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EXTRAFAT

# THE WALL STREET JOURNAL.

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## What's News

### Business & Finance

China's central bank has been in a tug of war with investors in its domestic foreign-exchange market, with the yuan consistently closing weaker than the level set by the PBOC. **B1**

◆ Dalian Wanda's \$9.28 billion sale of its theme parks and hotels to Sunac has an unusual twist: Wanda is helping Sunac finance almost half of the deal. **A1**

◆ Buffett's Berkshire Hathaway is relying less on stock picking for its future, as its latest energy bid shows. **A1**

◆ Bertelsmann is raising its stake in Penguin Random House to 75%, tightening its control over a top prize in the book business. **B1**

◆ Singapore's Temasek said it sold more assets than it bought for the first time in nine years, as it shifted its focus toward private equity. **B6**

◆ Intel brought to market a new generation of chips used in the servers that run data centers. **B4**

◆ Chinese passenger-car sales rose 2.3% in June, after falling in April and May. **B1**

◆ Facebook will show advertisements inside its Messenger app to boost revenue growth. **B4**

### World-Wide

◆ Donald Trump Jr. attended a meeting in June 2016 to discuss incriminating information about Clinton he was told was being offered by the Russian government. **A1**

◆ North Korea's recent missile test didn't show Pyongyang is able to arm the device with a warhead that can survive re-entering the atmosphere. **A2**

◆ Republicans hope to produce a revised version of the Senate health bill, though the changes appear unlikely to win sufficient support. **A7**

◆ Trump plans to nominate Randal Quarles to be the Fed's top official in charge of regulating big banks. **A5**

◆ After Islamic State's defeat in Mosul, Iraqis turn to the challenges of rebuilding and resettling the city. **A3**

◆ European diplomats are concerned the Trump administration will stretch out its review of the Iranian nuclear deal, curbing the economic benefits to ensure Iran's compliance. **A3**

◆ May welcomed a commissioned review recommending stronger protection for workers in the U.K.'s "gig economy." **A4**

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## China Says It's Trying to Save Ailing Dissident Amid Outcry



**SICKBED:** Doctors surround cancer-stricken Nobel Peace laureate Liu Xiaobo in an undated video grab. A Chinese hospital said it was working to save him while human-rights groups criticized his treatment. Beijing has been under pressure to let him travel abroad for care.

## Trump Jr. Was Told Of Aid by Moscow

BY PAUL SONNE

WASHINGTON—The president's eldest son, Donald Trump Jr., attended a meeting last June to discuss alleged incriminating information about Hillary Clinton he was told was being offered as part of the Russian government's support of his father's candidacy, according to emails he released Tuesday.

A June 3, 2016, email to the younger Mr. Trump, from a British publicist, said that a top Russian prosecutor had "offered to provide the Trump campaign with some official documents and information that would incriminate Hillary and her dealings with Russia and would be very useful to your father."

The publicist said the prosecutor had communicated this offer to Azerbaijani-Russian billionaire Aras Agalarov, who along with his son, pop star Emin Agalarov, organized the 2013 Miss Universe pageant in Moscow with the president and developed a relationship with the Trump family.

"This is obviously very high level and sensitive information but is part of Russia and its government's support for Mr. Trump—helped along by Aras and Emin," the publicist, Rob Goldstone, wrote in the email to the younger Mr. Trump. "What do you think is the best way to handle this information Please see TRUMP page A5

## Wanda Deal Has Odd Twist

China firm to borrow billions and then lend it to theme-park buyer

By DOMINIQUE FONG  
AND WAYNE MA

BELIJNG—Dalian Wanda Group's \$9.28 billion sale of its theme parks and hotels to developer Sunac China Holdings Ltd. has an unusual angle:

Wanda is helping Sunac finance almost half of the deal.

Regulatory filings show that Wanda, the giant Chinese property and entertainment company, will take out a three-year bank loan of 29.6 billion yuan (\$4.35 billion) and lend the money to Sunac. Sunac will use the borrowed funds to pay Wanda to gain ownership of its theme-park business, according to the documents filed

by Sunac on Tuesday.

Neither Dalian Wanda nor Sunac disclosed the arrangement when Wanda announced the deal on Monday. Both companies declined to provide further details beyond the public filing with the Hong Kong stock exchange. Sunac's shares rose 14% Tuesday.

In selling off its prized hotel and theme-park assets, Wanda is paring a heavy debt

load that has attracted the scrutiny of China's banking regulator, which last month asked lenders to review loans to overseas deal makers.

Sunac will assume all of the loans associated with the theme parks on its balance sheet, both companies have stated. Neither has specified the level of leverage involved.

The financing arrangement Please see WANDA page A4

## GOOGLE'S QUIET INFLUENCE CAMPAIGN

Company pays professors for research supporting its business practices

By BRODY MULLINS  
AND JACK NICAS

Google operates a little-known program to harness the brain power of university researchers to help sway

opinion and public policy, cultivating financial relationships with professors at campuses from Harvard University to the University of California, Berkeley.

Over the past decade,

Google has helped finance hundreds of research papers to defend against regulatory challenges of its market dominance, paying stipends of \$5,000 to \$400,000, The Wall Street Journal found.

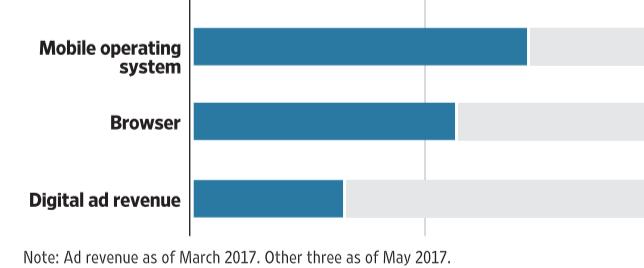
Some researchers share their papers before publication and let Google give suggestions, according to thousands of pages of emails obtained by the Journal in public-records requests of more than a dozen university professors. The professors don't always reveal Google's backing in their research, and few disclosed the financial ties in subsequent articles on the same or similar topics, the Journal found.

University of Illinois law professor Paul Heald pitched an idea on copyrights he thought would be useful to Google, and he received

Please see GOOGLE page A6

### A Big Slice

Google's global market share versus all others, by sector:



Note: Ad revenue as of March 2017. Other three as of May 2017.

Sources: StatCounter (browser, search, mobile), eMarketer (ad revenue)

THE WALL STREET JOURNAL.

## INSIDE



A TEST FOR BEIJING'S LEADERSHIP

CHINA'S WORLD, A2



ANXIETY IN EMERGING MARKETS

FINANCE & MARKETS, B6

By NICOLE FRIEDMAN

With its latest energy bid, Warren Buffett's Berkshire Hathaway Inc. is relying less on stock picking for its future.

Last week, the billionaire investor's firm offered to buy bankrupt power-transmission firm Energy Future Holdings Corp. for \$9 billion in cash. Should the deal go through, Berkshire would be expanding

its reliance on running stable and highly regulated industries to deliver growth.

Mr. Buffett rose to fame as a stock picker and continues to invest tens of billions in equities and other securities for Berkshire's portfolio.

But today, those investments are "de-emphasized," as Berkshire earns significantly more income from its oper-

Please see INVEST page A2

## Berkshire Moves Away From Stock Picking

By NICOLE FRIEDMAN

With its latest energy bid, Warren Buffett's Berkshire Hathaway Inc. is relying less on stock picking for its future.

Last week, the billionaire

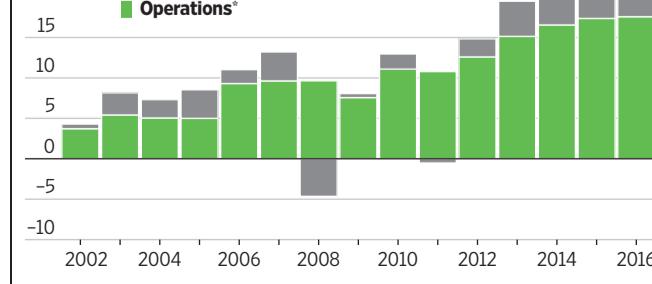
investor's firm offered to buy bankrupt power-transmission firm Energy Future Holdings Corp. for \$9 billion in cash.

Should the deal go through, Berkshire would be expanding

## Where the Money Is

Berkshire Hathaway's after-tax earnings by segment

\$25 billion



\*Includes interest and dividends from investments

Source: the company

## Greece's Antismoking Effort Has One Problem: Greeks

\* \* \*

From cafes to government offices, citizens take pride in puffing

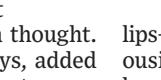
By NEKTARIA STAMOULI

ATHENS—When Katerina Dervenioti decided in 2013 to open a bar in central Athens, she was sure of one thing: There would be no smoking. She had always disliked it, and after all the government had passed a law banning smoking in interiors back in 2009.

It took only a few hours after opening her cafe in a trendy

Athens neighborhood to be sure of a second thing: Greeks believe rules are meant to be broken.

Despite the law, patrons at her vintage-inspired spot lit up without a thought. She removed ashtrays, added signs and spoke to customers, but it was futile. Customers now smoke all they want, she



said, starting early in the morning with coffee and ending late at night with a cocktail.

In Greece, star athletes celebrate titles with cigarettes dangling from their lips—star center Ioannis Bourousis, then of the Panathinaios basketball team, was seen toking on a cigar at a bouzouki

Please see SMOKE page A8

## WORLD NEWS

# Beijing Gets a Failing Grade on North Korea



### CHINA'S WORLD

By Andrew Browne

SHANGHAI—Not for the first time, the specter of nuclear proliferation hangs over North Asia.

In the 1970s, South Korea was secretly pursuing a nuclear-weapons program. Taiwan was running a similar clandestine operation. Japan sat on a stockpile of plutonium from its civilian nuclear program and then, as now, had all the technology it needed to build a bomb.

Only strong U.S. pressure, combined with strategic reassurance to its allies, managed to head off an arms race. In Taiwan's case, the U.S. confronted it with CIA evidence of its program and shut it down in the 1980s.

Today, a nuclear-arms race is one of the nightmare scenarios as China's ally Pyongyang terrorizes its neighbors.

This time, it's on Beijing to restore a measure of calm. China faces a moment of

truth in its own backyard on whether it is ready to assume greater global leadership.

So far, writes John H. Maurer, a professor at the U.S. Naval War College, "Beijing is flunking the test."

In Beijing's view, the current crisis was largely created by U.S. belligerence, and the onus is primarily on Washington to fix it, with China acting as facilitator.

President Donald Trump has tweeted that while he appreciates the attempt by Chinese President Xi Jinping to help, "it has not worked out." China insists it has made "relentless efforts" to ensure peace on the Korean Peninsula.

An irritated China on Tuesday hit back at U.S. pressure to do more. "The 'China responsibility theory' on the peninsula nuclear issue can stop," a Foreign Ministry spokesman said.

Yet, China is Pyongyang's enabler: Up to 90% of North Korea's foreign trade runs through its neighbor. And commerce is surging; Pyongyang is a bustling capital.

Beijing appears to believe that living with a nuclear North Korea is preferable to the alternatives: the collapse of its socialist ally spilling refugees into its industrial heartland and bringing U.S. troops to its border.

This is likely a terrible



North Korean soldiers cheering during a concert celebrating a successful missile launch.

miscalculation. It would be unwise to count on restraint from North Korea's youthful Kim Jong Un, a leader who reportedly had his own uncle blown to bits with an anti-aircraft gun. He already has the capability to wipe out Seoul or Tokyo, and a missile that can reach Alaska.

A nuclear arms race might itself be a trigger for war. How would Beijing respond if Taiwan reactivated its nuclear program?

Right-wing politicians in Seoul are openly debating the nuclear option. Public opposition in Japan, the only country in the world to have suffered a nuclear attack, makes it unlikely that Tokyo would ever build its own arsenal.

But then, the unthinkable is now reality: President Trump talks about a "major, major conflict."

Back in the 1970s, South Korea attempted a nuclear breakout when it feared U.S. abandonment. Seoul didn't drop the effort until 1980—after the U.S. suspended a plan to pull out troops, according to Seung-Young Kim, a senior lecturer at the University of Sheffield.

A North Korea capable of hitting the U.S. with a nuclear-tipped ballistic missile would, once again, raise questions about U.S. willingness to come to the rescue. Would Washington risk Seattle for Seoul? That, in turn, might spur demands for a homegrown nuclear deter-

rence. White House officials have signaled in recent days that the U.S. is ready to act unilaterally by targeting Chinese banks and companies that Washington says are funneling cash to Pyongyang's weapons program.

Hawks in the U.S. call for tougher action on North Korea. Others press for Washington to open direct dialogue with Pyongyang, though it's uncertain whether the North would even come to the table.

One thing is clear, however: China's passivity doesn't jibe with its quest for international respect as a great power capable of solving big problems.

In the past, write Jake

Sullivan and Victor Cha, two prominent North Korean experts, China left it to the U.S. to offer Pyongyang inducements, including energy aid, to abandon its nuclear ambitions. The bill during the Clinton and later Bush administrations came to half a billion dollars.

Now, they argue, "we should tell China that it has to pay to play. The basic trade would be Chinese disbursements to Pyongyang, as well as security assurances, in return for constraints on North Korea's program."

The world looks at North Asia as an almost invincible economic powerhouse. Even as the current crisis unfolds, the South Korean stock market booms. Samsung is poised to overtake Apple as the world's most profitable technology company. Hobbling debt levels and obstacles to entry are far more worrying to foreign investors in China than the nuclear standoff.

Yet the region's gains have always been fragile. It is now the most dangerous corner of the planet.

The question now is whether China will come to see that its rogue ally imperils everything—its past victories against poverty, its dreams of future wealth and power. And whether that will inspire it to lead.

# South Korea Doubts Success of North's Missile Test

By ALASTAIR GALE

North Korea's recent long-range missile test didn't show Pyongyang is able to arm the device with a warhead that can survive the intense heat and vibration of re-entering the atmosphere, South Korea's intelligence agency said.

The assessment, given to South Korean lawmakers on Tuesday, contradicts an assertion by North Korea and suggests the isolated state may still have a significant technical hurdle to overcome in its quest for a missile that can threaten major U.S. cities.

Governments and private-sector analysts are still analyzing data from the July 4 test launch of a missile North Korea called the Hwasong-14. Most agree the flight path in-

dicates the missile would be able to reach Alaska and possibly farther in a conflict.

More specific details are largely dependent on images released by North Korea and guesswork. The tip of the missile, where the warhead, or re-entry vehicle, would be located, has drawn attention from experts because it appears to consist of a simple hollow fairing.

The fairing looks too small to fit the re-entry vehicle that North Korea has shown on other missiles, John Schilling, an aerospace engineer, wrote in an analysis of the Hwasong-14 published Monday on the North Korea-focused website 38North.

Yi Wan-young, a South Korean lawmaker who attended a briefing by the National Intel-

ligence Service, said in televised comments that the spy agency assessed that North Korea hasn't developed re-entry technology for the Hwasong-14.

The agency reached the assessment because it wasn't able to confirm a successful re-entry of the missile, and because North Korea doesn't have testing facilities for re-entry vehicles, Mr. Yi said.

Developing a ballistic missile that can carry a nuclear weapon in a warhead at its tip and successfully detonating the device at a predetermined target is one of the biggest challenges in missile science. When it re-enters the Earth's atmosphere on its descent, the warhead is exposed to temperatures of thousands of degrees and extreme vibration.

Following the Hwasong-14 launch, North Korea said through its state media that the test verified all the technical features of the missile "including the heat-resistant features and structural safety of the warhead tip of (the) ICBM made of (a) newly developed domestic carbon compound material."

South Korean authorities tend to be more skeptical of North Korea's weapons progress than their U.S. counterparts. American officials have stated that the latest North Korean missile appeared to have intercontinental range but haven't commented publicly on whether it has a viable warhead.

Mr. Schilling, the analyst, said the missile will likely need a year or two of testing

before it can reliably deliver a nuclear warhead to targets along the U.S. West Coast.

The new capabilities displayed in last week's test brought new urgency to Washington's efforts to halt North Korea's weapons programs.

Separately on Tuesday, China pushed back on attempts by Washington and others to pressure Beijing to do more to rein in Pyongyang. Without naming specific governments, Foreign Ministry spokesman Geng Shuang accused others of exacerbating tensions on the Korean Peninsula and then wrongly trying to make the problem China's to resolve.

"Recently, certain people, talking about the Korean Peninsula nuclear issue, have been exaggerating and giving prom-

inence to the so-called 'China responsibility theory,'" Mr. Geng said in Beijing. He said the attempt to shift responsibility was being done either out of a lack of knowledge or for "ulterior motives."

All of the governments need to accept responsibility and work in concert to resolve the situation, he said. "Burning your bridges behind you is not OK. Backstabbing is even less so. If the Chinese side is trying to put out the fire and others are adding fuel to it," he said, "then how can the Chinese side's efforts reach their intended results?"

"The 'China responsibility theory' on the peninsula nuclear issue can stop," he said.

—Min Sun Lee  
and Charles Hutzler  
contributed to this article.

## CORRECTIONS & AMPLIFICATIONS

**Italy held a constitutional referendum in December 2016, and the Italian general election must be held by the end of May 2018.** Monday's Europe File column about Italy's bond markets incorrectly said that the referendum was held in November and that the election must be held by the end of February.

Readers can alert The Wall Street Journal to any errors in news articles by emailing wsjcontact@wsj.com.

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# INVEST

Continued from Page One

ing businesses, Mr. Buffett said in his February letter to shareholders. Berkshire has undergone a "gradual shift from a company obtaining most of its gains from investment activities to one that grows in value by owning businesses," he wrote.

The conglomerate's shift toward regulated businesses began in 1999, when Berkshire announced an agreement to buy its first utility business, and accelerated with the 2009 agreement to acquire railroad Burlington Northern Santa Fe. Regulated businesses can yield steady returns, while stock investments are more volatile but can produce bigger wins. Berkshire also operates less-regulated businesses including retailers and manufacturers.

The energy and railroad businesses accounted for 24% of Berkshire's 2016 net earnings, up from 8% a decade ago.

"The franchise has pivoted away from equity investments toward acquisitions," said James Shanahan, senior equity-research analyst at Edward Jones. "The bigger the utility business gets, I think the more important it becomes that the leader of Berkshire Hathaway has a strong understanding of the operations of utility businesses."

If Berkshire Hathaway Energy Co.'s deal to buy Energy Future Holdings and its Texas-based utility Oncor is approved, Oncor would increase the conglomerate's earnings by about 2%, according to Morgan Stanley analysts.

The deal has been challenged by hedge fund Elliott Management Corp., which said it plans to put together its own deal with a higher valuation.

in an interview. Regulators have scuttled two previous attempts to buy Energy Future's 80% stake in Oncor.

One major ramification of the Oncor deal, should it go through, is that it would give more power to Berkshire Hathaway Energy's chief executive, Greg Abel. Analysts say this purchase makes them increasingly confident that Mr. Abel is the leading candidate to succeed Mr. Buffett as chief executive of the parent company.

Mr. Abel, 55 years old, runs Berkshire Hathaway Energy similarly to how Mr. Buffett, 86, runs Berkshire. Both managers maintain small head offices—27 employees at Berkshire Hathaway Energy and 25 at Berkshire's headquarters—and grant their subsidiary managers autonomy to run their businesses.

Before making its bid to buy Energy Future, Berkshire Hathaway Energy participated in talks with Texas regulators and major Oncor customers to make sure its bid would be acceptable to them, Oncor executives said

As Berkshire has grown into a behemoth, Mr. Buffett has turned to acquiring regulated businesses that require consistent maintenance. The downside is these businesses require continuing capital

investments, but that helps use up some of Berkshire's huge cash pile. The utility businesses also earn tax credits for their investments in renewable energy, which Mr. Buffett can apply to the rest of the company's balance sheet.

"It is probably a different act to maintain this company than it was to build it," said Lawrence Cunningham, a law professor at George Washington University who has written about Berkshire. "Warren wasn't doing this when Berkshire was much smaller, but nowadays, in the last 10 years, they've got so much capital."

Mr. Buffett didn't respond to a request for comment.

Mr. Buffett told shareholders at the company's annual meeting in May that the next CEO's main job would be capital allocation. Even if the Oncor deal closes, Berkshire has about \$50 billion in cash available to spend, according to CFRA Research.

## Olympic Committee Clears Path for Paris in 2024, L.A. in 2028



STEP UP: The International Olympic Committee decided to award the 2024 and 2028 Games in September, with Paris and Los Angeles expected to win. Above, IOC President Thomas Bach greeting officials including French President Emmanuel Macron, third from right.

FABRICE COFFRINI/AGENCE FRANCE PRESSE/GTY IMAGES

# WORLD NEWS



Airstrikes targeted Islamic State positions on the edge of the Old City in Mosul on Tuesday, as pockets of resistance remained a day after Iraq declared victory over the extremists in its second-largest city.

FELIPE DANA/ASSOCIATED PRESS

## Iraq Begins to Rebuild a Shattered Mosul

Parts of the western side of the city were flattened in the fight to oust Islamic State

By KAREN LEIGH AND ASA FITCH

ERBIL, Iraq—The day after announcing Islamic State's defeat in Mosul, Iraqis turned to the enormous challenges of rebuilding and resettling the country's second-largest city.

The municipal government worked Tuesday to repair and open roads in the western side of the city, where the terror group made its last stand in Mosul. Swaths of that half of the city were largely flattened in months of fighting, with streets impassable and basic services nonexistent.

"Our priority now is getting people home," said Abdulsat-

tar Alhabbu, head of the Mosul municipality. "Our focus is on west Mosul, where most of the damage from the fight happened. Our priority is bringing back the water supply. There is no life without water."

Iraqi Prime Minister Haider al-Abadi proclaimed victory over Islamic State in Mosul on Monday. The government declared a holiday on Tuesday and a week of official celebrations. But even amid the festive atmosphere, Mr. Abadi referenced the tremendous economic and security challenges ahead.

Nearly nine months of fighting to drive the extremist group from the city displaced more than 800,000 residents, according to the International Organization for Migration. Many say they won't return home until water and other basic services are restored—a task that will take at least six weeks, according to Hussameldin al-Abbar, an

official of Nineveh province, where Mosul is located.

"Nearly every building on the western side of Mosul was completely destroyed. With this level of devastation, it's very unlikely that the hundreds of thousands of displaced families will be going home anytime soon," said Arnaud Quemin, interim Iraq country director for aid group Mercy Corps. "This is a critical moment for Mosul."

That lack of basic services is keeping thousands of residents like Ahmed Suleiman Abdullah staying put in desert camps for displaced people near Mosul, even as scorching summer temperatures soar above 110 degrees Fahrenheit. Mr. Abdullah fled in March with his two wives and nine children after his house in western Mosul was damaged by fighting.

"One of the major problems is there is no water supply to

the area and no electricity," he said recently. "How do you survive with kids with no water?"

Part of his house could be repaired quickly if he had money to do it, Mr. Abdullah said.

"We had no jobs for three years under Daesh," he said, using an Arabic acronym for Islamic State. "We spent all our savings, and now there is no work and we have nothing."

Khalid Muhammed, 32, a stationery and cosmetics shop owner in western Mosul, said last week that he reopened last month as people started to return. But a lack of city-supplied water was limiting customers.

"We are getting water tankers from NGOs, but we need the state-supplied water to be back so all the people will come back to their homes," he said, referring to aid organizations.

Though government officials recently put forth a \$100 billion, 10-year plan for recon-

structing the country, they are short on funds. The International Monetary Fund in 2016 provided more than \$5 billion in emergency loans to shore up Iraq's economy and to rebuild key cities destroyed by fighting. But it wasn't enough.

The government will need hundreds of millions of dollars to rebuild and compensate residents who lost their homes, businesses and factories in Mosul. But Iraq's economy has been badly battered in three years of war against Islamic State.

"What we have now is nothing. We need an emergency budget for rebuilding Mosul, and international aid," said Mr. Abbar, the provincial official. "For 2017, Nineveh province's budget was \$40 million. By my estimation what we need only for the restoration of infrastructure and basic services is more than

\$500 million."

Some Mosul residents had already begun returning to help in the cleanup and to begin to rebuild even before Mosul's full recapture this week.

In the Jadida neighborhood of western Mosul, Hassan Falah, 20, stacked broken blocks of concrete last week at his family's house, whose roof and third story were blown off. He and his extended family are hoping for government aid for rebuilding, but they aren't waiting for it to come.

"After what we saw under Daesh, we never hoped to survive," he said, recounting how his family and neighbors hid out in the basement as the battle raged above them. "We were given a new life after liberation."

—Ali A. Nabhan in Erbil and Ghassan Adnan in Baghdad contributed to this article.

## Tehran Poised to Gain From Baghdad's Win

Iraq's U.S.-backed prime minister declared victory over Islamic State in Mosul on Monday, but Iran is shaping up to be one of the biggest winners in the struggle with Washington for influence in Baghdad and across the region.

By Maria Abi-Habib in Baghdad and Asa Fitch in Mosul, Iraq

Nouri al-Maliki, a former Iraqi prime minister supported by Iran, is campaigning to win back his old job in next year's Iraqi election against Haider al-Abadi, the incumbent favored by Washington.

Mr. Maliki has given much of

the credit for the Mosul victory to an umbrella group of mostly Shiite militias, many supported by Iran, that he formed in 2014, just before his ouster as premier. The election could determine whether the country tilts toward Iran or the U.S.

Islamic State's losses in Mosul also are expected to make it easier for Shiite-majority Iran to ship weapons through northern Iraq and neighboring Syria to the Hezbollah militia.

Iran supports in Lebanon. Authorities in Tehran have been quick to hail the battle against the Sunni extremists in Mosul as a triumph for them and their regional allies.

"Today the resistance high-

way starts in Tehran and passes through Mosul and Beirut to the Mediterranean," Ali Akbar Velayati, a top adviser to Iran's supreme leader, said last week as he welcomed Islamic State's defeat in Mosul.

On Monday, Mr. Abadi declared victory over Islamic State in Mosul, formally ending a nearly nine-month battle to win back Iraq's second-largest city, which the extremists captured three years ago.

Mr. Abadi said Iraq still had to restore stability and eliminate sleeper cells, and the commander of the U.S.-led coalition fighting Islamic State, Lt. Gen. Stephen Townsend, pointed to tough battles ahead

to eliminate Islamic State.

For Iran and Hezbollah, Islamic State's rise to power in 2014 became one of the biggest challenges to the alliance's regional influence, erecting a state along the Iraqi-Syrian border that broke the weapons pipeline from Tehran to Beirut and challenged Tehran's allies in Damascus. Iran has also shipped weapons to Hezbollah by using Iraqi airspace to fly equipment into Damascus, a less efficient route, according to Western and U.S. officials.

Now Islamic State's empire has been reduced to patchy zones of control, allowing Iran to slowly regain its arc of influence stretching from Teh-

ran through Baghdad to Damascus and Beirut.

Mr. Maliki—a favorite of Iran—was blamed just a few years ago by the U.S. for stoking sectarian tensions that led to the rise of Islamic State in 2014. Washington supported Mr. Abadi to succeed him, and Mr. Maliki was pushed out of office that September.

Iran officially backs Mr. Abadi, but the relationship could fray once a figure who can unite Iraqi security forces against Islamic State is less crucial. Mr. Abadi has been more resistant to Iranian influence than other Shiite leaders, wary of being cast as an Iranian puppet.

Militants Still Active In Iraq And Syria

By GORDON LUBOLD AND FELICIA SCHWARTZ

WASHINGTON—The return of Mosul to Iraqi control represents a significant symbolic and strategic victory over Islamic State, but the group remains active in parts of Iraq and Syria and is far from defeated, U.S. military commanders and other American officials said as officials in Iraq claimed victory in the battle.

President Donald Trump congratulated Iraqi Prime Minister Haider al-Abadi and Iraq's security forces, along with Kurdish Peshmerga fighters.

"The victory in Mosul, a city where ISIS once proclaimed its so-called 'caliphate,' signals that its days in Iraq and Syria are numbered," Mr. Trump said. "We will continue to seek the total destruction of ISIS," he said, using another name for the group.

"Mosul would have been a challenging fight for any army, and the coalition is proud to stand side by side with our Iraqi partners as they celebrate their hard-fought victory," said Lt. Gen. Stephen Townsend, the top U.S. commander in the region.

The fight against Islamic State isn't over, Gen. Townsend and other officials stressed. Gen. Townsend noted that while the victory in Mosul amounts to a "decisive blow," tough fighting remains.

"Now it is time for all Iraqis to unite to ensure ISIS is defeated across the rest of Iraq and that the conditions that led to the rise of ISIS in Iraq are not allowed to return again," he said.

## Europe Wary as U.S. Reviews Iran Nuclear Deal

By LAURENCE NORMAN

BRUSSELS—European diplomats say they are increasingly concerned the Trump administration will stretch out its review of the Iranian nuclear deal, undermining the agreement by curbing the economic benefits designed to ensure Iran's compliance.

President Donald Trump has attacked the agreement, reached in 2015, as a "terrible deal" for the U.S.

European officials have been publicly upbeat about the U.S. remaining a party to the deal, but diplomats privately voice serious concerns about where the U.S. review is headed. They say Washington is providing little feedback, has given no firm end-date for the review and hasn't made clear who is shaping the process.

European officials still believe the Trump administration won't abandon the nuclear deal, but many fear Washington will keep it under a rolling review. That, they

say, would crimp economic benefits Iran expected from the agreement by persuading already cautious Western banks and investors to stay away—whereas President Barack Obama's top officials urged engagement with Tehran. European diplomats also worry that if the U.S. commitment remains uncertain, Iran may respond by attempting limited violations.

Trump administration officials have raised concerns—echoed in some European capitals—that the deal doesn't curtail Iran's nuclear activities once its key commitments expire over the next 15 years. Washington has also repeatedly criticized the deal for not committing Iran to change its behavior in the region, where it has intervened to support the regime of Syrian President Bashar al-Assad and moved to increase its influence elsewhere through proxy forces such as Hezbollah.

While Obama administration officials toured Europe to en-

courage companies to take advantage of the lifting of most sanctions, the new administration has taken the opposite approach. White House deputy spokeswoman Sarah Huckabee Sanders said Monday that Mr. Trump used last weekend's Group of 20 leaders meeting in

Germany to press his counterparts "to stop doing business with nations that sponsor terrorism, especially Iran."

The limbo over the deal could strain U.S. ties with Europe, where the governments of France, Germany, and the U.K., as well as the European

Union, helped negotiate the deal and support it. They argue the deal averted a military conflict over Iran's nuclear program and is now allowing the continent to start rebuilding investment ties with Tehran.

"I think a situation where the new administration will just keep things under review—I would not say forever, but on and on and on—I don't think that is unrealistic," a senior European diplomat said. "Nobody has any guarantee of the outcome."

