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# THE WALL STREET JOURNAL.

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

MONDAY, JUNE 19, 2017 ~ VOL. CCLXIX NO. 141

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★★★★ \$3.00

Last week: DJIA 21384.28 ▲ 112.31 0.5% NASDAQ 6151.76 ▼ 0.9% STOXX 600 388.60 ▼ 0.5% 10-YR. TREASURY ▲ 13/32, yield 2.157% OIL \$44.74 ▼ \$1.09 EURO \$1.1198 YEN 110.88

## What's News

### Business & Finance

Tech shares are represented in many so-called factor-based investing strategies, complicating efforts to diversify portfolios. A1

◆ Trump meets Monday with tech executives, in talks that will display his evolving relationship with business leaders. B1, B4

◆ An activist investor is pushing Saks's parent to consider options such as taking the retailer private. B1

◆ Ransomware attacks on hospital computers aren't always reported to HHS, a lapse that critics say hurts cybersecurity. B3

◆ GM's Cruise unit is getting into the mapping business, as the auto maker competes in the race to develop self-driving cars. B4

◆ Boeing said it sees big market potential for a new jet model but wants more time to decide before committing to the project. B5

◆ Airlines are bracing for additional security checks as the U.S. considers expanding a laptop ban on international flights. B5

◆ Investors are cooling on Britain in the wake of weak economic data and an inconclusive election. B9

◆ Oil prices inched up Friday but remained near their lows for the year due to a lingering glut. B9

### World-Wide

◆ An American warplane shot down a Syrian jet, marking the first time in Syria's civil war that a U.S. pilot has struck a regime plane. A1

◆ Israel has secretly aided Syrian rebels near its border for years, in an effort to carve out a buffer zone populated by friendly forces. A8

◆ French President Macron was projected to win a commanding majority in Parliament, in a victory for his pro-EU movement. A5

◆ A lawyer for Trump denied that the president was being investigated for possible obstruction of justice. A4

◆ Senate and House panels are set Wednesday to hold two open hearings on Russian election hacking. A4

◆ A vehicle struck pedestrians near a mosque in north London early Monday, causing at least one death and a number of casualties. Prime Minister Theresa May said the incident was being treated as a potential terrorist attack and said she would call an emergency meeting later Monday. A5

◆ U.S. diplomats have held secret talks with North Korea's top nuclear negotiator for more than a year. A6

◆ Iraqi forces pushed into Mosul's Old City, in what is likely to be the final phase of the fight to retake the city from Islamic State. A8

◆ The Cosby prosecutor said he plans to retry the sexual-assault case after the jury failed to reach a verdict. A3

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## In Portugal, Wildfires Leave Behind Dozens of Deaths



AN INFERNAL TOLL: Forest fires raging through central Portugal have killed at least 61 people, some in their vehicles—a count expected to rise as firefighters battle six major blazes and dozens of smaller ones. Authorities said the cause appeared to have been lightning. A6

## Georgia Vote Hinges on GOP

Republicans uneasy with Trump are crucial segment in special House election

By JANET HOOK  
AND CAMERON MCWHIRTER

CHAMBLEE, Ga.—This Tuesday's U.S. House special election in Georgia has turned into a defining clash between the two political parties, with both sides

targeting a new cadre of potential swing voters: Republicans uneasy with the rise of President Donald Trump.

In the final days before the election, Democrat Jon Ossoff is offering a middle-of-the-road message that sets a different tone from his campaign's inaugural promise to "make Trump furious."

GOP leaders, fearing an upset in this suburban Atlanta district the party has held for decades, are making an urgent appeal to

Republicans to support GOP candidate Karen Handel, even if they have their doubts about the president.

"I know some of you out there, some Republicans, may even be turned off by our president," said Sonny Perdue, Mr. Trump's agriculture secretary, at a sweltering get-out-the-vote rally for Ms. Handel on Saturday in an airplane hangar here.

"This is a race for the heart and soul for America."

The candidates and outside

groups have poured a record \$60 million into this district north of Atlanta, according to an analysis of Federal Election Commission data by Issue One, a bipartisan campaign finance group.

The contest is coming down to a battle for such voters as Gracie Dawes, a lifelong Republican who was so dismayed by

Please see GOP page A4

◆ Lawyer says Trump not under investigation..... A4

## Van Plows Into London Crowd, Leaving 1 Dead

TENSE NIGHT: A vehicle struck pedestrians near a mosque in north London early Monday, causing at least one death and a number of casualties. Prime Minister Theresa May said the incident was being treated as a potential terrorist attack and said she would call an emergency meeting later Monday. A5



EUROPEAN PRESSPHOTO AGENCY

## Big Tech Stocks Foil Strategies to Diversify

By CHRIS DIETERICH  
AND CORRIE DRIEBUSCH

This month's brief technology-stock rout reveals an underside for investors of a steady 2017 rally: Shares of giant tech firms are cropping up everywhere, complicating efforts to diversify portfolios.

Alphabet Inc., Apple Inc., Microsoft Corp. and other tech giants are more heavily represented than they were just a year ago in many so-called factor-based investing strategies. Many of these follow indexes that aim to beat or tame

down risk in the broader market, rather than mimic it, by systematically selecting stocks according to observed traits such as low volatility and momentum.

Technology now represents 11.3% of the \$7 billion PowerShares S&P 500 Low Volatility Portfolio exchange-traded fund, which buys the least-volatile S&P 500 stocks. That compares with 2.9% a year ago, according to Invesco Ltd.

Please see TECH page A2

◆ Trump puts tech's clout to test..... B1

## FOR AMAZON, NOW COMES THE HARD PART

The web titan joins a crowd with its Whole Foods deal; the 'last mile' puzzle

With Amazon.com Inc. wheeling sharply into the grocery aisle, the business of selling food may never be the same.

By Julie Jargon, Annie Gasparro and Heather Haddon

Food retailing was already struggling with low margins and slow sales growth as shoppers shifted buying patterns. New players have swarmed the crowded market, with grocers ranging from giants Wal-Mart Stores Inc. and Kroger Co. to smaller chains fighting to attract consumers, in large part by slashing prices.

And the industry has been struggling to figure out how to sell fresh food online.

Amazon's agreement to buy Whole Foods

### Enter the E-Commerce King

Amazon is expected to increase its share of the U.S. grocery market

Albertsons/Safeway Costco

Amazon Kroger Wal-Mart

32%

28

24

20

16

12

8

4

0

'16 '17 '18 '19 '20 '21 '22

Note: All estimates. Data does not factor in the Whole Foods deal.

Source: Cowen

THE WALL STREET JOURNAL

Market Inc. could add to the saturated market as it puts more of its own groceries into the distribution system, while putting new pressure on grocers to figure out how to sell fresh food online lest the web giant beat them. The deal is

"a seminal moment in the world of eating," said RBC Capital Markets LLC analyst David Palmer.

It isn't at all clear whether the king of e-commerce can do in fresh cabbages what it has done in CDs, books and just about everything else. Amazon and Whole Foods combined still have a small fraction of Wal-Mart's share of groceries. And Amazon faces a "last mile" logistics problem of getting fresh food

to doorsteps that it doesn't with other goods.

"This is going to be one of the hardest ar-

Please see FOOD page A10

## Hair-Raising Idea: A Beard Business Sprouts in Indonesia

\* \* \*

Young entrepreneur touts secret to growing facial hair—and finding love

By JAMES HOOKWAY

JAKARTA, Indonesia—People in Indonesia like the idea of growing beards just as much as hipsters in Brooklyn or Berlin.

Sports stars such as David Beckham and the Houston Rockets' James Harden helped cement the trend, as have actors such as Brad Pitt and Bollywood star Shah Rukh Khan.

The thing is, some Indonesian men struggle to grow facial hair to raise awareness of men's health issues.

Now 23-year-old student Fariz Gamal thinks he has found a

better way of doing it: Just use minoxidil, the active ingre-

Please see BEARD page A7



Beard Trimmer

# U.S. NEWS

THE OUTLOOK | By Jacob M. Schlesinger

## 'Security' Curbs Pose Trade-War Risks

**Donald Trump's trade policy has so far been more bark than bite: dramatic rhetoric about shaking up the old order, backed mainly by new studies and completion of routine Obama-era cases touted with extra fanfare. That may change as soon as this week, when the president bares his "America First" teeth with more ferocity, advancing plans to curb steel imports in the name of "national security."**

In doing so, Mr. Trump is dusting off little-used presidential powers rooted in a claim rarely invoked in world commerce—one that has the potential to destabilize the global postwar trading regime.

"Justifying import restrictions based on national security is really the 'nuclear option,'" Chad Bown, a trade expert at the Peterson Institute for International Economics, wrote recently, warning of a "downward spiral" as trading partners "use similar exceptions to halt U.S. exports of completely different products to their markets."

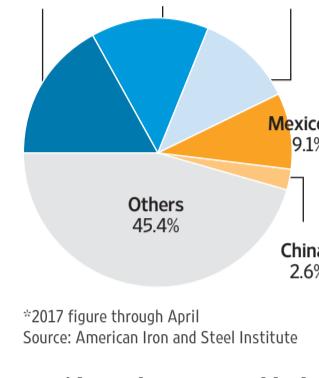
While Mr. Trump isn't the first president to try to shield the steel industry from imports, none has made steel protectionism so central to his political persona, branding prior limits insufficient.

In April, Mr. Trump began to make good on his campaign promises, exhuming Section 232 of a 1962 trade law giving

### Weighing Steel Import Security Threat

Rising steel imports have prompted the Trump administration to consider new limits in the name of 'national security.' Skeptics say most foreign steel purchased in the U.S. comes from close allies.

#### Share of steel imports by country, 2016

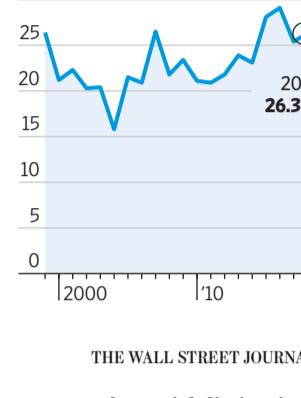


\*2017 figure through April  
Source: American Iron and Steel Institute

presidents the power to block imports that threaten national security, and ordering aides to provide options on implementing the law. Officials are preparing to do so by the end of June, with action expected to follow quickly.

**D**o steel imports threaten security? The George W. Bush administration weighed that question in 2001, and rejected the idea—the last time a Section 232 investigation was launched. The Commerce Department concluded at the time that only a tiny fraction of domestic steel output was needed for security-related uses, and that could be "easily satisfied...even if there

#### Imports overall as a share of the U.S. steel market



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were a substantial diminution of U.S. production." It also noted most steel imports come from close U.S. allies, which remains true today.

But domestic laws give a president wide latitude to determine what threatens security.

The law's "definition of national security is much broader than what you might think," Commerce Secretary Wilbur Ross told a Wall Street Journal conference last week, citing measures such as trade's impact on employment. He said officials were looking beyond strict military concerns, noting that "there is only one U.S. manufacturer of the kind of steel that goes into trans-

formers" for the electrical grid. "That, to me, is a legitimate national security issue," Mr. Ross added.

Global rules also give countries tremendous discretion to curb imports for national security reasons. That's where the Trump actions could have the biggest repercussions.

The international trading system has long reflected the uneasy balance between the need to create consistent rules that could be enforced globally and the need to respect the sovereignty of member states.

The postwar arrangement overseen by the World Trade Organization includes a national security exemption, giving countries significant freedom to use it how they see fit.

Trade law scholars call it the WTO's only "self-judging" provision. Officials have long worried that the exemption, if used liberally, could upset the whole regime, posing a no-win dilemma for the Geneva-based trade arbiters.

The WTO could declare the policy illegal, stoking domestic political anger toward a global organization challenging a country's right to protect itself. Or it could approve it, encouraging other nations to do the same, triggering a tit-for-tat protectionism the system was designed to prevent.

The result for 70 years has been the trade version of the Cold War's "mutually assured destruction" doctrine preventing nuclear war. Only 10 national security complaints have

been lodged in Geneva since 1949, all settled before the parties pushed the world trade body into making a ruling.

In 55 years, the U.S. launched 26 Section 232 studies, with just two leading to limits, both involving oil imports: from Iran in 1979 and Libya in 1982. But Ronald Reagan did brandish the 232 threat as a bargaining chip, using it to persuade Japan in 1986 to "voluntarily" cut machine-tools exports.

**M**r. Trump has already launched two such probes—on aluminum as well as steel—and Mr. Ross said last week "others are being considered."

When world trade leaders created the national security exemption in 1947, officials acknowledged they were enabling a potentially perilous loophole. One participant warned that "the spirit in which Members of the Organization would interpret these provisions was the only guarantee against abuses," according to records of that debate.

Trump aides are still wrestling with just how strong to make their steel curbs, a struggle indicated when they twice canceled congressional briefings on the measure recently.

But Mr. Trump's core trade pledge has been to challenge the spirit U.S. presidents have applied to the global trading system for 70 years, which is why the steel case could have such broad reverberations.

## ECONOMIC CALENDAR

**MONDAY:** Federal Reserve Bank of New York President William Dudley kicks off a full week of **public appearances by Fed officials**, days after the central bank raised short-term interest rates for the second time this year. Mr. Dudley will speak to business and community leaders in Plattsburgh, N.Y.

**WEDNESDAY:** U.S. **existing-home sales** data for May from the National Association of Realtors are expected to show a 0.4% decline, according to economists surveyed by The Wall Street Journal. April sales fell 2.3% from the prior month to a seasonally adjusted annual rate of 5.57 million.

Though demand appears to be strong, due to factors like job growth and millennials looking to buy homes, a tight supply of inventory is raising concerns.

**FRIDAY:** Business surveys are expected to indicate that **economic growth in the eurozone** picked up again in the second quarter. The composite purchasing managers index—a measure of activity in the manufacturing and services sectors—is forecast to fall to 56.6 in June from 56.8 in May.

The U.S. Commerce Department releases **new-home sales** figures for May, after April's sales fell sharply—a potential sign of weakening in the market at a time of rising prices and limited housing inventories.

The data will arrive a week after May housing starts showed a decline, likely exacerbating an imbalance of supply and demand. Economists surveyed by the Journal forecast new-home sales rose 5.1% in May.

## U.S. WATCH

### WISCONSIN

#### Milwaukee Sheriff Won't Join DHS

The Department of Homeland Security said Milwaukee County Sheriff David Clarke is no longer a candidate for a position at the agency.

Mr. Clarke, an outspoken backer of President Donald Trump known for his provocative social-media presence, said last month he was taking a job as an assistant DHS secretary. The agency declined to confirm the appointment.

Craig Peterson, a political adviser to Mr. Clarke, said in a statement the sheriff was "reviewing options inside and outside of government."

—Associated Press

### ATLANTIC FISHERY

#### Fewer Salmon Find Their Way Home

Fewer North American Atlantic salmon are returning to rivers to spawn, which bodes poorly for the future of the imperiled fish, the Atlantic Salmon Federation said in a report this month.

The New Brunswick, Canada, conservation group said returns to natal rivers in 2016 fell by 27% from the previous year.

The group said young salmon that spend only one winter at sea before returning to a river fared especially poorly last year. They returned at a rate nearly a third lower than 2015, it said.

Atlantic salmon face a number of challenges, from the presence of river dams to continued fishing pressure off Canada and Greenland.

—Associated Press

## In Cuba, Trump Keeps Door Ajar to Business

By FELICIA SCHWARTZ

**WASHINGTON**—In rolling back the Obama administration's steps to normalize relations with Cuba, President Donald Trump last week appeared to shift from the approach he has used with other countries, in which the president played down U.S. concerns about human rights.

In a speech Friday in Miami, Mr. Trump blasted the human rights and civil-liberties record of Cuba's Castro regime, repeatedly saying the U.S. embargo would remain in place until the island's government took steps to open up.

"We will not lift sanctions on the Cuban regime until all political prisoners are freed, freedoms of assembly and expression are respected, all political parties are legalized and free and internationally supervised elections are scheduled," he said.

Mr. Trump's move represented a step to satisfy the demands of Florida political allies with hard-line views on Cuba and to fulfill a campaign vow to reverse former President Barack Obama's deal with Cuba.

But Mr. Trump's policy also

took into account pressure from business groups, Republicans in agricultural states and others to avoid completely undoing the opening to Cuba and refrain from interfering with projects already under way.

So while he emphasized human rights and civil liberties in his speech, the policy outlined by Mr. Trump also recognized matters of importance to many Americans and U.S. businesses, in keeping with the "trans-

national" foreign-policy approach he has used elsewhere.

"If you're looking to acknowledge the political and the personal views of a shrinking part of the Cuban-American community in Miami, clearly this policy and the announcement does that," said Matthew Aho, a special adviser at the Akerman law firm who works with companies looking to do business in Cuba. "But it also preserves the foundation of nor-

malization and of the post-2014 period."

Politically, Mr. Trump had to thread a needle to alter Mr. Obama's policy while not upsetting business leaders and voters in rural states who supported him by wide margins, including farmers who see major opportunities to ship their goods to Cuba should the U.S. embargo ever be fully lifted.

Farmers see big potential in selling rice, poultry and other

products, but those sales still aren't practical because U.S. law blocks the kind of credit needed to ease the shipments.

"By rolling back reforms that have benefited U.S. citizens, everyday Cubans and our economy, we are taking a step backward, not forward," said Sen. John Boozman (R., Ark.).

Trump administration officials have stressed they don't want to interrupt American business already under way in Cuba. Depending on how regulations are crafted in coming months by the Treasury and Commerce departments, there could be carve-outs that would satisfy some businesses.

The policy also allows U.S. airlines and cruise lines to continue providing service to Cuba.

But the policy stands to adversely affect U.S. travelers by ending a practice begun under the Obama administration that allowed them to plan their own trips to Cuba, rather than travel with tour groups. A decline in the number of passengers likely to result from Mr. Trump's shift stands to harm airlines.

—Carol E. Lee and William Mauldin contributed to this article.

## TECH

Continued from Page One  
the ETF's sponsor.

Google parent Alphabet was tapped in February for the first time ever to join. Microsoft joined the ETF in May for the first time since 2012.

The development means investors holding a mix of seemingly disparate funds in the name of diversification could be surprised to find heavy concentrations in the same group of in-favor stocks, making them vulnerable in bouts of selling. Rules-based funds and strategies that gradually added tech stocks could sell them in a downturn, adding to price declines.

"The fear is that if fundamental events cause volatility

to rise, these same passive vehicles will sell and exacerbate downside volatility," said Robert Boroujerdi, head of global securities research at Goldman Sachs Group Inc.

Factor-based strategies, a type of so-called quantitative investing, have long been available to large investors, but are increasingly available to smaller ones in the form of mutual and exchange-traded funds. There were some 637 "smart-beta" ETFs, a catch-all term that includes factor investing, at the end of May with a collective \$619 billion in assets, according to Morningstar.

ETFs represent a sliver of the money that follows quantitative investment strategies but, because of requirements for ETFs to disclose their holdings daily, they provide a window into how other, larger strategies are positioned. That current market conditions leave quant ETFs heavy in tech indicates that hedge funds using similar signals to buy and sell are likely bulked up on this sector as well. Quant-focused hedge funds held \$932 billion at the end of the first quarter, according to estimates by HFR Inc.

Apple, the world's largest company by market value, is the biggest position in indexes such as the S&P 500, which ranks holdings according to size. But Apple is likewise a large posi-

tion in a slew of factor-driven ETFs offered by BlackRock Inc., the world's largest money manager by assets under management, among others.

Apple is the top holding in BlackRock's iShares Edge MSCI USA Value Factor ETF, representing nearly 10% of the portfolio. Value strategies—the oldest and best-known factor—broadly seek to purchase shares for less than their underlying business worth.

At the same time, Apple is a large holding in a separate BlackRock ETF that aims to capture momentum, or the investment strategy based on the idea that stocks that have risen swiftly in the recent past are likely to continue to do so in the future.

Apple is the fourth-largest position in the iShares Edge MSCI USA Quality Factor ETF, which seeks out firms with high returns on equity, low indebtedness and stable earnings growth. Apple is also a small holding in iShares' low-volatility stock ETF.

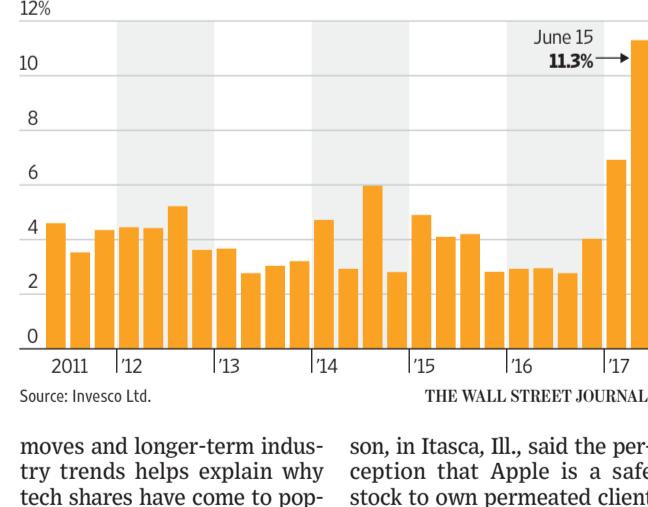
All told, Apple is in five low-volatility ETFs with a collective \$14 billion and nine momentum ETFs with \$17.7 billion, according to data firm XTF. Alphabet resides in seven low-volatility ETFs and three momentum ETFs, while Microsoft is in 11 low-vol ETFs and four momentum ETFs.

An unusual mix of market

## High Prices, Low Vol

Tech stocks have seen big gains with calm trading, pushing tech's representation in a popular low-vol ETF to a record.

### Tech sector weight in the PowerShares Low Volatility Portfolio ETF



Source: Invesco Ltd.

son, in Itasca, Ill., said the perception that Apple is a safe stock to own permeated client conversations in the past few years—a sign in his view that investors have grown complacent.

Mr. Carlson said one client of his had about 40% of his net worth in Apple, directly and across various funds, but he refused to diversify because of his experience with high returns, low volatility and his assumption Apple's rise would continue.

Until this month, he said, "People took extraordinary risk in Apple without feeling the actual risk."

## CORRECTIONS & AMPLIFICATIONS

The surname of Paul Beswick, a partner and global head of Oliver Wyman's digital practice, was incorrectly given as Baker in a U.S. News article Saturday about Whole Foods Inc.

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

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## U.S. NEWS

# New Way to Fill Malls: Medical Centers

As stores and shoppers dwindle, landlords target health-care providers

BY ESTHER FUNG

Mall landlords across the U.S. are coming up with creative ways to fill space vacated by slumping retailers, from restaurants and gyms to trampoline parks and bowling alleys.

One surprising addition? Large medical centers.

The former Atrium Mall in Chestnut Hill, Mass., has been repositioned as a wellness and medical facility that will include the Dana-Farber Cancer Institute. The Boston medical center recently signed a 15-year lease for two floors of the 286,000-square-foot property, taking up about half the space.

Dana-Farber expects to open the center in late 2019, providing clinical trials and patient care such as exams, infusions and support services.

Other tenants in the former mall, now called Life Time Center, include a gym and wellness center and a clinic for reproductive medicine. The Dana-Farber signing brings the center to more than 95%



The Atrium shopping mall in Chestnut Hill, Mass., was turned into a wellness and medical facility.

leased.

For medical tenants like Dana-Farber, malls offer advantages. Cancer-treatment centers house large equipment that requires sturdy structural support, and the ground floor of a converted mall offers a larger footprint than is typically available in a traditional medical office building, said Eric Johnson, national director

of health care at real estate services firm Transwestern Commercial Services LLC.

What's more, malls typically are located along major roads, making them convenient to patients, hospital workers and large physician networks, and they offer ample parking.

The oversupply of retail space and changing consumer

preferences such as the shift to online shopping are prompting many shopping-center tenants to rethink how much real estate they need. That is forcing landlords to expand the definition of appropriate shopping-mall tenants.

Jackson Medical Mall in Jackson, Miss., might have been one of the first malls to bring in medical tenants. The

property was repurposed in the late 1990s into a medical facility and now houses the University of Mississippi Medical Center Cancer Institute.

The Maury Regional Cancer Center has been a tenant of Columbia Mall in Columbia, Tenn., since 2012. In Nashville, the Vanderbilt University Medical Center operates Vanderbilt Health at One Hundred Oaks mall, where it has been an anchor tenant in the mixed-use property since 2009.

Among other examples, the Biggs Park Mall in Lumberton, N.C., counts Southeastern Regional Medical Center among tenants. And in California, UCLA Health offers primary care at the Village at Westfield Topanga in Woodland Hills.

Some mall landlords are adding medical centers to complement their existing retail tenant mix, while others such as Atrium are narrowing their focus, marketing their properties as specializing in health care.

"We have been very pleased with the performance of [One Hundred Oaks mall], driven in large part by the built-in traffic generated from the Vanderbilt University Medical System," said Jim Garvey, portfolio manager of LaSalle Property Fund, which bought

the mall five years ago.

The once-failing mall is now 98% occupied, with Vanderbilt Health occupying 450,000 square feet, or about half the total gross leasable area. Mr. Garvey said co-tenants such as Ulta Beauty, Chipotle and Skechers benefit from the consistent traffic from medical center employees and patients.

The Atrium in Chestnut Hill once had tenants such as Abercrombie & Fitch, Pottery Barn and the Cheesecake Factory, before hard times hit. In 2012, with occupancy at 20%, Bulfinch Cos., a private real-estate investment, development and management firm, purchased the property for \$46 million. It closed the mall, gutted the building and re-skinned it with a glass facade. The work cost more than \$100 million, according to Bulfinch.

With Life Time Center's proximity to the Longwood Medical Area in Boston, the company predicted that a mix of medical and wellness tenants would benefit the facility.

"We see the location of this property as a natural extension to the Longwood Medical Area, a thriving medical community that features some of the country's leading institutions," said Eric Schlager, chief executive officer of Bulfinch.

## Ballfield Attacker Had History of Criticizing GOP

BY SCOTT CALVERT

his loved ones."

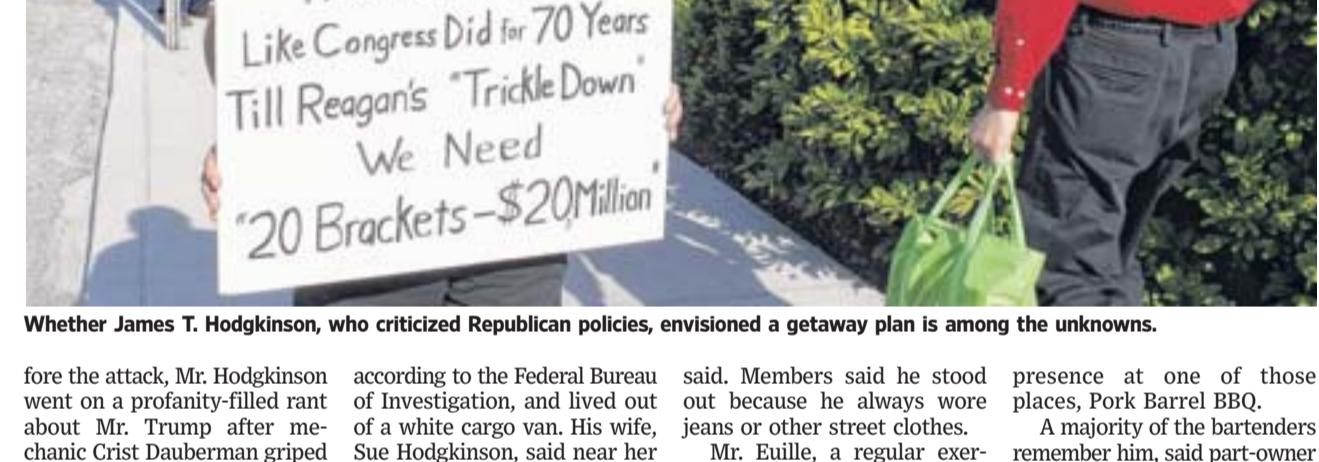
Goateed and heavyset, Mr. Hodgkinson was a loner with set routines, say those he met during his months in Alexandria.

One acquaintance, former Alexandria Mayor William Euille, said he never knew Mr. Hodgkinson had any interest in politics, let alone that he was an ardent Bernie Sanders supporter who seethed over Mr. Trump's election. "He showed no sense of depression or being torn up about anything," Mr. Euille said.

But three days before the shooting, Y member Kris Balderston observed Mr. Hodgkinson talking disapprovingly at the TV on the stationary bike he was using. "Not in a crazy way, not ranting," he said. From a nearby elliptical machine he could see Mr. Hodgkinson flipping between CNN, MSNBC and Fox News. The object of his irritation: Republicans.

"He would kind of groan," said Mr. Balderston, a public-affairs executive who spent 20 years working for Bill and Hillary Clinton. "I thought in my head, 'Boy, that's kind of counterintuitive. That guy looks like a blue-collar Trump guy, and he's harrumphing about the Republicans.'"

And less than 24 hours be-



Whether James T. Hodgkinson, who criticized Republican policies, envisioned a getaway plan is among the unknowns.

fore the attack, Mr. Hodgkinson went on a profanity-filled rant about Mr. Trump after mechanic Crist Dauberman griped about working six days a week.

"He went from normal conversation to iterate cursing, yelling, about Trump and what they've done with the taxes and that this is his fault I gotta work six days a week and what's going on in the country," Mr. Dauberman said. "But," he added, "he didn't say he was going to hurt anyone or do anything."

Mr. Hodgkinson arrived in Alexandria sometime in March,

according to the Federal Bureau of Investigation, and lived out of a white cargo van. His wife, Sue Hodgkinson, said near her home in Belleville, Ill., that she thought he planned to work on tax issues and that he had sold most of what he owned from a home-inspection business.

After joining the Y on April 4, he visited often and at various times of day, using the gym equipment and spending time in the common area, the YMCA of Metropolitan Washington said.

The staff didn't get any complaints or see "inappropriate or unusual" behavior, the Y

said. Members said he stood out because he always wore jeans or other street clothes.

Mr. Euille, a regular exerciser, said he first spotted Mr. Hodgkinson one morning about a month and a half ago, sitting at a round table in the Y's lounge. Days later, Mr. Hodgkinson approached and they exchanged greetings, and a couple of days after that he asked the former mayor for breakfast and lunch recommendations.

Mr. Euille said he also shared several happy-hour suggestions at his request. Mr. Hodgkinson was a familiar

presence at one of those places, Pork Barrel BBQ.

A majority of the bartenders remember him, said part-owner Bill Blackburn. "He kept to himself, didn't really talk to anybody," he said.

Mr. Hodgkinson never discussed politics at the Y, Mr. Euille said, even with news blaring from flat-screen TVs. Sometimes fellow members would complain about the news, Congress or Mr. Trump, the former mayor said. Not Mr. Hodgkinson.

—Shibani Mahtani contributed to this article.

## Prosecutor Planning To Retry Cosby Case

BY KRIS MAHER

After a jury outside Philadelphia failed to reach a verdict in the sexual-assault case against Bill Cosby, Montgomery County District Attorney Kevin Steele said he intends to retry the case.

The jury of seven men and five women, who had been selected in Pittsburgh and bused 300 miles to Montgomery County Court in Norristown, Pa., to hear the case, told Judge Steven O'Neill that they were hopelessly deadlocked.

The prosecutor said he was disappointed but remained confident in the strength of the case. "This is a case where the victim and the community are entitled to a verdict, and we're going to work very hard to get to that," Mr. Steele said. "We're going to retry the case."

Mr. Steele said the judge indicated in court that he was looking to put the case on within the next 120 days, but said prosecutors have a year.

BASTIAAN SLABBERS/NURPHOTO/ZUMA PRESS



Bill Cosby on Saturday, after a judge declared a mistrial in the case

stood on the courthouse steps as a statement by his wife, Camille, was read to reporters by a member of the comedian's public-relations team. In it, Ms. Cosby criticized the judge as "arrogant," prosecutors as "totally unethical" and the media as "blatantly vicious."

"I am grateful to any of the jurors who tenaciously fought to review the evidence, which is the right way to make a sound decision," Ms. Cosby said in the statement.

Mr. Cosby, 79 years old, had faced three counts of indecent aggravated assault. Prosecutors have alleged that he drugged and then molested Andrea Constand, a former Temple University employee, at his home in 2004.

Mr. Cosby has maintained his innocence and said he had a romantic relationship with

Ms. Constand.

Following Saturday's mistrial, several decisions that shaped the trial loomed large. One was the judge's pretrial ruling allowing the prosecution to call only one other woman besides Ms. Constand to testify that she had also been drugged and assaulted by Mr. Cosby.

Prosecutors had sought to have 13 women besides Ms. Constand testify.

Several legal experts also said it was wise for Mr. Cosby not to take the stand in his own defense, because that could have allowed prosecutors to discuss the accusations made against Mr. Cosby by roughly 50 women over the past several years.

Mr. Cosby has denied the assault allegations made in all cases by other women.

Conservatives are also look-

## Gay-Wedding Debate Shifts To Free-Speech Issue for Firms

BY IAN LOVETT

After a string of defeats for Christian small-business owners, including bakers and florists, who refused to provide services for gay weddings and events, conservative legal groups are adopting a new strategy: pursuing cases that involve language and other protected forms of expression.

In Arizona, a company that makes paintings combined with calligraphy text is suing the city of Phoenix, arguing that an ordinance prohibiting discrimination against lesbian, gay, bisexual and transgender people violates free exercise of religion by compelling it to create art whose message conflicts with its Christian beliefs.

And in Minnesota, Christian owners of a film-production company have filed a pre-emptive challenge to a state law requiring businesses that offer services to straight weddings to serve gay weddings as well.

Jeremy Tedesco, senior counsel for Alliance Defending Freedom, said that compared with cakes and flower arrangements, "It's going to be a lot harder for a court to rule that films can be coerced."

Conservatives are also look-

ing to the U.S. Supreme Court, which could decide this month whether to take the case of a Colorado baker who declined to make a cake for a gay wedding—a case that could establish new ground rules for how religious business-owners have to deal with gay couples.

Meanwhile, cases directly involving language are moving to the forefront of the fight over whether business owners should be allowed to refuse to serve same-sex weddings if they hold a religious objection.

Gay-rights organizations argue that the products a company sells are irrelevant.

"If they've opened their doors to the public, then it doesn't matter what they're selling—they're subject to state and local antidiscrimination laws," said Ria Tabacco Mar, a lawyer with the American Civil Liberties Union.

So far, courts have largely sided against Christian business owners whose services don't directly involve language.

In 2015, a Colorado appeals court ruled against a Christian baker who refused to design a cake for a gay wedding. The business owner has appealed to the Supreme Court.

Washington state's highest

court this year ruled against a florist who wouldn't prepare floral arrangements for a same-sex couple's wedding.

In the case of the Minnesota film company, oral arguments were held last month. The company's owners, Carl and Angel Larsen, have tried to highlight the artistic nature of their work.

"We're telling marriage stories, not merely documenting the ceremonies," said Mr. Larsen, co-owner of Telescope Media Group. "We want to tell stories about marriage that are consistent with the Bible, which shaped our beliefs. Currently, we can't do that in the state of Minnesota."

In early cases, gay couples sued after they were denied services. Now, the business owners are starting legal challenges before they have been asked to serve gay weddings.

"They're seeking a license to discriminate at the outset," Ms. Tabacco Mar said.

The business owners said that pre-emptive challenges were the only way they could enter the wedding business without risking crippling punishment. In Minnesota, businesses that violate the state's law face up to 90 days in jail.

## U.S. NEWS

# Lawyer: Trump Not Under Investigation

By ANDREW ACKERMAN  
AND IAN TALLEY

WASHINGTON—A personal lawyer for President Donald Trump said the president wasn't being investigated for possible obstruction of justice, contrary to recent news reports, arguing that Mr. Trump would have been alerted to any such development.

"The president is not and has not been under investigation," Jay Sekulow, an attorney for Mr. Trump, said in an interview on CBS on Sunday. Asked how he knew that, Mr. Sekulow said there has been "no notification from the special counsel's office that the president is under investigation," which he said he would expect in this circumstance.

The Wall Street Journal and other news outlets reported that investigators are looking into whether the president sought to obstruct a Federal Bureau of Investigation probe into Russian meddling in the



Jay Sekulow, an attorney for President Trump, shown in 2015.

The Washington Post was the first to report an investigation into Mr. Trump over possible obstruction.

Subjects of federal probes often aren't initially told of an investigation in progress. But this case is an unusual one.

Earlier in the Russia probe, Mr. Comey had informed Mr. Trump several times that he wasn't under investigation, before Mr. Comey was fired on May 9. Asked if it was possible a probe of Mr. Trump started since then, unknown to the White House, Mr. Sekulow told CBS on Sunday: "I can't imagine a scenario where the president would not be aware of it."

Justin Dillon, a former assistant U.S. attorney in Washington D.C., said it is "ridiculous" to surmise that Mr. Trump isn't under investigation because he or his lawyers haven't been notified by the Justice Department.

"Many don't know they are being investigated until the

presidential race and possible collusion between Trump campaign aides and Russia.

Special Counsel Robert Mueller is examining whether the president fired FBI chief James Comey as part of a broader effort to alter the direction of the FBI probe, a person familiar with the matter told the Journal last week.

In his comments on Sunday,

Mr. Sekulow said Mr. Trump's recent tweet in which he said he was being investigated was a reaction to news reports, not confirmation of the probe's existence.

"The tweet from the president was in response to the five anonymous sources purportedly leaking info to the Washington Post," he said on NBC.

government is quite far down the evidence-gathering path," said Mr. Dillon, now a partner at KaiserDillon, a boutique law firm specializing in white-collar crime. Mr. Dillon isn't involved with the Trump administration or any of the investigations.

Justice Department spokeswoman Sarah Isgur Flores declined to comment, referring questions to Peter Carr, spokesman for Mr. Mueller's office. Mr. Carr declined to comment on the Russia investigation.

Mr. Trump has repeatedly called the Russia investigation a "witch hunt" and denied any collusion by his campaign with Russia. He has also said he put no inappropriate pressure on the course of the Russia investigation.

In recent days, Mr. Trump has stepped up his criticism of the investigation, targeting the people leading the Justice Department probe.

On Friday morning, Mr.

Trump tweeted he was the victim of "the single greatest WITCH HUNT in American political history—led by some very bad and conflicted people!" He added: "I am being investigated for firing the FBI Director by the man who told me to fire the FBI Director!"

Mr. Trump didn't name the people he was referring to in the tweets, but they most closely align with Mr. Mueller and the man who appointed him, Deputy Attorney General Rod Rosenstein.

On Sunday, he again tweeted about the "witch hunt," calling it a distraction from his policy agenda.

Rep. Adam Schiff of California, the top Democrat on the House Intelligence Committee, said on ABC that Mr. Trump's tweets are aimed at "the besmirchment" of Mr. Mueller and his investigation.

"They want to lay the foundation to discredit whatever Bob Mueller comes up with," he said.

## Russia Hacking Efforts Are Set For Hearings

The Senate and House intelligence committees are set on Wednesday to hold two open hearings examining Russian hacking efforts during the 2016 election, featuring testimony from current and former Department of Homeland Security and Federal Bureau of Investigation officials as well as state election directors.

By Rebecca Ballhaus,  
Erica Orden  
and Valerie Bauerlein

Steve Sandvoss, executive director of the Illinois State Board of Elections, is expected to walk the Senate committee through a cyberattack last July that allowed hackers to breach a database of as many as 200,000 voter records.

The board informed the state attorney general's office of the cyberattack. The board was subsequently contacted by the FBI, but the agency hasn't informed the board who was responsible for the attack, according to Ken Menzel, the board's general counsel.

An information-technology report to the board in August said the FBI was "highly confident" that no voter data had been altered.

The Senate committee will hear testimony from J. Alex Halderman, a Michigan computer scientist who helped lead a push last year for an examination of paper ballots and electronic voting machines in Wisconsin, Pennsylvania and Michigan to prove that hackers hadn't manipulated the results. A series of legal rulings halted some of the recount efforts, while others were completed and found no widespread irregularities.

The hearings represent the most robust effort to date to elicit public testimony from state election officials concerning what federal officials have described as an aggressive and sustained effort by Russia to interfere with the 2016 election.

Special counsel Robert Mueller is investigating whether campaign advisers to President Donald Trump had ties to the Russian activities, a probe that has expanded to include whether the president obstructed justice by trying to influence its outcome, according to a person familiar with the investigation. Russia has denied the allegations. On Sun-

day, a personal lawyer for Mr. Trump, who has called the investigations a "witch hunt," denied that the president was under investigation.

States are also examining their own systems. A survey by The Wall Street Journal of election officials in nearly 50 states found many continue to participate in a DHS program of periodic checks of their election systems for any vulnerabilities. Many officials had been in touch with the FBI before the election, when the bureau had provided states with a list of suspicious IP addresses.

The North Carolina State Board of Elections' investigations unit is investigating the reported attempts to compromise VR Systems Inc., a Tallahassee, Fla., firm whose electronic poll book software was used on Election Day in 21 of the state's 100 counties.

The software deals with checking voters in, not with counting their votes. But on Election Day, that system failed in Durham County, which holds the state's most reliable Democratic voters. That forced the county to issue ballots by hand, meaning longer lines and delays—factors that can often depress turnout. The county voted for Democrat Hillary Clinton by 77.7%, while Mr. Trump won the state with 49.8% of the vote, according to the state's board of elections.

The aim of the Senate hearing, according to an email sent by a committee aide to those testifying, is to "give the public an unclassified look at Russian activity in the 2016 U.S. election, as well as a look at what we are facing from an election security standpoint in 2018 and 2020."

Former Homeland Security Secretary Jeh Johnson, meanwhile, will testify before the House Permanent Select Committee on Intelligence on Wednesday to discuss "Russian active measures" during the 2016 election.

Department of Homeland Security officials have said at least 20 states were targeted during the 2016 election. Last August, the FBI issued a warning to state governments that cited the Illinois breach and a hacking attempt in Arizona.

An FBI spokeswoman declined to comment on the agency's investigation.



Democratic candidate Jon Ossoff greeted supporters near an early voting center in Marietta, Ga., last week.

## GOP

Continued from Page One

Mr. Trump's campaign that she ended up voting for a third-party presidential candidate.

"I just felt so sad and embarrassed," said Ms. Dawes after the New York businessman won the White House. She now supports Mr. Ossoff.

Jim Griswold, a Sandy Springs Republican who supports Ms. Handel, doesn't believe that Mr. Ossoff is as moderate as he seems. "Ossoff will be a tool of the left," Mr. Griswold said. "He's trying to strike an independent pose. It's a crock."

Swing Republicans and independents could tip the balance in the neck-and-neck race to pick a successor to Tom Price, who left Congress to become Mr. Trump's health and human services secretary.

Both Ms. Handel, a former Georgia secretary of state, and Mr. Ossoff, a former congressional aide and documentary filmmaker, are acutely aware of the attention showered on the race

as the biggest test of strength between the parties since Mr. Trump was elected.

The two parties have battled this year in several races that have served as proxies for the national divide, most notably in two special elections for Congress in Kansas and Montana, where Democratic candidates ran far closer to their GOP counterparts than in recent elections, but Republicans still prevailed.

But Georgia has long been viewed as the ultimate bellwether of Republican vulnerability in seats that could help Democrats retake control of the House.

"The whole country is watching us right now," Mr. Ossoff told supporters in Marietta on Saturday.

Most polls show the race nearly tied, but with Mr. Ossoff consistently holding a slight lead.

Tuesday's race is a runoff election because Mr. Ossoff in April received 48% of the vote, 2 percentage points short of the 50% needed to take the seat outright in the first round of the special election.

Ms. Handel garnered 20% in

the initial contest, ranking second among a crowded field of 18 candidates, 11 of whom were Republicans.

In a June poll by Atlanta's WSB-TV, which showed the candidates nearly tied, Mr. Ossoff drew support from 15.3% of Republicans, while 6.8% of Democrats supported Ms. Handel.

Georgia's sixth district has been represented in the House for almost 40 years by Republicans, including former House Speaker Newt Gingrich. Its lines have changed over the years but not its partisan bent. Mitt Romney won the district by 23 percentage points in 2012. In the 2016 GOP primary, the district went for Florida Sen. Marco Rubio.

But voters here weren't quick to embrace Mr. Trump, who barely beat Democratic presidential candidate Hillary Clinton in this district. Republicans have been trying to close what they have seen as a worrisome enthusiasm gap between the parties: Their analysis of first-round voting files found that some 38,000 people who usually vote Republican didn't participate.

Mr. Scharff said he supported

To mobilize the GOP, Ms. Handel has walked a fine line with Mr. Trump. She says her responsibility in Congress will be to represent the district, not the White House.

"The race is not about Donald Trump," she said in an interview after greeting voters at a taco restaurant. "It is about who people believe is best suited to represent the interests of the district."

Still, Mr. Trump came to the district for a fundraiser and has recorded robocalls to help get out the vote.

At the airport rally, Mr. Perdue defended the president and argued that ambivalent Republicans can't afford the luxury of sitting out this special election.

But Mr. Ossoff's campaign rhetoric has been moderate enough that it is helping him win over voters such as Eric Scharff, a Marietta independent who backed Mitt Romney in 2012 but who voted for Mrs. Clinton in 2016.

Mr. Scharff said he supported Mr. Ossoff because he had "a balanced, work-with-both-sides approach."

2010, Mr. Gowdy sees the fact that Republicans control the government as a way to remove some of the politics from his new job.

"This is actually a pretty rare opportunity to depoliticize oversight. Because if you are conducting oversight against your own party, you've removed the No. 1 argument against it, which is this is a political exercise," he said.

In his new role, Mr. Gowdy vowed to maintain his distance from the White House. He is also on the House Intelligence Committee, which is investigating questions of collusion between Mr. Trump and Russia. On the oversight panel, questions about the performance of the federal government under the Trump administration will ultimately become Mr. Gowdy's responsibility.

Mr. Gowdy said he has no relationship with Mr. Trump and hasn't talked to the president.

First elected to Congress in the tea party-fueled wave of

Rep. Trey Gowdy (R., S.C.)

in a vise between his institutional responsibilities and the desire to see his party succeed legislatively and politically.

