

# THE WALL STREET JOURNAL.

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DLR \$111.29 ▼ 0.04%

## What's News

Business & Finance

U.S. credit scores have rebounded since the recession and the share of Americans deemed to be riskiest borrowers hit a record low, a potential boon for lending activity. A1

♦ High-priced drugs are raising costs for seniors and other Medicare beneficiaries despite federal legislation to reduce out-of-pocket costs and drugmakers' discounts. A1

♦ China Huishan faces a corporate-governance meltdown amid departures of the dairy company's board members after a share-price plunge. B1

♦ Investors dismissed North Korea's latest missile launch. The Kospi has gained 13% since February, when Pyongyang fired its first missile this year. B1

♦ British Airways said a computer outage disrupted flights for a third day and pledged to avoid a repeat of events that led to hundreds of cancellations over the weekend. B3

♦ BMW is slowing or halting production of certain models amid a shortage of parts caused by delivery problems from supplier Bosch. B3

♦ Major hotel chains are launching campaigns to woo customers from Expedia and Priceline, which take hefty commissions. B3

♦ The fifth installment of Disney's "Pirates of the Caribbean" franchise topped the weekend box office. B4

### World-Wide

♦ North Korea's third missile firing in three weeks is likely to complicate efforts by South Korea's newly elected president to engage with Pyongyang. A1

♦ Republicans' boldest ideas for tax changes are on political life support, colliding with interest-group lobbying and the tax system's reality. A1

♦ The GOP is facing divisions over spending bills, which will need Democrats' support to avoid a partial government shutdown. A6

♦ Homeland security's Kelly said he may ban laptops from cabins on all international flights in and out of the U.S. to prevent terrorist attacks in the air. A7

♦ Merkel urged European unity in the face of uncertainty across the Atlantic, underlining her frustration with Trump at the G-7 summit over the weekend. A3

♦ Congo approved the use of a new experimental Ebola vaccine to combat an outbreak in the remote northeastern border. A5

♦ South Africa's Zuma survived another revolt against his leadership despite accelerating allegations of influence-peddling and corruption. A5

♦ McCain on a visit to Australia called Russia a bigger threat than Islamic State. A3

♦ Ukraine shut down two Russian social-media platforms it said are vehicles to spread propaganda. A3

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## New Pyongyang Launch Tests Seoul

North Korea presses on with its missile program despite South Korea's pursuit of better ties

By JONATHAN CHENG

SEOUL—North Korea's third missile firing in three weeks didn't appear to mark an advance in its capabilities—but it is likely to complicate the newly elected South Korean president's efforts to engage

with Pyongyang.

The short-range ballistic missile was launched at 5:10 a.m. Monday from near the east-coast city of Wonsan, said Ramon Osorio, a spokesman for U.S. Pacific Command, and splashed down six minutes later between Korea and Japan.

According to South Korea's Ministry of National Defense, the missile flew 280 miles and reached a maximum altitude of about 75 miles.

While less dramatic than

the prior weeks' longer-range tests—each demonstrating new capabilities, North Korea claimed—Monday's test showed leader Kim Jong Un isn't throttling back in his drive to perfect his growing arsenal, particularly to develop a long-range missile capable of carrying a nuclear warhead.

North Korea's launches were also interpreted as a potential headache for South Korean President Moon Jae-in, who has been riding a wave of

popularity since he was sworn in on May 10, ending a political crisis capped by the impeachment and then arrest of his predecessor, Park Geun-hye.

But as North Korea continues its missile push, his pledge to seek more dialogue and economic cooperation with Pyongyang—Ms. Park was a hardliner—is likely to run into growing concerns both within South Korea and internationally about a softer policy.

"This is an embarrassment for Moon Jae-in, and sets a

very high barrier to change on the policy towards North Korea," said Jung Kim, professor of political science at the University of North Korean Studies in Seoul. "Without at least a behavioral change by North Korea, it's very hard to justify any kind of departure from the status quo right now."

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- ♦ Launches aren't scaring off investors ..... B1

## Americans Honor Those Who Sacrificed



**MEMORIAL DAY:** President Donald Trump took part in a ceremony near the Tomb of the Unknown Soldier at Arlington National Cemetery in Virginia. In his first Memorial Day address, he said of the nation's war dead, 'We only hope that every day we can prove worthy.'

## Credit Scores Rebound From Crisis

By ANNAMARIA ANDRIOTIS

Credit scores for U.S. consumers reached a record high this spring while the share of Americans deemed to be some of the riskiest borrowers hit a record low—a potential boon for lending and economic activity.

Consumers' improving fortunes reflect falling unemployment and continued, if lackluster, economic growth. An added benefit: The passage of

time since the recession and housing meltdown are helping household balance sheets.

In ever-growing numbers, the worst personal financial setbacks, namely foreclosures and bankruptcies, are falling off Americans' credit reports. More than six million U.S. adults will have personal bankruptcies disappear over the next five years, according to a recent Barclays PLC report.

Wiping away such negative events also helps boost con-

sumers' credit scores. Lenders rely on both the reports and scores when determining whether to approve consumers for loans and at what interest rates.

"Higher scores lead to more available credit," said Cris deRitis, senior director in the economics group at Moody's Analytics. "We'd see more activity in terms of loan approvals and credit-card approvals, more spending and that would have a ripple effect

across the economy, increasing aggregate demand for goods and services."

The average credit score nationwide hit 700 in April, up one point from last fall, according to new data from Fair Isaac Corp. That is the highest since at least 2005. That was the year Fair Isaac, the creator of widely used FICO credit scores that range from 300 to 850, began tracking the data.

Meanwhile, the share of

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## Rising Drug Costs Sting U.S. Seniors

By JOSEPH WALKER

Carole Siesser, a retiree in Delray Beach, Fla., started taking a bone-growth drug made by Eli Lilly & Co. after she fell and fractured her spine. After two years, the medicine helped to heal her back.

It also cost her \$5,600 of her own money to help cover the roughly \$26,000 annual price, even though she has Medicare, the U.S. federal health-care insurance program for people age 65 and older.

