

THE WALL STREET JOURNAL.

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WSJ.com EUROPE EDITION

DJIA 20951.47 ▼ 0.03%

NASDAQ 6075.34 ▲ 0.05%

NIKKEI 19445.70 ▲ 0.70%

STOXX 600 391.98 ▲ 0.67%

BRENT 48.38 ▼ 4.75%

GOLD 1226.50 ▼ 1.60%

EURO 1.0977 ▲ 0.83%

What's News

Business & Finance

V still faces the challenge of weaning itself off diesel and preparing for tougher emissions rules after its profit rebounded. **A1**

◆ Shell posted quarterly profit of \$3.4 billion, its highest since mid-2015, capping a bumper set of results for oil companies. **B3**

◆ Société Générale agreed to pay \$1.1 billion to settle claims it paid bribes to secure business from Libya's sovereign-wealth fund. **B1**

◆ The EU is considering ordering U.K.-based clearing-houses to relocate because of Brexit, threatening London's market dominance. **B1**

◆ China is set to pass a technology milestone with the maiden flight of its first big commercial airliner. **B1**

◆ Australia warned it would block efforts by hedge fund Elliott to shift BHP's stock listing to the U.K. **B2**

◆ AB InBev's profit surged on the integration of SAB-Miller, but Bud Light's market share fell further. **B3**

◆ A U.S. House panel approved a bill to undo parts of the Dodd-Frank law. **B5**

◆ Google agreed to pay around \$333 million in Italian back taxes, settling one of several European probes. **B4**

◆ HSBC said its U.S. bank paid its first dividend since 2006, a milestone in the lender's turnaround. **B8**

◆ Bond insurer Assured sued Puerto Rico's oversight board in a challenge to its debt-cutting plan. **B5**

World-Wide

◆ The U.S. House voted 217-213 to replace most of the Affordable Care Act, but the bill faces uncertain prospects in the Senate. **A1**

◆ Iraqi forces opened a new front against Islamic State in Mosul, where the militants are fighting to hold their last bastion. **A3**

◆ Russia, Turkey and Iran signed an agreement for the creation of safe zones in Syria as a step toward greater stability there. **A3**

◆ Trump plans to visit Saudi Arabia, Israel and the Vatican later this month in his first foreign trip as president. **A3**

◆ French prosecutors opened a probe into a suspected attempt to tar presidential candidate Macron with internet rumors. **A4**

◆ The U.S. Senate passed a \$1.1 trillion bill to fund the government through Sept. 30, avoiding a partial government shutdown. **A5**

◆ Trump signed an expansion of religious rights, a move social conservatives have long sought. **A5**

◆ Britain's Prince Philip, who turns 96 years old in June, will retire from his royal duties this year. **A3**

◆ South Korea is likely to elect an advocate of engagement with North Korea as president, putting Seoul at odds with the U.S. **A4**

◆ Algerians headed to the polls in parliamentary elections the government hopes will give it a mandate. **A3**

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U.S. House Passes Health-Care Bill

Effort to replace most of the Affordable Care Act faces formidable challenges in Senate

By NATALIE ANDREWS
AND KRISTINA PETERSON

WASHINGTON—The U.S. House approved legislation to replace most of the Affordable Care Act, giving new life to a bill that had faltered at many

stages and taking a step toward fulfilling GOP leaders' promise to overhaul the nation's health-care system.

The bill passed 217-213 on Thursday, with 20 Republicans voting in opposition and no Democrats supporting it. The bill faces uncertain prospects in the Senate, where several Republicans have already voiced concerns over its major provisions.

Republicans have promised for years to repeal the Affordable Care Act, commonly known as Obamacare, but it took weeks for House GOP leaders to line up enough support to advance the bill. They came up short twice, including in late March, when leaders pulled the bill from the floor just hours ahead of a planned vote due to collapsing support.

Following Thursday's vote, dozens of Republicans gathered with President Donald Trump at the White House to mark the legislative victory.

"What a great group of people, and they're not even doing it for the party, they're doing it for the country," Mr. Trump, a Republican, said of the lawmakers who won the bill's approval. "Yes, premiums will be coming down, deductibles will be coming down."

Mr. Trump predicted victory in the Senate, but many Republicans there are divided over an array of issues, such as the bill's changes to Medicaid. Sen-

Please see HEALTH page A5

Agenda Push

Capital Journal: Balance sheet after the vote **A5**

Senate averts shutdown **A5**

Trump signs order on religious freedoms **A5**

House panel backs plan to undo parts of Dodd-Frank **B5**

Violence in Venezuela Rages On as Protests Mount



TAKE COVER: A student from the Central University of Venezuela protects himself during a clash with riot police in Caracas. Students held demonstrations across the Venezuelan capital on Thursday, as a protest movement against President Nicolás Maduro continued.

Volkswagen Refocuses On Future In Wake Of Scandal

By WILLIAM BOSTON

BERLIN—Volkswagen AG, the world's biggest car maker, is returning to strong profits after CEO Matthias Müller took advantage of the company's diesel crisis to push through unpopular restructuring and cost cuts.

But as the emissions-cheating scandal that had threatened to sink one of Germany's corporate flagships begins to fade, analysts say Mr. Müller still must work hard to wean the German car maker off diesel and prepare for tougher emissions regulation.

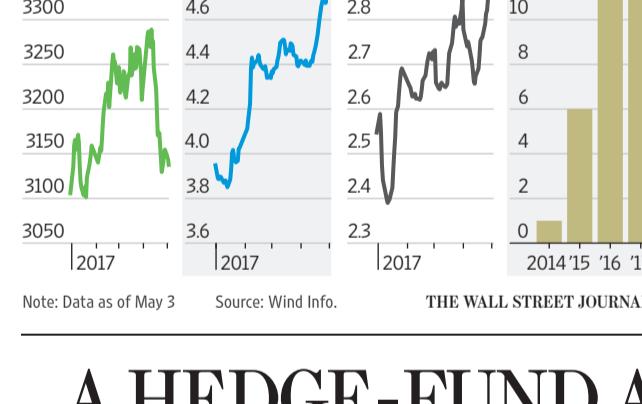
"The broader lesson is that VW used the crisis to do things that it couldn't do under normal circumstances and it is now stronger than it was before the scandal," said Christian Stadler, a professor of strategy at Warwick Business School.

Its strong position paradoxically puts Mr. Müller in a bind. The chief executive Please see VW page A2

Risk Curbs Rattle China Markets

Overruled

After a regulatory flurry, Chinese stocks have plummeted while funding costs and defaults are on the rise.



Note: Data as of May 3

Source: Wind Info.

BY LINGLING WEI
AND CHAO DENG

BELIJING—A wave of regulations aimed at cutting risk in China's financial system are rippling through the country's markets and sending banks and companies scrambling for funds.

During the past month, Chinese shares have fallen nearly 5%, draining nearly half a trillion dollars out of the country's markets. Bond yields have shot up to their highest levels in two years, and defaults hover at record levels. The uncertainty has also weighed on metals and commodity prices, already hurt by doubts around China's growth momentum. The price of iron ore plunged 8% on Thurs-

day, the daily trading limit.

Investors blame a host of measures Chinese authorities have rolled out to curb runaway debt levels, ranging from raising the cost of short-term funds to measures that are prompting banks to unwind hidden loans and securities. A particular target are high-risk, high-yielding investment products that banks have used to beef up their returns, but that regulators say may conceal dangerous amounts of risky lending.

Regulators are responding to prodding from Chinese President Xi Jinping, who is

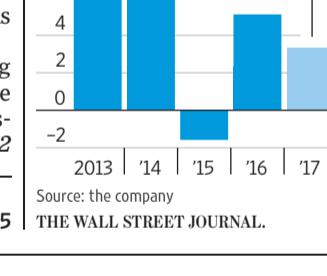
Please see RISK page A2

◆ Metals prices take a dive in China **B5**

Comeback

VW overtakes diesel scandal

Net profit/loss



Source: the company

THE WALL STREET JOURNAL.

A HEDGE-FUND ACE GETS BURNED IN SILICON VALLEY

Wellington manager's move into tech startups leads to refunds

By ROB COPELAND AND PETER RUDEGEAIR

For a solid decade, Nick Adams averaged 28% annual returns on the money he managed for a secretive trillion-dollar investment firm.

Then he fell in love with Silicon Valley venture deals. That's when things took a very different turn.

Today, the Wellington Management Co. star has been reduced to steps unthinkable for most hedge-fund managers. He is admitting mistakes and apologizing. He has even agreed to refund fees, according to investors.

The travails of Mr. Adams, a 56-year-old descendant of the second U.S. president, has riv-

eted Wall Street and startup circles. Wellington, with \$1 trillion under management, is one of many old-guard investors, including giants such as Fidelity Investments and Tiger Global Management, that piled into startup technology companies in recent years trying to strike gold with the next Facebook Inc. The new money helped push investments in venture-backed companies to \$77 billion in 2015.

The frenzy has since faded, turning Mr. Adams' misadventures into a cautionary tale about chasing Silicon Valley riches. Venture-capital investment plummeted 42% last year, putting pressure on existing investments by

Please see ADAMS page A6

A Long Public Life Nears a Close



RETIRING: Prince Philip, left, Queen Elizabeth II's husband, will retire from his royal duties later this year. He turns 96 next month. **A3**

INSIDE



A CARNIVORE'S GUIDE TO GRASS-FED BEEF

OFF DUTY, WI

How to Score a Prime Seat at Buffett's Big Party

* * *

Die-hards strategize to get good views of Berkshire's annual meeting

BY NICOLE FRIEDMAN

Justin O'Kane has perhaps the most elaborate plan in the world to watch Warren Buffett munch on peanut brittle, answer shareholder questions and share life lessons.

Mr. O'Kane, 49 years old, first flies from Melbourne, Australia, to Los Angeles and then to Omaha, Neb., a trip of about 20 hours.

Please see ADAMS page A6

Instead of staying at an Omaha hotel, the Australian investment manager stays in Council Bluffs, Iowa. The Council Bluffs gambit, he says, saves him time because it's closer to the CenturyLink Center—where Mr. Buffett's Berkshire Hathaway Inc. holds its annual meetings.



Warren
Buffett

On Saturday, he's up by 3 a.m. and arrives at the convention center by 4 a.m. to secure a good spot in line. He uses an entrance for upstairs seating that, he says, saves him about 20 seconds. He positions himself near a middle door because, he says, the outer ones sometimes don't open right away.

Please see SEATS page A6

WORLD NEWS

U.S. Caught Between Ally Turkey and Kurds

**MIDDLE EAST CROSSROADS**

By Yaroslav Trofimov

It's rare for American forces in the Middle East to fly the Stars and Stripes from their armored vehicles. Usually they try to blend in, with special-operations troops often going as far as donning local uniforms.

But now, part of the U.S.

mission in northern Syria is to literally show the American flag. The goal is to forestall attacks by America's NATO ally Turkey on America's key partner in the fight against Islamic State, the main Syrian Kurdish militia known as YPG.

In an unusual alignment, Russia is also flying its flag, with small, highly visible units deployed in the Syrian Kurdish enclave of Afrin. Russia and the Syrian regime have increasingly collaborated with the YPG and—like the U.S.—publicized recent deployments, aiming to deter Turkey.

This surreal standoff shows just how much the six-year Syrian war has upended the region's alliances. It is also an illustration of the extent to

which America's focus on defeating Islamic State has come at the expense of its relationship with Turkey, an economic powerhouse of 80 million people that has NATO's second-largest army and exerts influence across the region.

Turkish President Recep Tayyip Erdogan, his authority bolstered by a controversial referendum last month, is now on a mission to persuade the world's powers that Turkish interests can't be ignored—and that whatever the Syrian Kurds may deliver isn't worth a rupture with Ankara.

He visited President Vladimir Putin in Russia this week and is heading for a meeting with President Donald Trump in Washington in mid-May. The aim is to scuttle U.S. plans for YPG-led forces to seize Islamic State's main remaining stronghold of Raqqa, a city that is overwhelmingly Arab.

That won't be an easy sell.

"The American military really likes working with YPG. They feel there is no alternative to take Raqqa and they feel they have to take Raqqa sooner rather than later," said Robert Ford, a former U.S. ambassador to Syria and a scholar at the Middle East Institute. "I don't think this administration has ever been convinced that the Turks have a viable alternative plan or alternative force. This is going to be a difficult time with Erdogan."

U.S. forces were scrambled to the Syrian-Turkish border



ASSOCIATED PRESS

A U.S. armored vehicle on patrol on a rural road near the Syrian-Turkish border last week.

last week, moving in high-profile convoys that flew large American flags after Turkish airstrikes killed dozens of YPG fighters in Syria. Mr. Erdogan has since threatened to mount a cross-border operation into YPG-held territory and said he was "saddened" by public U.S. support for the group.

Turkey considers the YPG and its political parent PYD just a front for the PKK, or the Kurdistan Workers' Party—a group which seeks to split off Kurdish areas within Turkey itself and is classified as terrorist by Ankara and Washington. Turkey last week simultaneously

launched airstrikes against the YPG in Syria and targeted PKK bases in northern Iraq.

Aydin Selcen, a security analyst who served as Turkey's consul-general in the Kurdistan region of northern Iraq and as a senior diplomat in Washington, said Mr. Erdogan is deliberately escalating in Syria and Iraq to gain leverage with Mr. Trump ahead of the trip.

"Mr. Erdogan wished to prove to the U.S. and the coalition that when and if Ankara is convinced of a national security threat emanating from Syria or Iraq, it is ready to take unilateral action to pro-

tect its interests," Mr. Selcen said. "The airstrikes in his thinking will allow him to negotiate with both the U.S. and the Russian Federation leaders from a position of strength."

Turkey and its Syrian allies also hope to woo Mr. Trump by highlighting what they say is the risk that the Kurdish group—which has a long history of ties with Tehran—could become Iran's Trojan horse in the region.

"The most influential partner of the PYD are the Iranians, not the Americans," said Safwan Akash, a senior leader of the moderate Syrian opposition, which is backed by

Turkey and Saudi Arabia. "We know that the Kurds are ready to cooperate with any party that will support their cause."

The U.S., while acknowledging the links between PKK and YPG, has long argued that the two organizations are different. The State Department expressed deep concern over last week's Turkish airstrikes which hit what it described as America's "partner forces" in Syria.

So far, the YPG in Syria—unlike the PKK in Iraq—hasn't launched significant cross-border operations into Turkey, in part because of American and Russian involvement.

"The Americans know that there is no threat to Turkey from YPG areas, so no one is convinced by the Turkish argument," said Mutlu Civiroglu, a Kurdish analyst who follows the YPG.

Turkish concerns aren't without merit, however. Ankara views the establishment of a PKK-affiliated entity along its southern border as an "existential threat," said James Jeffrey, a former U.S. ambassador to Turkey and to Iraq who is a fellow at the Washington Institute for Near East Policy.

"What the Turks fear is that the Americans have agreed to give the PYD a statelet in all of northern Syria" in exchange for securing Raqqa, Mr. Jeffrey said. "That would allow the PKK to outflank Turkey, so that what was just an insurgency in a part of southeast Turkey could become a civil war."

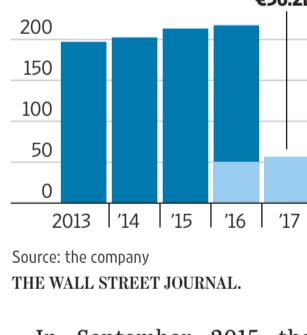
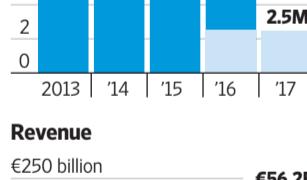
VW

Continued from Page One knows he must prepare Volkswagen for the eventuality of a post-diesel world. But as it emerges from the crisis and profits rise, the company and its management lose incentive—and leverage—to change.

The company that makes the popular Golf and Jetta sedans reported on Wednesday that net profit in the first three months of the year surged 45% to €3.35 billion (\$3.66 billion), boosted by cost-cutting and higher margins at its VW brand. Revenue rose 10% to €56.2 billion.

Open Road Ahead

How VW is performing in the wake of its crisis

Vehicle unit sales

Source: the company

THE WALL STREET JOURNAL.

months of this year—essentially the cost of buying back tainted vehicles in the U.S. In January, it said it had bought back nearly half of the 475,000 affected cars.

Frank Witter, the company's finance chief, said he expects diesel-related cash outflows in the "double-digit billion euro range" this year.

Nevertheless, net cash on the balance sheet remained strong at about €23.6 billion at the end of March.

The company is in the midst of cutting its expensive German workforce by 23,000, nearly 10% of its entire head count in the country, which includes operations for the VW brand, Porsche and Audi.

It is also streamlining development. Developers at Audi and Porsche, once jealous rivals for internal contracts, recently agreed to intensify joint efforts. In the company's big volume brands—VW, Skoda and Seat—Volkswagen is reducing the number of engines available for new models by as much as 40%.

Volkswagen also is stepping up standardization of models and sharing components between different brands. Using parts developed by the VW brand, Czech car maker Skoda has been increasingly profitable and Seat, the long embattled Spanish car maker, reported its first profit in years in 2016.

But diesel-related risks are still clouding the company's future.

Volkswagen surpassed arch rival Toyota Motor Corp. last year to become the world's biggest car maker by sales. But in the past eight months the decline in diesel-vehicle sales has accelerated.

Sales of diesel versions of the Golf, Volkswagen's biggest seller, fell 23% in March, helping Ford's Fiesta replace it as Europe's best-selling car in the first quarter. And sales of new diesel models across VW's brands also retreated.

The trend could intensify after several big cities in Europe moved to ban diesel vehicles on their streets.

Volkswagen aims to diversify its offerings. At the prestigious annual Vienna Motor Symposium last week, Mr. Müller said the company would triple its investment in electric vehicles to €9 billion and invest an additional €10 billion to develop cars that run on natural gas.

But these are long-term efforts. In his presentation, Mr. Müller made it clear that diesel, with its flaws fixed and reputation repaired, would stay central to Volkswagen's strategy. "Even 124 years since its invention, diesel still holds the potential to become more efficient. We are going to leverage that," he said.

The financial impact of the scandal so far is just under \$25 billion in fines, penalties and compensation—and yet it now looks manageable. Volkswagen booked charges for the expected cost in 2015 and 2016. That means the legacy is reflected in its cash balance, not its bottom line, and can be paid out incrementally.

For its automotive division, Volkswagen reported net cash outflows of €2.6 billion related to the diesel scandal in the first three

Dust Engulfs Northern China



KEVIN FRAYER/GETTY IMAGES

IN A HAZE: A sandstorm led Chinese officials to cancel dozens of flights. Above, a policeman at Beijing's Tiananmen Square Thursday.

RISK

Continued from Page One sued a call for financial stability ahead of a major power shuffle later this year, and just last week warned finance officials not to miss "a single risk" or "hidden danger."

The market turbulence will test Beijing's resolve in tackling China's snowballing debt, especially if it looks like regulators' crackdown is jeopardizing short-term growth.

Banks—especially small and midsize lenders—sell the risky investment products to Chinese savers, and then lend the funds to outside asset managers who invest them in bonds, stocks and loans. The lenders make money from the difference between what they pay their investment clients and what they get from the outside managers.

But since these products aren't logged as loans or other assets on their balance sheets, banks have to set aside little or nothing for potential losses associated with them. That leaves banks more exposed to risk and shows their financial position as stronger than it really is. The maneuvering also encourages leveraged purchases of securities by asset managers and enables banks to continue funding troubled customers, such as property developers with excess inventory and bloated steelmakers.

Such gray-area investments reached nearly 20 trillion yuan (\$2.8 trillion) at the end of last year, says Fitch Ratings, or about 26% of China's gross domestic product in 2016, up from less than 10% three years earlier. They now represent an av-

erage of 19% of small and mid-size banks' total assets, compared with about 1% for big state banks, according to Fitch.

China's new top banking cop illustrated regulators' sense of urgency at an internal meeting late last month.

"Strong medicine must be prescribed," said Guo Shuqing, chairman of the China Banking Regulatory Commission, according to people familiar with the matter. "If the banking industry gets into a mess," he added, "I will resign."

8%

Slump in price of iron ore on the Dalian Commodity Exchange

In addition to Mr. Guo's directives to banks, the People's Bank of China is threatening to penalize banks for expanding credit too aggressively and the securities and insurance watchdogs have targeted the buying of stock with borrowed funds and speculative insurance products.

The moves represent a rare united front by regulators who often have acted in isolation and sometimes at cross-purposes. However, many analysts and officials fear the sudden regulatory wave might be a bit too strong.

Banks' rush to scale back off-book investments and draw down new lending is draining liquidity from both markets and the overall economy, resulting in higher funding costs and a rise in defaults.

As of the end of April, a

dozen companies from steelmakers to construction firms this year have defaulted on their corporate bonds, unable to refinance their debts at the higher rates that are partly a result of the regulatory push.

That figure matches the record hit during the same period of last year when the economy was on shakier ground.

The tightened regulatory scrutiny is also contributing to a plunge in prices of Chinese metals as investors worry that the pullback on liquidity resulting from heightened oversight and could damp demand for commodities like steel and iron ore, weighing on near-term growth.

On Thursday, hot-rolled coil futures in Shanghai dropped by the daily maximum of 7%, while steel-rebar futures plunged 6.2% at 2,931 yuan a ton.

In a sign that authorities are taking note of market stress, the central bank returned to injecting cash into the financial system last month after some months of withdrawing funds to steady the yuan's value and tamp down new borrowing.

"Strong regulation calls for better coordinated regulation," said Zhang Ming, a senior economist at the government think tank Chinese Academy of Social Sciences. "Regulators piling on one another likely would lead to tougher-than-expected regulations and unforeseen risks."

The moves represent a rare united front by regulators who often have acted in isolation and sometimes at cross-purposes.

However, many analysts and officials fear the sudden regulatory wave might be a bit too strong.

Many economists and analysts say China's economy has become so reliant on debt that leverage will have to keep growing to reach the leadership's annual growth target, set at about 6.5% for this year. Recent official data show overall credit in China is still growing.

"At most, the regulators can slow down the pace of leveraging," said Victor Shih, a professor at the University of California at San Diego who specializes in China's politics and economy. "The day China sees true deleveraging is the day a financial crisis begins."

—Grace Zhu contributed to this article.

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WORLD NEWS

Iraq Tries New Tack With Mosul Militants

Government forces advance on new front in attempt to drive out Islamic State fighters

Iraqi forces opened a new front against Islamic State in Mosul on Thursday, as the government shifted tactics again in a bid to break fierce resistance from militants

*By Tamer El-Ghobashy
in Cairo and Ghassan Adnan in Baghdad*

fighting to hold their last bastion in the historic Old City, military officials said.

The fresh push comes after the Iraqi advance stalled over the past two weeks, illustrating the difficulty of the battle for densely populated neighborhoods. U.S. forces have been drawn closer to the front lines and civilian casualties have risen during the months-long fight for Mosul, and the measure of progress has been reduced from blocks and buildings to feet.

The tactical shift began at dawn on Thursday as Iraqi army divisions advanced from Mosul's northern outskirts, while other Iraqi forces continued their assault on the militants from the south. The army divisions were joined by federal police and members of the interior ministry's Emer-



Displaced Iraqis cross the Tigris river on a military boat south of Mosul on Thursday after a bridge was temporarily closed.

units have also been pulled deeper into the battle. Their coordination with Iraqi counterparts, taking place closer to the front lines than previous battles against Islamic State, has improved cooperation between the various Iraqi forces that have been assigned to the fight, Iraqi and U.S. military officials have said.

Frequent strategic shifts have underscored the complexity and scope of the bid to retake Iraq's second-largest city. With a population estimated at 1.2 million before operations began, Mosul is by far the largest urban center Islamic State has occupied.

After blitzing Iraq in the summer of 2014, Islamic State at its peak controlled about one-third of the country, with Mosul serving as its de facto Iraqi capital. But the terror group's foothold in the country has shrunk since U.S.-backed Iraqi forces retook Ramadi and Tikrit, as well as other territory the militants controlled.

The Iraqi military campaign to recapture Mosul is now in its seventh month. Government forces won back the eastern half of the city in January, and launched their battle for the western side the following month.

Some Iraqi lawmakers said Thursday that the deliberately slow pace of recent advances in Mosul was acceptable as it reduces risk to civilians.

Syria Safe Zones Are Set Under Interim Accord

Russia, Turkey and Iran signed an agreement for the creation of "de-escalation zones" in Syria as a step toward greater stability in the war-torn country, according to Turkish and Russian officials.

By Nathan Hodge in Moscow and Margaret Coker in Istanbul

The deal, signed Thursday during Syrian peace negotiations backed by Russia and Turkey in the Kazakh capital of Astana, covers multiple provinces contested between forces loyal to Syrian President Bashar al-Assad and multiple armed rebel groups.

The Turkish foreign ministry said it builds on a cease-fire agreement declared by Russia and Turkey on Dec. 30.

The deal is intended to end all hostilities, including aerial attacks, in the de-escalation

zones and facilitate the "uninterrupted flow" of emergency and humanitarian aid to these areas, it said.

It was unclear how the new deal would immediately affect the fighting or the deepening humanitarian crisis in Syria; numerous prior deals meant to quell the violence and ensure access to aid have failed.

Observers say the new plans aren't likely to succeed without a mechanism for enforcement. Basic details haven't been worked out.

The three nations behind Thursday's agreement are both arming and supporting the warring sides on the ground, and neither the Syrian government nor the armed factions opposed to the regime were signatories to the accord.

Members of the rebel opposition delegation walked out of the meeting as the signing took place. Though both Russia



A Syrian rebel fighter stood Tuesday on a road covered with Islamic State-mandated veils that were shed by women after they had crossed into rebel-held territory on the outskirts of Raqa.

and Iran back the regime militarily, the opposition has said it puts more faith in Russia as a guarantor of any cease-fire or peace agreements.

"Iran are criminals, they should not sign," shouted Maj. Yasser Abdulraheem, a commander with the rebel Faylaq Al-Sham faction as he and other members left. "We don't accept their guarantees."

Alexander Lavrentiev, Russian President Vladimir Putin's

special envoy for Syria, said military operations in the safe zones would cease beginning on Saturday, Interfax said. Interfax, citing the text of the memorandum, said the zones are a temporary measure that will last for six months and be extended by consensus of the three countries.

U.S. officials reacted warily, questioning whether any plan that includes Iran can succeed. "We continue to have concerns

about the ... involvement of Iran as a so-called guarantor," State Department spokeswoman Heather Nauert said in a statement. The U.S. was represented in Astana by Acting Assistant Secretary of State Stuart Jones, but isn't a direct participant or a party to the agreement "at this point," Ms. Nauert said.

—Raja Abdulrahim and Noam Raydan in Beirut contributed to this article.

Trump Readies First Official Trip Abroad

WASHINGTON—President Donald Trump plans to visit Saudi Arabia, Israel and the Vatican later this month as part of his first trip outside the U.S. since taking office.

Mr. Trump plans to make the three stops, in places that are home to some of the world's most notable religious sites, before attending summits with other world leaders in Brussels and Sicily.

The goals of the trip are to come up with a "long-term fix to radicalization," to find better ways to choke off the flow of funds to terror groups and to persuade Arab countries to do more to bear the burden of the fights against extremists, a senior administration official said.

The Saudi visit will allow him to see not only the leaders of the kingdom but a group of other Arab leaders there, officials said. Mr. Trump said he would attend a gathering of leaders across the Muslim world while in Saudi Arabia, the first foreign country he visits as president.

—Carol E. Lee

WORLD WATCH

UNITED KINGDOM

Prince Philip, 95, To End Royal Duties

Prince Philip, husband of Queen Elizabeth II, will retire from his royal duties this year, Buckingham Palace said, marking the end of a public life spanning nearly seven decades.

The longest-serving consort to a monarch in British history, Prince Philip, who turns 96 years old in June, will continue to attend previously agreed events until August, but won't be accepting new invitations, the palace said.

The prince, also known as The Duke of Edinburgh, made the decision himself and "has the full support of the queen," who will continue to fulfill her duties, supported by other members of the royal family, the palace said.

"On behalf of the whole country, I want to offer our deepest gratitude and good wishes to His Royal Highness the Duke of Edinburgh following today's announcement," U.K. Prime Minister Theresa May said.

—Wiktor Szary

UNITED KINGDOM

Business Surveys Show Quicker Upturn

A batch of business surveys signaled the economy picked up in April, easing concerns that a soft first quarter may foreshadow a deeper slowdown as Brexit talks get under way.

A trio of closely watched sur-



Britain's Prince Philip, seen leaving Buckingham Palace in London with Queen Elizabeth on Thursday, will attend public events until August, but won't accept new invitations, the palace said.

veys published this week by financial information firm IHS Markit Ltd. showed manufacturing, construction and services all grew strongly in April after a slow start to the year.

Activity in the manufacturing sector expanded in April at the fastest pace in three years, according to Markit's monthly purchasing managers index for the sector, while similar gauges covering construction and services also showed a healthy expansion.

Chris Williamson, Markit's chief economist, said the three surveys suggest growth in the second quarter could improve to at least 0.4% from the 0.3% expansion in the first three months of the year, according to a preliminary official estimate published in April.

—Jason Douglas

had to cast his ballot for him. He then had trouble with the fingerprinting afterward.

A total of 63 parties and many independent lists are competing for 462 seats in the lower house of Parliament. The parties have struggled to come up with enough female candidates to meet a law that requires 30% of the next parliament to be women.

—Associated Press

YEMEN

Aden Rally Protests Firing of Governor

Thousands of southern Yemenis who support the secession of their region rallied in Aden against the firing of the city's governor.

President Abed Rabbo Mansour Hadi last week dismissed Al-darous al-Zubaidi, along with cabinet minister Hani Bin Braik. They are believed to be close to the United Arab Emirates, a key member of a Saudi-led coalition fighting Yemen's Shiite rebels, also known as Houthis, since 2015.

The demonstration was held in the district of Khormaksar, where protesters said they are authorizing Mr. Zubaidi to form a political entity to represent southern Yemenis.

The demonstration took place amid tightened security, but turnout was lower than anticipated. Security officials said limited clashes took place between Hadi supporters and protesters.

—Associated Press



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WORLD NEWS

South Korea Vote Poses Test for U.S.

By JONATHAN CHENG

SEOUL—The U.S. bid to isolate North Korea faces a major test next week in South Korea, where an advocate of more engagement with Pyongyang is favored to win the presidential election.

Moon Jae-in was chief of staff a decade ago when South Korea's then-president met in Pyongyang with the current North Korean leader's father during a period when Seoul showered the North with humanitarian and economic aid, called the Sunshine Policy.

If elected, as appears increasingly likely, Mr. Moon has suggested he would renew such efforts, engaging economically with the North in a policy his advisers call Sunshine 2.0.

That would mark a big shift from the hard-line approach of ousted President Park Geun-hye and potentially put Seoul at odds with Washington.

Last week, U.S. Secretary of State Rex Tillerson urged countries at a United Nations Security Council ministerial session "to suspend or downgrade diplomatic relations with North Korea," and to "cut off a flow of needed resources."

Ms. Park, too, had sought to sever Pyongyang's ties with the rest of the world by wooing North Korea's closest allies with military and economic aid.

Her impeachment following bribery and abuse-of-power accusations triggered Tuesday's special election.

Mr. Moon, who has about 40% support from eligible voters, saw his lead erode in recent weeks as North Korean provocations lifted the prospects of a rival who called for a harder line on North Korea. In response, Mr. Moon toughened his rhetoric on Pyongyang, saying its provocations are making it difficult to avoid tightening sanctions.

In recent days, Mr. Moon's lead has widened as his more conservative rivals have split the remaining votes. Eurasia Group, which in April had lowered Mr. Moon's chances of winning to 55%, this week boosted that figure to 80%. The candidate with the most votes wins.

In contrast to his fellow candidates, Mr. Moon has argued that isolation hasn't worked.

He has pushed for reopening two inter-Korean projects from the Sunshine Policy era—a jointly run industrial business park and a tourist resort. Both could potentially send millions of dollars to North Korea.

Mr. Moon's rivals have questioned whether South Korea can reopen those projects without violating U.N. Security Council resolutions aimed at reining in North Korea's weapons program.

Mr. Moon wouldn't stop



Moon Jae-in, seen at a rally in Goyang, South Korea, on Thursday, is expected to renew efforts to engage economically with North Korea.

there. His advisers say restarting the two projects would be a "steppingstone" toward what Mr. Moon calls "economic unification," with many more inter-Korean projects to come.

He also would seek to organize a summit with the North Korean leader, Kim Jong Un, his advisers said.

Mr. Moon said he also would reassess whether to allow a U.S.-backed antimissile system aimed at blocking a North Korean attack to operate on South Korean soil. The system, called Thaad, began operating this week.

Mr. Moon declined requests for an interview. But Choi Jong-kun, a professor of international relations at Yonsei University in Seoul who helped Mr. Moon craft his platform on North Korea, said in an interview

view that Mr. Moon's approach would differ from those of his predecessors.

Under the Sunshine Policy, Mr. Choi said, South Korea often supplied aid without demanding progress on denuclearization.

In contrast, Mr. Moon would explicitly link inter-Korean cooperation with such efforts.

A decade after the last inter-Korean summit, Mr. Choi said North Korea should be confronted as an economic problem, not a political one.

That attempt at rapprochement with the North is likely to bring South Korea into conflict with U.S. President Donald Trump's policy. Mr. Tillerson last week called for "no relaxation in the vigorous implementation of sanctions" on North Korea.

Looking North

Moon Jae-in has pledged to engage with North Korea if he is elected South Korea's president next week, as projected. Here are South Korea's four previous leaders and their positions on Pyongyang.



1998-2003

Kim Dae-jung: Pro-engagement. Won Nobel Peace Prize after meeting Kim Jong Il in 2000, clashed with George W. Bush. Moon was Roh's chief of staff.



2003-2008

Roh Moo-hyun: Pro-engagement. Met Kim Jong Il in 2007, clashed with George W. Bush. Moon was Roh's chief of staff.



2008-2013

Lee Myung-bak: Hardliner. Scrapped inter-Korean tourist region in 2008; imposed harsh sanctions restricting activity with North Korea.



2013-2017

Park Geun-hye: Hardliner. Scrapped inter-Korean industrial park and sought to cut North Korea's diplomatic ties with other countries.

Sources: staff reports; Reuters (photos)

THE WALL STREET JOURNAL.

French Youth Shun Establishment

Amid high unemployment, younger voters embrace parties outside mainstream

By MATTHEW DALTON

PARIS—Imane Laribi is like many young people in France: fresh out of school, struggling to start a career, and discontent with the choices before her in Sunday's presidential election.

Facing a tough labor market, she and other young voters led the country's revolt against its political establishment in the first-round of the election. Voters age 18 to 24 overwhelmingly supported candidates coming from outside France's mainstream political parties: the far-left Jean-Luc Mélenchon, Marine Le Pen of the far-right National Front and Emmanuel Macron, a centrist who founded his own party last year.

Ahead of Sunday's final-round vote, polls show Mr. Macron consolidating the support of most young people behind him, garnering about 60% of the 18-to-24-year-old vote. That backing, however, masks deep skepticism among young people over his plans to address their most vexing challenge: landing a steady job.

Ms. Laribi, 22 years old, doesn't like Ms. Le Pen and her hard-edge stances against immigration and the European Union. But Ms. Laribi is uncomfortable casting a vote for Mr. Macron, the pro-Europe candidate, because she doesn't trust his background as an investment banker at Rothschild & Cie.



Emmanuel Macron leads Marine Le Pen in polls of young voters.

"We all know the reputation of bankers," said Ms. Laribi, a recent business-school graduate. "It's complicated for young people now across France. I hope not, but I think he's going to sink us."

She voted for Mr. Mélenchon in the first round, but with little enthusiasm. "I voted for him by default," Ms. Laribi says.

Because people under 35 are less likely to go to the polls, their exact impact on Sunday's vote is difficult to estimate.

On the campaign trail, Mr. Macron has proposed relaxing France's strict labor-market rules to fight unemployment. He has promised to go further than a meek overhaul passed last year—over violent youth protests while he was economy minister—that

made it somewhat easier to hire and fire workers. His plans for an even deeper revamp are likely to face more resistance.

"I don't understand how people can vote for him after that," said Julien Breton, a 19-year-old who voted for Mr. Mélenchon in the first round. "I think the laws should be changed, but not like that."

Other young people say Mr. Macron's free-market experience will make him a more effective reformer.

The unemployment rate among people younger than 25 stands at 24%, up from 18% before the financial crisis in 2008. Across the Rhine, the German youth unemployment rate is just 7%.

If young people find work, it is increasingly through these temporary

contracts. That makes it hard for them to qualify for loans or rent apartments.

"The integration of youth into the workforce has deteriorated over a number of years," says Bruno Du-coudré, a labor-market economist at Sciences Po, a political-sciences university in Paris. "It's taking longer and longer to find a non-temporary work contract."

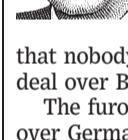
Ms. Le Pen has attracted a strong following among young people outside of France's big urban centers, another sign of the sharp geographical divide that is shaping French politics. In Flixecourt, a town in France's economically struggling north, French youth are voting overwhelmingly for Ms. Le Pen.

The message of leaving the EU, stopping immigration and imposing tariffs at the French border resonates strongly here. National Front, Ms. Le Pen's party, argues that closing France's borders would protect young and older workers from low-wage immigrant labor and manufacturers in Eastern Europe.

"We have to change the system," said Romain Hemery, 25, "Strangers are coming to France, taking our work." Mr. Hemery, a carpenter, was let go from his job a few years and is now working for his father, who is also a carpenter. "We have degrees and still nothing," he says.

BRUSSELS BEAT | By Stephen Fidler

Brexit Clash Points To Trouble Ahead



A war of words between London and Brussels escalated this week, a sign that nobody should take a deal over Brexit for granted.

The furor erupted in part over German press reports from a dinner British Prime Minister Theresa May hosted last week for European Commission Jean-Claude Juncker, during which he reportedly concluded she was deluded in her expectations for the Brexit negotiations.

Mrs. May cited press "misrepresentations" in a televised appearance Wednesday outside her Downing Street residence. Together with "threats against Britain" from European politicians and officials and a hardened negotiating stance from the EU's chief Brexit negotiator Michel Barnier, she said these acts had been timed to affect the result of Britain's June 8 general election.

The spat likely won't spoil the chances of an accord. "The baseline scenario is that there will be a deal: Barnier said he wants it and the U.K. desperately needs it. But the underlying risks are substantial," said Carsten Nickel of the Teneo Intelligence advisory firm in Brussels.

True, there was plenty of election theater in Mrs. May's response, which seemed designed in part to stir up her party faithful.

"Bashing the EU and accusing the dreaded unaccountables of Brussels of meddling in the U.K. election...is a good, easy way to fire up the Tory true believers," said Aaron Timms, head of research for Predata, a New York-based firm that analyzes social-media data.

But the clash raises important longer-term issues.

First, the leaked accounts of the dinner show that Mrs. May's plan to keep details of the Brexit negotiations secret is doomed to failure.

Brussels leaks like a sieve. Some leaks are tactical, others inevitable because so many actors are involved: officials and politicians from the commission, the European Council and the European Parliament, not to mention

diplomats from 27 other governments.

Clearly, if Mrs. May doesn't communicate about the negotiations, others will. A stance of secrecy would put her at risk of playing catch-up for the duration of the talks.

Mrs. May also sought to draw a contrast between the EU capitals and Brussels. "However reasonable the positions of Europe's other leaders," she said, "there are some in Brussels who do not want these talks to succeed."

But it is with Mr. Barnier and the commission, the Brussels-based EU executive, that the day-to-day Brexit negotiations will be held.

National capitals will, of course, keep a close eye on Mr. Barnier and his team. But history suggests London shouldn't hang its negotiating strategy on persuading Berlin, Paris or other governments to make the U.K.'s case. After all, German Chancellor Angela Merkel was the first to say last week that some in London held illusions about what could be achieved in the negotiations.

Furthermore, whipping up anti-Brussels rhetoric may help win votes during an election campaign, but it risks hindering subsequent efforts to find a positive post-Brexit outcome.