"It's very different. You're protecting the quarterback instead of sacking him," said former Rep. Tom Davis, a Republican who ran the committee for several years while George W. Bush was president.

As Mr. Gowdy takes the reins, President Donald Trump finds himself under mounting scrutiny from other congressional panels and the Federal Bureau of Investigation.

Veterans of the oversight committee say holding the job when a president of your own party is in power is always tough—putting the chairman

counsel appointed after Mr. Trump's firing of FBI Director James Comey, investigating whether Mr. Trump obstructed justice in addition to the investigation's original mandate of probing whether anyone in the president's orbit colluded with Russia to influence the 2016 election.

Mr. Trump has denied any wrongdoing and called the investigation a "witch hunt."

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Mr. Gowdy said he has no relationship with Mr. Trump and hasn't talked to the president.

Mr. Gowdy has long defended the panel's work and importance.

Special counsel Robert Mueller is investigating whether campaign advisers to President Donald Trump had ties to the Russian activities, a probe that has expanded to include whether the president obstructed justice by trying to influence its outcome, according to a person familiar with the investigation. Russia has denied the allegations. On Sun-



A voter placed her ballot in a tabulation machine in Detroit Nov. 8.

# WORLD NEWS

## France's Macron Cushions Seat of Power

Big win by president's party in runoff sets stage for economic steps to curry EU favor

By WILLIAM HOROBIN  
AND STACY MEICHTRY

PARIS—French President Emmanuel Macron won a commanding majority in parliamentary elections, empowering him to carry out economic overhauls that are contentious at home but pivotal in persuading Germany and the European Union to insulate the common currency from shocks.

Mr. Macron's party, La République en Marche, and its centrist ally had won 350 of the 577 seats in the National Assembly in the second and final round of voting on Sunday, the Interior Ministry said.

The victory for the staunchly pro-Europe movement undercuts nationalist forces that had appeared ascendant in the wake of the U.K.'s vote last year to leave the EU. Marine Le Pen's far-right National Front hoped to mount a robust opposition force after reaching the presidential runoff in May, but on Sunday her party only landed eight seats, not enough to guarantee space on parliamentary committees.

The vote also left the country's traditional parties on life support. The Socialists of former President François Hollande went from being a majority party to the edge of oblivion, notching 45 seats with their allies. The center-right Les Républicains and an ally finished a distant second to Mr. Macron's party, with 137 seats, according to the almost-complete count. That center-right alliance previously held 225 seats.

Instead Mr. Macron, a 39-year-old political newcomer, has reshaped Parliament in his own image, handpicking academics, athletes, business



President Emmanuel Macron waved after casting his parliamentary vote in Le Touquet on Sunday.

owners and deserters from traditional parties to fill the National Assembly and pass legislation of his choosing.

"By a wide majority, the French chose hope instead of anger," said Prime Minister Édouard Philippe.

The only weakness in Mr. Macron's majority was the historically low turnout. More than 56% of voters abstained, according to the count.

"The French people wanted to give us a clear majority, but...they didn't want to give us a blank check," said Christophe Castaner, Mr. Macron's secretary of parliamentary relations, who also won a seat on Sunday.

"Even if the Macron government has a very strong majority, his ideas are in the minority," Ms. Le Pen said after winning a seat, her first ever, in northern France.

Lackluster support from the broader public could weigh on Mr. Macron's ability to make

### Traditional Parties Lick Their Wounds After Vote Setback

PARIS—The resounding victory of President Emmanuel Macron's fledgling political force in parliamentary elections crushed the traditional parties that have governed France

since the end of World War II.

The French president's party La République en Marche, founded barely a year ago, bulldozed into the National Assembly with its centrist ally, taking 350 of the 577 seats.

In its wake was the rubble of France's former left-right divide—the Socialist Party and the center-right Les Républicains—that had taken turns governing the

country for decades.

The scale of the French establishment's defeat is a measure of its collective failure to reinvigorate a country whose economy has languished for decades, straining to address tensions with its Muslim minority and clocking mediocre economic growth. Unemployment hovers near 10%, and more than twice that among young voters.

France's new National Assembly will stand in contrast to its peers in Europe, where traditional parties still have a firm grip on power.

If France's traditional parties are to survive, they will have to rebuild from the regional and local levels where they still have a presence, analysts say.

—Nick Kostov

unpopular changes to the domestic labor market and keep France's end of what he considers a "New Deal" for Europe. That involves loosening rigid protections for workers to bring France in line with other European countries and stir growth and job creation. Such changes have sunk past presidencies as the ultimate arbiter of national politics, the French street, unleashed crippling strikes and protest.

If Mr. Macron succeeds at home, it will go a long way in rebalancing the Franco-German axis that led the construction of the EU, European officials say. France's economically weakened neighbors in the south are particularly eager to see France resume its traditional role as advocate for their economies, which rely on looser monetary and fiscal policy to stimulate growth.

"The quicker Mr. Macron

will be in transforming France, the more rapidly he will become strong in Europe," said Sandro Gozi, Italy's undersecretary on European affairs.

Mr. Macron wants Germany and other strong eurozone countries in the north to make longstanding commitments to backstop the whole currency union rather than responding ad hoc to crises. The French president has campaigned for the eurozone to have its own

budget and Parliament with a shared finance minister.

German Chancellor Angela Merkel, who once dreaded the prospect of a National Front victory, has promised to work with Mr. Macron, praising him for "a magnificent campaign against populism."

Ms. Merkel followed up on Sunday, as a Twitter post by her spokesman said, "Here's to continued good cooperation for Germany, France, and Europe."



Police secured the scene after a vehicle hit pedestrians in Finsbury Park, north London, early Monday.

## One Dead After Van Hits People Near London Mosque

By JENNY GROSS  
AND WIKTOR SZARY

LONDON—A vehicle struck pedestrians in north London early Monday, causing at least one death and a number of casualties in what police called a major incident.

A 48-year-old man was detained by members of the public at the scene and arrested, the Metropolitan Police said. He has been taken to a hospital as a precaution and will be taken into custody once discharged, the police said.

One man was pronounced dead at the scene, the police said. Eight people were taken to three hospitals for treatment, while two people were treated at the scene for minor injuries, the police said.

"This is a terrible incident," Prime Minister Theresa May said. "All my thoughts are with those who have been injured, their loved ones, and the emergency services on the scene."

She said the incident was being treated as a potential terrorist attack, adding she would chair an emergency meeting later Monday.

Mohamed Abdulle, a 20-year-old delivery-truck driver, said he was driving two cars behind the van when it swerved into a crowd of people shortly after midnight. He saw two people run from the van



THE WALL STREET JOURNAL.

and people at a nearby shop tackled and held a third person until the police came. The attackers looked like they were in their mid-30s or mid-40s and were white, he said.

"He just swerved into the corner," Mr. Abdulle said. "I've seen six people on the floor. All I could see was people scattered on the floor."

The Counter Terrorism Command is investigating the incident. No other suspects at the scene have been identified or reported, the police said.

The Muslim Council of Britain, which represents Muslim organizations and mosques around the U.K., said a van ran over Muslim worshipers as they left the Finsbury Park Mosque. "Our prayers are with the victims," it said on Twitter.

The council later tweeted that the attack took place outside the Muslim Welfare House near the mosque.

"It appears from eyewitness

accounts that the perpetrator was motivated by Islamophobia," said Harun Khan, secretary-general of the Muslim Council of Britain. "We urge calm as the investigation establishes the full facts, and in these last days of Ramadan, pray for those affected and for justice."

Jeremy Corbyn, leader of the Labour Party, said he was "totally shocked at the incident at Finsbury Park tonight."

The incident comes less than a month after a suicide bomber blew himself up outside Manchester Arena after an Ariana Grande concert, killing 22.

At Finsbury Park, a 23-year-old graduate student said he was leaving prayers when he heard screaming. "I was literally walking past," he said. "Man. People were shouting, people were crying."

He said: "Why is it when it's anyone that's Muslim, straight away, they say it's a terror attack. Why can't this be a terror attack?"

This is the latest incident in London in which vehicles appear to have been used as a weapon. This month, three assailants mowed down people on London Bridge before stabbing them with knives, in an attack that killed eight people. In March, an attacker used a vehicle to hit pedestrians outside Parliament, killing five.

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Paul Fredrick

## WORLD NEWS

# Negotiators in Secret Talks

BY JAY SOLOMON

WASHINGTON—For more than a year, American diplomats have held secret talks with North Korea's top nuclear negotiator—opening a channel that eventually helped free American Otto Warmbier from custody last week.

The official dispatched by North Korean leader Kim Jong Un—Choi Sun Hee—is well-known to U.S. officials, fluent in English and believed to have direct access to Mr. Kim. That raised expectations that the regime eventually might engage with the Trump administration on the future of Pyongyang's weapons efforts. So did the agreed release this month of 22-year-old American prisoner Otto Warmbier, until it emerged he was in a coma.

"Given the reported status of Mr. Warmbier's condition, any diplomatic path forward is going to be extremely difficult," said Suzanne DiMaggio of the New America Foundation, a Washington think tank, who helped establish an unofficial channel with the North Koreans early last year. But she had a suggestion for Pyongyang to begin to repair the damage: "If the North Koreans immediately released the remaining three prisoners, it could set up an atmosphere for potentially serious talks."

President Donald Trump has repeatedly said he isn't seeking regime change in North Korea and hasn't ruled out negotiations to curb North Korea's rapidly advancing nuclear and ballistic-missile programs.

Still, there is concern inside the U.S. government about Mr. Warmbier's health and his treatment by North Korean guards during his 18 months in custody. He was returned to the U.S. in a coma, and doctors said he has lost an extensive amount of brain tissue.

Early last year, Ms. DiMaggio established through interlocutors in Stockholm a "track two" dialogue with



Choi Sun Hee is said to be able to convey precisely to the U.S. what North Korea 'wants us to hear.'

North Korea, a term reflecting the fact no active U.S. officials were present at the initial meetings. She made the first of two trips to the North Korean capital in February 2016, in an early bid to help defuse the nuclear crisis.

Ms. DiMaggio has long worked to establish diplomatic channels to countries in conflict with the U.S. She held nu-

merous track-two discussions with Iranian officials before the Obama administration formally started nuclear negotiations with Tehran in 2012.

Madame Choi was a major player in nuclear and missile negotiations that took place both during the Bill Clinton and George W. Bush administrations, current and former U.S. officials said. Her official title now is the director-gen-

eral of the North America affairs bureau of North Korea's Foreign Ministry.

"When Track Two participants meet with her, what they're getting is someone who can convey very accurately to us what the North Koreans want us to hear," said Robert Einhorn, a former senior State Department official who worked on North Korea in the Obama and Clinton administrations and met Madame Choi in May. "She's a valuable interlocutor because of her experience and connections."

Bill Richardson, the former New Mexico governor and U.S. energy secretary, separately began a string of about 20 meetings with North Korean diplomats in New York at about the same time as Ms. DiMaggio's trips that were focused on gaining Mr. Warmbier's release. The North Koreans' favorite spot for meetings was the Palm steakhouse in New York, close to their United Nations offices.

Mr. Richardson sent his own representative to Pyongyang in September to seek Mr. Warmbier's release. "[Mr.

Warmbier's] situation will temper the desire for dialogue for the time being," said Mr. Richardson, a self-proclaimed champion of engagement. "I'm so unhappy and disgusted by what's happened to him."

The Obama administration had largely frozen direct contacts with North Korea in a policy that became known as "strategic patience."

The two sides reached a preliminary agreement in 2012 that called for Pyongyang to freeze its missile tests in return for the U.S. shipping food aid to the country. But the deal collapsed after the North test-fired what it claimed was a rocket for a civilian satellite program.

Obama administration officials grumbled that any agreements with Pyongyang appeared futile.

Mr. Richardson has held negotiations with North Korean officials on prisoner issues dating back to the 1990s, when he was a congressman and then-President Clinton's ambassador to the U.N.

—Felicia Schwartz contributed to this article.

**Pyongyang's envoy was a major player in nuclear and missile negotiations.**

merous track-two discussions with Iranian officials before the Obama administration formally started nuclear negotiations with Tehran in 2012.

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## PORUGAL

### Death Toll Climbs From Forest Fires

Forest fires raging through central Portugal have killed at least 61 people, a toll expected to rise as firefighters battle six major blazes and dozens of smaller ones.

At least 47 of those killed had been found dead in their vehicles or alongside a road, engulfed by flames and smoke as they tried to flee their homes, many of which had been consumed by the conflagration, the interior ministry said.

More than 1,500 national firefighters were battling the blazes. Authorities said the cause appears to have been lightning strikes on Saturday afternoon.

—Jeannette Neumann

## MALI

### Attack Targets Hotel With Foreign Guests

Suspected jihadis attacked a hotel resort Sunday in Mali's capital, Bamako, taking hostages at a spot popular with foreigners on the weekends. At least two people were killed and about 30 hostages managed to escape as the assault continued into the evening, authorities said.

Gunfire first rang out at the Campement Kangaba in the late afternoon. Malian soldiers later succeeded in entering the resort area, according to a spokesman for the Malian special forces in the former French colony. "The operation is ongoing," he said.

In a separate attack Saturday, an Afghan commando turned his weapon on U.S. troops at the Afghan army's northern headquarters and wounded at least seven American soldiers, U.S. and Afghan officials said.

The attacker was killed at the scene.

—Habib Khan Totakhil and Ehsanullah Amiri



CLEANSING RITUAL: People pray from coffins during a resurrection ceremony at a Buddhist temple in Nonthaburi, Thailand.

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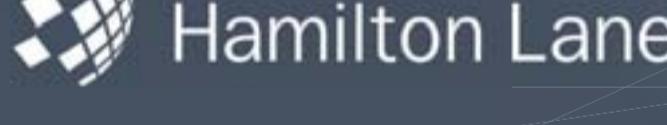
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## WORLD NEWS

# U.S., Japan Probe Deadly Ship Collision

Bodies of 7 American sailors recovered after cargo ship and U.S. destroyer collide

BY ALASTAIR GALE  
AND GORDON LUBOLD

YOKOSUKA, Japan—As most of its crew slept on Friday night, the USS Fitzgerald passed through one of Japan's busiest shipping lanes just south of Tokyo, a watch crew assigned to guide its passage.

In a period of seconds, a 29,000-ton cargo ship loaded with containers plowed into its right side, crushing a large section of the destroyer's main structure, including the captain's cabin and sleeping quarters for 116 sailors below the waterline. Seawater flooded in through a large gash.

As the crew scrambled to save themselves and the ship, seven sailors didn't make it out of the berthing area. Their bodies were recovered by divers after the ship crawled to the port of Yokosuka.

The U.S. Navy on Sunday identified the seven victims as Gunner's Mate Seaman Dakota Kyle Rigsby, 19 years old, from Palmyra, Va.; Yeoman 3rd Class Shingo Alexander Douglass, 25, from San Diego; Sonar Technician 3rd Class Ngoc T Truong Huynh, 25, from Oakville, Conn.; Gunner's Mate 2nd Class Noe Hernandez, 26, from Weslaco, Texas; Fire Controlman 2nd Class Carlos Victor Ganzon Sibayan, 23, from Chula Vista, Calif.; Personnel Specialist 1st Class Xavier Alec Martin, 24, from Halethorpe, Md.; and Fire Controlman 1st Class Gary Leo Rehm Jr., 37, from Elyria, Ohio.

"The water inflow was tremendous," Vice Adm. Joseph Aucoin, head of the U.S. Seventh Fleet, said in a news briefing on Sunday. "There wasn't a lot of time" for sailors to react.

Badly injured, the captain, Bryce Benson, escaped from his cabin. He was airlifted to a



The USS Fitzgerald suffered extensive damage to its superstructure and hull. Seven sailors died and the captain was badly injured.

nearby hospital where he was receiving emergency treatment on Sunday before being questioned.

The question of why a U.S. destroyer was rammed by a cargo ship more than three times its size, one of the worst incidents in recent U.S. Navy history, has no immediate answers.

Some former military and commercial shipping captains speculate that the Fitzgerald may have failed to follow international regulations that require ships to give way to other vessels to their starboard, or right side.

"Unless the destroyer lost steering control, which is unlikely, it should have given right of way to the container ship," said Yiannis Sgouras, a retired captain of tankers and

cargo ships who worked in the world's busiest trade route from Asia to Europe.

Others caution that there are potentially many other contributing factors to the collision. Tracking data sent by the cargo ship, the ACX Crystal, showed it reversed course around 2:05 a.m. local time, shortly before the time of the collision given by the U.S. Navy of approximately 2:20 a.m.

However, Nippon Yusen K.K., the Japanese shipping company that operates the 728-foot-long ACX Crystal, has stated that the collision occurred around 1:30 a.m. That discrepancy hasn't been resolved. "She did not reverse the course before the collision. She did after the collision," a Nippon Yusen spokesman said.

Both Japan and the U.S. are

launching investigations, and each side declined to speculate about possible blame. The 20 Filipino crew members of the ACX Crystal, all of whom were unharmed, have been questioned, a spokesman for the Japan Coast Guard said.

Adm. John Richardson, the U.S. Navy's chief of naval operations, left for Japan late Sunday in a hastily scheduled trip, defense officials said. He will meet with sailors and families from the Fitzgerald as well as Japanese officials to thank them for their assistance during the incident, officials said. He will also survey the ship and discuss with port officials the work required to get the destroyer repaired, they said.

The Pentagon is still attempting to ascertain just

what caused the collision, but as of Sunday evening there was no clear explanation for top officials. One official said there was yet no clarity on exactly what occurred.

Around 400 vessels a day pass through the region where the collision took place, around 56 nautical miles southwest of Yokosuka, according to the Japanese Coast Guard. Official records show three accidents have been reported in the same area in the past five years.

Collisions at sea for the U.S. Navy are extremely uncommon, said Bryan McGrath, a former destroyer captain, who said they occur only once or twice a decade, if that.

—Costas Paris

and Chieko Tsuneoka

contributed to this article

## Bilateral Treaty Could Complicate Inquiry Into Crash

TOKYO—Two investigations—one American and one Japanese—are set into the collision between a U.S. destroyer and a container ship, but it isn't clear whether either will have the authority to unearth all the facts.

Clouding the investigations is a bilateral treaty on the status of American forces in Japan. The treaty gives the U.S. jurisdiction over "offenses arising out of any act or omission done in the performance of official duty" even if the offenses take place on Japanese territory.

That language likely applies to the collision that took place early Saturday off Japan's Izu Peninsula between the USS Fitzgerald and a container ship chartered by shipping line Nippon Yusen K.K., said former Japanese military officials. The bodies of seven U.S. service members have been recovered from the Fitzgerald, U.S. officials said.

For any investigation, key questions would include whether U.S. sailors were following procedures to detect ships in the neighborhood. If they weren't, that could be an "omission done in the performance of official duty"—the type of offense over which Japan doesn't have jurisdiction, according to the treaty.

Vice Admiral Joseph Aucoin, commander of the U.S. Seventh Fleet, said the U.S. would "work hand in hand with our Japanese partners" in the investigation.

A spokesman for the Japanese coast guard said his side has requested cooperation from the U.S. side and discussions are continuing, but no conclusion has been reached.

—Peter Landers

## BEARD

Continued from Page One  
dient in Rogaine and other hair-loss treatments.

In a Jakarta coffee shop, Mr. Gamal explained how he stumbled across the stuff when he was trying to grow his own beard and get women to notice him. "I never had much success approaching girls before," he said. "But after using minoxidil for six months I had a pretty good beard. And I also got a girlfriend."

Mr. Gamal's discovery is providing a new lease on life for a baldness treatment that is often the butt of jokes in the West. He is now promoting the hair-loss treatments through his website, Misterbrewok, or Mister Beard in Indonesian. He has nearly 28,000 followers on the photo-sharing site Instagram, many of whom submit before-and-after shots comparing their new beards with their old, baby-fresh faces.

Recently, Mr. Gamal has begun touring Indonesia to meet his "Beard Bros," as his customers call themselves, sharing tips on how to grow a thick, luscious beard and maybe selling a few bottles of hair-growth treatment afterward, much as traveling salesmen used to do in the Old West.

More important, they encourage each other to keep going through long months of doubt until some whiskers finally begin to show.

"I had only a small bit of mustache and some stubble when I started using minoxidil," said one Beard Bro, Kamal Muhammad, 21. "I got stuck on the fourth month when there wasn't much progress, but I realized it was just a matter of time before I would make my breakthrough."

He says his beard has now grown so much that he has had to trim it a couple of times—something he didn't dare imagine a few months before.

The effect on his love life? "Awesome," Mr. Muhammad said.

Minoxidil was first conceived as a tablet in the 1950s to treat ulcers, but it turned out to be more successful as a



Fariz Gamal, above, offers beard tips on his website.

way to lower blood pressure. It also encouraged hair growth, prompting the drug's developer, Upjohn Co., to patent it as a rub-on treatment for male pattern baldness in the 1980s. The Rogaine brand is now owned by Johnson & Johnson.

Generic versions soon followed, among them Mr. Gamal's favorite formula, which is sold under Costco's Kirkland Signature imprint. The treatment is applied twice a day. He sells a one-month supply

**His discovery is providing a new lease on life for a baldness treatment.**

for 150,000 rupiah or \$11. Customers are willing to pay a markup for a variety of reasons, including talking through their needs with Mr. Gamal.

There are potential side effects. In some cases, users can put on a few pounds because minoxidil can encourage water retention. Mr. Gamal recommends people with low blood pressure avoid it, too.

A Johnson & Johnson spokeswoman said Rogaine, where registered, is approved for the treatment of hereditary hair loss and isn't indicated for use on the face or other parts of the body and people looking for such a solution "should consult with a health-care professional."

Costco didn't respond to a request for comment.

When Mr. Gamal first began rubbing minoxidil on his face in 2015 he didn't want anyone to know what he was doing. "I was afraid that people would say it was fake, that it's not really me," he recalled. He feared the worst when his friends found out his secret.

To his surprise, they wanted to buy some of his stash of Kirkland Signature Hair Regrowth Treatment, Extra Strength.

Mr. Gamal says he has carried out informal surveys, which found that 60% of Indonesian women find neatly-trimmed beards attractive, including his current girlfriend, Gingy Anna Karnadi, who sat across the table from him. "Oh yes," she said.

Then there is the case of Muhammad Wildan Attamimi in Purwakarta, a town 60 miles southeast of Jakarta, who began using minoxidil in mid-2015 and found himself becoming surprisingly attractive.

One friend messaged him out of the blue after he changed his profile picture on BlackBerry Messenger to show off his new whiskers. "She asked how I was doing," Mr. Attamimi, 27, recalled.

Then he noticed a client at the notary's office where he worked was trying to flirt with him. "The ladies suddenly began looking at me in a different way, like they were interested," he said.

—Anita Rachman contributed to this article.

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## WORLD NEWS

# Israel Gives Cash, Aid to Rebels in Syria

Fighters receive humanitarian help in effort to create 'buffer zone' on border

Israel has been regularly supplying Syrian rebels near its border with cash as well as food, fuel and medical supplies for years, a secret engagement in the enemy country's civil war aimed at carving out a buffer zone populated by friendly forces.

By **Rory Jones, Noam Raydan and Suha Ma'ayeh**

The Israeli army is in regular communication with rebel groups and its assistance includes undisclosed payments to commanders that help pay salaries of fighters and buy ammunition and weapons, according to interviews with about half a dozen Syrian fighters. Israel has established a military unit that oversees the support in Syria—a country that it has been in a state of war with for decades—and set aside a specific budget for the aid, said one person familiar with the Israeli operation.

Israel has in the past acknowledged treating some 3,000 Syrians, many of them fighters, in its hospitals since 2013 as well as providing humanitarian aid such as food and clothing to civilians near the border during winter. But interviews with half a dozen rebels and three people familiar with Israel's thinking reveal that the country's involvement is much deeper and more coordinated than previously known and entails direct funding of opposition fighters near its border for years.

"Israel stood by our side in a heroic way," said Moatasem al-Golani, spokesman for the rebel group Fursan al-Joulan, or Knights of the Golan. "We wouldn't have survived without Israel's assistance."

Israel's aim is to keep Iran-backed fighters allied to the



Israeli soldiers took part in a training exercise in the Israeli-annexed Golan Heights, near the Syrian border in March.

Syrian regime, such as the Lebanese militant group Hezbollah, away from the 45-mile stretch of border on the divided Golan Heights, the three people said.

But its support for rebels risks heightening tension with President Bashar al-Assad's government, which has long accused Israel of helping rebel groups. Mr. Assad has said Israel supports rebel groups and launches airstrikes in Syrian territory to undermine his hold on power. Israel has said it doesn't favor any one outcome in the civil war.

Israel captured part of the Golan Heights from Syria in the 1967 war and annexed it—a move the international community doesn't recognize.

The threat of a permanent presence of Iranian and Hezbollah forces on the Syrian side of the plateau could drag Israel's military further into a conflict that it has watched warily but mostly stayed out of since it began in 2011.

Fursan al-Joulan's commander, who goes by the nickname Abu Suhayb, says his

### Aid as a Defense

Israel has been providing Syrian rebels with cash and supplies in a secret engagement to carve out a friendly buffer zone.



Source: Institute for the Study of War

group gets roughly \$5,000 a month from Israel. It isn't linked to the Western-backed Free Syrian Army and doesn't get Western funding or arms.

The office of Israel's prime minister referred questions to the Israeli military, which

ment of terror cells and hostile forces ... in addition to providing humanitarian aid to the Syrians living in the area."

The person familiar with Israel's assistance confirmed that cash moves across the border but said it goes for humanitarian purposes. However, rebels said they use the cash to pay fighters' salaries and to buy weapons and ammunition—something the Israeli military wouldn't comment on.

Iran and its Lebanese proxy Hezbollah have played a major role in propping up Mr. Assad's forces. That help, as well as military intervention by Russia, has given the regime the upper hand in the war.

Given the ascendancy of Iran in the war, Israel now fears it will establish control of a strip of land in Syria and Iraq that could be used to transport weapons to military bases in southern Lebanon and the Syrian side of the Golan.

This effort to set up a de facto buffer zone in Syria is reminiscent of another Israeli scheme to protect its northern border by carving out a so-

didn't respond to requests for comment on whether it was sending cash to or dealing directly with rebel commanders in the Golan region. It said only that it was "committed to securing the borders of Israel and preventing the establish-

### Kushner Plans Trip to Middle East

WASHINGTON—President Donald Trump's son-in-law and senior White House adviser, Jared Kushner, plans to travel to the Middle East this week to try to advance U.S. efforts to reach an Israeli-Palestinian peace deal, a White House official said on Sunday.

The trip suggests Mr. Kushner's policy portfolio is far from shrinking despite scrutiny by federal investigators into his meetings with Russian officials.

Mr. Kushner plans to meet with Israeli Prime Minister Benjamin Netanyahu in Jerusalem and travel to Ramallah to meet with Palestinian leader Mahmoud Abbas, the White House official said.

—Carol E. Lee

called security zone in south Lebanon during that country's civil war in the 1970s and 1980s. Known as the "Good Fence" policy, it preceded an Israeli invasion of south Lebanon in 1982 that helped spawn Hezbollah.

Hezbollah battled the Israelis until they withdrew in 2000.

Israel has dubbed the current Golan operation "The Good Neighborhood" policy, according to Ehud Ya'ari, a fellow at the Washington Institute and Israeli political analyst briefed on Israel's support to Syrian militias. It began under former Defense Minister Moshe Ya'alon and continued under his successor, Avigdor Lieberman.

"It's a matter of interests," said the person familiar with Israeli policy. Israel offers the humanitarian support and in return gets a "buffer zone" of local militias defending themselves.

Fursan al-Joulan is the main rebel group coordinating with Israel, according to fighters. It first made contact with the Israeli military in 2013 and Israel soon began sending cash and other aid, fighters said.

## Iraqi Forces Push to Retake Mosul

BY BEN KESLING AND GHASSAN ADNAN

BAGHDAD—Iraqi forces pushed into Mosul's historic Old City, in what is expected to be the final and most intense phase of the fight to retake the country's second-largest city from Islamic State control.

The U.S.-backed offensive began soon after sunrise on Sunday, with troops advancing on the Old City from three sides, Iraqi military officials said. By nightfall, some units had pushed forward a few hundred yards, the military said, which can be considered a substantial

gain in an urban environment.

"With the blessing of God, the army, counterterrorism forces and federal police started breaking into the Old City to liberate what is left of the western side of Mosul," said Lt. Gen. Abdul Amir Yaralla, operations commander in Nineveh province.

The fighting is expected to mark the heaviest and bloodiest stage of the months-long fight for Mosul because the Old City district is a densely populated Warren of narrow streets and alleys, which will likely require house-to-house combat to clear out the militants.

"For sure Daesh is going to fight in a fierce way since this is their last place," said Lt. Gen. Abdul Ghani al-Assadi, commander of Iraq's counterterrorism force, the country's special forces, using another name for Islamic State. "But we have taken into consideration how the place is densely populated, the streets are narrow and explosive devices might be placed by the enemy."

As many as 100,000 civilians remain in the Old City, according to United Nations estimates last week.

Iraqi forces gave no timeline for ending the operation.

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## WORLD NEWS

### JET

Continued from Page One  
attacked the Syrian Democratic Forces near Raqqa, forcing the U.S.-backed fighters to retreat as they evacuated their injured. Coalition aircraft flew low over the regime forces in a "show of force" that stopped them from advancing, the military said.

The U.S., which has no direct contact with the Syrian regime, then said it used an established deconfliction line with the Russians, who fly their own airstrikes in Syria in support of Mr. Assad, to try to bring the fight to a halt. About two hours after the initial Syrian attack, a regime SU-22 jet dropped bombs on U.S.-backed forces in the same area.

Citing "collective self-defense of coalition partnered forces," the U.S. military said an American F/A-18E Super Hornet shot down the regime jet. Col. John Thomas, a spokesman for U.S. Central Command, said there were no U.S. forces in the "immediate vicinity" of the Syrian regime attack.

Syrian state media called the U.S. attack a "flagrant aggression" and said the jet was carrying out a mission against Islamic State militants when it was downed. The pilot is missing, according to state media. The Syrian army said the U.S. "attack stresses coordination between the U.S. and ISIS," according to Syrian state media.

Col. Thomas dismissed that characterization and said the coalition saw the Syrian forces attack the U.S.-backed fighters.

Sunday's strike signaled an expansion of the U.S. military's willingness to directly confront Mr. Assad's forces. And it poses a new question for the American military: Would it be willing to shoot down a Russian or Turkish jet that carries out any similar attacks?

Col. Thomas said the message was for the Syrian regime forces, not the Russians.

"The whole goal here is, when these situations have been occurring, to de-escalate," he said. "We're not putting on any ultimatums."



A Syrian Democratic Forces military vehicle in Raqqa province in Syria on Sunday.

Aaron Stein, a resident senior fellow at the Atlantic Council think tank in Washington, said the strike was an outgrowth of an ill-defined strategy that is being driven more by battlefield tactics than an overarching administration policy.

"Nobody has thought this through," he said. "There doesn't seem to be any policy guidance."

Over the past month, the U.S. military has launched a series of airstrikes on pro-Assad regime forces in southern Syria, where an Iranian-made drone carried out an attack on U.S.-led coalition forces before being shot down by an American pilot. Now, U.S. forces are challenging Syrian regime forces in the north.

In its statement, the U.S. military tried to defuse tensions.

"The coalition's mission is to defeat ISIS in Iraq and Syria," the military said. "The coalition does not seek to fight Syrian regime, Russian, or pro-regime forces partnered with them, but will not hesitate to defend coalition or partner

forces from any threat."

Sunday's incident is believed to be the first time a manned American jet has shot down another once since 1999, when an American pilot shot down a Serbian jet over Bosnia.

For most of the six-year war in Syria, the U.S. has sought to avoid direct confrontations

**The U.S. has sought to avoid direct confrontations with Assad forces.**

with Mr. Assad's forces in the country and focus its firepower on defeating Islamic State. That calculus began to change in April, when Mr. Trump approved airstrikes on a Syrian regime airfield, a punitive strike meant to deter Mr. Assad from using chemical weapons.

Things worsened last month in southern Syria where U.S. forces are beefing up their

presence at a training base near the border with Iraq and Jordan. The U.S. carried out airstrikes on Iranian-backed militias seen as a threat and later shot down an Iranian-made drone circling U.S.-led coalition forces in the area.

The fighting in southern Syria has raised concerns about increasing escalation that could draw the U.S. military more deeply into the conflict.

Meanwhile, Iran's Revolutionary Guards force said Sunday that it had launched multiple missile strikes targeting Islamic State in one of its last Syrian strongholds, Deir Ezzour province. The strike was in retaliation for a June 7 attack on Iran's parliament and a shrine in Tehran claimed by the terror group.

The hard-line paramilitary force said it had fired medium-range surface-to-surface missiles from bases in western Iran. It claimed that the strike hit a command center and logistics centers used for assembling suicide car bombs and had killed many fighters.

—Aresu Eqbali in Tehran contributed to this article.

## China Gaining Pakistan's Favor At U.S. Expense

BY SAEED SHAH

ISLAMABAD—Pakistan's ruling power structure has long been summed up with the saying "Allah, Army and America."

China is now staking a claim to supplanting the U.S. with tens of billions of dollars of investment, an embrace that promises Pakistan economic benefits and saddles it with debt—ensuring the relationship will last.

Chinese President Xi Jinping has made Pakistan his flagship partner in a program to spread Chinese-built infrastructure—and Beijing's sway—across Asia and beyond. Pakistan has so far signed on to \$55 billion in Chinese projects, many of them guaranteeing China a high return on its investments and granting tax breaks to Chinese companies.

Former U.S. President Barack Obama's "Asia pivot" is giving way to Mr. Xi's infrastructure juggernaut in a model that could be replicated across the region.

"China came in when no one else was willing to invest," said Pakistani Commerce Minister Khurram Dastagir. The U.S. missed its chance, he said.

Beijing calls its program "One Belt, One Road," referring to the ancient sea and land Silk Road trade routes that China seeks to revive. Pakistan Prime Minister Nawaz Sharif inaugurated the program's first big completed project here in late May, a Chinese-built, coal-fired power plant in his home province of Punjab.

China is building roads, railways, power plants and a port, and has lent Pakistan \$2 billion in less than two years to shore up its foreign-exchange reserves.

A promised \$1 trillion Chinese splurge hasn't yet materi-

alized for many countries. But in Pakistan, \$18 billion in projects are under construction in what is known as the China Pakistan Economic Corridor.

The centerpiece is Pakistan's Arabian Sea port at Gwadar, under expansion and run by a Chinese company to enable trade in goods from China's southwest.

Pakistan calculates that the Chinese investments will add two percentage points to growth in the next few years by providing infrastructure needed to kick-start industrialization.

President Donald Trump has abandoned what was viewed by the Obama administration as a counterbalance to China, a trade deal with nations in the region called the Trans Pacific Partnership. An American official said civilian aid to Pakistan, a longtime ally, remained substantial but "getting our message out is a challenge."

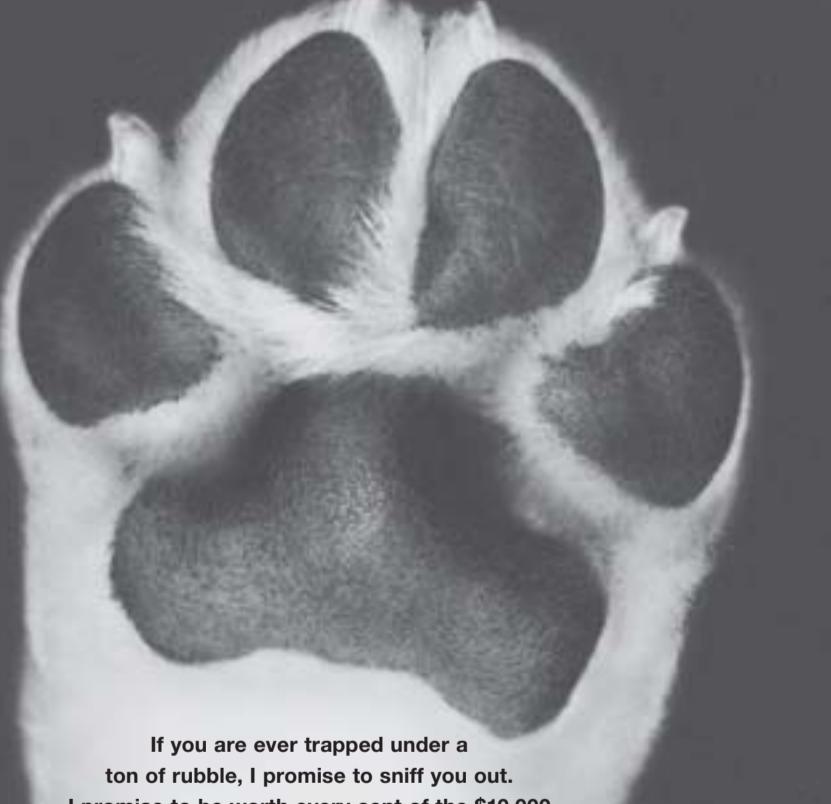
"The Chinese are winning the perceptions game, whatever the reality. That then leads to political outcomes, because people see the inevitability of China's rise and China's power," said Ely Ratner of the Council on Foreign Relations, an independent U.S. think tank.

The U.S. has asked to participate in the China-Pakistan Economic Corridor, but nothing has come of it, one of the American officials said.

China's expenditure isn't aid. With transport projects, Pakistan incurs debt; power plants come with an obligation for Pakistan to purchase the electricity produced.

Nadeem Javaid, chief economist at Pakistan's planning ministry, said Pakistan would be paying \$5 billion a year to China by 2022, but that the debt should be manageable.

## THE PLEDGE



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## IN DEPTH

# Amazon Deal Unites Maverick Chiefs

BY LAURA STEVENS  
AND HEATHER HADDON

**Amazon.com** Inc.'s planned \$13.7 billion acquisition of **Whole Foods Market** Inc. unites two maverick businessmen who will have to blend very distinct approaches to make the deal a success.

The acquisition, if it goes through, will require Amazon Chief Executive Jeff Bezos and Whole Foods CEO John Mackey to work together to combine Amazon's technology and customer know-how with Whole Foods' brick-and-mortar grocery expertise.

The two founders share some traits. Messrs. Bezos and Mackey—who only got to know each other a few weeks ago, people familiar with the matter say—are iconoclasts whose outsize personalities shaped their companies. They pioneered new strategies in their industries—Mr. Bezos by shifting retail online, Mr. Mackey, by popularizing health food—and they are intensely competitive, say people who have worked with them.

Mr. Mackey, a 63-year-old Texan, and Mr. Bezos, 53, also



Amazon Chief Executive Jeff Bezos, left, and Whole Foods CEO John Mackey, right, have different strategies and missions.

have sharply different strategies and missions that could prove tough to marry.

Mr. Mackey's Whole Foods, whose sales totaled \$15.7 billion last year, has catered to wealthier customers with boutique brands and hands-on customer service.

Mr. Bezos has appealed to the masses with low prices enabled in part by centralization and automation. And Amazon, with \$136 billion in revenue last year, has achieved far larger success financially—put-

ting Mr. Bezos firmly in charge.

"On both sides, they will have challenges with accepting that they can learn from each other, and letting go of the 'that's how we've always done it' mentality," said Forrester Research analyst Brendan Witcher.

Amazon has experimented with physical retail for years, but the Whole Foods deal happened quickly. The companies signed a confidentiality agreement on April 27, according to people familiar with the mat-

ter and a federal filing—amid a board shakeup at Whole Foods, and roughly two weeks after Jana Partners LLC disclosed a stake in the grocery and called for its sale.

Amazon and Whole Foods signed a second confidentiality agreement on May 7, the same weekend Whole Foods' board offered Jana two seats but rejected taking on a partner from the New York hedge fund. After the board changed, the deal coalesced quickly. Mr. Bezos was personally engaged and Mr. Mackey traveled to Seattle for negotiations, the people said.

Executives at Amazon and Whole Foods found they shared a willingness to let employees take risks and an emphasis on customer experience, according to people familiar with the matter.

The companies have said little about how they plan to integrate, and declined to make their CEOs available for interviews. But at least some benefits of the combination seem clear.

Mr. Bezos gains more than 460 stores across the U.S., a network that could let Amazon sell its private-label brands

and devices in stores, expand its distribution network, and bolster its Prime Now and Fresh delivery businesses.

Whole Foods gets access to Amazon's data and technology, and the combined buying power of Amazon Fresh and Whole Foods could win better prices from grocery suppliers. Amazon said Mr. Mackey will remain CEO of Whole Foods.

Still, Mr. Bezos's team is likely to scrutinize Whole Foods' business practices seeking opportunities for change, former Amazon employees say. To better compete with rivals, Amazon likely will push for lower prices, new technology, and more uniform stores to save costs, they say.

Mr. Mackey has balked at activist investors for criticizing Whole Foods as too slow to innovate, despite the company's recent efforts to do so.

Mr. Mackey is more focused on the big picture than immersed in the details of everyday operations, former executives said. A strict vegan, he likes to cook dinners showcasing good eating to bring parts of the company together, said people who

have attended.

Some say that the close-knit culture has drawbacks. "It's been a very paternalistic culture where it's a job for life. If someone doesn't deliver, you don't necessarily suffer the consequences," said Burt Flickinger, a grocery consultant.

At Amazon, performance is prized and, as with other tech companies, employees come and go more frequently, former employees say.

Mr. Bezos worked on Wall Street before founding Amazon in 1994. He "has this unique ability to stay focused on a long-term vision, while also staying very focused on the details," said Joseph Thompson, a former general manager of retail at Amazon and current vice president of marketing and growth at BuildDirect, a home-improvement online marketplace.

Despite Amazon's size, Mr. Bezos tries to maintain a startup culture. Teams are typically kept small and there is a strict process for developing new ideas and inventing devices.

—David Benoit contributed to this article.

## FOOD

Continued from Page One

eas for them to get into," said Kent Knudson, a partner at consulting firm Bain & Co., "because of some of the physical challenges of getting food into people's homes."

The challenges for grocers today include a new reality: The days of shoppers filling carts during a big weekly trip to their neighborhood supermarket appear over for now. Consumers are more targeted in their shopping habits. They are less loyal to retailers and more willing to buy groceries online. And they are buying more from stores at two poles: ones with cheap prices, and ones that offer high-quality fresh food, often at a premium.

Grocery sales last year barely budged from 2015 levels, after rising a bit more than 2% in each of the previous three years, according to market-research firm Nielsen. Kroger ended a 13-year streak of rising quarterly same-store sales this year, while Wal-Mart, which gets more than half its sales from groceries, and Target Corp., have struggled, too.

Consumers want "convenience, selection and the right price and they want it now," said Natalie Kotlyar, head of the consumer business practice at consulting firm BDO USA. "Everyone is trying to meld those concepts to create the perfect shopping experience."

Amazon, which has revolutionized the way people shop, is betting it can learn the business and solve at least part of the puzzle. It has shown a willingness to forgo profits for years to build market share in an industry. It has cash to burn, deep experience in logistics and a record of relentlessly driving down supplier costs. And its big push into fresh groceries will likely force other food retailers to accelerate efforts at making e-commerce work if they are to remain competitive.

E-commerce has been tough to crack for the more-than-\$700 billion grocery sector because selling food online is inherently complex. Last year, online shopping accounted for 2% of the sector's sales, according to consulting firm Kantar Retail.

People want to squeeze their produce, pick out their vegetables and inspect their meat. Making sure fresh groceries stay that way through transit is challenging yet crucial for attracting shoppers. "It's really the fresh categories such as produce and meat that are driving people's decision of where to shop," said Bain's Mr. Knudson.

Wal-Mart, Peapod LLC and FreshDirect LLC have been competing to deliver groceries faster and more cheaply. But fresh-food delivery is typically unprofitable, analysts and some companies said.

"Amazon has obviously reinvented supply chain and logistics in a way nobody has," said Doug Ehrenkranz, a 25-year food industry veteran who is now a recruiter at Boyden Global Executive Search. Now, the more-than-460 Whole Foods stores across the country give Amazon access to the kind of refrigerated distribution system its regular fulfillment net-

work lacks, all while tapping into the upmarket natural and organic foods market that it has barely touched.

"Wal-Mart and Kroger will feel pain for a while and the regional players that can't move fast enough will disappear," said Diana Sheehan, director of retail insights at Kantar Retail. "The bigger concern becomes, what does Amazon do next? Once they've navigated the Whole Foods space, they'll learn how to play in mainstream grocery, too."

Amazon and Whole Foods declined to comment for this article.

A Kroger spokesman said: "We're in the middle of a transition today both because of the operating environment and the competitive landscape. We will continue to evolve." Target said grocery is a key business for the company.

A spokeswoman for Peapod said it is profitable in its mature, established markets. "The grocery industry is a low-margin business and last mile logistics make margins even more challenging," she said. Wal-Mart said: "We feel great about our position."

### Fresh-food logistics

While Amazon could put pressure on others to step up their e-commerce game, it has struggled for years with a logistical challenge in fresh food that it doesn't in books and electronics. A Cowen & Co. report points out: "The entire fulfillment process is more complex and time consuming from the moment a 'grocery' shipment arrives" at a fulfillment center until it is shipped, what with the need for refrigeration and attention to factors such as "expiration dates, smell, and color, among others."

The Amazon-Whole Foods deal came together relatively quickly, according to people familiar with the matter, indicating Amazon may not yet have a fully formed strategy for Whole Foods.

Amazon will try to expand the appeal of Whole Foods by using its efficiencies to lower prices, which would bring a fresh wave of pressure to the beleaguered sector, said Chris Baker, a retail and consumer-goods expert at management consulting firm Oliver Wyman.

