

THE WALL STREET JOURNAL.

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THURSDAY, JUNE 15, 2017 ~ VOL. CCLXIX NO. 138

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What's News

Business & Finance

The Fed said it would raise rates by a quarter point and spelled out in greater detail its plans to start shrinking its portfolio of bonds and other assets. A1

◆ The dollar and Treasury yields pared declines and major U.S. stock indexes ended mixed after the Fed's announcement. B12, B13, B14

◆ The Chinese tycoon who transformed Anbang Insurance was detained by a special investigative unit looking at economic crimes. A1

◆ The oil glut is proving immune to OPEC's output caps. Crude prices fell to their lowest level of 2017 after the release of inventory data. A1

◆ Aramco's IPO could be slowed by a rift between the Saudi royal court and oil company executives over where to list the shares. B1

◆ Uber is taking the unusual step of handing control to a group of 14 executives while its CEO is on leave. B1

◆ Avon's CEO is expected to step down after her effort to turn around the cosmetics seller faltered. B1

◆ Mattel is cutting its dividend by over half as the toy maker looks to modernize its brands and expand. B1

◆ GE Power's boss is leaving after losing the succession race for Immelt's job. B5

◆ GM will extend the summer shutdown at certain U.S. plants due to slumping sales and bloated inventory. B3

◆ Europe's air-safety chief criticized a U.S. plan to expand a laptop ban, citing the risk of batteries in cargo. B4

World-Wide

◆ A gunman opened fire on a group of Republican lawmakers during a morning baseball practice, injuring the House majority whip and three others. A1

◆ The shooter, who was killed by police, was an Illinois man who belonged to several anti-Republican groups. A4

◆ Trump's firing of Comey is now a subject of the Mueller probe, which has expanded to include whether the president obstructed justice, a person familiar with the matter said. A5

◆ The Senate Judiciary panel plans to open an inquiry into the circumstances surrounding Comey's removal. A5

◆ Tillerson said the U.S. would support peace efforts by Russia and Ukraine outside of the Minsk accords. A6

◆ Five Michigan officials were charged with involuntary manslaughter over Flint's lead-tainted water. A3

◆ The U.S. and Qatar signed a preliminary deal for the sale of dozens of Boeing F-15 fighters to the Gulf nation. A8

◆ An Iranian Navy vessel confronted three American ships and pointed a laser at a Marine Corps helicopter. A9

◆ The number of people admitted to the U.S. from the six countries in Trump's travel ban has fallen dramatically. A4

◆ Federal prosecutors have filed charges against members of Erdogan's security detail over a melee during the Turkish leader's U.S. visit. A5

◆ States are forecast to lift spending by only 1% in the next fiscal year as they grapple with weak revenue. A5

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Republican Sen. Jeff Flake, right, of Arizona hugs teammate Rep. Chuck Fleischmann of Tennessee after Wednesday morning's shooting.

GOP Lawmakers Targeted In Ballfield Shooting Spree

ALEXANDRIA, Va.—A gunman with a history of criticizing President Donald Trump and GOP policies opened fire on Republican congressmen gathered

By Peter Nicholas,
Kristina Peterson
and Gordon Lubold

at a baseball practice Wednesday morning, shooting four in an attack that stunned the capital and prompted both parties to set aside partisan differences.

Rep. Steve Scalise of Louisiana, who is the House majority whip, was shot once in the left

hip and was in critical condition after multiple surgical procedures, a Washington hospital said. A congressional aide, a lobbyist and a Capitol Police officer were also shot, officials said. Another Capitol Police officer and another congressman sustained minor injuries during the ambush.

Officials identified the suspected gunman as James T. Hodgkinson, a 66-year-old home inspector who had had run-ins with neighbors in an Illinois suburb of St. Louis. Mr. Hodgkinson, who had one handgun and one rifle, was killed by

police, FBI Special Agent in Charge Timothy Slater said.

While the officials didn't ascribe a motive, letters and online posts in Mr. Hodgkinson's name were critical of the Republican president. Mr. Hodgkinson was taken to a hospital

Mueller Inquiry Turns to Trump

President's firing of FBI director is now subject of special counsel's investigation..... A5

and died from multiple gunshot wounds, Mr. Slater said.

The extent of Mr. Scalise's wound only became apparent late Wednesday, when MedStar Washington Hospital Center said in a statement that the bullet caused extensive internal damage and that he had undergone two surgical procedures and was expected to undergo more.

The shooting, which pierced a quiet suburban neighborhood outside Washington just after 7 a.m., was the first time in more than 60 years that multiple U.S.

Please see ATTACK page A4

Oil Glut Exposes OPEC's Limits

OPEC is running smack into a wall of crude-oil storage.

The global oil glut is proving immune to the curbs set by the Organization of the Petroleum Exporting Countries and its big-producer allies like

By Summer Said,
Georgi Kantchev
and
Neanda Salvaterra

Russia, fueling the idea that output caps withholding almost 2% of world crude supply were a miscalculation.

Brent, the international oil benchmark, and West Texas Intermediate, the U.S. price setter, fell almost 4% to their lowest levels of 2017 on Wednesday after the release of fresh data about inventories. Overall, prices are down more than 17% since the beginning of the year.

In the U.S., the Energy Information Administration said Wednesday that crude stockpiles fell last week by 1.7 million barrels, less than the 2.6 million drop forecast by a Wall Street Journal survey. At the same time, gasoline inventories rose by 2.1 million barrels, compared with the survey's expectation of a decline of 700,000, underlining worries about the oversupply extending to crude oil's products.

Oil stockpiles in the Organization for Economic Cooperation and Development—a club of 35 countries with industrialized economies—rose by 18.6 million barrels in April and were higher than they were when OPEC agreed to its cut late last year, said the International Energy Agency, a Paris-based group that advises governments on energy trends.

Please see OIL page A10

Inferno Engulfs London High-Rise



Chinese Tycoon Held In Corruption Probe

By JAMES T. AREDDY

SHANGHAI—A highflying Chinese business tycoon whose company owns New York's Waldorf Astoria hotel was detained in China late last week by authorities who are investigating corruption and trying to curb risky financial behavior.

Wu Xiaohui, who transformed Anbang Insurance Group from a provincial auto insurer into a global deal maker, was detained by a special investigative unit looking at economic crimes, people familiar with the matter said. The probe centers on whether Mr. Wu was involved in bribery and other economic crimes at Anbang, these people said.

Politically connected tycoons such as Mr. Wu, who has been married to a granddaughter of former leader Deng Xiaoping, have become a focus for China's leaders as the Communist Party gets set to hand President Xi Jinping a second five-year mandate at a high-level conclave this fall. Mr. Xi's political standing depends in part on party views of his signature anticorruption campaign, now nearly five years old.

The investigation has been under way for months but is still in its early stages, and doesn't mean that charges will be brought, said the people familiar with the matter.

In a statement Wednesday, Please see CHINA page A10

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Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size," doc #US41913B16, Dec. 2016; Table 4. For the purposes of this report, SaaS enterprise applications include the following application markets: CRM, engineering, ERP, operations and manufacturing, and SCM.

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THE BEST AND WORST COACH SEATS

JOURNAL REPORT, R1-6

TOP 25 TECH COMPANIES TO WATCH

U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

Lousy Raise? It Might Not Get Better



For anyone who collects a paycheck, there's some bad news, and worse news.

First, the bad: Unemployment may be at a 16-year low, yet wage growth is miserable, clocking in between 2.5% and 3% for the past year. When unemployment was this low in the late 1990s and the mid-2000s, wages grew 4%.

Now, the worse: If a labor market this tight can't generate better pay, quite possibly it never will. In Japan and Germany, where unemployment is plumbing generation lows, wages are moribund. This suggests the problem transcends borders: Minimal corporate pricing power, lackluster productivity growth and an aging workforce have all undercut employers' ability to pay better.

This confronts the Federal Reserve with an intensifying dilemma. It has long assumed that once unemployment drops this low, wages and prices will pick up. Janet Yellen, the chairwoman, reiterated that Wednesday after the Fed raised interest rates by a quarter of a percentage point and signaled plans to continue raising them through 2019.

Yet that assumption looks shakier by the month. Inflation has run persistently below the Fed's 2% target. Indeed, consumer price inflation excluding food and energy slipped to 1.7% in May, the Labor Department reported Wednesday, a two-year low. The Fed targets a different index, which shows even lower "core" inflation."

For most of the past eight

years, the Fed's assumption was a decent base case. Lousy pay was easily explained by a deep recession that left a glut of spare workers, many uncounted in the most common measure of unemployment, which robbed those with jobs of bargaining power. That explanation no longer washes. Some 4% of jobs are vacant, matching the highest recorded since 2000.

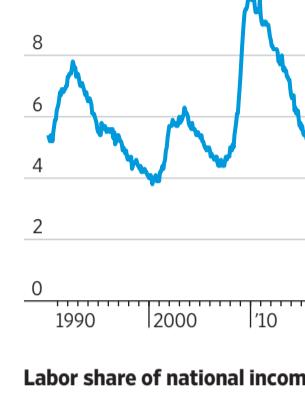
Which raises the obvious question: If employers are so desperate for help, why not pay more? Because pay is closely tied to what employers can recover by raising prices (inflation) or sales per employee (productivity). Since 2012, U.S. businesses' selling prices have risen by 1.4% and worker productivity by 0.6% a year. At 2%, the sum of those two figures—a proxy for sustainable wage growth—is the lowest in more than 60 years.

Worker pay has grown faster than that subdued 2% benchmark, because employers have absorbed the excess in their profit margins. Raises may also be more prevalent than the subdued average pace of wage gains lets on. The Federal Reserve Bank of Atlanta looks at how much respondents to the monthly household survey say their pay has risen in the last year and finds the median raise has doubled since 2010 to 3.5%, meaning half of workers saw pay rise by more, half by less. Why the median is so much higher than the average is unclear but may reflect the changing composition of the workforce. Employers hold on to

A Recovery for Labor but Not Wages

Low unemployment has elevated the median raise and labor's share of national income is rising, while poor productivity and low pricing power hold back broader wages.

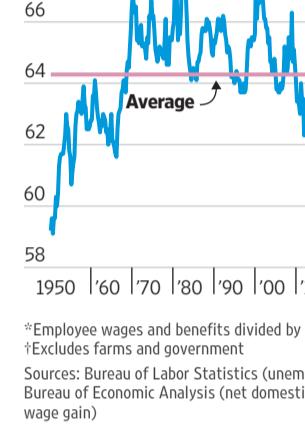
Unemployment



Annual hourly wage growth



Labor share of national income*



Productivity and price growth, five-year average†



*Employee wages and benefits divided by net domestic product (GDP minus depreciation)

†Excludes farms and government

Sources: Bureau of Labor Statistics (unemployment, average hourly earnings, productivity); Bureau of Economic Analysis (net domestic product); Federal Reserve Bank of Atlanta (median wage gain)

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economy as a whole. As more low-skilled workers join the workforce, its quality suffers. Researchers at the Federal Reserve Bank of San Francisco and Bart Hobijn at Arizona State University predict that in the next few years, labor quality would continue to deteriorate, assuming more of the newly hired come from the fringes.

That doesn't dictate worse productivity and pay, but it sure doesn't help.

For wage gains to grow sustainably faster, either prices, productivity or both have to grow much faster. Even if inflation returned to 2%, higher real (i.e., after inflation) wages requires better productivity.

Experience abroad, however, is not encouraging. In Japan, unemployment is the lowest in decades and labor shortages are rampant. Yet wage growth hovers around zero in part because retirees are taking menial jobs to supplement their pensions.

Germany has the tightest labor market in two decades, but pay gains are below 2%. Like the U.S., both countries are grappling with lackluster productivity and an aging labor force whose most experienced and best-paid workers are retiring.

For now, the Fed remains confident unemployment this low will get inflation back to 2%. Productivity growth is also long overdue for some rebound. Yet to get wage growth back to 4% is a stretch, all the more so when an expansion is already long in the tooth. In short, if you just got a raise, enjoy it: It might be as good as it gets.

U.S. WATCH

HIGHER EDUCATION

Harvard President To Step Down in 2018

Harvard University President Drew Gilpin Faust will step down in June 2018, capping what will be an 11-year tenure at one of the most prestigious universities in the world.

Ms. Faust is the first woman to lead Harvard.

In a letter sent to Harvard students, faculty and staff on Wednesday afternoon, Ms. Faust called her departure date "the right time for the transition to Harvard's next chapter, led by a new president."

Under her leadership, Harvard initiated a record \$6.5 billion capital campaign—and blew past the goal—expanded financial aid for undergraduate students and grew its footprint around Boston. The school also tried to curb single-gender social organizations, grappled with its historic ties to slavery and made some investment missteps that led to an overhaul of the office that oversees Harvard's \$36 billion endowment.

The university's governing body, known as the Harvard Corporation, will assemble a search committee in coming weeks to find the next school leader, according to William F. Lee, the group's senior fellow.

—Melissa Korn

SAN FRANCISCO

Gunman Kills Three At UPS Facility

A gunman shot and killed three workers in a United Parcel Service warehouse facility in San Francisco on Wednesday, before turning the weapon on himself.

The suspected shooter, whose identity wasn't immediately released, died of a self-inflicted gunshot wound to the head, police said. The shooter was wearing a UPS uniform, police said, though officials said they couldn't confirm if he was a UPS employee. Two others were injured in the attack.

In a statement, the company confirmed "a shooting incident involving six employees within the company's San Francisco facility." The Atlanta-based company said it was cooperating with law enforcement.

—Jim Carlton

CORRECTIONS & AMPLIFICATIONS

The Portland, Ore., school district is among those that have implemented a daily recess requirement. A U.S. News article Wednesday about school recess didn't make clear in which state the district is located.

The surname of China's self-proclaimed "No. 1 Paparazzo" Zhuo Wei was misspelled as Zhou in a World News article Tuesday about the Chinese Communist Party's rebuke of internet censors.

Turnkey Vacation Rentals is a property-management company. A Wealth Management report article on Monday about buying a vacation home incorrectly described it as a booking website.

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

THE WALL STREET JOURNAL
(USPS 664-880)
(Eastern Edition ISSN 0099-9660)
(Central Edition ISSN 1092-0935)
(Western Edition ISSN 0193-2241)

Editorial and publication headquarters:
1211 Avenue of the Americas,
New York, NY 10036

Published daily except Sundays and general legal holidays. Periodicals postage paid at New York, NY, and other mailing offices.

Postmaster: Send address changes to The Wall Street Journal, 200 Burnett Rd., Chicago, MA 01020.

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FED

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crease later this year if the economy performs in line with its forecast.

Together with the decision to raise interest rates, the balance-sheet plans show confidence in the economic expansion, which has been unspectacular but is also the third-longest on record.

"We should want the Fed to raise rates because it signals something good about the underlying economy," said Tobias Levkovich, chief U.S. equity strategist at Citigroup. "When it gets overheated and the Fed has to cut it off, that's when you get worried."

Markets were little changed after the expected moves. The Dow Jones Industrial Average rose 46.09 points, or 0.2%, to a fresh high of 21374.56. The S&P 500 fell 2.43 points, or 0.1%, to 2437.92.

Wednesday's decisions mark a new chapter for the Fed and Ms. Yellen, whose tenure has been defined by meticulous plans to slowly drain reservoirs of stimulus that she and other Fed leaders forcefully advocated in response to the financial crisis that deepened the 2007-09 recession.

Ms. Yellen's tenure as Fed chairwoman began in early 2014, as the Fed began to slow its purchases of Treasury and mortgage securities, the conclusion of the latest—and broadest—effort to spur household and business investment by pushing down long-term interest rates.

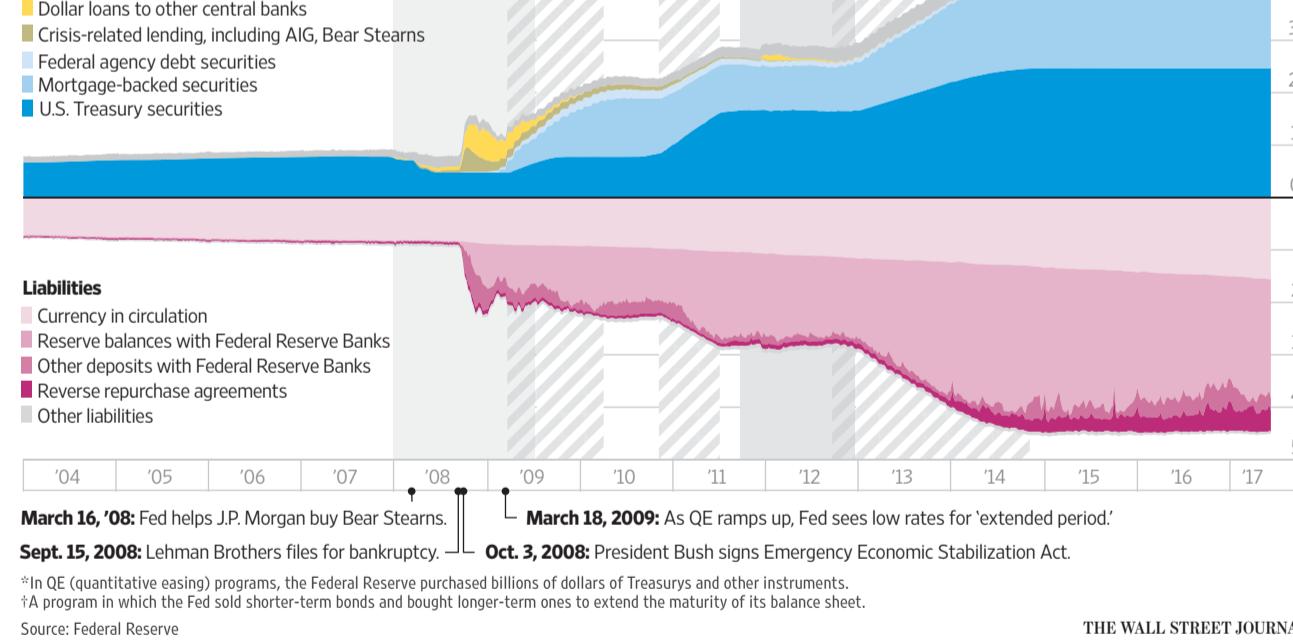
The Fed stopped adding to its holdings, also known as its balance sheet, in October 2014, but it has continued to reinvest the proceeds of maturing assets to maintain the portfolio's size. Since then, central bankers in Europe and Japan have ramped up similar bond-buying experiments.

"The Fed has done a tremendous job helping the economy grind its way out of an extremely deep and disruptive recession," said Michael Garen, chief U.S. economist at Barclays and a former Fed economist.

Plans revealed by the Fed on Wednesday would start reducing the central bank's holdings gradually by allowing a small amount of net maturities every month. It would start by allowing up to \$6 billion in Treasury securities and \$4 billion in mortgage bonds to roll

Building the Fed Balance Sheet

The Fed purchased trillions of dollars of mortgage and Treasury securities to encourage businesses and consumers to borrow, spend and invest more after the 2008 financial crisis. It announced plans Wednesday to begin slowly paring down its holdings this year.



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March 16, '08: Fed helps J.P. Morgan buy Bear Stearns.

Sept. 15, 2008: Lehman Brothers files for bankruptcy.

*In QE (quantitative easing) programs, the Federal Reserve purchased billions of dollars of Treasurys and other instruments.

†A program in which the Fed sold shorter-term bonds and bought longer-term ones to extend the maturity of its balance sheet.

Source: Federal Reserve

Oct. 3, 2008: President Bush signs Emergency Economic Stabilization Act.

March 18, 2009: As QE ramps up, Fed sees low rates for 'extended period.'

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core prices rose only 0.1% from April.

From a year earlier, consumer prices rose 1.9%, the third straight month annual gains have eased and the lowest reading since November. Prices were up 1.7% on the year when excluding food and energy, the weakest mark in two years.

For now, Fed officials don't appear overly concerned with the recent downward path, attributing it at least in part to one-time drops in prices for things like wireless telephone services and prescription drugs.

"With employment near its maximum sustainable level and the labor market continuing to strengthen, the committee still expects inflation to move up and stabilize around 2% over

the next couple of years in line with our longer run objective."

Fed Chairwoman Janet Yellen said Wednesday. "Nonetheless, in light of the softer recent inflation readings, the committee is monitoring inflation developments closely."

Separate data out Wednesday showed a slowdown in key components of consumer spending. Retail sales—reflecting spending at stores, restaurants and websites—fell 0.3% in May, the biggest decline since January 2016, the Commerce Department said. While that in part reflected cheaper gasoline prices, Americans also cut spending at department stores, car dealerships, electronics retailers and restaurants.

—Jeffrey Sparshott and Josh Mitchell

lieve could mean September or October.

Officials have taken pains to communicate their strategy in advance to avoid a rerun of the 2013 "taper tantrum," when investor concerns over the Fed's decision to slow down asset purchases triggered market turmoil, including a sharp increase in Treasury yields and capital outflows from emerging markets.

"The plan is one that is consciously intended to avoid creating market strains and to allow the market to adjust to a very gradual and predictable plan," Ms. Yellen said Wednesday.

Allowing some of the holdings to mature without reinvestment could push up long-term rates. The Fed has been buying around \$24 billion in mortgage securities a month this year and around \$17.5 billion in Treasurys, according to FTN Financial.

The Fed said all participants

had agreed with the balance-sheet plans. Minneapolis Fed President Neel Kashkari cast the lone dissenting vote on Wednesday's decision to raise rates because he wanted to hold them steady.

Since officials last met in early May, they have faced conflicting signals about the economy on two items that matter most: employment and inflation. Solid job gains have pulled down the unemployment rate to lower-than-expected levels, at 4.3% in May, but inflation has unexpectedly slowed.

Ms. Yellen said officials are "monitoring inflation developments closely," but warned against reading too much into recent one-off declines in consumer prices, such as wireless-phone plans, that have weighed on inflation gauges.

Fed officials marked down their projections for inflation this year, though they still see annual price gains reaching their 2% target by the end of 2018, in part because they expect tighter labor markets to ultimately help firm up prices.

Officials' median expectation for the federal-funds rate showed few changes from projections released in March, and implies three more quarter-point increases in 2018 and three more in 2019.

U.S. NEWS

A New Hampshire City Pays Tribute to Its History



NEXT GENERATION: A 95-foot-by-50-foot American flag was unfurled on Wednesday, Flag Day, outside a former mill building in Manchester, N.H. It is a replica of one on the building in 1914 produced by workers at the Amoskeag Manufacturing Co.

Google Steps Into Housing

The Silicon Valley tech giant aims to buy 300 apartment units from modular-home startup

BY LAURA KUSISTO

VALLEJO, Calif.—Soaring home prices and apartment rents in Silicon Valley have become a growing headache for technology titans. Google owner Alphabet Inc. is taking a step toward addressing the issue.

The Mountain View, Calif., company is finalizing an order to buy 300 apartment units from Factory OS, a modular-home startup, in a building likely to serve as short-term housing for Google employees, according to executives from both companies.

The expected value of the deal is \$25 million to \$30 million, according to Rick Holliday, founder and chief executive of Factory OS. It would be the first order for the company.

Modular-building technology, essentially factory-built homes that are pieced together on site, could help reduce the cost of construction in the Bay Area by 20% to 50%, experts said.

"Anything that can help us to move forward with a greater knowledge of how we can produce housing more effectively is something we're interested in," said John Igoe, director of design and con-

Up, Up and Away

Home-price index for the San Francisco metro area, including Silicon Valley



Note: Data is seasonally adjusted.
Source: S&P CoreLogic Case-Shiller
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struction at Google. "We absolutely are confident that it will work. Hopefully, it doesn't become false bravado."

To be sure, modular-building companies in places like California and New York have faced over the years, and the approval process can be just as difficult if not more so, because the technology is still developing. And so far, the cost savings haven't been as big as developers have hoped, though experts predict costs will come down sharply as the industry evolves.

As Silicon Valley battles its severe housing shortage, tech companies are becoming more active in trying to help solve the problem. Facebook Inc. has pledged to plan and design

1,500 units in Menlo Park, of which 15% will be classified as affordable housing. The project is still in the early planning phase. A spokesman said the company is considering modular housing and is supportive of Mr. Holliday's project.

In modular construction, also known as prefab, builders construct entire homes, apartment units or individual rooms in a factory and truck them to home sites, fitting them together like puzzle pieces. The process is quicker and usually cheaper than on-site construction, because companies can work through bad weather and bring more order to a job site.

"We won't have much of a housing market if we don't figure this out," Mr. Holliday said.

Experts said one of the few ways to reduce housing costs would be to build apartment towers in factories. San Francisco rents have jumped by almost 50% since 2010, while home prices have increased 98% since the bottom of the market in 2009.

"We've reached a tipping point where costs are just so high that people are desperate to figure out a solution," said Carol Galante, faculty director of the Terner Center for Housing Innovation and a former federal housing commissioner.

Mr. Holliday, who also is the owner of Holliday Development, a builder of affordable and market-rate housing in the Bay Area, said he became en-

amored of the idea after years of dealing with labor shortages, chaotic construction sites and difficulty finding workers.

The Factory OS facility in Vallejo is two to three times as big as most modular-construction facilities.

As a developer, Mr. Holliday can fill holes in the pipeline with his own projects. He is funded mostly by foundations, not venture capitalists, putting less pressure on him to maximize profits from the outset.

Mr. Holliday was introduced to modular construction when he pulled off the highway near Sacramento one day to tour the factory owned by a company named Zeta.

Zeta, founded in 2008, generated buzz in the Bay Area with a handful of successful pilots, when it installed the modules for a four-story building in four days—although it took about five months in total from the start of the project to finish. It would have taken at least nine months using normal construction methods, according to Co-Founder and Chief Executive Naomi Porat.

But Ms. Porat acknowledged the company faced numerous challenges, including venture-capital backers who expected a quick return and difficulty establishing a steady pipeline of work.

"The pioneers are not always going to be the last standing," she said. "I believe that off-site construction is the method of the future."



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Five Officials Charged In Flint Water Case

BY KRIS MAHER

The Michigan attorney general charged the head of the state health department and four other former state and local officials with involuntary manslaughter in the investigation into Flint's lead-tainted water crisis.

Nick Lyon, director of the state Department of Health and Human Services, becomes the highest-ranking official in Republican Gov. Rick Snyder's administration to face charges in the probe.

Chip Chamberlain, a lawyer for Mr. Lyon, called the charges "baseless," saying, "the true facts simply do not support the prosecution's claims."

Michigan Attorney General Bill Schuette said the charges reflected the determination of investigators to hold officials responsible.

The others charged with manslaughter Wednesday, including Darnell Earley, a former Flint emergency manager appointed by Gov. Snyder, had previously been charged with other felonies related to the city's lead contamination.

Mr. Schuette's office also brought obstruction charges against the state health agency's chief medical executive, Eden Wells. Prosecutors said she lied to an investigator

and allegedly tried to withhold funding for programs designed to aid victims of the water crisis unless the program stopped investigating a Legionnaire's disease outbreak. Jerold Lax, a lawyer for Dr. Wells, said she "vehemently denies the charges and the charges will be vigorously defended."

A. Scott Bolden, a lawyer for Mr. Earley called the new charge against his client "extremely disappointing, false and excessive" and said he would vigorously fight them.

Gov. Snyder said that Mr. Lyon and Dr. Wells are instrumental to Flint's recovery and that both have his confidence and will remain in their jobs.

The manslaughter charges are tied to a contemporaneous outbreak of Legionnaire's disease, significantly increase the legal jeopardy for the individuals who now face up to 15 years in prison if convicted.

The manslaughter charges are tied to the 2015 death of Robert Skidmore. Prosecutors say the state officials caused his death when they failed to alert the public to a Legionnaire's outbreak. Drinking water became contaminated when the city switched to using the Flint River from April 2014 to October 2015. Lead leached into drinking water from aging lead service lines.

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U.S. NEWS

Visits From Nations on Travel Ban Plunge

BY LAURA MECKLER

WASHINGTON—President Donald Trump's order halting travel to the U.S. by people from six countries remains on hold by the courts, but the number of admissions from these nations has dramatically fallen nonetheless.

Compared with a year earlier, the number of people admitted from Iran, Libya, Somalia, Sudan, Syria and Yemen was down by about half year-over-year, according to data released Wednesday by the Department of Homeland Security for the months of March and April.

Data from the State Department on number of visas issued point to similar drops from these six countries as well. But it was unclear whether the decline was primarily due to fewer people seeking to travel to the U.S. or the administration rejecting more applications.

The State Department said it wouldn't release data about visa application rejections for recent months.

The Homeland Security data show a drop in admissions for all six countries in both March and April, the latest months available. The biggest drop was from Somalia, with the number of people being admitted to the U.S. in those two months falling by more than two-thirds, to 655 from 2,233 a year earlier.

Drops from Libya were the smallest, but off a very low base. Admissions in March and April fell 26% to 195, down from 265 a year earlier. Of the six targeted countries, the U.S. admitted the greatest number of people from Iran, in both 2016 and 2017.

Two appellate courts have halted implementation of Mr. Trump's order, which aimed to temporarily suspend travel to the U.S. by people from six Muslim-majority nations, cit-



The Supreme Court is expected to rule this month on the travel ban blocked by appellate courts. Above, JFK Airport in New York.

ing terrorism concerns. The government has asked the Supreme Court to intervene in the cases and the justices are expected to act this month.

The initial Trump travel or-

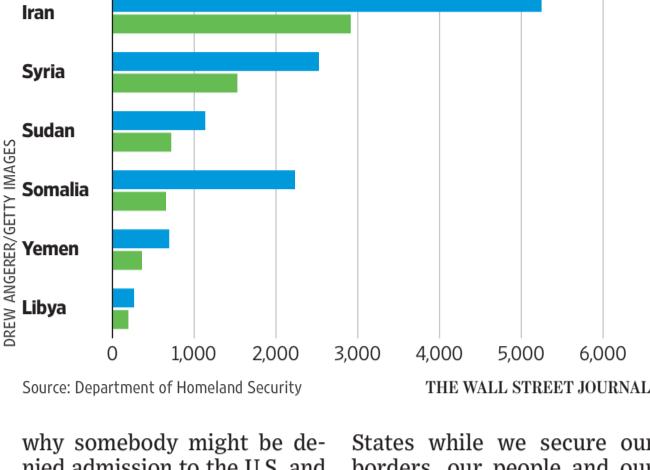
der was announced in January, then a revised order was issued in March.

The Department of Homeland Security said Wednesday that there were many reasons

Dwindling Admissions

The number of visitors arriving from six nations on the Trump travel ban is down sharply from a year ago.

Visitors from each country in March and April ■ 2016 ■ 2017



Source: Department of Homeland Security

why somebody might be denied admission to the U.S. and that it is the agency's responsibility to protect Americans.

"Our dual mission is to facilitate travel in the United

States while we secure our borders, our people and our visitors from those that would do us harm like terrorists and terrorist weapons, criminals, and contraband," it said.

Shooters Have Targeted Lawmakers in Past

BY SHARON NUNN

There have been several major incidents in which gunmen targeted U.S. lawmakers, but the baseball field attack marked the first time in more than 60 years that multiple congressmen have been targets in the same attack.

Here is a rundown of past shooting incidents involving lawmakers.

Four Puerto Rican nationalists shot five congressmen in 1954 in the U.S. Capitol's House chamber. The congressmen, Reps. Alvin Bentley of Michigan, Kenneth Roberts of

Alabama, George Fallon of Maryland, Ben Jensen of Iowa and Clifford Davis of Tennessee, were wounded when the nationalists opened fire from a House gallery.

Three of the shooters were overpowered by people in the building; the fourth escaped. All four were eventually apprehended and convicted in federal court for the shooting, receiving sentences ranging from 16 to 75 years.

President Jimmy Carter granted the nationalists clemency in 1979 at his attorney general's recommendation.

Rep. Leo Ryan (D., Calif.)

was shot dead during a 1978 trip to Guyana to investigate cult leader Jim Jones and his Peoples Temple movement.

After interviewing Peoples Temple members, Mr. Ryan and his entourage arrived at a Guyanese airstrip, where several temple members opened fire, killing him, three journalists and a defecting temple member, while wounding others, among them Mr. Ryan's then-congressional staffer, Jackie Speier. Today, Ms. Speier represents California's 14th Congressional District.

Hours later, more than 900 Peoples Temple members died

in the Jonestown mass murder-suicide.

Larry Layton, one of the gunmen and brother of a Peoples Temple leader, was convicted in 1986 of conspiracy in the murder of Mr. Ryan. Mr. Layton, the only person convicted of criminal charges for the murders, spent 18 years in Guyana jails and U.S. prisons and was released in 2002.

A mass shooting outside a Tucson, Ariz., grocery store in January 2011 left six dead and 13 wounded including Rep. Gabrielle Giffords (D., Ariz.).

Rep. Giffords was holding a constituent meeting at a Safe-

way when the shooter, Jared Loughner, shot her in the head and continued firing into the crowd. When he stopped to reload his gun and dropped the loaded magazine, bystanders were able to restrain him.

Ms. Giffords has spent years recovering from her injuries, undergoing an induced coma and surgeries, and she has since been a vocal gun-control advocate.

Mr. Loughner plead guilty to 19 charges in exchange for which the government didn't seek the death penalty in 2012. He is currently serving seven consecutive life terms.

Suspect Labeled President 'A Traitor'

BY DOUGLAS BELKIN AND SHIBANI MAHTANI

BELLEVILLE, Ill.—The man killed by police after shooting a top House Republican at a congressional baseball practice on Wednesday was a 66-year-old home inspector from Illinois who belonged to several anti-Republican groups and last year volunteered for Sen. Bernie Sanders's presidential campaign.

James T. Hodgkinson of Belleville walked onto a ballfield in Alexandria, Va., with a rifle and shot at Republicans and staffers during their practice, according to police. Several people were transported to local hospitals, including Rep. Steve Scalise, 51, the House's third-ranking member.

On a Facebook page that appeared to belong to Mr. Hodgkinson, he wrote on March 22 that "Trump is a Traitor. Trump has destroyed our democracy. It's time to destroy Trump & Co."

On the same day, he signed a petition calling for the "legal removal" of the president and vice president.

Mr. Sanders released a statement Wednesday morning condemning the shooting.

Bill Schaumleffel, 77, who lives across a cornfield from Mr. Hodgkinson, described him as a man who kept to himself and didn't cause any trouble until one day in late March, when he "decided to have target practice in his yard."

"Our grandkids were playing in the sandbox and we heard shots," he said in an interview at his home.

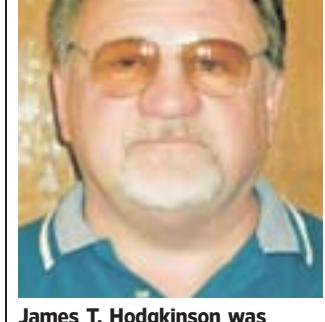
Mr. Schaumleffel called the sheriff and lodged a report, and said he hadn't heard any shots since then.

According to a police report from the incident, Mr. Hodgkinson had a valid firearms identification card.

In 2006, a neighbor called the police after he allegedly broke into her house and damaged property. According to the police report, he said he was trying to get a foster daughter to return home.

Dale Walsh, a longtime friend of Mr. Hodgkinson who went to school with him, described him as a man who believes in his convictions.

"Whatever he thought, he put his whole body behind it," he said, adding that in his younger days, Mr. Hodgkinson would get into bar fights over his political views. "Only this time, he went too far."



James T. Hodgkinson was killed by police on Wednesday.

ATTACK

Continued from Page One

lawmakers had been targeted in the same attack. It came six years after the attempted assassination of then-Rep. Gabrielle Giffords (D., Ariz.), an attack that left six dead and 13 wounded, including two congressional aides. Ms. Giffords was shot in the head and survived.

In the wake of Wednesday's shooting, leaders from both parties called for unity and the calming of Washington's tense partisanship.

House Speaker Paul Ryan (R., Wis.) declared from the House floor that "an attack on one of us is an attack on all of us." Rep. Nancy Pelosi of California, the House Democratic leader, told members: "We are not one caucus or the other in this House today."

At the White House, Mr. Trump said: "We may have our differences, but we do well in times like these to remember that everyone who serves in our nation's capital is here because, above all, they love our country."

Later in the evening, Mr. Trump and first lady Melania Trump visited the hospital, where they met with Mr. Scalise's wife and medical team.

Mr. Trump later sent a tweet saying that Mr. Scalise was "in very tough shape - but he is a fighter. Pray for Steve!"

Witnesses described seeing a gunman with a rifle open fire near the third-base dugout at Eugene Simpson Stadium Park in Alexandria. Dozens of shots rang out as about 22 lawmakers practiced.

The Republican team was being guarded by officers with the Capitol Police on a detail protecting Mr. Scalise. Police immediately opened fire on the gunman, police and witnesses said.

Mr. Scalise, 51, was shot as he stood by second base, and he dragged himself into the outfield in a bid to reach safety, witnesses said.

Sen. Rand Paul (R., Ky.), who was in the batting cage at the time of the shootings, said he heard a single shot followed rapidly by a string of about 10 shots. He said he then heard more rounds of gunfire.

"I probably heard 50, 60 shots," Mr. Paul said on MSNBC. "Everybody probably would have died except for the fact that the Capitol Police was there," which was only due to Mr. Scalise's presence, he said.

The lawmakers and aides had been practicing for Thursday evening's annual charity

MICHAEL REYNOLDS/EUROPEAN PRESSPHOTO AGENCY



First responders administered aid at the scene of the shooting in Alexandria, Va., on Wednesday.

Where the Shooting Occurred

A gunman opened fire on a group of congressional Republicans during a baseball practice Wednesday, shooting Rep. Steve Scalise and three others.

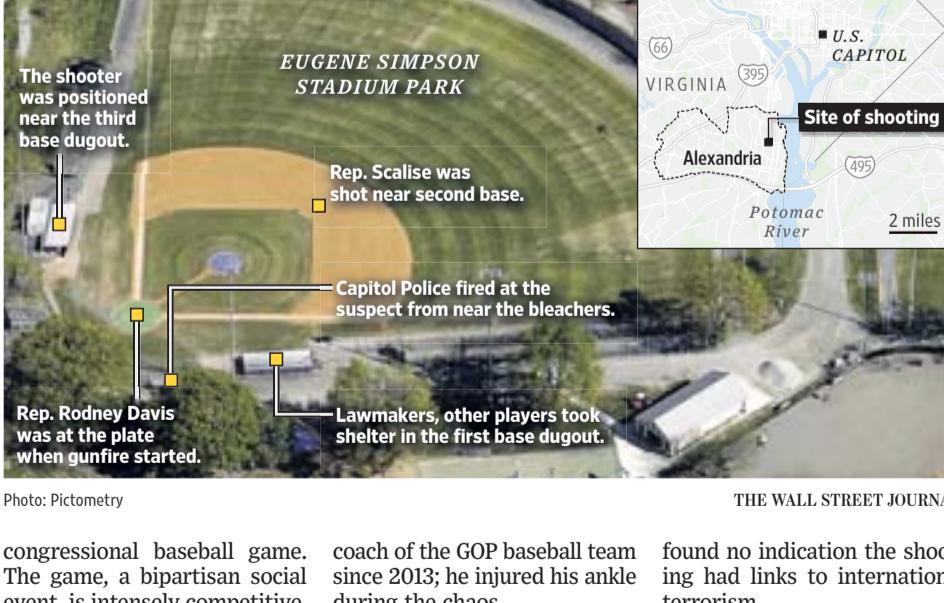


Photo: Pictometry

congressional baseball game. The game, a bipartisan social event, is intensely competitive. Republicans have been practicing each morning since April.

Mr. Ryan told lawmakers in a briefing Wednesday that the game would go on as scheduled, lawmakers said.

Also wounded were Zach Barth, a staff member of Rep. Roger Williams (R., Texas), Mr. Williams's office said, and Matt Mika, a lobbyist for Tyson Foods Inc., the company said. Mr. Williams, a former professional ballplayer, has been a

coach of the GOP baseball team since 2013; he injured his ankle during the chaos.

Mr. Barth was released from the hospital on Wednesday afternoon, Mr. Williams said.

Capitol Police Special Agent Crystal Griner was shot in the ankle, while the department's Special Agent David Bailey sustained an unspecified injury during the attack.

The Federal Bureau of Investigation was taking the lead on the investigation because it involves a member of Congress, police said. The FBI said it had

found no indication the shooting had links to international terrorism.

Mr. Slater, the FBI agent, said Mr. Hodgkinson left his Illinois home and had been in Alexandria since March. He had been living out of his car, a white cargo van, on East Monroe Avenue, near the baseball field where the shooting took place, he said. Mr. Hodgkinson didn't appear to have a job, he said.

On a Facebook page that appeared to belong to Mr. Hodgkinson, he wrote on March 22 that "Trump is a Traitor."

Trump has destroyed our democracy. It's time to destroy Trump & Co."

On the same day, he signed a petition calling for the "legal removal" of the president and vice president.

Mr. Hodgkinson also appears to have written several letters to the Belleville News-Democrat, his hometown newspaper, according to an article on the paper's website.

One neighbor in Belleville, Ill., said Mr. Hodgkinson had recently been taking target practice in his yard. He had a valid firearms identification card, according to the police report.

In another incident, more than a decade ago, a neighbor called police after Mr. Hodgkinson allegedly broke into her house and damaged property.

Rep. Jeff Duncan (R., S.C.) said in an interview that he and Rep. Ron DeSantis (R., Fla.) left practice early and were stopped by a man asking if the team practicing was the Republicans or Democrats.

"I said 'Republicans' and he said 'thanks' and walked off," Mr. Duncan said. He said he believed the man was the shooter.

After the shooting, members of the Republican baseball team returned to the Capitol on a bus sent by the Capitol Police. Many roamed the building still in practice gear, giving interviews and consoling colleagues.

—Louise Radnofsky, Del.

Quentin Wilber, Douglas

Belkin and Natalie Andrews

contributed to this article.

U.S. NEWS

Mueller Probes Trump Over Obstruction

Inquiry set to look at possible interference; the president's team denounces leak

WASHINGTON—President Donald Trump's firing of former FBI Director James Comey is now a subject of the federal probe being headed by special counsel Robert Mueller, which has expanded to include whether the president obstructed justice, a person familiar with the matter said.

