

# THE WALL STREET JOURNAL.

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

THURSDAY, MAY 25, 2017 ~ VOL. CCLXIX NO. 121

WSJ.com

★★★★ \$3.00

DJIA 21012.42 ▲ 74.51 0.4%

NASDAQ 6163.02 ▲ 0.4%

STOXX 600 392.37 ▲ 0.1%

10-YR. TREAS. ▲ 6/32, yield 2.266%

OIL \$51.36 ▼ \$0.11

GOLD \$1,252.40 ▼ \$2.40

EURO \$1.1220

YEN 111.50

## What's News

### Business & Finance

Prosecutors filed insider-trading charges against one of Wall Street's best sources of tradable information from the government, accusing him of relaying tips from a bureaucrat at a key health-care agency to hedge-fund traders. A1

◆ Earnings at U.S. firms grew at the fastest pace in nearly six years in the first quarter, the latest boon to the bull market in stocks. B1

◆ Fed officials expected at their latest meeting that it would "soon be appropriate" to raise rates again, signaling a possible June move. A2

◆ U.S. stocks ended higher following release of the Fed minutes. The Dow gained 74.51 points to 21012.42. B11

◆ Activist investor Loeb plans to publicly push for changes to the combination and breakup of Dow Chemical and DuPont. B3

◆ OPEC and other oil producers are poised to curtail output for at least another nine months amid pressure from the U.S. shale sector. B1

◆ Democratic lawmakers have asked Deutsche Bank for details about its internal reviews into Russian trades, as well as loans to Trump. B6

◆ China's efforts to draw more foreign capital to its financial markets could become more complicated after the Moody's downgrade. B11

◆ A federal appeals court sharply questioned the powers of the Securities and Exchange Commission's in-house courts. B11

◆ Blue Cross and Blue Shield of Kansas City plans to exit ACA exchanges next year. B3

### World-Wide

◆ The House GOP health-overhaul bill would leave 23 million more people uninsured while reducing the federal deficit by \$119 billion in the next decade compared with current law, according to a CBO estimate. A1

◆ The alleged bomber in the Manchester attack likely had the help of a terror network, U.K. authorities said, and his brother told a Libyan militia that the two of them belonged to Islamic State. A1, A10-A11

◆ Treasury chief Mnuchin asked Congress to raise the federal debt limit before lawmakers leave for their summer recess. A4

◆ Ex-intelligence officials fear the Shadow Brokers hacker group may be exposing the identities of the NSA's computer-hacking team. B4

◆ The Pentagon conducted a Navy patrol in the South China Sea, the first such operation under Trump. A8

◆ The holding company of Brazil's JBS is said to be willing to pay at least \$1.3 billion as part of a leniency deal. A8

◆ Justice Department officials recently interviewed a former U.S. attorney for the post of FBI director. A6

◆ The Republican candidate in a Montana special election for the House faces allegations that he assaulted a reporter. A6

◆ The official overseeing the government's \$1.3 trillion student-loan portfolio abruptly resigned. A6

◆ Died: Amy Reed, 44, doctor who battled against a hysterectomy method. A3

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## 'Thank You, I Won't Forget What You Said'



VATICAN VISIT: President Donald Trump and first lady Melania Trump met Pope Francis on Wednesday. Mr. Trump talked with the pontiff in his study for a half hour and thanked him before leaving the Vatican. A7

## J.CREW'S SLIP: TRUSTING IN DESIGN OVER TECH

Chief Mickey Drexler misjudged how speed and price drive web sales

By KHADEEJA SAFDAR

Millard "Mickey" Drexler, the fashion genius whose ability to spot trends reshaped how Americans dress, has a humbling admission. He missed what might be the biggest trend of all—how quickly technology would change the retail industry.

"I've never seen the speed of change as it is today," the 72-year-old chairman and chief executive of J.Crew Group Inc. said in an interview at his New York office. "If I could go back 10 years, I might have done some things earlier."

The retail veteran, who redefined Gap Inc. in the 1990s and then transformed J.Crew into a household name, is now scrambling to keep the company he took private in a leveraged buyout from ending up in bankruptcy.

Sales at J.Crew Group stores open at least a year have fallen for the past 10 quarters—the kind of slump that got Mr. Drexler ousted from the Gap in 2002. This time he owns 10% of the company, and it is lenders, not the founding family, that are putting on the pressure.

For decades, fashion was essentially a hit or miss business. Merchants like Mr. Drexler would make bets on what people would be wearing a year in advance, since that's how long it took to design and produce items. Hits guaranteed returns until the next season.

Now, competitors with high-tech, data-driven supply chains can copy styles faster and move them into stores in a matter of weeks. Online marketplaces drive down prices, and design details such as nicer but-

Please see RETAIL page A12

## U.S. Charges Four With Trading Insider Tips

By BRODY MULLINS AND SUSAN PULLIAM

Federal prosecutors filed insider-trading charges against one of Wall Street's best sources of tradable information from the government, accusing him of relaying a series of tips from an obscure bureaucrat inside a key health-care agency to traders at a New York hedge fund.

The tips concerned information about government-funding levels for cancer treatments and kidney dialysis from 2012 to 2014, according to prosecutors. Christopher Worrall, a senior technical adviser to the Centers for Medicare and Medicaid Services, allegedly passed information about the funding to a consultant in the political-intelligence business, David Blaszcak, who in turn told the recipient views them and

## Whatever You Do, Don't Let Your Snapstreak End Today

\* \* \* \*

Snapchat fans go to extremes to make

daily check-ins; 'send a blank picture'

By KATHERINE BINDLEY

Bothaina Saleh has many of the typical concerns of a 25-year-old marketing manager living in Manhattan. They include her Snapstreak, which she maintains "in the same way I make sure that I brush my teeth."

Other teens and millennials across America, too, are obsessively cultivating their Snapstreaks. Let us explain.

Snapstreaks start with Snap Inc.'s Snapchat, the messaging app that lets a person send a friend "snaps"—those photos and videos that can disappear seconds after the recipient views them and

that have addicted the social-media masses.

Send a snap, get one back within 24 hours; send another, get another. After three days, it's an official streak that continues as long as each person sends a snap within a 24-hour window.

A streak earns a flame emoji and a number showing how many days the chat has gone on. An hourglass appears when time is running out.

Snap, which introduced Snapstreaks in April 2015, says it coined the term but declines to say how many streaks are going on. It reported 166 million daily Snapchat users in its

Please see STREAK page A12

## Health-Law Tally Sets Up Senate Fight

By STEPHANIE ARMOUR AND KRISTINA PETERSON

The health-overhaul bill approved by House Republicans would leave 23 million more people uninsured while reducing the cumulative federal deficit by \$119 billion in the next decade compared with current law, according to an estimate from the Congressional Budget Office.

The report by the nonpartisan CBO is likely to roil the current Senate talks over its version of the bill to repeal and replace former President Barack Obama's 2010 Affordable Care Act.

The findings provide ammunition for the two competing factions that Senate Republican

leaders need to pull together to pass a bill. Centrist Republicans, concerned about the number of uninsured, hope to make the House bill less far-reaching, while conservatives want to double down on measures the CBO suggests will lower premiums on average.

The latest report doesn't differ significantly from the CBO's analysis of an earlier version of the House bill, which estimated 24 million fewer people would be insured through 2026 than under the current health law. Democrats said it confirmed that the GOP health push would harm millions of Americans.

Please see HEALTH page A4

◆ Treasury pushes for debt-limit increase..... A4

## U.K. Suspects Terror Network

A suicide bomber who killed 22 people at a Manchester pop concert likely had the help of a terror network, U.K. authorities said, and his

and the tumult of Libya, playing street soccer as a schoolboy before heading off as a teenager to fight alongside his father in their homeland.

Once he returned to Manchester, he nursed a strong sense of anger. Twice, for different reasons, he spoke of wanting revenge. "Whether he got that is between him and God," his sister, Jomana, said.

The suspected bomber's brother, Hashem Abedi, is in the custody of Radaa, one of several large militias responsible for security in the Libyan

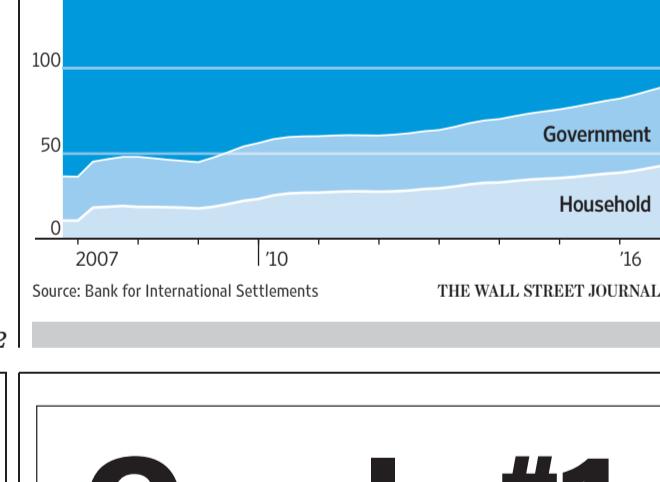
Please see ATTACK page A10

◆ Abedi's visits to Libya reflect ISIS's influence..... A11

## China Gets Warning on Debt

Moody's Investors Service cut China's sovereign credit rating on Wednesday, citing expectations that the country's financial strength will deteriorate as debt rises and the economy slows. B11

China's debt as a percentage of GDP, quarterly



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## Oracle #1 SaaS Enterprise Applications Revenue

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Source: IDC "Worldwide SaaS Enterprise Applications Market Shares, 2015: The Top 15 by Buyer Size" doc#US41913816, 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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# U.S. NEWS

CAPITAL ACCOUNT | By Greg Ip

## Conservative Tactics in U.S., U.K. Diverge

  
Donald Trump's election as U.S. president in the U.S. and Britain's vote to leave the European Union presented the conservative parties in both countries with a once-in-a-generation choice. They had rejected open borders in favor of a nationalist approach to immigration and trade. Would they revert to small-government conservatism on everything else, or reach across traditional divides by appealing to workers who still treasure activist government?

With his budget this week, Mr. Trump chose the first option. With its promise of balanced budgets, lower taxes and deep cuts to social programs, it is more aligned with the Republican party's right-wing Freedom Caucus than the blue-collar workers disillusioned with Democrats.

By contrast, British Prime Minister Theresa May has chosen the second. Last month, she launched an election with a call to reject "the socialist left and the libertarian right and instead embrace the mainstream view that recognizes the good that government can do."

It is early days, but there

are signs Mrs. May's approach is paying off where Mr. Trump's isn't.

In his march to the nomination last year, Mr. Trump made it clear he wasn't a traditional Republican, not just in opposing free trade, but also in his commitment to keep intact the entitlements that Americans love but which put relentless pressure on the budget: Social Security, Medicare and Medicaid. That those commitments didn't align with his promised tax cuts didn't much bother voters.

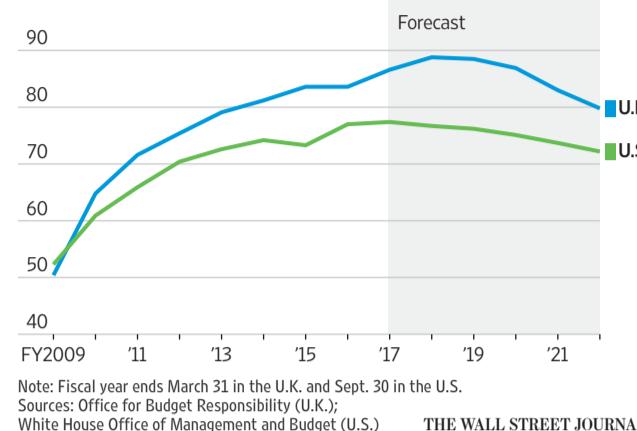
In this week's budget, the president had to make actual choices, and it looks like he sided with the Freedom Caucus, which prioritizes limited government, personal liberty and low debt. How did the two reconcile their agendas? Mick Mulvaney, the former Freedom Caucus member who is Mr. Trump's budget director, "went in to the president with a list of proposed entitlement reforms—some reductions, some eliminations," Mr. Mulvaney said this week. "And we went down the list. Yes, yes, no, no, yes, no, yes, no, no."

Mr. Mulvaney advances solid, nonideological reasons for some cuts: Programs that don't meet their goals

### Different Priorities, Paths

The British government has repeatedly pushed back the year when the government debt as share of GDP is projected to drop; Donald Trump wants to start now.

#### Debt as percent of GDP



Note: Fiscal year ends March 31 in the U.K. and Sept. 30 in the U.S.

Sources: Office for Budget Responsibility (U.K.); White House Office of Management and Budget (U.S.)

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shouldn't exist, and some services are best delivered by states, not Washington.

But he also advocates a change in mind-set. The budget, he says, should be looked at from the viewpoint of those who pay for benefits: taxpayers. The catch is that many Americans also see themselves as beneficiaries of those programs, if not now, then some day. That's why cuts to entitlements are deeply unpopular. At Mr.

Trump's insistence, the budget doesn't touch Social Security retirement benefits or Medicare for retirees. But his proposed cuts to Medicaid already face bipartisan resistance. A Kaiser Family Foundation poll in February found that 57% of respondents had at some point been covered by Medicaid, or had a child, relative or friend who was once covered by Medicaid.

On taxes, too, Mr. Trump's proposals don't align with

popular opinion. The lion's share of the benefits of his proposed personal and business tax cuts go to the 20% most affluent households, according to the Tax Policy Center, a think tank. From a Freedom Caucus point of view, this is logical: The rich bear most of the cost of the welfare state, so if that state shrinks, so should the bill. But working and middle class Americans are quite content to draw more in services than they personally pay in taxes.

Under former Prime Minister David Cameron, Britain's Conservatives cut corporate tax rates while restricting welfare benefits. Since taking over, Mrs. May has steered the party in a less austere direction. Her government pushed back the date of a balanced budget from 2019 to the middle of the next decade, shelved the party's previous promise never to raise personal, payroll or value-added tax rates, and even tried, unsuccessfully, to raise a payroll tax on the self-employed. Mrs. May proposed requiring affluent seniors to contribute more of their own wealth to finance long-term care, though she had to back down, and may weaken the guarantees of how

much their pensions will grow. She has proposed modest boosts to spending on prisons, schools and adult social care.

In the broader budget, such gestures are small. The bigger change is "the political tone," says Paul Johnson, director of the Institute for Fiscal Studies, a think tank. It signals "a willingness for the state to...protect the citizen rather than leave the citizen at the mercy of market forces."

For now, this is working politically. Mrs. May is leading in the polls for the June 8 election, though her lead has narrowed. She is much less polarizing than Mr. Trump: Her approval rating is 52% compared with Mr. Trump's 39%, according to polls this month by YouGov. Among those who voted Labour or Liberal Democrat in 2015, her approval is 25% and 47%, respectively; Among Democrats, Mr. Trump's is 13%.

Mrs. May may not ultimately reshape British politics or even her own party. Moreover, like Mr. Trump, her greater legacy is likely to rest on how much she claws national sovereignty back from the forces of globalism. Meanwhile, she has offered the world an alternative vision for conservative nationalism.

## Fed Signals Readiness For a Rate Increase

By NICK TIMIRAO

Federal Reserve officials expected at their policy meeting this month that it would "soon be appropriate" to raise short-term interest rates, a signal the U.S. central bank could move in June at its next gathering.

The Fed also moved toward a consensus on a proposal to start gradually shrinking its \$4.5 trillion in holdings of Treasury and mortgage securities later in the year, according to minutes of the gathering released Wednesday. Under the approach discussed, they would allow increasing amounts of those securities to mature over time, without reinvesting the proceeds.

Fed officials left their benchmark short-term interest rates unchanged within a range between 0.75% and 1% at the meeting May 2-3. Several Fed officials in recent weeks have said they believe the economy will still be strong enough to warrant two more quarter-percentage-point rate increases this year.

Officials were inclined to stick to that scenario even though the economy appeared to stumble in the first quarter, the minutes showed. They saw that slowdown as likely to be transitory. And while some expressed concern about softness in inflation, it wasn't enough to knock them off track.

Their next meeting is June 13-14, which will be followed by a press conference with Fed Chairwoman Janet Yellen.

"Most participants judged that if economic information came in about in line with their expectations, it would soon be appropriate for the committee to take another step" in raising rates, the minutes said.

Before the minutes were released, "we thought there was a pretty good chance" of a rate increase in June, said Michael Feroli, chief U.S. economist at J.P. Morgan Chase & Co. "Saying 'soon' says that that is the committee's intention, as well. They said 'soon' in the January minutes, and they went in March."

Officials expected job gains, rising household income and wealth, and buoyant consumer sentiment to bolster spending in the months ahead, and they took greater comfort in improvements in the housing market and business investment.

"Participants generally indicated their assessments of the medium term economic outlook had changed little since the March meeting," the minutes said.

## Big Sur Landslide Closes Part of Scenic Highway



ROAD CLOSED: A massive landslide buried Highway 1 under a layer of rock and dirt up to 40 feet deep over the weekend. Officials don't know when it can reopen.

## INSIDER

Continued from Page One

traders.

On Wednesday, the Manhattan U.S. attorney's office filed insider-trading charges against Mr. Worrall, Mr. Blaszczak and the two hedge-fund traders.

Among the prosecutors' evidence is an email from Mr. Blaszczak to Mr. Worrall dangling the possibility of a lucrative job and saying the two would "kill it working together," according to the Aug. 9, 2014, email. Mr. Worrall responded: "You're like a drunk whore to me. Hard to resist."

Federal investigators alleged Mr. Worrall passed along tips, confidential PowerPoint presentations and other nonpublic information about coming health-care policy changes to Mr. Blaszczak, who in turn relayed the tips to the traders. All were charged with securities fraud.

Mr. Worrall, 39, and Mr. Blaszczak, 41, didn't immedi-

ately respond to requests for comment. A CMS spokesman declined to comment.

Mr. Blaszczak (pronounced BLAY-zak) told The Wall Street Journal in 2014 he used only "public information in preparing all my reports," adding that he "if needed, will vigorously fight any false allegation."

The charges represent the first against an individual in Washington's so-called political-intelligence practice since Congress passed a law in 2012 to make it clear it is illegal to trade stocks based on nonpublic information about coming government announcements. The legislation did little to curb the industry of lobbyists, former government officials and other insiders who mine the halls of Congress and federal agencies for nonpublic information that could be used to trade stocks.

The hedge fund, Deerfield Management Co., wasn't charged in the complaints. A Deerfield spokesman said the firm "is committed to maintaining a strict culture of compli-

### HIDDEN INFLUENCE

A Wall Street Journal series revealing the secret ways companies work the levers of power in Washington

ance and the highest ethical standards" and is cooperating in the probe. A lawyer for one of the Deerfield traders, Theodore Huber, said his client did nothing wrong. Calls to the other trader, Robert Olan, weren't returned.

The Securities and Exchange Commission separately filed civil charges against Mr. Huber and a third Deerfield employee, Jordan Fogel. A lawyer for Mr. Fogel, who previously pleaded guilty, said he "is resolving this issue and looking forward to the future." The criminal indictment filed by New York prosecutors alleged that Messrs. Blaszczak and Worrall along with the hedge-fund traders "participated in a scheme to obtain and convert to their own use confi-

dential and material nonpublic information from CMS insiders concerning, among other things, CMS's internal deliberations regarding coverage and reimbursement decisions."

Federal authorities alleged that the hedge-fund traders used the nonpublic information to recommend trades in the stocks of six health-care companies that could be impacted by coming announcements from CMS. The trades resulted in more than \$3.9 million in illegal profits, according to the SEC.

The hedge fund paid firms that employed Mr. Blaszczak at least \$263,000, according to prosecutors.

Mr. Blaszczak once worked at CMS, where authorities said he was a colleague and friend of Mr. Worrall. The charges against Mr. Blaszczak, Mr. Worrall and the hedge-fund traders center on three CMS decisions.

One involved planned cuts in CMS's payments for radiation oncology. Mr. Worrall told Mr. Blaszczak of the expected move,

who relayed the tip to the Deerfield traders, authorities al-

leged, who placed bets that the stocks of three radiation compa-

nies would fall. Prosecutors said

Deerfield earned \$1.85 million

from the trades, in 2012.

In January 2013, Mr. Blaszczak got additional news from Mr. Worrall when they met for lunch at CMS, according to the criminal complaint. Mr. Blaszczak later told one of his lobbyist contacts that his "friend Chris" got promoted at CMS" and that he now had "the best job ever at CMS—since he has his hands in all areas" the complaint says.

Congress had just passed legislation empowering CMS to reduce its reimbursement rate for kidney-dialysis treatments,

depending on utilization rates. Mr. Worrall managed a confidential database that "was going to be central" to any action CMS took regarding the reimbursement rule, according to the criminal complaint.

In February 2013, Mr. Blaszczak contacted Mr. Fogel with a list of his "current focus areas," including kidney dialysis, the complaint says, and Mr. Fogel responded he wanted to "catch up soon and figure out how we can reignite the Blaszczak-Fogel money printing machine."

In May 2013, Deerfield's Mr. Huber asked for Mr. Blaszczak's views on "what might be coming," with regard to the proposed kidney-dialysis rule. Mr. Blaszczak responded he believed the cuts would be on "the higher end," the complaint says.

On June 14, 2013, Mr. Blaszczak went to a baseball game with Mr. Worrall, the complaint says, and four days later, he forwarded to Mr. Fogel his prediction the cut to reimbursement rates would total 12% over three years, higher than others believed, the complaint says.

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## U.S. NEWS

# Fight Over Free Speech Goes to States

GOP-led legislatures respond after protests target conservatives; Democrats call foul

BY DOUGLAS BELKIN

Demonstrators have chased away conservative speakers over the past few months at the University of California, Berkeley, and Middlebury College in Vermont.

Taking action to avoid similar scenes, universities in Illinois and Texas rescinded speaking invitations this month to a GOP senator and a Nobel Prize-winning scientist before they even showed up.

Now, state legislatures, most led by Republicans, are advancing bills they say are intended to support free speech. The laws include measures to suspend students who interfere with the free-speech rights of others, and remove free-speech zones that limit protests to small areas.

"There's been censorship of free speech on campuses around the country," said Jesse Kreme, a Republican state representative in Wisconsin who is sponsoring a bill there. "We should have a free marketplace of ideas; people shouldn't be shouted down for expressing themselves."

In the past few months, governors have signed legislation protecting free speech on campus in Colorado, Tennessee, Utah and Virginia. Meanwhile, Republican legislators have proposed bills in Illinois, Wisconsin, Texas, California,

North Carolina, Michigan, Louisiana and Georgia.

Republicans control the legislature in three of the four states where governors—two of them Democrats—have so far signed the bills. The GOP controls the legislature in six of the eight states where such legislation has been proposed.

Caiden Nason, the president of the Democratic-student group on the Berkeley campus, said he thought the legislation proposed for California was overwrought. He believes any speaker who comes to campus with provocative views needed to come prepared. "If you can't handle someone yelling at you then you probably shouldn't speak here," he said.

Much of the proposed legislation is based on a model bill issued in January by the Goldwater Institute, a conservative-leaning think tank in Phoenix.

"You want to carry a sign and march on the sidewalk? You can do that right up to the point where you block someone else's ability to speak," said Jonathan Butcher, co-author of the institute's model.

The American Association of University Professors said this month it supports free expression on campus but opposes any legislation "that interferes with the institutional autonomy of colleges and universities by undermining the role of faculty, administration and governing board in institutional decision-making."

In Wisconsin, where a bill based on the Goldwater Institute model was debated in a



Protesters opposed an appearance in February at the University of California, Berkeley, of Breitbart News Network's Milo Yiannopoulos.

public hearing last week, critics have accused lawmakers of legislative overreach.

"If someone yells 'You lie,' at a speaker, is that enough to get them suspended?" asked Matthew Rothschild, executive director of the Wisconsin Democracy Campaign, which promotes government transpar-

ency. "How about if they laugh derisively?"

The bill is still in a House committee but Mr. Kreme said he expected it to be passed out of the Republican-controlled legislature and signed by GOP Gov. Scott Walker next month.

In California, Republican Assemblywoman Melissa Melendez has introduced an amendment to the state constitution aimed at protecting speakers on public and private campuses. Included is a mechanism that would allow the state to cut a campus's budget if it doesn't comply.

She said she didn't want her high-school aged son, when in college, to learn "that if you don't agree with someone not only do you not listen, but you keep other people from listening."

Her bill would have to pass through a committee led by Democratic State Assemblyman Mark Stone, who said the bill was duplicative and designed to score political points, rather than address a real need.

Republicans control the legislature and governor's office in Tennessee, where a bill was signed into law this month. Sponsors say it isn't partisan.

The bill language says a free exchange of ideas on campus shouldn't be suppressed "because the ideas put forth are thought by some or even by most members of the institution's community to be offensive, unwise, immoral, indecent, disagreeable, conservative, liberal, traditional, radical, or wrong-headed."

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## Vermont Pot Bill Is Vetoed By Governor

BY JON KAMP

Vermont Gov. Phil Scott said he was vetoing a bill that would have made the state the first to legalize marijuana through legislation rather than a ballot measure, but he also left the door open for legalization.

The bill, passed by the Vermont House and Senate, would have made it legal for adults 21 and over to possess as much as an ounce of marijuana and grow a limited amount starting in mid-2018. The bill also called for a commission to propose yet more legislation that could have created a taxed, regulated market later.

Mr. Scott, a Republican, said Wednesday that he views the issue through a "libertarian lens" and isn't philosophically opposed to ending the prohibition on pot. But he said he has problems with the current bill and urged lawmakers to quickly make changes, including tough penalties for consumption while driving with children and sales to minors.

"We must get this right," the governor said during a press conference. "There is a path forward on this issue."

## Doctor Who Battled Against Hysterectomy Method Dies

BY JENNIFER LEVITZ

A doctor whose battle with uterine cancer brought national attention to a common hysterectomy device that can spread malignancy died Wednesday night at her home outside of Philadelphia. She was 44 years old.

Amy Reed, a mother of six, died of complications related to advanced uterine cancer, said her husband, Hooman Noorchashm, a cardiac surgeon. Dr. Noorchashm campaigned alongside his



Amy Reed and her husband, Hooman Noorchashm, in 2014.

wife against the device, called a power morcellator, in an effort that led other doctors to dramatically curb its use.

Dr. Reed fought her cancer for more than three years, and her health worsened after an abdominal tumor recurred with intensity in March. She spent nearly eight weeks at the Hospital of the University of Pennsylvania after the mass ruptured in early April, causing her to suffer cardiac arrest. She made what her husband described as a miraculous recovery from that incident but both knew there

so the tissue could be removed through small incisions. Used during Dr. Reed's surgery, the device spread the malignancy and worsened her prognosis, the Boston hospital that treated her acknowledged.

Dr. Reed's story, chronicled by The Wall Street Journal, shook the field of gynecology, drove many women to speak out and sparked action from the U.S. Food and Drug Administration. The FDA said in 2014 that power morcellators shouldn't be used on the vast majority of women. It warned the tools can inadvertently spread a cancer that can't be reliably detected before surgery.

Even while undergoing treatment for her cancer, Dr. Reed, along with her husband, became a driving force behind calls for the medical community to halt use of the device.

Dr. Reed made for a powerful advocate as she spoke out against the power morcellator both as a cancer patient—wearing a cap over her balding head after chemotherapy—and as a physician.

"Why do we use these terrible things? Why are we fighting to protect them?" she said in testimony before an FDA panel in July 2014.

## U.S. NEWS

# Treasury Pushes for Debt-Limit Increase

BY KATE DAVIDSON  
AND RICHARD RUBIN

Trump administration officials, testifying on Capitol Hill Wednesday on their 10-year budget plans, pointed to a more pressing fiscal problem: They could run out of room to pay the government's bills within the next few months.

Treasury Secretary Steven Mnuchin asked Congress to raise the debt limit—which threatens the government's ability to tap bond markets for new cash to fund its operations—before lawmakers leave for their summer recess.

Government debt, at nearly \$20 trillion, hit Congress's self-imposed ceiling in mid-March. Since then, the Treasury Department has been employing cash-conservation measures to keep funding the federal government, steps it has taken routinely in recent years after repeated breaches of the ceiling. But those measures, which include redeem-

ing some investments by federal pension programs, are temporary and can typically only keep funding the government for a few months.

Analysts expected the measures would allow Treasury to keep paying its bills until the fall, but Mr. Mnuchin suggested lawmakers should act before the end of July.

"I urge you to raise the debt limit before you leave for the summer," he told the House Ways and Means Committee. Asked after the hearing about when exactly the government would run out of extraordinary measures to avoid breaching the ceiling, he said he was "comfortable" that Treasury is "OK for now" and was confident the ceiling would be increased.

Earlier Wednesday, White House budget director Mick Mulvaney said the date by which Congress would need to raise the debt limit may come sooner than the administration had anticipated. "My un-



TONI WILLIAMS/ZUMA PRESS

Mick Mulvaney testified in Congress about raising the debt limit.

derstanding is that the receipts currently are coming in a little bit slower than expected," he told a House panel.

Raising the statutory debt limit presents challenging politics for Republicans, who have frequently opposed such increases or insisted on condi-

tions, such as deep spending cuts, in return for permission for the government to keep borrowing. Rep. Pete Sessions (R., Texas) said past debt-ceiling fights have produced meaningful constraints on spending, including the sequestration limits. He expects Republicans to attach condi-

tions to an increase. "It is not just a stop sign that we have to blow through," he said.

The Freedom Caucus, a group of about three dozen conservative House Republicans, pushed to address the debt limit before August recess. The group said it wouldn't support an increase unless measures were taken to rein in federal spending. "We have an obligation to the American people to tackle Washington's out of control spending and put in place measures to get our country on the right fiscal course," the group said.

The exact timing will be tricky, too. Congress is scheduled to leave Washington around July 28 and return after Labor Day in September, creating a relatively short window for action.

Asked if Congress should tackle the issue when it returns from its Memorial Day recess in June, Mr. Mnuchin said, "As far as I'm concerned,

the sooner the better."

Before Wednesday, the Bipartisan Policy Center projected Treasury could keep financing government operations until October or November, and pointed to Oct. 2 as a challenging date with a bundle of payments the government must make. The estimate is dependent on the strength of Treasury receipts over spring and summer months.

Mr. Mnuchin also said he prefers that Congress pass a so-called clean debt ceiling increase, with no conditions attached, as some Republicans have demanded before.

Mr. Mulvaney said he met with Mr. Mnuchin for an hour Tuesday to discuss the issue, and the two are waiting for National Economic Council Director Gary Cohn to return from his overseas trip with President Donald Trump to continue those discussions.

—Kristina Peterson contributed to this article.

## HEALTH

Continued from Page One

Some Senate Republicans say privately that their efforts to forge an agreement that can attract at least 50 votes faces a tough road. A working group of 13 Republican senators is pushing to come up with a proposal by Congress's August recess, and if they don't make progress in coming months, that could forecast trouble.

In the meantime, lawmakers are likely to get pushback from voters at home during next week's recess, as they did following the CBO's last report.

"Regardless of any CBO score, it's no secret Obamacare is collapsing under its own weight," Sen. David Perdue (R., Ga.) said. "Doing nothing is not an option."

Democrats, who strongly support the ACA, said the report confirmed that Republicans favor the wealthy and the healthy, while leaving others to fend for themselves. "Unless you're a healthy millionaire, Trumpcare is a nightmare," Senate Minority Leader Chuck Schumer (D., N.Y.) said.

The White House disputed the CBO's assessment, with a spokesman saying that "history has proven the CBO to be totally incapable of accurately predicting how health-care legislation will impact health-insurance coverage."

The biggest change House leaders made to push through their bill was to add an amendment letting states opt out of some of the ACA's provisions. The amendment would allow states to get waivers that could permit health insurers to sell less comprehensive coverage plans. They could also impose higher premiums on some people with pre-existing conditions.

The CBO found the legislation would reduce the cumulative federal deficit by \$119 billion over roughly the next decade. In early March, it reported an earlier version of the bill would cut the deficit by \$337 billion.

The most complex part of the CBO's assessment involved the crucial question of what would happen to insurance premiums under the House bill. Compared to current law, premiums would increase by an average of about 20% in 2018 and 5% in 2019.

But in 2020, average premiums would differ based on whether states obtained waivers. Prices would fall for many consumers. Some people would

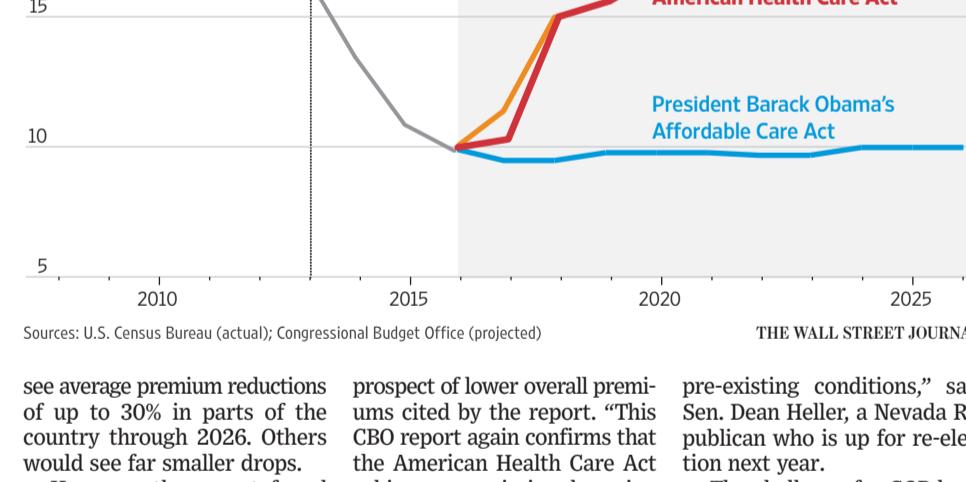


DOMINICK REUTER/AGENCE FRANCE PRESSE/GTY IMAGES  
The Congressional Budget Office said the number of uninsured Americans would rise sharply under the House's revised health bill.

### Increasingly Uninsured

Under the Republicans' American Health Care Act, the percentage of Americans without insurance would rise to 18.2% by 2026, according to the Congressional Budget Office. That estimate is lower than the projection made in March for a previous version of the bill, but still far higher than under current law.

#### Percentage of U.S. residents under 65 without health insurance



see average premium reductions of up to 30% in parts of the country through 2026. Others would see smaller drops.

However, the report found that while healthier people would see lower premiums, in some parts of the country, where states opt out of some of the ACA's rules, "less healthy people would face extremely high premiums." It also noted that in some cases, lower premiums would be offset by higher out-of-pocket medical costs.

Republicans cheered the

prospect of lower overall premiums cited by the report. "This CBO report again confirms that the American Health Care Act achieves our mission: lowering premiums and lowering the deficit," House Speaker Paul Ryan (R., Wis.) said.

But Senate Republicans who have been critical of the House GOP bill said that the CBO report reiterated why the House-passed bill came up short. "This bill does not do enough to address Nevada's Medicaid population or protect Nevadans with

pre-existing conditions," said Sen. Dean Heller, a Nevada Republican who is up for re-election next year.

The challenge for GOP leaders is that any proposal that tempers the House bill, for example by delaying or reducing its cuts to the Medicaid program, could spur a revolt among conservative Republicans who want a more aggressive and rapid implosion of the current health law.

Senate Majority Leader Mitch McConnell (R., Ky.) can

lose no more than two of the 52 Republicans to pass a bill with no Democratic votes. He said Wednesday that it wasn't clear how he would find the votes.

Democrats and progressives are using the latest CBO report to argue the GOP plan would take coverage from millions of people, including many low-income elderly, while doling out benefits to high earners.

The House bill includes \$662 billion in tax cuts, the Joint Committee on Taxation reported Wednesday. The largest tax cut, at \$172 billion over a decade, would repeal a 3.8% tax on investment income of individuals with income over \$200,000 and married couples with incomes over \$250,000.

The Senate is likely to face a major battle over how to handle the Medicaid program for low-income Americans. Some Republicans have weighed keeping the ACA's Medicaid expansion but imposing spending cuts.

It is a politically dicey issue because 20 Senate Republicans hail from states that expanded the program under the ACA, and many of them want to protect state residents who benefited. Much of the estimated increase in uninsured in the House bill stems from its proposals to cut back on the Medicaid expansion.

—Louise Radnofsky and Michelle Hackman contributed to this article.

## WASHINGTON WIRE

### DRUG OPERATION

#### DEA Misled Congress, Inspector General Says

The Drug Enforcement Administration misled Congress and senior Justice Department officials about a botched drug-interdiction operation in Honduras in 2012 that resulted in several civilian deaths, the department's watchdog said in a lengthy report Wednesday.

In the May 2012 operation, U.S. and Honduran law-enforcement officers seized a boat with a large amount of cocaine but later lost power as they piloted it and ran into a passenger boat when gunfire erupted.

Four people on the other boat died and four others were injured. The DEA initially blamed drug traffickers for initiating the gunfire and said they were only playing a support role in the efforts. That understanding was passed on to the attorney general and to Congress when the DEA was asked about the incident.

But the DEA review was "little more than a paper exercise," the Justice Department's inspector general, Michael Horowitz, wrote in the report. No evidence backed up allegations that the agents had faced any incoming fire, he wrote.

In a response, the DEA's chief compliance officer, Mary Schaefer, wrote that the agency had made "significant changes"

in the five years since the shootings to fix the problems uncovered by the inspector general.

"DEA acknowledges that its pre-mission preparation was not as thorough as it should have been and that the subsequent investigation lacked the depth and scope necessary to fully assess what transpired that night," Ms. Schaefer wrote.

—Aruna Viswanatha

### GOVERNMENT OVERSIGHT

#### Lawmaker Spars With Trump Organization

The ranking Democrat on the House Oversight Committee said Wednesday that the **Trump Organization's** explanation for why it couldn't furnish details of its handling of foreign profits was "meager" and suggested the president was putting his business interests ahead of his constitutional requirements.

In a letter to Trump Organization Executive Vice President George Sorial, Rep. Elijah Cummings of Maryland said the company had provided only a brief, "glossy" pamphlet in response to the committee's April request.

He said that document, in which the company cites a litany of ways that fulfilling the committee's request would impinge on its customers, "raises grave concerns about the president's refusal to comply with the Constitution."

Rep. Jason Chaffetz of Utah, the committee's Republican chairman, didn't sign the letter. A committee spokesman didn't respond to a request for comment.

A spokeswoman for the Trump Organization said the company is reviewing Mr. Cummings's letter. "We take these matters seriously and are fully committed to complying with all of our legal and ethical obligations," she said.

—Rebecca Ballhaus

## The What and Why Of the CBO Report

### What is the CBO report and why is it so important?

The Congressional Budget Office is a nonpartisan agency that provides analysis on economic and budget decisions. Its reports are now helping lawmakers evaluate how the Republican health bills would affect the number of uninsured people, premiums and the deficit. Because of the budget process the Senate is using, the health-overhaul bills cannot increase the deficit beyond the 10-year budget window.

### Didn't the CBO already report on the GOP health plan?

Yes, it did—but in March. That report found the House

GOP health plan would cut the federal deficit by \$337 billion over a decade, and would result in 24 million more uninsured people by 2026 compared with the Affordable Care Act. But since that report, House Republicans changed their bill to attract more support. So the CBO re-evaluated it.

### What impact does the report have?

Senators now working to craft their own bill to knock down most of the ACA will likely rely on the CBO analysis to guide their own plan.

### Why is figuring this out so difficult?

The CBO staff had a tough task partly because the revised House bill would let states get waivers from some ACA requirements. Those states could let insurers charge higher premiums to people with pre-existing health conditions who let their coverage lapse. Such states also could roll back the ACA requirement that insurers provide specific benefits. The tricky part: No one knows how many states would seek the waivers.

### What are the most important numbers to look at?

Under budget rules, the health bill must cut the federal deficit. The House's first version did that to the tune of \$337 billion, but the new version reduces it by \$119 billion through 2026.

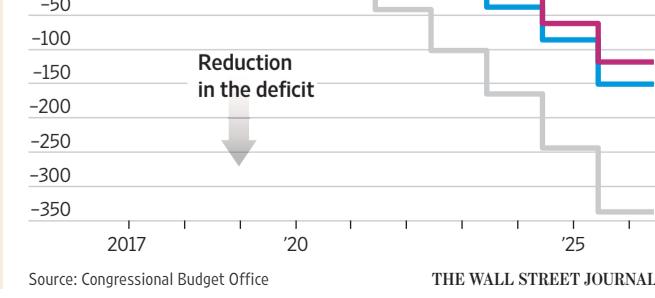
It is also important to look at how much of the budget savings would come from reduced Medicaid spending, because steep cuts mean more people without insurance.

—Stephanie Armour

### Diminishing Returns

The original GOP health-care bill forecast deficit savings of nearly \$340 billion. A first round of revisions did away with certain taxes a year earlier than planned and added funds to offset the cost of insurance for older adults not yet eligible for Medicare. The bill as passed by the House added funding for high-risk pools.

### Cumulative effect on the deficit, in billions



Source: Congressional Budget Office

THE WALL STREET JOURNAL.

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## U.S. NEWS

# Another Candidate for FBI Post

By DEL QUENTIN WILBER

Top Justice Department officials recently interviewed a former U.S. attorney to be the next FBI director, as the Trump administration continues its search for someone to lead the law-enforcement agency.

That search has been less public during President Donald Trump's current overseas trip, but Attorney General Jeff Sessions and Deputy Attorney General Rod Rosenstein spoke last week with Kenneth Wainstein, a top national security official in the GOP administration of George W. Bush, according to a person familiar with the selection process.

Mr. Wainstein, a Republican and widely respected defense lawyer, is seen as having the bona fides and experience to lead the Federal Bureau of Investigation after the abrupt firing on May 9 of former Director James Comey, according to Justice Department officials. He served as U.S. attorney for the District of Columbia during part of



ALEX WONG/GETTY IMAGES

Former U.S. attorney Kenneth Wainstein was a top national security official in the George W. Bush administration.

Mr. Bush's presidency.