For that, compromises on both sides will be necessary. The U.K., for instance, needs some kind of financial settlement with the EU, as much as it hopes that the figure will fall short of the more than €60 billion (\$66 billion) in past spending pledges EU officials have said Britain must honor.

Yet Mrs. May's pro-Brexit constituents aren't being educated by her hard-line rhetoric to ready themselves for compromise, Mr. Nickel said. As a result, Mrs. May risks further polarizing a nation already divided over Brexit and locking herself into a tough position that will reduce the room for the very negotiating flexibility she hoped to gain with a thumping election victory.

So it is that the risks of no Brexit deal—almost universally agreed to be the worst possible economic outcome—remain substantial.

Possible Bid to Tar Macron Probed

By MATTHEW DALTON

PARIS—French prosecutors opened a probe Thursday into a suspected attempt to tar French presidential candidate Emmanuel Macron after anonymous files ricocheted across the internet suggesting he had created a shell company on the Caribbean island of Nevis, where officials said they have no record of any such entity.

Just days before Sunday's presidential vote, PDF files anonymously posted on a far-right internet discussion forum Wednesday showed what it said were corporate records of a company named La Providence LLC purportedly created by Mr. Macron in Nevis, a

noted offshore tax haven. La Providence is the name of Mr. Macron's high school in Amiens, his hometown.

Mr. Macron on Thursday denied he created any such company and filed a complaint with the Paris prosecutor's office, which responded by opening a probe into suspected electoral manipulation and distribution of false information.

"We must never let untruths, attacks and destabilization go unchallenged, above all at the end of the campaign," Mr. Macron said on television.

A Nevis-based executive of the files mentioned as a representative of La Providence has ever been registered in the tiny Caribbean island, Ercil Dore, a

name or its purported owner, according to the executive's employer, international corporate-services firm Dixcart.

"We believe this appears to be fake news," said Graham Sutcliffe, managing director of Dixcart in Nevis.

By filing a complaint, Mr. Macron spurred an investigation that will examine who created the files and how they spread, as well as whether the assertion that he created an offshore company is true, a French judicial official said.

The Financial Services Regulatory Commission of Nevis has no record that a company named La Providence has ever been registered in the tiny Caribbean island, Ercil Dore, a

corporate registration officer with the commission, told The Wall Street Journal in a telephone interview.

Mr. Macron's rival, far-right nationalist Marine Le Pen, amplified the issue hours after the files surfaced online, speculating in Wednesday's debate that Mr. Macron might have an offshore bank account in the Bahamas. Mr. Macron didn't respond during the debate, but later denied that he had such a bank account.

Two hours before the debate began, two files were uploaded by an anonymous poster to 4chan.org/pol/, an online discussion group favored by far-right activists in the U.S. and Europe.

U.S. NEWS

Balance Sheet for the GOP After Health Vote



CAPITAL JOURNAL

By Gerald F. Seib

Of Thursday's vote on health care, a cynic might say: House Republicans wanted to repeal and replace Obamacare in the worst way, and that's what they did.

House Republicans succeeded only after a giant initial failure followed by

weeks of fits, starts and defections from conservatives and moderates in turn.

To get across the finish line, the Republican majority violated some of the very principles it pledged to follow in running Congress: The vote happened so quickly after a final compromise was negotiated that there wasn't time to study the bill or for the congressional accounting arm to estimate its costs and impact. So it was ugly.

On the other hand, the legislative process is ugly more often than not. Democrats engaged in some whatever-it-takes maneuvering of

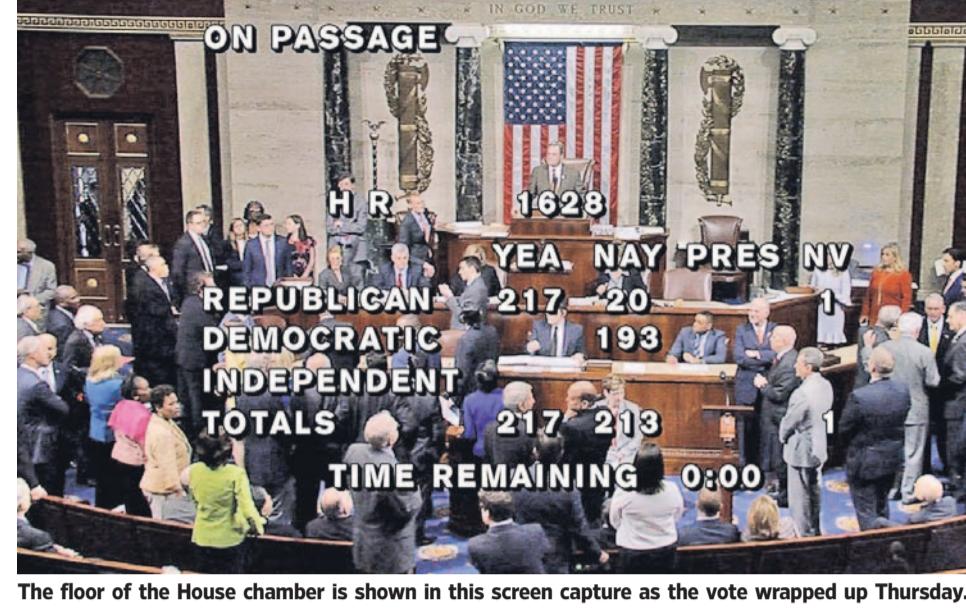
their own to pass Obamacare in the first place, so perhaps it's no surprise Republicans did the same to unwind it. The passage of the bill is a significant accomplishment for congressional leaders and the White House, in part because it clears away what had become an insurmountable obstacle to other major items on their agenda.

The irony is that House Republicans took this tough vote knowing there's little chance the bill that produced all the bloodletting actually will become law. The Senate will produce its own version, and House members, weeks down the road, will have to endure new agony as they decide whether they can live with that alternative Senate version. That could be particularly troublesome for House conservatives, who are likely to find a Senate version not to their liking.

House Majority Leader Kevin McCarthy acknowledged the distance yet to travel, telling CNN: "If somebody has a better idea, this is the legislative process."

So the balance sheet, in Congress and the White House, is a complicated one. Here is how some of the positives and negatives stack up for Republicans after the House move. Positives:

—House Speaker Paul Ryan has a giant monkey off



The floor of the House chamber is shown in this screen capture as the vote wrapped up Thursday.

his back. Mr. Ryan, who never really wanted the job of running the set of disjointed factions known as the House in the first place, mortgaged much of his and the Trump administration's agenda to the idea that he could push through a new health bill as the opening salvo. He had implored fellow Republicans, now in full control of Congress and the White House, to show they knew how to govern. Failure would have been a crippling blow to his leadership; instead, he's now delivered.

—President Donald Trump showed he'll get down in the legislative trenches for his

party. Mr. Trump at first seemed indifferent to the health debate roiling his party, but ultimately did the grinding presidential work of pulling lawmakers along one by one. Some doubted he had the interest or patience to do that. He does, if only because he likes to win.

—The path now is clear for some potentially more enjoyable missions. Replacing Obamacare had morphed from something Republicans were eager to do into an unpleasant mission they felt they had to do. Having finally done what they believed was necessary, House Republicans can move on to

an initiative polls show their constituents are more eager for—tax reform and a cut in tax rates for businesses and individuals—and infrastructure spending, a rare issue with bipartisan appeal.

Negatives:

—We now know the House majority is a genuinely fractured one. The original version of the repeal-and-replace legislation wasn't sufficiently conservative for many in the House Freedom Caucus, yet went too far in ditching Obamacare's health-coverage provisions to win over moderate Republicans. In their efforts to try again, Republican leaders moved

the original legislation to the right—and then back to the center again. Republican majorities haven't translated into Republican unity.

—Lawmakers don't really fear Mr. Trump. The president tried to both coerce and cajole House Republicans into voting for the pending legislation, implying at various points that he would either go after them or go around them by working with Democrats. Neither approach seemed sufficiently alarming to move some fellow Republicans.

—Once they are done reshaping the health system, Republicans will own whatever problems emerge from it. This is the biggest risk they face.

As President Barack Obama learned, once a person and a party are seen to have shaped the system, they absorb blame for whatever people dislike in it. So he and Obamacare were called out for all manner of problems, whether connected to the law or not. Having supplanted Obamacare, Republicans will shoulder responsibility going forward, knowing that the question of whether those with pre-existing conditions can find care at affordable rates will be a first litmus test—and that, on health care, the law of unintended consequences always is in play.

HEALTH

Continued from Page One

ate Republicans control 52 of the chamber's 100 seats, meaning they can lose no more than two votes if all the Democrats, as expected, vote against it.

Thursday's vote marks a significant political victory for Mr. Trump and House Speaker Paul Ryan (R., Wis.), both of whom faced criticism for not wrangling the votes needed in their party to pass the bill earlier this year.

"Many of us have been waiting seven years to cast this vote," Mr. Ryan said on the House floor. "But many of us are here because we pledged to cast this very vote."

The vote is bound to cast a long political shadow for House Republicans in the months leading up to next year's midterm elections. Already, many GOP lawmakers

face constituents back home upset over the prospect of changes to health-care benefits that affect millions.

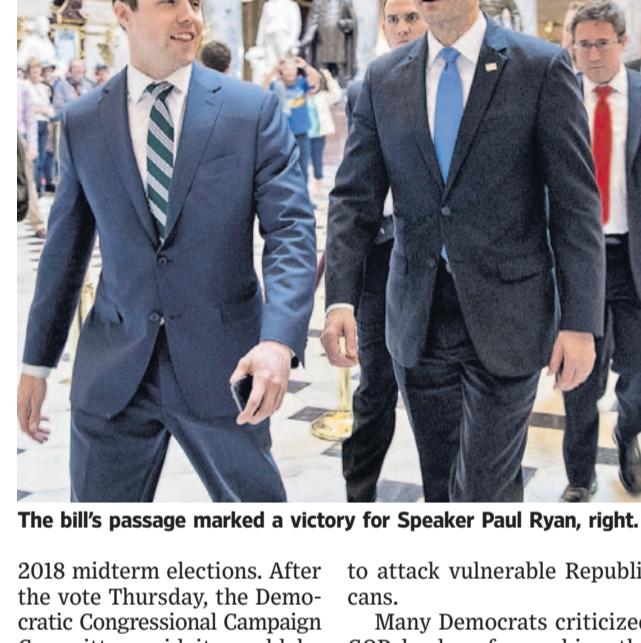
In recent days, late additions to the legislation and personal lobbying by Mr. Trump shored up Republican support.

One set of changes was aimed at giving insurers more freedom, with state approval, to sell less-comprehensive health plans and to adjust their prices, an effort to create competition and drive down the cost of premiums.

Another set was aimed at cushioning the impact that the late changes could have on people with pre-existing medical conditions.

Democrats said the bill would leave more people uninsured and would raises costs and diminish coverage for people with pre-existing medical conditions.

Democrats are already seizing on the House health-care vote in preparation for the



The bill's passage marked a victory for Speaker Paul Ryan, right.

2018 midterm elections. After the vote Thursday, the Democratic Congressional Campaign Committee said it would be buying digital advertisements

to attack vulnerable Republicans.

Many Democrats criticized GOP leaders for rushing the bill to a vote without an up-

dated estimate of its cost and impact on the country's health coverage after Republicans spent years bashing Democrats for their maneuvering to pass the law.

"Other than being the height of hypocrisy, it's surprising that they would do it this way," said Rep. Juan Vargas (D., Calif.), who predicted his GOP colleagues from California would pay a political price for supporting the bill. "It means a few of them are not going to come back," he said.

The Affordable Care Act, which was passed in 2010, was a signature legislative achievement during the administration of former President Barack Obama, a Democrat. The insurance exchanges allowing Americans to buy health insurance opened in 2013.

The percentage of uninsured Americans has fallen from 18% in 2013 to 11.3% in 2017, according to Gallup.

The House GOP bill would

end the law's requirement that employers of a certain size offer insurance to their workers and that most individuals carry insurance.

Insurers could, however, charge people higher premiums if they let their insurance lapse. The bill also would allow insurers to charge older people five times as much as their youngest customers, compared with three times as much under current law.

The bill would end the law's system of subsidies, aimed at helping people buy insurance if they don't get it at work, and replace it with a new set of tax credits that would be less-generous for many who receive them now but available to a larger set of people. The new tax credits would be largely tied to age.

At the White House, Vice President Mike Pence called the vote a "historic first step."

"Welcome to the beginning of the end of Obamacare," he said.

Senate Clears Bill to Avert Shutdown

By NATALIE ANDREWS

gency funds.

They, too, are talking up the bill as a success, noting that they staved off cuts to domestic programs that Mr. Trump had wanted, and that negotiators persuaded Republicans to remove 160 special "riders" that direct how money can be spent. The bill ensures that funding for Planned Parenthood Federation of America will continue through the fiscal year.

The president's top request of funding for a wall along the border with Mexico also was

left out of the bill. The \$1.5 billion total amount for border security, which will fund technology and repair existing fencing along the border, is half of what Mr. Trump requested.

"We got rid of all of the foolish things, like the wall, the Mexican wall, the effort to repeal Planned Parenthood, we got rid of all of that," said Sen. Patrick Leahy of Vermont, the top Democrat on the Senate appropriations committee that crafted the bill.

The White House said the

deal was needed to keep the government open and is deferring the fight over its priorities until the next spending bill, this fall.

The spending bill requires 60 votes to pass the Senate, meaning Republicans needed Democratic support for its passage. The bill was also opposed by some Republican members, such as Sen. Ted Cruz of Texas, who said in a statement that he was voting no because the bill is "perpetuating Democrats' big government programs."

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IN DEPTH

ADAMS

Continued from Page One

making it harder to attract new money at higher valuations. Fewer companies are filing for initial public offerings, a step that would allow them to repay their early backers. Fidelity has slashed its estimates of the value of some of its startup stakes, and Tiger Global reported double-digit investment losses last year.

Mr. Adams, who made his name investing in bank stocks, has lost money in two of the past three years. His funds poured hundreds of millions of dollars into two tech startups, Mozido Inc. and Powa Technologies Group PLC, and told investors they were growing ever more valuable, boosting his fees. Now both companies are financially distressed.

Wellington has been urging investors to stick around, according to people who have heard from the firm. Mr. Adams has made dozens of calls to clients. Wellington has told investors in writing that Mr. Adams had "forsworn" ever again investing in such private deals in his flagship fund.

Several large investors pulled their money, including the Blackstone Group LP, one of the world's largest hedge-fund investors. By the beginning of this year, Mr. Adams's portfolio at Wellington had shrunk to about \$6 billion, down roughly 40% from its peak in 2014, reflecting both investor withdrawals and investment declines, according to people familiar with the firm's finances.

Wellington was formed one year before the 1929 stock-market crash. It was the first-ever

longtime bank investor Anton Schutz began following his moves. Learning Mr. Adams likes a company, he says, "tells you it's OK."

Inside Wellington, Mr. Adams also attracted attention for what some colleagues regard as eccentricities. He owns a miniature potbellied pig, named Mona Lisa, that he walks outdoors on a leash and takes with him on private jet flights. He persuaded Boston's Ritz-Carlton, where he keeps an apartment, to waive its policy against pigs by describing Mona Lisa as a therapy animal, people familiar with the matter say. He attracted attention from the local tabloid press by divorcing his wife and marrying his first cousin.

In the office, he developed a reputation as someone who steeped himself in financial details of investment companies and could easily get major bank chiefs on the phone.

At his peak, Mr. Adams helped manage roughly \$10 billion for Wellington and its clients. He bought a Palm Beach, Fla., Spanish revivalist villa and a mansion in the Philadelphia suburbs formerly owned by film director M. Night Shyamalan featuring a \$100,000 children's tree house with a drawbridge and trap door.

For one especially profitable year, 2007, Mr. Adams took home more than \$26 million, according to records made public in his divorce.

The 2008 financial crisis marked a turning point. Rules subsequently imposed under the Dodd-Frank legislation limited some of the most lucrative activities of traditional banks, including operating proprietary trading arms. Mr. Adams expressed worry about mounting lawsuits and government fines against big banks for their role in the housing bust.

He told clients he was shifting to areas such as online alternative lending, which provides money to consumers and small businesses generally ignored by traditional banks. He also expressed enthusiasm for mobile banking and payments. He told investors that he expected the sector to be one of the most profitable bets of his career.

Because those areas were so new, there was a dearth of public firms to invest in. The solution, he believed, was startups.

He relied on a decades-old network of bank executives at firms including Barclays PLC and Jefferies LLC to introduce him to financial-technology upstarts both well-known and obscure. He asked some company founders to make the pilgrimage to Radnor, Pa., where he and his team work at a corporate campus hundreds of miles from Wellington's Boston headquarters. He touted his freedom to make investments quickly.

Banker James "Chip" Mahan, who founded companies that counted Wellington as an investor, introduced Mr. Adams to nCino Inc., a tiny financial-software maker that designs lending systems for banks, according to founder Pierre Naudé.

Mr. Naudé wanted to sell common stock—a risky investment proposition when sold by an unproven company—but tra-



Nick Adams and his wife, Dee, were interviewed by Mo Rocca for CBS in their historic Palm Beach, Fla., home, called Villa Mizner.

CBS SUNDAY MORNING

ditional venture capitalists weren't interested, he recalls. Most investors, as a precaution, wanted an arrangement that gave them more rights in the company. Mr. Adams took the deal, paying \$10 million for common stock in early 2014.

"I was too happy to get money from a brand name like Wellington," Mr. Naudé says. The firm has since raised money from other investors and signed up major banks as clients.

Fledgling companies and hotter startups such as home-rental site Airbnb Inc. and ride-sharing service Uber Technologies Inc. redefined Mr. Adams's portfolio.

Four years ago, the largest positions in Mr. Adams's main fund weren't financial-technology firms, an investor document shows. Soon thereafter, Mr. Adams invested hundreds of millions of dollars in Mozido and Powa.

Mozido, based in Austin, Texas, makes software that allows consumers, particularly those without bank accounts, to send and receive money with cellular telephones. The company had flipped its business model several times, from developing retailer-loyalty programs in the U.S. to helping retailers sell in China. Wellington was part of a group that invested \$185 million in 2014, a deal that valued the company at \$2.4 billion, Mozido said at the time.

Powa operated a smartphone app that allowed shoppers to make instant purchases by scanning bar codes on ads. Wellington invested \$197 million through 2015.

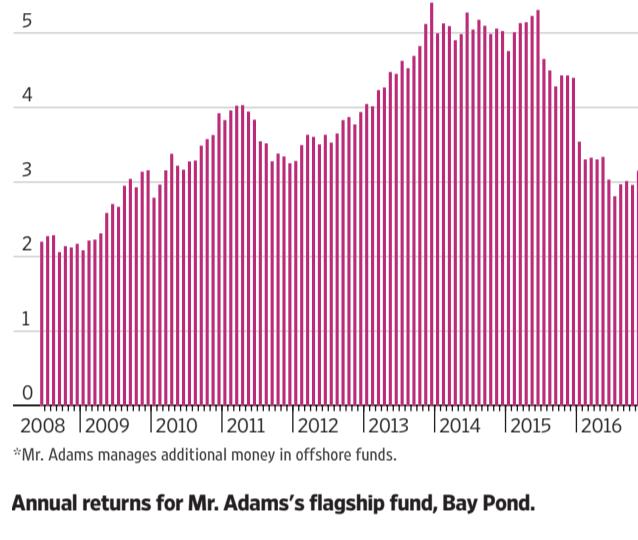
Unlike many venture capitalists investing in startups, Mr. Adams didn't ask for a seat on either company's board, and he promised not to meddle in their day-to-day operations, people familiar with the matter say. He never visited Powa's London headquarters, according to two of those people.

Some of Mr. Adams's investors say they told him they were concerned he was straying from his strong suit—bank stocks. He responded that the banking industry was in a long-term stasis and that any growth in the sector would have to come from

Rough Spell

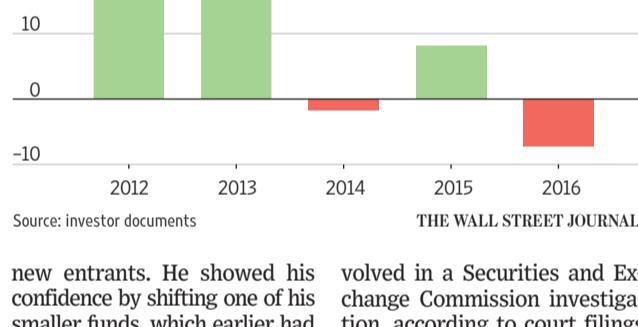
Hedge funds run by Wellington Management's Nick Adams have struggled in recent years as he invested more in Silicon Valley.

Total assets in Nick Adams's three main onshore funds*



*Mr. Adams manages additional money in offshore funds.

Annual returns for Mr. Adams's flagship fund, Bay Pond.



Source: investor documents

new entrants. He showed his confidence by shifting one of his smaller funds, which earlier had bet on a rebound for beaten-down traditional banks, to focus on financial technology.

His big picks, however, were struggling. Mozido's financial results, which aren't publicly disclosed but were reviewed by The Wall Street Journal, show that the year Wellington invested, the company posted a loss of \$34 million on revenue that was only 2% of what had been forecast.

Mozido's African arm, also financed by Wellington, went out of business. Mozido went several months without paying employees. It was sued last fall for unpaid bills and is currently in

volved in a Securities and Exchange Commission investigation, according to court filings and the company's lawyers. The SEC didn't respond to a request to comment.

Powa, meanwhile, had burned through much of its cash. It rented prime office space in New York and London and hosted raucous company parties, including one that featured strippers in neon paint.

Regulators allow investment managers to largely set their own valuations for hard-to-trade assets such as stakes in startups. Wellington periodically increased its valuations for Mozido, Powa and other such investments in his portfolio. Mr. Adams's funds, like many hedge

funds, collect 20% of annual investment gains as a year-end performance fee.

In December 2015, Wellington boosted its estimate of what Powa was worth, investor documents indicate. Mr. Adams didn't tell investors that one month earlier Wellington had hired consulting firm Deloitte LLP to advise on whether the company was insolvent, according to documents in U.K. insolvency proceedings.

in a statement, Wellington said it hired Deloitte to advise it on its "options under U.K. insolvency laws at a time when Powa was struggling financially." Several weeks later, it said, Powa announced it had signed a joint venture to roll out its technology in China. Wellington said it believed that "would materially aid Powa's business and its ability to raise additional money."

Powa subsequently entered the U.K. equivalent of bankruptcy proceedings.

Mr. Adams has since apologized. In an investor letter last year, he said Powa was "one of the most disappointing investments in my more than 30+ years of investing."

Wellington agreed to reverse its boosted valuation for Powa, and to refund fees that it had collected on Mr. Adams's overall portfolio as a result, according to documents reviewed by the Journal.

Mr. Adams's flagship fund, Bay Pond, was down 7% last year. Two smaller funds concentrated in startup stakes were down double-digit percentages.

Airbnb, Uber and other startup bets have been moved to a so-called side pocket that cannot be immediately cashed out, an acknowledgment that they might not be easy to sell, at least not at a price attractive to Wellington.

Now, Mr. Adams is going back to what worked before—big stakes in traditional lenders, including Bank of America Corp. and Citigroup Inc. The early results are encouraging. His main fund was up more than 12% in the first quarter of 2017.

"He's had some tough years," said Mr. Schutz, the bank investor and longtime friend. "He always figures out a way to make money and come back."

Some investors were concerned Mr. Adams was straying from his strong suit.

so-called balanced mutual fund—a diverse collection of stocks and bonds designed to produce steadier returns than investments in single companies. Wellington's founder hired Jack Bogle, who as chairman orchestrated mergers with other fund companies that in the 1960s left it with big holdings of several stocks that imploded in the 1973 stock-market crash. Mr. Bogle was fired. He later started indexing pioneer Vanguard Group, now Wellington's biggest investment client.

As a youngster, Mr. Adams sold used hubcaps he collected along the highway. His great-grandfather founded the Boston Bruins hockey team. After Mr. Adams graduated from Princeton University, he joined Wellington and quickly earned a reputation as a talented trader of bank stocks. When a rival offered to stake him to start his own shop in 1994, Wellington matched the offer by helping him raise millions of dollars from its own clients.

Mr. Adams used the money to start Wellington's first hedge fund, Bay Pond. Peers such as

SEATS

Continued from Page One

When the arena opens at 7 a.m., he dashes down a flight of stairs, across the arena, up another set of stairs and past the front two rows to his favorite seats—all while songs such as Pink Floyd's "Money" blare through the sound system.

"If anybody does it better than us, I'd like to see it," said Mr. O'Kane, who has attended the meeting seven times and has spent years refining his tactics with Victor Velkov, a friend from Brisbane, Australia.

It's no secret that Berkshire shareholders and fans of the company's chairman, Mr. Buffett, line up for hours to get into CenturyLink's main arena for the annual gathering—which takes place this weekend. The company expects more than 40,000 to attend, although just 18,000 get seats inside the arena. Less intrepid fans will watch the show from the rafters or in overflow rooms.

Lesser known, however, is a special class of Berkshire acolytes whose efforts to secure prime seats might best be described as "extreme Buffeteering."

Preston Pysh of Bel Air, Md., is getting his own plan ready. Being in line early is a "badge of honor" among Berk-

shire devotees, he said.

Mr. Pysh is co-host of the Investors' Podcast, a show about stock investing. Recently he sent detailed instructions to listeners who plan to attend the annual meeting, complete with a map showing where to gather at 4:50 a.m. on Saturday, to beat the 5 a.m. crowd.

"Walk (run) right until you get to a set of stairs," the man says. "Go up the stairs." He insists that even with those directions, the group's preferred seats are in a secret location.

"It's physically taxing to get to that area," he said, so attendees who aren't part of his group are unlikely to find the

spot. "It's 100% legitimate, but it's not a way somebody would want to go."

This chaotic sprint, which some have dubbed the "billionaires' dash," shows no signs of fading—even if arena security isn't happy about it. "We do not allow running for safety reasons," a spokeswoman for the CenturyLink Center said. "We keep a close eye on venue entry... As people enter, our staff is there to kindly remind people of this rule."

In the 1970s, Berkshire annual meetings were held in a lunchroom at the offices of one of Berkshire's insurance subsidiaries. As Mr. Buffett's profile

has grown, so have the meetings. A \$1,000 investment in Berkshire in 1965, when Mr. Buffett took control of the company, would be worth more than \$13 million today. Meeting attendees get to watch an hour-long movie about Berkshire starring Mr. Buffett and various celebrities, which isn't available online. Past videos have featured boxer Floyd Mayweather Jr., actress Susan Lucci, and the casts of "The Office" and "Desperate Housewives."

Even people who don't care much about Mr. Buffett find good reasons to pay attention on Berkshire weekend. Adam Messerole of Omaha was serving

tables at the nearby Old Mattress Factory Bar & Grill the night before the 2015 annual meeting when a customer made an unusual proposal: he offered Mr. Messerole and a friend \$300 to hold a spot in line. The pair got to the convention center at 9 p.m., saw no one in line and headed to a local bar. They got back in line around 2 a.m. with sleeping bags and snacks. "We didn't really have to do anything at all," Mr. Messerole said.

At one point, another person in line offered Mr. Messerole and his friend extra tickets to attend the meeting but they declined the invitation and went home to sleep.

While Mr. Messerole doesn't plan to go back this year, he said he did make another score at the meeting. Many dashers bring gear with them, like folding chairs or sleeping bags, but abandon them outside to avoid getting held up by security. Mr. Messerole still uses a chair one of them left behind.

Of course, shareholders could get a good look at Mr. Buffett by staying home. Berkshire started live-streaming its annual meeting on Yahoo Finance in 2016. People who stand outside for hours in the dark say they do it to pay their respects to a company they admire and to mingle with like-minded investors. "It's amazing to me that when the weather's lousy, they do it," Mr. Buffett said in

an interview. But "they come in a good mood, and even if they have an inconvenience, they seem to stay in a good mood."

A year ago, some dashers' plans were thwarted when the arena opened its doors ahead of schedule to help the early-morning crowd get out of the rain. Berkshire also beefed up security screenings.

With this year's festivities expected to once again bring in thousands, entrepreneurs have stepped into the line-sitting business. InLine4You LLC, an Omaha-based service, says it has more than 40 reservations for sitters, who will show up at a requested time and stand in line on behalf of a meeting attendee, up from five last year. The service costs \$110, including \$50 for InLine4You and \$60 for the line sitter, said company founder Darren Hromadka.

Paying someone to stand in line is "probably what I would do," Mr. Buffett said. When asked why he goes to all that trouble to get upper-level seats, Mr. O'Kane, the Australian investment manager, explained that he prefers them to seats on the arena floor because they put attendees "eye to eye" with Mr. Buffett, and Charles Munger, Berkshire's vice chairman. "If we're going to come all this way, we want to see their faces."

—Erik Holm contributed to this article.



Warren Buffett competing in a contest at the Berkshire Hathaway shareholders meeting in 2016.

RYAN HENRICKSEN/REUTERS

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Special Advertising Feature

INVESTING IN JAPAN

Japan Pushes Ahead With Reforms As Economy Strengthens



by John Ashburne

The Year of the Cockerel didn't get off to the brightest of starts for Japan's 57th Prime Minister, Shinzo Abe. In Washington, the new President was gleefully tearing up the TPP proposals and declaring 'America First', sending shivers of concern for Asia's geopolitical and financial future through the region's political establishments.

Kim Jong-un, Japan's bellicose and increasingly unpredictable North Korean neighbor, was demonstrating an insatiable appetite for firing missiles into the Japan Sea, whilst Mr. Abe had to fend off questions of collusion domestically.

Fast-forward just a few months. By the time the last of the Spring cherry blossoms floated down onto Tokyo's famed Imperial Palace moat, things were looking far rosier. Trump and Chinese Premier Li Keqiang were making friendly overtures, U.S. Vice President, Mike Pence was dispatched to the region to voice support for and reassure the "Japan, South Korea and the US' iron-clad alliance", and the Moritomo Gakuen scandal bullet had been dodged. Only Mr. Kim's errant ballistics continued to sour the picture.

Best of all, there was positive economic news, in the shape of the Bank of Japan's (BOJ) Tankan quarterly survey of business sentiment for March 2017. Pretax profits at Japanese companies for the fiscal year that started on April 1 were revealed to total 52.3 trillion yen (\$480 billion), a significant increase on previous figures, encouraged by a robust manufacturing sector and an increase in exports.

Year-on-year sales exports were up by 12% to 7229.1 billion yen, compared to an 11.3% gain in February. It was the fourth consecutive month of increase, and the fastest for two years. Increased exports of steel and car parts gave rise to optimism that increased overseas demand might help boost growth.

Buoyed by the positive economic indicators, on April 18th Mr. Abe gave further power to his fiscal reform initiatives by nominating pro-Abenomics allies to key soon-to-be vacant positions on the policy board of the BOJ. In replacing Takahide Kiuchi and Takehiro Sato who were often critical of Mr. Abe's policies, the PM made clear that he persevere - despite some criticism - in acting out his "intensified reform reinforcement period" to revitalize the economy.

Though Mr. Abe's nominations must be ratified by parliament, his appointment of avowed reflationist Goshi Kataoka, senior economist at Mitsubishi UFJ Research & Consulting, and experienced banker Hitoshi Suzuki, former deputy president of the Bank of Tokyo-Mitsubishi UFJ, made clear his resolve. It is now unlikely that the BOJ's monetary policy will change, certainly not as long as inflation remains well below Mr. Abe's stated target of 2%.

MUFG, a global financial management company headquartered in Tokyo, clearly thinks Mr. Abe is on the right track. In February 2017, it issued a report 'What's next for the economy of Japan?' which stated: "It's been more than four years after Prime Minister Shinzo Abe launched his economic plan 'Abenomics' to reinvigorate Japan's productivity and revive the economy after two decades battling stagnation and deflation. And recent figures suggest the plan is working, with positive signs of renewed stability and confidence."

The MUFG report was based on statistics released from Japan's Cabinet Office that revealed the country's domestic economy (GDP) grew by 1.2% in Q4 of 2016, an upward revision of previous estimates. "While by no means remarkable, it does exceed the country's long-run growth potential and in fact marks four consecutive quarters of growth, a feat not seen in three years," the report concluded. "Equally encouraging, Japan's nominal gross domestic product totaled 537 trillion yen (\$6.1 trillion) last year, surpassing levels not seen since 1997.

Hot on the heels of the BOJ report, the Philippine-based Asia Development Bank issued its own study, the Asian Development Outlook 2017, which serves as a timely reminder that whatever political or commercial vicissitudes arise, Asia remains a genuinely formidable economic force, accounting for around 60% of all global growth in 2017.

"Developing Asia is set to grow steadily, and it is well positioned to handle any risks that might stem from policy uncertainty abroad. Asian Development Outlook 2017 forecasts gross domestic product in the region expanding by 5.7% in 2017 and 2018, near the 5.8% pace in 2016," explains ADB President, Takehiko Nakao.

"Higher external demand, rebounding global commodity prices, and domestic reform support widespread acceleration, with growth picking up in two-thirds of the region's 45 economies. Developing Asia will continue to be the largest regional contributor to global growth, even with growth moderation in the People's Republic of China (PRC), its largest economy. Prospects for developing Asia are supported by improving fortunes for the major industrial economies in the United States, Euro area, and Japan."

The ADB report emphasizes the need to concentrate upon developing innovation, human capital and infrastructure to boost productivity, all areas in which Japanese corporations will be keen to play a role. Significantly, it also highlights the pan-Asian shift in fortunes that will be key to the region's success. "When the Asian Development Bank opened its doors in 1966, most of the region's citizens lived in low-income economies," says Mr. Nakao.

"Since then, cumulative national development efforts have transformed the region. Today, with most economies having successfully climbed the income ladder—including the most populous economies in the PRC, India, and Indonesia—roughly 95% of the population lives in a middle-income economy. The development challenge now is to climb one more rung to high income".

Prosperity for a wider Asia will clearly impact Japan, not least in an area that Shinzo Abe has placed as central to the success of his Abenomics reform package: the stimulus of Foreign Direct Investment (FDI). On his election in 2013, Mr. Abe vowed to double the inward FDI to 35 trillion yen by the time Tokyo hosts the Olympic Games in 2020. By the end of 2015, the figure had reached 24.4 trillion yen (\$223.8 billion), up from 17.8 trillion yen (\$163.3 billion) at the end of 2012, when Mr. Abe took office.

On a visit to Tokyo in 2008, the former EU commissioner and now British peer, Lord Peter Mandelson witteringly referred to Japan as "the most closed investment

market in the developed world." Nearly a decade later, Mr. Abe has vowed to utilize tax breaks for overseas investors, and his National Strategic Special Zones to "develop an environment where it is easiest in the world to do business."

The country that Mr. Abe governs is the tenth most populous nation on the planet, with 127 million citizens and per capita GDP of 3.78 million yen (\$48,500), an attractive market for serious FDI players. Add to that its political and social stability, unparalleled infrastructure, skilled and reliable workforce, state-of-the-art-R&D sector, livability and safety, and the opportunities afforded in the run up to the 2020 Tokyo Olympics, and Japan becomes even more attractive as a FDI destination.

There's still a way to go to realize Mr. Abe's dream. Japan's stock of FDI, as a percentage

of its gross domestic product (GDP), when calculated in 2014, stood at 3.5 percent, compared with 32 percent on average for all Organization for Economic Cooperation and Development (OECD) member countries. The opportunities are there for the adventurous. As the Japanese saying goes, *daitan ni kodou suru mono ga shouri suru*: "He who dares, wins."

John Ashburne is a freelance writer based in Japan.



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BOOKS

'Nature puts no question and answers none which we mortals ask. She has long ago taken her resolution.' —Henry David Thoreau

America's First Environmentalist

In the midst of desolation, catching sight of redemption is often a matter of looking more closely



OLD THOREAUVIAN A fisherman's dory on the Merrimack River. Thoreau and his brother paddled one like it on the Merrimack and Concord in 1839.

GETTY IMAGES

The Boatman

By Robert M. Thorson
Harvard, 336 pages, £23.95

Thoreau and the Language Of Trees

By Richard Higgins
California, 232 pages, £19.95

BY JOHN KAAG

THIS YEAR, in the doldrums of summer, a crowd of nature lovers and scholars will gather on the shores of Walden Pond in honor of Henry David Thoreau, who would be 200 on July 12. Lectures will be delivered. The stillness of the pond will be contemplated. Cake will be eaten. Pictures will be taken. The moment will be captured in freeze frame. I'll be there and will happily participate, but I can't help thinking that there's something disturbingly passive and stationary about the way that we memorialize America's first environmentalist, a man who was forever on the move. Two recent books suggest that the best way to celebrate Thoreau's life might be to follow his example: to handle the oars and use our hiking boots. This, Thoreau insisted, is the only way to learn about life and its passing.

In "The Boatman: Henry David Thoreau's River Years," geologist Robert M. Thorson highlights the irony of our Thoreau memorializing being centered on Walden, an island of confined water, when, in fact, he felt most at home skimming across the Concord River. "Henry's unheralded river book," according to Mr. Thorson, "is his journal." And like the river, the journal goes on and on: two million words, written over 24 years, containing "astonishing observations and philosophical reflections linked to flowing water in some way." As a natural scientist, Mr. Thorson isn't writing a comprehensive book about Thoreau—readers will have to wait for Laura Dassow Walls's biography, due out this summer, for that—but rather a scrupulous account of the environment Thoreau loved most and, important for our day, the ways in which he expressed this passion in the face of ecological degradation.

At the age of 23, Thoreau, already an expert boatman, observed that the movement of the Concord reflected "the stream of our life" and was an "emblem of all progress, following the same law with the system, with time, and all that is made." Mr. Thorson suggests that this insight expresses an "enthusiasm for the continuous flow of matter and energy that is distinctly absent from his later descriptions of Walden Pond." Mr. Thorson argues convincingly—sometimes beautifully—that Thoreau's thinking and writing were integrally connected to paddling and sailing.

For Thoreau, New England watersheds of the 19th century represented the abiding challenges of the

Anthropocene epoch, an age in which the Earth's ecosystems and geology have been dramatically altered by the forces of human civilization. How to recognize and accommodate, how to live with and through, change: According to Thoreau, this is the key to effective boating and meaningful living.

Henry and his brother, John, tried to negotiate this flux on what they called the "White Mountain expedition" in August of 1839. They set off in the Musketaquid (meaning "grass-ground river"), a fisherman's dory that they had crafted that spring, and sailed north on the Concord to the Merrimack on a two-week trip that would be memorialized in Thoreau's first book, "A Week on the Concord and Merrimack River." Henry and John were river companions, two men facing the flow of life together. But then the river changed course. Suddenly. Two years after this trip, John cut his finger with a razor, contracted tetanus, developed lockjaw and died days later in his brother's arms. Thoreau would have to negotiate the river by himself. His time on the water provided a vital lesson in coping with change but also with what seemed like unadulterated destruction.

As Thoreau dealt with personal loss, the Industrial Revolution continued to hum along in the towns of Lowell and Billerica, several miles downriver from Concord. A dam and canal had been constructed and later expanded, decimating populations of salmon, shad and alewives. Fish weren't the only ones affected by the dam; the meadowland surrounding Concord was now routinely flooded. Thoreau's neighbors, whose farms relied on haymaking, risked losing their livelihood. This tension between meadowland farm and factory, between nature and human progress, would become what is termed the "flowage controversy," and Henry would be in the middle of it.

Immediately after John's death, Thoreau longed for a time when, in his words, "the 'grass-ground' river will run clear again," and he turned with fury on the industrialists whose damming and blasting threatened to obliterate the rivers the brothers once loved. Fury bordering on violence: "Who knows ... what may avail a crow bar against that Billerica Dam!" he exclaimed in his late 20s. This warring spirit on behalf of the natural world is well documented by Thoreau scholars. What has not been documented, to this point, is the exact way that Thoreau's rage gave way to lament and, more important, ultimately to a more constructive acceptance of a world both natural and human-made.

This is where Mr. Thorson is at his most incisive. With the meticulous care of a modern geologist, he excavates Thoreau's journals, notebooks and correspondence, concentrating on the last years of the naturalist's life and exposing the way he became what today we would call a

fluvial geomorphologist, an environmental scientist devoted to understanding the form and function of rivers. "Since the dawn of antiquity," Mr. Thorson writes, "rivers, even more so than coasts, have been the primary battlefields in [humans'] war against nature." Through the late 1850s, Thoreau attempted to determine with precision how the rivers would hold up.