By Del Quentin Wilber,
Shane Harris
and Paul Sonne

Mr. Mueller is examining whether the president fired Mr. Comey as part of a broader effort to alter the direction of the Federal Bureau of Investigation's probe into Russia's alleged meddling in the 2016 presidential election and whether associates of Mr. Trump colluded with Moscow, the person said.

Mark Corallo, a spokesman for Mr. Trump's personal lawyer, Marc Kasowitz, denounced the revelation in a statement.

"The FBI leak of information regarding the president is outrageous, inexcusable and illegal," Mr. Corallo said.

Peter Carr, a spokesman for Mr. Mueller, declined to comment. The special counsel's pursuit of an obstruction of justice probe was reported Wednesday by The Washington Post.

Mr. Mueller's team is planning to interview Director of National Intelligence Dan Coats and National Security Agency Director Mike Rogers as part of its examination of whether Mr. Trump sought to obstruct justice, the person said.

The special counsel also plans to interview Rick Ledgett, who recently retired as the deputy director of the NSA, the person added.

While Mr. Ledgett was still in office, he wrote a memo documenting a phone call that

Mr. Rogers had with Mr. Trump, according to people familiar with the matter. During the call, the president questioned the veracity of the intelligence community's judgment that Russia had interfered with the election and tried to persuade Mr. Rogers to say there was no evidence of collusion between his campaign and Russian officials, they said.

Russia has denied any government effort to meddle in the U.S. election. Mr. Ledgett declined to comment, and officials at the NSA didn't respond to a request for comment. An aide to Mr. Coats declined to comment.

Mr. Coats and Mr. Rogers told a Senate panel June 7 that they didn't feel pressured by Mr. Trump to intervene with Mr. Comey or push back against allegations of possible collusion between Mr. Trump's campaign and Russia. But the top national security officials declined to say what, if anything, Mr. Trump requested they do in relation to the Russia probe.

"If the special prosecutor called upon me to meet with him to ask his questions, I said I would be willing to do that," Mr. Coats said June 7. Mr. Rogers said he would also be willing to meet with the special counsel's team.

Mr. Comey told a Senate panel on June 8 that Mr. Trump expressed "hope" in a one-on-one Oval Office meeting that the FBI would drop its investigation into former national security adviser Michael Flynn, who resigned under pressure for making false statements about his conversations with a Russian diplomat. Mr. Trump has denied making that request.

Mr. Comey said during the testimony that it was up to Mr. Mueller to decide whether the president's actions amounted to obstruction of justice. The former FBI director also said he had furnished the special counsel with memos he wrote documenting



Special Counsel Robert Mueller's investigation has expanded into examining whether President Donald Trump obstructed justice.

his interactions with the president on the matter.

At a June 13 hearing at a House of Representatives panel, Deputy Attorney General Rod Rosenstein declined to say who asked him to write a memo justifying Mr. Comey's firing. The White House initially cited that memo as the reason for the termination, and Mr. Trump later said in an NBC interview that he also was influenced by the Russia investigation. Mr. Rosenstein said he wasn't at liberty to discuss the matter.

"The reason for that is that if it is within the scope of Director Mueller's investigation, and I've been a prosecutor for 27 years, we don't want people talking publicly about the subjects of ongoing investigations," Mr. Rosenstein said.

—Carol E. Lee contributed to this article.

Senate Committee to Examine FBI Ouster

WASHINGTON—The Senate Judiciary Committee plans to open an investigation into the circumstances surrounding President Donald Trump's removal of James Comey as FBI director, a probe that could examine the thorny question of whether Mr. Trump improperly interfered in a continuing investigation by doing so.

"The Judiciary Committee has an obligation to fully investigate any alleged improper partisan interference in law enforcement investigations," said Sen. Chuck Grassley, an Iowa Republican and committee chairman, in a letter released Wednesday. "It is my view that

fully investigating the facts, circumstances and rationale for Mr. Comey's removal will provide us the opportunity to do that on a cooperative, bipartisan basis.

"The American people deserve a full accounting of attempts to meddle in both our democratic processes and the impartial administration of justice," Mr. Grassley said.

Mr. Comey was removed from his position last month by Mr. Trump. In testimony before the Senate Intelligence Committee earlier this month, Mr. Comey said he had felt directed by the president to drop an investigation into former national security adviser Mike Flynn. Mr. Trump denies he gave such instructions.

The White House initially said Mr. Comey was removed for performance reasons, but Mr. Trump later suggested he

was dismissed in part over the probe of alleged Russian meddling in the U.S. election.

Mr. Grassley's letter came in response to a push from Sen. Dianne Feinstein, the top Democrat on the Judiciary Committee.

A White House spokeswoman didn't respond to a request for comment on Mr. Grassley's announcement.

Mr. Grassley said actions taken under the Obama administration would be examined by the committee as well, specifically whether former Attorney General Loretta Lynch acted improperly in the investigation into Hillary Clinton's use of a private email server while in government.

Ms. Feinstein agreed that Ms. Lynch's behavior in the Clinton email matter warranted further scrutiny.

—Byron Tau

U.S. Files Charges in Turkish Embassy Melee

BY DION NISSENBAUM
AND DEL QUENTIN WILBER

WASHINGTON—Federal prosecutors have filed charges against at least 10 members of Turkish President Recep Tayyip Erdogan's security detail who are accused of having played a role in last month's beatings of demonstrators protesting the Turkish leader's visit to the U.S. capital, officials said Wednesday.

The charges, which one official said include felony assault against some of Mr. Erdogan's guards, are likely to inflame existing tensions between Turkey and the U.S., which will have to decide whether to seek extradition of the suspects, or to bar them from returning to America.

The clash, which District of Columbia Police Chief Peter Newsham characterized as an unprovoked and "brutal attack on peaceful protesters," triggered widespread condemnation from U.S. lawmakers and unanimous approval for a House resolution denouncing the assaults. Some urged the U.S. to take the dramatic step of expelling Turkey's ambassador.

Nine people were hospitalized after members of Mr. Er-

dogan's security detail joined local supporters in beating demonstrators gathered outside the ambassador's residence to protest the Turkish leader's visit, according to eyewitnesses and analysts who studied the video. One police officer and two members of the U.S. Secret Service also were injured.

The Turkish Embassy didn't immediately respond to a request for comment Wednesday

Video images of the attacks captured by news crews and by people using cellphones provided prosecutors with evidence to pursue charges, which were filed in D.C. Superior Court, which handles local crimes in the city.

The Turkish Embassy didn't immediately respond to a request for comment Wednesday

night on the charges, which were earlier reported by the New York Times.

Last month, the embassy accused the demonstrators of "aggressively provoking" supporters of Mr. Erdogan and said they responded in self-defense.

Videos of the incident showed men in suits with

sidearms, later identified by independent analysts as members of Mr. Erdogan's security detail, punching and kicking demonstrators.

The bloody beatings marred Mr. Erdogan's visit to Washington for his first Oval Office meeting with President Donald Trump.

Mr. Trump has been looking to reset relations with Mr. Erdogan, who has embarked on a sweeping crackdown on domestic dissent that chilled his already strained relationships with former President Barack Obama and other Western leaders.

The melee in Washington has created an early test for the two leaders.

The U.S. could seek extradition of Mr. Erdogan's security guards, but that could create a diplomatic crisis with Turkey, which is a pillar in the U.S.-led campaign against Islamic State.

U.S. officials said Wednesday they would wait to see how the cases proceed before deciding how to respond.

In Washington, police say they arrested two other American citizens who are expected to face assault charges for their alleged role in beating demonstrators.



VOATURKISH/STORYFUL

A frame grab from a video shows clashes during a protest in Washington, D.C., last month.

WASHINGTON WIRE

EDUCATION

Trump to Retool Rules On For-Profit Colleges

President Donald Trump's administration scrapped Obama-era rules designed to punish colleges and universities that use deceptive recruiting tactics and charge high prices for dubious degrees.

The rules formed the main response from former President Barack Obama's administration to soaring student debt levels and allegations of deceptive recruiting tactics, particularly at for-profit colleges that specialize in two-year degrees and career certificates. For-profit schools taught about a 10th of all undergraduates at their peak and have been a disproportionate driver in the run-up to \$1.3 trillion in student debt and a sharp rise in defaults.

Education Secretary Betsy DeVos said the rules were overly burdensome and would have proved costly to taxpayers. Student advocates and Democratic groups were quick to criticize the move, saying it would lead to more vulnerable students getting into debt.

—Josh Mitchell

MONEY

Democrats Sue Over President's Businesses

Nearly 200 congressional Democrats sued President Donald Trump on Wednesday, alleging he is violating the Constitution because his businesses are accepting payments and benefits from foreign governments.

The lawsuit, filed in a Washington, D.C., federal court, is the latest to focus on the GOP president's decision not to divest his business holdings. Legal challengers alleged Mr. Trump's businesses are benefiting from his presidency, and that Mr. Trump, by retaining his financial interest in those businesses, is benefiting, too.

A White House spokeswoman said the president's business interests don't violate the Constitution's emoluments provisions.

"This is another example of the Democrats playing political games," the spokeswoman said.

—Brent Kendall

States Expect to Lift Spending for Next Year by 1%

BY JON KAMP

U.S. states are forecast to barely increase spending in the next fiscal year as they grapple with weak revenue and uncertainty about policy changes in Washington, D.C., according to a report released Thursday.

The cautious outlook is reflected in governors' budget proposals for the year that begins July 1 in 46 states, according to the National Association of State Budget Officers. The proposals are aiming for just a 1% increase in general-fund spending in fiscal 2018, the smallest increase since fiscal 2010, when states were grappling with fallout from the last recession, Nasbo found in its latest report.

The small spending in-

creases reflect a persistent problem: weak revenue collection that has dogged states in the last couple of years, raising some worries about how prepared states are for the next recession, according to budget experts.

Nasbo found that revenue collections are coming in weaker than expected for the current fiscal year in a total of 33 states, also the highest number since 2010. Many states also missed projections in the prior fiscal year.

"States have been dealing with back-to-back years of sluggish revenue growth," said John Hicks, Nasbo's executive director. The data show "how thin states' margins are."

Nasbo said states are forecasting modestly improved

revenue collections in the next year. Still, spending levels in final budgets, which some state legislatures are still hammering out, aren't likely to deviate much from the governors' proposals, Mr. Hicks said.

Revenue collections are coming in weaker than expected for 33 states.

Wild cards that could reduce the amount of federal money flowing to the states include possible changes in Washington to Medicaid, the tax code and non-defense

spending levels, said Nasbo.

Gabriel Petek, sector leader for U.S. states at Standard & Poor's, said sluggish economic growth in the U.S. has helped cause persistent revenue challenges across the states. The specific reasons for that weakness vary, from low energy prices in some states to a shift to more online sales hurting others, according to another state-budget report from the National Conference of State Legislatures.

Arkansas, Illinois, Missouri, New York and Oklahoma have all dealt with weaker-than-expected business taxes, NCSL said. Meantime, sluggish sales and individual income taxes have dogged Mississippi. At least 11 states went into extended or special legislative

sessions to hammer out the next budget, NCSL said.

"Caseloads and the need for government services continue to increase, and revenues are not keeping pace with demand," NCSL's report said.

The weakness has put states in an unusually vulnerable position, considering June marks eight years since the end of the last recession, Mr. Petek said.

S&P has downgraded ratings for 15 states since the beginning of 2016, compared with just two upgrades, reflecting strained finances and weak revenue, he said.

"The combination has left many states with narrow fiscal margins, which is indeed uncharacteristic for a mature economic expansion," he said.

A White House spokeswoman said the president's business interests don't violate the Constitution's emoluments provisions.

"This is another example of the Democrats playing political games," the spokeswoman said.

—Brent Kendall

WORLD NEWS

Deadly Blaze Ravages London High Rise

Residents had warned low-income building was a safety hazard; at least 12 are killed

By WIKTOR SZARY
AND JASON DOUGLAS

LONDON—The death toll from a blaze in west London rose to at least 12 in a high-rise tower that residents had complained was a fire hazard, raising questions about maintenance and safety of low-income housing.

The fire started early Wednesday and spread rapidly through the 24-story public-housing block, which residents said lacked adequate emergency exits. Witnesses said they saw people jumping from the building to escape the flames. Dozens of residents were injured, and police said they expected the death toll to rise.

Firefighters were still battling pockets of fire Wednesday evening, but had searched most of the Grenfell Tower in the otherwise upscale North Kensington neighborhood, clambering through the ruins and also using drones, authorities said. It was too early to pinpoint the cause of the blaze, police said.

Residents said they heard few, if any, alarms. One man who got out described a chaotic race through a central staircase that was the only escape route.

London Fire Commissioner Dany Cotton called the blaze unprecedented, saying she

hadn't seen anything like it in her 29-year career.

Michael Paramasivan, who lived on the seventh floor, said he woke to the smell of burning plastic and heard people shouting. He, his girlfriend and their children fled down a crowded central staircase. He said he wasn't sure if there were sprinklers, but said none had activated.

"I saw three kids near the top floor, and next thing we knew, bang, it went up in flames," he said. "They must have perished. It was horrific."

"It was the towering inferno, like lighting a bonfire," said Piers Thompson, who lives in a neighboring building and said he was awakened by shouts at about 1:15 a.m. and watched fast-moving flames spread.

"I couldn't believe it. You could see people flashing" lights in an effort to attract rescuers' attention, especially on high floors, he said. "Someone was waving a blanket."

A spokesman for British Prime Minister Theresa May said she was "deeply saddened" by the loss of lives.

Speaking to the British Broadcasting Corp. Wednesday evening, Mrs. May said a proper investigation into the cause of the fire would take place once the scene is secure.

"If there are any lessons to be learned, they will be, and action will be taken," she said.

Opposition leader Jeremy Corbyn of the Labour Party told LBC radio that "some very searching questions" needed to be asked, suggesting budget



Firefighters examined Grenfell Tower, which sustained massive damage in a fire on Wednesday.

cuts could be to blame. "If you deny local authorities the funding they need, then there is a price that's paid by the lack of safety facilities," he said.

The government will seek to identify other high-rise buildings that could be at risk and run checks on them to reassure residents, a Home Office spokes-

man said Wednesday evening.

The public-housing block was built in 1974 and recently went through an £8.6 million (\$11 million) refurbishment. New ex-

terior cladding and a new heating system were installed.

The cladding appears to have significantly contributed to the fire's spread, said Angus Law, a lecturer at the BRE Centre for Fire Safety Engineering at the University of Edinburgh.

Nick Paget-Brown, the leader of the Kensington and Chelsea council, acknowledged that the council had received complaints about the refurbishment work.

Rydon Group Ltd., which carried out the refurbishment, said the work met fire and health and safety requirements.

The Kensington and Chelsea Tenant Management Organization, which manages the building, said it was too early to speculate on the cause and what contributed to the fire's spread.

Residents of the block had long warned of fire risk in the building. The Grenfell Action Group, a residents' rights group, warned on its website in November that "only a catastrophic event will expose the ineptitude and incompetence of our landlord."

"All our warnings fell on deaf ears and we predicted that a catastrophe like this was inevitable and just a matter of time," it said in a blog post early Wednesday.

Vassiliki S. Lorraine, who lives near the tower, said she heard children screaming shortly after the fire started.

"They screamed very loud, 'Save us, save us, save us' and 'Can we jump?'" she said. She said the cries stopped after about an hour.

Tillerson's comments Wednesday were the first time the U.S. has suggested the possibility of brokering an entirely new peace deal.

Supporters of the accords say they at least managed to largely freeze the conflict and keep Ukraine's borders in place. Any move that appears to scrap it could risk a return to full-scale violence, they say.

"We want to be very careful about giving up one tool especially if we don't have another in place," said Daniel Baer, who was the U.S. ambassador to the Organization for Security and Cooperation in Europe during the Obama administration.

Mr. Tillerson told the House committee the administration needs flexibility to "turn up the heat when we need to, but also to insure that we have the ability to maintain a constructive dialogue."

"My caution is I wouldn't want to have ourselves handcuffed to Minsk if it turns out the parties decide to settle this through another, a different agreement," he said.

—Paul Sonne contributed to this article.

U.S. Floats New Line on Russia-Ukraine Peace Deal

By FELICIA SCHWARTZ

WASHINGTON—Secretary of State Rex Tillerson said the U.S. would support efforts by Russia and Ukraine to resolve a yearslong conflict outside of an internationally backed agreement signed by both countries, the implementation of which has long been a U.S. condition for lifting sanctions against Moscow.

Mr. Tillerson made his comments on Wednesday in testimony before the House Foreign Affairs Committee. They appeared to mark a departure from longstanding U.S. policy and a potential break from other world powers, including Germany and France, which brokered and have supported the cease-fire and peace accords reached in Minsk, Belarus, in 2014 and 2015.

"I think it's important we be given sufficient flexibility to achieve the Minsk objectives," Mr. Tillerson said, adding, "It's possible that the government of Ukraine and the government of Russia could come to a satisfactory resolution through some structure other than



A Ukrainian soldier resting at his post in eastern Ukraine in May.

Minsk, but would achieve the objectives of Minsk, which we're committed to."

The Minsk agreements call for local elections in Ukraine's breakaway Donbas region, the withdrawal of foreign-armed troops, and returning the border with Russia to Ukrainian control, among other points.

Pursuing an agreement outside the Minsk accords could allow the two sides to go back to

the drawing board and negotiate a pact acceptable to both, possibly without meeting benchmarks set in Minsk. It isn't clear if such efforts are already under way.

Mr. Tillerson has said that the U.S. would maintain sanctions against Russia until the Minsk agreements are fully implemented. Washington and European allies have long been united in that demand.

Mr. Tillerson most recently reiterated that position to Russian Foreign Minister Sergei Lavrov in a May 10 meeting in Washington, according to State Department spokeswoman Heather Nauert.

A day later, after meeting separately with Mr. Lavrov and Ukraine's foreign minister, Pavlo Klimkin, President Donald Trump called for the parties to

make peace, casting the U.S. as something of a neutral arbiter. The Obama administration had presented the U.S. as an advocate for Ukraine's sovereignty and demanded that Russia cease its occupation of Crimea and its support for armed rebels in eastern Ukraine.

U.S. and European officials often have voiced dismay over the absence of progress on implementing the specific points of the Minsk accords. But Mr.

Senate Ties Trump's Hands on Relaxing Moscow Sanctions

WASHINGTON—The Senate overwhelmingly backed a package of additional sanctions on Russia on Wednesday, in part to punish Moscow for its alleged interference in the 2016 U.S. presidential elections.

The package would impose new restrictions on Russian actors linked to human-rights abuses, arms sales to the Syrian government or malicious cyberattacks on behalf of the Rus-

sian government. It also would require President Donald Trump to seek congressional permission to relax the current sanctions regime against Russia.

The 97-2 vote by the GOP-led Senate came as a rebuke to a Republican president's policy on Russia, limiting his power to act on sanctions without congressional approval.

Mr. Trump repeatedly has said he would like to pursue better relations with Russia after years of frosty exchanges and geopolitical rivalry over issues in the Middle East, Europe and beyond.

—Byron Tau

Ireland's First Openly Gay Leader Elected

BY PAUL HANNON

Irish lawmakers elected the country's first openly gay prime minister—and the youngest—on Wednesday, a sign of the fast-changing attitudes in a once staunchly conservative country.

At a time of upheaval in many other democracies, Leo Varadkar's appointment is also a reflection of the unusual stability of Irish politics. Like his 13 predecessors, Mr. Varadkar, 38, is a member of one of the two center-right groups that have governed the country since its independence from the U.K. in 1922.

He is also committed to an economic strategy that goes back at least four decades, relying on attracting U.S. businesses seeking access to European Union markets.

The son of an Indian doctor and an Irish nurse, Mr. Varadkar's boosters say he represents a new face for a country that was once the most socially conservative in Europe. "He represents a modern, diverse and inclusive Ireland, and speaks for them like no other," said Enda Kenny, the departing prime minister, who nominated his successor.

Left-of-center lawmakers were less enthusiastic about him. Gerry Adams, the leader of Sinn Féin, a nationalist party that is the third-largest



in the Irish Parliament, said Mr. Varadkar threatens to be "the most right-wing" prime minister in Irish history, with dire consequences for low-income workers and those who rely on the state for health and other services. Mr. Varadkar has recently launched a campaign to cut down on people claiming benefits they weren't entitled to.

Accepting the office, Mr. Varadkar dismissed the dis-

Turkey Court Convicts A Judge of Terrorism

BY MARGARET COKER

ANKARA, Turkey—A Turkish judge who adjudicates war crimes trials for the United Nations was found guilty of terrorism by a Turkish court.

Aydin Akay, whose legal travails after last summer's failed coup in Turkey sparked U.N. condemnation, was sentenced to seven years in prison on terror charges stemming from conversations he held in 2015 via a commercially available social-media app Turkish prosecutors argue was a key platform used by followers of U.S.-based cleric Fethullah Gulen.

Turkish officials classify Mr. Gulen and his followers as terrorists and accuse the cleric of masterminding the failed coup, which Mr. Gulen denies.

Mr. Akay denies any connection to Mr. Gulen. His lawyers say they believe the trial was a sham and he is collateral damage in what many in the political opposition see as a witch hunt by the government to rid the country of critics of President Recep Tayyip Erdogan. They have appealed to the Turkish constitutional court and the European Court of Human Rights.

The head judge overseeing Mr. Akay's case read out the conviction Wednesday to a packed courtroom in Ankara. Mr. Akay's defense team argued that downloading an app isn't a crime. They also argued some of the chats appeared forged. They asked for the originals of the messages to evaluate their technical aspects, but the Ankara judge denied the motion.

While he called the defendant a terrorist, he also suspended Mr. Akay's sentence pending appeal.

Officials linked Mr. Akay to the Gulenist organization because his phone appeared on a list of more than 200,000 Turkish citizens who downloaded ByLock, a smartphone chat app the Turkish intelligence agency believes was developed by the Gulenist organization as a means of communication used by followers of the cleric. Mr. Akay testified that he had downloaded ByLock on the request of a friend, but he rarely used it, as he found the app complicated.

At his trial, prosecutors submitted several printed pages they asserted were ByLock chat messages between the judge and a Turkish acquaintance who managed a school in Africa affiliated with the Gulenist movement. The text messages spanned June 2015 to January 2016. The subject matter was largely social greetings, news about common acquaintances and plans about arranging face-to-face meetings.

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WORLD NEWS

Iran Navy Vessel Confronts U.S. Ships, Helicopter

By GORDON LUBOLD

WASHINGTON—An Iranian Navy vessel confronted three U.S. ships and pointed a laser at a Marine Corps helicopter over the Strait of Hormuz, U.S. military officials said, another in a series of incidents the military considers dangerous and unprofessional.

An Iranian Navy vessel encountered the three American ships traveling through international waters in the Strait of Hormuz on Wednesday, U.S. military officials said. The Iranian boat shined a spotlight on two of the ships, the USS Bataan, an amphibious assault ship, and the guided-missile destroyer the USS Cole, said Cmdr. Bill Urban, a spokesman for the U.S. Fifth Fleet in Bahrain.

The dry cargo ship the USNS Washington Chambers also was part of the formation of American ships. The Iranian vessel came to within about 800 yards of the small flotilla, Cmdr. Urban said.

More worrisome, he said, was the use of a laser that members of the crew of the Iranian vessel pointed at a Marine Corps helicopter accompanying

Military officials frequently report harassment from small Iranian vessels.

the ship formation in the area.

"Naval Forces Central Command assesses this interaction as unsafe and unprofessional due to the Iranian vessel shining a laser on one of the formation's helicopters," Cmdr. Urban said. "Illuminating helicopters with lasers at night is dangerous as it creates a navigational hazard that can impair vision and can be disorienting to pilots using night-vision goggles."

U.S. military officials frequently report such kinds of harassment from small Iranian vessels, some from the Republican Guard. The ship in Wednesday's incident is a 127-foot Houdong missile boat, according to a U.S. official. The ship was armed, but the weaponry aboard was covered up, according to the official.

A spokesman for Iran's office at the United Nations didn't respond to questions.

There were 35 incidents considered unsafe or unprofessional in the region during 2016, according to military officials. Most were incidents on the water, while some were considered threatening to aircraft, one of the officials said. So far this year, there have been fewer such incidents, but it isn't clear what has contributed to the decline, the official said.

On Capitol Hill, Sen. Bob Corker (R., Tenn.) spoke on Wednesday in support of a bill he wrote to hold Iran accountable to its actions, according to a statement released by the lawmaker's office.

The Countering Iran's Destabilizing Activities Act of 2017, a bipartisan bill expected to pass this week, Mr. Corker's office said, would expand sanctions for Iranian ballistic-missile development, the country's support for terrorism, the transfer of conventional weapons to or from Iran and human-rights violations.

ISIS Sinks Teeth Into Philippines

Amid Mideast losses, militants expand focus; conflict in south is now jihadist 'cause célèbre'

By JAMES HOOKWAY

The signs are mounting that the Philippines is now a primary target for Islamic State.

The southern reaches of the mostly Roman Catholic country have long been home to Muslim insurgents seeking to carve out an independent state. Until now, counterterrorism officials and experts have largely viewed local declarations of loyalty to Islamic State founder Abu Bakr al-Baghdadi as little more than pleas for attention. That is changing.

One of the newest insurgent groups shocked the country three weeks ago by marching into Marawi City and waving black Islamic State flags; it is still holding around 20% of the city along with hundreds of hostages. The standoff with the Philippine military so far has claimed the lives of at least 58 security forces, nearly 200 rebels and dozens of civilians.

Since the May 23 attack, Islamic State has taken a stronger interest in the Philippines, profiling some of the militants in its propaganda magazine Rumiyah and falsely claiming responsibility for the burning of a Manila casino that left 37 people dead; police say it was in fact a botched robbery.

On Sunday, Philippine President Rodrigo Duterte said "it appears that al-Baghdadi himself, the leader of ISIS, has specifically ordered terrorist activities here in the Philippines." Mr. Duterte didn't say how he knew about Mr. Bagh-dadi's instructions.

Islamic State's spokesman, in an audio recording circulated on Tuesday, appeared to single out the Philippines for further attacks and praised the assault on Marawi.

The battle for Marawi is being waged by one of the region's most powerful militias, and it could determine whether Islamic State can lay



Philippine soldiers on Sunday carried the body of a comrade killed during fighting against insurgents who seized parts of Marawi City.

down a marker in the Philippines.

Some intelligence officials worry that the Philippines' growing profile in jihadist circles could bring more foreign fighters to its shores as Islamic State loses ground in Syria and Iraq.

Governments across Southeast Asia and Australia already are watching the Philippines with concern as militants from Indonesia, Malaysia, Yemen and Saudi Arabia join the fight. U.S. Special Operations Forces are providing support for the Philippine military in Marawi.

The danger, said an intelligence official in the Philippines, is that "the southern Philippines is becoming a cause célèbre again."

The potential for recruiting the Philippines' Muslim minority, whose lands were gradually taken over by waves of settlers under Spanish then American colonizers, has long drawn the interest of foreign



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jihadists. Osama bin Laden was in regular contact with the late Muslim separatist leader Hashim Salamat.

The Philippines' porous borders and lax immigration control also make it an attractive destination for foreign extremists, according to Sidney Jones, a terrorism expert at the Institute for Policy

Analysis of Conflict in Jakarta. Fighters are also attracted, in part, because some of the combatants have extensive networks, Ms. Jones said.

"They're really quite sophisticated and have a lot of resources to draw on, and that's attractive," she said.

Islamic State's emir in the Philippines is Isnilon Hapilon, a 51-year-old commander with the Abu Sayyaf terrorist group, which was seeded in the 1990s with help from al Qaeda. He swore loyalty to Islamic State in 2014, and since then has built an alliance with the Maute family, an aristocratic landowning clan who command hundreds of followers.

Ms. Jones said the Mautes are likely the brains behind the Marawi operation, particularly 37-year-old Omarkhayam Maute.

Omar, as he is known, studied Islam in Egypt and later married the daughter of an influential conservative

cleric in Indonesia. He returned to the southern Philippines, where he and his brother Abdullah Maute took the reins of the family's local militia. In 2015, the brothers publicly aligned it with Islamic State.

Their ultimate goal, senior Philippine officials said, was to take control of Marawi, the Philippines' largest Muslim-majority city.

Armed forces chief Gen. Eduardo Año said the military caught a break when soldiers inadvertently interrupted the planning for the operation by raiding a safe house in Marawi where they believed Mr. Hapilon was holed up. That forced the Maute group to take up arms prematurely.

"They were not able to fully deploy all their forces," Gen. Año told reporters.

Military officials said they are trying to determine whether the Maute brothers are among several guerrillas killed in a battle on Saturday.

Egypt to Cede Islands to Saudis

By DAHLIA KHO LAIF

CAIRO—Egypt's Parliament approved a deal to cede two Red Sea islands to Saudi Arabia, an agreement backed by President Abdel Fattah Al Sisi but widely criticized by people in the North African country.

After days of deliberation, a majority of the 596 lawmakers voted Wednesday in favor of the agreement by standing up, according to Anissa Hassouna, a lawmaker, who tweeted the result immediately after the vote.

The deal triggered protests when agreed last year, largely because it was viewed as the sale of sovereign Egyptian territory after the kingdom gave Cairo billions of dollars in aid and deposits.

Egyptian courts blocked the agreement, saying the government failed to provide solid evidence of Saudi ownership of the islands.

The Egyptian president's office and the Saudi Foreign Ministry weren't available to comment Wednesday.

Mr. Sisi has made the case that Egypt wasn't surrendering

territory but instead restoring Saudi Arabia's rightful ownership, citing government records he said proved Riyadh's legal claim over the islands.

Despite the opposition, Mr. Sisi managed to push the deal through by going to Parliament for approval.

Ms. Hassouna, in her tweet, said there were dozens of requests by lawmakers to speak on the floor but the Parliament speaker closed discussion and announced the body's approval.

The president is expected to ratify the agreement.

There are concerns the vote could reignite protests as Parliament is seen to be controlled by Mr. Sisi. Many major opposition parties were either barred or boycotted parliamentary elections, allowing the president's supporters to dominate the house.

Egyptian reaction on social media was mostly critical.

"Two islands have been removed from the body of our homeland," Amin Haddad, a poet, wrote on Twitter.

Mr. Sisi and Saudi King Sal-



Egyptian legislators opposing the transfer of the two islands to Saudi Arabia protested Wednesday.

man signed an accord last year to transfer control of the islands of Tiran and Sanafir to Saudi Arabia, touted as the first step toward the construction of a \$4 billion bridge linking the two Arab countries. Tiran and Sanafir are in the Strait of Tiran, a gateway to the Jordanian port of Aqaba and the nearby Israeli port of Eilat.

Saudi Arabia is Mr. Sisi's biggest ally in the region, supporting his government with billions of dollars in recent years to help cope with economic challenges after years of

political unrest. Egypt has become a partner for the kingdom as it seeks to strengthen its position as a regional leader.

The two countries last week cut diplomatic ties with another Arab neighbor, Qatar, accusing it of meddling in their affairs and harboring terrorists. Doha denies that it supports extremists.

The islands agreement sparked public rage last year but security forces clamped down on protests, using a tough anti-protest law. Many still remain behind bars.

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WORLD WATCH

IRAQ

ISIS Attack in Mosul Fails to Gain Ground

Islamic State fighters armed with machine guns and wearing suicide vests launched a counterattack against Iraqi government forces in western Mosul, police officials said, briefly retaking control of some city blocks before they were beaten back.

In the operation early Wednesday, at least 50 Islamic State fighters slipped from their positions in the Old City. The militants swept into the Dendan neighborhood and set houses on fire, sending plumes of black

smoke into the sky in what police said was an attempt to hamper air support for Iraqi government forces on the ground.

Col. Ryan Dillon, spokesman for the U.S.-led international coalition fighting Islamic State, said no ground had been lost to Islamic State in Wednesday's fighting. He didn't respond to questions whether smoke from the burning houses impaired efforts to provide coalition air support.

Since driving Islamic State from eastern Mosul in January, Iraqi forces have seized swaths of territory in the west of the city and largely bottled up the militants in a small area of the Old City.

—Ben Kesling

SPAIN

Rajoy Survives No-Confidence Vote

Spanish Prime Minister Mariano Rajoy survived a parliamentary vote of confidence Wednesday, but the two-day debate was an uncomfortable public airing of the corruption investigations that have dogged his party.

Spanish lawmakers rejected by 170 to 82 the no-confidence vote against Mr. Rajoy, who was re-elected prime minister at the end of October. "We're going to be able to keep working," Mr. Rajoy said after the vote.

As expected, the only votes

in favor of ousting the prime minister came from far-left Podemos, the three-year-old party that called the no-confidence motion, and some other left-wing parties. Podemos proposed its leader, 38-year-old Pablo Iglesias, as the successor to the 62-year-old Mr. Rajoy.

The prime minister has been called to testify as a witness at a trial of party members on July 26 related to an investigation into an alleged party slush fund. He hasn't been accused of wrongdoing. Podemos's focus on alleged kickbacks has resonated in Spain, where corruption has been a top public concern for several years.

—Jeannette Neumann



ARMEND NIMANI/AGENCE FRANCE PRESSE/GTY IMAGES

A COOLING DIP: A child cooled off in a fountain in the main square of Pristina, the capital of Kosovo, on Wednesday.

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—Jeannette Neumann

WORLD NEWS

Data Bolster Beijing Moves

BY MARK MAGNIER

BEIJING—A snapshot of China's economy in May showed some success for Beijing in balancing its bid to rein in debt with preventing growth from declining too rapidly in an important political year.

Among a series of data, one indicator not usually in the spotlight stood out: the broadest measure of overall money supply known as M2, which rose less than 10% compared with a year earlier, slipping below that mark for the first time in the decades that the central bank has published the data, evidence of less credit sloshing around the system.

"Shadow banking financing is in retreat while bank financing remains stable," Nomura Group economist Yang Zhao said.

Economists cautioned that the real test of Beijing's commitment to paring debt will be whether it continues to maintain a relatively tight grip on credit growth, infrastructure spending and regulatory oversight even after growth slows.

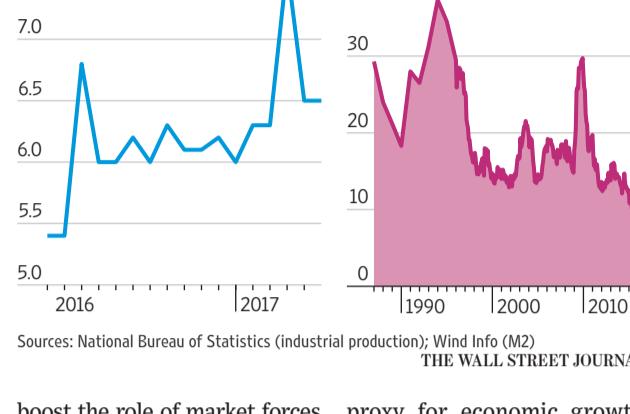
The International Monetary Fund warned China to speed up overhauls aimed at stemming mounting debt, saying in its annual review of the Chinese economy on Wednesday that China risks instability and a "sharp adjustment" in financial markets and in the broader economy if it doesn't

Money Management

China is so far managing to keep the economy stable while tightening the reins on credit.

Industrial production

Change from a year earlier



Sources: National Bureau of Statistics (industrial production); Wind Info (M2)

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boost the role of market forces and tighten regulatory control over nonbank lenders.

"It is critical to start now, while growth is strong and buffers sufficient to ease the transition" to an economy powered by consumption rather than credit-fed investment and debt, said David Lipton, a managing director with the IMF. The fund forecasts that China will grow 6.7% this year and expand by 6.4% on average from 2018 to 2020.

The National Bureau of Statistics reported on Wednesday that industrial output, a rough proxy for economic growth, rose 6.5% in May from a year earlier, matching April's pace, that retail sales also held steady at double-digit growth rates while fixed-asset investment decelerated modestly.

China's bid to gradually adjust to slightly lower growth has been helped by a still-robust property market, solid consumption and trade, while factory inflation, industrial output and industrial profits have weakened.

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GREATER NEW YORK

NJ Transit Gets Earful From Commuters

Gripes are on the rise after a run of problems, but agency sees signs of rider understanding

BY MELANIE GRAYCE WEST

In a windowless conference room in Newark, NJ Transit officials recently discussed a rise in negative perceptions regarding service.

"You hear from other outlets that...NJ Transit is just a terrible operation," said Steven H. Santoro, executive director of NJ Transit. "Our customers do not convey that. They have an understanding that things aren't going to go perfect all the time."

In the past few months, NJ Transit has encountered a series of small derailments and regular service delays, problems that stem from its dependence on aging, outdated New York Penn Station, according to an NJ Transit spokeswoman. Penn Station, the country's busiest station, is owned by Amtrak and shared with Long Island Rail Road.

The run of NJ Transit problems have stoked rider ire on social media and elsewhere on everything from delays to overflowing bathrooms and persistent overcrowding. NJ Transit commuters tried to organize a campaign to withhold fares from the agency in May. And a local talk-radio station has established a "commuter whiner line" for riders to "rant and rave."

As Amtrak undertakes massive repairs this summer to fix its aging infrastructure inside Penn Station, extensive outages are expected, and a commensurate amount of service



ELIZABETH SHAFROFF FOR THE WALL STREET JOURNAL

Passengers wait to board an NJ Transit train from Newark to New York Penn Station on Wednesday.

complaints are likely.

NJ Transit's customer-service department has 117 full-time staff, eight customer-service locations around the region, a dedicated social-media team and call centers that take more than eight million calls annually. The agency handles about 65,000 customer contacts a year, according to NJ Transit spokeswoman Nancy Snyder.

For the summer, NJ Transit is developing a set of enhanced customer-service initiatives, Ms. Snyder said, including 200 employee ambassadors to assist customers navigating the system during the morning and evening rush.

David Spetzgang, a 28-year-old who takes the train from Middletown, N.J., to Newark, recently was so frustrated with

NJ Transit service that he wrote a letter to the agency. It was one of many customer-service inquiries he has made, then tweeted about, copying in other Twitter users who have made it a mission to heckle NJ Transit.

"Nothing is ever taken seriously," said Mr. Spetzgang, who works in financial services. "It's always, 'We're looking into this,' or 'We've forwarded it on to another department.' It's never an actual answer."

NJ Transit's Ms. Snyder said the agency "is committed to responding appropriately to all feedback."

More riders are looking for answers. NJ Transit had a record number of customer contacts in March, with 72% of the 5,450 contacts categorized by the agency as complaints. Bus and rail gripes centered mostly

on overcrowding and employee performance, according to the agency.

NJ Transit reported that its "social sentiment" online was 61.9% negative in March, a climb from February's negative rate of 56.5%.

Comparing Twitter conversations about NJ Transit in May from the same month last year there was a 27% increase in negative posts, according to Networked Insights Inc., a social-analytics firm. Tweets about stressful commuting almost doubled, from 25% in May of 2016 to 48% in May of this year.

"Actual customers who answered our most recent customer-satisfaction survey for the last quarter gave us the highest scores since the surveys began, six years ago," Ms. Snyder said.

On-Time Rate Falls To 46% in A.M. Rush

As rail passengers steel themselves for a grueling commute this summer, NJ Transit disclosed that fewer than half of its trains arrived into New York Penn Station on time during the morning rush hour in May.

NJ Transit Executive Director Steven Santoro said he believes it is the lowest peak-hour on-time rail performance posted by the transit system.

Mr. Santoro, speaking after an NJ Transit board meeting in Newark, said the principal cause of delays was a speed restriction implemented by Amtrak following two low-speed derailments

at the station earlier this year.

Amtrak, which owns Penn Station, will reduce access to the terminal during July and August while it carries out extensive repairs because of the derailments.

During the morning rush hour in May, 46% of NJ Transit trains reached New York within six minutes of their scheduled arrival time—the industry yardstick for punctuality. During the same period in April, a month in which an NJ Transit train derailed at Penn Station, 70% of trains arrived at the terminal on time.

Negative social sentiment online is being driven, in part, by a number of popular NJ Transit specific Twitter users such as @F-NJTransit, which uses the F-word vulgarity in the handle, and @FixNJT.

The man behind @FixNJT is in his 50s, lives in Bergen

NJ Transit's evening rush-hour performance at the terminal in May was better. About 72% of trains operated on-time, a two percentage-point fall from the previous month's performance.

Robert Lavell, NJ Transit's general manager of rail operations, said on-time performance was better in the evening because Amtrak's speed restriction is focused on the western end of the station, where it mainly disrupts inbound trains.

Amtrak will close several tracks at the terminal over eight weeks beginning July 10. The closures will reduce capacity at the station up to 20%.

Because of the closures, NJ Transit will divert all Morris and Essex Lines Midtown Direct trains to Hoboken, where thousands of commuters will have to transfer to the PATH rail system and ferries to reach Manhattan.

The Long Island Rail Road, which also uses Penn Station, will divert thousands of its passengers to stations in Brooklyn and Queens where they will transfer to the subway.

The governors of New York and New Jersey have warned that many people will search for alternative ways to reach work, including by bus, rail and car, which could lead to overcrowding and congestion.

—Paul Berger

County, works as a freelance editor and is regularly stuck at the Secaucus station, he said. His decision to online snipe at NJ Transit is "a way to let off steam from all the time you spend sitting in a station waiting for a train that got canceled or delayed," he said.

Jets Gear Up for the Season With a Minicamp



SKY'S THE LIMIT: Willie Quinn leapt for a ball Wednesday in Florham Park, N.J. The Jets kick off their season Sept. 10 against the Bills.

Dozens Arrested in Federal Crackdown on MS-13 Gang

BY JOSEPH DE AVILA

Federal law-enforcement agents have arrested 39 alleged MS-13 gang members from New York City and Long Island during the past month, officials said Wednesday.

The arrests were part of U.S. Immigration and Customs Enforcement's newly launched Operation Matador aimed at

cracking down on the transnational gang that police say is responsible for a spate of brutal murders on Long Island.

An additional six men, who allegedly belonged to other gangs, also were arrested, including members from 18th Street Gang, Latin Kings and Los Niños Malos, ICE officials said.