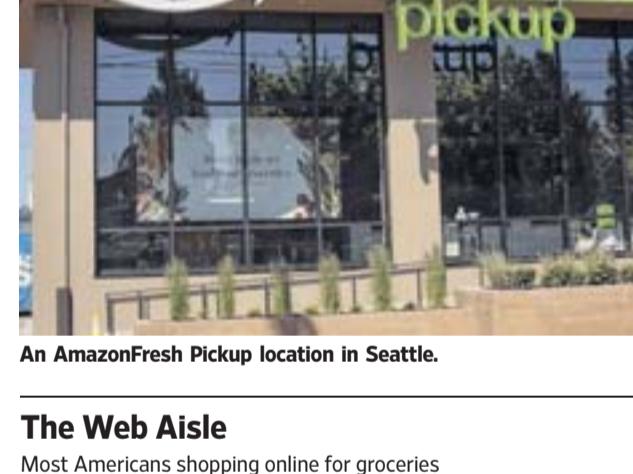
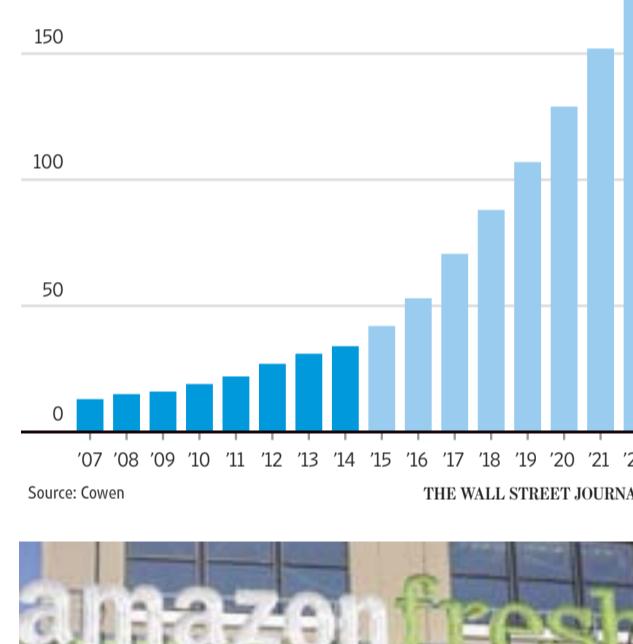
The supermarket business has always been tough, in part because American consumers have grown accustomed to cheap food. Supermarkets arose out of the Depression, as the efficiency and scale of larger stores made food more affordable for consumers than shopping at local cheese and meat markets, said food historian Andrew F. Smith. As suburbs developed after World War II, grocery chains expanded and found that stocking more inventory provided greater economies of scale.

By the 1970s, there was saturation in the supermarket industry, according to Mr. Smith, and a national recession led to the creation of discount warehouse stores. Competition from fast-food chains and price wars in the grocery sector fueled a wave of consolidation in the 1980s.

A seismic change hit the in-

### From Cart to Click

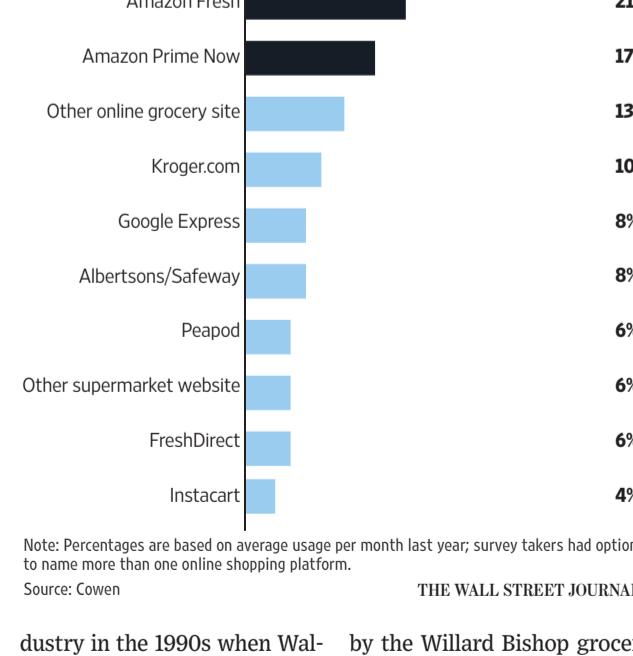
U.S. Online grocery shopping is expected to take off in the next few years



An AmazonFresh Pickup location in Seattle.

### The Web Aisle

Most Americans shopping online for groceries are already buying them from Amazon



Note: Percentages are based on average usage per month last year; survey takers had option to name more than one online shopping platform.

Source: Cowen

THE WALL STREET JOURNAL.

distry in the 1990s when Wal-Mart began selling low-price food and within a decade became the nation's largest grocer. Ever since, traditional grocery chains have been scrambling to compete. In recent years, price competition has become even more fierce as the number of retailers has grown.

There were more than 262,800 stores selling groceries in 2015, up 17% from a decade earlier, according to an analysis

by the Willard Bishop grocery consultancy. "There are so many places to food shop and there's not an infinite number of consumers," BDO's Ms. Kotlyar said. "All of these different stores are just splitting up the shoppers among themselves."

Recent commodities deflation has forced grocery stores to slash prices on such staples as milk, beef and eggs. Labor costs have risen, applying further pressure to profit margins.

Other changes have taken

root in recent years. Consumers are far more curious and educated about the source and content of their food, thanks to books and documentaries about the food industry and the rise of television cooking shows. More upscale organic-food stores have opened in response, eating into grocers' market share while simultaneous demand for convenience has fueled the rise of meal-kit services such as Blue Apron Holdings Inc.

Grocery executives say they are willing to lower prices at the expense of profits if that's what it takes to keep shoppers from turning to online and discount stores. Even Whole Foods has taken a hit to its margins by lowering prices in an effort to win back customers.

"We are not trying to lead the market down on price," Kroger Chief Executive Rodney McMullen said in an interview last week. "But we want to make sure we won't lose a customer based on price."

Meanwhile, new discounters are still entering the U.S. market. German grocery chain Aldi said this month it planned to invest \$5 billion over five years to open nearly 900 stores in the U.S. and remodel hundreds more. Rival Lidl, another German discounter, entered the U.S. market with 10 stores this month—another "body blow" to the traditional U.S. industry, said Craig Johnson of Customer Growth Partners, a retail research and strategy group.

Aldi and Lidl have disrupted European grocery markets by offering low prices, and company officials have said they believe they can aggressively compete in the U.S. market as well.

Driving downward pressure on prices are frugal shoppers such as Meg Meyers, a 35-year-old psychotherapist and married mother of two in St. Louis, Mo. She said she buys food exclusively at Aldi to help stretch her household's \$79,000 annual income, which also goes toward student loans. "We have no disposable income," she said, adding that she limits her purchases to about \$100 a week using a meal-planning app that enables her to buy only what she needs.

Amazon, which first entered the food sector several years ago with dry groceries via its website, has slowly built its Fresh grocery-delivery business over years by targeting cities where it already owns large warehouses in part to avoid the need for refrigerated trucks. Still, Amazon has faced the same problem others have: Many consumers have been slow to buy produce and fresh items online.

Amazon has tiptoed into the brick-and-mortar grocery-store business this year, opening two Fresh Pickup stores in its hometown of Seattle and has explored various ideas for other types of grocery stores.

But Amazon's deal to buy Whole Foods for \$13.7 billion, including debt, may help close a gap in its offerings. "Amazon can't compete in grocery without bricks and mortar," said Ms. Sheehan of Kantar Retail. "Fresh food is at the heart of what grocery is. Shoppers trust their grocery store for fresh meats, seafood, produce and

dairy and Amazon has struggled to convince shoppers that they should be the store people go to for fresh food."

### Amazon's 'last mile'

NPD Group Inc. food analyst David Portalatin said the Whole Food stores would solve much of "Amazon's 'last-mile' delivery challenge for fresh groceries." He said that logistics hurdle was a big reason Amazon hasn't been able to make a dent in the grocery shopping of the 60% of millennials who already buy other items from Amazon.

The migration online for at least a portion of grocery purchases, led by Amazon, almost certainly means a further shakeout in the industry. The online grocery industry could grow into a \$100 billion business over the next decade, according to Nielsen and the Food Marketing Institute.

"I would be the first one to sign up for Whole Foods delivery and would probably never step foot in the store again," said Judah Ross, 29, an entrepreneur who lives near the Whole Foods flagship store in Austin, Texas, and shops there every other week. "Whole Foods is a pleasant place but I hate going out to shop for groceries. Even though it's so close, there's traffic, parking and waiting in line. The convenience of delivery would outweigh any benefit of picking

*'This is going to be one of the hardest areas for them to get into.'*

out the food."

Whole Foods currently partners with delivery service Instacart to offer grocery delivery in some cities.

Chains that don't adapt quickly to the changes in consumer behavior and business dynamics won't survive, say analysts, who, along with some supermarket executives, expect more consolidation in the coming years and predict more grocery stores will close.

To compete with Amazon, Wal-Mart is offering curbside pickup and home delivery in test markets. Kroger is expanding its platform for customers to order groceries online and pick them up at the stores. It also said it has invested \$3.8 billion in lowering its prices over the past decade.

Albertsons Companies Inc., which owns Safeway, says it will offer grocery delivery in eight of the 10 most populated markets in the U.S. by February. It declined to comment for this article.

Even though it is expensive for Albertsons, Chief Executive Bob Miller said in an interview earlier this year, he doesn't want Amazon to beat him to his customers. "Technology is changing rapidly. Amazon is a prime example of that," he said. "We don't want to be cutting edge, ahead of the curve, but we want to be understanding what's going on."

—David Benoit and Laura Stevens contributed to this article.

# GREATER NEW YORK

## Hamptons Buzz: Aircraft Noise

Residents' complaints on the rise as more people helicopter in; 'It vibrates the house'

By JOSEPH DE AVILA

Summer isn't even officially here, but noise complaints at an airport in the Hamptons have started pouring in—1,000 on Memorial Day weekend alone.

It is a long-running problem on this tony Long Island spot about a four-hour drive east of New York City where the population quadruples during the steamy summer and commuters increasingly use helicopters to avoid the congested Long Island Expressway and Sunrise Highway.

With all those trips—at costs starting at \$500 a seat on a shared helicopter from New York City—comes noise, which irks many of the area's 21,500 year-round residents. More than 26,000 aircraft-related noise complaints were registered in 2016, up from about 24,000 the previous year, according to the town of East Hampton. Most come during the summer.

Kathleen Cunningham, who has lived in East Hampton for 40 years about 3 miles from East Hampton Airport, said she can sense the aircraft coming.

"The physical pulsing, you can actually feel it in your chest when it's low enough," said Ms. Cunningham, who is chair of a group called the Quiet Skies Coalition. "It vibrates the house. It vibrates the glassware."

According to the town, there are about 25,000 takeoffs and landings a year and more than 8,000 helicopter landings and departures at East Hampton Airport. Commercial airlines can't use the airport, which opened in the 1930s and sits about 5 miles west from town hall, but private jets can.

Larry Cantwell, the East Hampton town supervisor, said he and the town board want to keep the airport open, but are sensitive to residents' concerns. The roughly \$5 million in annual revenue generated by the airport goes toward its budget, which typically is about the same, he noted.

"I love the airport. I hate the noise," Mr. Cantwell said.



HEATHER WALKER FOR THE WALL STREET JOURNAL (2)

### U.S. Supreme Court Might Hear Case

East Hampton is limited in what it can do about airport noise because of a legal fight that sits at the U.S. Supreme Court.

The case landed in the high court after air-charter operators sued the town, which owns the airport, in federal court in 2015 for setting curfews on flights and limiting the number of trips certain aircraft can make.

The lower court sided in part with the town in 2015. The Second U.S. Circuit Court of Appeals ruled in favor of the companies. The Supreme Court is considering reviewing the case.

The legal debate rests on whether a federal aviation law enacted by Congress in 1990 supersedes East Hampton's ability to pass its own restrictions on air travel. The aviation companies contend this law pre-empts the town's control. East Hampton disagrees.

Attorneys for the aviation companies that sued the town declined to comment. In court papers, the attorneys said the quarrel is "properly addressed to Congress, not the Court."

The Supreme Court, set to recess at the end of June, could announce whether it will hear the town's appeal this month, a town official said.

—Joseph De Avila



Passengers disembarked at East Hampton Airport, top. Kathleen Cunningham, who lives 3 miles away, hears the aircraft noise.

"We believe, with some local restrictions, we can help control the problem. And right now our hands are tied."

Other East End communities grapple with air-traffic noise—Southampton has a heliport, Westhampton Beach has a county-run airport and Montauk is home to a privately owned airport.

The noise complaints started mounting a few years ago after ride-share apps made it easier to catch a helicopter ride, primarily from New York

City, for a Hampton jaunt. Helicopter landings and departures increased to nearly 8,400 in 2014, up 47% from the previous year, according to court papers filed by the town.

John Kelly, director of operations for Shoreline Aviation, a firm that offers chartered seaplane service, said his company has flown into East Hampton for nearly four decades. "We've done everything we can to mitigate our noise," he said. "We fly at the highest altitude available depending on

weather and safety."

Some locals say there is only one solution.

"Close the airport," said Patricia Currie of the group Say No to KHTO, which is the airport code for the East Hampton Airport.

"Thousands and thousands of people are impacted by this so that a handful can travel for convenience and to save themselves a couple of hours journey on the highway," said Ms. Currie, who lives in Noyack, about 7 miles from the airport.

Ms. Cunningham said the town should be able to set its own flying curfews because it owns the airport. "Every taxpayer in the town of East Hampton owns that airport," she said. "They should have a right to govern it as benefits the entire community, not just the flying public."

If the Supreme Court declines to hear the case, Mr. Cantwell said the town will ask the Federal Aviation Administration for permission to set restrictions.

## Lawmakers Lock Horns In Albany

By MIKE VILENSKY

Lawmakers are set to spar about charter schools and oversight of state contracts as the legislative session winds down in Albany.

New York City Mayor Bill de Blasio's authority to control city schools is up for renewal, and supporters of charter schools have proposed linking mayoral control to charter expansion.

The Republican-led Senate and Democratic Gov. Andrew Cuomo generally support charter schools, while the Democratic-led Assembly, closely allied with teachers' unions, often stands in the way of charter growth.

Mr. de Blasio, a Democrat, has said he doesn't think his authority to run the city's school system should be part of a trade. Mr. Cuomo has said he would support a legislative package that included both charter perks and mayoral control.

The Legislature also is negotiating changes to the state's contract-procurement process on the heels of a scandal involving alleged bribes for contract deals. One of the indicted figures in that alleged scheme, former Cuomo adviser Joseph Percoco, has pleaded not guilty.

A proposal backed by the state comptroller, Thomas DiNapoli, would boost his review capabilities of state contracts before they are signed. The measure has bipartisan support, but Mr. Cuomo has pushed back against it. Some lawmakers have said the bill should be passed even if it risks a veto from the governor.

The Assembly and Senate also are at an apparent stalemate over a long-sought law widening the statutes of limitations on child sex-abuse cases. The Assembly and Mr. Cuomo both support the law, while the Senate's position is unclear.

On Friday, Mr. Cuomo sounded a pessimistic note in a call with reporters, and even floated the possibility that lawmakers may go home at the end of the week with mayoral control and other issues unresolved, and return for a special session before Jan. 1.

"If I were betting, I would bet right now the plan would be to come back at the end of the year," he said.

## Mayor Finds His Voice on Subway

By MARA GAY

For months, as millions of New Yorkers descended into the subway braving spiraling delays and nightmarish commutes, Mayor Bill de Blasio was talking ferries.

As mayor, Mr. de Blasio doesn't control the subway system. Gov. Andrew Cuomo, a fellow Democrat who oversees the Metropolitan Transportation Authority, does—a fact the mayor is fond of noting.

But a tipping point may have come this month when, on top of the tens of thousands of delays that New Yorkers have endured, passengers on an F train were trapped underground for nearly an hour without air conditioning.

In the days since, he has been a louder advocate for subway riders, saying he would step in with a plan of his own if the MTA doesn't confront the issue. "There's a crisis right now on our subways and it has to be addressed," Mr. de Blasio said last week.

Until recently, the mayor has said relatively little about the subways. Instead, he largely focused on the transit alternatives within his control: The city's new ferry system, a light-rail initiative planned for Brooklyn and Queens, and an express-bus service. "We need to first think about the things we can do right now," Mr. de Blasio said earlier this month.

While transit advocates mostly have praised Mr. de Blasio's initiatives, they contend there are no replacements for a working subway system. According to city estimates, for example, the new ferries will carry 500,000 passengers a year. Nearly six million people



Chanel Torres, center, spoke with New York City Mayor Bill de Blasio on the R train last year.

ride the subway every day.

Mr. de Blasio, some say, should be using the mayoral bully pulpit to champion subway riders as well. In a nod to that criticism, the mayor has said he would do more to advocate for frustrated straphangers, and he rode a C train in a show of solidarity.

"He doesn't have to be in control of the subways to be an advocate for the subways," said Mitchell Moss, Director of the Rudin Center for Transportation at New York University.

The century-old subway system is straining to keep up with record ridership and decades of underfunding. Its aging infrastructure and signal systems have driven delays up sharply in recent years.

A spokeswoman for Mr. Cuomo said the city should contribute more money to the MTA.

## 6M

Number of people who ride the New York City subway each day.

Mr. de Blasio has committed \$2.5 billion to the MTA's five-year, roughly \$30 billion capital plan, while the state has said it would contribute \$8.3 billion. The plan includes funding for suburban projects, as well as New York City. Transit advocates and experts say the budget in general falls far short of what is needed to make the critical upgrades the subway system requires.

The mayor doesn't take the subway regularly. He is driven most mornings from Gracie

Mansion on the Upper East Side to work out at a gym in his former Park Slope neighborhood in Brooklyn, and then to City Hall in lower Manhattan.

Mr. de Blasio has tried to hammer home the message with voters that Mr. Cuomo is in charge of the subway system. It isn't easy.

A NYU/City University of New York poll last month showed 33% of voters blamed the mayor for the subway's issues, while 31% blamed the governor; 32% weren't sure who was at fault.

The mayor recently has said he empathized with frustrated riders, particularly those on the ill-fated F train, because he used to take the subway from his Park Slope home before he got a car. That was about 18 years ago.

## Churches Vandalized With 'Satanic Graffiti'

By JOSH BARBANEL

Four African-American churches on Long Island were spray-painted over the weekend with what police called "satanic graffiti."

Suffolk County police said the incidents of "criminal mischief" in North Amityville have been turned over to its hate-crime unit.

Bishop William H. Walker II, senior pastor of the Amityville Full Gospel Tabernacle, said he arrived at the church Saturday morning to see a 4-foot-high pentagram—a five-pointed star in a circle sometimes associated with Satan—painted in black on the church doors, and the words "Hail Satan" written on a brick wall.

He said he didn't think the incidents reflected racial ani-

mosity. "There is no racial tension at all in the community," he said. "It seems that there was someone who had a serious issue with the Christian faith."

By Saturday afternoon, he said, the graffiti had been removed.

At another church, Prayer Tabernacle Church of God in Christ, Pastor Walter C. Willie Jr. said officials had turned over footage from a security camera to police.

Rev. Willie said a five-pointed star in a circle was spray-painted on a white wall of the church, but without words, making it difficult to decipher its meaning. "I am not sure what it means," he said.

Satanic graffiti also was painted at Shaw Temple A.M.E. Zion Church and Zion Gospel Church, police said.

## Young Racers Tear It Up



ON YOUR MARK: Sophia Chapman, 8 years old, and other student speedsters took off Sunday on the Staten Island Soap Box Derby.

## GREATER NEW YORK

# Co-Working Comes to New Jersey

BY KEIKO MORRIS

Communal co-working office spaces such as the ones offered by shared-office giant WeWork Cos. are red hot in big U.S. cities such as New York. Now they are making inroads in the New Jersey suburbs.

Co-working startup Vi Co-working LLC opened a site in June at a redevelopment project at Fort Monmouth, after finding success with a 5,000-square-foot co-working space

**PROPERTY** it launched a little more than a year ago at the Bell Works redevelopment in Holmdel.

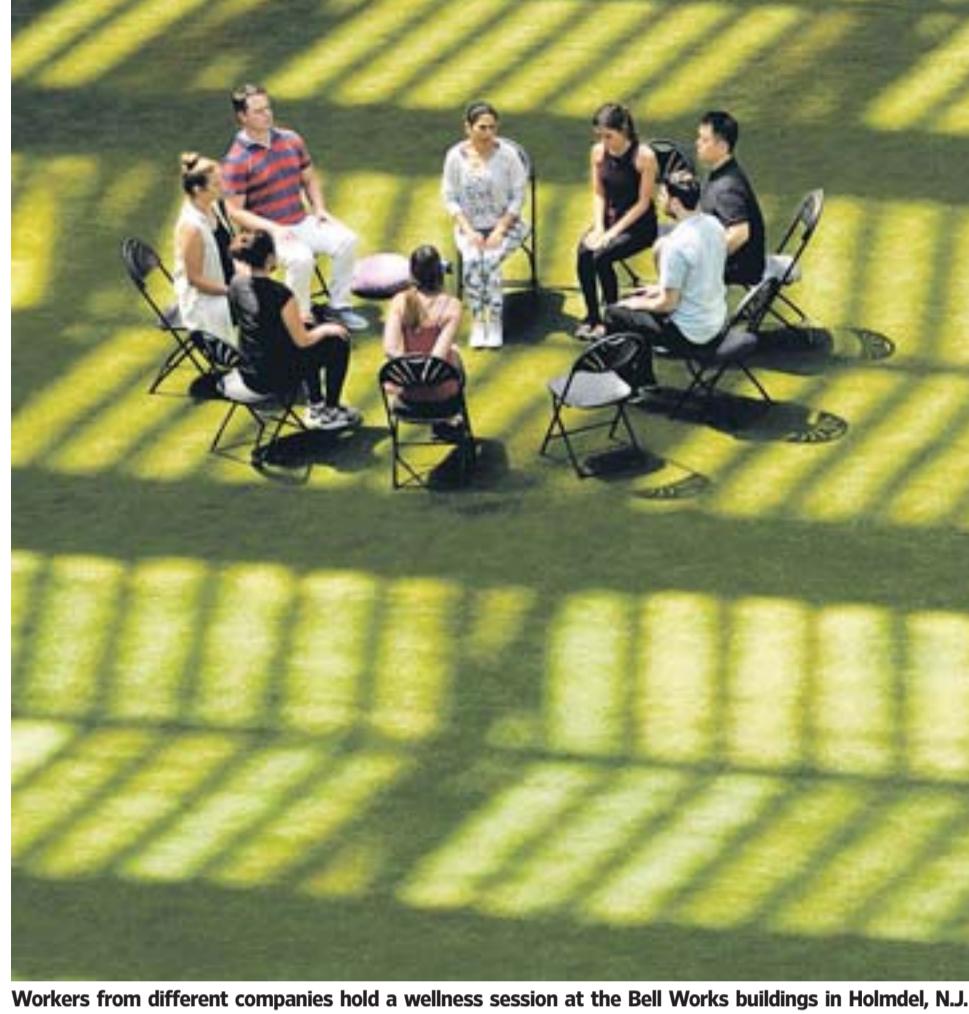
Hugo Neu Corp., meanwhile, launched a 5,000-square-foot space at its commercial redevelopment project at Kearny Point last summer—and has since doubled the size.

"The demand is stronger than we thought," said Nick Shears, director of leasing at Hugo Neu. "We would get people looking for traditional office space and saw the co-working space and said, 'This is better because I am not ready to commit on a multiyear lease.'

Co-working spaces, which offer short-term commitments, often are associated with the technology and startup worlds, emphasizing community and a more casual office setting that sometimes comes with free beer and ping pong. Those in the suburbs vary, offering a more subdued décor and setting geared toward somewhat older professionals, but sharing an emphasis on networking.

The rise of the suburban shared-office facility has been fed by a growing number of independent workers, said co-working operators, real-estate developers and brokers. Many of them are leaving the corporate world to strike out on their own, eliminating a long commute and establishing more of a balance between personal and work life, said the experts.

Larger companies also are fueling demand, using these facilities as spots to allow valued employees a flexible work option close to home. About half



Workers from different companies hold a wellness session at the Bell Works buildings in Holmdel, N.J.

of the customers using co-working provider Serendipity Labs Inc. work for established companies, said Chief Executive John Arenas.

Serendipity, which operates a number of facilities around the U.S., opened locations in Ridgewood, N.J., and Stamford, Conn., last year and has franchise sites under development.

"Workplace strategy at companies has become much more sophisticated in the last three to four years," Mr. Arenas said.

The Sparta, N.J., location of C3Workplace LLC, opened in 2013, draws a combination of business owners and commuting professionals who are at a level at their companies to justify having an office near their home, said Donna Miller, president of C3Workplace,

which also has a co-working site in Montclair.

"Many of my clients are in the sandwich generation, where they are taking care of children and aging parents," Ms. Miller said. "That's a big load to carry so you have to be close to home and change things up on the fly."

While there is some skepticism that the co-working trend will last, some landlords are embracing it as a way to give life to their buildings and help incubate firms that eventually will lease office space at other of their properties. That was part of Vi Coworking's pitch to Somerset Development LLC, the company behind the Bell Works redevelopment, said Chris Pallé, Vi's co-founder.

In the year since its Bell

Works launch, Vi's co-working space has had one of its clients, a video-technology startup called Vydia Inc., more than double its workforce and sign a lease for longer-term space in the complex. Vydia Chief Executive Roy LaManna said he credits co-working for helping it attract technology employees.

Somerset is about to launch a second co-working space called Design Lab to bring together professionals in different fields focused on design.

"We look at Vi and Design Lab as incubators and feeders bringing vitality and life on an evolving and continuing basis to Bell Works, so the value to us goes beyond the actual cost per square foot and income," said Ralph Zucker, Somerset's president.



Rendering of the 280 Cadman Plaza West tower in Brooklyn Heights.

## PROPERTY WATCH

BROOKLYN HEIGHTS

### Condo-Library Project Gets Loan to Proceed

The developer behind a Brooklyn Heights project to build a new library and condominium tower has secured a \$280 million construction loan, allowing the mixed-use redevelopment to move forward.

Hudson Cos. said it closed on a \$280 million loan provided by real-estate finance company

**Starwood Property Trust Inc.** and Related Fund Management, a division of real-estate firm Related Cos.

Hudson also closed on the \$52 million purchase of the Brooklyn Heights Public Library site from New York City, a transaction that will fund the build out of a new library at the site, as well as improvements at eight other branches.

"This is the poster child for public-private projects," said David Kramer president of Hudson.

Hudson's \$470 million project at 280 Cadman Plaza West includes a 36-story tower that will house the new 26,620-square-foot library, a 9,000-square-foot science, technology, engineering and math lab for students, and 134 condominium units.

MANHATTAN

### Cats Shoo Rats From Javits Loading Docks

The rats want nothing to do with the cats at Manhattan's far West Side convention center.

The **Javits Center** feline pest-control team, whose work ridding the loading docks of rodents has made headlines in the past, is among the highlights of a sustainability report issued by officials at the complex.

The report claims success in using feral cats to eliminate most of the rodents at the loading-dock area and create a healthier work environment.

Feral cats were introduced to the bustling 2.1 million-square-foot center in 2014 as a way of reducing the use of harmful exterminating chemicals and the costs associated with those services, the report said.

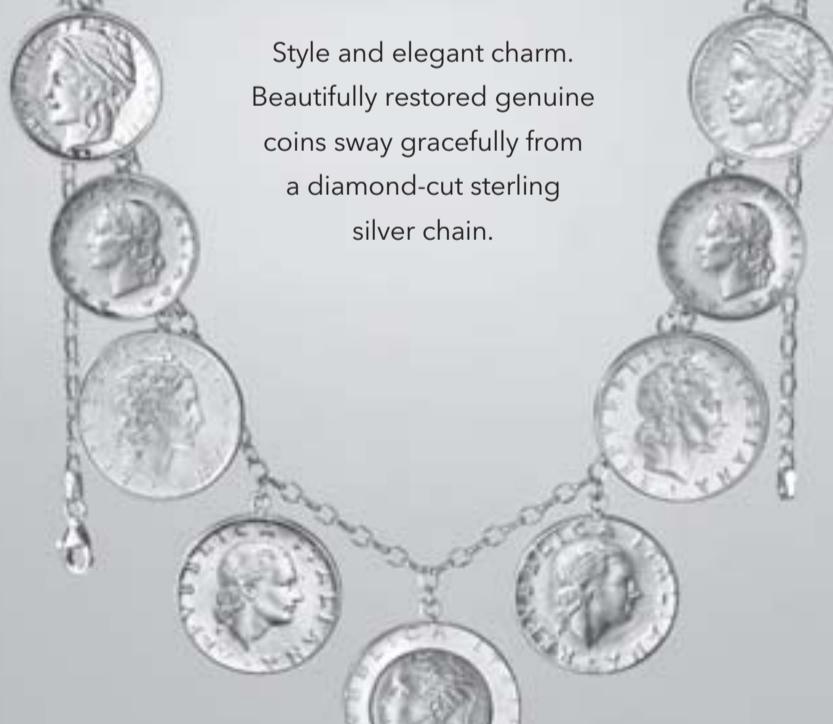
Javits employees provided food and shelter for the cats—now a team of four—to help them acclimate to their new home and encourage them to stay in the area. The cats don't have to do much except hang out in the building's loading docks. The scent of the cats is enough of a deterrent to keep rodents away, a center official said.

—Keiko Morris

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# Pipa Prodigy Set to Play at Armory

BY ELIZABETH YUAN

The woman now considered the world's greatest pipa player spent years asking herself, "What am I going to do?"

Wu Man, now 54 years old, was the first person to get a master's degree in her instrument—a four-stringed lute with a two-millennia history—at China's top music school, the Central Conservatory of Music, in Beijing. She became its youngest faculty member. She had learned the very limited repertoire of notated pipa songs, which numbered a few dozen, given its oral tradition roots.

In 1979, she got a glimpse of the world outside thanks to the historic tour in China of Seiji Ozawa and the Boston Symphony. Three months later, violinist Isaac Stern visited her school. He gave a master class where he taught musicians to project to the last row of the audience, a new concept.

Ms. Wu saw an alternative to what she considered the all-too-smooth path that lay before her as professor. It meant stepping onto a bigger stage—and ultimately to the U.S.—to find out the possibilities for her instrument and for herself as a musician. And for the last 25 years, "that is what I'm doing."

Her step on the broader stage brings her to New York City this week. Tuesday and Wednesday, Ms. Wu will join the Shanghai Quartet for concerts at the Park Avenue Armory in Manhattan. The program will include only works of Chinese composers. On Thursday she and the Miró Quartet will perform the world premiere of Chinese composer Ye Xiaogang's "Gardenia" at the International Festival of Arts & Ideas in New Haven, Conn.

Ms. Wu was a Fellow at Harvard's Radcliffe Institute in 1998 when cellist Yo-Yo Ma, who lives near Boston, asked if she were interested in joining "this ensemble idea," she said. Her goal was to introduce the pipa to different audiences.

At Mr. Ma's invitation, she joined him the following year to perform at the White House dinner hosted by President Bill Clinton for Chinese Premier Zhu Rongji, becoming the first artist from China to perform at the White House.



Wu Man, with her pipa, performing with the Shanghai Quartet at the Chamber Music Society of Lincoln Center on April 13.

12 Chinese cities as part of the Aga Khan Trust for Culture's Music Initiative.

After that, Ms. Wu was at Indiana's DePauw University to serve among the dozen faculty of the weeklong Global Musician Workshop, the training program inspired by Mr. Ma's Silk Road Ensemble, the international artists collective.

Think of the workshop as "a lot of tiny Silk Road Ensembles," said Brian Grimm, of Madison, Wis., who plays the seven-stringed Chinese zither, guqin—an instrument that dates back 3,000 years—along with the pipa, cello, and bass guitar.

Under Ms. Wu's guidance, Mr. Grimm's group of musicians—playing the clarinet, cello, piano, violin, tabla, guqin and pipa—would take on a love song from China's Sichuan province and try different styles: a funky Afrobeat version, upbeat bluegrass. "We'd keep tweaking so that we could perform it three different ways," Mr. Grimm said.

Working with musicians from different traditions "brings me life," Ms. Wu said.

It was Ms. Wu's parents who chose the pipa for her to play at age 9, seeing it as the most important Chinese instrument, steeped in history, literature, painting and poems, and with a beautiful shape. "I think they are right," she said.

# LIFE & ARTS

SUMMER BOOKS

## If You Could Read Only One...

The WSJ asked some of the country's most influential literary arbiters which single book they'd recommend this summer

BY ELLEN GAMERMAN

### ONE SUMMER.

One expert.  
One book.

The Wall Street Journal asked literary professionals to recommend a novel for the summer—a book that would be an ideal companion at the beach or a European café, in a shady hammock or aboard a sweaty subway. The experts were limited to just one work of fiction published this spring or due out this summer. Most of them stuck to the plan. A few bent the rules. Here, the voracious readers make their case:

### A SEPARATION

by Katie Kitamura (Feb. 7)

Recommended by: Lynn Lobash,  
manager of reader services at the  
New York Public Library

Ms. Lobash, who serves on the American Library Association's notable books committee, said she reads about a book a week. By the end of the year, 10 titles stand out. This character-driven psychological thriller will be one. A husband goes missing, and the wife from whom he is secretly separated travels to southern Greece to investigate his disappearance. Once there, she senses he was probably sleeping with the receptionist at her luxury hotel, and she can't tell if the locals are being helpful or are trying to cover up his whereabouts. The book, whose mood has been compared to that of the Michelangelo Antonioni film "L'Avventura," drew in Ms. Lobash, particularly the reflections on the nature of marriage and betrayal. "It's relatable in that way that everybody loves to read a good psychology book—because it's really about them," she said.

### THE PREY OF GODS

by Nicky Drayden (June 13)

Sharifah Williams, associate editor  
at the book blog Book Riot

Ms. Williams, who reads books on her phone, said when she reached the end of the science-fiction and fantasy novel set in near-future South Africa, she put down her device, swore, shook her head and laughed, in that order. The book features a world threatened by a new hallucinogenic drug called Godsend, the seeds of a robot uprising and an ancient demigoddess/part-time nail technician who preys on the blood of humans. "There's a scene early in the book that perhaps best insinuates the story's tone," said Ms. Williams. "Muzi and best friend, Elkin, try Godsend together, turn into a crab and a dolphin, respectively, and experiment with intercourse in their new forms. But even then I wasn't fully prepared for the madcap sentient bot vs. demigod vs. demigod story this book escalated into."

### WAKING LIONS

by Ayelet Gundar-Goshen (Feb. 28)

Sheryn Morris, literature and  
fiction librarian, Los Angeles  
Public Library



A wealthy Israeli neurosurgeon finally hits an African migrant with his car on a deserted road and flees the scene. The doctor is married to the police detective who investigates the hit and run. In the book, set in the Israeli city of Beersheba, the dead man's widow blackmails the doctor, keeping his crime a secret if he provides medical care to other refugees. "In the news, all over the world, people are fleeing death and it addresses that in a very carefully woven plot," Ms. Morris said of the Israeli author's first book published in the U.S. "As you read on, it's very chilling about noticing people who are suffering, noticing people

who are doing work that maybe you wouldn't do and wondering what their lives are like."

### WE ARE NEVER MEETING IN REAL LIFE

by Samantha Irby (May 30)

Marisa Siegel, editor-in-chief  
and owner, *the Rumpus*,  
a literary website

Ms. Siegel felt so passionately about this essay collection by Ms. Irby, creator of the blog "bitches gotta eat," that she picked it over any fiction options. She started it in the parking lot of her son's preschool, laughing so loudly she worried people might be alarmed. At other points, she was crying. She

was moved by the author's frank treatment of her body. "She ventures into spaces that women writers rarely do," Ms. Siegel said, comparing the book's exploration of why and how women become overweight to Roxane Gay's new "Hunger: A Memoir of (My) Body." Ms. Irby starts with her version of an application to appear as a TV contestant on "The Bachelor." Answering a question about her weight, she writes: "Lane Bryant model? But maybe on her period week."

### THE SEVEN HUSBANDS OF EVELYN HUGO

by Taylor Jenkins Reid (June 13)

Elizabeth Khuri Chandler, editor

in-chief and co-founder of the book-discussion site Goodreads

Ms. Chandler let the numbers help drive her book selection, going with one of the top 10 most anticipated titles on Goodreads so far this month. The novel, which more than 16,000 Goodreads members have marked as a book they want to read, tells the story of a movie star from her rise to fame in the 1950s to the present day. Time is marked through the acquisition and removal of her various husbands. The reclusive Hollywood icon tells her story to a rookie journalist who can't figure out why she was chosen as the biographer. "All signs are indicating that it will be a breakout book in June," said Ms. Chandler, who called it "delicious." Ms. Reid's novels have made the beach-read lists in publications such as People, Cosmopolitan and Glamour.

### THE CHANGELING

by Victor LaValle (June 13)

Lydia Kiesling, editor, *the Millions*,  
an online magazine about arts  
and culture

A rare-book dealer's wife and infant son disappear in a scene so horrifying Ms. Kiesling urges parents of young children not to let it drive them away altogether. She calls the literary fantasy set around New York both a transporting fairy tale and a study of race and American social history. "Even though there is a forest troll and a magic island inhabited by traumatized warrior women, you leave the novel thinking about why things are the way they are in America," she said. Mr. LaValle has been compared to both author Ralph Ellison and filmmakers Joel and Ethan Coen. Ms. Kiesling finished the novel in two days.

### BORNE

by Jeff VanderMeer (April 25)

David Naimon, host of the *Between the Covers* podcast

Rachel, a scavenger in a ruined city, finds Borne, a piece of biotech that looks like a squid mixed with a sea anemone and is instilled with a kind of humanity. Mr. Naimon imagines two very different readers lying side by side on a beach enjoying this book. "One wants something thought-provoking and philosophical, to ponder the nature of consciousness, what it means to be a person, how humans could pick up the pieces in a world of scarcity after one's civilization collapses," he said. "The other wants to get lost in a fully imagined foreign universe, populated by a giant flying lethal bear, hordes of bear proxies who are venomous and breathe fire, gangs of bioengineered children following a mysterious leader called the Magician, a place of danger and desperation where epic battles loom."

### See More

◆ For more book recommendations, visit [WSJ.com/Arts](http://WSJ.com/Arts)

ANATOMY OF A SONG

## THE STORY BEHIND 'I'LL BE AROUND'



The Spinners in the 70s, from left: Henry Fambrough, Bobby Smith, Billy Henderson, Pervis Jackson and Philippe Wynne

BY MARC MYERS

THE 1970s Philadelphia dance sound can be traced back to the Spinners' "I'll Be Around." Released 45 years ago in August '72, the song climbed to #3 on the Billboard pop chart and to #1 on the R&B chart.

Recently, the song's co-writer and producer Thom Bell (who received a Grammy Trustees Award this year), the song's lyricist Phil Hurt and drummer Earl Young talked about the influential hit's evolution. Edited from interviews.

**Thom Bell:** One Friday afternoon in early '72, I was at Philadelphia's Sigma Sound Studios producing a Stylistics record. When we finished, Vince Montana, a superb percussionist and a friend, started teasing me.



"Man, Thommy, I bet you can't write a simple song with three chords, like the old doo-wop stuff." I laughed and said, "Doo-wop was nice, Vince, but we've evolved." He said, "Yeah, but I still bet you can't do it. You need three legs to dance to some of this stuff."

Back at my office that evening, I couldn't shake Vince's challenge. I turned to my piano and played a series of three-chord combinations. Eventually I landed on E major 7, G sharp minor and F sharp major 6 (Mr. Bell illustrates on the piano).

I realized I had the start of a song for Bobby Smith, the Spinners' lead singer. The Spinners had just signed with Atlantic, and I was producing two songs for them—"How Could I Let You Get Away" and "Just You and Me Baby." I wanted a third, for insurance.

The melody and rhythm that I

Please see MUSIC page A13

## LIFE & ARTS



Eugene Richards's 'Section 60, Arlington National Cemetery, Arlington, Virginia' (2007), above, and 'Final Treatment, Boston, Massachusetts' (1979), below

### ART REVIEW

# Keeping His Eyes Wide Open

Eugene Richards's raw and wrenching images are not for the faint of heart

BY RICHARD B. WOODWARD

Rochester, N.Y.

**LOOKING AT THE** photographs of Eugene Richards can induce a kind of disbelief. That the world should inflict so much pain on so many people, and that he would regard it as his life's work to witness and capture it, can be hard to comprehend. And yet, for nearly 50 years, in numerous magazine essays and some 15 books, he has recorded the human capacity to withstand suffering and despair, using his cameras to extract moments of lyrical intensity from the direst circumstances.

"Eugene Richards: The Run-On of Time," his untrendy and emotionally draining retrospective, which has just opened at the George Eastman Museum, contains nearly 150 prints and four short films of still images, on subjects as diverse as river blindness in Africa and the depopulation of rural America. In both their installation and the handsome catalog, co-curators Lisa Hostetler of the GEM and April M. Watson of the Nelson-Atkins Museum of Art (to where the show will travel) have skillfully organized the 73-year-old's oeuvre in an informal chronology that exposes its common themes. Mr. Richards's identification with the damaged and luckless is one visible thread. Another is the magnetic grip of family and community.

The first of the three rooms begins in Boston, where he was born in 1944 and where, after college at Northeastern, he took graduate

photography courses at MIT with the orphic Minor White. In 1967, to avoid being drafted during the Vietnam War, Mr. Richards joined Vista and was assigned to the Deep South. Angered by the grinding racism and poverty he saw there, he photographed the daily lives of African-Americans and co-founded an activist newspaper in Memphis, experiences assembled in his first book, "Few Comforts or Surprises: The Arkansas Delta" (1973).

On his return to Boston, he continued to report from the margins of American society. In 1973 he moved with his first wife, the writer Dorothea Lynch, to the largely white working-class neighborhood of Dorchester. His boisterous portraits of its residents led to the self-published "Dorchester Days" in 1978. That same year, after Lynch was diagnosed with breast cancer, he began to document (at her request) the progress of her treatment, until her death in 1983.

On the walls of the second and largest room here is a selection of the many projects he undertook between the 1980s and 2010s. These include the frantic and exhausting routine of emergency-room doctors in Denver; psychiatric patients confined to shabby hospitals in Ohio, Mexico and South America; addicts smoking crack or shooting up heroin in Brooklyn and Philadelphia; American families trying to mend after the death or maiming of a son or daughter in the



wars since 2001; and impoverished communities that pockmark the U.S., from Appalachia to Arkansas.

Probably no living photographer combines so deeply the independent spirit and formal bravado of storied Life photographer W. Eugene Smith as Mr. Richards. Often shot with a wide-angle lens, his pictures tend to be eccentric, with

canted horizons and multiple points of focus. The compositions are rarely so ornate, though, that the emotional meaning is garbled.

A black-and-white photograph taken soon after Sept. 11, 2001, is typical. It shows the hand of a New York shopkeeper reaching into a display case of tourist knickknacks—among them a snow globe of the Twin Towers—covered with ash. Among his photographs documenting soldiers killed in Iraq or Afghanistan is one of a boy precariously standing in a fir tree to watch a graveyard funeral.

This second room also introduces his transition to color. A small group of his large landscapes from 2004-06, elegiac portraits of abandoned farms, are mounted on partitions as a more meditative space. Although photographers may

have overdone the Romantic theme of the deserted home, Mr. Richards has met the challenge. His soft, multilayered pictures of a snow-covered bed in an empty North Dakota room and the bleak view looking out from a glassed-in kitchen in Nebraska are among his finest.

His adherence to the constraints of the still photograph is unusual

today. Three of his short films, playing on a loop here, are essentially slideshows, albeit with music and his voiceover.

The most wrenching of these describes his revisit with an African-American woman named Dorothy and her family in the Arkansas Delta. He had photographed her in the '70s and her desperate situation then may be worse now. His self-critical remarks about her ambiguous reactions to his presence touch on issues that any intruding reporter must face, especially as "cultural appropriation" has become a flashpoint.

"There's always, always people who don't want you around," he said in a recent newspaper interview. "You have to find some sympathetic way in, and then decide what your job is. It's very seldom a pleasant process, you just grit your teeth and go."

This is not an exhibition for the politically correct or aesthetically numb. Don't expect to leave here dry-eyed.

**Eugene Richards:**  
*The Run-On of Time*  
George Eastman Museum,  
through Oct. 22

*Mr. Woodward is an arts critic in New York.*



EUGENE RICHARDS (5)

Eugene Richards's 'Iris, Dorchester, Massachusetts' (1975), center; 'The Old Ward, Psychiatric Hospital, Asunción, Paraguay' (2005), left; 'Reverend and Mrs. Landers, Hughes, Arkansas' (1969), right

## LIFE & ARTS

**WHAT'S YOUR WORKOUT?** | By Jen Murphy

# SpikeBoarding: A Low-Impact Fitness Secret



Stuart Montaldo regularly SpikeBoards in Forest Park in St. Louis. Here he performs the Cubi-X-Cross, one of the sport's two main strokes.

**STUART MONTALDO** might look like a landlocked gondolier gliding along bike paths on an extra-long skateboard, leaving bewildered cyclists and joggers in his dust. But he swears by his sport, SpikeBoarding, which combines elements of Nordic skiing, stand-up paddling and switch-kick longboarding for a high-intensity, low-impact workout.

"I never imagined I'd be back on a board as an adult," says Mr. Montaldo, 53, who was into downhill and slalom skateboarding in junior high school. Two-and-a-half years ago, he started to feel aches

and pains during mixed martial arts workouts. A friend suggested he try SpikeBoarding.

Mr. Montaldo oversees global compliance training for conduct and culture matters for Citigroup and works out of a home office in Chesterfield, Mo., a St. Louis suburb. He says kickboxing often aggravated his lower back and he suffered two shoulder injuries during jujitsu workouts. "Not only is SpikeBoarding low-impact, but the motion of picking up the spike and stroking is like physical therapy," he says. "My shoulders feel great now."

SpikeBoarding was created in 2010 in New York City's Central Park. A SpikeBoard is 29 inches long, resembling a longboard skateboard. The spike looks like a Nordic ski pole with the same carbide spike tip, but the handle looks like the handle of a kayak paddle. The rider can use two different strokes to propel the board forward.