"They really take advantage of the seniors," Ms. Siesser, 79 years old, said of pharmaceutical companies. "There's no competition, so they can

charge what they want."

An analysis of government data by The Wall Street Journal found expensive medicines are increasingly denting the pocketbooks of seniors and other beneficiaries in Medicare's prescription-drug program, known as Part D, despite legislation meant to cut out-of-pocket costs and drugmakers' increasing discounts.

The median out-of-pocket cost for a drug purchased through Part D was \$117 in 2015, up nearly half from \$79 in 2011, in inflation-adjusted dollars, the Journal's analysis found. The analysis excluded low-income patients whose co-

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## Leaders Meet Amid Tensions

SUMMIT: French President Emmanuel Macron, left, hosted Russian counterpart Vladimir Putin at the Palace of Versailles on Monday. The two leaders strained to turn the page on allegations of Russian interference in France's elections, as well as their differences over the war in Syria.

FRANCOIS MORI/PRESS POOL



## INSIDE



JUST ONE DRINK CAN HARM



THE UNRAVELING OF RETAIL

AGENCE FRANCE PRESSE/GTY IMAGES

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## Karmic Battle Takes Place on Shanghai River

\* \* \*

Buddhists and fishermen square off over the souls of fish

SHANGHAI—On many weekends along Shanghai's Huangpu River, crowds of devout Buddhists, some dressed in brown robes and carrying bells and incense, gather on a promenade.

Some also bring a truck, which contains stacks of blue plastic crates with tons of live fish (mostly carp), plus assorted snails and turtles purchased at markets.

After prayers, the Buddhists release the creatures into the river to swim free.

For centuries, the Buddhist faithful have performed this ritual, which in Chinese is called fangsheng or "life release." They believe the act

can do everything from heal ailments to better the universe and improve one's next life.

But the huge quantities released in Shanghai also cost money—a multi-ton release can set fangshengers back

nets affixed to long poles or hidden underwater to catch the liberated animals and sell them back to the markets or fry them up for dinner.

For a while, the Buddhists tried to reason with the fishermen and even convert them. It didn't work. Tempers flared and fights broke out.

While most releases go off peacefully, police have been called in on occasion to break up disputes, both releasers and catchers said. Police didn't respond to a request for comment. Last year, China's state-run People's Daily newspaper called on "relevant authorities" to en-

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more than \$20,000.

So you can imagine how the Buddhists reacted a few years back when weekend fishermen began hovering nearby with

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## WORLD NEWS

# Civil Discourse in Decline: Where Does It End?



### CAPITAL JOURNAL

By Gerald F. Seib

**A** Republican congressional candidate body slams a reporter. A Democratic party state chairman hurls obscenities at both the president and dissidents in his own party at a public meeting.

Speakers are chased off college campuses by those who disagree with them. Lawmakers in both parties find they can barely hold town-hall meetings in their own districts because they are so likely to be shouted down by hecklers. Social media has become a forum where insults are the norm and outright threats not uncommon.

Such is the state of (un)civil discourse in America today. Politeness, decorum, respect—all seem to be endangered ideas. Anybody who isn't troubled isn't really paying attention.

The consequences of this trend are real, and visible every day in Washington and in state capitals. Lawmakers who are either engaged in or intimidated by the shout-fest that has become political debate find it harder to talk with each other, which means it's harder to find consensus or even



Rep. Tim Walberg (R, Mich.) spoke as people stood in protest at a town hall in Jackson, Mich., in May.

compromise.

Whether the polarization in Washington is the cause or the effect of this decline in civilized debate is almost beside the point. The dysfunction it produces in governance is the result either way.

More than that, though, the trend has spread more widely in society. Athletes ostentatiously celebrate their achievements—even the most routine ones—by mocking their opponents. It used to be called bad sportsmanship. It's now normal. One is left to wonder: What kind of behavior is society modeling for its youngest members?

**D**emocracy, to be sure, has long been a rough-and-tumble affair, and excesses aren't a new thing. After all, one U.S. senator, California's David Broderick, was shot and killed by a political opponent—California's one-time chief justice, no less—in 1859. "He became the only sitting senator to die in a duel," the Senate's official website notes dryly.

More than a century ago, Finley Peter Dunne, the Irish-American satirist, first wrote that "politics ain't bean bag."

In the ensuing years, though, a more civilized version of political debate had be-

come the norm, particularly as political parties worked past their differences to win two world wars, to prevail in a Cold War and to build the infrastructure that sustained the U.S. economic explosion.

Now, though, harsh has become the new norm. President Donald Trump has to shoulder a lot of the blame. He ran a campaign in which publicly insulting his opponents—"Lyin' Ted Cruz" and "Crooked Hillary"—was a regular occurrence. He introduced obscenities to public rallies, at one point saying he would bomb the "s— out of" Islamic State.

Early on, he identified the

news media as an opponent, declaring at a Florida rally in March 2016 that journalists are "the most dishonest people on earth...disgusting, dishonest human beings." He hasn't entirely tempered his approach since being elected; in a January tweet, he branded the Democratic leader of the Senate, Chuck Schumer, the "head clown."

But it isn't just Mr. Trump. In their new "resistance" mode, Democrats have become just as nasty. Tom Perez, the Democrats' new national chairman, has already earned notoriety for his use of profanity at rallies. At some of

them, he has trouble speaking because the anti-Trump heckling is so loud.

Democratic activists at the party's recent California state convention were so raucous in demanding an end to corporate donations and a move to a single-payer health system that the state party chairman, John Burton, at one point told the crowd, "Hey, shut the f— up or go outside."

When journalists drop objectivity to become part of the shout-fest, and when grassroots activists move beyond making voices heard to voicing threats against those with whom they disagree, they are adding to the problem.

Where does the incivility end? We may have gotten a hint of the answer when Greg Gianforte, a Republican technology executive who won a special House election in Montana last week, was charged with assault for his attack on a reporter there.

**T**he bigger question may be: What can be done about it? Father John Jenkins, the president of the University of Notre Dame, has thought and spoken more than most about the trends in civil discourse. "The first thing is to recognize that it's a problem," he says. "My worry is that conversation has deteriorated to a point where we've just become accustomed to it."