U.S. officials said Washington has informed allies about the basic parameters of the review. A senior administration official said the U.S. had "numerous bilateral meetings with different European allies" to solicit feedback.

Many senior U.S. defense and foreign-policy posts remain unfilled. European diplomats say that has hampered communication.

—Felicia Schwartz in Washington contributed to this article.

A photograph of Ayatollah Ali Khamenei, the Supreme Leader of Iran, speaking at a podium. He is wearing a dark clerical robe and a turban. Behind him is a large, ornate hall filled with people, likely a mosque or a grand hall. The ceiling is decorated with intricate patterns and lights.

Iran's Supreme Leader Ayatollah Ali Khamenei speaking in June.

EPA/IRANIAN SUPREME LEADER WEBSITE

## WORLD NEWS

# U.K. Report Offers 'Gig' Workers Perks

By STU WOO AND WIKTOR SZARY

LONDON—Prime Minister Theresa May welcomed an officially commissioned review recommending stronger protection for workers in the U.K.'s "gig economy," as her government seeks to address insecurities generated by new informal employment practices.

The review is a first step toward addressing the divisions between haves and have-nots in U.K. society that the government believed were exposed by last year's referendum vote to leave the European Union. It is a first step in a broader effort by governments in industrialized economies to give people more security in work so as to combat a backlash against globalization.

"The issues [the report] confronts go right to the heart of this government's agenda," Mrs. May said on Tuesday.

The report recommended that British law should be clarified so that people working for **Uber Technologies** Inc.'s smartphone app and the

like are regarded as workers—it suggests the term "dependent contractors"—and not as self-employed.

They should have rights to greater worker protection, including safeguards to ensure they don't earn less than the national minimum wage plus a supplement to account for vacation pay. Firms using their services should contribute to the U.K. state's National Insurance system like traditional employers, it said.

Mrs. May said lawmakers would consider the report's nonbinding recommendations over the summer and respond in detail this year. Labor-market flexibility can't be one-sided, with workers bearing the brunt of it, she said.

Britain has become a battleground over the status of gig-economy workers, who are typically people who log on to smartphone apps to find short-term jobs such as chauffeuring people, delivering food or mowing lawns. Because of its relatively large population and shared language, the U.K. is one of the largest international markets

for U.S. gig-economy giants such as Uber and TaskRabbit Inc.

Tuesday's report cited an April study from the not-for-profit Chartered Institute of Personnel and Development that found that 1.3 million Brits, or 4% of working adults in the U.K. between ages 18 and 70, work in the gig economy.

Of those gig-economy workers, the study said 58% already have a permanent job elsewhere and take gig-economy jobs to boost income.

Some major companies have argued that these workers aren't entitled to employee rights, including paid holidays and minimum wage.

Such workers have challenged that position around the world, including in the U.K., where a London tribunal ruled in October that Uber drivers should be entitled to rights typically offered to full-time employees. Uber is appealing that ruling.

A labor union is now suing London-based **Roo Foods** Ltd., which runs the popular food-delivery app Deliveroo, for the



A labor union is suing London-based **Roo Foods** for the right to organize Deliveroo delivery workers.

right to organize couriers in north London.

"We would welcome greater clarity in the law over different types of employment status," said Andrew Byrne, Uber's head of policy in the U.K. A Deliveroo spokesman said the company welcomed the report, saying "employment law is outdated and this is a great opportunity to make it fit for the 21st century."

The report recommended that the government develop regulation that establishes tests to determine whether

workers are employees or dependent contractors. It also proposed having the government build an online tool that lets such workers easily know their rights.

Neil Carberry, managing director for people and infrastructure at the Confederation of British Industry, a business lobby group, said a number of proposals included in the report, including changes to minimum wage and agency worker rules, would be of significant concern to companies and could affect job creation.

Frances O'Grady, general secretary of the Trades Union Congress, said that "it's no secret that we wanted this review to be bolder. This is not the game-changer needed to end insecurity at work."

Ms. O'Grady added that "Theresa May cannot use this report as shield to hide from her responsibilities. We need a proper crackdown on bad bosses who treat their staff like disposable labor."

—Sam Schechner and Jason Douglas contributed to this article.

## Flowers in the Rain



LONG WAIT: A boy takes shelter from heavy rain in Allahabad, northern India, hoping for customers at his flower stall. Flooding and landslides in the north have killed dozens and displaced hundreds of thousands since June, when the monsoon season begins.

## Germany Seeks Help Finding Rioters

By ANDREA THOMAS

BERLIN—Germany asked European governments for help in finding and prosecuting rioters who left a trail of destruction in Hamburg during the weekend's Group of 20 summit.

The violence took political Berlin by surprise and sparked calls this week for a crackdown on organized left-wing radicals—who had largely fallen off the radar as security officials concentrated on neo-Nazis and Islamists.

Politicians warned that failure to prevent escalations would mean high-level international gatherings could take place only in autocratic regimes, where not even peaceful protest is tolerated.

"Many photos and video recordings are currently getting assessed to identify the perpetrators. For this, we rely on support from our foreign partners," Justice Minister Heiko Maas wrote in a letter dated Monday to his colleagues from

the European Union seen by The Wall Street Journal.

"We must stop this brutal riot tourism in Europe," Mr. Maas wrote, asking his European counterparts to swiftly execute German arrest warrants.

Among huge numbers of peaceful demonstrators, a smaller core fought street battles with riot police and set cars and barricades ablaze during the two-day summit.

On Friday night, hundreds of masked, black-clad hooligans unleashed devastation rarely seen in normally placid Germany.

Police said on Tuesday that 186 people had been arrested and 228 temporarily detained. Among them were suspects from France, Italy, Spain, Russia, the Netherlands, Switzerland and Austria, a Hamburg prosecutor said.

Mr. Maas and Interior Minister Thomas de Maizière on Monday called for an EU-wide database of far-left extremists. Mr. de Maizière said some ex-

tremists were stopped at the German border, but others had to be let go because no evidence could be found that they were planning crimes.

"The events surrounding the G-20 summit must be a turning point for our view of the extreme left-wing scene and its willingness to commit violence," Mr. de Maizière said.

**The G-20 violence sparked calls for a crackdown on left-wing radical groups.**

In its annual report published last week, Germany's domestic intelligence agency said the number of left-wing extremists in Germany had increased to 28,500, from 26,700 last year, the highest level since 2012.

The agency had warned

that Hamburg's hard-left scene could be a magnet for radicals from abroad during the G-20. Far-left and anarchist militants have bases in Hamburg, Berlin and Leipzig, from where they have waged low-intensity campaigns of vandalism targeting the state, utilities and international companies, but rarely individuals.

Several politicians and security officials said last weekend's events meant tolerance of such groups now had to stop.

"We have a broad political agreement when it comes to the fight against violence by Islamist or right-wing extremists," said Rainer Wendt, head of one of Germany's two police unions. "But when it comes to violence from the left, there are still some who...talk about a protest culture in Germany."

Last year, Berlin experienced its worst rioting in five years when radicals and squatters opposing evictions clashed with police.

about its overall debt. However, its property unit, which accounted for 55% of its revenue in the first half of 2017, was saddled with about \$33 billion in debt as of 2016, according to Wanda's regulatory filings. Those regulatory filings also reveal that Wanda's consolidated liabilities, which include debt, totaled more than \$100 billion at the end of last year.

Wanda's chairman, Mr. Wang, said the company will use proceeds from the sale to trim debt at the property unit, Dalian Wanda Commercial Properties Co., which is seeking a listing on a Chinese stock exchange but has yet to receive approval.

Central bank Gov. Yannis Stournaras said Greece has no need to return to bond markets this year, and called on the government to focus instead on privatizations as a way to win investors' confidence.

"I think it's a bit early" to tap public markets, he said in his first comments on the issue since Greece reached a deal with its international creditors in mid-June.

The comments indicate a division among top Greek officials over how to get the crisis-struck country back on its feet.

—Tom Fairless

UNITED KINGDOM

## BOE Official Cites Brexit Trade Risks

The U.K. and European Union economies would suffer if trade between the two were to be reduced as a consequence of Brexit, Bank of England Deputy Gov. Ben Broadbent said.

In a speech in Scotland, Mr. Broadbent said if the U.K. leaves the EU under terms that lowered trade flows, exports of British

services would lower the country's output, while the cost of food and machinery would rise.

"Trade really is mutually beneficial and less of it costs us all," he said.

—Paul Hannon

INDIA

## Top Court Suspends Livestock Sales Ban

The country's top court suspended for three months a ban introduced by the Hindu nationalist government on the sale of cattle and buffaloes for slaughter.

The Supreme Court approved a lower court's ruling that said people have a basic right to choose their food.

The court is expected to give a final ruling after the federal government reconsiders the issue in view of widespread criticism of its decision announced in May.

Under government rules issued in May, buyers and sellers at cattle markets or animal fairs would be required to pledge in writing that cows and other animals considered holy by Hindus wouldn't be slaughtered for food or any other purpose. Cattle for slaughter would have to be bought from farmers directly.

—Associated Press

## WANDA

Continued from Page One

with Sunac allows Wanda to pay for its own sale without incurring debt, according to Cheong Yin Chin, an analyst for independent financial research firm CreditSights Inc.

Wanda would record the \$4.35 billion bank loan as an asset rather than debt if it acts as a lender to Sunac, Ms. Cheong said. Sunac would record Wanda's loan as debt.

"Sunac will be the one assuming the entire debt," Ms. Cheong said. "Although the [property] assets and debt ultimately appear on Sunac's

books, Wanda can still have the brand name, and all the expenses come from Sunac itself...That is the advantage for Wanda."

For Sunac, the deal set off an alarm: S&P Global Ratings on Tuesday placed the company's corporate credit rating on CreditWatch negative.

The credit-ratings firm said the acquisition of Wanda's assets and a large investment in technology company LeEco "will further pressure the developer's already high financial leverage and increase the burden on future cash flow."

Wanda, controlled by billionaire Wang Jianlin, started as a property developer but moved into entertainment to

diversify and expand its holdings. It owns the world's largest cinema chain, AMC Entertainment Holdings Inc., as well as Legendary Entertainment, a Hollywood film producer and financier.

In the deal with Sunac, Wanda will sell four theme parks and at least nine others that are planned. The existing parks recorded a net profit of \$562 million last year, up 28% from the previous year, regulatory filings show. The net value of the theme-park assets was \$3.65 billion, according to the filings. The amount of debt held by those attractions wasn't disclosed.

Wanda is a private company and not much is known

about its overall debt. However, its property unit, which accounted for 55% of its revenue in the first half of 2017, was saddled with about \$33 billion in debt as of 2016, according to Wanda's regulatory filings. Those regulatory filings also reveal that Wanda's consolidated liabilities, which include debt, totaled more than \$100 billion at the end of last year.

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## U.S. NEWS

# Trump to Appoint Fed Bank Regulator

President plans to put his first mark on central bank by nominating ex-GOP Treasury official

WASHINGTON—President Donald Trump plans to put his first mark on the Federal Reserve by nominating Randal Quarles, an investment-fund manager and former Republican Treasury official, to be the central bank's top official in charge of regulating big banks.

By Ryan Tracy,  
Kate Davidson  
and Nick Timiraos

The choice of Mr. Quarles, expected for months and confirmed by a White House official Monday, would put a more industry-friendly voice in perhaps the most powerful U.S. bank-regulatory post: Fed vice chair of supervision.

That job was created by Congress in 2010 and was never filled during the Obama administration, although former Fed governor Daniel Tarullo filled the role de facto. If confirmed by the Senate, Mr. Quarles would take a lead role in carrying out the Trump administration's goal of rethinking many financial regulations adopted during the Obama era.

Mr. Quarles would also weigh in on monetary policy as one of seven members of the Fed's board of governors, now short-staffed with only four members. His views in that sphere could put him at odds with his new colleagues, notably because he has criticized the Fed's policy of keeping in-



President Donald Trump is expected to nominate Randal Quarles, above, as the Fed's top official in charge of regulating big banks.

terest rates near zero for years following the financial crisis, and advocated for a monetary policy rule, or formula, to guide rate decisions.

The Fed board has three vacancies, and the White House hopes to offer two more nominees as soon as possible, the official said. The administration has also begun the search for the next Fed chairman, though Mr. Trump hasn't ruled out nominating Chairwoman Janet Yellen to a second term, to begin when her current term expires in February.

Mr. Quarles has donated to Republican candidates for years and served in the Treasury Department in both Bush administrations, working on both international affairs and as undersecretary for domestic finance, a senior job that involves coordination with the many U.S. agencies that oversee the financial sector.

He left the government in 2006 and was a managing di-

rector at the Carlyle Group private-equity firm, investing in troubled banks. He is now managing director at Cynosure Group, a Utah investment firm.

Mr. Quarles, in a March 2016 Wall Street Journal op-ed that he co-wrote, said he didn't support "arbitrarily taking an ax to big banks and irreparably damaging the economy." He endorsed a review of postcrisis regulations but warned that "the consequence of a dramatic increase in bank capital is an increase in the cost of bank credit."

Analysts and government officials have said nominating Mr. Quarles, an establishment Republican, would be a sign that the White House favors more incremental rather than radical changes to the Fed, an institution that has long engendered mistrust among the economic nationalists who backed Mr. Trump during his campaign last year.

Mr. Trump's team has advo-

### Randal Quarles

#### AGE

59

#### EDUCATION

Philosophy and economics degree from Columbia University; law degree from Yale University

#### GOVERNMENT EXPERIENCE

◆ 2001-2006: Undersecretary of domestic finance, assistant secretary of international affairs, U.S. Treasury; U.S. executive director, International Monetary Fund

◆ 1991-1993: U.S. Treasury staff, deputy assistant secretary for financial institutions policy

#### OTHER EXPERIENCE

◆ Managing director, Cynosure Group (current)

◆ Partner, Carlyle Group

◆ Partner, Davis Polk & Wardwell LLP

#### TERM

If confirmed, could serve four-year term as vice chairman for supervision and 14-year term as Fed governor

proposals to require the Fed to use a mathematical monetary-policy rule, an approach popular among some conservatives who argue central banks have too much discretion and should be more accountable to the public.

Mr. Quarles said in the 2016 op-ed that low-interest-rate policies have "led to a rise in speculative positions" across the financial system and that a monetary-policy rule would reduce the incentive for big banks and smaller firms to take dangerous risks.

Mr. Quarles's path to the nomination illustrates a broader trend in which nominees across the executive branch have faced delays completing the traditional background clearance and screening process.

Top White House officials had identified the vice chair post as a priority weeks after Mr. Trump's election last year, and after an extended search process, officials identified Mr. Quarles as their top pick in April. At the time, Treasury Secretary Steven Mnuchin had indicated a nominee for the post was imminent.

The White House expected Mr. Quarles's nomination to receive broad Republican support. He needs a simple majority to be approved by the Senate, where Republicans control 52 out of 100 seats.

The White House has also been considering economist Marvin Goodfriend to fill a second vacancy on the Fed board, according to people familiar with the situation. It isn't clear when his nomination might be announced and submitted to the Senate.

cials have said stricter curbs on financial risk-taking were warranted in the wake of the financial crisis.

Mr. Quarles would find some familiar faces at the Fed. He has worked before with Fed governor Jerome Powell, who is now the point person on the Fed's regulatory efforts and also served in the George H.W. Bush administration and worked at Carlyle Group.

He could push for changes in the way the Fed oversees those firms, but he couldn't change the rules on his own. For that, he would need the support of other members of the Fed's board and other agencies.

The choice of Mr. Quarles "shows that we're looking for a change to the heavy-handed approach to regulation from the prior administration," the White House official said Monday. Mr. Quarles, the official said, "has a track record of working well with others to implement public policy."

Obama administration offi-

cials have said stricter curbs on financial risk-taking were warranted in the wake of the financial crisis.

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Mr. Quarles is married to Hope Eccles, who is a relative of Marriner Eccles, the New Dealer Fed chairman whose name is on the building where Mr. Quarles would have his office.

Ms. Yellen is set to testify on Wednesday and Thursday on Capitol Hill, where she will likely be asked about Mr. Quarles and the Fed's agenda. In the past, she has said she is open to changing some bank rules but not what she regards as core changes adopted after the 2008 financial bailouts.

Ms. Yellen has objected to

## Agency's Arbitration Rule Sets Up GOP Showdown

WASHINGTON—An Obama-appointed regulator barred financial-services companies from requiring customers to use arbitration to resolve dis-

By Rachel Witkowsky,  
Andrew Ackerman  
and Brent Kendall

pute, setting off a showdown with the Trump administration and congressional Republicans.

Consumer Financial Protection Bureau Director Richard Cordray on Monday completed a rule proposed in May 2016 over the opposition of Trump administration officials and Republican lawmakers. The

CFPB's rule prevents companies from including in consumer contracts any arbitra-

tion clause that blocks class-action lawsuits, though it doesn't ban arbitration entirely. Such clauses are commonly used for a range of financial products, including credit cards, certain auto loans, payday loans and private student loans. Financial companies will have about eight months to comply.

Consumer groups have backed the regulation. They say arbitration diminishes legal protections for everyday people and prevents them from joining together to bring class-action lawsuits.

Critics in the financial industry and Congress say arbitration provides a faster and

more cost-effective way to resolve disputes with consumers.

"This bureaucratic rule will harm American consumers but thrill class-action trial attorneys," House Financial Services Committee Chairman Jeb Hensarling (R., Texas) said.

"The CFPB's brazen finalization of the arbitration rule is a prime example of an agency gone rogue," U.S. Chamber of Commerce leaders wrote in a joint statement on Monday.

The final version of the CFPB rule hasn't been substantially changed from the draft issued last year.

Mr. Cordray on Monday said the bureau was proceed-

ing despite Republican efforts to block it.

"My obligation...is to act for the protection of consumers and in the public interest. In deciding to issue this rule, that is what I believe I have done," Mr. Cordray said during a conference call with reporters.

Mr. Noreika, appointed by President Donald Trump in May as interim comptroller, condemned the move in a letter Monday asking the CFPB director to provide to the Office of the Comptroller of the Currency the data the CFPB used to support the rule.

Mr. Hensarling warned Mr. Cordray against completing

the measure last week in anticipation of Monday's move, suggesting the House could hold the bureau's chief in contempt.

Mr. Hensarling, the powerful head of the House Financial Services Committee, instructed Mr. Cordray not to complete the rule until the CFPB first complied with a series of records requests from Congress related to its work on the rule.

"Any effort by you or another bureau employee to promulgate any rule affecting arbitration...may lead to contempt proceedings," Mr. Hensarling wrote in a July 5 letter to Mr. Cordray reviewed by The Wall Street Journal.

## TRUMP

Continued from Page One  
and would you be able to speak to Emin about it directly?"

President Donald Trump's son responded by offering to speak to Emin Agalarov about the matter.

"[I]f it's what you say I love it," the younger Mr. Trump wrote, appearing to suggest the information would be good to release "later in the summer."

In a statement, the younger Mr. Trump said he believed the Agalarovs had political opposition research about Mrs. Clinton and suggested he meet with a Russian lawyer in New York about the matter.

"I first wanted to just have a phone call but when that didn't work out, they said the woman would be in New York and asked if I would meet," Mr. Trump said in the statement. "I decided to take the meeting."

The release of the emails comes as the younger Mr. Trump increasingly finds himself at the center of inquiries into whether the president's

campaign colluded with Moscow to influence the election.

The younger Mr. Trump hired a private attorney Monday and said he would work with congressional investigators who have sought his testimony after he said he arranged the meeting with top campaign aides and the Russian lawyer, who has been linked to the Kremlin.

The U.S. intelligence community has concluded that Russian President Vladimir Putin ordered a campaign to influence the outcome of the 2016 U.S. election in Mr. Trump's favor.

A special counsel appointed by the Justice Department earlier this year is investigating whether Trump campaign aides colluded with Moscow.

The president's son said in a statement Tuesday that the Russian lawyer, Natalia Veselnitskaya, wasn't working for the Russian government, and Ms. Veselnitskaya herself has denied ties to the Kremlin.

But Mr. Goldstone, who was working for the Agalarovs, described the lawyer as a "Russian government attorney flying over from Moscow" in one of the emails released by the younger Mr. Trump.

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## Bipartisan Conclusions Likely Elusive

BY BYRON TAU

WASHINGTON—The two congressional committees investigating Russian interference in the 2016 election have committed to a goal that has eluded almost every major probe on Capitol Hill in recent years: bipartisanship.

The Senate and House intelligence committees are broadly examining Russian meddling in the election, including whether members of President Donald Trump's campaign colluded with Moscow.

The leaders of each committee have pledged to produce a sole final report—not separate ones from Republican and Democratic members—on whether Russia ran a campaign of leaks and disinformation designed to boost Mr. Trump at the expense of Democratic rival Hillary Clinton, as asserted by key members of the U.S. intelligence community.

Dueling reports from the investigations could heighten the partisan divide over the question of Russian interference, especially if the parties can't agree on the basic facts and final conclusions.

Recent history suggests that a bipartisan conclusion to a major congressional investigation remains elusive as Congress has grown increasingly partisan. But the threat of interference by a foreign power in U.S. elections demands a sober and unified response to maintain public confidence in the democratic system of governance, lawmakers have said.

Rep. Mike Conaway (R., Texas), the leader of the House Intelligence Committee investigation, said in June that "we have an active investigation going on. We're pursuing

it aggressively, we're pursuing it on a bipartisan basis." His Democratic counterpart on the panel, Adam Schiff of California, said a month earlier that the two men were working well together and that Mr. Conaway "has made every effort to run the investigation in a nonpartisan fashion."

On the Senate side, Intelligence Committee Chairman Richard Burr (R., N.C.) and Vice Chairman Mark Warner (D., Va.) both have pledged to conduct a nonpartisan probe.

Mr. Burr said in March that he had "high hopes that we can reach a conclusion that has bipartisan support."

Though sniping between partisans in Congress is as old as the republic itself, conflict over investigations intensified in the mid-1990s during the battles between President Bill Clinton's Democratic administration and a GOP Congress

that culminated in his impeachment by the House on charges of obstruction of justice. The Senate refused to affirm those charges and remove him from office.

During President George W. Bush's term, a GOP-led inquiry into the government response to Hurricane Katrina was boycotted by Democrats. And most Republicans on the Democratic-led Senate Intelligence Committee refused to sign onto the committee's report on the CIA's interrogation programs after the Sept. 11, 2001, attacks in New York and Washington.

Later, the Republican-led congressional investigation into the 2012 Benghazi terrorist attacks was assaulted by Democrats as a political exercise aimed at damaging Mrs. Clinton, who was secretary of state at the time of the attacks. During President Barack Obama's administration, probes of a federal gunrunning

program and the political targeting of conservative groups by the Internal Revenue Service also were dismissed as politically motivated.

More recently, however, the GOP-appointed commissioners on the Financial Crisis Inquiry Commission that studied the 2008 recession refused to sign a report written by a majority of Democratic commissioners.

Carl Levin, a former Democratic senator from Michigan, agreed that the political climate has become more acrimonious. But he pointed to several probes he conducted or participated in while on the Senate Permanent Subcommittee on Investigations as evidence that the two parties could cooperate. "It's proven and doable," said Mr. Levin.

"But you've got to have leaders in the committees who trust each other, like each other, and get their staff on board."



Donald Trump Jr. at Trump Tower in New York in December



Intelligence Committee Chairman Richard Burr, right, and Vice Chairman Mark Warner last month.

## IN DEPTH

# GOOGLE

Continued from Page One

\$18,830 to fund the work. The paper, published in 2012, didn't mention his sponsor. "Oh, wow. No, I didn't. That's really bad," he said in an interview. "That's purely oversight."

The money didn't influence his work, Mr. Heald said, and Google issued no conditions: "They said, 'If you take this \$20,000 and open up a doughnut shop with it—we'll never give you any more money—but that's fine.'

In some years, Google officials in Washington compiled wish lists of academic papers that included working titles, abstracts and budgets for each proposed paper—then they searched for willing authors, according to a former employee and a former Google lobbyist.

Google promotes the research papers to government officials, and sometimes pays travel expenses for professors to meet with congressional aides and administration officials, according to the former lobbyist. The research has been used, for instance, to deflect antitrust accusations against Google by the Federal Trade Commission in 2012, according to a letter Google attorneys sent to the FTC chairman and viewed by the Journal.

Last month, European regulators issued a \$2.71 billion fine against Google for unfairly favoring its services over rivals' in its search results. Google has denied the charge.

The funding of favorable campus research to support Google's Washington, D.C.-based lobbying operation is part of a behind-the-scenes push in Silicon Valley to influence decision makers. The operation is an example of how lobbying has escaped the confines of Washington's regulated environment and is increasingly difficult to spot.

"Ever since Google was born out of Stanford's Computer Science department, we've maintained strong relations with universities and research institutes, and have always valued their independence and integrity," the company said. "We're happy to support academic researchers across computer science and policy topics, including copyright, free expression and surveillance, and to help amplify voices that support the principles of an open internet."

Google receives nearly \$80 billion a year in ad sales drawn mostly from seven products that each attract more than a billion global users a month, including Gmail, YouTube and Google maps. Its search engine handles more than 90% of online searches globally, according to StatCounter; its Android software will run roughly 1.3 billion of the 1.5 billion smartphones expected to be sold this year, according to Strategy Analytics.

Through its various enterprises, Google collects information that reaches deep into daily life—recording everything from users' search history to whom they know to where they are—consumer profiles so rich that not even Google knows their full potential.

Google has paid professors whose papers, for instance, declared that the collection of consumer data was a fair exchange for its free services; that the company didn't use its market dominance to improperly steer users to Google's commercial sites or its advertisers; and that it hasn't unfairly quashed competitors. Several papers argued that Google's search engine should be allowed to link to books and other intellectual property that authors and publishers say should be paid for—a group that includes News Corp., which owns the Journal. News Corp. formally complained to European regulators about Google's handling of news articles in search results.

Google has funded roughly



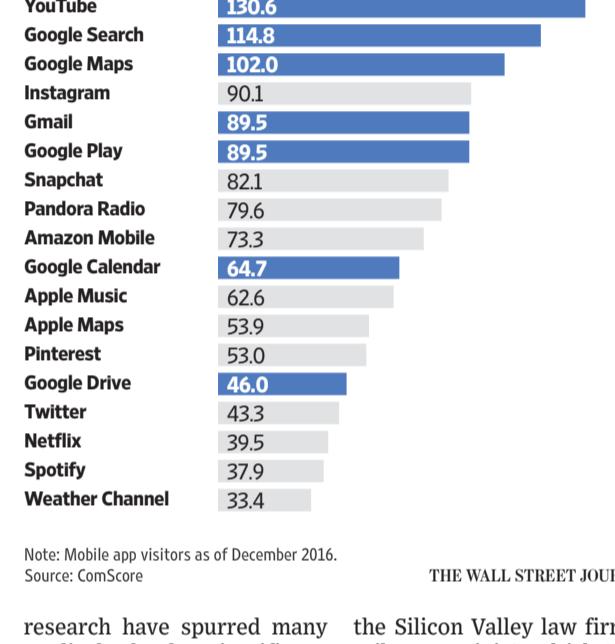
Illinois law professor Paul Heald, left, got \$18,830 to fund a paper on copyrights. Ryan Calo, right, wrote a paper about privacy that drew a \$400,000 contribution to Stanford.



MICHAEL KANIA FOR THE WALL STREET JOURNAL; HEATHER ANSWORTH FOR THE WALL STREET JOURNAL

### Google's Mobile Mastery

Most popular U.S. mobile apps, by unique monthly visitors



Note: Mobile app visitors as of December 2016.  
Source: ComScore

THE WALL STREET JOURNAL

research have spurred many medical schools, scientific researchers and journals to require disclosure of corporate funding and to prohibit corporate sponsors from meddling with findings.

The tech industry now includes the world's top five companies by market value: Apple Inc., Google parent Alphabet Inc., Microsoft Corp., Amazon.com Inc. and Facebook Inc.

Several of the companies also are active in funding academic research. Microsoft has paid Harvard business professor Ben Edelman, the author of papers saying Google abuses its market dominance. Chip maker Qualcomm Inc. funded papers supporting its side of a fight against Google over patents. And telecommunication giants Verizon Communications Inc. and AT&T Inc. have funded various papers against Google. The companies either declined to comment or didn't respond to requests to comment.

Google's strategic recruitment of like-minded professors is one of the tech industry's most sophisticated programs, and includes funding of conferences and research by trade groups, think tanks and consulting firms, according to documents and interviews with academics and lobbyists.

### Digital diary

Google collects in-depth data from more than a billion people, and it uses the information to personalize everything from search results to YouTube recommendations to online ads. The company's control of consumer data on such a mass scale has raised antitrust questions.

Early last year, Daniel Sokol, a University of Florida law professor, published an academic paper arguing that Google's use of the data was legal. "There is no cause for concern in this arena," he wrote. The paper also noted that no companies funded the research.

"If they did," Mr. Sokol said in a footnote of the paper, he and his co-author "would be sipping Mai Tais with our respective friends and families on a beach in Hawaii based on the proceeds of such a sponsorship. We are not."

Mr. Sokol, though, had extensive financial ties to Google, according to his emails obtained by the Journal. He was a part-time attorney at

the Silicon Valley law firm of Wilson Sonsini Goodrich & Rosati, which has Google as a client. The 2016 paper's co-author was also a partner at the law firm, which didn't respond to requests to comment.

From at least as early as 2013, Mr. Sokol also has coordinated with Google officials to ensure online symposiums had a pro-Google bent.

In March 2013, Mr. Sokol helped Paul Shaw, a Google public-policy official, persuade law professors to write papers for an online symposium on patents. Mr. Shaw sent Mr. Sokol a list of a dozen law professors along with specific topics for their papers. None was paid to participate. Mr. Shaw deferred comment to a company spokesman.

After the conference, Mr. Sokol submitted a \$5,000 invoice to Google.

In September 2013, Mr. Sokol worked with Rob Mahini, a senior Google lawyer, to plan an online conference on a separate patent issue. Mr. Mahini identified professors to participate, and he asked Mr. Sokol to invite them.

After running into difficulty persuading professors to write papers for the conference, Mr. Sokol asked Mr. Mahini if Google could provide "some encouragement" to them to participate, according to the emails.

Mr. Sokol declined to explain what he meant. Google said it didn't pay professors to participate. Mr. Mahini didn't respond to requests to comment.

When the symposium ended, a Google assistant emailed Mr. Sokol about his bill. Mr. Sokol replied: "\$5,000, like last time."

Asked for comment, Mr. Sokol wrote in an email: "For the symposia that I organized, I should have disclosed the sponsorship for such organization and have now done so. I disclose any financial support for the articles that I write."

Google sought help from Jorge Contreras, a University of Utah law professor who has also argued for a looser interpretation of U.S. patent laws.

