently diverse areas as technology and emerging markets have little choice but to be Fed watchers. Emerging-market shareholders can reasonably hope that the next decade is more rewarding than the last, but they shouldn't rely on the Fed keeping the bears at bay.

A fall doesn't equate to a tantrum, but sensitivity is high. On Wednesday, Ms. Yellen's comments prompted a 0.04 percentage-point drop in the 10-year Treasury yield, and a rise of about 1% in emerging-market local-currency bond prices, in dollar terms.

If the link between the two stays the same and Treasury yields rise as they did in 2013, emerging-market bonds could repeat the 2013-plus drop of 2013.

The third lesson is that the performance of tech stocks depends in part on the Fed, and in turn, is vital to emerging-market investors.

Stories justifying tech companies are about disrupt-

"taper tantrum" that hit emerging-market stocks, bonds and currencies when the Fed signaled it would soon end its stimulus.

The thinking is that emerging-market countries are better prepared this time. But if their currencies, bond prices and stocks rise when Ms. Yellen is a little bit dovish, that strongly suggests they will fall if she turns hawkish.

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## BUSINESS NEWS

# Astra CEO's Future Role Is Uncertain

Israeli report fuels speculation on whether Pascal Soriot is leaving for Teva

BY DENISE ROLAND

LONDON—Is AstraZeneca PLC Chief Executive Pascal Soriot staying or going?

Shares in the U.K.-based drug company fell Thursday after a news outlet in Israel reported late Wednesday he was moving to lead Teva

Pharmaceuticals Ltd., an Israeli generics drugmaker that has been looking for a new chief for months.

AstraZeneca has declined to comment on the report, calling it “speculation”—but it stopped short of a denial, rattling investors. Shares in AstraZeneca closed down 3.5% Thursday in London. Teva shares were up 6.8% in Tel Aviv. In New York, AstraZeneca

shares closed down 1.6% and Teva shares were up 3.3%.

Dr. Soriot has led AstraZeneca since 2012. He played a leading role fighting off an unsolicited takeover approach by U.S. company Pfizer Inc. two years later. As part of that defense, Dr. Soriot, who trained as a veterinarian and came over from rival Roche Holding AG, pledged that AstraZeneca’s reinvigorated research and development pipeline would supercharge revenue over the next 10 years.

Three years into that commitment, Dr. Soriot is facing a crucial milestone this year. He had said 2017 would be the year sales would bottom out and start to grow strongly. Early results for a closely followed lung-cancer treatment are also expected within weeks. Those results could either bolster investor confidence in that turnaround or sow further worry.

Investors this year have given Dr. Soriot a big vote of confidence. Shares have risen more than 20% in the year to date as of Wednesday’s closing price. He has presided over a series of high-level executive departures during his tenure. His own departure to Teva could be another significant disruption.

Late Wednesday, Israel’s Calcalist business-news website reported Dr. Soriot had agreed to lead Teva. A spokeswoman for AstraZeneca said it wouldn’t comment on “market rumors and speculation.” A spokesman for Teva also said it doesn’t comment on “market rumors.”

Within weeks, AstraZeneca is expected to announce the outcome of an important clinical trial, dubbed Mystic, that will signal whether one of the company’s biggest bets—on a new class of cancer drugs—is likely to pan out. Given that timing, “the most positive interpretation would be that he

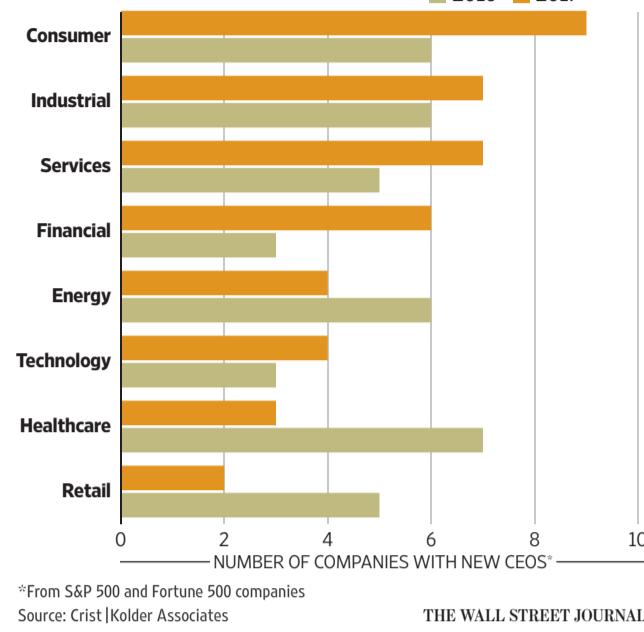
thinks he has effected a major corporate transformation during five years at AstraZeneca,” said UBS analyst Jack Scannell in a note to clients. “A bearish interpretation could be that he has less confidence in the path that Astra has transformed itself to pursue.”

For Teva, appointing Dr. Soriot would be the latest effort to bring about its own overhaul. Like other generic-drug makers, it faces a tough pricing environment and intensifying competition for copycat medicines that is squeezing the industry’s margins. The company must also deal with \$32 billion in debt and a sprawling supply chain accumulated through acquisitions.

The Israeli company has been searching for a new chief executive since February, when former boss Erez Vigodman departed the company for undisclosed reasons. Teva’s longtime Chief Financial Officer Eyal Desheh exited last month.

## Moving On

Number of companies by sector that have installed a new CEO, through May of each year.



\*From S&P 500 and Fortune 500 companies

Source: Crist/Kolder Associates

THE WALL STREET JOURNAL.

# Tiffany Turns Again to Europe for New CEO

BY SUZANNE KAPNER AND ALI STRATTON

Tiffany & Co. tapped an executive with experience at rival luxury jeweler Bulgari SpA as its next chief executive, as the company struggles to mend a prolonged sales slump and entice younger shoppers.

Alessandro Bogliolo will take the reins Oct. 2, Tiffany said Thursday. He will succeed Frederic Cumenal, who was ousted by the New York-based company in February after it had posted declining sales and profits for two years in a row. Chairman Michael Kowalski served as interim chief while the company searched for a successor.

Mr. Bogliolo, 52 years old, recently served as CEO of Italian apparel and accessories company Diesel SpA. Before joining Diesel in 2013, Mr. Bogliolo spent 16 years at Bulgari—before LVMH Moët Hennessy Louis Vuitton SE took control of the company in 2011—and then served as North American operating chief at LVMH’s Sephora unit for a little more than a year.

In a research note, Jefferies & Co. analyst Randal Konik said the “new CEO appointment is a strong fit,” saying Mr. Bogliolo revitalized Diesel by improving the customer experience, something that Tiffany is trying to do at its 310 retail stores.

But Citi analyst Paul Lejeune



The New York-based jeweler, which is battling a sales slump, picked an executive whose resume includes Bulgari and Sephora.

questioned the choice, writing: “After not being happy with its prior CEO...we had suspected TIF might look to go in a different direction than bringing in another executive from a European luxury house.” Mr. Cumenal also had worked at LVMH.

Tiffany’s shares closed up 1.7% at \$94.04 on Thursday. They have recovered from a low of \$60 in June 2016.

Tiffany, as it works to balance high-end and low-end offerings and rejuvenate its image, is also facing pressure from activist investor Jana Partners LLC. Jana, now Tiffany’s third-largest shareholder according to data from FactSet, worked with Tiffany to add three directors to the jeweler’s board in February, including former Bulgari CEO

Francesco Trapani. Mr. Trapani, who had previously worked with Mr. Bogliolo at Bulgari, was part of the Tiffany board’s CEO search committee.

Tiffany’s newest leader won the job partly because directors wanted someone who could shake up its culture and revive performance, something his predecessor was unable to do, according to people familiar with the matter.

During the early 1990s, Mr. Bogliolo helped Italian manufacturer Piaggio open China’s market for its popular Vespa scooters, according to one such person. But his U.S. experience is confined to 18 months he spent in San Francisco while working at Sephora.

—Joann S. Lublin contributed to this article

# Mattel Seeks Finance Chief

BY PAUL ZIOBRO AND JOANN S. LUBLIN

Mattel Inc. is looking to replace its long-serving finance chief as new Chief Executive Margo Georgiadis begins to reshape the toy maker’s senior management team.

The El Segundo, Calif., company has retained an executive-search firm to find a successor to Chief Financial Officer Kevin Farr, who has held the role for 17 years, according to people familiar with the matter.

Mr. Farr, 59 years old, has served under four CEOs and through a recent period of uneven performance. Both the company and Mr. Farr declined to comment on the matter, a Mattel spokesman said.

Mrs. Georgiadis has been shaking up the leadership team since she joined the embattled

toy maker from Alphabet Inc.’s Google in February. She dismissed the company’s human-resources chief in May and more recently replaced the company’s chief information officer.

Mrs. Georgiadis took over after Mattel reported a surprising setback in sales during the key holiday season. Mattel shares, which closed Wednesday at \$20.88, have lost about a third of their value since the holiday shortfall was announced.

In her early diagnosis of Mattel, Mrs. Georgiadis has focused on some management missteps, including an excessive focus on short-term financial metrics and cost cuts that still left Mattel bloated and overly complicated.

Mrs. Georgiadis also reduced Mattel’s annual dividend by 60%, a payout that Mr. Farr’s

team helped to preserve during recent turmoil.

Mrs. Georgiadis’s plan for Mattel includes developing more digital options for children to interact with its brands like Barbie and Hot Wheels, expanding further into emerging markets and shortening development cycles for products.

Mr. Farr’s long service in the top finance role is an exception among the largest companies. Just 86 finance chiefs at the biggest U.S. companies have held their roles for a decade or more, according to an analysis by Crist/Kolder Associates. The average tenure of CFOs for Fortune 500 companies was just 5.7 years in 2016, according to a report by the executive search firm Spencer Stuart.

Half of those finance chiefs served between two and five years.



A Barbie RC Hoverboard. Mattel plans more options for its toys.

# Storms Cut Into Delta’s Profit Even as Revenue Shows Gains

BY SUSAN CAREY

Rising labor costs and mass cancellations during a spring storm dragged Delta Air Lines Inc.’s profit down 21% in the second quarter, even as a key revenue metric rose for the first time in two years.

Chief Executive Ed Bastian said Delta is investing in technology and new programs after a series of April thunderstorms triggered 4,000 flight cancellations and a \$125 million pretax loss on the quarter.

“We can improve our recovery,” Mr. Bastian said.

Recent pilot wage increases also pinched Delta in the second

quarter. Unit costs excluding fuel rose 7.3% compared with the prior-year period. Delta estimated that unit costs will be up 4% in the third quarter.

Still, Mr. Bastian called it the best second quarter in Delta’s history. Unit-revenue growth of 2.5% versus a year earlier marked the first positive result for that key metric since the final quarter of 2014. Unit revenue measures how much an airline makes on each passenger flown a mile.

The Atlanta-based company’s second-quarter profit fell to \$1.22 billion, while overall revenue rose 3% to \$10.79 billion.

# Cargill Brushes Off Acquisition Playbook

BY JACOB BUNGE

After revamping its sprawling food-and-agriculture portfolio, Cargill Inc. is considering acquisitions.

The Minnesota agribusiness company is looking at deals in the meat sector and would weigh acquisitions of grain-trading businesses, Chief Financial Officer Marcel Smits said.

“The global poultry market, that’s still a very low-concentrated industry,” he said. “We think there’s significant opportunity for us to grow.” He declined to comment on specific acquisition targets.

Cargill, the largest private company in the U.S. by sales, spent the past two years selling \$3.1 billion of businesses ranging from petroleum trading to pork processing. Cargill has also invested about \$4 billion, including buying a salmon-feed maker and building a soybean processing plant in China, to reorient the 152-year-old company toward higher-profit products and services.

Mr. Smits said the changes have paid off. Cargill reported Thursday that full-year profits rose 19% to \$2.84 billion, the company’s strongest-earning year since 2009. Stronger con-

sumer demand for beef in the U.S. and poultry in Europe helped drive the gain, along with rising exports of meat and grain from North America.

Mining and trading firm Glencore PLC in May confirmed that it approached U.S. grain trader Bunge Ltd. about a deal that could reshape the ranks of global crop traders.

Brazil-based JBS SA, the world’s largest meatpacker by sales, is selling about \$1.8 billion in businesses, including a European poultry processor and the biggest U.S. cattle feedlot group, to shore up cash following a corruption settlement reached by JBS’s

parent in May.

Cargill last month struck a deal to buy a Colombian chicken processor and is expanding its Asian chicken operations in Indonesia and the Philippines. Mr. Smits said Cargill would also look at potential acquisitions in grain trading, but big deals might be less likely because Cargill already operates an extensive network of grain terminals and ports across North America, South America and Eastern Europe.

For its fiscal fourth quarter, Cargill earned \$347 million, up from \$15 million in the yearago period.

## TECHNOLOGY

WSJ.com/Tech

CHINA CIRCUIT | By Li Yuan

# In Retail, China Serves as a Test Lab

The retail industry is in a state of flux. American retail stores are shutting at a record pace. **Amazon.com** is experimenting with new formats for brick-and-mortar stores and its \$13.7 billion deal for **Whole Foods Market** is seen as a sign of accelerating change.

For a glimpse of the future, U.S. retailers and e-commerce companies should take a look at China, which is already a big test lab.

Chinese companies have been busy weaving together the online and offline worlds. Convenience stores that have no sales assistants or cashiers are popping up. E-commerce company **Alibaba Group Holding** and its rival **JD.com** have poured money into department stores and grocery chains.

Alibaba is launching fresh-produce stores, with the first 13 open in three cities. There, customers can order, eat in, take out and arrange for groceries to be delivered—all done by phone. No cash or credit cards. Only Alibaba's affiliated payment app, Alipay, is accepted.

Joe Tsai, Alibaba executive vice chairman, explained the virtues in a recent call with investors: "So now the store knows your preferences and can give you a personalized selection of products on your mobile app."

To do so, companies are creating efficiencies by integrating payment systems and streamlining inventory and delivery. More important, in-



Shoppers in a cashierless Shanghai BingoBox last month. Venture capitalists consider such convenience stores hot retail experiments.

vestors say, is the gathering of data on consumer habits: It offers opportunities for retailers to cater to customer needs and leverage sales.

"China has about the most fertile soil for testing out new formats of retail," says Zhang Ying, a partner at Sinovation Ventures, which has invested in the unstaffed-convenience-store startup **F5 Future Store**.

China is an ideal market for experimenting because its traditional banking and retail industries are weak. Credit cards still aren't common, while smartphones are everywhere.

China's e-commerce market is now bigger than those of the U.S., U.K., Japan, Germany, France and South Korea combined, according to consultancy McKinsey.

Meanwhile, sales growth for

China's top 100 brick-and-mortar retailers fell to zero or contracted in the past three years, from double-digit growth only five years earlier, according to the official China National Commercial Information Center.

Chinese also have rapidly taken to using their smartphones to make payments and to scanning QR codes, those waffle-patterned bar codes that can be affixed to goods. Roughly 67% of China's 731 million internet users used mobile-payment technology in 2016, according to government data, and half did so in physical stores.

True, the e-commerce companies are going offline because they need to. As big as China's e-commerce industry is, sales of online merchandise made up only 13% of the total last year.

And the growth of online merchandise sales has slowed from 50% in 2014 to 26% last year.

Companies and investors say that the more data retailers collect on online and offline spending, the more accurate their customer profiles can be—and the more targeted their offerings.