The problem isn't "isolated," he adds. "I'm told by politicians that it doesn't help you to be civil. You want to appeal to your base... But at some point, some leaders are going to have to rise above and show us a different way and call us on these things."

nually of their own money for another cancer treatment, Novartis AG's Gleevec, in 2015, an 18% jump from 2011. The average retail price for the drug jumped 77% over the five years and its total cost to Medicare jumped from \$509.4 million to \$1.23 billion.

Spokesmen for Celgene and Novartis said they would prefer that rebates were used to help lower patients' out-of-pocket costs.

Ms. Siesser and her husband, Paul Siesser, order many of their prescriptions from an online pharmacy that says it is based in Canada, but the site didn't sell the Lilly bone-growth drug, Forteo. The couple's total drug costs skyrocketed from \$980 in 2014 to \$5,565 in 2015, after Ms. Siesser began taking Forteo. Last year, their spending came down to \$4,815 after she finished the treatment.

Forteo's monthly price jumped 80% to \$1,970 in 2015 from \$1,100 in 2011, according to the Journal's analysis.

"The high cost-sharing benefit design of Medicare Part D has a significant impact on patients who need specialty medications," an Eli Lilly spokesman said in a written statement, adding that "list prices are much higher than the net prices ultimately paid by private insurers."

Medicare patients paid an average of about \$4,420 an-

price at the pharmacy, "without regard to rebates and other price concessions," CMS said in January. Rebates and discounts totaled \$23.63 billion, or 17% of gross drug costs, in 2015, up from \$9.76 billion and 12% of gross costs in 2011, according to CMS.

"There are a lot of patients who aren't able to afford prescription drugs in Medicare," said Tim Gronniger, who oversaw drug-spending issues as deputy chief of staff at CMS until he left this past January.

Instead of using rebates to reduce patients' cost-sharing on expensive drugs, insurers use them to cut monthly premiums for all beneficiaries, according to CMS.

"How savings are delivered to the consumer shouldn't distract from the fact that savings are delivered to the consumer," said Cathryn Donaldson, a spokeswoman for America's Health Insurance Plans, an industry trade group. The discounts that insurers receive from drugmakers "are passed on to members."

But Mr. Gronniger said the relatively small premium savings aren't worth the extremely high costs some patients bear. "You're effectively trading off the financial well-being of a sick person who has a lot of other medical costs against an average enrollee's premium," Mr. Gronniger said.

Medicare's drug program is

unique among Medicare benefits for being administered entirely by private insurers. Lawmakers have praised the program for keeping spending well below initial estimates.

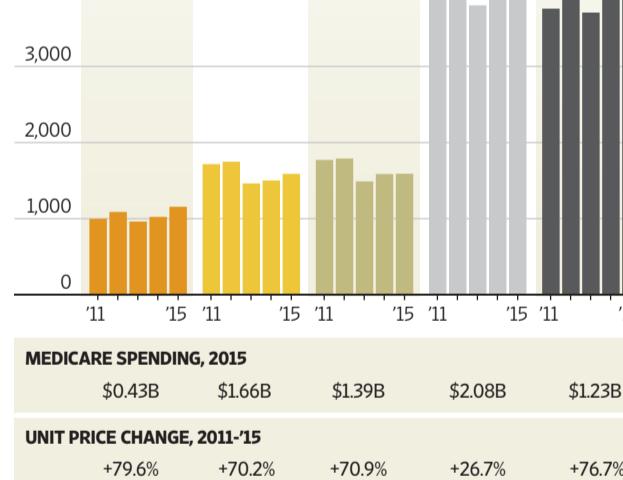
But spending on the drug

program has soared in recent years. The uptick in spending has caused concern among government officials about Part D's sustainability and the burden that higher drug prices are putting on patients.

### Burden on Patients

The median out-of-pocket cost in 2015 for the top 100 drugs by total spending in Medicare Part D was up 32% to \$376 from 2011. Here is what patients spent for five expensive medicines.

#### OUT-OF-POCKET COSTS (2011-'15)



Note: Out-of-pocket costs exclude patients who receive low-income subsidies. All spending figures are adjusted for inflation, 2015 dollars. Unit prices reflect retail costs, prior to discounts and rebates.

Source: Centers for Medicare and Medicaid Services

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risk aversion extended to credit cards and auto loans. As a result, some consumers with black marks on their reports turned to cash for most expenses and held back on big-ticket purchases.

Laura Paolinelli of Round Hill, Va., filed for bankruptcy in 2012 after she stopped paying her mortgage. When she applied for an Amazon credit card late last year, Ms. Paolinelli, an auditor at a research firm, says she was rejected.

In February, the defaulted mortgage and bankruptcy were again an issue when she applied for an auto loan: A loan officer told her she would have a better shot at getting a lower interest rate if her husband also signed as a borrower.

"I'm looking forward to that not to show up anymore," Ms. Paolinelli said. The foreclosure and bankruptcy occurred after she failed to sell her home, which had fallen by more than \$200,000 in value, she said. "It's a little embarrassing when you run your credit and you know they're going to see that because it always comes up....It was once in my life."

Fresh starts for credit reports are likely to help boost

originations of large-dollar loans for cars and homes. Consumers have a greater chance of getting approved for financing if they apply for loans after negative events fall off their reports, in particular from large banks that have stuck to strict underwriting criteria, says Morgan Whitacre, who oversees consumer-loan underwriting at Bank of America Corp.

Mr. Page filed for bankruptcy in 2008 after his house went into foreclosure. He has lived off cash since then, and has been rejected for a student loan for his son and for a car loan.

Already, though, he has a taste of what things could be like after the bankruptcy is cleared. Mr. Page, a quality coordinator at a hospital, says after the mortgage default fell off his credit reports, he began receiving more credit-card and personal-loan solicitations.

Mr. Page has been renting since he filed for bankruptcy. When that falls off his credit report as expected next year, he says he will likely look to buy a house.