Since 2013, Mr. Contreras has written numerous papers

on patents. Google helped fund two of those papers, which each disclosed the financial support. The other papers didn't mention his relationship with Google.

Google funded a Washington, D.C., symposium in June 2015, organized by Mr. Contreras, that showcased how Google and other companies had pledged not to enforce some of their patents, allowing others to use their technology.

Around that time, Mr. Contreras forwarded his research paper on the topic to Google policy officials and lawyers: "I would also welcome your feedback and comments," he wrote in the email.

"It's in really great shape!" a Google lawyer responded. "Would be good to discuss a couple of things briefly...that are somewhat related." They set up a phone appointment, according to the email exchange.

Mr. Contreras said in an interview that he sent the paper as a courtesy because Google sponsored the conference. He said it was common among academics to ask for feedback on papers, including from officials at companies the papers discuss.

"They're experts and in the trenches, and I'm writing about what these people do," he said. "So, it's good to get feedback."

A month before the symposium, Google hosted a private daylong patent-law briefing at the Washington law office of Wilson Sonsini for several

### Up And To The Right

Google's global revenue



Source: the company  
THE WALL STREET JOURNAL

dozen influential public-policy advocates it hoped to win over. Google paid airfare and hotel expenses for Mr. Contreras to speak about how the company shares its intellectual property.

Mr. Contreras said Google doesn't pay professors to change their positions; it simply funds research that supports the company.

"I don't think there's any dishonesty here," he said, "but they pick the right people who they know are going to say the right thing."

### Trusted allies

In 2010, Google hired Deven Desai, then a researcher in law and technology at Princeton University, to find academics to write research papers helpful to the company.

Over the next two years, Mr. Desai said, he spent more than \$2 million of Google's money on conferences and research papers that paid authors \$20,000 to \$150,000.

In September 2012, the FTC was nearing a decision on whether to charge Google with antitrust violations, including its practice of favoring its shopping and travel services in search results. Google's law firm, Wilson Sonsini, sent the FTC chairman an 8-page letter in the company's defense and attached Google-funded re-

search papers supporting its arguments.

Mr. Desai, now a law professor at Georgia Institute of Technology after leaving Google in 2012, said part of his job was to compile a list of "all the major policy academics in intellectual property so Google lobbyists could know who to follow and potentially target for papers."

He said Google was careful to say the checks came with no requirements: "It was a gift. Recipients can do what they want."

Among the largest were \$400,000 stipends that in 2010 went to several researchers investigating ways to improve users' online privacy.

Google and other tech companies collect personal information, including data some users would rather not share. The firms usually give notice on a privacy policies page about what is collected, and they often ask for users' consent to keep the information.

Some privacy advocates say the policies are long and confusing, and few people read them. The advocates seek instead rules limiting the use of personal data.

Ryan Calo, then a research fellow at Stanford University, received one of the \$400,000 awards in 2010, though he didn't disclose the funding in one of the two papers he later published on privacy protection.

That paper suggested finding better ways to alert consumers about exposing their personal data "before we give in to calls to abandon notice as a regulatory strategy."

He said in an interview that the Google money was paid to Stanford, not to him. Nonetheless, he said, he should have disclosed the financial support in both papers. After publication, Mr. Calo kept in touch with Google and shared his papers before publication, emails show.

"I'll be following up with a draft of that paper I mentioned on how cyberlaw is changing, and look forward to any examples or thoughts," Mr. Calo wrote on Dec. 20, 2013, to Google officials about an idea he had on artificial intelligence, robotics and the law.

Betsy Masiello, a Google official at the time, was copied on the email and responded: "Also let me know if you have a draft on surveillance! =)"

Later, after seeing Mr. Calo's research on government surveillance, Dorothy Chou, a Google spokeswoman at the time, tried unsuccessfully to arrange for Mr. Calo to discuss his conclusions on National Public Radio.

"I'm really hoping NPR reaches out so you can get on air to make those points," she wrote on Jan. 21, 2014. A few days later, she wrote: "We have another producer asking to chat about government surveillance, and I wanted to let you know that we pointed her your way."

Ms. Chou declined to comment. Ms. Masiello didn't respond to requests to comment.

Mr. Calo, who is now a professor at the University of Washington, said it was common practice to discuss research with companies involved to ensure accuracy: "If you want to have impact as a scholar, you absolutely need to solicit input from the very entities you're talking about."

Google officials, he said, "identify work that resonates with a position they have already, and then they amplify that work."

### Everything Google Knows About You

The search engine giant keeps a detailed history of every term you've searched, website you've visited and video you've watched with its services. To see what data it has on you, visit [myactivity.google.com](http://myactivity.google.com)

#### Data Google gathers from its users



Name, birthday, gender, country



Emails sent and received with Gmail



Geographical location and directions

Source: the company

#### Search terms and websites visited



Search terms and websites visited

#### Videos watched on YouTube



Videos watched on YouTube

#### Ads clicked and shopping



Ads clicked and shopping

THE WALL STREET JOURNAL

## U.S. NEWS

# Senate to Revise Health Bill

GOP hopes to produce measure this week, but changes appear unlikely to sway foes

BY KRISTINA PETERSON

Republicans returning to Washington said they hoped to produce a revised version of the Senate health bill this week, though none of the expected changes appeared likely to win sufficient support from the 10 GOP senators who have publicly opposed the measure.

Sen. John Cornyn of Texas, the second-ranking Senate Republican, said a bill could emerge within days. "Hopefully soon," Mr. Cornyn said Monday. "And then we'll vote on it next week."

Republican leaders were forced to postpone a vote on their bill before the July 4 recess because of a lack of support, and none of the changes they have signaled they are considering have prompted any of the defectors to reverse course.

GOP leaders, for example, are likely to insert \$45 billion in funding to fight the opioid epidemic, but Sen. Susan Collins (R., Maine) said, "That's helpful, but it's by no means sufficient." Like other Republican senators, Ms. Collins is concerned about proposed Medicaid cuts.

As Senate Republicans faced such dilemmas, President Donald Trump turned up the pressure to deliver his first major legislative victory before leaving town for their August recess. "I cannot imagine that Congress would dare to leave Washington without a beautiful new HealthCare bill fully approved and ready to go!" Mr. Trump tweeted Monday.



Senate Majority Leader Mitch McConnell, left, and Sen. John Cornyn, the second-ranking Senate Republican, are looking to put forth revised health-care legislation.

Once the revised bill is produced, the nonpartisan Congressional Budget Office will provide an estimate of its impact on the federal budget and on Americans' insurance coverage.

Senate Majority Leader Mitch McConnell (R., Ky.) can lose no more than two GOP votes to pass the bill with 50 votes, with Vice President Mike Pence casting the tiebreaking vote. No Democrats are expected to back the bill, which would dismantle large parts of the Affordable Care Act.

The biggest recent sticking point has centered on a provision supported by GOP Sens. Ted Cruz of Texas and Mike Lee of Utah that would allow insurers that sell plans complying with ACA regulations to also sell health policies that don't.

Health analysts say that would likely lower premiums

for younger, healthier people, who would buy more-limited policies, while causing premiums to rise for people with pre-existing conditions, who would buy the more comprehensive plans that comply with the ACA.

Conservative lawmakers and outside groups have united around the provision, saying the bill must do more to lower costs. Mr. Lee won't vote for the bill unless the provision, or a similar measure, is included, his spokesman said.

But other Republicans are balking at its potential effect on premiums for people with pre-existing conditions.

"His proposal would lead to unaffordable rates for people with pre-existing conditions," Ms. Collins said Monday.

Sen. Shelley Moore Capito (R., W.Va.), a centrist, said she

has questions about the Cruz measure, which Sen. Chuck Grassley (R., Iowa) has also criticized. Other Republicans said they liked Mr. Cruz's idea. "If we're going to subsidize Americans who can't afford health insurance, do it directly. Don't do it through the premiums of others," said Sen. Jeff Flake (R., Ariz.).

Democrats said that Mr. Cruz's proposal would lure people to sign up for cheap health-care plans and that many would then end up paying much more in high deductibles. "In effect, for many it's a policy that would have a premium, but no insurance," Senate Minority Leader Chuck Schumer (D., N.Y.) said on the Senate floor.

—Anna Wilde Mathews  
and Siobhan Hughes  
contributed to this article.

# Fire-Safety Issue At a Marriott Arises

By SCOTT CALVERT  
AND BOB TITA

The company that made the combustible panels used on the London housing tower where a fast-moving fire killed at least 80 people says the same type wraps one of Baltimore's most prominent hotels: the 32-story Marriott Waterfront overlooking the city's Inner Harbor.

But Baltimore officials say they aren't sure what is on the hotel because they never asked the architects for details about the hotel's exterior panels.

Two of the architects involved in the project, and its general contractor, also aren't sure or no longer have the records.

City officials say the use of such combustible panels would have complied with the building code in place when construction of the hotel began in 1998, as well as the current code, and they said such panels are allowed when a building has sprinklers. But experts in U.S. fire-safety regulations raise questions about whether the panels would pass muster, then or now.

The panels in question have cores made of polyethylene, a common variety of plastic derived from petroleum or natural gas that can be highly combustible.

For decades, U.S. regulators have generally restricted metal composite panels on tall buildings unless they had fire-resistant cores. But panels with polyethylene cores were widely used in the U.K., including on London's Grenfell Tower, which went up in flames June 14.

In an interview, Arconic Inc., which made the Grenfell

Tower panels, declined to comment on whether the same panel type was used on the entire Marriott in Baltimore. "We sell our products with the expectation that they are used in a [wall] system that complies with local building codes and regulations," a company spokesman said.

On its website, Arconic, formerly part of Alcoa Corp., says the 750-room Marriott Waterfront used 83,000 square feet of the type of panel used on Grenfell Tower, marketed as Reynobond PE.

Two of the architects involved in the Marriott's design said in interviews they don't recall what type of panels encase the hotel, located in the city's Harbor East district. One, Peter Fillat, said he discarded the project file about six years ago following normal protocol.

Marriott International Inc. said it is working with the hotel building's owner to identify the type of cladding. "The safety and security of our guests and associates is a top priority," spokesman Jeff Flaherty said in an email.

The general contractor that built the hotel said the firm doesn't keep specifications on finished projects as old as the Marriott.

Aluminum composite panels first appeared in buildings in Europe in the 1970s and became popular in the U.S. during the 1980s. The panels gave architects a lightweight alternative to masonry and other materials. From the start, though, U.S. safety engineers recognized the rigid cores sandwiched between two sheets of aluminum that gave the panels strength would easily burn during a fire.

# How Maryland Dealt With Voter-System Hack Attempt

BY ALEXA CORSE

Last August, Maryland's State Board of Elections noticed something suspicious: Someone was probing the state's online voter-registration system, using an internet address originating in the Netherlands.

"They were trying to knock at the door to see if they could get in," said Nikki Charlson, Maryland's deputy state administrator of elections.

The system wasn't penetrated, Ms. Charlson said, nor did the activity affect systems involved in vote tallying, which aren't connected to the internet.

Still, Maryland's disclosure is one of several new reports indicating that attempts to hack election systems in 2016 were more widespread than previously known. Russian government hackers targeted voting systems in 21 states, Jeanette Manfra, acting undersecretary for cybersecurity and communications at the federal Department of Homeland Security, told the Senate Intelligence Committee last month.

Previously, only a handful of states, including Arizona and Illinois, had publicly confirmed hacking attempts against their election systems.

Maryland's experience shows the challenges hackers pose to a state, even one that jumps on a problem quickly. Federal help to



Citizens participate in early voting at the Potomac Community Recreation Center last October in Potomac, Md.

State Information Sharing & Analysis Center, which provides cybersecurity services to government entities, around the same time Maryland detected it, Ms. Charlson said.

The state's computer staff blocked the IP address from multiple parts of the network within three days.

About two weeks later, Maryland officials reported the incident to the Federal Bureau of Investigation, which notified DHS. Twenty days after Maryland first detected the incident, DHS completed its own report, confirming that the system hadn't been penetrated.

Linda H. Lamone, Maryland's elections administrator, said she learned that DHS was offering additional assistance at a conference on Sept. 16. Maryland requested that assistance, which DHS provided beginning a month later, Ms. Charlson said.

Since then, DHS has remotely conducted weekly "cyber hygiene scans," which look for vulnerabilities in Maryland's land-internet-connected systems, she said. However, DHS said it couldn't provide more thorough assessments until after the election because of a backlog of requests, Ms. Charlson said. She is still trying to schedule federal on-site assessments of software and physical sites.

—Sharon Nunn contributed to this article.

## U.S. WATCH



FUNERAL FOR SLAIN OFFICER: Flags are carried past a photo of slain New York Police Department Officer Miosotis Familia on Tuesday. The mother of three was shot while sitting in her patrol car in the Bronx, N.Y.

Chris Christie.

An ethics letter signed by Justice Department official Lee Loftus said that if confirmed,

Mr. Wray would be barred from participating in any matter involving "specific parties in which he knows that a former client of

his is a party or represents a party" for one year from the date of his last work for them.

—Aruna Viswanatha

## IMMIGRATION

### Steps Taken to Scrap 'Startup Visa' Rule

The Trump administration took steps toward scrapping a regulation that would have helped more foreign-born entrepreneurs build startups in the U.S. without a traditional visa.

The Department of Homeland Security filed a notice that it will delay the effective date of the International Entrepreneur Rule, which would have let foreign entrepreneurs apply to work in the U.S., provided their startup raised \$250,000 from established U.S. investors.

The rule, enacted in the final days of the Obama administration, had been set to go into effect next week. The DHS will delay that date by eight months, a period in which it will "obtain comments from the public regarding a proposal to rescind the rule," the agency said in a Federal Reg-

ister filing. The move was met with rebuke from groups representing Silicon Valley tech firms.

—Douglas MacMillan

## HAWAII

### Soldier Is Charged With Helping ISIS

A U.S. soldier stationed in Hawaii was charged with providing material support to Islamic State, according to a criminal complaint filed Monday in U.S. District Court in Honolulu.

Sgt. First Class Ikaika Kang, 34 years old, allegedly tried to support the terror group by passing along classified military documents to undercover FBI agents who he believed would give them to ISIS. He is accused of making combat training videos to be used to train ISIS fighters.

An attorney representing Sgt. Kang didn't respond to requests to comment.

—Zusha Elinson

## SPORTS

### SOCER

## WHY UNITED PARTED WAYS WITH ROONEY

BY JOSHUA ROBINSON

**THE QUESTION** of what to do with late-career Wayne Rooney has perplexed Manchester United and England managers for years. It took United's Jose Mourinho to find the solution: Pawn him off to his boyhood club.

For Rooney, the wunderkind who grew up to be the top scorer in England national team history, the return to Everton is the perfect conclusion to a career that is grinding to a halt. He ignored the big-money lure of China and the U.S. to go back to his roots.

For Manchester United, it was about time. Rooney may have scored 253 goals for the club, but he was severely diminished. His last 20-goal season in all competitions was five years ago. The last time he had 10 Premier League assists was 2013-14. He was a forward, then a playmaker, then a central midfielder, then maybe he was a forward again?

Even Mourinho, one of the greatest minds in soccer, failed to figure out how to use Rooney effectively at the end. "It is never easy to see a great player playing less football than he would like and I could not stand in his way when he asked to go back to Everton," Mourinho said.

Rooney is only 31, hardly ancient for a player born with his talent. Just consider that the man who spent last season as United's central striker, Zlatan Ibrahimovic, excelled in that role at 35. But with Rooney, as with a used car, it isn't the years, it's the miles.

Rooney has been a Premier League mainstay since he was a teenager. He scored his first Premier League goal five days shy of his 17th birthday in 2002. His tally for Everton and United is 636 games across all competitions.

The move looked even more astute from United's perspective a day later when the club officially announced that its newest striker would be the 24-year-old Belgian Romelu Lukaku, who went in the opposite direction, from Everton to Manchester. With his youth, power and clear understanding of where he is supposed to be on the field—plus the legs to get there—he is everything that Rooney isn't.



Donald Trump makes an appearance during the final round of the World Golf Championships-Cadillac Championship at Trump National Doral Golf Club in 2016.

MIKE EHRMANNA/GETTY IMAGES

### U.S. WOMEN'S OPEN

## Golf Won't Run From Trump

Despite criticism, this week's major tournament won't be the last at a course owned by the president

BY BRIAN COSTA

For months leading up to this week's U.S. Women's Open, organizers came under criticism for their decision to host the tournament at a course owned by President Donald Trump. At the men's U.S. Open last month, a women's advocacy group flew a plane banner urging the U.S. Golf Association to "dump Trump."

But the governing body isn't merely sticking with Trump's Bedminster, N.J., club as the host of this tournament—a plan it made years before his run for office. In an interview, USGA executive director Mike Davis said he also wouldn't hesitate to bring future events to Trump courses.

"As good as the Trump Organization is with their portfolio, I can't imagine if they invite us in the future that we wouldn't seriously look at it," Davis said.

That stance reflects a revival in the aspirations of the Trump Organization as a host of major golf tournaments, which just one year ago seemed imperiled by Trump's polarizing campaign.

In June 2016, the PGA Tour announced it was moving its longtime stop at Trump's Doral, Fla., course to a Mexico City club. It cited a lack of sponsorship interest related to fears of Trump overshadowing the branding of the event. That move followed the PGA of America's 2015 decision to yank its Grand Slam of Golf from a Trump-owned course in Los Angeles after his comments about Mexican immigrants.

There were reports that Trump's Turnberry course in Scot-

land would be removed from the rotation of courses that hosts the British Open. But since the election, golf's organizing bodies have hardly run from their association with Trump and his 18 clubs.

In February, the R&A reaffirmed Turnberry's place on the rotation of courses that host the British Open, albeit with the timing of its next turn unclear. In May, the Senior PGA Championship was held as planned at a Trump course in Potomac Falls, Va. The European Tour is also considering bringing the Scottish Open to a Trump course in Aberdeen, Scotland, in 2019, according to a person familiar with the matter.

The upshot: Pro golf on the whole is finding that it doesn't need to distance itself from Trump, and doesn't particularly want to.

Last week, Phil Mickelson signed on to redesign a course in Bali that will become Trump's 19th golf property. Other prominent golfers have joined the president for casual rounds, including Tiger Woods, Rory McIlroy, Ernie Els and Lexi Thompson. "If Trump asks me to play, I'm going to play," Els said. "It's the respect I have for this country that has given me so much."

Critics have called on female golfers to boycott the U.S. Women's Open, citing Trump's history of disparaging comments about women. But there was no such resistance from the LPGA, whose players will compete this week for \$5 million in prize money, the highest purse in women's golf.

"We play the courses the check writer chooses," said LPGA commissioner Mike Whan.

The check writer in this case is

the USGA, and the firms that fund the organization have felt no discernible backlash. Fox pays for the broadcast rights as part of a larger deal that also covers the U.S. Open. The USGA's corporate partners—American Express, Lexus, Rolex and Deloitte—sponsor the organization, not one particular event. "We have no role in the site selection process," a Deloitte spokesman said.

It would be a stretch to say organizers need Trump, as there are plenty of other courses that would come without the threat of protesters at the gates. But as a host, many golf bodies still like Trump.

Ted Bishop, a former president of the PGA of America, said the sheer acreage required for the infrastructure around major tournaments eliminates many otherwise fine courses from consideration. And not all owners are eager to cater to organizers' every desire on issues ranging from course preparation to ticket sales. Trump, on the other hand, has repeatedly talked about his desire to host majors on his courses, many of which are well-equipped to host big events.

"It's not that easy to find these major championship sites," Bishop said. "And you never know what you're going to get into with who your partner is going to be."

Trump, who bought the Bedminster club in 2002, became a bigger figure in the industry during the recession and the years that followed. At a time when many financiers wanted nothing to do with golf courses, Trump spent millions buying, building and renovating them.

Whether his investments prove wise remains to be seen. A Wall

Street Journal analysis in April found that the value of Trump's golf properties hasn't kept pace with the amount of money he has spent to make long-term upgrades. But what matters to tournament organizers is that Trump is willing to make those investments in the first place.

"It's always been, 'What can we do to make this better? How can we help you?'" Davis said.

Bedminster, which has become Trump's favored summer retreat from the White House, is also set to host the PGA Championship in 2022. Eric Trump, who oversees his father's golf business, said in a statement, "We have developed terrific relationships with all of the major golf organizations."

The USGA's association with Trump has caused it some headaches. After a recording emerged in October 2016 of Trump bragging in lewd terms about groping women, three U.S. senators urged Davis to relocate the Women's Open.

UltraViolet, a women's advocacy group, organized a small protest at an LPGA event in March and is planning a protest at Bedminster during Sunday's final round.

Shaunna Thomas, one of the group's co-founders, said its objection is with the USGA "choosing to give millions in revenue, free advertising and branding to a self-proclaimed serial sexual predator."

But organizers seem more emboldened than cowed by the whole experience. Whan, the LPGA commissioner, pointed to the USGA's history of creating opportunities for women. By contrast, he said of protesters, "I haven't seen them spend any money to lift up women's golf."

### FROM PAGE ONE

## SMOKE

Continued from Page One  
bar after a big win in June.

Taxi drivers smoke while driving, holding their cigarettes out an open window only when they have passengers.

On a recent visit by Amin Mohamed to the local municipality office to take care of paperwork for his dry-cleaning business, the smoke was so thick that he finally asked the employee there to put out his cigarette. The employee simply opened a window and kept on smoking, he said.

"Nothing will ever change," Mr. Mohamed said.

Deputy Health Minister Pavlos Polakis blithely flouted the ban, lighting up while giving a press conference last year. At the Finance Ministry, smokers recently puffed away in a hallway under a large banner reading "Greece stubs out cigarettes."

And in October, at a lunch at the army officers club in Thessaloniki celebrating Greece's national holiday, President Prokopis Pavlopoulos lighted up a small cigar.

The city's mayor, and much of the room, joined him.

About 37% of Greeks smoke, the highest level in Europe, compared with an EU average of 26%, according to a 2016 EU survey. In the poll, seven years after the ban, 87% of Greeks

said they had been exposed to indoor smoking in bars.

Last year, Greece's Parliament added to the smoking regulations by passing a ban on electronic-cigarette smoking in public places. During the debate, some lawmakers noted the irony of passing a new law in a chamber that ignores the original one.

"Meeting room, parties' offices, secretariats, walkways, toilets—the cigarettes are everywhere," said center-right parliamentarian Niki Kerameos. "If we don't set an example of following the laws, how do we expect citizens to do so?"

Many Greeks see the state as corrupt and unreliable—mainly shown by a widespread refusal to pay taxes. They also don't like controls on day-to-day behavior: cars don't stop at pedestrian crossings, motorcycles don't bother with lanes, trash is tossed out of moving vehicles. Double parking is notorious—oddly, one of the rules Greeks do obey is the "basket in the street" signal that a neighbor is saving a parking space, and the basket goes untouched.

As the country grapples with a seven-year economic downturn, enforcement of all types of infractions is haphazard. Budget cuts have reduced by two-thirds the number of wardens who hand out traffic tickets and other fines, including for smoking, in the Attica region, which includes Athens.

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Last year, Greece's Parliament added to the smoking regulations by passing a ban on electronic-cigarette smoking in public places. During the debate, some lawmakers noted the irony of passing a new law in a chamber that ignores the original one.

"Meeting room, parties' offices, secretariats, walkways, toilets—the cigarettes are everywhere," said center-right parliamentarian Niki Kerameos. "If we don't set an example of following the laws, how do we expect citizens to do so?"

Many Greeks see the state as corrupt and unreliable—mainly shown by a widespread refusal to pay taxes. They also don't like controls on day-to-day behavior: cars don't stop at pedestrian crossings, motorcycles don't bother with lanes, trash is tossed out of moving vehicles. Double parking is notorious—oddly, one of the rules Greeks do obey is the "basket in the street" signal that a neighbor is saving a parking space, and the basket goes untouched.

As the country grapples with a seven-year economic downturn, enforcement of all types of infractions is haphazard. Budget cuts have reduced by two-thirds the number of wardens who hand out traffic tickets and other fines, including for smoking, in the Attica region, which includes Athens.

About 37% of Greeks smoke, the highest level in Europe, compared with an EU average of 26%, according to a 2016 EU survey. In the poll, seven years after the ban, 87% of Greeks

Municipal police, who can also issue fines, have been downsized. A telephone hotline that people can use to call the Health Ministry to complain about smoking violations is rarely answered.

Officers have been waiting for months for the blocks of tickets used to issue smoking fines to be delivered from the printers.

"This cannot be enforced—no laws are enforced in Greece," said Menios Stergiou, owner of an all-day cafe-bar near downtown Athens. "One has to have respect for the state, but this is the worst possible period for Greeks to do so."

Health Minister Andreas Xanthos conceded that the smoking regulations hadn't been implemented. "What we

need is to give the feeling that we are restarting," he said to Parliament on May 31, International No Tobacco Day.

The threat of fines on businesses of as much as €10,000, or about \$11,300, haven't been a deterrent. (Individuals also face fines from €50 to €3,000, depending on the circumstances.) Actually collecting the payments is difficult.

At the beginning of the economic downturn, when the ban was first passed and inspections were more common, business owners got creative. Ashtrays disappeared from tables; instead, small cups or vases were placed next to no-smoking signs. If inspectors noticed customers crushing out cigarettes in them, well, the individuals were just disobeying the rules.

"The businessman's imagination is never so vivid as when it comes to finding ways to break the law," said Andreas Varelas, Athens's vice mayor. "Rule-breaking is in Greeks' nature."

A new incentive to reduce smoking could be fresh taxes on cigarettes that started in January, making the habit even more costly. "Sin" taxes slapped on cigarettes as part of the conditions for Greece to receive bailout funds from its EU creditors have driven the cost of a pack of 20 cigarettes to about €4.50, a euro more than before the crisis. This means that a regular smoker can spend more than €100 a month on the habit, a hefty cost given that Greek monthly salaries average about €700.

In May, the new ticket books were delivered to in-

spectors, and police said they plan a new enforcement push after the summer, when revelers move back indoors.

Mr. Varelas, the vice mayor of Athens, said that if businesses receive enough fines, they will fall in line. According to the legislation, a bar or restaurant can lose its license the third time it receives a smoking fine. "I'm afraid we will see many companies changing names after the second fine in order to avoid being shut down," he said.

Mairi Margioli, a 50-year-old saleswoman at a clothing store, smokes nearly three packs a day and had a cigarette planted firmly between her fingers as she helped customers with dresses and accessories.

She said she especially insists on being able to light up at a restaurant. "If I couldn't smoke with my drink, I would rather stay home," she said. If anyone complains, she said she simply goes to a different venue.

That's a cause for alarm for Ms. Dervenioti, the cafe owner, who said she works the morning shift to avoid the thick smoke in the evening, when the bar is more crowded. Now, she worries the bar would suffer if the government starts cracking down. For certain smokers, "the habit is part of their DNA," she said. "If they are not allowed to light up while having a drink, they'll stay at home."



People smoke in cafes and restaurants in Greece despite a 2009 ban. Above, a bar in Lesbos last year.

MAELIE STEFSON/FREEMAN/CHRISTIAN SCIENCE MONITOR/GETTY

# LIFE & ARTS

WORK & FAMILY | By Sue Shellenbarger

## From Wallflower To Expert Networker

A business owner emulated the communication and dress of others to build a web of contacts

**GREAT NETWORKERS** are made, not born.

Pradeep Aradhy, 48, a Boston business owner and investor, saw himself as an introvert for years, but learned to network after realizing it was essential to his success. He's now seen by colleagues, business partners and friends as a master.

Raised in India by parents who were college professors, Mr. Aradhy learned to defer to elders and others with authority. He moved to the U.S. to earn a doctoral degree in structural dynamics at North Carolina State University in 2000, and then rose through the ranks as a software engineer at several companies to become vice president of technology at Digitas in Boston in 2006.

The ad agency's flamboyant culture was a shock. "I was one of those button-down engineers who was quiet and held himself in the background," Mr. Aradhy says. At his first client pitch meeting, a colleague from the creative department showed up in a pirate shirt. Another wore leather pants.

"They held court with clients, and they were completely respected," Mr. Aradhy says. "I thought, 'Hey, this is a new world.'

People trained in technology often have to sharpen their social skills to move into jobs that require selling, communicating or managing others. Mr. Aradhy made the shift by learning to explain technology to non-techie and polishing his image and conversational skills.

He traded his dark suits and button-down shirts for stylish shoes and bright-colored shirts, says Tonny Wong, his supervisor at Digitas. Mr. Aradhy also learned to talk about his complex work without making others feel intimidated, says Mr. Wong, now chief consulting officer at Hacker-Agency, a Seattle marketing company.

Introducing himself to strangers didn't come naturally when he began attending events. "I had to force myself," he says. Without a network, he says, "it's impossible to

scale or build anything valuable."

Mr. Aradhy founded his own consulting firm, Novus Laurus (Latin for "new success") in 2009, to develop digital marketing strategies for clients, including Staples Inc. He also began investing in consumer tech, food and indie film ventures in 2012.

Mr. Aradhy spends six to eight hours a week going to events and following up with people. He embraced as his networking mantra a formula he'd heard from colleagues in marketing: You must "entertain, enlighten or enrich" people to attract positive attention to a brand, he says. He tries to do the same for people he meets, so they'll remember him and help when they can.

Mr. Aradhy began window shopping and researching men's fashions online to figure out how to project a confident, successful image. He swapped his dark suits for jackets of crushed silk or woven with metallic thread, and wears exotic-looking designer shoes by Zota or Fiesso. The look shows he's not afraid of taking risks, and tends to attract people

Ease in and listen for a while before turning a conversation in a new direction.

who are curious and capable, he says. At many events, "I don't even have to start a conversation," he says. "People will ask, where did you get those shoes?"

His crushed-silk jacket caught the eye of a fashion-industry speaker at a recent conference and helped Mr. Aradhy shoot to the front of a line waiting to meet the man.

His style makes him a standout at tech gatherings where "the men are in rumpled shorts and man buns and T-shirts, and you're tempted to ask them, 'Have you done your laundry in a month?'" says Diane Darling, author of "The



Networking Survival Guide."

"He's a very memorable figure," says Lexington, Mass., public-relations executive Bobbie Carlton. She has been sharing contacts with Mr. Aradhy since she met him at an event three years ago. He has become an investor in Innovation Women, a speakers' bureau she founded to promote diversity among conference speakers.

Mr. Aradhy began studying how people use humor when networking. He noticed that people who interrupted a conversation with a joke were often ignored. Those who found contextual humor in their surroundings and interjected it gracefully into conversations fared better.

He also says something outrageous now and then. The audience was dozing off at a late-afternoon program recently where he was a panelist. He was the last to introduce himself, and he jolted listeners awake by identifying himself as "the king of India" who also happens to run Novus Laurus. "He definitely woke everybody up" and drew a laugh, says Colleen Bradley-MacArthur, a Lexington, Mass., media-relations strategist who was present.