"It's like doing two sports in one," Mr. Montaldo says. "The sport plays to all of the weak parts of my body. It has strengthened my core, my lower back and my knees."

Mr. Montaldo says his wife and three children, ages 26, 24, and 16, are used to his trying unusual workouts. "Bikers and runners give me funny stares," he says. "And kids are always yelling after me, 'That is so cool!'"

### The Workout

Mr. Montaldo gets on his SpikeBoard for an hour four times a week. He will either do a 7-mile loop at Forest Park or 4 to 5 miles on the trails of Creve Coeur Park. He alternates using the Cubi-X-Cross (CXC) stroke and Stand Up Spike (SUS) stroke during workouts (see sidebar).

During the Stand Up Spike (SUS) stroke, both feet remain on the board as the rider swings his arms in a square formation to spike against the pavement, alternating sides. "I couldn't Stand Up Spike for more than 5 minutes when I started," Mr. Montaldo says. "It's the best core and upper-body workout I've ever had, particularly if you're going uphill." He estimates he can reach up to 20 miles an hour on a flat stretch using the SUS stroke. To slow down and stop, he repeatedly strikes one foot, heel first, against the ground to reduce speed.

**The Diet**  
Mr. Montaldo eats nutrient-dense foods. His diet is high in fruits, vegetables and nuts, while limiting carbs, meat and dairy. "I love cheese, so I do cheat," he says. Breakfast might be Shredded Wheat cereal with blueberries, and lunch a barbecued bratwurst, some walnuts and grapes, and peach juice. He might snack on chips with avocado before a dinner of quinoa pasta with mushrooms, onions and almonds. He occasionally has a Manhattan for dessert.

**The Gear & Cost**  
Mr. Montaldo paid \$475 for his Susoix SpikeBoard and \$250 for his Susoix spike. He purchased a Susoix Diamond File for \$35 and uses it to sharpen his spike tip. His Pro-Designed wrist guards cost \$70 and gloves \$11. He wears The North Face Hedgehog Fast-pack Gore-Tex sneakers, which retail for \$120.

"I wore tennis shoes the first few years, but the North Face have more lateral stability and grip really well," he says. He bought a used Schwinn helmet for \$40. He wears Smith sunglasses (\$90) for eye protection.

**The Playlist**  
Mr. Montaldo only listens to music when he SpikeBoards on uncrowded trails or roads. "I'm an audiophile, so I don't need to listen to hard rock to work out. I can listen to anything from Chopin or jazz to blues and '60s rock."

## MUSIC

*Continued from page A11*  
came up with was perfect for his voice. When I was done, I needed a lyric. But there was a problem.

My writing partner, lyricist Linda Creed, was leaving on her honeymoon, and the Spinners were coming into the studio that Tuesday to try out all three songs.

So the next morning, on Saturday, I went into my office and found lyricist Phil Hurtt, Bunny Sigler's writing partner.

We walked over to my office, and I played Phil the song on the piano. Then I gave him a cassette tape.

I told Phil the title I had in mind—"I'll Be Around"—which was based on my melody.

**Phil Hurtt:** That evening, I was watching the 76ers basketball game with the sound down and listening to Thommy's tape. I started writing the lyric based on his title.

As soon as I came up with the first line, "This is our fork in the road," the rest came fast. (Mr. Hurtt sings a verse): "You made your choice, now it's up to me / To bow out gracefully / Though you hold the key, but baby / Whenever you call me, I'll be there."

My lyric was about a guy who loves his girl but he understands that she's confused and wants to date someone else. Instead of getting angry, he lets her go. He's hurt, but he's betting she'll come back.

**Mr. Bell:** As soon as I heard the opening lines—"This is our fork in the road / Love's last episode / There's nowhere to go, oh no"—I loved it.

When Bobby and the Spinners came in that Tuesday, I played piano and sang Phil's words.

Once Bobby was set, I worked with the rest of the Spinners. I sang each of the background notes I wanted them to sing, and they tried them out. Before they left, I recorded each Spinner singing his part and gave them

each a tape.

They had just come off the road and were heading home to Detroit for two weeks to rest. By practicing their parts at home, we'd save time and money when they came back to record.

When the Spinners left, I began writing and arranging the basic rhythm-track arrangement.

On the intro, I had Norman Harris open with three notes using octaves on his guitar resolving in an E major 7 chord. Then I answered his line with three chords on the Clavinet, which sounds like an elec-

tronified harpsichord.

I wanted the Spinners to record more up-tempo dance stuff, so I had Earl emphasize the second and fourth beats. The flavor he came up with was fantastic. It became the start of the Philly dance beat that was adapted for many disco hits that followed.

**Earl Young:** As a session drummer, I played grooves. My job was to come up with a beat that made the lead vocalist want to sing, so you could hear that energy and excitement in his voice.

On "I'll Be Around," I created a medium-tempo dance beat. I hit the snare and floor tom-tom at the same time on the second and fourth beats to give them a fatter sound.

Meanwhile, I played what I call my "Indian beat" on the bass drum—two hits on the first beat and a one hit on the second, repeating the pattern on the third and fourth beats. This gave the

song its groove.

**Mr. Bell:** When the Spinners came in to record, they put on headphones and added their vocals to the rhythm track. Once the vocal track was combined with the rhythm track, it was time to overdub the horns.

After I recorded their parts, Don Renaldo and his strings overdubbed my "sweetening" arrangement. Then I overdubbed myself playing tambourine on the second and fourth beats to add a little shimmer.

I also added female background vocals. The Spinners



Thom Bell, the song's co-writer and producer, was inducted into the Songwriters Hall of Fame in June 2006.



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# SPORTS

## FOOTBALL

### THE NFL'S DIGITAL PUSH INTO EUROPE

BY MATTHEW FUTTERMAN

**FRUSTRATED BY** its inability to attract European viewers, the National Football League is changing the game plan.

The NFL is partnering with marketing giant WPP and the investment firm Bruin Sports Capital in a new venture aimed at convincing more Europeans to watch American football on their televisions and mobile devices.

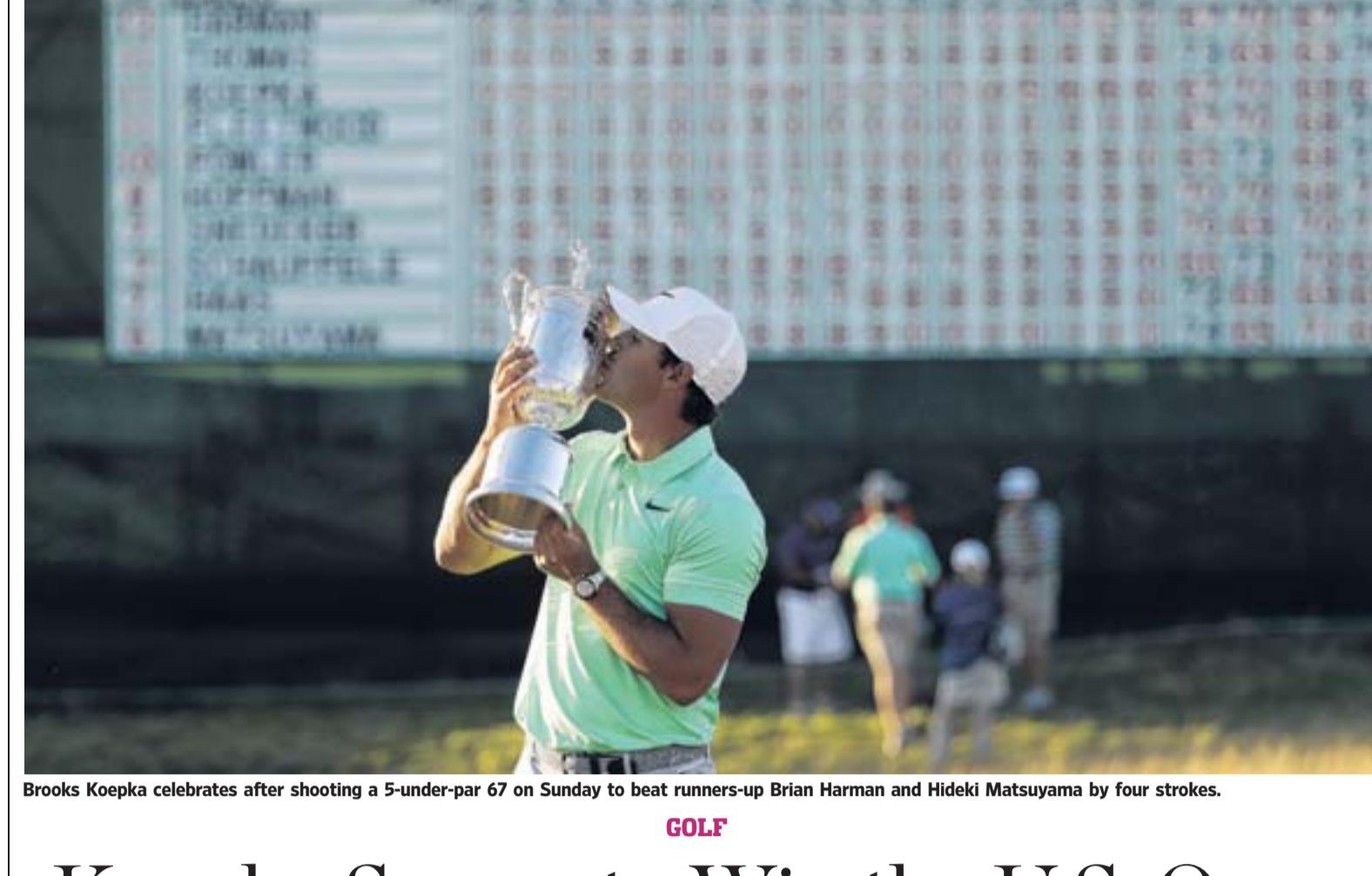
The deal calls for Bruin and WPP to launch an independent company with the exclusive rights to market and sell Game Pass, which gives fans live and on-demand access to all NFL games as well as full replays, condensed games, the RedZone channel and other football content. The yet-to-be-named new company will be based in London and is initially focused on selling the product everywhere from Norway to the Vatican in Europe's 61 territories.

In May the NFL announced that the U.K.-based Perform Group would handle Game Pass sales outside the U.S. and Europe. The venture is the latest attempt by the NFL to try to gain a foothold in Europe as it tries to attain NFL commissioner Roger Goodell's goal of reaching \$25 billion in revenue by 2027. NFL revenues will be roughly \$14 billion this year, but just a small fraction of that comes from overseas. The deal with Bruin and WPP shows this distinctly American league can't grow overseas at the rates it would like without outside help that can bring knowledge of those markets.

"We know these people are out there," said Michael Markovich, vice president of international media for the NFL, of the potentially loyal fans who might be willing to pay for Game Pass. "We just have to go find them."

The venture will require at least a \$10 million investment to get off the ground, not including marketing, according to people in the industry. The parties will share profits from the venture.

In recent years, the NFL has been steadily increasing its slate of overseas games as part of its strategy to grow interest internationally.



Brooks Koepka celebrates after shooting a 5-under-par 67 on Sunday to beat runners-up Brian Harman and Hideki Matsuyama by four strokes.

## GOLF

### Koepka Surges to Win the U.S. Open

Erin Hills played into the 27-year-old American's greatest strength: pure power off the tee

BY BRIAN COSTA

ERIN, Wis.—Professional golf is awash in prodigies. They emerge on the scene as teenagers, as if delivered by conveyor belt, and within a few years, varying degrees of fame, trophies and riches follow. But the conclusion of the U.S. Open on Sunday was not a win for the wunderkinds. It was a win for the players who take a little longer, toiling for years with the outlandish idea that their time may yet come.

Brooks Koepka's career began in Europe, took him from Kazakhstan to Kenya and at last reached an apex on the 18th green at Erin Hills. Koepka, a 27-year-old from West Palm Beach, Fla., sank a 2-foot par putt to secure his first career major championship with a final score of 16 under par.

That tied the lowest score under par in U.S. Open history, matching Rory McIlroy's finish at Congressional in 2011. And it marked the seventh consecutive major won by a first-time major champion. Koepka shot a 5-under-par 67 on Sunday to beat runners-up Brian Harman and Hideki Matsuyama by four strokes and provide more proof of the depth of golf's talent pool in the post-Tiger Woods era.

Consecutive birdies on the 14th, 15th and 16th holes turned the

closing stretch into a victory march, though Koepka remained characteristically subdued.

"That's probably the most emotion I've ever showed," Koepka said unsarcastically. When asked what he was referring to, he cited a lone fist pump on the 18th green.

After playing college golf at Florida State, Koepka chose a different path than most young players to try to earn status on the PGA Tour. He joined a lower-tier overseas circuit called the Challenge Tour in 2012, played his way onto the European Tour in 2013 and joined the PGA Tour in 2014.

Before Sunday, Koepka was hardly a no-name in golf circles. He was ranked 22nd in the world. He played on the winning U.S. Ryder Cup team last fall. He had finished in top 25 in his past seven major championship appearances. But he had won only once before on the PGA Tour—and that was more than two years ago.

"It's crazy to think this was only his second win," said Justin Thomas, who shot a 75 to finish at 8 under. "He had been knocking on the door for a while."

On a long list of young stars headlined by Rory McIlroy and Jordan Spieth, Koepka was merely notable at best. But most of the top-ranked players in the world bowed out early this week. And Erin Hills, which on Thursday became the longest major champion-

ship course on record, played into Koepka's greatest strength: pure power off the tee. He ranks fifth on Tour in driving distance, averaging 308 yards.

With low winds for most of the tournament, the course's wide fairways also helped mitigate a glaring weakness: accuracy. Only 55% of his tee shots this season have landed in the fairway, which ranks just 173rd on Tour. Over four rounds at Erin Hills, Koepka hit 88% of fairways.

The result marked the seventh consecutive major won by a first-time major champion.

"Some of the misses that would usually be in a bunker or in deep rough in a U.S. Open, they were able to hang on," he said.

Sunday was the first time all week that players saw the course as the USGA envisioned it. After days of light winds and soft greens that helped players set various U.S. Open scoring records, the wind finally came to the defense of Erin Hills.

With no past major champion in the top 15 to start the day, it was clear from the outset that the final

round would represent a breakthrough moment for someone. Thomas, who on Saturday became the first player to shoot 9 under par in a U.S. Open round, was among the most promising candidates. But Thomas hit his opening drive into a hazard and bogeyed three of his first five holes to fall out of contention early. "I just didn't have it today," he said.

That left Rickie Fowler as the most prominent player with a legitimate chance to win. But after coming within a stroke of the lead early in his round, Fowler fizzled.

He shot a ho-hum 72, with three bogeys and three birdies, to finish at 10 under. At age 28, he remains perhaps golf's best player—and certainly its most heavily marketed player—without a major championship. "I feel like golf-wise I'm playing at the highest level," Fowler said. "You have to measure success in different ways, not just by winning."

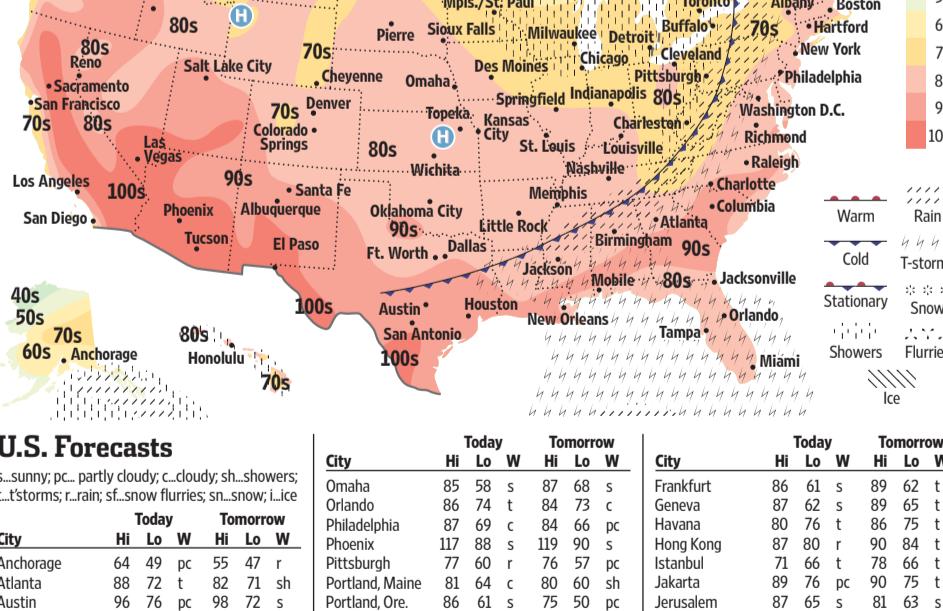
But Koepka said he couldn't stand the fact that he had won only once on the PGA Tour. "I've been trying to win so badly," he said. "I felt I've underachieved."

He got a phone call Saturday night from world No. 1 Dustin Johnson, Koepka's workout pal and fellow South Florida resident, telling him to stay patient and that he would prevail in the end.

One night later, Koepka held the trophy, a moment worth the wait.



## Weather



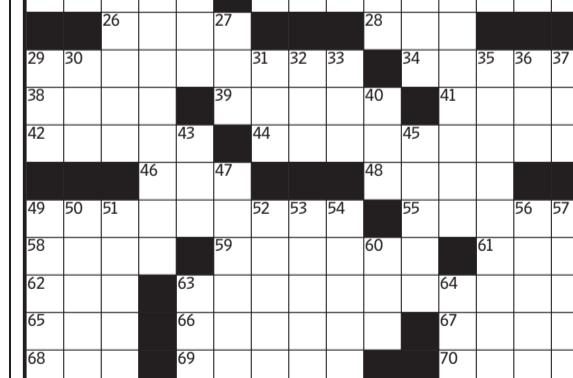
## U.S. Forecasts

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  |
| Anchorage     | 64    | 49 | pc | 55       | 47 | r  |
| Atlanta       | 88    | 72 | t  | 80       | 71 | sh |
| Austin        | 96    | 76 | pc | 98       | 72 | s  |
| Baltimore     | 85    | 66 | t  | 85       | 63 | pc |
| Boise         | 94    | 67 | s  | 93       | 60 | s  |
| Boston        | 82    | 68 | c  | 82       | 65 | pc |
| Burlington    | 80    | 65 | r  | 80       | 60 | sh |
| Charlotte     | 90    | 71 | t  | 81       | 69 | s  |
| Chicago       | 77    | 58 | t  | 78       | 58 | pc |
| Cleveland     | 80    | 62 | t  | 78       | 61 | pc |
| Dallas        | 89    | 74 | pc | 94       | 73 | s  |
| Denver        | 84    | 57 | s  | 93       | 64 | s  |
| Detroit       | 78    | 59 | t  | 76       | 57 | pc |
| Honolulu      | 85    | 74 | pc | 85       | 74 | sh |
| Houston       | 94    | 77 | pc | 96       | 75 | t  |
| Indianapolis  | 79    | 59 | sh | 80       | 61 | pc |
| Kansas City   | 83    | 59 | s  | 88       | 68 | s  |
| Las Vegas     | 113   | 88 | s  | 116      | 87 | s  |
| Little Rock   | 85    | 66 | pc | 90       | 65 | s  |
| Los Angeles   | 90    | 66 | s  | 93       | 66 | s  |
| Miami         | 87    | 80 | pc | 89       | 80 | t  |
| Milwaukee     | 75    | 59 | t  | 77       | 59 | pc |
| Minneapolis   | 72    | 57 | t  | 76       | 58 | pc |
| Nashville     | 82    | 62 | r  | 86       | 63 | s  |
| New Orleans   | 86    | 76 | t  | 84       | 76 | t  |
| New York City | 84    | 69 | c  | 82       | 66 | pc |
| Oklahoma City | 87    | 65 | s  | 92       | 68 | s  |

| City         | Today |    |    | Tomorrow |    |    |
|--------------|-------|----|----|----------|----|----|
|              | Hi    | Lo | W  | Hi       | Lo | W  |
| Amsterdam    | 84    | 60 | s  | 78       | 53 | pc |
| Athens       | 86    | 52 | pc | 83       | 67 | t  |
| Baghdad      | 110   | 80 | s  | 108      | 79 | s  |
| Bangkok      | 95    | 80 | t  | 95       | 79 | t  |
| Beijing      | 88    | 68 | t  | 95       | 67 | s  |
| Berlin       | 83    | 63 | pc | 80       | 54 | t  |
| Brussels     | 85    | 62 | s  | 85       | 58 | pc |
| Buenos Aires | 51    | 31 | s  | 54       | 42 | t  |
| Dubai        | 104   | 87 | s  | 106      | 88 | s  |
| Dublin       | 73    | 53 | pc | 65       | 56 | pc |
| Edinburgh    | 71    | 48 | pc | 64       | 52 | t  |

## The WSJ Daily Crossword | Edited by Mike Shenk



### BARGAIN JARGON | By Queena Mewers & Alex Eaton-Salners

- Across**
- 1 No-no for a judge
  - 5 Flaky?
  - 10 Heat in the microwave
  - 13 Price to play
  - 14 Des —
  - 15 Do the wrong thing
  - 16 Bargain at the butcher?
  - 18 Life story
  - 19 Period
  - 20 Ready to roll?
  - 21 Rocks for refiners
  - 22 Find water through divination
  - 24 Bargain at the tavern?
  - 26 Element unit
  - 28 Music's Carly —
  - 29 Bargain at the teahouse?
  - 34 Dolphin tricks
  - 38 "Pronto!"
  - 39 In a way, informally
  - 41 App image
  - 42 Beginning
  - 44 Bargain at the fish market?
  - 45 Period
  - 46 Rail-splitter's tool
  - 48 Some restaurant kitchen work
  - 49 Bargain at the soda fountain?
  - 55 Furious
- Down**
- 1 Headquartered
  - 2 Beginner's course
  - 3 Eroded
  - 4 Mermaid's home
  - 5 Cast album contents
  - 6 Big name in skin care
  - 7 Shooter Shaq
  - 8 Clothing consumer
  - 9 Luxury fashion house initials
  - 10 Striped grazer
  - 11 Mermaid of the movies
  - 12 Novelist's output
  - 14 Work wk. start
  - 17 Recline atop
  - 21 Zinger
  - 23 Temporary fixes
  - 25 Bumbling fellow
  - 27 Dance club VIPs
  - 29 Carry-on item
  - 30 Employ
  - 31 Brick-carrying tool
  - 32 Be for you?
  - 33 "Don't make habit"
  - 35 Elsa's abode
  - 36 "The Raven" writer
  - 37 Where Baldwin does Trump, briefly
  - 40 Matterhorn, for example
  - 43 Brand with Good Grips gadgets
  - 45 Hunter with a well-known belt
  - 47 Lure into wrongdoing
  - 49 Cherished aspiration
  - 50 Fashionably quaint
  - 51 18, often
  - 52 Burns and Byron
  - 53 Speak like Cicero
  - 54 Peak
  - 56 Liam Neeson movie franchise
  - 57 Bring to bear
  - 60 Silent permission
  - 63 Lingerie item
  - 64 Purr producer

**Previous Puzzle's Solution**  
LISA KNISH TARP  
OVER NADIA IDEA  
BYE BYE BABY ALPS  
DIVES BURRIES  
CNOTES ERASABLE  
HOURS SMILE  
ABBA PEPPER TREE  
PELTER RAKER CHANG  
SLEEVES LETTA  
DESTROYED  
SLAM BIDS GATORS  
HOME EC SUSHI  
ORAL TAISTETESTS  
ORZO ETHOS ROWE  
KEEN DEEPS SNOW

The contest answer is BEATLES. Each of the four theme answers contains four different letters, one once, one twice, one three times and one four times. The bracketed numbers indicate which letters to take from each answer (i.e., a 4 indicates to get the letter that occurs four times) to get the contest answer.

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

## OPINION

# Cubans Need a Truth Commission



AMERICAS  
By Mary Anastasia O'Grady

President Trump opened another chapter in U.S.-Cuba relations on Friday when he announced a rollback of portions of the detente policy with Havana introduced by President Obama in December 2014. Human-rights groups cheered, libertarians jeered, and the international—and American—left warned that the new policy will harm Cubans and U.S. investors.

All sides are dug in, as they have been for decades. Yet the reality is that when it comes to liberating Cuba, the embargo is a distraction. With or without it, the Castro police state will hang on until the civilized world speaks with one voice to condemn the illegitimacy of the regime as it did with South Africa during apartheid.

That's not happening because the communist state's pro-Castro narrative still has defenders in the West. The human-rights challenge is to expose this big lie. What's needed is a truth commission that would allow Cubans themselves to tell what really happened.

The Trump administration's changes are aimed at weakening the military dictatorship by denying it easy access to U.S. dollars via the military-owned tourism industry. American companies' ability

to form partnerships with those businesses will be pared back and American travelers will face new restrictions.

This is an important symbolic change. Yet the effects are likely to be minimal. Despite the tendentious claims of too many American journalists, Cuba is not "isolated," nor is it starving because of

**Give survivors of Castro's murderous regime a chance to tell their stories.**

the embargo. The rest of the world can do business in Cuba and the regime buys all the food and medicine it wants from the U.S.

There is no U.S. prohibition on the export of construction materials to nonstate actors in Cuba. But the regime doesn't allow the free flow of goods because economic freedom is a path to political freedom. Small businesses are permitted only if they don't become too profitable and their owners don't express ideas independent of the totalitarian state. Cuban privation is made in Havana.

Raúl Castro loves to whine about Cuba's lack of internet capability and to blame it on the embargo. But as one dissident on the island wrote to me last week, the regime is the reason Cubans lack access. "Information is always power," he explained, so the "government doesn't have the will nor is it a

priority" to see people informed. Where there is internet, he noted, the government blocks news sites.

What is more, he wrote, the regime "keeps all the money earned by the people's sweat and uses it for military contingencies, maintenance of weapons, diplomatic personnel, officials, representatives abroad, spies, etc." If the dictatorship "decides a dissident should die, it is not difficult to . . . accomplish" the task.

Such complaints counted for little with Barack Obama. Instead, in 2016, the U.S. president attended a baseball game in Havana with Castro, who also invited members of the Colombian narcoterrorist group FARC. The U.S. also barred Cuban dissidents from attending the reopening of the U.S. Embassy in Havana.

Moral myopia about Cuba is explained in some cases by the fact that the regime is the international symbol for anti-Americanism. To condemn Castro would be to acknowledge that the U.S. was right to try to end the tyranny.

A high-profile truth project would correct the record. One myth that needs to be debunked is that resistance to the Castro hijacking of a revolution originally meant to restore the 1940 constitution came solely from white, upper-class Havana.

In 1958 Cuba was one of the richest countries in Latin America. Cubans widely understood the link between rising living standards and constitutional democracy. They were

heavily in favor of removing dictator Fulgencio Batista from power to restore the rule of law. Fidel Castro and the guerrillas in the Sierra Maestra derived their support from that sentiment.

By the summer of 1959 it was clear Fidel wanted absolute power. Among the first to realize it were small farmers living in central Cuba and the foothills of the Escambray Mountains. Those *guajiros* formed the backbone of a resistance that lasted six years. Their communities suffered unspeakable atrocities in a Soviet-supervised cleansing.

The military savagely attacked villages, displacing families and forcibly relocating many to the remote western end of the island. Survivors have told me that the regime also rounded up women and children and made them captive in Havana while it crammed men and boys into chicken coops for days and weeks to crush the rebellion.

The Cuba Archive Truth and Memory Project has documented 934 executions mostly in the Escambray. Another 607 political prisoners were executed between 1960 and 1970 and the vast majority of them are believed to have been captured in the Escambray.

Mr. Trump has taken a first step toward moral clarity on Cuba. But real progress requires an honest look at the historical record that acknowledges the regime's many crimes against humanity.

*Write to O'Grady@wsj.com.*

## Zuckerberg's Opiate for the Masses

By Andy Kessler

At Harvard's commencement last month, dropout Mark Zuckerberg told eager graduates to create a new social contract for their generation: "We should have a society that measures progress not just by economic metrics like GDP, but by how many of us have a role we find meaningful." He then said to applause: "We should explore ideas like universal basic income to give everyone a cushion to try new things." Who wouldn't like three grand a month?

Having the government provide citizens with a universal basic income is the most bankrupt idea since socialism, but others in Silicon Valley still have been proselytizing money for nothing. "There will be fewer and fewer jobs that a robot cannot do better," Tesla CEO Elon Musk said at the World Government Summit in Dubai earlier this year. "I think some kind of universal basic income is going to be necessary."

Robert Reich, President Clinton's labor secretary, summed up the wrongheaded thinking a few months ago: "We will get to a point, all our societies, where technology is displacing so many jobs, not just menial jobs but also professional jobs, that we're going to have to take seriously the notion of a universal basic income."

This is a false premise. All through history, automation has created more jobs than it

destroyed. Washboards and wringers were replaced by increasingly inexpensive washing machines, while more women entered the workforce. Automated manufacturing and one-click buying has upended retail, yet throughout the U.S. millions of jobs go unfilled. With Amazon's proposed purchase of Whole Foods, the online giant is primed finally to bring efficiency to the last mile of grocery shopping—but don't count on all grocery jobs to disappear.

The economics, which they apparently stopped teaching at Harvard, are straightforward: Lowering the cost of goods and services through automation allows capital—financial and human—to attack even harder problems. Wake me up when we run out of problems.

These kinds of predictions aren't new, and they've been wrong almost always. In 1930 John Maynard Keynes envisioned that his grandchildren would have a 15-hour work-week. Sam Altman, who runs the startup incubator Y Combinator, dabbles in similarly bold but meaningless statements. "We think everyone should have enough money to meet their basic needs—no matter what, especially if there are enough resources to make it possible," he wrote last year, while admitting he has no idea "how it should look or how to pay for it."

Where to begin? First, the cost of a universal basic income would make free college for everyone look like austerity.

The cost of anything the government touches tends to increase well faster than inflation—education, health care, housing. Price signals get distorted, but since Uncle Sam is paying, no one seems to care. Anyway, why stop at \$3,000 a month? Why not \$4,000 a month or \$40,000? Everyone deserves a MacArthur genius grant!

**If we get 'universal basic income,' the millennials will never leave our basements.**

If last year's presidential election proved anything, it's that people want jobs, not handouts. The education system needs reform, but there are already two billion mobile classrooms built into smartphones world-wide. Paying people not to work means you'll never get them back into the workforce. Why would you want to work when you can bang on a drum all day?

The U.S. is already turning European—I really think so. Remember the Obama administration's "Life of Julia," which glorified the nanny state? Every year more Democrats push single-payer health care because competition is deemed too messy. The safety net now has a safety net. These are all on the riverbank of paying people not to work. Universal basic income would

be the final drowning of capitalism.

Many Americans really do need help, and no one should be dying in the streets. But why create an entire class of freeloaders out of people who otherwise wouldn't have sought handouts?

The bigger question is why all these Silicon Valley bigwigs are intent on giving away other people's money. Perhaps it's a misplaced sense of shame for their riches. Worse, some believe they are chosen to carry society on their backs while the teeming masses can be paid to idle along. Well, as long as they download the latest apps and are given enough to pay for wireless internet and an iPhone upgrade every few years. Facebook and video-games are already huge mind sinks. Add Mr. Musk's Neuralink direct brain interface and no one will ever get off the couch.

Most millennials are hard-working and motivated, but have you noticed that the talk of universal basic income comes just as marijuana legalization is making more gains than ever? It's already been legalized for recreational use in eight states and for medicinal purposes in 29. Universal basic income, combined with legal weed, could ruin an entire generation. We'll never get them out of our collective basements. Thanks, Zuck.

*Mr. Kessler writes on technology and markets for the Journal.*

## We Need Guns Before the Cops Arrive

By Daniel Lee

The attack on congressmen last week illustrates the realities of sudden violence. There's a saying among gun-carry permit advocates: "When seconds count, police are minutes away."

That was not the case last week but only because Majority Whip Steve Scalise's Capitol Police detail was on hand and courageously engaged the shooter. Had Rep. Scalise and his security team not been present, congressmen and their aides would have been easy pickings until local police arrived. That took three minutes—but that's a long time to spend taking cover in a baseball dugout under armed assault. "It would have been a bloodbath," said Texas Republican Joe Barton.

In largely rural states like Indiana, where I live, response times can be 30 minutes or more. Maybe that's why nearly a million Hoosiers hold active

gun permits, as per state records, out of an adult population of 4.5 million.

I've been one of them for decades. I've gone Christmas shopping armed, carried at family outings, sporting events and movie theaters. I was fired from a job with the gun tucked in an ankle holster. Aside from the indignity of being fired,

**Members of Congress were lucky the Capitol Police were on hand.**

the only person in danger was me, when I broke the news to my wife.

Indiana assumes—in the absence of evidence to the contrary—that people will protect themselves without reflexive, wanton violence. It works. A gun-use Venn diagram would show a mere sliver of overlap between those who lawfully carry weapons and those who

use guns in the commission of crimes. You don't find National Rifle Association stickers on getaway cars.

The inconvenient fact that laws aimed at restraining criminals are only obeyed by non-criminals was vividly demonstrated in this case. Rep. Barry Loudermilk (R., Ga.) reported that his aide "back in Georgia, carries a 9mm [pistol] in his car. . . . He had a clear shot at him, but here we're not allowed to carry any weapons."

Bad news for New York Republican Chris Collins, who said, "I can assure you from this day forth—I have a carry permit—I will be carrying when out and about." Well, when he's out and about on Capitol Hill he won't be allowed to carry. He might be permitted to have a gun in his desk—unloaded. It will make a fine paperweight.

Mr. Collins's New York state carry permit is recognized in Virginia, under expanding reciprocity laws that have extended

permit rights beyond state lines. He could also carry in Indiana; our reciprocity rules are very liberal, in the least bossy sense of the term. But relying on his New York permit in Maryland or the District of Columbia would get Mr. Collins one phone call and a court date.

Mr. Scalise's heroic security team, Capitol Police agents Crystal Griner and David Bailey, were armed with handguns and faced a man shooting a rifle. The situation wasn't likely to offer a good outcome.

The truth is that armed citizens can never substitute for police, who train, practice, and re-train constantly. But officers can't be everywhere. And ordinary citizens—even congressmen—can't field full-time security teams. Local jurisdictions shouldn't take away the tools we need to be our own first line of defense.

*Mr. Lee is a writer in Indianapolis.*

BOOKSHELF | By James R. Hagerty

## Outsourced, Insecure

### Sellout

By Victoria Bruce  
(Bloomsbury, 288 pages, \$28)

The long decline of American manufacturing is often measured by the millions of jobs that have disappeared. But there is another cost: The U.S. has become reliant on China and other foreign countries for parts and materials critical to the military. As Defense Department officials told The Wall Street Journal last year, the U.S. relies on an Abu Dhabi-owned company, Globalfoundries Inc., to supply critical microchips used in U.S. spy satellites, missiles and combat jets. (All is not lost: Globalfoundries still makes the chips at plants in the U.S.) Asian countries are dominant suppliers of other high-tech essentials, including telecom equipment and advanced batteries. Though Americans invented many of the marvels that power our world, the U.S. no longer has the capacity to make some of them, and re-creating that capacity would take years.

Victoria Bruce's "Sellout" calls attention to this problem by focusing on so-called rare-earth elements—such as praseodymium, neodymium and gadolinium—found in varying quantities throughout the world. They are used in magnets, batteries and other high-tech products, playing an important role in military hardware as well as consumer products. China, she notes, has a near global monopoly on processing them for use in manufacturing. It "could shut down exports on a whim and ultimately cripple the U.S. Armed Forces."

Ms. Bruce, a journalist and documentary filmmaker who was trained as a geologist, builds her case around Jim Kennedy, a Missourian who, as we learn, nearly flunked out of high school and then rebounded to study business at Washington University in St. Louis. He worked for his father's fund-management firm and eventually bought a hunting-and-fishing lodge in the St. Francois Mountains of southeast Missouri. The lodge was near a dormant iron-ore mine. Mr. Kennedy bought the mine, then discovered that it was loaded with rare-earth elements. He began looking for ways to exploit them.

He smacked into a huge obstacle: The rare earths were mixed up with thorium, and disposing of this radioactive material would be, for regulatory reasons, prohibitively expensive. Then he discovered that in the 1960s the U.S. government's Oak Ridge National Laboratory, in Tennessee, had developed plans for a nuclear reactor that would use thorium. Proponents of such reactors have long said that they would be far safer than the plants we have today. Mr. Kennedy was appalled to find that the government shelved the thorium-reactor project in the late 1960s—and that China in recent years had ramped up its research into thorium reactors, drawing partly on U.S. expertise. Hence Ms. Bruce's strident claim, in her book's subtitle, that Washington "gave away America's technological soul."

**U.S. manufacturing played a key role in winning World War II. Today many high-tech marvels that power our military are made in China.**

Mr. Kennedy and several allies spent years trying to persuade Congress and federal authorities to revive the thorium-reactor project and to create a cooperative—a private-public consortium of sorts—to rebuild America's capacity for processing rare-earth elements. They got the brush-off.

Ms. Bruce suggests that Mr. Kennedy's plan is essential to any revival of U.S. manufacturing—a stretch. Indeed, "Sellout" is more a polemic than a sober examination of both sides of these matters. Ms. Bruce appears to regard Mr. Kennedy as a sage with the answers for whatever ails America. She describes him as a "rebel intellectual" who is funny, "super smart" and possessed of "boyish good looks." Those who support his ideas are depicted as patriots and geniuses; those who disagree, as fools or knaves.

The questions that Ms. Bruce raises, though, are vital. Three decades ago, the U.S. was a major maker of so-called permanent magnets, which contain rare earths and are used in weapons and car parts, among other things. Magnequench, a one-time division of General Motors, developed some of these magnets but was sold in 1995 to a group of investors that included two Chinese firms. The investor group later shut down Magnequench's plant in Indiana. In general, while U.S. entrepreneurs and lawmakers showed scant interest in rare-earth processing, China made it a priority.

Mr. Kennedy blames the decline of American manufacturing on free trade and on the government's failure to back the industries he considers critical. Whatever the merits of his particular claims, policy may well be part of the problem. Ms. Bruce notes that Congress seems more interested in requiring the military to buy domestically produced sneakers than U.S.-made missile parts. But the challenge is much bigger than that. If we want to revive manufacturing, we'll need to rethink policies on education, taxes and regulation, aiming to encourage more investment in factories of many kinds.

The U.S. was magnificent at manufacturing when we needed to be, mobilizing the nation to make airplanes and tanks to win World War II. After the war, though, we squandered our world-beating abilities—partly through complacency and partly through a preference for the individualistic arts of design and marketing over the organizational and technical disciplines of manufacturing.

Rather than taking a broader look, Ms. Bruce burdens us with too much about Mr. Kennedy's personal life and meanders through too many digressions. At one point, we get the history of lead mining in Missouri since 1723, followed by a discussion of Cornish miners' lingo and lunch habits. And the prose can get purplish: "More than three billion years before a recycled collection of atoms became Jim Kennedy, during the earth's pre-Cambrian period, the area that is southeastern Missouri began writing its geologic story." Despite such flaws, "Sellout" mines an important topic: the national-security risks arising from our loss of industrial expertise and manufacturing capacity.

*Mr. Hagerty is a Pittsburgh-based staff reporter for The Wall Street Journal.*

## OPINION

### REVIEW & OUTLOOK

## Trump's Non-Celebrity Apprentices

**O**ne restraint on economic growth is the increasing U.S. labor shortage, especially for jobs that require technical skills. Meanwhile, many college grads are underemployed and burdened by student debt. The Trump Administration is trying to address both problems by re-thinking the government's educational priorities.

President Trump directed Labor Secretary Alexander Acosta last week to streamline regulations to make it easier for employers, industry groups and labor unions to offer apprenticeships. Many employers provide informal apprenticeships for new workers, but the Labor bureaucracy regulates and approves programs whose credentials are recognized industry-wide.

About 505,000 workers are enrolled in government-registered apprenticeships. The programs typically pair on-the-job training with educational courses that allow workers to make money while honing skills in fields like welding, plumbing, electrical engineering and various mechanical trades. While construction apprenticeships are common, training programs are growing in industries like restaurant and hotel management.

Nearly all apprentices receive jobs and the average starting salary is \$60,000, according to the Labor Department. That beats the pay for most college majors outside of the hard sciences. Last year's National Association of Colleges and Employers survey estimated the starting salary of education majors at \$34,891 and humanities at \$46,065.

For decades the cultural and economic assumption has been that Americans will be better off with a college degree. This is still true overall, and economic returns to education have risen. This is especially true for those with cognitive ability who acquire skills in growth industries like software design or biological sciences. Politicians have responded by subsidizing college almost as much as they do housing—with Pell grants, 529 tax subsidies and more recently debt forgiveness.

Yet the politically inconvenient reality is that not every kid is cut out for traditional college, and those who struggle in high school may be better off learning a trade. Many with-

An electrician or plumber can make more than a college grad.

out academic inclination or preparation often spend years (and thousands of dollars) taking remedial classes to compensate for their lousy K-12 education.

The six-year graduation rate for four-year colleges is 60% while the three-year graduation rate at community colleges is a paltry 22%. The Obama Administration response was to push even more subsidized student debt to force feed even more kids into college. Student debt doubled in the Obama years to \$1.3 trillion, which will burden workers and taxpayers for decades.

Another problem is that few colleges and high schools teach vocational skills. The Labor Department Jolts survey of national job openings found more than six million in April—the most since Jolts began tracking in 2000. The vacancies include 203,000 in construction, 359,000 in manufacturing and 1.1 million in health care. These are not jobs that can be filled by Kanye West English deconstructionists. They are also typically jobs that can't be supplanted by lower-wage foreign competition.

While employers subsidize most apprenticeships, the President has proposed spending \$200 million to promote the programs. This would still be a drop in the \$26 billion bucket (not including student loans) that Washington spends on higher education each year.

One objection to shifting this money will come from unions that receive much federal job-training money with poor results. But if others can run a better program, they should get the cash. It's true that most government job-training programs are ineffective, so it's good that Mr. Trump has instructed federal agencies to compile a list of those that should be eliminated.

An especially odd objection is that apprenticeship training is a mistake because skills become out of date over time, especially later in one's work life. But that's a risk throughout the economy, and all the more reason to get young people skills to enter the job market now and build up savings for the future. This makes more sense than subsidizing a college degree for a job at Starbucks.

Perhaps the most important message is that there's dignity and purpose in all work, college degree or not.

## A Terrorist's Guide to New York City

**T**he New York City Council is the distilled political essence of modern progressivism, which means it can be dangerous to public health and safety. This summer tourists can see more New Yorkers relieving their bladders in public thanks to the council's reduction in penalties for crimes against public order, and now the council wants to expose the city's antiterror secrets.

A new bill would require the New York Police Department to disclose and describe all "surveillance technology," which it defines as "equipment, software, or system capable of, or used or designed for, collecting, retaining, processing, or sharing audio, video, location, thermal, biometric, or similar information." The cops would have to post this information online annually and respond to public comments.

The effort is backed by such anti-antiterror stalwarts as the New York Civil Liberties Union and the Brennan Center. Manhattan Democrat Daniel Garodnick, a co-sponsor, says the measure would enhance public trust by giving citizens more knowledge about policing techniques.

We'll see how long that trust lasts if the bill makes it easier for terrorists to thwart or evade the NYPD's antiterror methods. That's the legitimate worry of police who rely on technology

The left would show jihadis how the cops prevent attacks.

and surveillance to prevent mass murder. A jihadist bombed Manhattan's Chelsea neighborhood as recently as September and the department maintains on average three or four active terrorist investigations at any one time. John Miller, the NYPD's counterterrorism chief, says police have foiled at least 25 major terror attacks since 9/11.

New York's cops are as respectful of privacy as any in the country, and they need a court order to conduct searches or track a cellphone.

They also comply with the court-ordered Handschu guidelines that impose additional due-process burdens.

An NYPD internal committee reviews these cases along with an external, civilian representative, who is currently former federal Judge Stephen Robinson. As if this weren't enough, in 2014 the city council established an inspector general for the NYPD. The miracle is that the cops have been able to keep America safe despite all of this bureaucratic oversight and political second-guessing.

New York remains a pre-eminent terror target because of its size and importance as a symbol of American culture and commerce. The recent attacks in Britain show the jihadist threat to open societies hasn't abated, and democracies need tools to defend themselves without offering terrorists a road map to thwart them.

## Helmut Kohl

**A**mong the many leaders who shaped modern Europe, few have been as consequential as Helmut Kohl, who died Friday at age 87. He saw his country through the death of the Cold War and the birth of a reunited Germany at the center of a more deeply integrated European Union.

Born in 1930, Kohl came of age amid the furies of a nihilistic German nationalism and then amid the wreckage of its defeat. He was compelled to join the Hitler Youth, as were all boys in that era, but was part of the first generation of Germany's postwar leaders too young to have fought in the conflict. His parents instilled in him a devout Catholicism that shaped his later political outlook.

He entered politics in the Christian Democratic Union, which with its Bavarian sister party the CSU became Germany's main center-right party. He rose to the Chancellorship of West Germany in 1982, a position he would hold for a postwar record of 16 years.

He took power after years of Social Democratic *Ostpolitik*, or engagement with East Germany, and when the anticommunism of Ronald Reagan, Margaret Thatcher and Pope John Paul II still faced considerable skepticism among putative foreign-policy experts. One of Kohl's early contributions was to defend plans to deploy Pershing II missiles in West Germany against fierce protests across Europe.

His vision shaped post-Cold War Europe for the better.

Kohl also built on the work of his predecessors in reconciling Germany with the rest of Europe. His friendship with French President François Mitterrand was legendary, and that proved crucial in persuading other European leaders to accept a reunified Germany after the Berlin Wall fell in 1989.

That reunification—and the creation of the euro, which Kohl accepted as its price—remains controversial. Economists are right that the euro and many economic-policy decisions governing reunification created challenges that still dog the EU. Kohl was right that peaceful German integration was worth the price.

Europe's first tasks after 1989 were political, not economic: to welcome the formerly subjugated people of Eastern Europe back into Western civilization and to find a way for Germany to be a nation again without being a threat. Kohl, driven by his commitment to European unity, aided both projects with his policy of rapid reunification and the euro. The result was a Continent that weathered the collapse of a malign neighboring superpower while remaining at peace with itself.