All those taken into custody were men, ICE officials said,

adding that 27 were from El Salvador, 11 were from Honduras, five from Mexico and two from Guatemala. Of those, 12 crossed the border as unaccompanied minors, ICE officials said.

ICE officials said 33 of the men arrested in Operation Matador lived in Suffolk County on Long Island, where police say MS-13 is responsible for 27 murders since 2013. In

April, the bodies of four young men were found in a park in the Suffolk County hamlet of Central Islip, N.Y., drawing national attention to Long's Island's gang problem.

Some of the men arrested will be charged with re-entering the U.S. after deportation, a felony. Those who aren't criminally charged will be processed for deportation, ICE officials said.

Democrat Leads Race To Succeed Christie

BY KATE KING

Democrat Phil Murphy is far outpacing Republican Lt. Gov. Kim Guadagno in the race to replace outgoing Gov. Chris Christie, according to a Quinnipiac University poll released Wednesday.

Mr. Murphy leads Ms. Guadagno 55% to 26%, the poll found, although many New Jersey voters said they were still unfamiliar with both candidates. About half of the poll's respondents said they hadn't heard enough about either candidate to form an opinion, while a third said they viewed Mr. Murphy favorably and 20% had a positive opinion of Ms. Guadagno.

The two candidates were selected as nominees for their parties in last week's primary. Mr. Murphy, a former Goldman Sachs executive who has never held elected office, topped five opponents. Ms. Guadagno, a former prosecutor and sheriff from Monmouth County, fended off four others to win the GOP nomination.

Republican voters identified taxes as the most important issue in the governor's race; Democrats listed health care as their most pressing concern.

More than half of the poll's respondents said Mr. Murphy's experience on Wall Street had no impact on their opinion of him; 33% said they viewed it negatively.

Ms. Guadagno has served as Mr. Christie's lieutenant governor for nearly eight years, an association that 54% of the poll's respondents viewed negatively, while just more than a third said it had no impact on their opinion of her.

Mr. Christie's approval rating has dropped to the lowest level of any U.S. governor surveyed in more than 20 years by Quinnipiac University. Only 15% of New Jersey voters approve of the outgoing governor.

Quinnipiac University surveyed 1,103 New Jersey voters by landline and cellphone calls in the days following last week's primary. The margin of error was 3.8 percentage points.



Democrat Phil Murphy is outpacing Republican Kim Guadagno in the race to replace outgoing Gov. Chris Christie, a poll showed.

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GREATER NEW YORK

An Artists Colony Lives On

By JOSH BARBANEL

The west side of Central Park, with its wealthy bankers and investment managers and its sky-high housing prices, is an unlikely refuge for artists. But along West 67th Street, just off the park, an enclave of buildings constructed by and for artists continues their traditions more than a century later.

PROPERTY The block is lined with "studio buildings" erected, beginning in 1903, in what has become known as the West 67th Street Artists' Colony Historic District—typically ornate live-work spaces with 14-foot-high windows facing north in double-height rooms.

Most were built by cooperatives of artists, musicians and other creative sorts, who occupied some of the apartments and rented out others to cover the expenses of operating the building.

The largest and most imposing of these is the Gothic-inspired Hotel des Artistes, an 18-story building at 1 W. 67th St. that opened in 1917. Its brick, limestone and terracotta facade is adorned with gargoyles of sculptors, painters and writers.

Isadora Duncan, the dancer and choreographer, moved in soon after it opened. Norman Rockwell lived there, as did Noel Coward, actor Rudolph Valentino, expressionist artist LeRoy Neiman, and former New York City Mayor John Lindsay. Howard Chandler Christy, the artist and illustrator, was a resident and painted a series murals of nymphs in a street-level restaurant in the building, long known as the Cafe des Artistes. It is now the Leopard at des Artistes.

To celebrate its centennial, the co-op board at Hotel des Artistes brought in dancers from the Word Dance Theater on a recent Sunday. Wearing flowing Grecian gowns, they

performed Duncan's works in spaces throughout the building.

But amid the celebration, it appears that some of the connection to the building's creative past is fading, as older artists die off and apartments fetch high prices, including a three-apartment combination that sold for \$7 million in 2007. Last year, a two-bedroom apartment owned by the late David Garth, the political consultant, sold for \$3.9 million, and a unit on the market for \$4.5 million is now listed in contract.

Still, Pamela Johnson, a longtime resident who chaired the Centennial Committee, said many apartment owners still have a strong link to the arts or creative fields.

Of the 72 apartments, Ms. Johnson said, a recent building census found that the owners of nearly half have a connection to the arts, not including collectors. There are 10 painters, a sculptor, five architects,

and five writers, along with four dancers, three producers, and four art-and-antique dealers, she noted. Artists are still encouraged to display their work in the hallways.

The tally counts Peter Gelb,

West 67th Street was a street of stables and small industrial sites when artists moved in.

the general manager of the Metropolitan Opera, among its musicians.

"Our building is a lovely, eclectic bunch," said Emanuel Stern, the board president, who is the managing principal of Tall Pines Capital LLC, a real-estate investment firm. He owns two units at Hotel des Artistes, including one with a double-

height space that his wife, Elizabeth Stern, uses as a studio.

West 67th Street was a street of stables and small industrial sites when the artists moved in at the beginning of the last century. The 150-foot-wide lot for 1 W. 67th St. was purchased by a group of artists in 1914 for \$250,000. Construction costs were reported at the time to be about \$800,000.

Cheryl Daly, a broker at Halstead Property who lives in the building, said the founders were by no means struggling artists. The building has a medieval-inspired lobby with a beamed ceiling and Gothic ornaments. There is a 35-foot swimming pool, a squash court, a roof deck and several exercise rooms.

Ms. Daly said that in recent years the building had a strong appeal for architects. "They appreciate the architecture," she said. "They like the light and the high ceilings."



Rendering of an all-affordable building at 38 Sixth Ave. in Brooklyn.

PROPERTY WATCH

BROOKLYN

Amenities Abound in All-Affordable Tower

It has landscaped terraces, a rooftop community garden, a fitness center with a glass wall, a yoga studio and a colorful children's playroom. But these amenities weren't designed for the latest market-rate rental building: The entire 18-story building at 535 Carlton in the huge Pacific Park development in downtown Brooklyn has been set aside for affordable housing.

The building, which opened with 298 units this week, and a second all-affordable building due to open in August next to Barclays Center at 38 Sixth Ave., are significant down payments on the promise the developers of Pacific Park made: to provide 2,250 affordable apartments among the 6,430 apartments in 14 residential buildings planned for the 22-acre site.

MaryAnne Gilmartin, chief executive of Forest City Ratner Cos.' New York operations, said the buildings, with a mix of low- and middle-income tenants, were similar to the latest designs for market-rate rental housing.

"They are indistinguishable," she said. "They are at the very top of what multifamily housing should look like."

The \$4.9 billion Pacific Park project is being developed by a joint venture of Greenland USA, a subsidiary of Shanghai-based Greenland Group Co., and Forest City Ratner Cos., a subsidiary of Forest City Realty Trust Inc.

At 38 Sixth Ave., there will be 303 apartments ranging from studios to three-bedrooms. The 23-story building, designed by SHoP Architects, will have a facade of glass, stainless steel and aluminum panels.

WILLIAMSBURG

Condo Sales Strong Near L Train Route

A planned shutdown of a subway tunnel under the East River for 15 months beginning in 2019 has done little to slow condominium sales at a converted riverfront warehouse near the L train route in Williamsburg.

Sales at the block-long building at 184 Kent Ave. known as Austin Nichols House have been particularly strong this spring while transit officials were finalizing plans for the tunnel shutdown, said Asher Abehsara, owner of LIVWRK Holdings, a real-estate development and investment firm that is a partner in the project. Closings began earlier in June.

Since the building went on the market last year, 96 of 185 available condo apartments have gone into contract, including 21 sales since April, Mr. Abehsara said.

The warehouse was converted to rental units in 2015, and the current partners, LIVWRK as well as Kushner Cos. and the Rockpoint Group, purchased it for about \$280 million that year, Mr. Abehsara said, and added amenities to the building.

Condo buyers, unlike renters, were focusing on the long term and the value of the apartments when more efficient L train service returns after the shutdown, he said.

"We are six blocks from the L train," Mr. Abehsara said, "but our buyers don't even mention it. They understand they are putting roots down."

Some units have fetched more than \$1,900 a square foot, he said, a strong price for Williamsburg, where many developers focused on rental buildings after the last housing downturn.

—Josh Barbanel



Dancers performed works by onetime resident Isadora Duncan to mark Hotel des Artistes' centennial.

NYPD, City Council Clash Over Surveillance Bill

By ZOLAN KANNO-YOUNGS

New York Police Department officials told the city council on Wednesday that a bill that would require public disclosure of police surveillance would put officers at risk and hinder terrorism investigations.

But council members on the Public Safety Committee said the legislation would add a level of transparency and accountability that has been missing from the department.

"The way this bill is written right now it would be...describing the manufacturing, type and capabilities of our recording devices worn by undercover officers or other human sources

who are in the middle of ongoing terrorist plots," said John Miller, deputy commissioner of counterterrorism and intelligence for the NYPD. "That would be insane."

At the heart of the debate over the Public Oversight of Surveillance Technology Act, introduced by council members Vanessa Gibson and Dan Garodnick, are contrasting views about the balance of privacy and security.

The bill would require the department to disclose descriptions, capabilities and guidelines for surveillance technologies. Those methods include use of Stingray devices, which collect cellphone data and can determine one's

location, and the department's security camera apparatus and license plate readers.

"There are New Yorkers out there that appropriately question what level of surveillance is being done in their name and their tax dollars," said Mr. Garodnick, a Democrat. "And they deserve to know...that you have policies, you're following policies."

It isn't the first time the NYPD's surveillance practices were questioned.

The NYPD has been the subject of lawsuits in recent years accusing the force of unfairly monitoring Muslims after the Sept. 11, 2001, terror attacks. And last year, the New York Civil Liberties Union criti-

cized the police department's use of Stingrays to collect cellphone data.

Police officials on Wednesday said they have taken measures to be transparent and already have enough oversight. The NYPD in March enlisted a former federal judge to monitor its surveillance practices as a result of the settlement of the civil-rights lawsuits.

Deputy Commissioner of Legal Affairs Lawrence Byrne said the police are required to get a court order to use surveillance technology unless time is especially sensitive, such as in a kidnapping or the hunt for a missing child.

—Mara Gay contributed to this article.

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Insured and Bonded

Port Authority Intends To Suspend CEO Search

By PAUL BERGER

The Port Authority of New York and New Jersey is expected to suspend its search for a chief executive on Thursday, dealing a blow to reform efforts at an agency that has become synonymous with dysfunction.

The bimodal agency started its search more than two years ago in the wake of a report commissioned by the governors of New York and New Jersey that recommended a comprehensive governance overhaul to depoliticize decision making.

The chief executive would have replaced an executive director and a deputy who are each appointed by the governors of New York and New Jersey.

The post ought to be one of the most coveted jobs in public transportation with oversight over most of the region's major bridges, tunnels and airports as well as the 16-acre World Trade Center site.

But Port Authority chairman John Degnan is expected to tell colleagues at a board meeting in Jersey City on Thursday that the search is suspended because of a failure to find a suitable candidate.

The agency's executive director, Patrick Foye, had applied for the position. When it became apparent in the fall of

2015 that he wouldn't get the role, he tendered his resignation. New York Gov. Andrew Cuomo persuaded Mr. Foye to stay on and he remains in the position today.

A person familiar with Mr. Degnan's thinking said "several important candidates" had been reluctant to take the position because it wasn't enshrined in law in New Jersey. Their fear was that the agency could eliminate the position in the future.


Patrick Foye,
Port Authority
executive
director, had
raised his hand
for the CEO
position

"CEO candidates have been found," New Jersey State Sen. Loretta Weinberg said. "It's just they've never gotten both governors to sign off."

The CEO search began in the aftermath of the 2013 George Washington Bridge lane-closure scandal. A former Port Authority executive and a one-time aide to New Jersey Gov. Chris Christie were sentenced to prison for conspiring to close access lanes to the bridge to punish a mayor for refusing to endorse Mr. Christie's re-election bid.

LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

The Best and Worst Coach Seats

ENGINEERS WOULD SAY technically sardines are still packed tighter. But the difference between a can of oily fish and a coach cabin of sweaty airline passengers is getting smaller.

There's growing variation in legroom, hip room and headroom as airlines find more ways to cram seats into planes. Travelers had best pay attention: The bad seats aren't always where you might think.

Some airlines are down to 28 inches of space from the back of your seat to the seat back in front of you in their basic coach rows, down from the once-standard 32 inches of what's called seat pitch. That's a difference felt right in the kneecap. Airlines considered full-service have shrunk down to 30 inches and American Airlines, which 15 years ago gave each row of coach seats 34 inches of space, considered going to rows with as few as 29 inches.

They backed off Tuesday. Still, the new planes, the same size as 737-800s but called 737 Max 8, will have 172 seats, with two more rows of seats squeezed in compared with their existing 737-800s. Space will shrink to 30 inches from 31. American first flew that plane with 150 seats, then upped it to 160 in 2015.

Slimmer seats with flexible backs and bottoms make the pinch possible. But American's announcement of 29-inch rows raised eyebrows and ire as the first big airline to break below 30 inches.

"I wouldn't have expected a full-service carrier to go that low. That's very, very tight pitch, even with a slim-line seat," says Jami Counter, vice president of flight at SeatGuru and its parent TripAdvisor.

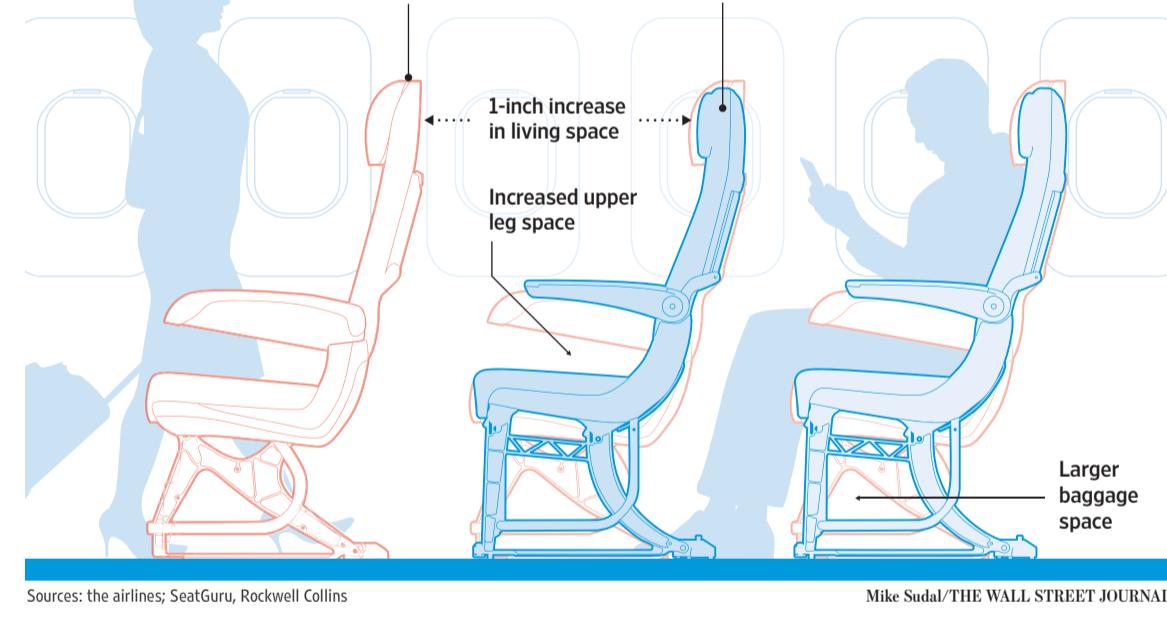
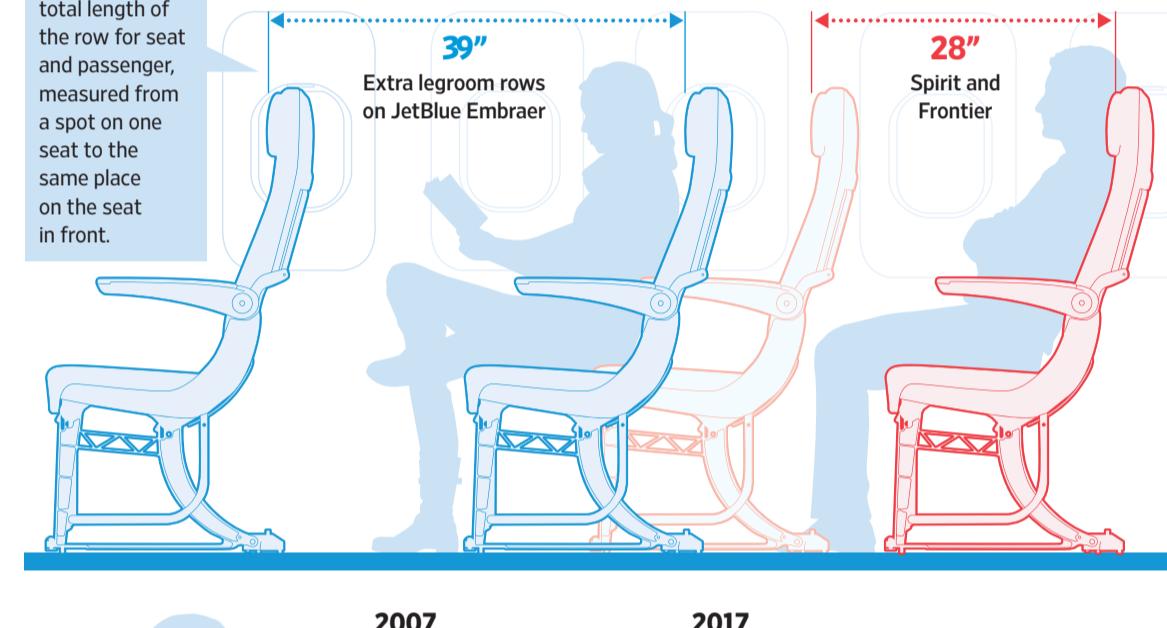
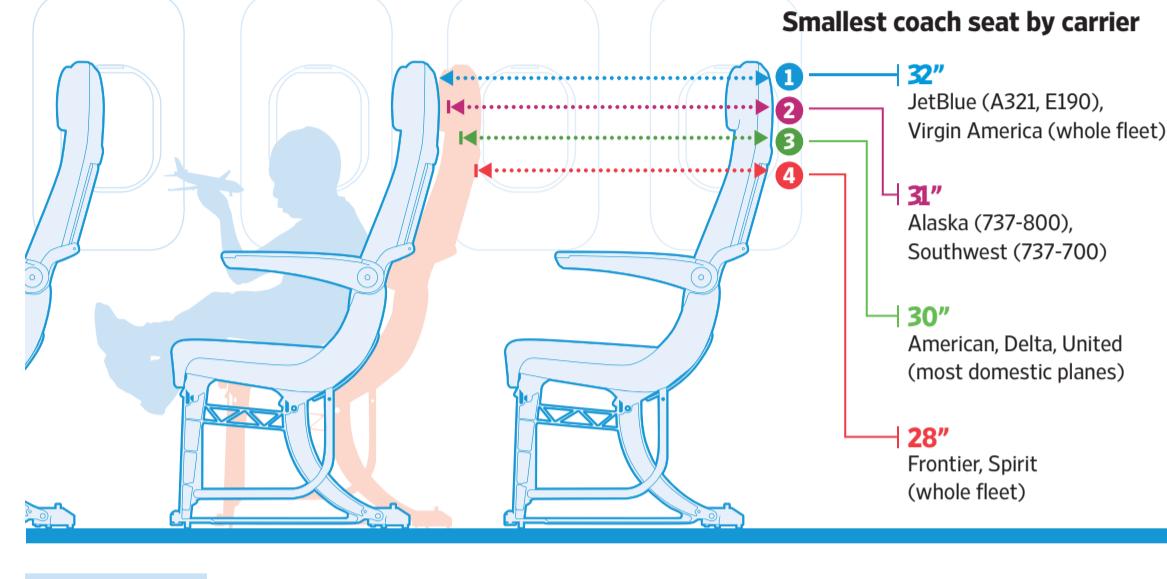
After hearing customer complaints, American said it agreed and would avoid dropping to 29 inches. "We've reassessed what's appropriate" for 737 coach seating, President Robert Isom said in a message to employees Tuesday. "This is the right call for customers and the right call for our team members who take care of them."

Southwest Airlines is taking delivery of the same 737 Max 8 as American, and using the same Rockwell Collins Meridian slim-line seats. But Southwest, which has no first-class or extra-legroom rows, has decided to keep its seat count at 175, the same as its other 737-800s, with 32-inch pitch. The airline says there are operational efficiencies to keeping the same number of seats.

Rockwell Collins says Meridian seats have 20% more living space than traditional seats. The frame got smaller and lighter and the back portion of the seat moved forward, increasing shin space. If you reduce pitch from 32 inches to 30, passengers still end up with an extra inch of space, says Tom Plant, vice president and general manager, aircraft seating.

Travelers say dense packing has done as much as baggage fees and overhead-bin anxiety to make flying coach a more miserable experience.

The space between seats on U.S. commercial flights has never been tighter, though some carriers are resisting taking more legroom away



"When someone leans back, we all have to lean back," says Jim Chud, a frequent flier from Los Angeles who recently was on a plane packed so tightly that passengers kept hitting him while maneuvering into and out of a

bathroom. Cramming cabins really started after the post-2001 travel slump, when fares were low and airlines were losing lots of money. As travel recovered, discount carriers spread broadly, putting cheap

fares in many markets. Rival carriers figured more seats would let them match cheap prices and still make money.

At the same time, seat manufacturers found ways to make coach seats lighter and smaller.

New metals and composite materials make skinny frames stronger. Three-dimensional computer modeling aided seat design, manufacturers say. Instead of hard backs and seat pans, manufacturers started using mesh covered with thin layers of foam. (Think Aeron office chairs.)

"Comfort is not just about the dimensions and the measurements. It's also about how the cushion feels, where the pressure points are," says Mark Hiller, chief executive of Recaro Aircraft Seating.

American has new Airbus A321 planes with slim seats, power ports and seat-back video and older A321s from US Airways with thicker seats but no power and no video. There's an inch less seat pitch on the newer planes, but they score better in reviews, says Mr. Counter of SeatGuru, which rates airline seats plane-by-plane.

But heads are still several inches closer together, and people feel more confined. "Seat pitch is definitely one of the most important amenities based on the data points we collect," says Jason Rabinowitz, director of airline research at Routehappy.

To sort through the cabin confusion, here's a guide to coach seating:

Which airline has the best coach seats?

JetBlue. Rows are 32 inches long, planes have fast Wi-Fi service and seats have free seat-back entertainment. "Their Airbus aircraft consistently score higher than anyone else," says SeatGuru's Mr. Counter.

Virgin America is close, with 32-inch seat pitch and similar amenities. **Southwest** has some planes at 32 and others at 31. These three so-called value carriers, which often don't have the lowest prices but build a strong following with their comfort and service, offer the most legroom.

Which have the worst?

Spirit and Frontier are two major U.S. airlines with 28-inch seat pitch on their fleets. Even renowned cheapskate Ryanair has more.

Around the world, only charter operators are typically that tight. SeatGuru says Spirit is "far and away" the most poorly rated in reviews for U.S. travelers.

What about the Big Guys?

American, Delta and United have standardized most of their planes at 30 to 31 inches of seat pitch. Adding rows creates capacity growth without the expense of new airplanes and makes a low-margin business more profitable.

Widest and skinniest seats?

Boeing single-aisle planes typically have 17.2-inch-wide seats in coach. Airbus single-aisle planes have 18.3 inches because of a wider fuselage. The newest seats coming from manufacturers actually are built to hug the sidewall more closely, moving the window seat closer to the window. That allows for a seat one-half inch wider on 737s, measured inside the armrests.

MOVIE MUSIC

FOR FILM COMPOSERS, A WHOLE NEW SCORE

BY DON STEINBERG

WHEN "THE MUMMY" opened Friday, Brian Tyler, who composed the movie's music, performed his usual ritual. He headed to cinemas around Los Angeles to observe audiences. When screenings of the Tom Cruise action film let out, he lingered in the multiplex, taking extra time on the escalator and in the rest room to hear whether anyone was unconsciously humming his music.

"I'll wash my hands for a long time," says Mr. Tyler, who has composed music for four Hollywood films coming out this year. "I was happy to hear some people leaving the theater humming the theme."

It's getting harder for Mr. Tyler and some of his colleagues to stay under the radar. Film composers are stepping into the spotlight in a new documentary, "Score," which opens June



16. The movie celebrates the storytelling ability and emotional power of a film's score—the original music composed to complement scenes in a non-musical film, rather than pop-music tracks a director might insert.

Composers such as Mr. Tyler, who is featured in "Score," also are taking rock-star turns in concerts.

In May, he conducted a 75-piece orchestra and 60-person choir, performing music from "The Mummy" and his other films for an arena audience of 15,000 in Krakow, Poland. He also performed some of his original electronic music, under his alter-ego name Madsonik, at a dance club in San Diego.

Another movie maestro in the documentary is Hans Zimmer, who has scored more than a hundred films from "Driving Miss Daisy" in 1989 to the coming "Dunkirk." Mr. Zimmer rocked the Coachella music festival in April, playing electric guitar.

Please see MUSIC page A14



Brian Tyler, above, who composed the music for the Tom Cruise action film 'The Mummy,' inset, also performs his music live, as he did last month at the Tauron Arena in Krakow, Poland.

SPORTS

TENNIS

FEDERER FALTERS IN PREP FOR WIMBLEDON

BY TOM PERROTTA

After more than two months off, Roger Federer returned to tennis Wednesday and showed something rare: rust.

Federer, 35 years old, lost his opening match at a grass court tournament in Stuttgart, Germany to Tommy Haas, a 39-year-old who was once a top-ranked star but rarely plays tournaments these days.

Federer, tied for the most male Wimbledon titles ever with seven, had not lost the first match he had played on grass in an event since 2002, when he was 20 years old. Haas is ranked No. 302 and is now 6-8 this season.

Federer hasn't lost to an opponent ranked that low since 1999, when he was beaten by a player ranked No. 407, according to Tenisabstract.com. Federer was 18 years old.

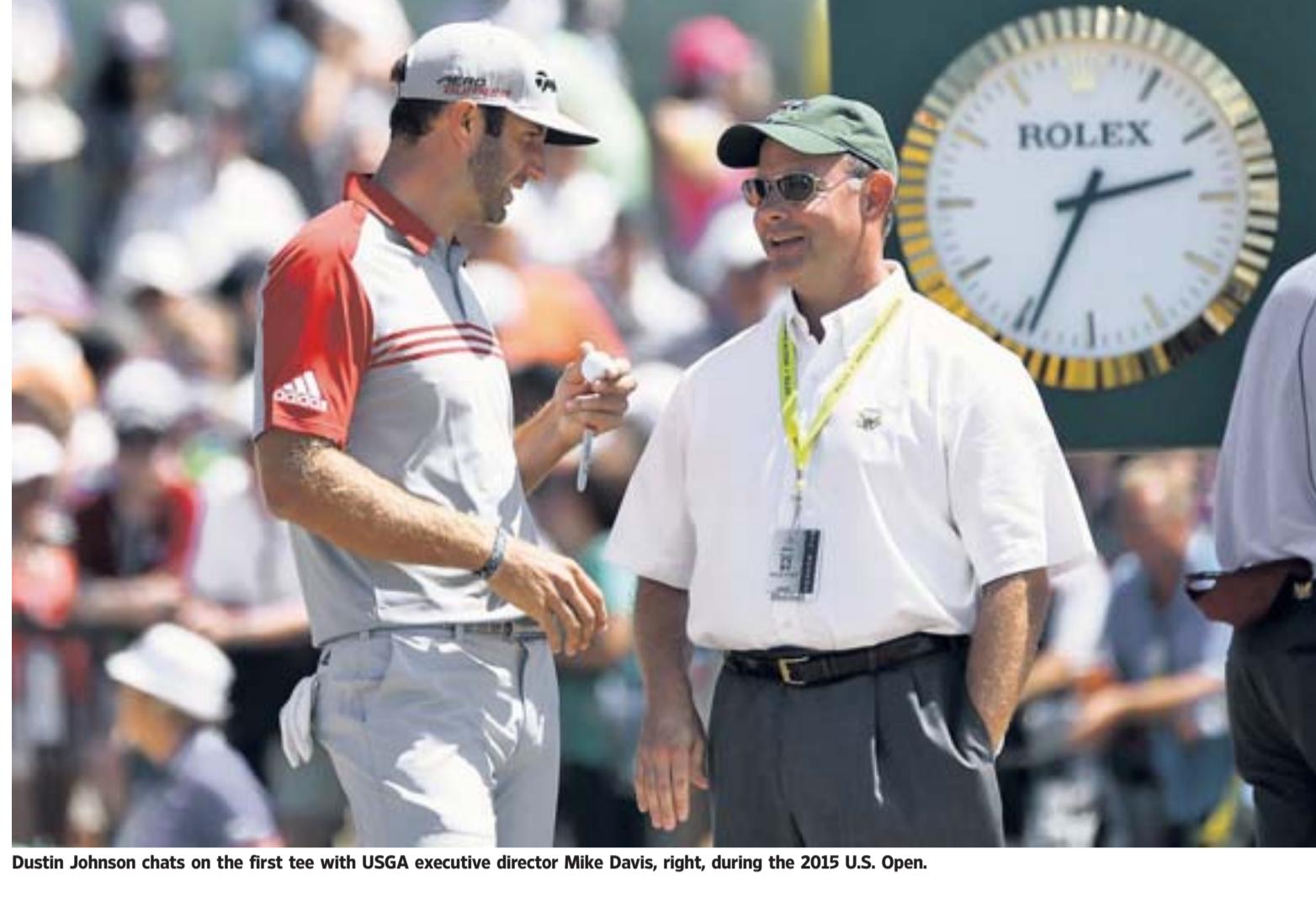
"Mainly pretty speechless," Haas said after his victory. "I'm still sort of shocked myself."

Federer quickly won the first set and led by a break of serve in the second set before Haas recovered. He saved a match point and then went on to win 2-6, 7-6(8), 6-4. The victory was Haas's fourth against Federer in his career, against 13 defeats.

Federer's record for the season had been 19-1, a remarkable start, especially since he began after missing six months with injuries. He won the Australian Open and two other titles on hard courts, including a final against Rafael Nadal. Federer skipped the entire clay court season, including the French Open, to get healthy and prepare for Wimbledon.

One would think that this defeat might shrink Federer's chances on grass going forward. He wasn't acting that way after his loss. He congratulated Haas, signed autographs for fans and smiled while walking off the court. Haas, who will play his next match in the quarterfinals, never won a Grand Slam title. But he's having a lot of family fun right now.

"Playing in front of my family, playing in front of my daughter, that's really what it's all about for me," Haas said.



Dustin Johnson chats on the first tee with USGA executive director Mike Davis, right, during the 2015 U.S. Open.

HARRY HOW/GETTY IMAGES

U.S. OPEN

Golf's Biggest Villain Gets Major Test

BY BRIAN COSTA

MIKE DAVIS was on the 18th green after last year's U.S. Open at Oakmont when public sentiment toward the USGA became clear.

Moments earlier, the USGA executive director had been confronted by golf legend Jack Nicklaus over the rules controversy that overshadowed Dustin Johnson's victory. Now, as the trophy presentation for Johnson got underway, Davis was hearing it from the crowd.

"There was a point when somebody was introduced from the USGA and there were almost boos," he said.

There are 156 players in the field this week at Erin Hills, but none of them need a good week at the U.S. Open quite like the organization that runs it. The USGA has in recent years drawn the ire of everyone from major champions to casual fans, never more so than at its signature event.

In 2015, it was the condition of the greens at Chambers Bay that prompted an outcry from players, who called them farcical, disgraceful and ridiculous, among other adjectives.

In 2016, it was the spectacle of Johnson vying for the title without knowing whether he would receive a one-stroke penalty for the slight movement of his ball before a putt. After nearly the entire PGA Tour blasted the USGA's handling of the situation—Rory McIlroy called it "amateur hour"—the organization said the next day that it "regrets the distraction."

In 2017, if all goes to plan, the talk about the USGA won't just be kinder. It'll be quieter.

"Ideally, what you want the U.S.

Open to be is about the players and about the golf course, and that ultimate test of golf," Davis said. "It's not like we don't want some credit, or if we deserve some blame, to get it. But the story should not be about us."

It is one of the quirks of the sport that the American national championship is run by a rulemaking body that is unaffiliated with the pros that compete in it. PGA Tour stars may be the faces of the

The world's best golfers have become openly disdainful toward and dismissive of the USGA.

game. But when it comes to the rules they must play by, the equipment they are allowed to use and the conditions under which they play the U.S. Open, they are at the mercy of the USGA.

Add to that the USGA's desire to make the Open unique in its brutality, and it is little wonder that player complaints are a rite of June.

"When was the last time you met an individual that ever had anything nice to say about what's happening in Washington?" Davis said. "I don't care what side of the aisle you sit on. People don't like to be governed, generally speaking."

What has unfolded in recent years reflects more than just that inherent tension. The best golfers in the world have become openly disdainful toward and dismissive of the USGA.

The organization's 2013 decision, along with the R&A, to ban

anchored putting—in which players pressed the end of the club into their body for stability—was met with widespread resistance from PGA Tour players, who considered forming their own set of rules. Issues at the last two U.S. Opens have only further strained the relationship.

In theory, that shouldn't affect the USGA too much. No player is about to boycott a major championship. National championships are only part of the USGA's work, which also includes administering the amateur handicap system and funding an array of research related to the long-term sustainability of the sport.

But the U.S. Open is the nonprofit USGA's primary financial engine. In fiscal year 2016, it reported nearly \$152 million in revenues related to the 13 national championships it conducts. That represents a \$30 million increase from 2014, just before the start of a new broadcast rights deal with Fox Sports, and accounted for 75% of the USGA's total revenue.

More than just a cash cow, the U.S. Open is a perception driver. Davis said the organization received around 15,000 emails and phone calls from people upset over the Johnson episode.

"If you miss a ruling, if you miss a golf course setup issue, if you don't handle suspension of play properly, it does affect the credibility of the entire organization," Davis said.

Since last year, the USGA has tried to repair that credibility—and its relationship with Tour players—in several ways. Along with the R&A, it eliminated the penalty that nearly cost Johnson the title. It solicited input on its pending mod-

ernization of the rule book from Tour players and amateurs alike. And it increased the prize money for this year's tournament from \$10 million to a record \$12 million, making it the biggest purse in golf.

Davis has met personally with a handful of players, including a February lunch with McIlroy. He and other USGA officials have also gone on a mini-road show, appearing twice in recent months at meetings of PGA Tour players to explain how they spend the revenue the Open generates. Among other things, they pointed to \$10 million spent on amateur championships, \$7 million spent on technology for the handicap system and other do-good areas such as junior golf and decreasing water usage.

"A lot of things we do, people don't even know about," he said. "But if we didn't do those things, you'd see a lot of aspects of the game that just wouldn't be as good."

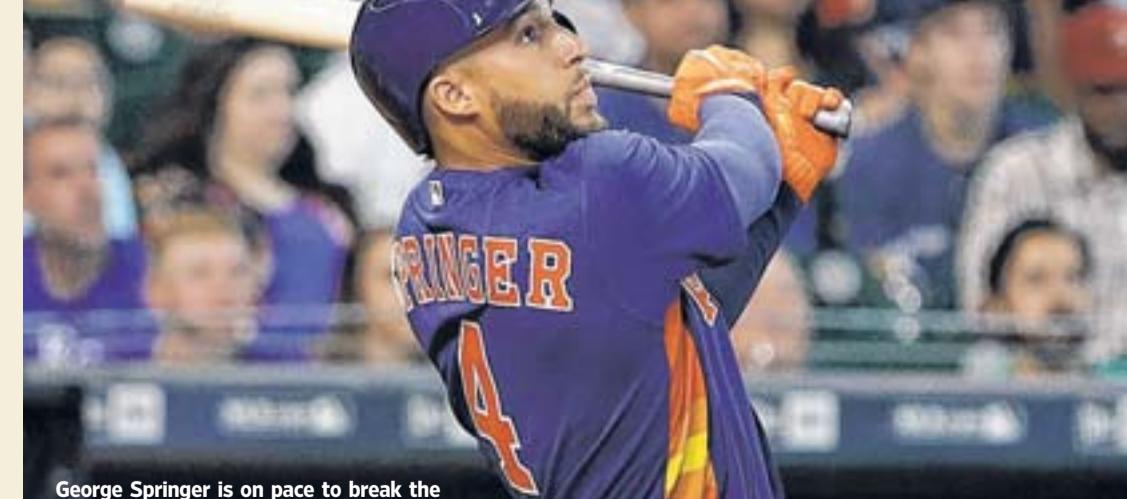
That has not stopped the criticism. When asked last month how this year's U.S. Open might improve players' view of the USGA, Phil Mickelson said, "I don't know if doing one thing right is going to fix that." Earlier this month, Adam Scott told reporters that the USGA had "really dropped the ball with where the game is at." On Sunday, Kevin Na posted an Instagram video from a practice round in which he grumbles about the length of the fescue grass, some of which was mowed down on Tuesday.

A smooth week at Erin Hills will only accomplish so much.

"It's not going to be the last time we get something wrong," Davis said. "It's going to take a while. We're not going to win over people. But at the end of it, our organization is all about golf."

THE COUNT

THE FIRST INNING AT-BAT YOU DON'T WANT TO MISS



George Springer is on pace to break the single-season mark for leadoff homers.

A word of advice to anybody planning to attend a baseball game involving the Houston Astros this season: Don't be late—you'll miss the fireworks.

George Springer, the Astros' 27-year-old outfielder, blasted his seventh leadoff home run of 2017 on Tuesday, a remarkable pace that puts him on track to make history. There have only been six instances of a player reaching double digits in leadoff homers in a single season, led by Alfonso Soriano's 13 for the New York Yankees in 2003. Heading into Wednesday's play, Springer was on pace to hit 17.

"He's a power guy, but he's a lead-off guy," said Carlos Beltran, Springer's teammate. "He's got the mentality of trying to get on base."

Given Springer's track record and blistering start, it certainly appears realistic for him to challenge Soriano's record. Springer hit eight of his 29 home runs in 2016 while leading off the first inning, tied with Hall-of-Famer Craig Biggio for the most leadoff homers for an Astros player in a season.

This year, Springer is tied for second in the American League with 18 homers, three of which traveled more than 450 feet. His heroics—which in-

cluded a walk-off home run against the Seattle Mariners on April 5—have helped propel the Astros into first place in the AL West, as they pursue

their first division crown since 2001, when they played in the NL Central. (Springer could have some company: Tampa Bay Rays outfielder Corey Dick-

erson already has six leadoff homers.)

All told, Springer has hit 16 leadoff home runs since making his major-league debut in 2014, which ranks 11th

Ready to Launch

Most leadoff home runs in a single season.

PLAYER/TEAM	SEASON	HR
Alfonso Soriano NYY	2003	13
Brady Anderson BAL	1996	12
Alfonso Soriano CHC	2007	12
Bobby Bonds SF	1973	11
Jacque Jones MIN	2002	11
Charlie Blackmon COL	2016	10

Source: Stats LLC

WSJ

among current players. New York Mets outfielder Curtis Granderson and Detroit Tigers second baseman Ian Kinsler are the active leaders with 42 leadoff home runs apiece.

But while Springer has plenty of time to chase Granderson, he still has a ways to go before making a serious dent on the all-time leaderboard. Rickey Henderson, widely considered the best leadoff hitter in history, hit 81 leadoff homers in his Hall-of-Fame career—even though he never hit more than nine in a single season. No other player has hit more than 54.

—Jared Diamond

JOHN GLASER/CAL SPORT MEDIA/AP IMAGES

U.S. OPEN

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U.S. OPEN

ERIN HILLS

117TH

JUNE 15-18



LIFE & ARTS

OPERA REVIEW

An 'Angels' Focused On the Supernatural



Andrew Garland and Kirsten Chambers in Péter Eötvös's 'Angels in America'

New York **THE NEW** New York City Opera has promised to offer New York premieres of important contemporary operas, filling a neglected niche. For the final presentation of its first full season, the company tackled Péter Eötvös's "Angels in America" (2004), a drastic condensation of the landmark, seven-hour, two-part play by Tony Kushner. Mr. Kushner's sprawling "gay fantasia on national themes," depicting 1980s New York in the grip of the AIDS crisis, mixes comedy and tragedy, reality and hallucination. Mr. Eötvös's opera is a cooler affair. It strips out the humanity in favor of the supernatural, and Sam Helfrich's efficient production at the Rose Theater mirrored that loss of emotional grandeur.

The first act is promising. Mari Mezei's libretto introduces most of the characters: Prior Walter, who has AIDS; his lover Louis, who abandons him; Joe, a closeted Mormon lawyer; Joe's Valium-addled wife, Harper; Joe's mother, Hannah; Roy Cohn, the corrupt lawyer, who also has AIDS and is visited by the quietly vengeful ghost of Ethel Rosenberg, whom he sent to the electric chair in 1953; and the Angel who appears to Prior and declares him a prophet. But the second act drops most of their stories to focus on Prior and the Angel. Without them, Prior's revelation is hollow, the opera loses the messy, often comic, humanity of the original, and the ending doesn't make sense.

To create the perpetual night-

mare, Mr. Eötvös's music relies heavily on cacophony, with noisily insistent instruments like bells, saxophones, contrabass clarinet, and electric guitar. One of the most striking and effective elements is a trio of singers in the pit who echo the onstage words and phrases. The vocal writing is varied but inconsistent, and the spoken text seems randomly positioned. All the singers are miked; clumsy sound design made some of them sound artificial, and the stage-pit balances were frequently off.