As he enters an event, Mr. Aradhy looks for the power center in the room—a group of people who appear successful and prosperous, or who are deep in thoughtful discussion.

**Boston business owner and investor Pradeep Aradhy says dressing to project confidence and vitality at networking events attracts positive attention from other people who are curious and capable.**



JOSH ANDRUS FOR THE WALL STREET JOURNAL

A common networking mistake is to walk up to a group, change the subject and start talking about yourself, Mr. Aradhy says. He has learned to ease in and listen for a while instead, before breaking in and turning the conversation in the direction he wants.

Still, like anyone who networks a lot, he has been shot down sometimes. A bodybuilder at 5-foot-11 and 195 pounds, he can be intimidating. If he sees a person making eye contact without approaching him, he engages the person with a friendly question.

MY RIDE | By A.J. Baime

## An East German Clunker U2 Turned Into Art



**Tim Cunningham with his U2 Trabant in Chicago.** The Trabant became famous in the rock world as part of U2's stage set during the early 1990s Zoo TV tour, below.



One U2 Trabant ended up in the hands of a New Jersey woman. I got in touch with her, and in 2011, she reached out to say she was looking for a new home for her Trabant. She would give it to me free on one condition: I was to come to New Jersey, look her in the eye, and promise I would take care of it.

I borrowed a trailer, drove to Baltimore for a U2 show, then up to New Jersey to pick up the Trabant. It was painted by the Irish artist Catherine Owens, who collaborated a lot with U2 over the years.

There is only one direct reference on the car to the band, words on the back bumper—"one but not the same"—a reference to the song "One."

To me, the Trabant is an important piece of artwork and rock history. Very few exist, and I am honored to be the caretaker of this one.

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

Tim Cunningham, 35, a Chicagoan who works in community relations, on his U2 Trabant, as told to A.J. Baime.

I have seen U2 71 times—not that I'm counting. My collection of U2 memorabilia runs from the very first-ever released recording, a three-song record from 1979 called "Three" (only 1,000 were pressed) to original Joshua Tree bedsheet (so rare, many die-hard fans do not know they even exist).

At the same time, I have been a lifelong

car guy. I have two Ford Model As (a 1931 and a 1928) in my garage.

The Trabant was like a pot of gold, because it gave me a chance to combine my two passions.

Around 1990, U2 was recording the album "Achtung Baby" in Berlin. At the time, the Trabant was an East German car that had become a symbol of the failures of communism.

Millions were built in East Germany. They were utilitarian vehicles with no frills and

lawn mower-like two-stroke engines. When Germany reunified, there were dead Trabants all over the streets. A famous mural had been painted on the Berlin Wall of a Trabant crashing through.

When U2 went on the Zoo TV tour in 1992, they used Trabants—stripped of their drivetrains and painted by artists—in their traveling stage set. Today, three of these Trabants hang in the atrium of the Rock and Roll Hall of Fame in Cleveland.

## OPINION

### REVIEW & OUTLOOK

#### Why Xi Jinping Fears Liu Xiaobo

Nobel Laureate Liu Xiaobo, who was moved two weeks ago from a prison cell to a hospital room, wants to go to Germany for treatment of late-stage liver cancer. China's most prominent dissident is fit enough to travel, according to both a German and an American doctor who examined him. The U.S. Embassy has asked China to release the prodemocracy activist, and a spokesman for German Chancellor Angela Merkel called on China to give "a signal of humanity."

The international concern over the man China calls a "criminal" and sentenced to 11 years in prison for "subversive" writings puts President Xi Jinping, who must ultimately decide how to respond, on the spot. So far he refuses to let Mr. Liu go.

While officials use the standard line that other countries should not interfere in China's internal affairs, the state-controlled media are airing video of the foreign doctors examining Mr. Liu, a gross invasion of privacy, to bolster the case that he is receiving adequate care. The German Embassy protested the video in a statement, which read in part: "It seems that security organs are steering the process, not medical experts. This behavior undermines trust in the authorities dealing with Mr. Liu's case,

which is vital to ensure maximum success of his medical treatment."

#### China bars his treatment overseas for cancer lest we hear his story.

Security is tight at the First Hospital of China Medical University in Shenyang, with journalists prevented from talking to Mr. Liu. Officially he received "medical parole," but the hospital has become a different prison. His family reports being pressured to issue a statement that he is unfit to travel.

There is a reason for this shameful treatment: Beijing has much to hide. If Mr. Liu goes abroad, he can describe the conditions he faced in prison and the authorities' refusal to give him adequate follow-up treatment for hepatitis, which almost certainly led to his cancer. If the condition had been detected earlier, his treatment options and life expectancy today would be much better.

The government that imprisoned Mr. Liu for his beliefs and failed to ensure his health can't ask the world to trust that it will give him the best care. Mr. Liu's request for treatment in Germany offers him the chance to spend more time with his wife Liu Xia, who has been held under house arrest for seven years. China's greatest democracy advocate deserves to spend his last days in freedom so the world can hear the final testimony to his struggle.

#### A Russia Sanctions Trap

Congress wants to increase sanctions on Russia for meddling in the 2016 election, and please go for it. But the bill that recently passed the Senate 98-2 contains a hastily written provision that could boomerang on U.S. interests, and the House can fix the potential damage.

The problem is a provision that expands restrictions on how U.S. energy firms can interact with Russian counterparts. U.S. companies are already prohibited from investing in or advising on oil and gas projects in Russia. But the bill would also bar them from taking part in any project anywhere with sanctioned Russian firms. In practice this could bar U.S. companies from some of the biggest deep-water drilling projects around the world and thus help Russia and China.

At issue is a quirk of the oil and gas industry known as "unitization"—a technical term for operating efficiency. Governments (say, Brazil) will grant leases to many industry players for different blocks of the same oil field. While the leases are stand-alone deals, the host government will nonetheless require all players to jointly create the infrastructure (pipelines, etc.) to efficiently develop the field.

Under the Senate language, U.S. companies would be barred from any project where sanctioned Russian firms were also granted exploration rights. Those blocks would instead be snapped up by European or Chinese firms that aren't bound by similar restrictions. Russia could even exploit the rules to hurt U.S. compa-

nies by bidding on projects solely to drive American energy firms out of deals.

#### A Senate provision could hurt U.S. oil firms working outside Russia.

Richard Sawaya, vice president of the National Foreign Trade Council, estimates that the Senate provision could bar U.S. oil and gas firms from some \$100 billion in exploration projects over 10 years—with commensurate damage to American

jobs, shareholders and tax revenue. The provision might even help Russian companies get much of that business.

The oil and gas industry supports the overall sanctions bill but wants to correct the boomerang provision. Texas Rep. Pete Sessions may be able to force some changes as head of the House Rules Committee, but he could use a hand from the Trump Administration. Secretary of State Rex Tillerson may be reticent given his former Exxon ties, but this bill should transcend political appearances.

The White House dislikes the sanctions bill because it limits President Trump's discretion to lift sanctions without Congressional approval. So it may be staying silent in hopes that the oil provision takes down the entire bill in the House. Republicans who want to act against Russia shouldn't let that happen.

Mr. Trump wants to unleash U.S. oil and gas production, which properly deployed can undercut Vladimir Putin's petro-dollar revenue at home and his political leverage over European energy markets. It makes no sense to kneecap U.S. energy production in the rest of the world in a bill aimed at sanctioning Russia.

#### Running the Schumer Blockade

The Trump Presidency is well into its seventh month but the Trump Administration still barely exists. Senate Democrats are abusing Senate rules to undermine the executive branch, and Republicans need to restore normal order.

President Trump got an inexcusably slow start making nominations, but in the past few weeks he's been catching up to his predecessors. According to the Partnership for Public Service, as of June 28 Mr. Trump had nominated 178 appointees but the Senate had confirmed only 46. Barack Obama had 183 nominees confirmed by that date in his first term, and George W. Bush 130.

The White House has understandably begun to make a public issue of the delays, and Minority Leader Chuck Schumer says it "has only itself to blame." But a press release Mr. Schumer sent out Monday made the White House case, showing that the Senate has received 242 nominations but confirmed only 50 through June 30. Democrats are now the problem.

Among the non-controversial nominees awaiting confirmation: Kevin Hassett to lead the White House Council of Economic Advisors; David Malpass, under secretary at Treasury for international affairs; two nominees needed to review pipelines and other projects at the Federal Energy Regulatory Commission; and Noel Francisco for Solicitor General. Mr. Malpass was nominated in March and voted out of committee in mid-June. Mr. Trump's State Department is barely functioning with only eight confirmed appointees.

Democratic obstruction against nominees is nearly total, most notably including a demand for cloture filings for every nominee—no matter how minor the position. This means a two-day waiting period and then another 30 hours of debate. The 30-hour rule means Mr. Trump might not be able to fill all of those 400 positions in four years. The cloture rule also allows the minority to halt other business during the 30-hour debate period, which helps slow the GOP policy and oversight agenda.

Democrats have also refused to return a

single "blue slip" to the Judiciary Committee, which has the effect of blocking consideration of judicial nominees from their home states.

Senators like Minnesota's Al Franken and Amy Klobuchar are holding hostage the eminently qualified Minnesota Supreme Court Justice David Stras for the Eighth Circuit Court of Appeals for no reason other than politics.

Minority Leader Chuck Schumer's troops are even invoking an obscure rule that prohibits committees from doing business more than two hours after the Senate opens for the day. Republicans have had to cancel briefings on national security and Russia electoral interference, as well as scrap a markup of two human-trafficking bills.

Democrat Harry Reid didn't have the closure headache when he was Majority Leader because in 2013 he cut a deal with Republicans. The GOP traded the ability to offer more amendments to legislation in return for letting Mr. Reid limit post-cloture debate for most nominations to eight hours. This rule let Mr. Reid confirm dozens of judicial and lower-cabinet nominations every week. But the deal expired in early 2015, and good luck getting Mr. Schumer to grant the GOP the same terms.

Frustrated Republicans may soon begin listening to Oklahoma Senator Jim Lankford, who wants the majority to impose the eight-hour rule unilaterally. Most debate about nominees occurs during vetting and in committees. Eight hours on the floor is enough for all but the most controversial nominees, and the Senate could then get back to other business.

Mr. McConnell will be wary of Mr. Lankford's advice to change a Senate rule in the middle of the term, but the Majority Leader rightly did so when Democrats staged a historic filibuster of Supreme Court Justice Neil Gorsuch. Democrats aren't using cloture to raise the level of debate or highlight unqualified nominees. They are using it—and have said as much—to sabotage a Presidency. That isn't what the Founders intended, and Republicans have every right to stop this abuse of process to let the President form a government.

#### How to Squeeze China



MAIN STREET  
By William McGurn

If the first Duke of Wellington were alive today, he might advise that the battle for North Korea will be won or lost on Harvard Yard.

Add Stanford, Yale, Dartmouth, Chicago and other top-tier private American universities so popular with China's "red nobility" i.e., the children and grandchildren of Communist Chinese elites.

For if the Trump administration hopes to enlist an unwilling Beijing to check North Korea's nuclear ambitions, visas for the children of China's ruling class to attend these universities offer an excellent pressure point.

Beijing has been Pyongyang's closest ally ever since the Cold War split the peninsula after World War II. According to the Council on Foreign Relations, China provides North Korea with "most of its food and energy." Though China has warned Kim Jong Un about his nuclear testing (which Mr. Kim has ignored), plainly it fears a free and united Korean peninsula more than a nuclear-armed North.

Revoking visas for Chinese students, of course, would not alone resolve the North Korea problem even if it did force Beijing to act. But Beijing could make life for North Korea difficult if it chose to.

Thus far most talk about U.S. options regarding North Korea has focused on economic sanctions or military action against the Pyongyang regime. The dilemma is that every meaningful option comes with big risks, including the devastation of Seoul, retaliation against U.S. troops and more suffering for innocent North Koreans. The advantage of starting with student visas is twofold: The unintended harm done would be more limited than any military strike, and visas are likely a more effective lever than sanctions.

Today 328,547 Chinese students attend American universities, according to the Institute for International Education. The Chinese represent the largest group of foreign students in America.

How many of these students are children of Chinese leaders is unclear. American universities are disinclined to provide this information. In addition, the children of Chinese government officials sometimes attend U.S. universities under assumed names.

The Chinese taste for prestigious American universities goes right to the top. Although President Xi Jinping rails against the corruption of Western values, his daughter went to Harvard, which Mr. Xi managed to swing on an official annual salary of roughly \$20,000. A few years back, the Washington Post noted that of the nine members of the standing committee of China's Politburo, at least five had children or grandchildren studying in the U.S. There are many, many more.

Officially, of course, China is an egalitarian society. In reality, hereditary favors, which now include access to top U.S. universities, are a fixed perk of Communist Chinese culture.

Put it this way: If China's ruling elite were forced to choose between supporting North Korea and their children's access to American universities, is it all that hard to see where they would come down? This might be especially true if we continued to allow ordinary Chinese citizens with no family connections to the party or government to come study here.

Would China retaliate? Probably. Would our universities scream? Without doubt. Would there be unfairness? Absolutely.

#### Force ruling elites to choose between North Korea and American colleges for their kids.

But if the U.S. does not act quickly, a despot who executes people with anti-aircraft guns will soon have the capability to strike Seattle or Chicago with a nuclear-tipped intercontinental ballistic missile. A White House unwilling to consider Chinese student visas as leverage to prevent this would signal Pyongyang and Beijing alike that America is not serious.

U.S. visas are the one thing we know people want. Before Ray Mabus served as Barack Obama's secretary of the Navy, he was Bill Clinton's ambassador to Saudi Arabia. There he championed the cause of two American women who had been kidnapped as children and taken to Saudi Arabia by their father, after he'd been divorced in the U.S. by his American wife.

To make the pressure real, Ambassador Mabus cut off all American visas for the father and his Saudi relatives. That got their attention. Unfortunately the deal for the girls' freedom collapsed after Mr. Mabus left Riyadh and his successor lifted the hold on the visas.

China is even more vulnerable to such pressure. Perry Link, a China scholar at the University of California, notes that the family connections that lie just below the surface in Chinese Communist culture are more powerful than outsiders realize. He likens it to the Mafia.

Imposing sanctions on the offspring of China's rulers "might raise howls in the U.S. but would be perfectly normal and rational—unexceptional—inside the culture of the people we would be sanctioning," says Mr. Link. "They would 'get it,' and the pinch would be felt."

"Whether or not it would be enough to budge them from their 30-year-old position on North Korea is a different question. But I support making the try."

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

#### LETTERS TO THE EDITOR

#### If It's Time for Paid Leave, Who Should Pay?

Ivanka Trump makes a good case for a federal family-leave policy ("Paid Family Leave Is a Good National Policy," Letters, July 6). However, she leaves out the negatives of this proposal.

We already have failing programs like Social Security, Medicare, Medicaid, disability and others that are bankrupting our country and are full of waste and fraud. I am sure the CBO would score this type of proposal well, as progressives like this, and most certainly the benefits would be touted to save billions. But like every federal program, legislators will continue to add to the benefits and not fund the program correctly. Has the CBO ever been right beyond one year? Let's fix the programs we have before we add more burdens to taxpayers.

KEN NELSON  
Chicago

Paid family leave is another reason jobs will leave this country. Employers will pay twice: first for the worker away on leave, then for his or her replacement. As most jobs today are knowledge based, it takes lots of training (time and money) to ramp up a supplemental worker. Will employers get time to do this? Will they be able to pass along this cost to whomever they serve? Why should this burden fall to an employer?

It isn't just wages that drive jobs overseas, it's the whole package of regulations, required benefits, burdensome reporting and government intrusion that causes employers to move jobs. This is another terrible idea for the competitiveness of America, and it will be lower-wage workers who will suffer most.

We are so far away from a world that once hired me to solve my employer's problems. Now it's a world where my employer exists to solve my problems. And you wonder why American jobs leave for overseas?

MICHAEL LE MONIER  
Scottsdale, Ariz.

The proposal contained in President Trump's budget does not call for paid family leave, despite your editorial board and Ms. Trump using the term.

Paid family leave allows anyone time to care for a close family member, including an elderly parent or a sick spouse. The Bureau of Labor Statistics has made this clear.

Three U.S. states already have it: California, New Jersey and Rhode Island. New York will begin a program in January. These programs also allow workers to use the leave to care for themselves in recovering from illness.

In the states, paid family leave operates as a self-sustaining insurance program. A tiny payroll deduction creates a large enough fund to provide workers with some paid leave when needed. The results are phenomenal, not just for families but for businesses as well.

An extensive examination in California found that the program has had a positive or at least neutral effect on profitability for 91% of companies, turnover for 93% and morale for 99%.

More people are staying in the workforce, creating more goods and services. A researcher found similar positive results in New Jersey. Also, with paid family leave, fewer people are dependent on public assistance.

The solution is to take this insurance program and make it national. The proposal in President Trump's budget, however, is for parental leave only.

JOSEPH LEVS  
Atlanta

I read Ivanka Trump's well-reasoned letter in support of paid family leave. Unfortunately, all government-supported or mandated benefits are initiated as a "targeted benefit to help the people who need it the most" and "with a reasonable time limit and benefit cap." Then these benefits are inevitably expanded beyond reason with little concern about cost.

KEVIN FLETCHER  
Golden, Colo..

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## OPINION

# The G-20: Another Vacuous Meet-and-Greet

By Walter Russell Mead

**T**he captains and the kings depart, the flames in Hamburg gutter out, and the clouds of oily smoke and tear gas slowly disperse. Another Group of 20 summit has come and gone, and yet again the world has failed to change.

This should not come as a surprise; global summits are almost always empty exercises in public relations. They survive only to make

**A**s the empty summit rituals unfolded, the great powers were busy making history.

politicians look good. Incumbent presidents and prime ministers strut before the cameras, hoping to look like leaders and statesmen in contrast to their political rivals back home.

Egos in wannabe powers are stroked, as the world's great powers pretend to take them seriously for a few days. There are gassy dinners and gassier communiqués that mean nothing and achieve nothing, yet are haggled over line by line before falling into the oblivion that will entomb them forever.

Will any country change its trade policy as a result of anything in the

G-20 communiqué? Will any country change its environmental policies as a result of anything said there? Will any serious historian 50 years from now—or even five—have even the slightest interest in anything the summit produced? Will any of the leaders who signed the communiqué spend five minutes thinking about how to implement it back home?

The answer to all of these questions is, almost certainly, no. All other G-20 summits were forgotten before the last leader returned home; this one is no exception. The world is not governed, or even significantly influenced, by a committee of 20 presidents and prime ministers signing vaguely worded statements with no binding force; history is not made by communiqué.

Great powers, on the other hand, do make history, and even as the hollow rituals of G-20 summetry unrolled, the great and the near-great powers were busy. The rising tension over North Korea's missile program drove a flurry of Asia-centric diplomacy as the U.S., China, Russia, South Korea, India and Japan explored their options in closed bilateral sessions.

Judging from its rhetoric, the Trump administration appears to believe its diplomatic options on this issue are rapidly disappearing. China so far refuses to impose the kind of isolation on North Korea that could threaten the regime's existence, and Russian missile specialists are reported to be helping North



REUTERS

At the G-20 summit in Hamburg, Germany, July 8.

Korea's current efforts.

President Trump is looking at a set of bad options: capitulation or a bout of coercive diplomacy that involves the threat of war. Whether the Trump administration restrains North Korea or acquiesces in its nuclear and missile program for want of alternatives, Northeast Asia is moving toward its most important strategic realignment since the Communist conquest of China.

Forestalling a war between the U.S. and North Korea is not, unfortunately, the only major challenge the administration faces. Russia, China and Iran, the big three revisionist powers, spent the Obama administration chipping away at world or-

der, and their efforts and those of their smaller sidekicks (like North Korea) have begun to pay off.

From Ukraine to the Balkans, Europe has become less stable; the Middle East is a cauldron of conflict and hate. ISIS may be losing territory, but its violent ideology is gaining ground. We do not know where the challenges will come or what form they will take, but the Trump administration is likely to face much sterner international tests than anything President Obama saw.

This is not good news. Barring a Pearl Harbor or 9/11 type of attack—and perhaps even under those circumstances—the Trump administration would begin a conflict with a

hostile, deeply skeptical press and with much of the public leaning toward blaming the U.S. rather than its opponents for the crisis. Potential enemies are well aware that American public opinion is the Achilles' heel of an otherwise nearly invincible American military machine.

Foreigners see a beleaguered American president, a press in full Watergate mode, and a public that is weary of engagement overseas. Across the globe, America's competitors are thinking about how they can use this moment to advance their own agendas. America's allies wonder whether they can continue to count on the U.S. for their security. America's adversaries and potential adversaries are mulling how U.S. weakness can best be exploited.

This combination of American disunity and growing world instability, not the language of the G-20 final communiqué, is driving world history today. This is what our politicians and our officials ought to be thinking about. This, not parsing the body language of world leaders at a vacuous meet-and-greet, is what the press should be covering. This is what could make the difference between peace and war. This is what anyone seriously interested in putting America first and making it great again needs to address.

*Mr. Mead is a fellow at the Hudson Institute, a professor of foreign affairs at Bard College and editor at large of the American Interest.*

## The Venezuelan Regime Is Coming Apart

By Vanessa Neumann

**V**enezuelans got a surprise Saturday morning when the country's Supreme Court released opposition leader Leopoldo López from prison to house arrest, citing "health problems." Why now? Americans may recall President Trump's February tweet demanding Mr. López be freed. Has the regime of President Nicolás Maduro at last yielded to international pressure?

Not likely. Mr. Maduro's objective—for he controls the Supreme Court, whose justices are party appointees—seems to have been to quiet street protests by making the opposition look co-opted, thereby discrediting it. But Mr. López announced he would keep fighting the regime and supported this past Sunday's 100 Day March—although he abided by the terms of his house arrest and stayed off the street.

The march commemorated the 100th day of the street demonstrations that began March 30, when the Supreme Court effectively stripped the National Assembly of its legislative power. The Assembly has been controlled by the opposition since elections in late 2015, and the court's decision—although reversed the next day amid a public outcry—removed any doubt that Venezuela has become a dictatorship.

But the ruling regime is far from united. On the evening of July 5, Mr. Maduro publicly stated that "something strange has happened at the National Assembly" and announced he would launch an investigation. His plan for a new constitution even has drawn opposition from some die-hard *Chavistas*, who view the current constitution, adopted in 1999, as the crowning achievement of the Bolivarian Revolution under Hugo Chávez, Mr. Maduro's predecessor.

On April 1—the day after the Supreme Court backed down from its decision on the National Assembly—Attorney General Luisa Ortega Díaz, a career Chavista, proclaimed that

"the constitutional order has been broken." Last week the Supreme Court attempted to usurp her power by appointing a new deputy attorney general, an office that is legally Ms. Ortega's to fill. The illicitly appointed deputy was then smuggled into the Public Ministry in the trunk of a car. When she was discovered and thrown out, the episode became the stuff of comical internet memes.

### Maduro frees a dissident from prison, casting a light on fissures within the country's Chavismo elite.

The military is also jockeying for position. A year ago the commanding general or admiral of all four branches of the Venezuelan military sent a letter to Luis Almagro, secretary-general of the Organization of American States. The OAS had just issued a report condemning Caracas's violations of human rights and the country's constitution. The generals promised to defend the nation against human-rights violations and subversion of the constitution—meaning they would abide by the will of the people, reflected in the National Assembly.

The letter was made public only

last Friday. Its release signals that the military, which has long viewed Mr. Maduro as a Cuban puppet, will not stand for Mr. Maduro's attempt to rewrite the constitution. It also further reveals the fissures within the country's Chavismo elite.

Diosdado Cabello, a military man who helped restore Chávez to power after a 2002 coup attempt, has been arguing that he should be Mr. Maduro's successor. On his national broadcast TV show, "Aqui No Se Habla Mal de Chávez" (also a Twitter hashtag), he shows footage of himself by Chávez's side stretching back to their 1992 coup attempt and claims Chávez was like a father to him. As president of the National Assembly before the opposition took it over, Mr. Cabello made a show of personally driving Mr. López to prison, purportedly to protect him from "ultralight" assassins seeking "to lead us to a civil war in Venezuela." The commutation of that sentence is a slap in Mr. Cabello's face, a further reason for even Chavista generals not to be loyal to Mr. Maduro.

Sources with relatives in the regime who are closely tied to Mr. Cabello tell me that he was not consulted before Mr. Maduro decided to free Mr. López. These sources speculate Mr. Maduro authorized the release on advice from former Spanish prime minister José Luis Rodríguez

Zapatero, who visited Mr. López in prison last month. One theory is that Mr. Maduro hopes Spain will grant him asylum if he is forced from power.

What comes next? The opposition plans an unofficial, and therefore nonbinding, plebiscite Sunday on Mr. Maduro's constituent-assembly plan, and the message is likely to be clear. Domestic polling puts the president's approval rating in single digits. Although the regime does not renew opponents' passports, the plebiscite will accept expired passports as identification. The military is fracturing and overtly abandoning its commander in chief. The regime is fighting to stay in power but divided into warring factions.

This is not a coup d'état; it is instead a transition back to democratic order under the constitution the Chavistas themselves drafted. The release of Mr. López, while intended to prolong the life of the regime, will likely accelerate the ouster of Mr. Maduro and his cohorts who have ruled by decree. Only then can Venezuela begin the process of reconciliation and development.

*Ms. Neumann, a Venezuela native, is president of the political risk consultancy Asymmetrica and a contracted consultant to the U.S. government on Venezuela.*

## It Costs Taxpayers a Bundle, but Is It Art?

By Roger Kimball

**C**onservative criticism of the U.S. National Endowments for the Arts and Humanities, like the poor according to Mark the Evangelist, is something we will have always with us. Ever since the endowments were created in 1965, they have been a focus of ire for defenders of fiscal prudence and high cultural standards.

In the 1980s, the chief complaint was against the efflorescence of obscenity and leftist political posturing: the pornographic photographs of Robert Mapplethorpe or the antics of "performance artist" Karen Finley, who pranced about naked sharking about patriarchy and capitalism.

But "Ten Good Reasons to Eliminate Funding for the National Endowment for the Arts," a 1997 Heri-

tage Foundation report, got to the nub of the issue. The NEA is "welfare for cultural elitists," Heritage observed, and the same can be said for the NEH. There is nothing wrong with cultural elitists per se, but why should the taxpayers pick up their tab?

A new report from the Illinois-based initiative Open the Books provides an eye-opening look into the size of that tab. The study includes virtually every grant the NEA and NEH have made since 2016, and additional details about the endowments' activities as far back as 2009. This includes grants to 71 entities with assets over \$1 billion, and one grant to a California enterprise that celebrates the work of a Japanese-American artist best known for declaring: "I consider Osama bin Laden as one of the people that I admire."

Since its founding in 2011, Open

the Books has pursued the elusive goal of governmental transparency by collecting reams of data about local, state and federal expenditures. All that information is then made freely accessible online. Their motto: "Every Dime. Online. In Real Time."

The group's earlier initiatives include reports on federal payments to so-called sanctuary cities (\$26.74 billion in 2016) and the eight super-rich Ivy League universities (nearly \$42 billion in federal payments, benefits, and tax advantages over the last several years). Harvard alone sits atop an endowment of \$36 billion, and altogether the Ivy League controls tax-exempt endowment funds of some \$120 billion, equivalent to \$2 million per undergraduate. Yet taxpayers are footing the bill for massive subsidies for these institutions, where the cost of attendance now approaches \$70,000 per annum.

The latest Open the Books report reveals that in 2016 federal arts agencies dispensed more than \$440 million into the collective maw of their clients. Nearly half, \$210 million, went to recipients in only 10 states—a predictable lineup of progressive coastal outfits, mostly clustered in California and New York.

what the cactus can teach them. Then they share their experiences on social media. #IFellAsleep?

Many projects are repellent, including several that cannot be described in a family newspaper. But how about this? The New York Shakespeare Festival has been much in the public eye this summer for its production of "Julius Caesar," in which the title character is made to look like the president. One Associated Press report describes the carnage: "He looks like Donald Trump . . . moves like Trump . . . is knifed to death on stage, blood staining his white shirt." Over the past several years the festival has received some \$30 million in taxpayer grants, including more than \$600,000 from the NEA. Is political propaganda the right use of taxpayer dollars?

Mr. Trump's fiscal 2018 budget proposes zeroing out NEA and NEH, but Congress slightly increased spending on both in its recent fiscal 2017 omnibus bill. Why? I suspect it is largely because the spouse of every congressman sits on the board of various nonprofit arts organizations. Some local feminist pottery collective gets \$10,000 from the NEA: "You can't cut that, honey!"

It isn't much when you think of the \$4 trillion federal budget, but this sort of spending adds up. It also leaves the government hostage to exactly the sort of corrupt patronage the Founders warned us about. The investigative work of Open the Books has fomented a revolution in fiscal transparency. Entrenched interests will fight against it tooth and claw, but the rest of us should breathe a grateful sigh of relief.

*Mr. Kimball is editor and publisher of the New Criterion and president and publisher of Encounter Books.*

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## Notable & Quotable

From a July 10 statement by the German Embassy in Beijing:

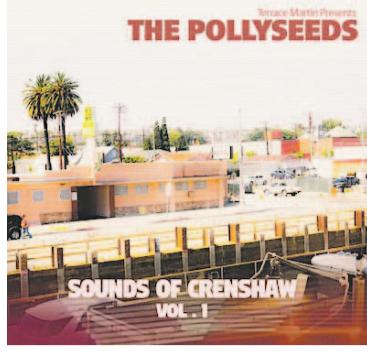
We have noted with deep concern that certain authorities have evidently made audio and video surveillance recordings of the medical visit of Mr. Liu Xiaobo by a German doctor. These recordings were made against the expressed wishes of the German side, which were

communicated in writing prior to the visit. It seems that these recordings are being leaked selectively to certain Chinese state media outlets. It seems that security organs are steering the process, not medical experts. This behavior undermines trust in the authorities dealing with Mr. Liu's case, which is vital to ensure maximum success of his medical treatment.

## LIFE & ARTS



SAMANTHA J PHOTOGRAPHY



The Pollyseeds (left to right) Chachi, Rose Gold, Terrace Martin and Wyann Vaughn

vocoder. Perfectly applied modern sounds bring an old-school template up to the moment.

As for Mr. Glasper, he and Mr. Martin reworked Janet Jackson's 1987 song "Funny How Time Flies (When You're Having Fun)," stripping away the pop verses and using the repeating staccato chorus as the jump-off for a track featuring subtle shadings by Messrs. Glasper and Williams and an explosion by Snarky Puppy drummer Robert Searight. Mr. Glasper's Fender Rhodes electric piano is the foundation for the instrumental "Chef E Dubble" with tenor sax by Mr. Washington.