In March of 1859, the flowage controversy came to a head: Representatives from six meadowland towns met the factory owners in the Concord court. Henry was hired by the townspeople to assess the damage that downstream dams were doing to their country. He was paid to take measurements on the rivers for five days. He worked steadily, fastidiously, for two months. Mr. Thorson's attention to detail in describing Thoreau's findings is deeply admirable, if at points a bit too painstaking. But, in his defense, truly understanding something as complex as human ecology requires close attention to detail. Thoreau understood this with the clarity of firsthand experience.

At the end of the flowage controversy, the industrialists won, but,

ago ... little oases of wildness in the desert of our civilization."

Richard Higgins's "Thoreau and the Language of Trees" is more optimistic, maintaining that there are, more than a century later, "little oases of wildness" left nearly everywhere. Maybe one is standing in your backyard or in the park across the street. Thoreau's preoccupation with waterways was rivaled only by his obsession with trees. In the early 1850s, he would accompany William Ellery Channing on what they called "riparial excursions," paddling the Musketaquid, a vessel compromised by the memory of a dead brother, up the Concord River, a channel compromised by modern industry, to woodlands, compromised by unprecedented deforestation. In the face of destruction, Thoreau discovered steady, swaying markers of salvation.

Such discoveries can still be made, but Mr. Higgins reflects that

"most of us do not see the beauty of trees, even though they may be right in front of us."

In Thoreau's words,

"A man shall perhaps rush by and trample down plants as high as his head ... yet if he ever favorably attends to them, he may be overcome

In his 20s, Thoreau had a fury bordering on violence: 'what may avail a crow bar against that Billerica Dam!'

according to Mr. Thorson, so did Henry David Thoreau. He reached a deeper, more complex understanding of the delicate relation between humans and the natural world. "His pioneering river science of 1859-1860 did not position humans as masters and commanders of their watersheds," Mr. Thorson explains, "as did the engineers of his day. Instead he saw human actions as hopelessly entangled with natural ones." Mr. Thorson, however, is careful not to succumb to quietism on this point. It's not that we aren't supposed to fight environmental degradation—we are—but it's important to understand how humans, even very well-meaning ones, are complicit in the fate of wilderness.

"The Boatman" presents this Anthropocene predicament: Human life forever encroaches on the flow of nature. There is no permanent escape from the problem. But Thoreau begins to provide something of a solution: If there is no way out, maybe an Anthropocene traveler can go further in. Maybe it is still possible to experience and appreciate what wilderness remains, to do so with an urgency born of an appreciation of fragility. Mr. Thorson encourages his reader to follow Thoreau back to August 1856: Hip-deep in Beck Stow's Swamp, Thoreau reflected that "there are [still] square rods in Middlesex County as purely primitive and wild as they were a thousand years

by their beauty." Sometimes, in the midst of desolation, catching sight of redemption and renewal is simply a matter of looking more closely. At least it was for Thoreau.

A book (made of wood pulp) about the importance of trees is a potentially blasphemous thing. Mr. Higgins, however, doesn't waste paper. The modest book is arranged in chapters that resemble trees: Each section begins with a short meditative essay written by Mr. Higgins, which branches out into a variety of illustrative quotations selected from Thoreau's writings. Unsurprisingly, the most impressive parts of the book are the pictures, arresting black-and-whites that capture the form, symmetry and spontaneity of the sorts of trees that inspired Thoreau. It's the sort of book that encourages one to get outside, to go in search of something powerful, something fragile yet enduring. If one wished to exchange presents in celebration of Thoreau's birth, this book would be a true gift.

What exactly did Thoreau see in trees? Mr. Higgins, a former newspaper reporter who now lives in Concord, explains that Thoreau delighted in the immediacy of branches and bark, in "the parts, form, colors, and stance of trees." The immediate burst of foliage, in turn, did something to Thoreau's mood, what Mr. Higgins calls his "heart": "The trees of autumn especially exhilarated him. Their riotous

colors suggested to him that life's daily routine should be interrupted

"by an analogous expression of joy and hilarity," and that our "spirits should rise as high as Nature's."

These interruptions gave Thoreau the chance to write poems and essays replete with arboreal imagery. The woodland, as much as the river, was Thoreau's muse. As he became more interested in the natural sciences, trees became occasions to exercise his mind, but "Thoreau's scientific work did not come at the expense of his idealism, which remained the final lens through which he saw nature." Finally, trees, according to Mr. Higgins, "were also guides and companions to Thoreau's soul. They were spires, he said, that lifted his vision to 'heaven.'" Rooted in the earth, trees were the signposts to something beyond. So what did Thoreau see in the trees? Life itself, in every aspect.

Mr. Higgins's is a beautiful book. It does, however, omit one story about Thoreau and trees that deserves to be retold. On an extremely warm April morning in 1844, the 26-year-old Thoreau and his friend Edward Hoar sailed up the Sudbury River toward its headwaters. They fished for most of the morning and landed on the banks of Fairhaven Bay near Sudbury, Mass., where they planned to have lunch. Thoreau made a campfire. A dry wind caught a spark. A day later, 300 acres of meadow and woodland had been burned to the ground. Thoreau's nickname for many years after was "Burnt Woods." It was an accident. Like the sudden flooding of a river's embankment. Or like cutting one's finger with a razor. But the trees perished all the same. Thoreau's crusade on behalf of nature was, at least in part, an act of atonement in the face of nature's tragedies.

If you walk through Thoreau's "burnt woods" today, just a stone's throw from Walden Pond, you'll notice that many of the trees have returned. "The oak dies down to the ground," Thoreau writes, "leaving within its rind a rich virgin mould, which will impart a vigorous life to an infant forest." Trees, according to Mr. Higgins, taught Thoreau how to live but also how to die, and suggested that death was never simply the end. Weeks after the death of John Thoreau, Ralph Waldo Emerson's son Waldo died of scarlet fever. Henry Thoreau wrote to his dear friend: "Every blade in the field—every leaf in the forest—lays down its life in its season as beautifully as it was taken up.... Dead trees, sere leaves, dried grass and herbs—are not these a good part of our life?" Perhaps. But for now, it's still possible to live—to go over the river and through the woods.

Mr. Kaag is a professor of philosophy at the University of Massachusetts, Lowell, and the author of "American Philosophy: A Love Story."

BOOKS

'We are here to add what we can to, not to get what we can from, life.' —William Osler

The Medical-Industrial Complex

An American SicknessBy Elisabeth Rosenthal
Penguin Press, 406 pages, £21.81

BY LAURA LANDRO

IN AMERICAN health care, profit is the primary motivation, the industry outfoxes every attempt to rein in costs, and consumers are the victims of predatory practices. That's the bottom line for Elisabeth Rosenthal, whose "An American Sickness" is a harsh indictment of an enterprise she dubs the "medical-industrial complex."

She parcels out blame to virtually every sector for putting financial gain over patient needs, from the pharmaceutical companies that maneuver to protect their lucrative patents to nonprofit hospitals that skimp on the charity care they are required to provide for tax-exempt status but shower CEOs with corporate-style perks and salaries. Insurance-company policies, she says, push prices up rather than contain them. Device makers, lab companies and specialists pile on more charges and unnecessary procedures until the system is staggering under the weight of its inefficiency.

Other journalists have turned their sights on the failings in U.S. health care, including Steven Brill in "America's Bitter Pill" (2015) and Frank Lalli in "Your Best Health Care Now" (2016), but Dr. Rosenthal brings an inside perspective to the task. Before launching her career as a journalist—first at the New York Times and now at Kaiser Health News, a project funded by the Kaiser Family Foundation—she earned a medical degree, trained in internal medicine and worked as an emergency-room doctor.

It's somewhat surprising, then, that she has so little good to say about anyone in medicine or how little attention she gives to the advances in science and technology that have improved patient care and saved lives. While she highlights a handful of players who have fought to bring down costs or resisted what she sees as usurious practices, her theme is not the good but the bad and the ugly, and she never strays far from condemnation. The points she makes are valuable, but her broader case might have been more persuasive with more balance and a greater willingness to acknowledge the many trade-offs that any health-care arrangement will require, even the single-payer alternative she seems to favor.

"An American Sickness" lands amid a battle by the current administration to scrap the Affordable Care Act. Though Dr. Rosenthal sees the intent of that law as noble, she takes the view that it didn't solve the problems of affordability and access or do anything to curb spending and address other troubles that beset the system. She believes that,



GETTY IMAGES

for more than a quarter-century, medicine has become a dysfunctional market that operates by its own self-serving rules. Among them: More treatment is always better; providers default to the most expensive option; more competitors drive prices up, not down; and there is no such thing as a fixed price.

Such claims capture some of the oddities and ordeals of American health care, but the incentives and disincentives of the current set-up can be complicated, the effects varied and the trouble traceable to more than greed. For example, overtreatment is consumer-driven as well as profit-driven; patients may demand more care than is necessary and fail to comply with doctors' orders, leading to worse outcomes and more treatment. Concern that patients will file a malpractice suit leads doctors to practice defensive medicine and order more tests and treatments. Costs are shifted from the uninsured to the insured, with a matrix of cross-subsidies thwarting any attempt at a uniform price. Because the cost of developing drugs is so high, the drugs might not exist if pharmaceutical companies could not recoup their investment by way of patents. Dr. Rosenthal quotes a professor of health law saying that "people had a lot of faith in the American medical profession—that they would act differently than other businesses—but they were wrong." But health care operates like a business only part of the time.

"An American Sickness" cites the evolution of health insurance, a postwar construct meant to protect

patients and keep the charitable groups that ran hospitals afloat, as the source of the "original sin" that catalyzed this for-profit juggernaut. While to some extent insurers do better if they negotiate better rates for care, Dr. Rosenthal says, their main goal is to carve out their piece of the pie. Hospitals, she says, adapted to the financial incentives of the insurance companies by charging the highest prices they could come up with, which led doctors to order more tests and treatments and led device- and drug-makers to come up with ever more sophisticated and expensive products. While many advancements in medicine have clearly offered benefits to patients, Dr. Rosenthal sees it all as a money chase: "No one was protecting the patients," she writes.

She shows the problems of byzantine medical-payment structures and vividly describes the army of coders and consultants who work around rules aimed at containing costs. When Medicare announced that there would be one payment for the first 90 minutes of chemotherapy, with a second payment for any part of each hour thereafter, it started receiving lots of bills for infusions lasting 91 minutes.

But much of the time it seems as if Dr. Rosenthal sees no justification for anyone to get paid or turn a profit, which of course would sink any business. She cites anesthesia as an example of price escalation, since anesthesiologists get paid for supervising less-educated nurse anesthetists while the doctors are "sitting in the lounge monitoring their portfolios." In the next breath she notes

that, as the 2014 death of Joan Rivers illustrates, when things go wrong in the operating room they can go very wrong, very fast. You want an anesthesiologist supervising, and she presents no evidence that in most cases they are not doing so.

She is also critical of the trend toward private rooms in hospitals, seeing it as costly, with little medical justification. But more hospitals are going to all private rooms, and studies suggest that they may lower the risk of virulent hospital infections. Anyone who has had to share a room with another sick patient knows the value of privacy and quiet in the healing process.

The American health-care system is in need of reform. Does it deserve to be condemned?

Dr. Rosenthal endorses a number of solutions that have been put forth by health economists, including turning to models in other countries that have some form of nationalized health care. While she acknowledges that it's hard to imagine the U.S. moving that way any time soon, she sees Medicare as a single-payer system that, by gradually dropping its age of entry, could be a path to more coverage. Many of Medicare's initiatives, she argues, could serve as models for the private sector, such as bundled payments, which pay a single price for an entire episode of care—like a knee replace-

ment—allowing hospitals to do well when they stay within budget but forcing them to eat overruns.

She also cites the success of Kaiser Permanente (officially separate from the Kaiser Family Foundation), the California-based managed-care organization where doctors are salaried and thus have no incentive to over-treat and where electronic records are used to coordinate care. She praises the health care offered by the Department of Veterans Affairs too, despite its problems, for its transparency and its attention to standards, such as those governing when patients should get a particular test.

For patients, her advice is to use reliable online resources to shop for the best and most reasonably priced insurance and treatment. Some strategies may be too complex for many patients, such as those for buying drugs from other countries. But asking why a doctor is ordering a test or whether a treatment is really required is everyone's prerogative. As Dr. Rosenthal writes: "We all need to be more 'difficult' patients."

It isn't necessary to accept all of Dr. Rosenthal's criticisms—or to agree with her assessment that profit is the main driver behind everything in American health care—to concede that reform is needed. Nor is it necessary to unequivocally condemn a system that has done so much for so many, whatever its flaws.

Ms. Landro, a former Journal health columnist, is the author of "Survivor: Taking Control of Your Fight Against Cancer."

Take Me to the River

Into the Water

By Paula Hawkins

Doubleday, 368 pages, £20

BY TOM NOLAN

'A STRANGE PLACE,' is how English policewoman Erin Morgan describes the rural town of Beckford, where she's investigating a recent suspicious death, "full of odd people, with a downright bizarre history. And all through the middle of it, there's this river, and

A 'drowning pool' claims two victims in a new page-turner by the author of 'The Girl on the Train.'

that's the weirdest thing.... [I]t seems like whichever way you turn... somehow you always end up back at the river." That ubiquitous flowing presence corkscrews throughout the highly suspenseful "Into the Water," the second novel by Paula Hawkins, whose first was the international best seller "The Girl on the Train."

The Beckford death that Morgan is looking into took place in the river—as did, months earlier, the death of a teenage girl whose demise was

deemed a suicide. The river's history as a watery gravesite—especially in its most treacherous spot, "the drowning pool"—goes back over three centuries, to its use as a place for the "swimming" of women accused of being witches: "the ordeal by water." Ever

search on the subject disturbed and threatened various neighbors. She herself was close to a recent adolescent victim of the river, who'd been best friends with Nel's own teenage daughter. And Nel's aggressive probing had led her to a disturbing

gan, new to Beckford, is skeptical. Homicides or not, it's clear big secrets have been kept in this small town, some for generations.

The facts behind all these intrigues are teased out with impressive skill by Ms. Hawkins, who tells a complex nar-



accomplished, insensitive sibling: "The things I want to remember I can't, and the things I try so hard to forget just keep coming." There's Det. Townsend ("trim and sharp-looking, as though if you got too close to him you might cut yourself"), a lifelong Beckford resident who's seen everything and is starting to see it repeat itself. There's Nel's daughter Lena, by turns sulking, guilty and angry: "Why do adults always ask the wrong questions?" And there's Nickie Sage, self-declared psychic and descendant of witches, whose fortune-telling business has been shut down by marketplace regulators: "EU rules! Consumer Protection! Time was, the likes of Nickie were persecuted (persecuted) under the Witchcraft Act and the Fraudulent Mediums Act. Now they fell afoul of European bureaucrats."

Keeping track of all these characters can at times be daunting. But the effort proves worthwhile in a chronicle whose final pages yield startling revelations—despite the puzzlement of the policeman in charge. "Sometimes, with things like these," an overwhelmed Sean Townsend cautions, "there is no truth to be found." Think again, Detective Inspector.

Mr. Nolan reviews mysteries for the Journal and is the co-editor of "Meanwhile There Are Letters: The Correspondence of Eudora Welty and Ross Macdonald."

since, in the prose of its most recent victim, Beckford writer-photographer Danielle "Nel" Abbott, "it has drawn to its shores the unlucky, the desperate, the unhappy, the lost. They come here to swim with their sisters."

Nel had become obsessed with the river's morbid history, and her re-

conclusion: "Beckford is not a suicide spot," reads a passage in her interrupted work. "Beckford is a place to get rid of troublesome women." Was that the case with Nel Abbott?

Detective Inspector Sean Townsend, the town's top cop, thinks both recent deaths were suicides. But Mor-

rative in mostly brief chapters through the eyes and voices of more than a dozen characters—in the third and first person, in action scenes and inner monologues, in chapters from Nel's unpublished manuscript. There is Nel's embittered sister Julia, who's engaged in a lifelong internal tirade against her

OPINION

REVIEW & OUTLOOK

The French Choice

French voters were treated to an American-style presidential debate on Wednesday night, complete with finger-pointing, name-calling and shouting over the moderators. Even with the elevated decibel level, one thing came through: The French have a clear choice in Sunday's presidential election on economic policy, national security and the country's future in the European Union.

Start with the economy. Marine Le Pen characterized her opponent as a cynical tool of corporate interests who would endanger French jobs. The National Front leader positioned herself as a woman of the people who would protect French workers from the cruel winds of trade and globalization—a sure recipe for further economic decline in a country that's suffered double-digit youth unemployment rates for years precisely because of government interventions in the economy.

How refreshing, then, to hear Emmanuel Macron explain how he'd unleash the private sector, and especially job-creating small- and medium-sized businesses, by loosening labor laws and reducing taxes. He urged French voters to reject Mrs. Le Pen's "spirit of defeatism" and embrace competition and risk-taking. He also challenged Mrs. Le Pen to explain how she'd finance her

promises of generous government largesse. Good question.

Both candidates addressed the threat from terrorism, a major concern of French voters after a series of deadly attacks from Nice to Paris. Mrs. Le Pen positioned herself as tough on terror, calling for the eradication of "fundamentalist ideologies," stronger border controls and the expulsion of radical Islamists. Mr. Macron claimed Mrs. Le Pen's rhetoric would stoke "civil war," and called for a more nuanced approach, including efforts to reinforce intelligence services, combat online radicalization and more cooperation with European allies.

The biggest cleavage was over France's relationship with the European Union. Mr. Macron supports staying in the union and keeping the euro, while Mrs. Le Pen proposes a return to the franc and a constitutional referendum on EU membership. A majority of the French public doesn't seem ready to leave the EU, but they might in time if Mr. Macron wins and can't deliver on his reform promises.

Sunday's vote is as much a referendum on Mrs. Le Pen and fear of the National Front as it is about Mr. Macron's agenda. But the 39-year-old independent also offers a break from the conventional parties, albeit a safer one than Mrs. Le Pen's insular nationalism.

Macron and Le Pen's debate exposes big policy differences.

A Korean Election Nail-Biter

Donald Trump correctly refuses to accept a nuclear North Korea as a fait accompli, and he is trying to enlist China to stop it. Unfortunately an off-hand Trump remark in the thick of a South Korean election may end up helping to elect a left-wing president in Seoul who would hamper U.S. efforts to increase pressure on the North to give up its nuclear program.

The candidate's name is Moon Jae-in, and at the moment he is favored to win South Korea's Presidential election next Tuesday despite having a mere 40% plurality in the polls. He benefits from the fracture in conservative ranks since the impeachment of President Park Geun-hye in March, which led to multiple candidates dividing conservative and centrist support. But if centrist and conservative voters unify behind another candidate, the race could narrow in the final days.

Unfortunately Mr. Trump has just given Mr. Moon an undeserved boost with an off-the-cuff demand that South Korea pay for the Thaad missile-defense system that became operational Monday. The remark came out of the blue in an interview with Reuters, and National Security Adviser H.R. McMaster has since walked it back, confirming the U.S. will pay for the \$1 billion system as originally agreed. But the incident reinforced South Korean fears that the Trump Administration is an unreliable ally that could mismanage the threat from the North.

If would be ironic if that goof pushes Mr. Moon over the top, since he is partly responsible for the North's success in developing nuclear weapons and the missiles to deliver them. He was chief of staff to the late President Roh Moo-hyun, who in the mid-2000s gave Pyongyang the opportunity to earn \$100 million a year in hard currency through the Kaesong Industrial Zone. The zone closed in 2016, and Mr. Moon has pledged to reopen it.

During the campaign Mr. Moon has struck some tougher notes on the North and reaffirmed the importance of the U.S. alliance to the South's security. While he expressed anger that the caretaker government and the U.S. rushed the deployment of Thaad, he has moderated his opposition to it.

But as President Mr. Moon would hamper U.S. efforts to increase pressure on the North to give up its nuclear program. He agrees with Mr. Trump that the Obama Administration's policy of "strategic patience" was a failure—but only because he believes the U.S. should pursue talks with Kim Jong Un. That would allow the North to seek more bribes in return for promises to suspend its weapons programs—promises it has never kept.

The Thaad system is crucial to the effort both to stop Pyongyang's nuclear ambitions and to show Beijing that support for the North has strategic consequences. Right now, China is using diplomatic and economic pressure to punish Seoul for the Thaad deployment. If Mr. Moon is elected, it gives China an opening to drive a wedge between the U.S. and South Korea.

Mr. Moon's economic policies are also misguided. He proposes to stimulate the flagging economy with government spending increases of 7% per year, up from the current 3.5%. This would be paid for by extending the top income-tax rate of 40% to more of the population, as well as raising the corporate tax rate on large companies to 25% from 22%.

The latest polls show conservative candidate Hong Joon-pyo, backed by the Liberty Korea Party, surging with about 17% support. Centrist Ahn is polling around 21% but is fading after poor debate performances. About 20% of the electorate is still undecided. At least until the South Korean election is decided, is it too much to ask that Mr. Trump stay quiet?

How Heritage Went Wrong

The Heritage Foundation has played a storied role in the spread of conservative ideas going back to its founding in 1973. But in recent years the think tank has lost its way, and on Tuesday the Heritage board removed President and CEO Jim DeMint, the former South Carolina Republican Senator.

We don't know the details of what happened inside the organization, which had a budget of more than \$80 million in 2015. Competing story lines, many no doubt self-serving, have made it into the press. But who did what to whom is less important than understanding how Heritage went wrong. The essential problem is that Heritage abandoned its mission to promote ideas in order to become a political muscle.

Action as a way to promote conservative principles.

It hasn't turned out that way, as Heritage Action has mugged the think tank. Led by political operative Michael Needham, Heritage Action has become a Beltway enforcer of whatever political strategy Mr. Needham and his band of internet allies think Republicans should pursue. Longtime Heritage principles like free trade were thrown over for political expediency. The think tank's morning newsletter, *The Daily Signal*, has become a vehicle to promote the Freedom Caucus rather than conservative reform.

Members of Congress no longer pay attention to Heritage's policy proposals, to the extent there are any, because those became less important than Mr. Needham's congressional vote scorecard. Raising money by promoting a never-ending narrative of GOP "betrayal" has become more important than advancing conservative ideas.

This power play has taken an especially destructive turn this year as Heritage Action led the opposition to the House health-care reform. Mr. Needham wanted Congress to pass a repeal-only bill, but the votes weren't there to do so. Rather than accept incremental progress, he led a campaign to defeat repeal and replace. Heritage Action recently endorsed a compromise version, but its initial onslaught needlessly divided Republicans and may have done too much damage to salvage any reform.

Mr. Feulner is returning to run Heritage on an interim basis while the board looks for its next president, and we wish him well. But if the board wants to return Heritage to its previous influence it will have to return to its original mission. Heritage Action has become an obstacle to conservative progress.

The think tank abandoned ideas for political muscle.

The French Illusions That Die Hard



BORDER LANDS
By Sohrab Ahmari

A representative of the globalist elite faces a tribune of globalization's victims. That's the superficial read on Sunday's presidential runoff between Emmanuel Macron and Marine Le Pen in France. The deeper question is whether

French voters accommodate themselves to reality or cling tighter to their economic illusions. Plenty of clues about which path France might take were on display during the May Day holiday.

Start with the France of illusions. An estimated 40,000 red-clad activists snaked their way from the Place de la République to the Place de la Nation in the early afternoon. Hammer-and-sickle flags abounded. So did portraits of beloved mass murderers like Che Guevara. Gangs of masked youth set off fire crackers boomed like gunshots.

One placard showed Ms. Le Pen and Mr. Macron side by side, asking: "Plague or Cholera?" A typical slogan was "Neither nation nor boss!"—a double rejection of Ms. Le Pen's nationalism and Mr. Macron's free-market liberalism. These sum up the views of supporters of Jean-Luc Mélenchon, the leftist firebrand who was eliminated, barely, in the first round last month.

The Mélenchonists have a great deal in common with Ms. Le Pen's National Front, which held its own angry rally earlier in the day. Both camps would lower the retirement age to 60 from 62. Ms. Le Pen would keep the 35-hour workweek while Mr. Mélenchon would shorten it to 32 hours. Both would boost welfare spending and sever or strain the country's trade ties in various ways.

The Le Pen-Mélenchon Venn diagram has a large overlapping set, because both camps blame everyone but the French for the country's malaise.

"The French try to erase historical experience," Pascal Bruckner tells me. The literary journalist is one of a very few classical liberals among French public intellectuals. He says his compatriots "have forgotten the experience of 1989 and only see the bad aspects of capitalism and liberal democracy."

The tragedy of France, Mr. Bruckner says, is that the country never had a Margaret Thatcher or Gerhard Schröder to implement a dramatic pro-growth program. Incremental, haphazard changes have only prolonged the crisis. "So if you're unemployed it must be because of the market economy."

Yet it wasn't shadowy globalists who in 1999 imposed a 35-hour workweek to make overtime labor prohibitively expensive. The law was meant to encourage firms to hire more workers, but like most efforts to subjugate markets to politics, it ended up doing more harm

than good. Now it's the main barrier to hiring in a country where the unemployment rate is stuck north of 10%.

Nor was it global markets that levied a corporate tax rate of 33% (plus surcharges for larger firms), a top personal rate of 45%, and a wealth tax and other "social fees" that repelled investors and forced the country's best and brightest to seek refuge in places like London, New York and Silicon Valley.

Nor did globalization build a behemoth French bureaucracy that crowds out the private economy. As of January, this has created a 98% public-debt-to-GDP ratio.

Perhaps the strangest aspect of the recrudescence of collectivist politics in France is the willingness of some American conservatives to indulge it. Yes, Ms. Le Pen and Mr. Mélenchon are temperate and authoritarian, the thinking goes, but they give voice to real frustrations with globalization and other market evils like gentrification and automation.

Free markets and 'globalists' didn't wreck France's economy. The political class did.

If vituperation alone conferred political credibility, Louis Farrakhan would be the most credible figure in American politics. What U.S. conservatives tempted by Ms. Le Pen don't notice is that much of her rage against globalization is the same old conspiratorial anti-Americanism dressed up for a new age of anxiety. It's telling, too, that you never read about the 35-hour workweek in their accounts, which tend to make France sound more like America during the robber baron era than a stultifying welfare state.

And what would happen to the unprotected if Ms. Le Pen became president? Within a year the country would become a European Venezuela, warns Mr. Bruckner. With her protectionist threats "no body would invest in France. Banks would close. People would withdraw their money and go abroad."

Which brings us to the other France. It was also on display on May Day, when supporters of Mr. Macron turned out in droves to hear him speak at a convention center in northeast Paris. They were diverse, mostly young, well-dressed and well-behaved. The watchwords were opportunity, growth, aspiration, competitiveness and—yes—liberty.

Whether a President Macron turns out to be the reformer France needs remains to be seen. His platform is if anything too modest, and he has a tendency to speak to both sides of every issue. But give Mr. Macron and his supporters this: They don't peddle dangerous illusions.

U.S., Canada Both Practice Protectionism

By Michael Taube

In February, President Trump appeared to put the brakes on a possible trade war with Canada. During a meeting with Prime Minister Justin Trudeau, Mr. Trump praised the "outstanding trade relationship" and said any changes to the North American Free Trade Agreement—which he once called "the single worst trade deal ever approved in this country"—would involve only minor tweaks.

But things have dramatically shifted. Mr. Trump recently criticized "supply management"—governmentally imposed quotas and price controls—in Canada's dairy sector. He called it "another typical one-sided deal against the United States" and said it has harmed Wisconsin and New York farmers. (The president was also reportedly considering an executive order last week to start pulling out of Nafta, but the administration disavowed that threat less than 24 hours later.)

Mr. Trump's is correct: Canada's policy of placing strict controls on the availability and prices of dairy—and also poultry—products is flatly protectionist. Mr. Trudeau, a left-leaning Liberal, is wrong to back this anti-free-market policy, which should be eliminated posthaste.

Yet it's a bit rich for Mr. Trump to criticize Canadian-style protectionism when he's regularly pitching and imposing American-style protectionism. He uses economic nationalist rhetoric, insisting on "fairness" in trade, proposing restrictive tariffs and subsidies, threatening to tear up trade deals and favoring U.S. companies in government purchasing. He also seems content to keep fighting the decades-old dispute over softwood lumber, in which the American position is as protectionist as Canada's dairy policy.

So we're currently experiencing an economic standoff between protectionist Canada and protectionist America. The important commercial relationship—U.S.-merchandise trade with Canada in 2015 amounted to \$295.2 billion in imports and \$280.3 billion in exports—stands in the balance. A collapse

would hurt businesses and jobs on both sides of the border.

It's important for Messrs. Trump and Trudeau not only to get along in front of the cameras, but to get past this hurdle and keep the North American economy strong and vibrant. Here are three ways to kick-start the process.

First, the U.S. and Canada should eliminate regulations in sectors like dairy, softwood lumber, automobiles and electronics, while reducing tariffs by 25% or more this year. Although it's important to protect economic interests, creating artificially high prices and limiting consumer choice in the marketplace aren't the ways to do it. Cutting back on nationalist fervor would allow a more prosperous trade environment to blossom.

Second, Canada should eliminate its archaic system of foreign-ownership restrictions. While there are American companies in Canada, from Wal-Mart to McDonald's, it's nearly impossible for an international investor to become the majority owner of a Canadian bank, life-insurance company, telecom or airline. This protectionist policy ought to be tossed aside, once and for all.

Third, Mr. Trump should commit to building a real free-trade arrangement with Canada (and Mexico) that will rev the economic engine of North America. It should include lower taxes and reduced regulations for all three countries, trade liberalization for existing and budding industries alike, and more-efficient routes of travel to ensure quicker delivery of products, among other things. That's the best way to build a strong trade deal for the U.S. that puts (North) America first.

Protectionism in Canada-U.S. relations has gained far too much momentum as of late. What's needed is a resurgence in free trade and competition to heal these wounds and rebuild trust. The trick will be convincing Mr. Trump that the latter strategy is, and has always been, the right route toward economic growth and financial prosperity.

Mr. Taube, a syndicated columnist, was a speechwriter for former Canadian Prime Minister Stephen Harper.

OPINION

The Troops Train to Reassure Europe

By Thomas Donnelly
And James Cunningham

The Pentagon has confirmed it will send the Army's Dagger Brigade—the Second Armored Brigade of the First Infantry Division—to Europe this September in support of Operation Atlantic Resolve, the American military's response to Russian meddling in Ukraine.

The announcement signals that President Trump has embraced President Obama's expansion of the U.S. commitment to the North Atlantic Treaty Organization. That's good,

The U.S. Army's Dagger Brigade is preparing for a September deployment. But it's stretched thin.

but unless Mr. Trump delivers on his promise to restore America's military readiness, the brigade will have a hard time carrying out its mission.

Dagger Brigade has long known the assignment was coming and has trained nonstop to prepare for it. The brigade's commander, Col. David Gardner, is a lifetime infantryman with a shaved head and an office packed with dumbbells and protein powder. With six tours in the Middle East and another in Kosovo, he does

not excite easily. Dagger, he says, is stretched thin.

Col. Gardner first opened Fort Riley's gates to us late last year. He faces many challenges, which we outline in a just-published study. The biggest of them is people—having enough and having the right kind. In particular, he needs leaders, from the squad and platoon level up through his principal staff.

Turnover is the main problem. With 4% of the brigade's personnel changing every month, Col. Gardner and his subordinates work tirelessly to keep troops trained and personnel slots filled. He may have enough crews to drive the tanks, but he has given up hope of having a full complement of dismounted infantry.

At full strength, Dagger has a little more than 4,000 troops. On the day before the brigade loads onto buses for a 1,400-mile drive to the Army's National Training Center in California's Mojave Desert, Col. Gardner has almost as many people as he needs. In reality, when one subtracts the soldiers who are sick, hurt, lame, pregnant, criminally charged, or about to transfer or leave the Army, Dagger is only at 80%. And Col. Gardner knows he'll be lucky to have that when he takes the brigade to Europe.

Dagger's equipment is on the thin edge of readiness, too. More than 90% of the brigade's tanks and infantry vehicles will be taken to the training center, but Col. Gardner expects to deal with a steady stream of major repairs. The M1 tank, in par-



1ST INFANTRY DIVISION PUBLIC AFFAIRS

Dagger Brigade members completed the Danger Focus II training Feb. 16.

ticular, is an old system. It's been repeatedly upgraded, but in relatively small numbers, making maintenance a constant headache. When parts break, spares are hard to come by and regularly take up to six months to be delivered. To prepare for the training center, Dagger conducted a three-week-plus field exercise at Fort Riley, but the time needed to repair tanks and other equipment cut a week out of the exercise. Of course, there are no timeouts in combat.

How did we get to this point? During the Cold War, the massive U.S. forces that patrolled the West German border—nearly a quarter-million soldiers strong—were the best-equipped and readiest in the

Army. Today the "frontier of freedom" in Europe has moved 1,000 miles east and runs from the Baltic to the Black Sea, but U.S. forces have neither moved with it nor retained their size. Lt. Gen. Ben Hodges, who commands U.S. Army Europe, says his job is to make 30,000 troops "look like 300,000" to the Russians.

President Obama announced the European Reassurance Initiative (ERI) in 2014 to "reassure allies of the U.S. commitment to their security and territorial integrity as members of the NATO alliance." The initiative promised increasingly large summer exercises with allied militaries and new "heel to toe" rotations of Army heavy brigade combat teams.

As usual, however, the Obama administration sent mixed messages. Even while trumpeting the ERI, it continued drawing down the permanent U.S. garrison in Europe and funding it through the Defense Department's Overseas Contingency Operations account. Even more telling, the administration reduced the overall size of the Army from its Iraq-surge strength of about 560,000 to today's approximately 470,000, without measurably reducing U.S. military commitments world-wide.

Today, the Trump administration is keeping Mr. Obama's pledges but without seriously reversing course on defense spending. Mr. Trump promised the "biggest defense buildup in history," but his Pentagon budget proposal does not provide the funding required to address the personnel and equipment shortfalls that plague units like Dagger Brigade.

When defense experts talk of "strategic insolvency" or generals chart "an ends-means mismatch," they're describing day-to-day life for Col. Gardner and the soldiers of the Dagger Brigade. They're tough people. They know their trade and are too busy to whine. But our country is not giving them the support they need to do their job.

Messrs. Donnelly and Cunningham are, respectively, a co-director and senior research associate at the American Enterprise Institute's Marilyn Ware Center for Security Studies.

By Rosemary Righter

Unflashy, camera-shy, socially awkward and a hit with British voters—at least, the English and Welsh variety—Theresa May is leading her Conservative troops into battle as the self-proclaimed champion of "ordinary working people" ahead of June's general election.

Coming from almost any other Tory, this might have been a cheeky joke at the clique of half-baked revolutionaries in Labour leader Jeremy Corbyn's camp. But Mrs. May doesn't "do" jokes. If she wins the sweeping Conservative victory she seeks, Britons will have given their mandate to an unabashed interventionist, passionately convinced of "the good that government can do" and the duty of the state to mend society's ills, curb capitalism's excesses and stand as a bulwark against the unsettling forces of globalization.

Welcome back—just possibly—to the pre-Thatcher Britain I grew up in, the land that coined the word "Butskellism." A conflation of the surnames of the Tory Party's Rab Butler and Labour leader Hugh Gaitskell, Butskellism was shorthand

for a left-leaning, corporatist post-war mind-set in both main parties. Fear of change—and, in the Tory case, fear of an increasingly welfare-dependent electorate—kept much of the economy unprofitably in state hands for fear of committing the crime of "selling off the family silver," and the whole country in thrall to over-mighty trade unions.

It trapped politicians into generally fruitless efforts to banish stagflation by controlling prices and wages, and to ward off economic decline with "industrial strategies" that mainly amounted to subsidizing flagging industries. These were decades sacrificed to a bungling corporatism, culminating in the late 1970s in near-bankruptcy. They should have taught us that the most untrustworthy of all political phenomena is "a safe pair of hands."

Margaret Thatcher took risks; calculated risks, for the most part. Like the Greek goddess Pallas Athene, she took care to pick battles she could win, but she was no less a radical for that because at its core hers was a gamble that the British could be persuaded that the key to national recovery was to reward individual effort, encourage ambition and open up

corporation.

Some of her ideas, such as her flirtation with workers on company boards and the economically illiterate proposal to cap domestic energy bills, echo the socialist agenda of Ed Milliband, loser of the 2015 election, and put her well to the left of former Labour Prime Minister Tony Blair.

But is she really a left-wing stat-

ist in Tory twinsets? Or is she a conservative with a small "c," who, like Prince Tancredi in Lampedusa's novel "The Leopard," believes that "for things to remain as they are, everything must change"? She argues forcefully that uneasiness about globalization, rising hostility to the mantras of liberal capitalism and resentment of widening income disparities among those "left behind" have reached such a pitch that the state must act as a protective counterpoint, intervening to right the social and economic balance in the name of what she repeatedly refers to as "the common good." Then again, in terms of what it implies for expanding the role of the state, is this a distinction without a difference?

Mrs. May has a disconcerting propensity to micromanage every decision. The unintended consequence is that the big ideas in her speeches get stuck in the works long enough to be watered down. Consider the ill-conceived scheme to put workers on company boards, quietly replaced by proposed worker and consumer "advisory panels," and the unpleasantly xenophobic idea, now dropped, that companies could be

named-and-shamed into hiring British workers by forcing them to list their foreign employees. The government's green paper on corporate reform reads more like an effort to bolster public trust in business than a declaration of war on private enterprise. Her vaunted "proper industrial strategy," rather than laying out a grand interventionist framework, has dwindled into a rather incoherent laundry list of small-scale interventions.

For this relief, much thanks—as also for Mrs. May's Brexit-driven pledge to make Britain "the strongest global advocate for free markets." Her recent proposal to endow government with French-style powers to block foreign takeovers is likely to be checkmated by Britain's pressing need to demonstrate that it is more than ever a country open to foreign investors. Her actions to date have been much more cautious than her speeches. With luck, Mrs. May will turn out to be interventionist by instinct, but liberal by default. But that "safe pair of hands" will need watching like a hawk.

Ms. Righter is an associate editor of the Times of London.

Theresa May Is No Maggie Thatcher

the marketplace to competition.

Mrs. May's ambition to make Britain "a country that works for everyone" and promote social mobility isn't that far off from Mrs. Thatcher's pitch. Yet she has overtly positioned herself in the opposite ideological corner. For her, "markets

The Tory Party leader thinks government is the solution, not the problem.

are broken" and need "strong" government action to tackle "burning injustices" that blight the life chances of the children of poor families, to transform the prospects of the "just-about-managing" income bracket and at the top, to rein in corporate excess.

Some of her ideas, such as her flirtation with workers on company boards and the economically illiterate proposal to cap domestic energy bills, echo the socialist agenda of Ed Milliband, loser of the 2015 election, and put her well to the left of former Labour Prime Minister Tony Blair.

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Nasdaq's Blueprint for a New Era of Trading

By Adena Friedman

With the Nasdaq index above 6,000 and the bull market in its ninth year, many investors are looking to tax reform as the next economic driver. That's a good bet. Last year the managing director of S&P Global Market Intelligence estimated that every percentage-point reduction in the corporate tax rate could boost S&P 500 profits by 1%.

But tax reform isn't the only change needed to open a new era of growth in equities. Reforming financial markets is crucial too. Make no mistake: America's capital markets are the envy of the world. Investors can buy and sell thousands of companies safely and at low cost. Businesses can tap the deepest pool of public capital anywhere in the world. This catalyzes innovation, creates jobs and keeps the economy humming.

There is reason to worry, however, that years of tranquility have

masked growing structural problems. Businesses that would traditionally have gone public increasingly choose private financing instead. This newspaper, citing figures from Dealogic, reported that 2016 was the slowest year for initial public offerings in more than a decade. It isn't difficult to envision the ramifications if this continues. Investors who cannot put money into attractive businesses will see lower returns. Innovative companies that shun capital markets will expand more slowly. About 92% of job creation in young firms comes after they go public, according to estimates from IHS Global Insight.