Oddly, for an opera about gay men, it was the women who had the most presence

Oddly, for an opera about gay men, it was the women who had the most presence. Sarah Beckham-Turner's lovely, wide-ranging soprano illuminated Harper, making her feel like the heart of the piece, as well as Ethel, who is coerced into singing a Yiddish lullaby to the dying Roy. Kirsten Chambers was compelling in the Angel's Straussian dramatic soprano explosions, and she looked like Karita Mattila in a flowing white trouser suit by Kaye Voyce.

Aaron Blake's lyric tenor made the usually unsympathetic Louis touching, and bass-baritone Wayne Tigges was nastily funny as

Roy but didn't have enough singing to do. Neither did countertenor Matthew Reese, since the role of Belize, the gay nurse, is underwritten, and his second role, as Mr. Lies, the travel agent whom Harper hallucinates, is a throwaway. Andrew Garland (Prior Walter), Sarah Castle (Hannah), Michael Weyant (Joe) and the pit trio of Cree Carrico, Sarah Heltzel and Peter Kendall Clark completed the cast; Pacien Mazzagatti was the capable conductor.

Mr. Kushner has written that the plays should be produced in a bare-bones, actor-driven way, and Mr. Helfrich's production certainly was. John Farrell created a black-tiled box that looked like a morgue in Purgatory that brightened only when Derek VanHeel's Stygian lighting turned pink or green for hallucinations; the Angel's arrival on a suspended window-cleaner platform was the first suggestion that the setting is actually New York. This makes sense for a while, but the plays and the opera promise an escape from the nightmare, and the staging, with its makeshift tinsel crowns for the parliament of angels in heaven, and just a speaker's podium for the 1990 epilogue, seems to suggest we can hope only for more of the same.

Angels in America

New York City Opera

Through June 16

Ms. Waleson writes about opera for the Journal.



The documentary 'Score' celebrates the work of film composers including Hans Zimmer, above, and Trent Reznor, below, at a Paris concert in 2014.

MUSIC

Continued from page A11

tar with a backing orchestra and kicking off a global tour that this month has him filling arenas across Europe. He returns to the U.S. in July for his first North American concert series. "People are realizing that film music can stand on its own two feet," Mr. Zimmer says. "There's a sense of storytelling in the music. It's not necessarily the story you saw on the screen. You can make your own movie in your head."

The documentary reveals the film-music creation process, practitioners, and history. It explores the impact of Bernard Herrmann's screeching violins in Alfred Hitchcock's "Psycho," John Barry's "James Bond" theme, Ennio Morricone's spaghetti western sound, and Thomas Newman's ethereal score for "American Beauty." There is footage of John Williams and Steven Spielberg working on music for "E.T." as well as Mr. Spielberg's reaction to Mr. Williams's two-note motif for the "Jaws" shark. Initially, the director thought it was a joke.

Movie music is all about manipulating the audience. "The whole purpose of your job as a film composer is to be the emotional voice of what the director wants in the scene," Mr. Tyler says. "It's the wordless narrative, so you try to jump into their head as much as possible." Director James Cameron ("Titanic" and "Avatar") says in the documentary that a composer "has to act almost like a therapist" to extract a director's feelings.

Live movie-score performances, sometimes accompanied by films, have become a summer-time staple. The Harry Potter Film Concert series hits cities across North America this summer. "Titanic Live" continues its world tour, and the New York Philharmonic plays a "Star Wars" Film Concert Series in September. Orchestras regularly perform John Williams's music (including "Star Wars," "Raiders of the Lost Ark" and "Jurassic Park"), with the 76-year-old composer step-

ping in at times as conductor.

For composers, moving between films and other work keeps ideas cross-pollinating. Mason Bates is composer-in-residence at Washington's John F. Kennedy Center for the Performing Arts. His classical symphonies tend to tell stories. For the 100th anniversary of John F. Kennedy's birth in May, he composed a piece that integrated JFK's moon-shot speech into a symphonic work about American exploration. His first opera, "The (R)evolution of Steve Jobs," premieres in Santa Fe this summer. Director Gus Van Sant heard a recording Mr. Bates did with the San Francisco Symphony and asked him to try his hand at scoring the film "The Sea of Trees," which premiered at Cannes in 2015. Working on movie music that's tied so closely to dramatic narrative "allows one to think more theatrically" about other music, Mr. Bates says.

Today's arena performances might not surprise film composers who started out in the rock world. Danny Elfman graduated from the band Oingo Boingo to score films including "Good Will Hunting" and "Silver Linings Playbook." Trent Reznor of Nine Inch Nails won an Oscar for composing the score of "The Social Network" with Atticus Ross.

But the arena-size crowds still astonish some composers. "Outside of John Williams doing his big concerts—and he's kind of always the exception to the rule—I don't think any of us thought that this was possible," Mr. Tyler says.

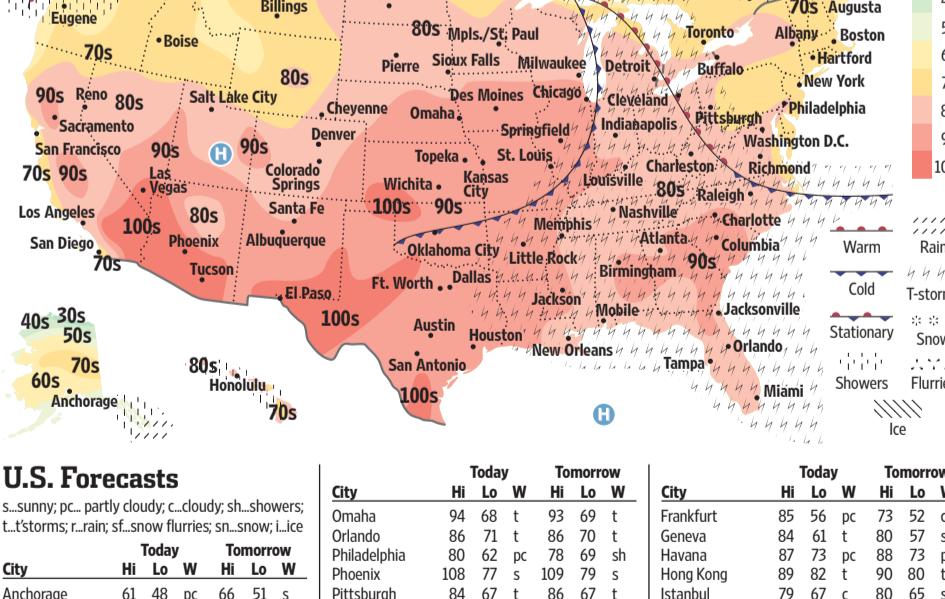
Mr. Zimmer has some rock roots. He played synthesizer and appeared in the video of the 1979 Buggles song "Video Killed the Radio Star," which launched MTV. This month he and Buggles frontman Trevor Horn, with a 60-piece orchestra, performed the song live for the first time in decades in Frankfurt. Mr. Zimmer has been joined on tour by Nile Marr, son of The Smiths guitarist Johnny Marr. His light show is done by Marc Brickman, lighting designer for Pink Floyd.

"I'm so not the rock-star type," Mr. Zimmer says. "I've surrounded myself with people who really know how to do it."



FROM TOP: GRAVITAS VENTURES; DAVID WOLFF / PATRICK REDFERN / GETTY IMAGES

Weather



U.S. Forecasts

S=sunny; pc=partly cloudy; c=cloudy; sh=showers;

t=tstorms; r=rain; sf=snow flurries; sn=snow; l=ice

Hi=high; Lo=low; W=wind direction

Today Hi Lo W Tomorrow Hi Lo W

City Anchorage Atlanta Austin Baltimore Boise Boston Burlington Charlotte Chicago Cleveland Denver Detroit Honolulu Houston Indianapolis Kansas City Las Vegas Little Rock Los Angeles Miami Milwaukee Minneapolis Nashville New Orleans New York City Oklahoma City

Hi 61 48 pc 66 51 s

89 72 t 87 72 t

98 74 pc 99 75 s

82 66 pc 80 68 c

78 60 c 91 51 c

71 58 s 68 61 c

77 59 s 71 64 sh

92 71 t 87 70 t

92 69 pc 86 70 t

85 68 t 91 71 pc

96 79 pc 97 78 s

88 56 pc 91 59 pc

84 66 t 90 70 pc

85 74 t 86 75 pc

95 75 pc 95 76 pc

87 69 t 91 71 pc

95 70 t 93 73 t

105 78 s 107 81 s

92 73 t 92 72 pc

88 64 s 90 64 s

89 78 t 87 77 t

87 68 pc 83 67 c

86 66 s 88 68 pc

89 71 t 92 72 t

87 75 t 88 74 pc

73 60 pc 68 63 sh

97 71 t 97 74 t

International

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam Athens Baghdad Bangkok Beijing Berlin Brussels Buenos Aires Dubai Dublin Edinburgh

Hi 78 58 t 65 58 c

88 71 s 85 68 t

106 77 s 107 77 s

96 77 pc 95 78 pc

101 67 c 99 71 pc

79 61 pc 68 55 sh

81 55 t 68 56 pc

67 64 s 74 66 c

112 90 s 109 89 s

63 53 s 70 55 pc

65 52 s 64 56 sh

AccuWeather.com

Shown are today's noon positions of weather systems and precipitation. Temperature bands are highs for the day.

Legend: Rain, T-storms, Stationary, Showers, Flurries, Ice

The WSJ Daily Crossword | Edited by Mike Shenk



IF AT FIRST YOU DON'T SUCCEED... | By Morton J. Mendelson

Across

- 1 John Deere logo
5 Hummus scooper
9 Barely sufficient
14 Bar mixer
15 Speckled stallion
16 Parliament contents
17 It might be followed by a loop
18 Deluge
20 They aren't subject to customs inspection
22 Duke, e.g.
23 Jargon finish
24 Filing pro

► Solve this puzzle online and discuss it at WSJ.com/Puzzles.

- 27 One of many revolving around Mars
30 Big Sur retreat
32 Invigorate
36 Way to go?
38 Source of baby's breath
39 "Blood will have blood" speaker
40 Fighting a bug, say
41 Texas State team
42 Beethoven's birthplace
43 Roll of material
44 Snowy bird
45 Unfrequented
47 Pained cry

49 Scratch (out)
50 "Master Melvin" of the Polo Grounds
52 Brouaha
57 Youngster's lyric, perhaps after five missed attempts in this puzzle
60 Like some biennial elections
63 Morlocks' victims
64 Trip home from the airport, perhaps
65 Instead
66 Prompt into action
68 Pained cry

- 67 Leaves undressed, maybe?
68 Sister brand of Tootsie Rolls
69 Game admission
70 Down
1 A great deal
2 Like chlorine
3 Hebrew leader?
4 Winery family
5 With formal propriety
6 Inner Hebrides island
7 Like a well-crafted whodunit
8 Hall of fame
9 Prepares for showing, as a home
10 Disaster shelter supply
11 Simple adders
12 Cpl., for one
13 Great deal
14 Like many a PAC
21 Vitality
24 Source of meals on wheels
25 Five-in-a-row board game
26 Uneasy feeling
28 ZZ Top, e.g.
29 Winter green
31 Slept like
32 Relaxed walk
33 Device with a Force Touch trackpad
34 Trattoria tubes
35 Reader (quarterly digest)
37 High guy
41 Not on deck, perhaps
43 How one must win in badminton
46 Took stock?
48 Sum totals
51 Like many knock-knock jokes
53 Ultimate letter
54 Highway construction marker
55 Experimental fashion?
56 Sotto voce comment
57 Zilch
58 Dealer's unit
59 Cartoonist Thomas
60 They cross the line
61 Period
62 Zilch

► Previous Puzzle's Solution

STEP [] CHAIR [] KIM
AUDI [] PAIRUP [] AHA
STANDARD [] DOLL [] REC
HUMOR [] BANNER [] RAIL
TALLION [] BEADS []
ADD [] WIRE [] OMNIA []
BRISES [] JUT [] OPIO []
COLORS [] OF THE WIND []
SPEW [] IRK [] ORNALE []
TIGER [] SNEEZE [] AGED []
ALE [] TINA [] ALDER []
FLAGSTONE [] SIN [] GARGAR []
RON [] PENNANT [] TRACE []
OPT [] SNEEZE [] AGED []
SEE [] TAXIED [] LAIDS []

OPINION

Political Disorder Syndrome



James T. Hodgkinson, who on Wednesday shot Republican Rep. Steve Scalise and four others, posted this on his Facebook page March 22: "Trump is a Traitor. Trump Has Destroyed Our Democracy. It's Time to Destroy Trump & Co."

Sitting in the dying light of World War I, the poet T.S. Eliot wrote, "I had not thought death had undone so many." What's our excuse? Displays of political or social excess seem to be everywhere. Whatever once fastened the doors of people's minds to something secure and stable has become unhinged.

Some thought the apotheosis of political derangement had been reached when celebrity Kathy Griffin posted a video of herself holding the bloody, severed head of Donald Trump.

But that wasn't the end of it. We may assume that as Ms. Griffin was creating her video, the artists at New York's Public Theater were rehearsing their production of "Julius Caesar," the one in which Central Park audiences watch Caesar as a blond-haired Donald Trump, who is pulled down from a podium by men in suits and assassinated with plunging knives.

The news site Axios runs stories regularly about journalists who have been suspended or fired because of their unhinged postings on Twitter.

What Trump Has to Fear From Mueller

By Karl Rove

While Jeff Sessions was testifying Tuesday on Capitol Hill, Sen. Ron Wyden suggested that the attorney general had recused himself from investigating Russian electoral meddling because of unknown, "problematic" reasons. "There are none—I can tell you that for absolute certainty," Mr. Sessions shot back, dismissing the supercilious charge as "secret innuendo."

Good for Mr. Sessions. But since Democrats seem intent on preparing the battlefield for the 2018 midterm elections, expect more such baseless charges. Never mind the damage they do to public trust.

Consider the accusation that President Trump obstructed justice in the FBI investigation of former national security adviser Mike Flynn. According to former FBI Director James Comey, the president told him: "I hope you can see your way clear to letting this go, to letting Flynn go."

"There's no question he abused power," House Minority Leader Nancy Pelosi said last week. Two Democratic backbenchers, Reps. Al Green of Texas and Brad Sherman of California, have even drafted articles of impeachment based on the charge.

But I talked to four legal experts—two former Justice Department officials, a former White House lawyer and a former U.S. attorney—who all

agreed Mr. Trump has the rightful power, as head of the executive branch, to order the FBI to end any investigation.

One expert raised this thought experiment: If President John F. Kennedy had ordered FBI Director J. Edgar Hoover to stop investigating Martin Luther King Jr., would that have constituted obstruction of justice?

Special counsels can run amok. One went after me once for the crime of forgetfulness.

It's also far from clear Mr. Trump ordered anything. His words were vague. A hope is not an order. The president said he wanted to get to the bottom of Russian election meddling. He added that he hoped Mr. Comey would discover whether any of Mr. Trump's "satellites"—an apparent reference to people who worked in his presidential campaign—had done anything wrong. Both statements suggest Mr. Trump wanted the Russian investigation to go forward and believed it would clear his name.

The statute that describes obstruction of justice speaks of "corrupt" conduct. Yet there is no evidence Mr. Trump acted with criminal purpose—for example, that he was bribed to shut down the Flynn

investigation, or that he was trying to hide some personal financial interest in Mr. Flynn's foreign lobbying. No wonder Mr. Comey, when discussing the conversation at the time with other officials, didn't claim obstruction.

Still, Mr. Trump has created a potential problem for himself. At a Friday press conference, ABC's Jonathan Karl asked the president whether he would be "willing to speak under oath to give your version of those events." Mr. Trump replied: "One hundred percent."

The president had better hope that Robert Mueller, the special counsel now looking into potential Russia-Trump ties, is nothing like Patrick Fitzgerald, the special counsel appointed in 2003 to investigate the leaking of a CIA official's name to the columnist Robert Novak.

Mr. Fitzgerald knew within days, if not hours, of his appointment that the leak had come from Deputy Secretary of State Richard Armitage but that it violated no law since the CIA employee was no longer a covert operative.

Despite no underlying crime, Mr. Fitzgerald spent more than three years obsessed with trying to justify his existence by prosecuting someone in the Bush White House for lying under oath. I was one of those in his sights.

He focused on me because, while I could not remember a

brief call in 2003 from a Time reporter, I had ordered my staff the following year to search for any evidence I had talked to the journalist. That was supposed to be proof I had lied. Mr. Fitzpatrick gave up hunting me only when he learned that my lawyer had directed me to search my files after hearing from the reporter's colleague that I had talked with him.

Instead Mr. Fitzpatrick indicted the vice president's chief of staff, Lewis "Scooter" Libby, a very good man, on a disagreement over who said what, when and to whom.

Today, given what we know, Mr. Trump is not vulnerable on obstruction of justice. But if Mr. Mueller turns out to be another Mr. Fitzgerald and finds no underlying offense, he may decide that he must still get someone for something, even over inconsequential differences of memory.

Promising to speak under oath is dangerous for Mr. Trump, since any trial would be in Washington, D.C. There were no Republicans on Mr. Libby's jury, and Mr. Trump received a mere 4% of the vote there. The president better pray Robert Mueller is more responsible than Patrick Fitzgerald.

Mr. Rove helped organize the political-action committee American Crossroads and is the author of "The Triumph of William McKinley" (Simon & Schuster, 2015).

By Kenneth W. Starr

The Supreme Court will convene Thursday afternoon for a tradition-rich ceremony welcoming its newest member. Like a civil wedding, Justice Neil Gorsuch's investiture will be short and sweet. After the attorney general reads aloud the formal commission, Justice Gorsuch will be escorted up to his seat, the chief justice will make a few welcoming remarks, and the court will adjourn.

Entirely symbolic, the ceremony comes during the court's busiest season, with the frenetic rush to decide the remaining cases from the term that began last October. After his rancor-filled confirmation process, Justice Gorsuch joined the court in mid-April, in time to participate in the final 13 cases. On Monday the court issued his first opinion, in *Henson v. Santander*. It was unanimous. Predictions about judicial

behavior are frequently off-base, but Justice Gorsuch so far comes across as an energetic jurist in the Scalia mold.

He set a rookie record for the number of questions asked—22—in a first appearance at the high court. Justice Sonia Sotomayor previously held the mark at 15.

So far he seems to be an energetic jurist in the textualist mold.

On the substance, Justice Gorsuch seems committed to honoring Antonin Scalia's legacy. In a lecture last year at Case Western Reserve University, then-Judge Gorsuch proudly embraced his predecessor's approach to the law: "Though the critics are loud and the temptations to join them may be many, mark me down too as a believer that the traditional account of the

judicial role Justice Scalia defended will endure."

When Scalia ascended to the high court in 1986, he saw the danger of a runaway judiciary, as embodied in the Warren Court and to a lesser extent the Burger Court. The judges were "making it up" as they went along. Justice Gorsuch used those words in his first oral argument, a case involving a complex interplay of federal statutes. Like Scalia, Justice Gorsuch searched for an authoritative answer in the text alone. That approach, textualism, was Scalia's way of restoring the judiciary's proper role.

Statutory interpretation provides daily grist for the judicial mill, but the stakes are far higher in interpreting the Constitution. To the textualist school, "making it up" is the ultimate judicial sin.

In contrast to Scalia, Justice Gorsuch came of age as a lawyer not in the freewheeling Warren Court era, but during

the more judicially restrained leadership of Chief Justice William Rehnquist. By that time, the Federalist Society was going strong, and Scalia's approach was increasingly in favor: The written Constitution was law, not moral philosophy.

Thursday afternoon, Justice Gorsuch will ceremonially take the chair Scalia occupied for almost 30 years. At his confirmation hearing, he called Scalia a mentor who "reminded us that words matter—that the judge's job is to follow the words that are in the law, not replace them with those that aren't."

Antonin Scalia changed the way mainstream judges think about their role in a representative democracy. On this investiture day, the Scalia tradition boasts a worthy inheritor.

Mr. Starr served as a federal judge, solicitor general and Whitewater independent counsel.

BOOKSHELF | By Lawrence J. Haas

Holding the West Together

The Retreat of Western Liberalism

By Edward Luce

(*Atlantic Monthly Press, 234 pages, \$24*)

In the 1990s, Western liberalism's triumph seemed inevitable. The Soviet empire had disintegrated. Francis Fukuyama had proclaimed the "end of history." By the end of the decade, the U.S. economy was surging, fueling higher living standards at every income level. More and more countries were seeking to establish the liberal political and economic systems that would allow them to share in the prosperity. At home and abroad, the future seemed bright, almost boundless.

In hindsight, however, the 1990s look less like the ascent of Western liberalism than its heyday. As it turned out, the late '90s represented the only period since the early 1970s in which Americans enjoyed the benefits of economic growth so broadly; for more than four decades, with the exception of

those at the top of the wealth distribution, incomes have remained mostly stagnant. Around the world, since the turn of the millennium, some 25 democracies have failed, and movements to liberalize—most notably, the Arab Spring—have generally ended in violent collapse.

In 2016, simmering fear and frustration boiled over as American voters elected a political outsider who expressed no interest in promoting the U.S.-led liberal order. And while optimists view Donald Trump as a historical accident, British journalist Edward Luce

warns that Trumpism could prove less an accident than a portent in the United States and across the West.

"Western liberalism" can be a mushy term, and even though his book is premised on it, Mr. Luce offers no clear definition. He instead points to elements that, one presumes, are supposed to add up to a whole—texts like the Universal Declaration of Human Rights, the belief in democracy in the hearts of Westerners and the spread of democratic systems over time. Whatever this whole is, Mr. Luce sees it under assault. America has elected an essentially illiberal president who is "a big fan of walls and a big admirer of Vladimir Putin." Overseas, democratic capitalism's broken promises have made the quick-fix pledges of demagogues more appealing. Britain's "left-behinds" voted against the London elite and opted for Brexit; right-wing autocrats mounted serious campaigns in France, the Netherlands and elsewhere across Europe (albeit with mixed success). In every year since 2008 more countries have restricted freedom than have expanded it, according to the global watchdog organization Freedom House.

Mr. Luce devotes much of his book to why this global rebellion is happening, and why now. His thesis is straightforward. While the rich enjoy greater opulence, living and working among themselves in isolated enclaves, half to two-thirds of Westerners have been "treading water—at best—for a generation" as globalization and robotics have combined to limit wages and eliminate jobs. Productivity growth

The backlash against liberalism is rooted in economics. While the rich live in opulence, over half of Westerners are barely getting by.

fueled the economic surge that doubled living standards from the late 1940s to the early 1970s, but the productivity gains that the digital revolution was supposed to deliver haven't materialized. Meanwhile, the costs of health insurance and higher education—both essential to upward mobility—have continued to rise, putting them increasingly out of reach of the classes that would benefit from them most and making social stratification more pronounced.

How does this growing inequality affect the liberal project? "Liberal democracy's strongest glue is economic growth," Mr. Luce argues. "When groups fight over the fruits of growth, the rules of the political game are relatively easy to uphold. When those fruits disappear, or are monopolized by a fortunate few, things turn nasty." Across the West, Mr. Luce explains, the non-rich losers in this zero-sum game have started to turn against the status quo. For the United States, Mr. Luce cites as evidence the fact that "every single one of America's 493 wealthiest counties, almost all of them urban, voted for Hillary Clinton. The remaining 2623 counties, most of them suburban or small-town, went for Donald Trump."

U.S. foreign policy and international economic arrangements have contributed, too. Overseas, the Great Recession delivered a body blow to democracy as a global brand. So did George W. Bush's messy war in Iraq and Barack Obama's reluctance to support democratic movements abroad. Meanwhile, the out-of-touch Davos crowd urges more support for the very policies—e.g., more trade and more decision-making by international bodies—against which the West's frustrated masses are revolting.

Mr. Luce acknowledges that the future isn't preordained, but he's worried that we're headed the wrong way, running out of time to correct course and not nearly concerned enough about where we'll end up. He suggests some policy ideas that he thinks can help: universal health care, a simplified tax regime, and immigration policies that are more humane but restore "the link between public benefits and citizenship." He notes, though, that even if they can be enacted these changes will only mitigate the pernicious effects of flattening wages. They won't address the underlying problem.

The sad truth is that we don't know how to solve the underlying problem. We don't know how to ensure that the fruits of economic growth are more broadly shared or how to prevent automation from killing more jobs than it creates. Policy makers have been grappling with anemic wage growth and the angry politics it can breed for more than four decades. Hardly a revelation, Mr. Luce's book is instead a compendium of telling anecdotes that enrich our understanding of a long-term trend.

In this sense, Mr. Luce offers a useful wake-up call to elites, urging them to focus on the very real struggles of America's besieged middle class before we all lose the freedom and democracy we cherish. If he doesn't have all the answers, at least he's asking the right questions in this concise, accessible and valuable work.

Mr. Haas is the author, most recently, of "Harry and Arthur: Truman, Vandenberg, and the Partnership That Created the Free World."

OPINION

REVIEW & OUTLOOK

ObamaCare's 'Secret' History

Senate Republicans continue to negotiate the details of their health-care reform, and one measure of progress is that their opponents are more manic and disingenuous. Progressives who used to deride the GOP for incompetence are now panicked that they may really succeed, and thus the faux tantrums.

The distortion du jour is that the GOP is operating "in secret." This week Minority Leader Chuck Schumer accused Republicans of working "behind closed doors, writing a bill they won't let the public read. . . . Today, no Member of Congress can read the bill because we don't know what it is."

Despite Mr. Schumer's bewilderment, he still knew enough to assert that the Senate bill will "greatly hurt the American people." Well, which is it? And if Republicans are trying to suppress a public debate about repealing and replacing ObamaCare, then they haven't prevailed, either now or across the presidential campaign. Health care has been central to U.S. political debate for nearly a decade as Democrats created a new entitlement with little public support.

Compared to that effort, the Senate this time has been a model of deliberative democracy. On Dec. 19, 2009, a Saturday, then Majority Leader Harry Reid tossed the 2,100-page bill the Senate had spent that fall debating and offered a new bill drafted in an invitation-only back room. Democrats didn't even pretend to care what was in it while passing it in the dead of night on Dec. 24, amid a snowstorm, in the first Christmas Eve vote since 1895.

Liberals excused this legislative sausage-making as the price of making history, which was an insult to sausages. MIT economist and ObamaCare architect Jonathan Gruber told an academic audience in 2014 that "lack of transparency is a huge political advantage. And basically, you know, call it the stupidity of the American voter or whatever, but basically that was really, really critical to getting the thing to pass."

Mr. Gruber has since re-emerged to complain of the current debate that "I'm just worried about the speed they're moving at for what that

implies, because it implies no effort to actually get this right." The professor had apologized for what he called his "inexcusable" remarks in 2014 but he's betting he can con Americans again.

The irony is that the GOP negotiations are so time-consuming because Senators are trying to improve the product as they build a consensus that

can get 50 votes. They're trying to answer the House bill's critics on the left and right, not that they'll get any credit.

One objection is that the House's tax credits aren't generous enough to help the working poor; the Senate is likely to increase their value. Another is that the House's Medicaid expansion wind-down is too disruptive for Governors to manage; the Senate will probably create a longer off-ramp. When they reach an agreement, they'll release the specifics.

The policy parameters are known to anyone paying attention, including those like Mr. Gruber who are arguing in especially bad faith because no bill the Senate could possibly produce would satisfy them. Even as the GOP moves the bill toward the political center, reflexive liberal opposition increases.

Mr. Schumer claimed Republicans have "so-solicited zero bipartisan support," which is hilarious. Democrats opted for total pre-emptive resistance to the Trump Administration, and in January Mr. Schumer and Nancy Pelosi announced together that "we are a united caucus. We are two united caucuses. And we're united in our opposition to these Republican attempts to make America sick again," as he put it. House Republicans hadn't even released a bill at that point and the ObamaCare exchanges were already in increasing distress, but Democrats refused to participate.

This is also a notable change from 2009-10, when Democrats froze out centrist Republicans who wanted to cut a bipartisan deal of the kind Orrin Hatch and Ted Kennedy had struck on the children's health insurance program. The Obama White House preferred a far more liberal program that would complete the entitlement state. The GOP's obligation now is to start to clean up that mess.

The Fed Moves Up

The Federal Open Market Committee surprised no one Wednesday when it raised the federal funds rate by another quarter percentage point, its third such increase since December. The real surprise Wednesday is that the government's measure of inflation fell in May to below the Fed's target of 2%.

The Fed's governors and regional presidents might have been spooked by that decline in the price level to below their target, and a year or two ago they would have been. But the economy has now reached its eighth anniversary of expansion, and the Fed is still holding its target interest rate of 1%-1.25% below the increase in the consumer price index. The real rate of interest is still negative, even as the national jobless rate has fallen to 4.3% and the global economy seems to be accelerating.

In other words, the Fed hardly seems at risk of tightening too quickly even if the dangers of price inflation are receding. Much of the price decline is due to the fall in oil prices in recent weeks, and the Fed's decision makers should see how that moves through the overall economy in the coming months.

Monetary conditions have even eased since

The central bank is taking its bond selloff very slowly.

the Fed's last move as long-bond rates have fallen. Investors bid up bond yields after they anticipated pro-growth tax policies from the new Republican Congress and President, and they have bid them back down as they grow more doubtful of that result. The Open Market Committee's estimates for future interest rate levels suggested

one more increase through the end of 2017, but the committee can adjust that pace if the economy slows.

The Fed also released more detail of its plans to begin winding down the huge balance sheet it acquired during and since the financial panic. Sometime this year the Fed will stop reinvesting all of the principal proceeds of its securities as they mature. The Fed will initially cap its roll off at \$6 billion a month for Treasury bonds and \$4 billion a month for mortgage-related debt and securities.

The idea seems to be to go slow given that the Fed has never attempted this kind of policy reversal. That's fair enough, but we wish the Fed started by selling its mortgage bonds first so it gets out of the business of allocating capital that much sooner. The U.S. housing market is doing well enough these days in any case.

Their Finest Hour

We're referring to the two Capitol Hill police officers, Crystal Griner and David Bailey, who prevented what would have been a massacre on Wednesday when they engaged and shot a man with a rifle bent on killing Republican Members of Congress.

The officers were the security accompanying Steve Scalise, the House majority whip, and other Members who were practicing at 7 a.m. for the annual Congressional baseball game scheduled for Thursday. James Hodgkinson, a 66-year-old home inspector from Illinois, began to fire on the dozens of Members and staff assembled on the field. He struck Mr. Scalise in the hip at second base and wounded a lobbyist and one House aide before the officers returned fire and were hurt themselves.

The officers shot and subdued Hodgkinson, who later died of his wounds, but imagine the carnage had the officers not been armed and ready to act on the spot. Their response is a reminder of the bravery of police who must be trained to respond in an instant when tedious routine becomes a mortal threat. The remarkable good fortune—the wounded are all expected to recover—also teaches again that the best defense against marauding men with guns is other men and women with guns.

Police haven't disclosed a motive, but the evidence suggests it was political. Hodgkinson had multiple social-media posts expressing fury at President Trump and Republicans. Rep. Ron DeSantis of Florida said that as he left the practice field early he was approached by a man who asked if those on the field were Republicans or Democrats. Mr. DeSantis later rec-

ognized the man as Hodgkinson, who had been a volunteer for the Bernie Sanders presidential campaign.

Two officers save many lives, and the politicians respond well too.

Politically motivated attempts at mass murder aren't common but they do happen and too often they're exploited for partisan ends. The good news is that on Wednesday most political leaders

rose to higher ground.

President Trump offered gracious condolences to the wounded, praise for the officers, and a call to national unity. Speaker Paul Ryan and Minority Leader Nancy Pelosi united to denounce the attack, and Mr. Sanders disavowed and denounced Hodgkinson. Mr. Ryan said the baseball game will go on as scheduled—to a thunderous ovation.

These are divisive political times, when verbal abuse and physical harassment are all too frequent against political opponents. The duty of political leaders and the rest of us is to keep the divisions in the perspective of our shared values of free debate and democratic consent. One way to contribute to a better political climate would be to stop claiming as a reflex that victory by the opposing party is illegitimate, and another would be to stop portraying political assassination as entertainment.

Congress has already imposed tougher security restrictions on access to the Capitol since 9/11, but the Members have to think about more far-reaching security when they appear in public. We admire those who represent Americans without fear, and maybe that's the risk we have to take in a free society. But it's also true that without those two officers many more would have died at that ball field.

OPINION

LETTERS TO THE EDITOR

Evaluating Today's Expensive College Degree

In "The Diminishing Returns of a College Degree" (op-ed, June 5), Richard Vedder and Justin Strehle are right about the declining value of the college degree, but they might have further stressed that the nature of college education changed as it went from something that a fairly small percentage of the population pursued into a mass phenomenon that was widely taken as an entitlement.

Before the federal government began aggressively pushing higher education with grants and easy loans, the students who went to college were largely those who truly wanted to improve their knowledge and skills—their human capital. With the generally rigorous standards of the time, mostly they did. But as an increasing number of high-school graduates flooded into college, many of them with marginal academic ability and little interest in advanced study, most schools adjusted to their new "customer" base by letting their standards fall.

Huge numbers of college graduates now glut the labor market. Whereas a college degree used to indicate serious effort and learning, many degrees today show nothing more than the mild persistence it takes to accumulate enough credits to graduate. Inevitably, many of those degree holders have to settle for the kinds of jobs high-school grads or even dropouts can do. In short, we have oversold college.

GEORGE LEEF
James G. Martin Center for Academic Renewal
Raleigh, N.C.

Most people think of colleges strictly as institutions of higher learn-

ing, when in fact they're businesses selling a product like every other business. That product is a "successful future." Parents have been conned into spending thousands of dollars on college education just so they can tell family and friends that their children went to college, when in many cases the kids have no clue what they want to do. Government-sponsored student loans have enabled this scam, allowing college tuition costs to far outpace inflation. Many colleges have become nothing more than left-wing indoctrination centers. Worst of all, many boomers have forfeited their retirements to fund this. When kids graduate with a four-year college degree and are working at McDonald's, maybe it's time to do a value analysis of what that degree is really worth.

CHUCK McGEE
Moultonborough, N.H.

The general competence of today's holder of a college degree has the employment capabilities that a high-school graduate had back when I got a diploma about 70 years ago. That's not encouraging if the likely case is that a business employer's requirements haven't changed that much.

HARRY R. CLEMENTS
Wichita, Kan.

The authors make the classic mistake in determining the reason for the higher earnings of Stanford University grads compared to those of Northern Kentucky University. Clearly a significant component of the increased pay is the academic superiority of those who are accepted by Stanford.

ALLAN VON HALLE
Sherman Oaks, Calif.

Should U.S. Take Air-Traffic Control Private?

Regarding your editorial "You've Been Cleared for a Faster Landing" (June 6): As with any organization the performance of the air-traffic control system (ATC) can doubtless be improved. Nevertheless, the safety record of U.S. air travel is among the best. Privatizing the ATC doesn't mean market competition will enhance its performance. There will be no market competition, and as a non-profit where is the incentive for improved performance? Finally, using cost as a justification makes as much sense as awarding parachute contracts to the lowest bidder. The real issue apparently is management.

Perhaps President Trump should exercise some of his executive authority and replace a few ATC staff with new and more talented people.

CHANNING WAGG
Boxborough, Mass.

Most commercial aircraft already have GPS. What GPS can't do is shove more planes into the arrival corridors when you get close to your destination airport. Yes, the system still uses radar. It is a valuable tool to aid in air-

NICK ULMAN
Los Altos, Calif.

The bottleneck is on the ground. No matter how much more efficient air-traffic control services might become in flight, runways can only handle a certain number of takeoffs and landings per hour. Without more runways, better air-traffic control will have only a minor effect on air travel.

HENRY GONZALEZ
Tallahassee, Fla.

In case you have forgotten, showing more respect for minority religions in parts of the Middle East means not immediately beheading infidels. In New Jersey it means not enforcing existing parking regulations.

HARRY O. MCKINNEY
Southfield, Mich.

Civil Politicians Are a Lot Less Attractive to the Media

The lack of civility described in "Civil Discourse in Decline: Where Does It End?" (Capital Journal, May 30) is fed by the media, and leadership from the media is needed as much as from the politicians, who merely see what the media wants and play to it. This is hardly something new. Since the years of William Randolph Hearst and Henry Luce, media attract the demagogues they need for sensationalism and sales. If a leader actually tried to push civility, what media outlet would report such boring news?

LARRY STEWART
Ponte Vedra Beach, Fla.

In case you have forgotten, showing more respect for minority religions in parts of the Middle East means not immediately beheading infidels. In New Jersey it means not enforcing existing parking regulations.

HARRY O. MCKINNEY
Southfield, Mich.

Pepper ... And Salt

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OPINION

The ‘Exporting Jobs’ Canard

By Matthew J. Slaughter

President Trump has voiced a widely shared—but incorrect—belief that the global economy is a zero-sum game. “One by one,” Mr. Trump said in his inaugural address, “the factories shuttered and left our shores, with not even a thought about the millions and millions of American workers that were left behind.” In his first White House meeting only a few days later, Mr. Trump warned a roomful of CEOs that companies sending factories overseas would face a new border tax.

Repeated research shows that multinational hiring abroad doesn’t come at the expense of U.S. workers.

Mr. Trump assumes that when U.S. multinationals expand abroad, it necessarily reduces the number of people they employ in the U.S. But this assumption is wrong, and tariffs would hurt American workers, not help them.

Academic research has repeatedly found that when U.S. multinationals hire more people at their overseas affiliates, it does not come at the expense of American jobs. How can this be? Large firms need workers of many different skills and occupations, and the jobs done by employees abroad are often complements to, not substitutes for, those done by

workers at home. Manufacturing abroad, for example, can allow workers in the U.S. to focus on higher value-added tasks such as research and development, marketing, and general management. Additionally, expanding overseas to serve foreign customers or save costs often helps the overall company grow, resulting in more U.S. hiring.

The ultimate proof is in the numbers. Between 2004 and 2014, the most recent year for which U.S. government data are available, total employment at foreign affiliates of U.S. multinationals rose from nine million to 13.8 million. Yet the number of jobs at U.S. parent companies rose nearly as much, from 22.4 million to 26.6 million.

Over the same period, the value-added and capital investment grew faster among U.S. parent companies than in their foreign affiliates. In fact, on these two measures the American parent companies outperformed the overall U.S. private sector. This suggests that having overseas affiliates gives companies a competitive advantage that allows them to invest more at home. More than ever, jobs in America are connected to the world.

One can always find anecdotes of a company closing an American facility and moving the work it does overseas. But these anecdotes are not representative of the overall synergies between parent companies and their affiliates. Consider Caterpillar Inc., the American manufacturer of heavy machinery whose main facility for research and development is in Peoria, Ill. In recent



KEN FALLIN

years the company has established several research-and-development facilities outside the country. Yet Caterpillar’s engines lab in Peoria still runs two shifts a day. Before closing up for the night, the Illinois engineers send data to their colleagues in Chennai, India, who process it overnight. When the Peoria workers come back the next morning, the refined data is waiting for them.

Dow Chemical’s largest global investment is Sadara, a \$20 billion joint venture with Saudi Aramco to construct a fully integrated petrochemical complex in Saudi Arabia. This facility, which will be one of the

world’s largest, has created American jobs not only at Dow but at its supply-chain partners as well. Since 2007, Sadara has generated more than \$1 billion in contracts for 18 U.S. companies that have provided engineering, design and other high-value services. In recent years approximately 700 Americans at leading engineering companies have supported Sadara’s work.

In 2011, IBM became the first company to earn more than 6,000 U.S. patents in a year. These inventions were generated by more than 8,000 employees in 46 American states and 36 countries. IBM inventors abroad collaborated on more than 26% of

How to Keep the Fed From Following Its Models off a Cliff

By Glenn Hubbard

Wednesday’s decision by the Federal Reserve to raise the target for the federal-funds rate by 25 basis points has continued a debate about the tightening cycle. Yet these “Fed watching” discussions aren’t necessarily productive. It would be better to rethink the Fed by evaluating its strategy, structure and accountability.

How can the institution be restructured to better achieve its goals of financial and price stability? The late economist Allan Meltzer, a scholar and historian of the Fed, gave the central bank high marks in these objectives in only about a quarter of its years in operation. An understanding of why the Fed succeeded and failed in the past is a natural guide to reform.

Economists emphasize two factors accounting for periods of Fed failure: political influence on Fed decisions and adherence to false models of the financial system and the economy. In the first, the Fed’s balance sheet or regulatory power may be hijacked in service of the government’s near-term electoral or fiscal objectives. In the second, ignorance of economic conditions or doctrinaire attention to false models may blow Fed policy off course.

Independence, sometimes put forth as the key insulation against politicization of the Fed, has not

proved sufficient to guarantee stability. Policy errors during the Great Depression, the inflationary period of 1965-79, and the accommodative run-up to the 2007-09 financial crisis all occurred during times of substantial independence. Nor is ostensible freedom an antidote to politicization, as political pressures certainly figured in the 1960s and ’70s.

Milton Friedman recognized the limits of independence—given the choice of an independent central bank with complete discretion, a commodity standard, and a monetary rule, he chose the rule. For today’s debate, I would say an institution capable of executing a framework for price and financial stability needs independence from formal government control. But such a framework must be clear and credible at all times: specifying an analytical approach, laying out how departures from normal financial and economic conditions will be addressed, and explaining those departures when they occur. Call it “main-tain and explain.”

Structural reforms of the Fed can mitigate political influence. First, a credible, simple monetary framework can offer significant insulation from political pressure, while increasing the likelihood of success in achieving the Fed’s objectives. Inflation targeting—that is, a commitment to conduct monetary policy consistent with a target long-run inflation rate—is a

familiar example for a goal. Likewise, the Fed should describe the balance-sheet size it believes it requires for the conduct of monetary policy. And it should spell out mechanisms it will use in lending during times of stress or crisis.

The Fed should also specify an operating framework. This could include, for example, following a variant of the Taylor rule, which sets an ideal level for the federal-funds rate

For one thing, governors should have varied life experiences to broaden the perspectives in the room.

based on output and inflation. Another crucial step: a mechanical path for normalization of the balance sheet and clarity about the assets the Fed will hold. Limiting itself to only Treasury securities, for example, would prevent opportunities for political pressure to be brought on the Fed not to acquire or sell them.