For venture capitalists, the hottest retail experiment is the cashierless convenience store. In recent weeks, GGV Capital announced an investment in startup **Bingobox** and Sinovation did so in F5. Alibaba unveiled a cashierless convenience-store concept last weekend. Amazon's version, Amazon Go, has been delayed by technical glitches.

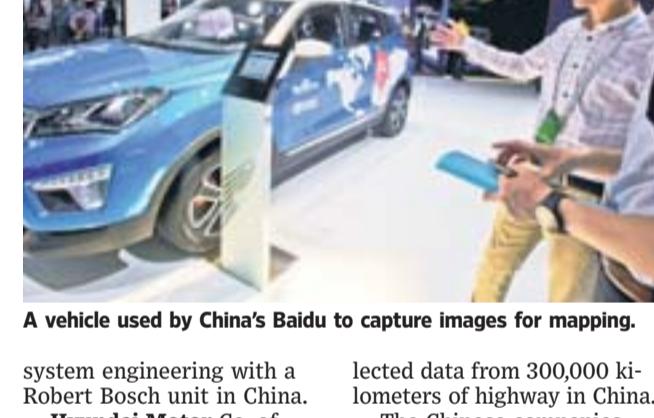
While the Chinese ones are in testing mode, too, they are still being rolled

out, fixing bugs as they go.

The attraction for investors is scale. Convenience stores are the fastest-growing category of retail. The consumer-profile data, says Sinovation's Mr. Zhang, could be more valuable than the food and drink sales.

At an F5 in Guangzhou recently, 24-year-old Carson Zhang ordered hot noodles with minced fish for 10 yuan (\$1.47) by clicking on a screen. He paid by scanning his smartphone, waited for about one minute for the food to be delivered by a robotic arm to a pickup point and ate at a counter. "I came to the convenience store for convenience, not human interaction," he said.

Follow Li Yuan on Twitter @LiYuan6 or write to li.yuan@wsj.com.



A vehicle used by China's Baidu to capture images for mapping.

definition maps have collected data from just 300,000 kilometers of China's nearly 5 million kilometers of roads.

German mapping provider HERE, owned by auto makers Audi, **BMW AG** and **Daimler AG**, will bring its maps to China after receiving investment and forming a 50-50 joint venture with Navinfo last December.

Meanwhile, GM, Volvo and Daimler are in talks about possibly using high-definition mapping technology in China from Autonavi, said a person familiar with the situation.

Mapping restrictions play out in a small scale today with Google's connected car platform Android Auto. Despite a rollout in 31 markets world-wide, Google's platform, which connects smartphone applications to a car's dashboard, isn't available in China.

Google's services, including Google Maps, are re-

stricted by China regulators, resulting in a bad user experience for Chinese consumers, said Colin Bird, a senior analyst at IHS Automotive.

The California-based technology giant currently has only a local partnership to provide maps for desktop computers in China, and gaining permission to expand that to smartphones, cars and other uses could be problematic given the company's stormy departure in 2010 over government censorship of its search engine.

Further hurdles await foreign software and car companies beyond maps. They are likely to face difficulty gaining approval to conduct test drives in the country, as the government will seek to support its domestic enterprises, said Li Zhihsan, an auto technology analyst at Analysys in Beijing.

—Mike Colias in Detroit and Wang Fanfan in Beijing contributed to this article.

## MAPS

Continued from page B1  
ing vehicles.

Unless his call is heeded, foreign tech and car companies will need to work with one of 13 Chinese companies licensed by the government for surveying and mapping. The three largest are Baidu, the AutoNavi unit of **Alibaba Group Holding Ltd.**, and NavInfo Co., which is backed by **Tencent Holdings Ltd.**

German auto supplier **Robert Bosch GmbH**, for example, announced a partnership this spring with Chinese mapping firms including Baidu and AutoNavi to cooperate on high-definition maps there. "The market with regards to maps in China is quite strongly regulated, which is different from other countries," said Renaud Bonhomme, director of advanced innovation and

system engineering with a Robert Bosch unit in China.

**Hyundai Motor Co.** of South Korea also said recently that it would use Baidu's maps in its vehicles sold in China, and said it is exploring joint efforts in autonomous driving technologies with the Beijing-based company. Baidu says its high-definition maps have col-

lected data from 300,000 kilometers of highway in China.

The Chinese companies are considered to be far behind Waymo, which was launched in 2009 and has already chalked up more than 3 million miles of autonomous driving on public roads in the U.S. Baidu started its autonomous-driving research in 2014 and claims its high-

definition maps have collected data from just 300,000 kilometers of China's nearly 5 million kilometers of roads.

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Hurry, offer expires 8/1/17

# Roku Aims For IPO This Year

By MAUREEN FARRELL

Roku Inc., which makes streaming-media devices and software, is preparing an initial public offering it expects to launch before year-end, according to people familiar with the company's plans.

The Los Gatos, Calif., company recently hired Morgan Stanley, Citigroup Inc. and Allen & Co. as underwriters on the IPO, these people said. The company could file confidentially in the next few weeks, one of the people said.

Roku is seeking a valuation of roughly \$1 billion, a person with knowledge of the company's plans said. It isn't clear whether Roku can achieve that number, though, and troubles with two offerings this year—**Blue Apron Holdings Inc.** and **Snap Inc.**—mean determining the right valuation likely will be difficult in the coming months, buyers and sellers of IPOs say.

Roku has spent much of the past two years transforming its business from one that generated revenue largely from hardware to one that gets a more significant portion of its top line from ads on its streaming services featuring content from Hulu, Amazon.com Inc., Netflix Inc. and Alphabet Inc.'s YouTube, as well as from revenue-sharing deals with these companies.

Roku and its underwriters will likely seek to pitch it as the future of television and a firm that can capture significant market share—and revenue—as more content moves off traditional networks and more consumers shift away from traditional cable.

In 2016, Roku generated nearly \$400 million in revenue, and its media and licensing segment accounted for more than a quarter of that, according to the company.

As of June 30, Roku said it had 15 million monthly active accounts, which was a 61% rise from the same time a year earlier.

Roku originally worked with banks on a possible IPO in 2014, but at the time, it would have gone public as a hardware company and it was moving toward generating more revenue from its streaming-related services. The company expects that the market will now give it more credit for its new mix of revenue, people familiar with the company's thinking said.

21st Century Fox Inc., which shares common ownership with Wall Street Journal owner News Corp., is an investor in Roku. Roku also counts Sky PLC, Hearst Corp., Fidelity Investments, Menlo Ventures and Globespan Capital Partners as investors.



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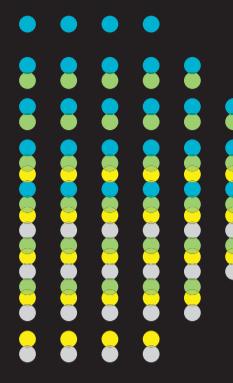
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## BUSINESS NEWS

# FCC Pushes Attack on Robocalls

By JOHN D. MCKINNON

**WASHINGTON**—The Federal Communications Commission on Thursday opened a new inquiry into ways to curb unwanted robocalls, with the aim of deterring use of fake phone numbers—a tactic known as spoofing that has been a major factor in the current epidemic.

Robocalls recently have run at a rate of more than 2.5 billion a month, according to some estimates, despite multiple efforts by the FCC and Congress to prevent them.

A big part of the problem is that advances in technology have made robocalls cheap and easy to place, increasing their appeal to some marketers as well as scam artists. New technology enabling spoofing, in which callers use falsified phone numbers, boosts the odds a consumer will answer, often by making it appear the call is from nearby. Many of the calls actually come from overseas.

FCC Chairman Ajit Pai is trying to put more muscle into the agency's efforts to combat illegal and fraudulent robocalls. Last month, the FCC proposed a record \$120 million fine against a Miami man who the agency said was responsible for making almost 100 million falsified robocalls in late 2016.

On Thursday the FCC voted to open a new proceeding that is expected to eventually lead to a system allowing telecommunications carriers to authenticate a call's origins before completing it, with the aim of deterring spoofing. The system could give consumers the option of blocking calls that aren't authenticated.

The commission already is considering possible rules allowing telecommunications firms to block robocalls from unassigned or invalid numbers. But cracking down on robocalls and spoofing remains tricky, because phone companies generally are obliged to complete calls.

## Bad Calls

U.S. area codes that receive the most robocalls, according to YouMail, a developer of call-blocking software.



\*Estimated. Source: YouMail

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The constant reassignment of phone numbers creates further problems in determining which calls are legitimate and which aren't. And there are even legitimate uses of spoofing-type technology in some circumstances.

That has made some carri-

ers nervous about the planned FCC crackdown, particularly smaller ones.

USTelecom, a trade association, cheered the FCC action.

"There are few things more annoying for consumers these days than the seemingly endless stream of robo-

calls they receive on their home or wireless phones," USTelecom CEO Jonathan Spalter said. "There's no single solution, but the FCC's inquiry could be an important element to finding an additional way to stop some of these illegal calls and help restore confidence in the caller ID system."

The robocalling problem has reached a size that makes it difficult to ignore. Robocalling generates the largest number of consumer complaints to both the FCC and the Federal Trade Commission.

The FTC received about 5.3 million complaints about telemarketing calls during 2016, compared with 3.6 million the year before. The FCC gets about 200,000 complaints each year concerning unwanted calls.

The number of robocalls has fluctuated but generally runs above 2 billion a month in the U.S., according to data from YouMail, a call-management firm that helps consumers avoid them.

# Anthem Alleges Fentanyl Fraud

By JOSEPH WALKER

Health insurer **Anthem** Inc. has filed a civil suit alleging that drugmaker **Insys Therapeutics** Inc. engaged in "fraudulent schemes" to secure reimbursement for the company's fentanyl painkiller Subsys.

The suit, filed Wednesday in federal court in Arizona, alleges that Insys bribed doctors and lied to Anthem about patients' diagnoses to win reimbursement for prescriptions that wouldn't have been covered otherwise.

Anthem alleges that as a result of the fraud, it paid in excess of \$19 million for Subsys prescriptions that shouldn't have been reimbursed.

A spokeswoman for Insys didn't respond for comment.

Anthem, based in Indianapolis, is seeking unspecified compensatory and punitive damages to be determined at trial, as well as an injunction barring Insys from continuing to engage in the alleged fraudulent conduct.

Since at least 2013, Anthem alleges, Insys "has engaged in a carefully orchestrated, illegal, and dangerous scheme to obtain millions of dollars in reimbursement from health insurers, including Anthem, that the company knew it was not entitled to."

Anthem's lawsuit is the latest legal headache for Insys, a Chandler, Ariz., company that derives the bulk of its revenue from Subsys. The company and its former executives have been embroiled in multiple legal investigations related to the company's sales tactics for Subsys.

On Tuesday, two former Insys saleswomen pleaded guilty in separate cases to violating the federal anti-kickback statute.

One of the saleswomen, Natalie Levine, is married to Insys' former chief executive, Michael Babich, who was charged in December with racketeering conspiracy and other offenses related to his time at Insys.

Shares of Insys fell 1.1% in after-hours trading Thursday after the Journal reported the Anthem lawsuit.

# CBS, BBC Reach Deal to Bolster Reporting

By AUSTEN HUFFORD

**CBS News** and **BBC News** have entered into a partnership to share video, articles and other newsgathering resources to enhance their reporting capabilities around the world.

The new deal, announced Thursday, ends similar long-standing relationships that CBS had with **Sky PLC**'s Sky News and that Walt Disney Co.'s ABC News had with the BBC, which had spanned more than two decades.

"The opportunity to partner with one of the world's largest news organizations was too compelling not to make this change," CBS News President David Rhodes wrote in an internal memo to staff.

The arrangement between the units of **CBS Corp.** and **British Broadcasting Corp.** will help both expand their global footprints and increase coverage of world events. CBS News and BBC News will have access to each other's global and domestic news across all platforms, including television, radio and digital, as well as access to each other's correspondents as needed.

"There's never been a more important time for smart,



'CBS This Morning' co-host Charlie Rose with journalists Peggy Noonan, Michele Norris and Ruth Marcus on Election Night 2016

courageous coverage of what's happening in the world," said James Harding, BBC director of news and current affairs, in a statement.

The news organizations

will begin coordinating their resources and coverage plans immediately, Mr. Rhodes wrote.

According to a memo sent to BBC News staff, the deal

came together after CBS and the British broadcaster worked together in the run-up to the U.S. presidential election.

"It became clear they could offer unrivaled logisti-

cal support to our teams in the field," according to the memo.

The companies are also discussing sharing international facilities in the years ahead.

# Online Seller of Illicit Goods Is Shut Down

By ROBERT MCMILLAN AND ARUNA VISWANATHA

An online marketplace that sold illegal goods on the so-called Dark Web was shut last week following action by international authorities, according to people familiar with the matter.

The closing of AlphaBay, an anonymous marketplace that listed for sale drugs, counterfeit credit cards and other illegal goods, came after coordinated action by the U.S., Canada and Thailand, the people said.

The action included the arrest of Alexandre Cazes, a Canadian citizen who allegedly was one of the site's operators,

they said. He was found hanged in his cell Wednesday in Thailand, people familiar with the matter said. Mr. Cazes "passed away in Thailand," a spokeswoman for Canada's foreign affairs department said Thursday. She declined to comment further, citing privacy reasons.

Mr. Cazes was taken into custody July 5 in Thailand "with a view toward extradition to face federal criminal charges in the United States," according to Melissa Sweeney, a spokeswoman with the U.S. Embassy in Bangkok. The same day, members of the Royal Canadian Mounted Police's high-technology crime unit executed a search warrant at a residence in Trois-Rivières, Quebec, said

Camille Habel, a sergeant with the RCMP in Montreal.

It wasn't immediately clear whether Mr. Cazes had legal representation.

**Authorities from U.S., Canada and Thailand teamed up to close the site.**

Following its creation in December 2014, AlphaBay emerged as an heir to the Silk Road, the online marketplace closed by federal authorities in October 2013. Both sites were

accessible via Tor, a network that takes steps to preserve the anonymity of its users.

While the Silk Road's primary focus was drug sales, AlphaBay was more diverse, selling stolen credit-card numbers, drugs, online-fraud tutorials and guns, according to Andrei Barysevich, a director at Recorded Future Inc., which sells data about online threats and the Dark Web.

In the first six months of 2017, AlphaBay sold more than \$5 million in stolen credit-card numbers, Mr. Barysevich said. "AlphaBay was the biggest marketplace on the Dark Web," he said.

Total sales on the site averaged between \$600,000 and

\$800,000 a day, earning AlphaBay's operators millions of dollars each year in commissions, according to Nicolas Christin, an associate research professor at Carnegie Mellon University who studies online marketplaces.

AlphaBay's operators had millions of dollars in the digital currency bitcoin, much of it held in escrow for the site's illicit transactions, based on two bitcoin wallets that have been linked to the website, Mr. Barysevich said. The site's abrupt shutdown last week fueled speculation its operators had absconded with millions of dollars of digital currency.

—Nicole Hong contributed to this article.

# Fantasy Sports Deal Called Off

By EZEQUIEL MINAYA

Online fantasy-sports operators **DraftKings** Inc. and **FanDuel** Inc., which set aside their fierce rivalry last year and announced plans to merge, called off the tie-up Thursday in the face of opposition from regulators.

The Federal Trade Commission filed an antitrust lawsuit last month to block the proposed merger amid concerns the deal would harm consumers.