These disturbing prospects are entirely avoidable. On Thursday, Nasdaq is introducing a blueprint for the reforms needed to maintain America's global leadership. We believe the path forward hinges on three core principles:

• *Modernize the market structure.* New technological tools, such as real-time access to stock prices via

the internet, have helped make trading more efficient. But markets have also become fragmented. Trading that used to be aggregated in a handful of core markets is now spread across dozens of markets and venues. This can widen spreads and make trading more volatile. Smaller companies that are most affected by the lack of central liquidity should have the choice to trade on a single exchange. That would consolidate liquidity and allow supply and demand to find a healthy balance—resulting in better price discovery and higher efficiency for both investors and companies raising capital.

• *Reconstruct the regulatory framework.* There is broad agreement that the regulatory patchwork governing financial markets is outdated and, in some cases, arbitrary. SEC rules allow any investor who has held \$2,000 of stock for a year to offer a shareholder proposal, even if it is not material to the company's business. This enables a small group of agitators to flood public compa-

nies with agenda-driven proposals. A study sponsored by the Manhattan Institute reported that one-third of shareholder-led proxy proposals in 2016 were driven by six small investors and their families. The ownership threshold should be raised to

We're going public with a plan to modernize markets and streamline regulations.

1% of voting stock held for three years. That would reduce the burden and ensure that proposals represent a meaningful share of the company's long-term owners.

The complex Form 10-Q that the SEC requires should be eliminated in favor of quarterly earnings releases, coupled with semiannual or annual government filings. The Form 10-Qs are often duplicative and bureaucratic, with very little value to shareholders. Politically motivated

disclosure requirements—such as to provide data on conflict minerals—should be eliminated if not tied to companies' bottom lines.

• *Promote long-term thinking.* The rising pressure to satisfy short-term investors to the detriment of long-term benefits is one of the greatest threats to modern markets and the broader economy. This is a complex problem that requires a range of solutions. One is to provide companies and investors with better visibility into investor strategies that could create short-term pressure points. For instance, investors who short a company, and thus would profit from a decline in its value, should be required to report publicly their positions in a filing to the SEC.

Additionally, some have called for eliminating dual-class stock in favor of "one share, one vote." But the flexibility that dual-class stock offers is critical to attracting innovative companies to participate in public markets. It should continue to be permitted so long as investors are fully informed of any limitations or differences between share classes.

Given the complexity of modern markets, deep reform will take time, cooperation and debate. Nasdaq is a neutral market provider, principally interested in bringing buyers and sellers together on equal footing. But this does not mean we are neutral in our view of markets.

American equities markets are built on timeless principles, but they must be driven by modern, evolving practices. Their continued strength hinges on the willingness of lawmakers, public companies, investors, exchanges and other stakeholders to find common ground. Let's be as innovative and forward-thinking in reforming markets as America's great entrepreneurs are in building the companies that drive the economy.

Ms. Friedman is president and chief executive officer of Nasdaq.

THE WALL STREET JOURNAL.

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Notable & Quotable

Britain's Prince Philip announced his retirement from public life Thursday. Harry Mount writes in the Spectator, November 7, 2015:

Prince Philip shares with Boris Johnson what my friend Stephen Robinson, former comment editor of the Telegraph, identified as 'a presumption of hilarity'. As Prince Philip approached me, I longed for him to be outspoken and funny. What a delight when the expectation was satisfied.

It's striking that most people on the receiving end of a Prince Philip gaffe also find it funny. This July, he visited Chadwell Heath Community Centre in Romford, and asked a charity trustee, 'Who do you sponge off?' The trustee fell about laughing

and later said Prince Philip had just been teasing her.

There's a world of difference between affectionate teasing and malicious teasing. Having seen the Prince Philip act in the flesh, I can see it's always affectionate teasing—even if it looks more direct, or even rude, on the page. Like most gags, his are better if you are there at the time.

I wasn't in Cardiff in 1999, when he told children from the British Deaf Association, standing next to a Caribbean steel band, 'If

SPORTS

HORSE RACING

Derby Trail Is Costly in the Long Run

BY JIM CHAIRUSMI

ONE OF THE 20 HORSES set to run Saturday's Kentucky Derby will get a garland of roses and the \$1.2 million winner's purse. The rest will be satisfied with the prestige of making it to Churchill Downs.

But the most valuable horses from this year's crop of 3-year-olds may be the ones that don't make it to the Derby or the other storied Triple Crown races, the Preakness and the Belmont Stakes.

The reason: The grind to make the Derby field can sap horses of their long-term winning—and earning—potential.

Last year, for example, 20 horses entered the Derby with a combined win percentage of 46%, in 125 combined starts. The former Derby runners have since made 73 combined starts, winning at a clip of just 22%. Last year's Derby champion, Nyquist, ran in three races but never won again before being retired.

Nyquist, after the Derby, did seem a little deflated even though it didn't seem like it to us" at the time, says Doug O'Neill, Nyquist's former trainer. "It was obviously a result of the campaign of getting him to the Derby but he never let on that he was dipping."

On the flip side, consider the recent performance of Arrogate, a 4-year-old son of Unbridled's Song. He missed his chance to run in the Triple Crown last year, after experiencing soreness in his shins, and was brought along slowly by trainer Bob Baffert.

The decision has since paid off: Arrogate has earned over \$17 million in his eight-race career, including wins in the Pegasus World Cup, Dubai World Cup and Breeders' Cup, and remains in training.

A points qualification system for the Derby was implemented in 2013 to "establish a clear, practical and understandable path," according to race organizers. It replaced a system in which graded-stakes earnings were the main criteria for setting the field. The new system puts greater emphasis on "in-the-money" or top-three finishes in the most re-



The field during last year's running of the Kentucky Derby at Churchill Downs.

cent pre-Derby prep races, so a horse like Classic Empire, last year's 2-year-old champion, still needed to win the Arkansas Derby three weeks ago to secure a spot in Kentucky.

Since the new qualification system was installed, Derby starters have had a combined win percentage of 43% entering the race, and an 18% win percentage in starts after the run for the roses. In the years preceding the change, Derby horses both ran more often and won at a slightly higher clip.

To be sure, winning a place in the Kentucky Derby remains a prestigious résumé entry for owners and trainers.

"Getting to the Derby has become a Holy Grail of sport," says Cot Campbell, the president of Dogwood Stable, which has saddled eight Derby runners. "Fifty years

ago, an owner ran in the Kentucky Derby because he thought his horse could win it. Now, it is more the experience of being there, without major regard for your chances."

And winning often leads to a financial windfall. American Pharoah, the 2015 Triple Crown winner, began his stallion career at Ashford Stud last year with a reported fee of \$200,000 for each mare he covered.

Simon Bray, a former trainer who is an analyst for racing network TVG, said the Derby field is typically filled with as many contenders as pretenders, who might be better served running in a different race.

"Any given year, there's 20 horses in the Derby. For a long time, 10 or 12 shouldn't have been in the race," he said. "I ran in the Derby in 2001. I had a turf horse named Startec that was 100 to 1. He shouldn't have

been in the race but the owners made me go." He finished 10th.

Today, Bray said, horses can thrive—and profit—without chasing Triple Crown races before they are ready. Arrogate has proven this lately. "He's a big lanky horse. He might have had...some baby issues. So we just let him come on his own," Baffert said in August after Arrogate won the Travers Stakes at Saratoga, a race that coincidentally is nicknamed the "Midsummer Derby."

Another enticing factor: The purses attached to post-Triple Crown races are becoming more attractive. Sheikh Mohammed bin Rashid al-Maktoum, organizer of the \$10 million Dubai World Cup, said in March that he would raise the purse of the race next year.

Even trainer Todd Pletcher, who has started 45 Derby horses since

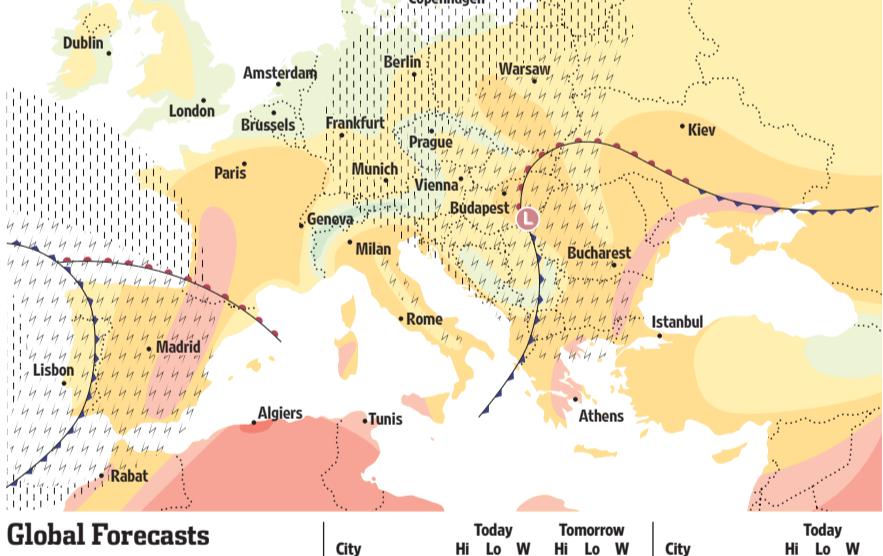
2000 with only one winner (Super Saver in 2010), is taking a more conservative approach. Pletcher had five horses qualify for this Derby, but opted not to run Battalion Runner and Malagacy. Both will be pointed to other races. Pletcher still has three runners—Always Dreaming, Patch and Tapwrit—in the Derby.

In a rule established by the Jockey Club, every racehorse turns a year older on Jan. 1, regardless of the horse's actual birthday. Irish War Cry, foaled on May 2, is the youngest horse in this year's Derby field. It's a fact that O'Neill, who will saddle Irap this year, emphasizes when explaining that all horses mature at their own pace.

"Just like human athletes, [horses] peak and valley in different places in their career," O'Neill said. "They are not machines."

Weather

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

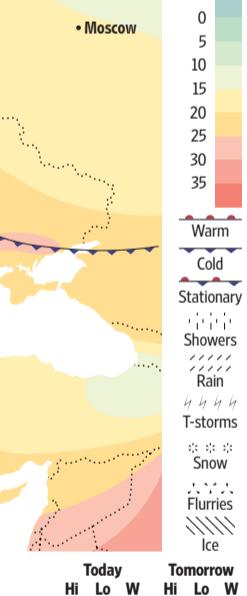


Global Forecasts

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

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	12	8	c	18	9	pc
Anchorage	11	2	s	11	5	pc
Athens	28	18	s	28	15	s
Atlanta	13	9	pc	21	10	s
Bahrain	34	19	pc	34	20	pc
Baltimore	22	12	t	17	8	c
Bangkok	34	25	pc	33	27	t
Beijing	21	9	pc	29	10	s
Berlin	15	8	c	17	10	pc
Bogota	18	10	pc	19	10	t
Boise	29	10	c	19	8	c
Boston	11	10	r	18	10	sh
Brussels	13	7	pc	19	9	c
Buenos Aires	26	16	pc	26	17	pc
Cairo	31	18	s	31	18	s
Calgary	26	8	pc	20	8	t
Caracas	31	26	pc	31	25	pc
Charlotte	18	9	pc	20	8	c
Chicago	14	6	pc	14	2	s
Dallas	26	12	s	28	14	s
Denver	25	9	s	28	11	s
Detroit	10	6	r	12	3	sh
Dubai	39	32	s	40	31	s
Dublin	13	7	pc	12	6	c
Edinburgh	13	5	s	13	5	s
Frankfurt	17	8	pc	21	12	c

AccuWeather.com



The WSJ Daily Crossword | Edited by Mike Shenk



THE SECRET WORD | By Marie Kelly

The answer to this week's contest crossword is the seven-letter secret word.

Across

- 1 Tarot suit
- 5 "What ___!" ("Awesome!")
- 10 Clears the decks, perhaps
- 14 Paperless test
- 15 Blackmore heroine
- 16 Med. school class
- 17 Only member of the Supremes for the group's entire run
- 19 Auto parts cooperative
- 20 Words with jam or pickle
- 21 Chain that supplies lots of Allen wrenches
- 22 Outward appearances
- 24 Savory snacks
- 26 Clears
- 27 Hoodwink
- 28 Host's counterpart
- 30 Underhanded campaign tactic
- 32 DuPont creation of the 1940s
- 33 Rep.'s counterpart
- 34 "This is a secret, but..."
- 37 Plan for sr. years
- 40 V members
- 41 Sizable wrestlers
- 45 Annuls
- 47 Windmill part
- 48 What you can't get blood out of
- 49 Resembling a cockatoo
- 52 Its center is a black hole
- 53 Wilde's home for two years
- 54 Unhelpful sched. info

► Email your answer—in the subject line—to crossovercontest@wsj.com by 11:59 p.m. Eastern Time Sunday, May 7. A solver selected at random will win a WSJ mug. Last week's winner: James Schneider, Papillion, NE. Complete contest rules at WSJ.com/Puzzles. (No purchase necessary. Void where prohibited. U.S. residents 18 and over only.)

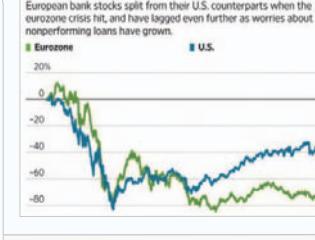
PUZZLE CONTEST

- 55 Order, in the court
- 56 "Sounds plausible to me"
- 59 Taj Mahal city
- 60 Court goof
- 61 Mitigate
- 62 Proceed while plastered
- 63 Olympics weapons
- 64 Membership requirement
- Down
- 1 Arrivals
- 2 Pitchblende product
- 3 Sunday school story
- 4 Scheming
- 5 Homologous
- 6 Credit lines?
- 7 Bear overhead
- 8 ___-Caps (chocolate candy)
- 9 Sycophant
- 10 Crazes
- 11 One-time owner of Olympic Airways
- 12 Tahitian port
- 13 Perennial candidate Harold
- 14 Wheaton of "Stand by Me"
- 15 Order, in the court
- 16 Sounds plausible to me"
- 17 Taj Mahal city
- 18 Court goof
- 19 Mitigate
- 20 Proceed while plastered
- 21 Olympics weapons
- 22 Membership requirement
- 23 Father of the Titans
- 24 Spill the beans
- 25 Bench activity
- 26 Helm heading
- 27 Capital named for Queen Victoria
- 28 Outstanding
- 29 Canaries island
- 30 Yukon and Tahoe
- 31 It began with "shock and awe"
- 32 Rise anew
- 33 Garland's "Easter Parade" co-star
- 34 Single description
- 35 Crushing defeats
- 36 English cathedral city
- 37 You might stick with it
- 38 Track trip
- 39 Talking bear of film

Previous Puzzle's Solution

MAMA	SPIN	STEP
ELAN	TINT	GOURDA
TORTURE	RECH	AMBER
ENCINO	LUMENS	REO
BAWDY	OMAR	INS
ECHO	DOERS	OASES
EROS	ETNA	LAATS
REDUCED	FARE	ULNAR
OFF	RASCAL	TEETATE
RANOFF	RAHAL	OLIVE
OPTED	RICROMWELL	WIPE
TOSS	ALOE	MANN

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THE WALL STREET JOURNAL.

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Euro vs. Dollar 1.0977 ▲ 0.83%

FTSE100 7248.10 ▲ 0.19%

Gold 1226.50 ▼ 1.60%

WTI crude 45.52 ▼ 4.81%

German Bund yield 0.398%

10-Year Treasury yield 2.354%

SocGen to Pay Libya \$1.1 Billion

By NOEMIE BISSEURBE

PARIS—Société Générale SA said it agreed to pay €963 million (\$1.1 billion) to settle claims that it paid a middleman alleged bribes to secure business from Libya's sovereign-wealth fund during the final years of dictator Moammar Gadhafi's rule.

The Libyan Investment Authority accused the French bank of paying \$58.5 million in alleged bribes to secure almost \$2 billion in business from the fund, and of defrauding the institution through a series of complex financial derivative deals that were unprofitable for the LIA, according to court documents

filed in 2014 with London's High Court.

The bank said it regretted the "lack of caution of some of its employees."

"Société Générale apologizes to the LIA and hopes that the challenges faced at this difficult time in Libya's development are soon overcome," it said in a joint statement with LIA.

Société Générale is among a large group of financial institutions that have come under scrutiny by U.K. and U.S. authorities in connection with their dealings with the LIA.

The settlement comes six months after the Libyan fund lost a similar lawsuit in London against **Goldman Sachs**

Group Inc. The LIA had sued the U.S. investment bank for \$1.2 billion to cover losses from derivatives it bought in 2008, but a High Court judge ruled in October that the bank wasn't at fault.

The terms of the deal between Société Générale and the LIA weren't disclosed.

The French lender booked a €350 million provision for litigation, pushing net profit lower in the first quarter.

Société Générale said Thursday that net profit fell 19% to €747 million in the three months through March, from €924 million a year earlier. That undershot analysts' expectations of €776 million, according to data provider FactSet.

Revenue was, however, up 5% at €6.47 billion.

Like French rival **BNP Paribas** SA, Société Générale benefited from a rebound in bond trading.

Société Générale's global banking and investor-solution business—which includes investment banking, security services and asset management—posted a 60% jump in net profit to €383 million, excluding one-time items. In the year-earlier quarter, Société Générale received €218 million from the European Commission after it reduced its fine against the French bank for allegedly rigging the euro interbank offered rate.

Net profit for its international retail banking and financial-services division was also up 44% at €433 million, lifted by Central and Eastern Europe and Africa.

But a tepid economy, home-loan renegotiations and low interest rates pushed net profit for Société Générale's French retail bank 3% lower to €319 million.

The bank continued to improve its capital buffers, raising its core Tier 1 ratio—which compares top-quality capital such as equity and retained earnings with risk-weighted assets—to 11.6% in March from 11.5% in December.

—Simon Clark contributed to this article.

Brexit Besets Clearers In U.K.

By JULIA-AMBRA VERLAINE

BRUSSELS—London risks losing its dominance over the multitrillion-dollar clearinghouse market after the European Union confirmed it is considering ordering U.K.-based clearinghouses to relocate because of Brexit.

The EU's executive body—the European Commission—could either force clearinghouses to move their operations to the bloc or opt to bolster its extraterritorial supervision powers, EU financial services chief Valdis Dombrovskis said.

"The bulk of euro-denominated derivatives are cleared in the U.K. and therefore we need to assess what implications this has for financial stability," he said at a media conference Thursday, adding that a decision would be made in June.

Clearinghouses sit between the buyers and sellers of financial instruments like bonds, commodities and derivatives. Mostly used by banks and investment firms, clearinghouses are supposed to ensure that parties to a transaction are paid even if one side falters.

Political leaders pushed the clearing of over-the-counter derivatives onto clearinghouses in the wake of the financial turmoil triggered by the Lehman Brothers bankruptcy, which called into question whether counterparties on trillions of dollars of contracts could fulfill their obligations.

London currently clears more euro-denominated interest-rate derivatives than all other EU countries combined—about three-quarters of the EU total was executed in the U.K. in 2016—and Britain is the second-largest clearing destination in the world after the U.S., according to the Bank for International Settlements.

Once the U.K. leaves the EU, which is due to occur in late March 2019, such activity would fall outside the scope of the bloc's clearing and central counterparty rules.

This is a concern for policy makers, who are worried about the U.K. clearing the majority of euro-denominated derivatives while being outside the reach of the Continent's regulators in the case of a firm's collapse or another financial crisis.

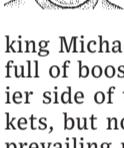
"The fact that euro clearing is currently taking place in London and thereby outside of the eurozone is an anomaly that cannot be maintained after Brexit," said a German member of the European Parliament, Markus Ferber.

Please see EU page B2

STREETWISE

By James Mackintosh

High-Yield Bonds Are Looking Riskier



One might expect an all-star conference hosted by former junk-bond king Michael Milken to be full of boosters for the riskier side of the credit markets, but not a bit of it. The prevailing mood this week at Mr. Milken's annual gathering in Los Angeles was of caution about the lack of yield from the high-yield market.

The simple reason for prudence is that at 5.7%, high-yield bonds just don't offer a high yield, even relative to the low yield available from supersafe U.S. Treasuries.

The more complex reason is that there are signs that lending standards are slipping, despite the scanty reward.

"It's a really good time to be an issuer," said Andrew Whittaker, vice chairman of investment bank Jefferies. The flip side is that it isn't such a good time to be a lender or an owner of bonds and loans.

U.S. companies have taken on an extra \$7.8 trillion of debt and other liabilities since 2010, according to the International Monetary Fund. Strip out the boom-to-bust energy sector and median corporate leverage is the highest since at least 1980.

But the signs that the credit markets may be starting to get carried away are more in the structure of the deals than in the total amount lent. Not only are companies able to sell debt with low yields, they are dictating the terms. Companies have extended the maturities of bonds and loans, adding to their riskiness, even as the yields come down.

Investors are willing to lend against looser definitions of operating profits and lend more. Protective covenants have all but disappeared from the loan market, removing what was once regarded as a vital protection for investors. And there is anecdotal evidence of hedge funds not usually present in the market buying in, suggesting less informed investors are getting involved, perhaps drawn by the 24% return on U.S. junk bonds since the oil panic began to recede in February last year.

"When you look at the erosion of underwriting standards, you look at the increased leverage that's coming in to the market, you look at the preponderance of direct loan providers, somebody's getting more aggressive," said Scott Evans, chief investment officer of New

Please see STREET page B2



The C919, which is China's first big commercial airliner, is expected to pass a technology milestone with its maiden flight on Friday.

DING TING/XINHUA/ZUMA PRESS

China Takes Aim at Boeing, Airbus

Commercial jetliner is one of many Chinese efforts to get foothold in high-value sectors

By TREFOR MOSS

SHANGHAI—China is expected to pass a technology milestone on Friday with the maiden flight of its first big commercial airliner, launching what Beijing hopes will become a rival to **Boeing** Co. and **Airbus** SE.

If the flight goes off as planned, and weather permitting, the C919 will be the latest breakthrough for China as it races to foster advanced industrial capabilities in sectors including robotics, computer chips, electric cars and renewable energy.

Getting airborne is one thing. Soaring in the fiercely competitive commercial-aviation market is a far tougher proposition, aviation analysts

say. But with a reported \$317 billion set aside to bankroll advanced manufacturing projects, China seems to care less about returns from costly experiments like the C919 than about securing a foothold in high-value industries dominated by foreign players.

"Basically, they can deliver jets if they're willing to lose a lot of money," said Richard Aboulafia, vice president at **Teal Group** Corp., a U.S.-based aerospace-intelligence company.

The C919 project predates the government's Made in China 2025 initiative, which began in 2015, but it falls squarely within the objectives of that program. The plan calls for Chinese products to replace foreign equivalents in the domestic economy and then score overseas sales.

Efforts at home are being matched by strategic acquisitions abroad, such as last year's \$5 billion purchase of German

Building Ambition

China is pursuing self-sufficiency in advanced industries, but has modest expectations for its passenger jets.

Target domestic market share by 2025

Advanced materials	90%
Electric cars	80%
Hi-tech ship components	80%
Green energy equipment	80%
Hi-tech medical devices	70%
Industrial robots	70%
Agricultural machinery	60%
Mobile phone chips	40%
Jetliners	10%

Source: National Manufacturing Strategy Advisory Committee

THE WALL STREET JOURNAL

maker Kuka AG by Chinese home-appliance manufacturer Midea Group.

In March, the Ministry of Industry and Information

Technology, the agency steering the industrial-upgrade program, acknowledged overcapacity risks in some high-tech fields, notably robotics, which at least 800 Chinese companies are busy developing. But the ministry claimed steady progress overall.

The Made in China blueprint has drawn fire from, among others, the European Chamber of Commerce. The chamber contends that state support for local players designed to squeeze out foreign rivals could contravene World Trade Organization rules, not to mention squander resources in a top-down bid to capture market share.

Senior officials have denied that China's industrial strategy will put foreign companies at a disadvantage, saying outsiders are welcome to participate in China's high-tech industries.

To the skeptics, the C919 is indicative of the waste inherent in the domestic-manufac-

Please see JETS page B2

PERSONAL TECHNOLOGY | By Geoffrey A. Fowler

A Wi-Fi Spy Keeps Watch Over Your Household Security



It used to be that security systems could protect only what was right in front of them.

Some require sensors on every door and window, or motion detectors in every room. Lots of DIY security systems rely on streaming cameras, which can have the creepy side effect of turning your family life into a reality show. Smile for the Russian hackers!

So what if I told you there is now technology to "see" through walls, around corners and through your house—without cameras? It's possible because researchers figured out how to measure disruptions in the invisible radio waves all around us.

They put eyes on your Wi-Fi. This sounds like a hallucination, but it's real and it works. I've been testing the first consumer radio-wave sensing device, the \$500 Aura, in a few different locations. It's pricey and can't cover all homes or security situations, yet it holds a lot of promise as a simpler, less-invasive way to buy a little peace of mind.

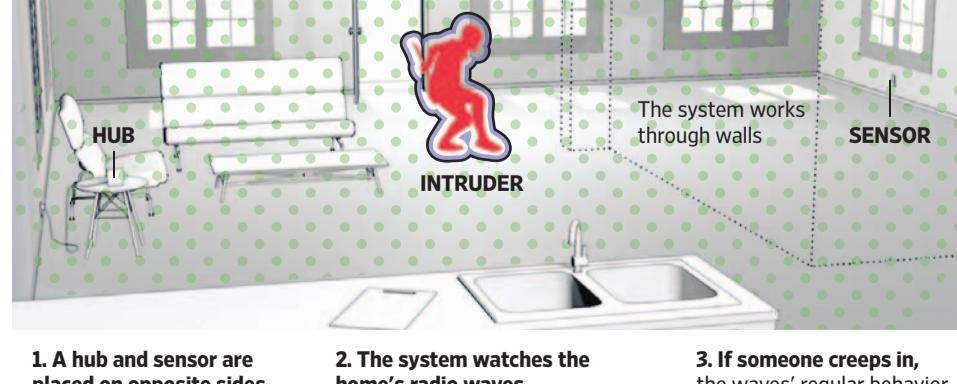
It also shows us a glimpse of a new technology that, in the wrong hands, could be terrifying.

Aura isn't a home security system like ADT, installed and monitored by professionals for a monthly fee. Plenty of folks swear by those traditional systems, but smart-home tech is making it more feasible than ever to take a

Please see FOWLER page B4

Burglar Beware

Aura, a new kind of security system from Cognitive Systems Corp., doesn't need cameras or motion sensors.



1. A hub and sensor are placed on opposite sides of the house.

2. The system watches the home's radio waves (like Wi-Fi) passing through the space between the two nodes.

3. If someone creeps in, the waves' regular behavior gets disrupted, triggering an alert.

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Amazon, EU Reach Accord On Contracts for E-Books

By NATALIA DROZDIAK

B R U S S E L S — A m a z o n . c o m Inc. has reached an agreement with the European Union's antitrust authorities over the EU's probe into its electronic books contracts with publishers.

The European Commission said Thursday that it had accepted commitments made by Amazon, securing closure for one of the regulator's investigations into the e-commerce company.

The European Commission opened a formal probe into Amazon's e-books business in 2015, citing concerns the tech company imposed illegal terms on publishers that harm purchasers of electronic books. Certain clauses in those contracts may have made it harder for other e-book retailers to compete with Amazon,

the EU said.

To allay those concerns, Amazon has said it won't enforce—or include in new contracts—clauses that require publishers to inform or offer Amazon similar terms as those offered to rivals, the EU said. Amazon will also allow publishers to terminate contracts that contain specific clauses.

"We are pleased to have reached an agreement with the European Commission," said Amazon spokesman Conor Sweeney.

The commitments apply for five years to all e-books distributed by Amazon in Europe. Amazon could be fined up to 10% of global revenue if it goes back on its pledges.

The commission continues to examine whether Amazon's tax arrangements with Luxembourg gave the company an illegal edge over competitors.

passenger jets by 2025, compared with 80% for electric cars and 70% for industrial robots. In 2025, that would equate to 20 to 30 planes, according to jet-market forecasts.

Even that could prove challenging. Comac says it plans to build 2,300 C919s over the next two decades, but Teal Group thinks it will be lucky to sell more than a few dozen over the lifetime of the program, because the 158-seat single-aisle plane will be competing head-on with established short-haul jets from Boeing and Airbus.

Yet securing market share could still qualify as a success in Beijing's reckoning, if the C919 is seen as a first step in a decades-long project to erode the Boeing and Airbus duopoly, said Jost Wuebbeke of the Mercator Institute for China Studies in Berlin.

Moreover, Made in China is a "wish list," as China doesn't seriously expect to conquer all 10 targeted industries, Mr. Wuebbeke said. Beijing would probably settle for success in two or three of those sectors, such as electric vehicles, semiconductors and biotechnology, he said, adding that heavy losses in individual programs such as the C919 are tolerable so long as some self-sufficiency benchmarks are being met.

Westerners often underestimate China's top-down approach," Mr. Wuebbeke said. "It wastes resources, but it also produces results."

Australia Vows to Counter A Hedge Fund's BHP Move

By ROB TAYLOR

CANBERRA, Australia—Australia's government warned it would block efforts being orchestrated by activist investor Elliott Management Corp. to shift BHP Billiton Ltd.'s stock listing from Australia to the U.K.

Representatives from the U.S. hedge fund have been in Australia this week seeking to persuade BHP shareholders to support a move to spin off the mining company's American petroleum assets and restructuring operations. In BHP, the world's largest listed miner, Elliott has targeted a company that has lagged behind its mining peers during a commodity-price upswing.

Elliott took particular aim at BHP's oil-and-gas portfolio in the U.S., which has incurred hefty write-downs in recent years and dragged on the company's profit during a prolonged crude-price downturn.

Elliott has called on the miner to ditch its dual Sydney-London listing and offer its shares only in the U.K., while making its headquarters and tax residences in Australia. The shares would trade in Sydney as depository instru-



DAN HIMBERT/EUROPEAN PRESSPHOTO AGENCY

Treasurer Scott Morrison raised the issue of 'national interest.'

ments.

Elliott has estimated the unified structure would enable BHP to return about \$33 billion to shareholders through off-market buybacks over five years to mid-2023, lifting earnings per share by a third.

As a single entity with its headquarters and tax residency in Australia, BHP could use local tax benefits—known as franking credits—to buy back shares at a discount.

On Thursday, Australian Treasurer Scott Morrison said the move would be contrary to national interests and breach orders put in place by the government more than 15 years ago that mandated a listing on the Australian Securities Exchange.

BHP has said that unifying its structure would cost \$1.3 billion in taxes, plus \$3 billion in lost value, outweighing any potential benefit from Elliott's proposal.

In 2001, then-Treasurer Peter Costello agreed to a merger between BHP Ltd. and Billiton PLC on the condition that the combined company be listed on the ASX and that BHP remain the ultimate holding company for the businesses encompassed by the merger.

"It is unthinkable that any Australian government could allow this original 'Big Australian' to head offshore," Mr. Morrison said. "The government welcomes foreign investment in Australia but it is important that such investment be consistent with the national interest. This includes compliance with foreign investment conditions imposed on investments."

Both Elliott and BHP declined to comment on Mr. Morrison's remarks.

Mr. Morrison said if BHP implemented Elliott's proposal contrary to the previously imposed conditions then it could be subject to civil penalties under Australia's Foreign Acquisitions and Takeovers Act.

If a deal proceeded without the government's consent, Mr. Morrison said he would order a divestment of the assets acquired and take court action.

"The conditions set down by then-Treasurer Costello are in Australia's national interest and remain necessary and appropriate," he said. "There is nothing in what I have seen of the proposals to suggest otherwise."

—Ben Collins in Wellington contributed to this article.

STREET

Continued from the prior page

Y o r k C i t y R e t i r e m e n t S y s t e m s, America's fourth-largest pension fund. "There's too much capital floating around, and this has never ended well."

Caution isn't the same as a mood of panic, though. Mr. Evans says that "now's the time to play defense" and has cut back on risk as much as the pension fund can. But he and other investors acknowledge that just because prices are high and risk is rising doesn't mean the end is necessarily nigh.

Credit specialists gathered by Mr. Milken in Beverly Hills identified plenty of niches still looking relatively cheap, whether Argentinian municipal bonds, first-time issuers or small, hard-to-trade issues.

And Bob Kricheff, high-yield portfolio manager at Shenkman Capital Management, says the markets aren't—at least for now—repeating the excesses of the 2007 credit bubble. There isn't much issuance of the lowest-grade CCC bonds, there is no wave of leveraged buyouts, and while there is some aggressive accounting, it's "not a huge amount."

Even the headline 5.7% yield may overstate the dangers, as the junk-bond market has more bonds with a rating just below investment grade than it used to.

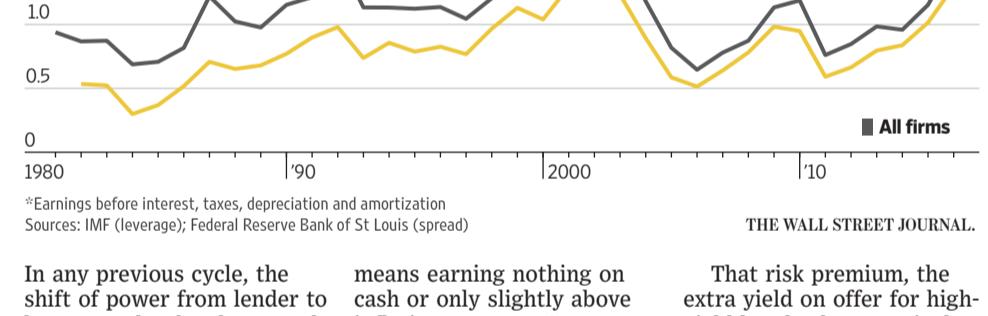
One danger is that the credit bubble was so extreme, perhaps it changed what we regard as excessive.

America's Corporate Motto: In Debt We Trust

Corporate borrowing has soared by \$7.8 trillion since 2010 and the median leverage of large listed non-energy companies is at its highest in at least three decades. Buyers of bonds don't seem to care, demanding close to the lowest reward for holding junk bonds since the crisis.

S&P 500 median leverage, total and excluding energy

Debt-to-Ebitda* multiple



*Earnings before interest, taxes, depreciation and amortization

Sources: IMF (leverage); Federal Reserve Bank of St Louis (spread)

In any previous cycle, the shift of power from lender to borrower that has happened in the credit markets would have been regarded as extraordinary.

Equally, it could just be that credit-market excess is only just beginning, and there is plenty more to come. After all, so long as the money keeps flowing, rising lending helps the economy, which in turn reassures lenders and increases credit.

It is hard to be a credit bear when there aren't obvious signs of outrageous lending practices.

Being out of the market

means earning nothing on cash or only slightly above inflation even on 10-year U.S. government bonds, and far less in Europe or Japan. Yields may not be high on high yield, but they are higher.

"I think credit, at least some pockets of credit, looks expensive and looks tighter than it used to," said Bjarne Graven Larsen, chief investment officer of Ontario Teachers' Pension Plan, Canada's biggest. "But if it diversifies, and spreads [over government bonds] it could even tighten further. If nothing happens, you can collect the risk premium."

That risk premium, the extra yield on offer for high-yield bonds above equivalent Treasurys, stands at just 3.8 percentage points, not far above the post-2008 low of 3.4 points reached in the summer of 2014. In the past, it has fallen even lower, reaching 2.5 points just before the 2007 credit crunch and before investors realized the extent of the 1997 Asian crisis. But at these levels, investors need a lot to go right.

As Mr. Evans says, "If everything goes right, we will be fine, we will get a very modest return for taking a high degree of risk."

EU

Continued from the prior page

"EU supervisory authorities need direct scrutiny and intervention powers and this is most effectively accomplished on European soil," he said.

The issue of relocating clearinghouses handling euro-

denominated derivatives isn't new; the European Central Bank sought to limit the clearing of euro contracts outside the eurozone, but was shut down by EU courts in 2015. However, Mr. Dombrovskis said Brexit has breathed new urgency into the issue.

His comments came as the commission unveiled a proposal to ease clearing and derivatives

rules for corporations and smaller financial institutions that could save them billions of euros. The plan seeks to reduce overall reporting requirements, decrease obligations for corporations using derivative contracts and exempt small financial institutions from central clearing in certain cases.

"Our aim is to simplify rules as well as to eliminate

disproportionate costs and burdens to small companies in the financial sector, corporates and pension funds," European Commission Vice President Jyrki Katainen said.

The commission estimates that the changes could save market participants—particularly energy companies and manufacturers—up to €2.6 billion (\$2.8 billion) in operational costs and €6.9 billion in one-off costs.

Since November 2015, the commission has been looking at how financial regulation piled on after the financial crisis—most intended for "too-big-to-fail" institutions—is impeding growth or burdening companies. Opening up the clearing rule book gives the commission the opportunity to tweak the location requirements in the light of Brexit as well.

Thursday's proposal also exempts pension funds from clearing for a three-year period. This is aimed at countering technical difficulties flagged by the funds, which typically buy over-the-counter derivative contracts to hedge risks from their long-term liabilities.

Both EU governments and the European Parliament need to approve the amendments.



ERIK VIDAL/REUTERS

The EU's Valdis Dombrovskis says Brexit's impact on financial stability needs to be assessed.

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BUSINESS NEWS

Big Oil Gets In Early on Argentina Shale

Shell, Exxon Mobil and others, who came late to the U.S. boom, make a global push

BY SARAH KENT
AND TAOS TURNER

NEUQUÉN, Argentina— Around 8,000 kilometers from the booming oil towns of West Texas, some of the world's biggest oil companies are trying to do what they failed to do with U.S. shale: Get in first and early.

Royal Dutch Shell PLC, Exxon Mobil Corp. and others are making another go at taking the shale industry global, starting with a grand experiment here in a desolate swath of western Argentina. This sprawling piece of Patagonia, known as Vaca Muerta, which means "dead cow," potentially has as much oil and gas as the biggest basins in Texas or North Dakota.

Replicating the U.S. fracking boom elsewhere has taken on fresh urgency in an era of stubbornly low and volatile oil prices. Outmaneuvered early on in the U.S. by smaller companies, Exxon, Shell, **Chevron Corp.** and others see Argentina as one of their best opportunities to expand shale, which generally features projects that can be ramped up or down with prices.

The Vaca Muerta has long been a focus of this sometimes quixotic quest, but a business-friendly government at all levels that is actively working to encourage drilling is fueling optimism that shale development in the region could finally begin to take off.

Hurdles still remain and costs in Argentina are significantly higher than the U.S. But this time around, the big-oil company executives are determined not to miss out, hoping to leverage their big balance sheets and experience with foreign governments to make international shale work.

And they want to prove wrong critics who say they



Shell officials outside its new oil-treatment facility at the Vaca Muerta in Neuquén, Argentina.

can't drill shale as well as specialists in the U.S.

"Our position is: Hell no! We will show that we can drill and complete wells better than the best," said Andrew Brown, Shell's head of exploration and production. "We're showing it in Argentina."

This year, Exxon is expected to move from experimental pilot to proper development in the region, taking a step toward investments that former Chief Executive Rex Tillerson last year said could exceed \$10 billion in the coming decades.

France's Total SA—which has repeatedly said that expanding its foothold in U.S. shale is too expensive—is also planning to ratchet up production in the Vaca Muerta. Chevron has made investments of over \$1 billion in Argentine shale projects and BP PLC is in the country through its joint venture **Pan American Energy**. Last month, Shell started up a new treatment plant on the Vaca Muerta's dusty plains with the capacity

Shale Potential

Top 10 countries by unproven resources of shale gas



Note: Data as of September 2015

Source: U.S. Energy Department

to process 10,000 barrels a day of shale oil and six million cubic feet of gas daily.

Senior drilling engineer Wouter Miedema, who has worked in shale projects in the U.S. and Canada, said he was struck by the similarities between the geology of the Vaca Muerta and the most produc-

tive shale fields of North America. The expanse of iron-toned dirt into which he was drilling is thought to hold 27 billion barrels of technically recoverable oil and 802 trillion cubic feet of gas embedded in a layer of shale that is up to 1,700 feet thick, according to the U.S. Energy Infor-

mation Administration.