Mortgage foreclosures stay on credit reports for up to seven years dating back to the missed payment that resulted in the foreclosure. Foreclosure starts, the first stage in the process, peaked in 2009 at 2.1 million, according to Attom Data Solutions. They totaled nearly 1.8 million in 2010 and remained above one million during each of the next two years.

The 59-year-old has nine months to go until his financial knocks from the downturn are wiped away.

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Personal bankruptcies are more complicated and can stay on credit reports for seven to 10 years.

Consumers who filed in 2007 for chapter 7 protection—the most common type of bankruptcy, in which certain debts are discharged and creditors can get paid back from sales of consumers' assets—are now starting to see those events fall off their reports. Some 500,000 chapter 7 bankruptcy cases were filed in 2007, a figure that swelled to nearly 1.1 million in 2010, according to the Administrative Office of the U.S. Courts.

Chapter 13 bankruptcies, in which consumers enter a payment plan with creditors, usually stay on reports for at least seven years. Those filings reached a recent peak of nearly 435,000 in 2010 and are set to start falling off reports this year.

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# WORLD NEWS

## Kiev Boosts Cyberdefense Against Moscow

Ukraine shut down two Russian social-media platforms it said spread propaganda

By THOMAS GROVE

MOSCOW—Ukraine has taken a drastic step in a continuing cyberwar with Russia, its powerful, nuclear-armed neighbor: shutting down Russia's homegrown versions of Facebook.

The Ukrainian government earlier this month blocked Vokontakte and Odnoklassniki, Russian-language social-media platforms that are hugely popular across the former Soviet Union, saying they were serving as vehicles for pro-Russian propaganda. Cybersecurity experts say they pose a greater danger as launchpads for hacking attacks.

"This is not a matter of freedom of speech," former Ukrainian Prime Minister Arseniy Yatsenyuk said this month during a visit to Washington. "This is a national-security issue."

Advanced Persistent Threat 28—the allegedly Russian cyberespionage group, also known as Pawn Storm, that U.S. intelligence officials and cybersecurity experts say hacked the Democratic National Committee last year—has used social networking for deliberate attacks on Ukrainian targets and for so-called spear-phishing, in which individuals are induced to reveal confidential information.



NURPHOTO/ZUMA PRESS

In a May 19 rally, Ukrainian protesters demanded the government reverse a ban on Russia's Vokontakte social-media network.

"Whether it's spreading malware or harvesting important details to use in other spear-phishing attacks, social-networking sites have been very important for Pawn Storm," said Feike Hacquebord, researcher at cybersecurity firm Trend Micro.

Mail.Ru Group, which operates Vokontakte and Odnoklassniki, said in a statement that Ukraine's decision to block the services was purely a political one.

Social media, cybersecurity experts say, serve a twofold

purpose for hackers. The sites can be used as tools for gleaning personal information on individuals the group wants to target, and as platforms for posting malicious software.

Ukraine is locked in a bitter proxy war with its larger neighbor. Russia annexed the Crimean peninsula from Ukraine in 2014 and has backed separatists in Ukraine's eastern Donbas region. In parallel, the country has been besieged with what Ukrainian government officials and cybersecurity experts describe as a concerted Russian cyber-offensive.

Russian President Vladimir Putin says his government doesn't sponsor hacking. But a Russian political insider and the Moscow-based leader of an information-technology firm said most of Russia's security services outsource cyberattacks to third parties.

In Ukraine, such attacks have had potentially lethal effects. After fighting broke out in eastern Ukraine in 2014, the U.S.-based cybersecurity firm CrowdStrike identified how a group of Russian hackers believed to be linked to APT 28, also known as Fancy Bear, inserted malware in an Android

application that was being distributed via Vokontakte.

The software, developed by Ukrainian artillery officer Yaroslav Sherstuk, was meant to help calculate targeting data for the Ukrainian military's Soviet-era D-30 howitzers. The malware, CrowdStrike concluded, could be used to reveal the location of Ukrainian artillery units, potentially exposing them to devastating fire.

Attacks in Ukraine have grown in sophistication. Late last year, hackers used cutting-edge cybertools to take down a power substation in

the Ukrainian capital, Kiev, briefly leaving some of the city's largest neighborhoods without power. Analysts say it was the first such cyberattack on critical infrastructure in a world capital.

Much as in the DNC hack, hacking groups in the Kiev attack worked in teams. One group used sophisticated tools to gain entry and clean away their digital fingerprints, while another used everyday IT tools to subvert the software and remain undetected, said Roman Sologub at Kiev-based ISSP, which is investigating the attack.

"The main question is if the attack reached its targeted goal or was just a preparation stage of another attack on bigger targets, as part of broad planned strategic cyberwar campaign," Mr. Sologub said.

A different cyberespionage group named Sandworm—also believed to originate in Russia—carried out an attack in 2015 on a different power grid in western Ukraine, said John Hultquist, an analyst for cybersecurity firm FireEye.

"The incidents in Ukraine are an opportunity to learn about the adversary before they carry out further incidents in the West," he said, adding that Sandworm's malicious code has been found in the cyberinfrastructure of utilities in the U.S.

—Felicia Schwartz in Washington and Nathan Hodge in Moscow contributed to this article.

## McCain Sees Russia as Main Threat

By ROB TAYLOR

CANBERRA, Australia—Russia is a bigger security threat than Islamic State, based on its willingness to challenge the democratic foundations of the U.S. by interfering in elections, Sen. John McCain (R., Ariz.) said during a visit to Australia.

Mr. McCain, who was in Australia to discuss Asia-Pacific security issues, said Russian President Vladimir Putin was the premier challenge to American security.

"I think ISIS can do terrible things and I worry a lot about what is happening with the Muslim faith," he told Australian ABC state television on Monday. "But it's the Russians who tried to destroy the very fundamental of democracy, and that is to change the outcome of an American election."

Mr. McCain recently walked back comments that the controversy surrounding investigations into potential collusion between associates of



LUKAS COCH/EUROPEAN PRESSPHOTO AGENCY

U.S. Senator John McCain at the Australian War Memorial.

President Donald Trump and the Russian government had reached "Watergate size and scale," saying he had seen no evidence Russia had succeeded in swaying the U.S. presidential-election process. "But they tried and they are still trying,"

he said.