Neither DraftKings nor FanDuel, in separate statements issued Thursday, mentioned any legal or regulatory headwinds in the decision to call off the merger.

The private companies, which run the two largest daily fantasy-sports websites, announced their plan to merge in November.

FanDuel Chief Executive Nigel Eccles said the company pursued the merger because "we believed that this deal would have increased investment in growth and product development. While our opinion has not changed, we have determined that it is in the best interest of our shareholders, customers, employees and partners" to end the merger.

DraftKings CEO Jason Robins said ending the merger "will allow us to singularly focus on our mission of providing the most innovative and engaging interactive sports experience imaginable."

DraftKings and FanDuel didn't return calls seeking further comment. A call to the FTC wasn't returned.

# Chinese-Led Group Nears Logistics Deal

By P.R. VENKAT AND PHRED DVORAK

private-equity giants **Warburg Pincus LLC** and **Blackstone Group LP**.

The group is offering about 3 Singapore dollars (US\$2.18) a share, one of the people familiar with the deal said. GLP shares last traded at S\$2.70 on Wednesday, before a trading halt Thursday. The offer would value the company at around S\$14 billion (US\$10.2 billion), based on the number of shares outstanding.

Hopu founder Fang Fenglei sits on GLP's board. The Hillhouse-Hopu group also includes GLP Chief Executive Ming Mei, as well as developer China Vanke Co. and Bank of China Ltd., the people said.

GLP has said Messrs. Fang and Mei have recused themselves from all board decisions relating to the bids.

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On June 16, 2017, in Case No. INS-2017-00155, the Deputy Receiver filed her Application for Final Approval Regarding Various Wind-Down Matters ("Wind-Down Application") requesting Issuance by the State Corporation of the Commonwealth of Virginia ("Commission") of a final order: (i) ratifying the Deputy Receiver's compromise of claims asserted in the TRG estate by the Pension Benefit Guaranty Corporation; (ii) ratifying the Deputy Receiver's confirmation of a certain settlement agreement with General Reinsurance Corporation; (iii) ratifying the Deputy Receiver's compromise of claims asserted by the Companies in the liquidation of certain Tennessee risk retention groups; (iv) ratifying the record retention schedule attached to the Wind-Down Application; (v) ratifying the conduct and wind down of the receivership by the Deputy Receiver; (vi) approving the Deputy Receiver's establishment of a reserve of \$900,000 for TRG's final expenses and contingencies; (vii) approving the Deputy Receiver's establishment of a reserve of \$10,000 for ROA's final expenses and contingencies; (viii) approving the Deputy Receiver's execution of the payment of all unpaid debts of the Companies (subject to the recovery of amounts due under the Wind-Down Application); (ix) approving the distribution of the assets of the Companies in the Wind-Down Application; and (x) authorizing the Deputy Receiver to file a notice and a report with the Commission, along with a recommendation that this receivership proceeding be closed, after the purposes of the liquidating trust and the receivership have been accomplished, any remaining assets in the liquidating trust have been distributed, and the liquidating trust has terminated.

On June 23, 2017, the Commission entered a Scheduling Order on the Wind-Down Application, establishing: (i) a deadline of August 24, 2017, for persons opposing the relief requested in the Wind-Down Application to file and serve a Notice of Objection; (ii) a deadline of September 5, 2017, for all persons other than the Deputy Receiver who expect to appear at a hearing for purposes of supporting or opposing the Wind-Down Application to file and serve the prepared testimony and exhibits of each witness expected to present direct testimony in support of, or in opposition to, the Wind-Down Application; and (iii) a contingent hearing on the Wind-Down Application to be held in Richmond, Virginia, on October 4, 2017, at 10 a.m. Eastern Time, but only in the event that any Notices of Objection are timely filed.

For additional details, please refer to the Wind-Down Application and the Scheduling Order, which are posted on the Company's web site at [www.reciprocalgroup.com](http://www.reciprocalgroup.com). Copies can also be requested by writing to Reciprocal of America and The Reciprocal Group, in Liquidation, 1101 Century Oaks Terrace, Suite 310, Austin, Texas 78756, by e-mailing to [info@reciprocalgroup.com](mailto:info@reciprocalgroup.com), or by calling 1-512-404-6535.

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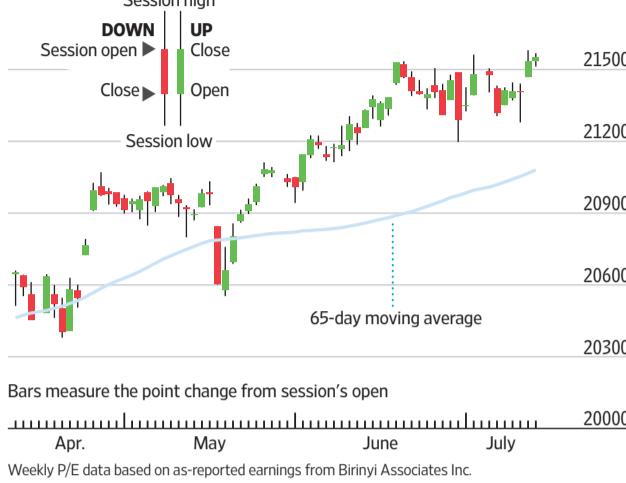
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## MARKETS DIGEST

### EQUITIES

#### Dow Jones Industrial Average

**21553.09** ▲ 20.95, or 0.10%  
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open  
Current divisor 0.14602128057775

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### S&P 500 Index

**2447.83** ▲ 4.58, or 0.19%  
High, low, open and close for each trading day of the past three months.



65-day moving average

#### Nasdaq Composite Index

**6274.44** ▲ 13.27, or 0.21%  
High, low, open and close for each trading day of the past three months.



65-day moving average

#### Major U.S. Stock-Market Indexes

	Dow Jones		Latest		52-Week		YTD		% chg	
	High	Low	Close	Net chg	% chg	High	Low	% chg	3-yr. ann.	
Industrial Average	21568.72	21512.36	<b>21553.09</b>	20.95	<span style="color: green;">0.10</span>	21553.09	17888.28	<b>16.5</b>	9.1	<b>8.4</b>
Transportation Avg	9742.76	9690.22	<b>9703.23</b>	-13.09	<span style="color: red;">-0.13</span>	9716.32	7648.44	<b>21.0</b>	7.3	<b>5.5</b>
Utility Average	707.80	703.12	<b>703.35</b>	-2.14	<span style="color: red;">-0.30</span>	737.51	625.44	<b>-0.6</b>	6.6	<b>7.9</b>
Total Stock Market	25375.50	25287.32	<b>25364.80</b>	44.75	<span style="color: green;">0.18</span>	25399.65	21514.15	<b>13.7</b>	9.0	<b>7.3</b>
Barron's 400	652.83	649.20	<b>652.22</b>	0.63	<span style="color: green;">0.10</span>	652.22	521.59	<b>20.2</b>	8.4	<b>7.0</b>

Nasdaq Stock Market	Nasdaq Composite	6281.45	6251.26	<b>6274.44</b>	13.27	<span style="color: green;">0.21</span>	6321.76	5029.59	<b>24.6</b>	16.6	<b>12.4</b>
	Nasdaq 100	5806.18	5776.62	<b>5793.36</b>	14.41	<span style="color: green;">0.25</span>	5885.30	4589.83	<b>26.0</b>	19.1	<b>14.1</b>

Standard & Poor's	500 Index	2449.32	2441.69	<b>2447.83</b>	4.58	<span style="color: green;">0.19</span>	2453.46	2085.18	<b>13.1</b>	9.3	<b>7.6</b>
MidCap 400	1759.68	1749.75	<b>1759.38</b>	2.04	<span style="color: green;">0.12</span>		1769.34	1476.68	<b>13.9</b>	5.9	<b>7.6</b>
SmallCap 600	860.35	853.91	<b>860.35</b>	2.41	<span style="color: green;">0.28</span>		866.07	703.64	<b>16.3</b>	2.7	<b>8.8</b>

Other Indexes	Russell 2000	1425.74	1416.27	<b>1425.66</b>	1.34	<span style="color: green;">0.09</span>	1426.68	1156.89	<b>18.6</b>	5.0	<b>7.1</b>
NYSE Composite	11849.39	11810.05	<b>11844.62</b>	18.73	<span style="color: green;">0.16</span>		11844.62	10289.35	<b>9.8</b>	7.1	<b>2.7</b>
Value Line	525.35	522.76	<b>525.35</b>	1.44	<span style="color: green;">0.27</span>		529.13	455.65	<b>10.0</b>	3.8	<b>1.9</b>
NYSE Arca Biotech	3942.28	3844.19	<b>3920.36</b>	25.33	<span style="color: green;">0.65</span>		4016.86	2834.14	<b>25.1</b>	27.5	<b>11.9</b>
NYSE Arca Pharma	534.69	529.83	<b>532.75</b>	-0.70	<span style="color: red;">-0.13</span>		554.66	463.78	<b>-2.1</b>	10.6	<b>0.7</b>
KBW Bank	97.02	96.28	<b>96.97</b>	0.60	<span style="color: green;">0.62</span>		99.33	66.90	<b>44.2</b>	5.6	<b>11.0</b>
PHLX® Gold/Silver	80.78	79.26	<b>79.43</b>	-1.10	<span style="color: red;">-1.36</span>		112.86	73.03	<b>-26.7</b>	0.7	<b>-8.6</b>
PHLX® Oil Service	132.90	129.53	<b>132.79</b>	2.90	<span style="color: green;">2.23</span>		192.66	126.75	<b>-22.3</b>	-27.8	<b>-23.9</b>
PHLX® Semiconductor	1101.29	1086.48	<b>1090.13</b>	-2.73	<span style="color: red;">-0.25</span>		1138.25	723.64	<b>50.5</b>	20.3	<b>19.2</b>
CBOE Volatility	10.40	9.90	<b>9.90</b>	-0.40	<span style="color: red;">-3.88</span>		22.51	9.75	<b>-22.8</b>	-29.5	<b>-6.4</b>

§Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

#### Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Mkt 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
SPDR S&P 500	SPY	5,384.2	244.37	-0.05	<b>-0.02</b>	244.50	243.97
Van Eck Vectors Gold Miner	GDX	4,365.0	21.51	0.01	<b>0.05</b>	21.60	21.49
Weatherford International	WFT	3,248.9	4.11	-0.02	<b>-0.48</b>	4.15	3.86
Energy Transfer Equity	ETE	3,006.9	17.80	-0.05	<b>-0.28</b>	17.85	17.80
Bioverativ	BIVV	3,001.7	59.58	-1.20	<b>-1.97</b>	60.81	59.58
Rite Aid	RAD	2,810.9	2.25	0.02	<b>0.90</b>	2.25	2.22
Comcast Cl A	CMCSA	1,834.9	39.50	0.19	<b>0.48</b>	39.50	39.22
Regions Financial	RF	1,722.9	14.80	-0.02	<b>-0.13</b>	14.82	14.77

#### Percentage gainers...

Celadon Group	CGI	24.6	2.60	0.25	<b>10.64</b>	2.60	2.30
Genworth Financial A	GNW	53.8	3.80	0.36	<b>10.47</b>	3.80	3.44
Affimed	AFMD	20.9	2.55	0.15	<b>6.25</b>	2.80	2.40
Esperion Therapeutics	ESPR	13.3	49.00	1.55	<b>3.27</b>	49.00	46.79
Sangamo Therapeutics	SGMO	625.4	9.80	0.30	<b>3.11</b>	10.20	9.50



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## How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBSE, National Stock Exchange, ISE and BATS.

This 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.

Thursday, July 13, 2017

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## MONEY & INVESTING

# U.K. Weighs IPO Rules Ahead of Aramco

By BEN DUMMETT

The U.K. securities regulator is considering a plan that would make it easier for state-owned companies to list on the London Stock Exchange, a move that could give the LSE an edge in its battle with the New York Stock Exchange to woo the listing of **Saudi Arabian Oil Co.**

The Financial Conduct Authority proposes a new listing category that addresses the desire of sovereign-owned companies to access public markets without necessarily adopting rules that are meant to protect public minority investors. Typically, public companies are answerable to shareholders. But state-owned firms are also answerable to the sometimes conflicting needs of their governments.

"Sovereign owners are different from private sector individuals or companies—both

in their motivations and in their nature," Andrew Bailey, FCA's chief executive, said.

The FCA didn't mention Saudi Aramco's expected initial public offering and listing as part of the reasoning behind its proposals. The proposals come amid recent concerns from some U.K. institutional investors that adoption of any concessions to attract the listing could undermine the integrity of the country's stock market.

The LSE and NYSE are considered front-runners for the international listing of Saudi Aramco's shares as part of a planned initial public offering in 2018. For the winning venue, the listing, which could value Saudi Aramco at as much as \$2 trillion, promises healthy fees and an influx of international investors looking for a share of the oil company.

The LSE said it supported the effort. "Providing discre-

### Demand for Oil Is Growing, IEA Says

The world's appetite for oil is rebounding this year and should increase through 2018, the International Energy Agency said Thursday.

In its closely watched monthly oil-market report, the IEA said it now expects global demand to grow by 1.5% this year to 98 million barrels a day, driven in part by rising consumption in Germany and the U.S. during the second quarter.

The Paris-based adviser to governments and companies

raised its 2017 demand forecast by 100,000 barrels a day, compared with a previous estimate last month, while predicting "similarly paced" growth for next year.

Global demand growth hit a three-year low of 1 million barrels a day during the first three months of the year, with demand rising to 96.5 million barrels a day. Demand accelerated in the second quarter, growing to 97.4 million barrels a day, 1.5 million barrels a day faster than in the second quarter of 2016.

Brent, the international crude-price benchmark, gained 1.4% to \$48.42 a barrel Thurs-

day, while West Texas Intermediate—used to price oil in the U.S.—gained 1.3% to \$46.08 a barrel.

The more robust demand outlook has yet to help OPEC in its efforts to manage a global oil glut that has weighed heavily on the market. Large amounts of oil in storage have kept prices between \$45 and \$55 a barrel for much of the past year. In addition to unexpected demand in Germany and the U.S., a recovery in demand growth in India continued into May and Chinese apparent demand "rebounced strongly" during that month, the IEA said.

—Christopher Alessi

tional access for investors to a broad range of U.K. and global companies is fundamental to the effectiveness and competitiveness of U.K. primary markets," the exchange

said. Saudi Aramco and the NYSE declined to comment.

The proposed rule changes for sovereign-owned companies include a waiver to the requirement that prevents an

LSE-listed company from conducting related party transactions with the controlling shareholder, its directors or associates without first gaining approval from independent

shareholders. It also proposes to waive controlling shareholder rules that are meant to protect the rights of minority shareholders in companies in which one group owns 30% or more of the voting shares.

Saudi Aramco is expect to float no more than 5% of its shares in the IPO.

"We are...skeptical about the usefulness of the controlling shareholder rules when applied to a situation whereby the controlling shareholder is a sovereign country," the FCA said. "Capital market participants collectively are capable of assessing directly the influence of a shareholder on a company's risks and prospects."

The FCA plans to complete the rules by the end of the year after consulting with market participants.

—Summer Said  
and Alexander Osipovich  
contributed to this article.



Trump administration efforts to lift oil and natural-gas output are expected to have a limited effect on Russia. A Cheniere terminal.

## In Trump Push, a Question of Power

By GEORGI KANTCHEV  
AND LYNN COOK

President Donald Trump is touting his policies to boost energy production and exports as a bulwark against Russia.