For now, Shell is investing under \$200 million a year to see if it can make shale work in Argentina. It isn't enough to reach a level comparable with U.S. shale, though Shell executives say the region could be a big producer.

Major companies like Shell were late to get in to shale production in the U.S. When they did venture in, they found the process to be different than the engineering feats that characterized other oil exploration and output.

Still, companies want to take it slow in Argentina, because they have been burned in the past. Their previous wildcatting attempts in shale from Europe to Russia and China have been stymied by a variable cocktail of poor drilling results, political opposition, regulatory hurdles and the dramatic drop in oil prices that began in 2014.

Argentina's shale is no sure thing. Companies have to spend more time and money figuring out the best places to drill in Argentina, where the Vaca Muerta is still relatively unexplored territory compared with the U.S. shale patch.

According to Shell, steel casing here costs 40% more than it does in Texas, even though it is made in Argentina. Casing accounts for up to 25% of well costs, so that price difference makes drilling here much more expensive, Shell says. In March, Exxon told analysts that it currently costs two to three times more to drill a well in the Vaca Muerta than it does in the U.S.

Shell's local well costs, including drilling and completion, have plummeted from about \$35 million for their first well in 2012 to under \$10 million now. In February, the company drilled a five-kilometer horizontal well for roughly \$5 million. The company said it was the cheapest of its kind ever tapped in Argentina.

"This will take off," Shell CEO Ben van Beurden said. "It's just a matter of lining everything up."

Shell Adds To Optimism In Oil Sector

BY SARAH KENT

LONDON—**Royal Dutch Shell PLC** Thursday capped a bumper set of results for the world's biggest oil companies with its highest quarterly profit since mid-2015, as a fragile oil-price recovery and years of cost-cutting buoy crude producers.

Results from Shell and Norway's state-controlled **Statoil ASA**—which also reported a big rise in profit Thursday—came after U.S. giant Exxon Mobil Corp. last week reported its best quarter since 2015. Chevron Corp., France's Total SA and BP PLC also have posted sharply higher first-quarter earnings.

Analysts highlighted oil companies' better-than-expected cash generation—a metric that has become increasingly important as the businesses scrambled to bring their costs into balance with lower oil prices in past two years. After prices slumped in 2014, large producers in many quarters had cash flow that was lower than their spending, forcing them to borrow money to pay dividends to investors.

The recent results show how cost cuts have begun to pay off, adding to optimism that even if prices don't recover beyond their current levels in the near term, the companies have weathered the worst of the rout.

"Are we out of the woods? Yeah, absolutely," said Oswald Clint, an analyst at Bernstein, highlighting the benefits of companies' efforts to streamline.

Shell said its first-quarter profit more than quadrupled from a year earlier to \$3.4 billion. Shell's cash flow from operating activities grew to \$9.5 billion, up from \$700 million in the first quarter of 2016, covering the company's cash dividends for the three months.

Statoil reported net first-quarter earnings of \$1.06 billion, up from \$611 million a year earlier.

Bud Light Still Lacks Fizz

BY NICK KOSTOV

The King of Beers hasn't found a fix yet for Bud Light.

Anheuser-Busch InBev NV reported surging profit thanks to last year's integration of rival beer giant **SABMiller**, but its best-selling Bud Light continues to hemorrhage market share in the U.S., underscoring the challenge the company faces in turning the brand around.

The company is in the middle of a high-stakes revamp of Bud Light, including a U.S. marketing campaign, "Famous Among Friends," which it launched earlier this year. The move is aimed at putting some fizz back in the brand. It continues to outsell every other beer by a wide margin in the U.S., but has suffered years of falling market share at the hands of Mexican lagers and the craft-beer craze.

Elsewhere, the world's largest brewer reported Thursday a rebound in its second-biggest market, Brazil, cheering investors. Shares in Belgium-based AB InBev rose 5.2% in Brussels on Thursday.

Apart from the integration of SAB, the company's biggest focus remains improving the fortunes of Bud Light. AB InBev said Thursday that the brand's U.S. market share for the quarter ended March 31 fell almost two-thirds of a percentage point.

It remains America's favor-

ite beer by sales, but the drop continues years of declines. In 2010 Bud Light commanded a 19% share, according to Beer Marketer's Insights, an industry publication. That fell to 16% at the end of last year.

In the U.S., Bud Light "remains challenged in a few key markets," Chief Executive Carlos Brito said in a conference call with analysts Thursday. He said he believed the "Famous Among Friends" campaign would help improve the brand's volume and share trends in 2017. "We think

this campaign has legs," he said. He also noted that Budweiser's Super Bowl commercial, centering on the immigration story of co-founder Adolphus Busch, was this year's most-watched spot.

The Budweiser brand, meanwhile, lost more than a third of a percentage point of market share in the quarter. Beer Marketer's Insights estimates Budweiser had 6.3% of the U.S. market at the end of last year, making it the No. 3 seller behind Coors Light.

Overall sales volume in

North America fell 4.4% in the quarter from a year earlier, sharply lower than analysts' consensus forecast of a 2.2% fall. Margins in the U.S. increased, however, as the company's portfolio of more expensive beers, including Michelob Ultra and Stella Artois, performed well. AB InBev has also rolled out a handful of beers it markets as "craft," to compete with the hundreds of smaller brewers that have popped up across the country. It said this portfolio performed well in the U.S. and Canada.

"There is no end in sight to the weakness" of Budweiser and Bud Light, said Trevor Stirling, European beverage analyst at Sanford C. Bernstein. "The success of Michelob Ultra and the craft portfolio is not enough to compensate."

AB InBev said Thursday that net profit surged to \$1.41 billion in the quarter from \$132 million a year earlier. The figure was boosted by the integration of rival SAB, following AB InBev's \$100 billion-plus acquisition. The deal's funding costs hit AB InBev's year-earlier profit.

Revenue in the quarter rose 35% to \$12.92 billion, but organic growth—stripping out acquisitions, including the effect of the SAB purchase—rose just 3.7%.

—Jennifer Maloney

contributed to this article.



Cases of Bud Light beer moved down a conveyor belt at brewery in Fort Collins, Colo., in March.

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TECHNOLOGY

WSJ.com/Tech

Musk's Desire for S-E-X Dings Tesla

Naming convention for its vehicles is confusing buyers and denting high-end sales

By TIM HIGGINS

Elon Musk's desire for S-E-X is causing problems for Tesla Inc.

The chief executive of the Silicon Valley auto maker thought it would be funny for the names of his vehicle models to spell out something cool. He had the Model S sedan and Model X sport-utility vehicle. But when it came to

naming a new, cheaper car, the Model E, Ford Motor Co. blocked Tesla over trademark issues. So he instead went with Model 3, which is essentially a backward "E."

It's a story he has told often, as Tesla prepares to bring out the Model 3, which will be its least expensive car, starting at \$35,000. But it seems the choice is backfiring, as many customers think the Model 3 is the next version of a high-end Tesla car, similar to the way the Apple iPhone 6 was replaced by the iPhone 7.

"We have seen a belief among some that Model 3 is the newest and more advanced

generation of Model S," Mr. Musk wrote in a letter Wednesday to shareholders. "This is not correct. Model S will always have more range, more acceleration, more power, more passenger cargo room, more displays (two), and more customization choices, and Model S, X and 3 will all have equivalent Autopilot functionality."

During a conference call with analysts, Mr. Musk said the naming convention was having some impact on orders of more expensive vehicles. The Model 3 is part of Mr. Musk's plans to broadly expand the luxury brand and

help fuel production of 500,000 vehicles next year compared with about 84,000 last year.

Auto makers traditionally want to have various models of cars with different, increasing price points to appeal to more customers. BMW AG, for example, has a compact car called the 3 Series, a midsize car named 5 Series and the flagship 7 Series.

Shares of Tesla were down about 5% in late trading Thursday, a day after the company reported its first-quarter loss widened despite more than doubling revenue. The stock began sliding in after-

hours trading during Wednesday's conference call while analysts asked executives about the product confusion.

"New product freezing sales of existing product; it's a lesson we forget," Erik Gordon, a University of Michigan business-school professor, said. "In the pre-PC days of eight-bit computers, Adam Osborne destroyed his company when he announced that an Osborne 2 was on its way and sales of the Osborne 1, the first luggage computer, went to zero."

On Tuesday, Apple Inc. Chief Executive Tim Cook suggested anticipation for the coming iPhone 8 was affecting

current iPhone 7 sales. "We're seeing what we believe to be a pause in purchases on iPhone, which we believe are due to the earlier and much more frequent reports about future iPhones," Mr. Cook said.

The confusion about where the Model 3 sits in the Tesla lineup helps explain why Mr. Musk took to Twitter in late March with a similar message: "Am noticing that many people think Model 3 is the 'next version' of a Tesla, like iPhone 2 vs 3. This is not true."

To add emphasis, he wrote, that the Model S "is the car I will keep driving even after Model 3 arrives."

Google Settles Tax Feud With Italy

By GIOVANNI LEGORANO

ROME—Alphabet Inc.'s Google has agreed to pay about €306 million (\$333 million) in back taxes in Italy, settling one of multiple legal and regulatory battles that have dogged the tech giant in Europe.

The settlement ends one of several probes into Google's tax arrangements in the European Union, as governments maintain the pressure on other big U.S. companies they accuse of tax evasion.

The probes come as the EU and national tax authorities crack down on what they view as corporate tax abuse, both by pushing to change international tax rules and by investigating companies that have struck deals with low-tax jurisdictions to cut their tax bill.

Thursday's agreement between Google and Italy relates mainly to corporate taxes the Italians say Google failed to pay between 2009 and 2015.

Rome alleges Google routed more than €1 billion in Italy-based revenue to its office in Ireland, where tax rates are far lower.

A company spokesman said that of the €306 million in back taxes, €303 million was attributed to Google Italy, with the rest to Google Ireland. As part of the deal, Google will agree to pay taxes on future income—largely related to advertising sales—generated in Italy, according to Italian tax authorities.

Google has long argued that clients in countries such as Italy don't actually close any advertising deals with employees in these countries, but instead

buy the spots from Google Ireland, the company's headquarters for Europe, the Middle East and Africa.

However, a person familiar with the company's thinking said Google preferred to settle with Rome to bring to a close a controversy that has cast a negative light on the company in Italy.

The Italian probe is just one of a number of judicial problems facing Google in Europe, where it has also faced scrutiny from national tax authorities in France and the U.K. The company also remains entangled in three separate antitrust investigations led by the European Commission, the bloc's top competition watchdog, which accuses Google of abusing its dominant position and favoring its own products over those of competitors. The company has denied the allegations.

Governments have taken particular aim at corporate structures that allow companies to book revenue in low-tax jurisdictions, such as Luxembourg and Ireland, that they have earned in high-tax countries such as Italy. Last August, the commission ordered Apple Inc. to return \$13 billion to Ireland in unpaid taxes. Apple is appealing, as is Ireland, which accuses Brussels of meddling in its domestic tax affairs.

In 2015, Apple agreed to pay about €318 million to end a dispute in which the company allegedly failed to pay almost €900 million in taxes between 2008 and 2013.

—Natalia Drozdak in Brussels contributed to this article.



An NBA esports event last year. The league will field 17 teams in its 'NBA 2K' venture with Take-Two Interactive next year.

NBA Teams Jump at Esports League

By SARAH E. NEEDLEMAN

The Cleveland Cavaliers and Golden State Warriors are among more than a dozen teams taking part in a competitive videogame league the National Basketball Association plans to launch next year with Take-Two Interactive Software Inc.

Of the NBA's 30 teams, 17 will field esports squads that will compete in "NBA 2K," the basketball league and Take-Two, the game's publisher, announced on Thursday.

Sacramento Kings owner Vivek Ranadivé said he was first turned on to esports by

his son, and has been following its rise over the past several years.

"This is the future," said Mr. Ranadivé, whose team will compete in the digital league. "There are going to be very large audiences watching and engaging in esports. Team members are actually going to become celebrities and icons."

The joint venture was unveiled in February, marking the biggest tie-up yet between traditional and digital sports. The other NBA launch teams are: Boston, Dallas, Detroit, Indiana, Memphis, Miami, Milwaukee, New York, Orlando, Philadelphia, Portland, To-

ronto, Utah and Washington.

"We expected maybe half would join" for the opening season, said Brendan Donohue, a sports-industry veteran who was named manager of the league last month. Previously, he was senior vice president of team marketing and business operations at the NBA.

Teams participating in the league are required to pay players a competitive minimum salary, plus health insurance, Mr. Donohue said. He figured fewer teams would come on board right away, but is confident most, if not all, teams eventually will join.

NBA teams are responsible

for pulling together their esports squads. Take-Two will help identify potential recruits, and the NBA teams will likely draft players from that pool, Mr. Donohue said.

Other details, like whether NBA players will be involved and different ways the league will generate revenue, are still being worked out.

Esports is a fast-expanding niche. This year, global revenue from ticket and merchandise sales, ads and other esports areas is on track to reach \$696.3 million, according to research firm Newzoo BV. By 2020, it is expected to climb to \$1.5 billion.

FOWLER

Continued from page B1
do-it-yourself approach to security that's not only potentially cheaper, but also friendlier to a world centered on smartphones.

Radio waves fill our homes. These are like ripples in a pond, flowing through walls and bouncing around in pretty regular patterns, until something—or someone—gets in the way. By scanning those waves, Aura is literally looking for...disturbances in the Force. (Sorry, couldn't help myself.)

This tech, developed over years in the lab, beats old-school motion sensors because a single pair of Aura sensors can spot movement through large swaths of a multistory home. And its maker, Waterloo, Ontario-based Cognitive Systems Corp., figured out which radio disruptions might indicate an intruder, rather than a spinning fan, a pattering pet or a leaf falling off the plant you forgot to water.

It's complicated science, but pretty simple to set up. In one corner of the house you plug in a hub the size of a tissue box. And in another corner, you plug in candybar-size sensor. Aura then constantly measures a field the shape of a football in between them. Placement is extremely important: Aura can't pick up motion that's not between the nodes.

You can arm it manually with your phone, like a regular system. Or you can tell Aura to watch for the comings and goings of smartphone-carrying family mem-

bers, automatically arming when nobody's home.

When it's armed and detects motion, Aura can set off an alarm or alert your phone.

The size of homes, their layouts and often the materials they're made of can affect Aura's reach. In my open-plan office, I could get decent Aura coverage with 12 meters between the nodes. In my 1910s-era San Francisco

it can't send updates to your phone without internet access). If you set up automatic arm/disarm, it can send a notification when people come home and when they leave.

But there are some holes in Aura's current functionality that should give initial buyers pause: Aura can't connect to other security systems or call the cops for you if someone has really broken in. It can't warn you about break-ins that might occur while you're home, and possibly sleeping. There's no way yet to adjust its sensitivity to weed out alerts about movements from more active pets. And unlike those pesky cameras, it won't produce photographic evidence for the cops.

And like many new technologies, Aura also raises some new concerns about privacy. It's an invisible tracking tech that could technically be used to snoop or surveil without its target knowing. Over time, could software upgrades even allow it to keep track of particular people or types of activity?

Could bad guys burgle or stalk you using Aura data? Cognitive Systems says its CEO developed the encryption code for BlackBerry, and its tech uses a cryptographic chip. The company says it doesn't ever look at your private activity, which it keeps separate from any identifiable customer data. Aura says it holds on to the data for seven days.

There are cheaper or more comprehensive ways to secure a home. But my guess is that we'll see this kind of tech built into Wi-Fi routers, which could then bill themselves as security systems, too.

When the new travel publication Airbnbmag hits select newsstands and mailboxes later this month, many of the stories, including the cover feature set in Havana, will be sourced from billions of anonymous data points collected by the home-sharing service.

Those data are expected to enable editors to assign stories for an audience eager to learn about local hot spots. One piece in the first issue takes a look at Porvoo, a city on the southern coast of Finland, because Airbnb data show an increasing number of people are interested in that destination. "We know how many people are searching to stay in Havana, Detroit or Tokyo," said Brian Chesky, Airbnb's chief executive.

The print-only publication, a joint venture between Hearst Magazines and Airbnb, will be launched May 23 with a guaranteed circulation of 350,000, 45 pages of advertising and a \$3.99 cover price. A second issue is slated for September.

—Jeffrey A. Trachtenberg

FERRARI

Sports-Car Maker Lifts Earnings 60%

Ferrari NV posted a 60% jump in first-quarter profit as the Italian sports-car maker continued with plans to slowly increase volume.

Net income rose to €124 million (\$135 million) for the three months ended in March from €78 million a year earlier.

Revenue increased 22% to

BUSINESS WATCH

AIRBNB

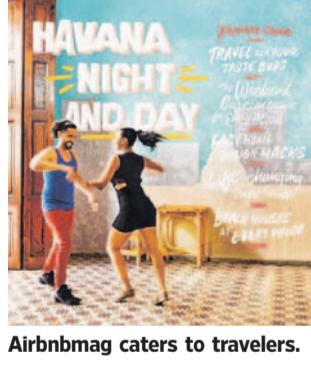
Home-Sharing Firm Readies Magazine

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—Jeffrey A. Trachtenberg



Airbnbmag caters to travelers.

HEARST MAGAZINES

GOOGLE

named former Boeing Co. executive James F. Albaugh and Janet C. Wolfenberger, a retired Air Force four-star general, to its board. Ratan Tata, of the Indian conglomerate family, will step down from Arconic's board, keeping it at 13 members.

The board has added three new directors since Elliott launched its fight to overhaul Arconic management in January.

—David Benoit

GOOGLE

Phishing Attack Hits Google Docs

An unusual computer attack that mimicked Google's cloud-based document software spread across U.S. news organizations and other institutions on Wednesday.

The attack involved malicious emails masquerading as a message from Google Docs, often sent from a known source. Recipients who clicked on the embedded link and then clicked yes on a follow-up link inadvertently gave the attackers access to their Google email messages and contact list, said Matt Tait, a cybersecurity expert based in the U.K. who researched the incident. That access was then used to send more malicious emails to addresses found in the victim's contact list, Mr. Tait said.

The attack leverages a scam technique called phishing, in which attackers attempt to trick users into clicking on malicious web links. But the use of Google's Web-app authentication system was unusual and appeared to catch off guard even many users who are wary of email scams.

—Robert McMillan

ARCONIC

Board Gains Two New Members

Arconic Inc. added two aerospace experts to its board Thursday ahead of a shareholder vote later this month when activist investor Elliott Management Corp. will seek to oust four directors.

Weeks after the abrupt ouster of Chairman and Chief Executive Klaus Kleinfeld over a letter he wrote to Elliott's founder, the aerospace- and automotive-parts maker has

FINANCE & MARKETS

Metals Prices Take a Dive in China

BY DAVID HODARI

Chinese metals prices tumbled on Thursday, dragging down resource prices around the world amid worries that demand for commodities like steel and iron in the world's No. 2 economy is weakening and inventories filling up.

The closely watched price of iron ore traded on the Dalian Commodity Exchange closed down 8%, the daily trading limit, at 485 yuan (\$70.33) a ton, extending losses after a four-day rally was reversed on Wednesday.

In Shanghai trading hours, hot-rolled coil futures also dropped by the daily maximum of 7%, while steel-rebar futures plunged 6.2% to 2,931 yuan a ton, wiping out last week's gains.

Those declines rippled across the world. In London, nickel fell 2.4% to \$9,010 a metric ton and copper was down 1.2% to \$5,524 a metric ton, a drop that followed the metal's largest one-day decline since 2015.

"The discussion we're having about copper this morning is around tightening liquidity conditions in China," said Bjarne Schieldrop, chief commodities analyst at SEB Markets. China accounts for half the demand for most base metals.

Most metals were taking their cue from iron ore, Mr. Schieldrop said.

Iron-ore and steel rebar prices are down about 20% from four-year highs reached in March.

Behind the tumble are fears that expected demand for infrastructure and construction projects in China—long a pillar of global commodities prices—may not materialize as expected.



Government agencies are taking a closer look at infrastructure projects such as this highway in Shanxi province.

CAO YANG/XINHUA/ZUMA PRESS

Investor sentiment, already weak, got a fresh hit on Thursday after six government agencies pledged to curb runaway local-government debt via stricter oversight of the projects they are pumping money into. Many of those projects are private-public partnerships that fund the construction of infrastructure projects such as bridges and dams.

"This is beyond market expectation and exacerbated the correction in iron-ore futures, which was already vul-

nerable due to a supply-and-demand mismatch," said Ye Yanwu, research director at Shanghai-based Chaos Ternary Futures Co.

Investors had been betting on a pickup in partnership projects to lift demand for iron ore and other commodities, analysts said. But adding to the pressure on metals, supply has been climbing lately amid a sharp increase in imports after China's Lunar New Year holiday in February and increased domestic production since the start of

year price rally.

The supply picture became more negative this week with news from the London Metal Exchange, whose warehouse inventories across Europe and Asia swelled by 64,000 tons, or 25%, over the course of Wednesday and Thursday, according to Commerzbank research. That reverses most of the 80,000 tons withdrawn from Shanghai Futures Exchange warehouses during April, the bank said.

Wednesday's steep declines in copper in New York and

London were sparked by inventory numbers.

Investors have become increasingly nervous that the biggest driver of the demand for base metals, the Chinese economy, will slow later this year.

Those concerns came following weaker-than-expected manufacturing data released this week. The nation's factory sector grew at the weakest pace in seven months in April.

—Yifan Xie

contributed to this article.

A Step to Undoing Bank Law

BY RACHEL WITKOWSKI

WASHINGTON—The House Financial Services Committee voted 34-26 along party lines Thursday to approve the first comprehensive congressional plan to undo Obama-era financial regulations.

The committee sent the Financial Choice Act, a bill by the panel's chairman that unwinds significant parts of the 2010 Dodd-Frank law approved after the financial crisis, to the full House, where it will likely get a vote in the coming weeks.

The legislation eases regulations and some capital requirements for healthy firms, forces failing firms to go through bankruptcy and restructures the Consumer Financial Protection Bureau, an agency created after the financial crisis, among other changes.

"Our plan replaces Dodd-Frank's growth-strangling regulations on small banks and credit unions with reforms that expand access to capital so small businesses on Main Street can grow and create jobs," said House Financial Services Committee Chairman Jeb Hensarling (R., Texas).

Democrats fought to stop the bill's first passage over three days of committee debate by proposing nearly two dozen amendments. All of the Democratic amendments were rejected.

The GOP plan is expected to clear the House when it comes up for vote but faces uncertain prospects in the Senate, where Republicans will need to negotiate with Democrats to get a bill through that chamber.

Ethical Funds Find Favor But Are Hard to Define

BY ASJYLYN LODER

State Street Corp. launched its **SPDR S&P 500 Fossil Fuel Free ETF** with much fanfare in December 2015, its debut timed to coincide with the Paris climate talks and its credibility burnished by support from the Natural Resources Defense Council, one of the most prominent environmental lobbying groups in the U.S.

Despite the ETF's name, it owned stakes in, for example, **Transocean Ltd.**, the offshore-drilling company implicated in the Deepwater Horizon oil spill; **Southern Co.**, a utility that relies on coal and natural gas for 80% of its generating capacity; and **Valero Energy Corp.**, a major gasoline refiner.

As demand for do-gooder investing increases, particularly among women and millennials, fund managers are retooling their lineups to include funds that appeal to a wider audience. These loosely defined strategies offer a feel-good tilt while still preserving broad market exposure, which muddies the difference between responsible funds and their plain-vanilla peers.

The lack of industrywide

definitions makes reliable statistics hard to come by. The Global Sustainable Investment Alliance estimates that assets pegged to environmental, social and governance strategies, or ESG, ballooned to a record \$22.9 trillion at the start of 2016, making up 26% of professionally managed money worldwide.

Yet money managers disclose few details about how they use ESG criteria, according to a report from the alliance's U.S. organization. Some analysts include solar- and wind-energy funds. Others don't. Some funds adhere to "biblical" values that critics call homophobic. Some funds, like the State Street ETF, own stock in companies that are blacklisted by competitors.

"It's a very slippery space," said Elisabeth Kashner, head of ETFs for FactSet, a data and analytics firm. "There's no consensus on what's ultimately good or bad, nor is there consensus on how to measure it."

In August, State Street changed the name to clarify the fund's strategy of avoiding firms with coal, gas and oil reserves. It is now called the SPDR S&P 500 Fossil Fuel Re-

serves Free ETF.

"There is no ironclad, crystal-clear, broadly consensual, industry definition of how to invest, or not invest, in fossil fuels," said Chris McKnett, head of ESG investments at State Street, who said the change was made for the sake of "precision and clarity."

ESG investing traces its modern roots to the antiapartheid divestiture campaign of the 1980s, which prodded companies to withdraw from South Africa to protest the country's institutionalized racial segregation. After apartheid was dismantled, ethical investing focused on boycotting heavy polluters and human-rights violators.

As concerns about climate change increased, investors began looking for ways to reduce the carbon footprint of their portfolios without sacrificing diversification and performance.

ESG became an increasingly popular solution. Instead of using market value to determine how much to allocate each company, like most traditional indexes, the strategies weight their investments based on how a company performs on ESG criteria. Some funds go a step further, using

financial criteria combined with ESG scores.

Since the start of 2016, the ETF industry has launched 26 new ESG funds, according to FactSet and XTF. Firms, including **Goldman Sachs Group Inc.**, State Street and **OppenheimerFunds**, have also published research touting the performance-enhancing benefits of ESG screening.

Some fund managers believe that ESG screening can weed out companies with simmering scandals, said Sharon French, head of beta solutions for OppenheimerFunds. She

cited MSCI's July 2013 ESG downgrade of **Volkswagen AG** due to corporate-governance problems, more than two years before the Environmental Protection Agency announced its investigation into emissions cheating.

Such strategies preserve diversification, but can make for strange bedfellows. For example, the **Columbia Sustainable Global Equity Income ETF** includes Valero Energy and **Marathon Petroleum Corp.** among its top 20 investments;

and, at one point, the single largest holding of Oppen-

heimer's Global ESG Revenue ETF was **Wal-Mart Stores Inc.**, a company excluded from other ESG strategies because of its history of labor problems, though that may change as the company improves its ESG performance.

"Companies are the most powerful entities in the world, and they can do harm or they can do good," said Mike Jantzi, chief executive of Sustainable, a company that provides ESG analysis to fund managers.

"But good and bad with nothing in between wasn't useful."



Labor issues have excluded Wal-Mart, which owns this California store, from some ESG strategies.

MIKE BLAKE/REUTERS

Bond Insurer Sues in Puerto Rico Debt Fight

BY ANDREW SCURRIA

A bond insurer looking to minimize losses on \$5.4 billion in Puerto Rico bond guarantees fired the first legal volley following the U.S. territory's entry into court protection.

Assured Guaranty Ltd. on Thursday sued Puerto Rico's federal oversight board, which one day earlier placed the ailing U.S. territory in what amounts to the largest ever U.S. municipal bankruptcy. The complaint, filed in federal court in San Juan, marks the first legal challenge to Puerto Rico's debt-cutting plan by creditors following the board's unprecedented action.

The insurer says the board overstepped when it ordered the payment of no more than \$787 million annually in debt service over the next decade. That sum, less than a quarter

of the \$3.5 billion creditors are owed on average each year, is at the heart of a board-approved fiscal plan that forms the basis for restructuring negotiations.

Bond payments, education subsidies and pension spending were all cut in the plan, which the board approved last month after ordering more conservative economic assumptions that further diminished the surplus available for creditors.

The proposed financial overhaul, "unless totally recast, cannot possibly be permitted to serve as the basis for any lawful plan of adjustment," Assured said in a statement.

The board's petition under a court-supervised restructuring process was meant to put the brakes on creditor litigation—outside the bankruptcy-like process—seeking redress for past defaults.

The quarterly results follow two consecutive losses of a total of €3.54 billion in the second half of last year, as the bank undertook large write-downs of bad loans.

Revenue for the quarter dropped 21%, to €933 million, from the first quarter of last year, as both net interest income and fees declined.

Provisions for bad loans declined 11%, to €308 million,

from the year-earlier period.

At the end of last year, the Tuscan bank declared that a last-ditch effort to raise €5 billion in capital from private investors to stay afloat had failed and asked the Italian government to prop it up.

The country's government earmarked €20 billion to help Monte dei Paschi and other troubled banks struggling with lack of capital or liquidity.

The European Central Bank,

the Continent's supervisor for large banks, calculated that the bank's capital shortfall is nearly €9 billion, or greatly more than what the bank failed to raise, because the lender's financial health rapidly worsened during the months in which it and the Italian government have struggled to find a solution to its problems.

European authorities are assessing whether Monte dei

Paschi's rescue plan, which will see the Italian Treasury ending up with a 70% stake in the bank, complies with the Continent's rules on state aid.

The lender said its results for the quarter were hit by €131 million in expenses.

On a brighter note, it said it saw a €5.5 billion inflow in new deposits during the quarter, after having suffered a €28 billion loss of liquidity over last year.

Monte dei Paschi Swings to Quarterly Loss

BY GIOVANNI LEGORANO

ROME—Troubled lender **Banca Monte dei Paschi di Siena SpA** said it swung to a loss in the first quarter, hurt by declining revenue and costs, as it struggles to right itself after having asked the Italian government to bail it out in December.

The bank said its first-quarter net loss was €169 million (\$185 million), compared with a profit of €93 million the year before.

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MARKETS DIGEST

Nikkei 225 Index

19445.70 Market Closed

High, low, open and close for each trading day of the past three months.

Year-to-date
52-wk high/low
All-time high

STOXX 600 Index

391.98 ▲ 2.61, or 0.67%

High, low, open and close for each trading day of the past three months.



Data as of 4 p.m. New York time

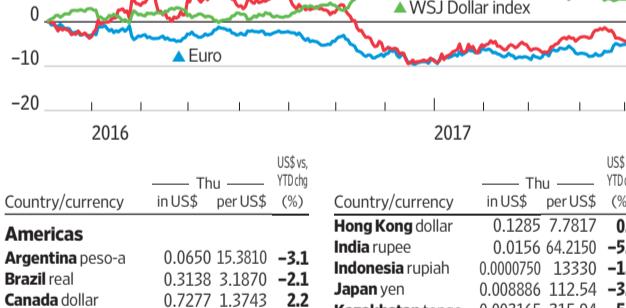
International Stock Indexes

Region/Country	Index	Close	NetChg	% chg	52-Week Range	YTD % chg
World	The Global Dow	2738.20	2.53	▲ 0.09	2193.75	8.3
	MSCI EAFE	1855.12	11.09	▲ 0.60	1471.88	8.1
	MSCI EM USD	979.17	-6.57	-0.67	691.21	23.3
Americas	DJ Americas	572.51	-1.73	-0.30	480.90	5.9
Brazil	Sao Paulo Bovespa	65095.82	-997.97	-1.51	48066.67	8.1
Canada	S&P/TSX Comp	15409.06	-134.08	-0.86	13535.54	0.8
Mexico	IPC All-Share	49182.36	82.38	▲ 0.17	43902.25	7.8
Chile	Santiago IPSA	3716.94	-11.32	-0.30	2998.64	15.3
U.S.	DJIA	20906.81	-51.09	-0.24	17063.08	5.8
	Nasdaq Composite	6066.68	-5.87	-0.10	4574.25	12.7
	S&P 500	2385.10	-3.03	-0.13	1991.68	6.5
	CBOE Volatility	10.77	0.09	▲ 0.84	9.90	26.72 -23.3
EMEA	Stoxx Europe 600	391.98	2.61	▲ 0.67	308.75	8.5
	Stoxx Europe 50	3227.87	23.03	▲ 0.72	2626.52	7.2
Austria	ATX	3036.10	38.69	▲ 1.29	1981.93	16.0
Belgium	Bel-20	4003.66	70.80	▲ 1.80	3127.94	11.0
France	CAC 40	5372.42	71.42	▲ 1.35	3955.98	10.5
Germany	DAX	12647.78	119.94	▲ 0.96	9214.10	10.2
Greece	ATG	748.92	0.31	▲ 0.04	517.10	16.4
Hungary	BUX	32289.85	212.13	▲ 0.66	25126.36	0.9
Israel	Tel Aviv	1409.95	6.45	▲ 0.46	1372.23	4.1
Italy	FTSE MIB	21169.92	410.61	▲ 1.98	15017.42	10.1
Netherlands	AEX	528.44	3.24	▲ 0.62	409.23	9.4
Poland	WIG	61862.80	-203.86	-0.33	42812.99	19.5
Russia	RTS Index	1081.22	-15.13	-1.38	873.58	-6.2
Spain	IBEX 35	11012.90	175.90	▲ 1.62	7579.80	17.8
Sweden	SX All Share	587.40	2.00	▲ 0.34	443.66	9.9
Switzerland	Swiss Market	8980.02	88.13	▲ 0.99	7475.54	9.2
South Africa	Johannesburg All Share	53406.31	-180.32	-0.34	48935.90	5.4
Turkey	BIST 100	93038.49	-824.25	-0.88	70426.16	19.1
U.K.	FTSE 100	7248.10	13.57	▲ 0.19	5788.74	1.5
Asia-Pacific	DJ Asia-Pacific TSM	1569.08	-4.76	-0.30	1308.52	10.3
Australia	S&P/ASX 200	5876.40	-15.90	-0.27	5103.30	3.7
China	Shanghai Composite	3127.37	-7.98	-0.25	2806.91	0.8
Hong Kong	Hang Seng	24683.88	-12.25	-0.05	19694.33	12.2
India	S&P BSE Sensex	30126.21	231.41	▲ 0.77	25228.50	13.1
Japan	Nikkei Stock Avg	19445.70	...	Closed	14952.02	1.7
Singapore	Straits Times	3228.62	-9.19	-0.28	2729.85	12.1
South Korea	Kospi	2241.24	21.57	▲ 0.97	1925.24	10.6
Taiwan	Weighted	9967.64	10.11	▲ 1.1	8053.69	7.7

Source: SIX Financial Information/WSJ Market Data Group

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Thu	US\$ vs. in US\$ per US\$ (%)	YTD chg	Country/currency	Thu	US\$ vs. in US\$ per US\$ (%)	YTD chg
Americas				Hong Kong dollar	0.1285	7.7817	0.3
Argentina peso-a	0.0650	15,3810	-3.1	India rupee	0.0156	64,2150	-5.5
Brazil real	0.3138	3,1870	-2.1	Indonesia rupiah	0.000750	13330	-1.4
Canada dollar	0.7277	1,3743	2.2	Japan yen	0.008886	112.54	-3.8
Chile peso	0.001480	675.60	0.9	Kazakhstan tenge	0.003165	315.94	-3.8
Colombia peso	0.0003412	2930.50	-2.4	Macau pataca	0.1245	8.0318	1.5
Ecuador US dollar-f	1	1 unch		Malaysia ringgit-c	0.2310	4,3290	1.0
Mexico peso-a	0.0525	19,0334	-8.2	New Zealand dollar	0.6854	1,4590	1.0
Peru so'l	0.3058	3,2705	-2.5	Pakistan rupee	0.0095	104,812	0.4
Uruguay peso-e	0.0357	28,030	-4.5	Philippines peso	0.0200	49,905	0.6
Venezuela bolivar	0.09854	10.11	1.1	Singapore dollar	0.7141	1,4003	0.0

Source: Tullett Prebon, WSJ Market Data Group

London close on May 4

US\$ vs.
Country/currency
Thu
in US\$ per US\$ (%)
YTD chgCountry/currency
Thu
in US\$ per US\$ (%)
YTD chg

FINANCE & MARKETS

Why VIX Shows No Fear

Options index, a key hedging tool, is lowest in years; investors find protection elsewhere

BY GUNJAN BANERJI

Volatility has nearly vanished in U.S. stocks, but investors wary about shares are hedging in other ways.

Despite geopolitical uncertainties and a mixed outlook for the U.S. economy, the CBOE Volatility Index, known as the VIX, sank to a decade low on Monday, fueling concerns about whether investors have become complacent and if the absence of turbulence is sustainable.

The VIX is based on options prices on the S&P 500 index and tends to move in the opposite direction of stocks. Dubbed "the fear gauge," it is a measure of investor anxiety but has drawn scrutiny in recent years because of its persistently low levels.

The gauge's low this week suggest investors are relying less on S&P 500 index options for insurance on portfolios. Market watchers say investors are instead using alternative ways to manage risks, such as options strategies that generate income, as well as options on U.S. government bonds.

"I don't think the current levels in the VIX reflect the risks in the system," said Josh Thimons, a portfolio manager at Pacific Investment Management Co.

He said some who have become disenchanted with equity puts have looked to find other markets they think will offer more of a hedge."

Call options on Treasurys represent one way investors have sought protection, according to Mr. Thimons.

Calls give investors the right to buy an asset at a later date, while puts give the right to sell.

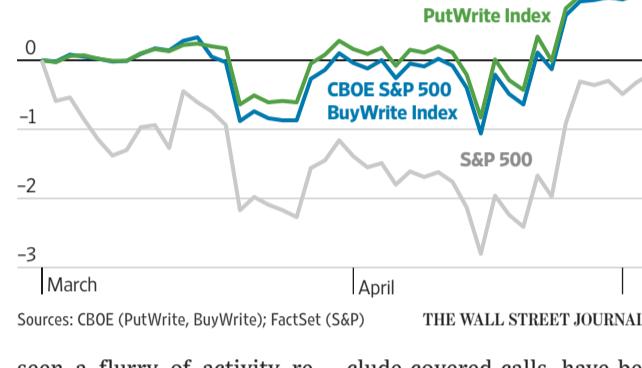
Bullish call options on 10-year Treasury futures have



The Volatility Index pit at the Chicago Board Options Exchange.

Taking Cover

Nervous investors have turned to buy-writing and put-writing strategies, which involve selling options to generate extra income. The strategies have outperformed the S&P 500 recently.



Sources: CBOE (PutWrite, BuyWrite); FactSet (S&P)

THE WALL STREET JOURNAL

seen a flurry of activity recently.

The number of contracts linked to a 1.36% yield has increased by almost sixfold since mid-April, according to data from CME Group Inc. and QuikStrike. In comparison, the yield on the 10-year Treasury note was at 2.355% Thursday afternoon, suggesting that investors are using the Treasury call options to protect themselves in case of a sharp market reversal.

Bond prices rise when yields fall.

Meanwhile, income-generating strategies, which in-

clude covered calls, have become so popular in recent years that they are keeping a lid on volatility itself, says Thomas Peterffy, founder and chief executive of Interactive Brokers Group Inc., considered a pioneer of options trading.

Covered calls involve selling a call option on a stock that the investor already holds.

What keeps volatility muted in covered-call strategies is the person on the other side of the trade, the buyer of the calls.

The call buyer can hedge the options trade by selling

shares of the underlying stock, a strategy meant to keep him or her more neutral to swings in stock prices.

When the stock's price goes up, the call option's value also goes up, leading the call buyer to sell more stock. As the stock's price falls, he or she buys more stock.

"That's why the market gets jugged into a trading range," said Mr. Peterffy, who said he has seen his customers positioning through these options strategies. "The result of that is the market stops moving," he said. "When it starts moving up, there's more and more selling pressure. As it falls, there's more and more buying pressure."

Exchange-traded funds that track the options strategy give a snapshot of its popularity. The PowerShares S&P 500 BuyWrite Portfolio has lured \$31 million in 2017, about one-tenth of its total assets.

And it has paid off recently. The CBOE S&P 500 BuyWrite Index had risen 0.8% since March 1, while the S&P 500 itself had declined 0.3%, through Wednesday, FactSet data show. Buy-write strategies are similar to covered calls, except instead of already holding the stock, investors have to buy it in the same transaction.

Mr. Peterffy cautioned that if the broader stock market snaps out of its slumber, the call buyer "will be out of ammunition, and the market will just fluctuate wildly."

Neuberger Berman's put-write investment strategies have lured more than \$1 billion in assets since early 2016. The strategies layer a tactic of selling puts over a portfolio of cash and Treasuries. Investors include pension funds and individual investors, according to portfolio manager Doug Kramer.

"It's more conservative and less volatile than owning the S&P 500 outright," said Mr. Kramer. People still want protection against market declines, he said.

U.S. Stock Market Takes a Breather; Commodities Sink

BY AKANE OTANI AND RIVA GOLD

U.S. stock indexes wavered Thursday, pressured by a steep drop in commodity prices.