The visit to Australia by the chairman of the Senate Armed Services Committee was part of an Asia tour to outline a blueprint for the U.S. to invest nearly \$8 billion bulking up its military presence in the re-

gion by upgrading infrastructure, conducting additional exercises and deploying more forces and ships.

Mr. McCain's visit also was aimed at reassuring allies about U.S. willingness to remain engaged in Asia, both as a check against China's increasing assertiveness in the South China Sea and on North Korea's nuclear program.

After North Korea fired another short-range ballistic missile off its east coast on Monday, Mr. McCain said unless something could be done to restrain Pyongyang's ambitions, the crisis could escalate along the lines of the Cuban Missile Crisis in 1962, when the U.S. and the Soviet Union came close to nuclear conflict.

"What's the best and easiest way [to deal with the situation]? Obviously the Chinese, because the Chinese control basically the North Korean economy," Mr. McCain said.

"We have to explain to the Chinese how this is a vital issue. We need their help and cooperation."

## Merkel Says Europe Must Fight for Itself

By ANTON TROIANOVSKI

BERLIN—Europe can no longer completely rely on other countries, German Chancellor Angela Merkel said at a campaign event, underlining her frustration with U.S. President Donald Trump at a meeting of world leaders over the weekend.

Ms. Merkel spent Friday and Saturday in tough negotiations with Mr. Trump over trade and climate policy at the annual summit of the Group of Seven industrialized countries, with concern running deep in Europe that Washington will back out of the Paris climate agreement. Then she appeared on Sunday at a beer tent in Munich and urged European unity in the face of uncertainty across the Atlantic.

"The times in which we could rely on others completely—they are partly past," Ms. Merkel said. "I experienced this in recent days. So I can only say: we Europeans must truly take our destiny in our own hands."

Ms. Merkel was in part repeating a line she had delivered on several occasions since Mr. Trump's election: Europe, she has said, holds its destiny in its own hands. But her message about other countries' unreliability—directed in part at the U.S.—highlighted German concern with Mr. Trump's policies.

Ms. Merkel went on to say that Europe should act "of course in friendship with the United States of America, in friendship with Great Britain, as good neighbors wherever possible, also with Russia, also with other countries. But we must fight for our future ourselves."

At the G-7 summit in Sicily over the weekend, Ms. Merkel and five other leaders sought to convince Mr. Trump to keep the U.S. in the Paris climate agreement. Mr. Trump didn't commit one way or the other.

"This Paris Climate Agreement is not just any agreement, but it is a central agreement for the shaping of globalization," Ms. Merkel said in Sicily.

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## WORLD NEWS

# South Korea Leader Enjoys ‘Honeymoon’

In his early days in office President Moon Jae-in has approval of 88% of citizens

BY MIN SUN LEE

SEOUL—Three weeks after President Moon Jae-in was elected South Korea's president, his morning coffee shop is suddenly drawing crowds. The attraction? The leader's preferred coffee, now renamed Moon Blend on the menu.

"I came from an hour away to try this coffee," said 44-year-old Yun Jeong-hye. Ms. Yun didn't vote for Mr. Moon but his "comfortable and not authoritative" style has since won her over. "It's a pleasant democratic shift from senselessness to common sense," she said.

Many new leaders enjoy a honeymoon period in their first weeks of office. But in South Korea, unusual optimism surrounds Mr. Moon following a months-long corruption scandal that darkened moods across the country, sparking his predecessor's ouster and that of a top corporate leader.

Mr. Moon won with just a 41.1% plurality of the vote. Yet a new opinion poll shows that 88% of South Koreans believe he will do a good job. The Bank of Korea's monthly consumer-sentiment index jumped to 108 in May, the highest since April 2014, with readings above 100 indicating optimism.

The enthusiasm can also be measured in surging sales of Mr. Moon's autobiography and of a Time magazine issue that features him on the cover—115,000 copies versus an average 3,000 run.

It can be seen in a sudden five-fold rise in inquiries to visit the Blue House, South

Korea's presidential residence, to more than 100 a day. It is evident even in the popularity of Mr. Moon's favorite clothes.

Blackyak, an outdoors-clothing company that makes the orange jacket Mr. Moon wore in a well-publicized hike with reporters this month, is rolling out a 3,000-piece reissue of it after an initial 300-piece preorder sold out within an hour.

Doresaem, a company that sells items commemorating South Korea's claims to the disputed Dokdo island, said sales of a necktie that Mr. Moon wore for a press briefing last week suddenly sold out within two days. It rushed through a fresh order of 500 more.

Until recently, Mr. Moon, a former student activist and human-rights lawyer with a professorial demeanor, was few people's idea of a political rock star. Now Mr. Moon "is compared with the impeached former president in every way," said Park Sung-min, CEO of political consulting firm Min.

### Sales of a necktie that Mr. Moon wore at a press briefing sold out in two days.

Where former President Park Geun-hye was the daughter of a dictator who ruled the country for almost two decades, Mr. Moon is the son of North Korea refugees. Where she was conservative, he is liberal. Where Ms. Park was viewed as aloof and corrupt, many view Mr. Moon as modest, informal and unreserved.

When Mr. Moon this month told Blue House workers he



People take selfies with South Korean President Moon Jae-in at the Incheon International Airport this month.

was going to have lunch with them they thought it was a joke, an official said.

"The president's unconventional and friendly manner paradoxically shows what we have been missing over the 10 years of conservative administrations in the past," said Lee Taek-gwang, a communications professor and culture critic at Kyung Hee University.

Mr. Moon's continued popularity depends on his success on a number of fronts. His most urgent tasks include keeping alive a fragile economic recovery, alleviating high youth unemployment, overhauling the powerful South Korean conglomerates that economists say curtail growth potential and innovation, and managing a crisis brewing over the growing threat from North Korea's missile and nuclear programs.

Mr. Moon advocates for closer relations with North Korea but Pyongyang has of-

fered no sign of reciprocation, test-launching a series of missiles in recent weeks, including one on Monday morning.

"If reform and changes don't happen as people expected, this excitement can end in the early stage of the administration," said Yoon Sang-woo, sociology professor at Dong-A University.