Allowing Fed officials discretion to deviate in times of stress would enhance their credibility—but only if such decisions are explained clearly in advance and are consistent with the overall framework. This maintain-and-explain process would enhance understanding of the Fed’s

success in achieving its objectives and enforce accountability when it is not. Such discretion also would grant flexibility in monetary policy and lender-of-last-resort actions in periods of stress.

While a clear and consistent framework gives the Fed a strategy, structure remains important. Giving the Fed a larger role in financial regulation has proved to be fraught with opportunities for political pressure, since elected officials can review such regulatory actions. This was the case after the financial crisis, when the Fed’s regulatory power expanded and its political scrutiny did too.

Strategy and structure matter, but ultimately personnel is policy. Including regional bank presidents in the Federal Open Market Committee brings intellectual and political diversity to the Fed decision-making process. Choosing Fed leaders committed to the maintain-and-explain framework and to resisting political influence is essential as a last line of defense.

The false-model account of Fed failure played a role in the Great Depression, the inflationary ’60s and ’70s, and the pre-financial-crisis years. During the Depression a failure to discriminate between real and nominal interest rates, as well as the now-discredited “real bills doctrine,” were enabling failures. The Fed’s emphasis on the simple Phillips curve also built in a policy bias

toward accelerating inflation several decades later. And the Fed from 2002-05 placed too little weight on financial imbalances encouraged by an easy-money policy.

Three steps can bolster defenses against false models. The first is to strengthen research inside and outside the Fed on the integration of finance and monetary policy and the economy, an intellectual gap exposed by the financial crisis. Second, Fed officials should interact more with market participants and businesspeople to understand financial innovations and economic developments better. Policy should be more reflective of proactive data gathering than reactive data dependence. Finally, Fed governors should be chosen with varied life experiences to broaden economic perspectives and encourage a healthy skepticism about prevailing models.

The Fed faces a challenge in crafting and explaining normalization of the extraordinary measures undertaken during the financial crisis. There is now also an opportunity to make personnel decisions that shape the Fed’s strategy, structure, and accountability. Fortunately, experience with Fed success and failure offers a road map.

Mr. Hubbard, dean of Columbia Business School, was chairman of the Council of Economic Advisers under President George W. Bush.

Medicare Could Learn a Thing or Two From the VA

By Walid F. Gellad

Everyone agrees prescription drugs are too expensive, but what to do about it? One popular idea—supported in the past by President Trump, and by 80% of the public in some polls—is for Medicare to negotiate lower drug prices directly. But such negotiation would work only if there were some limitations on the drugs available to patients, raising many questions about the feasibility of creating a national formulary. Would beneficiaries accept that?

To gain insight, look to the Department of Veterans Affairs, where I practice as a physician. The VA has maintained a national formulary

for two decades, and it is one of the most well-respected and high functioning aspects of this oft-maligned agency. Drugs not on the formulary are available, but reserved for when the formulary drug is inappropriate or ineffective. Before prescribing Byetta for your diabetes, for example, your doctor will prescribe formulary drugs like metformin or Jardiance. That should sound familiar to most Americans with private insurance, who increasingly face “prior authorization” to rein in drug costs.

The VA formulary ensures high-quality prescribing while lowering costs for patients and taxpayers. Patients with hepatitis C pay an out-of-pocket maximum of \$33 for a full

course of Harvoni in the VA, compared with around \$6,000 in Medicare Part D. Humira, a chronic therapy for arthritis and bowel disease, costs Medicare patients more than \$1,500 annually, compared with less than \$132 in the VA. These low copayments are set by the underlying law. But it is the formulary that enables the VA to negotiate these low prices, keep copayments low, and provide generous medication benefits.

The VA formulary works for doctors as well as patients. Although it is national, there is local control over how it’s implemented, and every step is electronic. To order a nonformulary drug, I enter a clinical justification for its use into the computer. The request is quickly reviewed by a pharmacist in my facility, whom I know and can easily talk to. This experience is far preferable to that of doctors in the private sector, who have to fax forms to unknown insurance-company employees for approval.

A national formulary is not something to fear when it can be managed locally, electronically and transparently. While it would be impossible to have every physician group in Medicare adjudicate the

A well-functioning formulary lets veterans get the medications they need with low copayments.

formulary itself, small regional units could be developed within states, with local health-care providers adjudicating nonformulary requests from their own colleagues. Importantly, these requests would be infrequent because the vast majority of patients would do perfectly well on drugs that are on the formulary, as they do in the VA.

There are trade-offs. With a national Medicare formulary, there

would be no option to switch insurers to access specific nonformulary drugs. But insurance products would undoubtedly be created to address nonformulary drugs, akin to Medigap coverage, and elected representatives would surely be active in addressing formulary concerns. Medicare could also choose to institute a national formulary for only a small subset of expensive drugs, deferring other formulary decisions to private plans.

A national formulary is compatible with high-quality, efficient and safe health care, as demonstrated by independent analyses comparing the VA with the private sector. A national formulary could save the country billions on its prescription bill, and the VA could serve as a model.

Dr. Gellad is director of the Center for Pharmaceutical Policy and Prescribing at the University of Pittsburgh. He practices internal medicine in the VA system.

Notable & Quotable: Gorsuch and Gorsuch

From “The Connection Between Judge Gorsuch, Justice Scalia’s Dissent in Morrison v. Olson, and Chevron Deference,” a Feb. 2 blog post by legal scholar Josh Blackman:

The Administrator of the EPA who resigned was Anne Gorsuch Burford. Neil’s mother. Indeed, according to Anne’s biography, her young son understood the idea of the unitary executive, implicitly:

“When his mother resigned in

March of 1983, an upset young Gorsuch told his mother she ‘never should have resigned,’ his mother wrote in a memoir. ‘You didn’t do anything wrong,’ Anne Burford quoted her son as telling her. ‘You only did what the president ordered. Why are you quitting? You raised me not to be a quitter.’” . . .

[Neil] Gorsuch has made waves by stating that he would be willing to reconsider *Chevron* deference. Of course, *Chevron* arises from the

famous case of *Chevron v. NRDC*. . . .

But what was the case called in the D.C. Circuit? *NRDC v. Gorsuch* (1982). Yes—Neil’s mom! By the time the case was appealed up to the Supreme Court, [Anne] Gorsuch had already resigned.

Had Gorsuch still been at the agency, . . . the case would have been *Gorsuch v. NRDC*. We would have the *Chevron* deference. Imagine if Justice Gorsuch overruled the Gorsuch doctrine?

THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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Saudi Divide Slows Aramco's IPO

By Ben Dummett,
Summer Said
and Maureen Farrell

A divide between Saudi Arabia's ruling family and executives of the kingdom's oil company over where to list its shares is slowing the march toward a planned 2018 initial public offering, according to people familiar with the matter.

Executives at **Saudi Arabian Oil Co.**, known as Saudi Aramco, are pushing Saudi Arabia's king and his son, Deputy Crown Prince Mohammed bin Salman, on the merits of listing the state-owned oil company on the London Stock

Exchange.

Those executives are concerned that listing in the U.S. would expose the company to greater legal risks, including from potential class-action shareholder lawsuits, according to these people.

But the Saudi Arabian royal court favors the New York Stock Exchange, which is owned by Atlanta-based Inter-

continental Exchange Inc., according to the people familiar with the matter, in part because of the kingdom's long-standing political ties to the U.S. and because the U.S. market represents the deepest pool of capital in the world.

The visit by President Donald Trump to Saudi Arabia last month helped to cement the prince's preference for New York, according to one of the people familiar with the decision process.

"The deputy crown prince wants New York, and he has

been pushing for it more and more in recent weeks," the person said.

NYSE Group President Thomas Farley joined a group of U.S. executives to accompany Mr. Trump on his recent visit to Saudi Arabia. Similarly, **London Stock Exchange Group PLC** Chief Executive Xavier Rolet accompanied British Prime Minister Theresa May on her visit to Saudi Arabia in April, and they met with Aramco Chairman Khalid al-Falih.

A decision on where to list

Aramco, which could value the company as high as \$2 trillion, had been expected by some to come before the Islamic month of Ramadan, according to people familiar with the matter, but is now not expected until the end of July and could take longer than that.

During a cabinet meeting late Monday night in Jeddah attended by both the prince and King Salman, senior company executives pressed their case for London as the safer bet, according to two people

Please see IPO page B2

Uber Picks 14 Bosses To Run Company

BY GREG BENSINGER
AND KELSEY GEE

The decision by **Uber Technologies Inc.**'s chief executive to take an indefinite leave of absence will put management of the world's most valuable startup in the collective hands of more than a dozen managers—a challenging structure for a company that has favored a strong central leader and pitted executives against each other.

The ride-hailing firm said it would turn the company reins over to a group of 14 senior executives while CEO Travis Kalanick regroups following a punishing half-year of scandals and setbacks, capped by the death of his mother in a boating accident that left his father seriously hurt.

The recent exits of Mr. Kalanick's effective second-in-command, Emil Michael, and the previous deputy, Jeff Jones, and of several other direct reports to the CEO have left Uber with no real line of succession.

The company now has made the unusual choice of having Uber run by the heads of legal, human resources, communications, products, operations and other units.

"A committee is very implausible," said Joseph Bower, a Harvard Business School professor emeritus of business administration. "You can't make decisions that way."

Mr. Kalanick, in his note to staff announcing his leave, said "I will be available as needed for the most strategic decisions, but I will be empowering [the committee] to be bold and decisive in order to move the company forward swiftly."

An Uber spokesman said the company has "a strong leadership team including veterans who helped make the business what it is today, and new talent who are helping to drive the changes we're committed to making."

Uber has been grappling with accusations of sexism and sexual harassment and on Tuesday rolled out reforms to upend its workplace culture after a months-long investigation led by former U.S. Attorney General Eric Holder.

Adding to the complexity, the company is seeking a laundry list of executives, including chief operating and chief financial officers, general counsel and a marketing chief. Board Director David Bonderman stepped aside Tuesday.

Please see UBER page B2

Mattel Cuts Dividend to Help Fund Rebound

BY PAUL ZIOBRO

Mattel Inc. is cutting its quarterly dividend by more than half, as new Chief Executive Margo Georgiadis looks to free up money to help the toy maker modernize its brands for the digital world and expand in emerging markets.

The El Segundo, Calif., company has been paying more than \$500 million in annual dividends, but business setbacks left it paying out more than it generated in earnings. The new dividend is 15 cents a share, starting with the company's fiscal third quarter, down from 38 cents.

"We are right-sizing our dividend, which will provide us the flexibility to fund our investments and affect this transformation plan," Ms. Georgiadis said during a presentation Wednesday to analysts in which she laid out her strategy for bolstering the Barbie and Hot Wheels maker.

Ms. Georgiadis sees the strategy requiring an investment of \$250 million to \$350 million.

Chief Financial Officer Kevin Farr said Mattel will target a dividend payout ratio of between 50% and 60% of earnings. The company's ratio swelled to more than 160% last year, and recently it had the second-highest yield among S&P 500 companies.

Mattel shares fell 2.2% to \$22.15 on Wednesday and are now down nearly 20% in the year to date.

Four months into her job, Ms. Georgiadis is setting Mattel on a course to correct what she called "execution gaps" that have cost Mattel sales, eaten into profits and caused shares to drop nearly 30% over the past year. The problems include mismanaging key brands like Monster High and American Girl dolls, losing the valuable Disney Princess license to **Hasbro Inc.** and an excessive focus on short-term financial metrics.

"These gaps structurally compromised our revenue and margin trajectory," Ms. Georgiadis said. She added that while the company cut hundreds of



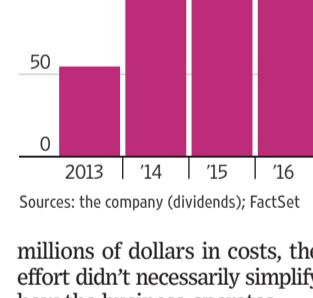
The company's new CEO, a former Google executive, says Mattel toys 'need to adapt' to the modern world. A Barbie RC Hoverboard.

Sapping Investment

Mattel had been paying generous dividends to shareholders even as its stock price tumbled.

Share of earnings paid to shareholders via dividend

200%



Sources: the company (dividends); FactSet

Mattel's share price over 52 weeks



Wednesday \$22.15 □ 28.8% over the past year

new approach to developing toys, which she says "need to adapt" to the modern world.

She wants all of Mattel's key brands to go beyond phys-

ical toys and include video content, game components, licensed goods and live experiences, such as the company's Thomas the Tank theme park and American Girl store cafes.

Mattel still has its work cut out for it. On Wednesday, the company lowered its sales-growth outlook for the year to a low-single-digit rate, as several brands, including American Girl, Mega building blocks and other smaller ones, continue to struggle.

This isn't the first time Mattel resorted to a dividend cut to shore up its financials: In 2000, then-CEO Robert Eckert sliced the company's payout more than 40% shortly after taking over in the wake of the \$3.5 billion acquisition of software maker The Learning Co., which soon started hemorrhaging money.

Ms. Georgiadis brings a better understanding of e-commerce—a key area for Mattel as the store-based way of selling

toys quickly shifts online. "She's smarter than anyone at Mattel in terms of the digital world," said Jim Silver, editor of TTPM.com, a toy review website.

The new CEO has already made some changes to address a corporate culture that current and former Mattel employees say is still stuffy and slow. For example, in March, she reached outside the toy industry to find a new leader for Fisher-Price, hiring Julie Masino, former CEO of the Beverly Hills bakery chain Sprinkles Cupcakes.

Mattel is also remaking its board. Ms. Georgiadis's predecessor, Chris Sinclair, on Tuesday said he would step down as executive chairman next year, ending a two-decade-long stretch on the company's board. A newcomer, Ynon Kreiz, former chief executive of online video company Maker Studios Inc., brings digital and tech expertise to the boardroom.

Avon's Chief Nears Decision to Retire

BY DANA CIMILLUCA
AND SHARON TERLEP

Avon Products Inc. Chief Executive Sheri McCoy is expected to step down, according to people familiar with the matter, after her effort to turn around the beleaguered cosmetics seller faltered.

Ms. McCoy is near a decision to retire, according to the people, who cautioned that terms of her departure are still being worked out and no final decisions have been made. Either way, Ms. McCoy, who has run Avon since 2012, is expected to stay on for several more months. It isn't clear who might succeed her.

The move comes after Avon in early May posted a surprise loss that helped send its stock tumbling. That same day, shareholder activists Barington Capital Group LP and **NuOrion Partners AG**, which together own more than 3% of the company's stock, said Avon's turnaround needs to go faster and it should find a new CEO.

Avon in late 2015 agreed to two deals that gave troubled-firm investor Cerberus Capital Management a 17% stake in the company, three board seats and control of its struggling North American business. The business Ms. McCoy runs sells outside the U.S. and is London-based.

Those agreements were meant to give Ms. McCoy, 58 years old, time to execute a turnaround of the door-to-door sales operation, once one of the most prominent brands in the U.S. but which has been laid low by online competition and other factors. The company is roughly halfway through a three-year transformation plan started then.

Ms. McCoy's departure is the latest sign of distress for the 131-year-old company, whose revenue has been in decline for years, coming in at \$5.7 billion in 2016. Its shares, which once traded above \$40, changed hands for less than \$3.50 Wednesday afternoon after

Please see AVON page B2

INSIDE



FIAT CHRYSLER HITS THE GAS ON BIG CARS

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INVESTORS SHOW FRESH FAITH IN EURO

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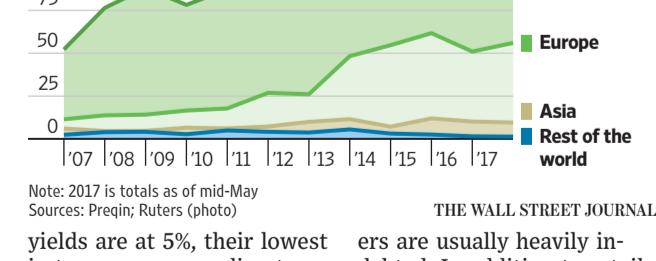
HEARD ON THE STREET | By Paul J. Davies

Leveraged Loans Going Wild

Well Armed

Total money in institutional funds waiting to be invested in private debt

\$150 billion



Note: 2017 is totals as of mid-May

Sources: Preqin, Ruters (photo)

yields are at 5%, their lowest in two years, according to S&P Global Market Intelligence.

Leveraged loans are popular because they pay higher yields than investment-grade bonds, are secured against borrower assets and give investors protection from changes in underlying interest rates.

But they are also relatively risky because borrow-

ers are usually heavily indebted. In addition to retail loan funds, specialist debt funds for institutional investors have also risen strongly. For indebted companies, this is great: They can refinance with cheaper or more aggressive terms while so much money is sloshing around. But investors ought to be careful: It looks like they might be storing up trouble for the future.

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the chairman and decisions are made by consensus. **DPR Construction** has senior leaders rotate through an eight-member management committee. Employees at those firms have said committees can sometimes make decisions painstaking and cause infighting.

At Uber, the transition will be particularly tricky since Mr. Kalanick has structured the San Francisco company to funnel big day-to-day decisions through him, say people familiar with the matter.

Mr. Kalanick, known for his relentless and punishing will to win, was also reluctant to be challenged as CEO and could lash out at what he felt was insubordination, these people say.

Uber said it would divide the management committee into four units: business; people and organization; product and engineering; and legal safety and policy and communications.

The 14 executives include Rachel Holt, Andrew MacDonald and Pierre Dimitri Gore-Coty, the heads of operations in the U.S. and Canada; Latin America and Asia Pacific; and Europe, Middle East and Africa, respectively.

Also included are Ryan Graves, the first Uber CEO, a board member and senior vice president of operations; CTO Thuan Pham; Chief Security Officer Joe Sullivan; communications and policy chief Jill Hazelbaker; product-management head Daniel Graf; chief of self-driving vehicle development Eric Meyhofer; product leader Jeff Holden; HR boss Liane Hornsey; and Chief Legal Officer Salle Yoo.

The group also includes two new additions to upper management at Uber: David Richter, who was promoted just this week to fill Mr. Michael's role, and recent hire from Harvard Business School, Frances Frei, a senior vice president of leadership and strategy.

Mr. Finkelstein of Dartmouth said he expects two or three managers to rise to the top of Uber's new committee of leaders, and that there may be a division in the company's top ranks between those who support Mr. Kalanick's vision for the startup, and those who prefer to steer it in new directions.

"The ones that campaign to bring him back, or discretely seek his advice, may see an opportunity to take over while the CEO is in the penalty box," he said.

'A committee is very implausible. You can't make decisions that way.'

At other companies, the results have been less stellar. BlackBerry maker **Research In Motion** Ltd. battled investor discontent for years over its co-CEO structure and ultimately put in a single leader, though the business still plunged into irrelevance.

Similar co-CEO arrangements at **Citigroup** Inc., **Martha Stewart Living Omnimedia** Inc. and **Workday** Inc. were quickly scuttled.

Last year, **Whole Foods Market** Inc., too, eliminated the co-CEO structure after six years. **Amazon.com** Inc.'s Zappos unit has been experimenting with an unusual management philosophy called Holacracy, in which titles and bosses are eliminated, since 2013. But the structure sowed confusion and when the shoe seller offered severance in 2015 for those who wanted to quit, 14% took the offer.

Rarer still are firms led by committee. Watch and jewelry maker **Cie. Financière Richemont** SA has been operating without a CEO since Richard Lepeu stepped down in March.

Top executives report into

that could pay off, especially now that the Senate is working on its own version of the health bill.

"In this case, the members of Congress have not really wanted to play publicly—they've wanted to talk through it privately," said Marilyn Tavenner, president of AHIP. "It's a different approach. It

doesn't mean we don't share what we like and what we don't like. We just don't do it publicly."

But some insurers, especially those strongly opposed to the Republican plan, question the approach.

"We haven't seen as clear a message that this is a bad idea from the trade associations as we would like," said John Baackes, chief executive of L.A. Care, a California-based insurer and an AHIP board member.

"I see [the Republican effort] as a threat to access for our members and a threat for providing adequate compensation for our providers."

Other insurance chiefs say

privately that they are worried the legislation will cause them to lose customers.

Some health insurers, including L.A. Care, who are primarily invested in the Medicaid market, fear the cuts Congress is considering. The House bill would reduce Medicaid funding by \$834 billion over a decade and cover 14 million fewer Americans who use Medicaid, according to the nonpartisan Congressional Budget Office.

Other insurers, with a larger stake in the individual market—selling to people who get insurance on their own, not through the government or an employer—hope some of the measures under consider-

ation would benefit them.

Senators are considering a \$15 billion market stabilization fund over two years beginning in 2018 that would flow directly to insurers, for example, as well as several provisions loosening the rules on the types of plans insurance firms can sell.

Ms. Tavenner said her group has conveyed both points of view: telling lawmakers it is "appreciative of the improvements" to the individual market, while voicing concern over the extent of the Medicaid cuts.

It hasn't been lost on lawmakers that this time is different. "The health insurers have been missing in this profoundly significant debate, and their voice is profoundly important but absent," said Sen. Richard Blumenthal (D., Conn.), whose state is home to several insurers.

AHIP says its low-key approach is working. Insurance lobbyists are among the few outsiders regularly involved in Capitol Hill meetings, congressional aides say. The White House invited industry leaders to a meeting in late February, a courtesy not extended to hospital groups and other industries that are openly opposing the GOP effort.

—Anna Wilde Mathews contributed to this article.

Continued from the prior page

familiar with the matter.

"London is definitely the front-runner for them and the legal team," one of those people said of the Aramco executives who discussed the options at the cabinet meeting.

The indecision about the venue is fueling a contest between the New York and London exchanges. Along with other major global exchanges, the two have been pitching the merits of their trading venues, in some cases touting their existing crop of energy stocks and the breadth of their country's energy sector to win the listing of what is likely to be the largest IPO in history.

A Saudi Aramco spokesman said that no decision on a venue beyond a listing on Saudi Arabia's Tadawul exchange has been made, and that "all options continue to

be held under consideration."

A representative for the royal court didn't respond to requests for comment.

For the venues, such a listing promises more than healthy fees. It is likely to attract international investors looking for a piece of the oil producer, and that interest would generate greater trading volumes, the lifeblood of any stock market.

Losing the battle for Aramco would mean forfeiting the bragging rights that it can use to compete against rivals for the next big IPO.

In recent weeks, the London exchange has signaled to Saudi Aramco that even though U.K. rules require 25% of the company's shares to be held by public investors for a premium listing, which means a company meets the highest corporate governance and regulatory standards, it would consider lowering that threshold for the company or creating an international segment.

for some foreign companies, including Saudi Aramco. U.K. rules give the regulator the ability to lower the 25% requirement for such a listing.

"London is trying hard to accommodate Aramco," said one of the people familiar with the matter.

The NYSE declined to comment, as did the LSE.

Some officials who attended Monday night's meeting in Jeddah acknowledged that continuing to weigh the options and talking further with the two exchanges during the next month may yield better results for the company, according to one of the people familiar with the discussions.

According to another person familiar with the discussions, the choice of venue is complicated by the royal court's reluctance to potentially put key economic relationships at risk by rejecting the exchanges of countries with which Saudi Arabia wants to court for investment or trade.

The prince has pegged the value of the company at \$2 trillion. While some officials working on the deal put its value closer to \$1.5 trillion, even at the lower end of that range, Aramco would stand to raise at least \$75 billion.

—Bradley Hope and Alexander Osipovich contributed to this article.



AVON

Continued from the prior page

having given up much of the gains they notched in the wake of the Cerberus deals. The stock dropped 22% on the day when Avon reported the surprise loss.

Avon's shares closed up 4.6% at \$3.66 after The Wall Street Journal reported on Ms. McCoy's imminent departure Wednesday.

The company, which has lost legions of its signature door-to-door sales representatives, reported an adjusted first-quarter loss of seven cents a share, compared with an average analyst forecast of a one-cent gain.

The expected move high-

lights a recent shift by activists, who are increasingly targeting chief executives as they seek new ways to boost the shares of targets.

Since January, the investors have helped push out the leaders of insurance giant American International Group Inc., railroad CSX Corp., aerospace-parts maker Arconic Inc., restaurant chain Buffalo Wild Wings Inc. and now Avon.

As part of its succession planning, Avon on Tuesday announced that former Herbalife Ltd. executive Miguel Fernandez would become global president, effective Aug. 14. He is to succeed company veteran John Higson, who plans to retire in September as executive vice president and chief commercial officer.

Sheri McCoy's expected departure is Avon's latest sign of distress.

BUSINESS NEWS

Fiat Chrysler Muscles Up in Showrooms

Auto maker favors powerful vehicles as rivals turn to electric, self-driving technology

By CHESTER DAWSON

With crosstown rivals focusing on a future of electric cars and self-driving vehicles, Detroit's smallest auto maker has created a product line that is largely fixated on the rearview mirror.

Fiat Chrysler Automobiles NV's highest-profile launches for the new model year are the Dodge Challenger SRT Demon and Jeep Grand Cherokee Trackhawk. Both come loaded with the horsepower and sex appeal that put Motor City on the map decades ago.

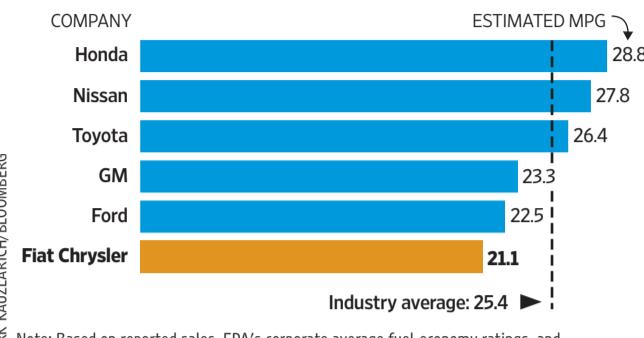
Small cars, bread-and-butter family sedans and a long-range electric car are either hard to find at Fiat Chrysler dealerships or completely absent from its showrooms. Passenger cars, which help boost auto makers' average miles-per-gallon ratings, have fallen out of favor with buyers who prefer crossovers, sport-utility vehicles and trucks. Chief Executive Sergio Marchionne has



Fiat Chrysler's Tim Kuniskis previewed the 2018 Dodge Challenger SRT Demon in New York in April.

Running on Fumes

Fiat Chrysler trails among the Big 6 major manufacturers in estimated fuel-economy performance of 2017 model-year sales.



Note: Based on reported sales, EPA's corporate average fuel-economy ratings, and WardsAuto.com engine-installation estimates.

Source: WardsAuto

THE WALL STREET JOURNAL.

said compact cars no longer make financial sense.

Last year, the company killed off its Chrysler 200 and Dodge Dart sedans, as well as the Patriot small SUV. Instead, the auto maker has doubled down on V-8 engine-powered SUVs and pickup trucks.

"The one thing not everyone has is performance, and people are willing to pay for it," Tim Kuniskis, a top Marchionne lieutenant in charge of passenger cars, said in a recent interview. "It's a quantifiable, easy-to-identify differentiator."

But it comes at a cost: Fiat Chrysler has the worst fuel-economy performance of any mainline car company. As of May, its vehicles averaged 21 miles per gallon, the lowest of any major automotive brand after sports-car specialist Porsche AG, according to WardsAuto.com, a data provider and trade publication.

Regulators say the auto maker might need to spend \$2,613 per vehicle to meet proposed government fuel-economy standards planned over the next decade—44%

higher than the projected industry average. That reflects incremental costs to meet current standards through 2021 and a prospective target through 2025 contested by the auto industry.

Fiat Chrysler says its fuel-efficiency ratings are comparable to rivals within segments it competes in, adding that the proposed 2025 light-vehicle fuel-economy standards are unrealistic. The Trump administration has said it would reconsider the targets, which were approved late in Presi-

dent Barack Obama's tenure.

Mr. Marchionne, who says he plans to step down as CEO in early 2019, has taken a more cautious approach to introducing electric-vehicle and self-driving technology than General Motors Co. and Ford Motor Co. He says the debt-saddled company must carefully consider the trade-offs between earning money today and investing in the future.

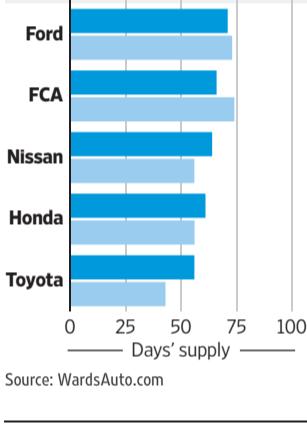
"We've got to meet payroll Tuesday, Wednesday and Friday," he told reporters recently.

So far, that strategy appears to be working. Margins gradually are improving, including a record first-quarter performance since the 2009 merger of the Italian and U.S. auto makers. But even if Fiat Chrysler meets a goal of becoming debt-free by next year, the auto maker has no intention of competing with Silicon Valley to develop next-generation smart vehicles. "We cannot delude ourselves by believing we can replace or displace the technology giants," Mr. Marchionne said.

GM Throttles Down on Passenger-Car Production

Assembly Line

Days' supply of vehicle stock in May



Source: WardsAuto.com

By MIKE COLIAS

General Motors Co. will extend the typical summer shutdown at certain U.S. factories to deal with slumping sales and bloated inventory, a sign the industry's hot streak is grinding to a halt.

The No. 1 U.S. auto maker in terms of sales will idle its Chevrolet Malibu factory near Kansas City, Kan., for five weeks starting in late June, Vicki Hale, president of the United Auto Workers Local 31, said. Job cuts will be needed if GM is forced to slow production after the summer shutdown.

Additional downtime is also slated for a small-car factory in Lordstown, Ohio, that has already experienced deep layoffs amid a pullback in demand for passenger cars. A GM spokesman declined to comment on specific plans.

Auto makers traditionally schedule two-week factory breaks in midsummer, often to prepare for model changes. Car sales, however, are decelerating after a seven-year run, and most major car companies have responded by curtailing output ahead of summer months that usually are the busiest for the industry.

Ford Motor Co. has an-

nounced production slowdowns at certain plants. While Ford's trucks are selling at a brisk pace, its sedans are accumulating at dealers as gasoline prices remain low.

GM enters the summer with a glut of unsold inventory after running production lines at relatively high rates to prepare for factory downtime related to plant upgrades. WardsAuto.com estimates GM's production increased 2.9% over the first four months of 2017, even as the broader industry pulled back.

As a result, GM's inventory at the end of May was almost 44% higher than a year earlier.

It has nearly 1 million vehicles sitting on dealer lots, WardsAuto.com estimates, representing 101 days' worth of supply, or 23.4% of total industry stock.

GM holds about 17% market share. It is emerging from a tough May when Ford—traditionally the No. 2 seller—took a rare lead in the overall market due to its strong truck sales and a jump in fleet sales.

Workers at GM's car plants, including the 2,850 employees at the Malibu plant near Kansas City, are feeling the brunt of the pain. GM earlier this year cut thousands of jobs to counter falling sales of family

sedans and smaller cars.

The Lordstown plant, which cut a work shift earlier this year, will close for three weeks in July to curb Chevy Cruze production, said Robert Morales, president of a United Auto Workers local that represents some Lordstown factory workers.

Tommy Brasher, a Chevy dealer in Weimar, Texas, said his Malibu inventory is "a little heavy" and business has slowed across the board.

"We just haven't been seeing much foot traffic or internet traffic," he said. "April was slow, May was worse and June started the same."

Where work* happens.

* at large, fast-moving companies like yours

slack.com/enterprise

 slack enterprise grid



TECHNOLOGY

WSJ.com/Tech

Europe Hits U.S. Laptop Ban

Continent's air-safety chief worries about potential safety hazard of proposal

Europe's top air-safety regulator issued the most explicit criticism yet of U.S. proposals to ban laptops from the cabins of more foreign airliners des-

By Andy Pasztor in Brussels and Susan Carey in Chicago

tined for American airports, even as officials in Washington indicated they may compromise by accepting less-sweeping security measures.

Highlighting the extent of European opposition to an expanded ban on taking large electronic devices in carry-on bags—a measure intended to combat possible terrorist threats—Patrick Ky, head of the European Aviation Safety Agency, on Wednesday said months of laboratory tests likely are required to properly assess the potential fire hazards of flying large numbers of laptops with lithium batteries in cargo holds.

Remarks delivered during the kickoff of a joint European-U.S. safety conference in Brussels and in a subsequent interview, Mr. Ky warned that “we should be very careful” because “by dealing with the security risk we can increase the safety risk” stemming from the possibility of rechargeable lithium batteries catching fire or even exploding.

EASA’s executive director vowed to play a greater role in current and future debates



Passengers at Beirut's airport. Security measures are being discussed by U.S., European officials.

over such trade-offs. “This is going to be a very strong position on our side,” he said.

The day before Mr. Ky’s comments, John Kelly, the head of the Department of Homeland Security, suggested the likelihood of an extensive laptop ban was shrinking. He said at a conference in Washington that he had “a fair amount of confidence” that “we can raise the level overall of aviation security and not inconvenience the traveling public very much, if at all, in some cases.”

A DHS spokesman said other alternatives to an outright laptop ban include requiring additional passenger information before takeoff and enhancing explosive-detection capabilities at overseas airports. However, he reiterated that a wider ban

affecting flights to the U.S. is still possible.

Mr. Kelly told lawmakers at a hearing last week that the in-cabin electronics ban now imposed on flights to the U.S. from a limited number of Middle Eastern and African countries could be extended to flights from 71 other overseas airports. But he also said DHS is trying to develop minimum security standards that airports and airlines could meet to avoid being put on that list.

The issues were slated to be discussed Thursday and Friday at a meeting of U.S. and European Union security officials in Malta, which the deputy DHS secretary will attend. The DHS spokesman also said the agency is working to get information from the Federal Aviation Administration on the risk

of increased numbers of lithium batteries in cargo holds.

In the interview, Mr. Ky said experts from the FAA and EASA are running complementary tests to evaluate “how laptops behave in luggage” and what happens if a fire from one bag in the cargo hold spreads to adjacent luggage that also contains a laptop or other electronic device. “Today, we simply don’t know,” he said.

Mr. Ky didn’t specifically call on DHS to hold off announcing an expanded ban, explaining in the interview that he and his staff aren’t privy to the details of security threats. But the thrust of his message, while hosting a delegation of high-ranking U.S. safety officials, reflects broad negative reaction in Europe to Secretary Kelly’s earlier statements.

IBM Offers Watson To Help Ferret Out Financial Crimes

By GABRIEL T. RUBIN

International Business Machines Corp. formally launched a Watson product for financial regulation, rolling out artificial-intelligence tools to help financial institutions comply with rules and detect possible financial crimes.

The company’s entry into the regulatory-compliance field, in which a number of firms already use AI to manage immense amounts of data, follows its September purchase of financial consulting firm Promontory Financial Group.

IBM is looking to build on Watson’s presence in the health-care sector, in which the company has used partnerships and acquisitions of health-care providers to improve care, particularly for cancer patients.

“We were very convinced after our experience in health care that it wasn’t a technology-alone solution,” Alistair Rennie, general manager of Watson Financial Services, said. “You need to partner with experts who know the process, who have the expertise.”

The move by “Jeopardy!”-winning Watson comes as financial firms continue to embrace AI and “machine learning” to manage data that must be analyzed for regulatory compliance and crime prevention.

IBM rolled out three Watson tools on Wednesday. One analyzes regulatory text to identify obligations that companies

might face and help assess whether their compliance programs are up to the task. Another assists banks in detecting suspicious customers and transactions, and a third seeks to make “big data” at financial firms more accessible to decision makers when developing new business strategies.

Other technology firms already provide such services. **Digital Reasoning Systems** Inc., an artificial-intelligence firm based outside Nashville, Tenn., has contracts with **Nasdaq** Inc. for monitoring global trading and works with **Goldman Sachs Group** Inc. to prevent financial misconduct by traders. The firm counts Goldman Sachs and **Credit Suisse Group** AG among its investors.

The role of these companies, said Digital Reasoning founder and President Tim Estes, is to take the huge amounts of unstructured data from client firms and make it usable for compliance and surveillance purposes. “All the data is there; it’s a bunch of crude oil in the ground. We’re the refiners above ground,” Mr. Estes said.

Eugene Ludwig, the chief executive of Promontory Financial and a former U.S. comptroller of the currency under President Bill Clinton, said the new technology would benefit regulators, too.

“Regulators should be quite cheered by this,” he said, pointing to anti-money-laundering compliance as an area in which both firms and regulators would mutually benefit.

EU Casts Its Eye on Big Brand Licensers



SEBASTIAN GOLINOW/DPA/ZUMA PRESS

The European Union’s antitrust regulator on Wednesday opened three separate formal investigations into licensing and distribution practices by **Nike** Inc., **Sanrio** Co. and Universal Studios in Europe, the latest move by the watchdog in its bid to tear down barriers for consumers shopping online in the bloc.

The European Commission said it would investigate

whether the three companies restrict traders from selling licensed merchandise online and across borders in Europe.

The companies license the rights for well-known brands to manufacturers of shoes, clothing, phone accessories, toys and other products. Nike licenses the rights for Fútbol Club Barcelona’s merchandise, while Sanrio is the licensor of rights for Hello

Kitty. Universal Studios, a unit of **Comcast** Corp.’s NBCUniversal, is the licensor of rights for the movies “Minions” and “Despicable Me,” the EU said. (Toys from ‘Minions’ were on display last year in Germany.)

The probe comes after the commission’s competition directorate in May published the findings of its two-year-long investigation into e-commerce.

The EU reiterated previous warnings that consumer-product makers and digital-content owners could face antitrust probes. Nike said that it was “aware of the European Commission’s investigation and will continue to cooperate with the authorities.” Sanrio and Universal Studios didn’t immediately respond to a request for comment.

—Natalia Drozdiak

Power Producer GenOn Files for Chapter 11

BY ANDREW SCURRIA AND PATRICK FITZGERALD

GenOn Energy Inc. filed for chapter 11 bankruptcy Wednesday to slash \$1.8 billion in debt and settle accusations that parent company, **NRG Energy** Inc., improperly

extracted more than \$520 million from the subsidiary.

GenOn, based in Princeton, N.J., along with other power-production companies, has struggled with a capacity glut and competition from cheaper power sources.

NRG proposed last month

to place GenOn under chapter 11 bankruptcy protection.

NRG purchased GenOn in 2012 for \$1.7 billion in stock.

Creditors of GenOn have lobbed allegations over the past year that NRG has treated the unit like a piggy bank, siphoning cash away from creditors under a services agreement for the benefit of shareholders.

A noteholder group sued NRG in December, accusing the parent of plundering GenOn’s assets since 2013.

Owners of two Maryland power-generation plants that lease the facilities to another GenOn unit sued NRG last week, saying the sponsor had raided restricted sources of cash to finance a favorable bankruptcy settlement.

GenOn’s proposed chapter 11 plan would release NRG from liability in exchange for a \$261.3 million cash payment—up from a previous \$243 million offer—while placing control of GenOn in the hands of its creditors, according to a Wednesday securities filing.

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BUSINESS NEWS

GE Executive Exits After Losing Top Job

Steve Bolze had agreed to depart if he didn't get CEO post; new generation at bat

By THOMAS GRYTA
AND AUSTEN HUFFORD

Steve Bolze, once a leading candidate to be the next chief executive of General Electric Co., is retiring after not getting the top job.

Mr. Bolze, the head of GE's Power business, is the first high-profile executive to exit after the company disclosed

Monday that John Flannery, who leads GE Healthcare, will succeed Chief Executive Jeff Immelt on Aug. 1. Like Mr. Flannery, Mr. Bolze is a GE lifer, and he told employees Wednesday that he had agreed to step aside if he didn't get the CEO job.

The 54-year-old executive has run the company's biggest unit for the past 11 years. "Some time ago, Jeff Immelt and I agreed that when the succession process was complete, and if I were not chosen, I would retire from GE and move on," Mr. Bolze wrote in a note to employees that he also posted on LinkedIn.

He didn't disclose what he would do next and couldn't immediately be reached for comment.

The Boston-based company's succession-planning process was narrowed to four internal candidates in 2015: Mr. Flannery, Mr. Bolze, finance chief Jeff Bornstein, and Lorenzo Simonelli, head of the oil-and-gas business.

All four candidates had briefed the GE board at a meeting in May on their plans for running the conglomerate if they got the job, people familiar with the matter said.

The board selected Mr.

Flannery at a meeting on Friday, with the decision raising questions about the future role of several senior GE executives. Mr. Immelt said he had prepared for potential departures among his lieutenants by grooming potential successors. "In the last four or five years we have really filled in the next-generation jobs in the company," he said in an interview Monday. "This isn't really about four people but about 20 or 30 people at the top to get people positioned."

Mr. Immelt said on Monday that he hoped the transition would be smoother than when

he became CEO and several other top contenders, including Robert Nardelli and James McNerney, left to run other businesses. The company gave Mr. Bornstein, who will continue to serve as finance chief, a special stock award and named him a vice chairman, but otherwise didn't disclose retention awards for senior leaders. Mr. Simonelli will run GE's oil-and-gas business, which is being merged with Baker Hughes Inc.

"I think we have done a great job of getting the next-generation team in place," Mr. Immelt said.

Russell Stokes, CEO of GE

Energy Connections, will lead GE Power, which makes and services massive turbines used to produce electricity in power plants. It became the company's biggest division after the merger with Alstom SA's power business.

A 20-year GE veteran, Mr. Stokes, 45, has led the Energy Connections unit for the past 18 months and was previously head of GE Transportation. The Energy Connections unit will be folded into GE Power. Mr. Stokes will assume his new role on July 3.

—Joann S. Lublin
contributed to this article.

Immelt Never Met an Air Conditioner He Didn't Love

The longtime CEO is famous among colleagues for maintaining unusually frigid temperatures in the office; 'it's not that cold'

Chief Executive Jeff Immelt will give up control of General Electric Co. later this year. His colleagues were relieved to learn that

By Joann S. Lublin,
Ted Mann
and Thomas Gryta

he will also relinquish command of the office thermostat.

Mr. Immelt, who said this week he will end his 16-year captaincy of the conglomerate, is famous for preferring refrigerator-like temperatures in GE offices. "He keeps it very cold," one person who has regularly endured the chill says. "It's part of the Immelt lore."