Historians will remember that achievement more than the commonplace political scandals that engulfed Kohl later in his long career. Rarely does a leader change his nation as dramatically for the better as Helmut Kohl did.

## LETTERS TO THE EDITOR

## Qatar Responds to U.A.E., Saudi Charges

In his June 13 op-ed "Qatar Cannot Have It Both Ways," United Arab Emirates (U.A.E.) Ambassador Yousef Al Otaiba demands that Qatar be "all in" in the fight against terrorism. I can assure him that we are. The better question might be, where do the U.A.E. and the other nations currently boycotting Qatar stand on this existential threat?

Ambassador Otaiba must certainly be aware that the United Nations and the U.S. Treasury Department list 10 times as many suspected terrorists and terrorist financiers from the boycotting countries as from Qatar. Surely his excellency also remembers that the U.A.E. was singled out in the 9/11 Commission's report for its role in laundering money to terrorists, and that Emiratis, not Qataris, were among the hijackers who flew planes into the Twin Towers.

Ambassador Otaiba calls upon Qatar "to return to the community of responsible nations," and criticizes television news channel Al Jazeera for inciting violence, though he fails to mention that the U.A.E. financed the military coup that overthrew Egypt's first democratically elected government, and that the U.A.E. allegedly bankrolled the coup plotters who attempted to overthrow the elected government in Turkey.

The ambassador writes that the U.A.E. did not act "in haste" against Qatar, yet the U.A.E. never brought any of its complaints to the responsible entities at the Gulf Cooperation Council (GCC) before launching aggressive diplomatic and economic measures against us. Instead, as

leaked emails show, the ambassador and the U.A.E. government privately conspired against Qatar in the shadows.

It has become clear that the current campaign against Qatar is not about terrorism, Al Jazeera or any of the other issues highlighted by the boycotting nations. It is about Qatar's independence, which some apparently view as a threat. We would like our brothers in the GCC to know that we are a threat to no one. But they should also understand that Qatar is a sovereign nation, and that we will not be bullied.

H.E. SHEIKH MESHAL BIN HAMAD AL-THANI  
*Ambassador of Qatar to the U.S.  
Washington*

Instead of encouraging Saudi Arabia and the emirates to boycott Qatar, we should encourage tolerance and compromise. Look at Israel. As much as Israel is opposed to Iran and Hamas, it maintains a cordial relationship with Qatar. Maybe Qatar could become the bridge for peaceful coexistence of the two important factions in Islam, Sunnism and Shiism. Instead of allowing ourselves to be drawn into sectarianism, we should endeavor to work efficiently with the two factions, especially if we want to bring peace in the Middle East and eradicate terrorism.

PROF. HESKEL M. HADDAD  
*President  
The World Organization of Jews From Arab countries  
New York*

## Paid Maternity Leave Is Worth Every Penny

In reference to your May 26 editorial "The Ivanka Entitlement" on paid family leave: At Blackstone, contrary to your view, we have found that paid family leave isn't only smart policy, it's good for business.

Two years ago, Blackstone expanded its paid maternity leave from 12 weeks to 16 weeks (as opposed to the six-week leave currently under budget proposals), building on existing benefits (paternity leave, adoption leave, phase-back to work, elder care and more) that acknowledge the many challenges of working families. While our expanded policy is still relatively new, we made the decision based on the knowledge that it would aid our recruiting and retention efforts, cut down on costs associated with employee turnover and, over time, produce a more diverse and loyal workforce—conditions that

lead us to be smarter, better investors. Our optimism was grounded in compelling research suggesting that women receiving paid leave are 93% more likely to be in the workforce nine to 12 months after a child's birth than women without paid leave (Rutgers, 2012), and that companies like ours would be 80% more likely to experience higher morale and 70% more likely to see increased productivity (EY, 2016). Anecdotally, we've found that it has been invaluable to our recruiting efforts and helped contribute to Blackstone being named for the third year running a "Best place to work" by vault.com.

Paid leave is worth every penny.

STEPHEN A. SCHWARZMAN  
*Founder, Chairman and CEO  
Blackstone  
New York*

Mr. Schwarzman chairs the President's Strategic and Policy Forum.

## Harvard Teaches 10 a Tough but Fair Lesson

Regarding Naomi Schaefer Riley's "Harvard Admits It Can't Teach Everyone" (op-ed, June 9): Harvard has withdrawn acceptances for admission of 10 applicants to its freshman class based on subsequent social-media background checks.

Perhaps this extreme vetting of applicants to Harvard should be followed when admitting refugees into the U.S., courts permitting of course.

LAZ L. SCHNEIDER  
*Fort Lauderdale, Fla.*

While Ms. Riley makes an excellent points about Harvard, she neglects to note the gravity of the punishment meted out. I will not, in any way, defend the 10 students' Facebook posts, but most colleges need to hear if one is attending by May 1 so they can of

fer admission to students on the wait list. By Harvard's rescinding these 10 students' admission in June, they may not have any other college to attend, as presumably they turned down all other admission offers.

CURTIS PEHL  
*Baltimore*

Harvard doesn't owe anything to the 10 students who were denied their admission for offensive behavior on social media. What Harvard does owe these students is a tough life lesson, one that they clearly missed somewhere in their perhaps privileged upbringing. Despite qualifying for admission, Harvard has said to these 10 young adults, you have gone beyond social norms. You have crossed a line that is unacceptable to our institution, and I would hope others, and we are not obligated to admit you and teach you the errors of your ways.

I don't feel sympathy toward these students. Life is unfair, words matter and what better time to learn than at age 18. So thank you, Harvard, for the lessons you have bestowed to these young adults and, I hope, to thousands of other young adults who might now think twice before using social media as a playground for hate and bigotry.

LAWRENCE TRACHMAN  
*Durham, N.C.*

## Pepper ... And Salt

THE WALL STREET JOURNAL



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## OPINION

# Only Congress Can Undo Its Regulatory Mess

By David Schoenbrod

Candidate Donald Trump vowed to spur economic growth by freeing businesses from burdensome regulation. President Trump has fallen short on this pledge, despite strong rhetoric and some excellent appointments. If he wants lasting reforms of the regulatory state, he'll have to work with Congress to make elected officials accountable again.

**Lawmakers seek credit for benefits while evading blame for burdens. Change will require them to act.**

"We're cutting regulations massively," Mr. Trump said at the Jan. 30 signing ceremony for an executive order commanding agencies to repeal two regulations for every new one. Conservatives may see this as a move in the right direction, but it won't work: The agencies might have been able to comply before the late 1960s, when they had a freer hand, but not now.

In 1970 Congress passed the Clean Air Act. It was one of the first in a long series of statutes that give citizens the right to regulatory protection, command agencies to do what is necessary to protect those rights, and direct courts to enforce the commands.

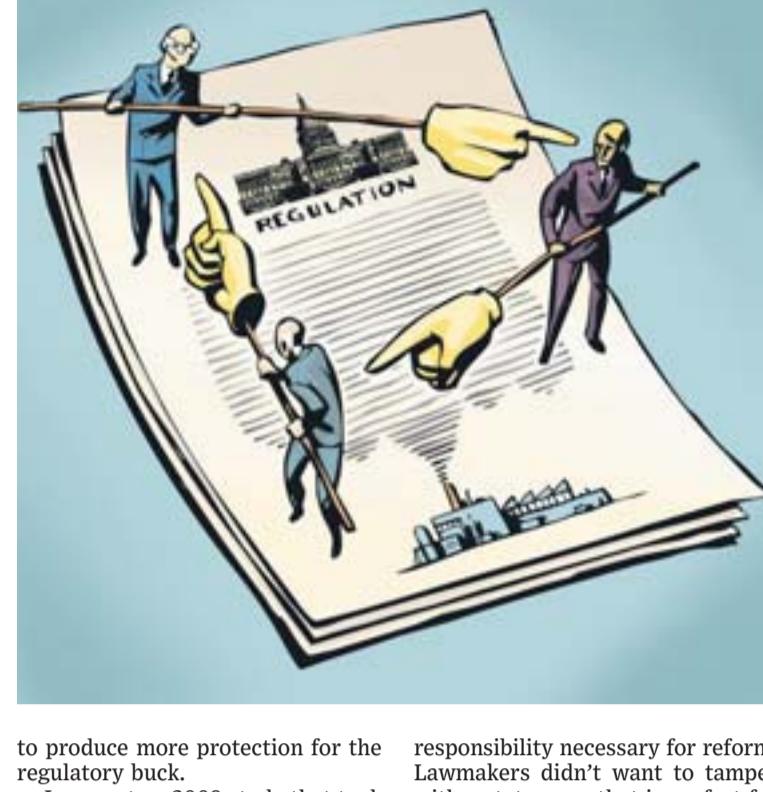
This type of legislation allowed elected officials to claim credit for the benefits of regulations while shifting blame to agencies for the burdens. The system became so politically profitable that politicians from both parties showed practically

limitless enthusiasm for giving citizens rights to protection. The Clean Air Act contained 940 detailed commands for the Environmental Protection Agency, some of which require it to issue dozens of separate regulations binding businesses.

With so many judicially enforceable commands requiring agencies to regulate, Mr. Trump's executive order can keep the feds from issuing new regulations only until courts require compliance with the statutes. The order will postpone new regulations—but at the price of exposing businesses to growth-killing uncertainty. Agencies have some wiggle room to reduce the burdens imposed under existing regulations, but doing so requires time-consuming work to demonstrate compliance with each statute's detailed requirements. Even if the burden-reducing changes survive judicial review, the process takes years.

An even more daunting obstacle is the demand for regulatory protection, which gives rise to the laws themselves. At its start, the Reagan administration seemed unresponsive to Americans' demand for more environmental protection. Membership in green organizations surged, the president's popularity took a hit, and in 1983 he was forced to give a free hand to a new EPA administrator with strong environmental credentials. If Mr. Trump wants to reduce regulatory burdens without suffering a similar fate, he needs to find smart ways to reconcile Americans' desire for regulatory protection with their distaste for its burdens.

Making the task even more difficult, the regulatory statutes are ridiculously obsolete. The major environmental laws took shape in the 1970s, and most have not been revised since the 1980s. They fail to take advantage of newer, better ways



DAVID KLEIN

to produce more protection for the regulatory buck.

I co-wrote a 2009 study that took ideas from environmental experts of all political stripes to propose smarter statutes, "Breaking the Logjam: Environmental Reform for the New Congress and Administration." We showed that the country could get more protection with less cost by having the EPA deal with the most dangerous interstate air-quality problems through a national market-based approach.

In early 2009 I joined other leaders of the project to discuss these proposals with Democrats and Republicans in Congress. They told us they wished the proposals were already on the books because their colleagues would not shoulder the

responsibility necessary for reform. Lawmakers didn't want to tamper with a status quo that is perfect for them and bad for constituents.

Americans can get regulatory statutes that give them more protection with less burden only if members of Congress bear personal responsibility for the consequences of the laws they enact. This can be achieved by requiring Congress to vote to approve or to disapprove all major regulations issued by federal agencies. This would create a powerful incentive to revise statutes so they are more balanced.

This idea isn't new. James Landis, a New Deal expert on regulation and later dean of Harvard Law School, proposed it nearly 80 years ago. Before he joined the Supreme Court,

Stephen Breyer wrote a 1984 law review article about how it could work in practice.

Earlier in this Congress, House Republicans passed the Regulations from the Executive in Need of Scrutiny Act, or Reins Act. Republicans on the Judiciary Committee wrote in a statement that Congress would have to vote on agency actions "that cost the economy \$100 million or more."

They say nothing about actions that reduce regulatory protection. The Reins Act thus looks more like a poke in the eye to Democrats than a serious reform—guaranteeing it won't get the 60 Senate votes to overcome a filibuster. Again, lawmakers claim credit while shifting blame: Supporters of the Reins Act can assert they fought burdensome regulations while avoiding responsibility for votes on specific regulatory protections that many constituents want.

Members of Congress willing to shoulder responsibility should change the bill's title to the Responsibility for Regulation Act and make substantive changes so the bill is pro-responsibility rather than anti-regulation. To start, the statute should apply to major regulations that reduce protection as well as to those that add costs.

As a candidate, Mr. Trump said he supported the Reins Act. As president, he told Congress he wants to reform regulation and work with Democrats. If he reaches across the aisle for an alternative to the Reins Act, he might be able to keep his promise.

*Mr. Schoenbrod, a professor at New York Law School, is the author of "DC Confidential: Inside the Five Tricks of Washington" (Encounter, 2017).*

## Europe's Elites Seem Determined to Commit Suicide by 'Diversity'

By Douglas Murray

Europe in 2017 is racked with uncertainty—the eurozone crises, the endless challenges of the European Union, national elections that resemble endless rounds of bullet-dodging. Yet even these events are insignificant compared with the deep tectonic shifts beneath the Continent's politics, shifts that Europeans—and their allies—ignore at our peril.

Throughout the migration crisis of recent years I traveled across the Continent, from the reception islands into which migrants arrive to the suburbs in which they end up and the chancelleries which encouraged them to come. For decades Europe had encouraged guest workers, and then their families, to come. As Germany's Chancellor Angela Merkel once admitted, nobody expected them to stay.

Yet stay they did, with their numbers swelling even when there were no jobs. Waking up to the results of their policy, European societies rebranded themselves "multicultural" societies, only to begin wondering what that meant. Could a multicultural society make any demands of

its newcomers? Or would that be "racist"?

From the 2000s legal and illegal immigration picked up. Boats regularly set out from Turkey and North Africa to enter Europe illegally. Syrians fleeing civil war pushed into the Continent, soon joined by people from across sub-Saharan Africa, North Africa, the Middle East and Far East.

Today the great migration is off the front pages. Yet it goes on. On an average weekend nearly 10,000 people arrive on Italian reception islands alone. Where do they go? What do they expect? And what do we expect of them?

To find the answer to these and other questions it is necessary to ask deeper questions. Why did Europe decide it could take in the poor and dispossessed of the world? Why did we decide that anybody in the world fleeing war, or just seeking a better life, could come to Europe and call it home?

The reasons lie partly in our history, not least in the overwhelming German guilt, which has spread across the Continent and affected even our cultural cousins in America

and Australia. Egged on by those who wish us ill, we have fallen for the idea that we are uniquely guilty, uniquely to be punished, and uniquely in need of having our societies changed as a result.

**Politicians say with fury that their migration policies 'must' work. What if they don't?**

There is also, for Europe, the sense of what I call tiredness—the feeling that the story might have run out: that we have tried religion, all imaginable forms of politics, and that each has, one after another, led us to disaster. When we taint every idea we touch, perhaps a change is as good as a rest.

It is often argued that our societies are old, with a graying population, and so we need immigrants. When these theories are challenged—by asking, for instance, why the next generation of Germany's workforce might not come

from unemployed Greece rather than Eritrea—we are told that we need low-skilled workers who do not speak our languages because it makes Europe more culturally interesting. It is as though some great hole lies at the heart of the culture of Dante, Bach and Wren.

When people point out the downsides of this approach—not least that more immigration from Muslim countries produces many problems, including terrorism—we get the final explanation. It doesn't matter, we are told: Because of globalization this is inevitable and we can't stop it anyway.

All these instincts, when put together, are the stuff of suicide. They spell out the self-annihilation of a culture as well as a continent. Conversations with European policy makers and politicians have made this abundantly clear to me. They tell me with fury that it "must" work. I suggest that with population change of this kind, at this speed, it may not work at all.

Yet still it is possible that the publics will not go along with the instincts of their leaders. Earlier this year, a poll of European attitudes

was published in which citizens of 10 countries were asked a tough question: whether they agreed that there should be no more Muslim migration into their countries. Majorities in eight out of the 10 countries, including France and Germany, said they wanted no more Muslim immigrants.

Over recent decades Europe has made a hasty effort to redefine itself. As the world came in, we became wedded to "diversity." As terrorism grew and more migrants arrived, public opinion in Europe began to harden. Today "more diversity" remains the cry of the elites, who insist that if the public doesn't like it yet, it is because they haven't had enough of it.

The migration policies of the political and other elites of Europe suggest that they are suicidal. The interesting thing to watch in the years ahead will be whether the publics join them in that pact. I wouldn't bet on it.

*Mr. Murray is author of "The Strange Death of Europe: Immigration, Identity, Islam," out this week from Bloomsbury Continuum.*

## German-Style Apprenticeships Can't Be Easily Replicated

By Eric A. Hanushek

Say the words "apprenticeship program," as the Trump administration has been doing recently, and maybe you imagine a win-win: Young people welcomed by companies that want to train them to become skilled workers.

Some American policy makers have begun to see Germany's approach—credited with helping it navigate the 2008 recession while keeping youth unemployment in the single digits—as the magic formula. But adapting the German system for the U.S. is little more than a dream.

Over half of young Germans enter apprenticeships, which can lead to certification in more than 300 different careers. Many are blue-collar jobs

ranging from construction to baking, but apprenticeships also cover white-collar fields like information technology and engineering.

An apprenticeship generally involves two to three years of work and study after secondary school. In Germany's "dual system," apprentices work on the job for three or four days a week and spend the rest of the time in academic instruction paid for by the government. This setup has been shown to ease a student's transition into work. Openings in apprenticeships are based on employers' demands for workers, and youths who've earned a vocational certificate are readily hireable.

But this comes at a cost. Workers enter the job market with skills that often become obsolete as industries

change. The early-career advantage is offset by disadvantages later in life. Research shows that after age 50 German workers with general education do better than vocationally trained ones, many of whom leave the workforce.

Germany and the European Union recognize the need to retrain people whose earlier skills become obsolete. There are continuous calls for "lifelong learning." Unfortunately, governments have not figured out effective ways to retrain older workers, and companies often don't see the advantage of doing so. Training over the course of a career is significantly more prevalent among workers with a general education.

Moreover, the U.S. cannot quickly replicate Germany's deep history of apprenticeships. The German system

builds on a half-century of employer experience, on national standards, and on a relatively rigid labor market that relies on certification as a hiring credential.

**Half of young Germans enter vocational training, and the rigid labor market relies on certification.**

broad standards and accountability via test scores hasn't helped vocational education either.

Community colleges might provide something like the mixture of education and training found in the German system, but they have not developed serious relationships with industry. The construction trades have found some success with apprenticeships, but this has not been replicated for white-collar jobs. And skill certification is much less important in the U.S. labor market than in the German market.

Even if the U.S. succeeded in expanding apprenticeships, the problem of skill obsolescence remains. The American model of providing vocational training to those who do not like or do not do well in the general curriculum does not augur well for adaptation when new skills are required.

Employers like the idea of vocational training because it could reduce the demands on them to train new workers. But when the skills they need change, they also may find it easier simply to return to the entry-level market rather than retrain their existing workforce.

The largest problem of skills in the U.S. today isn't a shortage of young workers with specific competencies. Instead it is a need for more general cognitive skills that give workers the ability to adapt to new circumstances and new jobs. In that area, American schools are not competitive with their international competitors—and more apprenticeships won't help.

*Mr. Hanushek is a senior fellow at the Hoover Institution of Stanford University.*

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Matthew J. Murray  
Deputy Editor in Chief

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## Notable & Quotable: Rules

From "Free Speech, the Goose, and the Gander" by lawyer Ken White on his Popehat blog, June 17:

Last night a popular alt-right troll disrupted a controversial modern production of Julius Caesar staged with a Trumplike figure in the lead role....

The "eye for an eye" theory of respecting free speech is particularly pernicious because it represents the worst sort of collectivism, something the principled Right ought reject. Note that people who say "apply the Liberals' own rules to the Liberals" aren't disrupting, say, an Antifa rally or the meeting of some Berkeley student group that advocated shutting down a conservative speaker. They're

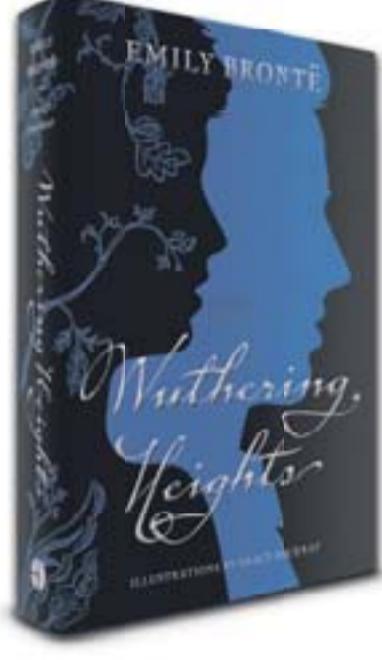
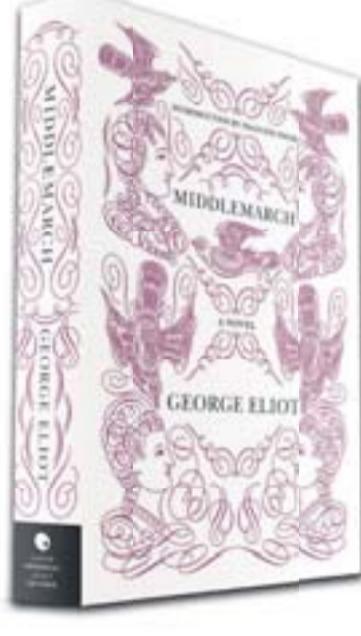
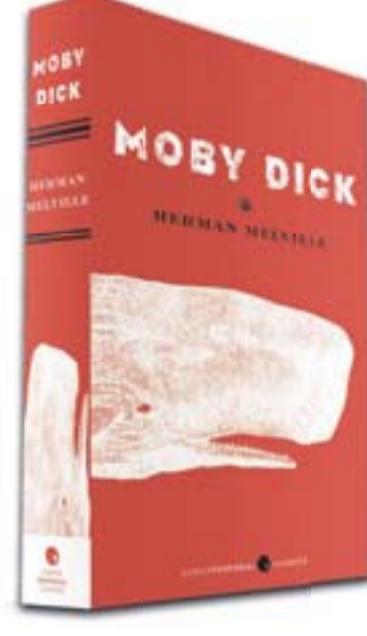
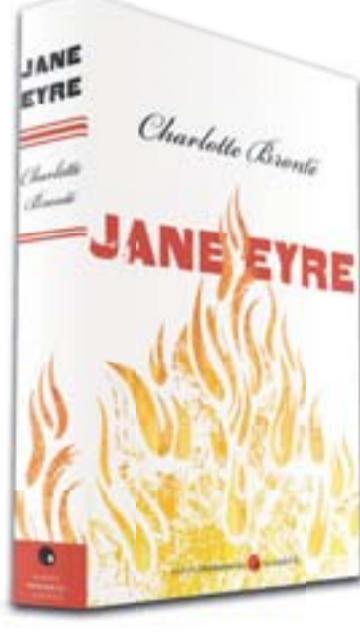
disrupting *other people entirely*, on the theory that everyone they deem part of the nebulous collective "Liberal" deserves to be silenced because someone else in that nebulous collective engaged in silencing behavior....

And yet, the "we're just applying their rules to them" theory has some heft.... The bit of plausibility comes from the reaction of people in authority, people who ought to know better, people whose conduct is somewhat more fairly attributed to a larger political group. A few hysterically censorious kids screaming for a professor's termination for criminethink do not threaten the foundations of free speech, but Yale lauding them does.

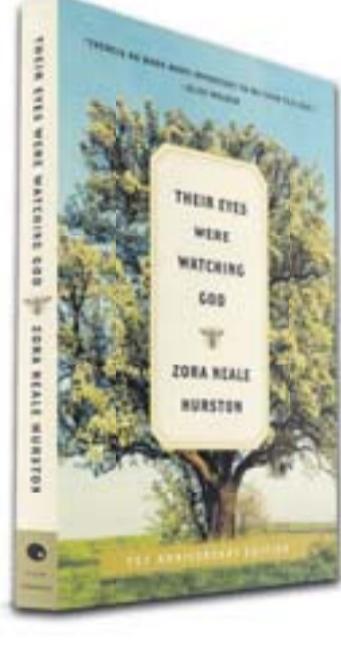
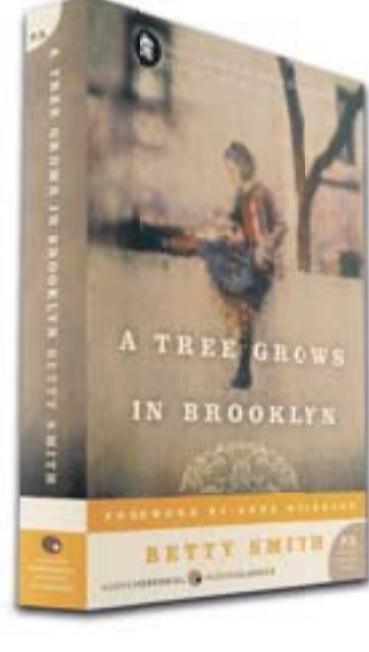
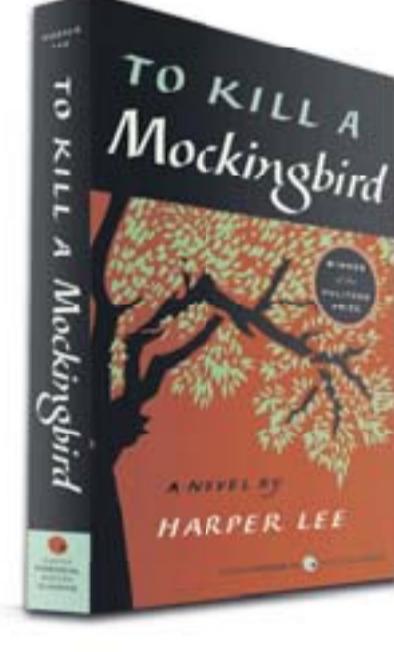
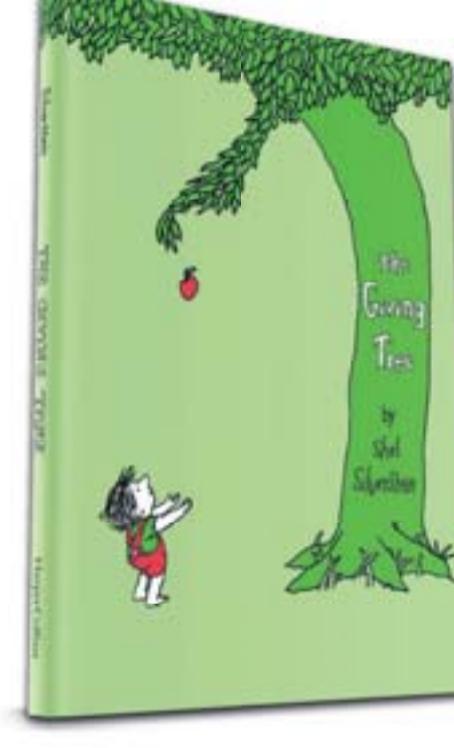


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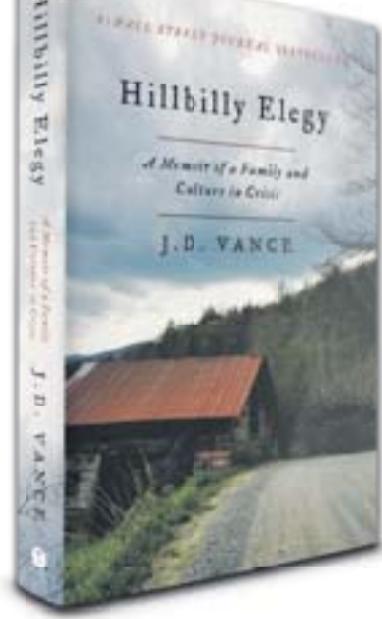
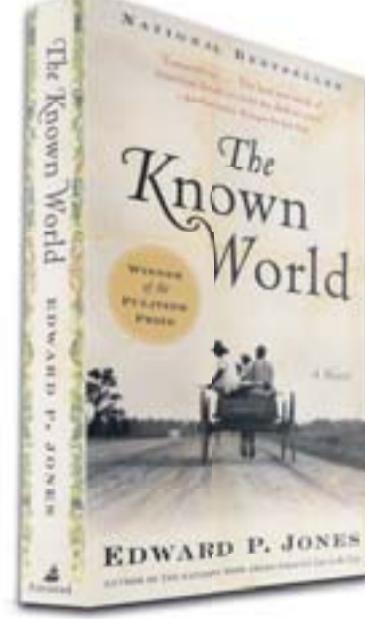
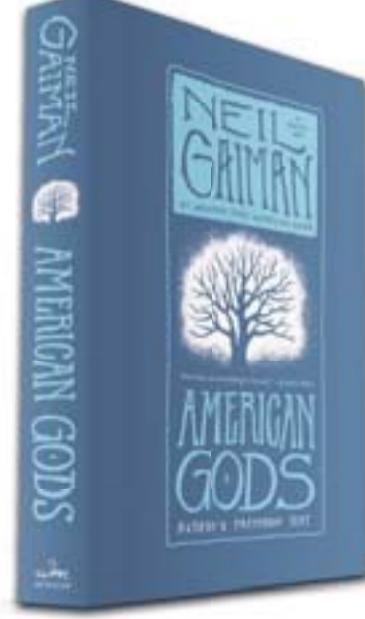
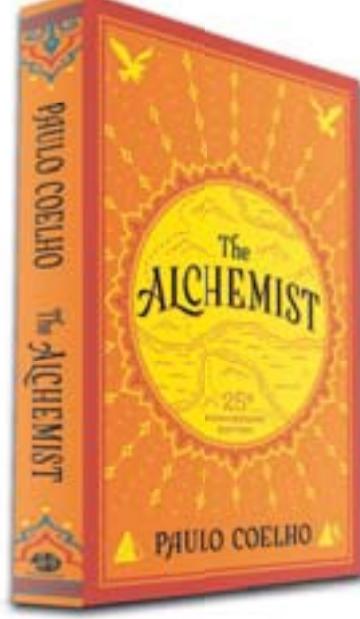
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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

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## Trump Puts Tech's Clout to Test

By VANESSA FUHRMANS  
AND PETER NICHOLAS

When tech industry executives gather at the White House Monday, brainstorming ways to modernize government will be on the agenda. But on display will be President Donald Trump's evolving relationship with America's corporate chieftains.

Some 300 business leaders have met with Mr. Trump since he took office promising the nation's top executives a direct line to the Oval Office and a chance to shape economic policy. The discussions have helped the president project an image of CEO-in-chief as he awaits a major legislative victory and have given CEOs a voice in initiatives like the administration's push to expand apprenticeship programs.

But corporate leaders are learning about the limits of their clout. Hopes for an overhaul of the corporate-tax code this year are fading, some executives and corporate lobby-



SHANNON STAPLETON/REUTERS

President Trump with PayPal co-founder Peter Thiel, center, and Apple CEO Tim Cook in December.

ists say, as the White House and lawmakers struggle to reach consensus on a plan that could get through Congress. Mr. Trump's move to quit the Paris climate accord has been a stinging lesson for some that White House face time doesn't

always translate into influence.

Dozens of business leaders urged the president publicly and privately to keep the U.S. in the climate agreement; many were taken aback when he rejected their pro-business

case for upholding the deal, people involved in the lobbying effort say.

Even Ivanka Trump, the president's elder daughter and one of his senior advisers, bet CEOs could sway her father. According to people

familiar with the effort, she appealed to **Dow Chemical** Co. head Andrew Liveris and **Apple** Inc. chief Tim Cook to make the case directly to the president.

Monday's meeting, five months into Mr. Trump's presidency, is shaping up as a gauge of the value of these sessions to business leaders. Some, including **International Business Machines** Corp. CEO Ginni Rometty and Apple's Mr. Cook, have faced public or employee pressure not to attend such meetings.

Tanya Meek, a partner at Global Strategy Group, a Washington-based public affairs firm whose client roster has included **Comcast** Corp., **Airbnb** Inc. and **Microsoft** Corp., said some chief executives are weighing those factors before accepting White House invitations.

The White House talks, framed as listening sessions, often turn casual and wide-ranging once cameras leave the room. Participants de-

Please see TRUMP page B4

## Activist Prods Parent Of Saks

By SUZANNE KAPNER  
AND DAVID BENOIT

An activist investor is pushing the parent of Saks Fifth Avenue to consider strategic alternatives, including possibly taking the company private or redeveloping its vast real estate holdings, in the latest sign of the challenges facing the department-store industry.

**Land & Buildings Investment Management** LLC, which has accumulated a stake of roughly 4.3% in **Hudson's Bay** Co., said in a letter that is expected to be delivered to the company's board Monday that its real estate is worth four times the stock price. The Wall Street Journal viewed a copy of the letter.

"This drastic public markets mispricing is why Hudson's Bay should evaluate all strategic options to maximize value for shareholders," Jonathan Litt, founder and chief investment officer of Land & Buildings, wrote in the letter.

He noted that over the past several months, as Hudson's Bay has taken abortive looks at acquiring **Macy's** Inc. and then at **Neiman Marcus Group**—as reported by the Journal, the company's stock has fallen 25%.

The Macy's talks were preliminary and never progressed far, and the discussions with Neiman Marcus fell apart over price, people familiar with the situation have said. Last week, Neiman Marcus confirmed that any conversations it had

Please see SAKS page B2

## Egg Riddle Puzzles the Chicken Business

Amid fewer successful hatches, industry broods about overeating birds and waning libidos in aging flocks



Fewer hatching eggs—along with strong consumer demand—have contributed to higher prices.

By JACOB BUNGE

ter and process into wings, breasts and drumsticks.

"This is pretty out of the ordinary," said Will Sawyer, animal-protein analyst at Rabobank. As to the cause, he said, "I don't think anybody has the for-sure answer."

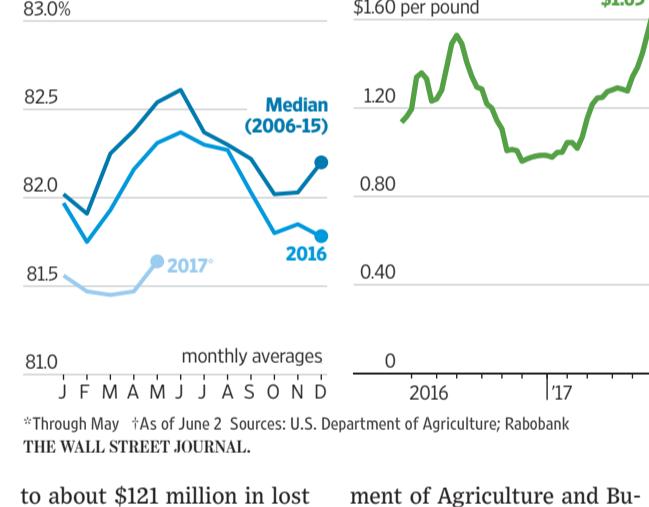
The chicken sector's decades-long effort to make chickens grow at rapid speeds has never helped fertility. But industry officials point to a confluence of factors behind this year's decline. Some say new variet-

ies of fast-growing breeder chickens are overeating and growing too top-heavy to effectively procreate in the first place. The breeding flock also might be growing older overall, reducing fertility. Elderly chickens' libidos also tend to wane, breeders and academics say.

The situation affects both poultry companies and consumers. At current prices, a 1% decline in the percentage of eggs that hatch of those set in incubators translates

### Crack Down

As the percentage of chicken eggs that have successfully hatched has declined, wholesale chicken meat prices have climbed.



\*Through May †As of June 2 Sources: U.S. Department of Agriculture; Rabobank

THE WALL STREET JOURNAL.

to about \$121 million in lost sales for the poultry industry over the first five months of 2017, according to analysts' estimates.

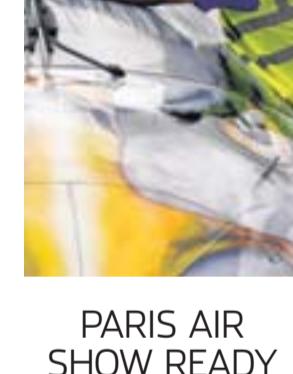
For retailers, restaurants and consumers, fewer hatching eggs—together with rising meat exports and strong consumer demand—have contributed to higher prices. Wholesale prices for boneless breast meat have surged 68%, while consumer prices have climbed 3%, according to data from the U.S. Depart-

ment of Agriculture and Bureau of Labor Statistics. Grocery stores tend to operate on six- to 12-month supply contracts for poultry, suggesting that consumer prices could rise further.

The companies that dominate the \$60 billion U.S. chicken industry, including **Tyson Foods** Inc., **Pilgrim's Pride** Corp., **Perdue Farms** Inc. and **Sanderson Farms** Inc. rely on a tightly managed network of breeding

Please see EGG page B2

## INSIDE

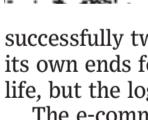


## PARIS AIR SHOW READY FOR TAKEOFF

AVIATION, B5

HEARD ON THE STREET | By Dan Gallagher

## Amazon Just Got Closer to You



An old maxim in retail is: Location, Location, Location. **Amazon.com** has

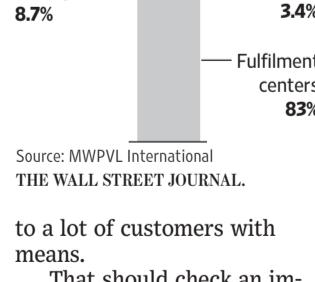
successfully twisted that to its own ends for much of its life, but the logic still holds.

The e-commerce giant built much of its early fortune by stockpiling Harry Potter books in huge warehouses in the Nevada desert and shipping them relatively cheaply throughout the West. That did to the bookselling industry what Amazon has now done to a range of retailers. But books don't grow mold after a couple of days. So while Amazon has pushed to get ever closer to customers in recent years, its ambitious goals for the grocery business still required a different tack.

Enter **Whole Foods Market**, which Amazon acquired Friday for \$13.7 billion. Like Amazon, Whole Foods knows that the closer it gets its products to consumers, the better. With 456 stores concentrated in pricey ZIP Codes, Whole Foods already is close

### Primed

Amazon's distribution network



Source: MWPVL International

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to a lot of customers with means.

That should check an important item off Amazon's shopping list. And it is one Amazon would have had a harder time building on its own. Fulfillment costs, which include distribution centers, already represent about 13% of Amazon's net revenue, compared with 10% five years ago. And while the company's existing distribution footprint is immense, only about 3% of its 94.5 million square feet of distribution space is devoted to fresh-food delivery, accord-

ing to Marc Wulfaat, president of supply-chain consultancy MWPVL.

Whole Foods reported 17.8 million gross square feet of space at the end of 2016, with another 4.1 million in development. It also has 11 distribution centers of its own, according to Mr. Wulfaat. So Amazon's acquisition of the food seller significantly boosts its grocery capacity. And the average size of Whole Foods' stores has crept up by 14% over the past five years, which theoretically gives Amazon more room to add other types of products or services, such as same-day pickup for goods sold online.

Amazon's investors are clearly willing to bear the cost of the deal, given that the company added more than \$1 billion in market cap on the deal's announcement Friday. That is because Amazon these days is valued primarily on its ability to maintain double-digit growth in its core retail business while breaking into new markets. Whole Foods should help on both counts.

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## SAKS

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been having about selling itself had terminated and it planned to remain independent.

A Hudson's Bay spokesman had no immediate comment late Sunday.

Land & Buildings could face an uphill battle since insiders own a large chunk of the company's stock, possibly making it difficult to force their hand.

This month, Mr. Litt lost a shareholder vote to force change at mall owner Taubman Centers Inc.—largely because of the controlling fam-

ily's large voting block. He continues to push for change there. Mr. Litt has also been urging change at real-estate empire Forest City Realty Trust Inc. and Brookdale Senior Living Inc.

Either way, the campaign is the latest sign of the upheaval roiling the department-store and broader retail industry as shopping habits evolve. Hudson's Bay recently said it would eliminate 2,000 jobs in North America, part of an effort to save \$350 million annually.

Hudson's Bay Chairman Richard Baker is a real estate executive who grew up building shopping centers with his father Robert, founder of National Realty & Development Corp.

He began stitching together a department-store conglomerate a decade ago with the

acquisition of Lord & Taylor, followed by Saks Fifth Avenue in 2013. The company also owns the Hudson's Bay chain in Canada, and Galeria Kaufhof in Germany.

To highlight the value of Hudson's Bay's real estate, Mr. Baker has formed joint ventures with several mall owners and obtained an independent appraisal of the Saks Fifth Avenue flagship in Manhattan that values the store at more than the \$2.9 billion Hudson's Bay paid for the whole company.

"Retail and department stores are at a crossroads," Mr. Baker told shareholders gathered for the company's annual meeting earlier this month. But he added that the retailer is taking decisive actions to position the company to adapt, including cost reductions, a relocation of capital spending and bolstering the balance sheet.

Mr. Litt, a well-known real estate investor, wants Hudson's Bay to go further, arguing that it could generate better returns for shareholders by redeveloping its prime department-store space into office towers, hotels or boutiques. Alternatively, Hudson's Bay could go private, given its modest market capitalization of roughly \$1.2 billion and insider ownership of roughly 20%, Mr. Litt argues.

Nordstrom Inc. recently said it was considering going private as a way to wait out the changes roiling the retail industry as more shoppers migrate online. On Friday, Amazon.com Inc. said it was buying Whole Foods Market Inc. as the online juggernaut ramps up its grocery business.

As the share prices of large retail companies have plummeted, investors are eyeing their real estate as a way to unlock value from the chains.

Starboard Value LP took a stake in Macy's for this reason, but sold its shares earlier this year.

## Big Drillers Flock to Shale

Chevron and others expect more success than smaller rivals in Permian Basin region

BY BRADLEY OLSON

MIDLAND, Texas—For Bruce Niemeyer, the Chevron Corp. executive overseeing the company's \$15 billion expansion here, one question looms above all: Will we earn money?

Big oil companies including Chevron, Exxon Mobil Corp. and Royal Dutch Shell PLC are piling into the Permian Basin, the oil-rich region straddling Texas and New Mexico that is the epicenter of the second wave of U.S. shale drilling.

Chevron and others say they will soon achieve something that has proven elusive for their smaller peers: turning a profit.

The shale-drilling renaissance rocked global markets and helped send crude prices into a prolonged slump. What it didn't do was bring in much cash. Since 2011, the largest 30 independent U.S. shale producers spent an average of nearly \$1.33 for every \$1 they made drilling wells, according to a Wall Street Journal analysis.

In the past two years, those 30 have lost \$130 billion. More than 120 companies have gone bankrupt, and many of those that survived have done so with cash infusions from Wall Street, which rewarded the drillers for their fast growth.

Those include massive scale, deep pockets that have given them time to learn from the successes and failures of others, and an ability to bring techniques used globally into West Texas. They are joining



BRITTANY SWOKE/BLOOMBERG

The oil-rich Permian Basin straddles Texas and New Mexico.

That model won't work for Chevron, Exxon and other companies that pay shareholders generous dividends and need to bring in more cash than they spend over time. To transform an important—but money-losing—technology into a source of profit, executives such as Mr. Niemeyer, the head of Chevron's midcontinent business, are turning to their strengths.

Those include massive scale, deep pockets that have given them time to learn from the successes and failures of others, and an ability to bring techniques used globally into West Texas. They are joining

the race to push crude production here to four million barrels a day within a decade, rivaling the output of Iraq.

"The early stages favored the smaller companies, which could test technology and try different things," said Anish Kapadia, an analyst at Tudor Pickering Holt & Co., an energy investment bank in Houston. "As they move into development mode, those with a low cost of capital will have an advantage. This is the domain of large oil companies," he added.

The big companies face considerable skepticism from investors who don't see how they can meet growth targets

and generate excess cash by exploiting shale fields. In recent years, Exxon, Chevron and Shell have lagged behind top operators in the Permian Basin by a wide margin, with the big companies' individual wells producing about half as much oil and gas in some cases, analysts say.

Executives at the biggest companies counter that these results reflect, in part, a focus on drilling practices that bolster output over the life of the well, rather than maximize short-term flows.

"Big oil companies are basically lethargic, slow-moving giants," said David Arrington, an entrepreneur based in Midland, Texas, who has drilled wells in Texas for decades.

But last year, the big companies showed signs of narrowing the gap, embracing techniques pioneered by smaller companies such as drilling longer wells horizontally and using more sand to prop open rock layers and let oil flow. Within a decade, Chevron estimates it might produce as much as 700,000 barrels a day in the Permian. Last year, Chevron's output in the Permian averaged 175,000 barrels a day.

Chevron hasn't disclosed how much it will boost spending in the area over the next 10 years, but analysts say it is likely to exceed \$15 billion.

"Nobody remembers who was winning the Indianapolis 500 after the first 100 miles," said Mr. Niemeyer, 55 years old. "How you start is interesting, but it's far more important how you finish."

## Venezuelan Bonds vs. Conscience

BY MATT WIRZ  
AND CAROLYN CUI

Richard House invested in Venezuelan bonds for decades, but the head of emerging-markets debt at Standard Life Investments had a change of heart last year.

Facing plunging oil revenue and dwindling dollar reserves, the Venezuelan government has been squeezing imports of daily necessities, including food and medicine, to make debt payments. Those decisions helped prompt him to sell all his Venezuelan bonds. "Personally, it's not the policy I would be choosing at this time," Mr. House said. "It feels very uncomfortable...on many levels."

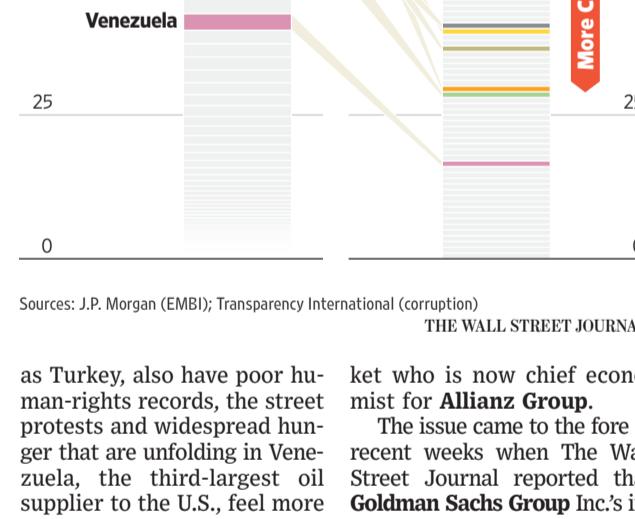
A crisis of conscience is rippling through emerging markets, where portfolio managers are asking: Dare we hold on to Venezuelan bonds, let alone buy new ones, knowing that the government of President Nicolás Maduro is choosing to pay lenders rather than feed its people?