But some industry observers say the U.S. shale boom—which reshaped world markets for crude oil and natural gas before Mr. Trump took office—has only limited impact on Russia's standing as a major energy provider to Europe and Asia.

In a televised interview Wednesday on the Christian Broadcasting Network, Mr. Trump said the U.S. shale boom was helping to keep global energy prices low and countervailing the influence of Russian President Vladimir Putin.

"We're going to be exporting energy; he doesn't want that," Mr. Trump said.

While a boom in U.S. oil-and-gas production is keeping a lid on prices and spurring exports, it is largely a function of market factors far from Washington's control. Because global oil and gas markets are already glutted, moves by the Trump administration to boost drilling and exports can play only a marginal role.

"Easing regulation can help output on the margins, but markets will dwarf policy in determining the outlook for U.S. domestic energy produc-

tion and exports," said Jason Bordoff, director of the Center on Global Energy Policy at Columbia University and a former energy official in the Obama administration.

Russia dominates the European natural-gas market, and many on the Continent remember a time several years ago when Mr. Putin threatened to cut off countries, including Poland and Germany. It is a tall order to compete head-to-head with Russia, which operates an extensive network of pipelines into Europe.

In the first four months of 2017, U.S. LNG exports, at 198 billion cubic feet, were nearly eight times what they were in the same period last year, according to the latest federal data.

But that remains a fraction of the market. For European buyers, the biggest impact has

been the ability to use LNG as leverage to get better prices on Russian gas. Before Lithuania's first LNG import terminal opened in 2014, state-controlled PAO Gazprom lowered gas prices to the country by 20%.

Poland last month became the first former Soviet bloc country to receive a U.S. gas cargo, while Lithuania recently signed a deal with **Cheniere Energy Inc.** to receive gas exports this summer from Louisiana. Other countries in the region are building infrastructure to handle more LNG imports.

That has spurred Moscow to lower prices to compete and to try to develop its own LNG facilities. Russia wants to build another large gas pipeline into Europe, a project opposed by Washington and Brussels.

"Russia has become very flexible in the way they are marketing their gas as they compete with LNG," said Ira Joseph, head of gas and power analytics at S&P Global Platts.

Still, some see an opening for the U.S. to boost exports to Europe in coming years. Half of all long-term supply agreements into Europe—the vast majority of which involve Russia—expire in the five-year period that started in 2016, according to the International Energy Agency.

"U.S. gas is a powerful alternative to Europe's other op-

tions," IEA chief Fatih Birol said.

The sea change in U.S. oil exports occurred in December 2015, when Congress lifted a 40-year export ban on oil. Since then, U.S. oil shipments overseas have soared, topping 1 million barrels a day in some months of this year and moving to far-flung locations, including China and India, which have voracious appetites for oil.

While the Trump administration has taken steps to remove barriers to production, some say they are unlikely to have a major impact due to lower commodity prices.

This month, Secretary of the Interior Ryan Zinke promised to speed up permitting for developing oil and gas on federal lands, but little output comes from such acreage because U.S. drillers are focused on private lands. The Trump administration has moved to expand drilling off the coast of Alaska, a U-turn from the Obama era, but with crude prices below \$50 a barrel, few companies are eager to drill in the challenging Arctic environment.

The White House has also trumpeted the idea of approving more natural-gas export terminals along the Gulf Coast. Problem is, the market doesn't need them right now.

—Timothy Puko  
contributed to this article.

## John Hancock IPO, Spinoff Considered

Canadian insurer **Manulife Financial Corp.** is exploring a possible initial public offering or spinoff of its **John Hancock Financial Services Inc.** unit, according to people familiar with the plans, as life insurers

By Leslie Scism,  
Vipal Monga  
and Jacquie McNish

continue to struggle with low interest rates and other challenges to the business.

If it proceeds with a breakup of the Toronto-based company, Manulife would be the latest life insurer to hive off a large part of its business. Industry executives have often cited the duress low interest rates put on some of their basic products. A move by Manulife would follow rival insurers **MetLife Inc.** and **Axa SA** in shedding large U.S. operations

built around sales of life insurance, retirement-income annuities and other savings products to American families.

Manulife has been under pressure from some of its shareholders to sell John Hancock after years of disappointing returns from the U.S. unit, according to two people familiar with the company.

Manulife's stock has gained 7% on the New York Stock Exchange since its acquisition of John Hancock in April 2004. That compares with a 118% gain in the S&P 500.

Manulife entered the U.S. life-insurance market with its roughly \$10.3 billion purchase of the Boston-based insurer founded in 1862. The deal was announced with great fanfare as the keystone of the Canadian insurer's global strategy to expand in the U.S. But after years of disappointing returns

from the business, which recently accounted for nearly 60% of Manulife's assets under management and administration, the Canadian insurer is instead focusing on expanding in Asia.

As recently as two years ago, Manulife reviewed plans that included a possible spinoff of the U.S. business. That proposal was dropped at the time.

Manulife's potential IPO or spinoff follows some months of work by investment bank Morgan Stanley to sell pieces or all of the John Hancock unit, one person said.

At recent analyst and investor events, Manulife executives have discussed shedding some weak parts of John Hancock. These included at least some blocks of long-term-care insurance and lifetime-income guarantees, according to a company presentation. Those are among

the products harmed the most by low interest rates. Long-term-care policies typically pay for in-home aides or nursing homes. John Hancock quit selling stand-alone long-term-care policies to individuals last year.

Roy Gori, who will become Manulife's chief executive in October after current CEO **Don Gulien** retires, said during a session with investors in Hong Kong last month that he was "impatient" to shed the businesses.

At issue for most life-insurance firms is simple economics around policies. Many consumers buy long-term-care policies when they are in their 60s but don't file claims until they are in their 80s. This means insurers are exposed to decades of interest-rate risk.

Global interest rates have been near zero for almost an entire decade.

We think the country is going to transform over the next decade or two," said Ra-

hul Khanna, the fund's London-based portfolio manager.

India's stock market has been among the world's fastest rising this year, despite a bumpy ride due to some measures Prime Minister Narendra Modi has introduced in recent months, notably withdrawing most of the country's currency from circulation in November.

Interest-rate cuts since 2015 have helped push India's growth rate past China's. The pace could hit 7.2% this year, the International Monetary Fund estimates.

The optimistic outlook has drawn in foreign institutional investors, who plowed a net \$8.4 billion into Indian stocks in the 12 months through July, according to data from the Securities and Exchange Board of India, as domestic Indian mutual funds funneled in a net \$12.1 billion.

"Liquidity is just gushing in," said Andrew Holland, chief executive of **Avendus Capital Public Markets Alternate Strategies LLP**, one of a handful of India's onshore-based hedge funds. "Interest rates have fallen and traditional real estate and gold as an option isn't really there, so you're getting more money in equities than before."

Mr. Holland said large-cap information-technology and pharmaceutical stocks that have outperformed over the past decade might struggle to maintain their pace and justify their valuations. Others say small and midsize companies are better placed to capture changes in the types of products that consumers demand as India becomes richer.

India-oriented hedge funds with a mandate to invest in India alone total just 42 and manage \$4.58 billion in assets, according to Eurekahedge data.

Some say Indian hedge funds' returns seem less exceptional set against those of the small-cap stocks they invest in, said Peter Laurelli, global head of research at eVestment. The MSCI India Small Cap Index gained 29% in the first half, slightly more than the India-focused hedge funds.



India-focused hedge funds rose 24% in the first half. A Mumbai ticker.

## MARKETS

### Riding the Wave

The Hang Seng Index hit a two-year high on Thursday.

Daily highs



Source: Thomson Reuters  
THE WALL STREET JOURNAL.

### Unlikely Duo Boost Hong Kong Market

By STEVEN RUSSOLILLO

HONG KONG—One is a British bank founded in the 19th-century colonial era. The other is a Chinese technology giant barely two decades old. Together, they

**EXCHANGES** are driving Hong Kong's stock market

to its highest level in two years.

A 20% rise in the shares of **HSBC Holdings** PLC this year and a 50% jump in **Tencent Holdings** Ltd.—the two biggest stocks by weighting in the Hang Seng Index—helped push it further above the 26,000 milepost Thursday to its highest closing level since June 2015. The index's 1.2% rise added to a surge in global stocks after Federal Reserve Chairwoman Janet Yellen overnight said the central bank is ready to adjust policy if the recent slowdown in inflation persists. The index was flat early Friday.

Other Asian markets benefited from the Fed chairwoman's remarks Wednesday as well. South Korea's Kospi index rose 0.7% Thursday after the Bank of Korea kept interest rates unchanged and raised its growth forecast. The Kospi has surged 19% this year to a record despite the nuclear threat from North Korea.

Meanwhile, the MSCI AC Asia ex-Japan index has risen steadily, up 23% this year.

The irony, in Hong Kong at least, is the market's two main driving forces couldn't be more different. Tencent and HSBC have helped the index surge about 4% this week, on pace for its best weekly performance in a year. The Hang Seng has climbed 20% year to date. Roughly half of the rise in HSBC's shares this year have come since the end of June. Global banks with operations in the U.S. have performed strongly since then, after the Fed's annual stress tests gave most a clean bill of health, paving the way for more buybacks and dividends.

Tencent has ridden the global surge in tech stocks this year, which has helped the likes of Apple Inc. and Facebook Inc. also record strong gains.

### Treasury Auctions

The U.S. Treasury Department will auction \$105 billion in securities next week, comprising \$66 billion in new debt and \$39 billion in previously sold debt. Details call with minimum denominations of \$100:

♦ **Monday:** \$39 billion in 13-week bills, a reopening of an issue first sold on April 20, 2017, maturing Oct. 19, 2017. Cusip number: 912796LY3.

Also, \$33 billion in 26-week bills, dated July 20, 2017, maturing Jan. 18, 2018. Cusip number: 912796NN5.

Noncompetitive tenders for both issues must be received by 11 a.m. EDT Monday and competitive tenders, by 11:30 a.m.

♦ **Tuesday:** \$20 billion in 52-week bills, dated July 20, 2017, maturing July 19, 2018. Cusip number: 912796MK2. Noncompetitive tenders must be received by 11 a.m. EDT Tuesday and competitive tenders, by 11:30 a.m.

♦ **Thursday:** \$13 billion in 10-year Treasury inflation-protected securities, settling on July 31, 2017 and maturing July 15, 2027. Cusip number: 912828L3. Noncompetitive tenders must be received by noon EDT Thursday; competitive tenders, by 1 p.m.

# Retailer Stocks Make Easy Prey

Traders stand ready to pounce, looking for bargains among battered sector

By BEN EISEN  
AND AMRITH RAMKUMAR

Shoppers' retreat from department stores and mall chains is prompting stock traders to stalk the retail sector with a fervor unseen in years.

Sales and profits at major retailers have

**EQUITIES** come under immense pressure this year, punishing the shares of Macy's Inc., Nordstrom Inc. and Kohl's Corp. The SPDR S&P 500 Retail exchange-traded fund has fallen 9.4% this year through Thursday, lagging far behind a 9.3% rise in the S&P 500. Macy's is down 38% for 2017 and Target Corp. is down 26%. Wall Street is abuzz with talk that the rise of e-commerce giant Amazon.com Inc. spells the eventual end of traditional retail, a notion that many in the industry vigorously dispute.

Retail's retreat and the accompanying debate have created fertile ground for investors who buy unloved stocks,

whether for a brief bounce and quick sale or in some cases a

bet that the doomsday talk is overdone.

This onslaught of bargain-seeking value investors, trend-playing hedge-fund portfolio managers and quick-turn-around day traders is fueling a surge in trading volume and sharp price swings in an industry that for years was a backwater to hotter industries such as technology and financial services.

Trading has been frenetic: Macy's, the largest U.S. department-store chain, had its highest trading volume of any month since 2011 in May, with June not far behind.

Shares fell 17% on May 11, their worst performance since 2008, after a quarterly decline in same-store sales.

May and June were also two of the five busiest months in the past five years for Kohl's and Target.

"With this recent huge slump, a lot of large retail companies went on the radar for us," said Eric Mancini, director of investment research at Traphagen Financial Group in Oradell, N.J., which has \$530 million in assets.

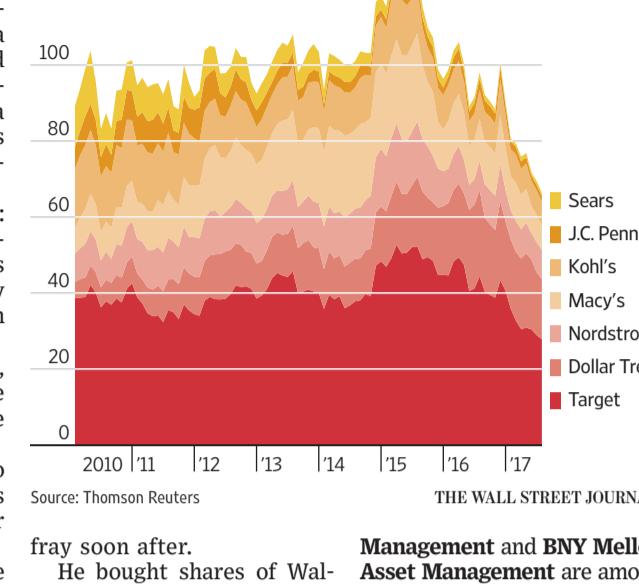
After Amazon announced a deal to buy Whole Foods Market Inc. for \$13.7 billion on June 16, shares of Wal-Mart Stores Inc. sank 4.7%. Mr. Mancini jumped into the

fray soon after.

He bought shares of Wal-

### Discounted Retailers

Market capitalization, monthly



Source: Thomson Reuters

news is apt to cause the shares to surge, a condition that lays the groundwork for much larger price swings as short sellers buy back borrowed shares to return them to the owner.

On Thursday, Target raised its quarterly guidance for same-store sales and earnings, pushing shares up 4.8%. Other large retailers also gained on the news, with Kohl's shares climbing 4.8%, and Gap Inc. shares advancing 5.6%. The three companies were among the four best performers in the S&P 500 by percentage gain.

The 30-day implied volatility of the retail ETF was over 19 this week, according to Thomson Reuters data. That is well above 14.7 on a comparable technology ETF and nearly as high as an ETF of biotechnology stocks known to have particularly large swings, which was at just over 20.

That volatility has been a boon to day traders, who often jump in and out of stocks in the span of a few hours to ride small moves in their prices. On StockTwits, a social-media platform that is popular with day traders, average message volume about Macy's, Nordstrom, Kohl's, J.C. Penney Co., and Sears Holdings Corp. has collectively more than tripled since the end of last year.

# Agriculture Overhauls to Lift China Imports

By LUCY CRAYMER

Agricultural overhauls have set up China to import more grains and other commodities, with significant consequences for global markets.

Over the past three years, China has abolished guaranteed minimum prices for cotton, soybeans, corn and sugar, hurting domestic production of those staples.

Grain production fell in 2016 for the first time in 13 years, and production of sugar and cotton has fallen by more than one-quarter in the past three years.

The impact of those declines has been masked by sales from China's strategic stockpiles.

Those will eventually run out, triggering a rise in demand for imports from the world's second-largest economy.

That could be a boon to farmers from Brazil to the U.S. and Thailand.

Growth in domestic production is likely to lag behind demand, said Andrzej Kwiecinski, senior agricultural-policy analyst at the Organization for Economic Cooperation and Development.