As head of one of the world's biggest companies, Mr. Immelt dines with heads of state and jets around the globe to seal multibillion-dollar deals. He also gets to mess with the thermostat, often choosing a setting that feels like the low 60s. Some colleagues feel so chilled that they wrap themselves in a scarf or shawl to attend a meeting with the GE leader. "In the middle of summer, half the room would have a fleece vest on," says an adviser who has worked closely with GE executives.

Why the cold treatment? Maybe the 6-foot-4-inch former Dartmouth football player doesn't like to sweat. Some say the veteran manager thinks it helps people pay attention. Mr. Immelt wasn't immediately available for comment.

Turns out the 61-year-old executive has had arctic preferences since he was just a boy growing up in Ohio.



General Electric Chief Executive Jeff Immelt stands in front of a jet engine during a 2012 event in San Francisco.

GENERAL ELECTRIC/ASSOCIATED PRESS

"We did not have air-conditioning when Jeff was little," said his older brother Stephen, who is CEO of international law firm Hogan Lovells. "When we finally got AC it made such a difference for a muggy Cincinnati summer that I think Jeff decided that cold was for him."

Stephen also has a preference for the colder temperatures, "but I live with someone who does not and life is all about compromises."

The GE boss seems to hesitate on moving the thermo-

stat in any direction but down, according to people who have worked with him for years. GE's roughly 300,000 workers will have to wait until August to learn whether his successor, John Flannery, has similar preferences. Mr. Flannery wasn't immediately available for comment.

Earlier this month, Mr. Immelt tweeted "Climate change is real." He was referring to global efforts to combat rising temperatures. Folks inside GE might be for-

given for thinking their boss was simply reiterating his longstanding position on air conditioning. Mr. Immelt often gets teased about his predilection for cold meeting rooms by GE associates, who recognize this habit as "a Jeffism"—along with his tendency to start meetings several minutes early if every participant is present. "Let's get going," the early-starter CEO typically declares—even if everyone hasn't gotten a cup of hot coffee yet, according to a person who has

been in the meetings. Mr. Immelt will nudge the thermostat up a bit "once in a while" when attendees complain, this person says. "People would say, 'It's f-ing cold,'" and Mr. Immelt would laugh as he replied, "I know, I know," this person recalls.

The executive isn't doing this to drum up business. GE doesn't sell air-conditioners anymore—it sold its GE Appliances business in January 2016 to a Chinese company as part of Mr. Immelt's strategy to refocus on industrial

machinery. This year, when the company held its annual shareholder meeting at a factory in Asheville, N.C., where it produces jet-engine parts, one investor stood up to lodge a protest. "Jeff, I just want to tell you one thing. I come from Florida, and why don't you put some heat on in the building? I'm freezing my rear end off back here."

At a meeting in December 2013, a GE analyst questioned whether the building's new owner was paying the heating bill, according to a transcript. "I ask for this, this cool, this refrigerator treatment here," Mr. Immelt responded.

"I wonder if we can cut this short," the analyst joked. "So we can all get out of here and go warm up outside." The high temperature that day in Manhattan was 37 degrees.

Mr. Immelt believes "that if the room is too warm, it makes people sleepy," one former GE executive says. Yet Alan Hedge, a Cornell University ergonomics expert, says a room must be pretty warm for people to fall asleep in meetings. In fact, he says, some research shows too-cool temperatures can hurt attentiveness.

People at cold Immelt meetings "laugh about it" but hardly ever register complaints, according to another person familiar with the situation. "Jeff does not spend a lot of time worrying where the thermostat is," this person says. "It's not that cold."

The former GE executive says the cold never bothered him, probably because "I have a lot of body fat."

China Clears Import Of Modified Crops

China approved imports of two new varieties of genetically modified crops, clearing the way for U.S. agricultural companies to market new biotech seeds to farmers.

By Brian Spegele
in Beijing
and Jacob Bunge
in Chicago

The decision announced Wednesday affects genetically engineered corn and soybean varieties developed by Dow Chemical Co. and Monsanto Co. It comes after Beijing agreed to speed reviews of biotechnology applications as part of a trade deal with the Trump administration last month.

For the U.S. farm sector, the move marks a step toward clearing a backlog of biotech seeds that have awaited approval from China, in some cases for years. Because China imports more soybeans than any other country and ranks as a major buyer of corn and other crops, seed companies typically wait to widely release new genetically engineered seeds until China says it will permit those crops to be imported.

Seed companies have long complained that China's regulatory approval process is slow-moving and opaque, leaving farmers in North and South America without access to high-tech seeds and crop sprays that companies and farm groups say can help them battle hard-to-kill weeds and fend off destruc-

tive pests.

The agricultural industry hailed the May trade deal announced between the U.S. and China, under which China committed to rule within 100 days on eight biotech crops, including four developed by Monsanto, two from Dow, one from DuPont Co. and one from Syngenta AG.

"We're very encouraged and glad to see the progress being made," said Joe Verrin, a senior seed official with Dow.

Dow continues to await Chinese approval for its similarly engineered Enlist soy

The move is a step toward clearing a backlog of high-tech seeds awaiting action.

beans. China's National Bio-safety Committee has asked Dow for more information related to those seeds, which Dow is addressing, Mr. Verrin said. U.S. agriculture-industry officials anticipate the Chinese committee to meet again soon to rule on other seeds that have yet to be approved.

A Monsanto spokeswoman said the company welcomed Wednesday's approval of its Vistive Gold soybean, which Monsanto says produces more healthy vegetable oil, but hopes China will address its other seeds in the coming weeks.

Inditex Defies Broad Retail Slump

BY JEANNETTE NEUMANN

MADRID—What retail crisis?

Amid a major retrenchment by American companies such as Gap Inc., J. Crew Group Inc. and Nordstrom Inc., one retailer continues to defy gravity: Zara. And the rapid-fire design-and-production system that has powered the Spanish giant is now giving it the basis to succeed online, an outlet that has confounded many of its rivals.

On Wednesday, Inditex SA, Zara's parent company, reported €654 million (\$733 million) in profit for its fiscal first quarter, an 18% jump from a year earlier. Total net sales at the world's largest fashion retailer by sales climbed 14% to €5.57 billion for the period, which ended April 30.

The results contrast with the deep pain afflicting many of Zara's rivals amid sea changes in shopping habits. Fewer visits to malls and the migration to online retailers are upending the sector's long-standing business model based on bricks-and-mortar outlets.

Chains such as J.C. Penney Co. and Sears Holdings Corp. are closing hundreds of stores to stanch their losses. This week, J. Crew reported its 11th consecutive quarter of same-store sales declines, and recently longtime chief Mickey Drexler announced he will step aside.

Meanwhile, Zara's fast-fashion model is thriving.

Parent company Inditex makes 60% of its garments in Spain and nearby countries.

That allows it to respond quickly to daily updates from store managers around the world on what



Inditex, which operates the fast-fashion Zara chain, reported a 14% jump in sales for its latest quarter.

is and isn't selling. A 600-member design team in Spain whips up new ideas that go into production in days. Then the company's Spain-based logistics centers refresh stores with small batches of new designs.

Inditex is leveraging that model into a winning online strategy initiated in 2010.

Zara's quick processing

from design to the rack means

fresh fashions are constantly

available—something that is

attractive to shoppers surfing

the web for something new.

While other fast-fashion re-

tailing are starting to source from

suppliers closer at hand, most

order the bulk of their clothes

several months in advance.

"This works online as it works offline," says Andreas Ingerster, an analyst with Macquarie Group. "People are drawn to the home page of Zara because they offer newness, which most other fashion retailers are not able to offer because of long lead times and the slow reaction to current demand."

Inditex upgraded some of

its technology platforms to ac-

commodate online orders,

which it processes at its logis-

tics headquarters.

"The systems were always

used to handling individual or-

ders coming in from store man-

agers, which in principle is simi-

lar to handling orders coming in

from individual online cus-

tomers," Société Générale ana-

lyst Anne Critchlow said.

Moreover, Zara has tightly integrated its physical stores with its online platform. Today, about one-third of online deliveries are made in Zara stores, which customers can use as well to return online purchases.

Zara also commands prices

for its products that support

its online business, including

free delivery, analysts say. Its

prices typically exceed those of

fast-fashion rivals like Swe-

den's Hennes & Mauritz AB.

Prices at another rival, Primark, owned by Associated British Foods PLC, are so low that the retailer doesn't have

an online business at all.

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Special Advertising Feature

Comfort food and comfortable franchisees

In uncertain times—or even when the weather turns—restaurants see high demand for the traditional and familiar

By Julie Bennett

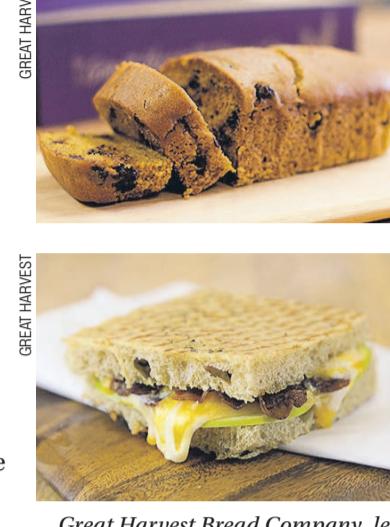
In a foodie culture dominated by quinoa, nitrogen-infused desserts and five-minute pizzas, it's pot roast, cinnamon bread and homemade tomato soup that still provide comfort to consumers and to the restaurant franchisees who serve them.

"Our sales go up immediately when the weather turns cool and rainy," says John Cahill, president of la Madeleine Cafés—an 88-unit fast-casual chain with a French bakery theme, based in Dallas. "We're constantly changing our menu, but when the weather turns, guests gather around our fireplaces and order the staples we've served for over 30 years, like Tomato Basil Soup, Caesar Salad and Strawberries Romanoff."

AMBIENCE

Dallas resident Deepen Patel says, "I was a fan of la Madeleine's comfortable ambience and food for years before becoming a franchisee in 2014. Each of our four la Madeleines in Texas, and two in Oklahoma, feels like a home away from home."

Darren Tristano, chief insights officer of Technomic, a food-service research and consulting firm in Chicago, says, "Comfort foods have found increasing consumer appeal due to familiarity and affordability. Although many



Great Harvest Bread Company, left, mills its own wheat to bake bread; The Melting Pot makes a ritual of fondue.

millennial foodies continue to crave new, more adventurous ingredients and flavors, the majority of consumers continue to find their favorite

"OUR OLD-FASHIONED OFFERINGS MAKE CUSTOMERS FEEL AT HOME—AND WE KNOW MOST OF THEM BY NAME."

affordable foods at family-style restaurants where meat and potatoes continue to feed mainstream America."

"If we didn't have our traditional fried chicken and from-scratch mashed potatoes on our buffet for some reason, we'd be bombarded with customer complaints,"

says Dave Gronewoller, of Winston-Salem, N.C., a nine-unit Golden Corral franchisee, who's been with the Raleigh-based company for 37 years. Other items on the chain's list of Ten Core Comfort Foods are pot roast cooked for 12 hours, meatloaf, and carrot cake.

At the Great Harvest Bread Company bakery in Northville, Mich., the product customers seek in times of stress is cinnamon bread, say franchisees David and Julie Cole, who left careers in banking to buy the unit in 2002. "Our old-fashioned offerings make customers feel at home. We know most of them by name," says Mrs. Cole. "There's even a group that comes in every Saturday morning to watch David bake. And our kids grew up here."

Customers at The Melting Pot, 123 fondue restaurants that started in 1975, may crave

melted cheese, but they also find comfort in the ritual of cooking their meals at the table. Mike Lester, president of The Melting Pot, a niche-brand under the management of Front Burner in Tampa, Fla., says, "It's not uncommon for a couple to get engaged at one of our restaurants and come back for every anniversary."

COMING BACK

Franchisee Jeff Nichols, who has operated a Melting Pot in Wilmington, Del., since 1994, and is a partner in four more, says, "We just celebrated with one guest who was making her 100th visit. I think people keep coming back because fondue rekindles relationships. You can't cook and write emails, and you have to engage with everyone at the table."

Serving comfort food in restaurants with a long history

also creates comfortable franchisees. Bob McDevitt, Golden Corral's senior vice president of franchise development, says, "We have 160 franchisees operating 490 restaurants and at least 25 of them have been around for 15 years—and they're still opening more units."

Mr. Gronewoller reveals that he tried to open restaurants with a couple of new franchisers of trendy concepts, but those ventures didn't work out.

"Now I'm just building more units with Golden Corral—they've done quite well for decades and will be around for many more."

BAKING BREAD

Mike Ferretti, CEO of the Great Harvest Bread Company, in Dillon, Mont., says most of that concept's 225 franchisees "fell in love with how we mill our own wheat and bake our bread. Some of them have been with us since the 1980s and are getting ready to retire."

Mr. Cole reports that revenues from the couple's Great Harvest franchise have replaced their corporate salaries "and made us very comfortable."

"We are in a unique position of being able to nourish our community with a hearty welcome, warm wholesome food and a happy vibe," says Mrs. Cole.

Julie Bennett is a freelance writer specializing in franchising matters.

The Wall Street Journal news organization was not involved in the creation of this content

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BUSINESS NEWS

J&J Maps Research Plans for Actelion

Aim is to build new unit into an organization for drug discovery and commercialization

By DENISE ROLAND

Johnson & Johnson plans to build the soon-to-be acquired **Actelion** business into a drug discovery-to-commercialization organization dedicated to pulmonary arterial hypertension, according to Jane Griffiths, who will become head of the unit when

the deal closes.

The U.S. drug giant in January agreed to acquire Allschwil, Switzerland-based Actelion Ltd. for \$30 billion, in an unusual deal that will spin the Swiss company's early research and development organization into an independent company. The transaction is expected to close Friday.

The deal will hand J&J a clutch of promising new drugs that will bolster its portfolio of rare-disease treatments as its top-selling drug, Remicade, faces new competition. Actelion sells five PAH drugs, a gel

for a rare form of skin cancer and a treatment for a rare genetic condition known as Gaucher disease. In addition to Actelion's marketed drugs, J&J will acquire a handful of late-stage research programs.

J&J's pharmaceutical arm, Janssen, is organized into five units, each dedicated to a particular disease area. Actelion will become the sixth, focused on PAH, a rare artery disorder that causes breathing difficulties, Ms. Griffiths said.

Each of those units behaves like a self-contained drugmaker, spanning early-stage

research and development through to commercial operations. Ms. Griffiths, currently group chairman at Janssen's Europe, Middle East and Africa business, said she wanted to "mirror that same therapeutic-area structure" with the Actelion business.

To begin with, the new unit will have only late-stage research and marketed drugs, but Ms. Griffiths said she planned to build drug-discovery and early-stage research operations, too. "The [drug-] discovery people have not come across, but we have some people with deep

knowledge of PAH that can act as a nucleus," she said. "Or we may need to augment it."

Ms. Griffiths also said she would review the fate of two non-PAH drugs in Actelion's late-stage pipeline—one for multiple sclerosis and one for C. difficile infections—when she takes charge of the business.

"For the moment, they stay in Actelion," she said, adding that experts from elsewhere in Janssen will be looking at these drugs to help decide whether they would be better placed in another therapeutic-area unit.

Meanwhile, Actelion's early-stage research and development organization will become an independent company run by the Swiss company's co-founder, Jean-Paul Clozel. The spinoff, which helped address Dr. Clozel's longstanding resistance to selling the business over concerns that an acquisition would destroy Actelion's research culture, was pivotal to J&J clinching the deal.

A J&J subsidiary initially will hold a 9.9% stake in the new company, with an option to increase this to 32% in the future.

BUSINESS WATCH

AIRLINES

Traveler Complaints Jumped in April

Airline passenger complaints in April soared 70% year-over-year to 1,909, according to Transportation Department statistics.

Airlines canceled 1.6% of their domestic flights that month, up from 0.9% the year earlier.

Punctuality fell to 78.5%, down from 84.5% a year earlier.

April was the month when

United Continental Holdings Inc. got a black eye after a paying passenger was dragged off one of its regional flights. And

Delta Air Lines Inc. had a multi-day operational meltdown brought on by thunderstorms, resulting in more than 3,000 cancellations and a mountain of lost luggage reports.

—Susan Carey

RARE EARTHS

Chinese-Led Group Is Winner for Mine

A buyout group backed by a Chinese company has been declared the winner at a bankruptcy auction for the Mountain Pass rare earths mine, the sole U.S. source of elements essential to electronics devices.

With a winning bid of \$20.5 million, investment firms **JHL Capital Group** and **QVT Finan-**

cial were selected to take control of Mountain Pass, along with China's **Leshan Shenghe Rare Earth Shareholding Co.** Ltd., according to people present at the competition.

JHL Capital, a Chicago investment firm, could not immediately be reached Wednesday to discuss the plan for Mountain Pass, an open pit mine in California.

Rival bidder Tom Clarke, a Virginia entrepreneur, said he intends to challenge the auction outcome when the sale is presented for court approval later this month, drumming on the national security implications of the deal.

China controls most of the global supply of rare earths, elements used in small amounts in electronics, from cell phones to weapons systems. In the event of a tightening in Chinese trade policy, the Mountain Pass mine in California would be an important national resource.

Mr. Clarke bid up to \$20 million for Mountain Pass, but dropped out when he hit his limit. He said he will make a case in bankruptcy court that the JHL, QVT and Shenghe deal for the mine will founder, due to national security sensitivities.

Shenghe has been described as a technical partner for JHL and QVT, a company with the expertise to mine rare earths.

—Peg Brickley



A rival bidder plans to challenge the auction for the Mountain Pass rare earths mine in California.

PROCTER & GAMBLE

Finance Chief Tapped For Vice Chairman

Procter & Gamble Co. said its finance chief, Jon Moeller, will get the new title of vice chairman as part of the company's turnaround.

Mr. Moeller, a 29-year P&G veteran who became CFO eight

years ago, has headed some of the company's biggest initiatives in recent years, including a sell-off of dozens of brands and an overhaul of the company's supply-chain operation.

The executive won't serve on the board and he will continue to serve as CFO. Rather the title elevates him into a more prominent role as the company works to overhaul itself and turn

around years of tepid sales growth.

Mr. Moeller is in the midst of executing a \$10 billion cost-cutting plan the company launched last year. The company has recently attracted an investment from activist **Trian Fund Management** LP.

"This appointment recognizes his sustained and meaningful impact across P&G and

reflects the critical role Jon continues to play in executing P&G's transformation," said P&G Chairman and Chief Executive David Taylor.

—Sharon Terlep

HOME CAPITAL GROUP

Mortgage Lender Agrees to Settle

Struggling Canadian mortgage lender **Home Capital Group** Inc. agreed to pay C\$10.5 million (US\$7.9 million) to Canada's top securities regulator to settle allegations the company misled investors about its mortgage-fraud problems.

Home Capital's founder and former chief executive officer, Gerald Soloway, agreed to pay a penalty of C\$1M to the Ontario Securities Commission and is restricted from acting as a publicly traded company officer for four years.

The company's former CEO, Martin Reid, and former Chief Financial Officer Robert Morton agree to each pay C\$500,000, and they are restricted for two years from acting as public company officers.

The company says C\$11M of the payments will be included in a C\$29.5M settlement to be distributed to settle a class action by the lender's shareholders. The settlements are subject to regulatory and court approvals.

—Jacquie McNish

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BANKING & FINANCE

Fed Weighs Easing Rule On Capital Held for Swaps

BY ANDREW ACKERMAN

WASHINGTON—An esoteric requirement that bankers and some U.S. officials have long said discourages firms from participating in the derivatives market—and makes the financial system less safe—is on the regulatory chopping block.

At a private meeting in Washington this spring, senior bankers from **J.P. Morgan Chase & Co., Goldman Sachs Group Inc.** and other large U.S. financial firms pressed policy makers for changes to the rule. Their concerns were highlighted in a blueprint for a broad regulatory overhaul released by the Trump administration late Monday. The report from the Treasury Department recommends "significant adjustments" to the capital requirement in question, among other changes to capital rules.

The Federal Reserve, amid pressure from banks and some U.S. officials, has already begun laying the groundwork to ease the rule, according to people familiar with the central bank's thinking. The Fed, which helped craft the rule, has yet to reach a decision on how exactly to refashion it, but is taking a fresh look at the measure, holding staff-level discussions with other regulators and teeing up a potential rollback late this year, as the Trump administration continues to fill regulatory posts with officials amenable to easing Obama-era rules. No decision is imminent, these people said.

The rule calls for banks to hold additional capital against collateral, known as margin, that they collect from clients on certain swaps transactions. Banks and some U.S. officials say the rule makes it uneconomical for banks to participate in such transactions.

Swaps are derivatives contracts in which two parties agree to exchange payments

Exchanging Leverage

Regulators are laying the groundwork to ease a rule affecting a central plank of postcrisis regulation—clearing for most swaps transactions.

1 Customers

Pension funds, insurance companies and other businesses enter into swaps contracts to hedge business risks.

2 Clearing Banks

Banks hold their customers' collateral, known as margin, in segregated accounts.

3 Margin

Banks transact with a clearinghouse, sending collateral as needed. The clearinghouses effectively guarantee the transactions should one party go belly up.



The 'supplementary leverage ratio,' a rule designed to be a simple limit on bankers' risk taking, treats margin like any other asset—even a risky loan

Bankers and some regulators say this acts like a tax on cleared transactions, and want to exclude margin from the calculation

THE WALL STREET JOURNAL.

based on fluctuations in certain benchmarks. Companies use these contracts to hedge risks or make bets in such areas as fuel prices or interest rates.

The swaps at issue are routed through clearinghouses, entities that take fees to guarantee swaps transactions should one side of a trade go belly up. Banks post margin to a clearinghouse on behalf of their customers.

The Commodity Futures Trading Commission, which oversees the multitrillion-dollar swaps market, hosted the April meeting in which the bank officials and regulators raised concerns about the capital rule's effects on the swaps market. CFTC officials have warned for years that the existing requirements are driving banks away from the low-margin business of managing customers' cleared swaps.

The rule the Fed is now thinking of relaxing is called the "supplementary leverage ratio," which the central bank

and two other banking regulators completed in 2014. The leverage ratio is one way of curbing bankers' risk-taking. It measures capital—funds that banks raise from investors, earn through profits and use to absorb losses—as a percentage of assets.

Under the leverage ratio, U.S. banks must maintain capital equal to roughly 3% to 6% of any asset, including loans, investments and real estate.

The leverage ratio itself has broad support, but many U.S. officials and industry executives have come to believe that the U.S. version is too strict when it comes to swaps margin. U.S. firms point out that the margin is legally "segregated," meaning banks can't touch the cash. Nevertheless, the leverage ratio increases the amount of capital banks must use to fund swaps clearing activities.

Acting CFTC Chairman J. Christopher Giancarlo has urged banking regulators to change the rule.

Dividend Changes

Dividend announcements from June 14.

Company	Symbol	Yld %	Amount New/Old	Payable/ Record	Amount New/Old	Payable/ Record
Nuveen Pfds Incm Opps Fd	JPC	7.5	.065	M	.065	Jul03/Jun23
Foreign						
Banco Macro ADR	BMA	0.9	.00203			Jun23/Jun16
Blue Cap Reinsurance	BCRH	6.4	.30	Q	.07	Jul14/Jun30
Deswell Industries	DSWL	14.1		Q		Jul12/Jun26
Iata Unibanco Holding ADR	ITUB	0.5	.00453			Aug11/Jul06
Tekay LNG 9% Pfds A	TGPPA	9.0	.5625	Q		Jul17/Jun30
Special						
Culip Inc	CFI	1.0	.21			Jul17/Jul03
Moelis	MC	3.9	1.00			Jul06/Jun22

KEY: A: annual; M: monthly; Q: quarterly; R: revised; SA: semiannual;

S2: stock split and ratio; SO: spin-off.

Funds and Investment Companies

MS Income Secs ICB .33 .05 M Jun30/Jun23

Mutual Funds | wsj.com/fundresearch

Explanatory Notes

Data provided by LIPPER

Top 250 mutual funds listed on Nasdaq-published share classes with net assets of at least \$500 million each. NAV is net asset value. Percentage performance figures are total returns, assuming reinvestment of all distributions and after subtracting annual expenses. Figures don't reflect sales charges ("loads") or redemption fees. NET CHG is change in NAV from previous trading day. YTD%RET is year-to-date return. 3-YR%RET is trailing three-year return annualized.

e-Ex-distribution f-Previous day's quotation. g-Footnotes x and s apply. j-Footnotes e and s apply. k-Recalculated by Lipper, using updated data. p-Distribution data applies, 12b-1 r-Redemption charge may apply. s-Stock split or dividend. t-Footnotes p and r apply. v-Footnotes x and e apply. x-Ex-dividend. z-Footnote x, e and s apply. NA-Not available due to incomplete price, performance or cost data. NE-Not released by Lipper, data under review. NN-Fund not tracked. NS-Fund didn't exist at start of period.

Wednesday, June 14, 2017

Fund	NAV	Net YTD Chg %	Net YTD %Ret	Fund	NAV	Net YTD Chg %	Net YTD %Ret
American Century Inv Ultra	40.61 -0.06 16.2	13.87 +0.03 2.9	13.87 +0.03 2.9	IncomeAdv	2.34 ... 4.9	... 4.9	... 4.9
American Funds Cl A Stock	192.68 -0.07 6.5	192.68 -0.07 6.5	192.68 -0.07 6.5	FranklinTemp/Franklin A	7.50 +0.01 4.3	... 4.3	... 4.3
AmcapA p	29.76 -0.11 9.3	CA TF A p	12.70 +0.01 4.3	FranklinTemp/Franklin A	7.50 +0.01 4.3	... 4.3	... 4.3
AMMutIA p	39.33 -0.02 7.3	TotRetBdl	NA ... NA	EqnCap	33.22 -0.07 5.9	... 5.9	... 5.9
BalaI p	26.35 -0.19 7.4	TotRetBdn	NA ... NA	Eqlndex	65.75 -0.06 9.8	... 9.8	... 9.8
BondA p	12.99 -0.05 3.0	IncomeA p	2.36 ... 4.8	EqnCap	68.81 +0.08 19.6	... 19.6	... 19.6
CaplBA p	61.68 -0.40 8.8	RisDv A p	57.08 -0.17 8.8	EqnCap	68.87 +0.45 16.6	... 16.6	... 16.6
CapWGrA	48.95 -0.35 13.0	FranklinTemp/Franklin A	... 4.9	EqnCap	70.23 -0.03 15.0	... 15.0	... 15.0
EupacA p	51.99 -1.05 17.7	500DidxInst	85.60 -0.08 9.9	EqnCap	71.91 +0.06 1.5	... 1.5	... 1.5
FdlnvA p	59.39 -0.94 10.9	500DidxInstPrem	85.61 -0.07 9.9	EqnCap	72.22 -0.01 21.1	... 21.1	... 21.1
GwthA p	47.45 -0.14 12.9	500DidxPrem	85.60 -0.08 9.9	EqnCap	72.79 +0.01 8.4	... 8.4	... 8.4
HITra p	10.48 ... 4.6	ExtMtdxPrem	58.98 -0.24 7.5	EqnCap	73.79 +0.03 19.8	... 19.8	... 19.8
ICAApA	39.22 -0.05 8.7	IntltdxPrem	40.64 -0.02 15.1	EqnCap	74.00 +0.01 12.4	... 12.4	... 12.4
IncoA p	22.74 -0.15 6.5	TMKtdxPrem	70.34 -0.10 9.5	EqnCap	74.87 -0.02 13.9	... 13.9	... 13.9
INPerA p	41.43 +0.01 17.3	TMKtdxPrem	70.33 -0.11 9.5	EqnCap	75.68 -0.02 14.9	... 14.9	... 14.9
NECoA p	42.27 -0.05 17.6	USBldndInstPrem	11.68 +0.05 2.8	EqnCap	76.43 +0.01 14.9	... 14.9	... 14.9
NWrvldA	60.37 -0.06 17.3	500DidxPrem	85.60 -0.08 9.9	EqnCap	77.19 +0.01 14.9	... 14.9	... 14.9
SmCpA p	52.84 ... 14.9	NwlnsghA	30.62 -0.08 14.7	EqnCap	77.95 +0.01 14.9	... 14.9	... 14.9
TxExA p	13.00 +0.01 3.5	FF2020	16.00 ... 8.5	EqnCap	78.72 +0.01 14.9	... 14.9	... 14.9
WshA p	43.96 -0.04 7.8	FF2025	13.80 ... 9.0	EqnCap	79.48 +0.01 14.9	... 14.9	... 14.9
AMG Managers Funds YackmanFd I	23.13 -0.02 8.1	FF2030	17.16 ... 10.5	EqnCap	80.23 +0.01 14.9	... 14.9	... 14.9
Baird Funds	10.94 +0.05 3.3	FreedomK2014	14.88 ... 8.4	EqnCap	80.98 +0.01 14.9	... 14.9	... 14.9
CorBdInst	11.28 +0.04 3.4	FreedomK2015	15.68 ... 9.1	EqnCap	81.73 +0.01 14.9	... 14.9	... 14.9
GblRock Funds A	19.67 -0.02 11.5	FreedomK2016	16.04 -0.02 11.5	EqnCap	82.48 +0.01 14.9	... 14.9	... 14.9
GblAlloc p	19.67 -0.02 11.6	FreedomK2017	16.97 -0.02 11.6	EqnCap	83.23 +0.01 14.9	... 14.9	... 14.9
GblRock Funds C	17.85 ... 7.9	Maglin	23.94 -0.01 9.1	EqnCap	83.98 +0.01 14.9	... 14.9	... 14.9
BlackRock Funds Inst	81.81 -0.02 17.7	BluCh	81.15 -0.13 20.5	EqnCap	84.73 +0.01 14.9	... 14.9	... 14.9
EqtyDiv	23.93 -0.02 6.6	Contra	115.11 -0.19 17.7	EqnCap	85.48 +0.01 14.9	... 14.9	... 14.9
GblAlloc	19.80 ... 8.3	ContrA	115.07 -0.19 17.7	EqnCap	86.23 +0.01 14.9	... 14.9	... 14.9
HrYdbd	7.82 -0.01 5.1	DivIntl	39.02 +0.01 17.2	EqnCap	87.00 +0.01 14.9	... 14.9	... 14.9
StratCpplines	9.93 +0.01 2.5	DivIntl	163.61 +0.01 19.6	EqnCap	87.75 +0.01 14.9	... 14.9	... 14.9
Del Invest Instl	20.25 -0.02 3.4	GroCo	163.50 ... 19.7	EqnCap	88.50 +0.01 14.9	... 14.9	... 14.9
Dimensional Fds	11.04 +0.02 2.0	EqnCap	163.61 +0.01 19.6	EqnCap	89.25 +0.01 14.9	... 14.9	... 14.9
5GlbFxdln	20.67 -0.02 19.1	EqnCap	163.50 ... 19.7	EqnCap	90.00 +0.01 14.9	... 14.9	... 14.9
IntlCoreEq	13.33 -0.03 14.5	EqnCap	163.50 ... 19.7	EqnCap	90.75 +0.01 14.9	... 14.9	... 14.9
IntlVal	18.41 -0.14 10.2	Eqn					

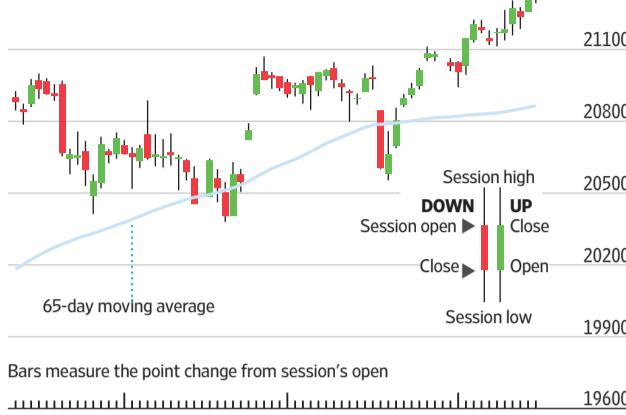
MARKETS DIGEST

EQUITIES

Dow Jones Industrial Average

21374.56 ▲ 46.09, or 0.22%
High, low, open and close for each trading day of the past three months.

Current divisor 0.14602128057775



Bars measure the point change from session's open

Mar. Apr. May June 19600

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

S&P 500 Index

2437.92 ▼ 2.43, or 0.10%
High, low, open and close for each trading day of the past three months.

All-time high 21374.56, 06/14/17



Mar. Apr. May June 2270

Nasdaq Composite Index

6194.89 ▼ 25.48, or 0.41%
High, low, open and close for each trading day of the past three months.

All-time high: 6321.76, 06/08/17



Mar. Apr. May June 5530

Major U.S. Stock-Market Indexes

	Latest		52-Week		YTD		% chg	
	High	Low	Close	Net chg	% chg	High	Low	3-yr. ann.
Dow Jones								
Industrial Average	21391.97	21294.09	21374.56	46.09	▲ 0.22%	21374.56	17140.24	21.2 8.2 8.4
Transportation Avg	9481.01	9353.10	9387.33	-69.32	▼ -0.73%	9593.95	7093.40	24.0 3.8 5.3
Utility Average	732.73	726.70	729.40	5.46	▲ 0.75%	732.63	625.44	7.3 10.6 10.4
Total Stock Market	25327.76	25159.76	25258.46	-39.45	▼ -0.16%	25297.91	20583.16	18.2 8.5 7.6
Barron's 400	650.71	644.89	647.87	-2.60	▼ -0.40%	650.48	491.89	25.3 7.7 7.2
Nasdaq Stock Market								
Nasdaq Composite	6237.53	6153.55	6194.89	-25.48	▼ -0.41%	6321.76	4594.44	28.1 15.1 12.8
Nasdaq 100	5774.19	5682.35	5727.07	-24.75	▼ -0.43%	5885.30	4201.05	29.9 17.8 14.9
Standard & Poor's								
500 Index	2443.75	2428.34	2437.92	-2.43	▼ -0.10%	2440.35	2000.54	17.7 8.9 8.0
MidCap 400	1770.90	1754.41	1761.66	-7.68	▼ -0.43%	1769.34	1416.66	19.0 6.1 7.9
SmallCap 600	866.15	856.60	861.15	-4.92	▼ -0.57%	866.07	670.90	22.4 2.8 8.9
Other Indexes								
Russell 2000	1426.13	1411.40	1417.57	-8.41	▼ -0.59%	1425.98	1089.65	23.3 4.5 6.8
NYSE Composite	11811.51	11750.75	11797.81	-16.98	▼ -0.14%	11796.79	9973.54	14.4 6.5 2.8
Value Line	527.95	522.91	524.53	-3.05	▼ -0.58%	529.13	435.06	14.8 3.6 2.0
NYSE Arca Biotech	3745.02	3676.24	3720.14	41.77	▲ 1.14%	3720.14	2818.70	21.1 21.0 11.2
NYSE Arca Pharma	531.22	528.16	529.50	2.19	▲ 0.41%	554.66	463.78	4.0 10.0 1.1
KBW Bank	94.57	92.59	94.44	0.11	▲ 0.12%	99.33	60.27	43.0 2.9 10.1
PHLX\$ Gold/Silver	85.67	80.77	81.17	-3.12	▼ -3.70%	112.86	73.03	-12.2 2.9 -4.2
PHLX\$ Oil Service	140.66	134.54	136.03	-5.50	▼ -3.89%	192.66	133.30	-19.3 26.0 -23.1
PHLX\$ Semiconductor	1094.99	1068.27	1079.82	-11.52	▼ -1.06%	1138.25	648.32	55.4 19.1 19.8
CBOE Volatility	11.26	10.01	10.64	0.22	▲ 2.11%	25.76	9.75	-47.2 -24.2 -4.4

\$Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE Mkt and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
VanEck Vectors Gold Miner	GDX	13,841.9	22.32	0.10	▲ 0.45%	23.38	22.21
SPDR S&P 500	SPY	9,383.5	244.09	-0.15	▼ -0.06%	244.50	243.50
VanEck Vectors Jr Gold	GDXJ	6,929.4	32.90	0.05	▲ 0.15%	32.95	32.72
Yahoo!	YHOO	6,633.6	52.63	...	▼ unch.	53.00	52.53
Finl Select Sector SPDR	XLF	4,594.9	24.46	-0.05	▼ -0.20%	24.51	24.38
Zynga	ZNGA	3,891.0	3.54	0.01	▲ 0.28%	3.54	3.53
Micron Technology	MU	3,078.7	31.15	0.09	▲ 0.29%	31.53	30.97
Sibanye Gold ADR	SBGL	2,955.8	5.09	-0.001	▼ -0.02%	5.16	5.09

Percentage gainers...

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
AveXis	AVXS	215.6	75.50	4.36	▲ 6.13%	80.00	71.14
Jabil	JBL	946.2	31.80	1.17	▲ 3.82%	33.09	30.58
Delek US Hldgs	DK	10.5	26.00	0.75	▲ 2.97%	26.00	25.25
Hain Celestial Group	HAIN	17.2	35.50	0.83	▲ 2.39%	35.50	34.67
Timken Co	TKR	151.5	46.30	1.00	▲ 2.21%	46.30	45.30

...And losers

Company	Symbol	Volume (000)	Last	Net chg	After Hours % chg	High	Low
World Acceptance	WRLD	5.7	76.00	-7.30	▼ -8.76%	83.30	76.00
Pacific Biosciences CA	PACB	60.3	3.05	-0.29	▼ -8.68%	3.34	3.04
Lantheus Holdings	LNTH	5.4	15.30	-0.95	▼ -5.85%	16.25	15.30
Conduent	CNDT	8.2	15.55	-0.67	▼ -4.13%	16.23	15.55
Tailored Brands	TLRD	104.6	11.03	-0.47	▼ -4.11%	11.50	11.03

Trading Diary</h4

COMMODITIES

WSJ.com/commodities

Futures Contracts

Metal & Petroleum Futures

	Contract						Open interest
	Open	High	Low	Settle	Chg	Open	
Copper-High (CMX) -25,000 lbs.; \$ per lb.	2,5800	2,5800	2,5625	2,5705 -0.0225	1,053		
June	2,5800	2,5800	2,5625	2,5735 -0.0230	83,015		
Gold (CMX) -100 troy oz.; \$ per troy oz.	1269.40	1278.00	1256.80	1272.80 7.00	1,551		
June	1269.40	1278.00	1256.80	1275.90 7.30	345,745		
Platinum (NYM) -50 troy oz.; \$ per troy oz.	862.80	869.50	862.80	863.30 -2.95	82		
July	865.60	871.55	852.35	857.60 -3.75	45		
Silver (CMX) -5,000 troy oz.; \$ per troy oz.	858.50	863.50	858.50	856.15 -3.75	2		
Sept	858.90	871.25	847.55	853.80 -3.75	34,111		
Dec	843.90	857.10	837.00	843.50 -0.45	1,729		
March'18	839.30	843.00	835.00	832.15 -0.45	122		
June	839.00	839.00	839.00	828.15 -0.45	16		
Palladium (NYM) -50 troy oz.; \$ per troy oz.	862.80	869.50	862.80	863.30 -2.95	82		
July	865.60	871.55	852.35	857.60 -3.75	45		
Gasoline (NYM) -40,000 gal.; \$ per gal.	925.40	926.80	925.40	950.70 27.70	48		
July	925.00	955.50	923.30	951.90 27.70	52,791		
Silver (CMX) -5,000 troy oz.; \$ per troy oz.	16,840	17,180	16,840	17,107 0.369	28		
July	16,820	17,365	16,790	17,136 0.369	100,533		
Crude Oil, Light Sweet (NYM) -1,000 bbls.; \$ per bbl.	45.94	46.49	44.55	44.73 -1.73	209,102		
Aug	46.13	46.68	44.74	44.93 -1.74	442,660		
Sept	46.38	46.85	44.96	45.14 -1.75	274,042		
Dec	46.90	47.37	45.59	45.82 -1.63	311,431		
June'18	47.74	47.95	46.49	46.74 -1.36	121,798		
Dec	48.00	48.24	46.90	47.21 -1.10	150,760		
NY Harbor USD (NYM) -42,000 gal.; \$ per gal.	1,442.1	1,455.0	1,406.2	1,410.2 -0.0375	81,641		
Aug	1,450.0	1,461.8	1,413.9	1,418.0 -0.0368	84,147		
Gasoline-NY RBOB (NYM) -42,000 gal.; \$ per gal.	1,4856	1,4959	1,4292	1,4327 -0.0668	97,511		
Aug	1,4811	1,4943	1,4281	1,4315 -0.0625	85,745		
Natural Gas (NYM) -10,000 MMBtu; \$ per MMBtu.	2,962	2,989	2,916	2,933 -0.03	186,368		
Aug	2,990	3,007	2,936	2,953 -0.036	208,648		
Sept	2,970	2,989	2,922	2,937 -0.035	180,592		
Oct	2,997	3,013	2,949	2,962 -0.038	185,021		
Jan'18	3,301	3,303	3,249	3,263 -0.033	109,540		
April	2,881	2,887	2,854	2,856 -0.026	85,557		

Agriculture Futures

Corn (CBT)	5,000 bu.; cents per bu.
July	381.00
Sept	388.50
Oats (CBT)	5,000 bu.; cents per bu.
July	254.00
Dec	241.75
Soybeans (CBT)	5,000 bu.; cents per bu.
July	932.00
Nov	938.25
Soybean Meal (CBT)	100 tons; \$ per ton.
July	301.20
Dec	307.00
Soybean Oil (CBT)	60,000 bbls.; cents per lb.
July	32.09
Dec	32.50
Rough Rice (CBT)	2,000 cwt.; \$ per cwt.
July	1124.50
Sept	1153.00
Wheat (CBT)	5,000 bu.; cents per bu.
July	445.00
Sept	459.00
Wheat (KC)	5,000 bu.; cents per bu.
July	457.25
Sept	474.00
Wheat (MPLS)	5,000 bu.; cents per bu.
July	627.00
Sept	634.25
Cattle-Feeder (CME)	50,000 lbs.; cents per lb.
Aug	149,100
Sept	148,800
Cattle-Live (CME)	40,000 lbs.; cents per lb.
June	126,875
Aug	120,300
Hogs-Lean (CME)	40,000 lbs.; cents per lb.
June	82,775
Aug	80,850
Lumber (CME)	110,000 bd. ft., \$ per 1,000 bd. ft.
July	368.90
Sept	358.50
Milk (CME)	200,000 lbs.; cents per lb.
June	16,34
July	16,70
Cocoa (ICE-US)	10 metric tons; \$ per ton.
July	2,017
Sept	2,048

Corn (CBT)	5,000 bu.; cents per bu.
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BIGGEST 1,000 STOCKS

WSJ.com/stocks

How to Read the Stock Tables

The following explanations apply to NYSE, NYSE Arca, NYSE MKT and Nasdaq Stock Market listed securities. Prices are composite quotations that include primary market trades as well as trades reported by Nasdaq OMX BXSM (formerly Boston), Chicago Stock Exchange, CBOE, National Stock Exchange, ISE and BATS. The list comprises the 1,000 largest companies based on market capitalization. Underlined quotations are those stocks with large changes in volume compared with the issue's average trading volume. Boldfaced quotations highlight those issues whose price changed by 5% or more if their previous closing price was \$2 or higher.