But at least one action in his background could pose a challenge to his nomination. In August, Mr. Wainstein and 49 other former Republican national security officials signed a letter saying Mr. Trump lacked the "character, values and experience to be president."

Mr. Wainstein couldn't be

reached for comment Wednesday.

The search for a new director continues in the aftermath of Mr. Comey's dismissal and the fallout over the White House's evolving explanations for the removal. The president has been accused of asking Mr. Comey to back off an investigation into Michael Flynn, Mr. Trump's first na-

tional security adviser, an allegation Mr. Trump disputes.

Mr. Comey was spearheading the federal investigation into whether the Trump campaign colluded with the Russian government to meddle in the U.S. election.

Mr. Trump has denied any form of collusion and called the federal investigation, now led by a Special Counsel Robert Mueller, a "witch hunt." Russian officials have denied meddling in the election.

The Trump administration hasn't said when it might complete its search for a new director. In the days after Mr. Comey's firing, the Justice Department interviewed several candidates to act as an "interim director" until a permanent successor could take office.

Those interviewed included Acting Director Andrew McCabe, who served as Mr. Comey's deputy. He has been running the bureau since Mr. Comey was fired, and it is now unclear if the administration still plans to install an interim chief before a permanent di-

rector takes over.

Mr. Sessions has interviewed at least 10 candidates for the job, according to Justice Department officials. Mr. Trump and Mr. Sessions sat down with four top candidates last week.

Those interviewed at the White House included Mr. McCabe, former Sen. Joe Lieberman (D., Conn.), former Republican Oklahoma Gov. Frank Keating, and Richard McFeely, a former top FBI official.

A number of candidates have taken themselves out of the running, including Sen. John Cornyn (R-Texas), Rep. Trey Gowdy (R-S.C.) and former Justice Department official Alice Fisher.

The FBI director post has generally gone to a former top federal prosecutor or senior law-enforcement official, not a political figure. FBI directors occupy an often-fraught position in federal law enforcement, as they are charged with overseeing investigations in an impartial way but must also weather the resulting political storms.

# Student-Aid Chief Abruptly Resigns

By JOSH MITCHELL AND MELISSA KORN

WASHINGTON—The official overseeing the U.S. government's \$1.3 trillion student-loan portfolio abruptly resigned late Tuesday, saying he couldn't in "good conscience" lead the agency while it was facing rising scrutiny from the Trump administration about its management of the lending programs.

James W. Runcie, chief operating officer of the Education Department's Office of Federal Student Aid, wrote in a two-page letter sent to department colleagues that he was resigning rather than comply with Education Secretary Betsy DeVos's insistence that he testify at a House hearing scheduled for Thursday.

The hearing is set to focus on potential mismanagement of student-aid programs, including errant payments to students and schools, building off a recent report from the department's inspector general highlighting high rates of payment errors.

Mr. Runcie cited other issues, including efforts by the Trump administration to shift some of his office's responsibilities to the Treasury Department, according to the letter, a copy of which was reviewed by The Wall Street Journal.

House Oversight Committee Chairman Jason Chaffetz (R., Utah) had threatened to subpoena Mr. Runcie to force him to testify and hasn't ruled out doing so, a committee aide said.

Mr. Runcie, first appointed by the Obama administration in 2011, said in a statement emailed Wednesday that "successfully leading and managing a large, complex organization in the public sector requires alignment on governance and mission between operational leaders and political ones." He said he submitted his resignation "because that alignment no longer exists," and that Ms. DeVos "should have the opportunity to appoint a Chief Operating Officer of her choice."

Education Department spokeswoman Elizabeth Hill said the student-aid office under Mr. Runcie "has faced a litany of unsolved problems going back years...He chose to resign rather than face Congress."

Ms. DeVos will find a replacement "to effectively lead FSA and maintain the public's trust in this agency that is so important to students," she added. Matthew Sessa, the office's deputy chief operating officer, will lead the office in the interim.

As the nation's primary lender to college and graduate students, the government now oversees a student-loan portfolio that rivals the holdings of some of the nation's biggest banks. More than 42 million Americans owe federal student loans and student debt is the biggest form of household credit outside of mortgages.



Greg Gianforte, above left, a Republican candidate for the U.S. House in Montana, on Wednesday after the incident. Below, Democratic opponent Rob Quist, with his daughter on Monday.



istered voters requested absentee ballots, and 70% of them had been returned by Tuesday night.

The race has been fought largely on local issues and personalities, but has been followed as an early test of the Mr. Trump.

In a recorded call to GOP Montana voters, Mr. Trump warned against allowing Democrats to win control of the House. "If you don't vote tomorrow, the liberal Democrats running for Congress will decimate and dismantle all that we have done," Mr. Trump said.

Mr. Quist's backers are seeing big stakes in the election.

"I don't want to get you nervous, but the eyes of the country are on Montana," said Sen. Bernie Sanders of Vermont, the liberal icon and former presidential candidate who campaigned for Mr. Quist in the closing days. "If you do it here in Montana, we can do it in every state."

## U.S. WATCH

### ECONOMY

#### Existing Home Sales Slip Amid a Shortage

Home sales declined in April, a tepid start to a spring selling season marked by a dearth of homes available for purchase.

Sales of previously owned U.S. homes last month fell 2.3% from March's revised level to a seasonally adjusted annual rate of 5.57 million, the National Association of Realtors said Wednesday. This spring selling season promises to be the most competitive in years, with a flood of new buyers entering the market at a time when inventory is near 20-year lows. April's data suggest the home shortage could mean weaker sales activity than otherwise would be the case.

"Demand is easily outstripping supply in most of the country and it's stymieing many prospective buyers from finding a home to purchase," said Lawrence Yun, NAR's chief economist.

—Laura Kusisto and Sarah Chaney



Sales of previously owned homes fell 2.3% last month. Demand for housing is strong as inventory is near 20-year lows.

### EDUCATION

#### Family Gives College \$100 Million Gift

The University of Chicago announced a \$100 million gift to support research into the human immune system.

The donation comes from the family of Craig and Janet Duchossois, whose holdings include Churchill Downs, where the Ken-

tucky Derby takes place.

Privately held Duchossois Group Inc. is valued in excess of \$3 billion, according to its website. The gift is designed to "support development of the new science of wellness," the University of Chicago said Wednesday.

The money will be used to establish the Duchossois Family Institute, which will "help build an entrepreneurial infrastructure that stimulates research, data

integration, and clinical applications, while educating the next generation of young physicians and students in this new science," the school said.

—Douglas Belkin

### PUERTO RICO

#### University President Resigns Amid Strike

The head of Puerto Rico's largest public university announced on Tuesday that she had resigned just hours before she faced arrest for failing to reopen an institution that has been shut down by a student strike for nearly two months.

Interim President Nivia Fernandez stepped down along with three members of the board of governors of the University of Puerto Rico, including the board's president and vice president. A judge had threatened to arrest Ms. Fernandez if she didn't present a plan to end the strike students started in March to protest \$450 million in budget cuts sought by a board overseeing the island's finances.

—Associated Press

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## WORLD NEWS

# Pope and President Set Aside Differences

Vatican cites similar views on abortion and religious liberty, amid discord on other issues

By CAROL E. LEE  
AND FRANCIS X. ROCCA

VATICAN CITY—President Donald Trump and Pope Francis met for a fence-mending encounter that balanced talk of stark disagreements on issues such as migration with accord on other topics, including abortion.

Seated across from each other in the pope's private study on Wednesday, Mr. Trump and the pontiff spoke for 30 minutes, aided by an interpreter. Before leaving the Vatican, the president told the pope, "Thank you, thank you. I won't forget what you said."

During his talks later with Prime Minister Paolo Gentiloni of Italy, he said his meeting with the pope was "fantastic."

"He is something," the president said of the pontiff, who during last year's presidential campaign criticized Mr. Trump's views on immi-



President Trump and first lady Melania Trump visit the Sistine Chapel after meeting with Pope Francis.

gration and said the candidate's plan to build a wall along the U.S.-Mexican border made him "not Christian."

In a short communiqué following the visit, the Vatican highlighted points on which Mr.

Trump and the pope agree, including abortion and religious liberty, as well as their notable differences, including health care and immigration.

One longstanding point of contention the communiqué

didn't mention was the environment. After their conversation, however, the pope gave Mr. Trump a copy of his encyclical on the environment, in which he argues that capitalism has contributed to the deg-

radation of the environment at the particular expense of the poor. The president thanked him, saying he would read it.

Mr. Trump's visit capped a tour through countries that are home to the holiest sites for three of the world's leading religions: Islam, Judaism and Christianity. His trip to Saudi Arabia, Israel and Vatican City is intended to try to unify religious leaders around an effort to combat extremism.

On international affairs, the communiqué highlighted an "exchange of views"—diplomatic parlance that typically suggests disagreement—over the "promotion of peace in the world through political negotiation and interreligious dialogue, with particular reference to the situation in the Middle East and the protection of Christian communities."

The Vatican also highlighted a "joint commitment in favor of life, and freedom of worship and conscience" between the Holy See and Mr. Trump's administration. Those were apparent references to abortion and to the demand by U.S. Catholic leaders for a religious exemption to the contraception man-

date in the Affordable Care Act, which Mr. Trump has promised to provide. They were a significant concession to the White House because the pope hasn't made such issues a priority.

But that point of agreement was offset by a call for collaboration on "health care, education and assistance to immigrants." U.S. bishops have said Mr. Trump's plans to overhaul the health-care law must ensure no one loses coverage.

The White House is debating whether to withdraw from the international climate-change agreement to cap carbon emissions that world powers reached in Paris in 2015. Mr. Trump was sharply critical of the accord and opposed it as a candidate.

Secretary of State Rex Tillerson said he didn't know if the president and the pope had discussed climate change, but that the subject had come up in the president's meeting later with Vatican Secretary of State Cardinal Pietro Parolin, which Mr. Tillerson also attended.

The cardinal encouraged the president to remain in the Paris accord, and Mr. Trump replied that he hadn't made a final decision, Mr. Tillerson said.

## U.S. Says EU Critic Was Never Its Envoy Pick

European officials have tried for months to learn whether to take seriously a euroskeptic American who

ists in Europe have sought out Ted Malloch, a university professor who has asserted he is Mr. Trump's likely choice for the Brussels post.

EU officials regarded his prospective candidacy as a real—and troubling—possibility. Mr. Malloch has urged every EU country to vote on leaving the bloc.

Officials in Washington said nothing, fanning speculation. EU foreign-policy chief Federica Mogherini broached the issue Feb. 9 in Washington during her first meeting with U.S. Secretary of State Rex Tillerson, then on Feb. 20 in Brussels upon the visit of Vice

President Mike Pence, senior EU officials say. She was told that no decision on a new ambassador had been taken, according to a senior EU official.

The European Parliament's main political parties declared him persona non grata.

Speaking in Poland last week to the country's top politicians, who called him "Mr. Ambassador," Mr. Malloch pledged to convey their concerns to Mr. Trump.

This week Mr. Malloch addressed a gathering in Brussels that billed him as "the possible new U.S. Ambassador to the EU."

Mr. Malloch, told after the

Brussels conference that the Trump administration denied he was a candidate, said: "I'm not aware of that."

The State Department said this week that Mr. Malloch isn't a candidate for the ambassadorship.

Mr. Malloch has stirred controversy by appearing frequently in Western media to attack the EU. He has encouraged some countries to drop the euro, which he predicts will soon crash. Those comments exacerbated mistrust between Washington and Brussels.

Mr. Malloch has worked at Henley Business School at the

University of Reading, in Reading, England. In the past, he has said he has been knighted, nominated for an Emmy, and appointed to the board of the World Economic Forum—all disputed by the institutions that award them.

Mr. Malloch denies he embellished his past, but said Tuesday he can't discuss the accusations further, because there could be "potential legal suits" over the accusations. The Financial Times earlier reported the alleged embellishments.

—Rebecca Ballhaus  
in Washington  
contributed to this article.



Ted Malloch, shown in February in London.

## The Face of Change

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## WORLD NEWS

# Clashes Escalate in Philippines

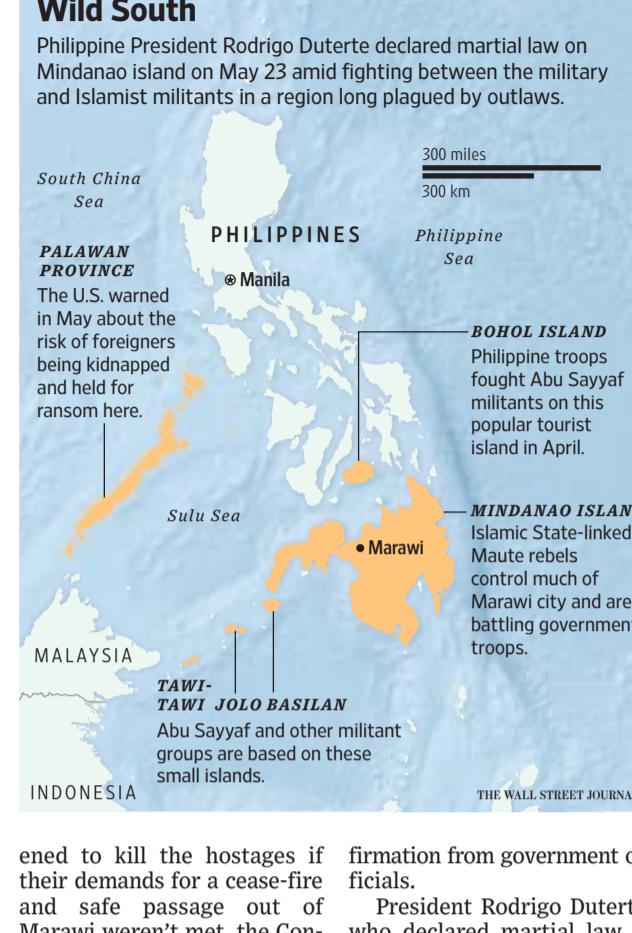
Security forces trying to arrest a leader of terror group fight militants backing him

BY JAKE MAXWELL WATTS

Security forces closing in on a senior leader of the Abu Sayyaf terrorist group, who has pledged to create an Islamic caliphate in the troubled southern Philippines, clashed for a second day with militants who came to his rescue.

A combined police and military operation attempted on Tuesday to arrest the leader, Isnilon Hapilon, sparking the battle in the city of Marawi. The effort was unsuccessful and complicated by fighters from the Maute group, an organization aligned with Mr. Hapilon, who attacked the city, occupying buildings and waving a black Islamic State flag.

The fight took another twist Tuesday evening when a Roman Catholic bishop in Marawi said he received a call from the militants claiming to have taken several of his congregation and a priest hostage, according to the official news website of the Catholic Bishops' Conference of the Philippines. The militants threat-



ened to kill the hostages if their demands for a cease-fire and safe passage out of Marawi weren't met, the Conference news service reported. There was no immediate confirmation from government officials.

President Rodrigo Duterte, who declared martial law in the entire southern province of Mindanao late Tuesday while

visiting Moscow, said Wednesday that skirmishes continued with the Maute group, "showing the group's capability to sow terror." He said that a local police chief had been beheaded by the group and that he would consider extending martial law to the entire Philippines if he felt it necessary.

Mr. Hapilon, 51 years old, leads a branch of another terrorist organization, the Abu Sayyaf group, which is known for kidnapping and beheading foreign tourists. His faction, which Mr. Duterte has pledged to destroy, has preoccupied the military since 2014, when he publicly declared loyalty to Islamic State.

"I do think that Hapilon has taken on something of a symbolic importance," said Marc Singer, director of business intelligence at risk consultancy PSA Group in Manila. "Central Mindanao is now a kind of complex chess board where the pieces are all in disarray and you have any number of disparate groups" fighting for influence.

Mr. Hapilon's group hails from the southwestern island of Basilan, but it has brought fighters to the main southern island in Mindanao and raised his profile by striking alliances with other militant groups.

Other elements have split off and conducted their own operations, some more ransom-hungry than Mr. Hapilon's overtly religious focus.

Lawlessness in Mindanao, home to around 22 million people, has become a concern for security services internationally as Islamic State's strongholds in the Middle East are destroyed. Dozens of fighters loyal to the group have fled to the Philippines to join local extremist gangs, seeking a way to continue their fight. Several groups are "auditioning for recognition" by Islamic State, Alan Peter Cayetano, the Philippines' foreign secretary said during a press conference in Russia.

Abu Sayyaf started as a religious splinter group from an independence movement in the Muslim south, loosely allying itself with al Qaeda in the mid-1990s.

The Philippine armed forces, which received assistance from the U.S. after the Sept. 11, 2001, terror attacks, have periodically killed Abu Sayyaf leaders and splintered the group further. Now, it survives mostly on kidnappings for ransom and other illicit business, with Mr. Hapilon one of the few leaders with enough seniority to unite members inside and outside Abu Sayyaf itself.

## Navy Ship Patrolled In South China Sea

BY GORDON LUBOLD

WASHINGTON—The Pentagon conducted a Navy patrol in the South China Sea, U.S. officials said, the first such operation under President Donald Trump designed to send a signal to China about U.S. intentions to keep critical sea lanes open in the Pacific Ocean.

The patrol, known as a freedom of navigation operation, was conducted Wednesday around Mischief Reef, one of a chain of disputed islands in the South China Sea. The guided-missile destroyer USS Dewey conducted the patrol, according to U.S. officials.

A freedom of navigation patrol, known in military parlance as a FONOP, represents a challenge to excessive maritime claims. Such operations must take place within 12 nautical miles of an island or feature's territorial waters to legally constitute a freedom of navigation patrol.

The patrol Wednesday was the first since October, and the first since Mr. Trump took office in January.

Capt. Jeff Davis, a Pentagon spokesman, declined to comment on the operation. "We operate in the Asia-Pacific region on a daily basis, including in the South China Sea," he said in a statement. "We operate in accordance with international law." He added that the patrols are "not about any one country, or any one body of water."

The president has sent mixed signals to Beijing. Mr. Trump's presidential campaign blamed the Obama administration for claims by China to disputed areas in the South China Sea and for allowing Beijing to construct military facilities, including runways, hangars and ports.

Once in office, Mr. Trump turned to Chinese President Xi Jinping for help in constraining North Korea's advancing nuclear-weapons program.

Adm. Harry Harris, who heads U.S. Pacific Command and who has been a vocal proponent of conducting more freedom of navigation patrols, told a House panel April 26 that "I think we'll be doing some soon."

But as many as three requests to conduct FONOPs since Mr. Trump took office were rejected by officials as Mr. Trump cultivated ties with China, according to U.S. officials. The rejections were earlier reported by the New York Times.

Earlier this month, Adm. Harris visited a Japanese radar station on an island in the East China Sea, the site of a territorial dispute between Japan and China, signaling the U.S. commander's intention to press China on such disagreements.

## Brazil Company Raises Offer to Settle Case

BY LUCIANA MAGALHAES

SÃO PAULO—J&F Participações, the holding company of JBS, the meat-processing company involved in Brazil's vast corruption scandal, is willing to shell out at least \$1.3 billion as part of a leniency deal with prosecutors, a person close to the discussions said.

JBS became the latest focus of Brazil's Car Wash corruption investigation last week when the Supreme Court released plea-bargain testimony from its executives, who said they bribed 1,829 politicians, including President Michel Temer. He has denied wrongdoing and has rejected calls to resign.

J&F has been in negotiations with Brazilian authorities over the leniency agreement, the company said.

The talks between the company and prosecutors had been halted on Friday after an impasse over the size of the fine J&F will have to pay, prosecutors said last week. The prosecutors said they were asking for a fine of 11.2 billion reais (\$3.4 billion). J&F proposed a payment about 1 billion reais, the prosecutors said on Friday.

Negotiations resumed this week and advanced on Tuesday, with representatives of J&F now agreeing that the company would pay a fine of 4 billion reais, a person close to the talks said. Prosecutors are expected to put pressure on the company to pay more, the person said. J&F didn't have an immediate comment on the



Antigovernment protesters attacked the Ministry of Science and Technology in Brasília on Wednesday, as calls mounted for Brazilian President Michel Temer to resign over allegations he was involved in a vast corruption scandal.

status of the talks.

J&F said late Wednesday that it is also cooperating with authorities in the U.S., where JBS owns major meat plants. It said it has hired the law firm Baker McKenzie in the U.S. to represent the company in those discussions.

JBS and its holding firm, which started as a small butcher's shop in 1953, grew into one of the biggest meat

processors in the world, with more than 220 production facilities. The pace of its growth had increased in the past decade, largely because of heavy government financing under the leftist Workers' Party that ruled Brazil until President Dilma Rousseff's impeachment last year.

Besides being targeted by prosecutors, JBS is also being investigated by Brazil's market

watchdog, or CVM, which late Tuesday said it has opened two new probes focusing on the company.

CVM said that in light of local press reports alleging irregularities, it is now probing the company's ownership structure, focusing on **Blessed Holdings**, a company based in Delaware, a part of JBS's controlling group.

Last week, the market regu-

lator said it had started five separate probes into the family holding firm, JBS, and **Banco Original**, which is also owned by J&F, over allegations the company profited by buying dollar contracts and selling the company's shares before leaking information about the plea bargains to the press.

JBS has denied wrongdoing related to its financial operations.

### NATO

## U.S. Raises Spending On Military in Europe

The North Atlantic Treaty Organization got a surprise as the U.S. military detailed plans to increase its own military spending in Europe by \$1.4 billion, supporting new NATO initiatives to fill military gaps.

The U.S. European Command, which oversees U.S. military operations in Europe, outlined \$4.8 billion in spending for next year, up from \$3.4 billion this year.

The plan is part of the Trump administration's budget proposal unveiled this week.

European Command said it would increase air defenses, enhance surveillance capabilities and position more weaponry in Europe for troops from the U.S.

—Carol E. Lee

and Julian E. Barnes

### INDONESIA

## Deadly Blasts Rock Jakarta Bus Terminal

A police officer and a suspected suicide bomber were killed Wednesday when two explosions ripped through a busy bus terminal in the Indonesian capital, police said.

Argo Yuwono, a spokesman for the Jakarta police said the remains of a civilian fatality "might be the person" who carried a bomb. At least four other people were injured by the blasts, he said. He didn't disclose other details.

—Anita Rachman

### PAKISTAN

## Chinese Nationals Abducted in Quetta

Armed men abducted two Chinese nationals in the city of Quetta in southwestern Pakistan on Wednesday, police said, a rare incident that is likely to raise security concerns around the country's many China-backed infrastructure projects.

The kidnapping comes as thousands of Chinese have moved to Pakistan over the past two years to support investment under Beijing's infrastructure-building program abroad.

Three Chinese nationals, two women and a man, were leaving a language center when four armed men accosted them and tried to force them into a car, police said. One of the women fled as the kidnappers drove off with the other two people.

—Qasim Nauman

and Saeed Shah

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and Saeed Shah

### EUROPEAN UNION

## Countries Compete To Host Regulators

EU countries fighting to host the bloc's top financial regulator and drugs watchdog will vote in a secret ballot as the continent's capitals compete for Brexit spoils.

European Commission President Jean-Claude Juncker and European Council President Donald Tusk have proposed guidelines—seen by The Wall Street Journal—outlining the bidding and voting procedure to host the European Banking Authority and the European Medicines Agency, which are now based in London. The move comes as countries

from Denmark to Portugal are vying to host the two EU agencies that will provide a mini-boom for the winning cities' hotels and restaurants as officials fly in and out for the agencies' frequent meetings.

The EMA alone attracted 36,000 visitors in 2015, ranging from scientists to health professionals. That represents more

than 30,000 hotel nights booked, according to the commission fact sheet attached to Mr. Juncker's and Mr. Tusk's letter sent Monday.

—Julia-Ambra Verlaine

### CANADA

## Key Rate Is Left Unchanged at 0.50%

The Bank of Canada left its main interest rate unchanged at 0.50%, while sounding a positive note about recent economic indicators that point to "very strong" growth in the first quarter.

The central bank said it expected growth to tail off somewhat in the second quarter. It also cautioned in its statement Wednesday that uncertainty over trade policy in Washington continued to cloud the outlook, and subdued inflation and wage growth were consistent with "excess" slack—or unused production and labor capacity—in the economy.

The decision to leave its benchmark rate as is was widely expected in a survey of 11 primary dealers of Canadian government securities. The Bank of Canada's policy interest rate has been at 0.50% since July 2015.

—Paul Vieira



RICHIE B. TONG/EUROPEAN PRESSPHOTO AGENCY  
RULING IN TAIPEI: Supporters of LGBT rights reacted after Taiwan's high court on Wednesday declared the law defining marriage as exclusively between a man and a woman unconstitutional.

RICHIE B. TONG/EUROPEAN PRESSPHOTO AGENCY

MEMORIAL  
DAY

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## U.K. TERROR ATTACK

# Armed Troops Patrol British Landmarks

The U.K., like others in Europe, is putting troops on the street in wake of terror attacks

BY ROBERT WALL

LONDON—Rifle-toting soldiers in camouflage took up positions around Buckingham Palace and patrolled Westminster on Wednesday, as Britain joined European neighbors in deploying military force against terrorism at home.

The U.K. government sent troops to the streets a day after raising the country's terror-threat alert to its highest level while investigating the bombing of a concert in Manchester, England. The Monday night attack, which killed at least 22, added to the catalog of recent terror that has bled some of Europe's biggest cities, including London, Paris, Berlin, Brussels and Nice, France.

Britain joins France and Belgium, which have also had high-profile military personnel deployments to bolster domestic police and security forces in the wake of attacks. For tourists, soldiers in military fatigues clustered at airports, train stations and museum entrances have been jarring and grim reminders of the heightened state of alert.

Troop deployments in France and Brussels were initially seen as temporary measures. In both countries, soldiers are still patrolling alongside police more than a

### Fortress Europe

Terror attacks have triggered heightened security across the continent. Terror threat levels in countries which have suffered recent, high-profile attacks:

COUNTRY	THREAT LEVEL	DATE INSTITUTED	ADDITIONAL PERSONNEL	WHAT IT IS LIKE ON THE GROUND
U.K.	● ● ● ● Critical, highest of 5 levels	May 23	1,000 Estimated	Armed police officers are now patrolling high-profile buildings like Buckingham Palace. Some tourist venues were closed, subject to further review.
France	● ● ○ Level 2, elevated risk of attack	Dec. 2016*	7,500 Additional soldiers on domestic duty, half of them in the Paris region	Police/soldiers patrol shopping malls, subway stations, international institutions and sites like the Eiffel Tower. Bag checks conducted in front of grocery stores, cinemas, concert halls, museums.
Belgium	● ● ○ ○ 3 out of 4, possible and likely attack	Nov. 2015	1,250 Estimated soldiers in 2017, down from 1,828 in 2016	Stepped up armed patrols near high-profile or high-traffic sites. Police stations reinforced.
Germany	NO FEDERAL SYSTEM		Unclear	States have large discretion over security. The government has allocated more money and personnel to investigations, expanded search powers for police and sped deportation.

\*Threat level system changed at this time, nationwide state of emergency issued Nov. 2015

Source: the governments

year after rolling out.

"It is easy to get soldiers on the streets," said Ben Barry, senior fellow for land warfare at the International Institute for Strategic Studies. "It is much more difficult to get them off."

France, which has suffered the brunt of recent attacks, has adopted a particularly visible domestic war-footing. Military troops carrying assault rifles patrol the boulevards of Paris. Security officials conduct bag checks in front of

grocery stores and cinemas.

Security officers have set up cordons around tourist sites like the Louvre museum. The vast space under the Eiffel Tower, long a gathering place, is now accessible only after passing through metal detectors. Temporary barriers around the structure are being replaced with a permanent, 8-foot-tall glass wall that will be finished by autumn.

French President Emmanuel Macron on Wednesday proposed extending France's state

of emergency—in place since November 2015—for another five months. The emergency status allows warrantless searches and house arrest.

France has dispatched 7,500 troops to augment police and other security forces. About half are in Paris.

In Belgium, the government has sent troops to walk the streets of Brussels and bolster security at metro stops and police stations. Security was high even in the months before a deadly attack there on the capi-

tal's airport and a metro station in March 2016. Fearing a copycat attack after Islamic State terrorists struck Paris in November 2015, the country ordered a five-day lockdown, closing subway lines and schools.

In Britain—where many regular police officers still walk their beats with billy-clubs, not pistols—the deployment of armed soldiers is especially jarring.

It isn't a cure-all. Despite the troop rollouts in France and Belgium, attacks in those

countries have continued.

The Ministry of Defense said it was sending just under 1,000 uniformed and armed soldiers to bolster police forces around the country. It also canceled the daily guard-changing ceremony at Buckingham Palace. The Palace of Westminster, where the British Parliament sits, was closed to tours.

—Jason Douglas in London,  
Nick Kostov in Paris and  
Valentina Pop in Brussels  
contributed to this article.



Forensic officers near the Manchester arena Wednesday, above. Below, British Army troops in Westminster in London.



HIMAGES/ZUMA PRESS; KIRSTY WIGGLESWORTH/ASSOCIATED PRESS (ABOVE)

## More Victims of the Concert Bombing Are Identified

BY DENISE ROLAND  
AND SAABIRA CHAUDHURI

One died in the blast in a way that shielded her sister and niece. Several were parents waiting to pick up their children.

Friends and family have confirmed the identities of more victims of the bombing that claimed 22 lives as thousands of concertgoers, including many children, streamed out of a Manchester, England, arena after watching American pop star Ariana Grande perform.

Ian Hopkins, chief constable of the Greater Manchester Police, said Wednesday afternoon that an off-duty police officer had been among those killed in the bombing. He said he wouldn't release further details at this time, based on the wishes of family members.

Kelly Brewster, a young woman from Sheffield, east of Manchester, was walking behind her sister Claire and niece Hollie when a man identified by police as Salman Abedi detonated an explosive outside Manchester Arena.

She "shielded Hollie and Claire from the damage," Ms. Brewster's uncle Paul Dryhurst told the ITV television network. The mother and daughter are in a hospital having



JEFF J MITCHELL/GETTY IMAGES

People paused to look at floral tributes and messages left in St. Ann's Square in Manchester, England, on Wednesday.

shrapnel removed from their bodies, he added. Ms. Brewster was 32 years old, according to local media reports.

Martyn Hakan Hett, a public-relations manager reported in local media as 29, donned a beige and green button-front shirt with black shorts before

heading to a pub on Monday to drink with a friend, according to a post on Mr. Hett's Facebook page, later going to the Ariana Grande concert together.

Friends Alison Howe and Lisa Lees were waiting outside the arena when the bomb exploded.

Both women, in their 40s, were waiting for their teenage daughters, according to local media. Lee Hunter, Ms. Lees' brother, confirmed her death in a Facebook post late Tuesday.

Marcin Klis, a Polish man who worked as a taxi driver in

York, northern England, and his wife, Angelika, were also waiting outside the venue for their children when the blast went off. They were killed.

Poland's foreign minister, Witold Waszczykowski, told local radio on Wednesday that "the children are safe."

Fifteen-year-old Olivia Campbell, from Bury, north of Manchester, was also among the victims.

Jane Tweddle-Taylor, a woman from Blackpool, England, in her early 50s was killed after going to the arena with a friend to collect the friend's children.

"Jane was a very, very lovely lady and a very good mother to three daughters, liked by everybody," Ms. Tweddle-Taylor's partner, Mark Taylor, told BBC Radio Lancashire. The friend and children survived, he said.

A young girl, Megan Hurley, was also identified as a victim by a woman named Helen McDermott from Halewood in Liverpool.

The youngest confirmed victim, 8-year-old Saffie Rose Roussos, was named on Tuesday. Georgina Callander, 18, a devoted fan of Ms. Grande's who had previously met the singer, and John Atkinson, a man in his late 20s, also were identified on Tuesday.

Nell Jones, a 14-year-old student at Holmes Chapel Comprehensive School in Holmes Chapel, a village southwest of Manchester, was confirmed on Wednesday as having died in the bombing.

—Wiktor Szary contributed to this article.

## ATTACK

Continued from Page One capital of Tripoli. Ahmed Dagdoug, a militia spokesman, said Hashem Abedi confessed that he was in the U.K. during preparations for Monday's attack and aware of the plans.

Radaa said the younger Abedi was arrested Tuesday in the city as he picked up a wire transfer of 4,500 Libyan dinar, or about \$3,260, sent by his late brother, Salman.

It was impossible to independently confirm Radaa's claim or to ascertain how such a confession may have been obtained. Libyan militias routinely resort to harsh tactics to extract information from terrorism suspects.

The group's spokesman, Mr. Dagdoug, said it was also holding Abedi's father, Ramadan Abedi, to aid in the probe of the attack, which killed 22 people outside a concert by American singer Ariana Grande.

It wasn't immediately clear if the Libyan group was in contact with British investigators, who on Tuesday in Manchester arrested a man one Western official identified as 23-year-old Ismail Abedi, another brother of the suspect.

British intelligence agencies and police made raids on more

properties on Wednesday and are piecing together how Salman Abedi came to use a sophisticated bomb to carry out Monday's attack.

"I think it's very clear that this is a network that we are investigating," said Ian Hopkins, chief constable of Greater Manchester Police. "There's extensive investigations going on and activity taking place across Greater Manchester."

Five additional arrests were made across Greater Manchester Wednesday as part of the investigation, a Manchester police spokeswoman said, and another in Nuneaton, a town 80

miles southeast. That brought the total in custody in Britain on Wednesday to seven, including Ismail Abedi.

Salman Abedi lived in Manchester, long a destination for radical Libyan Islamists during Moammar Gadhafi's regime. In October his parents moved back to Tripoli, and Abedi was at their home there for about three weeks before he returned

**Authorities identified the suicide bomber as Manchester resident Salman Abedi.**

### Australia Report Calls for More Force, Less Talk, in Sieges

CANBERRA, Australia—A coroner investigating the deadly Sydney cafe siege of December 2014 recommended police drop qualms about using force in terrorist attacks, saying negotiation may fail against radicalized militants braced to die.

The inquiry into the handling of a 17-hour siege by gunman Man Haron Monis at the Lindt Chocolate Café—which ended with Monis and two of the 18 hostages dead—cleared police of blame. Still, it said authorities should rethink their response, including giving police snipers more authority to fire.

New South Wales State

Abedi viewed the attack as a hate crime, the family friend said, and grew angry about what he considered ill-treatment of Muslims in Britain.

"I remember Salman at his funeral vowing revenge," the Abedi family friend said.

Abedi became increasingly religious, family members said, and interested in extremist groups. A cousin, who declined

Coroner Michael Barnes said police failed to act quickly enough after Monis executed cafe manager Tori Johnson, waiting 10 minutes before storming the cafe. In the resulting gunfire, hostage Katrina Dawson was killed by ricochet bullet fragments.

The coroner said police tactics favoring negotiation over the "last resort" of an assault in hostage situations need to be updated to reflect the global rise of militants prepared to die in their attacks.

New South Wales Police Commissioner Mick Fuller said terrorism globally is forcing a change in tactics. "Negotiating has saved countless lives and we're committed to it," he said. "But when it comes to terrorism, we'll be changing our approach when it comes to a similar type of siege."

—Rob Taylor

he was driven by what he saw as injustices. "I think he saw children—Muslim children—dying everywhere, and wanted revenge," she said. "He saw the explosives America drops on children in Syria, and he wanted revenge."

Born in Manchester on New Year's Eve in 1994, Abedi grew up playing soccer with his brothers in the street and went to school at the local Burnage Academy for Boys. In Manchester, neighbors remember a family that didn't mix much with others. On Fridays, they could be seen walking in traditional Muslim dress to attend a mosque nearby.

Home Secretary Amber Rudd told the BBC Abedi was known to security services "up to a point." U.K. investigators told French authorities that Abedi had probably also traveled to Syria, according to the French interior minister. British and U.S. authorities caution they haven't been able to verify a link between Abedi and Islamic State.

A leading theory is that a technician in the U.K. constructed the bomb, a Western official said. "To cause this many fatalities it has to be a viable device of a certain level of sophistication," the official said.

—Jason Douglas

and Tamer El-Ghobashy contributed to this article.

## U.K. TERROR ATTACK

# Suspect's Visits To Libya Reflect ISIS's Influence

BY TAMER EL-GHOBASHY

Outside Iraq and Syria, the radicals of Islamic State administered territory in only one other country: Libya.

As British investigators search for links between Islamic State and the Manchester bombing, focus has turned to the North African country, where the militant group ruled one of the oil-rich nation's most important cities and used it to stage terrorist attacks and train foreign fighters.

Salman Abedi, the 22-year-old man thought by British authorities to have carried out the bombing for which Islamic State claimed responsibility, was a British citizen of Libyan descent. His journeys in and out of a country where the militant group once cast a large shadow are now a central focus of investigators, a Western security official said.

The militant leader, however, was hiding at the Sirte power station and any airstrike could have caused electricity blackouts across large parts of Libya, so no raid was launched, the official said. The French militant's current location is unknown.

In January, the U.S. bombed Islamic State training camps in Libya's desert interior, illustrating Washington's concern over the continued threat posed by the group but also underscoring how far it had been pushed from the country's more heavily populated Mediterranean coast.

With Islamic State rapidly losing territory in Syria and Iraq, the group is relying more on homegrown terrorists such as the Manchester attacker while also sending more of its fighters abroad to stir violence, Western and Middle Eastern officials warn.

The suicide bombing that killed 22 people Monday night outside a concert venue in the British city came as counterterrorism officials said they have been picking up mounting anecdotal evidence that Islamic State is redeploying its resources.

Iraqi forces have expelled the radical fighters from most of Mosul—their last stronghold in the country—and the group has been losing ground in neighboring Syria as well.

"As ISIS loses territory, members are returning" to Europe, said a counterterrorism official for one of Iraq's Kurdish factions, the Patriotic Union of Kurdistan. The offi-



## Losing Ground, Terrorists Adapt

BY BENOIT FAUCON

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"As ISIS loses territory, members are returning" to Europe, said a counterterrorism official for one of Iraq's Kurdish factions, the Patriotic Union of Kurdistan. The offi-

cial was in Austria on Tuesday briefing Western colleagues on the latest from the ground in northern Iraq. "There will be more attacks in Europe," the official predicted.

The attack came as Islamic State is facing greater difficulties operating in Europe. Some fighters, both Europeans and Syrians, have slipped away after battle and are tapping cash stashed abroad, according to recent defectors, counterterrorism officials and other experts interviewed by The Wall Street Journal.

"They are not disappearing. They are just going underground," a European security official said.

One counterterrorism consultant for the U.K. government said banks have detected surprising movements of British jihadists returning to their home country. Though they are using fake passports, cash withdrawals show they travel to Malaysia, Italy and Dublin before flying back to Britain, the consultant said.

Some Syrian Islamic State operatives have been sent to Germany to blend in with the large refugee population, a European counterterrorism official said. To move money in Europe, they have been using prepaid travel cards, the official said.

The patterns suggest Islamic State is directing them to use diverging paths so they won't be detected when they

settle its members in countries where the group has no presence. Islamic State fighters have told the Journal that because the group's networks have unraveled in Europe under heightened scrutiny there, it will increase attacks around the Mideast outside the areas it controls.

Arrivals have been noticed in Sudan, Morocco and Senegal in recent months, the official said. The group is also sending Middle Eastern members because they realize most Europeans are now known to Western intelligence, according to Western counterterrorism officials, Islamic State defectors and Syrian activists.

In Germany, authorities are increasingly concerned about potential terrorists hiding among the 1.2 million asylum seekers who have entered the country in the past two years.

—Maria Abi-Habib in Beirut, Bertrand Benoit in Berlin and Hassan Morajea in Tunis, Tunisia, contributed to this article.



A building Islamic State used in Sirte was retaken in August.

*'They are not disappearing. They are just going underground.'*

return to Europe, the consultant said. Islamic State members from Western countries are often caught when they return through Turkey.

A second European counterterrorism official said Islamic State is testing whether it can

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## IN DEPTH

# RETAIL

*Continued from Page One*  
tons and richer colors are less apparent on the internet. Social media adds fuel to the style churn—consumers want a new outfit for every Instagram post.

"The rules of the game have changed," said Janet Kloppenburg, president of JJK Research, a retail-focused research firm. "It's not just about product anymore. It's also about speed and pricing."

Mr. Drexler's plan is to emphasize lower prices, pivot toward more digital marketing and adopt a more accessible image. "We became a little too elitist in our attitude," he said.

Many visionaries focus on doing what they do best, even when the ground shifts beneath them. From newspapers to television, successful companies have been upended by disruptive technologies. Facebook Inc. is now the world's largest publisher; Netflix Inc. is worth twice as much as CBS Corp.

"The incumbent leaders never see it coming," said Clayton Christensen, the Harvard Business School professor who introduced the theory of disruptive innovation 20 years ago. "They focus on their best customers and try to provide what they need, but the customers who first defect [to new technology] are usually the least profitable."

Mr. Drexler, known as the "merchant prince," built some of America's most recognizable apparel brands, including Old Navy, Banana Republic and most recently Madewell. He focused on details such as the feel of the fabric, the weight of the buttons and the plaid inside waistbands, according to former executives who worked with him at J.Crew and Gap. Higher quality allowed J.Crew to charge a premium for its casual, preppy styles.

### Decisions on price

The New York City native, who doesn't have his own Instagram, Facebook or Twitter account, was sharing thoughts with employees on a loudspeaker—hooked up through his phone—before Twitter was launched. He paid attention to firsthand shopper feedback on frequent visits to stores long before Amazon.com Inc. was collecting user data. He was also selling clothes online before many other specialty retailers. Nearly half of J.Crew's sales now come from the web.

But Mr. Drexler didn't appreciate how the quality of garments could easily get lost in a sea of options online, where prices drive decisions, or how social media would give rise to disposable fashion. Online, price has more impact than the sensory qualities of clothing. "You go into a store—I love this, I love this, I love this," he said. "You go online and you just don't get the same sense and feel of the goods because you're looking at a picture."

J.Crew has about 460 stores, a smaller base than many other chains that are now shrinking their footprints. But it has still struggled as more shoppers compare prices online and buy less expensive, trendy clothes rather than a lasting wardrobe. Amazon.com and other algorithm-based websites can change prices by the hour based on demand, and the vari-



J.Crew is refocusing on lower prices and a more accessible image. Above, performer Sandra Bernhard poses in J.Crew at New York Fashion Week in February.

ety of options makes it easy to mix and match brands.