After borrowing tens of billions from global investors in recent years, the country is spiraling into a humanitarian crisis. Venezuela's \$56 billion of outstanding debt makes up 3.5% of a widely followed emerging-market debt benchmark. Adding to the dilemma for investors, the 24% yield on some Venezuela bonds places them among the highest-yielding investments in the sector, and the debt has been one of the biggest winners on Wall Street over the past year.

While other countries, such

### Weighted Down

J.P. Morgan's Emerging Market Bond Index includes numerous nations facing public corruption problems.



Sources: J.P. Morgan (EMBI); Transparency International (corruption)

THE WALL STREET JOURNAL.

as Turkey, also have poor human-rights records, the street protests and widespread hunger that are unfolding in Venezuela, the third-largest oil supplier to the U.S., feel more acute for many U.S. investors.

"In my memory, there's never been this kind of case for the emerging bond markets," said Mohamed El-Erian, a founding figure in the mar-

ket who is now chief economist for Allianz Group.

The issue came to the fore in recent weeks when The Wall Street Journal reported that Goldman Sachs Group Inc.'s investment arm bought bonds held by the country's central bank and that the government is trying to sell \$5 billion more debt, at a steep discount.

The integration of socially

responsible rules into investment decisions has been around in stock funds for decades, but it is virtually absent in the bond world.

The last great divestment controversy—South Africa under apartheid—predates the development of modern emerging-market bond trading in the late 1980s. Countries with controversial governments like Iraq, Nigeria and Mozambique have issued international bonds, but the three together make up less than 1% of the market.

The moral calculus can grow complicated. Some investors say providing new funding to the Maduro government, as Goldman Sachs did, is unacceptable but that buying from other funds does no harm.

Others say owning any Venezuelan bond is unethical because the money the country uses to service debt would be better spent feeding its populace.

Investors are also divided over the impact of divestiture. Bond yields would likely rise further, making it even harder for the government to borrow and perhaps accelerating political change. But creditors could also seize oil shipments in case of default, cutting off the nation's primary source of dollars.

"Our goal is to lend money to a government, helping grow its economy and improve people's living standards, and eventually we hope to get paid," said Yong Zhu, senior portfolio manager at DuPont Capital Management, which owns Venezuelan debt.

## EGG

Continued from the prior page  
farms and industrial-scale incubators. They place about 180 million baby chicks each week onto farms to raise roughly nine billion birds annually.

The parents of those chickens are supplied by breeding companies, which have mapped the chicken's DNA to help choose birds that gain weight rapidly, particularly profitable breast meat, while consuming the least possible amount of feed. Modern broiler chickens can swell to 6.2 pounds in about seven weeks, growing to be twice as large as the birds' ancestors.

"These birds can grow to become big ol' couch potatoes," said Phil Stayer, corporate veterinarian for Mississippi-based Sanderson Farms, which raised and processed 500 million chickens in 2016.

Fertility challenges accompanying rapid growth might have contributed to an average 81.52% of eggs placed into incubators successfully hatching

</div

## BUSINESS NEWS

### Acquisitive Logistics Firm Eyes New Deals

BY JENNIFER SMITH

The fastest-growing logistics company in North America is getting back in the mergers-and-acquisitions marketplace.

After more than a year-and-a-half on the sidelines to digest its many purchases of the past few years, **XPO Logistics Inc.** is kicking the tires on potential targets in Europe and North America, chief executive Bradley Jacobs told a supply-chain management conference in Chicago.

This time around, the focus is largely on companies that would bolster XPO's existing business lines, particularly in contract logistics, rather than adding new services.

"We're looking at deals that are mostly over \$500 million of Ebitda, with a few exceptions," Mr. Jacobs said Thursday.

"Some of them are smaller, because they're strategic, but by and large, we're looking at the larger deals where we can apply the skills that we've honed as a team to integrate, to optimize and get the synergy," he said.

The Greenwich, Conn., company has rolled up more than a dozen logistics businesses over the past five years, including trucking companies, freight brokers and last-mile delivery specialists, in an acquisitions spree aimed at transforming XPO into an end-to-end global supply-chain provider.

XPO's customers include large retailers with growing e-commerce sales, such as IKEA and Inditex SA's Zara, as well as big-box and online retailers that rely on the company to manage warehouses and deliver items to consumers' homes.

### Ransomware Is Often Unreported

Critics urge closing loophole that leaves hospitals vulnerable, but liability is concern

BY MELANIE EVANS

A cyberattack last year paralyzed **MedStar Health** computers, forcing the Maryland operator of 10 hospitals and more than 300 outpatient centers to shut down its entire electronic-record system. Doctors logged patient details with pen and paper. Laboratory staff faced delays delivering test results.

"It was three weeks before we got most of everything that was important to us on a daily basis back and operational," Craig DeAtley, director of the MedStar Institute for Public Health Emergency Readiness, said during a panel organized by federal health officials last year to address cyberthreats.

Yet the attack—and others last year at hospitals in California and Kentucky—don't appear on the U.S. Department of Health and Human Services public list of data breaches.

The attacks involved ransomware, a type of software that locks away data until victims pay a ransom. HHS rules say hospitals need only report attacks that result in the exposure of private medical or financial information, such as malware that steals data. When ransomware's data encryption meets that threshold is a gray area.

Proponents for more mandatory reporting say this regulatory gap limits the health-care system's ability to fight cybercriminals. Hospitals left in the dark about attacks hitting their rivals are less likely to be ready to defend themselves, they say.

Regulators can't protect patient safety if they are unaware when hospital medical records are held for ransom, said Rep. Ted Lieu, a California Democrat who along with



HHS rules say that hospitals need only report attacks that result in the exposure of private medical or financial information.

Rep. Will Hurd, a Texas Republican, is pushing HHS to require hospitals to report ransomware attacks.

"I view it as a loophole that ransomware does not have to be reported," Mr. Lieu said in an interview.

Opponents say HHS reporting comes with a harsh spotlight, potential penalties and liability risks.

Spokeswomen for HHS didn't respond to a request to clarify the agency's position on the issue. In a report to Congress this month, an HHS-led task force of industry and public officials stopped short of calling for required disclosure of ransomware attacks. The report called for a "flexible approach" to sharing cybersecurity information and recommended the industry build on voluntary efforts already under way.

The dilemma has grown

more acute as ransomware proliferates. Two large, multi-state hospital operators "face significant challenges to operations" from a global ransomware assault in May called WannaCry, HHS disclosed in an email to health-care executives and officials this month.

The attack also halted surgeries at British hospitals, shut European auto plants and affected some U.S. medical devices.

WannaCry "highlighted the disturbing reality that the true state of cybersecurity risk in this sector is underreported by orders of magnitude," Leo Scanlon, deputy chief information security officer for HHS, said during a U.S. House hearing on cybersecurity this month.

MedStar spokeswoman Ann Nickels declined to say whether MedStar reported the 2016 ransomware attack to

HHS, and declined to specify how many patients' data were affected. HHS publicly reports breaches that expose confidential data for at least 500 people. HHS declined to comment on the attack, saying it "does not release information about current or potential investigations."

MedStar "shared insights privately" with other hospital operators about the attack, Ms. Nickels said. "Our position all along has been that we are not making public statements about lessons learned and the specific circumstances of the malware event we handled a year ago," she said in a written statement.

On a Friday evening in February 2016, ransomware swiftly spread throughout Hollywood Presbyterian Medical Center in Los Angeles, locking doctors and nurses out of computers, Steve Giles, the hospital's chief information of-

ficer, told a California senate hearing a few months later.

Hollywood at first tried unsuccessfully to unlock the computers, before paying \$17,000 in ransom in bitcoin. They were so unfamiliar with the digital currency they first googled "how to get bitcoin," then hunted down an ATM in a vape shop to convert cash to the digital currency, he said. Criminals released 900 separate decryption codes to unlock the hospital's computers, Mr. Giles said.

The attack doesn't appear on HHS's public list. The hospital didn't report it to HHS, but media reports prompted HHS to inquire about the breach, Mr. Giles said. HHS ultimately didn't require the hospital to report the attack after Hollywood officials offered evidence the ransomware didn't expose patient data, he said.

### 'Cars 3' Cruises to the Top on Its Opening Weekend

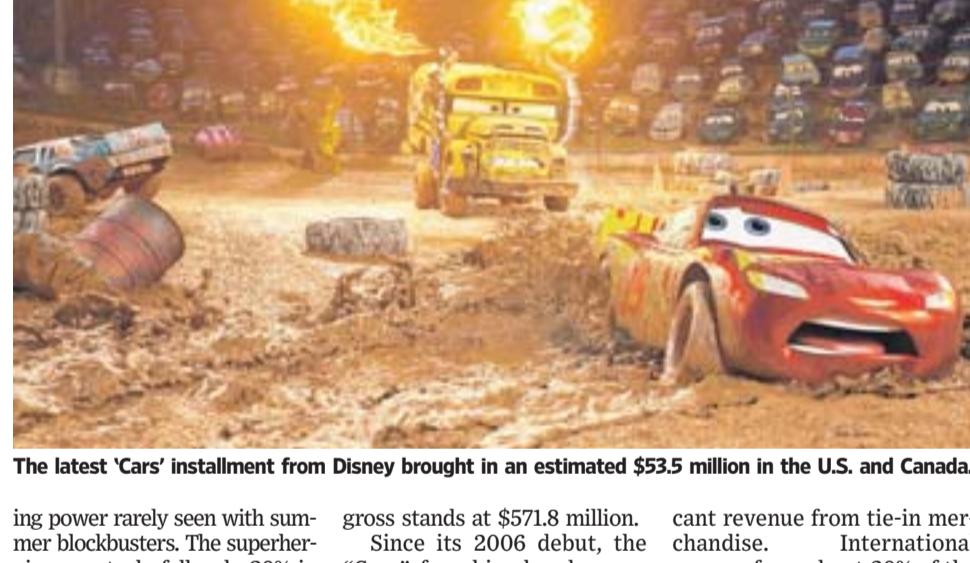
BY ERICH SCHWARTZEL

Walt Disney Co.'s "Cars 3" lost some horsepower but still managed to finish in first place at the box office this past weekend.

"Cars 3" collected an estimated \$53.5 million in the U.S. and Canada, among the lowest debuts for a Pixar Animation Studio release. The original "Cars" opened to \$60 million in 2006, and its sequel grossed \$66 million over its first weekend in 2011.

A bevy of other new releases hit screens, and the results came in all over the board. Only "All Eyez on Me," a biopic about slain rapper Tupac Shakur, was a bona fide hit. It collected a healthy \$27.1 million in third place, a solid start for a movie with a budget slightly north of \$30 million.

It still wasn't enough to overtake holdover "Wonder Woman," which continues to draw in audiences with a stay-



The latest 'Cars' installment from Disney brought in an estimated \$53.5 million in the U.S. and Canada.

ing power rarely seen with summer blockbusters. The superheroine spectacle fell only 30% in its third week, grossing \$40.8 million for a hit three-week total of \$274.6 million. Its world-wide

gross stands at \$571.8 million. Since its 2006 debut, the "Cars" franchise has become an important moneymaker for Disney and Pixar beyond the box office, drawing in signifi-

cant revenue from tie-in merchandise. International grosses from about 20% of the overseas marketplace brought in an additional \$21.3 million.

The latest "Cars" install-

#### Estimated Box-Office Figures, Through Sunday

| FILM              | DISTRIBUTOR           | SALES, IN MILLIONS   |            |          |
|-------------------|-----------------------|----------------------|------------|----------|
|                   |                       | WEEKEND <sup>*</sup> | CUMULATIVE | % CHANGE |
| 1. Cars 3         | Disney                | \$53.5               | \$53.5     | --       |
| 2. Wonder Woman   | Warner Bros.          | \$40.8               | \$274.6    | -30%     |
| 3. All Eyez on Me | Lions Gate            | \$27.1               | \$27.1     | --       |
| 4. The Mummy      | Universal             | \$13.9               | \$56.5     | -56%     |
| 5. 47 Meters Down | Entertainment Studios | \$11.5               | \$11.5     | --       |

<sup>\*</sup>Friday, Saturday and Sunday Source: comScore

ment features the voice cast of Owen Wilson and Cristela Alonzo, whose character attracted more girls and Hispanic moviegoers than previous installments, said Dave Hollis, Disney's distribution chief.

"That response is going to fuel a big summer," said Mr. Hollis, adding that most Pixar releases draw in audiences in subsequent weekends at a rate that should put the movie's ultimate domestic gross in the

\$180 million range.

"All Eyez on Me," hitting theaters on what would have been the "Dear Mama" rapper's 46th birthday, was marketed and released by the Codeblack Films unit of Lions Gate Entertainment Corp. The movie was produced and financed by Morgan Creek Productions. Entertainment Studios' "47 Meters Down," a giant-shark thriller starring Mandy Moore, collected an underwhelming \$11.5 million.

## México EXCEEDS EXPECTATIONS

### OUR COUNTRY IS THE 8<sup>TH</sup> MOST ATTRACTIVE INVESTMENT DESTINATION IN THE WORLD



# GM Puts Mapping Effort Into High Gear

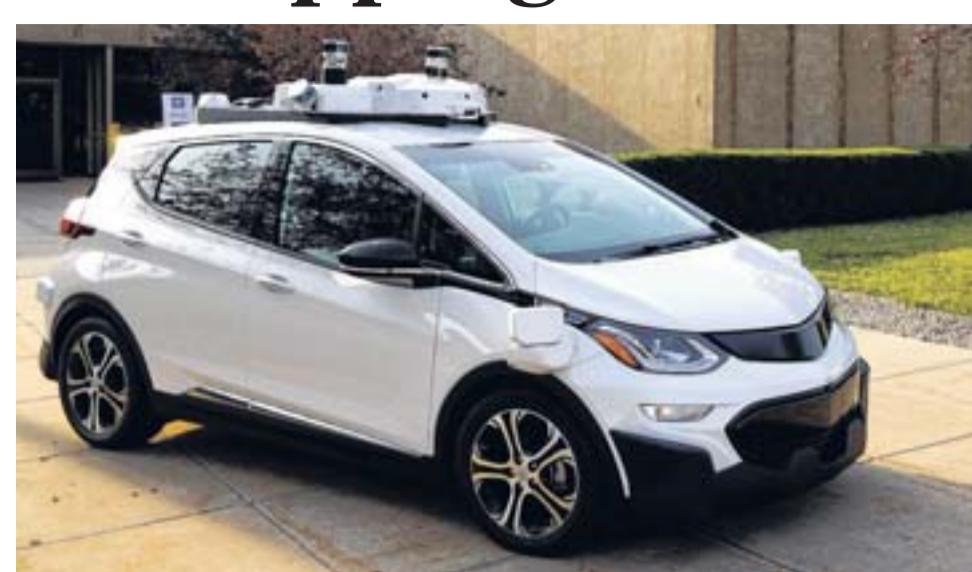
Cruise unit joins race to overtake Google in development of self-driving cars

By TIM HIGGINS  
AND MIKE COLIAS

A small autonomous-cars company owned by General Motors Co. is getting into the high-definition mapping business, a move that could help the Detroit auto giant compete with Google and others in the race to develop self-driving vehicles.

Cruise Automation, the San Francisco startup GM bought last year, is recruiting a leader for a fledgling mapping unit, according to the company's website. The role involves overseeing a fleet of mapping vehicles, collection of data needed to lower dependence on human drivers and the creation of "processes that will eventually scale mapping to 100+ cities."

The move is part of an aggressive expansion of Cruise, which GM acquired to help it combat Alphabet Inc.'s Google car project and other Silicon



ERIC SEALS/STILLS/ZUMA PRESS

GM is battling attempts by tech firms to enter the auto business. A Chevrolet Bolt EV test vehicle.

Valley companies looking to edge in on the auto business.

Cruise is also recruiting a head of mergers and acquisitions charged with scouting out potential investments. The M&A leader will look for business targets as well as "acqui-hire opportunities," a Silicon Valley term for recruiting talent.

A GM spokesman, authorized to speak for Cruise, declined to comment on the moves.

Currently employing more than 150 people, Cruise has seen rapid growth since GM acquired it in 2016. A new San Francisco headquarters being constructed for Cruise could add 1,100 employees over five years.

GM is the No. 1 U.S. car seller, but is far behind Google's mapping efforts.

Google's car project, now called Waymo, is expected to be a beneficiary of the tech giant's solid position in high-definition maps. The mapping advantage has given Alphabet's various business units an advantage over Apple Inc. and other companies competing in other business sectors.

GM ultimately may have an advantage that Google didn't when its map program began years ago: a fleet of cars on the road. Last year, GM announced it would explore with Mobileye the use of real-time data taken from the auto maker's OnStar system to create the kinds of maps required for self-driving cars.

GM's test fleet could grow to around 300 in coming months, according to a person with familiar with the company's plans.

Corp.'s mapping service in 2015 for more than \$3 billion. Intel Corp., eager to catch up with competitor Nvidia in the autonomous-car market, announced a deal earlier this year to acquire a 15% stake in the map company as well. Intel is in the process of closing its \$15 billion purchase of Mobileye NV, an Israeli supplier of cameras and software for autonomous driving functions.

Keeping pace with Google has proven difficult. When Apple tried to catch up with Google with its own maps, it stumbled out of the gate with a glitchy product that Chief Executive Tim Cook ultimately ended up apologizing for to users in 2012. Apple spent years trying to improve its maps.

Uber Technologies Inc. also has been working on maps, especially after it became increasingly concerned about the threat of Google's self-driving robot taxis.

GM's test fleet could grow to around 300 in coming months, according to a person with familiar with the company's plans.

GM is also working to expand Cruise's specialized test fleet, with Chief Executive Mary Barra saying last week that Cruise will have about 180 electric Chevrolet Bolts within a few months, up from 50. The company has been testing the cars in San Francisco, Scottsdale, Ariz., and near GM's headquarters in southeast Michigan.

"We do see a gain in the middle of the market between the single aisles and the twin-aisle" planes, Kevin McAllister told reporters on the eve of the Paris Air Show, the aerospace industry's biggest gathering this year where plane makers and their suppliers hobnob with customers. Mr. McAllister said demand for such a plane could be as many as 4,000 aircraft.

The company also might take a new approach to how planes are put together.

For much of the year, Boeing Co. and Airbus SE, the world's top two jetliner makers, have warned investors that orders for new planes could decline this year.

But they have said that airline customers generally still want plenty of new aircraft and there is no danger production plans—key to earnings—are in jeopardy.

"We are anxious what the results are and whether they consider the market is there," Mr. McCormick said.

For industry watchers, the event will go some way in determining whether the recent orders slowdown is sim-

## Boeing Expects Strong Demand For Possible Jet

By ROBERT WALL

PARIS—Boeing Co.'s commercial airplane boss sees big market potential for a new jetliner the company has been studying but still wants more time before committing billions of dollars to the project.

The decision is among the most closely watched in the aerospace industry by airplane buyers, Boeing suppliers and rival Airbus SE. Boeing, in the process, might revamp how it builds and sells planes.

"We do have a lot of customers very interested in the aircraft," Mr. McAllister said.

The larger, brand-new plane would be aimed at flying trans-continental U.S. routes.

Other potential uses include servicing trans-Atlantic city pairs that don't warrant a big plane, such as Washington to Prague.

Mr. McAllister said that the model under study could be sold with a greater focus on services.

Boeing also might rebalance the plane parts it builds itself rather than purchasing from suppliers.

The company also might take a new approach to how planes are put together.

Customers are eager for Boeing to make a decision.

"Our focus right now is: can we put together a business plan that makes sense," he said, adding, "I'd rather take the time to do it right."

Boeing already has spent about three years talking to 57 potential customers about the prospective plane design. It would seat more than 200 passengers and be sized between Boeing's workhorse 737

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For industry watchers, the event will go some way in determining whether the recent orders slowdown is sim-



Among jetliners featured at the air show this week in Paris is an E190-E2 plane made by the Brazilian aerospace company Embraer.

## Jetliner Makers Jostle for Sales

By ROBERT WALL  
AND DOUG CAMERON

recent blistering pace of new purchases.

They have a chance to prove that this week, as top aerospace executives, suppliers and airline buyers converge here for the Paris Air Show, which kicks off Monday.

Over crossants and foie gras at Le Bourget Airport north of the French capital, Boeing and smaller rivals will jostle for sales in what is typically the best opportunity of the year to announce new orders.

For industry watchers, the event will go some way in determining whether the recent orders slowdown is sim-

ply a cooling-off period amid years of supercharged growth, or something more worrisome. Few, however, are anticipating a sudden turnaround.

"We expect a quiet show on the order front," said Ken Herbert, an analyst at Canaccord Genuity. In particular, Middle East airline buyers and plane lessors that drove deals at recent shows have largely filled their appetite, Mr. Herbert said.

In the first five months of the year, Airbus has secured 73 net orders, compared with 162 deals signed for the comparable period a year earlier.

Airbus says it expects plane deliveries to outpace new order bookings this year—the first time that has happened since 2009.

Boeing has done better. The Chicago-based plane maker has secured 176 net commercial jetliner orders as of June 13, 10 more than the same period last year.

Airbus and Boeing are expected to announce deals for as many as 680 jets in Paris, estimates consultant Deloitte.

The is down 10% from the 2015 Paris Air Show.

Paris alternates with Farnborough, England, as the host of the annual aviation event.

## Airlines Brace for Enhanced Security

By SUSAN CAREY  
AND ROBERT WALL



Airline passengers in Istanbul. A U.S. laptops measure could affect as many as 150,000 flights.

As the U.S. considers expanding a ban of carry-on laptops on international flights, airlines are scrambling to prepare for what would be additional security checks and probably angry customers.

The most likely measure would be secondary airport checkpoints to temporarily confiscate most electronic devices from passengers.

Those could lead to longer lines, delayed flights and higher costs,

and could be the industry's biggest logistical challenge since 2006, when a suspected bomb plot against trans-Atlantic flights led to limits on liquids and gels on board, say aviation experts.

On occasion, business leaders have prompted an about-face from Mr. Trump. During the campaign, he vowed to shut down the Export-Import Bank, calling its financing unnecessary. But he softened after a conversation with Boeing Co. CEO Dennis Muilenburg, according to people familiar with the matter.

In any case, airlines are trying to prepare contingency plans for what could be as many as 150,000 flights affected if the ban goes global, based on travel scheduled for June, according to OAG Aviation Worldwide Ltd.

Secondary checks to seize devices and check them in aircraft cargo holds would add to increasingly cumbersome airport-security procedures.

For instance, many fliers

mains uncertain and talks between Homeland Security and airports, airlines and European Union officials continue.

Mr. Kelly recently suggested a ban could affect all international flights to the U.S., though earlier discussions involved just flights from Europe. There is even a possibility some airports won't be affected if they meet increased security standards being developed by DHS, Mr. Kelly said.

At a meeting in Malta last week, U.S. Attorney General Jeff Sessions and Deputy DHS Secretary Elaine Duke presented their European counterparts with a list of extra security measures including random testing for explosives.

The timing of any ban re-

bound for the U.S. make connections through European airports from countries that don't ban carry-on laptops in cabins, so those devices would be removed at secondary checkpoints before passengers board U.S.-bound flights.

Airports in Europe, including London Heathrow as well as facilities in Amsterdam, Barcelona, Madrid and Edinburgh, are pursuing plans to segregate U.S.-bound flights at gates behind secondary screening points, said a U.S. airline official. But the layout of airports including Athens, Rome and Venice would require secondary screening at each gate, the official said.

The presence of the newcomers enclaved in a dedicated meeting hall where they plan to make serial pitches to established players increasingly are looking to find innovation from such startups.

From manufacturing breakthroughs to new designs, the startups offer industry leaders different ways of looking at technology or operations.

"We are just at the beginning of a new wave," said François Chopard, the founder and chief executive of Starburst Accelerator, which started operating some five years ago and is organizing the event. "It's almost an exponential trend, because so many more entrepreneurs than before want to enter into

the incubator to join forces with NASA or the Pentagon's advanced research arm to find a government outlet for some of its innovative concepts. Three months ago, Starburst hosted a smaller pitch session in Southern California, the home of many space startups.

The next step may be for the incubator to join forces with NASA or the Pentagon's advanced research arm to find a government outlet for some of its innovative concepts.

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## TRUMP

Continued from page B1  
scribe a president who absorbs information from the valley of conversation rather than from dense briefing binders.

"He's a business guy, so he's in his element," said James Kamsickas, CEO of automotive supplier Dana Inc. and a member of Mr. Trump's manufacturing-jobs council.

The White House sent participants a memo laying out Monday's agenda. An early draft solicited ideas for making government "operate like a modern technology enterprise."

"We're 10 to 20 years be-

hind in a lot of technology," said Chris Liddell, a former chief financial officer at General Motors Co. and Microsoft who helps manage the White House's business relationships.

Executives expected to attend Monday's session include heads of Amazon.com Inc., Apple, Microsoft and Google parent Alphabet Inc.

Nobly absent will be Tesla Inc.'s CEO, Elon Musk, who attended a similar leadership roundtable at Trump Tower in December. Mr. Liddell said in an interview with the White Wing office.

Upon his arrival at the White House, Mr. Liddell said, he was surprised to learn that various federal agencies still had the computer-programming language known as Cobol. Mr. Liddell said he first

learned the language in the 1970s as an engineering student. "It's that old!" a White House aide said.

Most business leaders say they remain committed to advising the president and see the sessions as a way to learn how Mr. Trump ticks. Though he campaigned on his success as a businessman, Mr. Trump wasn't well known to most CEOs outside New York before his election.

Another factor keeping CEOs at the table: the narrowing window many see for legislating policies to boost competitiveness, particularly on corporate taxes.

"There's a real priority to get that done while there's [Republican] alignment in Congress and the White

House," said Kathryn Wyde, president and chief executive of the business group Partnership for New York City, who led some 50 CEOs to Pennsylvania Avenue in April.

Right now, "the issues at stake are just too important to withdraw from the conversation."

There have been disappointments. At the meeting with the New York CEOs, Mr. Trump acknowledged their concerns about any tax-reform bill that eliminated state and local-tax deductions, a painful prospect for New York and other states with high taxes.

"We're all lucky that I'm from New York because in some ways New York has unique problems," he told

them. Yet, when the White House presented the first rough outline of its tax proposal a few weeks later, it called for taking away the deductions.

On occasion, business leaders have prompted an about-face from Mr. Trump. During the campaign, he vowed to shut down the Export-Import Bank, calling its financing unnecessary. But he softened after a conversation with Boeing Co. CEO Dennis Muilenburg, according to people familiar with the matter.

In any case, airlines are trying to prepare contingency plans for what could be as many as 150,000 flights affected if the ban goes global, based on travel scheduled for June, according to OAG Aviation Worldwide Ltd.

Secondary checks to seize devices and check them in aircraft cargo holds would add to increasingly cumbersome airport-security procedures.

For instance, many fliers

## 2017. A year of growth

### Seven major project start-ups in 2017

## CLOSED-END FUNDS

Listed are the 300 largest closed-end funds as measured by assets. Closed-end funds sell a limited number of shares and invest the proceeds in securities. Unlike open-end funds, closed-ends generally do not buy their shares back from investors. Who would care? Not many. Most fund managers are on a seek-exclude basis.

a-The NAV and market price are ex-dividend. b-The NAV is fully diluted. c-NAV is as of Thursday's close. d-NAV is as of Wednesday's close. e-NAV assumes rights offering is fully subscribed. f-Rights offering in process. g-Rights offering announced. h-Lipper data has been adjusted for rights offering. i-Rights offering has expired, but Lipper data not yet adjusted. j-NAV as of previous day. o-Tender offer in process. v-NAV is converted at the commercial rate. w-Convertible Note-NAV (notional value). y-NAV and month-end are in Canadian dollars. z-NAV and month-end are in Canadian dollars. AA-NAV and month-end are in Canadian dollars. NAV indicates that the information is not available or not applicable. NS signifies fund not in existence during period.

12-month yield is computed by dividing income dividends paid (during the previous twelve months) for periods ending at month-end or during the previous fifty-two weeks for periods ending at any time other than month-end) by the latest monthly market price adjusted for capital gains distributions.

Source: Lipper

Friday, June 16, 2017

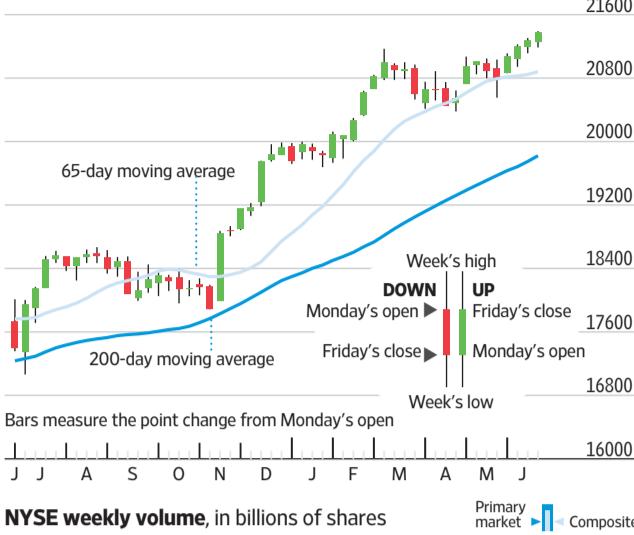
| Fund (SYM)  | NAV   | Prem  | Ttl |
|---|-------|-------|-----|
|   | Close | /Disc | Ret |
| <b>General Equity Funds</b>                                 |       |       |     |
| Adams Divers Equity Fd <b>ADX</b> 16.96 14.31 -15.6 23.2    |       |       |     |
| Boulder Growth & Income <b>BIF</b> 11.64 9.61 -17.4 32.0    |       |       |     |
| Central Securities <b>CET</b> 30.03 24.88 -11.9 32.0        |       |       |     |
| CohSteer Opprty Fd <b>FOF</b> 13.78 12.90 -6.6 22.8         |       |       |     |
| Cornerstone Strategic <b>CLM</b> 13.20 14.65 +11.0 14.8     |       |       |     |
| EtnVnc TaxAdvDiv <b>EV</b> 22.60 19.94 -2.9 18.2            |       |       |     |
| Gabelli Dividend & Incm <b>GDV</b> 23.41 21.98 -6.1 24.1    |       |       |     |
| Gabelli Equity Trust <b>GAB</b> 6.23 6.13 -1.6 24.6         |       |       |     |
| Gen American Investors <b>GAM</b> 40.48 33.94 -16.2 22.6    |       |       |     |
| Hnck John TxAdv <b>HTD</b> 26.79 25.48 -4.9 13.7            |       |       |     |
| Liberty All-Star Equity USA <b>LSA</b> 6.51 5.61 -13.8 24.5 |       |       |     |
| Royce Micro-Cap <b>RMT</b> 9.63 8.55 -11.2 26.1             |       |       |     |
| Royce Value Trust <b>RVT</b> 16.22 14.36 -11.5 31.2         |       |       |     |
| Source Capital <b>SOR</b> 43.03 38.43 -10.7 9.1             |       |       |     |
| Tri-Continental TXAdv <b>TCX</b> 27.57 24.09 -12.6 24.7     |       |       |     |
| <b>Specialized Equity Funds</b>                             |       |       |     |
| ChreClaronGblRtEstimc <b>CBRE</b> 8.90 7.79 -12.5 5.9       |       |       |     |
| Ct Coast MLP & Infr Fd <b>CTC</b> 25.57 23.75 -7.1 22.4     |       |       |     |
| Ct Steers & Mlp Fd <b>CSL</b> 10.37 10.56 -6.5 20.4         |       |       |     |
| Ct Steers & Mlp Fd <b>CSO</b> 10.37 11.52 -12.3 13.4        |       |       |     |
| Ct Steers & Mlp Fd <b>CTP</b> 20.40 21.04 +3.1 42.0         |       |       |     |
| Ct Steers & Mlp Fd <b>CTR</b> 12.59 10.7                    |       |       |     |
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| Ct Steers & Mlp Fd <b>UTF</b> 25.57 23.75 -7.1 22.4         |       |       |     |
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| Ct Steers & Mlp Fd <b>YTM</b> 10.41 9.52 -8.5 20.4          |       |       |     |
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| Ct Steers & Mlp Fd <b>YTM</b> 10.41 9.52 -8.5 20.4          |       |       |     |
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| Ct Steers & Mlp Fd <b>YTD</b> 10.41 9.52 -8.5 20.4          |       |       |     |
| Ct Steers & Mlp Fd <b>YTM</b> 10.41 9.52 -8.5 20.4          |       |       |     |
| Ct Steers & Mlp Fd <b>YTF</b> 10.41 9.52 -8.5 20.4          |       |       |     |
| Ct Steers & Mlp Fd <b>YTD</b> 10.41 9.52 -8                 |       |       |     |

## MARKETS DIGEST

### Dow Jones Industrial Average

**21384.28** ▲ 112.31, or 0.53% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 20.81 18.84  
P/E estimate \* 18.10 16.94  
Dividend yield 2.33 2.62  
All-time high 21384.28, 06/16/17

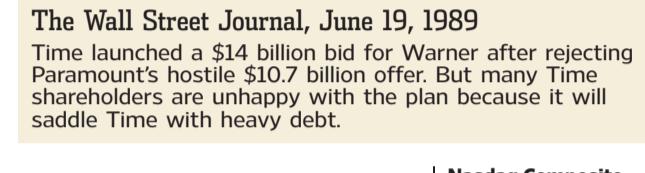


Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

### S&P 500 Index

**2433.15** ▲ 1.38, or 0.06% last week  
High, low, open and close for each of the past 52 weeks

Trailing P/E ratio 24.09 23.85  
P/E estimate \* 18.75 17.87  
Dividend yield 1.95 2.19  
All-time high: 2440.35, 06/13/17



### Financial Flashback

The Wall Street Journal, June 19, 1989

Time launched a \$14 billion bid for Warner after rejecting Paramount's hostile \$10.7 billion offer. But many Time shareholders are unhappy with the plan because it will saddle Time with heavy debt.

### New to the Market

#### Public Offerings of Stock

##### IPOs in the U.S. Market

Initial public offerings of stock expected this week; might include some offerings, U.S. and foreign, open to institutional investors only via the Rule 144a market; deal amounts are for the U.S. market only

| Expected pricing date | Filed        | Issuer/business  | Symbol/<br>primary<br>exchange | Shares<br>(mil.) | Pricing<br>Range(\$)<br>Low/High | Through<br>Bookrunner(s)                            |
|-----------------------|--------------|--|--------------------------------|------------------|----------------------------------|---|
| 6/19                  | 4/28         | Avenue Therapeutics<br>Pharmaceutical company developing an intravenous formulation of tramadol HCl. | ATXI<br>Nq                     | 5.0              | 9.00/<br>11.00                   | Raymond James & Assoc                               |
| 6/19                  | 2/6          | SG Blocks<br>Provider of code engineered cargo shipping containers.                                  | SGBX<br>Nq                     | 2.2              | 5.00/<br>6.00                    | Joseph Gunnar & Co                                  |
| 6/21                  | 10/5<br>2016 | Mota Group<br>Manufacturer of recreational and commercial drones.                                    | MOTA<br>Nq                     | 0.7              | 9.99/<br>9.99                    | Joseph Gunnar & Co,<br>Lee Equity Prtnrs            |
| 6/21                  | 4/10         | Safety Income & Growth<br>Real estate investment trust engaged in ground net lease.                  | SAFE<br>N                      | 10.3             | 19.00/<br>21.00                  | BofA ML, JPM, Barclays, Citi, Raymond James & Assoc |
| 6/22                  | 4/11         | Altice USA<br>Multinational cable and telecommunications company.                                    | ATUS<br>N                      | 46.6             | 27.00/<br>31.00                  | JPM, MS, Citi, BNP Paribas, Credit Agricole CIB, DB |
| 6/22                  | 5/24         | Four Springs Capital Trust<br>Real Estate Investment Trust.  | FSPR<br>A                      | 5.6              | 17.00/<br>19.00                  | RBC Cptl Mkts, SunTrust                             |
| 6/22                  | 5/24         | Granite Point Mortgage Trust<br>Real Estate Investment Trust.  | GPMT<br>N                      | 10.0             | 20.00/<br>21.00                  | JPM, MS, Citi, BofA ML                              |

### Lockup Expirations

Below, companies whose officers and other insiders will become eligible to sell shares in their newly public companies for the first time. Such sales can move the stock's price.

| Lockup expiration | Issue date   | Issuer               | Offer symbol | Offer price(\$) | Offer amt (\$ mil.) | Through Friday (%) | Lockup provision |
|-------------------|--------------|----------------------|--------------|-----------------|---------------------|--------------------|------------------|
| June 21           | Dec. 23, '16 | Hebron Technology Co | HEBT         | 4.00            | n.a.                | -17.3              | 180 days         |

Sources: Dealogic; WSJ Market Data Group

### Nasdaq Composite

**▼ 56.16, or -0.90%**

last week



### DJ US TSM

**▼ 6.04, or -0.02%**

last week



### IPO Scorecard

Performance of IPOs, most-recent listed first

| Company SYMBOL                                      | IPO date/Offer price | % Chg From Friday's close (\$) | Offer price (\$) | 1st-day close | Company SYMBOL                                     | IPO date/Offer price | % Chg From Friday's close (\$) | Offer price (\$) | 1st-day close |
|---|----------------------|--------------------------------|------------------|---------------|--|----------------------|--------------------------------|------------------|---------------|
| Boston Omaha <b>BOMN</b> June 16/\$13.00            | 13.20                | 1.5                            | ...              |               | Appian <b>APPN</b> May 25/\$12.00                  | 18.22                | 51.8                           | 21.4             |               |
| Athenex <b>ATNX</b> June 14/\$11.00                 | 13.89                | 26.3                           | 10.6             |               | WideOpenWest <b>WOW</b> May 25/\$17.00             | 17.59                | 3.5                            | 6.6              |               |
| Plymouth Industrial REIT <b>PLYM</b> June 9/\$19.00 | 18.44                | -2.9                           | 0.3              |               | SMART Global Hdgs <b>SGH</b> May 24/\$11.00        | 15.30                | 39.1                           | 13.8             |               |
| ShotSpotter <b>STSI</b> June 7/\$11.00              | 13.74                | 24.9                           | -4.5             |               | argenx <b>ARGX</b> May 18/\$17.00                  | 20.98                | 23.4                           | -8.8             |               |
| KBL Merger IV <b>KBLMU</b> June 1/\$10.00           | 10.01                | 0.1                            | 0.1              |               | Bright Scholar Edu Hdgs <b>BEDU</b> May 18/\$10.50 | 12.00                | 14.3                           | -10.4            |               |

Sources: WSJ Market Data Group; FactSet Research Systems

### Other Stock Offerings

Secondaries and follow-ons expected this week in the U.S. market

None expected this week

### Off the Shelf

"Shelf registrations" allow a company to prepare a stock or bond for sale, without selling the whole issue at once. Corporations sell as conditions become favorable over the last week:

| Issuer/Industry  | Takedown date/Registration date | Deal value (\$ mil.) | Registration (mil.) | Bookrunner(s)                               |
|--|---------------------------------|----------------------|---------------------|---|
| <b>Five Oaks Investment</b><br>Real Estate/Property          | June 16<br>Dec. 21/16           | \$18.4               | \$750.0             | JMP Securities                              |
| <b>Loxo Oncology</b><br>Healthcare                           | June 14<br>June 13/17           | \$226.8              | ...                 | MS, Cowen & Co, Citi                        |
| <b>Pacific Biosciences of California</b><br>Healthcare       | June 14<br>Nov. 5/14            | \$47.8               | \$150.0             | Cantor Fitzgerald & Co                      |
| <b>Lanthus Holdings</b><br>Healthcare                        | June 14<br>Dec. 12/16           | \$45.8               | \$291.5             | Credit Suisse, Cantor Fitzgerald & Co       |
| <b>Adesto Technologies</b><br>Technology                     | June 14<br>April 5/17           | \$17.5               | \$20.0              | Needham & Co                                |
| <b>Sequans Communications</b><br>Technology                  | June 14<br>Sept. 15/14          | \$14.3               | \$50.0              | Canaccord Genuity                           |
| <b>Agree Realty</b><br>Real Estate/Property                  | June 13<br>June 2/17            | \$112.7              | ...                 | Raymond James & Assoc, WFS, Citi, Jefferies |
| <b>GenMark Diagnostics</b><br>Healthcare                     | June 13<br>June 14/16           | \$86.3               | \$125.0             | JPM, BofA ML                                |
| <b>Banco Macro</b><br>Finance                                | June 12<br>May 26/17            | \$666.1              | ...                 | GS, BofA ML, Macro Securities               |
| <b>First Industrial Realty Trust</b><br>Real Estate/Property | June 12<br>March 14/17          | \$75.5               | \$1,500.0           | UBS   |

### Public and Private Borrowing

#### Treasuries

Monday, June 19

Tuesday, June 20  
Auction of 13 week bill; announced on June 15; settles on June 22

Auction of 26 week bill; announced on June 15; settles on June 22

Auction of four week bill; announced on June 19; settles on June 22

Thursday, June 22  
Auction of 30 year TIPS; announced on June 15; settles on June 30

### Public and Municipal Finance

Deals of \$150 million or more expected this week

| Total (\$ mil.) | Rating Fitch Moody's | S&P  | Bookrunner/Bond Counsel(s)                          |
|-----------------|----------------------|------|---|
| 273.5           | N.R.                 | N.R. | Preliminary/Gray & Pannell LLP                      |
| 950.0           | N.R.                 | N.R. | Preliminary/Gray & Pannell LLP                      |
| 784.9           | AA+                  | Aa1  | AA Preliminary/Mintz Levin Cohn Ferris              |
| 700.0           | N.R.                 | N.R. | Preliminary/Nixon Peabody LLP/D Seaton & Associates |
| 250.0           | N.R.                 | N.R. | Preliminary/Norton Rose Fulbright                   |
| 397.1           | AA                   | Aa2  | AA Preliminary/Orrick H&S                           |
| 551.5           | N.R.                 | Aa1  | AAA Citi/-  |
| 175.7           | N.R.                 | N.R. | George K Baum & Company Inc/-                       |
| 442.1           | N.R.                 | N.R. | N.R. M. Stanley/-                                   |
| 278.0           | N.R.                 | N.R. | N.R. BoA Merrill/-                                  |
| 159.9           | N.R.                 | N.R. | N.R. Piper Jaffray/-                                |
| 825.5           | N.R.                 | N.R. | A Loop Capital Markets/-                            |
| 395.9           | N.R.                 | N.R. | N.R. J.P. Morgan Securities LLC/-                   |
| 850.0           | N.R.                 | N.R. | N.R. Loop Capital Markets/-                         |
| 188.0           | N.R.                 | N.R. | N.R. Citi/-   |

Tuesday, June 20  
Auction of 52 week bill; announced on June 15; settles on June 22

Auction of four week bill; announced on June 19; settles on June 22

Auction of 26 week bill; announced on June 15; settles on June 22

Auction of four week bill; announced on June 19; settles on June 22

Thursday, June 22  
Auction of 30 year TIPS; announced on June 15; settles on June 30

Deals of \$150 million or more expected this week

| Total (\$ mil.) | Rating Fitch Moody's | S&P | Bookrunner/Bond Counsel(s) |
| --- | --- | --- | --- |




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## MONEY &amp; INVESTING

# Bots Grow More Socially Responsible

Firms offer millennials services that appeal to their ethical values and automate choices

BY ANNE TERGESEN

As the millennial investor comes of age, two youthful trends are converging: socially responsible investing and robo-advisory services.

Over the past year, a small but growing number of firms have introduced automated—or robo—investment services that include socially responsible investments. Driving the interest is a desire on the part of individuals to spend and invest in ways that are consistent with their values. Data also show that socially responsible investments can outperform over the long run; since 1990, the MSCI KLD 400 Social Index has returned an average of 8.4% a year, versus 7.6% for the S&P 500 index.

"There is a fair amount of evidence from investor surveys that millennials and women are especially interested in sustainable and impact investing," says Jon Hale, director of sustainability-investing research at Morningstar Inc. Given that millennials are also the target market for many robo-advisory services, "it seems like a natural combination."

Investing giant TIAA was the latest to jump in with such an offering, launching earlier this month a robo platform with access to three types of investments: actively managed funds, index funds and socially responsible investments. This summer, robo pioneer Betterment LLC plans to introduce investments "that will better meet the needs of customers seeking a more socially responsible portfolio," says



MIKE BLAKE/REUTERS

Socially responsible funds proactively seek companies that, for example, use renewable energy.

## A Sample of Five Automated Services

Most established robo-advisory services have little to no socially responsible investment options. But more companies, including the five below, have automated investment services that focus entirely or partly on socially responsible investing.

**EARTH FOLIO**  
**Launched:** Available now but plans to launch widely in January  
**Fees:** 0.5%, plus underlying fund expenses  
**Investment minimum:** \$25,000

spokesman Joe Ziener. And Morgan Stanley said that its robo, planned for this fall, will include socially responsible investment options.

The new services are part of

**Special feature:** Plans to let users do their own impact investing in areas they want to focus on.

**OPENINVEST**  
**Launched:** September 2016  
**Fees:** 0.5%  
**Investment minimum:** \$3,000  
**Special feature:** Investors own diversified portfolios of stocks, rather than funds

**PROPHETIC IMPACT**  
**Launched:** Jan. 1  
**Fees:** 0.6%, plus the underlying investment fees  
**Investment minimum:** \$5,000  
**Special feature:** human advisers are planned

**TIAA**  
**Launched:** June 6  
**Fees:** 0.3%, plus underlying investment fees

**Minimum investment:** \$5,000  
**Special feature:** access to advisors; offers passive, active and socially responsible portfolios

**WEALTHSIMPLE**  
**Launched:** January in the U.S.; earlier in Canada  
**Fees:** free for accounts up to \$5,000; 0.5% for portfolios up to \$100,000; 0.4% above that, plus underlying fund fees  
**Minimum investment:** none  
**Special feature:** access to advisors is included

—Anne Tergesen

a trend toward specialization among robo advisers, says Sean McDermott, a project manager at consulting firm Corporate Insight Inc. "Every major financial-services firm

has either launched a robo or has announced plans to do so. The big firms have advantages, including trusted brand names and bigger marketing budgets," he says. "The startups

are trying to carve out a niche to differentiate themselves."