Wall Street Journal stock tables reflect composite regular trading as of 4 p.m. and changes in the closing prices from 4 p.m. on the previous day.

Wednesday, June 14, 2017

Net

Stock Sym Close Chg

MARKETS & FINANCE

Investors Find Renewed Faith in Euro

Surge into stocks isn't offset by moves to contain currency risk; returns are magnified

By MIKE BIRD

International investors have rediscovered a love for Europe after a year's hiatus—but this time, they love the euro, too.

Once, investors who wanted to bet on Europe's stocks and bonds often did so while hedging against sharp changes in the euro—a sign

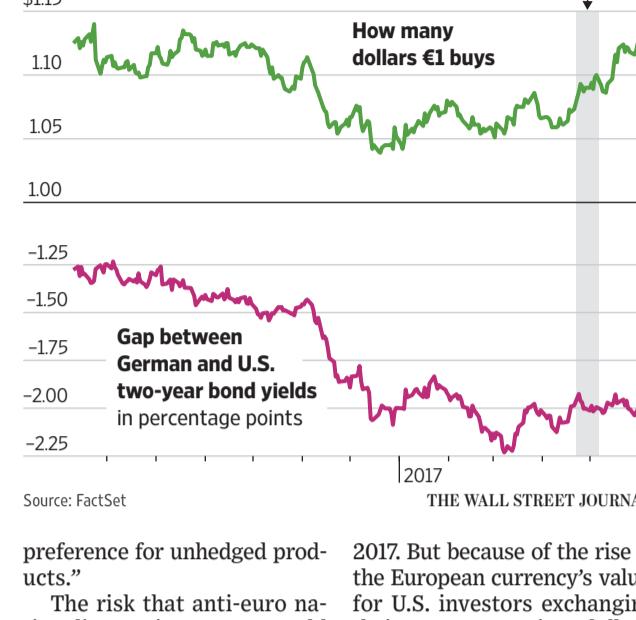
they weren't confident about the currency. But this year so far, \$13 billion has flowed into U.S. exchange-traded funds focused on European shares without any such safeguards. For their hedged peers, inflows have run to a mere \$275.4 million.

In the first half of 2015, when investing in Europe was last popular in the U.S., \$32.7 billion entered the same group of Europe-focused ETFs domiciled in North America. Of that, 63% was hedged against currency risk.

"It looks like North American investors, in particular, have regained their appetite for European investments," said Simon Colvin, research analyst at IHS Markit. "In Europe, we're now seeing a lot more political clarity, and there's been an overwhelming

Disconnect

The euro-dollar exchange rate usually moves closely with spreads in bond yields. In the last two months, it has broken away.



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preference for unhedged products."

The risk that anti-euro nationalist Marine Le Pen would triumph in France's presidential election has now been removed, lifting a political obstacle to buyers.

Unlike the last time European stocks became popular with U.S. buyers, the euro has appreciated recently, magnifying returns for American investors who haven't hedged their exposure to shifts in currency markets.

The Euro Stoxx index, which is priced in euros, has returned 12% since the start of

2017. But because of the rise in the European currency's value, for U.S. investors exchanging their euro returns into dollars, it has returned 19%.

By comparison, in the first six months of 2015, the Euro Stoxx index returned 13% to European investors. But in dollar terms, the euro's fall meant that a buyer would have made only 4%.

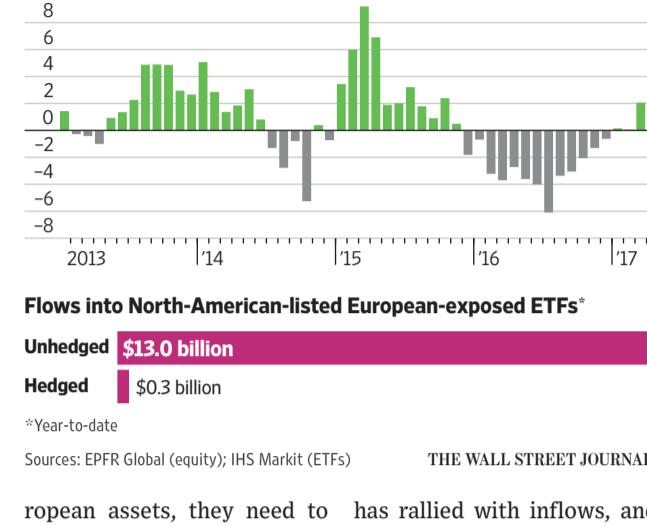
The decision not to hedge is now fueling the recent rise in the euro and helps explain why the currency has broken a traditional relationship with interest rates and bond yields.

When U.S. investors buy Eu-

Back in Vogue

International equity investors are heading back into Europe. This time, they aren't hedging against the risk of a fall in the currency.

Net flows into European equity funds



THE WALL STREET JOURNAL.

ropean assets, they need to buy euros to acquire them, which drives up the value of the currency.

But if they hedge their foreign-exchange risk in the forward market, they agree to sell euros at a specified dollar price in the future—effectively canceling out the original purchase and muting the impact on the exchange rate.

So despite huge inflows to European stocks during the first months of 2015, the euro actually fell, to as low as \$1.05 in March 2015 from around \$1.216 at the end of 2014.

This time around, the euro

has rallied with inflows, and the currency's conventional relationship with interest rates and bond yields has weakened.

The gap between U.S. and German 10-year government-bond yields has barely changed since the week before the first round of the French presidential election, when U.S. two-year yields were 2.07 percentage points above their German peers.

On Monday, the yields were 2.06 percentage points apart. But during that time the euro has risen by more than 5% against the dollar, climbing above \$1.12.

Currencies tend to track

differences in bond yields because the yields work as a proxy for expected interest rates. Investors tend to move money to areas where interest rates are higher, driving up the domestic currency.

One reason why interest-rate expectations have barely budged despite investors having piled into European stocks is that growth seems to be firming more quickly than inflation in the eurozone. Without a pickup in inflation, the European Central Bank may feel no rush to raise interest rates to meet its target for inflation, which is to be near but below 2%.

"It drives capital inflows into equities if you see an economy doing well, but you have this divergence between growth and inflation," said Goldman Sachs strategist Christian Mueller-Glissmann. "It depends how much the ECB cares about growth, relative to how much they look at core inflation, which is still muted."

The ECB expects growth of 1.9% this year and 1.8% next year, but for inflation to reach just 1.2% and 1.4%, respectively.

The Commodity Futures Trading Commission says investors have the most bullish position against the euro in more than six years, with 74,009 more long contracts—betting on the currency's appreciation—than short contracts on the euro registered in the week to June 9.

Dollar Recovers as Fed Stays on Course

By CELSEY DULANEY

The dollar rebounded after the Federal Reserve struck an upbeat tone on the U.S. economy and currencies path for interest-rate increases despite disappointing economic data. But the U.S. currency still ended lower on the day.

The WSJ Dollar Index, which measures the currency against 16 others, fell 0.2% from late Tuesday to 88.12 but

rebounded from a loss of 0.6% before the Fed announcement.

Central-bank officials said at the close of a two-day meeting that they would raise short-term interest rates by a quarter of a percentage point, as widely expected by investors, and laid out plans for slowly shrinking the balance sheet. Though the officials still expect one more rate increase this year, they lowered their inflation forecast for the year.

Fed Chairwoman Janet Yellen in a press conference said

the U.S. economy is doing "very well" and said gradual rate increases remain appropriate.

Those comments indicate that the Fed's plans for further interest-rate increases haven't been derailed by a recent slowdown in inflation, said Eric Donovan, a managing director in foreign exchange and interest rates at INTEL FCStone. "If the Fed was really concerned about the [inflation] data, they would have at least tempered their language," he said. "That shows me that those numbers are not

being taken as seriously as they would have in the past."

Earlier in the day, the dollar was sent tumbling by disappointing inflation and retail-sales data. The Labor Department's consumer-price index fell a seasonally adjusted 0.1% in May from the prior month, while economists had expected prices to hold steady. Growth in so-called core prices were also softer than expected.

Before Wednesday's Fed meeting, investors had grown worried that the softening in

U.S. inflation would prevent the Fed from picking up the pace of rate increases. A separate report Wednesday showed retail sales fell 0.3% from a month earlier, the steepest drop since January 2016.

Higher rates typically support the dollar by making U.S. assets more attractive to yield-seeking investors.

The dollar fell 0.4% against the yen Wednesday to ¥109.58. The euro rose less than 0.1% versus the dollar to \$1.1219, for its third consecutive gain.

Dinan's Successors Named at His Fund

By JULIET CHUNG

Jamie Dinan has named two successors to lead his hedge-fund firm York Capital Management in the future.

The nearly \$17 billion firm named Bill Vrattos and Christophe Aurand its future leaders and promoted them to co-chief investment officers, effective July 1. They have respectively led York's debt and European funds for years. Mr. Aurand also assumed more responsibility for York's flagship multistrategy fund in 2016.

York also named its chief investment officer Dan Schwartz to co-chief executive with Mr. Dinan.

"Bill and Christophe are outstanding long-term investors who have been instrumental to the Firm's investment success," Messrs. Dinan and Schwartz wrote in a letter to investors May 17. "We embrace them as core members of York's senior leadership team and as our future successors in managing our firm."

The letter said that despite the change at the top, portfolio management for York's funds wouldn't change.

York previously described Messrs. Vrattos and Aurand and a former partner, Michael Weinberger, as the next generation to lead the New York firm, according to investors. Mr. Weinberger left early last year to start his own hedge fund.

Mr. Aurand had threatened to leave the firm in the recent past, according to a May report by the website Dealbreaker. Some investors said an exit by Mr. Aurand would have been concerning.

Weak performance and investor defections have broadly pressured York. Its assets under management shrank from \$26 billion in 2015 to \$17 billion last year, leading to efforts by Mr. Dinan to staunch outflows. Its funds have posted strong returns this year.

York's flagship fund bets on deals and other corporate changes around the world and gained 13% for the year through May, according to a person familiar with the matter. That outstripped its benchmark, the S&P 500, which gained 8.7% for the same period, including dividends. Investors in that fund remain under the fund's high-water mark, or the point at which investment gains make up for losses. A person familiar with York said most of the money invested in the firm is above its high-water mark.

Activist Steps Up Pressure On BHP

By ROBB M. STEWART

MELBOURNE, Australia—Activist investor Elliott Management Corp. accused long-serving BHP Billiton Ltd. board members of standing by while billions of dollars in market value evaporated in recent years.

With a decision on a successor to Chairman Jac Nasser looming, the New York hedge-fund firm urged the mining company to appoint an experienced successor with a mandate to shake up the board. The board is set to meet this week in Chile.

A call for a "significant upgrade in directors" builds on Elliott's recent push for a sweeping BHP restructuring aimed at releasing shareholder value. Another shareholder, Sydney hedge fund Tribeca Investment Partners, recently said it was holding private talks with potential candidates for BHP's board.

In addition, wealth-management firm Escala Partners has questioned the credentials of BHP board members who previously served at companies where shareholder value was lost. Escala is an adviser to some of Australia's richest families who also are BHP shareholders.

Elliott stopped short of supporting a specific chairman candidate, and a spokesman declined to comment on whether the firm would push for board seats.

BHP declined to comment on Elliott's statement or the search for a successor to Mr. Nasser, who plans to retire in 2018 after eight years in the role.

Elliott said board members didn't prevent BHP from wasting billions of dollars by expanding into U.S. shale oil and gas as well as repurchasing shares at inflated prices.

By SAUMYA VAISHAMPAYAN AND MEGUMI FUJIKAWA

Don't look now, but Japan's central bank is slowing its vast bond-buying exercise.

The Bank of Japan bought just ¥7.89 trillion (\$71.6 billion) of Japanese government debt last month, according to J.P. Morgan Chase & Co. While that sounds like a lot, it is the least outright buying—not accounting for maturing bonds—since October 2014, when the central bank surprised markets by saying it would increase its asset purchases.

The latest figure raises a question: Is the central bank trying to rein in its ultraloose policies by stealth?

Certainly, the decrease highlights the contradictions in the central bank's approach. The main reason it is buying fewer bonds is its "yield curve control" policy, which aims to keep the yield on 10-year government bonds at zero. This implies it can buy fewer bonds when the yield is close to that target. On Wednesday, the yield was at 0.06%. Bond yields fall when their prices rise.

The central bank has kept in place its target of increasing bondholdings each year by about ¥80 trillion—a net figure, meaning taking into account maturing bonds. At the current rate of buying, though, the holdings are set to rise this year by only about ¥55 trillion, based on the J.P. Morgan data.

The central bank is technically tapering, said Hiroshi Shiraishi, senior economist at BNPP Paribas SA in Tokyo.

Bank of Japan Gov. Haruhiko Kuroda has acknowledged the slowdown, but has been quick to declare this doesn't signal a retreat from easy-money policies.

"At this stage, we are not exiting," Mr. Kuroda said at The Wall Street Journal's CEO Council meeting in Tokyo last month.

The central bank's warri-

orship at heralding an exit is understandable, given the country's still-fragile economic position. Central banks buy government bonds to pump money into the economy, which should in turn fuel inflation. But while Japan's economy is on its longest run of growth since 2006, core inflation is rising at a rate of just 0.3%, with wage growth proving stubbornly low.

Central bankers around the world have been cautious about discussing an end to

easy-money policies for fear of a disorderly market reaction.

When the Federal Reserve indicated in 2013 that it was getting ready to wind down its bond-buying program, U.S. stocks, Treasurys and emerging-market assets swung wildly in an episode called the "taper tantrum."

Analysts expect the Bank of Japan to reiterate its ¥80 trillion target in its next monetary-policy decision, due Friday. Sticking to guidance can help limit market shocks by making it clear the central

bank is prepared to buy government bonds heavily if there is an economic meltdown, said central bank policy board member Yutaka Harada, an advocate of inflationary policies, at a recent news conference.

The Bank of Japan faces some practical limits, notably that it already owns 43% of all Japanese government bonds, Capital Economics estimates, and could eventually run out of bonds to buy.

The inflation outlook is the crucial factor in determining the central bank's pace. The yen's strength this year—up about 6% against the dollar—and a drop in oil prices make it less likely the bank's bond purchases will continue to slow in the near term. When Japanese consumer prices rose for the first time in more than a year in January, costlier oil was a major reason.

The dollar-yen outlook and oil price both suggest the central bank should stop tapering," said Tadashi Matsukawa, head of fixed income at PineBridge Investments in Tokyo, adding that he is buying long-dated Japanese government bonds.

BOJ chief Haruhiko Kuroda at an event last month said: 'At this stage, we are not exiting.'

Slowdown

The Bank of Japan's monthly purchases of Japanese government bonds have slowed to their lowest in just over two and a half years.



THE WALL STREET JOURNAL.

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HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

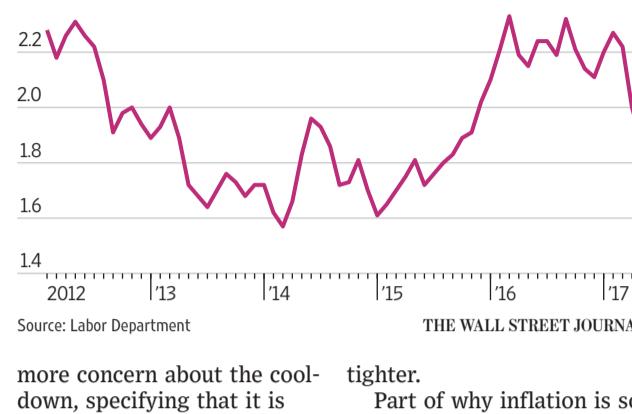
WSJ.com/Heard

Email: heard@wsj.com

Fed, Inflation Go Separate Ways

Price Cold

Change from a year earlier in consumer prices for all items except food and energy



Source: Labor Department THE WALL STREET JOURNAL.

more concern about the cool-down, specifying that it is "monitoring inflation developments closely." Policy makers also lowered their inflation projections for this year.

But the projections also showed policy makers still expect to raise rates once more in 2017. Additionally, they expect to start shrinking their balance sheet this year, which in effect will make monetary policy

tighter.

Part of why inflation is so low is that wage growth, despite the low unemployment rate, has been weak. The Fed is working under the assumption that the tight labor market will eventually flow through into faster wage growth. But as Fed Chairwoman Janet Yellen pointed out in the news conference following the Fed's meeting, inflation may be less sensitive to unemployment-rate

declines than in the past.

There are some one-time changes in prices weighing on inflation but it is hard to deny that overall inflation has weakened. Scars consumers still carry from the financial crisis may be playing a role, as might the ease with which technology allows people to ferret out bargains. Whatever the reason, just as the economy remains in a slow-growth rut, inflation might be stuck below 2%.

Investors are betting that is the case. The yield on the 10-year Treasury fell to its lowest level since November, and the dollar is at its lowest level versus other major currencies since October.

If so, today's low inflation readings shouldn't be read as a sign that deflation risks are elevated and that the Fed ought to counter them. But at the same time, they call into question why the Fed thinks it is a good idea to keep on raising rates. The economy is cool enough already, and the danger is that the Fed will only make it colder.

—Justin Lahart

THE WALL STREET JOURNAL.

The Fed, in announcing its rate increase, indicated a bit

more concern about the cool-down, specifying that it is "monitoring inflation developments closely." Policy makers also lowered their inflation projections for this year.

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OVERHEARD

Patent expirations strike fear into the hearts of pharmaceutical executives everywhere, but there has been at least one very long and profitable ride into the sunset.

It was a century ago that aspirin, a blockbuster for Germany's **Bayer**, was stripped of patent protection in major markets during World War I. Sales continued, but newer painkillers made it a bad business.

The drug then was reborn as a heart attack therapy, though.

Bayer bought back the U.S. rights to Bayer Aspirin in 1994.

It has most of the market and had U.S. sales of \$520 million in 2015 despite plenty of competition.

Compare that with Prozac, **Eli Lilly**'s huge blockbuster and cultural touchstone that went generic in 2001.

Just four years later, sales of the generic version of the drug had slumped to \$249 million.

The company doesn't even break the figure out today.

Alexion Cleans Up Its House

A beleaguered drugmaker is showing signs of getting its act together. **Alexion Pharmaceuticals** said Tuesday that Paul Clancy will join as chief financial officer next month. Mr. Clancy has served as finance chief at **Biogen** for 10 years. Alexion shares rose 9% Wednesday.

There is good reason for that rally: The rare-disease specialist has struggled with a late securities filing, a slew of executive departures, disclosures of aggressive marketing practices for its main drug, Soliris, and a high-price acquisition that turned sour.

Investors shouldn't expect the bad news to stop entirely, though. For example, it is likely that the company will have to write down its 2015 purchase of Synageva for \$8.4 billion, a deal that has resulted in almost no incremental revenue.

That doesn't mean the rally has to stop here, though. For starters, there is no clear competitor for Soliris coming to market soon. The stock trades at roughly 20 times forward earnings. That is hardly dirt cheap but not unreasonable if long-term growth turns out to be, say, 5% instead of 10%.

The company also has a clean balance sheet. Alexion carries less than \$1 billion in net debt on its books and generates significant cash flow. Despite that financial condition, share repurchases were just \$68 million in the first quarter. Alexion could likely buy back stock at a much more aggressive pace if it wanted.

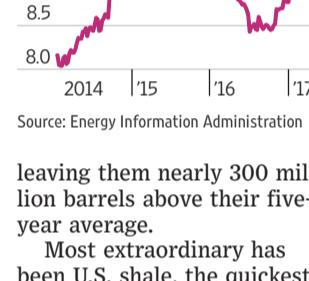
That means Mr. Clancy and the rest of the new management team have options to deal with hiccups down the road.

—Charley Grant

The Oil Outlook Is Now So Bleak It May Be an Opportunity

Gusher

U.S. crude-oil production



Source: Energy Information Administration

leaving them nearly 300 million barrels above their five-year average.

Most extraordinary has been U.S. shale, the quickest type of supply to bring online or take offline in re-

sponse to prices. The IEA expects U.S. output to rise by 480,000 barrels a day this year and 780,000 next year or a cumulative 1.26 million barrels a day. To put that in context, the Organization of the Petroleum Exporting Countries and its allies pledged to reduce supply by 1.8 million barrels a day.

Another inventory report added to the gloom Wednesday: The U.S. Energy Information Administration reported that domestic crude inventories last week fell less than expected. Crude futures plumbed new seven-month lows after the report.

As if that weren't distressing enough for oil bulls,

even OPEC producers are creating headaches, albeit within the confines of the agreement. That was the conclusion of the group's own monthly report.

Nigeria, which is exempt from quotas, saw output rise to 1.68 million barrels a day in May, the highest in over a year. Libyan output of 730,000 barrels a day was 87% higher than its average in 2016.

For now, the best OPEC can do is put a brave face on its deal. It has wisely highlighted inventories rather than prices as its target and there is reason to look past recent trends.

Looking ahead, though,

the recent price decline and rising service costs may at least take some of the steam off of the U.S. shale boom.

Meanwhile, investment cutbacks in recent years for expensive, long-term conventional projects outside of OPEC are starting to nip supply. And, finally, political woes in Venezuela and a resurgence of problems in Libya or Nigeria, or even in OPEC's Persian Gulf heartland, could unexpectedly reduce supply.

Things look bleak, but oil bulls nursing losses should take solace in the fact that the consensus view in this market is usually wrong.

—Spencer Jakab

MARKETS

S&P 500 Edges Down

Index retreats after Fed raises rates, while Treasurys rally and the dollar pulls back

By RIVA GOLD
AND AARON KURILOFF

The S&P 500 slipped after the Federal Reserve decided to raise interest rates.

The Fed's move was widely expected by analysts and investors, though many are skeptical that the U.S. central bank will move aggressively given a recent patch of tepid U.S. economic data.

U.S. government-bond yields and the dollar pared declines and major U.S. stock indexes swung between gains and losses after the announcement.

The Dow Jones Industrial Average rose 46.09 points, or 0.2%, to a record of 21374.56. The S&P 500 fell 2.43 points, or 0.1%, to 2437.92, and the Nasdaq Composite declined 25.48 points, or 0.4%, to 6194.89.

Bonds rallied and the dollar weakened earlier Wednesday after the Labor Department said consumer prices fell slightly in May, while data from the Commerce Department showed monthly retail sales posted their steepest decline since January 2016.

"We've had a string of economic data that have been released suggesting inflation is moving in the wrong direction," said Quincy Crosby, chief market strategist at Prudential Financial.

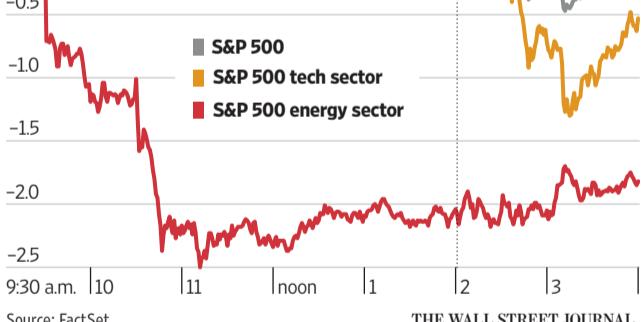
Stocks could come under pressure if the Fed continues on its rate-increase path while softness in inflation persists, Ms. Crosby said.

Fed officials lowered their projections for inflation this year, though they still expect annual price gains to reach their 2% target by the end of 2018. The Fed said Wednesday that it was "monitoring inflation developments closely."

The WSJ Dollar Index fell 0.2%, recovering from its in-

Under Pressure

Energy shares fell alongside oil prices, while technology stocks slumped anew after a respite Tuesday.



traday lows, while the yield on the 10-year Treasury note settled at 2.138%, up slightly from its level before the announcement but down from 2.206% Tuesday.

Wednesday's yield was the lowest since Nov. 10. Yields fall as prices rise.

Brett Ewing, chief market strategist at Tallahassee, Fla.-based First Franklin Financial Services, said that even with some soft economic data, he likes this market environment because volatility has remained near historic lows.

"I don't think anything's changed with the rate hike," he said. "We're ho-hum growth and low inflation, but the Fed passed the spotlight to Congress since the beginning of the year."

Investors have hoped since the election that potential policy shifts such as tax breaks and regulatory rollbacks will boost corporate profits and lift markets.

Investors sold technology shares late in Wednesday's session, dragging down the Nasdaq Composite. **Apple** and **Intel** fell roughly 1%. A sell-off in tech shares buffeted major indexes Friday and Monday, and the sector regained some ground Tuesday.

The energy sector was the biggest decliner in the S&P 500, falling 1.8% as U.S. crude

prices lost 3.7%, to \$44.73 a barrel, oil's lowest settlement since Nov. 14, amid signs of a persistent global oil glut.

All stocks in the sector declined. **Murphy Oil** fell \$1.42, or 5.4%, to \$24.89. **Transocean** declined 47 cents, or 5.1%, to 8.69.

The **Stoxx Europe 600** slipped 0.3%. Stocks in South Korea edged down 0.1%, but Australia's S&P/ASX 200 added 1.1%, buoyed by strength in banking and materials companies. The Shanghai Composite Index fell 0.7%.

At midday in Tokyo Thursday, the Nikkei 225 was down 0.43%.

In commodities markets, gold prices rose, snapping a five-session losing streak after the disappointing U.S. economic data ignited worries about the health of the U.S. economy.

Gold for June delivery rose 0.6%, to settle at \$1,272.80 a troy ounce on the Comex division of the New York Mercantile Exchange, reversing losses from earlier in the day.

Copper prices slid again, with rising stocks helping the metal continue to unwind from an improvement in sentiment last week. Copper for June delivery fell 0.9%, to \$2,570.50 a pound on Comex.

—Akane Otani
and Corrie Driebusch
contributed to this article.

Imports Slow to West Coast Ports As Shippers Send More to the East

By ERICA E. PHILLIPS

Import growth slowed in May at the nation's dominant West Coast container ports, as broad changes in the global ocean shipping sector appeared to shift supply chain routes toward the East Coast.

The neighboring ports of Los Angeles and Long Beach, Calif., which handle the largest volume of container cargo among U.S. ports, reported a total of 749,645 loaded inbound 20-foot equivalent units, or TEUs, a standard measure for container cargo, last month. That was a 2.5% increase over the same period last year, pulling back after year-over-year surges of 26% and 12% in March and April.

"These May numbers are anything but encouraging," said Jock O'Connell, an international trade economist.

Meanwhile, two of the largest port authorities on the East Coast—Virginia and Georgia—saw their import volumes increase last month by 8.8% and 13.5%, respectively, from the same month a year ago.

The slowing import growth on the West Coast comes as those ports, which handle most of the U.S. cargo trade with Asia, are experiencing big

changes to their daily operations driven by shake-ups and consolidation among global ocean carriers. New ocean carrier alliance agreements went into effect in April, meaning the vast majority of cargo on major routes is now carried by one of three entities rather than the four that had previously dominated the sector.

Ports are seeing big changes to their daily operations due to changes in shipping.

Those three alliances are increasingly sending containers on larger ships to the U.S. West Coast but making fewer port calls. "The awkward May numbers for the California ports may be a late echo of the alliance realignment," Mr. O'Connell said, "especially if the shipping lines are continuing to transition to larger vessels calling less frequently."

At the same time, the shipping lines are sending bigger vessels from Asia to the U.S. East Coast through an expanded Panama Canal to get

more goods closer to population centers along the Atlantic seaboard.

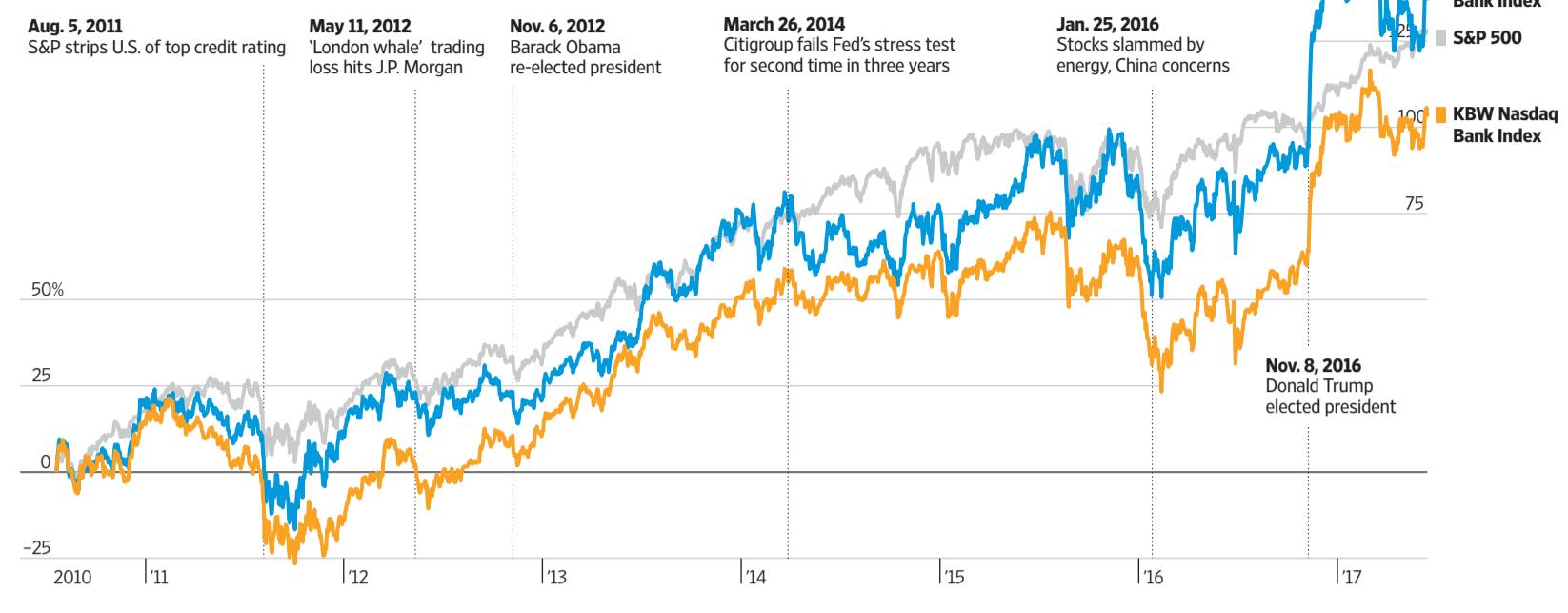
According to ocean shipping consulting firm Drewry,

MARKETS

Banking in the Age of Dodd-Frank

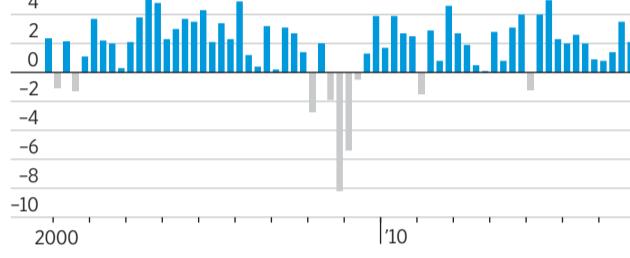
Banks may soon enter a new regulatory era, reflected by Treasury Department proposals this week to roll back parts of the Dodd-Frank Act. Since the 2010 law, banks' stocks have posted gains but haven't yet fully recovered from the financial crisis.

Price performance since the signing of the Dodd-Frank Act



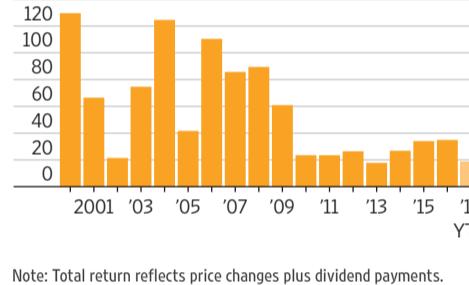
Banks have been hampered by a subpar U.S. economic recovery and continued tepid growth in recent years.

Real gross domestic product, change from previous quarter, at a seasonally adjusted annual rate

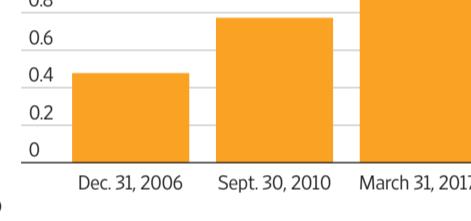


Big-bank mergers have slowed since Dodd-Frank and the crisis, while common equity has grown because of regulatory requirements.

Total U.S. deal value of bank mergers



Total common equity at the six largest U.S. banks



Note: Total return reflects price changes plus dividend payments.

Sources: FactSet (price performance, total returns); Bureau of Economic Analysis (GDP); Federal Reserve (loans and leases); Federal Deposit Insurance Corp. (return on equity, net-interest margin); Dealogic (mergers); the companies (common equity)

THE WALL STREET JOURNAL.

Yield on 10-Year Hits Low

Day's close is lowest in 2017 after signs of an inflation slowdown trigger wave of buying

By MIN ZENG

The yield on the benchmark 10-year U.S. government note closed at the lowest level this year as the latest signs of slowing inflation sparked a buying frenzy in the world's biggest bond market.

The yield on the benchmark 10-year Treasury note settled at 2.138%, the lowest close since Nov. 10, down from 2.206% Tuesday.

Yields fall as bond prices rise.

Buying was the most hectic during the morning session, with the yield at one point falling to 2.103%. The key catalyst was a report showing the consumer-price index last month was up 1.9% on an annualized basis, slipping below the Fed's 2% target again. Excluding food and energy, the CPI rose 1.7% over the past 12 months through May, the smallest gain since May 2015.

The report prompted some investors to bet that the Federal Reserve could stand pat during the second half of the year after an interest-rate increase this month.

The bond market's rally eased Wednesday afternoon after the Fed raised short-term rates, as expected, but made no change to its rate-increase

plan for the rest of this year. This disappointed some bond investors and generated a bout of profit-taking, sending yields off their session lows.

"The Fed is willing to look through the weak inflation data and sticking to its normalization plan," said Bill Irving, portfolio manager at Fidelity Investments. "Those who had anticipated one hike and done for the year didn't get it from the Fed."

In a news conference following the rate decision, Fed Chairwoman Janet Yellen said it is important not to overreact to a few readings because inflation data can be noisy. Ms. Yellen, though, said rate policy isn't on a preset course, a sign that her view on inflation could change if more data

point to downside risks.

The selling following the Fed decision concentrated on short-term Treasurys, whose yields are highly sensitive to the Fed's rate-policy outlook. The yield on the two-year note ended the session at 1.343%, down from 1.363% Tuesday but off its session low of 1.290%.

As investors sold short-term debt and migrated cash into long-term bonds, the yield premium on the 10-year Treasury note relative to the two-year note fell to 0.80 percentage point Wednesday, the lowest level this year. It was close to 0.75 percentage point last July, which was the smallest premium since 2007.

A shrinking premium is known as a flattening yield curve in the bond market. It is usually interpreted by investors as a warning sign that the growth momentum may be slowing, leading to diminished inflation pressure.

Gary Pollack, head of fixed-income trading at Deutsche Bank AG's private wealth-management unit, said the yield curve reflects some concerns that the Fed's tightening campaign amid slowing inflation could undercut the growth momentum.

"It could be a policy mistake," he said.

Inflation chips away investors' purchasing power from their government-bond investments over time and is a big threat to long-term Treasurys.

Demand for long-term bonds rises when investors expect inflation to ease.

Marc Bushallow, managing director of fixed income at Manning & Napier, said the 10-year note at this low level doesn't "provide a lot of value."

Mr. Bushallow said he still expects bond yields to rise gradually over the next 12 to 24 months especially with the Fed moving closer to start unwinding its large balance sheet, which includes more than \$2 trillion of Treasury debt.

The risk of a big rise in yields, he said, is likely to be low with the Fed's signal of a slow and cautious approach in winding down the balance sheet.

Snapshot

The yield on the 10-year Treasury note hit a new 2017 low then rose after the Federal Reserve announced a rate increase.



Source: FactSet

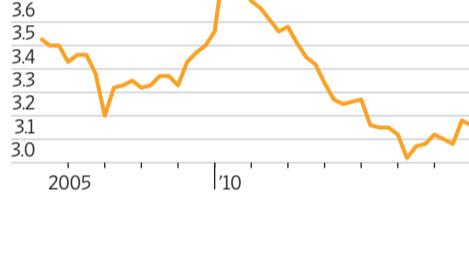
THE WALL STREET JOURNAL.



The Fed's Janet Yellen says rate policy isn't on a preset course.

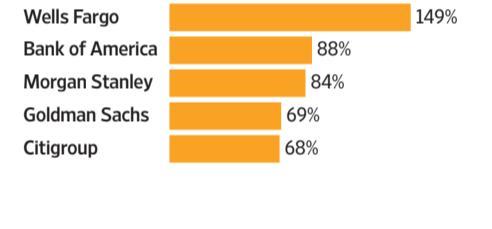
Superlow interest rates have squeezed profits.

Average net-interest margin for U.S. banks, quarterly



Those factors have all contributed to some big banks' stocks underperforming.

Total returns since Dodd-Frank passage



DUSTIN JOHNSON
GOLF'S WORLD NUMBER 1

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TECH COMPANIES TO WATCH

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THE WALL STREET JOURNAL.

Thursday, June 15, 2017 | R1

25 Companies That Are Young, Growing—and the Talk of Technology

A new Wall Street Journal ranking identifies today's startups that may be leaders of tomorrow

BY DAVE PETTIT

AN ONLINE DOLLAR STORE. Two services that link doctors and patients by video chat. A cybersecurity company that keeps hackers out of cars.

These startups are part of the eclectic mix that makes up The Wall Street Journal's ranking of 25 technology companies to watch—companies that show signs of becoming emerging leaders in some of the most dynamic parts of the tech industry.

The Journal 25 have all attracted the attention of the tech community, as well as cash from venture-capital investors. They have had growing workforces and, in some cases, have founders with prior success launching a company. They are also young—all founded in the past six years—and far from billion-dollar valuations.

Preview of coming disruptions

Looking at emerging companies provides insight into technologies that may have influence more broadly on business and markets, says Venky Ganesan, managing director at Menlo Ventures, a venture-capital firm. "You get insights into the big trends. You see the disruptions that are going to happen," Mr. Ganesan says. For investors, he says, "sometimes it's equally important to know who is going to lose and who is going to win."

The starting point of the ranking was a survey of technology-industry watchers and experts. Nominations were taken from prior attendees of technology conferences run by The Wall Street Journal and Founders Forum, a London firm that organizes events for a network of tech entrepreneurs and investors. (The Journal and Founders Forum have a business relationship.) Survey participants were asked to identify young companies that are innovative, growing fast and expected to continue to grow fast.

A data analysis was conducted on the nominated firms to assess their founders' experience, the investments the companies have attracted, the prior success of their biggest investors, the growth of their workforces, and the buzz they have begun to generate. Equal weight was assigned to these five criteria to calculate overall scores for the companies.

No. 1 on the list was **Hollar** Inc., a Commerce, Calif., company that runs a website that sells low-price household goods. It was the idea of Brian Lee, who co-founded Honest Co. with actress Jessica Alba, and David Yeom, another Honest Co. veteran. Mr. Lee, who stepped down as Honest's CEO earlier this year, is executive chairman of Hollar. Mr. Yeom is its chief executive officer. The ranking methodology rewards companies founded by people who have founded other companies, particularly if those other companies went on to go public or be acquired.

David Singer, managing partner of Maverick Ventures in San Francisco, says the founders' background is the most important factor he considers when deciding whether to make an investment. "That is where we spend most of our thinking," he says. "You are really dependent on this person."

The ranking methodology also gives founders credit if they have had high-level experience at other venture-backed companies. Mr. Singer says prior experience makes the transition from an idea to an operating company more effective, in terms of building an executive team and making decisions.

Maverick Ventures is an investor in the No. 2 company in the ranking, **Collective Health** Inc., San Francisco, which allows companies and employees to manage health-care information. It is one of four health-care companies in the ranking, including two that allow patients to see a doctor over a video app: **Doctor on Demand** Inc., based in San Francisco, and **Babylon Healthcare Services** Ltd., based in London.

The expertise of the venture-capital firms that sit on a startup's board is factored in the scores companies received in the ranking. Credit is given to companies for having on their boards VC firms that have made sizable investments and that have invested in companies that have later gone public or been sold. The analysis used data from Dow Jones VentureSource.

Clever Inc., the No. 4 company on the list, benefited from having on its board representatives from Sequoia Capital and Lightspeed Venture Partners, two large VC firms. Clever is a San Francisco company that developed a way for schools to organize the many software applications that are used by teachers and students.

Lightspeed also is on the board of two other ranked companies: Hollar and **Zola** Inc., a New York company that operates an online wedding registry. Zola has traditional registry functions plus other features such as a way to manage when gifts are delivered, and a way for couples to collect monetary gifts for things like a honeymoon or down payment on a house.

Board impact

Board members offer advice to startup executives and assist in recruiting and fundraising, says Mr. Ganesan of Menlo Ventures. The names on a company's board also assist in making sales to business customers. "If you are at J.P. Morgan and are looking at a cybersecurity startup, you want to know who invested in it," he says.

Four cybersecurity companies are in the ranking, including two with headquarters in Tel Aviv: **Argus Cyber Security**, which makes products to counter attacks on systems in cars

and commercial vehicles, and **Illusive Networks**, which creates cyberdefenses by tricking intruders with fake data.