"The days of people wearing head-to-toe J.Crew are over," said Carla Casella, an analyst at J.P. Morgan Chase & Co.

Zinniah Munoz, a 20-year-old makeup artist in New York City, said she would rather buy a style at a lower price than pay extra money for a brand name. "I'm always vigilant of not posting the same style twice" on Instagram or Facebook, she added.

At an industry conference in 2010, Mr. Drexler played down the impact of technology on prices, arguing that quality products are the key to success: "At the end of the day, I think the franchise lasts as long as the creative product gets flown through."

Today, with nearly two billion people using Facebook every month, he feels differently: "You cannot be successful without being obsessed with the product, obsessed with social media, and obsessed with digital," he said. "Retail is now about all that."



**CEO Mickey Drexler**  
said J.Crew is  
lowering prices on  
about 300 items.

Mr. Drexler said he hasn't given up on quality. Instead, he is now lowering prices on about 300 items and creating an analytics team dedicated to optimizing prices for each garment.

"We're being much more competitive in our pricing," he said.

Madewell, which caters to

### Fashion Do's and Don'ts

J.Crew Group's stores and revenue have increased since Mickey Drexler became CEO in 2003, but its debt has soared since a leveraged buyout in 2011, and it recorded a loss in 2016.



Note: For fiscal years, most recent ending Jan. 28. Source: company filings

younger shoppers and offers cheaper prices, has outperformed the J.Crew brand, but represents only about 14% of the group's annual revenue.

Mr. Drexler is also expanding the company's supply base beyond predominantly China to get better deals and shorten the time it takes to get products into stores.

The moves are aimed at keeping prices consistent, rather than unloading leftover inventory through discounts, and at retuning J.Crew's identity as an affordable and accessible brand for everybody—not just the fashion-forward crowd.

Last month, Mr. Drexler cut 250 jobs and said he would part ways with Jenna Lyons, the group's longtime creative chief who was the force behind J.Crew's most high-price and daring styles, such as sequined blazers and feather skirts.

Mr. Drexler is also putting more of the brand's resources behind digital marketing, and shifting away from a one-size-fits-all monthly catalog. Mailings will be targeted based on customer data gleaned from the company's online business.

The New York-based company is carrying more than \$2 billion of debt and has less than \$150 million in cash, following Mr. Drexler's leveraged buyout in 2011 with TPG Capital and Leonard Green & Partners. It has paid its past three interest payments by issuing new debt.

Madewell, which caters to

To buy time, Mr. Drexler and his fellow directors performed a complicated financial maneuver that put the company's brand and intellectual property out of the reach of debtholders. Investors are fighting the moves in court, arguing it is tantamount to a default.

### Debt load

At least \$560 million of debt is due in 2019. The company is negotiating with lenders to push back the due date and lower its debt load by offering to swap some of the debt for equity.

"It's unclear whether they will come to an agreement," said Raya Sokolyanska, an analyst at Moody's.

"It would still leave the company highly leveraged," adding that J.Crew's capital structure is unsustainable.

Private-equity firm TPG's first big bet on J.Crew was in 1997, when it acquired a majority stake. It recruited Mr. Drexler to run the business in 2003 after cycling through four CEOs in five years. By the time TPG sold the last of its shares in 2009, the firm had made more than seven times its investment.

Mr. Drexler had nearly tripled revenue and transformed what was largely a catalog business by going in the opposite direction of his predecessors and competitors. He in-

creased prices and elevated quality—even creating a library at headquarters to document the unique hues the brand invented each season.

When sales slipped in 2010, TPG swooped back in. In 2011, the firm partnered with Leonard Green and took the company private in a \$2.8 billion deal.

In 2014, TPG and Leonard Green were negotiating a sale of the company to Uniqlo owner Fast Retailing Co. while at the same time hiring bankers for a potential IPO, when clothing sales began to fall again. The sale plans evaporated, and by the end of the year the company wrote down the value of its stores by more than \$500 million and its brand name by \$145 million.

TPG co-founder David Bonderman recently acknowledged J.Crew and its peers are struggling with declining mall traffic and the shift to online shopping. "The internet has proven much more resilient and much more important than most of us thought a decade ago," he said at a conference earlier this month.

In an email, TPG co-founder James Coulter wrote, "We believe Mickey and the J.Crew management are getting the strategy and team in place to position J.Crew to succeed in this new world."

In recent years, customers have become closely attuned to

prices. After sales began to fall, Mr. Drexler said he addressed style problems—such as "boxy" cuts that were unpopular among J.Crew customers—and quality issues, particularly pilling cashmere. Still, the company had to offer discounts of 40%-50% to move inventory.

J.Crew eventually determined shoppers were looking for better value and that many people were put off by the \$800 skirts and \$1,900 sweaters in the "J.Crew Collection"—an expensive line spearheaded by Ms. Lyons featured prominently in marketing and window displays, even though it represented a small portion of merchandise.

"We gave a perception of being a higher-priced company than we were—in our catalog, online and in our general presentation," said Mr. Drexler. "Very big mistake."

Ms. Lyons didn't respond to requests for comment.

Some of the quirky designs were too much for Tricia Louvar, a 42-year-old writer and illustrator in Sisters, Ore. She had shopped at J.Crew in the past, but began finding the clothes increasingly impractical and unaffordable. In a widely shared open letter to Ms. Lyons in 2015, she wrote: "I still can't wrap my head around the price of an 'everyday outfit,'" which she tallied up at \$596 and said was equivalent to the price of a new computer or 298 school lunches.

In April, Mr. Drexler named Somsack Sakhounmuong, who has been with the company since 2001, to the post of chief design officer, but he won't take the high-profile role that Ms. Lyons had. J.Crew "won't be about any designer," Mr. Drexler said. "We're getting back to being who we are—much more comfortable, approachable, democratic and friendly."

Ms. Louvar said she returned to a store a few weeks ago for the first time in two years and bought several new pieces. "The prices felt more reasonable," she said. "It was more like the J.Crew I remember."

# STREAK

*Continued from Page One*  
most-recent quarter.

The critical task: Do whatever it takes to beat the clock. Dropped your phone in the ocean? Borrow a friend's, log on and snap. Grounded with no phone? Get a friend to log on as you and send snaps.

Can't think of anything to photograph? The floor will do. Ms. Saleh has sustained a streak with an Atlanta friend she says hit 159 days on Tuesday, even when not feeling creative, by snapping her shoes, or "I take a picture of the sky with the temperature filter on it."

Snapchat lets users doctor images with filters it calls "lenses"—to superimpose dog features on their faces, say—or add "bitmoji" cartoons and other elements. Snaps can include text, voice alterations and more.

When Ms. Saleh is feeling creative she covers her face with a Kim Kardashian emoji and mimics the celebrity's personality. She once chronicled

the serial tale of a broken office water cooler for a week—anything to sustain a streak.

In an argument with your snapping significant other? Remember the bigger picture, as 19-year-old Samantha Bombel of Garfield, N.J., has done for more than a year to maintain a streak with her boyfriend. They usually exchange selfies. During one fight, Ms. Bombel says, she sent "just a picture of the ceiling."

"There's definitely been times," she says, "where I've been like, 'I'm still not talking to you, by the way, but I have to Snapchat you.'"

The couple's streak was at 387 days on Tuesday, she says. On day 354, they were together and forgot to snap. "I checked my phone and I was like, 'I don't think we have our Snapstreak anymore,'" says Ms. Bombel. "And then he checked his phone, and we both started freaking out."

Desperate, her boyfriend emailed Snapchat's support desk, which gave the couple a "one-time courtesy," she says, and their streak survived.

A Snap spokeswoman says the support team evaluates

streaks case by case and reinstates them in certain circumstances. Snap doesn't give details, she says, to prevent users from gaming the system.

After Alyssa Vuong, 20, an Iowa State University student, dropped her phone in the ocean over spring break, she kept up her streaks using someone else's phone for a few days before giving up.

She had a streak of around 70 days with friend Kyle Hatton, 22, who can see her apartment from his and takes photos of her in her window to snap her. He let the streak die on a trip to the French Riviera.

"I kind of wanted to enjoy the environment," Mr. Hatton says.

He made up to Ms. Vuong by signing a one-year Snapstreak contract with her.

Summer camp is the streak snag for Meghan Sweeney, 13, of Carmel, Ind. A streak with her best friend—168 days as of Tuesday, she says—is among 15 she has going, and she is signed up for three summer camps this year.

For two weeks, she won't have a phone and her best

friend will be with her at camp. They may keep their streak alive by commissioning someone to snap between their accounts.

Ms. Sweeney says she isn't as addicted as friends—one has 82 separate streaks, she says. "Some of my friends, they'll, like, talk about it at lunch and they'll be like, 'I lost my 90-day streak with this person; I'm so sad,'" she says. "Some people overreact a little."

Parents maintain streaks, too, including Keith Whalen,

43, of Jordan, N.Y., who calls himself "very antisocial media." His daughters pressured him to download Snapchat and "I decided just to appease them," he says. "Then it became kind of addictive."

This month, he says, he lost an 86-day streak when his younger daughter forgot to snap him. "It was a little devastating," he says. His older daughter kept their streak alive after she was grounded and he confiscated her phone—by borrowing a friend's phone to log in.

Mr. Whalen and his wife, Rebecca, hit 100 days on their own streak in April. "I don't know that we actually went into it with the notion that we were going for a streak," says Mrs. Whalen, 43. "It's his way of kind of trying to keep that streak alive."

Kim Kroll, 43, a high-school teacher from Lapeer, Mich., recently celebrated a 100-day streak with her husband, Tim Kroll, 44.

Their daughter Elizabeth, 17, has had streaks with both of them but says she is more committed to snapping friends. "Sometimes it's nice to not just see the dog filter on my dad's face."

She goes to great lengths to keep streaks alive—her longest still going hit 437 days on Tuesday, she says—snapping even friends she is angry with. "I'm not going to be mad forever so why jeopardize a Snapstreak?" she says. "I'll send a blank picture."

To save a streak with a friend whose phone died, Ms. Kroll got hold of the friend's password. "I had to log in for four days and Snapchat myself."



Samantha Bombel and boyfriend Bret Francis appealed to Snap and got their Snapstreak restored after accidentally letting it lapse.

SAMANTHA BOMBEL

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# GREATER NEW YORK

## Gang Recruitment Targeted

Head of Suffolk police wants new scrutiny of underage immigrants; 'They are vulnerable'

BY JOSEPH DE AVILA

Scrutiny should be increased on new underage immigrants settling on Long Island, as communities battle rising violence from the transnational gang MS-13, Suffolk County Police Commissioner Timothy Sini told U.S. lawmakers Wednesday.

Testifying before the Senate Committee on Homeland Security and Governmental Affairs, Mr. Sini stressed that the majority of unaccompanied minors living on Long Island, who fled violence in Central America, are law-abiding residents. Even so, they also are "particularly vulnerable to recruitment" from MS-13, which is responsible for 27 murders in Suffolk County since 2013, according to Mr. Sini.

The gang has attempted to recruit children as young as 10 years old in Suffolk County, he said. "They are adjusting to a new culture in society," he noted. "So they are vulnerable at that point."

Law-enforcement officials from Massachusetts and Maryland testified Wednesday before the Senate committee that MS-13 has been recruiting unaccompanied minors in their states as well.

Sen. Ron Johnson (R., Wis.), the chairman of the committee, said Los Angeles, Houston, Long Island, Boston and the Washington, D.C., area have been designated as MS-13 hot spots by the Federal Bureau of Investigation. "MS-13 has used American schools to recruit members," he said.

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

Under the federal unaccom-

panied minor program, immigrants under the age of 18 who enter the country without their parents or a legal guardian, and lack proper immigration papers, are placed with family or friends, called sponsors, until a court settles their status.

Detective Scott Conley of the Chelsea Police Department

### 27

Number of MS-13-linked murders in Suffolk County since 2013.

in Massachusetts said MS-13 targets unaccompanied minors who don't have strong relationships with their U.S. sponsors. Many of those minors are in need of protection, making them "a perfect candidate for gang recruitment," he said.

On Long Island, more than

900 unaccompanied minors were placed in Suffolk County homes in the six-month period ending in March, according to the U.S. Office of Refugee Resettlement. That influx marks the fourth highest among U.S. counties during that period.

Federal authorities should increase screenings of those minors to root out potential gang members, Mr. Sini said.

New York Civil Liberties Union Executive Director Donna Lieberman said in a statement that immigrants shouldn't be used as scapegoats to address gang violence. "If immigrant witnesses and victims of crime believe that the police are collaborating with federal immigration officials, they will be scared to come forward," she said.

Mr. Sini said his department doesn't inquire about the immigration status of potential witnesses or crime victims.

—Zolan Kanno-Youngs contributed to this article.



YANA PASKOVA/GETTY IMAGES

The 72nd Street station on the new Second Avenue subway line.

### New Outlays

In the five-year capital plan:

- ◆ \$700 million for the next phase of the Second Avenue Subway extension to East Harlem.
- ◆ \$1.5 billion for a third track extension on the Long Island Rail Road main line.
- ◆ \$84 million for installation of open road tolling at agency bridges and tunnels.

—Source: Metropolitan Transportation Authority

## Ready to Join in the Fleet Week Fun



LAND HO! The USS Kearsarge, from Norfolk, Va., docked Wednesday in New York. Along with its sailors, the amphibious-assault ship brought several hundred Marines from Camp Lejeune, N.C., to the city for Fleet Week, the annual celebration of the maritime services.

## Flipped Seat Cheers Democrats Nationally

BY MIKE VILENSKY

An upset victory for Democrats in a special Long Island legislative race is being heralded by the party as a possible harbinger of renewed enthusiasm among Democrats nationally.

The public school teacher who won the seat, Christine Pellegrino, won't change the dynamics of the state Assembly, where Democrats already hold a vast majority. And as a rank-and-file legislator, she won't be a powerful member.

But her win Tuesday flipped a state seat long in Republican control, in an area where Republicans have a registration advantage and which President Donald Trump won.

The victory by Ms. Pellegrino, 48 years old, has earned plaudits from national Democratic officials eager for electoral wins after suffering setbacks, and rattled some Republican consultants.

"It tells you which side has more motivation to turn out," said conservative strategist Wil-

liam F.B. O'Reilly.

Analysts said the victory is meaningful for the Democratic Party, but also cautioned that local politics may have been in play. The hook-shaped district is in the center of Long Island and includes swaths of Nassau and Suffolk counties.

Officials with the Nassau and

Suffolk county parties have been indicted on separate corruption charges in the past year, and Ms. Pellegrino, who backed Bernie Sanders in 2016, ran as an anticorruption reformer.

The Assembly seat she won was vacant because Republican John Saladino left the Legislature to replace Republican John Venditto as Oyster Bay town su-

pervisor after Mr. Venditto was indicted. He has pleaded not guilty.

But Ms. Pellegrino's victory may be a bellwether for the parties more broadly, said Larry Levy, director of the National Center for Suburban Studies at Long Island's Hofstra University. "This is a fairly typical suburban swing district of the sort that around the country decides national elections," Mr. Levy said.

Ms. Pellegrino defeated conservative Tom Gargiulo with some 57% of the vote Tuesday.

As with other local elections around the country this year, outside money flowed in from voters framing the race as a referendum on Mr. Trump and Congress.

DeWayne Fulton, a 53-year-old database administrator, donated to Ms. Pellegrino's campaign even though he lives in Tennessee. "I was raised in a progressive Democratic family," he said in an email. "We haven't elected many of those in Tennessee lately, so I have to look

elsewhere."

National officials also took notice. "As we saw last night, the Democratic Party continues to turn this moment into a movement and this movement into votes," said Democratic National Committee Chairman Tom Perez on Wednesday.

The Nassau and Suffolk Republican committees declined to comment Wednesday.

"I think it's a mistake to draw any major conclusions," said a spokeswoman for the New York state GOP.

Jesse Hunt, a spokesman for the National Republican Congressional Campaign Committee, dismissed the legislative win and looked ahead to a special congressional race in Montana on Thursday.

"I think Democrats are missing the big picture," Mr. Hunt said. "Instead of focusing attention and resources on that [Montana] race, which is going to have a major impact on the breakdown of the House, they are taking a victory lap over legislative races on Twitter."



Christine Pellegrino, a Democrat, won an Assembly seat in a special Long Island election.

## MTA Boosts Spending Amid Alarm on Debt

BY PAUL BERGER

Metropolitan Transportation Authority board members warned of the danger posed by the agency's rising debt Wednesday, even as they approved a \$2.9 billion capital spending increase funded with \$1.6 billion of new bonds.

A trio of appointees of New York Mayor Bill de Blasio refused to vote for the amendment to the agency's five-year capital plan, saying the 10% increase in agency spending, to \$32.5 billion from \$29.6 billion, was a threat to the agency's finances and was being rushed through without public scrutiny.

"We are making a lot of big decisions today," said Polly Trottenberg, the city's transportation commissioner, adding that she didn't understand all of the elements in the 178-page plan, which she said was presented with two days earlier.

Even some board members who voted for the amended plan said debt was a looming problem. Andrew Saul, an appointee of the Westchester County executive, said: "You got a time bomb here."

The MTA's chief financial officer, Robert Foran, in a presentation to the board, said the plan would increase net debt over the next five to seven years to about \$43 billion from

\$38 billion. Mr. Foran said the percentage of debt service to revenue would peak at 19% compared with 17% today.

In a report last September, New York State Comptroller Thomas DiNapoli warned that the MTA's debt-service costs had increased 43% in the preceding 10 years and would exceed \$3.1 billion by 2020. The agency's current operating budget is more than \$15.5 billion.

The MTA didn't make copies of the plan available to the public before or during Wednesday's meeting. Speaking after the meeting, MTA acting Chairman Fernando Ferrer said the agency was wrong to withhold the amended plan from the public "in the interest of transparency."

But Mr. Ferrer said the projects contained in the amended plan had been debated publicly over the past two years.

The plan reduces spending on new subway cars by \$1.2 billion, deferring that expense for a future capital plan. It also cuts spending on subway signals and communications, a common cause of delays, by \$38 million.

A spokesman for Gov. Andrew Cuomo said he supports the amended plan because it includes projects that he considers a priority, such as the Second Avenue Subway extension and the LIRR third track.

## Mayor Vows to End Abuse Of City Parking Placards

BY MARA GAY

New York City Mayor Bill de Blasio vowed Wednesday to crack down on the misuse of parking placards by city employees, calling it a "culture problem" that causes strife for city motorists.

The city has issued about 150,000 placards to municipal employees, allowing holders to park where others can't. Enforcement of the system has long been uneven, with some city employees parking illegally. Comprehensive data on placard use weren't available.

"You better get to know where our impound lots are," Mr. de Blasio said during a news conference. "Public employees don't get to be above the law."

The mayor said the New York

Police Department would create a unit dedicated to enforcing the placard system, and hire 100 traffic enforcement agents to carry out the initiative. He said the city would add sanctions and penalties for placard fraud and abuse, with those who violate the rules likely to lose their parking privileges and be reported to the city's Department of Investigation.

Mr. de Blasio said he didn't have a cost estimate for the initiative, and no timetable was announced.

The placards largely are held by employees at three city agencies: the NYPD, the Department of Transportation and the Department of Education. Spokesmen for the unions representing those employees didn't respond to a request for comment.

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## GREATER NEW YORK

### PROPERTY WATCH

BROOKLYN

#### For Sale: Mansion Turned Into Condos

When it went on the market for \$25 million in 2012, the 50-foot-wide neoclassical mansion on Eighth Avenue in Park Slope seemed destined to set a new price record for a single-family home.

Instead it was sold to a developer for less than half the price.

Last week, the mansion went on the market again, this time as a seven-unit condominium. The total list price for finished apartments is close to the original asking price: \$23 million.

The 10,000-square-foot stone building at 105 Eighth Ave. sold for \$9.5 million in 2015, more than two years after it was first listed, following a series of price cuts.

It had been a Montessori School since the 1970s but retained many original details. For many years the property, known as the Tracy Mansion, had been the home of a family of the owners of a tugboat company.

The buyer, developer Raymond Zagami, a principal of ZR Management Associates, won permission from the Landmarks Preservation Commission to add 5,000 square feet, including a penthouse, and a rear setback.

He created large apartments, the smallest a three-bedroom apartment listed for \$2.15 million, that preserved many of the original mansion features, including a grand staircase—now part of a duplex apartment—coffered wood ceilings, stained glass, and an 8-foot-tall mantel.

NEW YORK

#### Advertising Initiative Draws Complaints

The Real Estate Board of New York has assembled a dossier of dozens of complaints over an advertising initiative in which agents pay to appear next to listings by other agents at real-estate listing site StreetEasy.com.

The Board, a trade group that represents the brokerage industry, plans to submit the file to New York's Department of State to bolster its view that consumers are being misled, board officials said.

The Department of State, which oversees the brokerage industry, is reviewing the initiative and recently met with the real estate board and StreetEasy.

Susan Daimler, the general manager of StreetEasy, said Wednesday the company had a positive meeting with the Department of State and was working closely with agents and brokerage firms to deliver the "best-in-class service to consumers."

—Josh Barbanel

BY JOSH BARBANEL

**PROPERTY** Few issues vex New York City landlords as much as tenants joining the sharing economy by listing their apartment on short-term home-sharing platforms such as Airbnb.

Across the Hudson River, however, at least one landlord is going all in.

At a new 69-story glass and concrete tower near the waterfront in Jersey City, Airbnb rentals are being touted as the latest amenity to lure young tenants, many of whom work across the harbor in Manhattan.

At the cantilevered tower with 762 apartments at 200 Greene St. known as Jersey City Urby, the leases stipulate that tenants can rent their apartments on Airbnb for up to 30 days a year. The landlord gets a cut of the proceeds of between 5% and 15%. Leasing began in March.

The sharing-friendly approach stands in sharp contrast to New York City, where short-term rentals of entire apartments have been banned in multiple dwellings since 2010, and hosts who advertise these listings can be fined up to \$7,500.

The Real Estate Board of New York, which also represents hotels, long has lobbied against short-term rentals. It contends short-term rentals worsen a shortage of affordable rental housing. Some landlords have moved to evict tenants who do short-term rentals without permission.

"Don't do it—that was the standard in the industry," said David Barry, president of Ironstate Development, which developed Jersey City Urby, with Roseland Residential Trust, a subsidiary of



The pool and the lobby are open to home-sharing guests at Jersey City Urby. David Barry, above, developer of the 69-story building.

Mack-Cali Realty Corp.

But at the Urby, Mr. Barry said he concluded that many younger renters already had experience as either rental hosts or customers at home-sharing sites. Offering the service seemed like a worthwhile perk at a building where rents start at \$2,500 for studios and \$3,100 for one-bedroom units.

Guests won't have to sneak in; they would have access to conventional amenities, such as the heated pool and barbecue pits, and more exotic ones like cooking lessons, feng shui classes, and discussions led by Urby's "scientist-in-residence."

According to Airbnb, Jer-



sey City Urby is the first development in the New York area to participate in a program set up last year by Airbnb to bring landlords and tenants together. It is known the "Friendly Buildings Program."

"Hopefully, this agreement will be a model for other property managers and owners to emulate in all corners of the tri-state area," said Jaja Jackson, director of multifamily housing partnerships for Airbnb.

Across the U.S., the landlord program is still modest compared with Airbnb's 600,000 listings. It now covers 10,000 units, including the Urby.

The Urby, designed by

Dutch architecture and interiors firm Concrete, has some unusual features. It is the tallest residential building in the city at 713 feet and has spectacular views on upper floors of New York harbor and the Manhattan skyline.

Sherwin Belkin, a partner at real estate law firm Belkin Burden Wenig & Goldman LLP, said New York landlords have been long concerned about security and the loss of control of their properties in short-term rentals.

"Tenants get very upset too, they end up living next to a series of rolling suitcases," he said. "This is one of the few areas where landlords and tenants agree."

At Jersey City Urby, Mr. Barry said he limited rentals to no more than 30 days a year to make sure tenants actually live there and have a stake in the security and safety of the building. He said he planned to re-evaluate the program based on the results of tenant surveys.

Nancy Packes, a New York-based rental-marketing consultant, said Jersey City might someday be a model for New York. State law already supports long-term sublets, allowing tenants to rent their apartments for up to two years.

"This is just a logical extension of that concept," she said. "It could have a place in New York in the future."

## City's \$1.4 Million Summer Book Giveaway Aims to Boost Literacy Among Children

By LESLIE BRODY

In a plan to boost summer reading, 29,000 children in the Bronx and Brooklyn will get about a dozen free books each from the city next month.

Mayor Bill de Blasio, a Democrat up for re-election this year, plans to announce the gifts Thursday morning. They will go to children in kindergarten through second grade in 107 schools in four low-performing, high-need areas that were the first to get literacy coaches this academic year.

The \$1.4 million book giveaway is part of the mayor's plan to get all students reading on

grade level by the end of second grade, by 2026. In a public appearance earlier this month, when he talked about this goal of 100% literacy, he added "or as close as humanly possible."

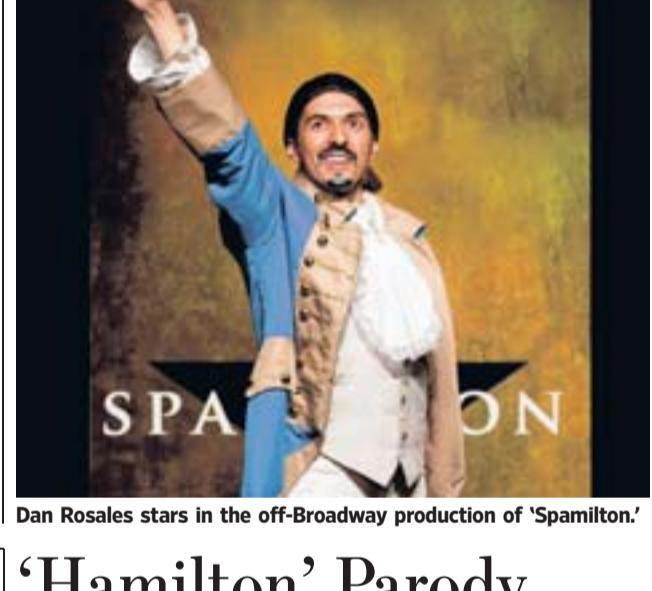
Mr. de Blasio said this week that his tempering phrase expressed a recognition that the target is a "reach," considering the number of English-language learners who arrive shortly before state exams in third grade, as well as children with severe special needs. Last spring 41% of the city's third-graders passed state tests in English-language arts, with much lower results in high-poverty areas.

"We understand that pure

100% is very difficult," the mayor said in an interview, "but I'm not going to let anyone off the hook for anything but an essentially universal vision."

Skeptics say outcomes won't improve that much without smaller class sizes, more top-notch teachers and speedier one-on-one interventions for struggling readers, among other steps.

The city has put literacy coaches in all elementary schools in Districts 9 and 10 in the Bronx, and Districts 17 and 32 in Brooklyn. The coaches will set up fairs in their schools in June where students can choose from about 40 fiction and nonfiction titles.



Dan Rosales stars in the off-Broadway production of 'Spamilton.'

MARK KAULZARICH FOR THE WALL STREET JOURNAL (3)

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## 'Hamilton' Parody Is Hitting a High Note

By CHARLES PASSY

Could "Spamilton" be the new "Hamilton"?

The off-Broadway show, a parody of the Tony Award-and Pulitzer Prize-winning musical, marked its 300th performance this past weekend. Demand for tickets remains so strong that "Spamilton" producers are moving the production from the Triad Theater, its current home on Manhattan's Upper West Side, to the larger, 200-seat 47th Street Theater/Puerto Rican Traveling Theater in Midtown in June.

The show has spawned a second "Spamilton" production in Chicago, with a third slated for a Los Angeles run in November and December. Under consideration as well is a London production, according to Gerard Alessandrini, the show's creator and director.

A cast album of the New York production, which opened last July, also has been released.

It all adds up to a financial windfall. Mr. Alessandrini, best known for his "Forbidden Broadway" revue-style spoofs, says "Spamilton" already has recouped its investment of about \$130,000.

A spokesman for the show wouldn't provide box-office grosses to date, but said the

show is "attracting large crowds."

Mr. Alessandrini credits the success of "Spamilton" in large part to the success of "Hamilton," which opened on Broadway in the summer of 2015 and continues to draw capacity crowds. It grosses as much as \$3 million some weeks.

"I haven't had a show in years where people come in knowing all the lyrics" of an original show, Mr. Alessandrini said.

"Spamilton" also may appeal to fans of "Hamilton" who can't get into the perpetually sold-out Broadway show or can't afford its steep ticket price, which currently runs \$65-\$199 and can top \$800 for premium seats. By contrast, "Spamilton" tickets run \$25-\$113 at the 47th Street location.

"Spamilton" isn't the only spoof creating buzz among New York theatergoers. "Puffs," a show that takes a comedic look at the world of Harry Potter, has been playing off-Broadway since the fall.

There is more spoofing to come: Due off-Broadway next season is "Friends! The Musical!" The show, a parody of the popular sitcom, comes from the same team that has produced musicals based on other TV favorites such as "Full House" and "Beverly Hills, 90210."

# LIFE & ARTS

THE MIDDLE SEAT | By Scott McCartney

## Get Ready to Unpack For Airport Security

Travelers should expect new procedures at TSA checkpoints later this year, with more carry-on items like food and tablets separated into bins



Arlington, Va.  
**CHANGES ARE COMING** to airport security checkpoints: TSA wants you to declutter your bags.

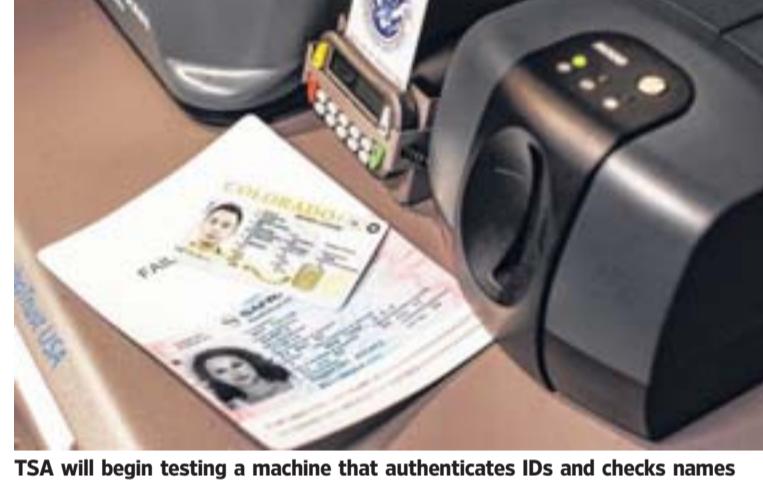
New procedures, such as requiring all food or all electronics larger than cellphones be placed in bins separately, are still being tested. Changes haven't yet been finalized, but senior Transportation Security Administration officials agreed to discuss them publicly for the first time. Decisions will be made in a few weeks, with new rules implemented after the summer travel rush, once screeners are trained and announcements made.

Tests began at small airports like Colorado Springs, Colo., Boise, Idaho and Lubbock, Texas. Travelers have since run into them in Los Angeles, Phoenix, Las Vegas, Boston, Detroit, Fort Lauderdale, Fla., and San Juan, Puerto Rico.

Many have been confused by unusual procedures. In Kansas City, Mo., in early May, screeners forced passengers to remove all paper from bags, down to notepads. That test didn't go well and was halted after a few days, TSA says.

"It has to be efficient and it has to be effective," says Darby LaJoye, assistant administrator for security operations. "We are far enough along that I am very optimistic that what we are piloting is working."

Airline baggage fees prompt travelers to load up carry-on cases, which has created problems at X-ray machines. Pictures of the insides of overstuffed bags take more time to read. Screeners must be able to identify each item in the bag—anything that can't be



TSA will begin testing a machine that authenticates IDs and checks names against passenger manifests at Washington's Dulles Airport.

cleared as safe has to get manually checked, officials say.

Forcing travelers to dump more out of bags, sometimes without warning, will likely confuse and anger fliers until they get used to new rules. TSA figures lines won't lengthen because the total time at the checkpoint will be the same. Tests have shown TSA can slow down the process of decluttering bags at the start of security, known as divesting, but gain the time back by speeding up X-ray reading and reducing manual bag checks.

TSA says new procedures likely will be confined to standard screening lines and not PreCheck lanes, where trusted travelers get expedited screening and get to leave more items in bags.

Mr. LaJoye says TSA has been considering changes at X-ray machines for about 18 months. "It is

not any one particular item we're worried about. It's not about paper or food or anything. It's how best to divest those items," he says.

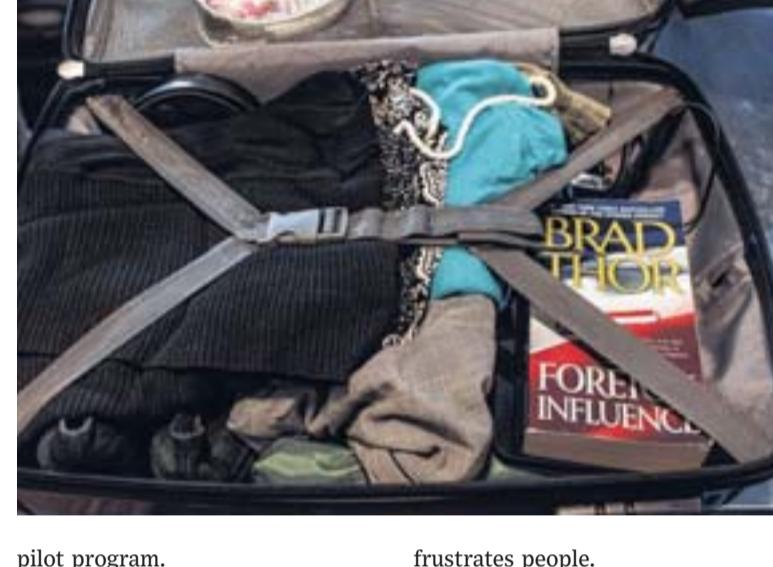
Based on pilot-program results, he says officers likely will focus more on travelers when they first start hoisting their bags on tables for the X-ray machine, asking them to remove items and put them in separate bins.

Those items could change line by line, airport by airport. Compliance will be optional, TSA officials say, but not complying may lead to opening a bag for manual inspection.

When checkpoints are busy under current rules, bags pile up waiting for manually screening, and lines can get long. "The more items in a bag, the more complicated it becomes," says a TSA explosives specialist involved in the



Densely packed bags are more likely to get inspected manually by TSA officers, such as this one at Washington's Reagan National Airport on Monday, left. An example of a cluttered bag, above, and less cluttered bag, below.



STEPHEN VOSS FOR THE WALL STREET JOURNAL

pilot program.

To demonstrate, he runs a bag packed with all kinds of electronics and food items through an X-ray machine at Washington's Reagan National Airport, followed by an uncluttered bag with clothes, a quart-sized bag of toiletries and paperback book.

TSA's X-ray displays color items in bags by their density—most stuff is orange, blue and turquoise more dense, metal shows up as black.

The cluttered bag appears on the screen looking like a kindergarten art project gone haywire. With the uncluttered bag, shapes are easy to identify. Even if the cluttered bag doesn't get pulled out for manual checking, it takes the screener more time to study the image.

"There's not any one thing in that bag that says red flag. But there's so much going on it takes time to figure out what it is," the explosives specialist says.

Food can trigger lots of false alarms because of the density of some items. Chocolate, for example, can look like some types of explosives to X-ray machines. Lots of paper can obscure items—thick books or stacks of books sometimes require manual checks. In Houston in February, TSA found Super Bowl programs created lots of false alarms because they were thick with heavy stock paper and had reflective holograms.

TSA has been criticized in the past for missing weapons in undercover government tests. Travel groups and security consultants say there is a need for some randomness and unpredictability in security, but increasing hassle just

frustrates people.

"It's all about how you do it," says Mike McCormick, executive director of the Global Business Travel Association, an organization of corporate travel managers. "We run the risk of, certainly for the U.S., of creating an environment that is really bad for business."

TSA says it is asking airlines to step up enforcement of the two-item limit—one bag in an overhead bin and one under the seat in front of you.

Trans-Atlantic travelers may face other restrictions, such as expanding a cabin laptop ban from select Middle East and Persian Gulf airports to all flights from Europe. But a full ban, which may be hard to enforce at many European airports on flights bound for the U.S., is hardly a sure thing. The airline industry is lobbying for alternative measures.

Another change starting to roll out: TSA will begin using machines to verify ID instead of officers manually studying passports and driver's licenses. The ID verification machine testing will start at Washington Dulles Airport later this month, then spread to Atlanta, Boston, Chicago, Austin, Texas and Washington Reagan Airport. Full rollout should take about two years.

The machine checks for fake IDs and matches up names with passenger lists—no boarding pass will be needed at the TSA checkpoints when the machine is in use. Officers can still clear someone manually if a false alarm is triggered.

TSA tested the technology with a shipment of fake IDs out of China that was intercepted by customs officials.

### BOOKS

## LESSONS FROM MIKE TYSON'S TRAINER

Mike Tyson, left, in 1985 with Cus D'Amato, his trainer and adoptive father.



BY BRENDA CRONIN

**MIKE TYSON** was a chubby 13-year-old juvenile delinquent in 1979 when boxing svengali Cus D'Amato turned him into a lightning-fast destroyer in the ring. Then 71 and past his heyday managing champions like Floyd Patterson, Mr. D'Amato could still spot and nurture talent.

In a new book, "Iron Ambition," Mr. Tyson recalls his years with the coach. Beneath a hardboiled exterior, Mr. D'Amato was an astrology aficionado with a fear of flying, who forecast that his future protégé would be a heavyweight champ.

After watching the teenager spar, Mr. D'Amato said, "You're a Cancer, you're very sensitive and you're a sucker but you're a great fighter," Mr. Tyson, 50, recalled in an interview last week from his home in Henderson, Nev. "And he's absolutely right about me. He knew I was a sucker. He told me:

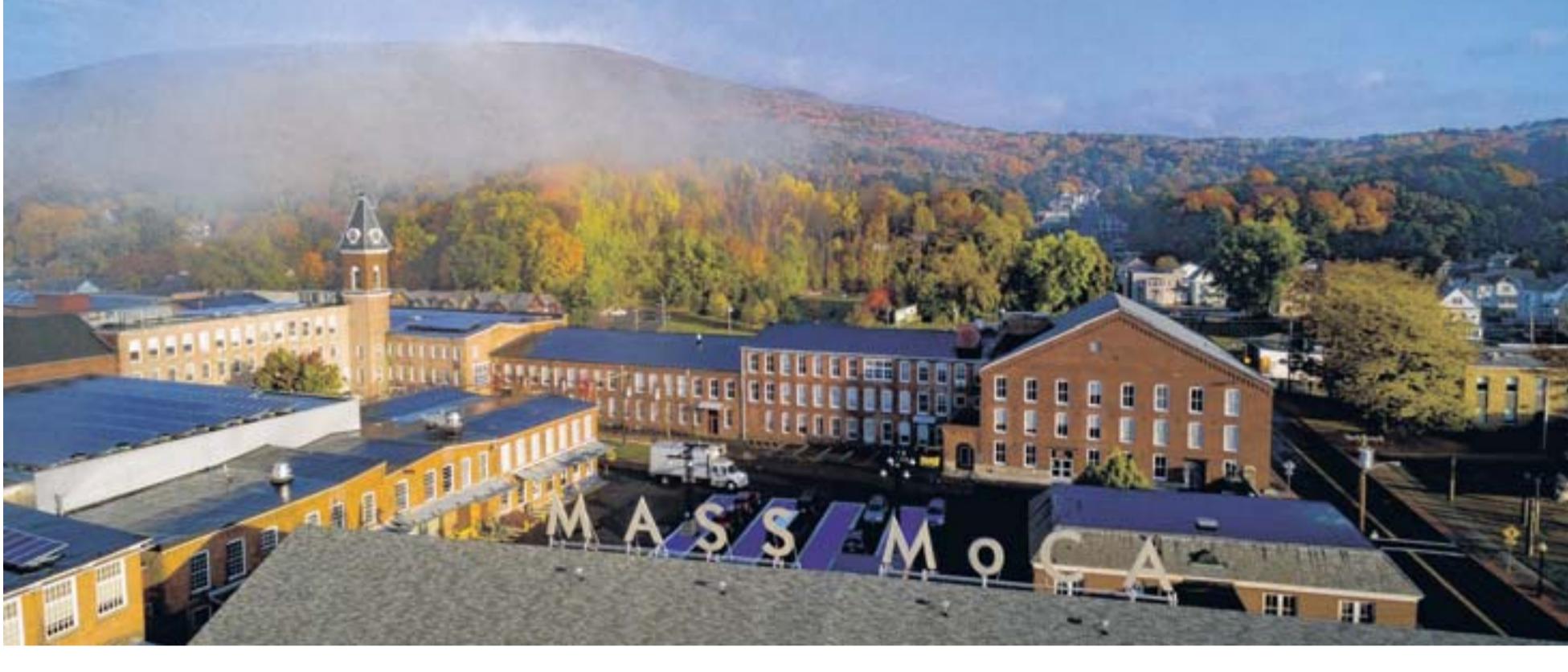
'You've got to be in trouble before you learn.' He said that always happens to suckers. They've got to feel the fire to know that it's hot."

Mr. Tyson, a lifelong pigeon-fancier who grew up enmeshed in petty crime in the Brownsville section of Brooklyn, was hooked by Mr. D'Amato's vision. The coach took the boy into his home in Catskill, N.Y., trained him and eventually adopted him, after Mr. Tyson's mother died of cancer when he was 16. Mr. D'Amato died in 1985. A year later, his 20-year-old star became the youngest heavyweight champion in the world. After winning the title, he poured a bottle of Dom Pérignon, Mr. D'Amato's favorite champagne, over his grave, Mr. Tyson recalls in "Iron Ambition: My Life With Cus D'Amato."