The country would import more feed grains, then more livestock and, eventually, more fruits and vegetables, as increasing labor costs make China less competitive, he said.

With around one-fifth of the world's population and 10% of the world's arable land, self-sufficiency in feeding China's people remains a priority for Beijing, particularly for staples such as rice and wheat.

The country shifted course for other products with an agriculture-policy statement in 2014. It said China needed to



A farm in China. Grain output in the country fell in 2016 for the first time in 13 years, but sales from stockpiles masked the impact.

make rational use of international agricultural markets and establish stable and reliable trade relations, welcoming more imports.

The first price supports to go were for soybeans and cotton on a trial basis in 2014. The impact was immediate. Local futures prices for cotton fell 30% in 2014, and production fell 8% in the 2014-15 planting season.

Wholesale soybean prices fell 11%, and production dropped 1.5% over the next two years as farmers shifted to corn, which still had a price floor.

China's foreign purchases of soybeans have risen 29% since the country removed the price floor. Global prices for soybeans rose 5% in 2016 as demand remained strong amid a glut in other grains.

Government stockpiling of sugar disappeared in the same season.

Domestic prices fell around 9%, causing production to drop by nearly one-fifth in the following season. At the same time, the U.S. Agriculture De-

### Betting the Farm

China removed government-mandated price floors for soybeans and cotton in 2014 and began selling off its stockpiles, causing prices to fall. Cotton production declined and imports slid as stockpiles were sold, but soybean imports rose on strong demand as production stalled.

#### Performance on front-month contract prices

Soybean (green line)

Cotton (orange line)

2014 2015 2016 2017

Year ended July 31

\*Forecast

Sources: FutureSource (prices); U.S. Department of Agriculture

#### Cotton

In millions of metric tons

Production (orange bars)

Imports (yellow bars)

2014 2015 2016 2017

Year ended July 31

\*Forecast

Sources: FutureSource (prices); U.S. Department of Agriculture

Year ended Sept. 30

\*Forecast

Sources: FutureSource (prices); U.S. Department of Agriculture

Year ended Sept. 30

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Year ended Sept. 30

\*Forecast

Sources: FutureSource (prices); U.S. Department of Agriculture

Year ended Sept. 30

\*Forecast

# MARKETS

# Hedging Ebbs as U.S. Currency Weakens

Prospect of higher interest rates abroad weighs on the dollar, helping overseas stocks

By CHRIS DIETERICH  
AND CHELSEY DULANEY

Investors are diving into overseas-stock funds while ditching expectations for a rebound in the dollar, the latest market ripple of the greenback's surprise 2017 slide.

The trends mark a turnaround from recent years and demonstrate a newfound conviction that a long-awaited growth pickup in developed countries, particularly Europe, will boost stocks that have badly lagged behind their U.S. counterparts for much of the eight-year-plus bull market.

Shifting market sentiment is evident in money flowing out of a recently popular crop of currency-hedged exchange-traded funds. Some \$1.1 billion was pulled this week from the \$7.5 billion Deutsche X-trackers MSCI EAFE Hedged Equity exchange-traded fund, according to FactSet.

The fund buys developed-economy stocks outside the U.S. and, like other currency-hedged ETFs, employs derivatives to neutralize the impact of a rising dollar for U.S. investors.

A strong dollar, which hit a 14-year high after November's U.S. elections, has played a key role in driving the performance of foreign-stock funds in recent years, because U.S.-based buyers must exchange their dollars for the local currency when buying shares abroad.

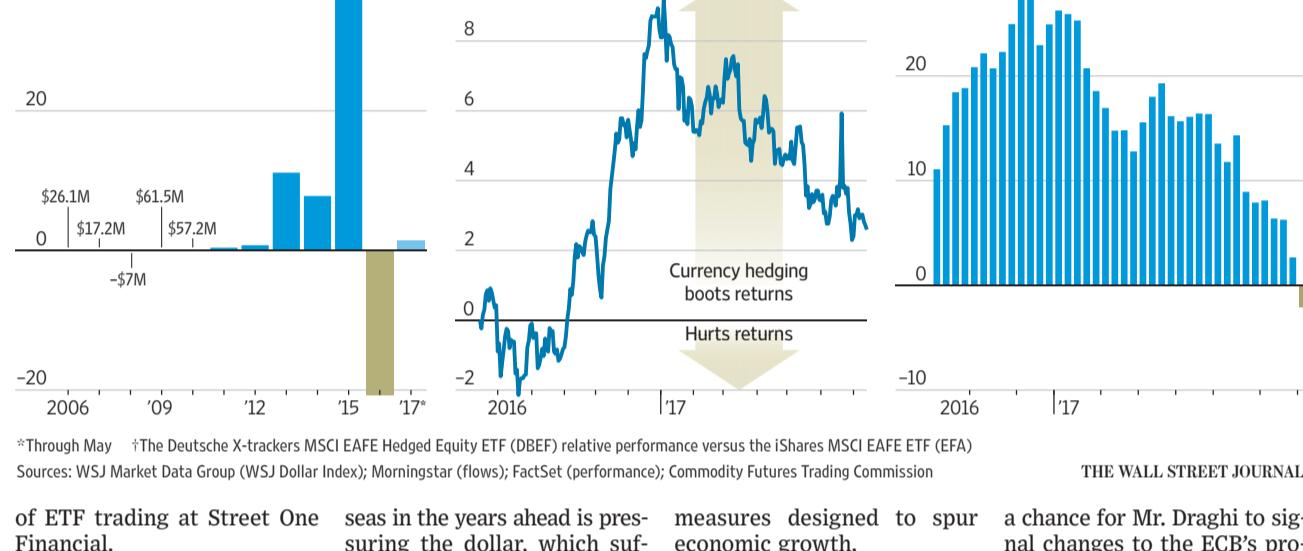
Recent outflows in the currency-hedged ETF indicate that at least one large investor is "comfortable owning overseas stocks, and the currencies too, because they think the dollar is dead, or that it will flatline or trade lower for the next couple of months," said Paul Weisbruch, vice president

## Down on the Dollar

A rising U.S. dollar was one of Wall Street's most-popular trades entering 2017, but the currency's steady decline since a brief late-2016 rally has shifted expectations and curtailed the use of investments that buy foreign stocks while neutralizing the impact of changes in the currency's value.



Investors' embrace of foreign stocks and the retreat of hedging is evident in the decline of DBEF, the Deutsche X-trackers MSCI EAFE Hedged Equity ETF, relative to the similar but unhedged EFA, the iShares MSCI EAFE ETF of larger developed-market stocks.



of ETF trading at Street One Financial.

Bets that favor a strong U.S. dollar also are falling out of favor as central bankers are signaling that firmer growth will allow for the removal of stimulus efforts set up in the wake of the financial crisis. The prospect of higher rates over-

seas in the years ahead is pressuring the dollar, which suffered its worst first half in 2017 of any year since 2011.

The dollar has dropped in recent weeks after central-bank officials in Europe and Canada offered strong signals that they could soon begin winding down monetary-policy

measures designed to spur economic growth.

The Wall Street Journal reported that European Central Bank President Mario Draghi is scheduled to address the Federal Reserve's Jackson Hole, Wyo., conference in August for the first time in three years. Investors see the conference as

a chance for Mr. Draghi to signal changes to the ECB's program of quantitative easing.

Recent rhetoric has sparked a sharp uptick in global interest rates, sending currencies such as the euro and Canadian dollar rallying.

Investors continue to reach for international-stock funds

this year, just not those with a currency-hedged component. Demand for overseas stocks comes as the U.S. economy muddles along, and questions linger about lofty valuations for domestic shares.

Some \$98 billion has moved into international-stock ETFs this year, compared with \$75 billion into U.S. ones, according to Credit Suisse.

Indeed, \$1.9 billion moved into the \$31 billion iShares Core MSCI EAFE ETF over the past week, an indication to Mr. Weisbruch that one large investor might have rotated out of the hedged ETF and into a nearly identical, unhedged one.

Currency-hedged ETFs enjoyed a boom in demand in recent years as the ECB and Bank of Japan embarked on stimulus efforts, which weighed down local currencies and lifted their home stock markets. Currency-hedged ETFs provided an elegant way to wager on the trend. Some \$40 billion flowed into currency-hedged ETFs in 2015, according to Morningstar.

The tide started to change last year amid signs of more synchronized global economic growth. Some \$20.7 billion flowed out of currency-hedged ETFs in 2016.

RiverFront Investment Group is among the investment firms that have moved away from currency-hedged ETFs in recent months in favor of the unhedged foreign-stock variety. In part, that is because the recent French election quelled worries that the eurozone was at risk of coming apart, another factor that has hit the dollar relative to the common currency, said Chris Konstantinos, director of international portfolio management.

"Given the volatile nature of currency hedging, you need to have high conviction about where a currency will go relative to the dollar," said Mr. Konstantinos. "There are too many crosscurrents right now."

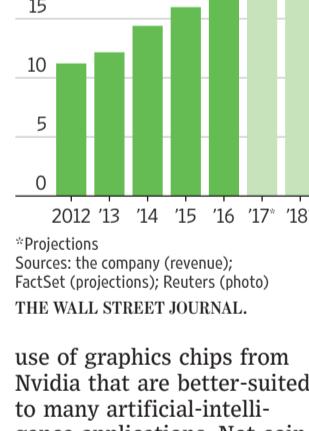
## HEARD ON THE STREET

Email: [heard@wsj.com](mailto:heard@wsj.com)

FINANCIAL ANALYSIS & COMMENTARY

[WSJ.com/Heard](http://WSJ.com/Heard)

# For Intel, It Is Lonely at the Top



scale to overtake its much larger rival. It can put a wrinkle in its growth prospects at an inopportune time, though: AMD is expected to grow its computing and graphics segment revenue by 34% this year. Intel's far larger data-center business is expected to grow by 7%, its slowest year on record. And while Intel's stock is cheap at 12 times forward earnings—12% below its three-year average—any disappointment in data-center sales over the next few quarters will likely pressure the shares further.

AMD, meanwhile, has the advantage of starting from zero in servers. That means the sales it does get will likely be at Intel's expense. In fairness, AMD will have to keep delivering strong sales into next year to show its gains have true staying power. That is far from certain now, but investors haven't been giving Intel the benefit of the doubt.

This column is part of a series on what is next for the booming semiconductor industry.

—Dan Gallagher

## OVERHEARD

Sometimes a side effect is more than a side effect.

That was an unexpected outcome of a continuing study, published Wednesday in the medical journal JAMA Dermatology.

The study tracks 52 patients taking drugs known as PD-1 inhibitors, which attempt to harness the body's immune system to attack cancer cells. Bristol-Myers Squibb, Merck & Co. and Roche Holding make the drugs used in the study.

The article focused on 14 of the patients who exhibited a surprising side effect: Their gray hair became dark again, or, as the authors state, there was a diffuse darkening of the hair in 13 of 14 patients, or in black patches between white hairs in 1."

More surprising is that all but one of the patients who lost their gray either improved or were stable.

The hair color of people who hadn't turned gray didn't change, and the effectiveness of the drug is unclear. If it turns out the drug doesn't work, the scientists can shift to hair salons.

## A Low-Cost Airline Needs Low Costs

Norwegian Air Shuttle served up a reminder Thursday of why disruptive companies don't always make good investments.

The airline is investing aggressively in cheap trans-Atlantic flights. Norwegian's long-haul capacity will increase by 60% this year and double next year, notes brokerage Davy.

But rapid expansion has come at a cost: Even stripping out fuel, second-quarter unit costs rose 7% year over year, management announced Thursday. Unit staffing costs ballooned 12%. Second-quarter unit costs, excluding fuel, have now been rising for four years.

This looks like a problem. You can't build a low-cost airline without low costs.

Having seen their short-haul business upended by low-cost challenger Ryanair, the top trans-Atlantic players are paying very close attention to Norwegian's ambitions. Norwegian can't count on the complacency that opened a gap for Ryanair.

The other problem with Norwegian's mounting costs is that they weigh on cash flows and hence its debt-encumbered balance sheet.

Shareholders' equity accounted for just 8% of total liabilities at the quarter-end. This leverage explains why the stock, which is heavily shorted, plunged 14% Thursday.

In the year to date it is down more than one-third, even as other European airline stocks have soared.

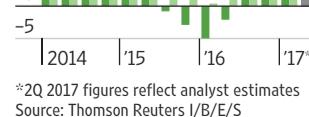
The company's long-term finance director quit last week. His successor can be under no illusion: If Norwegian really is going to disrupt the current trans-Atlantic oligopoly, it needs to get costs under control.

—Stephen Wilmot

# Warnings Flash on Stocks Ahead of Earnings Season

## Over the Hump

Earnings per share, change from a year earlier



\*2Q 2017 figures reflect analyst estimates

Source: Thomson Reuters I/B/E/S

Or the fourth quarter, when overall earnings were up 8%, and earnings excluding energy were up 8.1%. For profits, it is the growth that matters, and when profit growth slips, stocks can struggle. Things could get tougher from here. Companies are cycling past the easy comparisons from the first half of 2016 and are facing rising labor costs, both of which weigh on earnings growth.

S&P 500 earnings growth last peaked in the third quarter of 2014 at 10.3% on the year, and by the first quarter last year contracted by 5%.

good as the first quarter, when overall earnings were up 15.3% from a year earlier, and earnings excluding the energy sector were up 11%.

Over that period, the index advanced just 4.4%. It might have fared worse if not for falling interest rates.

The yield on the 10-year Treasury fell from 2.52% at the end of the third quarter of 2014 to 1.78% in the first quarter last year as faltering global growth and low inflation led the Federal Reserve to rethink its rate-increase plans. So even though earnings were flagging, stocks looked like a better value than bonds.

While earnings growth is likely to be softer in the quarters ahead, it doesn't seem likely to weaken as

much as it did through early 2016. The global economy is on better footing and the oil bust is unlikely to repeat itself. But those factors have cleared the way for the Fed to raise interest rates.

Stock-market data from the past 50 years show that shares tend to do poorly when rates are rising and earnings growth is slowing. Add high valuations to the mix and the environment gets more challenging.

Stocks can always go higher, of course, but history says any gains will be modest and hard-fought.

—Justin Lahart

Documentary filmmaker  
D.A. Pennebaker on  
the homes that shaped  
his vision **M3**



# MANSION

'O sacred solitude! divine retreat!  
Choice of the prudent! envy of  
the great...' —Edward Young

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THE WALL STREET JOURNAL.

Friday, July 14, 2017 | **M1**



## Bloody Point

**STAGNANT PRICES** Rich and Gayle Silver built a \$3.4 million, shingle-style home on the ocean in 2005. But when they listed it, fully furnished, for \$3.99 million last year, it didn't sell.



### Melrose

**FINANCIAL WOES** Only about 17 families live full time in Melrose, a decaying former luxury resort owned by a Utah-based developer that filed for chapter 11 bankruptcy protection in March.



### Haig Point

**ON THE REBOUND** Rick Wagoner, former chairman and CEO of General Motors, owns a home here, where members pay a \$20,000 initiation fee and an annual fee of \$23,000 for golf and tennis.

## An Idyllic Island's Stormy History

Daufuskie offers golf, nature and history without the crowds of other Southern getaways. But some resorts have struggled financially, worrying potential home buyers.

BY NANCY KEATES

**THERE'S NO GROCERY STORE**, hospital or police station on Daufuskie, a small island off the coast of South Carolina where the total full-time

population is about 400. People wave to each other as they zip around on golf carts, some on their way to get free eggs at the community farm. Eagles fly overhead, and dolphins arch from the water as if on cue. The social epicenter is a honky-tonk bar and restaurant called Marsh-

side Mama's, where residents come to drink and dance.