Though the album is heavy with midtempo funk that occasionally wanders too close to smooth-jazz turf, some of its best moments are provided by expressive ballads, including Ms. Vaughn's "Your Space" and the gritty "Feelings of the World" with its extended solo on electric guitar by Mr. Williams. "Wake Up" is a lovely duet featuring Mr. Martin on soprano sax and Kenneth Crouch on a grand piano.

When we spoke by phone last week, Mr. Martin, who was in London with Mr. Hancock, said he intended for the Pollyseeds to be a continuing project—"a marathon." A tour of Japan is planned for September. As the album title indicates, more recordings by the collective are forthcoming, thus ensuring further explorations of soul, R&B, funk and jazz by the gifted Mr. Martin and his friend-filled collective.

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

### MUSIC REVIEW | By Jim Fusilli

# NOT THE STANDARD SUPERGROUP

**TO CALL THE POLLYSEEDS** a supergroup misses its most appealing feature. True, it includes pianist Robert Glasper, multi-instrumentalist Terrace Martin and saxophonist Kamasi Washington, but over the years the term has come to imply a mercenary aspect, as if the ace musicians in such a group have allied to form a marketable commercial enterprise. For Mr. Martin, the project's ring-leader, the Pollyseeds is a celebration of community in which all the players get a chance to shine, as evidenced by "Sounds of Crenshaw Vol. 1" (Ropeadope), out on Friday.

The album is a modernized, easy-going, smile-inducing blend of late '70s and early '80s soul and R&B. Mr. Martin is best known for his work as a producer and performer

on Kendrick Lamar's "To Pimp a Butterfly," but he's released several albums that explore different African-American musical styles. His 2016 "Velvet Portraits" tapped into mellow soul and smooth jazz not only with Messrs. Glasper and Washington but vocalist Lalah Hathaway, bassist Stephen Bruner (better known as Thundercat) and drummer Ronald Bruner Jr., among others. "Velvet Portraits" was nominated for a Best R&B Album Grammy. ("Lalah Hathaway Live" won the award. It was produced by Messrs. Glasper and Martin.)

As his Pollyseeds colleagues, the 38-year-old Mr. Martin chose musicians he's been playing with for years—including Mr. Washington, whom he met as a teen in the Young World Stage All-Stars, a

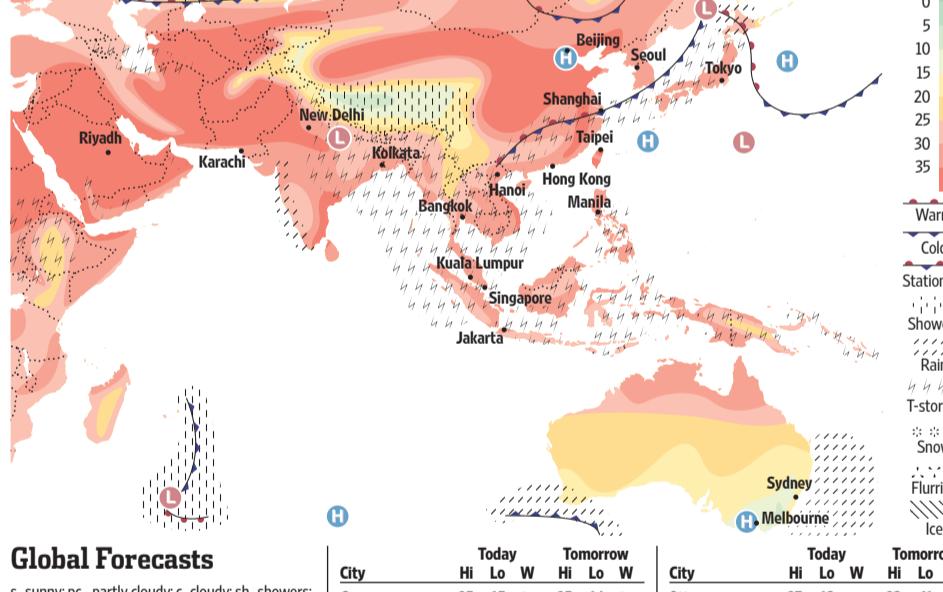
group nurtured by drummer and hard-bop innovator Billy Higgins that came together in Los Angeles's 1990s pay-it-forward jazz scene. Among the featured musicians on "Sounds of Crenshaw Vol. 1" are drummer Trevor Lawrence Jr., bassist Brandon Eugene Owens and guitarist Marlon Williams, longtime Martin associates. His father, Curly Martin, plays drums on the swaying ballad "Believe," and vocalist Wyann Vaughn is the daughter of Wanda Hutchinson of the Emotions, who sang on "Velvet Portraits."

For the new album, Mr. Martin, now on tour in Herbie Hancock's band, had in mind the kind of supple cohesiveness provided by the rhythm sections on classic recordings featuring Motown's Funk Brothers, L.A.'s Wrecking Crew

and Philadelphia's TSOP. Thus, the tracks here build from deep grooves dug by musicians who are at ease with one another and can be assertive without steely tension. On "Up and Away," Mr. Lawrence's fat-bottom percussion is sweetened by Mr. Martin on a variety of synthesizers, while on "Intentions"—sung by rapper Chachi with help from Ms. Vaughn and newcomer Rose Gold—Mr. Martin creates a rubbery synthetic rhythm section that's sweetened by funk chording by Mr. Williams and chiming electric piano by Craig Brockman.

If the Pollyseeds sound particularly tight on "Mama D/Leimert Park," it may be because Mr. Martin is playing all the instruments and vocalizing with the aid of a

### Weather

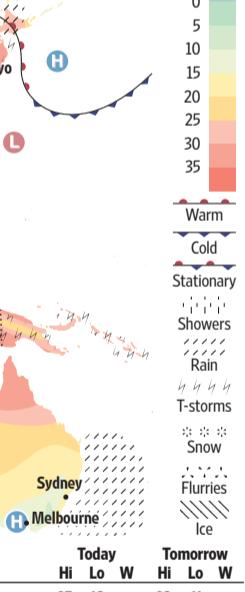


### Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	20	14	pc	18	11	r
Anchorage	19	13	c	22	14	pc
Athens	35	25	s	36	25	s
Atlanta	32	23	pc	33	24	t
Bahrain	47	30	s	46	30	s
Baltimore	35	23	pc	34	24	t
Bangkok	33	24	t	33	25	t
Beijing	36	24	pc	36	26	s
Berlin	23	15	t	19	11	r
Bogota	17	10	r	17	9	r
Boise	32	17	s	36	19	s
Boston	29	21	c	27	18	pc
Brussels	20	15	t	19	8	r
Buenos Aires	14	11	pc	18	15	sh
Cairo	38	24	s	38	25	s
Calgary	21	11	c	27	13	s
Caracas	32	26	pc	32	26	pc
Charlotte	33	22	s	34	23	pc
Chicago	28	21	c	33	21	t
Dallas	36	26	s	35	26	s
Denver	34	17	pc	31	17	t
Detroit	29	21	pc	29	22	t
Dubai	42	34	s	44	34	s
Dublin	15	9	r	19	11	pc
Edinburgh	16	7	c	18	10	pc
Frankfurt	24	15	pc	21	10	t

### AccuWeather.com



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



### AIN'T VEE GOT FUN? | By Harold Jones

Across		
1 Smoothie	22 French film award	41 Badlands sight
6 Any of six on a cube	23 Knives wielded by deadly snakes?	42 Ashton Kutcher's "That '70s Show" role
10 Chesapeake Bay swimmer	25 Turn in the park	44 Spiteful
14 Disturbingly different	28 Spaniards' spending	45 Ingredient in saltimbocca à la Gryffindor?
15 Up to the job	29 Pimlico runner	49 Real doozies
16 Top of the world	30 George's "Gravity" co-star	50 Dortmunders' denials
17 Part of a homicidal bridal ensemble?	33 Spell	51 Dribble catcher
19 Home port of the USS Niagara	36 401(k) cousin	54 Unfavorable for flora
20 Popular time to go to la plage	37 Retiree's military uniform?	55 Prosecution presented through poetry?
21 Concubines' quarters	38 Crew tool	57 Wish for le roi
	39 Grumpy co-worker	58 "Deathtrap" wife
	40 Like old audiobooks	59 Earth Day month

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

60 Home city of the Big 12's Cyclones	25 Etching agent
26 Bullring beast	26 Antipasto bit
27 Silhouette on a highway sign	30 Ninny's lack
31 Knight work	31 Bar tenders?
32 Org. with a Traffictchief database	32 Org. with a Traffictchief database
33 Jet stream heading	33 Shot in a dentist's office
34 Battery number	34 Piano pieces
35 Ready for skinny-dipping	35 Alternative to the Dow
36 Drake's genre	36 Elongated fish
37 Stiff drink	37 Jewish holiday
38 Gem unit	38 California mission founder Junipero
39 Kilaeua output	39 Travel papers
40 Sch. nickname of the West Point of the South	40 Hydrocarbon ending
41 Ready for skinny-dipping	41 Kilaeua output
42 Mother of Horus	42 Silhouette on a highway sign
43 Piano pieces	43 Drake's genre
44 Alternative to the Dow	44 Elongated fish
45 Stiff drink	45 Jewish holiday
46 Sch. nickname of the West Point of the South	46 California mission founder Junipero
47 Travel papers	47 Kilaeua output
48 Hydrocarbon ending	48 Ready for skinny-dipping
49 Kilaeua output	49 Kilaeua output
50 Like old audiobooks	50 Like old audiobooks
51 Ready for skinny-dipping	51 Ready for skinny-dipping
52 Mother of Horus	52 Mother of Horus
53 Stiff drink	53 Stiff drink
54 Unfavorable for flora	54 Unfavorable for flora
55 Prosecution presented through poetry?	55 Prosecution presented through poetry?
56 PC's brain	56 PC's brain

### Previous Puzzle's Solution

TWIG	PUSH	SCOWS
HALO	ANTI	HOLIES
URSA	SLED	ALIEN
SMALL	LITTLE	TIME
PEAT	YEN	CROOK
CLOGS	BOND	CAB
SOUSA	TERI	OLLIE
LITTLE	BLACK	BOOK
ONES	BALL	ISSUE
ESS	HERA	ANTED
FOR	AREA	SHOR
STAR	LOAN	LOKI
OUTGO	GAGA	EZRA
SNEER	ARES	SEAS

### THE DAILY SHOT

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, July 12, 2017 | B1

**Yen vs. Dollar** 114.1460 ▲ 0.09% **Hang Seng** 25877.64 ▲ 1.48% **Gold** 1209.00 ▼ 0.26% **WTI crude** 45.04 ▲ 1.44% **10-Year JGB yield** 0.095% **10-Year Treasury yield** 2.371%

## PBOC Duels With Yuan Investors

Currency consistently closes weaker than daily level set by China's central bank

BY SAUMYA VAISHAMPAYAN AND SHEN HONG

China's central bank is finding that some of the most stubborn yuan skeptics are lurking in its backyard.

A tug of war between the People's Bank of China and investors in the country's domestic foreign-exchange market has played out almost

daily in recent months, with the yuan consistently closing weaker than the level set by the central bank.

While the central bank's support has helped the yuan gain 2.2% against the U.S. dollar this year after three years of declines, Chinese investors have been focusing in recent weeks on factors that could drag the currency lower in the coming months, traders say.

Many investors expect the Chinese economy to slow in the second half of 2017, as authorities try to cool the country's reliance on debt-fueled growth. That could force Bei-

jing to rely on a cheaper yuan to turbocharge China's sizable export sector. The Federal Reserve, meanwhile, is predicting further U.S. interest-rate increases, which should boost the dollar against the yuan.

And while China has clamped down on capital outflows in recent months, there is still demand for foreign assets from Chinese people as they seek to diversify their wealth. That could exert downward pressure on the yuan.

Conversely, the central bank's chief objective is yuan stability, The Wall Street

Journal has reported, as it seeks to keep the economy on an even keel.

The tension is showing up in how the yuan trades inside China.

China's central bank sets the yuan's value against the dollar 15 minutes before trading starts at 9:30 a.m. each day. The currency is then allowed to trade 2% above and below that so-called fix.

In recent months, the yuan has usually started weakening from the fix once trading starts. On May 18, it closed 0.4% lower: A bigger one-day drop has happened just 10

times since the PBOC devalued the yuan in August 2015.

The downward pressure persisted until the central bank stepped in later that month, market participants say, directing state-owned banks to buy yuan and sell dollars. It also changed the way it calculates the fix by adding a "countercyclical" component that gives it more control over the currency.

The PBOC didn't respond to a request for comment.

The central bank's apparent intervention didn't shift Chinese investors' expectations

Please see YUAN page B2

## Pearson Reduces Stake in Penguin

BY ZEKE TURNER

BERLIN—Bertelsmann SE is raising its stake in publisher Penguin Random House to 75%, tightening the German media company's control over one of the top prizes in the book business in a multimillion-dollar bet on the future of print.

Bertelsmann said Tuesday it was buying a 22% stake in the business from Pearson PLC for about \$780 million. The British education company will retain a 25% stake in the publisher.

Pearson said it would receive a total of \$968 million from the sale and associated dividend payments.

The move comes after years of strategic reorganizing in the publishing world, with companies worried that the rising popularity of e-books and online sales would permanently cut into their margins. But lately executives have noticed overall book sales rising as consumers spend more time reading, partly thanks to heightened interest in politics.

Global book-publishing revenue is expected to increase 9.7% from 2015 to €122.95 billion (\$140.10 billion) in 2020, according to statistics cited by Bertelsmann.

Printed books "will still be around in 100 years," Penguin Random House Chief Executive Markus Dohle said in a document sent to Bertelsmann employees and seen by The Wall Street Journal.

Electronic book sales last year made up 20% of Penguin Random Houses's total sales, according to an analysis by book industry expert Rüdiger Wischenbart for the Frankfurt Book Fair.

Executives at Bertelsmann said that the deal wouldn't affect Penguin Random House's daily operations, but Bertelsmann's increased control will give it the right to name the chairman of the publisher's board.

"The decision-making powers have of course shifted in our favor," Bertelsmann CEO Thomas Rabe said in an internal document sent to employees.

Increased control of Penguin Random House makes sense financially and strategically, with the deal set to boost Bertelsmann's earnings by more than €60 million while enhancing the prospects of its books business.

Please see STAKE page B2



Brandless products are taste-tested in Minneapolis. The e-commerce retailer is betting shoppers will pay \$3 for generic versions of household staples rather than buy Colgate, Heinz and other big brands.

## Startup's \$3 Pricing Challenges Big Brands

BY SHARON TERLEP

A new online retailer is betting it can get American shoppers to break up with big brands from Colgate to Heinz.

Called Brandless, the San Francisco-based startup on Tuesday started selling generic, health- and environmentally conscious consumer staples, such as fluoride-free toothpaste and organic agave nectar. Everything will be priced at \$3.

The business model: Cut out supermarkets and traditional marketing, funneling that money instead toward making products that can compete with pricier, name-

brand counterparts.

In doing so, Brandless aims to capitalize on a packaged-goods sector in upheaval, one that faces increasing competition among both high-end and discount brands as well as consumers who are doing more shopping online and demanding less-processed foods.

"It's an inefficient process," Brandless co-founder Ido Leffler said of the traditional system of packaged-goods companies selling their products through brick-and-mortar retailers. "We are re-appropriating those dollars back to the consumers."

The 115 products that will be initially available are generally

more expensive than their big-brand rivals. Brandless hand soap, for instance, costs 31 cents per ounce, more than Dial, which goes for about 27 cents an ounce on Target Corp.'s website for a similarly sized bottle.

But compared with hand soap sold by Whole Foods' private-label 365 brand, which has a similar emphasis on natural and healthy products, the Brandless option is cheaper, by about 9 cents per ounce.

Brandless hopes its simple,

one-price-for-every-product proposition will be another draw, much like the Dollar Shave Club, which upended the men's razor market when it in-

troduced a subscription service costing \$3, \$6 or \$9 a month. In a few cases, \$3 buys multiple Brandless items, such as a two-pack of organic macaroni and cheese. Shipping is \$9, or free for orders of \$72 or more. People who pay a \$36-a-year membership fee get free shipping on orders of \$48 or more.

The trick, industry experts say, will be to convince shoppers that Brandless products are of a high enough quality that shoppers feel like they are getting a deal.

"They need to make sure their quality is by far the best in the market for the price they are charging," said con-

sumer-products consultant Thom Blischok, especially since price-conscious Americans, who comprise nearly three-fourths of the U.S. consumer market, generally aren't willing to experiment with their household staples.

David Garfield, head of the consumer-products practice at consulting firm AlixPartners, said the concept could appeal to millennials who are less brand-loyal than older generations, and more inclined to shop online. Brandless is, he said, "seeing the factors and phenomena in the market in the right way."

Please see BRANDS page B2

HEARD ON THE STREET | By Jacky Wong

## China Is a Wild Card for Semiconductor Stocks

China already makes most of your gadgets. Now it wants to fill those products with Chinese chips. Making semiconductors is far harder than assembling phones, but the experience of dozens of industries shows that it is a mistake to bet against China's ability to upend an industry.

China plans to spend up to \$108 billion over the next 10 years on its own chip-making industry, according to Bain & Co. China consumes almost half of the world's chips, mostly for exported electronics, but it makes less than 10% of those chips, according to Gartner.

That, the government believes, is a national-security threat, and China has made building its own semiconductor supply chain a national priority.

China is already making money on the country's chip makers.

State-owned chip manufacturer Tsinghua Unigroup, for example, just got \$22 billion from a state bank and a government-backed fund in March. At least 20 plants are currently under construction in China, said industry organization SEMI.

Despite the lavish spending, it will be at least a couple of years before the Chinese chips hit the market. Even then, China will find it difficult to close its technological gaps with the top chip makers. In the two areas in which it invests heavily—chip fabrication and memory chips—China is behind market leaders like Samsung and TSMC, which are also investing billions to keep their leads. Their technological edge also gives them a cost advantage, which could make China's cash burning unsustainable.

Please see HEARD page B2

## Chinese Auto Market Revived Last Month

BY TREFOR MOSS

SHANGHAI—Chinese passenger-car sales bounced back in June, raising hopes that the world's biggest auto market is gaining momentum after a tepid start to the year.

Passenger-car sales—which had declined in April and May, the biggest dip in two years—increased 2.3% in June from a year earlier, the China Association of Automobile Manufacturers said Tuesday. The 1.83 million vehicles sold pushed the first-half total to 11.25 million, up 1.6% from a year earlier.

After last year's exceptional 16% growth in passenger-car sales, China's auto industry had expected a slowdown in 2017. Growth is still on track for 5% this year, assuming sales accelerate as expected in the second half, said Xu Haibin, the association's assistant secretary-general.

Total Chinese vehicle sales in the first half rose 3.8% to 13.35 million, buoyed by strong demand for commercial vehicles.

Among foreign makers, Japanese companies posted the biggest first-half gains: Honda Motor Co. increased its China

sales by 18.7%, Nissan Motor Co. by 6.7% and Toyota Motor Corp. by 5.4%. Some nimble product launches struck a chord with Chinese buyers, said Yale Zhang, managing director of Automotive Foresight. For ex-

ample, in March Honda launched the UR-V, a large sport-utility vehicle that taps into rising demand for SUVs. Other foreign auto makers struggled in the first half. General Motors Co. had a 2.5% drop in sales and Ford Motor

Co. slumped 7%. Political tensions between Beijing and Seoul over South Korea's missile-defense program contributed to a nightmare first half for Hyundai Motor Co., whose sales Please see CARS page B2

DON MCCURRY/ASSOCIATED PRESS

A Honda plant in Wuhan, China, in February. The Japanese firm's first-half China sales rose 18.7%.

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## HEARD

Continued from the prior page  
despite the state support.

China first tried to buy rather than build a domestic chip industry. Chinese companies announced a record \$43 billion of foreign acquisitions in the semiconductor sector in 2015, yet only \$5.2 billion of those were completed, according to Dealogic. The deals failed largely because it became clear they had little chance to get past U.S. regulators.

Among the failed deals are Tsinghua's \$23 billion pursuit of memory-chip maker Micron and the \$2.5 billion bid for Fairchild Semiconductor by a group led by another state-owned firm, China Resources.

China's outbound M&A in the sector for the first six months this year amounted to \$1.6 billion—an 81% drop from last year.

But there is one area that Chinese chip makers could have some success—devices that don't require the best chips but ones that are just good enough. Domestic Chinese brands like Huawei, Oppo and Vivo all build cheap gadgets that are popular in China and some developing markets. Those three brands made up almost half of smartphone shipments in China last year as Apple and Samsung continued to lose share.

These Chinese vendors likely will be big buyers of Chinese chips, if they can meet at least some minimum standards. Smaller foreign chip makers that don't have the market leaders' efficient cost structure could get hurt by a flood of cheap chips. Companies like UMC and Nanya Technology in Taiwan or even Korea's SK Hynix could be affected.

China's big splash in the chip industry may not unseat the champions, but could weed out the laggards.

bouy a slumping market—could produce a similar late-year spike in sales, said Mr. Fleet, though he added that some auto analysts think the government might put the plan on hold to help keep the market stable.

It is unclear whether Beijing will go ahead with the tax increase, said Chen Shihua, assistant secretary-general at the automobile association, calling for greater policy continuity to assist the auto industry.

Among Chinese makers posting strong first-half sales was SAIC Motor Corp., the country's biggest car company. Its group sales rose 5.8% to just over three million vehicles, including joint-venture production with GM and Volkswagen AG. Sales of SAIC's own-brand passenger cars more than doubled, albeit from a relatively low base.

Geely Automobile Holdings Ltd.'s sales nearly doubled in the first half, putting the company on track to sell more than one million vehicles in a year for the first time.

Guangzhou Automobile Group Co.'s sales, including of joint-venture vehicles, increased 32% in the first half, with sales of own-brand cars up 57%.

—Lilian Lin in Beijing contributed to this article.

## CARS

Continued from the prior page  
plunged 47%.

Both GM and Ford drew encouragement from strong June sales as they look to China to compensate for weak U.S. demand. GM posted a 4.3% sales bump last month, while Ford's sales soared 15%.

"The momentum we've found in Q2 and June, we're optimistic about that rolling forward through the rest of the year," Ford's Asia-Pacific president, Peter Fleet, said in an interview, adding that the company expects high single-digit growth in China in the third quarter.

GM plans to introduce 10 new models in China before the end of 2017, China head Matt Tsien said in a written statement.

Both U.S. makers benefited from their luxury brands. Sales of GM's Cadillac increased 75% in the first six months of the year, while Ford's Lincoln doubled its sales.

Auto sales in China surged in late 2016 as consumers bought ahead of an increase in the sales tax on small-engine vehicles to 7.5% from 5%.

A planned increase to 10% at the end of the year—which would complete the unwinding of a tax cut made in 2015 to

buoy a slumping market—could produce a similar late-year spike in sales, said Mr. Fleet, though he added that some auto analysts think the government might put the plan on hold to help keep the market stable.

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—Lilian Lin in Beijing contributed to this article.

## Racing Ahead

Japanese auto makers set the pace in China in the first half of 2017.

	Sales growth, change from previous year	Number of vehicle sales
Honda	18.7%	0.64 million
Nissan	6.7	0.65
Toyota	5.4	0.62
Volkswagen	0.2	140
General Motors	-2.5	185
Ford	-7.0	0.54
Hyundai	-46.7	0.43

Source: the companies

## BUSINESS & FINANCE

# Klöckner Backs U.S. Steel Tariffs

BY NINA TRENTMANN

Germany's **Klöckner** & Co. SE, a metals trading and processing firm, supports the Trump administration's plans for additional tariffs on Chinese-made steel, said Chief Executive Gisbert Rühl.

"I think import tariffs are the way for the U.S. and the European Union to counter Chinese dumping-prices," he said.

The Trump administration in April opened a wide-ranging probe into whether to place additional tariffs on steel imports in the name of national security. It missed a self-imposed deadline for concluding the probe at the end of June but is expected to announce a decision soon.

China, the world's biggest steel producer, has pledged to cut overcapacities. The country cut more than 65 million tons of steel production capacity in 2016.

Mr. Rühl sees these as encouraging steps but cautions: "Still, this is a process that will take years. There is no quick fix for this."

Klöckner generates roughly 40% of its annual revenue in the U.S., and expects both sales and revenue will increase by 3% to 4% this year. Global annual revenue in 2016 was



China is the world's biggest steel producer and has promised output cuts. A steel plant in China.

€5.7 billion (\$6.5 billion). The company last year traded more than 2.3 million tons of steel in the U.S., Mr. Rühl said.

Most of the steel traded by Klöckner in the U.S. is sourced locally and therefore not affected by existing tariffs exceeding 200% for some types of steel, Mr. Rühl said in an interview.

"As steel prices stabilize on a higher level, we will benefit."

U.S. steel prices have rallied in recent months. The September-delivery futures contract for the benchmark U.S. Midwest Domestic Hot-Rolled Coil Steel Index recently traded at \$620 per short ton on the Chicago Mercantile Exchange.

This is nearly double the lows of \$364 per short ton, set in late 2015.

For some of Klöckner's U.S. customers—among them construction firms and machinery-and-tool makers—there also could be negative consequences following the introduction of new tariffs, as Klöckner passes on higher purchase prices.

"Not all of our customers will be able to do the same and pass on higher prices, which is why there needs to be sound judgment around potential new tariffs," Mr. Rühl said.

## YUAN

Continued from the prior page for long. The yuan closed at a weaker level versus the central bank's fix for most of June. That has continued in July, though to a smaller degree, after another bout of suspected intervention by the central bank late last month. In all, the yuan has closed weaker than the fix on 25 of the past 29 trading days. It weakened 0.1% from the central bank's fix on Monday and 0.02% on Tuesday.

"Once the PBOC stops intervening, there's actually great pressure for the yuan to fall because the weak outlook of our economy and the financial risk we've accumulated are still hanging over our heads," said a Shanghai-based senior currency trader at a midsize local bank.

Chinese exporters, major players in the domestic currency market, appear unconvinced that the yuan will stay steady.

Deposits of foreign currencies at Chinese banks hit a record of \$779 billion in May, according to data from Wind Info going back to 2002, suggesting that many big companies are parking their dollars at banks rather than swapping them into yuan.

The holdouts include companies such as Shenzhen-based **Noncam Technology**, a gaming-gadgets maker that sells 80% of its products to clients from the U.S. and Europe. Its chief executive, Frank Shen, expects the dollar to rise after the Fed's rate increases, while China may be pressured to devalue the yuan to boost exports.

"Any short-term fluctuations will not alter the longer trend of a stronger dollar," Mr. Shen said. "Everyone expects that the dollar will rise further."

The Chinese central bank's difficulties with the changing expectations of participants in the domestic market are striking in part because its main struggle in the past has been with overseas investors betting against the yuan in offshore markets, where the currency trades more freely.

On several occasions in the past 18 months, the PBOC has squeezed short-term borrowing costs for the yuan in Hong Kong, the main center for offshore yuan trading, making it expensive for investors to bet against the Chinese currency.

The message appears to have hit home with yuan skeptics overseas.

"We know when there's a major sell-off in renminbi, the PBOC will intervene," said Edmund Goh, Asian fixed-income investment manager at Aberdeen Asset Management in Singapore, using another name for the yuan. Mr. Goh said he has been slightly overweight the yuan for a while.

"I would not want to bet against the PBOC," he added.

—Yifan Xie contributed to this article.

## STAKE

Continued from the prior page in China, India and Brazil, Mr. Rabe said.

Under the terms of the existing New York-based Bertelsmann-Pearson joint venture, the German company had the right to appoint the CEO, a position currently filled by Mr. Dohle, a Bertelsmann loyalist who has been with the company for 23 years and ran Random House before the merger.

Previously Bertelsmann had 53% of Penguin Random House. The increased stake comes after Bertelsmann this past winter announced it was targeting €20 billion in annual revenue by around 2020, with 30% coming from the U.S.

Penguin Random House's enterprise value for the transaction had been set at \$3.55 billion, according to Bertelsmann, which was advised by **J.P. Morgan Chase & Co.** In preparation for the deal in the last few weeks, Bertelsmann issued a €500 million bond, according to the company's spokesman.

Bertelsmann Chief Financial Officer Bernd Hirsch said the company had financed the acquisition at "exceedingly favorable terms."

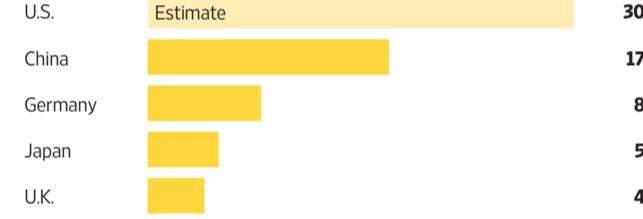
As part of the deal, Pearson can't make further changes to its slimmed-down minority

## Big House

Bertelsmann is solidifying its hold on the world's biggest English-language publisher.

### Global players in the English-language book market, 2016

Total combined book and e-book revenue, in billions



### Top six book markets in the world, 2015

Market share



\*Converted at €1 = \$1.14

Note: Analysis for market share-by-company based on company reports.

Source: Rüdiger Wisschert Content and Consulting for the Frankfurt Book Fair, 2017.

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## BRANDS

Continued from the prior page

## BUSINESS NEWS



The Silicon Valley auto maker is adding 1,400 technicians and 100 new service centers world-wide. Above, a Tesla Model X.

## Tesla Adds Repair Capacity

Electric-car maker is prepping to deliver first batch of Model 3 vehicles this month

By TIM HIGGINS

As Tesla Inc. begins a pivotal launch of its first mass-market car, the company said it plans to triple its capacity to repair vehicles, adding 1,400 technicians, dozens of new service centers and hundreds of maintenance vans that can be dispatched to an owner's home.

The Silicon Valley auto maker started production last week of the Model 3, a \$35,000 sedan that Chief Executive Elon Musk is betting will boost Tesla's production to 500,000 vehicles next year

from 84,000 last year. The surge of cars—coupled with any possible mechanical glitches that could arise with a new model—would likely tax a small network of about 150 Tesla service centers around the world.

Over the next 12 months, Tesla plans to add another 100 service centers world-wide, according to a company executive. But since most of the repairs are routine and can be done remotely, Tesla will expand its fleet of service vans by 350 this year from several dozen currently, the executive said. The new vans will come equipped with espresso machines and snacks for the customers.

Tesla is bracing for the most critical test in its 14-year history, as it aims to transform from a niche luxury

player into a mainstream auto maker. The first 30 Model 3 cars will be handed over to customers by the end of July and Mr. Musk has said he aims to build 20,000 in December.

The rollout of Tesla's Model X sport-utility vehicle was riddled with a number of mechanical malfunctions last year that underscored the challenges of the company's mass-market ambitions. Tesla moved quickly to resolve those new-model glitches.