Mr. Moon's campaign pledges account for at least some of the improved sentiment. He has promised to add hundreds of thousands of jobs and faster economic growth during his five-year term, with the help of \$9 billion in increased stimulus spending.

Mr. Moon's office also made a gesture last week to set him apart from a predecessor who was ousted in an influence peddling scandal. Mr. Moon, officials said, will use nearly half, or \$4.7 million, of a special discretionary fund for presidents to instead support job creation for South Koreans.

### Moon Glow

Optimism surrounding South Korean President Moon Jae-in is high.

**The percentage of people surveyed within first three weeks of presidential terms who said their leader would do a good job.**



Photos (top to bottom): Zuma Press; European Pressphoto Agency; Reuters (2)  
Note: 1,003 people interviewed with random digital dialing; sample error +/- 3.1 percentage points \*Two of his successors were asked a different question.  
Source: Gallup

THE WALL STREET JOURNAL.



A video screen in Osaka, western Japan, show the news of North Korea's missile launch.

## LAUNCH

Continued from Page One

U.S. Sen. Cory Gardner (R., Colo.), chairman of the Senate Foreign Relations Committee's subpanel on East Asia, said Monday evening in Seoul that the missile launches underscored North Korea's indifference to the new Moon administration's attempts to pursue engagement with Pyongyang.

"If this administration is willing to take a different path than the previous administration, it apparently doesn't mean anything to North Korea because we've now seen a third missile launch since this president has been inaugurated," Mr. Gardner said. "It just shows what kind of a regime you're dealing with."

U.S. President Donald Trump said on Twitter Monday morning that "North Korea has shown great disrespect for their neighbor,

China, by shooting off yet another ballistic missile."

But Mr. Trump added that "China is trying hard!"—an apparent reference to Beijing's efforts to tighten sanctions enforcement on North Korea.

Earlier this year, China said it would suspend imports of coal from North Korea, in a move that would deprive the isolated country of a major source of income.

The attempts to squeeze North Korea come as the country has shown off new capabilities with its recent launches.

Two weeks ago, Pyongyang test-fired a missile that it later called the Hwasong-12, which analysts said could fly 2,800 miles—considerably farther than its previous missiles, and far enough to reach the U.S. military base on Guam. About a week later came the Polaris-2 missile, propelled by a solid rather than a liquid fuel—meaning it requires much less time to prepare for launch, giving

Pyongyang more flexibility and stealth.

North Korean leader Kim Jong Un last week declared the Polaris-2—unveiled about three months earlier—"very accurate," and ordered its mass production, according to North Korea's state media.

South Korea's national security chief convened a meeting Monday to discuss the latest launch.

In Japan, Chief Cabinet Secretary Yoshihide Suga said the projectile had landed within 200 miles of the nation's coastline, meaning it had fallen within its exclusive economic zone.

"We condemn these actions in the strongest manner," Mr. Suga said.

"This cannot be tolerated," said Japanese Prime Minister Shinzo Abe, who told reporters he would work with the U.S. and South Korea to monitor North Korea's actions.

—George Nishiyama in Tokyo contributed to this article.

## FISH

Continued from Page One  
sure fangsheng ceremonies are conducted in an orderly way and avoid public nuisance or environmental impacts.

After getting pushed around by fishermen nearly a dozen times over the years, Fang Shengtian, a 68-year-old former math teacher who leads one of the city's biggest fangsheng organizations, said he decided it was time to do something.

He recruited fishmongers from the market to act as what he calls "life guardians." On release days, they patrol the promenade with walkie talkies, grappling hooks and razors to find and cut nets. He said the fish-release rites imbue the guardians with "invisible powers."

On a recent Saturday morning, Mr. Fang and about 150 followers arrived with a load of carp and began warming up with chants.

The guardians—led by Song Yaohua, a 49-year-old fish-market worker with a grappling hook—searched for fishermen.

Farther down the river, Mr. Song encountered a group he described as fisherman regulars. Some dozed. He suspected the men were sleepy.

because they likely arrived before dawn to set submerged nets.

Their leader, a stocky man with a buzzcut and a wry poker face who went by the nickname "Big Boss," claimed the group set no nets. Even so, Big Boss had a bucket, waders and other equipment needed for net fishing.

"If Big Boss has set nets, we will find out," said Mr. Song.

China's 1949 Communist revolution sent religion underground. Today, more Buddhists are practicing openly and fangsheng has grown in places like Shanghai, where several groups with thousands of followers host ceremonies. Fish make up the bulk of what the groups dump into the river.

The fishermen and other critics say many carp dumped into the river are farm-bred and can't hack life in the less-than-pristine Huangpu, where they die anyway. Others allege fangsheng leaders pocket part of the donations that fund the ceremonies.

Mr. Fang said he has never "taken a penny" for his fangsheng activities.

The weekend fish-catchers—mainly poor laborers—say they are flabbergasted that the more well-to-do fangsheng leaders dump tons of edible fish into the Huangpu.

"Who would dump money into the river?" one fisherman said recently, shaking his head as a fangsheng practitioner threw a colorful confetti of prayer papers into the water to protect fish she had just released.

To evade fishermen, one fangsheng group began hiring boats to release fish offshore, but authorities banned the practice when the boats created a hazard on the busy river. Another group says prayers, then departs in buses to liberate fish from an undisclosed location.

On a recent Friday night,

Mr. Fang arrived at a sprawling market to buy fish for the release the next day.

Before arriving, he had collected around \$13,000 in donations, and was seeking more. As he strolled the market, donations of \$10 and \$20 popped up on his smartphone. Bigger donations landed in one of three bank accounts. (A stock trader seeking good luck during a 2015 stock crash once donated \$20,000, he said.)

Fish sellers, eager for his business, greeted him by putting their hands together in prayer. One called out, "Why are you ignoring me?"

As he passed.

Mr. Fang favors pregnant fish, since that means saving the offspring, too. The species doesn't matter, he said, since all lives are equal in Buddhism. He bought 18,254 carp for \$24,150 according to a report he sent followers later.