On the edges of this near-wilderness are three luxury golf communities—one prospering, one deteriorating and one hanging on. Moving from

Please turn to page M6

## PICTURE THE AMERICAN DREAM HOME

INSIDE

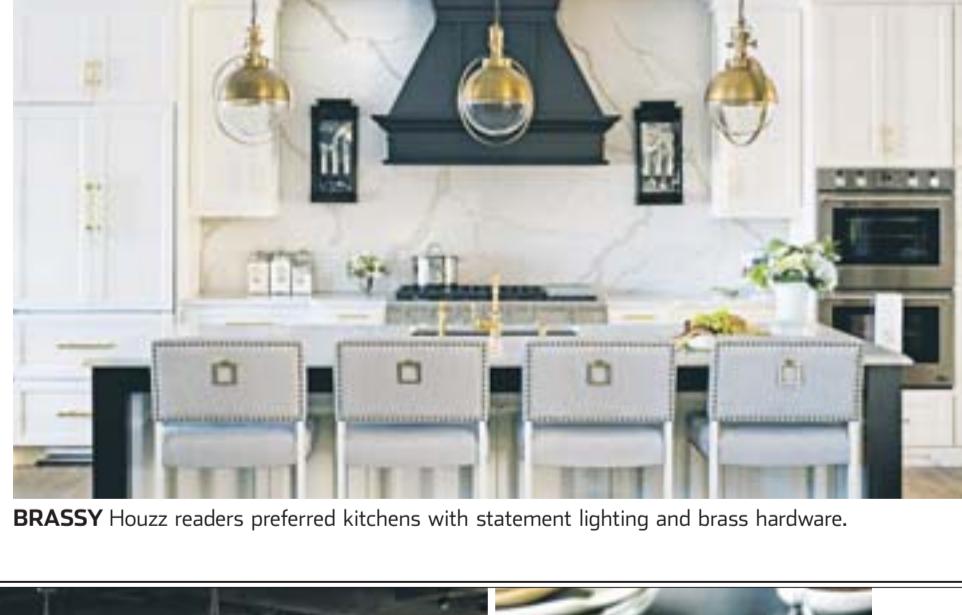
The most popular photos on three major home and design websites show what consumers love in home design.

Trending in 2017: statement lighting in the kitchen, daring wallpaper and fabric prints, and colorful front doors.

BY ALINA DIZIK

**FORGET GINGHAM** curtains and a white-picket fence. The "dream home" of today has come a long way from postwar tract homes with cookie-cutter features. Most Americans now want homes that express their individual style and are loaded with modern, high-end finishes, such as solid-surface countertops, spa-like bathrooms and chic industrial fixtures.

To understand what "dream home" means to today's homeowners, Mansion asked the editors of three home-centric websites—Houzz, BHG.com and HGTV.com—to identify their



**BRASSY** Houzz readers preferred kitchens with statement lighting and brass hardware.

most popular images from the first half of 2017. These are the photos with the most online clicks, likes and saves.

Defining a dream home can be "an addictive experience, because people can find so many examples that speak to them personally," says Sheila Schmitz, editor at home-design website Houzz. In many cases, "there's a sense of nostalgia at work," she adds.

Right now, the most popular photos on Houzz show transitional interiors, those that mix traditional and contemporary design elements, with daring use of prints, metals and other textures. Glamorous kitchens feature

Please turn to page M5



**\$150 MILLION**  
A Hamptons property with a big price **M2**



**PIECE OF THE PIE**  
Homes on the market with pizza ovens **M10**



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## MANSION

PRIVATE PROPERTIES | CANDACE TAYLOR

# 14-Acre Hamptons Property Asks \$150 Million

In New York's Hamptons, a roughly 14-acre beachfront property with multiple houses and two putting greens is asking \$150 million.

On Meadow Lane in Southampton, the property is an assemblage of four parcels and includes several houses, according to listing agent Harald Grant of Sotheby's International Realty. He declined to name the sellers or specify why they are selling, but said they purchased the parcels over the past few years with the intention of demolishing the existing homes to build a new family compound.

The combined properties offer about 700 feet of direct frontage on the ocean, Mr. Grant said. One of them, on 3.5 acres, includes a roughly 12,000-square-foot house, built in the 1990s, with eight bedrooms and an indoor pool.

Another parcel, on 3 acres, has two shingle-style houses: one measuring about 2,000 square feet with an outdoor swimming pool, and a roughly 3,000-square-foot home with a tennis court.



TAINLY DEMOLISH THE HOMES AND START OVER, HE SAID.

"As we find in most instances at this price point, people want to hire their own architects and designers and build their dream home," Mr. Grant said. "You're not going to spend this kind of money and live in someone else's house."

According to public records, the current sellers bought the properties from entertainment mogul Robert F.X. Sillerman in various transactions in recent years, paying about \$114 million in total. Mr. Sillerman's dance-festival conglomerate, formerly known as SFX Entertainment, filed for bankruptcy in 2016.

Beachfront property in the Hamptons is among the most expensive real estate in the country. Mr. Grant noted that another one of his oceanfront Southampton listings, "La Dune" on Gin Lane, is asking \$145 million. While that property is only about 4 acres, its two homes are move-in ready, he said.

A third, 5-acre parcel has two putting greens built by a prior owner for practicing golf,

plus two "golf cottages" overlooking the ocean.

A fourth parcel is a roughly

2.5-acre vacant lot with frontage on Shinnecock Bay, ensuring the property has views of

both the ocean and the bay, Mr. Grant said.

A buyer will almost cer-

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### MUSICIAN'S HOUSE HITS THE MARKET

Fleetwood Mac's John McVie is trading up to a larger home in Los Angeles.

The bass guitarist is putting his Brentwood home on the market for \$2,995 million, according to listing agent Marcie Hartley of Hilton & Hyland. He recently bought a larger home in the same neighborhood for \$6.775 million, said a spokeswoman for that property's listing agency, Quintessentially Estates of Coldwell Banker.

Mr. McVie bought the two-bedroom Brentwood house in 2014 for \$2.53 million, public records show. Originally built in the 1920s, the house was renovated by Mr. McVie and his wife, Julie. It measures about 2,200 square feet, plus a detached guesthouse that Mr. McVie used as a music studio. The couple, who had been living primarily in Hawaii, used the home as a pied-à-terre, Ms. Hartley said, but lately they have been spending more time in Los Angeles.

### KATE WALSH LISTS L.A. HOME FOR \$4.25 MILLION

Actress Kate Walsh is looking to sell her Los Angeles home for \$4.25 million.

The "Grey's Anatomy" and "Private Practice" star put the Encino home on the rental market earlier this year, first asking \$15,000 a month and then upping the price to \$17,500 a month. At the time Ms. Walsh was spending a lot of time working in New York but was "not ready to sell it," said Marc Silver of Sotheby's International Realty, who has the listing with colleague Barry Sloane. The house was rented out earlier this year, and the actress is "ready to move on," said Mr. Silver.

Ms. Walsh could not be

reached for comment.

Located in the Royal Oaks area, the three-bedroom, single-story ranch was built around 1950, Mr. Silver said. Ms. Walsh bought the home in 2013 for \$2.725 million, according to public records, and Mr. Silver said she renovated the house "from top to bottom."

Spanning about 4,500 square feet, the house now is painted dark gray. Ms. Walsh created a master suite with a large walk-in closet and a



hair-and-makeup station. The house also has a media room and a home office.

Outside, the roughly 1-acre property contains a detached guesthouse that Ms. Walsh used as a Pilates studio, plus a swimming pool, tennis court and fire pit.

Ms. Walsh, who gained fame as Dr. Addison Montgomery on the TV drama "Grey's Anatomy," appears in the series "13 Reasons Why" and in the upcoming movie "Girls Trip."



▶ See more photos of notable homes at [WSJ.com/Mansion](http://WSJ.com/Mansion). Email: [privateproperties@wsj.com](mailto:privateproperties@wsj.com)

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## MANSION

HOUSE CALL | D.A. PENNEBAKER

# Eyewitness to the Counterculture

A solitary early life nurtures a filmmaker's eye; at 91, he takes phone photos outside his New York home

I grew up pretty much by myself. My parents separated soon after I was born and moved to separate cities—my father to Chicago, and my mother and me to Quakertown, Pa., where she was from.

Later, when I was 5 and my mother was living in New York, I began shuttling between New York and Chicago. I'd be put on a train with a nametag tied to my coat. For the next day and night I was on my own with a whole train at my mercy. I rarely saw much of my parents at either end. I was cared for by sitters or hurried off to boarding schools.

John Paul, my father, was a commercial photographer specializing in advertising. My mother, Lucille, was a model at Macy's and wasn't really equipped to look after me. I was put into a boarding school in Ossining, N.Y.

I was too young to take classes, but I liked being with older kids. I didn't see much of my mother. In-between my trips back and forth to Chicago, she remarried.

When I was 9, I was sent off to live with my father in Chicago. But I saw little of him. He had remarried, so I was sent to boarding school there, too.

My high school years were spent at Salisbury School in Connecticut. I was an OK student, but I had a strange talent for math. While I was at Salisbury, my mother rented a little walk-up apartment in New York on Madison Avenue. I stayed there occasionally, and she took me to Broadway shows.

More often, though, I stayed with the McCullochs, who lived in New York. Ginny McCulloch, their daughter, had come to a dance at Salisbury and we became fast friends. Her family provided me

with the home and companionship I had always longed for. Ginny and I remained best friends.

After graduation, I enlisted in the Navy V-12 College Training Program, which sent me to Yale as an engineering student. Halfway through my first year, the Navy transferred me to MIT, where I studied math. Then, midway through MIT, the Navy sent me to the Naval Research Lab in Washington, D.C., before transferring me to the Naval Air Corps. I spent the last months of World War II learning to fly airplanes in Iowa.

After my discharge, I returned to Yale to finish my engineering degree. In the late 1940s, I moved into a Greenwich Village apartment with two roommates. I loved building furniture, so I started a carpentry shop.

By the start of the 1950s, I was married and had a daughter. To support my family, I took a job with Julien Bryan, a filmmaker who shot 16mm films. Francis Thompson was one of his directors. Thompson was making an abstract experimental film called "N.Y., NY." I offered to help him finish it, and for the next two or three years we drove around the city shooting.

In 1953, when I heard there were plans to tear down the Third Avenue elevated line, I made a



FROM LEFT: WILLIAM DAWSON; AXEL DUPUX FOR THE WALL STREET JOURNAL

**ROCK ROLE** D.A. Pennebaker, above, in the office he shares with his wife and longtime collaborator, Chris Hegedus, on Manhattan's Upper West Side; left, in Orange, N.J., in 1933.

five-minute film about it using Duke Ellington's "Daybreak Express" for the soundtrack. But I needed Ellington's permission to use his music.

I called on him at his Brill Building office in Manhattan and screened the film for him on his office wall. He loved it and asked what I needed. I said I wanted to use his recording, and he gave me

the rights on the spot.

My first feature-length film was in 1959, called "Opening in Moscow," about an American trade show there. I went with filmmaker Albert Maysles. We were the first American documentarians turned loose in Russia during the Cold War.

But the cameras were heavy and bulky. You couldn't really move around much by yourself. When

we returned, Al and I designed a lighter, portable 16mm camera. The new design allowed me to mount it on my shoulder and work without a tripod. It was liberating. You could hold it as steady as a tripod for long periods as you moved around.

I shot my Bob Dylan documentary "Dont Look Back" with one. By the time I shot "Monterey Pop," I had five cameras, allowing the crew to go anywhere and shoot whatever they wanted.

But the cost of filmmaking was rising and recouping the expense grew difficult. Just as I was about to give up in the 1970s, Chris Hegedus appeared looking for a job. After a brief talk, I knew I had found the collaborator—and wife—I had long been seeking.

Today, Chris and I live in a three-bedroom apartment on the 20th floor of a building on Manhattan's Upper West Side.

The views are great. I can look north to Harlem, south to Midtown and west to New Jersey. My favorite space is our kitchen, with its north view and a long uptown stretch of four-story brownstones.

When I'm on the streets, I sometimes use my iPhone to shoot stills. I'm amazed at how far picture-taking technology has come.

I'm particularly interested in cats, when they're just sitting and watching. They have a fascinating way of looking at the world.

They're watchers. I'm one too.

—As told to Marc Myers

**D.A. Pennebaker, 91, is a documentary filmmaker whose films include "Dont Look Back," "Monterey Pop," "Ziggy Stardust," "The War Room" and, most recently, "Unlocking the Cage." He has collaborated with his wife, filmmaker Chris Hegedus, since the 1970s, and received an Oscar in 2012.**

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## MANSION

### BALANCE SHEET

# A Place to Retire That's Just Right

A Norway couple aims for a home big enough for lots of guests but cozy enough for two



BY J.S. MARCUS

**NORWEGIAN COUPLE** Christian Daniels and Anne Midtlien were facing some hard choices about where and how to live in their approaching retirement.

They had spent more than 30 years in a spacious family home—a 2,100-square-foot, four-bedroom duplex—on the outskirts of the seaside town of Grimstad. They wanted to stay in the area, and they still needed space—for their extended family—but they craved a cozy, cabin-like feel just right for two. They also wanted to enjoy the sense of privacy of a single-family home, but wished for the convenience of apartment living.

In 2011, they found a small lot of just 1/8th of an acre in the center of Grimstad for about 1.8 million Norwegian kroner, or about \$340,000. With that start, the two handed over their seemingly contradictory demands to their son-in-law, Lillesand-based architect Øystein Trondahl, and his Oslo-based partner, Stian Schjelderup. The couple gave the creative team carte blanche.

The architects came up with a solution: a two-story, 1,625-square-foot house that had an open-plan ground floor with a master suite, and an upstairs that had elements of a distinct two-bedroom, one-bathroom apartment. The couple moved into their new home in 2014. Total cost: about \$1.6 million.

The flexibility of the living space is evident from the



first step inside, where the ground-floor dining area feels just right for a couple, but can expand to include all 15 members of their three-generation family.

Having the compact core space was important to Ms. Midtlien, a 65-year-old trained nurse, now working as a civil servant. "We want

to be in close contact with each other," she says, of her husband of nearly 45 years.

The architects gave the home a luxurious feel by using unusual versions of ordinary materials.

The roof, for example, is made of weather-resistant, pressure-treated lumber, rendered in a brownish-yellow

low that turns a gold color in the sun. It has a distinctive bend that gives the house a fanciful silhouette. Inside, the angle directs attention from the upstairs down to the kitchen, the center of activity.

The home's redbrick walls, visible inside and out, have thin layers of white plaster that create a subtle textural surface.

The architects also chose high-end paneling for the interior: furniture-grade Douglas-fir veneer. The strong plywood has a load-bearing function, says Mr. Trondahl. Terrazzo-style polished-concrete floors complement the wood.

High-design features also play with the rustic-industrial, wood-and-concrete feel: wall-mounted lamps from Milan's Flos, hanging lamps from Denmark's Muuto and a sofa by Denmark's Top-Line.

Ms. Midtlien rotates one of the Flos lamps toward the kitchen when she is making bread, which she does often. She went with Scandinavia's own IKEA brand for her kitchen—cost \$10,100—but added a custom wood-burning oven to her patio to bake the loaves, as well as to prepare the occasional homemade pizza.