The Dow Jones Industrial Average edged down 6.43 points, or less than 0.1%, to 20951.47. The S&P 500 and the Nasdaq Composite Index

THURSDAY'S MARKETS both edged up less than 0.1%.

Major stock indexes have climbed over the past few weeks as quarterly earnings results have pointed to health among U.S. corporations. The U.S. posted the biggest improvement in its revision ratio—which measures the ratio of upward to downward earnings estimates by analysts—of all regions in April, according to Bank of America Merrill Lynch.

Solid earnings could help stocks continue advancing, investors and analysts say, even as some have expressed concerns about recent weakness in inflation, consumer spending and economic growth.

"The earnings story is still very robust, and that's why investors have been able to look through some of the softer economic data," said Jason Drahos, head of tactical asset allocation Americas at UBS Wealth Management.

The Stoxx Europe 600 rose 0.7% to 391.98, closing at its highest level since August 2015, after a measure of activity in the eurozone's manufacturing and services sectors rose to a six-year high and retail sales figures improved.

"For the first time since the European sovereign-debt crisis broke out, we have a synchronized economic upswing in almost all continental European economies," said Frank Engels, head of multiasset portfolios

at Union Investment.

The S&P 500 consumer-staples sector was up 0.7% on Thursday afternoon, boosted by gains in shares of Kellogg. The cereal maker's stock was up 2.1% in late trading after it posted quarterly earnings that beat expectations. Monster Beverage rose 2%, and General Mills added 1.9%.

Commodity prices slid across the board, putting pressure on shares of energy companies. U.S. crude oil for June delivery declined 4.8% to \$45.52 a barrel, settling at its lowest level since November. Energy shares in the S&P 500 fell 1.7%, with Dow component Chevron falling 1.9%.

Metals slid amid concerns about Chinese demand for commodities such as steel and iron. Copper for May delivery fell 1.2% to \$2,5020 a pound on the Comex division of the New York Mercantile Exchange. That was its lowest settlement since January. Gold for May delivery slid 1.6% to \$1,226.50 an ounce.

U.S. government-bond prices slipped Thursday, with the yield on the 10-year Treasury note rising to 2.354%, according to Tradeweb, from 2.309% on Wednesday. Yields rise as bond prices fall.

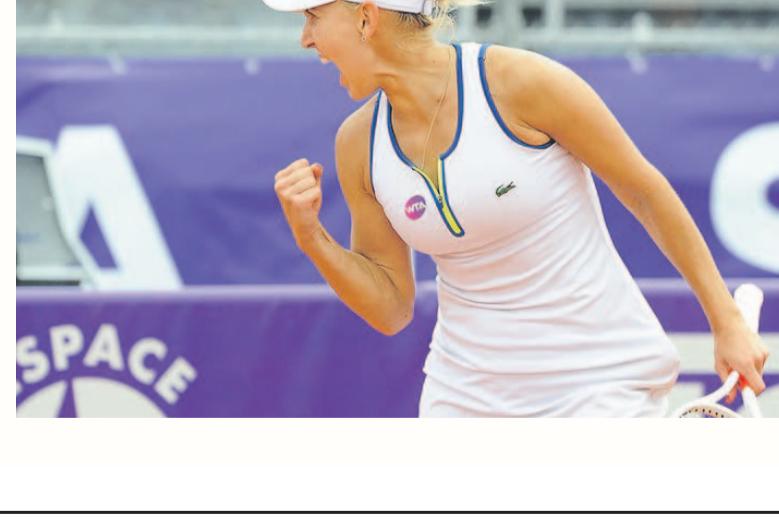
The Shanghai Composite Index fell 0.3%, ending lower for a third straight session, after a measure of service-sector activity in China hit its lowest level in nearly a year for April.

"I don't see catastrophe, but I do think there's a lot of complacency in emerging-market assets around China," said Tina Byles Williams, chief investment officer and chief executive at FIS Group.

South Korean equities powered to record highs, adding 1% Thursday, while Japan's markets were closed for a holiday.

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MARKETS

HSBC Takes Another Step in Revamp

U.K. lender says its U.S. unit returned capital, its first dividend since 2006

By MARGOT PATRICK

LONDON—HSBC Holdings PLC said it took its first dividend since 2006 from its U.S. bank in April, a milestone in the lender's yearslong turnaround.

The release of capital—an unspecified amount—and better-than-expected first-quarter profit at the bank raised expectations that HSBC could buy back more shares after eschewing investment to spend \$3.5 billion on buybacks in the past year.

HSBC shares rose 2.9% in London Thursday. However, Finance Director Iain Mackay said in an interview that the lender will hold off on further buybacks in the near term.

The dividend payment is a symbolic step in the lender's restructuring program, which Chief Executive Stuart Gulliver launched in 2011 to refocus on Asia and scale back in places that were too risky or unprofitable,

or where the bank was too small. Almost 100 businesses have been shut, including most of HSBC's operations in Latin America.

The moves have freed up capital for other investments, but a lack of opportunities led HSBC to buy back shares.

Mr. Mackay told analysts the payment was the first step in releasing billions of dollars in capital from HSBC's U.S. business. He declined to say how much had been paid out to the parent bank, and a spokeswoman said the number wasn't currently being released. The dividend was anticipated because HSBC's North America holding company passed annual stress tests in July.

He said it could take three years or more to recoup surplus U.S. capital, which analysts estimate at \$7 billion to \$10 billion.

HSBC has major banking operations in the U.S. but for years has been winding down the remnants of Household International Inc., the subprime lender that it bought just a few years before the sub-prime-mortgage market crashed in 2007.



SIMON DAWSON/BLOOMBERG NEWS

CEO Stuart Gulliver launched an overhaul in 2011 to refocus on Asia and scale back in other places.

Mr. Mackay said a deferred prosecution agreement the bank entered into with the Justice Department in 2012 could also "reflect on the capital position."

HSBC must raise its anti-money-laundering standards and meet other conditions to

exit from the agreement, part of a settlement with U.S. authorities over allegations that it failed to spot money laundering by criminal gangs and to flag transactions with countries under economic sanctions. HSBC admitted the wrongdoing.

The Asia-focused bank on Thursday reported that first-quarter earnings fell 20%, to \$3.13 billion, from \$3.89 billion in the first quarter of 2016. The latest result was higher than the \$2.67 billion analysts had estimated.

Analysts expect as much as

another \$2 billion in stock buybacks in the second half.

Mr. Mackay in the interview said the bank wasn't making any commitments and would pause for now on buybacks. The bank will take another look at the possibility after the second quarter, he said.

"Our preference will always be to invest capital for future growth," Mr. Mackay said. He told analysts an expansion into China's Pearl River Delta region was starting to bear fruit.

The bank's overall Asia operations notched \$4.31 billion in adjusted profit before taxes, up 25% from a year earlier.

In the U.K., a main market for the bank alongside Hong Kong, Mr. Mackay said loan demand from households and businesses is holding up despite uncertainty around the country's planned exit from the European Union.

"When you look at the economic numbers, there may be some slowing, but that is not manifested in customer behavior at this point in time," Mr. Mackay said.

—Julie Steinberg in Hong Kong contributed to this article.

Oil Slides to Five-Month Low as U.S. Output Builds

By STEPHANIE YANG
AND SARAH MCFARLANE

Oil prices fell to a five-month low Thursday, as investors have become increasingly skeptical of OPEC's abilities to ease a global supply glut amid elevated U.S. crude production and inventories.

Light, sweet crude for June delivery fell \$2.30, or 4.8%, to \$45.52 a barrel on the New York Mercantile Exchange, the lowest settlement since Nov. 29. Brent, the global oil benchmark, fell \$2.41, or 4.7% to \$48.38 a barrel.

The recent selloff in oil has

erased most of the gains made after the Organization of the Petroleum Exporting Countries agreed in November to cut production. Other non-OPEC producers, including Russia, joined the deal late last year, bringing expected cuts to about 1.8 million barrels a day.

However, growing activity from U.S. shale producers has sparked concerns among investors that the rebalancing of the oil market won't come as quickly, or easily, as many analysts had forecast.

"There's just been a real loss of confidence of the effectiveness of the OPEC and non-

OPEC deal," said John Kilduff, founding partner of Again Capital. "You're seeing a lot of supply still around the world."

Meanwhile, inventories of crude oil and products in the U.S. have remained at high levels. Data from the U.S. Energy Information Administration on Wednesday showed a modest decline in crude stockpiles and an increase in gasoline supplies.

It was somewhat disturbing that gasoline inventories went up yet another week, counter-seasonally, and of course we saw continued increasing U.S. crude-oil produc-

tion," said Bjarne Schieldrop, chief commodities analyst at SEB Markets.

With a large amount of oil and gasoline in storage, market participants are also worried about weakening demand from U.S. consumers, particularly going into the summer season when demand usually rises.

Over the past four weeks, gasoline sales fell 2.7% from a year earlier, according to EIA data. Lower-than-expected growth in gross domestic product in the first quarter may also be contributing to concerns about demand, said John Saucer, vice president of

research and analysis at Moius Risk Group in Houston.

"It certainly may have reinforced people's negative expectations for U.S. oil demand going forward," Mr. Saucer said. "That just feeds into that negative spiral. This is going to be a rough week."

Dismal demand signals led to a broad drop in commodities Thursday, as metal prices also fell on lackluster economic data from China, a major commodities consumer.

As U.S. producers continue to unleash a steady, and strong, stream of shale oil into the market, it intensifies pres-

sures on OPEC and Russia to continue keeping their output capped to prevent further price erosion. An official decision on whether to extend cuts will be announced when the group meets later this month.

Rising production in Libya, which is exempt from the OPEC cuts, added to the bearish sentiment in the market on Thursday, RBC Capital Markets analysts said. However, the change in supply may be short-lived, given the geopolitical unrest in the country.

Gasoline futures fell 3.4% to \$1.4812 a gallon, the lowest settlement since Nov. 29.

HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

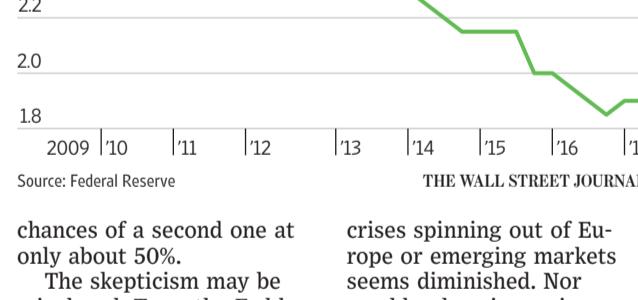
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Fed to Fight Even a Slow Economy

Lowered Expectations

Midpoint of Federal Reserve policy makers' long-term forecasts for economic growth



for long-term GDP growth—the economy's just-right speed for employment and inflation—are now centered on just 1.9% versus 2.65% six years ago. Many economists put the pace even lower.

Morgan Stanley, for example, has it at 1.5%.

Crucial to the Fed's view is the economy's strong record of adding jobs even though economic growth has been tepid.

What matters now is that unemployment has fallen to the point that there appears to be little slack left in the labor market, and employers have to pay up for the workers they need. The Labor Department reported last week that its employment cost index—a broad range of wages and benefits—rose 0.8% in the first quarter, marking its biggest gain in nearly a decade.

For investors, this has the makings of an unfamiliar world where even an uninspiring economy inspires the Fed to raise rates.

—Justin Lahart

chances of a second one at only about 50%.

The skepticism may be misplaced. True, the Fed has over the past several years shown a tendency toward skittishness, dialing back its plans on rate increases whenever markets looked shaky. But with global economic growth improving, markets around the world have been tranquil lately, and the threat of financial

crises spinning out of Europe or emerging markets seems diminished. Nor would a drop in a pricey-looking U.S. stock market likely phase the Fed.

The current situation is a test for the Fed's view that what would have been considered slow growth in the past could still boost inflation to levels that call for higher rates.

Policy makers' projections

OVERHEARD

There have been fears the Bank of England might have to defend the pound in international markets as its value plunged following the U.K.'s Brexit vote. Now, cracks are appearing in the currency, literally.

A new one-pound coin has encountered production problems. Thousands of the new coins are warping.

The coin, designed to be harder to fake, has 12 sides on a gold-colored outer ring surrounding a silver-colored inner disc. Some have missing middles. A metaphor for the lack of political centrists?

This isn't the first post-Brexit problem with the pound. Some people had a beef with a new five-pound note made of a tear-resistant polymer that was found to contain traces of animal fat mainly from cows. Vegetarians and some Hindus, for whom cows are sacred, protested.

Here is hoping problems with the pound don't keep gaining currency.

HSBC Finds Other Type Of Growth

HSBC Holdings found some revenue growth—troubling is, it wasn't located where the bank went looking.

Underlying revenue across HSBC's businesses rose 9% in the first quarter of 2017 versus the start of 2016, driven by growth in retail banking and wealth management. Superficially, that sounds well and good. However, profit fell, mainly due to higher restructuring spending and no gains from changes in the value of its debt.

Investors have been more focused on revenue, particularly regarding whether HSBC can ride the coattails of the young and expanding economy in the technology-and-export hub of Pearl River Delta in southern China. This is where the U.K.-listed, Asia-focused bank has said its investment efforts should find greatest reward.

The bank did highlight 17% loan growth in the Pearl River Delta, but without knowing the base level, it is hard to know what this did for revenue or assets.

Across Asia, net interest income was up 9%, helped by higher interest rates. Total Asian loans were up 6%.

Meanwhile, most of the growth in retail revenue globally came from a more than \$300 million swing in insurance income.

However, a big recovery in global fixed-income trading revenue delivered more than three times the revenue growth than the bank got from pure retail banking. Trading revenue isn't to be sniffed at, but it isn't what HSBC is most targeted at.

For now, HSBC is succeeding somewhat in spite of its aims.

—Paul J. Davies

Tesla's Soft Sell on Model 3 Turns Investors Into Sellers

Tesla's adoption of the soft sell ahead of its most important product yet has raised a few eyebrows.

In other ways, though, first-quarter results out Wednesday evening had everything a stock bull could want. Tesla reiterated that the Model 3 sedan, Tesla's first car aimed at the mass market, is set to enter production in July. Though Tesla lost \$1.33 a share on an adjusted basis, greater than analyst expectations, short-term profits have never concerned its investors. Tesla also ended the quarter with \$4 billion in cash, a record balance.

Though the stock was down about 5% Thursday afternoon, gains of more than 40% year

to date cushion that blow.

Still, there are reasons to worry despite that happy backdrop. Take Chief Executive Elon Musk's unorthodox statement that the company is "antiselling" the new Model 3 relative to its more expensive Model S sedan.

"As Model 3 becomes available, one of our challenges will be to eliminate any misconception about the differences between Model S and Model 3," he wrote in a letter to shareholders. "We have seen a belief among some that Model 3 is the newest and more advanced generation of Model S. This is not correct."

It is possible that this confusion is crimping demand for

Tesla's existing, higher-margin product line. Customer deposits fell to \$616 million, down nearly \$50 million from the start of the year. Tesla has given delivery guidance for its existing automobile line only through June 30.

Tesla's free cash outflow, long a problem, was more than \$600 million in the quarter, meaning the company spent about half the money it raised in March. Capital needs are due to accelerate. An extra \$1.5 billion in capital spending is on tap before the Model 3 enters production.

More capital raises seem inevitable, especially since Mr. Musk said that the future Model Y crossover, which is

expected by 2019, will likely be built on a different platform than the Model 3. That means significantly more capital spending than if Tesla chose to use the same platform.

Meanwhile, Wall Street analysts covering the company have been doing a little anti-selling of their own. Analysts now project, on average, an adjusted loss of 78 cents a share for 2018, the first full year in which the Model 3 is expected to be for sale. A year ago, that consensus called for a profit of \$6.51 a share. Longer-term profit estimates are headed lower as well. Consensus calls for \$10.88 a share in 2020 profit; last year, that number was \$17.51.

The stock is up nearly 30% over that period. Investors holding the shares should consider whether they are pushing their luck.

—Charley Grant

Anti-Selling

Consensus analyst forecasts for Tesla's adjusted earnings per share

May 31, 2016

May 4, 2017

\$15

10

5

-5

Source: FactSet

THE WALL STREET JOURNAL.

For Mom:
Literally feel-
good gifts she'll
want to get her
hands on

W4



OFF DUTY



How the host
of 'Good Morning
America' gets
a great
night's sleep
W8

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THE WALL STREET JOURNAL.

Friday - Sunday, May 5 - 7, 2017 | W1

The Graze Awakening

We love the notion that a happy cow yields great meat. Finally, the flavor of grass-fed beef is living up to the hype

BY PERVAIZ SHALLWANI

UNTIL RECENTLY, I was a skeptic when it came to grass-fed beef. I knew I was *supposed* to like it. Isn't a happy ruminant, grazing freely as nature intended, believed to be better for the environment and, ultimately, for me than one fed grain to speed the fattening process?

It's just that, over the years, I'd found the grass-fed option rarely tasted as good as its grain-finished counterpart. Grass-fed was a hard choice to justify at the checkout counter, too; this beef came at a premium and yet too often cooked up tough and chewy and nothing like what any meat-loving American would call a steak.

My mind changed at Whitfield restaurant inside Ace Hotel Pittsburgh. There, butcher-restaurateur Brent Young, a native Pittsburgher who'd

made a name for himself at the Meat Hook in Brooklyn, had come home to build the steak program of the future. And it's all about grass-fed.

Shortly after my wife and I checked into the hotel, we sat down to a medium-rare tenderloin—typically a rather bland cut. But this one, prepared by Whitfield's executive chef, Bethany Zozula, was full of flavor—mineral, with a hint of earthy funk—and marbled with buttery fat. The

Please turn to page W2



BEN GILES

OFF DUTY

A STEAK LOVER'S GUIDE TO GRASS-FED



CUTTING EDGE
Grass-fed tenderloin at Whitfield at Ace Hotel Pittsburgh. **Clockwise from below:** Steven Beachy prepares steaks at Whitfield; cows at Jubilee Hilltop Ranch in western Pennsylvania; porterhouse steak at Whitfield.

Continued from page W1

next night we shared an outstanding burger. For breakfast the following day, we couldn't resist one last fix and split the butcher's steak, an 8-ounce hanger cut. American grass-fed beef had clearly turned a corner, and I wanted to know more about it.

"When we started [at the Meat Hook], grass-fed was only really available at farmers'

The older grass-fed cows develop the fat marbling and rich color that make for a tasty steak.

markets, and it had a bad-quality connotation," Mr. Young said. "We wanted to be very cautious about preaching ethics, and there weren't enough good farmers out there. Things have changed. Now people are pleasantly surprised with what they purchased when they hear it's 100% grass-fed."

The sub-par grass-fed beef I tried in the past likely came from inexperienced farmers. "I think some of the early stabs at finishing cattle on all grass didn't go so well," said Dan Barber, the chef and sustainable-agriculture crusader behind Blue Hill restaurant in Manhattan and Blue Hill at Stone Barns outside the city. "With the right movement, the right genetics and the right slaughter, [grass-fed beef] is as tender as any grain-fed steak."

Health- and eco-conscious consumers have led the way, growing grass-fed sales by more than 100% annually for the past five years, compared to 7% for conventional beef. Still, this segment accounts for a small fraction of overall beef consumption and the majority of America's grass-fed beef comes from overseas, predominantly Australia, New Zealand and Uruguay, all of which have longstanding pastoral traditions.

In the U.S., nearly all cattle spend their first months consuming predominantly grass and mother's milk. It's during what's known as finishing that grain-fed and grass-fed cattle part ways. About 97% of our beef cattle consume at least some grain to speed weight gain, allowing them to be slaughtered at 18-20 months. The remaining, grass-fed 3% graze throughout their lives and are typically slaughtered at 20-28 months, and sometimes older.

Those few extra months of age make a big difference when it comes to flavor. American farmers are learning that the older grass-fed



cattle develop the fat marbling and rich color that make for a top-notch, tasty steak—very different from the lean, tough meat I once associated with grass-fed. "For great taste, it has to be mature," said Bill Niman, a pioneer in the sustainable meat movement who recently sold BN Ranch, his all-grass-fed operation, to meal-delivery business Blue Apron.

Raising the right breeds matters too—Black Angus cattle, for example, were originally bred to flourish on grass alone. "Those particular breeds have been selected for one particular thing their entire life, how well they eat," said Mr. Niman. And it's important to allow herds free movement, the sort grass-fed cattle enjoy throughout their lives. A well-exercised muscle makes flavorful meat.

While pastures in warm climates provide ample grazing year-round, ranchers in colder regions must either resign themselves to grass-fed beef as a strictly seasonal product or get innovative. The steaks at Whitfield come from Jubilee Hilltop Ranch, a farm about two

hours southeast of Pittsburgh. There, Neal Salyards, a livestock nutritionist who's spent years helping farmers get the most from their animals, lets his mostly Angus herd roam free over miles of rolling hills, woods and hollows. To make sure the cattle continue eating well year-round, he supplements their grazing with "extremely digestible" grasses grown hydroponically in a building on his property.

Mr. Salyards believes the ample, continuous greenery, combined with freedom of movement, fresh air and sunlight, produces the best beef. "With what I knew about nutrition, I knew I could grow a better animal—I just didn't know how much better," he said.

Anya Fernald of Belcampo in California raises grass-fed beef prized for its deep color and flavor and its buttery fat with a yellow hue said to indicate a high vitamin content. "I wasn't fully committed to grass-fed and finished when I started Belcampo," she said. "Most of it tastes terrible." But as Ms. Fernald and her partners tested different types of feed, including barley and other grains, they found pure grass-fed cattle had a denser "knitting"—the beautiful, lacy lines of fat distributed throughout a superior cut of meat. "The driver for us is that it tastes great," she said.

The high-quality meat from producers like BN Ranch, Jubilee and Belcampo remains the exception rather than the norm, however.

And with the price 70% higher on average for grass-fed over conventional, some producers are putting dubious spins on the grass-fed label. "Pasture-raised" cattle, for example, are allowed to roam free but also eat grains.

"Grass fed, grain finished" has even less meaning, because nearly all cattle start off

How to Cook a Grass-Fed Steak

This elegantly simple recipe works for any well-marbled steak, and particularly well for a grass-fed cut because it allows the flavor of the meat to shine through without interference from extraneous ingredients. Be sure your cooking area is well ventilated: On most home stoves, the vent is not strong enough to take care of all the smoke that will rise from the pan as you cook, so open a few windows and turn on a ceiling fan if you have one. The instructions below are for a medium-rare steak; if you prefer your steak well-done, double all the times.

ACTIVE TIME: 25 minutes.
TOTAL TIME: 1 hour SERVES: 2

1 dry-aged, bone-in rib eye steak, T-bone, New York strip, porterhouse or sirloin tip, about 1½ inches thick, with strip of fat intact
1 tablespoon of butter (optional)
Large crystal salt, kosher or sea salt for serving

1. Remove steak from refrigerator 30 minutes-1 hour before cooking.
2. Set a cast-iron pan big enough to cook steak without crowding over high heat and let it sit on heat until very hot and smoke is quickly rising off pan, 3-5 minutes.
3. Pat steak dry with a paper towel. Add steak to pan, gently pressing down with fingers or a spatula. Sear 1 minute, then flip and sear opposite side 1 minute.
4. Use tongs to gently hold steak upright and spend about 2 minutes searing edges all around, as well as the fat cap, bone and any red exposed flesh on sides.
5. Turn off heat and let steak rest in pan, 2 minutes on each side.
6. Transfer steak to a cutting board, invert cast-iron pan over meat and let rest 10 minutes. A well-marbled steak doesn't need much of a garnish, though a pat of butter is a nice touch. Add butter after you transfer meat to cutting board so it has time to melt and mix with meat's juices.
7. Just before serving, slice steak against the grain. Serve with salt, for seasoning to taste at the table.

—Adapted from "Home Cooked" by Anya Fernald and Jessica Battilana

eating grass, before being finished on corn and other grains.

The best way to make sure you're getting genuine—and tasty—grass-fed beef is to buy from a reputable butcher who can provide all the information you want on how the cattle was raised and recommend a cut that's right for you. (See "Here's the Beef," below.) After talking to experts and cooking many pounds of meat, I learned that the tastiest grass-fed beef comes from cattle allowed to graze for 28 months or longer. The beef should have a good marbling of fat, a rich color and a slight smell of the grass on which it's grazed.

I cooked mature grass-fed steaks with these characteristics in much the same way I would well-marbled conventional ones, while leaner, younger steaks tended to cook faster. It mattered little if the meat was fresh or previously frozen, as long as certain steps were followed: Bring the steak to room temperature and pat it dry before cooking. This way the pan won't cool on contact—and it needs to be screaming hot to ensure the hard sear that keeps the juices inside. Once the steak comes out of the pan, it needs to rest at least 5 minutes and up to 10 so the juices have a chance to redistribute. Following this method, I got results as tender and juicy as any steak I've cooked, with the rich flavor that sets good grass-fed beef apart from the rest.

I love a no-frills recipe of Ms. Fernald's (above), which calls for cooking without oil or butter in the pan. As the steak hits the heat, its fat begins to melt, coating meat and pan. The only flourish: sea salt, sprinkled on to each diner's taste. When the beef has this much flavor, it's the only seasoning you need.

HERE'S THE BEEF // WHERE TO BUY TOP-QUALITY GRASS-FED STEAKS

WHILE YOU'LL FIND steaks labeled "grass-fed" anywhere from Costco to Wal-Mart to Whole Foods, quality varies, and it can be hard to tell where and how the cattle were raised. To be sure of exactly what you're getting—and buy the best cuts available—visit a good local butcher offering grass-fed beef. Ask about the farm, how the cattle are fed and the age at which they're slaughtered. Inquire about dry-aging, too, as this process enhances both flavor and tenderness. Your butcher will no doubt have tips for cooking, as well.

If you're in the New York area, the **Meat Hook** (397 Graham Ave., Brooklyn; the-meat-hook.com) is a good source for grass-fed cuts, particularly lesser-known ones. When Brent Young and his partners opened

this shop back in 2009, they were part of a new wave of butchers encouraging customers to understand where their meat comes from and how it was raised, and to use every part of the animal. One thing they didn't promote openly at first was the fact that all their beef came from cattle raised entirely on grass; they knew that to some customers, grass-fed meant tough and not tasty. Eight years later, customers come looking for the grass-fed label, and the Meat Hook's butchers proudly promote their beef as "100% grass-fed and grass-finished, raised in New York state."

In California, **Belcampo** (belcampo.com) operates several Butcher Shop & Restaurant locations in the Bay Area and Los Angeles, and sells its meat

through Amazon Fresh in those metro areas.

In Chicago, the on-site whole-animal butcher shop at the cafe **Publican Quality Meats** (825 W. Fulton Market St., Chicago; publicanqualitymeats.com) stocks grass-fed as well as corn-fed beef raised on small local farms.

If you haven't yet settled on a go-to local butcher, or that's not an option where you are, **Zingerman's Mail Order** (zingermans.com), based in Ann Arbor, Mich., delivers a range of cuts sourced from BN Ranch, Oregon's Carman Ranch and other producers of top-quality grass-fed beef, right to your kitchen. The meat ships frozen—which does not compromise the quality at all—anywhere in the country. —P.S.



MEAL PLAN Publican Quality Meats in Chicago offers dining as well as a butcher shop.

OFF DUTY



Crack A Cool One

Don't turn up your nose: Beer in cans is better than ever. Pop the tops on these barbecue-friendly craft brews

BY WILLIAM BOSTWICK

PORTRAIT of a beer aficionado: Goblet in hand, softly illuminated by Edison bulbs, he twirls his waxed mustache and ponders which ultra-rare IPA he'll try next. This is what craft beer looks like in the popular imagination—pretentious, persnickety—everything Joe Sixpack, tending his cooler of run-of-the-mill canned lager, is not.

But the old divisions are breaking down. Hipster bars serve Pabst Blue Ribbon, supermarkets fill growlers and our beer nerd's next pour might well come from a can.

Once an emblem of mass-market beer, aluminum cans are now reshaping craft brewing. Mobile canning units let even the smallest breweries package minuscule runs of rare brews. The Crowler, a behind-the-bar instant canning machine, provides beer to go, minus the heft of a glass growler. Craft breweries nationwide are installing canning lines.

Beer has been canned since the early 1930s, but it took decades for craft brewers to catch on. When Cask Brewing Systems debuted its small-scale canning line at a 2002 craft-beer trade show, the reception was chilly. Company founder Peter Love recalled, "Someone told me, 'That's the dumbest idea I've ever heard. What respectable craft

ALUMINUM CHIC // CANNED BEERS WITH CACHET

1. Maui Coco Hiwa Porter

6.0% ABV
(Kihei, Hawaii)
A porter in summer? Yes, if it comes from Maui. Sweet and creamy with a rasp of roasty grit. Like coconut chips a tad overtoasted, the burnt bits are the best.

2. Ballast Point Bonito Blonde

4.5% ABV
(San Diego, Calif.) While SoCal's barrels famously overflow with bitter hop monsters, Bonito comes on subtly sweet and retreats with a dry-grass finish—as soft as sand between the toes.

3. Rhinegeist Peach Dodo

4.0% ABV
(Cincinnati, Ohio)
Other sours overpower, but Dodo sneaks up on you, tart and tingling at first taste, softening as it goes. A ripening nectarine, each sip sweeter than the last.

4. Upslope Imperial IPA

10.0% ABV
(Boulder, Colo.) From the place that brought us the Silver Bullet can comes Coors Light's absolute antithesis, a bold barrage of sweetly citrusy hops, like mandarin oranges in syrup.

5. Oskar Blues Dale's Pale Ale

6.5% ABV
(Lyons, Colo.) The can that cracked the dam, metal-clad yet quintessentially craft. Mountain mint and crushed pine needles set ablaze with boozy heat. After Dale's, the deluge.

6. Left Hand Milk Stout

6.0% ABV
(Longmont, Colo.) Long a draft-only unicorn, now nitrogen-infused in the can to accentuate its rich and frothy chocolate chew, Milk Stout has jumped the bar to find its way home to you.

BEYOND BEER // OTHER CANNED BEVERAGES FOR YOUR COOLER



High Brew Coffee Double Espresso

A bold can o' Joe with low acid for smooth sipping.

Hochstadter's Slow and Low Rock and Rye

To enjoy a rock-and-rye cocktail, you can measure, muddle and mix—or pop this tab.

Uncle John's Apple Cider

Orchard-fresh and

Novo Fogo Caipirinha

What they'd stock in paradise's soda machines—a sweet, sour, sublime take on Brazil's national drink.

Man Can Red

Serve this rich red wine—an ideal pairing for burgers—at your next barbecue.

brewer would put his beer in cans?" Craft beer came in bottles; only mass-made swill was canned. But why? Bottling was initially a necessity. "In the '80s when the craft movement started, brewers operated out of garages, hand-bottling everything," said Dale Katechis, founder of Colorado's Oskar Blues, one of the first craft breweries to can its beer. Canning machines were expensive, and can manufacturers didn't sell small quantities. Imports—craft

brews' primary competition—were glass-clad, but in green bottles that didn't protect against flavor-zapping UV rays. (The clear bottles used by big domestics such as Miller provided still less protection.) Craft brewers thought, "We'll one-up the imports," said Mr. Katechis. "We'll put it in a brown bottle, and it'll be fresher beer." And so the brain-washing began.

Brown-bottled beer does stay fresher than beer in green (or clear) bottles, but cans keep the contents fresher still. Think of a can as a mini keg, light-sealed and impervious to the oxygen that can enter bottles under the cap over time and turn brews stale. "It's everything you love about draft beer," Mr. Katechis said—if only drinkers could get past the look.

Canned beer not only tastes better, it makes environmental and economic sense too: aluminum cans are easier to recycle, lighter and cheaper to ship. A pallet of glass bottles, some 70 cases, tips the scales at over 3,000 pounds; a pallet of cans holds 100 cases and weighs 1,000 pounds less.

Canned craft six-pack sales increased 62% over the last five years, according to the Brewers Association. In 2013, cans made up less than 5% of packaged sales for breweries in the 50,000-barrel range; now it's almost a quarter. In beer- and eco-conscious Colorado, almost half of all craft sales are in cans.

Cans also help make an exotic style friendlier. Chicago's Whiner Beer knew its wild-fermented ales, including barrel-aged Le Tub, would be a

hard sell for the uninitiated, so they clad them in aluminum. "We want to create approachable wild ales," said Whiner co-founder Brian Taylor. "Cans are a less intimidating package."

As cans' image improves, so does their design. Boston Beer spent a million dollars creating a can with a wider mouth to better aerate its beer and accentuate the grassy hop flavor in Samuel Adams Boston Lager. Colorado's Left Hand Milk Stout, long a draft-only find, now pours silky smooth from a can with a nitrogen-gas-infusing widget produced with canning company Ball—one of the first of its kind in the U.S. (Guinness's nitro cans use a free-floating gas diffuser, a proprietary design owned by parent company Diageo.)

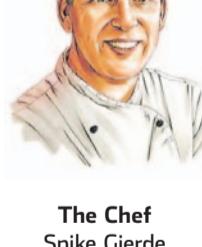
The cans' graphic design is looking better, too. Back when craft brewers adopted as their emblem the stubby brown bottle, they also espoused a defiantly handmade aesthetic, all hand-drawn hop vines and inside-joke names. Today's labels look sleeker, brighter—in a word, professional—and cans provide a bigger canvas, with imagery running all the way around. Heat-shrink and stick-on labels let breweries get creative with branding even on small runs. Check out OhBeautifulBeer.com, a website devoted to beer-label graphic design, and a high proportion of what you'll see will be cans.

So is this what craft beer looks like? For now. What matters is what it tastes like. Above, a selection of the best brews sold in cans, plus, at left, a few other beverages that now come outfitted in aluminum.



SLOW FOOD FAST SATISFYING AND SEASONAL FOOD IN ABOUT 30 MINUTES

Whole-Wheat Spaghetti With Tomatoes and Scapes



The Chef
Spike Gjerde

His Restaurants
Woodberry Kitchen,
Parts & Labor,
Bird in Hand,
Grand Cru and
Artifact Coffee, all
in Baltimore; A
Rake's Progress,
soon to open in
Washington, D.C.

What He's Known For
Obsessively researching and championing Mid-Atlantic farmers and foodways. Unpretentious cooking rooted in superb ingredients.

TOMATO SEASON can seem all too short in the Mid-Atlantic region. But, thanks to an ambitious canning operation that supplies all of his Baltimore restaurants, chef Spike Gjerde can rely on a year-round stockpile. "We preserve over 60,000 pounds of produce a year in-house," he said. He's even parlayed his preserving into a side business with the launch of Spike's Maryland Tomatoes.

This recipe, Mr. Gjerde's second Slow Food Fast contribution, is a tribute to the everyday magic a few pantry staples can make. The sauce consists of little more than a can of tomatoes, a few anchovies, shallots, capers and a good glug of red wine. Since we're coming into the season when garlic scapes begin to sprout—

you'll find them in markets through June—he slices and sautés a few of the long, curly stalks to add their fresh flavor to the sauce. Just be sure to mind the cooking time: Mr. Gjerde warns that scapes can turn bitter and lose their bite if stewed too long. For the spaghetti, he likes whole-wheat's full, nutty flavor. Boil the noodles while the sauce cooks, toss everything together, and that's dinner, on the table in 20 minutes.

"I make this a lot at home," Mr. Gjerde said. "But I might leave out the scapes for my kids." You can swap in scallions, ramps or sliced garlic cloves, or simply count on the tomatoes to provide the flavor. Good ones, canned at peak ripeness, are all you really need. —Kitty Greenwald

TOTAL TIME: 20 minutes **SERVES:** 4

Kosher salt
3 tablespoons olive oil
½ cup sliced garlic scapes
1 shallot, minced
1 teaspoon dried oregano
3 anchovy fillets

1 cup red wine
1 (28-ounce) can crushed tomatoes
1 bay leaf
3 tablespoons capers, rinsed and roughly

chopped
1 pinch of sugar, as needed
1 pound whole-wheat spaghetti
Freshly grated Parmesan, for serving (optional)

1. Bring a medium pot of salted water to a rolling boil over high heat. Meanwhile, heat oil in a large sauté pan over medium heat. Once hot, stir in scapes, shallots, oregano and anchovy fillets to pan. Gently fry, stirring and smashing fillets, until scapes soften slightly and anchovies begin to melt, about 2 minutes. 2. Increase heat to medium-high, add wine and bring to a boil. Boil until wine reduces by half, 2 minutes. Stir in crushed tomatoes, bay

leaf and capers. Bring sauce to a simmer, about 2 minutes. Taste, adjust seasoning and add a pinch of sugar if tomatoes lack sweetness. Continue gently simmering until flavors meld, 10 minutes more. 3. While sauce simmers, add pasta to boiling water and cook until al dente. Drain spaghetti and add it to sauce. Toss to thoroughly combine and adjust seasoning as needed. Top with grated Parmesan, if using.



OH SHOOTS Scapes, the twisty stalks that sprout from garlic bulbs, have a fleeting season. Use them to add punch to this tomato sauce.

OFF DUTY

TEST DRIVE

All the White Moves

Three smart ways to wear the of-the-moment but tricky white suit



BY CHRISTINE LENNON

THE WHITE SUIT: Few wardrobe choices project more power, poise, confidence and bold disregard of potential ballpoint-pen stains. Hillary Clinton reached for a Ralph Lauren version before the third debate, earning points for appearing presidential. Bianca Jagger slinked around in hers at Studio 54, chicer than the sequined crowd. Morgan Freeman wears one whenever he's asked to play God. It always does the trick.

In concept, it's easy to understand the white suit's appeal. There's a weight for every season: sturdy wool, light linen or cotton, even silk. A variety of silhouettes work for women of almost any age and aesthetic—it can look, against all odds, as sensibly stylish on 24-year-old model/actress Cara Delevingne as on 70-something Diane Keaton. Thanks to the Clinton-inspired #pantsuitnation craze, what was formerly a staple of daring female bank managers has become a symbol of feminist solidarity. What's more: Its color calls back to our suffragette sisters.

The white suit ticks so many boxes on the list of desirable style statements that, as a menswear lover, I'm surprised I've never given one a spin. I can think of a few semi-valid defenses. The first is that I live in Los Angeles, an aggressively casual place where people wear white suits only if they've joined a cult or are over 50 and navigating a red carpet. Neither of those scenarios apply to me, yet. It also seems an unwise choice for a notorious spiller of red wine (and, once at the Chateau Marmont, an entire steak au poivre). A white suit is weighted, too, with pop-cultural baggage from my youth. It was a clownish go-to for Steve Martin, the clingy signature of "Saturday Night Fever"-era John Travolta, the uniform of Tom Wolfe.

WORKDAY Above: Let the suit's sharp tailoring do its job, and opt for a less buttoned-up underpinning. Blazer, \$795, and Pants, \$550 (throughout), 31philliplim.com; Shirt, \$498, dvf.com; Mizuki Earrings, Long, \$395, and Short, \$315, Stone & Strand, 855-775-3935

WEEKEND Above left: Flat sandals and casual layers de-stuffify the suit's formality. Raen Sunglasses, \$150, anthropologie.com; T-shirt, \$75, vince.com; Top, \$690, The Row, 212-755-2017; Necklace, \$2,295, Dolce & Gabbana, 212-879-9653; Chain, \$1,100, and Charm, \$550, jenniferfisherjewelry.com; Bag, \$10,900, Hermès, 800-441-4488; Sandals, \$242, kjacques.fr

The most memorable argument against the white suit, however, was made for me back in 2000, when my old friend Sara Blakely visited my office at Harper's Bazaar with a prototype of Spanx tucked into her backpack. She said that the idea for the neo-girdle came to her when she realized how bad even her slim backside looked in white pants, which revealed every bulge and the subtlest of panty seams. She went on to build a billion-dollar business, so she couldn't have been that wrong. And her observation was enough to turn me off the idea, until now.

Cut to the recent spring shows, and the succession of crisp and elegant white suits shown at 3.1 Phillip Lim, Chloé and Lanvin. Some were leavened by long flowing underpinnings, blouses left untucked, with tails of colorful silk peeking out below the jacket. Some, like those from American label

Theory, resurrected the minimalism of the late 1990s. "There's been so much color and novelty in fashion, I like the idea of going in a more discreet direction," said Lisa Kulson, creative director of womenswear.