Mr. Tyson's 2013 memoir, "Un-disputed Truth," recounted his boxing career as well as his struggles with addiction, bankruptcy and prison time for a rape conviction. Since he retired from boxing

Please see TYSON page A14

## LIFE & ARTS



### MUSEUM REVIEW

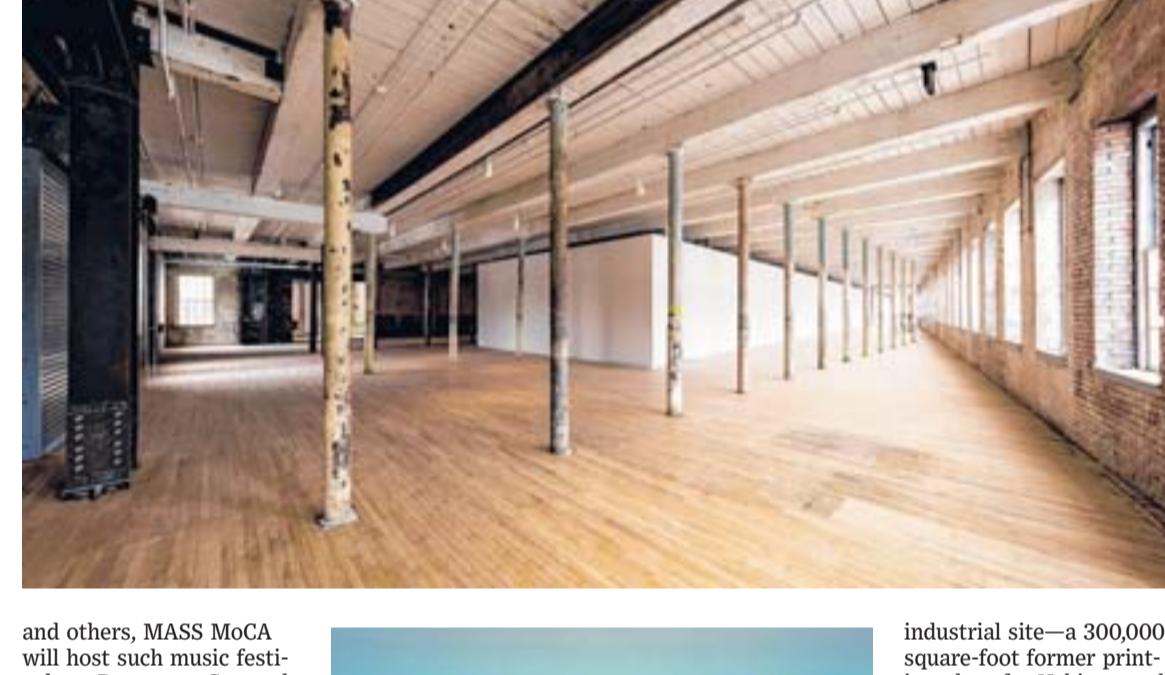
# Where Art Has Space to Play

Can a museum that is a combination avant-garde monument park and concert ground prosper as a destination attraction?

BY PETER PLAGENS

**IT USED TO BE** that modern and contemporary museums operated much like the stone-stepped treasure houses of Old Masters: Changing exhibitions consisting of works from the collection trotted into the galleries under thematic rubrics, and traveling shows of borrowed art; their contents were mostly paintings that hung on the wall and discrete sculptures that stood on the floor. The main difference was that modern museums, instead of having hushed tan walls and button-tufted leather benches, fancied the glaring white austerity of pharmaceutical laboratories. Starting with Minimalism in the 1960s, however, many of the best artists changed from creating portable objects to making site-specific installations, some intended for long-run exhibition, if not virtual permanence. Modern museums, being modern, tried to accommodate those artists, and artists, being principled opportunists, increasingly took advantage of the accommodation.

When MASS MoCA (the official acronym for the Massachusetts Museum of Contemporary Art), in the slightly off-the-beaten-path old mill town of North Adams, opens its renovated Building 6 on Sunday, it will boast more exhibition space than any similar institution in the country—250,000 square feet. (The redo is by Bruner/Cott & Associates in Cambridge.) And the gala *vernissage*, with alt-rock bands Cake and My Morning Jacket entertaining the crowd, will signal an acceleration of that morphing of large art showplaces into amalgams of the reverent silence of the Rothko Chapel and the boisterousness of Six Flags. In addition to 10- to 25-year-long installations by blue-chip contemporary artists Jenny Holzer, James Turrell, Laurie Anderson



and others, MASS MoCA will host such music festivals as Bang on a Can and FreshGrass, and put on concerts by the likes of Joan Osborne.

MASS MoCA, which opened in 1999, is a reclaimed 16-acre factory complex that's 130 miles west of Boston and 170 north of New York, in the Berkshires. "Year 'round, our attendance consists of about 40% New Yorkers," says founding director Joseph C. Thompson, 58, one of the least pretentious museum heads you'll ever meet, "and during the summer it's about 70%." Last year's attendance was 165,000 visitors, up from 120,000 five years ago, and the museum hopes its expansion will boost that by an additional quarter. Although the museum got started with sizable chunks of money from the state



From top: The Massachusetts Museum of Contemporary Art; inside MASS MoCA's Building 6; James Turrell's 'Breathing Light' (2013)

and private donors, and currently runs on a modest annual budget of \$10.6 million (about a 16th that of the Museum of Modern Art in New York), to succeed it will sorely need the additional "turnstile," as Mr. Thompson puts it.

MASS MoCA's unstated rival is the DIA Foundation's Beacon, N.Y., facility. It also occupies a reclaimed

industrial site—a 300,000-square-foot former printing plant for Nabisco packaging, and likewise features galleries dedicated to the semi-permanent presentation of world-renowned artists, including Richard Serra, Joseph Beuys, Michael Heizer and Dan Flavin. With a smaller annual attendance but deep endowment pockets, DIA is only a scenic, 55-mile train ride up the Hudson River from New York, with a five-minute

walk to the front door. It's a bit of a chore to drive from the city to MASS MoCA, even though you can make a circuit with side trips to the nearby Williams College Museum and the Clark Art Institute with its beautiful Tadao Ando building.

The big draw at MASS MoCA will be the installations by Mr. Turrell, Ms. Holzer, and Ms. Anderson, and

huge works from Robert Rauschenberg and Louise Bourgeois. Mr. Turrell will enjoy a de facto retrospective of separate "light and space" rooms, with the completely coved (that is, no corners) "Perfectly Clear," a featureless ganzfeld chamber of slowly changing colored light. Ms. Anderson, known mostly as a performance artist, has constructed a veritable radio station and a gallery in which viewers equipped with VR headsets will be able to walk "into" a miasma of words. Ms. Holzer plans to workshop her space, combining trademark LED pieces of moving text with (at least for the opening) silkscreened paintings of scaled-up redacted government documents relating to the torture of suspected terrorists. Bourgeois's contribution consists of some astonishingly heavy marble sculpture that had to be transported by crane across across a small river. The oddball offering is a big roomful of homemade instruments by the unknown musician's-musician and former Bennington College professor Gunnar Schonbeck.

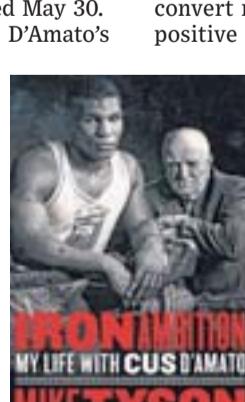
Will it work? Can a new sort of modern museum that is a combination avant-garde monument park and concert ground prosper as a destination attraction? (Nobody says, "As long as we're touring North Adams, we might as well stop in at MASS MoCA.") The looming variables are many: gasoline prices, the greater economy, and a sustained public appetite for the kind of big, ambitious Minimalist and conceptual works most of us in the art world almost reflexively now like. MASS MoCA has hiccupped before, and early on had to cut back and rent out parts of its campus to other enterprises, but this time there's probably no walking anything back. If 50-50 seems like too safe a guess, so be it.

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

## TYSON

Continued from page A13

more than a decade ago, he has recast himself as an entertainer, performing "Undisputed Truth" as a one-man show and appearing on TV and in movies. "Iron Ambition," written with Larry Sloman, his collaborator on "Undisputed Truth," will be published May 30. The book spells out Mr. D'Amato's techniques for building a champion from scratch. Among them:



outside the ring, Mr. D'Amato "went from taking me, a guy with no self-esteem, to a megalomaniac."

### Creative visualization

Today, many athletes swear by picturing themselves winning—a habit Mr. D'Amato drilled into his boxers decades ago. "You've got to see yourself winning that title," Mr. Tyson said. Mr. D'Amato also encouraged his fighters to convert negative emotions into positive forces. "I used my fear to win," Mr. Tyson said.

"You can let it destroy you and everything around you, like fire, or maybe it can keep you warm."

### Preparation

Among Mr. D'Amato's memorable adages was: "Everybody has a plan until they get punched in the mouth." Although "never happier" than when he was with Mr. D'Amato, Mr. Tyson recalls those years as a period of relentless focus and work. "I almost never had a day off," he said, because his coach "could find a reason for you to work out on Sunday." Each bout meant intense preparation. "The Cus D'Amato style of fighting is very successful because it has a lot to do with the



psychology of intimidation," Mr. Tyson said. "The only bad part about it is, you can scare [your opponent] into kicking your ass...People take all that fear and just say 'F—k it. He's going to kill me anyway. I better just do my best.'

### Discipline

Mr. D'Amato's stint in the military honed his powerful drive for order and regimens. Life in the D'Amato household was run "Army-style,"

Mr. Tyson said, which meant attending school, training and helping out at the gym. Chores didn't cease when his star began to rise. "I was getting on the cover of 'Sports Illustrated'...and people were taking pictures of me, like I'm this big star," Mr. Tyson said. "And as soon they were finished, I had to sweep the gym and mop it." That discipline has made him a better parent, Mr. Tyson says, who helps shuttle his young son and

daughter to rehearsals and tennis and soccer practice. "I would never have learned how to do that without Cus. I would have been one of those guys in the house just lying around doing nothing," he recalled. That said, boxing's physical toll has him unable to keep up with his youngest son. "He's six years old," Mr. Tyson laments. "And he's talking a whole bunch of smack while he's running...and I can't catch him."

## LIFE & ARTS

### FASHION

# Gabriela Hearst's Rise

Inspired by feminists, the designer's work is known for luxe fabrics and an elegant, comforting feel

BY RAY A. SMITH

**DESIGNER** Gabriela Hearst thinks a lot about how fabrics feel against women's skin, and how they feel when they dress—bloated or slim.

A recent collection spanned sleek, nipped-and-tucked overcoats, dresses and double-breasted suits as well as languid velvet trench coats, a flowy oversized wool car coat and a breezy silk twill shirtdress.

"Those are the water-retention looks," Ms. Hearst said, with a laugh, while referring to the more relaxed ensembles in her fall 2017 runway show, held during New York Fashion Week in February. "I don't know if sometimes men realize that our body changes. We're different types of skinny during the month. There's days where we don't want to wear things this tight and there's days where we want to wear things this tight."

Ms. Hearst's take on womenswear has earned her two-year-old label a nomination for the Council of Fashion Designers of America's Swarovski Award for Emerging Talent. The ceremony takes place June 5 in Manhattan. If Ms. Hearst wins, it would be her second big award this year. The designer, who was born in Uruguay and raised on a sheep farm there, won the International Woolmark Prize for womenswear in January.

Her rise comes as women's fashion moves toward pantsuits and less-frilly looks amid global attention on women's rights. Ms. Hearst held an intimate first runway show in February 2017—after holding small presentations previously. It was a parade of sophisticated looks for women that project confidence in a glamorous but not girly or overtly sexual way.

Ms. Hearst said the collection was inspired by brave, outspoken women, such as longtime political activist Angela Davis, and three senators elected in November—



Tammy Duckworth, Kamala Harris, and Catherine Cortez Masto. Light-weight variations on turtlenecks in the collection referenced Ms. Davis, who wore them in the 60s and 70s.

"In different ages, women feel differently about their skin," said Ms. Hearst, who is 40 and a former model. She describes her turtlenecks as "so soft next to your body, you can have a second skin that feels beautiful, so you don't have to kill yourself at the gym."

She cares about "how things feel" on the skin. She often pairs extra-fine knitwear under a suit or a sleeveless dress. "There's something psychological to women and tact," she said, referring to the sense of touch.

When Ms. Hearst started researching materials for the suits in her line, she noticed that the "men's suiting fabrics were actually kind of nicer than the

women's," and used the superior men's suiting fabrics instead. The inside of Ms. Hearst's blazers have a silver-coated lining to protect against radiation. "There's a theory about cellular phones and your reproductive organs," she said. "It's controversial but it doesn't cost me that much to line the blazers inside." A number of limited-edition looks in the collection recycled overstocked fabric from Loro Piana.

Ms. Hearst shuttles between Uruguay, where she has a foreman manage the ranch she inherited from her father, and New York. She lives with her husband, Austin, a businessman and grandson of newspaper tycoon William Randolph Hearst, their eight-year-old twin girls, Mia and Olivia, and 23-month-old Jack.

She and her husband are the sole investors in the company, which now has 10 full-timers, nine

of whom are women. Ms. Hearst runs it out of a sprawling office with a showroom and design studio in Manhattan's Chelsea neighborhood.

The company sells on its website and at luxury retailers including **Bergdorf Goodman**, Net-a-Porter and Matchesfashion.com. Prices range from \$450 for cashmere/silk knits to \$5,000 for double-faced cashmere coats, with dresses in the \$1,200 to \$3,700 range. Before launching her label, Ms. Hearst cut her teeth designing for Candela, a contemporary fashion label she started in 2004 and left in 2014.

Ms. Hearst will compete for the CFDA award against other womenswear designers from Brock Collection, Monse, and Sies Marjan, as well as the designer of Off-White, a men's and women's label. When asked would she ever dress first lady Melania Trump, Ms.



Gabriela Hearst, left, in her office in New York. She designs glamorous, not girly, looks, above and below.



Hearst said, "If they want to wear the clothes, they can buy the clothes."

"I believe in what women can do," Ms. Hearst says. She pointed to a photo of her mother she keeps in her office. "She used to compete in rodeo when she was 18. Then she was a Taekwondo black belt in her 30s. Then she was weightlifting in her 50s and she runs her own ranch. I was brought up where it wasn't 'women can do this and women cannot do this.'"

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# SPORTS

## THE COUNT

### RULES ENDANGER THE LEAP

The NFL was lauded for its plan to put the fun back into touchdown celebrations but the new rules could have an unintended consequence: grounding the Lambeau Leap.

According to the rules announced Tuesday, group celebrations will now be allowed, including previously verboten acts like rolling around on the ground and using the football as a prop. Among the actions that remain banned are those depicting a weapon or aimed at embarrassing opponents like Randy Moss pretending to moon the fans at Lambeau Field. But there's another banned category as well: "celebrations that are prolonged and delay the game," according to commissioner Roger Goodell's letter to fans announcing the changes.

The Count analyzed video of many of the NFL's most famous celebrations over the past 35 years and found that most last less than 15 seconds. That leaves plenty of time for teams to still race on to the field and kick the extra point before the 40-second play clock expires.

The Lambeau Leap could be cutting it close. Last year, Aaron Rodgers (pictured below) took 24 seconds to get off the field after jumping into the stands following a rushing touchdown in a game against the Vikings on Dec. 24.

Could the new rules put the iconic Lambeau Leap in jeopardy? "We don't anticipate this will be an issue as the special teams coach will be more animated than the players celebrating if they hurt the team," said NFL spokesperson Brian McCarthy. "The coaching staff will police (it)."

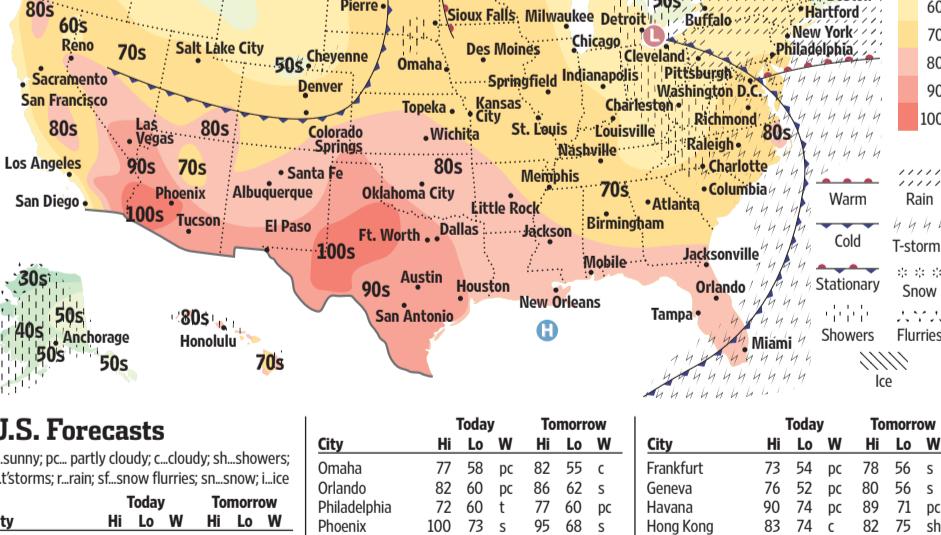
Indeed, the Packers may simply need to edit the celebrations to an appropriate length. The first Lambeau Leap by LeRoy Butler in 1993 took all of six seconds.

—Michael Salfino



## Weather

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



## U.S. Forecasts

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

Today Hi Lo W Tomorrow Hi Lo W

City Anchorage 52 38 sh 52 41 c

Atlanta 71 57 sh 83 66 s

Baltimore 76 58 t 77 57 pc

Boise 68 48 pc 73 48 pc

Boston 56 52 r 59 51 r

Burlington 68 53 r 60 47 sh

Charlotte 72 56 t 81 64 s

Chicago 67 52 pc 73 56 t

Cleveland 67 56 sh 69 56 pc

Dallas 92 75 s 97 78 pc

Denver 73 46 t 67 45 t

Detroit 66 54 sh 73 54 pc

Honolulu 86 70 sh 84 70 pc

Houston 90 74 pc 91 77 pc

Indianapolis 68 54 sh 78 62 pc

Kansas City 76 59 pc 80 61 c

Las Vegas 96 71 s 89 68 s

Little Rock 80 65 s 86 73 pc

Los Angeles 67 58 c 67 57 sh

Miami 89 77 t 89 78 t

Milwaukee 64 52 pc 66 54 t

Minneapolis 72 59 pc 78 55 c

Nashville 75 56 pc 86 71 pc

New Orleans 83 68 s 88 73 s

New York City 63 58 r 73 60 sh

Oklahoma City 86 65 s 88 67 pc

Today Hi Lo W Tomorrow Hi Lo W

City Amsterdam 71 54 pc 76 59 s

Athens 78 63 pc 74 59 t

Bahrain 97 67 s 105 72 pc

Bangkok 91 76 t 87 77 t

Beijing 83 58 s 89 61 s

Berlin 69 53 pc 72 53 pc

Brussels 74 55 pc 78 59 s

Buenos Aires 63 47 sh 62 41 pc

Dubai 103 83 s 101 81 s

Dublin 70 55 s 71 56 c

Edinburgh 73 55 s 76 57 pc

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City Frankurt 73 54 pc 78 56 s

Geneva 76 52 pc 80 56 s

Havana 90 74 pc 89 71 pc

Hong Kong 83 74 c 82 75 sh

Istanbul 75 61 pc 76 60 pc

Jakarta 91 75 pc 92 77 pc

Jerusalem 78 55 pc 76 57 s

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Mexico City 82 59 pc 83 56 pc

Milan 83 63 s 82 63 s

Mumbai 93 84 pc 93 86 pc

Paris 80 59 s 81 61 s

Rio de Janeiro 83 68 s 84 69 pc

Riyadh 104 77 s 106 82 s

Rome 78 57 pc 78 57 s

San Juan 90 78 s 88 77 pc

Seoul 75 55 s 75 56 s

Shanghai 86 63 pc 82 65 s

Singapore 89 81 c 89 80 pc

Sydney 67 53 s 68 55 s

Taipei 76 70 pc 83 73 pc

Tokyo 75 66 c 73 66 r

Toronto 55 51 r 69 51 c

Vancouver 66 50 s 69 53 s

Warsaw 71 51 pc 71 49 pc

Zurich 72 51 pc 76 51 s

## The WSJ Daily Crossword | Edited by Mike Shenk



### HYBRIDS | By Nancy Cole Stuart

#### Across

- 1 Not excluded from  
5 Lucy and Ricky's landlord  
9 Fleet  
13 Garden center buy  
15 "Gypsy" composer Styne  
16 "That makes sense now"  
17 Hybrid vehicle for use on the water?  
20 FDR based it on Britain's MI6  
21 Romeo said the lark was its herald  
22 Glacier Bay National Park location
- 23 Post  
24 Jovovich of "The Fifth Element"  
25 Like pastrami  
28 BLT side  
31 Hybrid vehicle for use on city rails?  
33 Extraction target  
34 Even one  
35 Prez before Jack  
36 Up to, informally  
37 Trendy boot brand  
38 Hybrid vehicle for use on streets and lakes?  
43 Queens' domains  
45 Adult naïad
- 46 Set, as a price  
47 Give an honorable mention  
48 Person who works with figures  
50 Carry on  
51 Broad player  
54 Hybrid vehicle for use by Venetian carabinieri?  
55 Second, say  
56 November symbol  
57 Suitable standard?  
58 Chuck of "Meet the Press"  
59 November symbol  
60 Chuck of "Meet the Press"  
61 Slip setting  
62 Bouquet source

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

27 Like the blood in the pulmonary veins

28 Fountain drinks

29 Helvetica look-alike

30 "The Ponder Heart" author

32 Human or ostrich, e.g.

38 Retro copier

39 Area of common interest

40 Chihuahua chum

41 Untapped

42 Seed benefit

44 It may be smoldering

47 Court figure

48 Domestic dust-up

49 Britt Reid's valet

50 Cross the stream, perhaps

51 Snake dance participant

52 Mathematician Turing

53 It requires taking turns

55 GameCube successor

6 Dog disease

56 Market indicator

#### Previous Puzzle's Solution



# OPINION

## From 9/11 to Manchester



Now we have Manchester and its 22 dead, many of them children. Somehow, we always end up back at 9/11, leaving flowers and candles again.

A political constant since 9/11 is that terrorism inevitably changes U.S. presidencies. I think the events this week—the president's overseas trip and then Manchester—may have a similar effect on Donald Trump.

On Inauguration Day in January 2001, George W. Bush's mind no doubt was filled with plans for his first term. Months later, his was a war presidency and would remain so.

Several things sit in my memory from the politics of that period. One is President Bush's face as he addressed Congress on Sept. 20. He was a changed man. Also remembered is the solidarity of national purpose after the attack. The final memory is how quickly that unity dissipated into a standard partisan melee.

The Democratic point of attack became the Patriot Act's surveillance provisions, a legal and legislative battle that ran the length of the Bush presidency. By the end of his second term, George Bush had become an object of partisan caricature and antipathy equal to anything President Trump endures now.

During Barack Obama's

presidency, four major terrorist attacks took place inside the U.S.: Fort Hood in 2009, the Boston Marathon in 2013, San Bernardino two years later and then Orlando in 2016. During these years, the locus of terror migrated from al Qaeda to Islamic State.

Volumes have been written about Barack Obama and terrorism, much of it about the president's struggles with vocabulary terms such as war, Islam, extreme and radical. The killing of Osama bin Laden evinced a rare, passing moment of national unity.

With the opposition to the

Trump presidency programmed for driverless resistance, there will be no national unity in the war on terrorism. The Democrats have become the Trump-Is-Russia Party, and that may be as good a way as any for them to spend their waking hours.

But even Hillary Clinton couldn't duck the terrorism problem in the 2016 presidential campaign, and when Mr. Trump said he would "defeat ISIS," his lack of nuance no doubt won him votes.

Which brings us to Manchester this week and memories of 9/11.

Note the political response to the Manchester murders. Again, total solidarity, such as this from European Commission President Jean-Claude Juncker: "These cowardly attacks will only strengthen our commitment to work together to defeat the perpetrators of such vile acts."

Post-9/11, naturally one expects such commitments to erode like sand castles. But this

time, by coincidence, alleged Manchester bomber Salman Abedi murdered concertgoers in the same week Donald Trump was using his first overseas trip to build a coalition to defeat Islamic State.

This was not a routine presidential foreign trip for self-pomp and circumstance. Mr. Trump went to Saudi Arabia to initiate an anti-ISIS policy designed and midwifed by three Trump appointees and

human-rights issues. It has not. Implicit in the Trump-Tillerson formulation is that defining the abuse of human rights as oppression by governments, such as Saudi Arabia's, is too narrow. Now, any discourse over human rights must include the right not to have one's life ended by acts of organized terrorism.

Grasping at Trumpian straws is a fact of life, but I am going to hazard not much more than a thought, which is that the president who left for Saudi Arabia last Friday will not be the same president who returns here this weekend.

Delivering that big foreign-policy speech in Riyadh, Mr. Trump looked like he was passing through a moment familiar to George W. Bush and other presidents in the post-World War II period—coming to grips with the gravity of why his office matters to the world. Being president isn't enough. Something always has to penetrate the parochial bubble of U.S. politics for this transition to happen, such as the Soviet invasion of Afghanistan in the Carter presidency.

Mr. Trump meets Thursday in Brussels with NATO allies who since 2015 have experienced Islamic State's mass murders in Paris, Nice, Berlin, Copenhagen, Brussels, Stockholm, London and now Manchester.

His basic message—it's time to get serious—is important and deserves support, both over there and in the White House.

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

## Heroes on the Golf Course

By Karl Rove

The three men on the golf course didn't look like superheroes. But Nick Bradley, Saul Martinez and Rod Rodriguez are just that. So are the other combat veterans who joined them on the links Monday at this year's Warrior Open in Dallas. The tournament, sponsored by the George W. Bush Presidential Center since 2011, celebrates wounded veterans' recovery and their continuing service to America.

For these three comrades in arms, it was another reunion, since they have played in the tournament since its first iteration.

Staff Sgt. Nick Bradley joined the Air Force in 2001. He did two tours in Iraq and a fateful one in Afghanistan providing security for generals in Kabul. On Aug. 3, 2008, his team was moving in a small convoy when a Taliban anti-tank mine exploded under his Land Cruiser's gearshift.

The blast broke every bone in his face, right arm, hand, hip, knee, shin and foot. Knitting him back together took 16 surgeries and left Nick with six screws in his face, 51 in his arm and 11 in his hand. The doctors told him he wouldn't walk for a year or even sit up without assistance.

"I didn't like that answer," he says. "It cut me deep." He

taped a picture of his daughter next to his bed. Two days later, he was sitting up. While exploring the ward in a wheelchair, he discovered a putting green. Against doctor's orders, he was soon standing and hitting balls one-handed. Two months after arriving at Walter Reed, Nick walked out of the hospital.

**Nick Bradley was told he wouldn't walk for a year. Soon he was on the putting green.**

On Tuesday he celebrated this year's Warrior Open by fixing dinner for his wife and daughter, Khaila, who will turn 11 next month, a few days after her baby sister is due. Nick credits his family and golf for his recovery. While he brags that he "played great" this year, the highlight was having his daughter meet the former president, who he says "inspires me every day to get better in life."

Army Sgt. Saul Martinez enlisted because of 9/11. He served in Iraq during the 2007 surge, when an explosively formed projectile ripped apart his vehicle. The blast killed two friends and left him a bilateral amputee—without most of his legs.

Saul says he made it back mostly because of his wife, Sarah: "She pushed me, motivated me, and told me I could do things I never thought I could do again." After leaving the service in 2010, he moved to Montana, where he is director of services for Warriors and Quiet Waters. This program, inspired by Psalm 23—"He leads me beside quiet waters, he restores my soul"—uses fly-fishing to help veterans regain their physical health and overcome post-traumatic stress and traumatic brain injuries.

Sgt. First Class Michael "Rod" Rodriguez joined the Army in 1992, later becoming a Green Beret. He had dozens of concussions in training and combat. Then, more than a decade ago in Afghanistan, he suffered three traumatic brain injuries within a few weeks, including one from a bomb that temporarily cost him sight in his left eye. As his team's senior medic, he hid his injuries to stay with his comrades.

He concealed his pain for years, but finally the moment came when he couldn't ignore the headaches, double vision, sleeplessness and other evidence of his invisible wounds. Diagnosed with post-traumatic stress at the National Intrepid Center of Excellence, Rod took on "the hardest fight I've ever been in." But by acknowledging what was wrong, he could

finally defeat it. He found comfort in blacksmithing—"heating a piece of metal and banging on it."

Rod, the son of a Vietnam veteran and grandson of a World War II veteran, is also the husband of a paratrooper stationed at Fort Bragg and the father of a paratrooper in the 82nd Airborne. A few years ago that son, Antonio, joined his pop for lunch with President Bush. "He loves us," Rod says of his former commander in chief, "and we love him."

These three veterans, and hundreds of others who have participated in the Warrior Open in the past, are part of the Bush Institute's Warrior Wellness Alliance. The group helps connect soldiers with effective, reliable care and attacks the stigma that accompanies war's invisible wounds.

In a 1962 speech at West Point, Gen. Douglas MacArthur paid tribute to the American soldier: "In his youth and strength, his love and loyalty, he gave all that mortality can give." This Memorial Day, the sacrifices that Nick, Saul, Rod and their families have made remind us that as it was then, so it remains today.

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

## A Council America Shouldn't Keep

By Anne Bayefsky

The United Nations Human Rights Council is preparing a blacklist of American and other companies doing business with Israel—and U.S. taxpayers are paying a quarter of the bill.

The council's move embraces the "boycott, divestment and sanctions" campaign, which seeks to accomplish through economic strangulation what Israel's enemies have been unable to achieve through war and terror. How did the U.S. get on the wrong side of this battle?

When the Human Rights Council was created in 2006 as a "reform" of the original U.N. Human Rights Commission, the Bush administration voted against, because no membership conditions required actually respecting human rights.

But Barack Obama jumped on board and, playing Gulliver at the U.N., allowed the American giant to be tied up by foes contributing a fraction of our

moral and financial weight. In 2016 Americans sent the U.N. almost \$10 billion.

On Thursday a U.S. Senate subcommittee will meet to "assess" the Human Rights Council. Reconsidering U.S. membership and walking away—now—is the right choice. Successive White Houses have

**The U.N.'s 'human rights' panel is a travesty and a sham.**

tried and failed to correct the entrenched anti-Israel and anti-Jewish bias of the council (and commission) for decades. Simply put, the Lilliputians have more votes.

The council has condemned Israel more than any of the other 192 U.N. states, notwithstanding 500,000 dead in Syria, starvation and mass torture in North Korea, and systematic, deadly oppression in Iran, Saudi Arabia and China have used their seats on

the council to avoid condemnation altogether.

Under a sanctions resolution adopted in March 2016, the council is creating a database of companies that "directly or indirectly" do business with Israeli settlements. The blacklist is intended to be expansive: Even an ATM in Arab-claimed territory could be enough to land a bank and its business associates on this database. The blacklist threatens to tarnish business reputations, make companies targets for lawfare in European and U.S. courts, and provide fuel for the boycott-and-divestment machinery on college campuses and elsewhere.

Meanwhile, the council has no boycott policy for the world's most ruthless regimes.

When Donald Trump became president, the U.S. did not promptly resign from the council but instead attended the March 2017 session. During this meeting, the resolution creating the Israel blacklist was reconfirmed over American objection. Then the U.S. was out-

voted on 12 of 15 resolutions and backed into joining the consensus on various other resolutions, including one on "cultural diversity" cosponsored by the likes of North Korea.

As the Senate subcommittee meets, it will hear the familiar refrain echoed whenever American blank checks to the U.N. are questioned: fight the good fight from the inside; don't cede the territory to enemies; the sole alternative is self-defeating isolationism.

But the answer is straightforward. Belonging to, and paying for, the U.N. Human Rights Council legitimizes those fighting to delegitimize Israel. Equal rights for some cannot be built on unequal rights for Jews. Reform from the inside has failed. America should choose its own partners and methods for making the world a better place. That's real leadership.

*Ms. Bayefsky is director of the Touro Institute on Human Rights and the Holocaust, and president of Human Rights Voices.*

BOOKSHELF | By Brendan Simms

## Nothing Is Written

### The Fate of the West

By Bill Emmott  
(Economist Books, 257 pages, \$28)

There is no shortage of books on the predicament of the West. Fareed Zakaria, Niall Ferguson and Ian Morris, among others, have described a civilization in crisis, challenged by populist unrest, economic stagnation and terrorist violence. With Britain's vote to leave the European Union and America's election of Donald Trump, the West's long-standing assumptions about itself and its future seem less stable than ever. In "The Fate of the West," Bill Emmott, the former editor of the Economist, seeks to examine anew "the battle to save the world's most successful political idea"—the idea of a free and open society that undergirds Western democracy and is now seemingly under threat.

Like many, Mr. Emmott discusses the challenge of Europe's recent migrant influx, the rise of China and the danger posed by Russian territorial revisionism in Eastern Europe. Like many, he is aghast at the Trump presidency and deeply regrets Britain's "Brexit" vote. Unlike many,

though, he does not conflate these last two developments. He stresses the commitment of British "leavers" to the West's institutions, such as NATO, and to the ideas behind them, such as free trade—both objects of attack during Donald Trump's campaign.

Mr. Emmott sees the roots of Western decline not abroad but at home, in the decline of "openness," by which he means, among much else, "the freedom

to choose, to speak, to know, and indeed to hope for new opportunities and better lives." He notes that "sizeable parts of our societies feel that they have been left behind" and adds that it is "our own failures" that have created these feelings, failures that "pose a bigger, more lasting danger to us than do Islamic State, President Putin, or China."

Following the economist Mancur Olson's diagnosis 30 years ago, Mr. Emmott sees Western societies succumbing to a kind of sclerosis as interest groups accumulate like so many "barnacles." High on the list of his targets are the banks, which have managed to maximize risk and minimize responsibility by relying on "a massive public safety net." The banks, he says, are "the biggest single cause of rising inequality, distortion of public policy, and generation of collective economic pain and anger."

Contrary to what the word "fate" in the title might suggest, Mr. Emmott does not believe that the decline of the West is preordained. He quotes the scene from David Lean's "Lawrence of Arabia" in which the hero reproves a fatalistic friend who believes that a comrade lost in the desert is doomed because "it is written." Lawrence pronounces, "Nothing is written" and rescues the man. Our fate, Mr. Emmott argues, is in our own hands.

### Sweden and Switzerland found ways to avoid Europe's sclerosis: the former deregulated, the latter opened up to more immigration.

To show what can be done, he focuses on two "Houdinis," societies that have escaped the shackles of outmoded policies. One is Sweden, which by "reducing taxation and deregulating all manner of industries" has made itself more prosperous than it once was, with "more freedom of choice and creativity." The other is Switzerland, where a flexible labor market has encouraged economic dynamism, as has a willingness to take in more immigrants after 2007, when a quota system was lifted. "Such openness to new people," Mr. Emmott writes, "coincided with greater internal openness to competition and innovation."

Such arguments are conveyed in engaging though uneven prose. Discussing the surge of skilled and unskilled migrants into Britain, Mr. Emmott remarks perceptively that "the brain drain had become a brain gain as well as a brawn gain." But this pithy comment is followed by the windy suggestion that "the UK is a revival story which is now in need of a new revival thanks to new obstacles and anxieties, but which nevertheless can be seen as a cause for optimism for the rest of the West."

At times in "The Fate of the West" it is not clear whether the "West" is a geographical zone with a particular cultural inheritance or an idea that might take hold anywhere. Unsurprisingly, Europe is the book's main focus, along with the U.S.: Mr. Emmott admires America's readiness to finance emerging technologies but worries about the decline in male labor-force participation and laments a political system that features two "highly dysfunctional" parties. He devotes a chapter to Japan, where years of stagflation, he says, may well continue

because of astronomical public debt and a lack of "the sort of entrepreneurship or corporate investment" that might produce new wealth. One wishes that he had explored whether China might someday develop into a representative democracy. If it did—though at the moment the possibility seems remote—the "West" might live on in another guise, whatever its destiny in Europe and America.

Throughout the book there is a tension between openness and equality, both of which Mr. Emmott deems desirable, even essential. But in competitive modern economies, rewards seem to skew ever more toward cognitive elites. Meanwhile, open borders, though facilitating the inward migration of talent, create cultural fissures as well as communities heavily dependent on social services. Here the two Houdini cases are not much help, because Mr. Emmott attributes their ability to conduct effective reforms not to their openness but to the cohesion or trust engendered by a shared national identity.

Mr. Emmott might have returned to "Lawrence of Arabia" to describe the scene in which Lawrence is forced to execute the man he had previously saved while an observer notes triumphantly: "It was written, then." No civilization lasts forever; that much is indeed written. But its full span is surely contingent on human agency. It is in this spirit that readers should approach Mr. Emmott's stimulating book—to grasp how much is at stake in our policies and politics and to ponder how a great civilization can be encouraged to thrive rather than decline.

*Mr. Simms is the author of "Europe: The Struggle for Supremacy From 1453 to the Present."*

## OPINION

### REVIEW & OUTLOOK

## How to Read an ObamaCare Prediction

The political world waited with rapt attention Wednesday for the oracles at the Congressional Budget Office to release their cost-and-coverage predictions for the revised House health reform bill, which arrived late in the afternoon. But while Washington stood by, two reports emerged from the real world that are far more consequential.

First, the Health and Human Services Department released new research showing that average premiums in the individual market have increased 105% since 2013 in the 39 states where the ObamaCare exchanges are federally run. That translates into about \$3,000 more a year for the average family. There are limitations to the data, such as separating ObamaCare artifacts from underlying medical cost movements, but the trend doesn't reflect well on whoever called it the Affordable Care Act.

Also on Wednesday, Blue Cross Blue Shield of Kansas City withdrew its ObamaCare plans for 2018 in Kansas and Missouri. The insurer cited ObamaCare losses of \$100 million, which it called "unsustainable for our company." The decision will leave 77 of Missouri's 114 counties, including St. Louis, with a single insurer, and some 31,000 Missourians in another 25 counties with no coverage options. By the way, HHS says premiums have increased by 145% on average in Missouri over four years.

This is real news in real markets that affects people's lives. So, naturally, the speculative CBO report became the day's major story.

That news wasn't all bad for Republicans, not that you could tell from the media accounts. CBO confirmed that the American Health Care Act is a major fiscal dividend, cutting taxes by \$992 billion, spending by \$1.1 trillion and the deficit by \$119 billion over 10 years. Compared to a CBO estimate of an earlier House bill, the number of people with insurance will be "slightly higher" and premiums will be "slightly lower."

Nonetheless CBO says 14 million fewer people on net would be insured in 2018 relative to the ObamaCare status quo, rising to 23 million in 2026. The political left has defined this as "losing coverage." But 14 million would roll off Medicaid as the program shifted to block grants, which is a mere 17% drop in enrollment after the ObamaCare expansion. The safety net would work better if it prioritized the poor and disabled with a somewhat lower number of able-bodied, working-age adults.

The balance of beneficiaries "losing coverage" would not enroll in insurance, CBO says, "because the penalty for not having insurance

would be eliminated." In other words, without the threat of government to buy insurance or else pay a penalty, some people will conclude that ObamaCare coverage isn't worth the price even with subsidies.

The problem with this educated guess about enrollment is that CBO's models put too much confidence in the effectiveness of central planning. The nearby table shows CBO's projections about ObamaCare enrollment, which were consistently too high and discredited by reality year after year. CBO is also generally wrong in the opposite direction about market-based reforms, such as the 2003 Medicare drug benefit whose costs the CBO badly overestimated.

Unlike CBO, most economic forecasters publish their assumptions and a range of possible outcomes for different variables. This transparency reveals the uncertainty built into any predictive model, rather than homing in on one number like 23 million, as if it is omniscient. The complication for CBO is that the more it defines its uncertainty, the less authority the political class will invest in its estimates.

This particular credibility gap is exposed in CBO's treatment of the House compromise on waivers, which would allow states to apply to opt out of certain ObamaCare regulations like benefit mandates. How many Governors would choose to do so, over what time period, in what political context, and how aggressively would they deregulate markets? "Who knows?" is the only honest answer.

CBO allows that there can be no "single definitive interpretation" of how states would respond to new incentives—before claiming that precisely "one-third of the population would be in states that would choose to make moderate changes to market regulations" and precisely "one-sixth of the population" lives where Governors would "substantially alter" those regulations. This isn't a quantitative economic judgment but a raw political assumption.

Headlines aside, the CBO report matters because it is the fiscal template for Senate negotiations and what policies can be included under the budget "reconciliation" procedure that requires 51 votes. But Senators shouldn't allow the budget scorekeeper's opinions about the future to dictate policy or political decisions. Incentives and private competition can produce better outcomes than CBO's model foresees.

In any case, the real world is throwing off plenty of evidence of the urgent need to repeal and replace ObamaCare, like the Missouri crisis and national rate shock. CBO never saw any of that coming.

### ObamaCare Coverage Error

CBO estimates for ObamaCare coverage by year in millions of enrollees. Blue figures show the most recent forecast a year prior. Red figures show actual coverage.

	2014	2015	2016	2017
Feb. '13	7	13	24	26
Feb. '14	6	13	22	24
March '15	*	11	21	24
March '16	*	*	12	15
Jan. '17	*	*	*	10

Source: Congressional Budget Office

understand a child's temperament, emotions and behaviors. Let us all work together to better understand the nexus of mental-health care, school and home life, and develop or clarify privacy rules that aid the community in raising healthy children.

Most of all, let's recognize the importance of paying attention to a child's mental health. In this country, one in five children struggle with a mental-health or learning disorder. Only a third of them receive the support they need. Dr. Cerundolo opens her piece with: "Imagine bringing your child in for a sore throat and having the doctor administer a psychological screening test." Wouldn't that be wonderful.