Consumer hardware and gadgets are well-represented on the list, including two companies that create connected devices to manage home security, **August Home** Inc. and **Ring**, which formerly used the name Bot Home Automation. Also in the ranking is **Eero** Inc., which makes a system to improve home Wi-Fi signals; **Tile** Inc., which makes a device to help keep track of everyday things such as keys and the TV remote; and **Jibo** Inc., which is developing a robot.

Jibo's robot, whose release has been delayed, will become available before the end of 2017, says a company spokesman. The device will perform tasks similar to those done by Amazon.com Inc.'s Alexa and Apple Inc.'s Siri. It will recognize faces and voices and be more interactive than the others, the spokesman says. A price hasn't been announced.

The staying power of new consumer-device startups can be uncertain. "These are either home runs or strikeouts," says Mr. Ganesan. "There aren't a lot of singles and doubles."

Whether a disruptive startup continues to grow or fades away often comes down to whether it continues to evolve, says Dharmesh Thakker, a general partner at Battery Ventures. Many startups "think the IPO is the end goal and they stop innovating. Companies that don't innovate tend to end up getting disrupted themselves by another startup."

Mr. Pettit is a Wall Street Journal editor in New York. Email dave.pettit@wsj.com.

WSJ Tech Companies to Watch 2017

The Dollar-Store Concept Goes Online

At Hollar Inc., the median price of items is \$5, and nothing costs more than \$10

BY YULIYA CHERNOVA

1 DAVID YEOM WAS RAISED by a single mom in East Los Angeles, and trips to the local dollar store were both a necessity and a "treasure hunt," he says.

Now Mr. Yeom runs **Hollar** Inc., which he says is an online version of a dollar store. Many items sell for \$1, the median price is \$5, and nothing costs more than \$10.

Mr. Yeom, who used to run marketing at Honest Co., an e-commerce startup for baby and other consumer products, says he and Brian Lee, the former CEO at Honest, got the idea for Hollar at a Carl's Jr. restaurant in Santa Monica, Calif.

Hollar has hit on two trends—the large market for low-price goods and the consumer shift to online shopping. Companies like Dollar General and Dollar Tree have held up much better than other brick-and-mortar retailers amid the e-commerce onslaught. The dollar stores, however, have little presence online. That is a void Hollar is trying to fill.

"Nobody is going after this [market segment] in online retail, and I think it's wide open," says Greg Girard, an analyst at IDC Retail Insights, part of the Framingham, Mass., research firm IDC. Other e-commerce companies pursue the more well-off segments of society, Mr. Girard says.

The median household income of a Hollar customer is \$50,000, according to Mr. Yeom. And 80% of Hollar's orders are from outside California and New York.

It is easier and cheaper to acquire customers for Hollar than it used to be for Honest Co., Mr. Yeom says, because while at Honest, most products were more expensive than alternatives, at Hollar they are all a deal.

Hollar has two million active monthly users.



Most of the co-founders of Hollar come from humble backgrounds, and several immigrated to the U.S. as children, Mr. Yeom says. The other co-founders are Jonathan Um, formerly a director of strategy at 99 Cents Only Stores and a former captain in the U.S. Marine Corps; Thanh Khuu, former chief technology officer at startup ShoeDazzle; and Eddie Rhyu, a former creative director at ShoeDazzle. Mr. Lee is executive chairman of the company.

Hollar shipped its first order in November 2015. It hit \$1 million in revenue in less than six months. Mr. Yeom declines to disclose current revenue. Hollar is currently gross-margin positive, he says. The company has raised some \$47.5 million so far and has about 220 employees.

It offers tens of thousands of different items on its website. They are stocked at a facility in Commerce, Calif., which was formerly used by 99 Cents Only.

Besides daily household items like toothpaste, the company's biggest seller has been Glow Pets, pillows shaped like an animal, such as a unicorn, with LED lights. The pillows sold for \$2 each.

The company has about two million active monthly users, and more than a million have downloaded its app.

"It is a significant opportunity, but they've got a big challenge, which is the logistics," says Mr. Girard of IDC. "Whether something costs \$1 or \$100, it could cost the same to ship."

Mr. Yeom says the company is using several strategies to improve margins. Even though each item is inexpensive, order carts average \$30, and the minimum order is \$10.

"When you create an environment where everything is a great deal, and nothing breaks the bank, it's interesting the psychology that takes over people, and they just load up," Mr. Yeom says.

Hollar also doesn't stock large or heavy items, which keeps packaging small and affordable. The average package it ships weighs 5 pounds, Mr. Yeom says. It often sources from third-party vendors who specialize in closeout deals, and being close to the Port of Long Beach helps, Mr. Yeom says.

The company next plans to start a marketplace where other merchants can sell their products through Hollar. The company also hopes to expand internationally.

Ms. Chernova is a special writer for The Wall Street Journal in New York. She can be reached at yuliya.chernova@wsj.com.

INSIDE



Top 25 Tech Companies to Watch
The full rankings, from Hollar to Babylon

R2



Making School Logins As Easy as ABC

As classroom apps proliferate, Clever Inc. aims to help students and teachers access them all in one easy step

R6

An End to Wi-Fi Dead Spots

Eero is banking on its mesh-network router technology—as well as its independence

R6

A House Key? That's So Yesterday
August Home opens door to smart locks

R5

JOURNAL REPORT | TECH COMPANIES TO WATCH

Technology Companies to Watch

The Wall Street Journal ranks 25 emerging leaders in hot corners of the tech industry

Rankings Methodology | See a summary of the methodology on page R6. For more detail, go to wsj.com/techlist.

1. HOLLAR INC. WEBSITE: hollar.com LOCATION: Commerce, Calif. SCORE: 72.0 FOUNDED: 2015 FOUNDERS: Thanh Khuu, Brian Lee, Eddie Rhyu, Jonathan Um, David Yeom DESCRIPTION: E-commerce retailer selling wide variety of consumer household goods and personal products. In many ways, it is akin to an online dollar store. Minimum order size is \$10. INVESTORS: Bam Ventures, Comcast Ventures, Forerunner Ventures LLC, Greycroft Partners, Index Ventures, Kleiner Perkins Caufield & Byers, LightSpeed Venture Partners, Pritzker Group Venture Capital TOTAL FUNDING: \$47.5 million EMPLOYEES: 220	2. COLLECTIVE HEALTH INC. WEBSITE: collectivehealth.com LOCATION: San Francisco SCORE: 70.1 FOUNDED: 2013 FOUNDERS: Rajaie Batniji, Ali Diab, Kent Keirsey DESCRIPTION: Provides online system that allows employers and their employees to manage information about health, vision and dental plans. INVESTORS: Citizen.VC, Formation8 Partners LLC, Founders Fund LLC, Great Oaks Venture Capital LLC, GV, Maverick Ventures, New Enterprise Associates Inc., Redpoint Ventures, Rock Health, RRE Ventures LLC, Signatures Capital LLC, Social Capital LP, Subtraction Capital Management LLC TOTAL FUNDING: \$150 million EMPLOYEES: 259	3. AUGUST HOME INC. > WEBSITE: august.com LOCATION: San Francisco SCORE: 69.4 FOUNDED: 2012 FOUNDERS: Yves Behar, Jason Johnson DESCRIPTION: Makes a "smart lock" for doors that works with a smartphone, and a doorbell camera that lets you see and speak to visitors remotely. INVESTORS: Bessemer Venture Partners, CAA Ventures, Center Electric LLC, Comcast Ventures, Cowboy Ventures, Dolby Family Ventures, Global Brain Corp., Industry Ventures LLC, KDDI Corp., Liberty Mutual Strategic Ventures, Maveron LLC, Qualcomm Ventures, Rho Ventures, SanDisk Ventures, SingTel Innov8 Pte. Ltd., SoftTech VC TOTAL FUNDING: \$65.71 million EMPLOYEES: 85	4. CLEVER INC. WEBSITE: clever.com LOCATION: San Francisco SCORE: 67.4 FOUNDED: 2012 FOUNDERS: Tyler Bosmeny, Dan Carroll, Rafael Garcia DESCRIPTION: Corrals educational-technology apps used by students, teachers and administrators in one centralized location. Schools assign access to apps, and users need just one password. INVESTORS: Bessemer Venture Partners, Floodgate, GSV Capital Corp., GV, Kapoor Capital, Lightspeed Venture Partners, Sequoia Capital, SoftTech VC, Start Fund, Streamlined Ventures, SV Angel, Ulu Ventures, Y Combinator TOTAL FUNDING: \$43.3 million EMPLOYEES: 111	
5. EERO INC. > WEBSITE: eero.com LOCATION: San Francisco SCORE: 67.0 FOUNDED: 2014 FOUNDERS: Nate Hardison, Amos Schallach, Nick Weaver DESCRIPTION: Sells a Wi-Fi system that delivers a signal all around your home by placing units in multiple places, rather than using a single router. Three-component pack is \$399. INVESTORS: AME Cloud Ventures, First Round Capital, Great Oaks Venture Capital LLC, Homebrew Ventures, Index Ventures, Initialized Capital, Menlo Ventures, Playground Global LLC, Redpoint Ventures, Shasta Ventures Management LLC TOTAL FUNDING: \$90 million EMPLOYEES: 150		6. JIBO INC. WEBSITE: jibo.com LOCATION: Boston SCORE: 65.8 FOUNDED: 2012 FOUNDERS: Jerilyn Asher, Cynthia Breazeal DESCRIPTION: Developing an interactive robot, with voice and face recognition; launch has been delayed. INVESTORS: Acer Group, CRV, Dentsu Ventures, Fairhaven Capital Partners, Fenox Venture Capital, Flybridge Capital Partners, Formation8 Partners LLC, Haitong Capital, KDDI Corp., LG Uplus Corp., NetPosa Technologies Ltd., Ningbo GQY, Osage University Partners, Pags Group, Riverside Partners LLC, Roundview Partners LLC, RRE Ventures LLC, Samsung Venture Investment Corporation, Two Sigma Investments LP TOTAL FUNDING: \$84.08 million EMPLOYEES: 95	7. RING WEBSITE: ring.com LOCATION: Santa Monica, Calif. SCORE: 62.5 FOUNDED: 2013 FOUNDER: James Siminoff DESCRIPTION: Makes video-connected home security camera and doorbell systems that let users remotely see and communicate with people visiting their property. INVESTORS: American Family Ventures, CRV, DFJ, First Round Capital, Goldman Sachs Group Inc., Grishin Robotics, Kleiner Perkins Caufield & Byers, Qualcomm Ventures, QueensBridge Venture Partners, Shea Ventures, True Ventures, Upfront Ventures TOTAL FUNDING: \$209 million EMPLOYEES: 1,000	8. (Tie) DARKTRACE LTD. WEBSITE: darktrace.com LOCATION: Cambridge, U.K., and San Francisco SCORE: 62.2 FOUNDED: 2013 FOUNDERS: Nicole Eagan, Poppy Gustafsson, Dave Palmer, John Richardson, Jack Stockdale, Nick Trim DESCRIPTION: A cybersecurity company that aims to detect malicious activity on enterprise networks. Darktrace uses machine learning to differentiate between normal and potentially hostile user behavior. INVESTORS: Hoxton Ventures, Invoke Capital, Kohlberg Kravis Roberts & Co., Samsung & Co., Softbank Corp., Summit Partners, Talis Capital, Ten Eleven Ventures TOTAL FUNDING: \$96.5 million EMPLOYEES: 390
9. (Tie) TILE INC. > WEBSITE: thetileapp.com LOCATION: San Mateo, Calif. SCORE: 62.2 FOUNDED: 2012 FOUNDER: Nick Evans, Michael Farley DESCRIPTION: Sells gadgets to keep track of keys, TV remotes, etc. Sounds an alarm to find a phone lost in the couch cushions, and helps locate a dropped wallet or stolen bike. INVESTORS: AME Cloud Ventures, Bessemer Venture Partners, GGV Capital, Khosla Ventures, Lead Edge Capital Management, Maveron LLC, Rothenberg Ventures, Slow Ventures, Tandem Management Services LLC, Tencent Collaboration Fund TOTAL FUNDING: \$59.2 million EMPLOYEES: 125		10. LEMONADE INC. WEBSITE: lemonade.com LOCATION: New York SCORE: 59.1 FOUNDED: 2015 FOUNDERS: Daniel Schreiber, Shai Wininger DESCRIPTION: Sells renters' and homeowners' insurance and pays claims through an app and website, rather than brokers. Money that is left over after paying claims and covering costs goes to charities. INVESTORS: Aleph LP, Allianz SE, General Catalyst Partners, GV, Sequoia Capital, Thrive Capital, Tusk Ventures, XL Innovate TOTAL FUNDING: \$60 million EMPLOYEES: 30	11. ILLUSIVE NETWORKS LTD. WEBSITE: illusivenetworks.com LOCATION: Tel Aviv and New York SCORE: 55.0 FOUNDED: 2014 FOUNDER: Ofer Israeli DESCRIPTION: Defends against cybersecurity threats, creating a fake version of a company's data. The alternate reality is a decoy, making it difficult for attackers to distinguish dummy data from real data. INVESTORS: Bessemer Venture Partners, Cisco Investments, Citi Ventures, Innovation Endeavors, Marker Financial Advisors LLC, Microsoft Ventures, New Enterprise Associates Inc., Team8 TOTAL FUNDING: \$30 million EMPLOYEES: Confidential (figure provided for data analysis)	12. DOCTOR ON DEMAND INC. WEBSITE: doctorondemand.com LOCATION: San Francisco SCORE: 54.4 FOUNDED: 2012 FOUNDERS: Adam Jackson, Jay McGraw, Phil McGraw DESCRIPTION: Company provides virtual house calls via an app, connecting patients with physicians, psychologists or psychiatrists. A video-connected visit with a medical doctor costs \$75. INVESTORS: Andreessen Horowitz, Dignity Health, GV, Jump Capital, Lerer Hippeau Ventures, Qualcomm Ventures, Rock Health, Rosemark Capital Group, Shasta Ventures Management LLC, Sherpa Capital, Tenaya Capital Inc., Venrock TOTAL FUNDING: \$86.75 million EMPLOYEES: 116
13. ALTSCHOOL WEBSITE: altschool.com LOCATION: San Francisco SCORE: 54.2 FOUNDED: 2013 FOUNDER: Max Ventilla DESCRIPTION: Runs small, pre-K to 8th grade tuition-funded private schools in New York City and the San Francisco Bay Area. Also, creates partnerships with other schools that use its technology. INVESTORS: Andreessen Horowitz, Baseline Ventures, Collaborative Fund, Emerson Collective, First Round Capital, Founders Fund LLC, Harrison Metal Capital, Learn Capital Venture Partners, Omidyar Network Commons LLC, Silicon Valley Community Foundation TOTAL FUNDING: \$173 million EMPLOYEES: 150	14. CYBEREASON INC. WEBSITE: cybereason.com LOCATION: Boston SCORE: 54.0 FOUNDED: 2012 FOUNDERS: Lior Div, Yossi Naar, Yonatan Striem-Amit DESCRIPTION: Cybersecurity firm that tracks a company's network to find malicious activity. Using machine learning, it aims to find threats as they enter a network, so they can be addressed quickly. INVESTORS: CRV, Lockheed Martin Corp., Softbank Corp., Spark Capital TOTAL FUNDING: \$88.6 million EMPLOYEES: 275	15. ANDELA INC. WEBSITE: andela.com LOCATION: New York SCORE: 53.6 FOUNDED: 2014 FOUNDERS: Iyinoluwa Abeyoji, Ian Carnavale, Jeremy Johnson, Christina Sass DESCRIPTION: Recruits software developers in Africa to work for mostly U.S.-based technology companies. The developers, on four-year contracts, work full time from Uganda, Kenya and Nigeria. INVESTORS: Chan Zuckerberg Initiative, CRE Venture Capital, Founder Collective, GV, Learn Capital Venture Partners, Melo7 Tech Partners LLC, Omidyar Network Commons LLC, Peak Venture Partners LLC, Rothenberg Ventures, SparkLabs Global Ventures, Susa Ventures TOTAL FUNDING: \$38 million EMPLOYEES: 530	16. COLOR GENOMICS INC. > WEBSITE: color.com LOCATION: Burlingame, Calif. SCORE: 51.0 FOUNDED: 2013 FOUNDERS: Nish Bhat, Elad Gil, Othman Laraki, Taylor Sittler DESCRIPTION: Tests saliva samples collected with a home kit to analyze your genetics and assess risk for common hereditary cancers. A test and genetic counseling costs \$249. INVESTORS: 8VC, Emerson Collective LLC, Formation8 Partners LLC, General Catalyst Partners, Innovation Endeavors, Khosla Ventures TOTAL FUNDING: \$60 million EMPLOYEES: 100	
17. EARNEST INC. WEBSITE: earnest.com LOCATION: San Francisco SCORE: 50.1 FOUNDED: 2013 FOUNDERS: Louis Beryl, Benjamin Hutchinson DESCRIPTION: Makes personal loans for things such as home improvements or vacations and refinances student loans. Uses data on things such as savings habits and education to help evaluate applications. INVESTORS: Accomplice, Adams Street Partners LLC, Andreessen Horowitz, Atlas Venture, Battery Ventures, Collaborative Fund, First Round Capital, Maveron LLC, Wildcat Venture Partners LP TOTAL FUNDING: \$96 million EMPLOYEES: 170	18. ZOLA INC. WEBSITE: zola.com LOCATION: New York SCORE: 50.0 FOUNDED: 2013 FOUNDERS: Shan-Lyn Ma, Nobu Nakaguchi, Kevin Ryan DESCRIPTION: Wedding registry that allows couples to specify gifts they'd like, as well as do things such as manage gift deliveries and raise money for a honeymoon vacation or a house. INVESTORS: Female Founders Fund, BBG Ventures LLC, Canvas Venture Fund, Forerunner Ventures LLC, Thrive Capital, Lightspeed Venture Partners, Comcast Ventures TOTAL FUNDING: \$46.52 million EMPLOYEES: 52	19. FLEXPORT INC. WEBSITE: flexport.com LOCATION: San Francisco SCORE: 46.8 FOUNDED: 2013 FOUNDERS: Ryan Petersen, Trae Stephens DESCRIPTION: Provides services for companies to import and export goods. INVESTORS: 7percent Ventures, Acequia Capital Management LLC, A-Grade Investments LLC, Bloomberg Beta, Box Group LLC, Cherubic Ventures, Felicis Ventures, Fenway Summer Ventures, First Round Capital, FJ Labs, Founders Fund LLC, Fuel Capital, FundersClub Inc., GV, Initialized Capital, Lianchuang Ceyuan Investment Consulting, Lunch Van Fund, Susa Ventures, TYLT Ventures, Winklevoss Capital, Y Combinator TOTAL FUNDING: \$94 million EMPLOYEES: 350	20. BRANCH METRICS INC. WEBSITE: branch.io LOCATION: Palo Alto, Calif. SCORE: 44.3 FOUNDED: 2014 FOUNDERS: Alex Austin, Dmitri Gaskin, Mike Molinet, Mada Seghete DESCRIPTION: Provides services to improve and measure how mobile apps are used. The technology makes it easier to link from things like websites and email to content deep inside an app. INVESTORS: Cowboy Ventures, Danhua Capital, Founders Fund LLC, Greylock Partners, Lightspeed Venture Partners, Madrona Venture Group Inc., New Enterprise Associates Inc., Peer Ventures, Playground Global LLC, Redpoint Ventures, Samsung Ventures America, TriplePoint Capital TOTAL FUNDING: \$113 million EMPLOYEES: 95	21. VIA TRANSPORTATION INC. WEBSITE: ridewithvia.com LOCATION: New York SCORE: 43.9 FOUNDED: 2012 FOUNDERS: Daniel Ramot, Oren Shoval DESCRIPTION: Ride-hailing app that groups passengers heading to the same destination. Available in Chicago, New York City and Washington, D.C. In Washington, rides cost \$2.95. A monthly pass there is \$85. INVESTORS: 83North LLC, C4 Ventures, Ervington Investments Ltd., Expansion Venture Capital LLC, Hearst Ventures, Kapoor Capital, Keolis, Pitango Venture Capital, Poalim Capital Markets Ltd., RiverPark Ventures TOTAL FUNDING: \$137.1 million EMPLOYEES: 150
22. ACORNS GROW INC. WEBSITE: acorns.com LOCATION: Irvine, Calif. SCORE: 43.6 FOUNDED: 2012 FOUNDERS: Jeffrey Cruttenden, Walter Cruttenden DESCRIPTION: App lets users deposit small amounts that are automatically invested in exchange-traded funds. INVESTORS: Capital Group, Cruttenden Partners, eVentures, Garland Capital Group, Great Oaks Venture Capital LLC, Greycroft Partners, Groundswell Investments, JAM Equity Partners LLC, Math Venture Partners LLC, PayPal Inc., Point72 Ventures, Rakuten FinTech Fund, Sound Ventures, Steelpoint Capital Partners LP TOTAL FUNDING: \$63.3 million EMPLOYEES: Confidential (figure provided for data analysis)	23. LIFE ON AIR INC. > WEBSITE: lifeonair.com LOCATION: San Francisco SCORE: 42.9 FOUNDED: 2013 FOUNDERS: Ben Rubin, Itai Danino, Sima Sistani, Roi Tirosh DESCRIPTION: Creator of Houseparty, a social app that connects groups through live video chat. Used as a virtual hangout. INVESTORS: Aleph LP, Broadway Video Ventures, CAA Ventures, Comcast Ventures, Entree Capital, Graph Ventures LLP, Greylock Partners, Sequoia Capital, Sherpa Capital, Slow Ventures, Universal Music Group, WME Venture Capital TOTAL FUNDING: \$68.2 million EMPLOYEES: Confidential (figure provided for data analysis)		24. ARGUS CYBER SECURITY LTD. WEBSITE: argus-sec.com LOCATION: Tel Aviv SCORE: 42.8 FOUNDED: 2013 FOUNDERS: Yaron Galula, Oron Lavi, Ofer Ben-Noon DESCRIPTION: Makes products to protect cars and commercial vehicles from cybersecurity threats associated with onboard electronics and communications systems. Its customers include car companies and suppliers. INVESTORS: Allianz SE, Magma Venture Partners, Magna International Inc., SBI Group, Vertex Venture Capital TOTAL FUNDING: \$30 million EMPLOYEES: 50	25. BABYLON HEALTHCARE SERVICES LTD. WEBSITE: babylonhealth.com LOCATION: London SCORE: 42.3 FOUNDED: 2013 FOUNDER: Ali Parسا DESCRIPTION: Provides health-care service that connects patients with doctors via text or video, using an app. Patients also can order prescriptions and tests, and can receive automated health information. INVESTORS: BXR Global Investment Group, Hoxton Ventures, Kinnevik AB, NNS Holdings, Vostok New Ventures Ltd. TOTAL FUNDING: \$85 million EMPLOYEES: 170

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JOURNAL REPORT | TECH COMPANIES TO WATCH

Medical Benefits That Work

Collective Health says insurance can be less costly for employers and less frustrating for workers

BY BRIAN GORMLEY

2 AS COSTS FOR health care keep rising, Collective Health Inc. is counting on companies turning to it for better ways to spend their medical dollars.

Collective Health administers health benefits for businesses that self-insure, meaning they cover their employees' medical claims themselves instead of paying premiums to an insurer. Most large and many small and mid-size companies self-insure because it lets them customize their benefits and save money in the long term.

Collective Health uses enterprise software that boasts strong analytics that can help its customers yield insights from their own data and so better manage costs. It says its system also helps clients connect their employees with resources to manage budding health concerns before they worsen, and its call-center staff have incentives to not just answer questions but to guide plan members to the right care.

Since securing its first customer in 2015, Collective Health has grown to handle health benefits for 77,000 employees and their dependents across 15 clients, including eBay Inc., Ac-

tivision Blizzard Inc. and Palantir Technologies Inc.

Chief Executive Ali Diab has raised \$150 million in venture capital for the San Francisco company, whose self-proclaimed ambition is to make people love their health-insurance plan.

"What Ali's really done well is he's built a mission-driven company," says Mohamad Makhzoumi, a general partner with New Enterprise Associates, which invested in Collective Health.

Mr. Diab co-founded the company in October 2013 after experiencing a personal health crisis earlier that year. On a March afternoon he was sitting at his desk in San Francisco when he felt a sharp pain in his abdomen that would land him in the hospital for emergency surgery to treat an intestinal illness.

When he returned home, his insurer denied most of his hospital claims, saying the surgical procedure was experimental and resulted in a longer-than-normal hospital stay.



Ali Diab, left, and Rajaie Batniji co-founded Collective Health with a mission to make people love their health-insurance plan.

PETER SAMUELS

Explanations of benefits are written to be easy to grasp.

lieve their execution and tech infrastructure will help them stand out.

For instance, Collective Health says its bene-

fits statements are written at a third-grade reading level to reduce frustration for patients trying to understand what their insurer is telling them. Collective Health's platform, meanwhile, was built with data and analytics in mind, so that employers can look at claims data to predict costs more quickly, says Mr. Diab, who previously led product management and business operations for mobile-advertising startup AdMob Inc.

Mr. Diab's tech savvy and the medical expertise of physician and co-founder Rajaie Batniji are what sold Collective Health investor Blake Byers, a general partner with GV, the venture-capital arm of Google parent Alphabet Inc.

Dr. Byers says he was impressed with Mr. Diab's frankness about the difficulties their startup would face. Measured in his words and projections, Mr. Diab doesn't fit the archetype of the fast-talking Silicon Valley entrepreneur, Dr. Byers says.

"I had an immediate high degree of trust in the statements he was making," Dr. Byers says.

Mr. Gormley is a reporter for The Wall Street Journal in Boston. He can be reached at brian.gormley@wsj.com.

A House Key? That's So Yesterday

August Home hopes it has the key to success with its smart locks

BY PATIENCE HAGGIN

3 OVER A LUNCH in 2012, friends and serial entrepreneurs Jason Johnson and Yves Behar swapped stories about changing their housecleaning services but never getting their house keys back.

"We both said, 'There's got to be a better way to give people access to your home, and then revoke it,'" Mr. Johnson says. On the spot, they dreamed up a smart lock, and August Home Inc. was born.

Their solution goes beyond keypad-based home-security systems by allowing homeowners to grant access to specific people only during agreed-to periods. After homeowners install August's \$229 smart lock on the inside of their door, they can lock and unlock the door using the app on their smartphone. They can allow their housecleaners access for a specific day and time, or set a regular schedule, like every day from 8 a.m. to noon. The house-cleaner must have an August account and the smartphone app to unlock the door. If the owner stops using that cleaner, he or she can stop the cleaner's access to the house.

August also sells an accessory keypad for owners who prefer to give guests access codes. And the homeowner still has the option to lock and unlock the door with a key.

The San Francisco startup has raised more than \$65 million. Its latest round of investment valued the company at about \$150 million, according to an estimate by PitchBook Data.

It sold about 44,000 smart locks in 2016, the tech-market-research firm Parks Associates estimates, and has about 85 employees.

For Mr. Johnson, who is chief executive, August is his fifth startup, but it could be his first hit. Mr. Behar, the chief creative officer, is a career designer who also co-founded consumer-electronics startup Jawbone in 2003, last valued at \$1.5 billion.

August hopes to unlock what analysts say is a promising market for smart-home devices. Some 8.7 million U.S. households have a smart-home device, according to data from Forrester Research, which forecasts that number will top 20 million by 2021.

August's main competition is traditional lock makers that have their own connected versions. According to NPD Group, Schlegel, an Allegion PLC company, captured 51% of the retail revenue of smart-lock sales from May 2016 to April 2017. August was second with 37%. Kwikset, owned by Spectrum Brands Holdings Inc., had 8%. August is fighting to differentiate itself from its competitors by emphasizing sleek app design and ease of use.

"August plays in a portion of the smart-lock



August Home co-founders Yves Behar, above at left, and Jason Johnson. Above right, August's Smart Lock, Smart Keypad and Doorbell Cam. Below, an August Smart Lock installed in a home.

market that's more in the retail and online-retail segment," says Tom Kerber, a director of Internet of Things strategy at Parks Associates. A partnership August announced last year with Comcast Corp.'s home-security business, Xfinity Home, may help it boost sales, because most smart locks are sold as part of home-security packages, Mr. Kerber says.

Last year August started selling another home-security product, a doorbell video camera, to compete with a similar product from Ring, formerly Bot Home Automation Inc. The doorbell camera, which allows users to see and hear visitors on their doorstep through an app, may help August get over the threshold into more homes, as consumers are more likely to buy a connected camera than a lock as their first smart-home device, says NPD analyst Benjamin Arnold.

As the largest tech companies battle to own the smart home, August is determined to stay competitive, in part by being operational with different platforms. August products can work with Apple HomeKit, Google Home and Amazon Alexa. The company also has partnerships with Airbnb and HomeAway, offering special features for home-sharing, such as giving the Airbnb guest the ability to grant other guests access during their stay.

Security is paramount for August, Mr. Johnson says. The company hires an independent team to do constant penetration testing, and has never seen its systems compromised, the chief executive says. Among its security features, the company uses "rolling" cryptographic codes. With this kind of system, "the cryptographic element is never the same. It's always changing," says Mr. Johnson.

In a rolling-codes system, a series of codes is needed for the lock to open, Mr. Kerber says, so it is very good at frustrating hackers. If one of the codes is broken, he says, it's only "a very small piece of the system."

Ms. Haggin is a reporter for The Wall Street Journal in San Francisco. She can be reached at patience.haggin@wsj.com.



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JOURNAL REPORT | TECH COMPANIES TO WATCH

Making Logins as Easy as ABC

Clever Inc. aims to help students and teachers access multiple apps through one easy step

BY OLGA RAZUMOVSKAYA

4 WHEN TYLER BOSMENY was a high school student in Tucson, Ariz., he gained a reputation as a savvy businessman by importing Bubbaloos bubble gum from Mexico and selling it to his fellow students.

Now he's pitcher No. 1—and chief executive—at Clever Inc., an education-software startup that had the bright idea to make it easier for students and teachers to access all the apps they need with one login and one password.

Mr. Bosmeny co-founded Clever with close friends and fellow Harvard graduates Dan Carroll and Rafael Garcia, who all reunited after Mr. Carroll finished a volunteer stint with Teach for America. At the school where Mr. Carroll worked, he had noticed how frustrating it was for students and teachers to access the multiple learning apps that were being used in class.

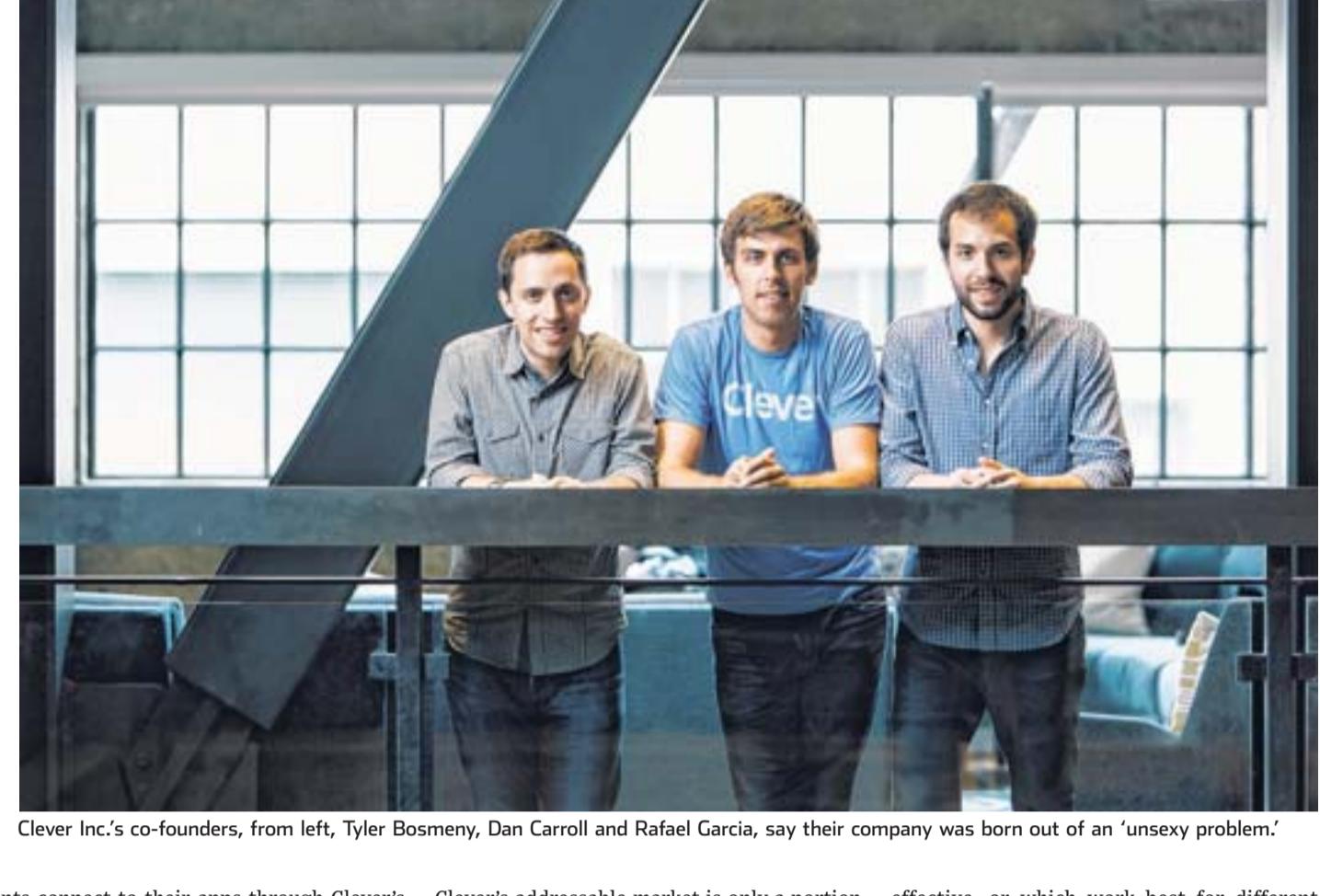
Schools across the U.S., from kindergarten to 12th grade, are using an increasing number of apps to help students in areas such as reading, math and Spanish. But with a growing number of apps and a constant flux of students, schools often must rely on a cluttered array of Post-it Notes or Excel spreadsheets to keep a record of the multiple accounts, logins and passwords for the dozens of applications being used.

Clever was born out of this "unsexy problem," its founders say.

The company was formally founded in 2012. Mr. Garcia is chief technology officer, and Mr. Carroll chief product officer.

The San Francisco-based startup now helps students and teachers access multiple applications through one easy step. It creates one account for each user, who then has access to all of the apps offered at his or her school.

Another advantage the company offers is for the learning-app developers themselves, who find it easier designing products for a widely used platform than having to negotiate the system requirements of many different customers. With this in mind, Clever's software is free for the schools that use it, but the company charges the app developers for the service it provides. Developers pay \$10 to \$20 a month to Clever for each school where stu-



Clever Inc.'s co-founders, from left, Tyler Bosmeny, Dan Carroll and Rafael Garcia, say their company was born out of an 'unsexy problem.'

HANH NGUYEN

dents connect to their apps through Clever's platform.

Clever at this point has no direct competitor. Its software is used in about 70,000 public and private schools across the U.S., according to the company, which is roughly half of the schools in the U.S. Its introduction of single-login technology to education in a way parallels what Okta Inc. has done for businesses. Okta, based in San Francisco, recently went public and has a market capitalization of roughly \$2.3 billion.

Comparisons are sometimes made in the news media between Clever and LearnSprout Inc., an education-technology startup, because both tackle the issue of improving access to online educational resources. But LearnSprout, acquired by Apple Inc. last year, is a platform for apps that help educators track students' performance, while Clever tries to solve more logistical issues.

Spending on education software for the K-12 market is expected to grow 23.3% to \$7.26 billion in 2020 from \$5.89 billion this year, says research firm Gartner Inc., though

Clever's addressable market is only a portion of that.

"The education-technology industry has evolved from a niche market to a multibillion-dollar endeavor attracting serious investment," says Bridget Foster, managing director of the Education Technology Industry Network of the Software & Information Industry Association.

Given recent activity in the sector, investors seem to like its prospects. Coursera Inc., a leading provider of massive online open courses, just raised \$64 million to reach a \$800 million valuation. AltSchool Inc., a personalized learning provider, has attracted investors such as Andreessen Horowitz, First Round Capital and Learn Capital. Learn Capital is an investor in Coursera.

While Clever's focus is on improving the classroom experience, the company says its platform could one day be used to help school districts determine which apps are the most

effective, or which work best for different learning styles. To do that, Clever will need to build new products and features and work with its app partners, Mr. Bosmeny says.

Meanwhile, Clever measures its growth in the number of connections it makes between a school and a particular educational app. It has reached more than 200,000 connections in 2017, up 50% from last year, according to the company. A school district uses on average 10 apps, says Mr. Bosmeny, adding that he expects that number to grow to 40 and 50 apps in years to come.

Clever has raised \$43.3 million in funding in total and has a valuation of more than \$250 million. Investors include Ashton Kutcher and Peter Thiel. The company has 111 employees.

Clever at this point doesn't have a direct competitor.

Ms. Razumovskaya is a reporter for The Wall Street Journal in San Francisco. Email her at olga razumovskaya@wsj.com

A Tool to Get Rid of Internet Dead Spots

After a rough start, Eero believes its independence will give it an edge over traditional Wi-Fi router companies

BY PATIENCE HAGGIN

5 AFTER A LIFETIME of repairing internet connections for friends and family, Nick Weaver had seen it all.

"I've been the guy who's had to fix the internet for my friends and family my entire life," Mr. Weaver says.

One huge improvement equipment makers could make, he recognized soon after Wi-Fi came along, would be to fix the gaps in service that people experience in their homes, causing dead spots that people have to avoid if they want to stay connected when using their computers or phones.

While an associate at Menlo Ventures from 2012 to 2014, Mr. Weaver had looked for a product to bring mesh networking—the linking of multiple routers to eliminate gaps in Wi-Fi coverage—to a consumer product that would be easy to use.

When he couldn't find it, he got together with two college buddies to form Eero Inc. He, Chief Technology Officer Nate Hardison and Vice President of Engineering Amos Schallich quit their jobs in early 2014 and began work-

ing on a Wi-Fi router that promised to do away with "dead spots" in the home.

Their solution was Eero's sleek, white router the size of a sandwich. With a traditional router, the Wi-Fi signal weakens the further one gets from the original router, even when using a booster signal. Each Eero device, however, is a direct access point to the Wi-Fi network, so each provides a top-strength signal. Consumers can place a few throughout their home so they can move from room to room without having to reconnect their devices. The company also collects data on the devices' performance and regularly updates its software to improve connectivity.

The startup began taking preorders in February 2015, while the product was still in development, and had \$2.5 million of sales in two weeks.

Eero promised to ship those orders in the summer of 2015. But things didn't go according to plan, says Mr. Weaver, the company's chief executive. Eero didn't ship until February 2016, a delay Mr. Weaver attributes to unforeseen complications and inexperience. None of the company's three co-founders had shipped a hardware product before.

"I think most of our preorder customers have probably forgiven us," he says.

San Francisco-based Eero, which so far has raised some \$90 million and has about 150 full-time employees, earlier this month launched a second-generation cordless version of its router. Its latest product starts with a \$299 package that includes an Eero router and a smaller-format router called a "beacon." Eero's routers are more expensive than traditional Wi-Fi routers, which can cost about \$100. They also are pricey for mesh routers. Alphabet Inc.'s Google WiFi mesh router costs \$129.

In addition to the new hardware, Eero has expanded into subscription services. For \$10 a month or \$100 a year, Eero Plus provides features including enhanced security and tools for parents to manage their children's internet use by limiting access and filtering content. An Eero rival, Luma, which has raised about \$20 million, has had parental-control features since its debut last year.

Mr. Weaver disputes the suggestion that Eero added the service to match Amazon-backed Luma. "This

is stuff that we've been working on since the inception of the company," Mr. Weaver says.

Experts say Eero's stiffest competition comes not from rival startups but from bigger foes: the traditional router makers that partner with internet service providers, and the tech giants that are battling to control the smart home. Netgear Inc. holds 44% of the retail market for wireless routers, according to market-research firm NPD Group. Linksys holds 19%, and a few other traditional router makers follow. Eero holds 4%, and Google WiFi holds 3%. Luma has less than 1%.

An Eero spokesperson says the market-share figures are misleading because they include traditional routers and mesh systems.

"I would say that the large tech companies have a huge advantage at this point, especially with their device strategies," says NPD Executive Director Ben Arnold. A giant like Google gains an edge by offering a suite of other smart-home devices, he says, and it's easy to imagine rivals like Apple and Amazon stepping into the mesh-router market.

ISPs as well will likely start offering mesh-network-based routers, says Tom Kerber, a director of Internet of Things strategy at technology market-research firm Parks Associates. Some traditional router makers, like Linksys, already have.

Nevertheless, Mr. Weaver believes Eero's independence will give it an edge. Consumers tend to want a hodgepodge of smart devices in their home—such as an iPhone from Apple,



Eero founders CTO Nate Hardison, CEO Nick Weaver and VP of Engineering Amos Schalich.

Amazon's Echo speaker and a Nest thermostat—so they will want to have a router made by an independent company to ensure it integrates with all their products, he says. They will also want one that isn't tied to their ISP so they can easily switch providers, he adds.

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HOW THE RANKINGS WERE COMPILED

The Tech Companies to Watch list is based on nominations from technology experts and watchers, and a data analysis of nominees in these areas: founders' experience, investor track record, amount of venture capital raised, growth of workforce, and buzz about the company. These five factors were given an equal weighting to calculate a maximum score of 100. Companies were included in the analysis only if they were less than six years old and had a valuation of \$50 million to \$500 million. Data sources include the companies, Dow Jones VentureSource and Dow Jones Factiva. Nominations were based on a survey of participants in Wall Street Journal and Founders Forum conferences. See the full methodology at wsj.com/techlist.

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Each Eero device is a direct link to the Wi-Fi network.