Inspired by it all, I decided to try out Theory's white suit. First, I'm pleased to report that no Spanx were necessary. The fabric was a surprisingly versatile and flattering white crepe. I made my pale debut at a local school event, a writers' panel with two other authors, both clad in chic and serious black. I wore my suit with a pair of Marni platform sandals and a simple maize-colored tank. I layered on three necklaces, a look I can rarely pull off, due to my tendency to wear so many patterns that accessories get lost in the jumble. At the event, admirers told me I looked "elegant," which may have been code for overdressed but I was too jazzed about my natty new suit to care. We

EVENING An ultracool option for a night out. Beaded shawl/vest optional. Dries Van Noten Vest, \$1,665, barneys.com; Tank, \$210, helmutlang.com; Clutch, \$8,000, Dior, 212-931-2950; Sandals, \$815, Gianvito Rossi, 646-869-0201; Earrings, \$2,100, larksprandhawk.com

sat in director's chairs and talked about the fate of libraries in the digital world. The only thing that kept me from feeling as dusty and outdated as a stack of unwanted books was the freshness of my ensemble.

The second outing was an evening birthday party. I wore the suit with an elaborately beaded white Dries van Noten shawl on loan. (You can see it worn with a 3.1 Phillip Lim suit, top right). In the runway photo

In L.A., people only wear white suits if they've joined a cult or are navigating a red carpet.

I'd seen, this exquisite shawl suggested an ancient military vest from the Forbidden City, as reimagined by an angel. When I put it on, its long, dangling ties reminded me of the tzitziyot worn by some of the Orthodox Jewish men who walk down La Brea to temple. Mid-party, my husband made a couple of Sgt. Pepper jokes and I folded the shawl gently and put it in my bag, deciding I wasn't prepared to explain my motives all night. If I actually owned this shawl, I would wear it over a flowy dress. Without the shawl, my suit—styled with black sandals, a close-fitting ivory top and an extra napkin on my lap during dinner—was simple perfection.

My final challenge was to wear my white suit on a workday, which, for me, is typically spent at NeueHouse in Hollywood, an extremely creative, hipster-ridden, communal office space. I love it there, even if I sometimes feel like the den mother who thinks the kids actually like having her around.

I decided that the suit would project a kind of authority—and I need to own that. Still, I wore the pristine two-piece with Nikes and a graphic Clare V T-shirt, evidence that I haven't given up trying to fit in. No one seemed to care that I was wearing a suit. But it somehow made me believe I'm beaming out a not-so-subtle message: I'm in charge of my domain; I'm experienced; I'm powerful; I'm undaunted by ballpoint pens.

MOTHER'S DAY GIFT GUIDE

TOUCHING GESTURES

10 literally feel-good gift ideas for mom—from the softest robe to a bristly and invigorating workout for her hair

1. C'mere Cashmere Knitwear brand Naadam's new monogrammed robe is as light as dandelion fluff and nearly as soft. Just add croissants, served in bed, and gossip. Robe, \$155, naadamcashmere.com

2. Grit and Glory Using tiny fragments of walnut shell, this considerately abrasive scrub leaves skin smooth and fresh. A spa in a jar. Body Scrub, \$55, jomalone.com

3. Strike It Ostrich The wispy feather fringe of Prada's chic spring skirt tickles the knees divertingly. Skirt, \$2,480, Prada, 212-334-8888

4. Rough and Tender Exquisitely nubby—and never too hot—a loosely hand-woven alpaca blanket has her summer naps covered. RH, Restoration Hardware Throw, \$429, rh.com

5. Stimulation Package There's no pulling or yanking with this expensive-but-worth-it hairbrush. The finest incidental scalp massage she will ever enjoy. Mason Pearson Hair Brush, \$120, bigelowchemists.com

6. Gleam Squad The lustrously

creamy texture of pearls can be best appreciated when worn right against the skin, as with this ring's quartet. Ring, \$2,100, nataffoajillerie.com

7. Downy With Love Just the thing to slip into at home: velvety crisscross, rabbit-fur slides that are stylish enough to entertain in or just binge-watch "Anne with an E." Slides, \$950, alumnae.nyc

8. Growth Potential Forget cactuses. The pleasantly rubbery texture of a prickle-free succulent is ideal for plant petting. Bonus: They're black-thumb-proof. Remember to pot stylishly. From left: Fluted Jade and Ezra Planter, \$32; Jade and Calvert Planter, \$34; Haworthia and Jules Planter, \$40, thesill.com

9. Carry On Caressing Softly structured and silky, the Row's satin bag is essentially a grown-up's stuffed toy. Bag, \$990, The Row, 212-755-2017

10. Vase in the Crowd The finely pockmarked, matte surface of this single-stem vessel is curiously compelling. Wax Resist Vase, \$116, heathceramics.com



ANDRES OYOLA FOR THE WALL STREET JOURNAL, STYLING BY REBECCA MAUNSKY, HAIR BY PETER MATTELIANO, MAKEUP BY VICTOR NOBLE, MODEL: LOIS SCHINDLER/WILHELMINA

OFF DUTY

STYLE ROLE MODEL

The Exacting Tech Exec

Matt Jacobson proves Silicon Valley style isn't an oxymoron. Here, the Facebook bigwig on the carefully chosen elements of his uniform



Mature Moto I've got a classic Belstaff motorcycle jacket that's perfectly beat up. It was beat up when I bought it, and I've done my best to continue to beat it up. I got it at Portobello Market in London. A guy had it lying on the ground. Vintage Belstaff Jacket (a similar style), \$1,250, whatgoesaroundnyc.com



Quality Time I want to have a very limited number of watches. I stick to ones like a Rolex Submariner or Daytona, watches that were built to time things, or be worn in the water. Vintage Rolex, \$7,500, analogshift.com



It's a Wash I'm a nut about care so I wash my shirts myself. Persil detergent is the absolute best. It used to be fiendishly complicated to get because it wasn't being imported to the U.S. Now you can just buy it on Amazon. Persil, \$8, amazon.com



Bottom Line Thom Browne makes really good chinos. I wear all my pants really short. It's a homage to my dad who always wore his pants short with red socks. Trousers, \$790, thombrowne.com



Boardwalk Bespoke The Sandal Man in Newport Beach, Calif., has been making custom flip-flops since the '70s. I had a spare piece of shell cordovan leather so I had them make me a pair from it. Sandals, \$70, thesandalman.com

**SOCIAL WORKER**

Facebook's Matt Jacobson, wearing an Orazio Luciano suit, at his Manhattan Beach, Calif., home.



Paper Boy For years I carried a little Hermès notepad. It was beautiful but the refills became impossible to find. I recently found a guy in Los Angeles, with a company called One Star Leather Goods, making a version of it in shell cordovan. I think it's going to be the perfect replacement. Notebook Wallet, \$235, onestarleathergoods.com

SHAN ASGHARIA FOR THE WALL STREET JOURNAL (PORTAIT); F. MARTIN RAMIN/THE WALL STREET JOURNAL, STYLING BY JILL TELESKICKI (8)

BY JACOB GALLAGHER

AT FACEBOOK, Matt Jacobson sticks out like an errant line of code. "You won't see anybody else with a tie," said Mr. Jacobson, the company's head of market development. In the middle of Silicon Valley's sea of notoriously dressed-down coders, he's the man in the three-button Kiton suit and Alden monk straps. "When I joined the company almost 12 years ago, I just made a decision that I'm too old to wear ironic T-shirts," said Mr. Jacobson, 56, of his typically tailored uniform.

Having earned his corporate stripes at Fox and Disney, the Southern California native copes easily with buttoned-up office style. However, his fastidious fashion sense actually derives from his natty father, who worked as the director of low-cost housing for Los Angeles County. "My dad grew up on the beach," said Mr. Jacobson, "but he was always a Brooks-Brothers-sack-suit kind of guy."

Mr. Jacobson frequents Facebook's Menlo Park and New York offices, but lives with his wife Christopher Dukes in a Manhattan Beach, Calif. bungalow, since part of his job calls for building relationships with Hollywood.

His off-duty style skews more typically Californian—to a degree. His chinos are Thom Browne. His flip-flops, a bespoke Horween cordovan pair, outclass most dress shoes. A few years ago, Mr. Jacobson, dismayed by the generally subpar swimwear for men, revived Birdwell Beach Britches, an American label from the '60s, with skateboard legend Natas Kaupas.

Mr. Jacobson says he runs his closet like a tight ship: "I have a strict one-in, one-out rule for everything, from ties to T-shirts to shoes." Though this rigid, quality-over-quantity mandate might seem to limit his style choices, it has its upside. "No one would ever say 'Oh, I saw you wearing that yesterday' because that's pretty much every day," said Mr. Jacobson. "[That's] the nice thing about having a uniform."

Digital Version I think this brand Injinji was the first to make athletic socks that were five-toed. I believe that, from a stability standpoint, if you're running or working out, it makes a difference to have articulated toes. Socks, \$12, injinji.com

Strong Suit I keep it really simple: I wear navy and gray Kiton or Orazio Luciano suits, and I wear white shirts. My sport coats are three-button, unstructured ones with open patch-pockets. They remind me of the Brooks Brothers suits that my dad used to wear.



Purl of Wisdom I wear a black J. Press knit tie pretty much every day. Of all the silk knit neck-wear, it just ties up great. It's part of the whole look; think of Cary Grant in "North by Northwest."



Jumper Shot I got to know Sergio Loro Piana before he died, and he gave me a few baby cashmere sweaters. I love V-necks because of Steve McQueen. There are great pictures of him wearing a cashmere V-neck and off-white Levi's. Sweater, \$1,150, loropiana.com

FRESH PICK

A CUT BELOW

An online-only company wants to disrupt the luxury market and slice high-end prices



LUXE FOR LESS From left: Leather Weekend Bag, \$1,295, Cashmere Sweater, \$214, and Vicuña Scarf, \$575, all at archibaldlondon.com

TALK OF MARKUPS and wholesale margins isn't sexy. But direct-to-consumer brands like Warby Parker (eyewear) and Everlane (fashion basics), which eliminate both, have let men without a kingly budget score uncompromised style. Long story short: They sell well-made merchandise for less than you'd normally pay.

Now London entrepreneur Rohan Dhir, 28, wants to push the direct-to-cheapskate model into the high end with his company Archibald London. His pitch is ultimate luxury at less boggling prices. That means a cloud-soft vicuña muffler costs \$575, instead of the \$3,000-plus a scarf of the same rare fiber sets you back at Loro Piana. His Italian leather duffel is \$1,295 versus the upward of \$2,500 you'd spend on a brand with more overhead. Mr. Dhir is building on the success of his eyewear, launched in 2014; his \$225 frames, handmade in Japan, are a third the price of similar frames.

The company will add Japanese knives and selvedge jeans, and Spanish brogues in the months to come. The only obstacle to expansion is finding old-school craftsmen who will work with him. "That's what takes time," said Mr. Dhir, "convincing them to sell online like this." —Scott Christian

OFF DUTY

1. The rooftop at 1 Hotel Brooklyn Bridge

JOURNAL CONCIERGE
An Insider's Guide

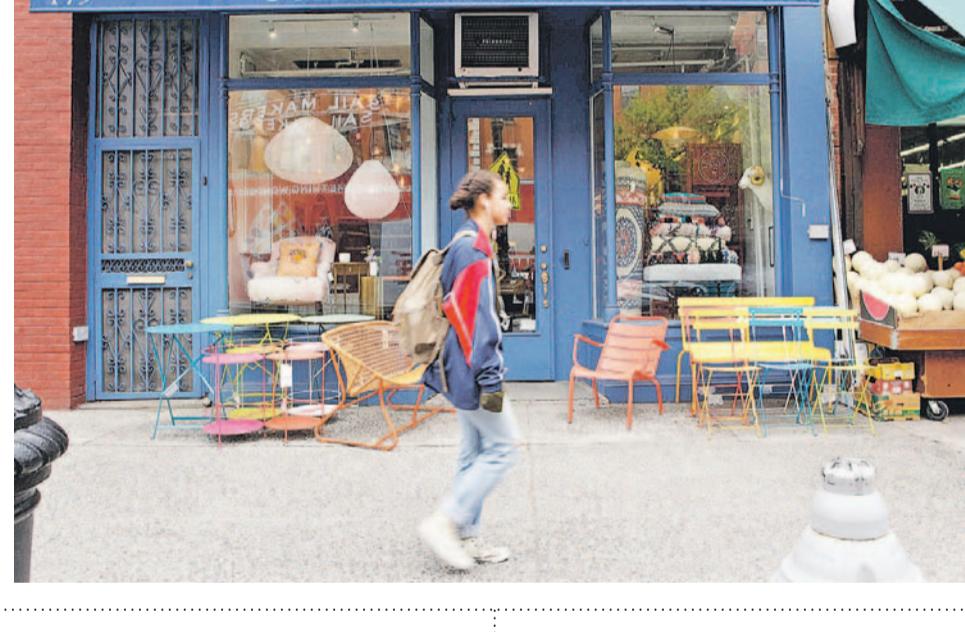
6. The Long Island Bar



5. Sahadi's on Atlantic Avenue.



4. Home shop Collyer's Mansion



2. Narnia



3. Birds of a Feather



THE WRITER

Kurt Andersen
Novelist and host of National Public Radio's Studio 360



THE BAR OWNERS

James Murphy and Christina Topsoe

Partners in the Four Horsemen wine bar (Mr. Murphy is also a musician and producer)



THE SHOPKEEPER

Jennifer Mankins

Owner and founder of Bird boutiques



THE FASHION DESIGNER

Maria Cornejo

Founder and creative director of Zero + Maria Cornejo



CLASSIC JOE // D'Amico Coffee Roasters.

There's nothing strenuously hip about this neighborhood joint. When we visit friends, we bring coffee from here. It's rich, dark, classic and perfect. 309 Court St., damicocoffeeroasters.com

SMALL WORLD // Dennet Place. It's a hidden world in Carroll Gardens, nicknamed Cat's Alley. The houses are all tiny with basement doors that are half-size. It's like walking into another era. West of Smith St., between Luquer and Nelson Sts.

TRUE GRIT // Red Hook. Brooklyn is still an urban work in progress, with a sense of creative activity. Like Gowanus, Red Hook is a strange, gritty, industrial place. The first time you go there, you see New York in a way you haven't before.

ART APART // Brooklyn Museum. The new director, Anne Pasternak, has a great sense of what a quasi-encyclopedic art museum should be in the 2010s. It's not an outer-borough poor man's Met but a museum with its own confident identity. 200 Eastern Parkway, brooklynmuseum.org

GREEN GRAPES // UVA Wine and Spirits.

Ground zero for natural wines, it's where Justin Chearno, our wine director, got us all into wines in the 2000s. [Before then] we were people who drank bourbon. 199 Bedford Ave., uvawines.com

DIFFERENT BEATS // National Sawdust. It's a place to hear new, contemporary works of music. It's reminiscent of the old Kitchen [a nonprofit performing arts space founded in 1971], with forward-thinking events. And they have programs for kids. 80 North 6th St., nationalsawdust.org

TRADE SECRET // Narnia. [2] A secret vintage store for women only, it's more like an apartment with a nice backyard. I [Christina] buy a lot of my things here. 672 Driggs Ave., facebook.com/harniavintage

NEW CHOW // Birds Of A Feather. [3] This new Sichuan restaurant is large, and loud as hell, but it's light and airy. Some of our favorite dishes are the wonton in chili oil and the tofu and preserved egg. 191 Grand St., birdsofafeatherny.com

RICE AND SHINE // Okonomi.

This tiny Japanese restaurant in Williamsburg serves a traditional Japanese breakfast set menu and it is one of my very favorite ways to start the day. 150 Ainslie St., okonomibk.com

HOME ECONOMICAL // Collyer's Mansion.

[4] It has a tightly curated mix of housewares and a rotating roster of artists and affordable art. Every time I go, there's a piece I want to buy, under \$1,000. 179 Atlantic Ave., shopthemansion.com

RAISE THE BAR // The Long Island Bar.

[6] Joel Tompkins and Toby Cecchini restored an old longshoreman's bar and kept a lot of the original details. It has the best vibe. I get a Long Island gimlet, a classic gin gimlet with a little ginger. 710 Atlantic Ave., thelongislandbar.com

FIELD DAY // Msgr. McGolrick Park. Prospect Park is the heart and soul of Brooklyn. But this park in Greenpoint is so sweet, with row houses on Monitor Street. It feels cut out of another time. nycgovparks.org

STREET CRED // Atlantic Avenue.

It has great antique furniture and contemporary home stores. My favorites are Holler & Squall for good antiques (119 Atlantic Ave., hollerandsquall.com) and Primary Essentials for gifts (372 Atlantic Ave., theprimaryessentials.com). At Sahadi's [5] (187 Atlantic Ave., sahadis.com), I'll grab hummus and pita for a snack in a nearby park.

GO WITH THE PHO // Nightingale Nine. It's Vietnamese food, and their take on it is so fresh and light. I order the shredded duck salad and a pho soup. 329 Smith St., nightingalenine.com

URBAN GARDEN // Frankies 457 Spuntino.

The [Italian] food is so good. They have a great, private party room and they also have a garden. I love a garden. 457 Court St., frankies457.com

BRIDGE OF STRIDES // The Brooklyn Bridge. If I feel like talking a walk, I go from my home [in Brooklyn] to my office [in downtown Manhattan] across the Brooklyn Bridge. You get amazing, postcard views.

OFF DUTY

HOUSE TOUR

Only as Old as It Feels

Clever décor both honors, and subverts, a 19th-century rental apartment in New York

BY JEN RENZI

YOU'D BE FORGIVEN for assuming the inhabitants of this New York pied-à-terre are devout traditionalists. The rental apartment, encompassing the top two floors of a 19th-century townhouse, features painstakingly restored period details: tin ceilings, plaster medallions, even a prim plate ledge lined with grandmotherly floral-print china. And consider the décor, a studied assemblage of Oriental carpets, densely patterned wallpaper, and velvet seating that seems plucked from the Victorian era.

You'd be wrong. As it turns out, the residents, a financial advisor and his flight-attendant husband, more typically favor modern milieux. The couple's previous Manhattan crash pad occupied a slick high-rise; their primary residence, a midcentury Palm Springs abode, is all sleek lines and glass walls. But after falling hard for this townhouse, on a cobblestone street in the Meatpacking District, the pair embraced its old-world character. "This space is such a departure for my clients," interior designer Kati Curtis explained. "They were so open to taking chances and going against the grain of their usual style." It stretched their boundaries, admitted one of the clients, adding that they ultimately love warm, livable spaces.

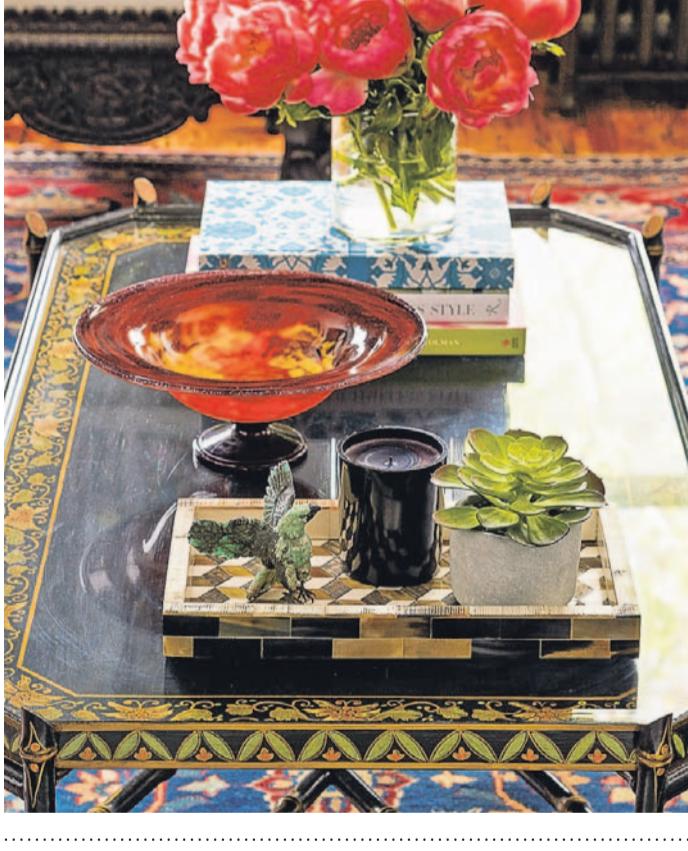
While many of her furnishing choices respect the historic context, Ms. Curtis wove in quietly modern touches. An edgy moth motif shakes up a wallpaper. An au courant slab of petrified wood tops the dining table. Clean-lined, dark-stained dining chairs lend architectural rigor. "The black finish and neutral upholstery was very intentional...to balance out all the florals," Ms. Curtis explained. "You might think, 'Oh, she just went crazy with color and pattern.' But it's carefully coordinated, with a consistent palette and somewhat cheeky sensibility." How contemporary.



ERIC PASECKI/OTTO

A Considered Coffee Table

Ms. Curtis styled every horizontal surface—including the living-room coffee table, a hand-painted antique with a custom glass top. To keep her arrangement of *objets* looking "curated, not cluttered," she used a tortoiseshell tray and stacked books as visual anchors to frame smaller pieces and bracket a Murano-glass bowl. The Oriental carpets were a tenant-friendly splurge. "Invest in versatile items that you can take with you: Those rugs are artworks that can work in any style interior," Ms. Curtis said. Although typically purchased to fit the scale of a particular room, a rug can be repurposed in a larger space simply by layering it over sisal.



Tradition Tweaked

The living room's armchair, by the Cisco Brothers, is tightly upholstered (without loose cushions) in a Timorous Beasties linen. "The [Beasties] prints look like traditional English country designs from afar, but when you look up close there's always some surprise: squirrels, skulls, bird patterns," Ms. Curtis said. "The fabric captures the home's Victorian feel but in a modern way." The framed artwork over the marble fireplace is *verre églomisé*, a type of back-painted glass, purchased from an antiques dealer in High Point, North Carolina. Although the medium is fairly traditional, the imagery makes the piece read a bit wink-wink in this context—just like the fabric. "I was like, 'Is a rooster too cliché for you guys?' But they loved it," Ms. Curtis recalled.



Décor You Can Undo

In the dining room of a West Village rental apartment, New York designer Kati Curtis covered walls in a hand-blocked botanical, called Bloomsbury Garden, from quirky British brand Timorous Beasties. "The bones of the space were wonderful, but I felt the white walls were begging for wallpaper," Ms. Curtis said. "A more layered décor befits a 19th-century townhouse." She cautioned that wallpaper is not always ideal for renters, given how tricky it is to peel off when the lease expires. "We had this backed with muslin, which makes it easily removable."



Closed-Door Policy

In the master bedroom, door and fireplace placement dictated where pieces could—or couldn't—fit, so accommodating a king-size bed and the requisite pair of nightstands and dressers proved a Chinese puzzle. "Having multiple doorways in a room makes for a very challenging layout," Ms. Curtis said. She gained room for a nightstand at the far side of the bed by closing off a door to the connecting room and using it as a decorative backdrop. "The door trim acts like a frame around it."

Quick-Change Kitchen

Original elements in the kitchen include pine cabinets, some fitted with leaded glass, and restored brickwork. The white stone countertops and stainless-steel appliances are new—a must for the couple, who cook and entertain a lot. "In a rental, you don't want to tackle a kitchen renovation," Ms. Curtis said. "Rugs, linens and café curtains are my favorite ways to add no-commitment personality. Here, I only added a few accessories, like the dish towel." The designer and her clients agreed that the kitchen worked well as is, with its clean lines and lack of ornamentation. "This space demonstrates how you can maintain a historical character in an older kitchen by pairing period elements with modern conveniences," Ms. Curtis said. "In a traditionally appointed home, the kitchen is the one room where you can get away with being resolutely contemporary."



OFF DUTY

Set Your Vinyl Free

The old-school record player gets a Bluetooth upgrade—and loses those pesky audio cables

BY JESSE WILL

THE VINYL comeback is going strong—which will come as no surprise to anyone who's recently ventured into an Urban Outfitters or Whole Foods, where crates of LPs by artists from Thelonious Monk to Twenty One Pilots are for sale.

But if you're looking to jump on the vinyl bandwagon, simply blowing the heavy layer of dust off the record player that's been languishing in your basement may not be your best move. In the digital era, turntables have learned a lot of new

Simply blowing the dust off the record player that's been languishing in your basement may not be your best move.

tricks. High-tech wireless upgrades automatically broadcast an audio signal into every room in your house and eliminate one of the biggest hurdles of bringing a long-forgotten player back into your life: the need to wire it to either a hulking A/V receiver or powered speakers. The compact units shown below use Bluetooth to beam music directly to your wireless headphones, speakers or even the soundbar under the TV in your living room.

Granted, these players don't dispense entirely with cords (few "wireless" products do). You still have to plug them into a power outlet.



AAD GOUDAPPÉ

let. But they do let you add a record player to a kitchen, den or guest bedroom without losing the space a full sound system requires.

Hardcore audiophiles, we should point out, will find the very idea of a Bluetooth turntable blasphemous, since these players end up compressing their beloved analog signals into digital ones. The long-held

argument for collecting vinyl has been the format's warm analog sound—a soft contrast to the cold precision of digital formats like CDs and the compressed signals of most audio streaming services.

But considering that many vinyl LPs sold today (including reissues) are pressed from digital masters, going conveniently wire-free

doesn't necessarily involve a sacrifice of analog purity. And even a digital player will deliver the charming pop and crackle brought on by a stray speck of dust or the inevitable physical imperfection in the record.

The fact is, a wireless turntable still offers one of the greatest pleasures of vinyl: the opportunity to

pull a record from a 12-inch sleeve and ponder its artwork at length. (We still haven't entirely figured out what's motivating the little rock-climbing nudists on the cover of Led Zeppelin's "Houses of the Holy.") This small ritual lets you focus on the music rather than whatever alert happens to have popped up on your phone's screen.

SPINNERS WITH SMARTS // THREE WIRELESS TURNTABLES FOR UNTETHERED AUDIO ENJOYMENT



Audio Technica LP60BK-BT

This super affordable player is based on an entry-level turntable from Audio Technica. It may not wow any audiophiles, but it does sound much better than the flood of toylike non-Bluetooth turntables that have littered the market. Its ability to recall its pairing settings with up to eight audio devices means you can easily switch playback from a pair of speakers to your wireless headphones once the children have gone to bed. And should you want to connect the LP60BK-BT to your vintage receiver, it has an analog output, too. \$179, audio-technica.com

Pro-Ject VT BT R

Much of vinyl's appeal lies in watching a record spin. Too bad many old players hide that magic under a dust-cover darker than your Ray-Bans. The Pro-Ject VT BT R, however, transforms itself into an altar of analog cool by orienting itself vertically: It stands up on a pair of adjustable feet rather than laying flat, spinning records in full view. (A screw-in clamp prevents your records from crashing to the floor as they play.) Or mount this turntable on the wall at eye level; its Bluetooth prowess means you'll only have a single power cable to contend with. \$499, pro-jectusa.com

TRNTBL by VNYL

The soon-to-be-released TRNTBL features a sleek frosted acrylic platter and a curved tonearm with an Audio Technica phono cartridge. A tiny onboard computer can send audio not only to Bluetooth devices but also to Apple Airplay-connected speakers and a Sonos wireless audio system. We connected a prerelease TRNTBL unit using beta versions of the Sonos and TRNTBL apps and were listening to the Ramones throughout the house in minutes. This player is available for preorder now and is slated to go on sale later this month. \$499; trntbl.co

TECH ESSENTIALS

ROBIN ROBERTS

The 'Good Morning America' anchor on her 'Angry Birds' addiction, no-B.S. protein bars and a surefire way to get some shut eye

When you work on a morning show and get up at 3:15, your sleep pattern is always out of whack. Whether I'm traveling or at home, I have to have my **Young Living's Dew-drop Diffuser** and lavender essential oil or I will not sleep.

I always have **RXBars** on hand because my eating pattern also gets out of whack, especially when I'm traveling. I love how what's in them is right there [on the label]: three egg whites, four almonds, six cashews, two dates. No B.S. My favorites are the Mint Chocolate and Chocolate Sea Salt.

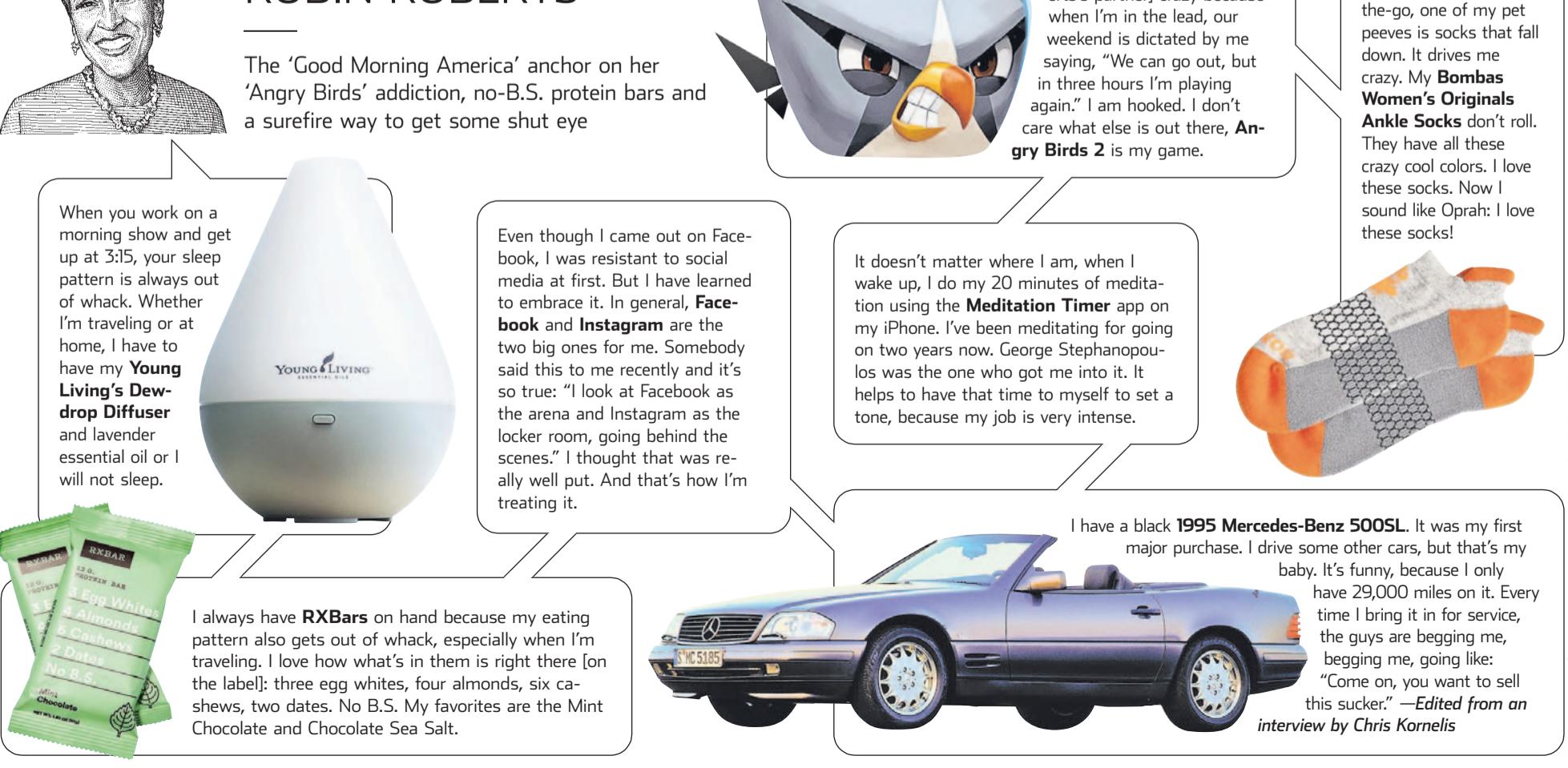
Even though I came out on Facebook, I was resistant to social media at first. But I have learned to embrace it. In general, **Facebook** and **Instagram** are the two big ones for me. Somebody said this to me recently and it's so true: "I look at Facebook as the arena and Instagram as the locker room, going behind the scenes." I thought that was really well put. And that's how I'm treating it.

It doesn't matter where I am, when I wake up, I do my 20 minutes of meditation using the **Meditation Timer** app on my iPhone. I've been meditating for going on two years now. George Stephanopoulos was the one who got me into it. It helps to have that time to myself to set a tone, because my job is very intense.

I'm still an Angry Birds person. I drive Amber [Laign, Ms. Roberts's partner] crazy because when I'm in the lead, our weekend is dictated by me saying, "We can go out, but in three hours I'm playing again." I am hooked. I don't care what else is out there, **Angry Birds 2** is my game.

As someone who's very athletic and always on-the-go, one of my pet peeves is socks that fall down. It drives me crazy. My **Bombas Women's Originals Ankle Socks** don't roll. They have all these crazy cool colors. I love these socks. Now I sound like Oprah: I love these socks!

I have a black **1995 Mercedes-Benz 500SL**. It was my first major purchase. I drive some other cars, but that's my baby. It's funny, because I only have 29,000 miles on it. Every time I bring it in for service, the guys are begging me, begging me, going like: "Come on, you want to sell this sucker." —Edited from an interview by Chris Kornelis



MANSION

'Creativity takes courage.'
—Henri Matisse

HOMES | MARKETS | PEOPLE | UPKEEP | VALUES | NEIGHBORHOODS | REDOS | SALES | FIXTURES | BROKERS

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THE WALL STREET JOURNAL.

Friday - Sunday, May 5 - 7, 2017 | W9

Where Life Meets Art

Top artists' homes often boast high ceilings and lots of light. But selling a place with no living room can be a challenge.



HOME SWEET HOME Will Cotton and his girlfriend, art researcher Rose Dergan, ripped out the walls in their New York loft and turned it into one large, open space with various corners devoted to painting, art-supply storage, dining and sleeping.



BY KATY MC LAUGHLIN

WHEN NEW YORK PAINTER AND SCULPTOR Will Cotton and his girlfriend, art researcher Rose Dergan, bought a 3,200-square-foot Tribeca loft in 2010, they spent about \$150,000 on renovations. They ripped out bedroom walls and tore off drywall to expose steel and wood ceiling beams. Then they devoted a chunk of the budget to installing a commercial grade vent fan on a chimney, to suck out fumes caused by oil paint, turpentine and varnishes.

"I wanted to empty it out and make it pretty much as it had been in the 19th century," said Mr. Cotton, 52, whose work is in museums including the Smithsonian National Portrait Gallery in Washington, D.C. Today, the couple lives in one large,

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LUXURY HOUSE ON THE PRAIRIE

Sioux Falls, S.D., fueled by rapid growth, sees a boom in high-end homes. But those who build big or push the boundaries of design may have trouble selling or recouping their investment when their house goes on the market.

BY STEFANOS CHEN

IN THE SUN ROOM of his newly renovated, 7,700-square-foot mansion in Sioux Falls, S.D., Kevin Tupy and his listing agent gazed at the luxury homes sprouting up on the plains.

"That one's worth \$7 million," said his agent, Liz Lloyd, pointing to a 12,000-square-foot brick mansion built around 2010. A few blocks away is a rustic-contemporary home that sold for nearly \$2.5 million last year—the record-high home sale for Sioux Falls.

Mr. Tupy, 48, a venture capitalist, bought his six-bedroom contemporary home less than two years ago for \$1.24 million. Now he and his wife, Delena, a homemaker and the reigning Mrs. South Dakota, are preparing to list the home for \$1.5 million, to trade up to a larger home with more amenities.

There's nothing little about these houses on the prairie. Fueled by a mix of business-friendly tax laws and rapid growth in the medical and financial fields, Sioux Falls is experiencing a boomlet in the luxury-home market.

Some affluent buyers, not finding what they want in existing stock, are building their own—and bringing new



TOP DOLLAR The most expensive home for sale in Sioux Falls is an ultramodern estate listed for \$2.45 million. The city currently has 16 homes listed for \$1 million or more.

styles and amenities to town. Real-estate agents predict a wave of sales at record prices. But building big and pushing the boundaries of local tastes come with risks: It isn't unusual for million-dollar listings to sit on the market for years, or for homeowners to spend more than they can recoup when

they sell.

"Holy cow, things are busy" said Bob Natz, a local home designer who says business has picked up since 2010. In the past year, his firm has designed three luxury homes, from \$1 million to \$1.5 million, with much of the demand coming from doctors. The two largest em-

ployers, medical providers Sanford Health and Avera, account for roughly 17,000 jobs in the city, which has one of the lowest unemployment rates in the country at 2.8%. With a population of 178,500, the city saw a 3% growth in population last year. There is no state income tax, and favorable cor-

porate and banking rules have attracted the likes of Citibank and Wells Fargo.

Until recently, the luxury homes "just weren't there," said Beth Jamison, president of the greater Sioux Falls real-estate association. While the market's median sale price is \$183,000, there are

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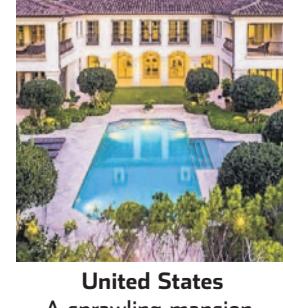
HOUSE OF THE DAY
wsj.com/houseoftheday



United Kingdom
A modernized Victorian coach house in London



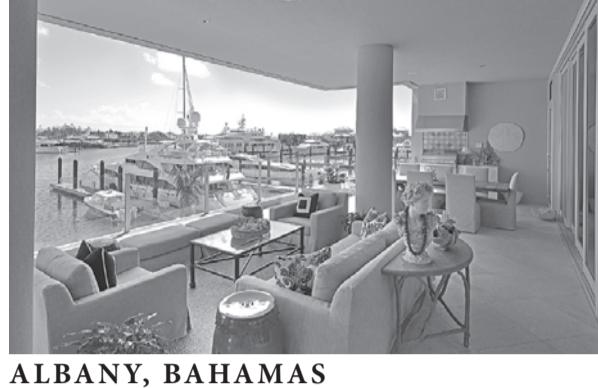
United States
A Manhattan townhouse on the East River



United States
A sprawling mansion in Jupiter, Fla.

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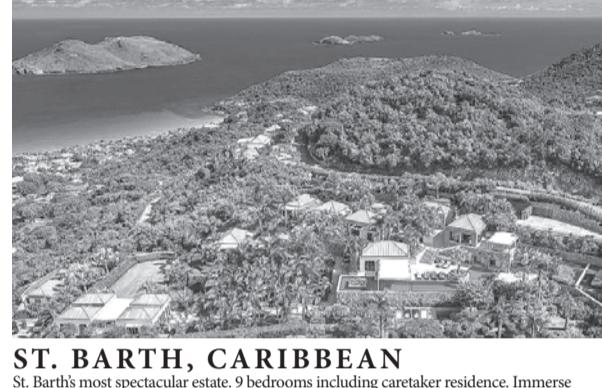
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ALBANY, BAHAMAS

5 bedroom and 5.5 bath luxury marina residence spanning 6,299 sq. ft. with media room, Crestron Smart Home system, custom upgrades and designer furnishings. Resort amenities, 24 hour concierge. WEB: 4ZV66Y. \$7,900,000 US. Lana.Rademaker@SIR.com

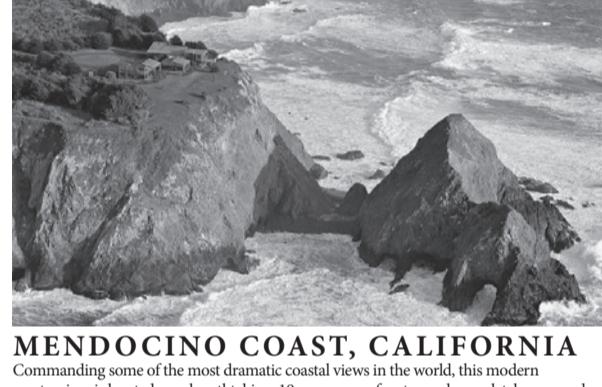
Damianos Sotheby's International Realty
+1 242.457.0406 | SIRbahamas.com



ST. BARTH, CARIBBEAN

St. Barth's most spectacular estate. 9 bedrooms including caretaker residence. Immerse yourself in the views that include the islands of Saba and Statia. This private gated property cascades along the hillside and features a 5 bedroom main residence, 2 bedroom guest house and 2 pools. Price upon request. tom@stbarth.com

St. Barth Properties Sotheby's International Realty
+1 508.570.4481 | sothebysrealty-stbarth.com



MENDOCINO COAST, CALIFORNIA

Commanding some of the most dramatic coastal views in the world, this modern masterpiece is located on a breathtaking, 19 acre, ocean-front parcel completely screened from public view. Surrounded by the ocean on three sides. \$3,995,000. Thomas Henthorne.