HAROLD S. KOPLEWICZ, M.D.  
President  
Child Mind Institute  
New York

## We Need More Studies on Kids' Mental Health

When alarms are raised about the covert psychological screening of children in our schools, it is stigma and fear of mental-health disorders in children masquerading as the cautious protection of private health information ("Have You Seen Junior's Psych Profile?" by Aida Cerundolo, op-ed, May 9). Mental-health screenings and assessments in children should definitely be accompanied by the same privacy safeguards as any other medical information, but Dr. Cerundolo's claim of the dangers of widespread testing in schools is unfounded and unhelpful. We are woefully uninformed about the social, emotional and behavioral health of our children. We need more screening and assessment, not less.

Teachers and administrators (and parents and doctors) can better help children learn and grow when they

## Cuomo Is Right to Close Indian Point Plant

Regarding your editorial "Cuomo's Nuclear Short Circuit" (May 19): Indian Point is over 50 years old, sits on a fault line and has been ranked the most vulnerable nuclear plant to earthquakes in the nation. Its operational safety record has been abysmal, and it has no workable evacuation plan to move its more than 20 million neighbors to safety in the event of a catastrophe. It puts New Yorkers in danger and should never have been built.

Gov. Andrew Cuomo's historic agreement with Entergy to phase out the plant is paramount for the safety and security of millions of New Yorkers and was lawfully negotiated. Gov. Cuomo's agreement provides time to add cost-effective and clean replacement resources, delivers enhanced environmental oversight and enables local governments and school districts to partner with the state to find workable financial solutions to the benefit of all New Yorkers.

Westchester County Executive Rob Astorino's baseless lawsuit also ignores another key fact: Entergy made a corporate decision to stop doing business in New York's competitive power market. Apparently, rather than work productively with the

RICHARD L. KAUFFMAN  
Chairman of Energy  
and Finance for New York  
New York

## Income-Tax Deductions Used to Go Both Ways

Regarding Tom Cavanagh's May 9 letter under the headline "A Fair, but Unlikely, Plan" about President Trump's proposal to eliminate the federal deductibility for state and local taxes on individual's returns: Massachusetts used to allow the deduction of a portion of federal income taxes until Gov. Francis Sargent, a Republican, having promised no new taxes, eliminated that deduction.

Ross WHISTLER  
Needham, Mass.

## Pepper ... And Salt

THE WALL STREET JOURNAL



"Can I start you off with my disappearance?"

Labor Secretary Alexander Acosta said this week that he'll let the Obama Administration's fiduciary rule take effect on June 9 while the agency conducts a thorough public review. Liberals don't know whether to celebrate or complain, but Mr. Acosta is showing more respect for the law than his predecessor did.

Mr. Acosta explained in these pages Tuesday that the agency is bound by the Administrative Procedure Act, which requires due process and public comment before issuing or rescinding regulations. This usually takes several months, and the law only permits a rule change based on new information.

President Trump in February issued an executive order directing the Labor Secretary to com-

plete an economic and legal analysis of the fiduciary rule, which requires brokers of retirement accounts to act in their client's best interest. The rule would in effect bar commissions, increase the cost of advice for savers and price small investors out of the market.

The Labor Department in April delayed the rule's date by two months. But the worry is that another delay without new information could invite lawsuits claiming that the agency is acting arbitrarily and thwart revisions. However, the rule won't be fully implemented or enforced until January. Mr. Acosta now has a duty to ensure that the department's career officials who labored on the rule for five years follow due process while legally unwinding it.

## Acosta's Fiduciary Duty

Pictures of dictator Kim Jong Un applauding as another North Korean missile ascends into the sky have become routine. But the Hermit Kingdom's two most recent launches deserve special attention because they show Pyongyang nearing its goal of deploying a nuclear-armed intercontinental ballistic missile (ICBM) that could destroy American cities.

On May 14 the North launched a new intermediate-range missile it calls the Hwasong-12. The missile traveled fewer than 500 miles, but that's because it was fired at a very steep angle to avoid flying over neighboring countries. If launched at the optimum angle, it could have a range of 2,800 miles, which means it threatens the U.S. island of Guam.

The Hwasong appears to use a new high-performance engine tested in March that it developed from scratch instead of adapting a Russian or Chinese design. The missile appears to be a single-stage, liquid-fueled rocket that could become the first stage of a new ICBM. That would allow the North to abandon the derivative designs it previously cobbled together to achieve the thrust for longer ranges. In its current form the Hwasong is also road mobile, making it more difficult to find and destroy.

On Sunday the North successfully tested another relatively new missile, the Pukguksong-2. While its range is shorter at about 1,000 miles, it is solid-fueled and can be moved using a domestically produced transporter, both of which improve survivability.

Based on a submarine-launched missile that

may be a modified Chinese design, the Pukguksong's first test in February was also successful. That suggests the missile will prove reliable, and North Korean media are reporting that Kim has ordered mass production.

The North also took advantage of the steep trajectory of both missiles to work on one of the last remaining obstacles to ICBM deployment—a re-entry vehicle capable of withstanding the heat and vibration of the fall through the atmosphere. The North Koreans say the Hwasong "verified the homing feature of the warhead under the worst re-entry situation," and that may be more than a boast.

The U.S. and South Korea have confirmed that the test warhead survived and transmitted data.

The North still has to overcome obstacles to targeting the U.S., not least designing an ICBM re-entry vehicle. While the Kim regime is believed to have partially miniaturized an atomic weapon, it hasn't tested a hydrogen bomb. But that is little comfort. On Tuesday when Senators asked Lt. Gen. Vince Stewart, director of the U.S. Defense Intelligence Agency, how long North Korea needs before it can deploy an ICBM, he answered that it "is on a pathway where this capability is inevitable."

This month's tests mean advances in Pyongyang's nuclear and missile programs are coming much faster than analysts thought possible. If the U.S. and its allies don't take steps to stop it now, the world will soon wake up to a nuclear North Korea far more dangerous and disruptive than the one we have today.

Based on a submarine-launched missile that

state, Entergy and local governments, Mr. Astorino and the editorial board prefer to question corporate decision-making in court and call for an environmental review.

Mr. Astorino's frivolous lawsuit received no support authorization from his county government. Yet, for a political and public relations stunt, he couldn't have chosen higher stakes than the safety of more than 20 million people. The primary job of government is to keep its citizens safe. In his leadership in shutting down Indian Point, Gov. Cuomo is putting New Yorkers first.

RICHARD L. KAUFFMAN  
Chairman of Energy  
and Finance for New York  
New York

## Many Medicaid Providers Provide Virtually Free Care

Because we get paid so little—if we ever get paid—for care given to Medicaid enrollees, it won't make a difference to me if cuts are made ("Senate Weighs Cuts to Medicaid," U.S. News, May 15). Whenever I agree to see a Medicaid patient in Indiana, I understand it is a freebie. The system is extremely poor at ever paying claims. We providers are giving free care, causing a misrepresentation of the Medicaid and medical deficit in this state, and I suspect most of the states. Medicaid is sicker than most people realize.

NICHOLAS F. HRISOMALOS, M.D.  
Indianapolis

Letters intended for publication should be addressed to: The Editor, 1211 Avenue of the Americas, New York, NY 10036, or emailed to [wsj.ltrs@wsj.com](mailto:wsj.ltrs@wsj.com). Please include your city and state. All letters are subject to editing, and unpublished letters can be neither acknowledged nor returned.

## OPINION

# NATO's Vital Role in the War on Terror

By Jens Stoltenberg

**A**t first glance, it's simply a fragment of twisted metal outside the North Atlantic Treaty Organization's new headquarters in Brussels. But this 6-foot-long section of steel girder was recovered from the ruins of the World Trade Center. At its official unveiling Thursday, we will hail the artifact as a symbol of solidarity: Europe and North America standing together.

The alliance can do even more—including a formal role in the fight against Islamic State.

Two years ago I spoke at the 9/11 Memorial in New York. Being there, at the site of the attacks, reinforced my firm belief that however much terrorists try to divide us, they will only succeed in uniting us.

This is exactly what happened after 9/11. For the first time ever, NATO allies invoked our collective defense clause, Article 5. We recognized those shocking assaults on the U.S. as an attack against us all.

In the days that followed, NATO planes patrolled American skies. Within weeks, troops from NATO allies deployed to Afghanistan to

ensure that country would never again be a haven for international terrorists. The biggest combat operation in NATO history was launched in direct response to the 9/11 terrorist attacks.

Since then, hundreds of thousands of Europeans, Canadians and troops from partner countries have stood shoulder-to-shoulder with their American comrades in Afghanistan. More than 1,000 have paid the ultimate price. Many more have suffered life-changing injuries.

At this moment, approximately 13,000 troops from 39 NATO and partner countries are training Afghan security forces to stabilize the country. And at a meeting of NATO leaders in Brussels on Thursday we will discuss how we can step up our fight against terrorism.

We never said it would be easy. On my visits to Afghanistan, I have witnessed the challenges, as well as the progress made. I was particularly impressed by my meeting with young Afghan women training to become pilots. I heard them express pride in what they are doing and appreciation for NATO's support.

While NATO's contribution to the fight against terrorism effectively began in Afghanistan, it now extends far wider.

NATO surveillance planes are supporting the coalition to defeat the so-called Islamic State. Iraqi troops trained by NATO to defuse improvised explosive devices are putting their



AP/GETTY IMAGES

Afghan soldiers being trained under NATO's Resolute Support Mission, Feb 9.

skills to use in the battle for Mosul. We have taught soldiers counterterrorism and counterinsurgency tactics in countries like Egypt, Jordan, Mauritania and Morocco. And our highly skilled troops are helping Tunisia develop its own special forces.

Earlier this year, we opened a regional center in Kuwait to enhance cooperation with our Gulf partners. We are also developing a new operational hub at our command in Naples, Italy, to improve our ability to anticipate and respond to crises in the region. At our headquarters in Brussels we have set up a new intelligence and

security division to improve our understanding of the threats we face.

At the same time, we are strengthening ties with the European Union and United Nations. Both organizations' counterterrorism capabilities complement our own. And we are working hard throughout the alliance to make our societies more resilient to attack.

While I am very proud of what NATO is already doing in the fight against terrorism, I also believe NATO can do more. For instance, we have learned from our experiences in Afghanistan and elsewhere that

training local forces is one of the best weapons we have in the fight against terrorism. It is far better, and more sustainable, to help our neighbors to stabilize their countries themselves. And if our neighbors are more stable, we are more secure. These efforts must be expanded.

There are other possibilities. Although NATO has assisted the coalition fighting ISIS, it does not have a formal role. Having one would allow NATO to support political discussions in the coalition. It would also improve coordination, for example, with training and capacity-building activities. It would not mean NATO involvement in combat operations.

We are also considering expanding our support to airspace surveillance for the coalition. An expanded training and capacity-building role for NATO's special forces and the creation of a dedicated counterterrorism intelligence cell are also under consideration.

Terrorism affects every NATO ally. It is a long-term threat to our values, freedom and way of life. And the alliance is ready to do more to counter this threat. The unique bond between Europe and North America has delivered unprecedented peace for almost seven decades, and NATO's role in the fight against terrorism is an important chapter in that story.

Mr. Stoltenberg is secretary-general of NATO.

## Can Trump Make America Grow Again? The Signs Are Hopeful

By Andy Puzder

**T**here is a gem buried under all the allegations against President Trump: The economy is markedly improving and more people are working. As Speaker Paul Ryan recently noted, Republicans "pledged that we would repeal regulations to create jobs and get the economy moving again." Through executive orders, regulatory rollbacks and strategic use of the Congressional Review Act, the president and Congress are delivering.

The end of President Obama's regulatory onslaught could begin the recovery Americans have heard so much about. The business community is increasingly optimistic. Every businessperson I speak with mentions the energizing effect of being able to focus on growth rather than overcoming the latest government roadblock.

In April the Index of Small Business Optimism, produced by the National Federation of Independent Businesses, posted its sixth straight month of historically positive feelings, "a hot streak not seen since 1983" during the Reagan Administration. That's backed up by the IBD/TIPP Economic Optimism Index,

which "gauges how confident consumers, workers and investors are in the pace and direction of the U.S. economy." An index above 50 indicates optimism. For May, it came in at 51.3. That's 2.1 points above the index's 16-year average of 49.2.

It's still early, but the economy is showing signs of real growth, too. In April the unemployment rate hit a 10-year low, while existing home sales surged to a 10-year high and U.S. industrial production registered its largest gain in three years.

Last Thursday the Labor Department announced that the number of people claiming unemployment insurance benefits dropped to its lowest level since November 1988. Even more impressive, the moving four-week average for this metric dropped to 1.95 million, its lowest level since January 1973, when it was 1.92 million. That's even more impressive than it sounds, since there are 72 million more people in the labor force today.

The unemployment rate can fall for many reasons that hardly indicate economic health. People can drop out of the labor force or accept part-time jobs because they cannot find full-time work. The good news is that the

unemployment rate is declining for the right reasons: More people are finding jobs, and more people are finding full-time jobs—both at an accelerated pace.

From February through April, the first three full months of Mr. Trump's presidency, the number of Americans employed increased by 628,000 and the number unemployed decreased

**More people are working, and the jobs are better. Now for the hard work of health and tax reform.**

by 472,000. By comparison, for the same three-month period in 2016, the number of Americans employed decreased by 15,000 while the number unemployed increased by 65,000.

It isn't merely that more people are working now because the population has grown. A higher percentage of Americans are working. At 60.2%, the proportion of Americans over 16 working in April was at its highest since February 2009, Mr. Obama's first full month in office.

Significantly, Americans in their prime working years are benefiting. At 78.6% in April, the percentage of those 25 to 54 employed hit its highest level since September 2008.

The jobs are better, too. After three full months of the Trump administration, 956,000 more people are working full time and 321,000 fewer are working part time. For the comparable three months in 2016, 49,000 more Americans were working full time and 101,000 fewer were working part time.

With more people working at better jobs, family income increased. According to the independent research firm Sentier, median household income was \$59,361 in April, a 15-year high and up 2.2% from \$58,060 in January. The latter figure was up 1.7% from \$57,090 in June 2009, when the recession ended. In other words, median family income increased more in the first three months of the Trump presidency than during the 7½ years of the Obama recovery.

It will take more than a quarter to produce the robust recovery Americans have expected since the recession ended nearly eight years ago. We need to see sustained annual economic

growth in the promised 3% range before declaring victory. To reach that goal, Republicans need to pass tax and health-insurance reform, with or without Democratic support in the Senate (the nuclear option should be on the table). But the economic momentum is already there and hard to deny.

The progressive left is concerned. Should Mr. Trump and Republicans succeed in getting the nation back on the path of economic growth and prosperity, something Mr. Obama was woefully unable to do, it will be decades before the left can again obfuscate economic reality. They will have a much harder time convincing Americans to subject themselves to the stagnation that big government produces. Perhaps this explains the left's unrelenting and near-hysterical focus on any issue other than the economy.

The task is to build on President Trump's momentum. If Republicans can unite and advance his economic agenda, the only question in 2018 will be whether the American people can once again see through the fog of media hysteria as they did in 2016.

Mr. Puzder is a former CEO of CKE Restaurants.

## French Censors Target Children With Down Syndrome

By Sohrab Ahmari

Paris

**Y**ou can learn a lot about a society by paying attention to what it censors. The Soviet Union went to great lengths to block the truth about freedom and prosperity in the West. Today China's ruling Communists suppress historical memory of their crimes, above all the Tiananmen Square massacre, while the censors in my native Iran are obsessed with women's bodies.

Then there's France, where the government has proscribed a public-service commercial that shows children with Down syndrome describing the joy of growing up with an extra pair of chromosomes. The decision has triggered a free-speech battle royal that may soon reach Europe's highest rights court.

The 2014 ad, "Dear Future Mom," addresses a pregnant woman who has just discovered her baby has Down syndrome. "Dear future mom," says one child. "Don't be afraid," says another. "Your child will be able

to do many things." "He'll be able to hug you." "He'll be able to run toward you." And so on.

Several European Down syndrome associations came together to sponsor the ad. These included France's Jérôme Lejeune Foundation, named after the geneticist who discovered the link between chromosomal abnormalities and conditions like Down syndrome, and who went on to campaign against prenatal diagnosis and abortion of babies with Down syndrome.

"In France the rate of detected DS pregnancies that result in abortion is 96%," the foundation's president, Jean-Marie Le Méné, tells me in an interview. He fears that the advent of new tests that can detect the syndrome earlier and with greater precision will push that rate to 100%—the eradication of an entire category of human beings.

Hence the "Dear Future Mom" ad. When it was released in March 2014, for World Down Syndrome Day, the ad broke records for social-media "shares" in a 24-hour period. Matteo Renzi, Italy's prime minister at the

time, was one of the millions of users who shared it.

In France three TV networks agreed to carry it as a public service. The feedback was glowing—until that summer, when the government's High Audiovisual Council, or CSA, issued a pair of regulatory bulletins interdicting the ad. The regulator said it was reacting to audience complaints.

It wasn't until after the foundation retained legal counsel, in December 2014, that the nature of the audience complaints became clear. There were only two.

The first objected to the foundation's antiabortion position generally rather than the ad itself. The other came from a woman who had terminated a pregnancy after receiving a Down syndrome diagnosis. She still mourned that child every day, she wrote. Using the familiar lexicon of contemporary censorship, she added that she found watching the ad "violent."

The foundation appealed, and the case eventually came before the Council of State, France's highest administrative court. The council in November affirmed the ban, holding that the ad could "disturb the conscience" of women who had had abortions after a Down syndrome diagnosis.

A spokeswoman for the CSA wouldn't comment on the record. But the regulator insists it was applying French laws that prohibit political messages during TV commercial time. "Dear Future Mom," the CSA says, didn't rise to "general interest" because it presented one side of a political debate.

**A public-service TV ad—'Dear Future Mom'—is rejected because it could trigger guilty feelings.**

This is a pretext. In its initial notice, published June 25, 2014, the CSA conceded that the ad "shows a positive image of the life of young people with Down syndrome and encourages society to work in favor of their integration and fulfillment"—a message that is squarely in the public interest and apolitical.

Which leaves only the viewer's complaint of being traumatized. If subjective feelings suffice, any advocacy speech could be restricted—and unpopular minorities like people with Down syndrome are most likely to be silenced.

For the foundation, the claim that

the ad evokes feelings of guilt only attests to its moral truth. Says spokeswoman Stéphanie Billot: "When you show a video of DS kids who say, 'Well, I won't be normal, but I will still be able to love you,' the guilt becomes so unbearable that society rejects it. It's a common, unconscious guilt for all who said nothing about the effort to systematically eliminate DS." Guilt can be salutary.

The foundation this month lodged an appeal with the European Court of Human Rights, asserting free-speech violations as well as genetic discrimination. It helps that France is an outlier. The ad has aired in Britain, Croatia, Ireland, Italy, New Zealand, Spain and the U.S., among others. No other government took similar action against it.

The European court accepts fewer than 1 in 10 petitions, and the foundation will have to prove harm, since the ad did air as intended in 2014. That won't be difficult, however, since the CSA says the purpose of the interdiction notice was to discourage networks from airing similar content. Several French broadcasters declined to run "Dear Future Mom" this year, citing a shortage of advertising time.

Mr. Ahmari is a Journal editorial writer in London.

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## Notable & Quotable: Morrissey on Manchester

Morrissey, the English singer-songwriter, writing on his Facebook page, May 23:

Celebrating my birthday in Manchester as news of the Manchester Arena bomb broke. The anger is monumental.

For what reason will this ever stop



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# BUSINESS & FINANCE

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## Profit Growth Bolsters Bull Market

Corporate earnings rise at faster pace, heartening investors; buybacks less a factor

BY AKANE OTANI

Earnings at U.S. companies grew at the fastest pace in nearly six years in the first quarter, the latest boon to a bull market that has stretched into its ninth year.

With nearly all companies in the S&P 500 having reported results, aggregate earnings for the first quarter are on track to grow 13.6% from the year-earlier period, ac-

cording to FactSet, the highest growth since the third quarter of 2011. The gains were broad, ranging from heavy-equipment maker Caterpillar Inc. to social network Facebook Inc. to regional bank U.S. Bancorp.

Beyond the jump in growth, many investors have been encouraged by signs that the quality of the results is improving. That contrasts with recent years, when investors worried that corporate share buybacks and ultralow interest rates were juicing stock gains in the absence of business improvement.

Fresh signs of corporate strength, alongside solid U.S. economic data and relative calm in financial markets this

year, have helped send the S&P 500 up 7.4% through Wednesday.

"We should have continued growth in the markets, a lot of it driven because we have a stable economy and solid corporate earnings," said Omar Aguilar, chief investment officer at Charles Schwab Investment Management. "That gives me reason to be more optimistic."

Sales are picking up after many companies had turned to reducing costs and delaying investments in infrastructure to boost profits through the recovery from the financial crisis. Revenues are expected to grow by 7.7% from the year-

earlier period, according to FactSet, the highest rate since the fourth quarter of 2011. Sixty-four percent of companies beat analysts' expectations for revenue for the latest quarter, according to analysis from FactSet, above the five-year average of 53%.

Companies also are spending less to repurchase their own shares this year, easing some investors' concerns that buybacks have been pumping up earnings growth. Share repurchases among firms are tracking 18% lower than a year ago and 1.4% lower than the fourth quarter of 2016, according to S&P Dow Jones Indices data as of Wednesday.

Buybacks push up per-share earnings, which can make the shares that remain on the market more valuable. But they also have been criticized by investors who see them as a way for companies to prop up share prices in the short term at the expense of focusing on investments that drive longer-term growth.

Ten of the 11 sectors in the S&P 500 are on track to post quarterly earnings growth in the first quarter, with financial and technology companies reporting among the biggest improvements, according to FactSet.

**Bank of America Corp.** Please see *GAINS* page B2

## Ford's Key Deputies Expand Their Roles

BY CHRISTINA ROGERS

The top agenda item for **Ford Motor Co.** Chief Executive Jim Hackett is carving out a clear strategy for the 114-year-old auto maker's role in an evolving car business. For just about everything else, he can rely on Joe and Jim.

Ford's executive shuffle, announced Monday, led to broader roles for current Americas Chief Joe Hinrichs and current Europe Chief Jim Farley. They will leave specific regional duties, with Mr. Farley taking charge of global markets, and Mr. Hinrichs running global operations.

The moves hand considerable sway over day-to-day decisions to the pair. As Mr. Hackett succeeds Mark Fields at the helm and looks to accelerate innovation and energize the workforce, analysts say his top lieutenants are being positioned as candidates to eventually succeed him for the top job.

In a note to investors, Barclays analyst Brian Johnson said the new job descriptions signal both are "vying to take over as CEO after Hackett's work is complete." He said "both have big challenges and perhaps the board's thinking is this will move them to cut deeper, act faster."

A Ford spokesman said the company doesn't comment on succession planning.

Ford last week said it would cut white-collar head count by 10%, or 1,400 people, in North America and Asia following similar actions in Europe and South America. In an interview, Chairman Bill Ford said more "hard actions" need to be taken to address underperforming parts of the business but declined to elaborate.

Mr. Farley, 54, is an ex-Toyota Motor Corp. executive with a sharp tongue and bulletproof resume. He was recognized by the board as a top performer in 2016 after posting a \$1.2 billion profit in Europe, a sharp improvement from 2015.

Mr. Farley—recruited by Mr. Ford and then-CEO Alan Mulally—stanches red ink and increased margins to 4.2% in Europe, a market long burdened by overcapacity and pricing wars.

Mr. Hinrichs, 50, made his name on the manufacturing side, and spent the past 4½ years running North America. He was a candidate to succeed former Mr. Mulally as CEO before the job went to Mr. Fields in 2014. Mr. Hinrichs has remained a source of stability for Ford in its most vital region amid a flood of new managers and the initiation of business ventures, including the Smart Mobility innovation unit that Mr. Hackett headed before becoming CEO.

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BRIDGE AND  
TUNNEL MAN

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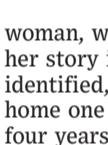
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CREDIT MARKETS, B11

## PERSONAL TECHNOLOGY

By Geoffrey A. Fowler

## You Are a Wide-Open Book on The Web

 Privacy wasn't a concern for her until it was too late. The

woman, who agreed to share her story if she weren't to be identified, told me she left home one midnight after four years in a relationship. She moved away and restarted her life. Then, she says, she was bombarded by phone calls from men soliciting her for sex and by bizarre friend requests on social media. She says one man showed up at her house.

She suspected her ex of stalking her online and posting her information to fuel harassment. "It is psychological torture," she told me.

She turned to a domestic-violence shelter for help working with Verizon in an effort to unmask some of the phone callers and filing for "Safe at Home" status in her state to shield her address from public records.

It's a stark reminder that erosion of privacy is a cancer of digital life. And while we might not talk about privacy as often as the latest cool app, it's only getting worse.

I hear this all the time: "I have nothing to hide." The truth is, pretty much everybody has something online they want to keep private.

What has your web browser seen that could embarrass you later? This isn't just about porn. Have you hunted for a new job, streamed the ballgame at work, investigated a crush or googled the morning-after pill? Imagine if a report about it showed up on the desk of your boss, spouse or

Please see *FOWLER* page B4



JOE KLAMAR/AGENCE FRANCE PRESSE/GETTY IMAGES

Policemen outside OPEC headquarters in Vienna on the eve of the cartel's meeting. For more energy-market coverage, see page B10.

## U.S. Shale Oil Puts Heat on OPEC

BY LYNN COOK  
AND BOENOT FAUCON

VIENNA—OPEC's back is against the wall and U.S. oil producers put it there.

The Organization of the Petroleum Exporting Countries and a coalition of other nations including Russia are poised to curtail oil production for at least another nine months. The truth is the group has little choice, as U.S. drillers stepped up production following OPEC cuts announced in November to ease a global glut.

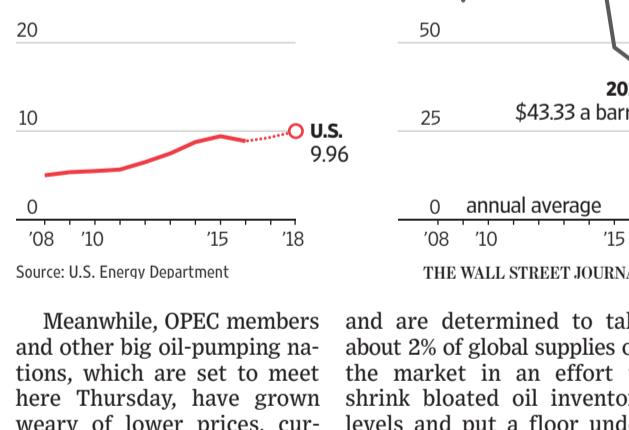
U.S. oil output is now on pace to exceed 9.9 million barrels a day in 2018, a record, according to the U.S. Energy Information Administration.

For OPEC, competing against American shale oil now entails competing against Wall Street and its financial engineering—a prospect that has bedeviled government-run oil companies from Saudi Arabia to Nigeria.

### Oil Market Melee

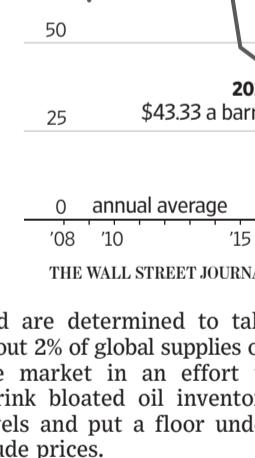
While OPEC struggles to curb output, U.S. companies keep pumping more crude and are expected to set a new record in 2018.

#### Crude-oil production



Meanwhile, OPEC members and other big oil-pumping nations, which are set to meet here Thursday, have grown weary of lower prices, currently just above \$50 a barrel,

#### WTI crude-oil spot price



and are determined to take about 2% of global supplies off the market in an effort to shrink bloated oil inventory levels and put a floor under crude prices.

Saudi Arabia is particularly eager to boost oil values because it plans to take a piece of the government-run oil company, **Saudi Aramco**, public next year in a deal it is counting on to raise tens of billions to transform its economy away from oil.

American shale producers have prevailed so far because they have continued to innovate and cut costs as they refine hydraulic fracturing, horizontal drilling and other pioneering techniques to unlock a flood of oil from Texas to North Dakota.

But there is another major factor at play. Private-equity firms have continued to pump money into shale companies, even after many went bankrupt when oil prices plunged from \$100 a barrel in 2014. U.S. drillers meanwhile have exploited a variety of financial instruments—special contracts called hedges, collars and swaps—to effectively lock in prices.

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## Old-School Fund Shifts Into High-Tech Investor

### Rise of the Machines

Magnetar's quantitative PRA fund eclipses its hedge-fund peers

#### Growth of a \$1,000,000 investment



Magnetar Capital is tilting from its historical strengths into new areas like quant.

#### Magnetar firm assets under management, in billions



Sources: Magnetar investor documents; HFR

EVANSTON, ILL.—Alec Litowitz, founder of one of the country's largest hedge funds, raised a simple question at the firm's investment committee meeting: How often do mergers fall apart?

No one had the answer, so the **Magnetar Capital LLC** founder assigned a team of analysts to pore through three decades of data to find out. They calculated that while 7% of announced transactions eventually collapse, the market behaves as if nearly twice as many do. Mr. Litowitz reasoned a computer program could make money exploiting that discovery and thousands of others. So began six years ago a billion-dollar quantitative effort at Magnetar designed to help the \$13.5 billion firm buck a hedge-fund massacre waylaying its peers and set to rest memo-

ries of controversial trading by the firm on subprime housing during the financial crisis.

Like high-end restaurants, hedge funds often roll out new menus to entice investors to keep coming back, and quantitative trading is the latest special du jour. Magnetar's quantitative push is different from many of its competitors, who parse reams of data in the hunt for an edge—even one they can't explain.

"We start with intuitions and then go see if the data backs it up," said Mr. Litowitz.

An adrenaline junkie who competes in triathlons and off-road mountain bike races, 50-year-old Mr. Litowitz was one of Kenneth Griffin's first hires at hedge-fund **Citadel LLC**.

Mr. Litowitz left to start Magnetar in 2005. The firm launched with \$1.8 billion in capital, marking one of the largest hedge-fund launches of the time. Since inception, Magnetar's flagship fund has reported only two down years, with an average annualized return of roughly 5%, after fees.

Similar to many hedge funds, however, investors have pulled more from Magnetar than they have put in of late. The firm still manages nearly as much assets as it ever has thanks to positive investment performance, including 8% gains in each of the past two years for its newest quantitative vehicle, investor docu-

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## THE QUANTS

Machines and their masters are the undisputed new kings of Wall Street

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## SHALE

Continued from the prior page  
in prices for future oil sales,  
insulating them from the potential fallout of falling prices.

**Laredo Petroleum** Inc. has hedged 70% of its expected oil production for 2017. Even as U.S. crude languished under \$50 a barrel this spring, the independent producer got nearly \$56 for most barrels it pumped in the Permian Basin in Texas and New Mexico. The contracts ensure that Laredo can continue plans to spend \$500 million on 70 new horizontal wells under the West Texas desert this year.

Innovation is also helping. Most of Laredo's horizontal wells are now super-sized to two miles long, which will allow Laredo to produce effectively as much as if it had doubled its rig count.

Today the company can also drill twice as fast. The efficiency gains have lowered Laredo's break-even price to under \$40 a barrel, down from \$63 in 2014.

Randy Foutch, Laredo's chief executive, noted that if Texas were an oil-producing country, it would rank among the top 10 producers, between Iran and the United Arab Emirates.

"The Saudis have come to grips with reality," Mr. Foutch said, adding, "We've got it. We're there. We have a seat at the table."

OPEC Secretary-General Mohammad Barkindo says all



Cost cuts and innovations have helped U.S. shale producers. Above, pump jacks on the Bakken Shale formation, near Williston, N.D.

producers will benefit from OPEC's action, including American shale players. "No one was insulated from the vagaries of this cycle," he said.

Shale producers still aren't under much immediate pressure to make money for investors, who are betting that the disruptive, fast-growing companies will eventually profit when prices increase.

Even so, U.S. operators have been aggressively wringing costs out of their operations, with 60% of hori-

zontal wells in the major shale basins now breaking even between \$35 and \$55 a barrel, says Allen Gilmer, chairman of Austin consulting firm Drilling firm.

Even shale drillers that continue to lose money are going back to work, said Paal Kibsgaard, chief executive of the world's largest oil-field service company, Schlumberger Inc.

To counter the threat of shale, OPEC's 13 members cobbled together a coalition with 11 others outside the cartel, including Russia, to cut produc-

tion.

Two more, Egypt and Turkmenistan, have signaled they will join the latest effort, which means 26 countries with output of 52 million barrels of oil a day—almost 60% of world demand—will be dialing down production.

Russia, which has held the cartel at arm's length for years, gave the coalition a boost by agreeing to cuts after low oil prices pushed the country's economy to the brink.

Russian President Vladimir

Putin is up for re-election next year, and the country's budget gets a \$30 billion infusion for every \$10 increase in the price of oil.

Some experts say the efforts are slowly but surely addressing the global oversupply problem. But any new agreement to limit production from Iraq and other OPEC members will only spur production from the U.S., warned Alan Eyre, who is in charge of Middle East energy at the State Department.

Summer Said contributed to this article.

## GAINS

Continued from the prior page  
first-quarter profit jumped 40% from a year earlier, as trading revenue jumped and rising interest rates boosted its net-interest income—a key measure of lending profitability. Shares of the bank are up 5.7% in 2017.

Facebook's first-quarter profit rose 76% to \$3.06 billion as advertisers spent more money on its platforms and the company's number of active users continued to rise. Its shares have gained 30% this year.

"When we look at how earnings came in this quarter and how they're expected to come in the rest of the year, people's concerns about the

stock market should really be allayed," said Jonathan Golub, chief equity strategist at RBC Capital Markets.

S&P 500 companies have now posted earnings growth for three quarters in a row after five consecutive quarters of declines, according to FactSet. The rebound is expected to continue; analysts polled by FactSet estimate the broad index will post earnings growth of 6.8% for the second quarter and 11% for the full year.

Much of that is because a prolonged slump in commodity prices eased at the end of last year. About one-third of the S&P 500's earnings growth in the first quarter came from energy companies, according to FactSet, where results improved alongside oil prices, which sank to their lowest lev-

els in more than a decade in early 2016. Last month, Exxon Mobil Corp. reported its best quarterly results since 2015, while Chevron Corp. swung to a first-quarter profit of \$2.7 billion.

Some worry that this year's stock rally could stumble if economic measures—including U.S. auto sales—that disappointed in the first few months of the year show continued weakness.

"I see some danger signs for growth moving forward," said Ed Keon, managing director and portfolio manager with QMA, a multiasset manager owned by Prudential Financial. Still, Mr. Keon said he doesn't see an end to the bull market soon.

—Ben Eisen

contributed to this article.

## BUSINESS & FINANCE

# Fund's Bridge-and-Tunnel Man

Blackstone's Sean Klimczak hustles infrastructure projects as firm raises money

BY RYAN DEZEMBER

When Blackstone Group LP was competing for the chance to finance a natural-gas export terminal, Sean Klimczak dropped his weekend plans and raced across the country for a meeting with the energy company's chief executive. He didn't have a suit in hand, but no matter, he bought one when he arrived.

Blackstone's rival for the \$1.5 billion deal was a group of smaller investment outfits. Blackstone won the deal, and **Cheniere Energy** Inc.'s facility was built and became the first to ship U.S. shale gas abroad. For Mr. Klimczak, one key to victory was the advantage of being able to write a big check quickly without wrangling with partners.

Now Mr. Klimczak is ascending to a position in which he should be able to write many more 10-figure checks. Blackstone has tapped the 40-year-old to lead its new infrastructure business, which is aiming to raise \$40 billion in a fund focused on building and buying U.S. public works.

Blackstone said that it expects the fund to have buying power of about \$100 billion once debt is added to the mix, and that it will have a broad mandate to invest in assets ranging from power plants and pipelines to water systems, roads, bridges, airports and hospitals.

The firm's plans were unveiled Saturday after officials with Saudi Arabia's Public Investment Fund disclosed in Riyadh as part of President Donald Trump's visit that they had agreed to seed the fund with \$20 billion.



Mr. Klimczak will lead a new fund dedicated to assets such as power plants, pipelines, airports and hospitals.

Jefferies LLC analysts estimate that once all of the \$40 billion is raised, the business could annually generate \$300 million in management fees alone for Blackstone.

The new fund is what is called a permanent capital fund, meaning it has no deadlines to cash out of investments. Mr. Klimczak said he expects the ability to hold investments for potentially decades will help persuade government officials to work with the firm.

"Why is Warren Buffett welcomed in the utility sector? It is because he has long duration capital. Having the ability to tell a utility commission that you don't ever have to sell is quite powerful," he said.

Still, it is unclear how profitable the venture can be. Big infrastructure deals come with risks that are uncommon in corporate takeovers, from politicians who change their minds or are voted out of office midproject to construction and permitting processes that can drag on for years and blow out budgets.

Also, Mr. Klimczak and other Blackstone executives now have to raise the other \$20 billion they seek. While Blackstone has shown the ability to raise huge amounts of capital, it will be competing with more than 100 other fund managers who are collectively seeking to raise more than \$100 billion for other infrastructure funds, according to industry tracker Preqin.

Mr. Klimczak "understands the social mission that is associated with infrastructure," Mr. James said, offering as an example a hydropower dam that provides roughly half of Uganda's electricity. "When we first looked at [it], we couldn't get the numbers to work. Sean said, 'Guys, this is transformational for the country. We have to do this.' So we went back to the drawing board and figured it out."

THE WALL STREET JOURNAL.



\*2017 data are through the first quarter.

Source: Securities filings

The Saudi commitment alone would be the largest private infrastructure fund ever raised, eclipsing the \$15.8 billion raised by Global Infrastructure Partners this year. It is the most ambitious launch of a business line, by initial size, in the 32-year history of Blackstone, which is a leader in its four other segments:

real estate, private equity, hedge funds and credit.

"We already have government agencies calling with infrastructure proposals that require billion-dollar-plus equity checks," Blackstone President Hamilton "Tony" James said in an interview.

The plans have also piqued Wall Street's interest. Blackstone's shares have risen 8.7% since the announcement, to their highest point in nearly two years.

Another razor rival is taking a cut at Gillette. **Edgewell Personal Care** Co., maker of Schick, the No. 2 U.S. brand, is mounting a direct challenge to the **Procter & Gamble** Co. unit with an online subscription service that sells blades that fit on a Gillette handle but cost less.

"Men are creatures of habit, and anything we can do to lower the barrier of entry to try our product will be helpful," said Patrick Kane, who runs Edgewell's men's shaving business.

The price for blade refills on the new service ranges from \$1.78 to \$3.33 per cartridge depending on the type of blade and number of refills in the package. Gillette's online subscription service sells a five-pack of refills for its Mach 3 line for \$2.60 per cartridge and a four-pack for its pricier Fusion line at \$5.36 per cartridge with the fourth shipment free.

The move comes as P&G is scrambling to ward off competition from online razor startups and cheaper competitors. Gillette's share of the U.S. market, close to 70% in 2011, fell to 54% last year, according to Euromonitor.

P&G recently announced it would slash razor prices by 12% on average and put a new focus on its cheaper products.

A Gillette spokeswoman said the company produces higher-quality blades. "Razor technology is a matter of microns—and how every single component comes together matters," she said. Men "shouldn't have to choose between convenience, flexibility, quality and value."

Edgewell's new website, SchickHydro.com, was launched Wednesday.

Edgewell, with a \$1.4 billion shave business globally, is late to the online game. Dollar Shave Club launched in 2012 and Harry's followed shortly after, both offering cheap blades and an alternative to shopping for razors in a store. P&G's Gillette has had an online service since 2014.

## Rosier Outlook

S&P 500 companies posted better-than-expected earnings growth in the first quarter, helping to justify higher stock valuations.

### Growth expectations for first-quarter earnings

## BUSINESS NEWS

### Missouri Insurer To Drop Its ACA Plans

BY ANNA WILDE MATHEWS

**Blue Cross and Blue Shield of Kansas City** plans to pull out of the Affordable Care Act health-insurance exchanges next year, a move that leaves a region in northwestern Missouri at risk of having no available marketplace plans.

The nonprofit said that after losing more than \$100 million on ACA plans through 2016, it will stop offering exchange plans in 30 counties in northwestern Missouri and two counties in Kansas.

Blue Cross and Blue Shield of Kansas City is the sole marketplace insurer in 25 counties—about one-fifth of the total—in Missouri, according to the Kaiser Family Foundation.

"This is unsustainable for our company," said Danette Wilson, chief executive of Blue Cross and Blue Shield of Kansas City, in a statement. The move will affect approximately 67,000 people, the insurer said. It began offering plans in 2014.

The decision by the Kansas City insurer is the latest sign of strain in the ACA exchanges, which sell health insurance to individuals. **Humana Inc.** and **Aetna Inc.** have already announced they will next year leave all of the marketplaces where they currently sell plans. Some insurers have been seeking large rate increases, citing claims costs and regulatory uncertainty.

Insurers have also said that more rate increases and withdrawals are likely if the Trump administration and Congress don't commit to continuing federal payments that support reduced costs for low-income ACA enrollees.

### Peloton Gears Up for Fitness Race

BY CAT ZAKRZEWSKI

Investors are jumping aboard the stationary bike, now in high-tech form.

The latest business model is a mix of slick tablet-sporting stationary bikes, high-octane spinning class instructors and interactive streaming video. New York-based **Peloton Interactive Inc.**, maker of a \$1,995 video-streaming stationary bike, has now raised \$325 million at a \$1.25 billion valuation.

The technology and bicycle developer is loading up on capital after spinning class giant **SoulCycle Inc.** shelved plans for an initial public offering and as rival **Flywheel Sports Inc.** said last week that it plans an at-home bike and video streaming system, tapping into the latest exercise craze.

An army of startups is aiming to reinvent exercise with new technologies and grab a slice of the multibillion market for fitness studios. The health-and-fitness market is expected to swell from \$26 billion in 2015 to more than \$30 billion by 2020, according to Piper Jaffray analyst Brian Smith.