Other startups are targeting specific segments of the population, including women, Hispanics and Muslims, or offering actively managed investments in contrast to the index funds that have been standard fare for robos.

As with robos including **Wealthfront** Inc. and Betterment, the new socially responsible offerings start by asking prospective clients to fill out a risk-tolerance questionnaire.

An investor's answers determine which of several portfolios a service recommends. The services generally offer periodic rebalancing of investments to adhere to an investor's desired asset allocation and tax-loss harvesting, a strategy of selling investments that have gone down in price to book losses that may offset taxable gains on other holdings.

Some also give investors the option to contact an adviser. TIAA, for example, includes financial advice in the 0.3%-of-assets fee for its new service, dubbed Personal Portfolio. If a client has complex planning needs, TIAA consultants can "create a plan at no additional charge and with no obligation," says a spokeswoman. Other services, in contrast, are fully automated or simply provide help-desk assistance on the mechanics of opening the account.

Despite the head start of startups including Betterment and Wealthfront, the robo field is now dominated by traditional financial-services companies. The two biggest players are **Vanguard Group**, which had \$65 billion in assets in its Personal Advisor Services as of March 31, and **Charles Schwab Corp.**, with \$16 billion in its Intelligent Portfolios service. Vanguard

currently offers one socially responsible fund within its robo—the Vanguard FTSE Social Index Fund—but has no imminent plans to introduce others; Schwab has no such fund in its robos.

Before signing on, it is important to consider the fees. Many of these services charge from 0.45% to 1% or more for advisory services and investment fees. That is generally higher than the 0.3% to 0.5% that is typical of many established robo services.

It is also important to understand the investing approach.

"In the old days, socially responsible investing was mostly used by religious organizations that wanted to exclude stocks of certain companies or industries that violated their principles," including alcohol and tobacco firms, says Greg Wait, president of **Prophecy Impact Investments LLC**, a robo featuring socially responsible investing that made its debut in January.

Now, Mr. Wait says, managers of mutual funds and exchange-traded funds that take a socially responsible approach typically look for companies that "proactively adopt positive policies," such as using renewable energy, promoting women or paying above-average wages.

Most of the new robos use socially responsible ETFs and mutual funds. **Wealthsimple**, a Canadian robo-adviser that introduced a service in the U.S. in January, uses six ETFs from companies including **State Street Global Advisors**, **Invesco** Ltd., subsidiary PowerShares Capital Management LLC and **BlackRock** Inc. that favor companies that promote women, use clean technologies and demonstrate community engagement, among other factors.

## ADVERTISEMENT

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## BANKRUPTCIES

### UNITED STATES BANKRUPTCY COURT SOUTHERN DISTRICT OF NEW YORK

In re:  
**SUNEDISON, INC., et al.**  
Chapter 11  
) Case No. 16-10992 (SMB)  
(Jointly Administered)

### NOTICE OF HEARING TO CONFIRMATION OF, AND DEADLINE FOR OBJECTING TO, THE AMENDED JOINT PLAN OF REORGANIZATION OF SUNEDISON, INC. AND ITS DEBTOR AFFILIATES

#### PLEASE TAKE NOTICE OF THE FOLLOWING:

1. **CHAPTER 11 CASES.** Beginning on April 21, 2016, SunEdison, Inc. and certain of its affiliates, the debtors and debtors in possession in the above-captioned cases (collectively, the "Debtors") filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). By order of the Bankruptcy Court, the cases are being jointly administered for procedural purposes under Case No. 16-10992.

2. **APPROVAL OF DISCLOSURE STATEMENT.** On June 12, 2017, the Debtors filed the proposed First Amended Disclosure Statement for the First Amended Joint Plan of Reorganization of SunEdison, Inc. and Its Debtor Affiliates dated June 12, 2017 [Docket No. 3314] (including all exhibits and supplements thereto, the "Disclosure Statement"), and the First Amended Joint Plan of Reorganization of SunEdison, Inc. and Its Debtor Affiliates, dated June 12, 2017, attached as Exhibit A to the Disclosure Statement (as may be amended, modified, or supplemented from time to time and including all exhibits and supplements thereto, the "Plan"). By order dated June 13, 2017 [Docket No. 3319] (the "Disclosure Statement Approval Order"), the Bankruptcy Court approved (i) the adequacy of the Disclosure Statement for the Debtors' Plan; (ii) certain key dates relating to confirmation of the Plan, (iii) procedures for solicitation and tabulation of votes to accept or reject the Plan, (iv) forms of ballots and notices to be distributed in connection with solicitation and (v) procedures for notice of a confirmation hearing and filing objections to confirmation of the Plan.

3. **RECORD DATE FOR VOTING PURPOSES.** Only Creditors who hold Claims in Classes 1A and 1B and 4A – 4E on June 5, 2017 (the "Voting Record Date") are entitled to vote on the Plan.

4. **VOTING DEADLINE.** All votes to accept or reject the Plan must be actually received by the Claims and Solicitation Agent by no later than July 13, 2017 at 4:00 p.m. (prevailing Eastern time) (the "Voting Deadline"). All Ballots must be properly executed and deposited with the Debtors' Claims and Solicitation Agent by (a) first class mail; (b) overnight delivery; (c) personal delivery; (d) through the E-Ballot platform on the Debtors' restructuring information website (<https://cases.primeclerk.com/sunedison>) (the "Restructuring Information Website"), in each case so that they are actually received by the Claims and Solicitation Agent no later than the Voting Deadline. Any failure to follow the voting instructions included with your Ballot may disqualify your Ballot and void it.

5. **ENTITLEMENT TO VOTE ON THE PLAN.** Only Holders of Claims in the following Classes are entitled to vote to accept or reject the Plan: Classes 1A, 1B and 4A-4E.

| Class     | Description              |
|-----------|--------------------------|
| 1A and 1B | Second Lien Claims       |
| 4A-4E     | General Unsecured Claims |

Holders of Claims and Interests in the following Classes are not entitled to vote on the Plan: Classes 2A-2E, 3A-3E, 5A-5E, 6A-6E, 7B-7E, and 8A.

6. **CONFIRMATION HEARING.** A hearing to consider confirmation of the Plan ("Confirmation Hearing") will be held before the Honorable Stuart M. Bernstein, United States Bankruptcy Judge for the Southern District of New York, in the Bankruptcy Court, One Bowling Green, Courtroom 723, New York, New York 10004, on **July 20, 2017 at 10:00 a.m. (prevailing Eastern time)**, or as soon thereafter as counsel may be heard. The Confirmation Hearing may be adjourned from time to time without further notice to creditors, equity holders, or parties in interest other than by an announcement in open court or as indicated in any notice that is filed with the Bankruptcy Court, and the Plan may be further modified, if necessary prior to, during, or as a result of the Confirmation Hearing, without further notice to, parties in interest.

7. **ALLOWANCE OF CLAIMS FOR VOTING PURPOSES.** A holder of a claim not entitled to vote on the Plan pursuant to the procedures described above (or such claim "Disputed Claim") shall be permitted to vote such Claim, or to vote such Claim in an amount other than the amount set forth in the Plan, if one of the following shall have occurred with respect to such Claim at least seven (7) days prior to the Voting Deadline (the "Voting Resolution Event Deadline"): (a) an order is entered by the Bankruptcy Court allowing such Disputed Claim pursuant to Rule 3018(a) of the Bankruptcy Code, after notice and a hearing; (b) a creditor files with the Court a motion for a preliminary injunction against such Disputed Claim to prevent the Debtor from making payment on such Disputed Claim; (c) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (d) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (e) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (f) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (g) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (h) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (i) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (j) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (k) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); (l) the pending or asserted objection to the Disputed Claim is voluntarily withdrawn by the Court (each, a "Resolving Motion"); 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## MARKETS

# Investors Cool on Britain

Weak economic data and election results heighten Brexit jitters; stocks send a warning

By JON SINDREU

In Britain, a round of disappointing economic data and an inconclusive election have stoked investors' concerns about the country and its divorce from the European Union.

The U.K. is fast becoming one of global investors' least favorite places to put money.

This past week, domestically focused shares sold off after British retailers posted their slowest sales growth in almost four months for May. Meanwhile, data showed that accelerating inflation and slow wage growth are eroding spending power for the economy's all-important consumer.

The FTSE 250 index of mid-size British companies fell 2.1% Thursday, its worst day this year amid pressure from retailers. Though the index recovered Friday, fund managers said the stumble was a warning shot.

"I think U.K. equities are going to have a tough time over the next few years, specifically the retail side," said Seema Shah, global investment strategist at Principal Global Investors, a manager of \$620 billion in assets.

Meanwhile, money flowed out of U.K. funds for the eighth week in a row, figures from fund tracker EPFR Global showed Friday, with a net redemption of \$563 million. A survey by Bank of America Merrill Lynch published earlier in the week showed that the U.K. remains the least popular market for European investors.

On Monday, the U.K. will begin negotiations to exit from the EU, a process many investors believe will be bad for its economy and which may have been complicated by Prime Minister Theresa May's loss of her parliamentary majority in this month's election.

To be sure, many economists predicted a recession in 2016 if Britons voted to leave the EU, and this hasn't happened. Economic growth has since accelerated and business investment has remained resilient.

But the economy's reliance on consumers spending al-



A closed shop in Stoke-on-Trent earlier this year. British retailers have posted slow sales growth.

most all their earnings long predates Brexit and isn't diminishing. Consumer spending is responsible for 65% of the U.K. economy against an average of 55% over the EU, according to the Organization for Economic Cooperation and Development. And British consumers are sitting on large debts, raising further questions about their continued ability to power the economy.

During the fourth quarter of last year, U.K. households saved only 3.3% of their income, the lowest proportion since official records started in 1963. And household debt compared to income, while still below where it was in 2008 before the financial crisis, is predicted to grow faster over the next five years than previously expected by the Office for Budget Responsibility, the U.K.'s independent fiscal watchdog.

That is hurting stocks reliant on the British consumer. Measured in U.S. dollars, the FTSE Local U.K. index, which tracks U.K.-exposed shares, has fallen 14% since the Brexit referendum in June last year.

On Friday, sterling was trading at around \$1.28, down 15% since the Brexit vote. This has made things worse for consumers, because higher import costs push up prices.

In May, the annual rate of inflation was 2.7%, above the Bank of England's 2% target. Workers' purchasing power fell 0.6% in the three months through April.

**The U.K. remains the least popular market for Europeans, a Merrill survey found.**

"It's hard to see the trend in retail sales improving soon," said Samuel Tombs, economist at Pantheon Macroeconomics. "Retailers have not finished yet passing on higher import prices to consumers, wage growth looks set to remain depressed and banks are reporting that they intend to restrict the supply of unsecured credit."

Because this kind of infla-

tion isn't driven by stronger growth or a tighter labor market, all these concerns could boost the market for British government debt, or gilts. Yields on 10-year gilts have fallen in recent months, after hitting a peak of 1.5% in January.

On Thursday, three out of the Bank of England's eight rate setters voted to increase interest rates, surprising investors who expected a less hawkish stance. But yields edged up only a little and closed the week at 1.017%. Investors typically sell bonds when they believe there is a chance rates will rise. Bond yields move opposite to prices.

**Jim Leaviss**, a fund manager at M&G Investments, which manages £265 billion (\$338 billion) in assets, said he believes investors have been buying gilts precisely because they have been anticipating U.K. consumers' woes and the brake that would place on rate rises.

"You see it priced in because nobody expects the Bank of England to raise rates in the foreseeable future," Mr. Leaviss said.

# Oil Prices Hold To Weak Levels As Glut Persists

Oil prices inched up Friday, but still fell hard for the week, holding near their lowest levels of the year because of the lingering glut.

By Christopher Alessi,  
Jenny W. Hsu  
and Timothy Puko

Light, sweet crude for July delivery settled up 28 cents, or 0.6%, at \$44.74 a barrel on the New York Mercantile Exchange. Brent crude, the global benchmark, gained 45 cents, or 1%, to \$47.37 a barrel on ICE Futures Europe.

That wasn't enough to overcome large losses from earlier last week, leaving U.S. prices down 2.4% and global prices down

## COMMODITIES

1.6% over the last five sessions.

Both are no on four-week losing streaks, the longest for U.S. oil since December 2015 and for global oil since November.

Prices got "minimal support" Friday morning from a slightly weaker dollar and higher investor risk sentiment, according to Giovanni Staunovo, a commodity analyst at **UBS**. Bargain buyers probably also helped, as did traders who successfully bet on falling prices then closing out trades ahead of the weekend, analysts said.

"People come in and buy because they think that's a pretty low price," with U.S. oil near \$44 a barrel, said Andy Lipow, president of Lipow Oil Associates in Houston. "But in the physical market we're seeing more ominous signs."

Oil fell more than 5% in each of the past two weeks, and hit seven-month lows earlier last week. U.S. companies are drilling and producing more, and the weekly rig count from Baker Hughes Inc. reported an increase for the 22nd straight week.

That has hampered efforts led by the Organization of the Petroleum Exporting Countries to get global inventories back to their five-year average. Production cuts, which started in January, haven't yet had much success on that front, result-

ing in the output caps being extended until March. But some analysts have said that even then, supplies may still be above OPEC's goal.

"I don't think we can talk about a serious recovery," said Eugen Weinberg, head of commodity research at Commerzbank. "There is a risk of low prices going forward" because of continued oversupply and an increase in U.S. production, he added.

Mr. Weinberg said the "slight recovery" Friday morning was largely aided by speculative buying on the heels of the "messy prices fall" on Wednesday. Both Brent and West Texas Intermediate, the U.S. price setter, fell almost 4% Wednesday to their lowest levels of 2017.

"It is no shoo-in that oil's losing streak is coming to a halt. While the demand outlook is on track for a much-needed boost over the coming months, pervasive doubts over the oil market rebalancing will linger without confirmation that the supply overhang is waning," according to a note released Friday morning by PVM.

Last week, the International Energy Agency offered a grim forecast that a gusher of new supplies from the U.S. stands to keep the market well-flushed for some time.

The U.S. Energy Department echoed that sentiment on Thursday, saying that some inventory declines through summer may nudge prices higher the next few months, possibly resulting in even-higher domestic output in 2018 than anticipated.

This year's rebound in U.S. oil production and a 17% drop in prices have drawn harsh criticisms about OPEC's wisdom in implementing the output cuts. "By setting impossible objects, by promising unreachable targets, OPEC ministers only managed to further motivate U.S. producers," said Mohab Kamel, a trader at Geneva-based Magma Oil.

Stronger-than-expected production rebounds in Nigeria and Libya, two OPEC nations exempt from cutting their output, have also kept global supplies flush.

# \$32B

The total market value lost Friday in the 'Death by Amazon' index, a custom basket of stocks deemed most vulnerable to encroachment by the online retail giant.

## Amazon's Market Clout Sends Rivals Scattering

Amazon.com Inc. has up-ended large swaths of the retail sector over the past two decades. Fears that it will soon disrupt another corner of the industry were on vivid display Friday.

News that Amazon would buy Whole Foods Market Inc. for \$13.7 billion, including debt, wiped away \$32 billion in market value Friday from the so-called Death by Amazon index compiled by Bespoke Invest-

ment Group.

The 54-stock yardstick measures the performance of shares of retailers deemed to be most vulnerable to the rise of Amazon.

The index is composed of retailers with their core business based on brick-and-mortar locations.

It's hard to see the trend in retail sales improving soon," said Samuel Tombs, economist at Pantheon Macroeconomics. "Retailers have not finished yet passing on higher import prices to consumers, wage growth looks set to remain depressed and banks are reporting that they intend to restrict the supply of unsecured credit."

Because this kind of inflation isn't driven by stronger growth or a tighter labor market, all these concerns could boost the market for British government debt, or gilts. Yields on 10-year gilts have fallen in recent months, after hitting a peak of 1.5% in January.

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**Jim Leaviss**, a fund manager at M&G Investments, which manages £265 billion (\$338 billion) in assets, said he believes investors have been buying gilts precisely because they have been anticipating U.K. consumers' woes and the brake that would place on rate rises.

"You see it priced in because nobody expects the Bank of England to raise rates in the foreseeable future," Mr. Leaviss said.

## Currencies

U.S.-dollar foreign-exchange rates in late New York trading

| Country/currency    | Fri<br>in US\$ | Fri<br>per US\$ | YTD chg<br>(%) | US\$ vs.<br>Fri | per US\$ | YTD chg<br>(%) |
|---------------------|----------------|-----------------|----------------|-----------------|----------|----------------|
| <b>Americas</b>     |                |                 |                |                 |          |                |
| Argentina peso      | .0624          | 16.0260         | 1.0            |                 |          |                |
| Brazil real         | .3038          | 3.2921          | 1.1            |                 |          |                |
| Canada dollar       | .7568          | 1.3214          | -1.7           |                 |          |                |
| Chile peso          | .001503        | 665.50          | -0.6           |                 |          |                |
| Colombia peso       | .0003362       | 2974.50         | -0.9           |                 |          |                |
| Ecuador US dollar   | 1              | 1               | unch           |                 |          |                |
| Mexico peso         | .0558          | 17.9109         | -13.6          |                 |          |                |
| Peru new sol        | .3055          | 3.273           | -2.4           |                 |          |                |
| Uruguay peso        | .03532         | 28.3100         | -3.5           |                 |          |                |
| Venezuela b. fuerte | .100150        | 9.9851          | -0.1           |                 |          |                |
| <b>Asia-Pacific</b> |                |                 |                |                 |          |                |
| Australian dollar   | .7621          | 1.3122          | -5.5           |                 |          |                |
| China yuan          | .1468          | 6.8103          | -1.9           |                 |          |                |
| Hong Kong dollar    | .1282          | 7.8008          | 0.6            |                 |          |                |
| India rupee         | .01551         | 64.465          | -5.1           |                 |          |                |
| Indonesia rupiah    | .0000752       | 13297           | -1.7           |                 |          |                |
| Japan yen           | .009019        | 110.88          | -5.2           |                 |          |                |
| Kazakhstan tenge    | .003126        | 319.89          | -4.1           |                 |          |                |
| Macau pataca        | .1244          | 8.0361          | 1.5            |                 |          |                |
| Malaysia ringgit    | .2338          | 4.2765          | -4.7           |                 |          |                |
| New Zealand dollar  | .7253          | 1.3787          | -4.5           |                 |          |                |
| Pakistan rupee      | .00954         | 104.777         | 0.4            |                 |          |                |
| Philippines peso    | .0201          | 49.860          | 0.5            |                 |          |                |
| Singapore dollar    | .7230          | 1.3832          | -4.4           |                 |          |                |
| South Korea won     | .0008826       | 1133.08         | -6.2           |                 |          |                |
| Sri Lanka rupee     | .0065436       | 152.82          | 3.0            |                 |          |                |
| Taiwan dollar       | .03294         | 30.362          | -6.4           |                 |          |                |

Close Net Chg % Chg YTD % Chg

WSJ Dollar Index 88.41 -0.24 -0.27 -4.87

Sources: Tullett Prebon, WSJ Market Data Group



A FedEx delivery in New York City's Union Square. The bellwether company is scheduled to report earnings this week.

# MARKETS

THE DAILY SHOT | By Lev Borodovsky

## The Reflation Trade Faces a Reckoning

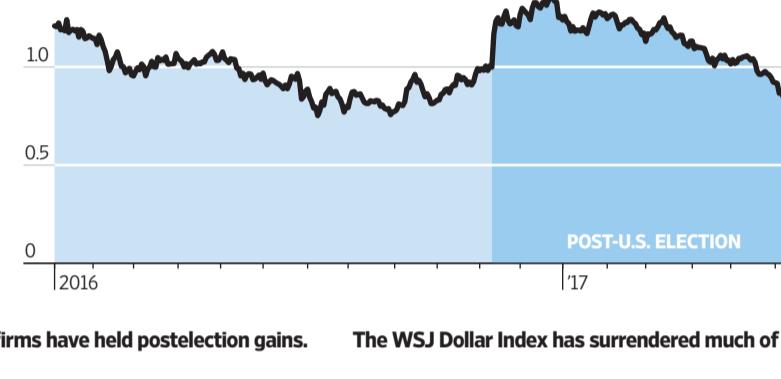
Market inflation expectations are declining again after a brief rebound.

Five-year, five-year forward inflation breakeven rate

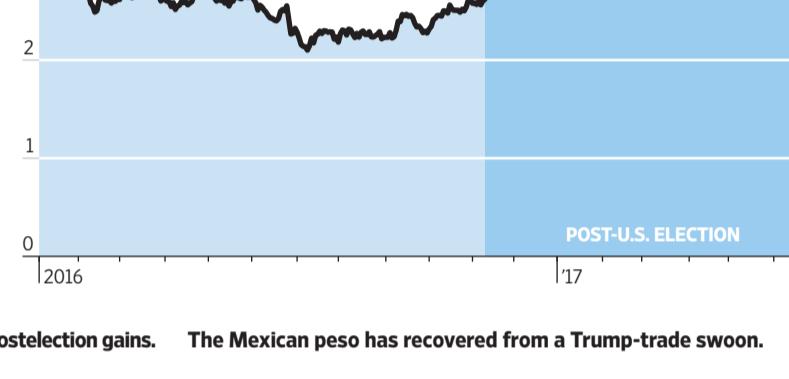


The yield curve has flattened, raising concerns about growth and bank profits.

Yield premium of the 10-year Treasury note over two-year note



Falling yields on the 30-year U.S. Treasury note underscore growth concerns.



The tumble of U.S. bond yields to 2017 lows this month is the latest sign that investors are losing faith that the Trump administration will succeed this year in implementing policies that will result in a broad increase over time in economic growth and inflation.

For now, falling bond yields are helping to fuel fresh stock-market gains, as falling borrowing costs and a softening dollar loosen financial conditions. But many investors are concerned that falling inflation expectations and a flattening yield curve point to a slowdown ahead in a tepid recovery, reflecting both softening growth projections and weakening bank profits.

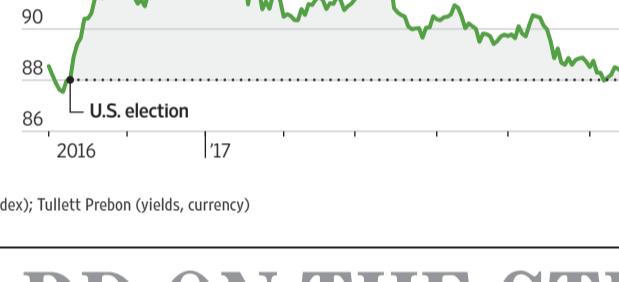
Investors haven't given up hope. Banks and small caps, both of which are deemed likely to benefit from tax cuts and looser regulation, have moved up since former FBI Director James Comey's testimony showed no immediate risk to the Trump administration.

But it's clear that times have changed. The retreat of the dollar and the scaling back of antitrade rhetoric have proven a tonic to the Mexican peso, which in the days after the U.S. election might well have been deemed the asset class least likely to succeed.

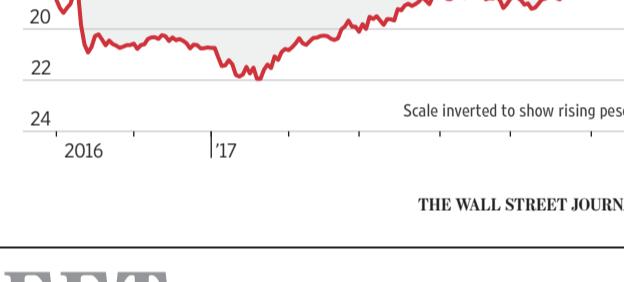
Shares of banks and smaller U.S. firms have held postelection gains.



The WSJ Dollar Index has surrendered much of its postelection gains.



The Mexican peso has recovered from a Trump-trade swoon.



THE WALL STREET JOURNAL.

Note: Bond yields fall as prices rise.  
Sources: Federal Reserve Bank of St. Louis (breakeven); WSJ Market Data Group (ETFs, dollar index); Tullett Prebon (yields, currency)

THE WALL STREET JOURNAL.

## HEARD ON THE STREET

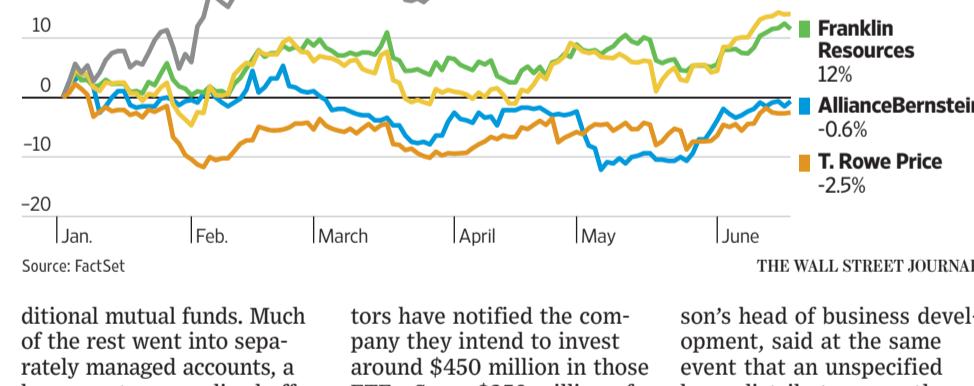
FINANCIAL ANALYSIS & COMMENTARY

WSJ.com/Heard

## Legg Mason Must Build on Healthy Start

### Breakout Performance

Legg Mason has outperformed its rivals this year.



ditional mutual funds. Much of the rest went into separately managed accounts, a lower-cost personalized offering for individual investors.

The company's new suite of "smart-beta" ETFs have gotten only modest traction, with around \$200 million under management at the end of May. Speaking at an analyst event on Thursday, Chief Executive Joseph Sullivan noted, underscore "the importance of vehicle choice" in retaining client funds.

Legg Mason also is benefiting from rivals' pain. Thomas Hoops, Legg Ma-

tors have notified the company they intend to invest around \$450 million in those ETFs. Some \$250 million of this is being reallocated from another Legg Mason vehicle, so it isn't a net new inflow. But it does, as Mr. Sullivan noted, underscore "the importance of vehicle choice" in retaining client funds.

Legg Mason also is benefiting from rivals' pain. Thomas Hoops, Legg Ma-

son's head of business development, said at the same event that an unspecified large distributor recently eliminated 20% of the asset managers on its platform and sharply reduced allocations for many others. But Legg Mason was relatively unscathed, losing just 1% of its assets with this distributor, he said.

Still, it isn't all blue skies from here. The company

talks a lot about its ETF offerings, but is still absolutely tiny compared to rivals like BlackRock, State Street and Invesco. It is making a big bet on developing a whole new category of nontransparent, actively managed ETFs—a concept that doesn't yet have regulatory approval.

As part of its diversification drive, Legg Mason also recently acquired a robo adviser and an alternative asset manager.

Investors already are giving Legg Mason credit for its relative success. Its own shares are up by 33% so far this year. At 14 times forward earnings, its shares now trade at a slight premium to peers. Four other large asset managers, excluding investor darling BlackRock, are valued at 13.4 times, having risen an average 6% this year.

For Legg Mason to continue that kind of outperformance, it needs to do more than just tread water while rivals drown.

—Aaron Back

### Nestlé CEO Takes Small, Sweet Step

Ulf Mark Schneider's first strategic move as chief executive of Nestlé is sweet but small. It supports heady expectations for now, but before long investors may need something meatier.

Nestlé said Thursday evening that it will explore strategic options for its U.S. confectionery business. This covers chocolate bars like Butterfinger and Baby-Ruth and sweets like SweeTarts, but not KitKat, which for historical reasons is licensed to market leader Hershey. Given the bite-size nature of the business—brokers estimate its value at anything between \$1.5 billion and \$3 billion—a sale seems far more likely than alternatives such as a spinoff or joint venture.

Despite owning strong brands, the unit is small and has been losing share in a market challenged by consumers' increasing preference for fresher and healthier snacks. Two types of buyer are therefore imaginable. Hershey and its rival Mars could plug

Nestlé's brands into their distribution machines, justifying a decent price with big cost savings. Alternatively, private-equity firms might perform a cost-cutting job, which would also make the sums add up.

Of course, a consumer group from the Kraft Heinz austerity school might do both. Mondelez International, which spun off Kraft in 2012 and is under pressure from activists to boost its margins, dropped its \$25 billion-plus bid for Hershey last year. Nestlé's U.S. confectionery business would be a more manageable acquisition in the same vein.

—Stephen Wilmot

## BHP Brings in Outsider for Tough Calls

Mining giant BHP has been losing a war of words with activist investor Elliott Management, which wants it out of American oil and an end to its underperformance against rival Rio Tinto. So bringing in as its new chairman an outsider with a proven ability to make tough calls—and get them right—makes a lot of sense.

Ken MacKenzie's record at Australian packaging company Amcor during his tenure as CEO is impressive. In 2005, when he took over, its return on assets and equity were just 3% and 6%, respectively. When he left 10 years later, return on equity was running over 20% and return on assets had doubled.

Part of that success was

a no-nonsense approach to management: The new CEO replaced three-fourths of the firm's top 80 managers within two years. A bigger factor was arguably smart divestments and cheap acquisitions: Amcor's purchase of Alcan Packaging for \$2 billion from Rio just after the financial crisis, followed by the demerger of an underperforming Aus-

tralian paper business, are widely viewed as key factors in the firm's recent success.

Still, pulling off that kind of home run in the mining sector, where valuations have already been bid back up substantially since bottoming in early 2016, could prove challenging. BHP's

share-oil assets would certainly find a buyer. But it's far from certain that this is a good point cyclically to go shopping for more iron, copper or other minerals. China, the main driver of metals demand, is poised to slow further, and while investment in new supply has dropped since the height of the boom, it remains substantial.

BHP's shareholders can expect Mr. MacKenzie to make a fair decision on the firm's oil strategy and the other issues raised by Elliott; the hedge fund added a statement of support shortly after the announcement.

Making BHP's owners as happy as Amcor's, however, may prove a lot tougher.

—Nathaniel Taplin

For a show about nothing, "Seinfeld" resides deep in the public consciousness nearly two decades after going off the air. A common theme involved the characters making up lies about themselves and then seeing their ploys backfire badly.

New York's Attorney General Eric Schneiderman clearly was a fan of the show. According to a press release from his office, a man with the surname Newman pleaded guilty to posing as an architect for several years and is headed to state prison. Mr. Schneiderman dubbed the scheme "Operation Vandelay Industries."

As he probably knows, though, the character named

Newman was Jerry's archenemy and a mailman not an architect. The character who pretended to be, among other things, a marine biologist and an employee of Vandelay Industries, was George Costanza. He stated in the show that he always wanted to be an architect or at least "pretend to be an architect." In one episode, he claims to have designed part of the Guggenheim Museum.

The real fake architect now headed for the slammer, Paul J. Newman, drew designs for over 100 commercial buildings, collecting nearly \$200,000 for his services. There was no word on whether he also claimed to be driving Jon Voight's car.

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B10 | Monday, June 19, 2017

THE WALL STREET JOURNAL.

# CFO NETWORK

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Monday, June 19, 2017 | R1

## Wilbur Ross Talks Trade

The Commerce Secretary on China, Nafta and the WTO

*One of the most notable political trends over the past 18 months—and one with the potential to affect companies across many industries—has been voter pushback against globalization and free trade.*

*Indeed, following the Brexit vote in the U.K. and Donald Trump's victory in the U.S. presidential election, nations are rethinking how they should trade with each other.*

*At the forefront of this debate in the U.S. is Commerce Secretary Wilbur Ross. He sat down with The Wall Street Journal's financial editor, Dennis K. Berman, to discuss how the Trump administration views trade relations with China and the rest of the world. Edited excerpts follow.*

### Sensible give-and-take

**MR. BERMAN:** At his inauguration, President Trump said: "The rule of the future should be to hire American and buy American." What is the moral duty of the CFOs here to abide by that rule?

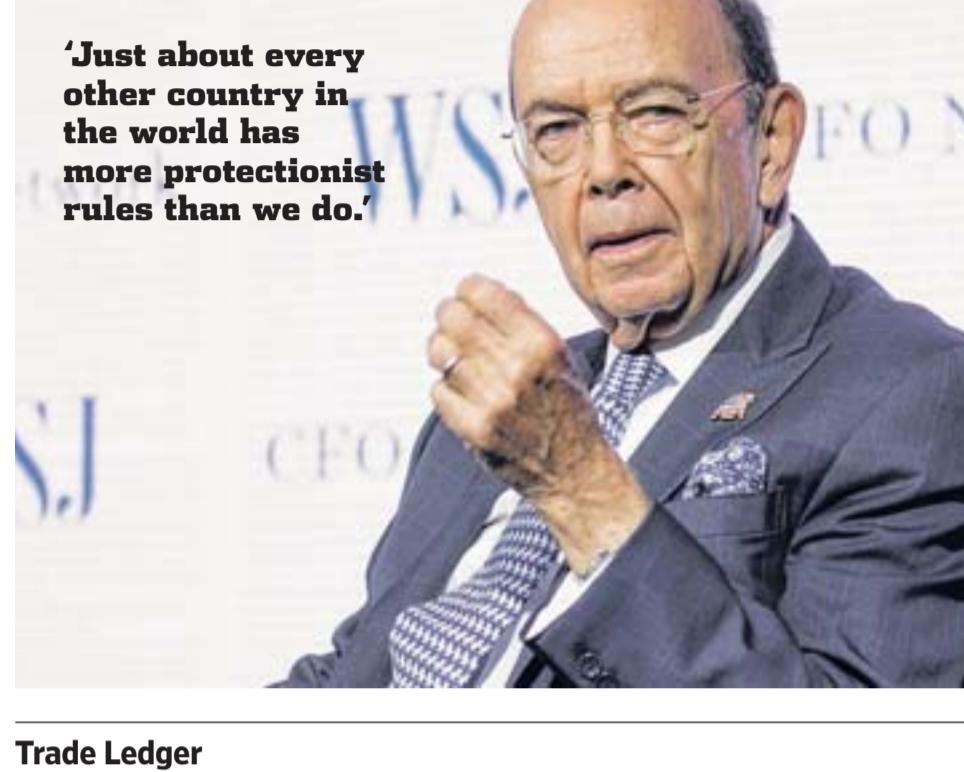
**MR. ROSS:** Just about every other country in the world has more protectionist rules than we do. Take China. China has the most beautiful free-trade rhetoric. And those of you who do business either within the country or try to export to it know they are the most highly protectionist of the big countries. So this is nothing new. We've been in a trade war for decades. The only difference is now the American troops are coming to the ramparts for maybe the first time.

**MR. BERMAN:** But for goods that have been brought into the U.S. and are legitimately cheaper, do CFOs have a duty to buy American?

**MR. ROSS:** Well, the "Buy American" policy relates to federal contracting. It relates to pipelines. It relates to some pretty specific activities.

But I think people ought to think about short term versus long term. If I were an importer, I would beware of what happened already in the rare-earths [metals industry]. China is a very big supplier of

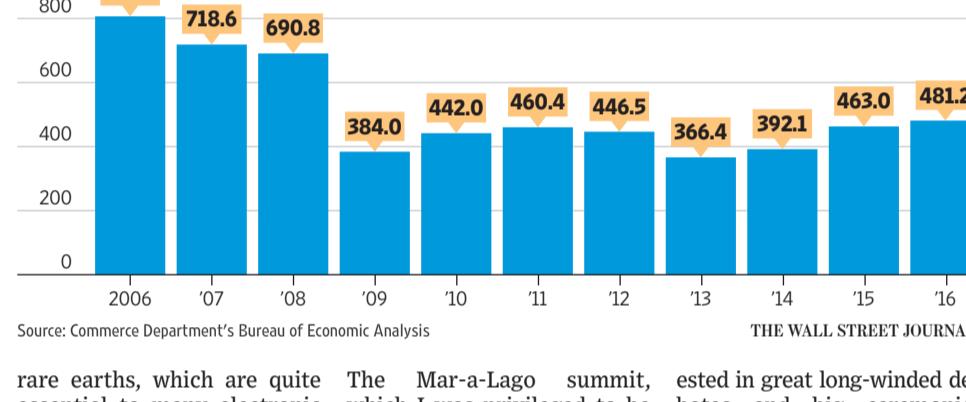
'Just about every other country in the world has more protectionist rules than we do.'



PAUL MORSE/DOW JONES (2)

### Trade Ledger

Annual U.S. current-account deficits since the record in 2006



Source: Commerce Department's Bureau of Economic Analysis

rare earths, which are quite essential to many electronic products. They drove everybody in this country out of business by dumping, dumping, dumping, dumping. And guess what happened once they did? Prices suddenly went way up. And when they get angry with a country, they cut off the supplies.

So long term, it seems to me, the interests of American businesses and of the president's policy are totally consistent because there are no free lunches.

**MR. BERMAN:** How bad is it with China in terms of our ability to access the Chinese markets and the way they behave in the U.S.?

**MR. ROSS:** Well, we're making a lot of progress with China.

The Mar-a-Lago summit, which I was privileged to be part of, accomplished a lot, and mostly all to the good. I'll give you some examples.

For 14 years, American beef producers have been trying to get their product into China on an unfettered basis. In less than 100 days, we got it in. And that first beef will literally be leaving in about 10 days. The same is true for some other things.

Those were the easier deliverables. We're now working on another list. We generally have two conference calls a day, one early in the morning our time and one late at night with the Chinese. That's five, six, seven days a week.

The whole fabric of these discussions is different from prior ones. We aren't inter-

ested in great long-winded debates and big ceremonial meetings and big proclamations that have no teeth. We're interested in very specific, very tangible achievements. And we're finding a very, very sensible give-and-take with the Chinese right now.

### An obsolete agreement

**MR. BERMAN:** President Trump said on the campaign trail, he wanted to get out of the WTO. Is that going to happen?

**MR. ROSS:** That's a very radical step for one to take. I do think there are things that need to be fixed in the WTO, but I think our first effort should be internal reform, not blow up the whole system.

**MR. BERMAN:** If there is one most important thing about

changing the dynamic in Nafta, what is it?

**MR. ROSS:** Well, it's an obsolete agreement. It didn't envision the digital economy at all. Barely talked about natural resources. Barely talked about service, particularly financial services. It didn't really address our economy or theirs the way they are today.

And some of its manufacturing provisions are totally obsolete. In automotive, they put in a procedure which in concept is a good one, called rules of origin. Namely, what percentage of the content of a finished product can come from outside Nafta and yet get the favorable tariff treatment as though it were all 100% from within Nafta?

The problem is, automotive technology has moved on. Half those parts aren't even used in cars anymore.

**MR. BERMAN:** But how do you [change Nafta] without piss everyone off?

**MR. ROSS:** We solved the sugar thing without piss everyone off. We're trying to solve some of the little disputes with Canada. Disputes are resolvable if people are of reasonable will and are willing to make reasonable compromises. We made some big changes with China. I don't see them suddenly screaming and yelling.

**MR. BERMAN:** President Trump famously mentioned American

"carnage" in his inauguration speech. What did he mean by that and what is going on in America that you need to pursue this policy?

**MR. ROSS:** We're pursuing the policy because we think it's the correct policy. Does anyone think that China would have been able to transform itself from a very, very poor, basically rural society to the second-biggest power in the world without a favorable trade balance? The question I would pose to those who say deficits don't matter is: "If trade surpluses do matter, is it really possible that trade deficits don't matter?" And especially when there are ways to cure them.

To the countries with whom we have the big deficits, like China, we are going to say: "Look, there are a bunch of products that you buy, some from us and some from other people. We're your largest customer. You really ought to give us a little better market share. It isn't going to hurt you to buy cattle from us instead of from X country or soybeans from us or industrial goods from us." So substitution of, or changing market share, would be one easy way to redistribute a bit of the deficit. Because it isn't inherent in free trade, in my view, that one country, namely the U.S., has to absorb the entire cumulative trade surplus of the rest of the world, and therefore eat \$500 billion a year of deficit.

## How CFOs Are Feeling

John Graham says their No. 1 concern is hiring and retaining qualified workers

What are the main concerns of chief financial officers today? Where do they see risks and opportunities? For 21 years, Duke University's Fuqua School of Business has been conducting quarterly global surveys of senior finance executives to find out just that.

John Graham, the finance professor at Fuqua who leads the research, sat down with Kimberly S. Johnson, the editor of The Wall Street Journal's CFO Journal, to discuss the latest survey's findings.

Edited excerpts follow.

### Hiring concerns

**MS. JOHNSON:** Why is it important to get the perspective of CFOs?

**DR. GRAHAM:** There are two primary reasons that the university does this. First, it is important to understand the perspective of the business

community from sort of an objective third-party perspective rather than from a lobbying group. Second, it turns out that the CFO forecasts are very accurate.

It's an anonymous survey in which we ask CFOs questions about capital spending, hiring plans and wage increases. These are numbers that are in all of their business plans, and they all know them well. We aggregate them. And as long as the business plans come relatively true, it's a great prediction of the future. In fact, it has been historically more accurate than economists' forecasts of the future.

**MS. JOHNSON:** Let's compare the current outlook around capital expenditures to where things were a year ago. CFOs expect only 2.2% growth in capex spending over the next

12 months. That's rather weak. What does that signal to you?

**DR. GRAHAM:** Obviously capital spending kind of pulled us out of the recession, and then we went through a period where capex plans were starting to decline. Then, over the past year, we actually saw capex plans start to pick up, and I think that was on the basis of a new administration and the pro-business policies many thought would come into play. This past quarter, as you just mentioned, capex fell back down to 2%.

So, yes, I agree it's weak. Right now there's a lot of uncertainty about what exactly these pro-business policies are, when will they go into place, and what the details will be.

I think we're back into a more of a hold pattern at a low level for capex.

'What surprised me a lot was 58% of companies said this is pretty much a normal amount of uncertainty.'

**MS. JOHNSON:** What were some of the other surprises you found in the survey this quarter?

**DR. GRAHAM:** There were two really big surprises. One was about employment. We just talked about weak capex. GDP growth was relatively weak in the first quarter, too, yet the employment plan keeps get-

ting stronger and stronger. Companies want to hire. This moderately strong employment growth is something that we're hearing companies hope to continue into the next year. That's notable given other signs of weakness.

But secondly, each quarter we ask CFOs to rank what their top concerns are. The No.

1 concern this quarter is hiring and retaining qualified employees. We've been doing the surveys 21 years, 85 quarters now. That's the first time that's been the No. 1 concern.

**MS. JOHNSON:** Why do you think that is?

**DR. GRAHAM:** There are two is... Please see GRAHAM page R2

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Sen. John McCain says North Korea is his biggest international worry now, but Russia is his greatest concern in the long run, R4

Rep. Adam Schiff of the House intelligence committee spells out his global concerns, including an

"inflection point" in the course of freedom and democracy, R4

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### Graham

Continued from the prior page  
sues. One, the labor market is getting tighter. The unemployment rate's getting lower. And two, the skills mismatch hasn't been solved and may be even getting a little bit worse. There are some people looking for jobs, but the types of jobs companies are looking to fill simply aren't matching.

#### Living with uncertainty

**MS. JOHNSON:** We're living in uncertain times. CFOs and companies overall are concerned about finding people with the right skills. Would it be correct to assume that CFOs are facing more uncertainty than usual right now?

**DR. GRAHAM:** We put some questions in the survey specifically focused on uncertainty. From the headlines you get a sense that there is so much uncertainty right now, so the question is, how is that affecting how companies are running their businesses? This is a global survey, though we're focusing on the 357 responses from the U.S. today.

About 36% of companies said that, yes, we are facing more uncertainty than usual and we're taking action because of it.

But what surprised me a lot was 58% of companies said this is pretty much a normal amount of uncertainty for them right now.

**MS. JOHNSON:** Things don't seem normal these days. Are journalists too headline sensitive or is it that CFOs have a higher tolerance for uncertainty?

**DR. GRAHAM:** Ultimately the goal of a business and a CFO is to produce a quality product and deliver it to the customer. What the numbers here are telling us is that as long as companies can still deliver a high-quality product to customers reliably, then all of what I would call "headline volatility" doesn't affect their day-to-day operations. Apparently, 58% of companies feel like they're able to do that.

**MS. JOHNSON:** In terms of in-

vestment, you asked a question in the survey about hurdle rates, or the cutoff rate of return an investment must be expected to produce to be approved. About 90% of companies set the hurdle rate at about 4% above their weighted cost of capital. Is that in line with previous years?

**DR. GRAHAM:** It is very much in line. You have your weighted average cost of capital, and then companies typically set this hurdle rate 4 or 5 percentage points, on average, above the weighted average cost of capital.

What's really interesting is the hurdle rate since the early '80s hasn't really changed much, while the cost of capital has been coming down. The buffer, if you will, has sort of been getting larger.

Trying to understand why that hurdle rate has stayed so stubbornly high is a question we may want to explore on another day, but what we focused on in this survey was whether projects that clear the somewhat high hurdle rate get done.

It turns out that companies do pursue a lot of these projects with these great promised returns, but not all of them.

**MS. JOHNSON:** About three-quarters of companies don't pursue all of them, right?

**DR. GRAHAM:** Exactly. It's a strength that there are these projects up there promising these great returns, but 77% of companies say they don't pursue all of these projects. And as a professor, you kind of go, "Well, why is that? What are the reasons?"

And the No. 1 factor—and this is another interesting thing that came out of the survey—why companies in the U.S. don't pursue all of these projects is a constraint on management time and expertise.

That suggests that maybe there is a shortage of top management talent, which gets back into the tight labor market we talked about earlier.

And then, also, companies are working full tilt. You can't do all of the projects, so you do the ones in your core strength.

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# What Worries John McCain the Most

The Arizona senator says it's North Korea in the short term and Russia in the long term. Also: thoughts on China, Syria.