Buyers of some of its vehicles have criticized Tesla for slow service.

In March, Jon McNeill, Tesla's sales and service president, posted a letter on an online Tesla user forum responding to complaints of long wait times to get vehicles fixed at third-party body shops. He promised to increase the num-

ber of Tesla-approved body shops by 300.

Tesla's vehicles include a wireless communications system that allows the company to diagnose 90% of maintenance problems remotely, indicating whether the car can be fixed in the field. Tesla estimates that its vans can service 80% of the issues, freeing up space in the service centers. Tesla charges customers the same amount remotely or in the shop.

Other auto makers are trying to improve the auto-service experience, long a pain point for many car owners. Ford Motor Co.'s Lincoln brand, for example, offers so-called Black Label Membership, which includes pickup and delivery of the owner's vehicle for all maintenance needs and a loaner vehicle.

## Takata Adds to U.S. Recall Of Rupture-Prone Air Bags

By MIKE SPECTOR

Takata Corp. recalled an additional 2.7 million air bags in the U.S. that are at risk of rupturing, adding to a safety crisis that forced the Japanese automotive supplier to seek bankruptcy protection.

Takata flagged a subset of air bags installed in Ford Motor Co., Nissan Motor Co. and Mazda Motor Corp. vehicles that use calcium sulfate as a drying agent as possible explosion risks, according to National Highway Traffic Safety Administration documents posted Tuesday.

Takata notified the agency "out of an abundance of caution" and isn't aware of any actual ruptures, the company said in a defect report filed with regulators. But tests showed degradation over time and with exposure to humidity, conditions that are consistent with air bags that have previously exploded, the company said.

Regulators last year pressured Takata to recall air bags that lacked drying agents

meant to prevent moisture building, as opposed to devices that used them. Regardless, regulators at the time said all Takata air bags using ammonium nitrate as a propellant had to be recalled by the end of 2019 unless demonstrated to be safe.

The latest recall affects an older crop of air bags using calcium sulfate as a drying agent, Takata said. More re-

*The latest step affects 2.7 million devices in Ford, Nissan and Mazda vehicles.*

cent air bags use a different "optimized" drying agent alongside pyrotechnic materials, the company said.

A Takata spokesman didn't immediately respond to a request for comment.

A Ford spokesman said the company is aware of Takata's

defect report and has been in regular contact with regulators. "Importantly, we aren't aware of any incidents, and test data doesn't suggest any issues," the spokesman said. A Nissan spokesman had no immediate comment and a Mazda spokesman didn't respond to a request for comment.

The expanded recall comes a day after Honda Motor Co. confirmed another fatality linked to a Takata air bag that exploded last year while a man attempted to repair a car in Florida. The air bags, which are at risk of rupturing and spraying shrapnel in vehicle cabins, are linked to at least 17 deaths and some 180 injuries globally.

In the U.S. alone, auto makers are currently in the process of eventually recalling more than 40 million vehicles with as many as nearly 70 million of the defective air bags. Takata filed for bankruptcy protection in the U.S. and Japan in June amid crushing liabilities stemming from the unprecedented recalls.

## 'Digital Duopoly' Irks Publishers

Newspaper publishers are calling on the U.S. Congress to allow them to negotiate collectively with Alphabet Inc.'s Google and Facebook Inc., as what they call the "digital duopoly" increasingly dominates online advertising and news distribution.

By Lukas I. Alpert,  
Deepa Seetharaman  
and Brent Kendall

The News Media Alliance—a trade coalition representing some 2,000 organizations across the U.S. and Canada, including Wall Street Journal publisher Dow Jones—says antiquated antitrust laws have had "the unintended effect of preserving and protecting Google and Facebook's dominant position," by limiting publishers' ability to push for changes together.

Federal antitrust law bars competitors from coordinating on business decisions and market strategy. If granted a limited waiver by Congress, the group said it would seek stronger intellectual-property protections, better support for digital subscription models and a fairer share of revenue and customer data.

"Quality journalism is critical to sustaining democracy and is central to civic society," the alliance's president and chief executive, David Chavern, said in a statement. "To ensure that such journalism has a future, the news organizations that fund it must be able to collectively negotiate with the digital platforms that effectively control distribution and audience access in the digital age."

Google and Facebook are expected to receive more than 60% of U.S. digital ad spending

this year, according to eMarketer.

Facebook has held numerous meetings with publishers over recent months—including one in New York on Monday.

"It's imperative the news industry has sustainable business models, and we want to play a part in helping that happen," said Campbell Brown, Facebook's head of news partnerships.

Google has similarly sought to engage with publishers on how best to help them in the face of sometimes blistering criticism from some news outlets. Robert Thomson, chief executive of News Corp., the parent of Dow Jones, has for years accused Google—and Facebook to a lesser degree—of being a platform for "piracy."

"We want to help news publishers succeed as they transition to digital," Google said.

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## Pepsi Gets Boost From Higher Prices

By IMANI MOISE  
AND JENNIFER MALONEY

PepsiCo Inc. said its second-quarter sales and earnings rose as the beverage and snack maker continued to offset weak demand in North America with higher prices.

The company also lifted its adjusted earnings-per-share outlook for the year to \$5.13 from \$5.09, as it anticipates less of an impact from foreign-exchange effects. However, the raised outlook was a penny lower than Wall Street projections. Pepsi shares were off less than 1% at \$113.60 in midday trading on Tuesday.

The Purchase, N.Y., maker of Frito-Lay snacks, Gatorade and its namesake cola has been hurt as consumers spend more time at the perimeter of the supermarket browsing through produce and fresh meats and less time in the center aisles, where the company's packaged foods such as Rice-A-Roni and Aunt Jemima are found.

Still, the company has been able to achieve sales growth by raising prices. During a conference call, analysts raised concerns that the price increases could backfire, sending customers to competitors selling cheaper snacks and drinks.

Pepsi Chief Executive Indra Nooyi said the company watches pricing "very, very carefully on a weekly basis. I

think where the market is today, when we can take pricing, we should take the pricing."

Pepsi executives added that their strategy includes not just raising prices but shifting the company's portfolio to more premium products, such as its new snack, Lay's Poppables.

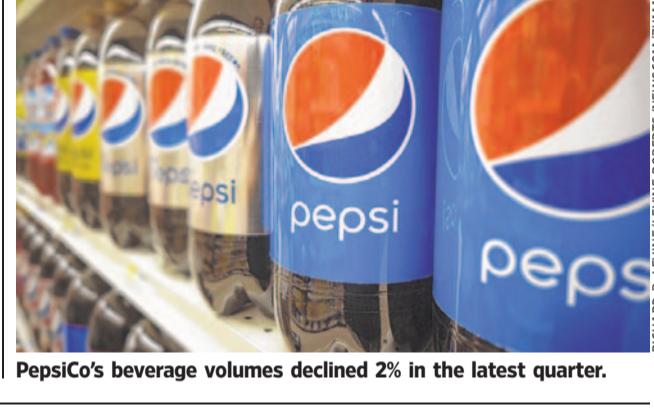
Sales in its Frito-Lay and North American beverage units increased 3% and 2%, respectively, on flat volume growth. One of Pepsi's newest products, its LIFEWTR bottled-water brand, generated \$70 million in sales in its first five months, Ms. Nooyi said during the call, and is on track for \$200 million a year in sales.

Sales slipped 1% in its Quaker Foods business, but volume held steady.

PepsiCo's beverage volumes declined 2% in the latest quarter while total food and snacks volume grew 2%, driven by gains in foreign markets.

In all for the quarter ended in June, PepsiCo posted earnings of \$2.11 billion, compared with \$2.01 billion a year ago. Adjusted earnings per share of \$1.50 handily topped the consensus estimate of \$1.40 as the sale of PepsiCo's minority stake in Britvic PLC, the company that produces and sells Pepsi in the U.K., added 6 cents to its bottom line.

Revenue rose 2% to \$15.71 billion, beating estimates of \$15.6 billion.



PepsiCo's beverage volumes declined 2% in the latest quarter.

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## TECHNOLOGY

WSJ.com/Tech

# Facial Recognition Wears a Smile

Beijing startup that sells surveillance tools to police forces adds \$410 million in funding

BY LIZA LIN

SHANGHAI—A Chinese startup that sells facial-recognition systems to police forces secured venture-capital funding that values it at more than \$1.5 billion, underscoring the sector's emergence as one of technology's hottest areas of interest.

Beijing-based **SenseTime** Co., which provides surveillance systems using facial recognition to Chinese law-enforcement agencies, said Tuesday it raised \$410 million in new funding from investors.

Using artificial intelligence, facial-recognition systems identify people by matching their features against those on file in image databases. The software breaks down a person's face into a series of measurements and uses them to create a template that can be compared with others.

Adoption has been especially swift in China, aided by a large network of surveillance cameras, a national photo-identification index and relatively few privacy concerns.

Customers include law-enforcement agencies that use the technology to identify and detain criminal suspects. It is also being used by local governments to discourage behaviors like jaywalking. In a park near Shanghai, for example, it is being used to identify race participants who take shortcuts on a running track.

But commercial uses are growing as the technology



A SenseTime programmer tests a scanner that matches photos to people's features in real time.

emerges as an alternative way to identify people who gain access to workplaces, board airplanes, make ATM withdrawals and check into hotels.

American tech companies are active in the sector as well. Facebook Inc. is considered a pioneer in the field and last year Apple Inc. bought Emotient, a startup whose technology assesses emotions based on facial expressions.

Los Angeles-based **FaceFirst** Inc. provides facial-recognition systems for U.S. and international airports and military bases.

SenseTime, which also provides facial and image recognition to the finance and mobile-internet sectors, was founded in 2014 and has 500 employees. Local Chinese governments are among its big-

gest clients.

The company will use the funding raised to retain and hire talent and pay for research into other technologies that rely on artificial intelligence, including self-driving cars and medical diagnostics, said Chief Executive Xu Li.

SenseTime investors include Chinese private-equity fund **CDH Investments** and Sailing Capital, a VC fund linked to the Shanghai government.

"We are already seeing the early signs of how artificial intelligence is changing traditional industry," CDH Investments Chairman Wu Shangzhi said. "The time has come for AI to have a big impact."

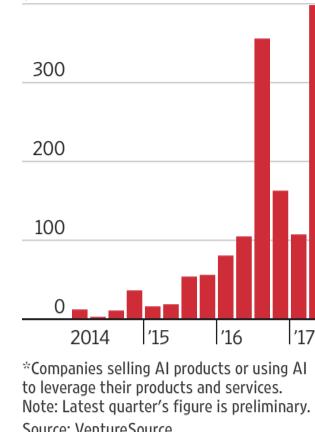
In total, AI-focused tech startups in China raised \$500 million in the first six months of the year, preliminary data from Dow Jones VentureSource showed, compared with \$700 million for all of last year. No separate data were available for facial recognition startups.

Alibaba Group Holding Ltd. Chairman Jack Ma and Foxconn Technology Co. are investors in these kinds of startups. Yunfeng Capital, a venture fund founded by Mr. Ma, is an investor in Shanghai-based **Yitu Technology**. Foxconn has a stake in Beijing-based **Megvii Technology** Inc.

Providing smart surveillance systems for national security gave startups a huge leg up when they began, said Cool Zhang, IDC China's director for artificial intelligence. China's annual public-secu-

### China's AI Explosion

Fundraising by Chinese artificial-intelligence startups



\*Companies selling AI products or using AI to leverage their products and services.  
Note: Latest quarter's figure is preliminary.  
Source: VentureSource

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rity budget is huge, making it an easy sector for companies to generate revenue, he said.

Privacy advocates worry that the technology could be used by governments to conduct random surveillance without cause.

"This is a force multiplier that takes the identification of people in public to a completely different level," said Clare Garvie, a researcher for the Center on Privacy & Technology at Georgetown University Law Center.

Analysts say investment in the sector is expected to continue growing—especially in China, where the government has made a big push to advance AI technologies.

"You'll likely see more and more attention and investment in this area," IDC's Mr. Zhang said. "The use cases in various industries and businesses are only increasing."

—Josh Chin in Beijing contributed to this article.

# Intel Updates Its Server Chip Line

BY TED GREENWALD

Intel Corp. on Tuesday brought to market a new generation of chips used in the servers that run data centers, firing back at competitors that lately have moved to challenge its hegemony in its most profitable market.

The rollout of the Xeon Scalable Family, an updated line of 58 processors priced from roughly \$200 to \$10,000 each, highlighted Intel's ambition to maintain its hold over all segments of the data-center market.

Intel makes most of its revenue on processors for personal computers, but the powerful server chips bring higher prices and profit margins. The server-chip division reported an operating-profit margin of 44% in fiscal 2016 compared with 32% in the segment that sells PC chips.

The server business has become more strategic lately as sales of personal computers have plateaued in recent years. Intel holds nearly 100% of the \$16.5 billion global market for server chips that run the software instructions called x86 that form the foundation of nearly all commercial software, according to Mercury Research.

Analysts say investment in the sector is expected to continue growing—especially in China, where the government has made a big push to advance AI technologies.

But Intel's server business shows signs of contracting. Although the chip giant has said it expects double-digit revenue growth in its data-center division in coming years, half of that growth will come not from chips but from ancillary products like storage and networking, according to Bernstein Research analyst Stacy Rasgon. In addition, Intel has said that profit margins in its data-center segment would narrow as that business absorbs more of the costs of developing new manufacturing methods.

Meanwhile, the server sector has attracted a raft of rivals. Advanced Micro Devices Inc. in June started shipping its Epyc line of server chips aimed squarely at the lower-priced half of Intel's offerings. Those products, AMD's first entry into the data-center market since 2013, are giving server makers a welcome alternative to Intel's products. However, any impact on Intel won't become clear for some time.

Qualcomm Inc. and Cavium Inc. in March demonstrated chips running Microsoft Corp.'s Windows Server operating system based on technology from ARM Holdings, a division of SoftBank Group Corp. Microsoft has said it expects to use such chips in its Azure cloud service. International Business Machines Corp. has announced new server chips expected later this year.

And the boom in artificial intelligence has spurred sales of graphics processors made by Nvidia Corp., which has overshadowed Intel in the training phase of machine learning.

Intel responded to the newly competitive environment with a New York launch event Tuesday where it touted partnerships with prominent software and hardware vendors, endorsements from Amazon.com Inc. and Alphabet Inc.'s Google—an early Xeon Scalable Family customer—and boasts of its central role in three systems that are candidates for an annual list of top 500 supercomputers.

Spanning a range of uses and cost-per-performance characteristics, the new product line is intended to encourage customers to move into higher-price products, the company said. Moreover, it is tightly coupled to Intel memory, data-storage, networking, and accelerator products intended to win the company a larger portion of data-center budgets.

Intel said the top-of-the-line Xeon Scalable Family unit delivers nearly two-thirds higher performance, on average, than the company's previous most-powerful server processor. Industry watchers tend to withhold judgment about performance until independent test results become available.

## Game and Its Inventor Transfer to Cheddar

BY BEN EISEN

**Cheddar** Inc., the streaming financial-news network that was recently valued at \$85 million, is buying a viral stock-picking game started by a 26-year-old former **Amazon.com** Inc. software engineer in his Seattle apartment.

StockStream allows users to vote on which stocks to buy and sell, and the game automatically makes a trade every five minutes based on a tally of votes.

Mike Roberts, who created the game in his spare time and rolled it out on his personal computer, put \$50,000 of his own money into an online brokerage account at Robinhood, where the trading takes place. StockStream isn't associated with Amazon.

In the days after it was launched this spring, the service amassed hundreds of thousands of viewers and widespread media coverage, including a page-one article in The Wall Street Journal. As of Monday morning, the account was up about \$300 since its inception.

As part of the deal, Mr. Roberts has joined Cheddar, where he plans to build out the game and eventually work on other projects at the company.

Cheddar will double the original account balance to \$100,000 and expand the service into commodities and other asset classes as Mr. Roberts builds out the product, the company said. StockStream's live feed will be integrated into Cheddar.

"We'll be able to use it almost like our own real-time polling mechanism," said Jon Steinberg, Cheddar's founder

and chief executive officer. He declined to say what Cheddar paid for the acquisition, but said, "It's as much about Mike coming to work with us as it is about the piece of software."

Mr. Steinberg said he knew he wanted Mr. Roberts to work for the company after reading the Journal's story last month. Mr. Roberts flew to New York to meet the team, where they went out for a meal of crabs in the city's Lower East Side neighborhood.

"It's about the messiest meal you can have with a human being," Mr. Steinberg said. "If you eat messy crabs with someone you know that you can live with them."

Mr. Roberts said he had heard from a couple of investors after the initial buzz around StockStream, but nothing came of it until Mr. Steinberg called him and effectively told him to quit his job and come to work at Cheddar.

"As soon I heard that, I was, like, of course," Mr. Roberts said. "I was going to build this thing for free. If someone is willing to pay for me to do it, it was a dream come true."

From there, it came together quickly. Mr. Roberts left his job at Amazon at the end of last month and relocated to New York over this past weekend.

StockStream, meanwhile, was still on Mr. Roberts's personal computer server, and his move took place too quickly to ship it. So he wrapped it in Styrofoam and towels and put it in a suitcase to take on the plane with him. As of Monday morning, the server had made it to Cheddar headquarters and had been set up.

Former Amazon.com engineer Mike Roberts, 26 years old, developed StockStream in his Seattle apartment.



Messenger product head Stan Chudnovsky says the rollout will be done 'slowly and carefully.'

## Facebook Starts Including Ads in Its Messenger App

BY DEEPA SEETHARAMAN

**Facebook** Inc. has spent years developing two of the world's most popular messaging apps. Now, with slowing revenue growth in its core service, it wants to cash in.

Starting Tuesday, Facebook will show advertisements inside Messenger, the chat app that Facebook says is now used by 1.2 billion people every month. The ads will be shown between users' messages, similar to the way ads are sandwiched between posts in Facebook's news feed, the main scroll of pictures, videos and posts that greets everyone who uses the service.

Facebook plans to roll out the ads "slowly and carefully" to Messenger's users, said Stan Chudnovsky, Messenger's head of product, replicating the strategy followed by its photo-sharing app, Instagram, which started showing ads to users in 2013 and took a couple of years to implement more widely.

Facebook also has been studying ways to profit from WhatsApp, the company's other messaging app.

Facebook is trying to make money from Messenger as it braces for an expected slowdown in revenue growth from

news feed, the primary source of Facebook's revenue today, starting in mid-2017. Executives have told investors that Facebook would no longer increase the number of ads shown to users in the news feed. The increases helped juice revenue in prior years, but risked turning off users by jamming too many ads in their feeds.

*The company has positioned itself to keep driving growth beyond its news feed.*

Both Messenger and WhatsApp, which also claims 1.2 billion users, have been studying moneymaking strategies centered on connecting users to advertisers. Facebook has said two billion messages are sent between people and businesses every day over Messenger. Barclays estimates that figure is about 2.5 billion for WhatsApp. But Messenger is more popular in affluent markets like the U.S. and Europe, while WhatsApp is more popular in developing countries that haven't yet been lucrative for Facebook.

Facebook could net an extra \$1 billion in revenue from the two messaging apps by 2020, Barclays estimates.

Facebook has been testing Messenger ads for six months in Australia and Thailand, Mr. Chudnovsky said. He said users were "very open" to ads that were useful and connected them to companies.

Advertisers can use Messenger ads in two ways: to drive traffic to their website or to open a messaging thread between the user and company. Facebook is urging advertisers to use Messenger ads to open a thread, where users can ask questions and seek advice about a potential purchase.

Intel said the top-of-the-line Xeon Scalable Family unit delivers nearly two-thirds higher performance, on average, than the company's previous most-powerful server processor. Industry watchers tend to withhold judgment about performance until independent test results become available.



Former Amazon.com engineer Mike Roberts, 26 years old, developed StockStream in his Seattle apartment.

## MANAGEMENT

### WORKAROUND

#### How Gender Affects

#### Funding for Women

Women entrepreneurs receive a tiny fraction of venture-capital funds, and new research points to a reason why: the questions investors ask female founders.

A team of management and psychology researchers examined how venture investors interacted with entrepreneurs at TechCrunch's New York startup competition over seven years and found that VC funds typically asked male founders questions about how their companies will succeed, while posing questions to women founders about how they would avoid failure.

While women have founded nearly 40% of all privately held companies in the U.S., they have fetched just 3% of all venture capital, according to venture-capital tracker PitchBook Data Inc.

As a recent string of scandals call attention to the tech sector's treatment of women, ranging from pay disparities to charges of sexual misconduct, the researchers plan to present their examination into why women-led startups receive such a paucity of VC funding at the annual meeting of the Academy of Management next month.

**Investors' questions tend to be about avoiding failure, and less about success.**

Led by Columbia Business School doctoral candidate Dana Kanze, the team looked at video recordings of question-and-answer sessions between venture investors and 189 startups during the annual TechCrunch Disrupt New York event from 2010 to 2016. They transcribed the interviews and examined the questioners' language, finding that two-thirds of the questions asked of male entrepreneurs focused on the company's potential for success.

The 23 female founders had the opposite experience. Two-thirds of their questions sought answers about preventing failure, including 'What are the opportunities for leakage?'—an industry term for lost customers and revenue.

The analysis suggests female investors were as likely as their male counterparts to ask the woman-led teams prevention-focused questions, contradicting the attitude among some firms that hiring more female VCs alone improves the odds that female founders get funded.

The questioning patterns appeared to be linked to how much money the startups fetched. Entrepreneurs who were asked promotion-focused questions were more likely to win one of the top prizes in the competition. Male-led teams raised an average of \$17.1 million each, over five times the \$3.3 million earned by the female-led companies.

The paper, titled "We Ask Men to Win & Women Not to Lose: Closing the Gender Gap in Startup Funding," offers a window into gender stereotypes of what an entrepreneur is supposed to look like, Ms. Kanze said. "Women seem to be violating that norm, and are inadvertently penalized for that by venture capitalists."

—Kelsey Gee

# CEOs Head To the Web For Critiques

Glassdoor and other career sites give employees forums to appraise the boss

By VANESSA FUHRMANS

Career websites such as Glassdoor have become regular reading for job seekers. Now chief executives are increasingly perusing their online reviews to find out what employees think of them—to evaluate policies and even to talk back.

A growing number of sites such as Indeed.com, Vault.com, Kununu and Fairygodboss let people post anonymous appraisals of their employers. A poster can comment on everything from pay and benefits to workplace likes and dislikes. Glassdoor is one of the most extensive sources of online employee feedback, displaying reviews of more than 700,000 companies and whether reviewers approve or disapprove of their CEOs.

The public-yet-personal critiques are prompting more company bosses to track and respond to reviews. In the process, they have come to treat them as a necessary evil or a useful management tool, and a performance measure akin to using stock prices to gauge investor confidence.

In the past three years, Spencer Rascoff, CEO of real-estate website Zillow Group Inc., has responded to some 70 reviews on Glassdoor and has a 95% CEO approval score on the site. His company was co-founded by Rich Barton, the same entrepreneur who helped start Glassdoor.

Like Mr. Rascoff, some of the most active CEOs on Glassdoor enjoy high ratings. "Getting caught up on recent @Glassdoor employee

reviews of @zillow," he tweeted last fall, adding: "Reviews were almost all good lately. But a few things we need to work on."

Some CEOs use responses simply to show they are listening. When, for instance, a worker at Nagarro, a division of Germany-based information-technology company Allgeier SE, complained about undermining colleagues, Nagarro CEO Manas Fuloria replied: "Your experience is your reality and we must fix it. Do reach out."

Daniel Chait, head of recruiting-technology firm Greenhouse Software Inc. gets an email alert every time someone posts a Glassdoor review of his company and has responded to nearly all 74 of them over the past few years. "Where people get into trouble is if they ignore it, or they try to use it as a way to win the argument" with a negative reviewer, says Mr. Chait, who has a 95% approval rating.

For some business leaders, that isn't always easy.

"Gosh, I am sorry we have made our cafeteria so good and so inexpensive that people would rather stay here than go out. How evil of us," wrote Overstock.com Inc.'s CEO, Patrick Byrne, in response to a reviewer this spring who complained that the online retailer's cafeteria encouraged people not to leave work.

Meghan Tuohig, vice president of people care at Overstock, says Mr. Byrne—who has a 58% approval rating on Glassdoor—is one of a number of people at the company who receives an alert when someone posts a Glass-



Zillow CEO Spencer Rascoff. He says he looks at Glassdoor ratings of acquisition candidates.

door review about working there. The company responds to both positive and negative reviews, particularly when they are about specifics that "we can straighten out or investigate further," she says.

Increasingly, outsiders are listening too. Zillow's Mr. Rascoff and leaders at other companies say they also look at Glassdoor ratings of acquisition candidates. A leaked Salesforce presentation of potential targets last year included each company's overall and CEO rating on Glassdoor.

"We have walked away from dozens of acquisitions that looked good on paper and made strategic sense" because of poor reviews, says Mr. Rascoff.

Glassdoor says all company reviews undergo a series of checks before appearing online to guard against abuse and to verify they are, indeed, from a current or former employee. A handful of times, the website has received emails from workers saying their employers coerced or incentivized them to write positive reviews, says Glassdoor spokesman Scott Dobroski. If an investi-

### First Responders

Chief executives with the most responses to Glassdoor reviews in the past three years.

CEO	Company	Number of reviews	Number of CEO responses
Spencer Rascoff	Zillow	344	70
Dan Caruso	Zayo Group	205	37
Manas Fuloria	Nagarro	328	24
Neil de Crescenzo	Change Healthcare	256	23
Michael Hansen	Cengage Learning	559	22

Note: Companies with 1,000 or more employees and more than 200 reviews between June 2014 and June 2017.

Source: Glassdoor

gation finds that is the case, he says, it is removed.

Employers can't alter or remove bad reviews, though in some cases Glassdoor says it will disallow or remove reviews if they reveal confidential business information or otherwise violate its guidelines.

Mr. Chait says Greenhouse invites employees to write reviews, while making clear it is optional. Occasionally the critiques have led to

changes, such as when some reviewers complained a take-home test that Greenhouse gave job seekers was too arduous. This year, he says, the firm tweaked how it presented the test, stressing that candidates shouldn't spend more than a few hours on it.

"I need that negative feedback," Mr. Chait says of some reviews. "As a CEO, my life is full of people saying nice things to me."

## BUSINESS WATCH

### VOCUS

#### Private-Equity Firms Vie for Company

Private-equity firms are competing to buy **Vocus Group** Ltd. after the Australian telecommunications company said it had received a second nonbinding takeover proposal valued at about 2.18 billion Australian dollars (US\$1.66 billion).

Vocus said **Affinity Equity Partners** is offering A\$3.50 a share in cash, matching an earlier offer made by **KKR & Co. LP**.

As a result, it has opened its books to both private-equity suitors on a nonexclusive basis to test whether a formal bid will be forthcoming.

The Australian company owns telecommunications networks in capital and regional cities in Australia and New Zealand.



Shares of Snapchat's parent company are trading below their initial public offering price of \$17 apiece.

land. Over the last couple of years, the company has shifted from a concentration on fiber networks on Australia's east coast to a broader range of tele-

coms operations across the two countries, and other products including television and insurance services.

—David Winning

### SNAPCHAT

#### Parent's Shares Fall Below IPO Price

Snap Inc.'s rough week continued Tuesday, as a bank that led its initial public offering slashed its price target for the Snapchat parent's stock.

In late-morning trading Tuesday, Snap shares dropped nearly 8% to \$15.64. On Monday, shares fell below their IPO price of \$17 for the first time.

Tuesday's decline came as analysts at Morgan Stanley, one of the lead underwriters on Snap's IPO, downgraded the company to equal weight from overweight and cut its price target from \$28 a share to \$16 apiece.

The bank cited increasing competition, noting that Facebook Inc.'s Instagram "has become more aggressive in com-

peting for Snap's ad dollars."

Morgan Stanley joins other banks that have now tempered their enthusiasm. In March, the average analyst target price was more than \$23 a share, according to FactSet. As of July 11, that average target price slipped to a little more than \$20 apiece.

Shares of another highly anticipated tech IPO also struggled Tuesday. **Blue Apron Holdings Inc.**'s stock dropped 6.8% to \$7.58, falling further from its \$10 IPO price.

It isn't unusual for IPOs to break, or drop below, the price at which shares were sold in an IPO. As of July 7, 45% of U.S.-listed companies that went public in 2017 have closed below their IPO prices at some point.

More than one-third were still below as of July 7, according to Dealogic.

—Corrie Driebusch

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## FINANCE & MARKETS

# Cash Exits Emerging-Market ETF

Record outflows hit fund as changing rate picture stokes anxiety around risky assets

BY SAUMYA VAISHAMPAYAN

A record amount of money flowed out of a major emerging-market exchange-traded fund last week, a sign that some investors may be growing skittish about owning risky assets in an environment where global interest rates are set to rise.

Investors pulled a net \$818.5 million out of the iShares J.P. Morgan USD Emerging Markets Bond ETF in the five days through Friday, the biggest weekly outflow since the fund was launched in 2007, according to data from FactSet. The \$11.7 billion fund is the largest emerging-markets bond ETF

by total assets, according to ETDb.com, which tracks such funds.

The exodus of money from emerging-market dollar debt followed comments from central bankers in the U.K., Canada and the eurozone suggesting that their economies have recovered enough for them to consider stepping back from their easy monetary policies. Yields on benchmark government bonds in the U.S. and Germany have since rallied, with the 10-year bund recently hitting its highest level since early 2016.

To be sure, weekly flows for ETFs can be volatile. The iShares emerging-market ETF in question received a net inflow of \$899.8 million in the five days ended June 9, the biggest weekly inflow in the fund's history, the data show. Even with last week's withdrawal, investors have poured a net \$3.6 billion into that

fund so far this year.

In the wake of the 2008 global financial crisis, many major central banks bought bonds aggressively as they tried to stabilize their economies, helping drive yields lower. The Federal Reserve has since reversed course, ending

## \$818.5

The ETF's outflows, in millions, in the five days through Friday

its bond purchases and raising short-term interest rates. It now appears likely that more central banks in developed markets are ready to tighten monetary policy as well.

Investors turned to risky assets that offer higher returns, such as those in emerg-

ing markets, as rates dropped to ultralow levels around the world in part because of central banks' bond purchases. The question now is whether those yield-hungry investors will continue to want to own emerging-market debt as returns on safer assets become more appealing. Signals from the Fed in 2013 that it was ready to end its asset purchases hit emerging markets hard in an episode known as the taper tantrum. At the time, investors unloaded bonds in an effort to pre-empt the Fed's scaling back of its stimulus program.

The 10-year Treasury yield settled at 2.371% on Monday in New York. A rise in the 10-year Treasury yield to near 3% could be a more significant trigger for a reversal of fund flows, said Khoon Goh, head of Asia research at ANZ. As developed-market yields rise, "we could see at the very least

some unwinding of the strong inflows," he added.