Investment bank Jefferies pointed to a "fitness arms race" in a recent report. Yet the market is heavily divided, said Jefferies analyst Randy Konik, with competition at the



Peloton founder John Foley at the company's headquarters in Manhattan in 2015. The business now has a valuation of \$1.25 billion.

low end among budget gym options such as Planet Fitness and at the high end among boutique studios such as SoulCycle and Flywheel.

Peloton, which was founded by John Foley in 2012, will have an edge over New York-

based Flywheel as the first mover, Mr. Smith said. But the high-end price tag of Peloton's stationary bicycle—plus a \$40 monthly subscription for video streaming classes—may constrain its market reach. "I think the biggest risk is just

the price point," he said.

SoulCycle Chief Executive Melanie Whelan said his customers say "there's no replacement for the live production elements of our studio experience." But the company will still have to compete with

SoulCycle's in-person studios, which feature wildly popular instructors.

Peloton's capital infusion follows on year when it generated \$170 million in revenue, up from \$60 million in 2015, according to finance chief Lisa Klinger.

### Dow-DuPont Plan Displeases Activist Investor

BY DAVID BENOIT

Tensions between activist investor Dan Loeb and **Dow Chemical Co.** are spilling back into the open.

After a year of peace, Mr. Loeb plans to publicly push for changes to the complicated combination and breakup of Dow Chemical and **DuPont Co.**, according to a presentation reviewed by The Wall Street Journal.

The two chemical companies announced the megadeal

in late 2015, saying they would briefly combine their sprawling businesses before splitting the merged operation into three public companies focused on agriculture, materials and specialty products.

But this month Dow and DuPont said they were reviewing that plan following shareholder pressure to alter the makeup of the three new companies.

Mr. Loeb's presentation essentially says the current

plan to split up the businesses doesn't go far enough to break apart Dow, echoing other investors and analysts. He first took a stake in Dow in 2014 and pressed for it to break up.

The companies said they "are fully aligned regarding the objective of the review, and we continually solicit and welcome input from our owners."

Mr. Loeb's **Third Point LLC** is pushing the companies to shift businesses be-

tween the planned materials company, known as Dow 2.0, and the specialty-chemicals company, according to the presentation. The hedge fund wants the specialty company to be formed by four units that themselves could be separated or sold off, the presentation says.

Third Point's plan would shift businesses that generate \$3.7 billion in earnings before interest, taxes, depreciation and amortization, or Ebitda, to the specialty busi-

ness, while a smaller set of businesses with some \$300 million in Ebitda would move from specialty to materials.

The presentation estimates Mr. Loeb's plan would create some \$20 billion in additional stock-market value and lead to additional cost cuts.

Mr. Loeb's decision to go public after the companies said they were reviewing the postmerger plan signals he remains concerned about Dow's decision making.

## THE FUTURE OF EVERYTHING

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## TECHNOLOGY

# In Cyberwar, Spies May Be Targets

Ex-intelligence officials fear hackers are exposing identities of team working for NSA

BY ROBERT McMILLAN  
AND SHANE HARRIS

The mysterious hacking group that supplied a critical component of the WannaCry "ransomware" software attack that spread across the globe in mid-May has been releasing alleged National Security Agency secrets for the past eight months.

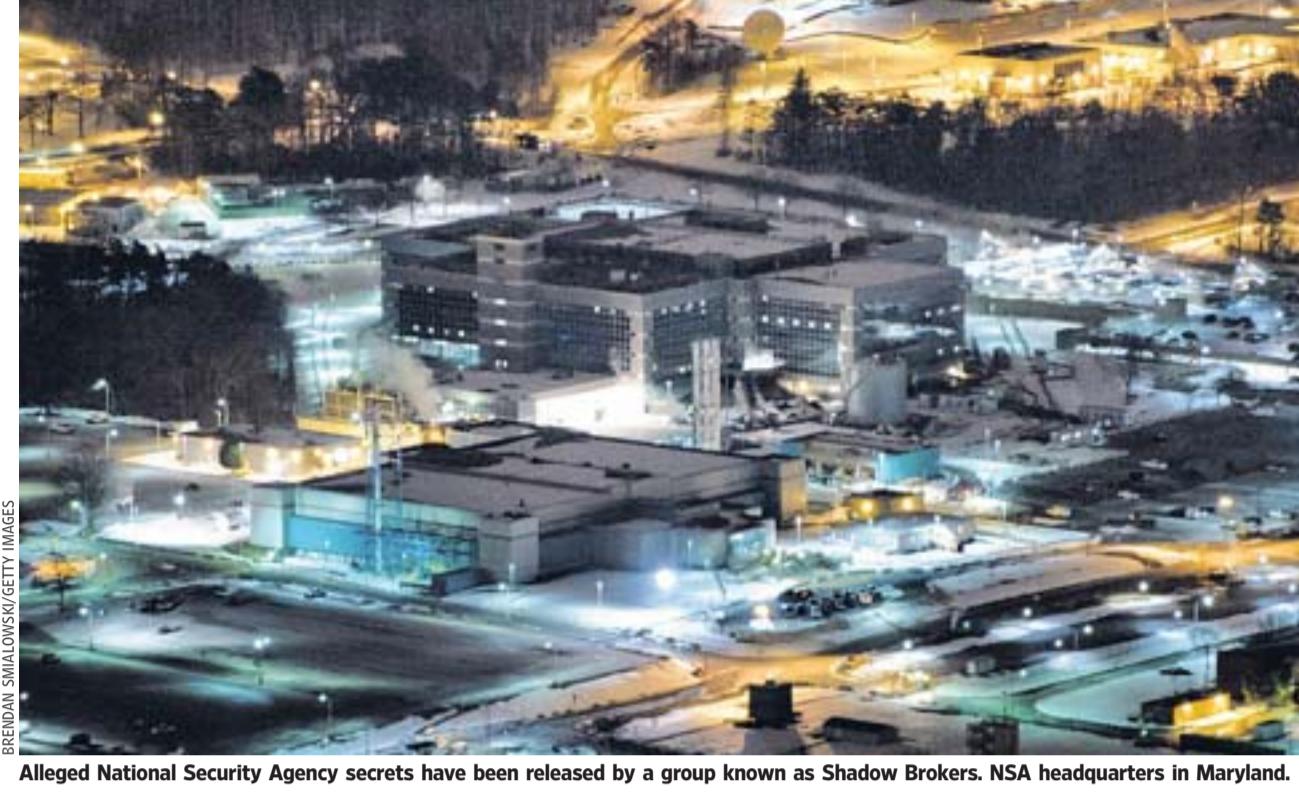
Former intelligence officials now fear that the hackers, who go by the name Shadow Brokers, are taking a new tack: exposing the identities of the NSA's computer-hacking team. That potentially could subject these government experts to charges when traveling abroad.

The Shadow Brokers on April 14 posted on a Russian computer file-sharing site what they said were NSA files containing previously unknown attack tools and details of an alleged NSA hack affecting Middle Eastern and Panamanian financial institutions.

But something went largely unnoticed outside the intelligence community: Buried in the files' "metadata"—a hidden area that typically lists a file's creators and editors—were four names. It isn't clear whether the names were published intentionally or whether the files were doctored. At least one person named in the metadata worked for the NSA, a person familiar with the matter said.

Additionally, the hacking group in April sent several public tweets that seemingly threatened to expose the activities of a fifth person, former NSA employee Jake Williams, who had written a blog post speculating the group has ties to Russia.

The U.S. government hasn't commented on the authenticity of the Shadow Brokers' releases. Security experts who



Alleged National Security Agency secrets have been released by a group known as Shadow Brokers. NSA headquarters in Maryland.

have examined the documents believe they contain legitimate information, including code that can be used in hacks, as well as the names of the files' creators and editors. An NSA spokesman declined to say whether the names, documents and tools released by the Shadow Brokers came from the agency.

For people who work in the intelligence community, having their identities or the work they have done outed is a significant concern, said Robert M. Lee, chief executive of cybersecurity firm Dragos Inc. and a former member of the intelligence community.

Because nation-state hackers might run afoul of other countries' laws while discharging their duties, they could, if identified, face charges when outside their country. So, to keep their own people safe, governments for decades have abided by a "gentleman's agreement" that allows government-backed hackers to op-

erate in anonymity, former intelligence officials say.

The Shadow Brokers "made this personal," Mr. Lee said. He believes the group left names in the metadata either because the group doesn't care about redacting sensitive information or because they wanted the names public.

Attempts to contact the Shadow Brokers weren't successful. In blog posts, the group has denied any government affiliation, presenting themselves as anarchic hackers cut in the mold of the Anonymous collective. They first appeared in August of last year, releasing purported NSA documents.

Some former intelligence officials suggested the U.S. prompted the outing of state-sponsored hackers when it indicted five Chinese military hackers by name in 2014, and more recently brought charges against two officers with Russia's Federal Security Service over a 2014 Yahoo Inc. breach.

By exposing cyberagents, the Shadow Brokers appear to be taking a page from the U.S. playbook, said Mr. Williams, who worked for the NSA's Tailored Access Operations hacking group until 2013. An NSA spokesman said the agency doesn't comment about "most individuals' possible current, past or future employment with the agency."

"We've fired first," Mr. Williams said, referring to the U.S. charging the alleged Chinese hackers by name. "This is us taking flak."

Current and former Justice Department officials said the 2014 indictment and a 2015 cyber pact between the U.S. and China were meant to serve as a line in the sand to deter nation-state hackers from breaking into U.S. companies for economic gain. The point was to say "this type of behavior was not and should not be condoned," said Marc Raimondi, a U.S. Justice Depart-

ment spokesman.

Government investigators are treating the Shadow Brokers documents as authentic, according to people familiar with the matter. Earlier this month, Microsoft Corp.'s chief lawyer, Brad Smith, asserted the computer code used in the WannaCry worm, a ransomware attack that held hundreds of thousands of computer files hostage, was "stolen from the National Security Agency."

While the Shadow Brokers claim to be anarchic hackers, many intelligence experts, including Mr. Williams and NSA leaker Edward Snowden, believe they are backed by Russia. "Circumstantial evidence and conventional wisdom indicates Russian responsibility," Mr. Snowden wrote in an Aug. 16 tweet. A spokesman for the Russian Embassy declined to comment on the allegation. Russia previously said allegations that it has hacked the U.S. government are false.

# QUANTS

Continued from page B1  
ments show.

The firm was investigated by the Securities and Exchange Commission after the crisis for its role in creating mortgage securities that suffered billions of dollars in losses in the housing swoon. The firm consistently denied wrongdoing, and the probe was closed with no charges brought.

Mr. Litowitz now describes the public flogging the firm received as "not my favorite period, but probably partly our responsibility a little bit, having not done the greatest job of articulating what we did."

Magnetar executives had concluded some of their old trades, such as spotting discrepancies in complicated financial instruments like convertible bonds, had grown tired.

Thus began a shift into new areas such as quantitative trading and investments in movies and commercial jets.

Magnetar is pouring tens of millions of dollars annually into researching new techniques for investing. One-fifth of the firm's 260-person staff now works in technology. In one instance, the firm's researchers advised the investment staff to largely ignore traditional metrics in stock picking like executives' ownership of stock because such statistics are weak predictors of short-term performance. In fixed income, which includes half the firm's assets, Magnetar execu-

## 15%

Percent of fixed-income assets representing old-school bets.

tives say only 15% of the firm's investments now constitute old-school hedge-fund bets like deciding one by one when to zip in and out of securities. The firm cast a wide net for the next big wins, in one instance scoring handsomely on Chinese e-commerce giant Alibaba before its public debut, and in another investing in thousands of commercial trucks and single-family homes. "We would have never thought we'd ever be in these businesses before," says Dave Snyderman, Magnetar's global head of fixed income.

Magnetar also began telling investors it would waive some fees tied to performance unless it could beat a market benchmark. "It's rare, because most people are creatures of habit," says J. Tomilson Hill, vice chairman of the **Blackstone Group** LP, which bought a minority stake in Magnetar.

Magnetar recently parted ways with its head trader—a top role at most hedge funds—to instead move to a committee-based approach where no individual holds the power, people close to the firm say.

Magnetar executives say there still is a significant role for human decision-making.

Last year, facing mounting losses in its multibillion-dollar energy arm amid a slide in the price of oil, energy head Eric Scheyer called an emergency meeting, people close to the firm say. Mr. Snyderman, a 12-year Magnetar veteran, proposed shifting the energy bets to a "barbell" approach, in which new investments would be either outright risky or ultrasafe.

The energy fund was up 23% last year, according to investor documents.

In Magnetar co-founder Ross Laser's office hangs a framed African proverb.

The gazelle, the poem begins, "knows it must run faster than the fastest lion or it will be killed." "It's a metaphor," Mr. Laser says.

## FOWLER

Continued from page B1  
legal adversary. The most innocuous fragments of your digital life—Facebook posts, even the Find My iPhone app—can be weaponized to target or harass.

Meanwhile, data aggregators send their bots to collect anything and everything they can about you: addresses, browsing habits, even estimated net worth. Then they glue it all together, facts and wild guesses alike, into dossiers. That's the legal side of data collection. Things get scarier when your tax accountant, credit-card company or email provider gets hacked.

Think about what's coming in the era of artificial intelligence. Many of Silicon Valley's smartest minds are making billions mining you for ad targeting.

OK, maybe you don't mind that underwear ad that follows you around the web. But data brokers now combine information from multiple sources to segment us in ways that go well beyond advertising. Should you be invited to join a club? Or a clinical trial?

It's about self-determination. "If people don't have the ability to control or understand how their data is being used, it can lead to severe difficulties," says Julie Brill, a partner at law firm Hogan Lovells who as a member of the Federal Trade Commission



helped lead an investigation of data collectors.

Many assume the law will intervene when data might be used to harm you, and they are both right and wrong. There are laws, Ms. Brill points out, but they're fairly focused on topics like health and financial data.

### The privacy test

I have a theory: People would care more about privacy if they realized how exposed they already are.

I invited a half-dozen volunteers I hadn't met before into my lab to see how much extremely personal information I could find about each of them in under an hour.

I managed to shock every one of them. It wasn't even

very hard.

Level one was calling up what's out there and totally public. Lots of people have googled themselves, but fewer are familiar with "people search engines" like FamilyTreeNow.com and Spokeo, which pull together and cross-reference public data, such as property records and court reports. Anyone can use them to look for birth dates, current and former addresses, phone numbers, gobs of relatives—even ex-lovers and roommates.

### Public personal data

Along with some legit uses—finding lost relatives, protecting against fraud—all that info could be used for "doxing," where harassers

surface personal information to intimidate their targets.

This public personal data could also be used to impersonate you. FamilyTreeNow.com and Spokeo accept requests to remove data, though they don't promise your name won't show up again in the future.

Everybody knows about privacy on social media, right? The problem is, people aren't very good at using privacy controls.

A site with the terrifying name StalkScan.com drives home the point. Made by a self-described "ethical hacker" named Inti De Ceulaire, the site lets non-friends search your Facebook account for public posts, as well as public pictures, tags

and likes. The founder says the site, which automates Facebook's existing search function, is intended to show Facebook users posts they may not know are public.

Level two in my privacy test was looking at data we willingly give to companies like Google.

My volunteers brought their laptops and logged in. What we found provoked their most uncomfortable reactions.

On its Maps Timeline, Google is gathering a dossier about you that would make a spy jealous. Depending on how much you use Google products, there could be an hour-by-hour map of everywhere you've ever visited. Yes, everywhere. On Google's My Activity site, you can see searches, websites you visit in Chrome, YouTube videos you watch, even recordings of your voice to Google's Assistant.

At least Google, like a few others, presents the data in a dashboard for you to see—and delete, if you want. Half of my volunteers deleted stuff immediately.

The woman who received harassing phone calls told me she has made it her mission to scrub her name from the internet entirely. It isn't going very well. She canceled her Google and Facebook accounts, but still can't remove some info posted by others. She says several people-search sites haven't responded to her requests. "No one will hear me," she says.

# Aerospace Firm Safran Cuts Zodiac Bid

BY ROBERT WALL  
AND BEN DUMMETT

French aerospace supplier Safran SA on Wednesday said it cut its bid price for **Zodiac Aerospace** SA by about 15% to €7.3 billion (\$8.19 billion) after renewed profit headwinds came to light at the beleaguered plane cabin-interior specialist.

Safran in January announced a plan to buy Zodiac Aerospace to become the world's No. 3 aerospace supplier to **Boeing** Co. and **Airbus SE** behind **United Technologies** Corp. and **General Elec-**

tric

The deal quickly drew fire from hedge fund **TCI Fund Management**, which said Safran was overpaying.

TCI urged Safran to abandon the deal and attacked the complicated transaction that it said gave preferential treatment to Zodiac's family shareholders and two institutional investors in the company.

Safran said in March that it was reviewing its offer after Zodiac issued a profit warning amid new problems in its seat-building business. The company already had been

struggling to produce business class seats for Boeing and Airbus and other cabin interior items, such as toilet doors. Safran on Wednesday said it would pay €25 each for all Zodiac shares. Safran originally had said it would pay €29.47 a share for Zodiac in a tender offer.

It also adjusted other elements of the complex deal.

The new structure offers an alternative to the cash offer for some Zodiac shares. Safran is offering preferred shares in exchange for Zodiac stock in a structure with an implied value of around €24 for each



Safran announced a plan to buy Zodiac in January. A Safran plant.

## SMALL BUSINESS

# Health-Tech Startups Feel the Squeeze

Firms shift strategies as others see tougher funding environment amid unease on ACA

By RUTH SIMON

As Congress grapples with possible repeal of the Affordable Care Act, political uncertainty is prompting some health-technology startups to revamp their sales pitches or products, while others are finding it tougher to attract fresh capital.

The challenges are likely to be greatest for young firms with limited resources, companies tied directly to the insurance market or that sell to hospitals facing potential cuts in Medicaid, say some investors and others that work with startups.

It is still too early to tell how repeal of the ACA might play out or even whether it will happen. Republicans in the Senate have said they plan to put their own stamp on the bill that cleared the House this month, though the debate is expected to be contentious.

"One of the big advantages of a startup is to be able to pivot and fall into new opportunity," said Dr. Hubert Zajicek, chief executive officer of Health Wildcatters LLC, a Dallas health-care startup accelerator. "But this is change that has spelled more uncertainty. That is not change you can prepare for."

Some startups are shifting strategies to focus more on direct sales to consumers. Pillsy Inc., a maker of Bluetooth-enabled smart pill bottles, has stepped up efforts to sell its product online and in pharmacies and is spending less time marketing to health-care providers.

The Seattle-based company is spending heavily on digital advertising and has hired a public-relations firm instead of sending an employee to conferences, said CEO Jeff LeBrun.



Pillsy co-founders, from left, Jeff LeBrun, Chuks Onwuneme and Otto Sipe. The company has stepped up efforts to sell its product and is spending less time marketing to health-care providers.

Venture-capital investors poured \$4.9 billion into health-care startups in the first quarter of 2017, up from \$3.6 billion a year earlier, according to Dow Jones VentureSource. Nearly 70% of those funds went to drug-development and medical-device ventures.

Political uncertainty has made some investors and customers more cautious about digital health companies. "The funding bar went up" after the election, said Anne DeGheest, an investor and founder of San Francisco-based HealthTech Capital. Investors are "asking for a higher level of sales and market validation."

The number of digital health startups receiving funding dropped to 124 in the first quarter of 2017, the lowest quarterly total since the first quarter of 2011, according to StartUp Health, a startup mentor. The amount raised was comparable to last year's total, as investors funneled bigger sums into later-stage startups.

Many entrepreneurs say the appetite for health-care technologies that cut costs and improve quality will remain strong regardless of the political climate. The response to uncertainty is to "lean even harder on the clinical literature backing up what we do and the return on investment

**Smart pill bottles made by Pillsy are Bluetooth-enabled and automatically track doses.**

business case," said Adam Brickman, a spokesman for Omada Health Inc., a six-year-old startup that provides digital tools for diabetes prevention.

The San Francisco-based company works with roughly 70 employers, health plans and health systems.

And some hospitals will

continue to invest in new technologies regardless of what happens to Medicaid and the ACA, said Lee Perlman, president of GNYHA Ventures Inc., the for-profit arm of the Greater New York Hospital Association.

But others will only look to technologies "with short-term impacts that will allow them to do more with less."

"In the end, it will be a scalability issue," Mr. Perlman said. "If forced to choose between providing basic patient care and new investment, basic patient care will win."

Juan Pablo Segura, founder of Babyscripts, which uses an app and internet-connected medical devices to remotely track the health of pregnant women, has seen a shift in mood.

"There are plenty of health systems out there investing in the future, but there just isn't that massive push we felt before," said Mr. Segura, whose Washington startup works with more than a dozen hospitals.

tal systems.

Babyscripts is focusing its sales efforts on the large hospitals that are early adopters of new technologies and less on smaller private practices more likely to be unsettled by any changes in health-care reimbursement laws.

Dallas-based Take Command Health was working on software that would help professionals without employer coverage find a better health plan. With the future of the ACA and health-care exchanges in doubt, the company is focusing more on using its platform to help small businesses take advantage of a different law, passed with bipartisan support in late 2016, that allows them to use pretax dollars to reimburse employees for health-care costs.

After the election, "we felt like the rug got pulled out from under us," said the three-year-old company's founder, Jack Hooper. "We found a safe harbor with this law that is already passed."

Even more established firms have faced investor questions.

David Vivero, chief executive of Amino Inc., which uses data from records of billions of insurance claims to analyze health-care costs and quality, said the startup had "meaty discussions" with investors about the potential effect of changes in health policy on its business.

In April, the San Francisco-based company raised \$25 million from Highland Capital Management, Accel and others. Investor discussions helped lead Amino, which initially focused on analyzing specialty care, to apply its analytical tools to mammograms and other primary care services.

"Your product priorities change," said Mr. Vivero. Before the election, "we wouldn't have found it to be useful to profile the cost of preventive services that would otherwise be free under every plan in America."

## Venture Funds Flood the Sector With Wads of Cash

Startup investments rise 37%; SoFi pulls in \$500 million

Investors injected \$14.5 billion into U.S. venture-backed startups in the first quarter, up 37% from the previous period, according to data from Dow Jones VentureSource.

Recipients of venture funding included financial services, which saw a 15% bump in investment to \$913.1 million, compared with the \$792.4 billion raised in the prior quarter.

Fintech startup Social Finance Inc., or SoFi, hauled in a big chunk of that in the latest round, raising \$500 million in the period.

After a cooling period the past year, information-technology investment edged higher, hitting \$3.05 billion in the quarter, up 13% from the \$2.7 billion in the prior period.

A slice of that, investments in software, returned to favor as well, as investors put to work \$2.14 billion, up about 13% from the \$1.9 billion unlocked in the previous quarter.

Investors in consumer services put in \$2.07 billion for the quarter, a nearly 17% decline from the \$2.48 billion in the previous period, amid concerns over sky-high valuations in the sector.

Despite those worries, food-delivery upstart Instacart Inc. raised \$400 million in the period.

Health-care investors returned in earnest in the period. Venture stakes rose to \$4.86 billion, up 98% from the \$2.45 billion turned loose in the fourth quarter, as startups such as Grail Inc., which is developing cancer tests, attracted \$914 million, the largest deal in the period.

—Scott Martin

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## BUSINESS &amp; FINANCE

# Deutsche Bank Pressed on Links to Russia

**Democratic lawmakers in U.S. Congress want details on trading with nation, loans to Trump**

BY JENNY STRASBURG

**U.S. Democratic lawmakers have asked Deutsche Bank AG to provide details about its internal reviews into Russian trades and clients, as well as loans made to President Donald Trump, according to a letter made public on Wednesday.**

Rep. Maxine Waters of California, the ranking Democrat on the House Financial Services Committee, and four other Democrats in a letter dated Tuesday asked Deutsche Bank Chief Executive John Cryan to disclose materials related to any internal reviews into Mr. Trump's accounts and any connections between those accounts and Russia.

The lawmakers asked for details of any Deutsche Bank reviews of whether loans to Mr. Trump "were backed by guarantees from the Russian government, or were in any way connected to Russia."

The lawmakers also asked for due-diligence documentation and details of assets and guarantees backing the loans to Mr. Trump.

Deutsche Bank, which has previously faced similar requests for information, declined to comment through a spokesman.

More broadly, U.S. investigators, including the Federal Bureau of Investigation and congressional committees, are looking into any ties between Russian financial institutions, Mr. Trump and anyone in his orbit. Russia has denied interfering in the 2016 election. Mr. Trump has repeatedly denied any collusion between his campaign and Russia and has said

he hopes the probe—which he has dubbed a "witch hunt"—will soon end.

Deutsche Bank has faced scrutiny over controls around its Russia operations, including roughly \$10 billion in equity trades that are a matter of a continuing U.S. Justice Department investigation, and for its ties to Mr. Trump.

The bank lent more than \$300 million to entities affiliated with Mr. Trump, disclosures show. Democratic lawmakers in March called for a hearing to examine Deutsche Bank's ties to Mr. Trump.

Tuesday's letter asks for a response and documentation by June 2.

In a separate letter sent Tuesday to Treasury Secretary Steven Mnuchin, Ms. Waters requested that the department's Financial Crimes Enforcement Network provide any records detailing the president's financial ties to Russia.



Rep. Maxine Waters wants to see internal reviews of Donald Trump and any connections to Russia..

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## Legal Notices

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## NOTICE OF SALE

## NOTIFICATION OF DISPOSITION OF COLLATERAL

May 23, 2017

To:<sup>1</sup> (a) BAMA Commercial Leasing, LLC, a Pennsylvania limited liability company 1500 Sycamore Road, Suite 340, Montoursville, PA 17754, Attn: Joel Breneman, Email: [jbreneman@autotrakk.com](mailto:jbreneman@autotrakk.com); and

(b) the parties listed on Exhibit A.

From: Lord Securities Corporation, a TMF Group Company, as Administrative Agent (as defined below) (the "Secured Party" acting in such capacity on behalf of the other Secured Parties (as such term is defined in the LSA as defined below), 48 Wall Street, 27th Floor, New York, NY 10005, Attn: Edward O'Connell, General Counsel, Email: [edward.oconnell@tmf-group.com](mailto:edward.oconnell@tmf-group.com).

Name of Debtor/Pledgor: LLC, a Pennsylvania limited liability company

Ladies and Gentlemen:

Reference is made to (i) that certain Loan and Security Agreement, dated as of November 19, 2015, by and among BAMA SPV, LLC, a Delaware limited liability company, as borrower ("the Borrower"), Debtor ("Parent"), as guarantor of the obligations of Borrower thereunder (in such capacity "Guarantor"), the Lenders from time to time party thereto, and the Secured Party, as administrative agent for the Lenders (in such capacity, the "Administrative Agent") and as collateral custodian (the "Collateral Custodian") (as same has been amended, supplemented or otherwise modified from time to time, the "LSA"). Each capitalized term used but not defined herein shall have the meaning given to it in the LSA; and

(ii) that certain Secured Guaranty, dated as of November 24, 2015, by Guarantor in favor of Administrative Agent and each of the Lenders under the LSA (as amended, restated, supplemented, refinanced or otherwise modified from time to time, the "Secured Guaranty") pursuant to which Guarantor pledged all of its right, title and interest in and to all of the Secured Guaranty (as defined in the Secured Guaranty and described in Section 5.4 thereof) ("the Assets") in order to guarantee the Guaranteed Obligations (as defined in the Secured Guaranty). Without limiting the foregoing, the Assets consist of (i) all tangible and intangible assets of Guarantor, whether now owned and existing or hereafter acquired, arising at wheresoever located, as more particularly described on Exhibit B attached hereto and (ii) a continuing first-priority security interest in all of Guarantor's right, interest and title to the issued and outstanding membership interests of the Borrower, as more particularly described on Exhibit C attached hereto.

Pursuant to Section 9-611 of the NYUCC, this letter is to notify you that the Debtor's right, title and interest in the Assets will be sold to the highest qualified bidder(s) at a public auction (the "Auction"), as follows:

Date: June 7, 2017, or such subsequent date to which the Auction is adjourned as announced at the Auction or in accordance with the Terms of Public Sale (as defined below).

Time: 10:00 a.m. Eastern Time

Place: Winston & Strawn LLP, 200 Park Avenue, New York, NY 10166

Terms of Sale: The Assets are being sold "AS IS, WHERE IS" with no recourse, representations and warranties of any kind, whether express or implied regarding the Assets. There is no warranty relating to title, possession, quiet enjoyment or the like in this disposition.

Qualifications of Bidder: Following its written request to Secured Party, a prospective bidder will be provided with written details of the Assets (collectively, the "Terms of Public Sale"), subject to such prospective bidder's delivery to the Secured Party's designee (details of which shall be provided in response to such written request): (1) a signed confidentiality agreement; (2) a certification by such prospective bidder (i) that it has the financial wherewithal to purchase the Assets at the purchase price for the Assets in immediately available funds in accordance with the Terms of Public Sale (which may take the form of an "accredited investor" (as such term has been defined and construed under the Securities Act of 1933, as amended) certification); and (ii)

that its purchase of the Assets is in compliance

with all applicable federal and state laws.

This Notice is provided more than ten (10) business days prior to the date of disposition of the Assets.

The Auction will be conducted on such terms and conditions as determined by Secured Party or its designee and announced to bidders in advance of or at the Auction, including by and/or holding the rights of Lenders, and to transfer the Assets to or at the direction of such entity.

Until acceptance at the Auction of a Qualified Bid (as defined below) for any or all of the Assets, Secured Party reserves the right to bid and foreclose on all or any portion of the Assets, including, without limitation, by credit bid on behalf of Lenders or an entity owned by and/or holding the rights of Lenders, and to transfer the Assets to or at the direction of such entity.

To submit a qualified bid (a "Qualified Bid"), a bidder must conform to the following: (i) such bid must be received no later than 5:00 p.m. Eastern Time on June 5, 2017; (ii) the purchase price must be not less than Ten Million United States Dollars (\$10,000,000.00), payable in full, cash, at the time of the Auction; (iii) the parties listed on Exhibit A.

From: Lord Securities Corporation, a TMF Group Company, as Administrative Agent (as defined below) (the "Secured Party" acting in such capacity on behalf of the other Secured Parties (as such term is defined in the LSA as defined below), 48 Wall Street, 27th Floor, New York, NY 10005, Attn: Edward O'Connell, General Counsel, Email: [edward.oconnell@tmf-group.com](mailto:edward.oconnell@tmf-group.com).

Name of Debtor/Pledgor: limited liability company

Ladies and Gentlemen:

Reference is made to (i) that certain Loan and Security Agreement, dated as of November 19, 2015, by and among BAMA SPV, LLC, a Delaware limited liability company, as borrower ("the Borrower"), Debtor ("Parent"), as guarantor of the obligations of Borrower thereunder (in such capacity "Guarantor"), the Lenders from time to time party thereto, and the Secured Party, as administrative agent for the Lenders (in such capacity, the "Administrative Agent") and as collateral custodian (the "Collateral Custodian") (as same has been amended, supplemented or otherwise modified from time to time, the "LSA") pursuant to which Guarantor pledged all of its right, title and interest in and to all of the Secured Guaranty (as defined in the Secured Guaranty and described in Section 5.4 thereof) ("the Assets") in order to guarantee the Guaranteed Obligations (as defined in the Secured Guaranty). Without limiting the foregoing, the Assets consist of (i) all tangible and intangible assets of Guarantor, whether now owned and existing or hereafter acquired, arising at wheresoever located, as more particularly described on Exhibit B attached hereto and (ii) a continuing first-priority security interest in all of Guarantor's right, interest and title to the issued and outstanding membership interests of the Borrower, as more particularly described on Exhibit C attached hereto.

To the extent applicable, excess proceeds will be remitted to the Debtor in accordance with Section 9-615 of the NYUCC. Debtor at any time after receipt of this notice and prior to consummation of the Auction, may request at its expense an accounting from Secured Party of the amount of the indebtedness secured by the Transaction Documents.

For additional information, including the Terms of Public Sale, send an email with the name, email address and address of the applicable contact person to:

Lord Securities Corporation, a TMF Group Company, 48 Wall Street, 27th Floor, New York, NY 10005, Attn: Edward O'Connell, General Counsel, Email: [edward.oconnell@tmf-group.com](mailto:edward.oconnell@tmf-group.com)

LORD SECURITIES CORPORATION, as Administrative Agent

By: /s/ Albert J. Fioravanti, Title: Director

Name: Albert J. Fioravanti, Title: Director

The Notice is intended to comply with the procedural requirements of Section 9-610 of the New York Uniform Commercial Code (the "NYUCC"). Nothing herein shall be deemed an admission that Secured Party is required under the NYUCC, or otherwise, to provide notification of disposition to the parties receiving this Notice, including, without limitation, those parties set forth on Exhibit A.

Qualifications of Bidder: Following its written request to Secured Party, a prospective bidder will be provided with written details of the Assets (collectively, the "Terms of Public Sale"), subject to such prospective bidder's delivery to the Secured Party's designee (details of which shall be provided in response to such written request): (1) a signed confidentiality agreement; (2) a certification by such prospective bidder (i) that it has the financial wherewithal to purchase the Assets at the purchase price for the Assets in immediately available funds in accordance with the Terms of Public Sale (which may take the form of an "accredited investor" (as such term has been defined and construed under the Securities Act of 1933, as amended) certification); and (ii)

that its purchase of the Assets is in compliance

## NOTIFICATION OF DISPOSITION OF COLLATERAL

May 23, 2017

To:<sup>1</sup> (a) BCL I SPV, LLC, a Delaware limited liability company c/o BAMA Commercial Leasing, LLC, 1500 Sycamore Road, Suite 340, Montoursville, PA 17754, Attn: Joel Breneman, Email: [jbreneman@autotrakk.com](mailto:jbreneman@autotrakk.com); and

(b) the parties listed on Exhibit A.

From: Lord Securities Corporation, a TMF Group Company, as Administrative Agent (as defined below) (the "Secured Party" acting in such capacity on behalf of the other Secured Parties (as such term is defined in the LSA as defined below), 48 Wall Street, 27th Floor, New York, NY 10005, Attn: Edward O'Connell, General Counsel, Email: [edward.oconnell@tmf-group.com](mailto:edward.oconnell@tmf-group.com).

Name of Debtor/Pledgor: limited liability company

Ladies and Gentlemen:

Reference is made to (i) that certain Loan and Security Agreement, dated as of November 19, 2015, by and among BAMA SPV, LLC, a Delaware limited liability company, as borrower ("the Borrower"), Debtor ("Parent"), as guarantor of the obligations of Borrower thereunder (in such capacity "Guarantor"), the Lenders from time to time party thereto, and the Secured Party, as administrative agent for the Lenders (in such capacity, the "Administrative Agent") and as collateral custodian (the "Collateral Custodian") (as same has been amended, supplemented or otherwise modified from time to time, the "LSA") pursuant to which Guarantor pledged all of its right, title and interest in and to all of the Secured Guaranty (as defined in the Secured Guaranty and described in Section 5.4 thereof) ("the Assets") in order to guarantee the Guaranteed Obligations (as defined in the Secured Guaranty). Without limiting the foregoing, the Assets consist of (i) all tangible and intangible assets of Guarantor, whether now owned and existing or hereafter acquired, arising at wheresoever located, as more particularly described on Exhibit B attached hereto and (ii) a continuing first-priority security interest in all of Guarantor's right, interest and title to the issued and outstanding membership interests of the Borrower, as more particularly described on Exhibit C attached hereto.

To the extent applicable, excess proceeds will be remitted to the Debtor in accordance with Section 9-615 of the NYUCC. Debtor at any time after receipt of this notice and prior to consummation of the Auction, may request at its expense an accounting from Secured Party of the amount of the indebtedness secured by the Transaction Documents.

For additional information, including the Terms of Public Sale, send an email with the name, email address and address of the applicable contact person to:

Lord Securities Corporation, a TMF Group Company, 48 Wall Street, 27th Floor, New York, NY 10005, Attn: Edward O'Connell, General Counsel, Email: [edward.oconnell@tmf-group.com](mailto:edward.oconnell@tmf-group.com)

LORD SECURITIES CORPORATION, as Administrative Agent

By: /s/ Albert J. Fioravanti, Title: Director

Name: Albert J. Fioravanti, Title: Director

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Qualifications of Bidder: Following its written request to Secured Party, a prospective bidder will be provided with written details of the Assets (collectively, the "Terms of Public Sale"), subject to such prospective bidder's delivery to the Secured Party's designee (details of which shall be provided in response to such written request): (1) a signed confidentiality agreement; (2) a certification by such prospective bidder (i) that it has the financial wherewithal to purchase the Assets at the purchase price for the Assets in immediately available funds in accordance with the Terms of Public Sale (which may take the form of an "accredited investor" (as such term has been defined and construed under the Securities Act of 1933, as amended) certification); and (ii)

that its purchase of the Assets is in compliance

be provided with written details of the Assets and the terms of the Auction and sale of the Assets (collectively, the "Terms of Public Sale"), subject to such prospective bidder's delivery to the Secured Party's designee (details of which shall be provided in response to such written request): (1) a signed confidentiality agreement; (2) a certification by such prospective bidder (i) that it has the financial wherewithal to purchase the Assets at the purchase price for the Assets in immediately available funds in accordance with the Terms of Public Sale (which may take the form of an "accredited investor" (as such term has been defined and construed under the Securities Act of 1933, as amended) certification), and (ii) that its purchase of the Assets is in compliance with all applicable federal and state laws.

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## A BUG LOVER'S LIFE

BOY BORN INTO THE INSECT WORLD SPREADS THE WORD, P4

# Xi's Wisdom Gains Wings With Help of Translators

By CHINA DAILY

With its publication in five additional language versions last month, President Xi Jinping's book *Xi Jinping: The Governance of China* has been well-received among government officials and scholars, many hailing the value of the book for both its language and its outreach.

The book, which outlines the political ideas of the top leadership in China, has been published in Thailand, Cambodia, Pakistan, Turkey and Hungary in their respective languages over the past month or so.

A Thai publisher sold more than 2,000 copies of the book in a single day after its launch in Bangkok on April 7, and many readers were inquiring on social media about ways to buy it, Xinhua News Agency reported.

Thailand's Deputy Prime Minister Wissanu Krea-ngam, who had read the book, said it was written in a beautiful way.

"I believe that to be a great leader, one has to be a good reader, good thinker, good speaker, good writer and good doer, and I found President Xi has achieved all of them."

In Phnom Penh, more than 700 officials, scholars and business people, including the Cambodian Prime Minister Samdech Techo Hun Sen and five deputy prime ministers, attended the launch ceremony for the book on April 11.

Cheu Munyarith, director of the Confucius Institute of the Royal Academy of Cambodia, said publishing a Khmer version will enable Cambodians to better learn about China and Xi himself.

Cheu, who assisted in the translation of the book into Khmer, said it offers insights for government officials and scholars on how to properly manage a country.

"That is why it is important for the officials, students and scholars in Cambodia to read through the book."

At the launch ceremony of the Urdu edition of the book in Islamabad on April 14, Pakistan's Prime Minister Nawaz Sharif said the book is as much about the contemporary world as it is about China.

"What has touched me most is that this book is not just about high-level politics, but also about moving stories of common people, their lives and inspirations about hard work and family values. This book is as much about the Chinese dream as it is about the global dream to have a peaceful, harmonious and connected world."

Turkey's Deputy Prime Minister Mehmet Simsek said at the launch of the Turkish version on April 17 that the book offers Turks a way of better understanding China's political vision and its view and path regarding development. It effectively interprets and showcases the achievement and experience of China's progress in recent years, he said.

The book was published in Chinese, English, French, Russian, Arabic, Spanish, Portuguese, German and Japanese in September 2014, and more than 6.2 million copies have been distributed in more than 100 countries and regions in 20 languages.

The book is a collection of 79 of Xi's articles, speeches, lectures and letters from November 2012 to June 2014 and features 45 photos of Xi in various periods.

# Xi Vows Support for Belt and Road

In opening ceremony, president provides global vision for improvements to nations taking part in initiative, **An Baijie** reports

**P**resident Xi Jinping has pledged to increase financial support for the Belt and Road Initiative as China reinforces its efforts to apply the plan to practical projects.

China will contribute an additional 100 billion yuan (\$14.5 billion) to the Silk Road Fund, Xi said in his keynote speech at the opening ceremony of the two-day Belt and Road Forum for International Cooperation in Beijing on May 14.

The Silk Road Fund, founded in November 2014 with an initial contribution from China of \$40 billion, aims to boost infrastructure and improve financial dealings along the centuries-old Silk Road trading routes.

"The China Development Bank and the Export-Import Bank of China will set up special lending plans respectively worth 250 billion yuan and 130 billion yuan to support Belt and Road cooperation on infrastructure, industrial capacity and financing," Xi told an audience of more than 1,500 at the China National Convention Center in Beijing Olympic Park.

The forum was the highest-level meeting on the Belt and Road Initiative since Xi unveiled it in 2013. Twenty-nine foreign heads of state and government leaders attended.

During the forum China signed business and trade



President Xi Jinping at the Belt and Road Forum for International Cooperation in Beijing on May 14. WU ZHIYI / CHINA DAILY

Other delegates included officials, entrepreneurs and journalists from more than 130 countries.

Russia's President Vladimir Putin, Turkey's President Recep Tayyip Erdogan and the United Nations Secretary-General Antonio Guterres also spoke at the ceremony.

During the forum China signed business and trade

agreements with more than 30 countries and began talks on free trade agreements with some countries.

Xi said China would provide aid worth 60 billion yuan in the next three years to developing countries and global organizations taking part in the Belt and Road Initiative to launch more projects to improve people's lives.

Xi also unveiled a number of other substantial aid and assistance programs, such as food aid worth 2 billion yuan to developing countries taking part in the initiative, 100 "happy home" projects, 100 poverty alleviation projects and 100 health care and rehabilitation projects, also among countries taking part in the initiative.

"In pursuing the Belt and Road Initiative, we should focus on the fundamental issue of development, release the growth potential of various countries, achieve economic integration and interconnected development and deliver benefits to all," Xi said.