*National security is front and center in people's minds right now—from the continuing fight with ISIS to dealing with provocative moves by Russia. The Wall Street Journal's executive Washington editor, Gerald F. Seib, spoke with John McCain, the chairman of the Senate Armed Services Committee. Here are edited excerpts of their discussion.*

## The threats today

**MR. SEIB:** What world problem keeps you awake at night more than any other these days?

**SEN. MCCAIN:** Probably in the short term, North Korea because of the progress they're making on nuclear weapons. And in the long term, Russia. Everybody talks about ISIS. We all know how terrible ISIS is. We know that ISIS is killing people as we speak. They're very dangerous, and they're going to continue to kill people for a long time, but they don't have a nuclear weapon and they don't have a means to deliver it.

Vladimir Putin's behavior is more and more aggressive and provocative, whether it be in the conventional weapons as far as continued aggression in Ukraine to the cyberattacks throughout the region. The guy is hellbent on returning the Russian Empire. And that's what he wants to do.

**MR. SEIB:** China, friend or foe, has been a question that's puzzled people for the last three decades. Where are we on the China friend-or-foe continuum right now?

**SEN. MCCAIN:** Uncertainty. They see him say one thing, and then they see him do another, and then they see him say another thing and then do another.

**MR. SEIB:** If there's a global trade war it's probably going to start in Asia, where you just were. How acute is the fear of a trade war there?

**SEN. MCCAIN:** If there's ever anything that describes beauty in the eye of the beholder, it is certainly trade. History shows that one of several factors in the strongest economy of the

est persons I've ever met in my life, told me, "The Chinese want the West China Sea." They believe that the last 200 years were accidents of history, and it's their historic role to be the predominant power in the Asia-Pacific region.

That does not mean that China is ready to risk a war. It doesn't mean that they are ready to have a conflict with the United States of America, but they do believe that that part of the world is a historic Chinese area of control.

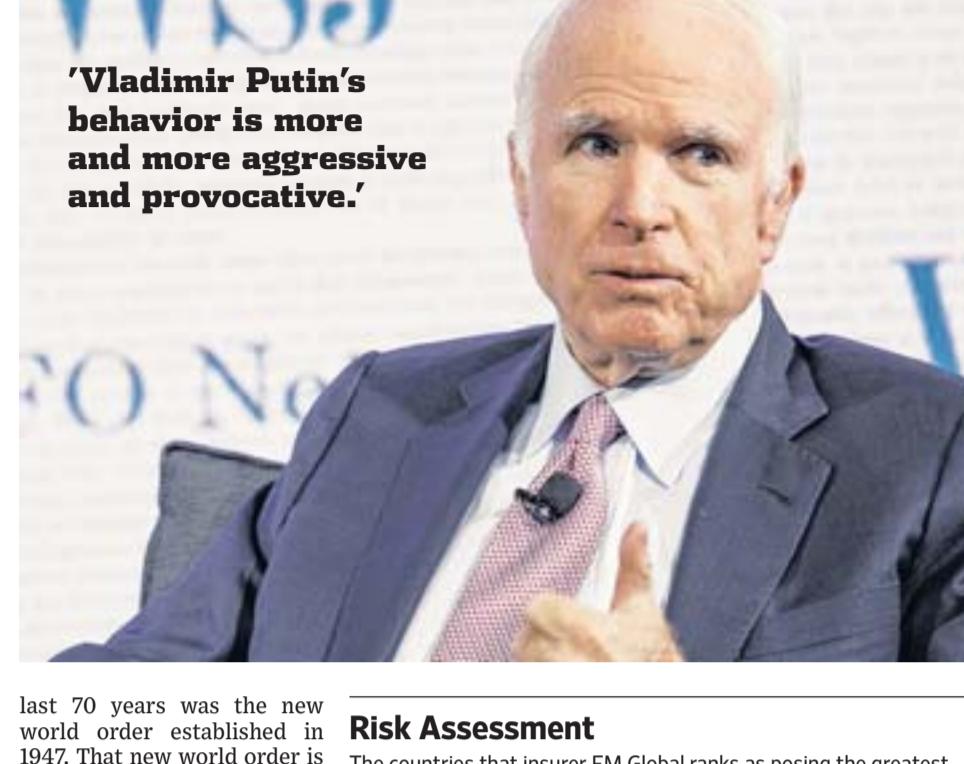
I also believe that they have the strongest leader that they've had since Deng Xiaoping. I think we're going to have to, at some point, exercise what we've been to war over a couple of times, and that's freedom of navigation. If we don't respect freedom of navigation of the high seas, then we are going to have problems in a lot of other places besides the Pacific.

**MR. SEIB:** What's the view of the Trump administration in Asia? And what's the view of the Trump administration in Europe among allies right now? What did you find?

**SEN. MCCAIN:** Uncertainty. They see him say one thing, and then they see him do another, and then they see him say another thing and then do another.

**MR. SEIB:** If there's a global trade war it's probably going to start in Asia, where you just were. How acute is the fear of a trade war there?

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PAUL MURRAY/DON JONES/C

'Vladimir Putin's behavior is more and more aggressive and provocative.'

What's your advice? What do you want to see happen in Syria?

**SEN. MCCAIN:** I'd like to see us do what President Trump told me and Lindsey Graham after Bashar al-Assad crossed the red line. He said, "I'm going to degrade Bashar al-Assad, I'm going to upgrade the Free Syrian Army, and we're going to have a change in treatment." Lindsey and I go out, drive away, "Hey, we're with the president."

About 10 days later I'm sitting in my office and CNN says, "Oh, the president has decided that he's going to go to Congress for permission before he acts." Whoops. I wasn't the only one who was surprised. The Saudis had planes on the runway, ready to attack. They found out the same way that I did. We need to replace Bashar al-Assad. That's how they found out, by watching CNN.

One of the reasons why President Trump was so well received in that part of the world, one was because he's not Barack Obama, and two, because he never mentioned human rights.

If we abandon our advocacy for human rights, we're no different than any other nation that rises and falls throughout history. And we've already seen the reaction of some of these countries to President Trump's lack of mention of human rights by seeing increasing crackdowns on human-rights activists. There's no mention of it whatsoever. Human rights is not the fundamental principle; American self-interest is our fundamental principle.

When we abandon that position on human rights, then you start seeing the crackdowns, and the people thrown in jail, and the increase in tension. And it doesn't work. You can't change human beings. They want freedom. They want human rights, and they look to us as the role model and our inspiration.

## Risk Assessment

The countries that insurer FM Global ranks as posing the greatest risk of political instability, with Pakistan the riskiest

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|---|----------|----|----------|----|---------------|----|--------------|
| 1 | Pakistan | 6  | Ethiopia | 11 | Bangladesh    | 15 | Russia (tie) |
| 2 | Nigeria  | 7  | Egypt    | 12 | Israel        | 17 | Venezuela    |
| 3 | Ukraine  | 8  | Kenya    | 13 | Bahrain       | 18 | Cameroon     |
| 4 | Lebanon  | 9  | Turkey   | 14 | Colombia      | 19 | Chad         |
| 5 | Mali     | 10 | Myanmar  | 15 | Algeria (tie) | 20 | Thailand     |

Source: 2017 FM Global Resilience Index

evidence I think would be pre-judging. But I think there's enough out there that we should have a select committee of people who are highly regarded, who will work together in a bipartisan fashion. This thing spills over into all different aspects of American security.

The Russians have literally tried to play in all aspects of American life. If you can destroy a free and fair election, you destroy democracy.

**MR. SEIB:** There's one area we haven't talked about: how the Syrian mess gets resolved.

berdefenses, but one thing we have to recognize is our cyberdefenses are never going to be good enough.

When you take capable adversaries—like the Russians, for example—if the Russians want to hack into the DNC next year or three years from now, they will hack into the DNC, and they'll get into the RNC, and they'll get in my computer if they want to. They have the capacity to do it. And no matter how well you train your workforce—and obviously we're all going to have to use best practices here—a determined adversary is going to get in.

So there's no cure with a software patch. The only real cure is twofold. We've got to educate our country and our public about what to expect, which is part of why I think the Russia investigation that we're doing in the House and Senate, quite apart from what Bob Mueller is doing, is so important. What made the Russian attack so successful last year was that there was no consensus that we ought to reject that foreign interference.

And somehow we have to prepare the country for what they may see next. The Russians may go beyond what they did last year in dumping not only authentic stolen documents but forgeries along with it. The best defense is ultimately inoculation. We have to derive a consensus that whoever [a document release] helps and whoever it hurts, we will reject it.

Beyond that, we need a deterrent. I took issue with our

lack of an adequate response when the North Koreans hacked Sony. I think the Russians were watching. The rest of the world was watching what we would do and what we wouldn't.

## Trump and Russia

**MR. SEIB:** From what you know right now, the core question in the Russia investigation obviously is collusion. Was there collusion between the Trump campaign and Russians of some variety? Right now, do you think there was collusion?

**REP. SCHIFF:** I think it's too early to draw any definitive conclusions. When I look at what [former FBI director James Comey] testified to, as a former prosecutor, I say, "That is all evidence of interference or obstruction."

Whether it is sufficient evidence is another story. And of course it would need to be corroborated. But if I were prosecuting a case of obstruction and I sought to admit director Comey's testimony, there's not a judge in the land who would exclude it. It's clearly relevant evidence. I think there's relevant evidence on the issue of collusion that warrants our continued investigation.

I think the FBI began that investigation for a reason. I think they're continuing it for a reason. We now have the added very important issue of whether there was any effort to obstruct that investigation. But I do think it's too early to be drawing conclusions. I already see efforts to try to curtail the investigation.

## VOICES FROM THE CONFERENCE



You go to Asia. You go to Europe. You go to the Middle East. They realize the position of the U.S. in the world is different today because of this change in our energy position. Among other things, the sanctions on Iran would not have worked had it not been for shale, because you could not have replaced the Iranian oil that was taken off the market. And so now instead of just OPEC and non-OPEC, you have the big three. You have Saudi Arabia, you have Russia, and you have a country called the United States.

**DANIEL YERGIN,** Vice Chairman, IHS Markit

# Adam Schiff Looks at the World

The ranking member of the House intelligence committee outlines his top fears: North Korea, terrorism, Russia, China



**ISIS. Russia. North Korea. The national-security picture is crowded and complex, and made even more so by questions about the Trump administration's ties to Russia. To shed light on these issues, Adam Schiff, ranking member of the House Permanent Select Committee on Intelligence, spoke with Wall Street Journal Executive Washington Editor Gerald F. Seib. Here are edited excerpts of their conversation.**

## The biggest issues

**MR. SEIB:** We're thinking about risk in a dangerous world. What are the one or two problems that you worry about among all the others?

**REP. SCHIFF:** I think in terms of

the most profound crisis that we're going to see within this president's term is likely to be if North Korea gets to the point where they can marry a nuclear warhead and an intercontinental ballistic missile. They're obviously progressing with the miniaturization of the nuclear devices and with their ballistic-missile technology. I do think the administration is right that China is the key. China doesn't have complete

control over North Korea, but they have more control than any other nation. And there's a lot more they can do.

I also worry from the terrorism point of view about any kind of attack that would bring about a fundamental change in America.

We have seen a number of

attacks, some quite devastating. We just celebrated the terrible anniversary of the shooting in Orlando. But I still worry about the aviation threat. That is a predominant concern of mine. Not only because ISIS has gotten so heavily involved in this space but because al Qaeda remains persistent and potent.

The broader challenges I

think that we face are certainly Russia, but also the degree to which we are ceding leadership in Asia to China. The final point that I would make is that through all of my life I've lived in a world where freedom and democracy were on the rise. But we've reached an inflection point. It is a phenomenal challenge for the United States. It's a time where we are needed more than ever in terms of being a

defender of liberal democracy, and freedom of speech and association, and religion. This is not a time for us to lay down that mantle.

**MR. SEIB:** Let me draw you out a little bit more on the terrorist question. There is a sense when you watch what's happening in Europe that as ISIS shrinks on the ground, that it's sending the threat outward in the form of terrorism. Is that how you see it?

**REP. SCHIFF:** It is how I see it, but I don't think people should lose hope about this. The reality is we have to eliminate this so-called caliphate. That is a necessary prerequisite to defeating this scourge. In the near term or midterm it might result in these foreign fighters coming back home, predominantly to Europe, and increasing the threat there and indirectly increasing the threat here. Nonetheless, we have to cut off the resources they can derive from the caliphate from taxing people, et cetera.

Why have we been less subject to this violence? On the front end, we have far fewer people who have left the

# A Call for Increased Regulation, Not Less

Sen. Elizabeth Warren says financial deregulation is misguided—and against the people's will

In the early days of the new administration, President Donald Trump and Republican lawmakers have made sweeping changes in financial regulation and health care. Wall Street Journal Executive Washington Editor Gerald F. Seib spoke about the Democratic perspective on those changes with the senior senator from Massachusetts, Elizabeth Warren, creator of the Consumer Financial Protection Bureau.

Here are edited excerpts of the conversation.

## No mandate?

**MR. SEIB:** We are at an interesting time in Washington. On financial regulation in particular, it does seem we're at an inflection point. The Trump administration has come into office on the idea that—and the congressional Republicans believe—the pendulum perhaps has swung too far, that the regulatory pendulum needed to be pulled back. Are they right or wrong?

**SEN. WARREN:** You said Donald Trump came into office on that. That's certainly not what Donald Trump ran on. Donald Trump ran on breaking up the biggest financial institutions.

You do polls across this country, and I'm talking about polls of everybody—Democrats, Republicans, Independents, Libertarians, vegetarians, everybody. Somewhere in the neighborhood of 80% and upward believe that the largest financial institutions in this country need more regulation, not less regulation.

**MR. SEIB:** Nonetheless, yesterday the Treasury Department put out a report on financial regulation, recommended perhaps 100 different moves, mostly to deregulate. The House passed the Choice Act about a week ago. The Treasury talks about fewer stress tests for banks, more cost-benefit analysis of new regulations, a higher threshold for big-bank rules to kick in, exemptions for small banks from the Volcker rule. That is the Trump administration's policy as of yesterday.

**SEN. WARREN:** The sum of the biggest financial institutions in this country is now bigger than they were when they were too big to fail. The Republican plan, now evidently joined in part with the administration, is to say, "I know, let's do less regulation, submit them to fewer stress tests, have fewer of them subject to the Volcker rule. Because what could possibly go wrong?"

Yes, there may be some financial institutions that would have better short-term profits on this. But everyone in this room needs to remember that the most conservative estimate of the costs of that crash in 2008 was not just the \$700 billion bailout. It was the \$14 trillion that it cost the entire economy in homes lost, in jobs lost, in savings lost.

## Hurting small banks?

**MR. SEIB:** Republicans make the case that community banks in particular have been devastated by Dodd-Frank, that it hurts average Americans more.

**SEN. WARREN:** But your numbers preclude Dodd-Frank. If anyone looks at the numbers in bank consolidation in America, the consolidation starts back in the 1970s. And the community banks, along with big banks, are more profitable than ever. Lending in most of these institutions is not down. It is up. There are places where we should do targeted changes in the laws and regulations to make sure community banks don't have to endure regulations for problems like disrupting the entire U.S. economy. But for a long time now, folks on my side including me have offered to say, "Let's sit down and write some legislation that is aimed specifically at the community banks and the credit unions, making sure that they get some regulatory relief. But when banks start describing themselves in terms of tens of billions of dollars, it's an en-

tirely different conversation."

**MR. SEIB:** Financial regulation isn't the only big issue on the table. Tax reform is on the table. From the Democrats' point of view, what is possible?

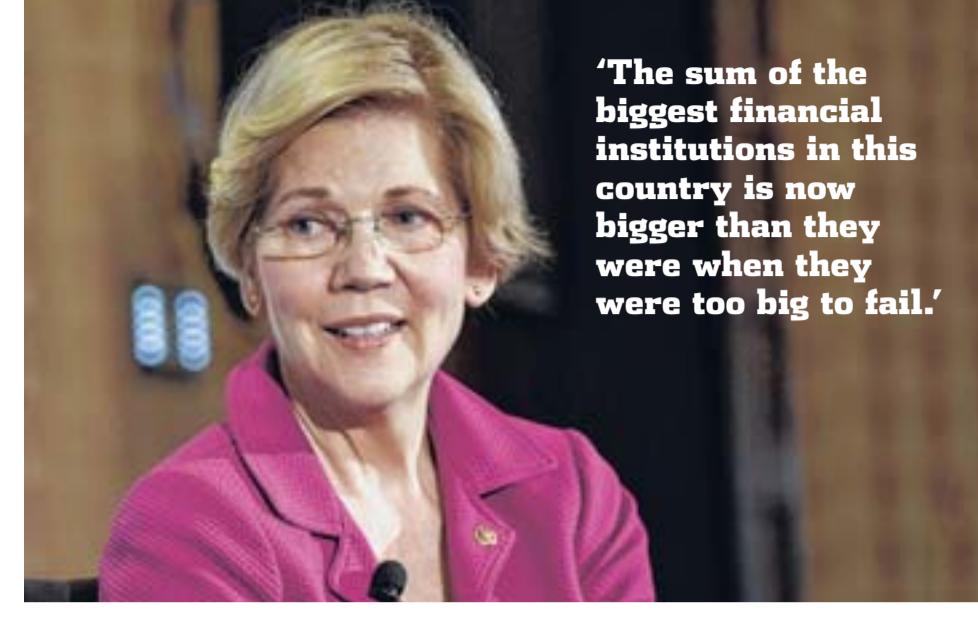
**SEN. WARREN:** It looks like to me that we're moving forward

on a tax bill over the next two or three weeks. It's called health-care reform. It says, "Let's cut taxes for millionaires and billionaires. And the way we're going to pay for it is, we're going to knock millions of people off health-care

Please turn to page R10

'The sum of the biggest financial institutions in this country is now bigger than they were when they were too big to fail.'

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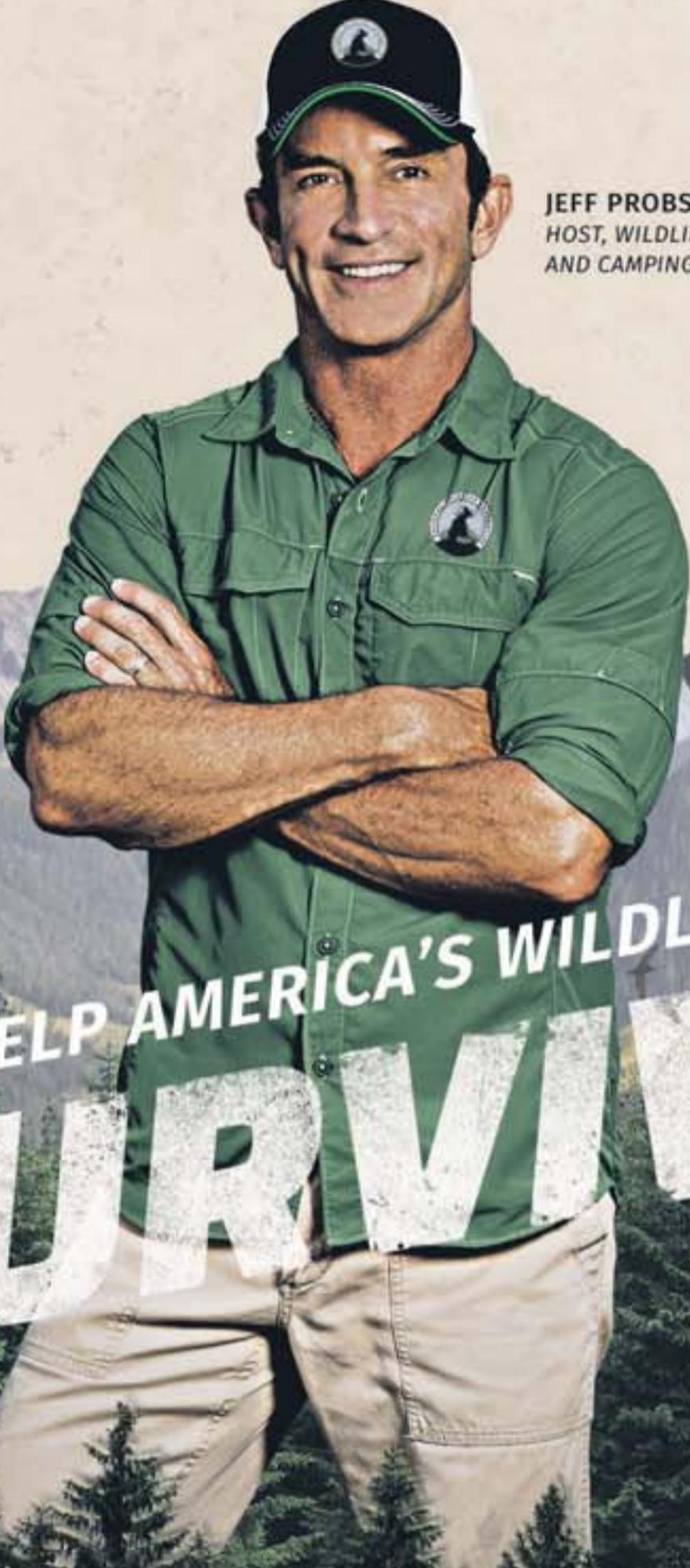
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# The House Gears Up to Tackle Taxes

House Ways and Means Committee Chairman Kevin Brady talks about a border-adjustment tax, business deductions and the timetable

*Among all the other political drama going on in Washington, the House is looking to address both taxes and the budget.*

*For an inside look at the issues, The Wall Street Journal's Washington bureau chief, Paul Beckett, spoke with Kevin Brady, chairman of the House Ways and Means Committee. Here are edited excerpts of their conversation.*

*from taxation. It's clearly a difficult issue. Why do you persist in pushing it?*

**REP. BRADY:** We know what our competitors do to beat us. They beat us on lower tax rates. They put U.S. companies at a disadvantage here and abroad. How do you stop U.S. jobs from leaving the country? More important, how do you bring back manufacturing, research and headquarters jobs?

My current thinking on border adjustment after listening to businesses large and small is a very gradual, five-year transition. We would match that with our exports as well. So we'll be lifting the made-in-

America tax on U.S. exports at the same rate.

Businesses need plenty of time to assess their current supply chains and decide what, if any, can return to the United States. And they want plenty of time to see how the dollar adjusts and at what level. While I'm confident it adjusts very quickly, a fair question is: What if it doesn't?

So a very gradual five-year phase-in really resolves the major challenges. More important, for the first time since I've been in Congress in 21 years, we have whole industries telling us that under this tax-reform approach, they can now bring significant parts of their supply chain back to the United States.

## Changing taxes

**MR. BECKETT:** You've been having a lot of meetings with the administration and with the Senate. What actual progress, detailed progress, can you show from those meetings?

**REP. BRADY:** We are all focused on moving toward a single unified tax-reform plan. I think that dramatically increases the likelihood of passage this year. We are focused this year on tax reform, which after 31 years would be an achievement in itself.

I'm convinced it's doable. I see a commitment from the Trump White House on this. I do from the Senate as well. We have an incredible amount of work left to do. It is the challenge of a generation for any president and any Congress.

But we start with 80% common ground with the Trump tax-reform plan. We've got a

lot of work to do going forward. But I'm confident we can do it.

## The timetable

**MR. BECKETT:** Can you tell me the actual calendar, assuming you want to get it done this year? You also want to get health care done this year. You have the debt ceiling. You have the budget.

*There's a very crowded calendar for between now and the end of the year.*

**REP. BRADY:** You laid it out in exact sequence. Tax reform. I think it would be incredibly helpful for health-care reform to be approved this summer. The budget really matters this year because balancing the budget over 10 years with the right instructions that allow us to move through the expected filibuster in the Senate is critical to delivering this to the president's desk this year.

**MR. BECKETT:** It has been a year since the blueprint for tax changes. Does it surprise you that you don't have a bill by now?

**REP. BRADY:** No. If we had opted to simply tinker around the edges and make a few tweaks, we'd have had this thing done. We can't afford to do this. This is not the 1980s. Cutting tax rates alone won't make us competitive, because our competitors, whether it's

China, Europe, Canada or Mexico, have developed very sophisticated, very pro-growth tax schemes that have left us behind. And so we have to go bold if we hope to be competitive for the long term. That naturally creates resistance. But the responses we're getting from businesses large and small, and responses we're getting from families, they're hungry for tax reform. We have to harness that hunger, bust through the status quo to deliver it this year.

**MR. BECKETT:** Many businesses rely on the ability to deduct interest on debt as a core benefit. Why do you want to take that away?

**REP. BRADY:** The overall goal is to be pro-growth. What we're proposing is to take the tax preference from the source of funds, borrowing, and take that preference to the use of funds, business investment and buildings, equipment, software, technology.

This full and unlimited expensing by itself is responsible for half the growth in the tax-reform blueprint. It's incredibly Main Street job-growth oriented.

More important, those investments drive worker productivity, which drives wages, which drives the U.S. economy in a major way.

And so the benefits of full

and unlimited expensing is that you have in a country where our investment is about a third it was the day that I was born, and it's the missed ingredient in the current recovery. Unleashing tax-free investment focused on productivity and growth I think is critical to do that.

Going forward, I foresee an exemption for small businesses, so they can continue to take advantage of both deductions. They often don't have access to equity markets.

## Prospects for Nafta

**MR. BECKETT:** The administration has talked about renegotiating Nafta within four months. Is that realistic?

**REP. BRADY:** It could be. Really, I think the substance should drive the timing here. The good news is that we have in Secretary [of Commerce Wilbur] Ross and [U.S. Trade Representative Robert] Lighthizer leaders who understand that we shouldn't disrupt the current agreement that has worked well for the U.S. in North America, that whatever is negotiated should build upon that.

Basically address the issues that aren't working for the United States, keep the ones that are, and modernize it in a very positive way, in a way that is a seamless transition going forward.

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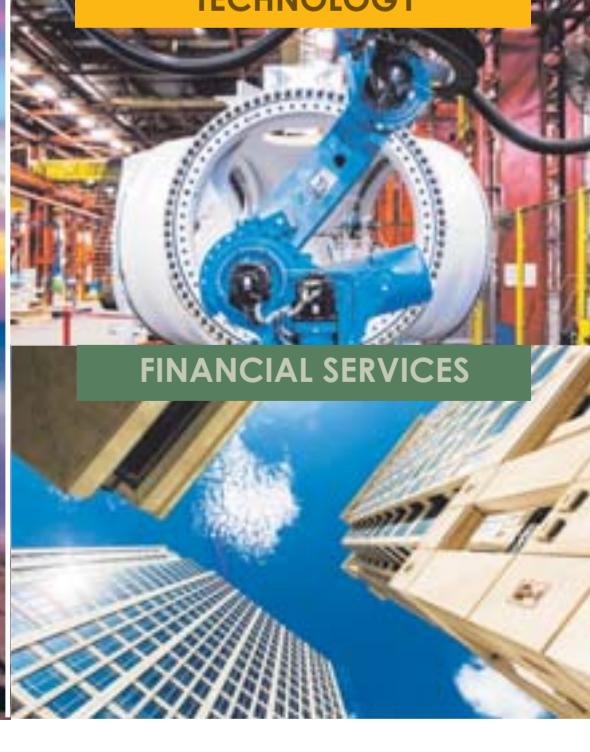
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Kim Darroch



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Boris Ruge

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# What's Ahead for the U.K. and Brexit

Gerard Araud, Kim Darroch and Boris Ruge offer their thoughts on Britain's recent surprising vote

*British voters are full of surprises lately. Less than a year after voting for Britain's exit from the European Union, U.K. voters turned around and withdrew support from the very party promising to deliver that exit. So what does it all mean? On the eve of negotiations to settle the terms of Britain's withdrawal, will a weaker Conservative-led U.K. government manage to obtain terms that are advantageous to the British economy and businesses based there?*

Nina Trentmann, news editor for CFO Journal, discussed the situation with Gerard Araud, France's ambassador to the U.S., Kim Darroch, the British ambassador to the U.S., and Boris Ruge, minister and deputy chief of mission for the embassy of Germany in Washington. Edited excerpts follow.

**MS. TRENTMANN:** Prime Minister Theresa May lost the majority and failed to secure a mandate for Brexit. What does that mean for the British government's stand on Brexit?

**MR. DARROCH:** First, it's important to remember that Theresa May and the Conservatives got the largest number of votes and seats, though as you say, fell short of a majority by a few seats.

If you watch continental politics, coalition governments are a perfectly normal feature of life over there. The one that we had from 2010 to 2015 was stable and successful and delivered. And I am confident that that government will, too.

In terms of what it means for Brexit, I'm confident that we can reach a conclusion that is good for both sides.

**MS. TRENTMANN:** Mr. Ruge, are people in Germany hoping that there's going to be a softer Brexit than we initially thought we would get?

**MR. RUGE:** It's an election result that is difficult to read in some ways. It may not be, however, a resounding endorsement of a tough line. But more importantly, the German position remains, and the EU position remains, that of the 27 remaining EU member states, we want the closest possible relationship with the U.K.

**MS. TRENTMANN:** How are French businesses reacting to the British election?

**MR. ARAUD:** I don't know about the French business community. But as a diplomat, I would say that our strong interest, the EU interest, would have been to have a strong and stable U.K. government,

because the negotiation will be extremely difficult, technically and politically.

**MS. TRENTMANN:** Mr. Darroch, what do you hear from Britain's business community?

**MR. DARROCH:** There is a lively debate in the U.K. about what our objectives should be in these negotiations. What the prime minister has set out already is that we want a deep and special relationship with the EU. We want this to include cooperation on security issues. But, to have at the heart of it an ambitious free-trade agreement and the most frictionless possible exchange of goods and services across borders, those are the broad objectives she has set out.

Of course we have the interests of both the British business community and all the international companies who have invested in the U.K. right at the center of our attention as we go into these negotiations. So we're looking for an outcome that is good for business, but also reflects all the other objectives that we believe were set when the British people voted as they did last June for leaving the EU.

**MR. ARAUD:** What is now nearly sure is that the U.K. will leave the single market.

Because politically, the single market means the free circulation of people, which is at the core of the British political debate. So that's the single market—apparently it's over.

**MR. DARROCH:** Of course there is some caution. Businesses hate uncertainty. But a lot of people do seem prepared to bear with us and see how things turn out. The basics of the British economy remain pretty strong: fastest-growing economy in the G-7 for the last two years, scheduled to grow second-fastest to the U.S. economy this year. Very low unemployment.

But our objectives are to protect and defend the interests of everyone who is doing business in the U.K., and to get the best possible outcome for the business community.

**MS. TRENTMANN:** Mr. Ruge, I read in British papers that because of the exports that the German economy has to the U.K., Berlin will succumb to German industry and there will be some sort of deal which would accommodate some of the British interests. What is the German government's response to that?

**MR. RUGE:** Well, the first re-

sponse is that we're not negotiating with the U.K., the EU 27 are negotiating with the U.K. It's no doubt true that German business and business in France will make its voice heard. And they will have a hearing in Brussels and with national governments. But the outcome of this will depend on a number of considerations. Part of them are commercial and business, part of them are strategic. And the strategic consideration [that is] as important as any other, or perhaps more important, is maintaining the EU 27 as a cohesive force.

## Where the ACA Stands

Rep. Greg Walden says a health-care bill will be on the president's desk before August



'We have a moment here to try to fix this market.'

*Businesses are watching closely as Senate Republicans try to hash out a deal on a GOP version of health-care reform to replace the Affordable Care Act.*

*Whether they can bridge their divisions, however, remains to be seen.*

*Rep. Greg Walden of Oregon, who helped shepherd the party's health-care overhaul bill through the House last month, sat down with Louise Radnofsky, The Wall Street Journal's White House reporter, to offer his take on where the effort stands.*

*Edited excerpts follow.*

**MS. RADNOFSKY:** Should CFOs assume that the ACA will be law of the land this time next year or will it be the American Health Care Act?

**REP. WALDEN:** We are working diligently to rescue the individual insurance market from collapse. It was predicted to happen. It's happening. And it needs reform.

I was also a small-business owner for over 20 years. When it came to purchasing insurance as a small-business owner, which we did for all of our employees, all you could do was throw a dart at the board every year to figure out what the rate increase would be. We had no market power. We had no purchasing power.

The House has passed the American Health Care Act to try to do reforms, to get cost control on the Medicaid system, give states more flexibility to design plans that will work for them and move people into an insurance product they can afford.

We know there's more work to be done. We believe we gave the Senate some nice headroom and some dollars set aside in there to make other changes. So they've got some flexibility. We'll see where this leads. But I think we'll get a bill to the president's desk before August.

**MS. RADNOFSKY:** Before August you think the Senate will do what it needs to do?

**REP. WALDEN:** Yep.

**MS. RADNOFSKY:** Do you think health insurance should be priced like car insurance, based on a person's risk? Or should it be priced like a social benefit, where we're all in this together?

**REP. WALDEN:** I think health insurance is deeply personal because health care is deeply personal. In the auto-insurance market you for the most part can control your behavior. You can follow the rules of the road. You can not be distracted on your devices or ad-

*Source: 1Q 2017 Deloitte CFO Signals Survey of 132 CFOs from companies averaging more than \$5 billion in annual revenue, conducted in February 2017*

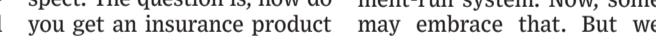
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### Health Check

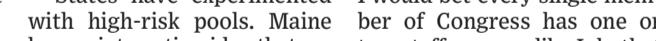
How CFOs feel about the Affordable Care Act and the prospect of change

Strongly agree Agree Neither agree nor disagree Disagree Strongly disagree

The Affordable Care Act has had negative impacts for my company



Replacing or updating the Affordable Care Act is important to my company's health-care costs



*Source: 1Q 2017 Deloitte CFO Signals Survey of 132 CFOs from companies averaging more than \$5 billion in annual revenue, conducted in February 2017*

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15% payroll tax among other things. And that's just an estimate, which is probably rosy.

We have a moment here to try to fix this market. If we don't, the odds are we're going to move to a more government-run system. Now, some may embrace that. But we have those systems today, and I would bet every single member of Congress has one or two staff persons like I do that spends all day every day trying to help our veterans get access to the care they're being denied. So I'm not sure that's the system we want.

**MS. RADNOFSKY:** Will the Cadillac tax ever go into effect?

**REP. WALDEN:** We want to get rid of it. We want to get rid of the tax on medical devices. But if we fail [to pass health-care reform], then, yes, you should presume that all those taxes stay in place.

**MS. RADNOFSKY:** And if you succeed?

**REP. WALDEN:** Then they go away. And by the way, by making the reductions we're doing, we reset the baseline, which if you want tax reform, passage of this is worth a trillion dollars in tax reform.

**MS. RADNOFSKY:** What about employer-sponsored insurance? Will the tax protection of that continue?

**REP. WALDEN:** Yes.

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Paul Morse/Dow Jones (4)

# Taxis. Hotels. What Industry Is Next?

Arun Sundararajan says a host of businesses will be disrupted by the likes of Uber and Airbnb

*Which industries will be the next ones to be disrupted by the likes of Uber and Airbnb, with platforms that act as intermediaries between customers and the services they want? Arun Sundararajan, a professor at New York University's Stern School of Business, offered his outlook in a conversation with The Wall Street Journal's Jacob Schlesinger. Edited excerpts follow.*

## Health care and energy

**MR. SCHLESINGER:** How is health care going to be Uberized?

**MR. SUNDARARAJAN:** A whole host of noncritical services—not things like open heart surgery but things like I cut my finger cooking and I need someone to stitch it up for me—can be platform-mediated. You find a registered nurse in your neighborhood. You don't actually go to an emergency room for a noncritical thing. You instead find a platform-mediated solution. Part of what's holding us

back at this point is that we haven't built up sufficient trust through platforms for things that are as high-stakes as health care.

**MR. SCHLESINGER:** Elder care is another thing I think you've talked about. How does that change in this environment?

**MR. SUNDARARAJAN:** The care industry is going to be a tremendous growth industry. And a lot of the growth is going to come through platform-mediated solutions, where you connect using the reputation that someone has built through a little platform with the kind of child care, the kind of home care, the kind of elder care that you need.

**MR. SCHLESINGER:** How is energy going to be involved in this new world?

**MR. SUNDARARAJAN:** This is not in the immediate future, but in the next five to 10 years: We're not yet at the point where battery technology is reliable enough to store

the solar power that someone generates off their roof, but we will reach that point fairly soon. Once we reach that point, I envisage platforms that make millions of people energy producers—they use some of the power that they produce, and they redistribute it locally. And the local redistribution is key. You're not just feeding it back into the grid. You are avoiding the inefficiencies associated with long-distance transmission and distribution. And you're avoiding the inefficiencies associated with centralized power production.

**MR. SCHLESINGER:** And you mentioned professional services. Explain how that changes in this world.

**MR. SUNDARARAJAN:** I've seen platforms, like Catalant for management consultants, UpCounsel for legal services, Gigster for high-end machine-learning programming. There are platforms for accounting, for sales—where rather than



PAUL MORSE/DOW JONES

going to a large branded service provider for certain things, you go to a platform instead.

Like, if you struck out on your own as a lawyer now you'd be precluded from a lot of large corporate work because they go to the big firms.

What these platforms are doing is trying to strike that middle ground where the individual is running their own tiny business through the platform, but the platform is aggregating demand, giving them scale, giving them a little bit of brand.

## Signs of vulnerability

**MR. SCHLESINGER:** Beyond specific sectors, what are general traits of industries that you think are ripe for this kind of disruption and industries that are safe from this kind of disruption?

**MR. SUNDARARAJAN:** The simple characteristic is that if there's an intermediary that is sort of taking a significant fraction of the value that the individual producer is creating, that's certainly one characteristic. A second characteristic and the one that I'm following more closely is, is there a fundamental sort of inherent economic advantage to a decentralized production model?

So, are you tapping into

capital that is otherwise being underutilized? Can the person who is producing also use what they're producing in part and benefit from the fact that they are now the producer? That's the case with energy.

Also the extent to which going to a branded corporate solution is really important as part of the value proposition of the service. For a service where a big part of what you're buying is the brand associated with the provider—those are less vulnerable to disruption. But on the other hand, if the brand has just been sort of layered on top, and what people really care about is the product or service that's being delivered, the vulnerability is greater.

That's an interesting thing to think about in the context of the auto industry. A lot of people's identity used to be tied up in, "This is the car I drive. This is who I am." All of you have probably taken an Uber. None of you have probably sent your Uber away because the car was the wrong brand. And this speaks to the disconnect between what you're ordering and the brand of the machine that actually comes to deliver it.

I think down the road, the brand that's going to matter is the brand of the interface. And the brand interface that is go-

ing to win is the one that establishes to you that, "You can trust my digital stripes. You can trust the brain of the car that I send you because I'm good at software."

## Corporate changes

**MR. SCHLESINGER:** How does the structure of a Fortune 500 company change?

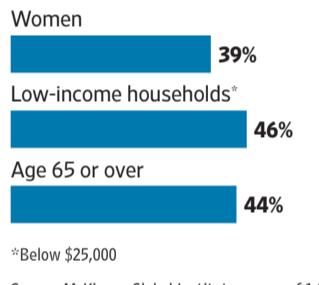
**MR. SUNDARARAJAN:** The organization in some sense becomes a lot leaner, but the scope of resources that it's drawing from expands dramatically. And so I expect smaller corporations in terms of head count internally but much larger corporations in terms of the scope of their economic activity.

**MR. SCHLESINGER:** Will companies still need chief financial officers?

**MR. SUNDARARAJAN:** Oh, absolutely. Top management is going to become more important than ever, actually, because of the complexity of the mesh of resources that you're going to have to manage and the pace at which business is changing. An openness to thinking about "How will the way I make money be different 10 years from now?"—whatever industry you're in, that's a capability that is certainly going to have to be acquired by any top executive.

## Going It Alone

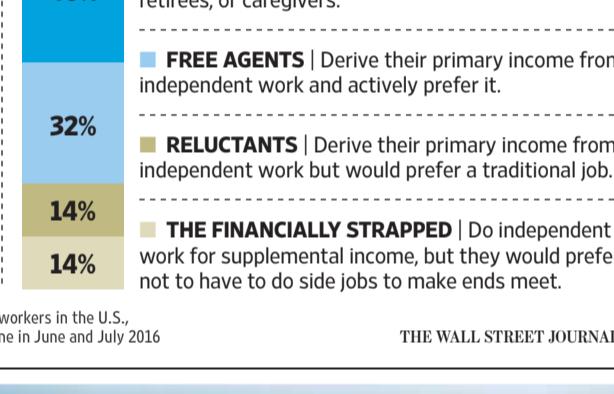
Percentage of earners in each category who participate in independent work in the U.S.



\*Below \$25,000

Source: McKinsey Global Institute survey of 1,804 workers in the U.S., including 487 independent workers, conducted online in June and July 2016

Status of independent workers in the U.S.



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# What to Do if Trump Tweets About You

Joele Frank and George Sard on what companies should say, and how they should say it

*Imagine you are the chief financial officer of a publicly traded company, and the president of the United States has just tweeted something critical about your company.*

A number of CFOs have found themselves in this very position since Donald Trump was elected president. Some companies have seen their shares fall, at least temporarily, in response to critical tweets by President Trump.

Dennis K. Berman, financial editor of *The Wall Street Journal*, discussed the issue with two experts in corporate-crisis management, Joele Frank, founder and managing partner of *Joele Frank, Wilkinson Brimber Katcher*, and George

Sard, chairman and CEO of *Sard Verbinnen & Co.* Edited excerpts follow.

**MR. BERMAN:** When the president tweets, maybe the thing to do is nothing. Just shut up.

**MS. FRANK:** No.

**MR. SARD:** Sometimes.

**MS. FRANK:** If he's negative, a company has to defend itself. Companies are learning and have learned. Most of the negative tweets were between the election and inauguration. The companies were slow to respond.

**MR. BERMAN:** George, make the case for shutting up.

**MR. SARD:** You have to quickly assess where it's getting trac-

tion. Because there are times when you make it a bigger story by engaging.

He has always had a tendency to sometimes use a carrot and sometimes a stick. You ought to quickly try to assess which it is, and then, particularly if he's tried to use you to make a larger point, you don't necessarily have to engage.

**MR. BERMAN:** The press calls, you say, "No comment."

**MS. FRANK:** No.

**MR. SARD:** If it's a job issue, you have your facts straight. "We've got 98% of our jobs here in the U.S." "We invest X billion dollars."

**MS. FRANK:** The way we think about it, if it's early days,



Joele Frank and George Sard

PAUL MORSE/DOW JONES (2)

you're able to get into the same news cycle and calm things down.

**MR. SARD:** Right, you don't want to make it a multiday story.

**MR. BERMAN:** What's your best practical advice?

**MR. SARD:** The best advice is, before you get to that point, assess yourself.

Because if you look at the issues he has tweeted about, it's almost invariably jobs and pricing. Especially if you sell something to the government, whether it's drugs or airplanes. You have to really make sure that you've gotten your story straight around your pricing and your U.S. jobs.

What you don't want to be called is unaware. If you've done that thinking in advance, it's pretty easy to formulate your answer.

But you also want to, importantly, take it off Twitter. You do not want to get into a Twitter war.

**MR. BERMAN:** So never tweet back at the president.

**MS. FRANK:** Use other platforms.

Lots of times employers are using letters to their employees. A lot of the work is done through that base to answer the tweets.

**MR. SARD:** What Trump has done so successfully is com-

municate directly, bypassing the conventional media, with his constituency. Companies need to be able to do the same thing, to go to their constituencies.

But typically your response would be on your website. It would be on an email you'd send out to your own folks, your customers.

**MR. BERMAN:** If your client says, "Look, times just aren't so great, we've got to cut 6% of our workforce," would you say to them, "Don't say a word?"

**MS. FRANK:** No, it's about

where are you cutting. Are these cuts in the U.S. totally?

**MR. BERMAN:** Yes.

**MR. SARD:** On a case like that you've got to be on your front foot and explain why it's essential to the business.

**MS. FRANK:** What we've seen people do is say, "Without this we won't be able to do that."

**MR. BERMAN:** Should every CEO know what percentage of their workforce is in the U.S.?

**MS. FRANK:** Yes.

**MR. SARD:** Absolutely. There are certain basic facts that you need to know.

## Warren

*Continued from page R5*

coverage, raise costs for people over 50, open the door for insurance companies to be able to discriminate against people with pre-existing conditions or to have caps on insurance coverage. So at the moment you need help most, that help will disappear."

There it is. That is the biggest form of tax relief for millionaires and billionaires that's right on the table.

People have not been shy, companies have not been shy about stepping up where they want to see changes in the

law. Where are you all on health care? You can do this with dollars and cents. What's the cost that's climbing the fastest for probably every corporation represented in this room? It's health care.

And the Republicans are trying to figure out how to roll back health-care coverage and as part of that, roll back many of the reforms that were starting to drive down costs.

If your customers are going to lose health-care coverage, if your customers are going to have minimalist coverage, we're talking about tens of millions of people who would be affected, one-sixth of the entire U.S. economy.



"Part of the problem with disclosure is that the system has been co-opted by lawyers.... Disclosure is supposed to be for the purpose of informing. But instead it's become for the purpose of providing a defense. And so when you have proxy statements that run hundreds of pages, I think it's impossible to expect any normal individual to put in the time to read all of those pages. The difficulty, however, is that eliminating disclosures will raise all sorts of hackles.

And in the first instance, what you might see—and it's a way to sort of bridge that gap—is to go to a summary disclosure document the way disclosure used to be, five, six pages long, with hyperlinks using technology so that the more detailed information that companies right now are required to report anyway are available to people who want to dig that deep. And by watching how many people actually use the information, judgments can start to be made about eliminating some of the information, and so on. I think it's going to be more of an evolutionary process, but that's just a guess on my part."

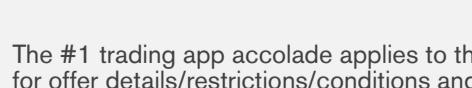
**HARVEY L. PITTS**, Former SEC Chairman; Founder, CEO and Managing Director, Kalorama Partners LLP and Kalorama Legal Services PLLC



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