Foreign investors have snapped up emerging-market debt in Asia, excluding China, in each of the first six months of the year, according to ANZ, sending \$6.1 billion into those bonds in June alone.

The pace has cooled recently, however, with last month's amount marking the smallest monthly inflow since March.

Kisoo Park, a global bond manager at Manulife Asset Management in Hong Kong, said global rates would probably rise more than many market participants currently expect, but not to absolute levels high enough to spur large outflows from emerging markets.

"You want to be in a country that has an improving fundamental trend and high yields, like Indonesia and India," he said, adding that he owns bonds in both countries.

# Energy Fails to Boost Stocks

BY RIVA GOLD AND AKANE OTANI

U.S. stock indexes fell Tuesday, as broad losses across sectors offset gains in shares of energy companies.

The Dow Jones Industrial Average fell 30 points, or 0.1%, to 21379 around midday, paring earlier losses. The S&P 500 fell 0.3% and the Nasdaq Composite fell 0.2%.

In Asia, **EQUITIES** Japan's Nikkei Stock Average gained 0.6% as a weaker yen, which benefits export-oriented stocks, provided support. Hong Kong's Hang Seng Index gained 1.5%.

In Europe, the Stoxx Europe 600 fell 0.7%, weighed down by declines in shares of U.K. companies.

Major U.S. indexes traded in a narrow range through the morning, but fell into negative territory after President Donald Trump's eldest son released June 2016 emails about setting up a meeting with a Russian lawyer, several traders said. Donald Trump Jr. believed he would receive "political opposition research" about then-presidential candidate Hillary Clinton at the meeting, he said in a statement he published with the emails.

Stocks have made little headway over the past month, something some investors and analysts have attributed to a lack of catalysts for gains ahead of the busiest period of the second-quarter earnings season.

While analysts expect S&P 500 companies to post another quarter of earnings growth, many say they are taking a more cautious stance on stocks—especially as valuations are at higher-than-average levels and central banks signal they will move toward normalizing monetary policy.

"Earnings are good right now—the question is are they going to be good in 2018, and energy will probably have a lot to do with overall earnings growth," said Doug Foreman, chief investment officer of Kayne Anderson Rudnick Investment Management.

Sliding oil prices have pressured shares of energy companies, the worst-performing sector in the S&P 500 this year. U.S. crude oil rose 1.4% to \$45.04 a barrel at midday Tuesday, while the S&P 500 energy sector added 0.6%.

The yield on the 10-year U.S. Treasury note was unchanged at 2.371% at midday, according to Tradeweb. Yields rise as bond prices fall.

# Temasek Became a Net Seller in Latest Year

BY JAKE MAXWELL WATTS  
AND GAURAV RAGHUVANSHI

SINGAPORE—Singapore state investment firm Temasek Holdings Pte. Ltd. said it sold more assets than it bought for the first time in nine years as it shifted its focus toward private equity and moved away from public markets where valuations are high.

The company, which had a portfolio value of almost \$200 billion at the end of the latest financial year, owns large stakes in global firms including Standard Chartered PLC and China Construction Bank Corp. In the financial year ended March 31, Temasek invested 16 billion Singapore dollars (US\$11.6 billion) and divested \$18 billion, as it rebalanced its portfolio away from traditional sectors such as banking and telecommunications.

Temasek said it remains cautious on global economic uncertainties and is focusing on new long-term opportunities including technology-related industries, life sciences, agribusinesses, nonbank financial services and energy.

The company said it stepped up investments in private equity over public markets in the last financial year, as it deemed the latter to be highly priced. Temasek's president, Chia Song Hwee, said the company didn't set out last financial year intending to divest more than it invested, but that "generally speaking the market pricing is a bit too high."

Temasek reported a 13% return to shareholders in the lat-



Chia Song Hwee, president of Singapore's Temasek, said that 'generally speaking the market pricing is a bit too high.'

est financial year, supported by a stronger global economy. It said its total portfolio value rose 13.6% to \$275 billion in the 12-month period ended March 31.

Its net profit rose to \$14.2 billion from \$8.4 billion a year earlier. Last July, Temasek reported its first drop in portfolio value since the global financial crisis, largely due to weakness in shares of public companies it had stakes in.

Temasek is among several large institutional investors, both state-run and private, that have warned recently of high valuations in public mar-

kets at the same time that there are unresolved uncertainties in the global political economy. This week, Singapore sovereign-wealth fund GIC Pte. Ltd. said it had built a more cautious investment profile and warned of "complacency" in the investment industry due to low volatility in public markets.

Many global institutional investors have performed well in the 12-month period ended March 31 despite a series of high-risk political events such as Britain's vote to leave the European Union and a surprising election result in the U.S.

Temasek stuck a more posi-

tive tone than GIC, however. The company's executives said Tuesday they are encouraged by an improvement in business sentiment and investment, a trend that, if it continues, could help support markets at a time when central banks around the world are beginning to normalize interest rates.

Temasek's investments in the past year include U.S. technology firm Amazon Inc., Chinese online travel reservations platform Ctrip.com and US\$800 million in a life-sciences company, Verily Life Sciences, which was spun off from Alphabet Inc.'s Google.

Among deals in its home country of Singapore, which accounts for 29% of Temasek's underlying assets, the company invested an additional \$1.6 billion in Singapore Telecommunications Inc. and bought out public transport operator SMRT Corp. for \$1.2 billion.

The state investment firm's major divestments completed in the last financial year include Indian telecommunications firm Bharti Airtel and Singapore shipping operator Neptune Orient Lines. It also divested part of its stake in Thai telecom Intouch Holdings.

# Oil Rises Ahead of U.S. Data

BY ALISON SIDER  
AND CHRISTOPHER ALESSI

Oil prices turned higher Tuesday as traders and investors anticipated that U.S. data will show that a glut of oil is continuing to shrink.

U.S. crude futures rose 75 cents, or 1.7%, to \$45.15 a barrel on the New York Mercantile Exchange by midday Monday. Brent, the global benchmark, climbed 75 cents, or 1.6%, to \$47.63.

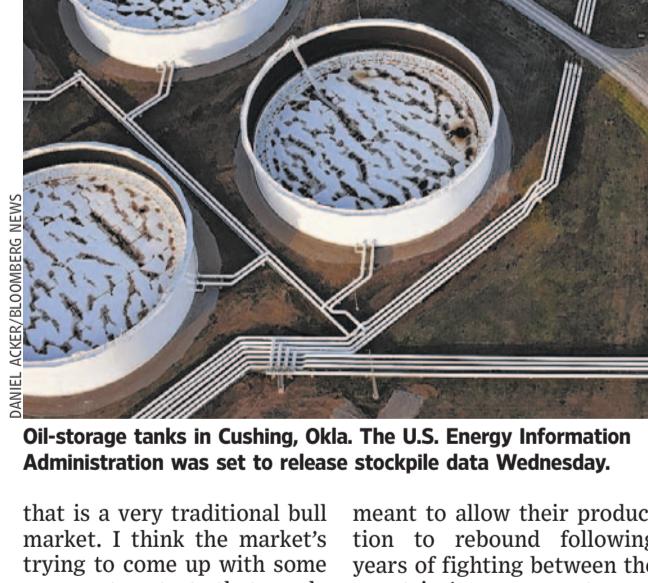
Market participants were expecting that the U.S. Energy Information Administration will report a drop in U.S. stockpiles in its weekly report, due Wednesday morning.

The weekly data have become an important barometer as investors and traders watch to see whether output reductions by the Organization of the Petroleum Exporting Countries and other major producers are helping to bring down global oil inventories.

"You continue to see draws in the U.S., ratcheting up expectations that maybe the cuts are having an effect," said Gene McGillian, research manager at Tradition Energy. "People don't want to be too exposed below the lower-\$40 mark."

Prices have stabilized after they fell 6% in the three sessions ended last week, and traded down earlier Monday on reports that Saudi Arabia pumped more oil in June.

"We're approaching the time frame on the calendar



Oil-storage tanks in Cushing, Okla. The U.S. Energy Information Administration was set to release stockpile data Wednesday.

that is a very traditional bull market. I think the market's trying to come up with some excuse to start that cycle again," said Donald Morton, senior vice president at Herbert J. Sims & Co., who oversees an energy trading desk. "Drillers are drilling, producers are producing—it's coming at us in a wash, but in the short term nobody is panicking as they were."

Talk of production cuts in Libya and Nigeria have helped boost prices this week. Both are members of OPEC but exempt from the group-led agreement to cut global output by 2%. The exemption was

meant to allow their production to rebound following years of fighting between the countries' governments and local insurgents, which blunted output. In recent months, production in those countries has risen strongly, offsetting some one-third of the cuts made so far this year by the cartel and its allies.

The output-cap exemptions for Libya and Nigeria have drawn ire from some fellow producers. The issue is expected to be discussed when OPEC's monitoring panel meets July 24 in Moscow.

—Jenny W. Hsu

contributed to this article.

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VP Class-C Units HKD H AS EQ HKG 07/09 HKD 12.20 23.9 22.4 29.4 NS

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VP Class-E Units RMB AS EQ HKG 07/10 CNY 12.19 26.8 33.5 NS

VP Multi-Asset Fund Cls A HKD OT OT HKG 07/09 HKD 10.35 7.6 NS

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THE WALL STREET JOURNAL.

## FINANCE & MARKETS

**STREETWISE** | By James Mackintosh

# The Stock Market Faces New Threat: Bonds



Rising bond yields threaten to undermine the case for holding expensive stocks, and shareholders should be worried.

It has been "TINA" for the past seven years. That means "there is no alternative" but to buy stocks with bond yields so low. But the danger is that shareholders now will return to their jilted first loves of cash and bonds as yields rise.

Stock markets have provided a flavor of the risks ahead as bond yields jumped over the past two weeks. In the eurozone, where the bond moves started, financials are the only sector that have managed to rise, as banks benefit from higher yields. In the U.S., yields haven't risen quite so rapidly, but financials, up 4.2% as of Monday, are way ahead. The only other sectors in the black—industrials and materials—moved just positive after Friday's solid jobs report.

Two weeks is a short period to assess anything, but the pattern fits the menace of a breakup with TINA. If investors bought stocks because bond yields were so miserable, they are likely to sell stocks when bond yields perk up and the logic of the hunt for yield goes into reverse.

Just how big the danger is will depend on what happens to bond yields, of course. But it will also depend on why yields rise, and the latest reason is concerning.

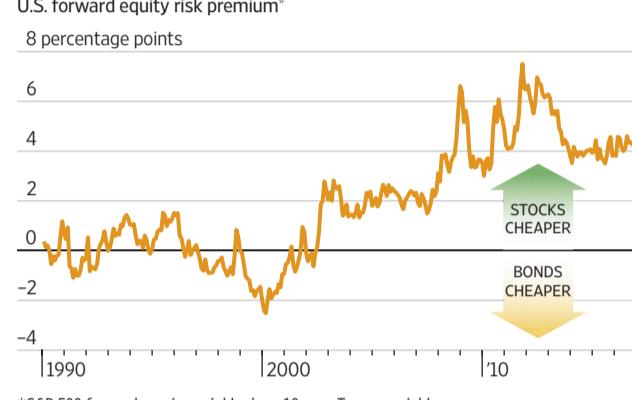
Rising bond yields can be good for stocks if they are driven up by expectations of a stronger economy. Higher future profits can more than offset the cost of discounting those profits back to today at a higher rate, making stocks more valuable (higher yields make profits far in the future

### Spot the Buy Signal

Many argue that stocks are cheap compared with bonds, with a wide gap between the earnings yield and bond yield.



But U.S. stocks are about their most expensive relative to bonds since November 2007 - itself a great selling opportunity.



less valuable than profits made quickly—so it makes sense that speculative technology stocks have fallen sharply.)

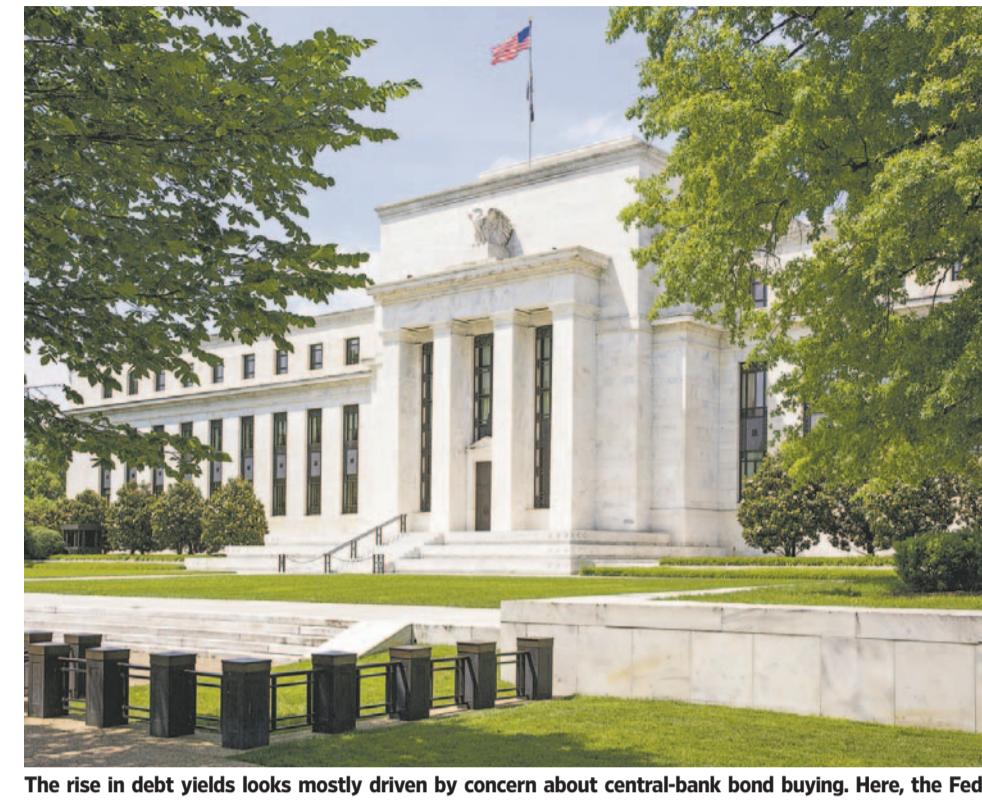
Bond yields pushed up by anything other than a strong economy are bad news, and the latest rise looks as though it was mostly driven by concern about central-bank bond buying, not the economy.

Bond investors like to break down bond yields into two parts: the expectation of interest rates over the life of the bond and a bit extra, driven by supply and de-

mand, to cover the risk of being locked in until maturity.

The extra bit is known as the term premium and accounted for almost the entirety of the Treasury yield rise in the past two weeks, according to calculations by the Federal Reserve Bank of New York. The same goes for the eurozone, according to Goldman Sachs estimates.

Combine the term premium with a measure of how expensive bonds are compared with stocks, and we can get a feel for just how bad things could get for



The rise in debt yields looks mostly driven by concern about central-bank bond buying. Here, the Fed.

shareholders as bond yields rise.

Even after the recent rise, the term premium as calculated by the New York Fed is extremely low. If it merely returned to its 50-year average, while expectations for the economy and Fed increases remained unchanged, the 10-year Treasury would yield 4.2%, a massive rise from Monday's 2.4%.

It is hard to believe a move of that size will happen quickly, but it illustrates just how much the TINA argument for equities depends on the term premium, and so on central-bank bond buying.

If the term premium did rise back to its long-run average, it would be enough to wipe out half the valuation gap between stocks and bonds on the popular—though flawed—measure of the forward equity risk premium, the main TINA justifi-

cation. The equity risk premium values stocks, like bonds, by looking at the expected earnings yield, the inverse of the price/earnings ratio, to see how much higher it is than the bond yield.

With a forward earnings yield of 5.62% and a 10-year Treasury yielding 2.37% late Monday, the gap of 3.23 percentage points is the projected annual extra reward for holding the S&P 500.

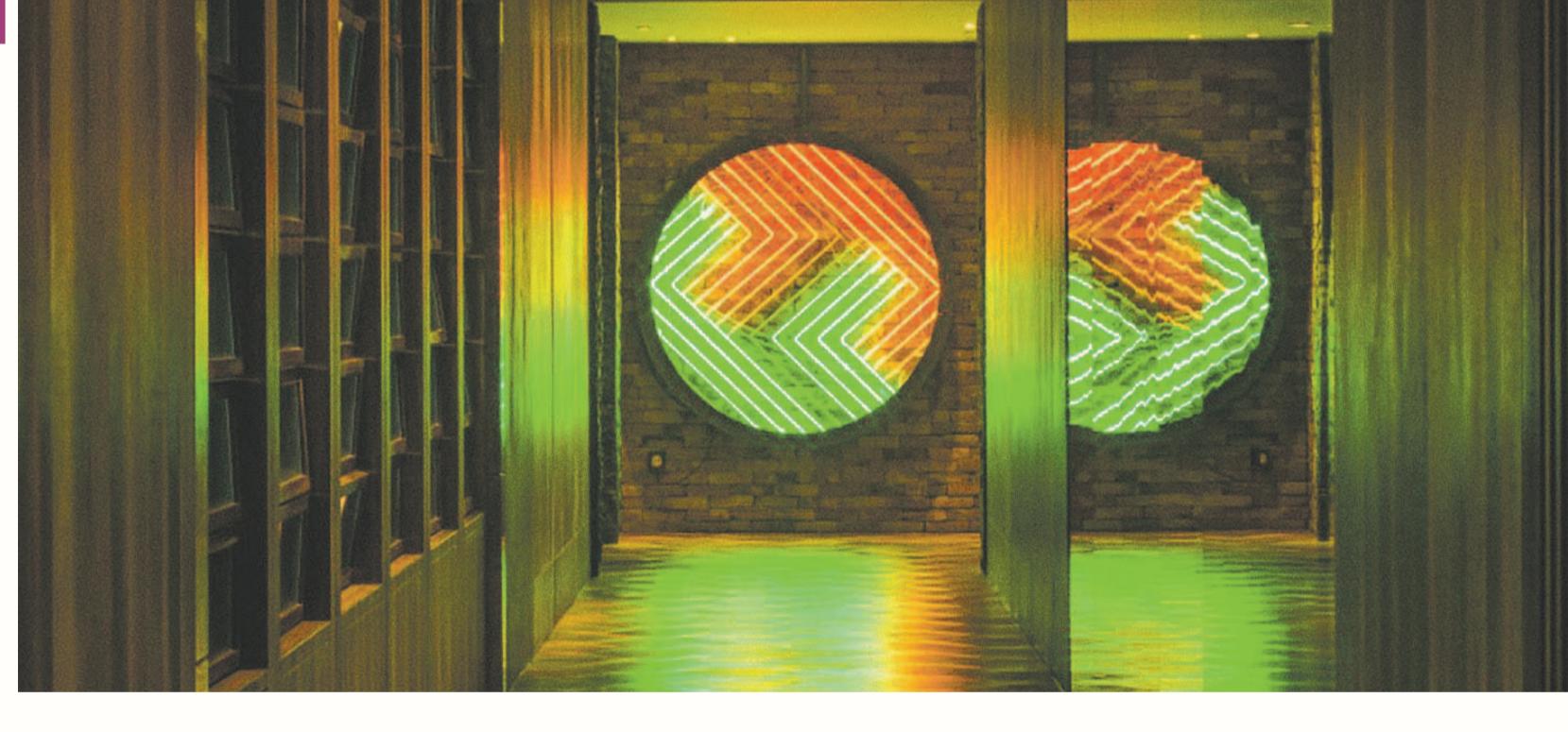
Theoretically this widely used measure makes little sense, since earnings are variable and should rise with inflation, while bond coupons are fixed and static.

There is no reason for the gap between them to be at any particular level, and the fact the two moved closely together throughout the 1990s doesn't mean they will again. In practice, this measure should be very concern-

ing for the very people most likely to rely on it, those obsessed by TINA. Far from screaming buy, the equity risk premium at 3.23 points is about the lowest since Lehman Brothers failed and is back down to where it was in November 2007. Those who think it is a useful guide need to admit that shares are more expensive relative to bonds than they have been in a decade. Combine a rising term premium with the already narrowing gap between shares and bonds, and the siren song of TINA loses its melody.

Investors who expect the economy to strengthen might reasonably hope that profits rise enough to offset higher yields, even at today's elevated stock valuations. Those who have fallen for TINA's charms should consider the homely values of cash and bonds again.

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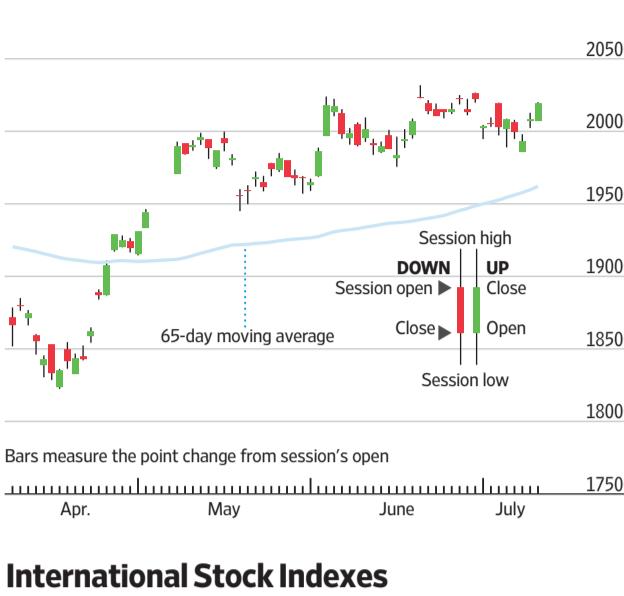
**紅糖**  
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Hong Kong  
香港嘉里酒店

## MARKETS DIGEST

### Nikkei 225 Index

**20195.48** ▲ 114.50, or 0.57%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Apr. May June July

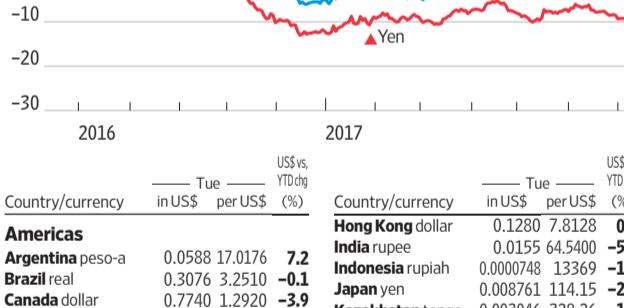
### International Stock Indexes

Region/Country	Index	Data as of 12 p.m. New York time					
		Close	NetChg	% chg	52-Week Range	Close	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2781.97	1.57	<span style="color: green;">▲ 0.06</span>	2373.10	2792.77	10.0
	<b>MSCI EAFE</b>	1880.32	-0.13	<span style="color: red;">-0.01</span>	1471.88	1956.39	9.6
	<b>MSCI EM USD</b>	1017.38	8.09	<span style="color: green;">▲ 0.80</span>	691.21	1044.05	28.1
<b>Americas</b>	<b>DJ Americas</b>	582.52	-0.90	<span style="color: red;">-0.15</span>	503.44	588.61	7.8
Brazil	Sao Paulo Bovespa	63337.24	311.77	<span style="color: green;">▲ 0.49</span>	53732.82	69487.58	5.2
Canada	<b>S&amp;P/TSX Comp</b>	15085.93	-19.35	<span style="color: red;">-0.13</span>	14319.11	15943.09	-1.3
Mexico	<b>IPC All-Share</b>	50712.15	95.34	<span style="color: green;">▲ 0.19</span>	43998.98	50747.61	11.1
Chile	<b>Santiago IPSA</b>	3722.21	-2.09	<span style="color: red;">-0.06</span>	3120.87	3786.05	15.5
<b>U.S.</b>	<b>DJIA</b>	21403.84	-4.68	<span style="color: red;">-0.02</span>	17883.56	21562.75	8.3
	<b>Nasdaq Composite</b>	6177.72	1.33	<span style="color: green;">▲ 0.02</span>	5002.82	6341.70	14.8
	<b>S&amp;P 500</b>	2422.41	-5.02	<span style="color: red;">-0.21</span>	2083.79	2453.82	8.2
	<b>CBOE Volatility</b>	11.36	0.25	<span style="color: green;">▲ 2.25</span>	9.37	23.01	-19.1
<b>EMEA</b>	<b>Stoxx Europe 600</b>	379.15	-2.49	<span style="color: red;">-0.65</span>	328.80	396.45	4.9
	<b>Stoxx Europe 50</b>	3107.09	-21.83	<span style="color: red;">-0.70</span>	2720.66	3279.71	3.2
France	<b>CAC 40</b>	5140.60	-25.04	<span style="color: red;">-0.48</span>	4270.99	5442.10	5.7
Germany	<b>DAX</b>	12437.02	-8.90	<span style="color: red;">-0.07</span>	9841.11	12951.54	8.3
Israel	<b>Tel Aviv</b>	1435.93	0.58	<span style="color: green;">▲ 0.04</span>	1372.23	1490.23	-2.4
Italy	<b>FTSE MIB</b>	21111.70	-78.97	<span style="color: red;">-0.37</span>	15923.11	21828.77	9.8
Netherlands	<b>AEX</b>	510.99	-1.06	<span style="color: red;">-0.21</span>	436.28	537.84	5.8
Russia	<b>RTS Index</b>	1001.51	-4.63	<span style="color: red;">-0.46</span>	898.05	1196.99	-13.1
Spain	<b>IBEX 35</b>	10449.10	-60.40	<span style="color: red;">-0.57</span>	8229.40	11184.40	11.7
Switzerland	<b>Swiss Market</b>	8874.07	-69.77	<span style="color: red;">-0.78</span>	7585.56	9148.61	8.0
South Africa	<b>Johannesburg All Share</b>	52376.38	188.46	<span style="color: green;">▲ 0.36</span>	48935.90	54716.53	3.4
Turkey	<b>BIST 100</b>	103182.64	2085.48	<span style="color: green;">▲ 2.06</span>	70426.16	103558.64	32.1
U.K.	<b>FTSE 100</b>	7329.76	-40.27	<span style="color: red;">-0.55</span>	6615.83	7598.99	2.6
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1621.60	9.95	<span style="color: green;">▲ 0.62</span>	1391.46	1643.59	14.0
Australia	<b>S&amp;P/ASX 200</b>	5728.90	4.50	<span style="color: green;">▲ 0.08</span>	5156.60	5956.50	1.1
China	<b>Shanghai Composite</b>	3203.04	-9.59	<span style="color: red;">-0.30</span>	2953.39	3288.97	3.2
Hong Kong	<b>Hang Seng</b>	25877.64	377.58	<span style="color: green;">▲ 1.48</span>	21224.74	26063.06	17.6
India	<b>S&amp;P BSE Sensex</b>	31747.09	31.45	<span style="color: green;">▲ 0.10</span>	25765.14	31747.09	19.2
Indonesia	<b>Jakarta Composite</b>	5773.33	1.82	<span style="color: green;">▲ 0.03</span>	5027.70	5910.24	9.0
Japan	<b>Nikkei Stock Avg</b>	20195.48	114.50	<span style="color: green;">▲ 0.57</span>	16083.11	20230.41	5.7
Malaysia	<b>Kuala Lumpur Composite</b>	1755.03	-2.10	<span style="color: red;">-0.12</span>	1616.64	1792.35	6.9
New Zealand	<b>S&amp;P/NZX 50</b>	7628.57	44.62	<span style="color: green;">▲ 0.59</span>	6664.21	7685.45	10.9
Pakistan	<b>KSE 100</b>	44120.58	-2153.23	<span style="color: red;">-4.65</span>	39017.32	52876.46	-7.7
Philippines	<b>PSEI</b>	7858.14	20.67	<span style="color: green;">▲ 0.26</span>	6563.67	8102.30	14.9
Singapore	<b>Straits Times</b>	3218.80	-27.55	<span style="color: red;">-0.85</span>	2787.27	3271.11	11.7
South Korea	<b>Kospi</b>	2396.00	13.90	<span style="color: green;">▲ 0.58</span>	1958.38	2396.00	18.2
Taiwan	<b>Weighted</b>	10415.57	125.66	<span style="color: green;">▲ 1.22</span>	8841.46	10513.96	12.6
Thailand	<b>SET</b>	1569.24	-0.20	<span style="color: red;">-0.01</span>	1406.18	1591.00	1.7

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



2016 2017

### STOXX 600 Index

**379.15** ▼ 2.49, or 0.65%

High, low, open and close for each trading day of the past three months.



Apr. May June July

### Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasuries on benchmark two-year and 10-year government bonds around the world. Data as of 12 p.m. ET

Country/Coupon	Maturity, in years	Yield	12 p.m. New York time						Year ago
			Latest	Spread Over Treasury, in basis points	Previous	Month Ago	Year ago	Previous	
<b>Australia</b> 5.250	<b>2</b>	<b>1.753</b>	<b>36.2</b>	<b>34.7</b>	<b>28.0</b>	<b>95.5</b>	<b>1.734</b>	<b>1.619</b>	<b>1.612</b>
<b>Belgium</b> 4.750	<b>10</b>	<b>2.705</b>	<b>33.2</b>	<b>31.8</b>	<b>21.0</b>	<b>47.8</b>	<b>2.693</b>	<b>2.411</b>	<b>2.192</b>
<b>France</b> 3.000	<b>2</b>	<b>-0.476</b>	<b>-186.7</b>	<b>-187.9</b>	<b>-193.2</b>	<b>-124.2</b>	<b>-0.492</b>	<b>-0.593</b>	<b>-0.585</b>
<b>Germany</b> 0.000	<b>2</b>	<b>-0.380</b>	<b>-177.1</b>	<b>-177.4</b>	<b>-185.8</b>	<b>-124.4</b>	<b>-0.387</b>	<b>-0.519</b>	<b>-0.587</b>
<b>Portugal</b> 1.000	<b>10</b>	<b>0.920</b>	<b>-145.2</b>	<b>-146.5</b>	<b>-155.5</b>	<b>-130.4</b>	<b>0.910</b>	<b>0.646</b>	<b>0.130</b>
<b>Spain</b> 0.250	<b>10</b>	<b>0.548</b>	<b>-199.0</b>	<b>-198.7</b>	<b>-208.7</b>	<b>-134.5</b>	<b>-0.600</b>	<b>-0.748</b>	<b>-0.688</b>
<b>Italy</b> 0.050	<b>2</b>	<b>0.111</b>	<b>-128.1</b>	<b>-130.0</b>	<b>-160.5</b>	<b>-73.0</b>	<b>0.087</b>	<b>-0.266</b>	<b>-0.073</b>
<b>Japan</b> 0.100	<b>2</b>	<b>-0.101</b>	<b>-149.3</b>	<b>-148.3</b>	<b>-144.6</b>	<b>-100.7</b>	<b>-0.096</b>	<b>-0.107</b>	<b>-0.350</b>
<b>Netherlands</b> 4.000	<b>2</b>	<b>-0.574</b>	<b>-196.5</b>	<b>-197.7</b>	<b>-204.9</b>	<b>-127.0</b>	<b>-0.590</b>	<b>-0.710</b>	<b>-0.165</b>
<b>U.K.</b> 0.750	<b>10</b>	<b>0.751</b>	<b>-162.2</b>	<b>-163.2</b>	<b>-172.2</b>	<b>-153.1</b>	<b>0.743</b>	<b>0.479</b>	<b>-0.097</b>
<b>Portugal</b> 4.750	<b>2</b>	<b>0.041</b>	<b>-135.0</b>	<b>-137.2</b>	<b>-122.1</b>	<b>-28.5</b>	<b>0.015</b>	<b>0.118</b>	<b>0.3</b>

## THE PROPERTY REPORT

# Coming to Your Block: Pop-Up Hotels

Startups aim to help apartment landlords convert units into short-term rentals

BY LAURA KUSISTO

A handful of startups are betting they can help apartment-building owners convert empty units into hotel rooms, a controversial practice that could help landlords generate more revenue.