The Belt and Road Initiative, consisting of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, was proposed by Xi to boost interconnectivity and free trade between Asia and the rest of the world.

The trade volume between China and other Belt and Road countries from 2014 to 2016 exceeded \$3 trillion, and China's investment in these countries has surpassed \$50 billion.

Stressing infrastructure connectivity, Xi called for promoting land, maritime, air and cyberspace connectivity, focusing on key passageways, cities and projects and connecting networks of highways, railways and seaports.

"Spanning thousands of miles and years, the ancient silk routes embody the spirit of peace and cooperation, openness and inclusiveness, mutual learning and mutual benefit."

## THE SILK ROAD SPIRIT

has become a great heritage of human civilization."

Highlights of President Xi Jinping's keynote speech during the opening session of the Belt and Road Forum for International Cooperation:



### Policy connectivity

China has signed cooperation agreements with more than 40 countries and international organizations and carried out framework cooperation on production capacity with more than 30 countries.



### Infrastructure connectivity

A multidimensional infrastructure network is taking shape, one that is underpinned by economic corridors featuring land-sea-air transport routes and an information highway, and supported by major railway, port and pipeline projects.



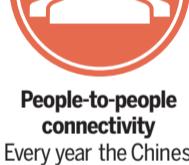
### Trade connectivity

Total trade between China and other Belt and Road countries from 2014 to 2016 exceeded \$3 trillion, and China's investment in these countries surpassed \$50 billion. Chinese companies have set up 56 economic cooperation zones in more than 20 countries, generating 180,000 jobs.



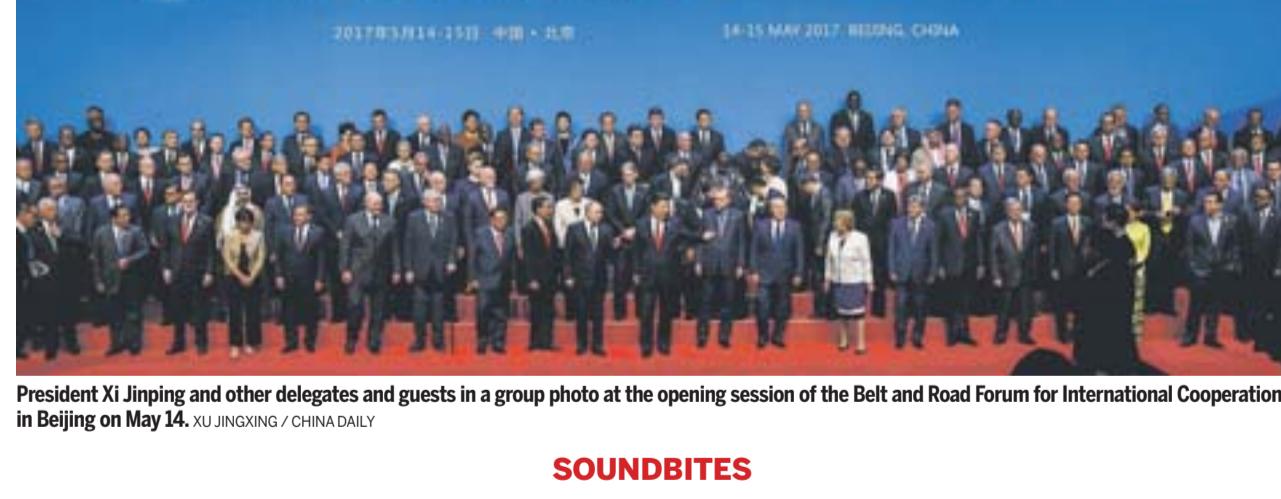
### Financial connectivity

The Asian Infrastructure Investment Bank has provided \$1.7 billion in loans for nine projects in Belt and Road countries. The Silk Road Fund has made \$4 billion in investment, and the 16+1 financial holding company has been inaugurated.



### People-to-people connectivity

Every year the Chinese government provides 10,000 government scholarships to certain countries. China's local governments have set up special Silk Road scholarships to encourage international cultural and educational exchanges.



President Xi Jinping and other delegates and guests in a group photo at the opening session of the Belt and Road Forum for International Cooperation in Beijing on May 14. XUJINGXING / CHINA DAILY

## SOUNDBITES



VLADIMIR PUTIN

Russian president

"We cannot resolve modern challenges by using old approaches. We need new ideas. We need to abandon all stereotypes...We should set a role model for the global community of how we can work together and develop together, based on equality and respect for national sovereignty founded on international law and United Nations principles."



ANTONIO GUTERRES

U.N. secretary-general

"The Belt and Road Initiative has immense potential...It can promote effective access to markets and new opportunities...It's crucial to stress the links between the initiative and sustainable development goals...The Belt and Road Initiative is rooted in a shared vision for global development...The initiative is expected to generate fast investment in infrastructure."



RECEP TAYYIP ERDOGAN

Turkish president

"The Middle Corridor Initiative, put forward by Turkey, could be connected with the Belt and Road Initiative to link the Middle East with China through Central Asia...The trade volume between China and Europe has reached \$600 billion, showing the importance of the Belt and Road Initiative."

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CHINA DAILY

## 21 Outlook

# Full Steam Ahead With Reform

Some factors that drove first-quarter results may not continue, experts say, **Wang Yanfei** reports

**E**conomic recovery in resource-intensive and export-oriented provinces gathered pace in the first quarter as economic restructuring efforts began to bear fruit.

Sustained efforts to push reforms are needed because it remains unclear whether factors such as the commodity price surge and recovery of demand will continue to drive growth, according to experts.

Fifteen of 31 provincial-level regions nationwide had faster growth than in the corresponding period last year, statistics bureaus have reported.

Heilongjiang and Liaoning provinces, which rely largely on traditional heavy industries that are heavy users of resources such as coal, are among those

that achieved higher first-quarter growth.

Heilongjiang grew by 6.1%, up from 5.1% in the corresponding period last year. Liaoning achieved 2.4% growth, compared with a negative 1.3%. Liaoning officials pledged early this year to improve the credibility of statistics after admitting that some data submitted from 2011 to 2014 had been falsified.

"Structural upgrades helped economic growth reach the highest level since 2014," said Ge Xin, head of the Heilongjiang Bureau of Statistics.

The Heilongjiang Development and Reform Commission said the province's traditional economy played a smaller part in driving growth, and energy industries contributed only about 8% of total economic output last year, compared with 22% in 2011.

But more reform efforts are needed because part of the growth in the region was driven by the surge in coal and steel prices at the beginning of the year, said Cheng Gong, an analyst with the China National Coal Association.

"Enterprises face more pressure to achieve profits as the price surge is very unlikely to continue in coming months," he said. "The peak season for coal is winter."

The Bohai-Rim Steam-Coal Price Index, a key gauge of coal prices, dropped for five consecutive weeks.

"As China plans to continue efforts to cut overcapacity this year, enterprises in the traditional sectors need more policy and financial support from the government while they strive to restructure their business toward more sustainable sectors such as tourism," Cheng said.

Local governments need to continue efforts to move away from relying on traditional sectors, he said.

The recent rise in demand boosted total export and import volume in Guangdong province to 1.45 trillion yuan (\$210 billion) in the first quarter, the highest level for that quarter since 2012, said Xing Xiaowei, head of the Guangdong Bureau of Statistics.

Guangdong ranked at the top of provincial areas in gross domestic product in the first quarter, with 1.94 trillion yuan of GDP, the bureau said.

The need to continue structural changes also applies to export-oriented regions because recovery of demand in the global market over the long term remains weak, said Liu Yuanchun, an economics professor at Renmin University of China in Beijing.

# Production Slows, but Signs Good

By WANG YANFEI

China's manufacturing growth slowed in April as the government tightened supervision of financial risks, but still maintains momentum, according to analysts.

The purchasing managers' index, which reflects the manufacturing sector's performance, registered 51.2 in April, compared with 51.8 a month earlier, the National Bureau of Statistics said. The figure remains above the index of 50.1 a year ago.

A figure above 50 indicates growth in the sector, a key driver of the Chinese economy, while anything below points to contraction. The reading has kept above 50 for nine consecutive months.

Although the pace of growth slowed a little compared with the previous two months, remaining above the 50 point means the sector has not lost its growth momentum and the economic fundamentals remain sound, said Zhao Qinghe, a statistician with the National Bureau of Statistics.

"Slower growth of domestic demand and supply and contracting energy-intensive industries have dragged down the pace of expansion of the manufacturing sector," Zhao said.

The PMI of high-energy consumption was 49.3 in April, 2.1 points lower than in the previous month and 1.9 points lower than that of the manufacturing sector as a whole.

Zhao's comment is echoed by data from the bureau published on April 27 in which growth of profits made by major large-scale industries contracted by 3.2 points in March compared with the previous two months.

Sluggish earnings growth in traditional sectors such as coal and steel is one of the major driving forces of sluggish profit growth, said He Ping, also a statistician with the National Bureau of Statistics.

Xie Yaxuan, chief economist with China Merchants Securities, said, "As Beijing puts more emphasis on fending off financial risks, manufacturing enterprises might face a tighter financing environment in the short term, putting pressure on production and on sales."

"But the policy environment will not put the sector or the economy into recession because some major drivers retain their growth potential."

Some promising signs can be found in sub-indexes of the PMI, in the equipment sector, which registered 52.1, and the high-tech manufacturing sector, reporting 53.4, in April, both well above the overall manufacturing sector. Xie said high consumer demand will support continued economic recovery.

## Spotlight on Aspects of China Often Neglected

By ZHAO HUANXIN

*Born in China*, a Chinese-American wildlife documentary coproduction, has been offering U.S. moviegoers a feast for the eyes and food for thought since opening in U.S. theaters a day before Earth Day, April 22.

The film's stunning imagery was captured over three years, largely in Qinghai and Sichuan provinces, and it follows the lives of pandas, golden monkeys and snow leopards, with additional footage of red-crowned cranes and chiru, or Tibetan antelopes. It was coproduced by DisneyNature and Shanghai Media Group.

"The film serves to increase humans' awareness of the importance and urgency of protecting wildlife," China's Ambassador to the U.S., Cui Tiankai, said at a reception at China's embassy in Washington.

"Besides, we can learn much from animals, such as pandas, on how to coexist peacefully and harmoniously," Cui told a group of U.S. guests before the showing of the film.

Susan Thornton, acting assistant secretary of the U.S. State Department, told China Daily, "It would be good for American audiences to see Chinese people

caring about the planet, and conserving wildlife and natural spaces."

Roy Conli, producer of *Born in China*, said he had been "totally unaware" of the wilderness of China, including what was happening on the Qinghai-Tibet Plateau and in the mountains of Sichuan, before the making of the film.

"It just shows you how wondrous this planet is," said Conli, the Oscar-winning producer of *Big Hero 6*. "We need to protect animal populations ... in order to protect ourselves."

Lu Chuan, an accomplished Chinese director, said directing the film allowed him to share the beauty of China and Chinese people's attitude toward life.

"This is a film that will tell our audience that besides Beijing and Shanghai, and besides heavy industries and pollution, China has incredibly beautiful sides that many are hardly aware of — the crystal clear skies, the stunning scenery and wildlife habitats."

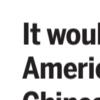
In addition to appearing in U.S. theaters, *Born in China* will be rendered into a dozen languages and later released in more than 100 countries and regions, said Cui Yuying, vice-minister of the State Council Information Office.

Cui said the China-U.S. coproduction is emblematic of the



Cui Tiankai, China's ambassador to the U.S. (center), Walt Disney Studios Vice-President Paul Baribeau (left) and Chinese documentary director Lu Chuan (second from left) display a poster for *Born in China*, a Chinese-American coproduction that takes viewers on an epic journey into the wilds of China.

ZHAO HUANXIN / CHINA DAILY



**It would be good for American audiences to see Chinese people caring about the planet, and conserving wildlife and natural spaces."**

SUSAN THORNTON  
ACTING ASSISTANT SECRETARY OF THE U.S. STATE DEPARTMENT

decision at the April Mar-a-Lago meeting of President Xi Jinping and U.S. President Donald Trump to ratchet up bilateral exchanges, including cultural and people-to-people exchanges.

"The State Council Information Office welcomes and will continue to support international organizations to tell China stories ... to ramp up understanding and friendship between Chinese and people in the U.S. and the rest of the world."

The film's Chinese version was released in August. A trailer is available at [nature.disney.com](http://nature.disney.com).

Deng Leshuo in Washington contributed to this story.

## News Digest

### Bridge links HK, Macao, Zhuhai

Construction of the long-awaited Hong Kong-Zhuhai-Macao Bridge took a big step toward completion on May 2 when workers began to install the final piece of an underwater tunnel. The final joint of the last 3.5-mile section was lowered into the Lingding Channel, the central channel of the Pearl River, in ideal weather conditions, according to Wang Zhanggui, chief engineer at the National Marine Environmental Forecasting Center.

### Chinese FDI in U.S. triples to \$46b

Chinese investment in the United States in 2016 more than tripled from 2015 to \$46 billion, with Chinese companies adding 1,300 new operations, according to a report.

Chinese-owned companies now employ more than 140,000 people in the U.S., with companies increasing their presence in the South and Midwest "significantly," though their investments are still most keenly felt in coastal economies. This is according to *New Neighbors: 2017 Update*, a report on Chinese investment in U.S. congressional districts, issued by the National Committee on U.S.-China Relations and the Rhodium Group on April 25.

### Satellites to focus on polluters

The Ministry of Environmental Protection will put greater emphasis on high-tech satellite monitoring to identify pollution sources efficiently, using a grid system put in place late

last year, according to the official in charge of the effort. Now, the ministry will use its hot grid system, based on the satellite technology, to target more polluters — including small, unregistered, scattered companies that are operating illegally, said Li Wei, head of the ministry's department in charge of the grid system.

### WeChat rooted in daily life: Survey

WeChat, the ubiquitous messaging app, is being used even more and is growing into a lifestyle choice embedded into daily activities and interactions, a survey has found. The average daily time spent on WeChat is up slightly, now at 66 minutes, surpassing that of Facebook's average 50 minutes recorded last year. And it is becoming more pervasive than ever, creeping into new aspects of life from offline payments to receiving newsfeeds.

### Call for financial security

Top Chinese leaders on April 26 called for more effort to ensure financial security, because such stability plays a key role in maintaining healthy economic growth.

Safeguarding financial security is a strategic and fundamental task in the country's economic and social development, President Xi Jinping, also general secretary of the Communist Party of China Central Committee, said at a group study for members of the Political Bureau, Xinhua News Agency reported.



Your move, master

A visitor plays a board game against a robot at the Chengdu Global Innovation and Entrepreneurship Fair in Sichuan province on May 10. More than 600 enterprises presented products in areas such as health care, the Internet of Things and virtual reality. HAO FEI / FOR CHINA DAILY

### Processing of patents speeds up

China's intellectual property authority is making an effort to shorten the review time for patent applications, said Shen Changyu, head of the State Intellectual Property Office, during a State Council news briefing.

The office aims to provide efficient review services to applicants, Shen said. Reviews on average took at least 25 months between 2006 and 2010. That was reduced to at least 22 months between 2011 and 2015, and then to no more than 22 months in 2016.

### Shanghai Tower opens sightseeing

Shanghai Tower, China's highest building, officially opened its sightseeing deck on the 118th floor to the public on April 26. In 55 seconds, after paying 180 yuan (\$26), visitors can rise into the sky for a bird's-eye view of the Shanghai cityscape.

The Top of Shanghai observatory, 1,791 feet above ground and surrounded by a glass wall, allows visitors a 360-degree panoramic view from the 2,073-foot tower, now the second tallest in the world.

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Belt & Road | 3

CHINA DAILY

# Bank Is Seen as 'Global Institution'

China is the Asian Infrastructure Investment Bank's biggest shareholder, but it is just one of 57 members, including Britain, France and Germany, says the bank's vice-president, **Andrew Moody** reports

**S**ir Danny Alexander believes a lack of infrastructure is holding back the development of Asia. The former senior British politician and now vice-president of the Asian Infrastructure Investment Bank said many whose image of the region is of gleaming skyscrapers do not realize how backward some parts of the continent are.

"You know there are still hundreds of millions of people in Asia who don't have access to electricity. In terms of economic and social development, that is massively important."

Alexander, chief secretary to the treasury in David Cameron's coalition government of 2010-15, was speaking at his office in Financial Street in Xicheng district of Beijing that has panoramic views across the city.

The 44-year-old Scot took up his position at the bank in February last year after losing his parliamentary seat in the general election a year earlier.

"I certainly have no immediate plans to return to U.K. politics," he said.

"I mean this work is fascinating, the opportunity to be part of setting up and shaping a new institution is an extraordinary opportunity and, you know, I'm very fortunate to have that chance."

Some in China were said to be initially disappointed by Alexander's appointment because it was said he lacked experience in international finance or banking, but he has now become one of the bank's most public faces.

"My role is part of the senior management and corporate secretary responsible for governance in the bank," he said. "I think I am well suited for that role. I was one of the four most senior ministers in the government taking key political decisions for the U.K. I was also involved in strengthening and improving the U.K.'s economic relationships, you know, in Asia, with China and India."

Alexander said the bank has a vital

role because many underestimate just how important developing Asian infrastructure is in maintaining global economic growth.

A recent report by the Asian Development Bank said Asia needs \$1.7 trillion of investment every year until 2030 just to maintain its current growth momentum. Current actual spending is only about half that at \$881 billion.

"It is massively important. Asia is the fastest-growing part of the world economy. Infrastructure is not just important to Asian countries. That is why I think you have so many non-Asian countries who have joined the bank."

The AIIB is a Chinese initiative that was proposed by President Xi Jinping in a speech in Jakarta in October 2013.

It opened in January last year with 57 founding members. A further 13 new members were approved in March.

Although China remains the largest shareholder of the bank with



A stone monument in front of the Asian Infrastructure Investment Bank in Financial Street in Beijing. ZOU HONG / CHINA DAILY

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DANNY ALEXANDER  
VICE-PRESIDENT OF THE ASIAN INFRASTRUCTURE INVESTMENT BANK



the biggest, but it is one out of 57."

Alexander said it is wrong also to see the bank as the financial arm of China's Belt and Road Initiative.

"I think it is worth saying that the AIIB and Belt and Road are separate initiatives. Belt and Road is an initiative of the Chinese government. The AIIB is an international financial institution whose existence was proposed by the Chinese government but is now owned by many countries, including the U.K., Russia, France, Germany and so on."

However, the bank and the Belt and Road have similar goals, he said.

"There is a lot of commonality between the two initiatives in the sense that we are a bank that is focused on investing in infrastructure in Asia. Belt and Road is about how it [China] can improve connectivity among its neighbors in Asia."

Alexander, who studied philosophy, politics and economics at Oxford University, was head of communications for the Cairngorms

National Park Authority in Scotland before being elected a Member of Parliament in 2005 and lost his seat 10 years later.

He is now settling in to a new life in China.

"I am enjoying it very much. I like living in Beijing. It is a fascinating city. It is a great jumping off point to explore China and Asia as well."

The bank's work is vital for preserving the planet for his children's generations and beyond, he said.

Some 1.5 billion people are set to move to cities in Asia over the next 25 years, and if the necessary infrastructure is not built in an environmentally sustainable way the environment could suffer immensely.

"Sustainable infrastructure is a massive priority for us. All our members have made major commitments under the Paris process to reduce their emissions or to help bring global emissions under control.

"And, you know, this period of the next 20 years is the absolutely crucial period for the world, determining whether or not we are going to be sustainable in keeping global temperature rises under control. We have to have more sustainable infrastructure; we have to have more sustainable cities."

Alexander's involvement with the AIIB predates him taking his current post. When he was a U.K. cabinet minister he played a key role in the U.K. becoming a member in the AIIB, much to the chagrin of the United States, which refused to join.

Following Britain's decision, other European countries, including France and Germany, also signed up.

"Whether or not the U.S. ever decides to join is a matter for their administration, and they know that the door is open should they wish to," Alexander said.

"They can see on the basis of the first year and a bit of the bank's work that it meets very high standards. It is not trying to lower standards. It is a bank that is working closely and collaborating with other institutions like the World Bank. It is not seeking to undermine them."



Workers unload a car at Chengdu inland port shipped from Nuremberg, Germany, using a China Railway Express freight service. CHEN JIAN / FOR CHINA DAILY

## Freight Trains Carry Weight of Expectations

By LUO WANGSHU

Trees and plants that Sichuan Heshengde Import and Export Trade Co. sends to markets in Europe used to spend up to 35 days in transit before they reached their destination.

After being loaded onto a truck at the company's base in Chengdu, capital of Sichuan province, the plants were driven to Xiamen Port on the southeast coast and transferred to a ship, which crossed the Indian Ocean and the Red Sea before docking in Europe.

However, things changed in December when the company switched to using a China Railway Express freight service that travels between Chengdu and the Dutch city of Tilburg in just 13 days.

"It has not only cut the travel time, but also wastage," said Gao Yunfei, assistant to Heshengde's general manager. "The rail journey has increased the survival rate of our plants by 10%. The plants also look much better, which means

they can be sold at a higher price."

Gao said about half of Heshengde's exports now travel by train. "The price is higher, but considering the time and reduced wastage, the cost is about the same as by sea. It depends on our customers' requirements, but as the supplier, we prefer rail."

The CR Express network is helping companies throughout China and neighboring countries to improve their trade with markets in Central Asia and Europe.

China launched its first cross-border rail freight service, between Chongqing and Duisburg in Germany, in March 2011. Since then the number has risen to 51, connecting 27 Chinese cities with 28 destinations in 11 countries.

About 3,600 outbound and inbound journeys have been made on these routes, and that figure is expected to reach 5,000 by 2020, according to a five-year development plan for the CR Express that the National Development and Reform Commission issued in October.

The plan sets a target to have three gateways and 43 transit hubs as part of the CR Express network by 2020.

Seventeen Chinese cities have regular scheduled services, the busiest being Chengdu, from which 10 trains depart every week. The other 10 offer chartered services.

The shortest run is between Chengdu and Lodz in Poland, which takes 12 days, and the longest starts in Yiwu in Zhejiang and ends in Madrid, covering 8,110 miles in 18 days.

CR Express services use three key border ports: Manzhouli in the Inner Mongolia autonomous region, the eastern gateway; Erenhot in Inner Mongolia, the central gateway; and Alashankou and Khorgos in the Xinjiang Uygur autonomous region, which form the western gateway.

As a logistical option, rail freight is faster than by sea and cheaper than by air, says the network operator China Railway Corp., which says almost all services arrive on time. Prices are not publicly disclosed.

China's first cross-border freight services were launched by local railway authorities, with a route's name usually made up of the departure city, the border port and the destination: Chongqing-Xinjiang-Europe, for example.

Last year the National Development and Reform Commission rebranded all services as CR Express as part of its development plan, which highlighted the rail links as crucial to the Belt and Road Initiative.

The initiative, first proposed by President Xi Jinping in 2013, comprises the Silk Road Economic Belt and the 21st Century Maritime Silk Road, and aims to increase trade and investment between China, Central Asia, the Middle East, Europe and Africa.

Logistics services are seen as a physical link connecting Eurasia that could prove the cornerstone for strengthening economic ties. However, the development plan says that better regulation is urgently needed to deal with the high costs, disorderly competition, inefficient customs clearance and unsuitable infrastructure.

The plan sets a target to have three gateways and 43 transit hubs as part of the CR Express network by 2020.

## Laotian Singer Belts out a Hot Number to Spread the Good News

By WANG QINGYUN

A rock tune in the Laotian language has become an unconventional, attention-grabbing way to tell people about the benefits of the Belt and Road Initiative.

The music video of the song, called *yidaiyilu*, or Belt and Road, has been posted and shared on a number of WeChat and weibo accounts.

The song, performed by a Laotian musician and singer, calls the Belt and Road Initiative a project that benefits everyone and expresses Laos' strategy to go from being a landlocked to land-linked country with the initiative's help.

Vilayphone Vongphachanh, 52, who wrote the lyrics and helped write the music, has spent about six years working in China. He is a host and editor of programs in Lao at China Radio International.

Introducing the Belt and Road Initiative through the song is an easy-to-understand way of helping to increase Laotian people's awareness of the initiative, he said.

Vilayphone first heard about the initiative in 2013, when President Xi Jinping visited Kazakhstan, he said.

In a speech during that visit, Xi called for countries to work together to construct the Silk Road Economic Belt.

Vilayphone said he decided to write the song in 2015 after learning more about the initiative through his work. The song was finished last year, which marked the 55th anniversary of the establishment of diplomatic ties between China and Laos.

Speaking of the rock format, he said such a lively, rhythmic style

fits the content and theme of the song, which is "international" and "grand."

Collaboration between China and Laos to promote the initiative benefits both countries, Vilayphone said.

China and Laos signed a nonbinding agreement in September on formulating plans for promoting joint work on the initiative.

"The initiative just fits Laos' own strategy, which is to transform itself from a landlocked country into a land-linked one."

The construction of a railway linking Yunnan province and the Laotian capital, Vientiane, helps improve inter-connectivity between the two countries, and is an important project of bilateral cooperation under the initiative, he said.

The governments of the two countries signed a collaboration agreement in November 2015 and officially began work on the 250-mile railway project.

Zhao Xiaohong, deputy head of China Radio International's Lao language department, said the song has been broadcast many times on the department's Lao programs. The music video was released several weeks before the Belt and Road Forum for International Cooperation in Beijing on May 14 and 15.



Scan it!  
to hear the song on the internet

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CHINA DAILY

4 | Culture

# Dying Puppets Return From the Shadows

**T**wo warriors in ancient costumes fight ferociously when suddenly, to the dramatic sound of drums, the red-faced warrior pulls out his sword and beheads his white-faced enemy.

This is not a scene from a film but a traditional Chinese shadow puppet performance, where colored silhouette figures made from cowhide show how Guan Yu, a prominent ancient general who symbolized loyalty, honor and strength, fought during his many battles.

Behind the curtain is the soul of the performance — puppeteer Wang Biao. Using his dexterous hands and voice he makes the small figures stroke their beards, nod their heads, wave their hands and curse others.

"This performing art has run in my family for seven generations," said Wang, 52, from Langzhong in Sichuan province, Southwest China.

Despite its long history, shadow puppetry is under threat from modern entertainment alternatives, such as television and cinema.

Wang is trying to bring people's attention back to the traditional art. With the support of a national fund, he is teaching 20 students from across the country the skills needed to master the art of puppetry.

"I hope that this folk culture will survive the threat of modernity and thrive in the future," he said.

Ancient Chinese historical records show that shadow plays were originally created by a Chinese Taoist during the Han Dynasty (206 BC-AD 220) to console the heartbroken Emperor Wu, who had to deal with the death of one of his imperial concubines. The Taoist made a stone image of the concubine and put it in a tent by a burning candle. The shadow cast looked like the emperor's loved one and helped his sadness fade away.

Over the next 2,000 years the stone figures gradually became cowhide ones, and the tents were turned into curtains. Performers then added drums and Chinese opera to the movement of the figures, and shadow play was born.

Wang first watched a shadow performance when he graduated from junior school. "I thought it was humorous and eye-catching, and the figures were quite colorful," he said.

Wang's grandfather, a renowned

A one-man mission is helping the ancient Chinese art form fight off competition from modern entertainment, **Xinhua** reports



Above: A puppeteer performs a traditional shadow play at Huazhou Shadow Puppet Culture Hall in Shaanxi province.

TAO MING / XINHUA

Left: Students practice shadow puppetry under the guidance of their teacher at Zhongshan Experimental School in Luanxian, Hebei province.

MU YU / XINHUA

shadow performer in northern Sichuan, would take Wang along during his performances. "He even paid a professional shadow performer to teach me," Wang said.

However, learning is difficult and can take years before puppeteers are ready to go on stage.

"Every movement has to be on point," Wang said. "You need to

memorize the whole script and sing the lines of many different characters while showing their emotions with the puppet strings."

Shadow plays went through a hiatus during the "cultural revolution" (1966-76) but reemerged in the early 1980s, when the art was involved in rural marriage ceremonies, funerals and banquets.

However, since China's reform and opening-up began in the 1980s, many rural residents have moved to cities for work, while domestic appliances like TV sets and radios have become common. The ancient art began to lose younger audiences and had to compete with modern entertainment.

Wang gave up puppetry in 1991 and went to the southern metropolis of Shenzhen in Guangdong province to work on a pig farm. He soon made a lot of money, but maintained his passion for puppet plays.

"I told myself that I could not let the art slip through my hands," Wang said.

During his work, Zhang needs to identify different species from not only photos but also drawings.

He has gradually developed his own drawing skills, inspiring him to publish a book last year.

In *Hai Cuo Tu Biji* (Notes on an Illustrated Handbook of Marine Animals), published by China Citic Press in November, Zhang identifies and analyzes 30 such creatures.

The book is an interpretation of an illustrated book of the same title by the Qing Dynasty (1644-1911) painter and naturalist Nie Huang.

"As an introductory book, Nie's work is rich in content and vivid in pictures," Zhang said.

differences between peach flowers and cherry blossoms. Through videos I can teach people how to spot the difference."

During his work, Zhang

"However, I realized there were many mistakes in the book because of the limitations of the era."

To ensure accuracy, Zhang traveled to China's eastern coastal areas and even Japan and Thailand.

"The research and investigation process was an unforgettable experience because I could travel and study at the same time."

His book has become a best-seller in the country, 110,000 copies being sold in recent months.

"Two books from two masters on natural history," a reader comments online. "When I read them I feel like two walking encyclopedias on natural history are having a conversation."

Yang Lina, a primary school teacher in Beijing, said Zhang is popular among her students. "They talk about him after class and may turn to him when they encounter questions on nature and science. Zhang is more than an online celebrity. To some degree he is an instructor who inspires children to learn about the fantastic world."

Over the past few decades China has tried to popularize public science education through exhibitions, documentaries, online courses and

do-it-yourself activities, with mixed results. However, thanks to the rise of new media, science fans find it easier to communicate with each other and find they are not alone.



Zhang Chenliang takes a photo of a ghost plant (*Monotropa uniflora*).

PHOTOS PROVIDED TO CHINA DAILY

Given the soaring numbers of social media followers, bestselling books with science themes and debates about Zhang's posts, many believe the spring of natural history has arrived in China.

Zhang is hesitant to be that enthusiastic. "A lot still needs to be done to improve the way Chinese learn about nature," Zhang said.

"So an uphill battle lies ahead before spring is really here."

As tricky as a question might be, Zhang always seemed to have a satisfactory answer, and his reputation rose as the number of his followers grew online.

"I tried to find others to share some of the burden," Zhang said. "But I am still alone at the current stage. I hope some successors will show up one day."

Zhang is considering releasing several video programs or doing a live broadcast to better pass on his knowledge to others.

"Videos can help promote knowledge in a more direct way. For instance, when spring comes, many people cannot distinguish the

species from not only photos but also drawings."

He has gradually developed his own drawing skills, inspiring him to publish a book last year.

In *Hai Cuo Tu Biji* (Notes on an Illustrated Handbook of Marine Animals), published by China Citic Press in November, Zhang identifies and analyzes 30 such creatures.

The book is an interpretation of an illustrated book of the same title by the Qing Dynasty (1644-1911) painter and naturalist Nie Huang.

"As an introductory book, Nie's work is rich in content and vivid in pictures," Zhang said.

During his work, Zhang

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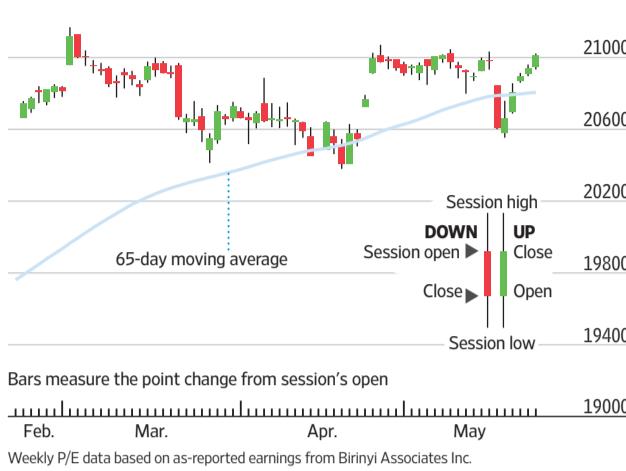
The book is an interpretation of an illustrated book of the same title by the Qing Dynasty (1644-

## MARKETS DIGEST

### EQUITIES

#### Dow Jones Industrial Average

**21012.42** ▲ 74.51, or 0.36%  
High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Feb. Mar. Apr. May

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

#### S&P 500 Index

**2404.39** ▲ 5.97, or 0.25%  
High, low, open and close for each trading day of the past three months.



Feb. Mar. Apr. May

20100 20200 20300 20400 20500 20600 20700 20800 20900 21000 21100 21200 21300 21400

2250 2280 2310 2340 2370 2400

5350 5470 5590 5710 5830 5950 6070

#### Nasdaq Composite Index

**6163.02** ▲ 24.31, or 0.40%  
High, low, open and close for each trading day of the past three months.



Feb. Mar. Apr. May

5350 5470 5590 5710 5830 5950 6070

#### Major U.S. Stock-Market Indexes

	High	Low	Latest Close	Net chg	% chg	High	52-Week Low	% chg	YTD % chg	3-yr. ann.
<b>Dow Jones</b>										
Industrial Average	21022.82	20933.58	<b>21012.42</b>	74.51	<span style="color: green;">0.36%</span>	21115.55	17140.24	<b>17.7</b>	6.3	<b>8.2</b>
Transportation Avg	9047.87	9000.84	<b>9022.52</b>	12.85	<span style="color: green;">0.14%</span>	9593.95	7093.40	<b>16.5</b>	-0.2	<b>4.1</b>
Utility Average	715.84	711.15	<b>715.12</b>	4.58	<span style="color: green;">0.64%</span>	720.45	625.44	<b>10.3</b>	8.4	<b>10.2</b>
Total Stock Market	24901.75	24821.28	<b>24888.83</b>	61.94	<span style="color: green;">0.25%</span>	24888.83	20583.16	<b>15.6</b>	6.9	<b>7.8</b>
Barron's 400	635.98	632.89	<b>635.23</b>	0.34	<span style="color: green;">0.05%</span>	643.82	491.89	<b>21.4</b>	5.6	<b>7.3</b>

#### Nasdaq Stock Market

Nasdaq Composite	6166.09	6139.33	<b>6163.02</b>	24.31	<span style="color: green;">0.40%</span>	6169.87	4594.44	<b>25.9</b>	14.5	<b>13.8</b>
Nasdaq 100	5732.57	5705.17	<b>5730.30</b>	26.96	<span style="color: green;">0.47%</span>	5730.30	4201.05	<b>28.0</b>	17.8	<b>15.9</b>

#### Standard & Poor's

	500 Index	2397.99	<b>2404.39</b>	5.97	<span style="color: green;">0.25%</span>	2404.39	2000.54	<b>15.0</b>	7.4	<b>8.2</b>
MidCap 400	1730.73	1721.43	<b>1728.35</b>	4.57	<span style="color: green;">0.27%</span>	1758.27	1416.66	<b>16.7</b>	4.1	<b>8.1</b>
SmallCap 600	840.97	833.79	<b>836.96</b>	0.44	<span style="color: green;">0.05%</span>	863.08	670.90	<b>19.9</b>	-0.1	<b>8.8</b>

#### Other Indexes

Russell 2000	1386.07	1376.55	<b>1382.51</b>	1.53	<span style="color: green;">0.11%</span>	1419.43	1089.65	<b>21.2</b>	1.9	<b>7.1</b>
NYSE Composite	11626.14	11593.43	<b>11621.23</b>	16.61	<span style="color: green;">0.14%</span>	11661.22	9973.54	<b>11.2</b>	5.1	<b>2.8</b>
Value Line	518.90	516.42	<b>518.07</b>	0.51	<span style="color: green;">0.10%</span>	529.13	435.06	<b>13.0</b>	2.4	<b>2.2</b>
NYSE Arca Biotech	3636.76	3571.72	<b>3625.57</b>	3.17	<span style="color: green;">0.09%</span>	3690.00	2818.70	<b>14.1</b>	17.9	<b>12.5</b>
NYSE Arca Pharma	520.94	518.66	<b>520.34</b>	0.73	<span style="color: green;">0.14%</span>	554.66	463.78	<b>0.6</b>	8.1	<b>0.7</b>
KBW Bank	91.55	90.65	<b>91.13</b>	-0.28	<span style="color: red;">-0.31%</span>	99.33	60.27	<b>28.3</b>	-0.7	<b>10.2</b>
PHLX® Gold/Silver	84.95	82.38	<b>84.86</b>	1.01	<span style="color: green;">1.20%</span>	112.86	73.03	<b>3.2</b>	7.6	<b>-1.3</b>
PHLX® Oil Service	152.04	148.67	<b>149.75</b>	-1.94	<span style="color: red;">-1.28%</span>	192.66	146.14	<b>-10.4</b>	-18.5	<b>-19.5</b>
PHLX® Semiconductor	1076.75	1069.91	<b>1074.85</b>	6.91	<span style="color: green;">0.65%</span>	1076.85	648.32	<b>55.9</b>	18.6	<b>22.1</b>
CBOE Volatility	10.90	9.88	<b>10.02</b>	-0.70	<span style="color: red;">-6.53%</span>	25.76	9.77	<b>-27.9</b>	-28.6	<b>-4.1</b>

\$Philadelphia Stock Exchange

Sources: SIX Financial Information; WSJ Market Data Group

#### Late Trading

Most-active and biggest movers among NYSE, NYSE Arca, NYSE MKT and Nasdaq issues from 4 p.m. to 6:30 p.m. ET as reported by electronic trading services, securities dealers and regional exchanges. Minimum share price of \$2 and minimum after-hours volume of 5,000 shares.

#### Most-active issues in late trading

Company	Symbol	Volume (000)	Last	Net chg	% chg	After Hours	High	Low
SPDR S&P 500	SPY	5,927.4	240.68	0.07	<b>0.03</b>	240.70	240.00	
Van Eck Vectors Gold Miner	GDX	3,168.2	22.98	0.01	<b>0.04</b>	23.02	22.95	
Intel	INTC	2,979.6	36.09	-0.03	<b>-0.08</b>	36.14	35.95	
Pfizer	PFE	2,713.6	32.05	...	<b>unch.</b>	32.20	31.93	
Weyerhaeuser	WY	2,540.8	33.10	-0.08	<b>-0.24</b>	33.22	33.10	
Ford Motor	F	2,014.0	10.98	0.02	<b>0.18</b>	11.00	10.94	
iShares MSCI Emg Markets	EEM	1,914.8	41.40	0.01	<b>0.02</b>	41.43	41.12	
SPDR S&P Retail	XRT	1,804.3	40.41	0.01	<b>0.02</b>	40.47	40.36	

#### Percentage gainers...

Aerie Pharmaceuticals	AERI	660.4	50.70	10.20	<b>25.19</b>	54.00	40.50
Guess	GES	504.4	11.62	1.64	<b>16.43</b>	11.70	9.97
Pure Storage CIA	PSTG	396.3	12.15	1.34	<b>12.40</b>	12.50	10.81
Fortuna Silver Mines	FSM	21.0	4.80	0.43	<b>9.84</b>	4.95	4.37
Williams-Sonoma	WSM	431.3	54.30	4.69	<b>9.45</b>	55.00	49.06

# COMMODITIES

[WSJ.com/commodities](http://WSJ.com/commodities)

## Futures Contracts

### Metal & Petroleum Futures

	Contract		Open	High	Low	Settle	Chg	Open interest
<b>Copper-High (CMX)</b> -25,000 lbs.; \$ per lb.	Open	High	hi lo	Low	Settle	Chg	Open interest	
May 2,5840	2,5840	2,5670	2,5780	-0.0125	953			
July 2,6005	2,6005	2,5555	2,5835	-0.0125	122,004			
<b>Gold (CMX)</b> -100 troy oz.; \$ per troy oz.	Open	High	hi lo	Low	Settle	Chg	Open interest	
May 1251.90	1251.70	1249.70	1252.40	-2.40	27			
June 1251.10	1258.80	1247.60	1253.10	-2.40	170,471			
Aug 1253.80	1262.20	1250.90	1256.50	-2.40	185,992			
Oct 1258.90	1265.50	1254.90	1259.90	-2.40	8,324			
Dec 1262.00	1268.70	1258.00	1263.30	-2.40	68,767			
Feb'18 1265.50	1272.10	1261.60	1266.60	-2.40	8,964			
<b>Palladium (NYM)</b> -50 troy oz.; \$ per troy oz.	Open	High	hi lo	Low	Settle	Chg	Open interest	
May 812.80	812.80	812.80	761.50	-10.70	1			
June 772.35	772.80	756.25	761.65	-10.70	13,114			
July 769.80	769.80	760.40	761.60	-10.70	14			
Sept 771.75	772.25	755.90	761.20	-10.60	19,893			
Dec 769.45	770.65	756.00	760.70	-10.65	300			
<b>Platinum (NYM)</b> -50 troy oz.; \$ per troy oz.	Open	High	hi lo	Low	Settle	Chg	Open interest	
May 930.70	930.70	930.50	944.60	-2.30	1			
July 947.30	951.40	940.30	947.30	-2.10	60,675			
<b>Silver (CMX)</b> -5,000 troy oz.; \$ per troy oz.	Open	High	hi lo	Low	Settle	Chg	Open interest	
May 16,990	17,075	16,990	17,077	-0.014	71			
July 17,050	17,230	16,895	17,117	-0.022	146,453			
<b>Crude Oil, Light Sweet (NYM)</b> -1,000 bbls.; \$ per bbl.	Open	High	hi lo	Low	Settle	Chg	Open interest	
July 51.44	51.88	51.06	51.36	-0.11	610,234			
Aug 51.71	52.10	51.26	51.59	-0.13	189,735			
Sept 51.93	52.28	51.48	51.76	-0.16	191,824			
Dec 52.20	52.61	51.82	52.09	-0.21	325,212			
June'18 51.92	52.25	51.57	51.71	-0.31	112,053			
Dec 51.42	51.76	51.12	51.21	-0.05	158,442			
<b>NY Harbor USLD (NYM)</b> -42,000 gal.; \$ per gal.	Open	High	hi lo	Low	Settle	Chg	Open interest	
June 1,601	1,6221	1,5956	1,6063	-0.0004	39,825			
July 1,6130	1,6267	1,6002	1,6108	-0.0015	114,420			
<b>Gasoline-NY RBOB (NYM)</b> -42,000 gal.; \$ per gal.	Open	High	hi lo	Low	Settle	Chg	Open interest	
June 1,6685	1,6750	1,6416	1,6526	-0.0088	38,881			
July 1,6569	1,6693	1,6371	1,6476	-0.0084	139,843			
<b>Natural Gas (NYM)</b> -10,000 MMBtu; \$ per MMBtu	Open	High	hi lo	Low	Settle	Chg	Open interest	
June 3,234	3,252	3,176	3,209	-0.010	26,141			
July 3,328	3,345	3,269	3,300	-0.012	294,234			
Aug 3,363	3,384	3,311	3,342	-0.010	151,974			
Sept 3,343	3,364	3,290	3,322	-0.011	151,186			
Oct 3,367	3,386	3,314	3,344	-0.013	200,698			
Jan'18 3,619	3,633	3,566	3,593	-0.014	102,983			

### Agriculture Futures

	Corn (CBT)		Oats (CBT)		Soybeans (CBT)		Soybean Meal (CBT)		Soybean Oil (CBT)		Rough Rice (CBT)		Wheat (CBT)		Wheat (KC)		Wheat (MPLS)		Wheat (W)	
<b>Corn (CBT)</b> -5,000 bu.; cents per bu.	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 370.00	371.50	368.75	371.25	1.75	719,678															
Dec 388.25	389.75	387.00	389.75	2.00	285,535															
<b>Oats (CBT)</b> -5,000 bu.; cents per bu.	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 240.00	243.00	238.25	238.50	-2.75	4,989															
Dec 224.00	227.75	224.00	226.75	1.50	1,131															
<b>Soybeans (CBT)</b> -5,000 bbls.; cents per bu.	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 948.50	952.00	943.00	948.25	...	360,987															
Nov 948.75	951.50	943.25	948.00	-50	193,163															
<b>Soybean Meal (CBT)</b> -100 tons; \$ per ton	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 306.40	307.80	305.40	306.40	.10	200,871															
Dec 311.30	312.00	310.30	311.00	-10	87,479															
<b>Soybean Oil (CBT)</b> -60,000 lbs.; cents per lb.	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 32.40	32.57	32.16	32.28	-0.06	199,514															
Dec 32.89	33.07	32.69	32.82	-0.04	98,475															
<b>Rough Rice (CBT)</b> -2,000 cwt.; \$ per cwt.	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 10,844	11,100	10,844	11,050	14.50	7,970															
Sept 11,1550	11,360	11,040	11,310	14.50	933															
<b>Wheat (CBT)</b> -5,000 bu.; cents per bu.	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 429.25	433.00	427.50	432.50	3.00	267,725															
Sept 444.00	446.75	442.50	446.00	2.00	80,183															
<b>Wheat (KC)</b> -5,000 bu.; cents per bu.	Open	High	hi lo	Low	Settle	Chg	Open interest													
July 430.75	435.75	429.25	432.75	2.25																

# BIGGEST 1,000 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, ISYE 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. the previous day.