On release day, Mr. Fang arrived with carp in a truck. Fishermen cruised the promenade on electric scooters fitted with coolers and buckets.

Mr. Fang dispatched the guardians and soon they found a net tied to the promenade. Its owner, Zhang Jianquan, a 55-year-old dish-

washer at a fancy restaurant, emerged in his white jacket and sheepishly hauled it in. "I was only trying to get one or two fish for dinner," said Mr. Zhang, a migrant worker. He said he had used some of his \$400-a-month pay to buy the net.

Mr. Fang gave the order to release the fish. The faithful lined up two-by-two to haul crates, chanting and wearing white gloves to keep the fishy smell off their hands.

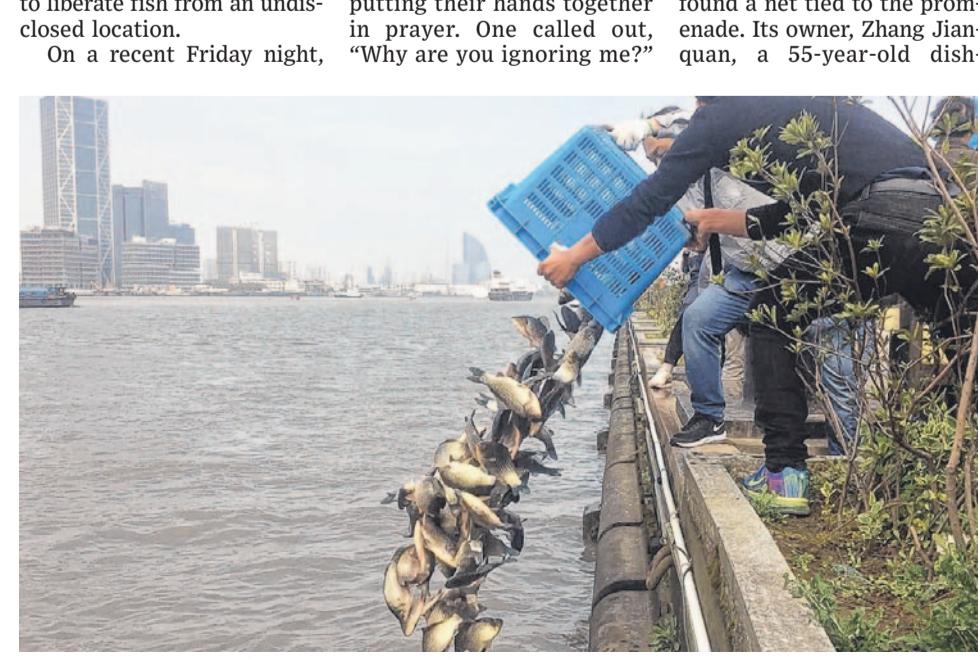
Soon, schools of carp poked their round mouths from the water, seemingly gasping in the muddy Huangpu. Mr. Fang said the fish were showing gratitude.

Downstream, a guardian discovered another net, and after a brief bout of shouting and shoving, its owners dispersed.

Darkness and a chill mist descended on the river. Colored lights beaming from Shanghai's skyscrapers gave the mist an eerie neon glow. The promenade emptied out—except for Big Boss, who was still tooling around on his scooter.

Guardians donned waders to enter the Huangpu in search of submerged nets. They found eight nets holding a few dozen fish. The guardians said little prayers over the fish and set them free.

—John Lyons and Yifan Xie



Buddhist practitioners of fangsheng, or life release, free a crate of carp into Shanghai's Huangpu River.

## WORLD NEWS

# Bid to Oust South Africa Leader Fails

BY GABRIELE STEINHAUSER

JOHANNESBURG—South African President Jacob Zuma survived another revolt against his leadership from within his own party, underlining the control he exerts over the African National Congress despite accelerating allegations of influence-peddling and corruption.

The three-day meeting of the ANC's National Executive Committee was the second time in six months that Mr. Zuma has faced calls for his resignation in the party's top decision-making panel. But like in November—shortly after a report from the country's official corruption watchdog alleged that Mr. Zuma had allowed a controversial business family to direct cabinet appointments and gain overly lucrative government contracts—this weekend's attempt to force the president's early exit failed.

Since then, opposition to the president, whose term expires in 2019, has escalated. Mr. Zuma's decision in late March to oust his popular finance chief and several other ministers was condemned by three of the ANC's top six officials and led the party's allies, the

Communist Party and the powerful Congress of South African Trade Unions, to demand the president step down. Cyril Ramaphosa, South Africa's deputy president and a candidate to succeed Mr. Zuma as party leader in December, warned that the country must avoid turning into a "mafia state."

The cabinet shuffle also prompted two ratings firms to downgrade the country's debt to junk as well as mass protests against Mr. Zuma over the bad performance of Africa's most developed economy and allegations of widespread corruption within his government.

"There was a call made in the NEC for the president to consider stepping down as president of the Republic," the ANC's secretary-general, Gwede Mantashe, said on Monday. He declined to say how many within the 107-member-strong committee spoke out against the president or how many came to his support.

"Many more were neither in favor nor against the appeal but emphasized the need for unity within the organization," Mr. Mantashe said.

On Monday morning, a jovial Mr. Zuma opened a meeting of



President Jacob Zuma on Monday addressed indigenous leaders, his first public appearance after surviving an ANC bid to remove him.

indigenous and traditional leaders without mentioning the weekend's discussions.

A spokesman for the president didn't answer requests for comment on the calls for his resignation.

The 75-year-old has survived a raft of scandals and challenges during his long political career—including a rape trial in which he was eventually acquitted and a finding by South Africa's top court that he had violated the constitution when he refused to repay public money spent on up-

grades to his private home. He has since repaid the money ordered by the court.

Mr. Zuma's opponents marked a small victory, with the committee backing the establishment of a commission of inquiry to investigate whether certain businesses are wielding undue influence over government. November's corruption report, dubbed "State of Capture," had called for such a commission, but Mr. Zuma is currently challenging that demand in court. He has also said there is no proof for

the allegations against him.