The oven—with a quaint, cast-iron door imported from Sweden—shares a chimney with an indoor contemporary fireplace located between the dining area and living room. Ms. Midtlien, an avid gardener, uses ashes from the oven for the property's plants.

A certain design element in the kitchen remains a family controversy. Against their son-in-law's wishes, the couple opted for a funky accessory—an oversize cylindrical exhaust fan for the stove, visible from several vantage points in the house.

"It's very big," admits Ms. Midtlien, who now isn't sure she likes it. "I may buy a new one for Christmas."

Grimstad is in Norway's Sørlandet, a stretch of coast in the southeastern part of the country where wealthy Oslo residents spend summers. Mr. Daniels, also 65, grew up in the region; his wife is from Oslo. The couple found a spot near a conservation area that preserves their view, hindering future development and adding to their home's value.

The lot's chief appeal, says Mr. Daniels, is "that

**NORWEGIAN WOOD** Christian Daniels and Anne Midtlien, right, use the wood-burning oven on their patio to bake bread. Top, the home's facade is a combination of wood and plastered redbrick. Above, the dining area has double-height walls with high-quality plywood paneling and terrazzo-style polished-concrete floors. The table is a family antique. Below, their IKEA kitchen. Bottom, a view of the garden.



it was flat," unlike their previous property, which was wedged on a steep incline. The flatness simplified construction, he says, and helped keep the house itself relatively low.

In Norway, neighbors typically are consulted when new houses are built, chiming in on everything from size to style. In spite of the unusual shape of their roof, the couple found that their neighbors seem fond of their house, says Mr. Daniels.

"No one lost any sun, or lost their view," he says.

The couple, who have fjord views from their upper floor, also own a vacation home near Lillehammer, about a seven-hour drive north of Grimstad.

Though the bedrooms upstairs are reserved for visiting friends and family, the couple, who plan to keep working until 2019, put the upstairs bathroom to use every workday morning.

"We both get up at 5:30," says Mr. Daniels, an engineer, adding: "When we are finally retired, we will fill up our time with baking bread."

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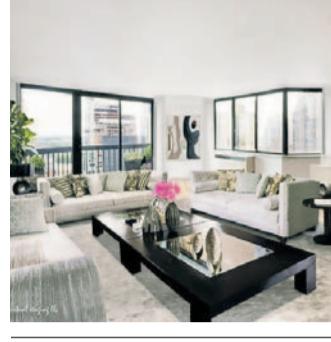
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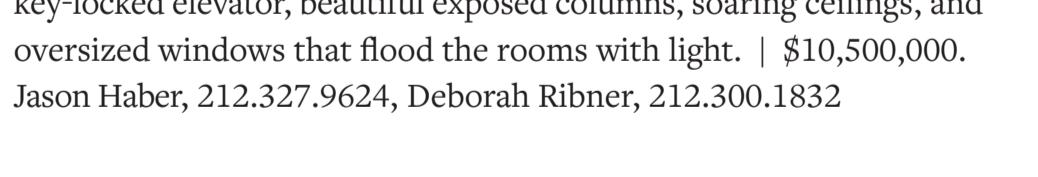
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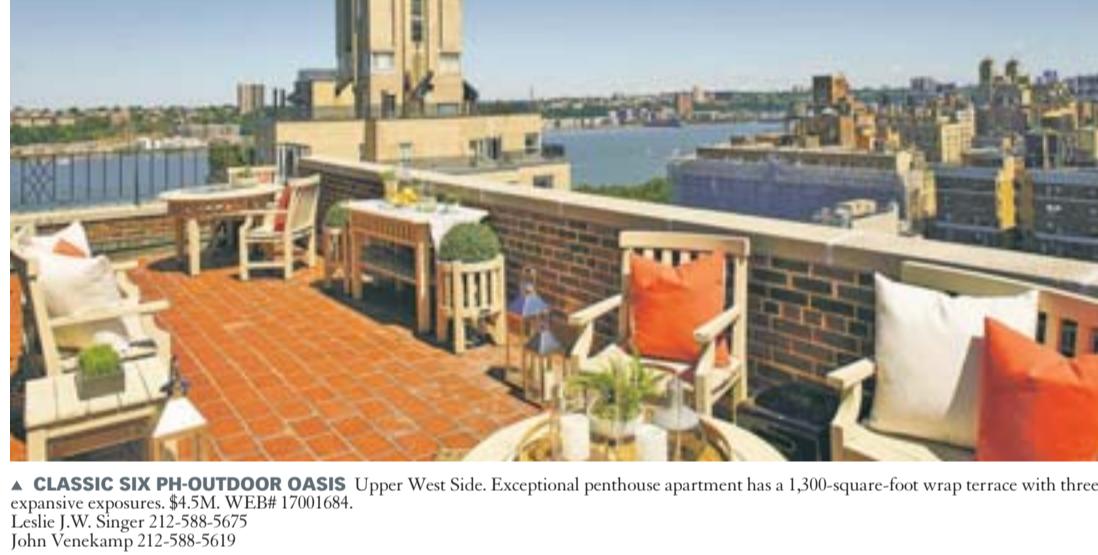
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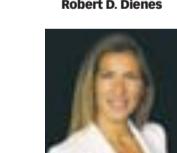
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## MANSION

# PICTURE THE AMERICAN DREAM HOME



**BRANCHING OUT** Images that feature daring wallpaper patterns or colorful tiles are popular with Houzz readers.

can identify with," says Ms. Clark. An image of a bathroom with shiplap on the walls, an oversize plant and free-standing bathtub drew in consumers who are eager to add similar details to their own spaces, she explains.

In a home's private areas—master baths and bedrooms—serene décor is still in demand, says Amy Panos, home editor at Better

**Bigger isn't always better when it comes to dream spaces. When viewing home-renovation projects, consumers often click on photos of small, well-appointed areas that feel somewhat attainable, says Mariel Clark of Scripps Networks Interactive.**

Homes & Gardens, a Meredith Corp. magazine and website. Lighter bathroom tiles, shiplap walls and minimal bedroom décor can create a Zen-like atmosphere that's a draw for consumers. "Calm is what people want in terms of their bedrooms," Ms. Panos says.

Still, some are eager to wow guests with dramatic entrances. Photos of oversize planters, fire pits and colorful front doors are the most-clicked images this year, Ms. Panos says, because consumers see renovating outdoor entryways as an easy fix. "People are getting fearless about their front door."

Buyers want a dream home that feels one-of-a-kind and sets the home apart from other homes in a similar price range, says Chad Carroll, an agent with Douglas Elliman in Miami who focuses on homes listed for \$5 million and above. In the past few years, he has seen homeowners who have invested in a custom-built wood-burning pizza



**BUNKHOUSE** A clever bunk bed setup in the shape of a small house inside a child's room has been one of HGTV's top images this year.

oven off the kitchen, a private spa in the pool house, first-floor wine rooms and a basketball court.

When building out kitchens and baths, he sees increased interest for butler's pantries, additional ovens and refrigeration, and his-and-hers master baths. "There's an increase in demand for double of everything," Mr. Carroll says.

Browsing pictures "adds a realistic element to your aspirations," says Alyssa Croft, an assistant professor of psychology at the University of Arizona in Tucson who focuses on gender stereotyping and

the home.

Psychologically, people building or buying their dream home are eager to have a so-called optimal distinctiveness, which means that the home is different enough to be considered special by outsiders, while allowing the homeowner to fit in socially with their vision, says Prof. Croft. "We like to fit in and make sure that we have these status symbols—but what we really value is individuality," she says.

► For more luxury-home photos and a quiz, go to [WSJ.com/RealEstate](http://WSJ.com/RealEstate).



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## MANSION

# AN IDYLLIC ISLAND'S STORMY HISTORY



**SPARSELY POPULATED** A house for rent, above, at the Bloody Point Golf Club and Beach Resort, located on the southern tip of the island. Of the 112 buildable lots in Bloody Point, 21 homes have been constructed to date, only five of which are occupied by full-time residents. Although the resort is currently for sale, the golf course, pool, tennis courts, clubhouse and a bed-and-breakfast are still in use.



KELLI BOYD FOR THE WALL STREET JOURNAL (1); MAP BY JASON LEE

**SOUTHERN HISTORY** Chase Allen, above left, is a metal artist who owns a workshop called the Iron Fish Gallery. Above right, the porch of Mr. Allen's home, one of the few remaining Gullah homes built by African-American descendants of former slaves. Mr. Allen also offers tours of the island's ecology and Gullah history.

Continued from page M1

area to area is like entering different planets, populated by homeowners like musician John Mellencamp and former NHL star Mark Messier. The divergent fates of these communities reflect the ups and downs of the market for high-end golf communities in the South.

At one end of the spectrum is a gated, member-owned community called Haig Point, home to wealthy retired business executives and professionals. Its meticulously manicured grounds set it apart from other developments and neighborhoods on the island.

"When you go out our back gate, you enter a different world," says John Tietjen, a 75-year-old former executive at Colgate-Palmolive who lives in a 3,600-square-foot Haig Point home there that he has filled with ancient American Indian artifacts and fossils he has found on the shores.

Within the gates, there's a rare combination of warm camaraderie and privacy, says Rick Wagoner, former chairman and CEO of General Motors, who has a second home there.

Haig Point residents, about half of whom live there full time, pay a \$20,000 initiation fee and an annual fee of \$23,000 for golf and

tennis, a stately clubhouse with a wood-paneled bar and formal dining area, a beach club with a heated pool and a restaurant, a fitness center with a lap pool and a sprawling equestrian center with more than a dozen horses.

A fleet of six private boats ferries residents every hour to an embarkation center on the mainland, where they keep their cars. A water taxi can be reserved at any time to go to nearby Hilton Head.

When the real-estate bubble burst in 2008, growth within Haig Point essentially came to a standstill. Since then, management decisions, investments in infrastructure and the steep initiation fees have helped it rebound.

About two years ago, Haig Point hired a chief executive, Doug Egly, whose mission is to expand the current 360-member roster to 500 and add about 35 homes by 2020. (Currently there are 265 houses.) To that end, Mr. Egly brought in more builders, including Osprey Construction, a local company that has built three spec houses that start at about \$600,000 each.

The average home listing price in Haig Point is now \$763,000, nearly double what it was in 2015, according to Haig Point's marketing director Adam Martin. Lots

start at around \$50,000 and homes on the market range from a quaint, three-bedroom cottage listed for \$297,500 to a commanding 5,842-square-foot waterfront mansion listed for \$2.85 million.

Next door to Haig Point is a decaying former luxury resort called



Melrose, with abandoned beach cottages, a shuttered inn and a Jack Nicklaus-designed golf course covered in weeds. Its owner, Utah-based developer Pelorus Group, filed for chapter 11 bankruptcy protection in March, saying it owed creditors about \$35 million. It is currently seeking an investor willing to put up at least \$19 million in cash.

"I've never seen it this bad," says Elizabeth Noonan, 47, a consultant from Lexington, Ky. She and her family spend a week at a time vacationing at a home that her husband and his brothers built on the beach in 2006. Despite the dismal surroundings, the beach remains stunning, and about 17 families live in Melrose full time.

Homes can still be pricey, like the 1,500-square-foot beach cottage that is listed for \$925,000 and described in the real-estate agent's ad as offering "lots of privacy."

Also facing an uncertain fate is the Bloody Point Golf Club and Beach Resort, located on the southern tip of the island that includes a golf course, swimming pool, tennis courts, clubhouse and a bed-and-breakfast. After going bankrupt in 2008, the resort was won in an auction in 2011 by floral-business magnate Brian McCarthy, who restored the golf course and put in a dock and a boat service with six round-trips to Savannah, Ga., a day. Since then Mr. McCarthy has been trying to sell the resort because it is losing money. A group of investors expressed interest, which had islanders hopeful, but the deal fell through in June.

Despite its financial woes,

Bloody Point Club and its facilities are still up and running. Day trippers from Savannah pay to play golf, have lunch and use the swimming pool. Of the 112 buildable lots in Bloody Point, 21 homes have been constructed to date, only five of which are occupied by full-time residents, including a 7,700-square-foot white mansion owned by John Mellencamp, who uses it as a retreat. A five-bedroom house just a couple doors down from Mr. Mellencamp's home is on the market for \$1.75 million.

Rich and Gayle Silver built a \$3.4 million, 5,500-square-foot shingle-style home on the ocean in Bloody Point in 2005, attracted to the area's white-sandy beach and tranquility. Mr. Silver, a 70-year-old retired mutual-fund executive, and Mrs. Silver, an interior designer, moved to Daufuskie from Boston and now live there full time.

The Silvers own two other lots in Bloody Point and want to build a smaller house. But when they put their current home—fully furnished—on the market for \$3.99 million last year, it didn't sell. Mr. Silver says prices in the area have remained stagnant. Recently, they took it off the market and will wait awhile before relisting.

## For Sale on Daufuskie Island



**\$529,900**

Haig Point

Three bedrooms, three bathrooms

This one-story home measures 2,691 square feet. Interiors have hardwood floors and high ceilings. A flex room could be used as an office, craft room or media room. The home has expansive porches and golf-course views.

Agent: Charl Cilliers, Exit Hilton Head Realty



**\$795,000**

Haig Point

Four bedrooms, four bathrooms, one half-bath

An open floorplan in this 3,250-square-foot home features a custom staircase. A second-floor gallery bridges the main living area with guest quarters. Outside there's a courtyard, with mature trees and water views.

Agent: Andre Cilliers, Exit Hilton Head Realty

## MANSION



**ISLAND SCENES** Things are looking healthier in the historic district along the island's western side. From left to right, a signpost provides directions; inside Daufuskie Island Wine and Woodworks, where some Haig Point residents are building small 'cocktail racer' boats; and a patio at Marshside Mama's, a popular honky-tonk bar and restaurant where residents go to drink and dance.



**LOW-KEY HOMES** Musician John Mellencamp has a vacation home on the island, above left. John and Carol Tietjen, above right, live in a 3,600-square-foot Haig Point home that Mr. Tietjen has filled with fossils and American Indian artifacts found on the island, top right.

There is some tension over the economic disparity between Haig Point and the rest of the island, residents say. While Haig Point's private ferries run every hour, the public ferry runs only four times a day. Current flood-zone maps mean that Haig Point homeowners qualify for federal flood insurance, whereas residents on most of the rest of the island don't. South Carolina legislators are working on changes to flood-zone maps that would expand the availability of insurance coverage.

Still, things are looking healthier in the historic district along the island's western side. About 65 families live here full time, and new businesses are springing up. There is now a restaurant called Lucy Bell's that serves salads and sandwiches. The island got its first coffee shop, and another outfit combines a small wine shop with a wood shop where a group of Haig Point residents is building small "cocktail racer" boats. Daufuskie Island Rum Co. just came out with its seventh flavor, infused with Kona coffee beans, that owner Tony Chase serves mixed with hazelnut coffee creamer after distillery tours.

Chase Allen, a metal artist who owns a workshop called the Iron Fish Gallery, lives in one of the few remaining homes on the island built by a Gullah, the African-American descendants of former slaves who had once worked on cotton plantations and farmed oysters on the island.

Mr. Allen also owns a company called Tour Daufuskie that specializes in the island's ecology and Gullah history. "There's a massive untapped ecotourism opportunity here," he says.

Tourism on Daufuskie has picked up in the past year, says Chris Haupt, who charges \$45 a head for a 45-minute boat ride to the island from Savannah, Ga. Most of his business is from vacation-home renters and day trippers.