Footnotes:

- i-New 52-week high.
- j-New 52-week low.
- dd-Indicates loss in the most recent four quarters.
- FD-First day of trading.
- h-Does not meet continuing standards.
- If-Late filing.
- q-Temporary exemption from Nasdaq requirements.
- t-NYSE bankruptcy.
- v-Trading halted on primary market.
- w-In bankruptcy or receivership or being reorganized under the Bankruptcy Code, or securities assumed by such companies.

Net

Stock Sym Close Chg

Net

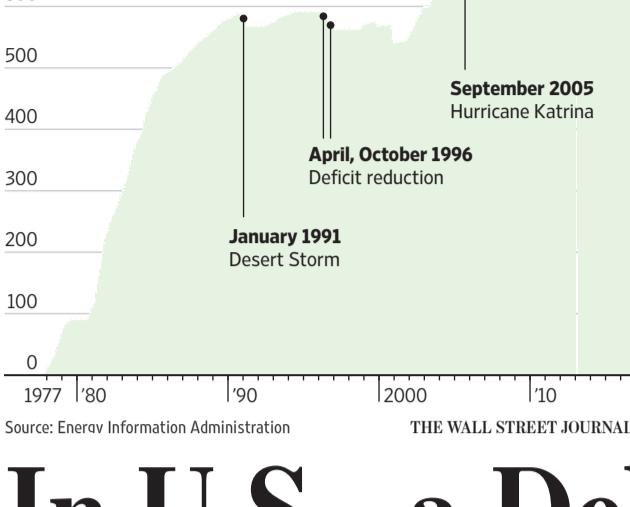
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## COMMODITIES

### Backup Plan

Monthly Strategic Petroleum Reserve stockpile

700 million barrels



The Trump administration's budget proposal calls for selling an additional 270 million barrels of oil over the next decade.

LUKE SHARRETT/BLOOMBERG NEWS

# In U.S., a Debate Over Its Oil Reserves

White House wants to increase sales, while others say stockpile is needed in case of crisis

BY ALISON SIDER  
AND ERIN AILWORTH

President Donald Trump's proposal to help reduce the national debt by selling down more of the U.S. emergency oil stockpile is reigniting a debate about whether the reserves are still crucial to the country's economic security.

The Trump administration said Tuesday that its budget proposal calls for selling an additional 270 million barrels of oil over the next decade. Congress had already recently approved selling down some reserves to raise money for various domestic programs.

The administration now

wants to increase those sales. Officials said the proposed amount could bring in \$500 million in fiscal 2018 and \$16.6 billion through 2027.

Proponents say the reserve is necessary in the event of a crisis, such as a war in the Middle East or another violent disruption to supply, that could leave the U.S. short of oil for a period.

Critics say that rising domestic production makes such large reserves redundant and that proceeds from selling it could be put to better use.

The Strategic Petroleum Reserve was intended as a buffer against disruptions in the flow of imported oil. It was created after the Arab oil embargo of 1973-74, which sent shock waves through the U.S. economy.

Gasoline prices at the pump soared, feeding inflation. Drivers were stuck in long lines at

filling stations that couldn't get enough fuel.

The reserve is now the world's largest supply of emergency crude, according to the U.S. Energy Department.

But rising output from shale formations in places such as Texas and North Dakota has made the U.S. less dependent on crude from the Organization of the Petroleum Exporting Countries.

As a result, many energy analysts say the U.S. no longer needs to sock away hundreds of millions of barrels of oil as protection against supply shortages and price spikes.

Some analysts also say the reserve, which holds 688 million barrels of oil, is outdated or simply ineffective. It can take as long as 13 days for the government's oil to reach the market after the president calls for its release, making it a blunt instrument in a market

that can swing in an instant.

The reserve's infrastructure has also become dilapidated in recent years.

"I don't think it has any efficacy; it's basically a security blanket," said Fred Beach, assistant director for energy policy at the Energy Institute at the University of Texas at Austin. "It's a political tool. It's just not enough to swing a global market."

Those who favor keeping the reserves higher counter that even with the U.S. producing more of its own crude, a sudden price increase could still harm the economy.

Shale producers need months to significantly boost output. During that time the U.S. could be short of oil, forcing users to pay exorbitant prices until new domestic supplies reach the market.

"Making it significantly smaller—that's going to work

really well until the next geopolitical crisis," said Adam Sieminski, who served as the head of the U.S. Energy Information Administration until this year and is now an analyst at the Center for Strategic and International Studies. "I would like to actually see a healthy debate with congressional hearings. It's worth exploring in more detail."

Robert McNally, president of the Radian Group, equated the proposal to "selling the family silver." Mr. McNally served as an energy adviser to President George W. Bush during a time when the government refilled the reserve using royalties from its offshore leases.

"I've seen the terror in the eyes of officials when gasoline prices rise or a Middle East war happens. Having that emergency stockpile—you really appreciate it," he said.

The U.S. government has dipped into these oil reserves several times over the past few decades. It was usually for emergency reasons, including after Hurricane Katrina in 2005, when a number of oil operations were affected by the storm. The U.S. in 1991 drew on reserves during Operation Desert Storm in Iraq.

Congress authorized sales from the stockpile in 1996 to pay for deficit reduction, marking the first time it tapped the reserve for reasons other than its stated purpose.

In 2015 and 2016, Congress approved sales aimed at raising money for programs including the Highway Trust Fund, medical research and repairing the reserve's own infrastructure. Those sales, which began this year, could amount to some 190 million barrels through 2025, according to the EIA.



Secretary-General Mohammad Barkindo is 'a diplomat rather than an expert,' says one observer.

### Borrowing Benchmarks | WSJ.com/bonds

#### Money Rates

Key annual interest rates paid to borrow or lend money in U.S. and international markets. Rates below are a guide to general levels but don't always represent actual transactions.

#### Inflation

April index Chg From (%) level March 17 April 16

**U.S. consumer price index**

All items 244.524 0.30 2.2

Core 251.642 0.14 1.9

**International rates**

Latest Week -52-Week -

Ago High Low

**Prime rates**

U.S. 4.00 4.00 4.00 3.50

Canada 2.70 2.70 2.70 2.70

Japan 1.475 1.475 1.475 1.475

**Policy Rates**

Euro zone 0.00 0.00 0.00 0.00

Switzerland 0.50 0.50 0.50 0.50

Britain 0.25 0.25 0.50 0.25

Australia 1.50 1.50 1.75 1.50

**Overnight repurchase**

U.S. 0.87 0.85 1.30 0.15

**U.S. government rates**

Discount 1.50 1.50 1.50 1.00

**Federal funds**

Effective rate 0.9200 0.9200 0.9400 0.3200

High 1.0625 1.0625 1.0625 0.5000

Low 0.9000 0.8100 0.9100 0.2000

Bid 0.9100 0.9100 0.9300 0.2000

Offer 0.9200 0.9200 1.0000 0.2600

#### Dividend Changes

Dividend announcements from May 24.

Company Symbol Amount Payable/ Record

Yld% New/Old Frq

Increased

First Connecticut Brncp FBNK 1.9 .12/11 Q Jun12/Jun02

Kilroy Realty KRC 2.3 .425/375 Q Jul12/Jun30

TriCo Bancshares TCBK 19 .17/15 Q Jun30/Jun15

**Funds and investment companies**

AdvisorShs Asst Enr FR FLRT 3.4 .13903 M May31/May26

AdvisorShares Newfleet MINC 2.5 10058 M May31/May26

AdvisorShares Sage Core HOLD 1.2 0.9805 M May31/May26

AdvisorShs Perfutis Hi Yd HYLD 6.9 20729 M May31/May26

Credit Suisse Income Fnd CIK 7.9 .022 M Jun15/Jun09

Ctr Coast MLP & Infr Fd CEN 10.5 1042 M Aug29/Aug11

Ctr Coast MLP & Infr Fd CEN 10.5 1042 M Jul28/Jun14

Ctr Coast MLP & Infr Fd CEN 10.5 1042 M Aug29/Aug11

Elkhorn S&P High Qual Pfd EPRF 5.6 .112 M May31/May26

Horizon NASDAQ-100 Cvd QYLD 6.4 .12598 M May30/May26

# OPEC Chief Relishes Role As Ambassador for Group

BY BOBIN FAUCON

VIENNA—During a turbulent year for oil prices, the Organization of the Petroleum Exporting Countries' top official, Mohammad Barkindo, has embraced a role as the global energy industry's chief diplomat.

Since taking over as secretary-general almost a year ago, the wisecracking 58-year-old Nigerian with a closet full of Nehru jackets has reached beyond OPEC in a way few of the cloistered group's officials have in the past.

Mr. Barkindo was a main architect of the agreement last year bringing together the fractious 13-member group and almost a dozen other big producers for the first coordinated crude-oil supply cuts in eight years.

He served as an important channel between OPEC-member rivals Saudi Arabia and Iran, shuttling between the two countries when they didn't have diplomatic relations last year and brokering an oil-policy detente that cleared the way for a deal.

Mr. Barkindo traveled to Houston to meet U.S. shale producers this year and hosted meetings with oil traders in London and New York.

He has made a point of inviting big non-OPEC producers such as Azerbaijan to Vienna for talks. His latest mission is to keep OPEC's fragile coalition alive at this week's meeting in Vienna of OPEC members and nonmembers that have joined cuts, such as Russia, Mexico and Kazakhstan.

The group is expected to renew its pledges to withhold almost 2% of global oil supply and continue with efforts to drain a vast surplus that has weighed down crude prices.

Helima Croft, chief commodities strategist at RBC Capital Markets and longtime observer of OPEC, said Mr. Barkindo is the modern oil industry's version of Clemens Metternich, the 19th-century Austrian empire diplomat who helped reorder Europe's political system during the rise and fall of Napoleon.

"He is a diplomat rather than an expert, and that helps to get everyone in the room to get on," said Bhushan Bahree, a senior director on oil at U.S. consulting firm IHS and a longtime OPEC watcher.

Since taking over as OPEC secretary-general last August, Mr. Barkindo has transformed a role once seen as little more than the group's top bureaucrat with no real role in decision making into an important ambassadorship, serving as an emissary both inside and outside the group.

Mr. Barkindo plays down any efforts to elevate the role and says he is simply following his own experience

**Mr. Barkindo was the main architect of last year's crude-oil output-cut pact.**

through five oil-cycle downturns to get OPEC through "challenging times."

Ed Morse, the Citigroup Inc. oil analyst who counts Mr. Barkindo as a friend, says the OPEC chief "has a mission to make OPEC relevant and to make it more professional."

But when OPEC didn't achieve Mr. Barkindo's goal of reducing vast oil supplies as quickly as some thought pos-

sible, prices slipped late last month and early this month. Mr. Barkindo was part of the decision to frame OPEC's production cuts as a way to bring oil storage—a proxy for a global oversupply—down to a five-year average.

"It set up unrealistic expectations," Mr. Morse said.

Mr. Barkindo's style contrasts with that of his predecessor, Abdalla Salem el-Badri, who Ms. Croft said was seen as a technocrat who rarely engaged at the highest political levels.

Mr. Badri didn't respond to a request to comment.

The oil industry breeds diplomats, with its international nature and resources located in often troubled countries with autocratic regimes. U.S. Secretary of State Rex Tillerson got firsthand experience engaging world leaders over a decade as Exxon Mobil Corp.'s chief executive. Saudi Arabia's energy minister, Khalid al-Falih, remains an important global oil emissary as well.

Mr. Barkindo has elevated the secretary-general role into that sphere of influence.

—Michael Amon contributed to this article

### Crude Pulls Back

#### Ahead of Meeting

A five-day rally in oil prices paused as investors awaited OPEC's decision about extending production cuts.

The Organization of the Petroleum Exporting Countries is meeting in Vienna Thursday to decide whether to extend a production-cut agreement struck last year and for how long.

"I think a lot of people were just sitting on their hands," said Tariq Zahir, managing member of Tyche Capital Advisors.

U.S. crude for July delivery fell 11 cents, or 0.2%, to settle at \$51.36 a barrel on the New York Mercantile Exchange.

Oil has been buoyed in recent days by reports that Saudi Arabia has garnered support within OPEC for a nine-month extension of production cuts. Oil prices have gained about 4% this month, but are still down nearly 6% from this year's high, as market participants have become skeptical

that the reductions by OPEC members and other major producers are working to bring down global inventory levels.

Iraq Oil Minister Jabbar al-Luaibi said Wednesday that he supports extending the cuts for another nine months.

A joint committee comprised of OPEC and non-OPEC members also recommended extending the cuts for nine months. Russia's oil minister said there would be discussion of extending the cuts for a full year.

Meanwhile, crude stockpiles decreased by 4.4 million barrels, according to a report Wednesday by the U.S. Energy Information Administration, the seventh straight week of declining inventories.

But the EIA reported that gasoline stockpiles dropped by just 787,000 barrels last week, compared with a one million barrel decrease forecast by analysts and traders surveyed by The Wall Street Journal.

The smaller-than-anticipated drop renewed concerns about demand heading into the summer driving season.

—Alison Sider

KEY: A: annual; M: monthly; Q: quarterly; R: revised; SA: semiannual;

S2: stock split and ratio; SO: spin-off.

Company

Symbol

Amount

</

## MARKETS & FINANCE

# Dollar Falls as Fed Signals No Shift

By CHELSEY DULANEY

The dollar slipped Wednesday after minutes from the Federal Reserve's latest meeting did little to alter investors' expectations for interest-rate increases in the months ahead.

The WSJ CURRENCIES Dollar Index, which measures the U.S. currency against 16 others, fell 0.3% to 88.87. It had been up less than 0.1% before the minutes were released.

The minutes showed Fed officials continue to expect to raise interest rates soon even though the economy appeared to stumble in the first quarter. Still, some officials expressed concern about recent softness in inflation and other economic data.

"Members generally judged that it would be prudent to await additional evidence indicating that the recent slowing in the pace of economic activity had been transitory before taking another step in removing accommodation," the minutes said.

Omer Esiner, chief market analyst at Commonwealth For-

The minutes showed Fed officials continue to expect to raise interest rates soon.

ign Exchange, said some investors had expected the Fed to send a clearer signal that it would raise rates at its meeting in June.

"There was less of a direct reference to a June lending-rate hike than some may have expected," said Mr. Esiner. "On the other hand, the Fed sounded upbeat on the overall health of the economy."

Federal-funds futures, used by investors to bet on the U.S. interest-rate outlook, show an 83% chance that the Fed raises rates at its meeting next month, according to CME Group data.

Higher interest rates typically support the dollar by making U.S. assets more attractive to investors.

Minutes also indicated that the Fed is moving toward a consensus on a plan to shrink its \$4.5 trillion in holdings of Treasury and mortgage securities later in the year.

—Nick Timiraos contributed to this article.



ALEXANDER PLAVENSKI/EUROPEAN PRESSPHOTO AGENCY

The action by Moody's reinforces the belief Beijing must do more to address mounting debt levels. A bridge being built in Guangdong.

# Moody's Gives China a Warning

By MARK MAGNIER AND CAROLYN CUI

BEIJING—China's stepped-up efforts to attract more foreign capital to its financial markets could become more complicated after a downgrade from Moody's Investors Service, its first of China's government in 27 years.

Moody's rating action on Wednesday also reinforced a widely held belief that China needs to do more to address its mounting debt levels and slowing economic growth.

China has enjoyed a favorable credit rating for decades, thanks to its high level of foreign reserves and little external debt. But the rapid growth of domestic debt in recent years, especially in the corporate sector, has reached a level that is starting to erode China's creditworthiness, analysts said—especially at a time when the economy is expected to grow at a slower pace.

Moody's said in its downgrade that "we expect China's growth potential to decline to close to 5% over the next five years," a notable deceleration. China's economy expanded 6.7% in 2016, and hit a recent peak of 10.6% in 2010.

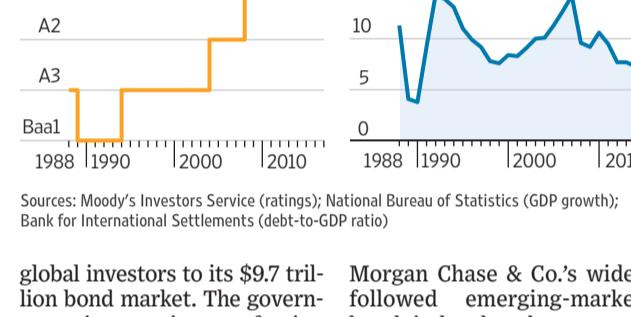
Some investors said the downgrade was hardly a shock given China's well-documented debt problem. Others noted that China's new rating is still investment grade, ranking it near the top of the developing world. Chinese officials also took issue with Moody's methodology.

Yet some analysts said the downgrade could aggravate China's attempts to lure more

## Outside View

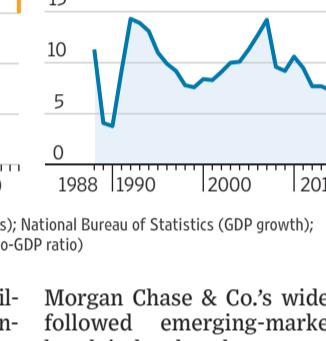
Moody's cited a worsening economic situation in its first China downgrade since 1989.

### Moody's rating action on Chinese government

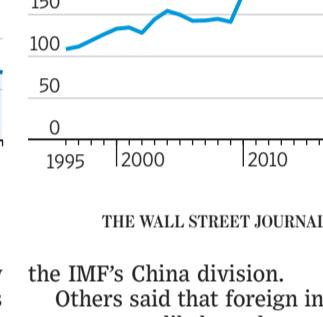


Sources: Moody's Investors Service (ratings); National Bureau of Statistics (GDP growth); Bank for International Settlements (debt-to-GDP ratio)

### China's real GDP growth



### China's debt as a percentage of GDP



THE WALL STREET JOURNAL.

global investors to its \$9.7 trillion bond market. The government is counting on foreign capital to offset some of the outflows from Chinese companies and investors. Rising foreign flows would also help support the yuan, China's currency, which has come under pressure in recent years as Chinese stash more money abroad.

China's central-bank officials have met with investors around the world in recent months to generate interest for Chinese financial markets. The government has been gradually opening its domestic bond market to foreigners, including central banks and sovereign wealth funds. But a cumbersome application process has turned off many fund managers who would like to buy Chinese debt, some investors say.

Officials have lobbied global index providers for China's inclusion. Chinese representatives have tried for more than a year to win a place in J.P.

Morgan Chase & Co.'s widely followed emerging-markets bond index but have yet to succeed.

Moody's lowered China's government-debt rating one notch to A1 from Aa3. S&P Global Ratings last downgraded China's government debt in 1999, while Fitch Ratings most recently cut China's debt rating in 2013.

The International Monetary Fund, World Bank and Bank for International Settlements, among others, have long expressed concern about China's surging debt levels. Some analysts suggested that the downgrade would heighten concerns about investing in the country's bond market.

"For portfolio managers, it will be even harder now to justify moving into the Chinese bond market given that most of the ratings seem to be headed downwards, suggesting higher risks," said Eswar Prasad, a professor at Cornell University and former head of

the IMF's China division.

Others said that foreign investors were likely to demand higher yields to compensate for the lower credit rating.

The downgrade news triggered an early sell-off in Chinese stocks on Wednesday, with shares in Shanghai falling more than 1% before recovering and largely shrugging off the move.

Reaction in China's bond market was muted. Analysts said that is because an overwhelming portion of China's debt is held domestically. Foreign investors owned about 1.5% of the Chinese local bond market at the end of March, according to the People's Bank of China.

Local investors are unlikely to sell the debt due to rating changes, and the few foreign investors who are in the market are in there for the long run, analysts said. That makes China's markets less vulnerable to others' assessment of its credit risks. It also limited

the impact of Wednesday's downgrade on other emerging markets.

"This is not going to change the way investors view the [China] story," said Kevin Daly, a portfolio manager at Aberdeen Asset Management, which owns Chinese bonds in its Asian portfolios.

Mr. Daly said the sheer size of China's bond market, along with its relatively high ratings, makes it a market that many foreign investors are looking to get involved in eventually.

**Carlyle Group** co-founder David Rubenstein said the company, which has invested \$1 billion a year in China on average over the past four years, is lifting its investment. "The U.S. was downgraded a few years ago as well, and that hasn't stopped us from investing in the U.S.," he said.

China's Finance Ministry called the methodology behind Wednesday's downgrade "inappropriate" and said Moody's overestimated China's economic difficulties.

In its credit analysis, Moody's wrote that debt held by local Chinese governments and some state-owned enterprises represents an indirect sovereign liability because the government would likely backstop those loans.

This debt is equivalent to 114% of China's gross domestic product. Chinese officials said under Chinese law, the central government isn't responsible for debt issued by local governments or state-run enterprises.

—Lingling Wei, Liyan Qi and Grace Zhu contributed to this article.

# Stocks Gain as Higher Rates Seen

By AARON KURILOFF AND CHRISTOPHER WHITTALL

U.S. stocks advanced as minutes from the Federal Reserve signaled that interest rates could rise in June.

Many investors and analysts view rate increases as a vote of confidence in the U.S. economy, but some said the central bank's assessment of growth and the details offered on how it plans to pare its balance sheet suggested officials would continue to move at a gradual pace.

U.S. government bonds and their stock market proxies gained Wednesday after minutes from the central bank's latest meetings were released. The Dow Jones Industrial Average rose 74.51 points, or 0.4%, to 21012.42. The S&P 500 gained 5.97 points, or 0.2%, to a fresh high of 2404.39 and the Nasdaq Composite added 24.31 points, or 0.4%, to 6163.02.

"You've got a lot of things stuck in a range because the forces are pretty balanced," said Russ Koesterich, co-portfolio manager of BlackRock's Global Allocation Fund. "The economy's doing OK, but not taking off. The Fed's hiking, but doing it gently. And investors are nervous about high valuations and low volatility, but there are few other places to go."

Utilities stocks in the S&P 500 rose 0.7% and real-estate shares gained 0.6%. Those sectors are often considered



A farmer pours DuPont seeds into a machine. The company's shares advanced 1.3% Wednesday.

bondlike because of their relatively high payouts, and investors tend to buy them when they are nervous about other parts of the market.

The yield on the benchmark 10-year U.S. Treasury note fell to 2.266% from 2.285% Tuesday. Yields fall as prices rise. The WSJ Dollar Index, which measures the dollar against a basket of 16 other currencies, slipped 0.3%.

Shares of miners and materials companies in the S&P

500 gained 0.7%. Dow component **DuPont** rose \$1.04, or 1.3%, to \$78.38.

**Tiffany** lost 8.11, or 8.7%, to 85.03 in its largest percentage decrease since 2015 after the jeweler reported comparable-store sales fell 3% from a year earlier during its first quarter, worse than analysts expected.

The Stoxx Europe 600 index rose 0.1%.

Chinese stocks pared initial losses to end higher after Moody's Investors Service low-

# Legitimacy of SEC's Courts Is Challenged

By DAVE MICHAELS

WASHINGTON—A federal appeals court on Wednesday sharply questioned the powers of the U.S. Securities and Exchange Commission's in-house courts in a case that could transform how the Wall Street regulator carries out its enforcement authority.

The SEC tribunals are run by officers who have career appointments, such as U.S. district judges, but are classified as employees of the agency. The SEC's administrative judges conduct trials and are expected to independently oversee hearings, although any punishments they impose must be confirmed by the agency's commissioners to take effect.

Judges on the U.S. Court of Appeals for the District of Columbia Circuit probed whether the SEC's judges exercise enough power that, under the Constitution's appointments clause, they should have been hired by the SEC's commissioners. The challengers to the SEC's system say it is a fatal flaw that the judges were hired by a human resources office, violating the Constitution's call to limit the power of government officials who don't answer to elected officeholders.

The SEC argues its system for hiring judges is legitimate because the judges' decisions aren't final without the commission's involvement. But several judges on the appeals court on Wednesday said the

standard is whether the SEC's judges wield significant authority, such deciding what evidence to allow.

"It seems like significant authority to me, especially when you are doing things like lifetime bars and massive sanctions against people," said Judge Brett M. Kavanaugh.

The person behind the appeal is Raymond Lucia, a California financial adviser and radio personality who was sued by the SEC in 2012. The regulator accused Mr. Lucia of misleading investors through a strategy he called "Buckets of Money."

An administrative judge who heard Mr. Lucia's case barred him in 2013 from working as a broker or investment adviser, and fined Mr. Lucia and his company \$300,000. He appealed the ruling and, like defendants in several other SEC cases, complained the judge who sanctioned him wasn't legitimately appointed under the Constitution's appointments clause.

The SEC's in-house courts generated little controversy for decades, but a decision in 2014 to lean more heavily on the tribunals sparked a backlash. Lawyers defending clients challenged the independence of the courts and how the judges are hired, arguing their sweeping powers mean that presidentially appointed commissioners should appoint them instead of human-resources officials.

# MARKETS

## Treasurys' Appeal Picks Up Overseas

Beijing leads charge as asset regains its traditional clout; 'the tide is shifting'

By MIN ZENG

Foreign central banks are scooping up U.S. government bonds again after paring their holdings in 2016. And the biggest buyer this year? China.

Last year, U.S. Treasurys held by foreign central banks via the Federal Reserve's custody accounts declined \$140 billion, sparking alarm over whether a wave of Treasury selling by central banks overseas was coming.

This year, the debt holdings have climbed by \$61 billion to \$2.92 trillion, the highest level since June 2016, according to the latest data from the week ended May 17.

There has been a similar shift by China, the second-largest foreign holder of Treasurys after Japan. In 2016, the country slashed its Treasury holdings by \$188 billion. But in the first quarter of 2017, China increased its holdings by \$29 billion to \$1.088 trillion, the most recent such Treasury data released on May 15 show.

"The tide is shifting subtly," said Brad Setser, a senior fellow at the Council on Foreign Relations. "The pressure for China to sell Treasurys has eased off, given the relative stability of its foreign reserves and the Chinese yuan."

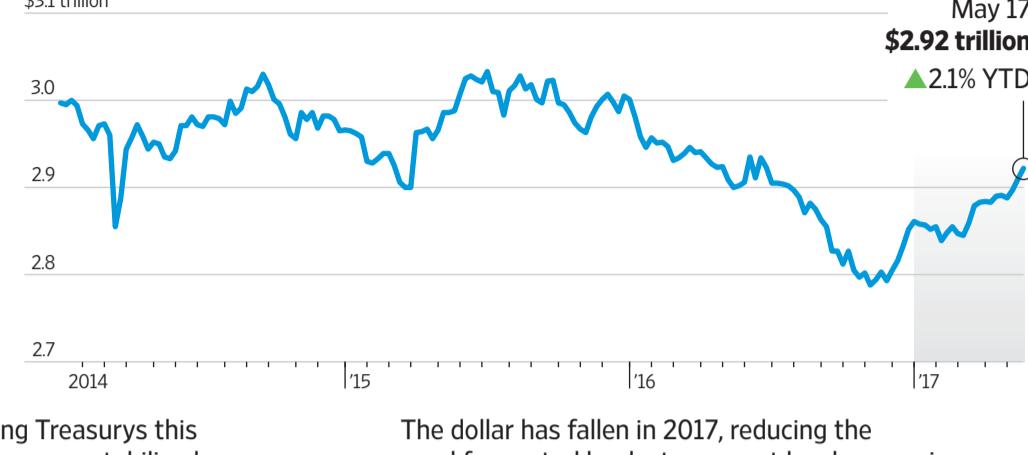
China's foreign reserves slid more than \$500 billion between August 2015—when China shocked the world with a one-time devaluation of the yuan—and December 2016. The reserves have since rebounded from \$3.01 trillion in December to \$3.03 trillion in April, according to TD Securities.

A reversal in the U.S. dollar has helped fuel central-bank buying of Treasurys. A strengthening U.S. currency from mid-2014 to the end of

### Foreign Interest

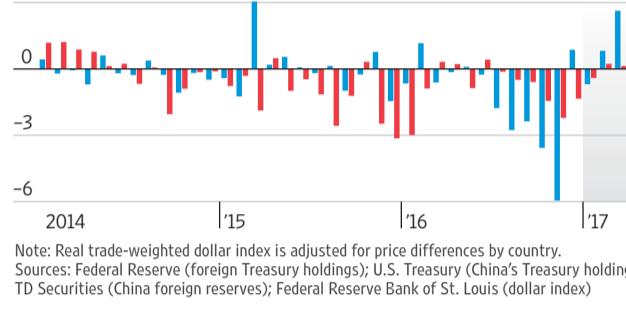
Central banks overseas are buying U.S. government bonds after cutting holdings in 2016—a reversal partly driven by a weaker dollar.

#### Treasurys owned by foreign central banks via the Federal Reserve's custody account, weekly



China returned to adding Treasurys this year after its foreign reserves stabilized.

#### Chinese holdings of Treasury debt and foreign reserves, percentage change from previous month



Note: Real trade-weighted dollar index is adjusted for price differences by country.  
Sources: Federal Reserve (foreign Treasury holdings); U.S. Treasury (China's Treasury holdings); TD Securities (China foreign reserves); Federal Reserve Bank of St. Louis (dollar index)

last year created a negative feedback loop in emerging markets, with capital leaving developing economies, which then caused local currencies to tumble.

Selling Treasurys is a popular solution for central banks aiming to support local currencies.

But this year, a steadily weakening dollar has helped stabilize local currencies and reduced the need for central banks to sell Treasurys and use the proceeds to intervene in the currency market.

The dollar has fallen 1.4% this year against the Chinese yuan freely traded in the offshore markets, after a 6% rally in 2016. The Chinese currency

was little changed Wednesday after Moody's Investors Service lowered China's sovereign credit rating for the first time in nearly three decades, citing expectations that the country's financial strength will deteriorate.

Analysts tracking the capital-flows data have warned that they provide an incomplete picture of China's Treasury investments because the country can park its holdings in a third destination. For instance, a popular proxy to gauge China's investments has been Belgium, where Treasury holdings fell \$11.5 billion in the first three months of the year.

Still, U.S. Treasury bonds

also continue to offer more attractive yields compared with their peers in Germany, Japan and the U.K. At \$13.9 trillion, the Treasury market is also still the world's biggest bond market and the most liquid, a draw to central banks seeking a safe place to keep their large cash piles.

The yield on the benchmark 10-year Treasury note was 2.266% in late New York trading Wednesday, down from 2.446% at the end of 2016. Yields fall as bond prices rise.

On Wednesday, the yield fell from 2.285% Tuesday as government bonds strengthened after the Federal Reserve's latest minutes suggested the cen-

tral bank would likely start reducing its bond holdings later this year in a more cautious manner than anticipated. The plan could lead to an unwinding of the Fed's balance sheet that would be "a little more stretched" out than many analysts had expected, said Blake Ginn, U.S. interest rates strategist at Natwest Markets.

Purchases from foreign central banks had contributed to declines in Treasury yields this year after a big rise in late 2016. That in turn has caused hedge funds and money managers to exit from or pare back bets that bond yields would extend a climb.

"There are not a lot of op-

portunities for foreign central banks" to diversify their portfolios away from the Treasury bond market, said Bill Northey, chief investment officer at the private client group of U.S. Bank.

Global foreign reserves excluding gold have stabilized. The amount was \$10.8 trillion at the end of December, data from the International Monetary Fund show.

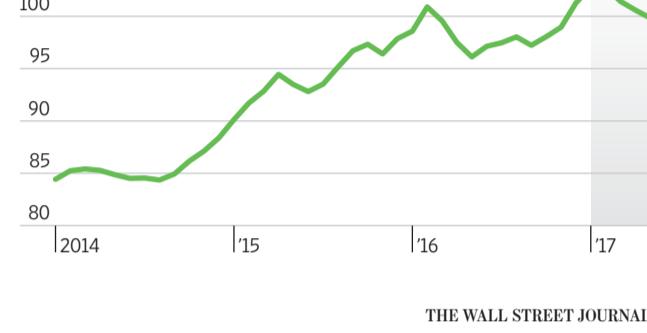
During the first quarter, Saudi Arabia's Treasury holdings rose \$11.6 billion. Russia's holdings rose \$13.7 billion, South Korea's was up \$4.2 billion and Singapore's was up \$2.5 billion.

It is premature to worry about selling Treasurys by the central banks, analysts say. But should the dollar resume its appreciation, pressure may mount for central banks to sell Treasurys to defend local currencies.

"The wild card is the dollar," said Alejandra Grindal, senior international economist at Ned Davis Research. "Whether the stabilization will continue depends on if the dollar strengthens significantly and how well China manages its outflows and its communication about yuan policy."

—Lingling Wei  
and Sam Goldfarb  
contributed to this article.

#### Real trade-weighted U.S. dollar index, monthly



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#### AUCTION RESULTS

Here are the results of Wednesday's Treasury auctions. All bids are awarded at a single price at the market-clearing yield. Rates are determined by the difference between that price and the face value.

ONE-YEAR, 11-MONTH FRNs	
Applications	\$38,857,407,400
Accepted bids	\$13,090,007,400
*noncompetitively	\$7,657,400
Spread	0.070%
Bids at clearing yield accepted	17.20%
Cusip number	912828X54

The floating-rate notes, dated May 26, 2017, mature on April 30, 2019.

#### FIVE-YEAR NOTES

FIVE-YEAR NOTES	
Applications	\$95,036,085,900
Accepted bids	\$38,090,349,900
*noncompetitively	\$68,154,200
* foreign noncompetitively	\$0
Auction price (rate)	99.614668
Interest rate	(1.83%)
Bids at clearing yield accepted	1.75%
Cusip number	912828X6

The notes, dated May 31, 2017, mature on May 31, 2022.

## HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

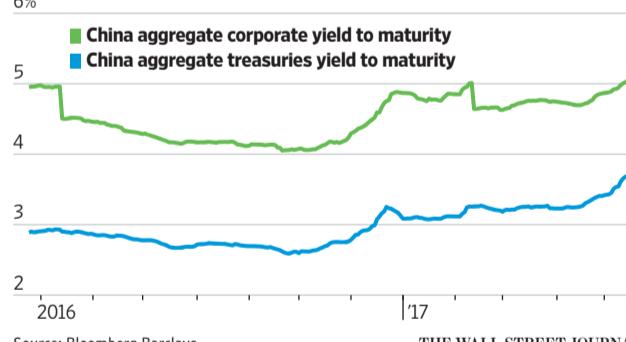
WSJ.com/Heard

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## Investors in China: Watch Out

### Rising Stress

Concerns about debt levels and slowing growth have driven up bond yields in China



with support in a crisis, banks are in practice able to issue debt at higher ratings. Bank of China, one of the country's big four banks, has a base rating of Baa2, but any debt it issues is rated at A1, four notches higher. By this logic, a notch down in China's rating should push down those of issuers that rely on government backing. In July 2007, when Moody's upgraded China, it simultaneously up-

graded seven Chinese banks. Moody's deems about half of the state-owned entities it rates as being in the "moderate credit risk" bucket. Thirteen of those would fall into junk territory if their ratings were lowered a notch.

Any broader downgrade for Chinese companies and banks, which have been big issuers of debt in the U.S. dollar market, would be costly. One barometer of the way investors already seek

higher compensation for the unknowns that come with operating in China is that it costs \$78,000 to insure against \$10 million of Chinese debt for five years, compared with \$60,000 for the same amount of Israeli debt or \$37,000 for Czech debt. Meanwhile, the yield on five-year U.S. dollar bonds issued by A1-rated **Industrial & Commercial Bank of China** is already at 3.2%, compared with a 2.8% yield for bonds issued by similarly rated **Goldman Sachs**.

With a regulatory crackdown in force, Chinese companies and banks have been struggling with rising funding costs in home markets.

They have also been hopping between onshore and offshore markets to issue debt wherever it is cheaper.

The move by Moody's may now make it more expensive to issue debt abroad as well. While the pain for China's government from the downgrade is manageable, it could prove painful for the country's debt-addicted bond issuers.

—Anjani Trivedi

### OVERHEARD

Talk about a hidden gem in your portfolio.

Someone in New York recently came forward to claim a \$24 million winning lottery ticket a year after the drawing and days before it would expire.

He or she picked the winning numbers but forgot about it until recent news reports of the unclaimed winnings.

There is an opportunity cost to waiting. Assuming a lottery formula that discounts a lump-sum payment for the headline amortized value, and applying New York state and city taxes, the take home would be a modest \$6.4 million.

Had the winner plunked that money into an S&P 500 fund a year ago, the investment would be worth almost \$7.5 million today including dividends.

Then again, if Congress slashes the top tax rate this year, it might make the wait a bit more bearable by increasing the take home.

What are the odds?

## Health-Law Uncertainty Poses Threat

The risk of a sharp decline in health-care stocks seems to be dropping as proposed reforms bog down in Washington. Investors aren't out of the woods, though.

That latest Congressional Budget Office analysis of the American Health Care Act, which passed the House of Representatives earlier this month, found that the bill's latest revisions had only a minor impact on coverage and budgetary impact.

Given the slim Republican majority in the Senate and the proposals' unpopularity, it seems unlikely that the bill will become law as written. By itself, that is a positive for health-care stocks. Despite initial fears, the industry has performed magnificently under the Affordable Care Act. Fewer Americans being eligible for insurance would jeopardize that. The longer the status quo is in place, then, so much the better for holders of insurance, hospital, and drug stocks.

But an indefinite delay raises another threat. President Donald Trump's budget released earlier this week proposes sharp cuts to Medicaid beyond the AHCA as a way to fund proposed tax cuts.

Recent headlines about firms exiting exchanges or proposing sharply higher premiums, if they continue, could tip the public toward support of an Obamacare replacement.

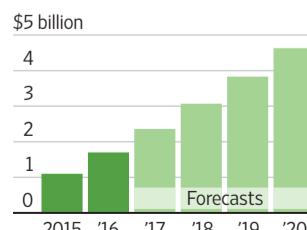
Industry executives may be hesitant to pursue bold mergers and acquisitions absent clarity on what health and tax policy will look like in coming years. After Wednesday's hard numbers, the math for health care stocks looks fuzzy and full of risks.

—Charley Grant

## Drones Keep Flying Higher, but Makers' Profits Sputter

### Aerial Shot

Global sales of personal drones



Spark, the smallest drone DJI has ever produced—and its cheapest out of the gate. Starting at \$499, the Spark can take off and land on its user's hand, and can be controlled either by gestures or

smartphone. The drone starts shipping to buyers next month.

That will be good news to DJI's venture investors who have poured more than half a billion dollars into the Shenzhen, China-based company to date.

Now valued at \$10 billion, DJI is now the 13th most valuable venture-backed company tracked by The Wall Street Journal. The company controls more than two-thirds of the consumer drone market, according to most estimates.

But DJI's dominance has come at the expense of industry profits. Yuneec, backed with \$60 million

from Intel's venture capital arm, announced in March that it was laying off an unspecified number of workers.

The company is the fourth-largest seller of drones in the U.S., according to NPD, but it still cited the need