The rise of home-sharing services such as **Airbnb** Inc. has been a boon for owners of single-family homes looking to make extra money by renting out properties.

But the services have been met with fierce resistance by local governments and some tenants worried that large residential buildings could morph into hotel-like properties brimming with tourists and other transients.

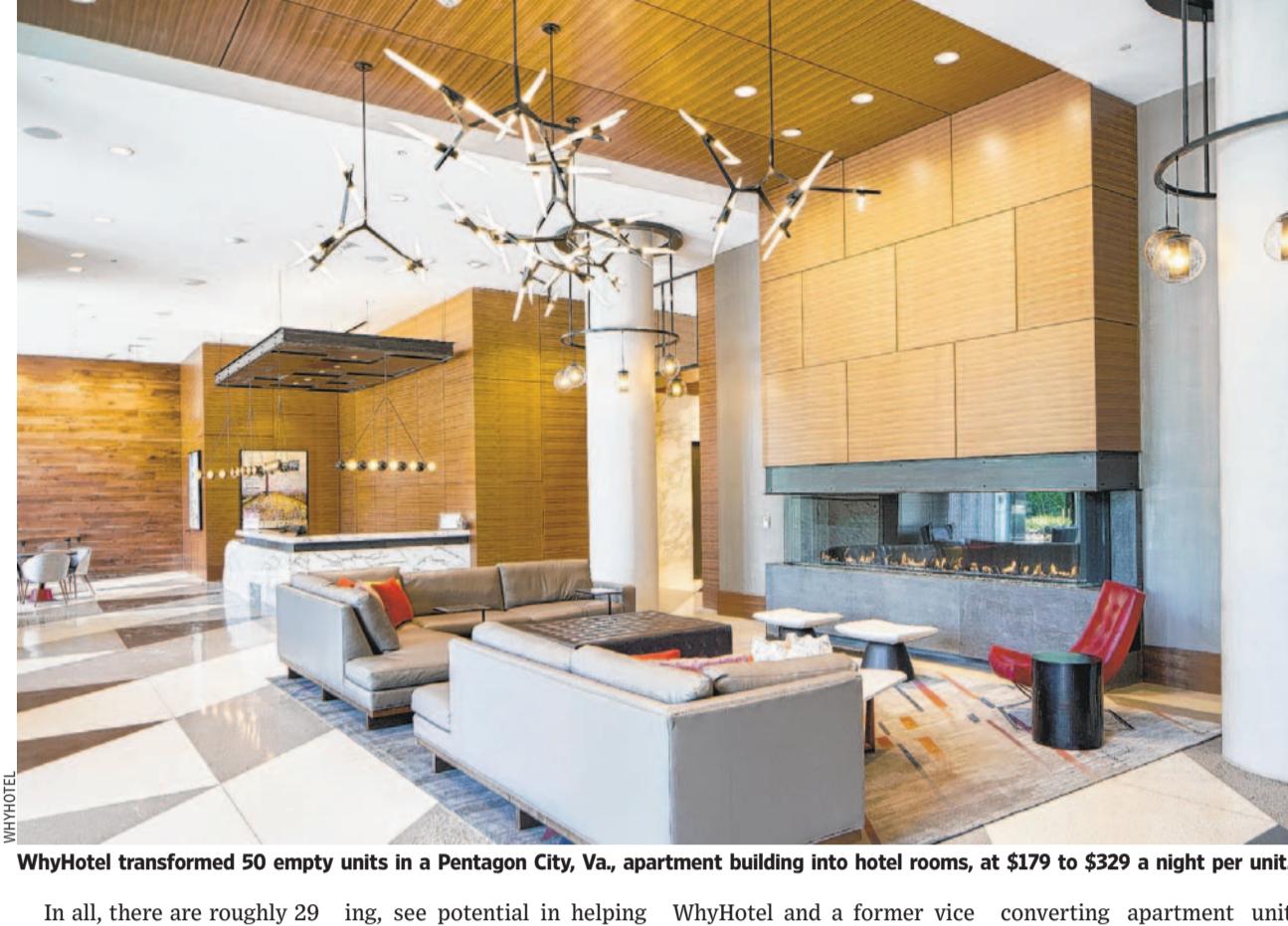
Yet some startups contend they can navigate these potential pitfalls.

Arlington, Va.-based **WhyHotel** aims to turn apartment buildings into pop-up hotels, complete with front desks and maid services, to help owners generate revenue while they are in the midst of finding full-time tenants.

**YouRent.com** of Miami leases sections of apartment buildings or even entire properties, bringing in designers to transform the units into hotel rooms.

**Pillow Residential**, which last month raised \$13.5 million in funding, offers a platform that allows building owners to access information about Airbnb guests and see which units in their building are being rented out and when.

The services are sprouting up just as the red-hot U.S. apartment market is beginning to cool.



WhyHotel transformed 50 empty units in a Pentagon City, Va., apartment building into hotel rooms, at \$179 to \$329 a night per unit.

In all, there are roughly 29 million apartment units in the U.S., according to the National Multifamily Housing Council. Nearly 800,000 new units have been built since the beginning of 2014, according to CoStar Group Inc.

But the vacancy rate for apartments in downtown markets rose to 8.1% in the first quarter from 6.8% a year ago, according to CoStar. Some 45% of buildings completed in the first quarter of 2016 were more than 10% vacant after a year, compared with 38% for those built in the first quarter of 2015, suggesting properties are taking longer to lease.

The startups, which are expected to typically operate eight to 16 months in a build-

ing, see potential in helping the developers of those buildings wring revenue out of units that aren't yet leased.

WhyHotel piloted its concept with 50 empty units in a Pentagon City, Va., building owned by **Vornado Realty Trust**. Prices were \$179 to \$329 a night on units that otherwise wouldn't have generated revenue until they were rented to long-term tenants. The service ran from January through May, when there were enough tenants to bring the building close to full occupancy.

"They're very easy conversations to have because there's a lot of product coming online," said Jason Fudin, co-founder and chief executive of

WhyHotel and a former vice president of strategic initiatives at Vornado. Mr. Fudin declined to disclose what percentage of the nightly rental fee Vornado received, saying it is different for every deal.

Mr. Fudin said his team hammered out an agreement with local officials that permitted it to operate the hotel for no more than 24 months. He said the business model makes sense only in buildings that are 200 units or more, in which significant structural modifications aren't needed to bring the buildings up to hotel-like codes and they can get enough scale to make it worthwhile to operate as a hotel for only a short time.

While WhyHotel avoids

converting apartment units permanently to hotel rooms to help dodge the controversy of housing becoming tourist lodging, other companies are embracing that model.

YouRent takes control of a block of units in high-end apartment buildings and rents them as hotel rooms. Brian Ferdinand, YouRent's chief operating officer, said the company hopes to take advantage of the glut of luxury-apartment inventory and demand for hotel rooms in hip urban cores.

The company is expanding in Miami; Austin, Texas, and Nashville, Tenn., and plans to fan out to San Diego, Denver and Boston. Mr. Ferdinand said a two- or three-bedroom

unit rents for about the price of a hotel room on a nightly basis.

Mr. Ferdinand said that in some cases, YouRent pays landlords 20% above what they could get from a typical tenant because the short-term rental business is so lucrative. The company's average guest stay is 3.5 nights.

YouRent is aiming to provide a more structured alternative for landlords, Mr. Ferdinand said, offering detailed screening to weed out people with criminal records or sexual predators, paying applicable local taxes and obtaining permits and buying rental insurance.

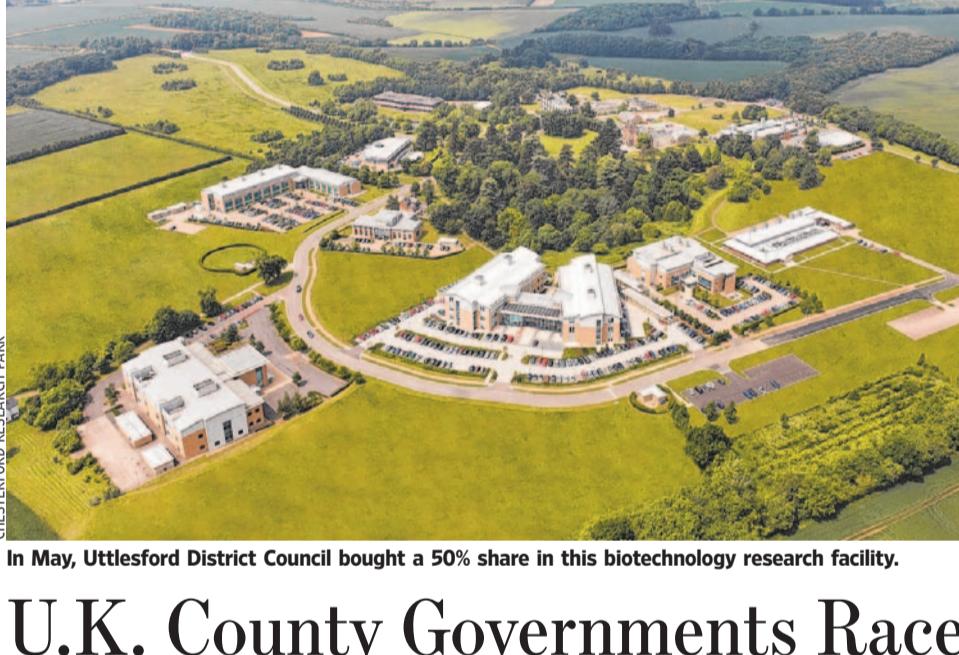
These new services aim to get around an issue that Airbnb has been confronted with: Historically, landlords have been reluctant to allow tenants to rent out units because they didn't receive any of the revenue. Most apartment leases forbid tenants from subletting units without permission.

Airbnb has been trying to recruit owners of big apartment buildings, which represent a crucial growth opportunity for the company because the sleek modern buildings with doormen, fitness centers and contemporary finishes are likely to appeal to business travelers.

Airbnb rolled out its own program last fall that would give landlords who allow tenants to rent units a cut of the revenue.

The initial reception was cool. Landlords are wary of liability, disrupting the sense of community in the building and having the risks of tenants who hadn't gone through the full screening process.

A spokesman for Airbnb said the program has expanded to about 8,000 eligible units and the program "continues to grow."



In May, Utlesford District Council bought a 50% share in this biotechnology research facility.

## U.K. County Governments Race Into Real-Estate Investments

BY ART PATNAUDE

In Britain, an unlikely group is piling into commercial real-estate investments: local governments.

The central U.K. government has cut back on funding for local entities known as councils since the 2008 financial crisis. To plug the gap, local officials have been hunting for yield in property.

In all, local councils have poured £1.8 billion (\$2.32 billion) into commercial real estate in the past 12 months, up from £406 million in the previous 12-month period, according to property data firm Real Capital Analytics.

The bet is that income from renting out offices and malls will help cover costs for libraries, social services and other expenses.

But the surging activity has sparked warnings that the risks being taken with public money are too great.

"Concerns center on the perceived lack of expertise of councils in this specialized arena, which could lead to costly errors that have consequences for taxpayers," said Tom Leahy, director of market analysis at Real Capital.

U.K. councils, ranging in size from major counties to smaller districts, often are responsible for services such as education, transport and housing.

They typically receive fund-

ing from a combination of central-government grants and local taxes.

Ultralow interest rates at central banks around the world have pushed down yields on asset classes like bonds. In response, institutional investors increasingly have turned to commercial real estate, where yields tend to be higher.

For U.K. councils, the government spending cuts have only exacerbated the need for new ways to generate revenue.

In recent months, Surrey Heath Borough Council has bought two retail properties and one industrial property in Camberley, where it is based, according to Mr. Leahy.

Barnsley Borough Council, meanwhile, this year invested £70 million to fund the construction of a new shopping center.

In May, Utlesford District Council in Essex bought a 50% share in Chesterford Research Park, a biotechnology and pharmaceutical research facility, for £45 million.

"As funding from central government diminishes, Utlesford, like other councils across the U.K., is seeking alternative routes through which to generate long-term income," the council said in a statement in May.

Late last year, Spelthorne Borough Council spent £360 million to buy an office campus of oil giant BP PLC, the

biggest deal in the past 12 months. The council said its central-government funding will be withdrawn completely by 2018, forcing it to find innovative ways to fund services and create new revenue streams.

When bidding against other investors, these councils have a distinct advantage: cheap debt.

The Public Works Loan Board, an arm of the U.K. Treasury, can lend to councils at interest rates derived from U.K. government bonds, which are at record lows.

The benefits for councils are clear: "It's access to long-term, very cheap finance," said John Duxbury, head of retail at London-based M&G Real Estate.

But the investments being fueled by the cheap money require some expertise. Unlike bonds, for example, income from real estate requires upkeep and maintenance of the assets, investors said.

To be sure, deal-making from councils still makes up a small part of the total volume of U.K. commercial-property transactions, which was £44.4 billion in the past 12 months, according to Real Capital.

But the pace of buying is expected to accelerate as long as cheap debt is available, brokers and investors said.

"There seems to be no halt to this spending spree," said Mr. Leahy at Real Capital.

## Retailers Tap Consultants To Haggle on Mall Leases

BY ESTHER FUNG

Consultants who help store owners wring concessions from landlords are seeing brisk business these days, another ripple of the shifting retail landscape across the U.S. economy.

The rise of online shopping and changing consumer preferences are forcing retailers to rethink virtually all aspects of their operations. First on the list for many is real estate, which is typically the second-biggest cost after payroll.

As store owners scrutinize their store footprints, they are increasingly turning to professionals who can help them get better deals from landlords.

A growing roster of retailers, including **Bebe Stores Inc.** and **Pacific Sunwear of California Inc.**, are tapping lease-consulting firms to get landlords to agree to take less money.

"The C-suite, as well as the company's board, are more engaged in real estate than ever before," said Andrew Grasier, co-president of **A&G Realty Partners**, a real-estate advisory firm that has worked with hundreds of retailers on restructuring leases and shrinking store fleets. "Sales trends and margins aren't as predictable as in the past, which puts more pressure on getting occupancy costs more in line with a store's performance."

Landlords say they will make their own assessments by studying the tenant sales at the stores, their rent-to-sale ratios and how they compare to the retailer's national averages and the national average of the industry.

"Some retailers we're working with, some a little less, and others, we'd politely say go ahead and order the moving truck," said Ami Ziff, director of national retail for **Time Equities Inc.**, a real-estate firm with a portfolio that includes malls and open-air shopping centers across the country.

Landlords of weaker shopping centers that don't attract alternative tenants are more likely to amend leases, while owners of stronger malls say they can ignore such requests from retailers that aren't on

the brink of bankruptcy or buy out the lease from a struggling tenant and replace it with a higher-paying tenant.

When a tenant is highly leveraged, landlords can feel pressure to make a deal.

Last week, jeans maker **True Religion Apparel Inc.** filed for bankruptcy protection, following in the footsteps of apparel retailers Rue21 Inc., Wet Seal LLC and Gymboree Corp. in recent months. True Religion said it plans to use bankruptcy laws to close or consolidate underperforming stores and renegotiate leases.

*When a tenant is highly leveraged, landlords can feel pressure to do a deal.*

A bankruptcy filing makes it more difficult for landlords to pursue and collect the full amount of rent, since the bankruptcy code effectively halts legal action against a company.

"You want to reset the table before a bankruptcy filing," said Michael Sirota, a lawyer at Cole Schotz who works with retailers and landlords in lease negotiations.

Sometimes landlords are at the mercy of tenants. **Spirit Realty Capital**, a real-estate investment trust that owns free-standing buildings that it leases to single tenants such as electronics stores, fast-food restaurants and convenience stores, said during its first

quarter earnings call it suffered a "perfect storm" when some tenants stopped paying rents.

Appliance seller Hhgregg Inc., outdoor-gear retailer Gander Mountain Co. and home décor and apparel chain Gordmans Stores Inc. filed for bankruptcy protection in March, while a movie-theater operator and two casual-dining operators defaulted on recent payments.

In April alone, the REIT failed to collect \$4 million in rent and subsequently had to pause its earlier plans to acquire more real-estate assets.

Spirit Realty suffered a "black eye, bloody nose and broken limbs," said Green Street Advisors in a recent research note. Spirit Realty declined to comment.

Real-estate consultants advise clients looking to cut costs to explain to landlords that the failure to cooperate could end up hurting them more.

Landlords "rarely agree to rent reductions out of the goodness of the heart. Landlords are out there trying to make money, too," said Gregory Apter, president of Hilco Global, a real-estate services firm that has seen a rise in demand from retailers in lease-restructuring negotiations.

Still, the last thing both sides want to see is a default, Mr. Apter said. For tenants, that means a blow to their credit profile and for landlords, lost revenue and higher costs.

"We need to provide a compelling story that is true and articulate that a rent reduction would provide critical runway for the retailer," said Mr. Apter.

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# MARKETS

# Investors Keep Faith in Long-Term Bonds

Despite recent selloff, 10-year/30-year yield differential shows belief in tame inflation

By MIN ZENG

Investors aren't giving up on the best-performing Treasuries, one sign that some think the recent bond-market selloff could prove short-lived.

Bond prices have fallen in recent weeks, pushing the yield on the benchmark 10-year U.S. Treasury note to its highest since early May. The yield was at 2.384% Tuesday morning, down from 2.393% Friday. But it was up from this year's low of 2.135% on June 26, one day before the recent selloff started. Yields rise as bond prices fall.

At the same time, the difference between the yields on the 10-year and 30-year Treasuries recently hit its lowest since 2009. A shrinking gap means investors get a lower premium to own the 30-year bond, which signals their doubts that inflation will rise and threaten the value of long-term debt.

Investors have long confronted a trade-off when dabbling in long-term bonds. When interest rates fall, prices of these bonds rise more sharply than their shorter-term peers, rewarding bond buyers. Yet bondholders suffer losses if prices fall and yields rise rapidly.

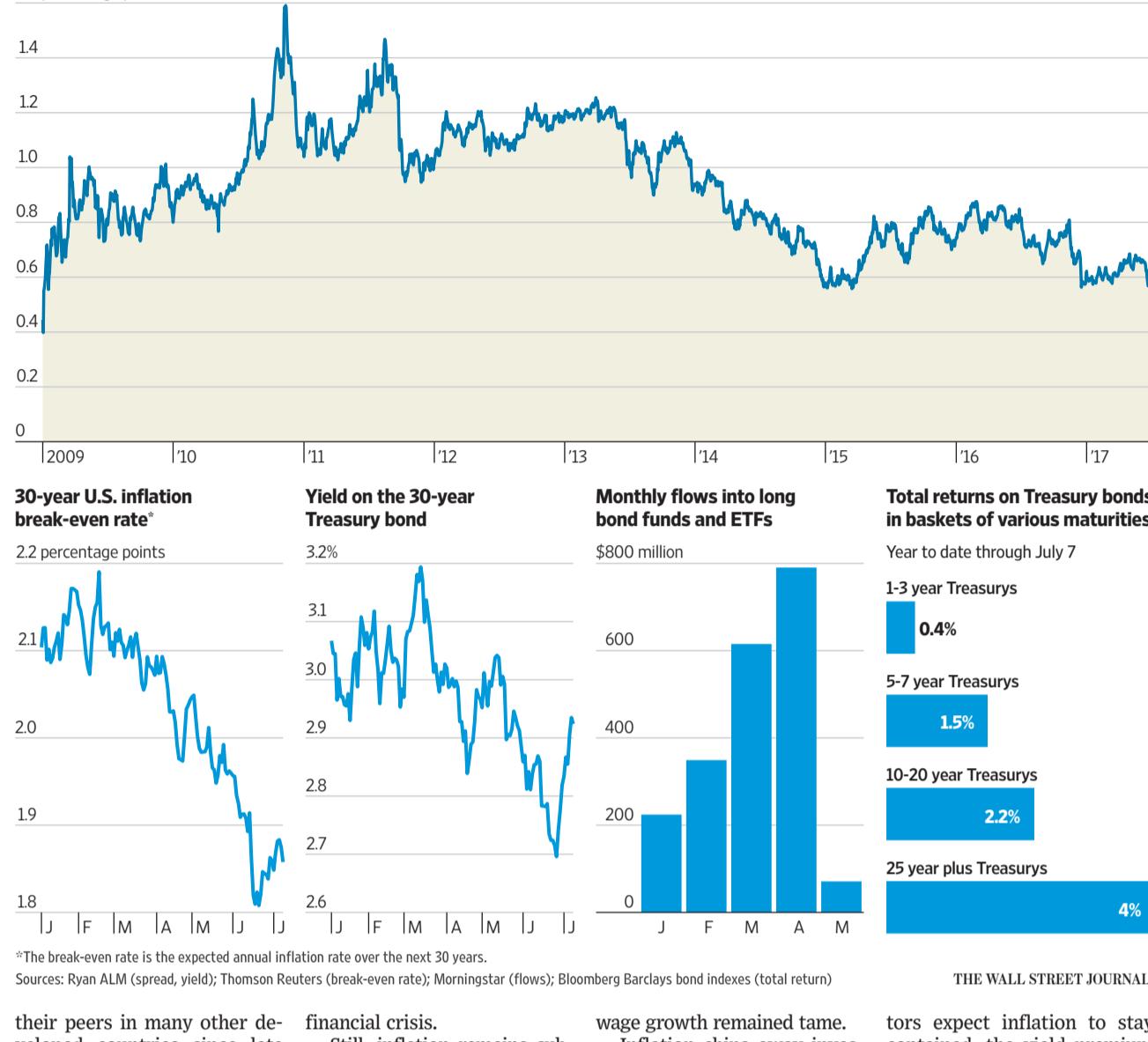
"The bond market is pricing in low inflation," said Thomas Byrne, director of fixed income at **Wealth Strategies & Management LLC**. "Inflation, here and abroad, will ultimately determine long-term rates and central-bank policies."

The recent selloff is stirring up a fresh debate over whether long-dated government debt is riskier than bonds with shorter maturities, a split that highlights the crosscurrents complicating investors' outlook for bonds.

Government bonds in the U.S. have sold off along with

## Long View

The difference between the yield on the 10-year U.S. Treasury note and the 30-year bond recently touched its lowest since 2009, a sign investors' inflation expectations remain muted.



their peers in many other developed countries since late June, following signals from major central banks that a broad improvement in the global economy may allow them to pull back ultraloose monetary stimulus. Easy-money policies have played a key role in driving bond prices to historically high levels following the

financial crisis. Still, inflation remains subdued, tempering a threat to long-term bonds. Over the past few months, some measures have shown inflation pressure easing in the U.S., with some indicators falling below the Federal Reserve's 2% target. Friday's jobs report exceeded analysts' expectations, yet a gauge of

wage growth remained tame. Inflation chips away investors' purchasing power from their bonds' fixed payments. As a result, the 30-year Treasury bond, the longest Treasury maturity, is the most sensitive to inflation. The U.S. consumer-price index report for June is scheduled to be released Friday. In a major sign some inves-

tors expect inflation to stay contained, the yield premium investors demanded to hold the 30-year Treasury bond relative to the 10-year Treasury note fell to 0.516 percentage point on July 3, the lowest level since January 2009, according to Tradeweb. It ticked up to 0.55 percentage point Monday. On Tuesday morning, the 30-

year Treasury yield was 2.931%, still below the 3.067% where it closed at the end of 2016.

The premium decline has surprised some traders and analysts because it happened as the recent selloff has driven up the 10-year yield's premium relative to that of the two-year note.

The 30-year break-even rate, the yield premium of the 30-year Treasury bond to the 30-year Treasury inflation-protected security, was 1.86 percentage points Monday, according to Tradeweb. That suggests investors expect inflation in the U.S. to run at an annualized 1.86% rate over the next three decades. While the break-even rate has risen from this year's low of 1.804% set on June 20, it was below this year's high of 2.158% in February.

"Inflation has been too low and Congress has struggled to pass legislation to promote economic growth," said Andrew Pace, vice president at Performance Trust Capital Partners LLC. "Without these two issues getting resolved, it will be hard" for the rise in long-term Treasury bond yields to continue, he said.

Treasurys maturing in more than 25 years posted a 4% return this year through July 7, including price changes and interest payments, beating the 1.4% return on overall Treasury debt, according to data from Bloomberg Barclays bond indexes. Over a greater time span, buying long-term bonds has been rewarding. The 30-year Treasury bond yield closed at a high of 15.252% in October 1981. It has since been declining, driven partly by moderation of inflation pressure. The yield closed at a record low of 2.109% in July 2016.

And even as the 30-year bond yield remains low by historical standards, it is higher than yields offered from 30-year bonds in Germany, the U.K. and Japan. That could continue to draw buyers, keeping a lid on yields, said money managers.

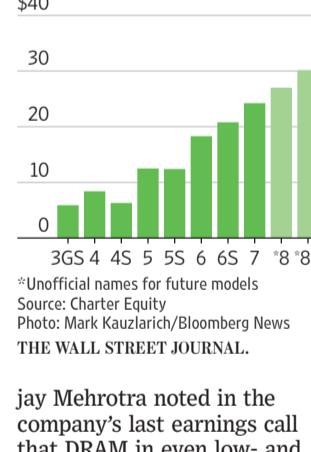
## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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# Chip Makers Feasting on Phones



*The best play is to find companies not limited to selling one chip per phone.*

by next year.

Another opportunity comes from the so-called radio frequency, or RF, chips that amplify signals, filter interfer-

ence and boost data speeds. Smartphone makers are packing more of these types of chips per device to make

The trick here is timing: Most stocks in this group have already seen a strong run. Micron, Broadcom and Skyworks are all up more than 30% so far this year through Monday, thanks in part to their other strong businesses, including supplying Samsung's newly launched Galaxy S8. And Apple is widely expected to delay the shipment of its 10th-anniversary iPhone this fall due to possible component shortages. In a research note Monday, Andy Hargreaves of KeyBanc Capital Markets said expectations for an iPhone launch delay have already been incorporated into Wall Street's consensus estimates for several Apple suppliers—including Broadcom, Skyworks and Cirrus Logic.

That will likely curb projections in the coming earnings season. And it won't be clear until the iPhones actually ship which chips are actually inside. But Broadcom and Skyworks both trade at less than 15 times forward earnings—in line with the sector average. That could leave some room for an October surprise.

—Dan Gallagher

## OVERHEARD

**Amazon.com**'s relentless expansion has devastated companies everywhere, but at least vintners can breathe easy.

Several outlets reported last week about an Amazon news release about "the first wine ever developed from conception to release with Amazon Wine."

The retailer then corrected the release several hours later, pointing out that it will simply distribute the wine called NEXT.

Amazon already sells wine online, but doing so is complicated.

And retail competitors already market their own bottles—some quite good. For example, **Costco Wholesale** has earned accolades for its store-brand Champagne and a British **Wal-Mart Stores** subsidiary saw a run on an award-winning Chilean red wine that was selling for under \$6.

On the other end of the spectrum was "Two Buck Chuck" at **Trader Joe's**.

Amazon isn't in this game yet, but it will be late if it ever arrives.

# Abercrombie Loses Last Best Hope

After two months of trying to sell itself, **Abercrombie & Fitch** is going it alone. A deal may have been its last chance for recovery.

Shares of Abercrombie plunged 21% Monday after the company said it had terminated discussions regarding a potential sale and had decided that "aggressive pursuit" of its current strategy is the best path. Unfortunately for Abercrombie, the announcement likely means a continuation of its downward trajectory. There is also a read-across for other struggling apparel retailers: Don't expect to be bailed out by private equity or peers.

Private-equity firms have become more wary of taking on debt to buy struggling retailers. Abercrombie had net cash on its balance sheet as of the end of the first quarter, but is one of the most heavily indebted retailers if lease obligations are factored in. That may have limited a private-equity firm's ability to borrow for a deal.

For peers such as **Express** and **American Eagle Outfitters**, both of which were interested in Abercrombie, the benefits of taking over a company with a flagging namesake brand were already limited. They could have gotten Abercrombie's better-performing Hollister brand while taking out a competitor, but the retailers' capital would likely be better spent bolstering their own e-commerce operations than in eliminating an already shrinking rival.

Abercrombie's shares fell to their lowest level in 17 years Monday, a sign that investors don't expect another deal or a revival of the chain on its own. This could be the beginning of the end for Abercrombie.

—Miriam Gottfried

# Wanda Rides Financial Merry-Go-Round With Latest Deal



purchase amount, in three installments. But given the deal's size—it is bigger than Hong Kong-listed Sunac's

own \$7.5 billion market value—it needs some help.

Sunac isn't looking very far for the rest of the money.

In a maneuver that will reduce the need for external financing, Wanda is lending

about 29.6 billion yuan (\$4.4

billion) to Sunac to buy its

own assets.

The structure of the loan is a typical example of so-called entrusted lending, a common form of shadow banking in China in which one company lends money to another. Because that isn't strictly legal, such loans are arranged via a bank that acts as a middleman, often earn-

ing a cut of the deal for its pains.

Entrusted lending has ballooned to account for about 10% of credit in China, led by cash-rich state-owned companies that have branched out to loans as they struggle to find growth in their core businesses.

With the current Sunac-Wanda deal, Sunac should book the loan as debt, although it could bury it in one of its many joint ventures. Wanda will presumably record the loan as an asset, meanwhile. The ultimate effect is that most of Wanda's debts haven't been

dealt with; they have just been shifted elsewhere within China Inc.

Wanda is lending the cash cheaply, too. The three-year loan will be at the benchmark lending rate, now around 5%. Typically such loans are priced at a premium, especially those to indebted borrowers like Sunac, which has an eye-popping net debt-to-equity ratio of over 160%.

Still, if one of your friends is helping you out, it is rude to make them pay over the odds.

—Anjani Trivedi and Jacky Wong