Living on an island with no bridge can make for some desperate situations, Mr. Haupt says. Recently he received a call in the middle of the night from someone craving a pizza—badly enough to pay the \$300 after-hours delivery fee.

## REAL Trends 1000 Ranks Inter's Efi Luzon Number Two in The Top 1000 Real Estate Professionals Nationwide

Efi Luzon, senior vice president of the Los Altos office of Inter Real Estate, was recently named the number two sales agent for transaction volume in REAL Trend's "The Thousand" announced on June 23, 2017.

The awards program acknowledging the most accomplished one thousand agents in the Country was developed in conjunction with the Wall Street Journal, Custom Studios, and REAL Trends, a leading source of analysis and information for the residential and commercial real estate brokerage industry. REAL Trend's "The Thousand" recognizes individuals and teams who exhibit superior performance, oftentimes, as mentioned on Real Trend's website, "nearly 20 times" that of their peers. Categories consist of total number of real estate transactions, total transaction volume, and average sales price, over a year period. The Real Trend's "The Thousand" report, verified by an independent third party, reveals Efi's total transaction volume as \$834,574,000.

Efi's career performance that led to this recognition comes as no surprise to the many colleagues who have seen firsthand his accomplishments.

After many years of witnessing Efi's consistent performance in negotiating complex multi-million dollar deals, of selling notable most iconic landmark Real Estate Assets John Thompson, Interco COO, says, "Efi truly deserves this acknowledgement. The sheer number of successful deals throughout his career in real estate is testimony to Efi's exceptional negotiation skills, his amazing patience and fortitude, and his ability to understand and expertly manage the intricacies of complicated transactions."

Interco's president and CEO, Tom Tognoli, cannot agree more. "I watch Efi with amazement. He's a powerhouse of resolve and business savvy with every real estate transaction. I am grateful to have such an accomplished realtor as part of the Interco team. Efi's a model of the type of business ethics and commitment level Interco strives for and comes to expect from every realtor. We couldn't be happier for Efi!"

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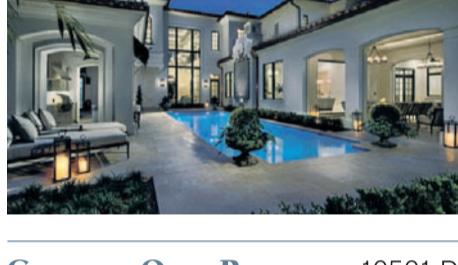
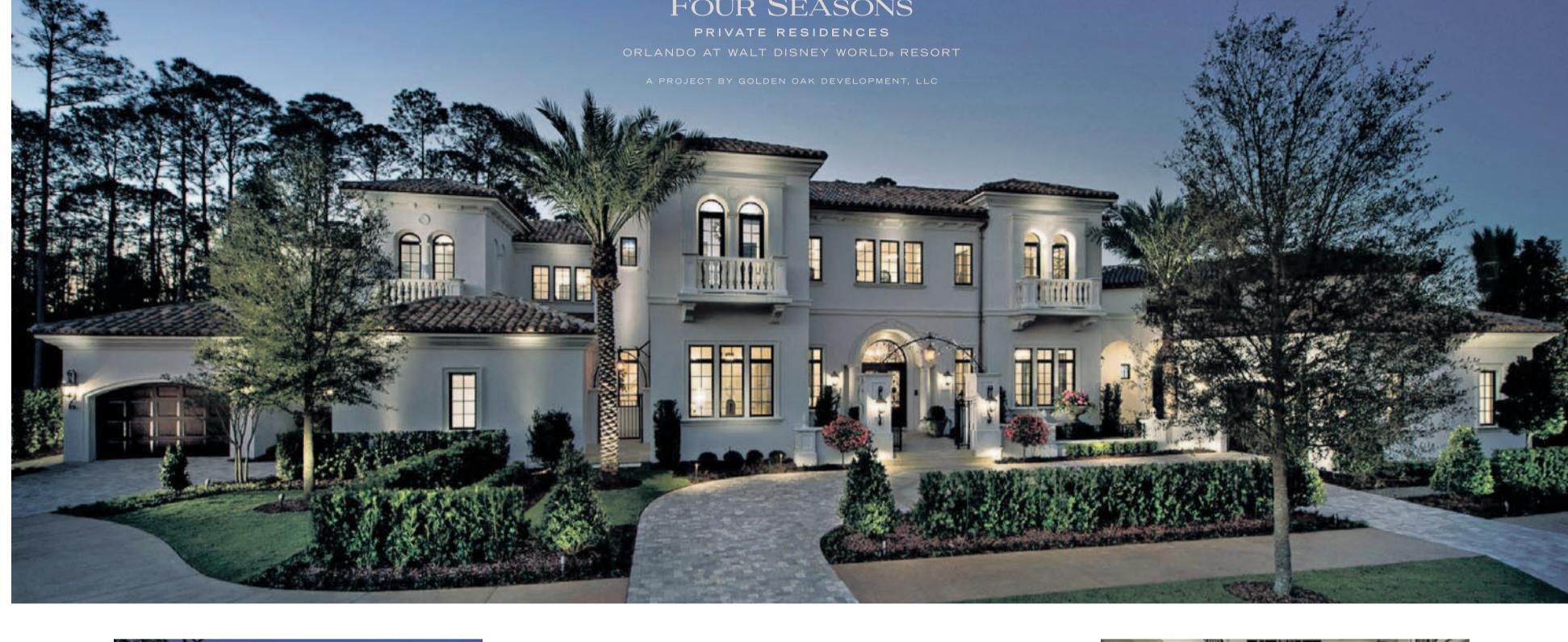


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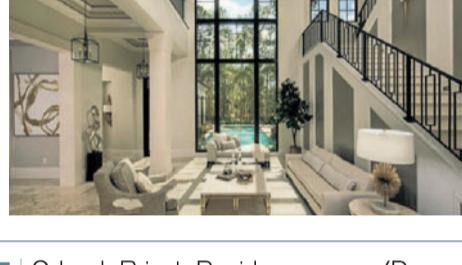
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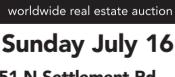
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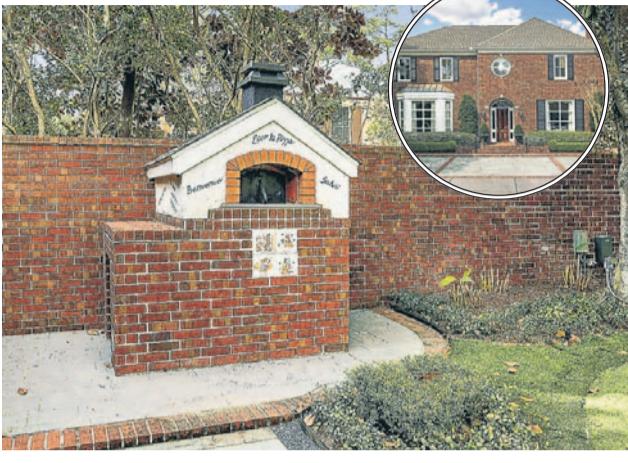
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Agent: Kathryn Hamilton, John Daugherty Realtors

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Five bedrooms, six bathrooms, one half-bath

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Agent: Michael G. Lawler, Premier Sotheby's International Realty

**\$4.995 million****Water Mill, N.Y.**

Five bedrooms, six bathrooms, two half-baths

This 4,850-square-foot home sits on 4.6 acres. For outdoor entertaining, there are stone patios, a heated pool and a pergola covered in vines that has an outdoor kitchen and a Tuscan-style pizza oven. Inside are formal living and dining rooms, a large eat-in kitchen, a media room and a library.

Agent: Astrid Pillay, Halstead Property

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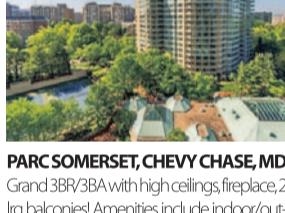
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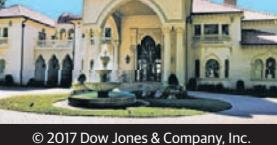
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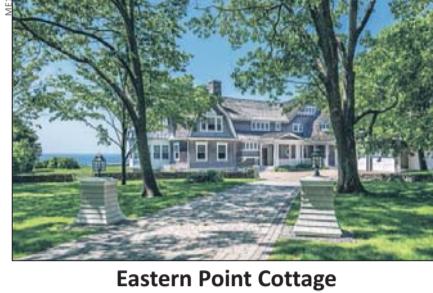
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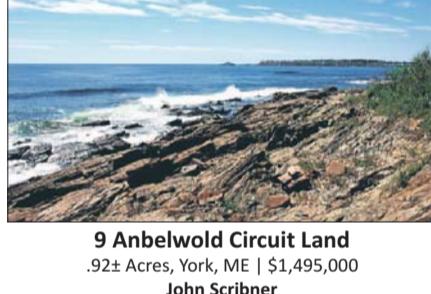
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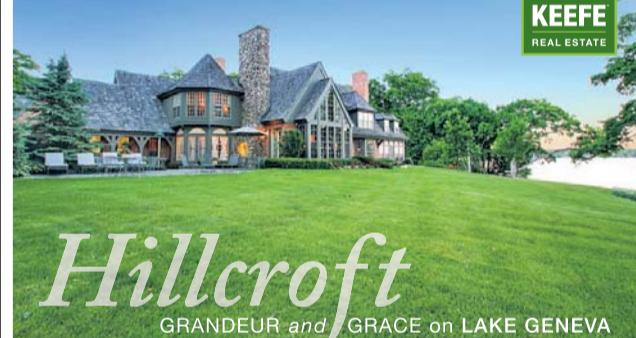
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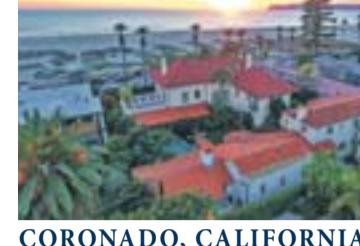
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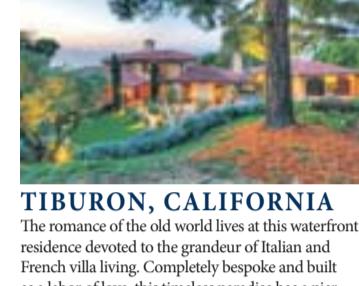
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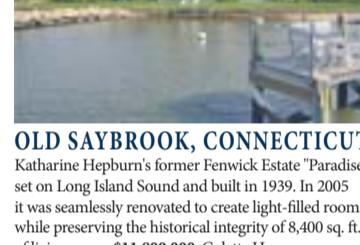
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**GULF BREEZE, FLORIDA**  
Featuring incredible bayfront views, and only minutes from pristine beaches, top school districts, and vibrant downtown Pensacola. Built 2014 with recent pier and boat slip on a tall bluff. 4 bedrooms, 4.5 baths. Visit [68highpoint.com](http://68highpoint.com) for virtual tour.

\$2,295,000. Alec Breaud.

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**CHICAGO, ILLINOIS**  
900 West, boutique luxury in Chicago's West Loop. 22 residences. 2-4 bedrooms. 1,695-4,995 sq. ft. Industrial loft design, private elevator entrance, biometric security. Starting at \$1,300,000. Private appointment only. Melanie Giglio. [melanie@melaniegiglio.com](mailto:melanie@melaniegiglio.com)

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**LAKE FOREST, ILLINOIS**  
Your California retreat in the Chicago suburbs. First floor master suite overlooks 3 acres with gorgeous pool and spa. Elevator. Grand entertaining spaces, pro-sized home gym, multiple guest suites. Gated home. Darcy Bonner design. \$7,900,000. Eileen Campbell and Tim Salm.

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**BOSTON, MASSACHUSETTS**  
Award-winning single family residence in Boston's prestigious Beacon Hill. Complete with an elevator, an au pair suite and a charming front garden entrance. Breathtaking views of Boston and the Charles River. \$19,500,000. Michael L. Carucci, Jamie N. Imperato.

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[25MountVernon.com](http://25MountVernon.com)



**BOSTON, MASSACHUSETTS**  
Spacious 2 bedroom, 2 bath unit at the Four Seasons Residences. Expansive entertaining area and an oversized master bedroom with a custom walk-in closet and spa bath. 1 valet garage parking space and storage are included. \$3,495,000. Michael L. Carucci.

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**CAPE COD, MASSACHUSETTS**  
Orleans Architectural tour de force in the Snow Point Association. This unique 1.3+ acre location enjoys saltwater frontage. Enjoy spectacular views and sunrises over the Atlantic, and sunsets over the Cove. This 5,286 sq. ft., 4 bedroom, 4.5 bath residence is unsurpassed. \$4,150,000. Trainor and Ehstrom.

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**FLATHEAD LAKE, MONTANA**  
22+ private island acres in the middle of Flathead Lake. This 5 bedroom, 8 bath estate is a luxurious 22,000 sq. ft. with over 4,800 ft. of private lakefront access. Includes guest/boathouse, exquisite finishes throughout. \$29,000,000. Dawn Maddux.

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**PHILIPSBURG, MONTANA**  
Rare opportunity to purchase a section of Historic Mungas Ranch, nested in the Pintlar Mountain Range. 315+ acres with Trout Creek meandering through. Many building sites with sweeping views. Near Georgetown Lake, Discovery Ski and world class fly fishing. \$1,000,000. Dawn Maddux.

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**NEW YORK, NEW YORK**  
The jewel of the illustrious Hotel Des Artistes is a 5,377 sq. ft. penthouse featuring a 55 ft. double-height studio, one of the great rooms in all New York. \$19,000,000. Mark Amadei and Roberta Golubock.

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[sothebyshomes.com/00111610](http://sothebyshomes.com/00111610)



**NEW YORK, NEW YORK**  
This 6,168 sq. ft., 6 bedroom, 8.5 bathroom PH condo has panoramic exposures, features grand entertaining spaces and unobstructed views of the river. \$16,500,000. Kevin. B. Brown and Craig George.

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East Side Manhattan Brokerage

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[sothebyshomes.com/00111454](http://sothebyshomes.com/00111454)



**NEW YORK, NEW YORK**  
Combining the best of loft and townhouse living, this sprawling approx 4,600 sq. ft. Tribeca penthouse triplex features three outdoor spaces including a private rooftop terrace with views of Downtown Manhattan in every direction. \$9,950,000. Jeremy V. Stein.

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Downtown Manhattan Brokerage

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**NEW YORK, NEW YORK**  
Indoor/outdoor palatial living awaits you in this one-of-a-kind 3 bedroom, 2.5 bath designer home. Access to outdoor living from every room. Prime boutiques Chelsea condo. \$4,500,000. Marc Flash Blum.

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Downtown Manhattan Brokerage

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**SCARSDALE, NEW YORK**  
Magnificent new Eco construction by Healthy Home Builders! Located in the estate section of Scarsdale, this stunning 9,022 sq. ft. Georgian Colonial, incorporates classic architectural details with advanced organic building materials! \$6,950,000. Dawn Knieff.

Julia B. Fee Sotheby's International Realty

+1 914.393.1159 | [juliabfee.com](http://juliabfee.com)



**NARRAGANSETT, RHODE ISLAND**  
Located directly across from Bonnet Shores' Kelly Beach, this chic 3 level contemporary offers 2,600 sq. ft. with 3 bedrooms and 2.5 beautifully renovated baths. The top floor offers huge