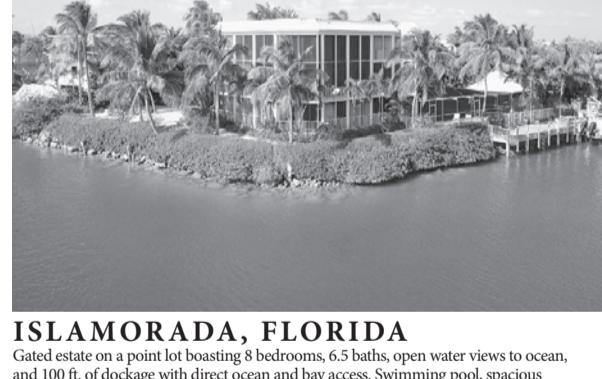
Golden Gate Sotheby's International Realty
+1 415.847.5584 | TheSeaArches.com



SAN DIEGO, CALIFORNIA

Extraordinary 640+ acre luxury ranch retreat. This property offers a gorgeous main house, guest homes, pool pond, massive barn, dressage riding arena, skeet shooting range, paintball park, go-kart track and more. \$11,450,000. Eric Iantorno.

Pacific Sotheby's International Realty
+1 858.256.7005 | PacificSothebysRealty.com



ISLAMORADA, FLORIDA

Gated estate on a point lot boasting 8 bedrooms, 6.5 baths, open water views to ocean, and 100 ft. of dockage with direct ocean and bay access. Swimming pool, spacious screened balconies, paved driveway, elevator, double car garage and guest quarters. \$5,000,000. Leslie.Leopold@sothebysrealty.com

Ocean Sotheby's International Realty
+1 305.712.8888 | OceanSIR.com



CHICAGO, ILLINOIS

In stylish and intimate Lincoln Park, the 32 condominium residences at Norweta Row offer an entirely new and playfully unique take on city living. 45% of outdoor space in this residential enclave with an extraordinary level of amenities. Construction underway! \$899,000-\$2,995,000. Elizabeth Amidon.

Jameson Sotheby's International Realty
+1 312.237.6708 | jamesonsir.com

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HARBOUR ISLAND, BAHAMAS

Traditional Bahamian veranda house. Short 180m walk to the ocean and Pink Sands Beach. This 4 bedroom, 4 bath house sits on a 1/3 acre lush lot with pool and citrus trees. \$2,950,000 US. James.Malcolm@SIR.com

Damianos Sotheby's International Realty
+1 242.376.9858 | SIRbahamas.com



PARADISE ISLAND, BAHAMAS

7,100 sf classic European style home with expansive golf course views. Luxury materials throughout. Sold with original fine art and 45' Ocean Club Marina dock slip with boat lift. WEB: NRQ7RQ. \$6,750,000 US. Nick.Damianos@SIR.com

Damianos Sotheby's International Realty
+1 242.376.1841 | SIRbahamas.com



LA JOLLA, CALIFORNIA

Ocean view Cliff May designed Spanish Hacienda in La Jolla's coveted Lower Hermosa neighborhood. Amazing ocean view master suite, gourmet kitchen, numerous French doors, courtyard living. \$5,500,000. Edward Mracek and Karen Rockwell.

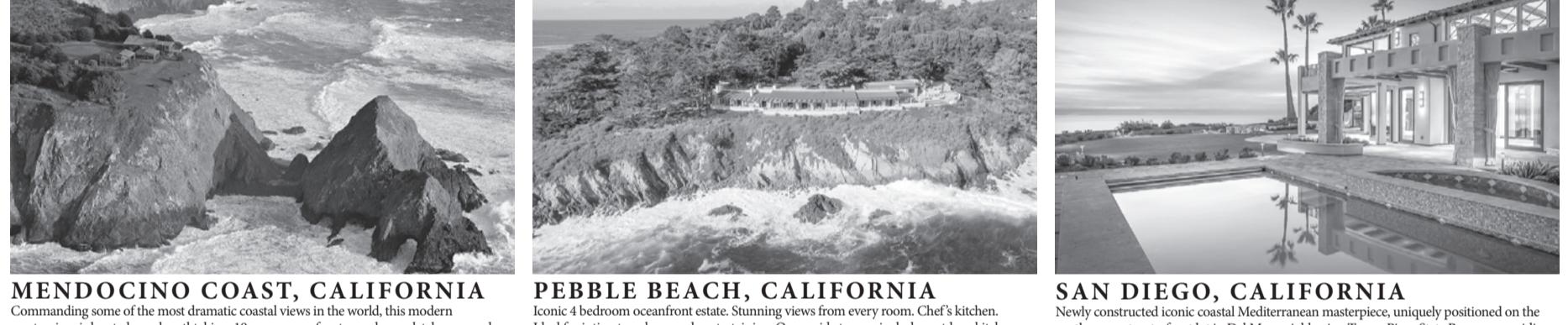
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+1 858.382.6006 | LaJollaHomes-RealEstate.com



MANHATTAN BEACH, CALIFORNIA

This 6 bedroom, 10 bath estate built in 2014 sits on 2.5 walkstreet lots with panoramic ocean views. The 11,000+ sq. ft. home has every imaginable luxury... theater, pool, cabana, wine cellar, gym, virtual golf course and more. \$19,950,000. JackieAndChris@VistaSIR.com

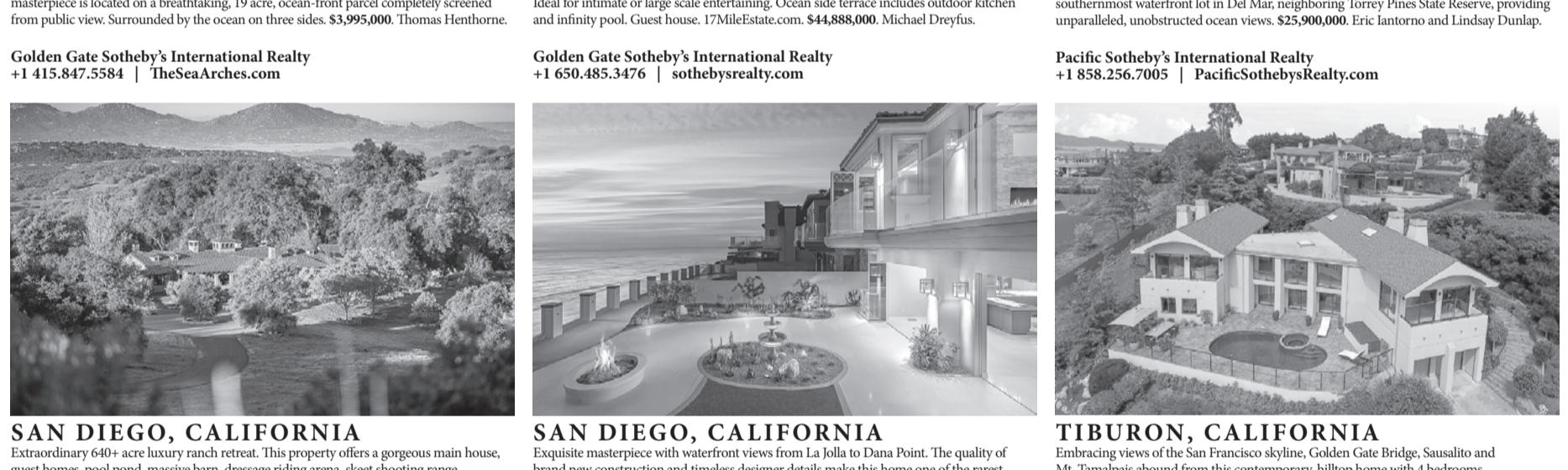
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+1 310.259.1205 / 310.266.6979 | VistaSIR.com



SAN DIEGO, CALIFORNIA

Newly constructed iconic coastal Mediterranean masterpiece, uniquely positioned on the southernmost waterfront lot in Del Mar, neighboring Torrey Pines State Reserve, providing unparalleled, unobstructed ocean views. \$25,900,000. Eric Iantorno and Lindsay Dunlap.

Pacific Sotheby's International Realty
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PEBBLE BEACH, CALIFORNIA

Iconic 4 bedroom oceanfront estate. Stunning views from every room. Chef's kitchen. Ideal for intimate or large scale entertaining. Ocean side terrace includes outdoor kitchen and infinity pool. Guest house. 17MileEstate.com. \$44,888,000. Michael Dreyfus.

Golden Gate Sotheby's International Realty
+1 650.485.3476 | sothebysrealty.com

TIBURON, CALIFORNIA

Embracing views of the San Francisco skyline, Golden Gate Bridge, Sausalito and Mt. Tamalpais abound from this contemporary, hilltop home with 4 bedrooms, 3 full and 2 half baths, vaulted ceilings and floor-to-ceiling windows. \$4,995,000. Bill Bullock and Lydia Sarkissian.

Golden Gate Sotheby's International Realty
+1 415.517.7720 | globalestates.com



SAN DIEGO, CALIFORNIA

Exquisite masterpiece with waterfront views from La Jolla to Dana Point. The quality of brand new construction and timeless designer details make this home one of the rarest trophy properties on the coast. \$9,495,000. Clinton Selfridge and Eric Iantorno.

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+1 858.240.8010 | PacificSothebysRealty.com



CHICAGO, ILLINOIS

Unprecedented urban estate. 25,000 sq. ft. masterpiece on Chicago's finest street. Sited on more than 8 city lots. Manicured grounds with multiple fountains, reflecting pool and antique garden pavilion transport you to another world. \$50,000,000. Matt Leutheuser and Tim Salm. tsalm@jamesonsir.com

Jameson Sotheby's International Realty
+1 312.929.1564 | jamesonsir.com



BOSTON, MASSACHUSETTS

This 4,400+ sq. ft. parlor and garden duplex is located on the desirable first block of Commonwealth Avenue. Corner residence with magnificent gardens, 2 garage parking spaces and direct elevator access. \$8,995,000. Michael L. Carucci.

Gibson Sotheby's International Realty
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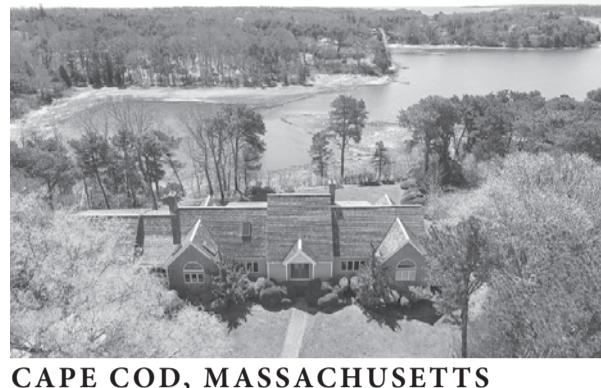
UNIQUE IMPRESSIONS WORLDWIDE SOTHEBYSREALTY.COM



BOSTON, MASSACHUSETTS

This luxury 3 bedroom, 4.5 bath condo in The Intercontinental Residences has been completely customized by current sellers. Top of the line amenities and fixtures throughout the home. Magnificent harbor views from every room. 2 deeded parking and full service concierge. \$4,995,000. Beth Dickerson.

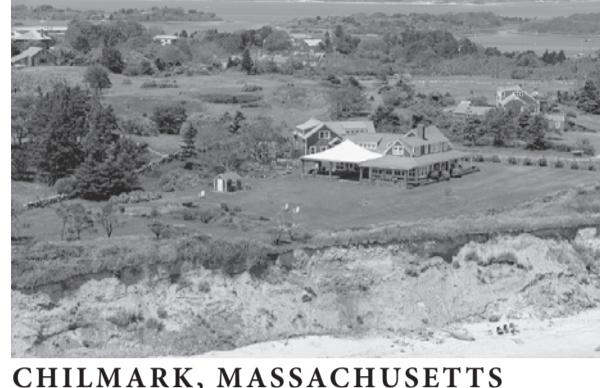
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+1 617.510.8565 | GibsonSothebysRealty.com



CAPE COD, MASSACHUSETTS

Sited on 1.18 acre overlooking "The River" with deep water access to Pleasant Bay. 4 bedroom suites, one on the first floor, with 2 additional half baths. 3,681 sq. ft. of living space. Oil heat, A/C, security, irrigation, outdoor shower. \$2,300,000. Daneen Law.

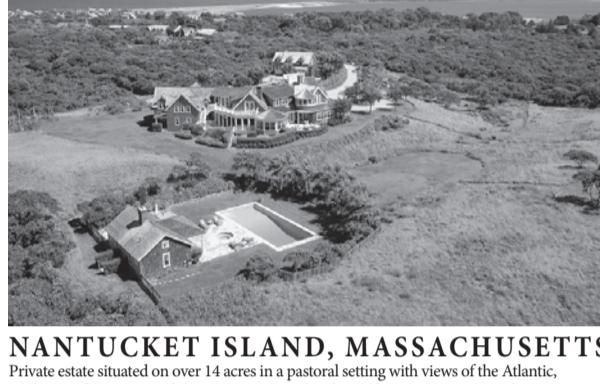
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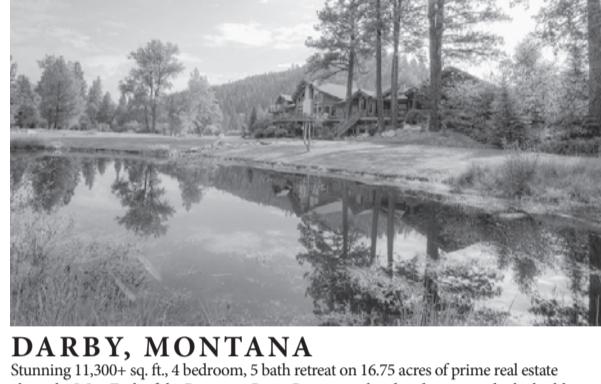
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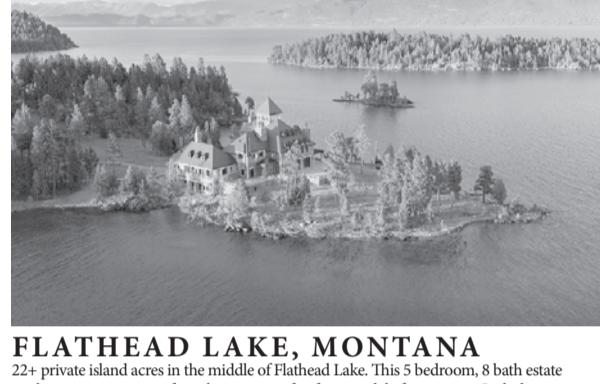
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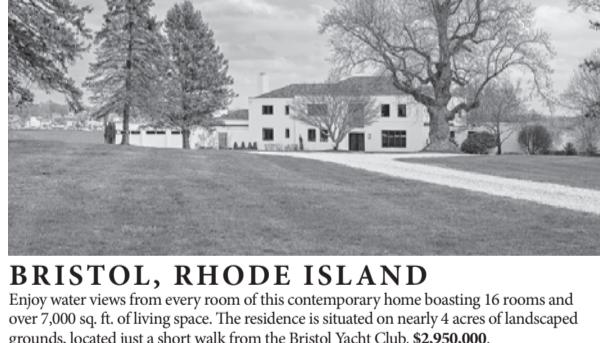
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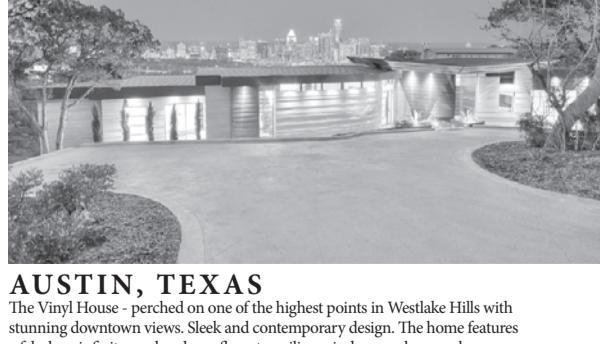
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MANSION

WHERE LIFE MEETS ART

Continued from page W9

open space with various corners devoted to painting, art-supply storage, dining and sleeping.

Artists as a group can have a salubrious impact on real-estate markets, pioneering gentrification and turning gritty urban landscapes into creative neighborhoods. But on an individual level, they often design their homes in direct opposition to what the rest of the real-estate market craves. Instead of giant kitchens and master bedrooms, they devote square

Amid soaring real-estate values, artists also face competition from non-artists who have come to embrace loft living and industrial style—as long as it is renovated to provide traditional comforts.

footage to ample space for making art. Rather than high-end hardwood flooring, they favor practical surfaces like concrete that can be spattered with paint or shock-absorbing floors that provide back support while they sculpt for long hours. Many artists dedicate what might have been a cozy family living room to private galleries and event spaces.

Once a home has been modified by an artist, it can become harder to market. Even in Santa Fe, N.M., where approximately 20% of buyers have “artist studio” on their wish list, some professional studios are resale liabilities, said Chuck McKinley, sales manager for Santa Fe Properties. Mr. McKinley said the company tried, and failed, to sell a \$1.5 million property with a 2,200-square-foot main house and a 1,000-square-foot detached studio with 30-foot ceilings.

“Buyers couldn’t make it into a guesthouse because of the massive ceilings, which wouldn’t have been cozy,” Mr. McKinley said. “It was going to take an artist, and there are a lot of artists who don’t have that kind of money.” The property, which has been on and off the market for about two years, remains unsold, Mr. McKinley said.

Abstract painter Joe Goode said his roughly 2,000-square-foot studio behind his home in Mar Vista, a Westside Los Angeles neighborhood, is his ideal workspace. Mr. Goode, 80, is considered “the quintessential West Coast artist of the late 20th century,” said Michael Kohn, owner of an eponymous Los Angeles gallery where Mr. Goode shows his work.

Soaring 20-foot-high ceilings with numerous large windows pour natural light onto his work—“so you can really see it,” Mr. Goode said. On the ground floor, he has a workspace, where he splatters paint on the concrete floors and tables, and a gallery-like space where he receives guests and hosts events. Upstairs, there is an office for his studio manager and her assistant, and a mezzanine from which he can look down on paintings in progress—“so I can see how they’ll look when they’re dry,” Mr. Goode said.

Having his studio steps away from his home is useful because “if I get an idea at 11 o’clock at night, I can go work on it,” he said.

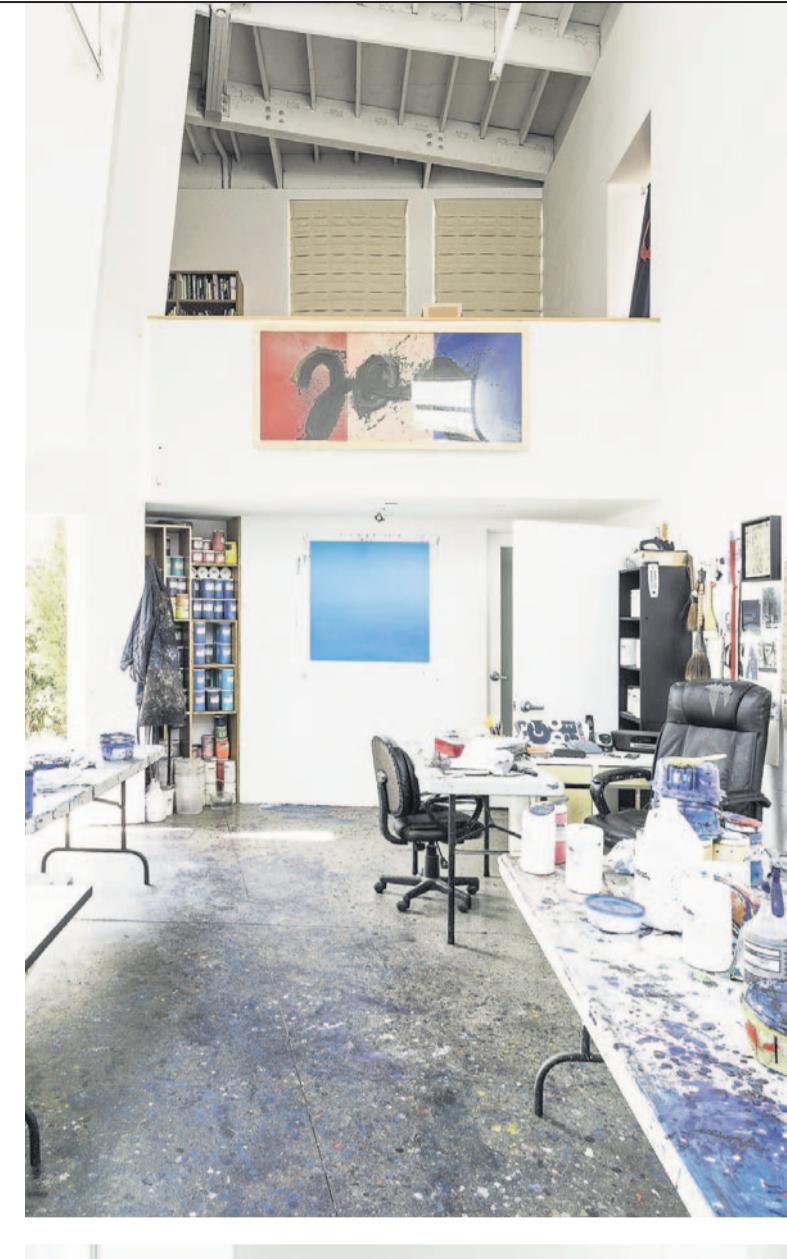
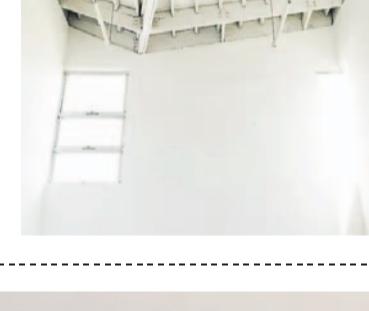
Mr. Goode’s perfect space came at a high personal cost. In 2005, he sensed something was wrong when his dog, an Australian Shepherd-Akita mix named Pollock, wouldn’t stop barking in the middle of the night. Mr. Goode and his wife got up to discover his previous studio on fire. Mr. Goode lost 200 works of art and spent about \$250,000 to rebuild the studio in 2007.

The fire was caused when rags covered in linseed oil, used for oil painting, spontaneously combusted, Mr. Goode said. Because of the hazard, he switched to acrylic paint. He also distributes his work among various spaces today, so that he can never again lose everything in the event of a disaster, he said.

Mr. Goode’s studio adds some value to the home, but not enough to cover the construction costs. Tami Pardee, founder of Halton Pardee + Partners, a Los Angeles brokerage, estimated the value of Mr. Goode’s property at \$1.8 to \$1.9 million, saying the studio likely adds 5% to 7% to the value.



IN THE STUDIO Joe Goode and his studio, which he says is his ideal work space; the studio sits behind his home, right, in a Los Angeles neighborhood.



LISA CORSON FOR THE WALL STREET JOURNAL (5)



A WORK-LIVE SPACE Colin and Kristine Poole devoted most of their 2,700-square-foot-house in Santa Fe, N.M., to work space and gallery space. There is no living room—non-art space is limited to a small kitchen and bedroom.



GABRIELLA MARKS FOR THE WALL STREET JOURNAL (3)

Mr. Cotton and Ms. Dergan’s loft, which they purchased for \$2.14 million, according to public records, would likely sell today for roughly \$4.5 million to \$5 million, said Jim St. André, a Tribeca and downtown specialist at CORE. If it were made into a conventional home, with bedroom walls and top-of-the-line finishes that would appeal to the typical “financial guy” buyers in the area, it would sell closer to \$6.5 million, Mr. St. André said.

It is increasingly difficult to find studio space in some of the cities that have attracted artists for generations, including New York and

San Francisco. Amid soaring real-estate values, artists also face competition from non-artists who have come to embrace loft living and industrial style—as long as it is renovated to provide traditional comforts.

“The conversion of industrial spaces to great residences has never been more popular,” said Mr. St. André. In New York’s Tribeca neighborhood, one building that for many years consisted mainly of commercial lofts used by artists, photographers and architects is now mostly condos; a penthouse is currently on the market for \$45 million, Mr. St. André said. The

loss of workspace in cities around the country has given rise to a number of activist groups, such as the Artist Studio Affordability Project in New York, that protest real-estate developments that compete with artists’ needs.

In San Francisco, Sotheby’s International Realty agent Wendy Storch is marketing a \$4.5 million, 4,800-square-foot house in the Mission District that has primarily been used as a live/workspace for artists since the 1960s. To prepare it for sale, the current owners added a driveway, roof deck and garage door to the studio space and staged it with lounge furniture

and motorcycles.

The buyer “could have classic cars, motorcycles or a fantastic rumpus room, but with a rustic, industrial feel,” Ms. Storch suggested.

Colin and Kristine Poole, a married couple of sculptors in Santa Fe, dispensed with nearly every convention when renovating their 2,700-square-foot house. They devoted 700 square feet to a work studio, where they regularly receive nude models, work on life-size clay figures, create molds, pour wax and assemble bronze sculpture. Mr. Poole, 52, also paints. Another 1,200-square-foot area of the house serves as a gallery space, where they receive clients and host art-oriented events. Because they work seven days a week, often for 14 hours a day, they decided to forgo a living room. Instead, non-art space is limited to a small kitchen and bedroom.

Mr. Poole bought the house in 1997 for \$200,000 from a cousin who had inherited it from their grandmother Una Hanbury, also a well-known sculptor, Mr. Poole said. Ms. Poole, 47, moved in nine years ago and the couple spent more than \$200,000 renovating, doing most of the work themselves.

They prioritized features that would serve their work. They laid the studio with a floating hardwood floor, typically used for dance floors, so that standing on the surface for many hours a day wouldn’t cause back pain. Four large skylights provide natural light; at night, tract lighting fitted with full spectrum bulbs from Germany imitates daylight, Mr. Poole said.

Living amid their output isn’t stressful, the artists said; instead, Mr. Cotton, Mr. Goode and the Pooles said they don’t want a clear line between life and art.

“If something is giving me a lot of trouble, I just turn it to face the wall,” to get a break, said Mr. Cotton, who is known for his images of costumes and landscapes made of sweets. Still, it is surprisingly hard to escape his subject matter. Soon after moving in to his loft, he noticed a faint, hand-painted sign from the 19th century on the exterior of the building, reading “Almond Paste—H. Heide—Confec-

tionary.”

“How crazy is that? It turns out I live in a converted candy factory,” Mr. Cotton said.

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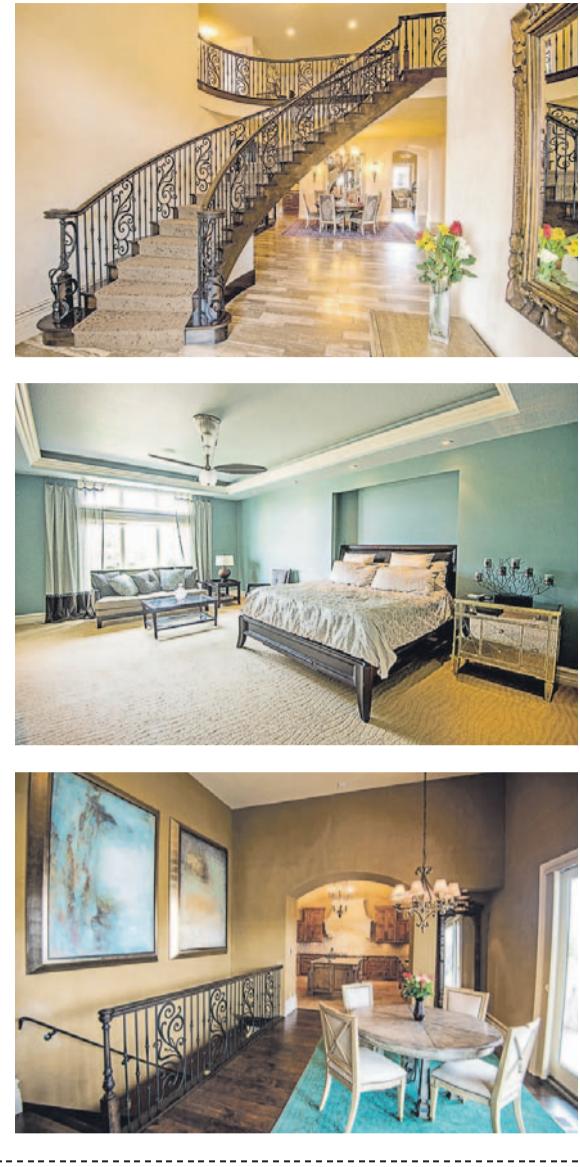
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MANSION

LUXURY RISES IN SIOUX FALLS



SOLD AT LAST Troy Stallings and his wife and business partner, Jane Shorma, built a 6,600-square-foot, Old World-inspired home, above and above right, and listed it for \$1.5 million in 2008, when the real-estate market stalled. They recently decided to auction the home with a minimum price of \$960,000, but a local buyer approached them beforehand with an offer above the minimum bid, and they accepted.



Continued from page W9

now 16 homes currently listed for \$1 million or more, said Aaron Rietsema of Hegg Realtors. Last year, eight homes priced at \$1 million or more sold, up from six the previous year and four in 2014. Only four homes have ever sold for \$2 million or more, including the record \$2.49 million home sold in 2016 to basketball player Kirk Hinrich, agents said.

That could soon change, said Kathy O. Allen, a Re/Max agent who says she has a home that could close in the \$4 million range, setting a record. The most expensive home on the market publicly listed for sale, an ultra-modern estate in the northeast corner of town, is listed for \$2.45 million.

Meanwhile, new luxury homes are rising. In 2016, there were 695 permits for new, single-family homes issued, nearly double the volume since the market low in 2011 and the highest since 2014, said the city's director of planning, Mike Cooper.

The change is evident downtown, where a sushi shop and a farm-to-table cafe compete with dimly lit bars serving a local favorite, chislic— hunks of fried beef served with toothpicks and a side of ranch dressing.

An imposing stone clock tower on the low-slung skyline, built in the 1800s with ornate blocks of red Sioux quartzite, will soon be joined by a modern mixed-use condo project using the same quarried stone. The seventh-floor penthouses of that building will sell fully finished for about \$1.8 million, said Chris Houwman, one of the developers.

With new buyers come new ideas. Matthew Roach, 36, a partner at the Sioux Falls-based Pride Built Homes, says he has completed five homes since 2015, all of which bring something different to the rows of earth-toned, steeply pitched rooflines that dominate the area.

"We like to call it coastal," Mr. Roach said about the style of his latest project, a newly built 5,050-

square-foot, light-gray contemporary that has little resemblance to the typical Midwest rambler. The entry opens to a double-height foyer and an open floor plan with light-hickory flooring. Carrara marble in the kitchen ties together all-white cabinetry and an Arabesque backsplash.

The house is wired for voice commands and home automation, and the roomy garage—a must-have in the city because of the brutal winters—holds five cars and includes an audio system. It was listed for \$999,000 with the Fisher Sisters of Ameri/Star. The home is already under contract, Mr. Roach said, but he declined to disclose the buyer's name.

"It was a big risk for us," Mr. Roach said, adding that this is one of the most expensive and unusual spec homes in the city. But he was encouraged by past projects: A Cape Cod-style home his firm built sold for \$753,700—close to the \$779,000 asking price—in two days. A recent client had them remodel a home in the French-country style, and they expect an airy, modern Craftsman they built to have an offer before it hits the market.

Like Mr. Roach, builders Troy Stallings, 61, and his wife and business partner Jane Shorma, 55, were tired of the finishes found in many Sioux Falls homes.

"Everything is oak here—oak cabinets, oak floor, oh God," said Mr. Stallings, who has been building there for 20 years.

Instead, the couple in 2008 built an Old World-inspired stone home, with Peruvian limestone flooring and a free-standing maple-wood staircase. The asking price was about \$1.5 million when the real-estate market stalled. So they decided to live in the 6,600-square-foot home full time in hopes of an uptick.

"If these luxury homes are taking two to three years to sell, we've got to find new ways to sell," said Lee Harding of Keller Williams Ratchford Group. When he listed the home last spring at a reduced price of \$1.25 million, he took out



HIGHER PLAIN Kevin and Delena Tupy bought a home for \$1.24 million less than two years ago and recently renovated. Now they're listing it for \$1.5 million. Above, the great room. Below, the Tupys with their children, Taia and Curtis.



ads in national media and made a slick video with drone footage.

He was preparing to put the home up for auction with a minimum sale price of \$960,000. Then a local buyer approached them before the auction with an offer above the minimum bid, Mr. Stallings said, and it's now in contract. The couple plans to build again in the area, with an eye toward tech

features that young professionals will like.

Part of the problem facing the next wave of luxury home sellers will be setting expectations, said Rocky Rehfeldt, senior vice president at Sioux Falls-based lender Loft Advisors. "North of \$1.5 million, we have appraisal issues," he said, noting that lenders don't see value in some more extravagant

renovations, which could hobble negotiations. Even when financing isn't involved, a lack of comparable properties at the top of the market can make it harder to justify passing the cost of some renovations onto the buyer.

At the Tupy residence, a land surveyor was measuring the yard for a new outdoor pool. "I think it's just expected" if they want to get the \$1.5 million asking price, Mr. Tupy said. He put about \$350,000 into renovations, including a \$200,000 home theater where he and his son, Curtis, watch sci-fi flicks.

The Tupys, who have two teenage children, are selling to trade up to a larger home—roughly 10,000 square feet—with amenities like a wine cellar and a bigger yard. If he can't find what he's looking for, he may build new nearby.

"It's not going to be a money-maker," he said about the home's resale potential. "But we got to enjoy it."



FROM LEFT: EVAN JOSEPH; WIREIMAGE

PRIVATE PROPERTIES | CANDACE TAYLOR

Sting Lists Condo For \$56 Million



British rocker Sting is asking \$56 million for his two-story penthouse at Manhattan's 15 Central Park West, according to the Corcoran Group, which has the listing with Sotheby's International Realty.

Measuring about 5,400 square feet, the four-bedroom condo is on the 16th and 17th floors and overlooks Central Park, according to a Corcoran spokesperson. The master suite has two dressing rooms and two bathrooms; in one of them, the park is visible from the bathtub. The all-white kitchen has two refrigerators, four ov-

ens and three dishwashers. French doors lead out to a roughly 400-square-foot terrace, which has heaters and a canopy for year-round use.

Sting's wife Trudie Styler said in an emailed statement that the couple were among the early buyers at the Robert A.M. Stern Architects-designed condominium; they purchased their unit for \$26.98 million from the developer in 2008, according to public records. They hired architecture and interior design firm SheltonMindel to build out the space, Corcoran said. Lee F. Mindel,

the firm's principal, said he added two custom spiral staircases and designed a double-sided gas fireplace.

"We were lucky enough to be able to create a unique home for our family," Ms. Styler said in an emailed statement. Corcoran said the couple is selling because they need more space for their growing family. Sting, 65, has six children, four with Ms. Styler, and a number of grandchildren. The listing agents are Deborah Kern of Corcoran and Suzun J. Bennet of Sotheby's International Realty.

MANSION

BALANCE SHEET

Dutch Soccer Player Makes Real-Estate Goal

Warner Hahn took the time while convalescing from an injury to buy and renovate a home

BY J.S. MARCUS

WARNER HAHN, goalkeeper for Dutch soccer team S.B.V. Excelsior, found himself sidelined with a torn knee ligament at the start of 2016. The Rotterdam-based athlete used the period that followed not only to recover from his injury but to find and create the home of his dreams.

In March 2016, Mr. Hahn bought a 1,690-square-foot duplex, located on the top two floors of a four-story, 1930s apartment house in Kralingen, a quaint, upscale area just east of Rotterdam's city center. He paid \$539,000 for the apartment, then spent about \$272,000 on a makeover, reversing color schemes and knocking down walls. Once a cramped, white-on-white home for a family of five, the duplex became a spacious two-bedroom, one-bathroom, for Mr. Hahn, now 24, and his girlfriend, professional dancer Marrit Nicolai.

Working with Mariska Jagt, an interior architect based near Wassenaar, Mr. Hahn threw out the lower floor's various whites in favor of black and gray, while creating an open-plan kitchen and dining area. Upstairs, the couple converted a small bedroom into a walk-in closet, and set up a guest bedroom to exhibit Mr. Hahn's cache of athletic shoes, currently numbering more than 100 pairs.

Mr. Hahn used his time convalescing to perfect the new interior. "Every day he was on Pinterest," says Ms. Nicolai, 27.

To make the most of the new open plan, Ms. Jagt suggested a kitchen from Leicht, an Amsterdam-based design company, with an inductive stove and sleek cabinets outfitted with push latches. Mr. Hahn had budgeted about \$22,000 for the kitchen, but ended up spending \$33,000, which he regards as his primary splurge.

"At first I thought, 'Who cares about a kitchen?'" says Mr. Hahn, a Rotterdam native, whose parents live nearby. "But now I am really glad I chose this one. When family and friends come over, most of the time we are in here."

Many of his teammates are still living in the heart of Rotterdam, with its high-rise living and pulsing nightlife. Mr. Hahn chose the more sedate area of Kralingen, known for its low-rise, redbrick houses, as well as its peace and quiet. "I can focus here," he says.

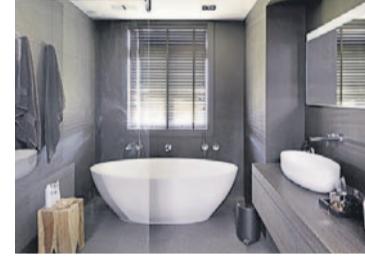
Much of central Rotterdam was destroyed in World War II, but whole stretches of Kralingen survived intact, and Mr. Hahn's new home is rich in historic touches, such as geometric stained-glass



RECOVERED The living room of the duplex renovated by Warner Hahn with the help of interior architect Mariska Jagt, above.



SCORED Clockwise from top left: Mr. Hahn, his kitchen splurge; the bathroom with custom tub; a spare bedroom that holds his shoe collection.



windows typical of the 1930s, and nickel-trimmed railings and door-knobs. "I wanted a new house," says Mr. Hahn, "but I wanted to keep all the old details."

Mr. Hahn may be young, says Ms. Jagt, "but he has a lot of experience in the world, and he knows what he wants."

When it came to the lone bathroom, Mr. Hahn wanted a shower and a tub, requiring Ms. Jagt to push out the original bathroom

into the master bedroom. The new space—featuring a custom tub designed by Ms. Jagt—cost \$32,400.

He also found something appealing on Pinterest: windowsills doing

double duty as benches. Ms. Jagt created a cushioned area—at a cost of \$5,500—for a living-room window, providing needed space on Sundays, when Mr. Hahn and his friends gather to watch soccer on his big-screen TV.

The couple's go-to spot is the living room's big beanbag chair, a gift from Mr. Hahn's mother that predates his home purchase. But the new home also has more than \$65,000 in new furniture.

Mr. Hahn kept the original wood floors, but spruced them up with a new oiled finish, and he was able to maintain the previous heating system. The lavish new kitchen meant an upgrade of the apartment's wiring, costing \$10,660.

The couple, who moved into the finished apartment in December,

still have a long to-do list. They plan to buy art for the lower floor, and they will focus on their roof deck, which has views of Rotterdam's inner harbor. Mr. Hahn is planning to put in a new barbecue and maybe even a Jacuzzi.

The wide-open deck offers a contrast to the rooms of the apartment below, which is finished in hushed tones. "I really like that it's dark," says Ms. Nicolai. "It peaceful and cozy."

Mr. Hahn, who took out a 10-year mortgage to pay off the apartment as soon as possible, already is thinking about new properties.

"Soccer players' careers end at 35—or 40, if you're a goalkeeper, like me," says Mr. Hahn, who returned to play in November. "I will probably invest in real estate."

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