When, and how, a commission of inquiry will be set up remains up in the air. Mr. Mantashe said the commission should investigate possible "state capture" reaching as far back as 1994 and declined to say whether the president had agreed to the NEC's request.

He also declined to say how the party would respond to local media reports on leaked emails, which appeared to show how the Gupta family, owners of a business empire stretching from mining to me-

dia, paid for hotels and travel for several cabinet members and executives at state-owned enterprises and received confidential government information. A lawyer for the Guptas on Sunday said he couldn't comment on the leaked emails because he hadn't seen them.

Opposition parties quickly seized on the divisions within the ANC. "I worry for South Africa, that institutional democracy will become something that we will have a facade of," the Democratic Alliance's Mmusi Maimane said.

## Venezuela Gets Lifeline From Goldman Sachs

BY KEJAL VYAS  
AND ANATOLY KURMANAEV

CARACAS, Venezuela—Goldman Sachs Group Inc. bought about \$2.8 billion in Venezuelan bonds that had been held by the oil-rich country's central bank, a lifeline to President Nicolás Maduro's embattled government as it scrambles to raise funds in the midst of widening civil unrest.

The New York-based bank's asset-management division last week paid 31 cents on the dollar, or about \$865 million, for bonds issued by state oil company Petróleos de Venezuela SA in 2014, which mature in 2022, according to five people familiar with the transaction.

The investment comes as Mr. Maduro's detractors lobby hard to block Western financial institutions from doing transactions that support the cash-strapped government, which has been accused by the U.S. and other countries of widespread rights abuses.

Mr. Maduro's increasing authoritarianism, coupled with critical food and medicine shortages, have spawned two months of almost-daily street demonstrations, costing at least 60 lives. The economy also is suffering, having shrunk 27% since 2013. Venezuela is saddled with what the International Monetary Fund estimates will be an inflation rate of 720% this year.

The people familiar with



JUAN BARRETO/AGENCE FRANCE PRESSE/GT/GETTY IMAGES

Antigovernment protesters blocked a highway in the Venezuelan capital Caracas on Saturday.

the deal said it is part of the asset manager's steady increase in Venezuelan holdings. They said Goldman is betting that a change in government could more than double the value of the debt, which trades at deeply discounted rates with yields around 30% due to chronic default fears.

A senior Venezuelan finance official confirmed the deal but declined to give more details. Goldman didn't negotiate the transaction with the government but instead bought the bonds through an unnamed broker, said three of the people familiar with sale.

But detractors said participating in any financial deals would give much-needed funding to the Maduro administration, which polls show has the support of only one in five Venezuelans. The government has shelved elections and is organizing an overhaul of the constitution, which opposition leaders say will end the few constitutional protections Mr. Maduro's political adversaries have.

"Goldman is putting itself on the wrong side of history with this deal," said opposition lawmaker Angel Alvarado, who is a member of the Vene-

zuelan congressional finance committee, calling it "a grave reputational error."

"This is a bad decision not just from the ethical, but also from the business perspective," he said. Mr. Alvarado added that an opposition-led administration, if it were to take power, would refrain from doing business with Goldman, whose asset-management branch manages \$1.3 trillion, of which about \$40 billion is dedicated to emerging markets.

Venezuelan bonds are widely traded because of their hefty returns and Mr. Maduro's relentless commit-

ment to make good on debt obligations despite difficulties in paying for food imports.

The country's debt securities also form a large portion of the bond indexes that major fixed-income funds measure their performance against. Venezuela has to pay \$4.6 billion to service its debt for the remainder of the year. To make the payments, the government has had to resort to ad hoc measures, including mortgaging Citgo Petroleum Corp., its U.S.-based oil refinery network.

Ricardo Hausmann, who is a former Venezuelan planning minister and a critic of the Maduro government, last week urged J.P. Morgan Chase & Co. to remove Venezuelan bonds from its benchmark emerging-market debt index. That would permit investors who trade entire asset classes to avoid holding debt issued by a government accused of rights abuses, the Harvard University economist said in an essay published on the website Project Syndicate.

The PdVSA 2022 bonds purchased by Goldman last week had until recently been in the possession of Venezuela's central bank. The Central Bank of Venezuela said its international reserves jumped \$442 million to \$10.8 billion on Thursday, the day the bond deal was completed.

—Liz Hoffman in New York contributed to this article.

## Congo Clears Use Of Vaccine For Ebola

KAMPALA, Uganda—The Democratic Republic of Congo approved the use of a new experimental Ebola vaccine, nearly three weeks after health officials announced the latest outbreak of the deadly virus along the country's northeastern border.

By Nicholas Bariyo  
in Kampala, Uganda,  
and Betsy McKay  
in Atlanta

The approval was granted by Congo's health ministry on Monday, spokesman Simba Kai said. The ministry must now decide whether to use the vaccine, which was developed by Merck & Co.

The ministry, the World Health Organization and the medical-aid organization Doctors Without Borders were discussing plans for the vaccine, Mr. Kai said.

A spokeswoman for Merck said the company "stands ready to ship vaccine, if and when" Congo decides to use it.

There have been only two confirmed cases of Ebola in the latest flare-up, and at least three more people who likely had it. It isn't clear if the virus is still spreading.

While some 52 cases have been registered, most have been designated as potential cases and are under investigation.

Experts from the WHO said the delays in Congo's approval of the vaccine have been an impediment in efforts to contain the latest eruption of the disease, which was confirmed May 12.

The current outbreak in Congo is the first since 2014-16, when at least 28,600 people were infected in West Africa, including 11,310 who died—by far the largest Ebola outbreak in history.



CHRISTOPHER BLACK/WORLD HEALTH ORGANIZATION/AP/GT/GETTY IMAGES

## WORLD WATCH

### SOUTH ASIA

#### Cyclone Barrels Down on Bangladesh

Bangladesh braced for its first cyclone of the year, with more than 1,000 shelters set up for people who may need to evacuate as the storm approached the low-lying delta nation.

Tropical Storm Mora was expected to make landfall Tuesday as a Category 1 cyclone. Officials expected at least 15 districts, including Cox's Bazar and Chittagong, to be inundated by the storm surge.

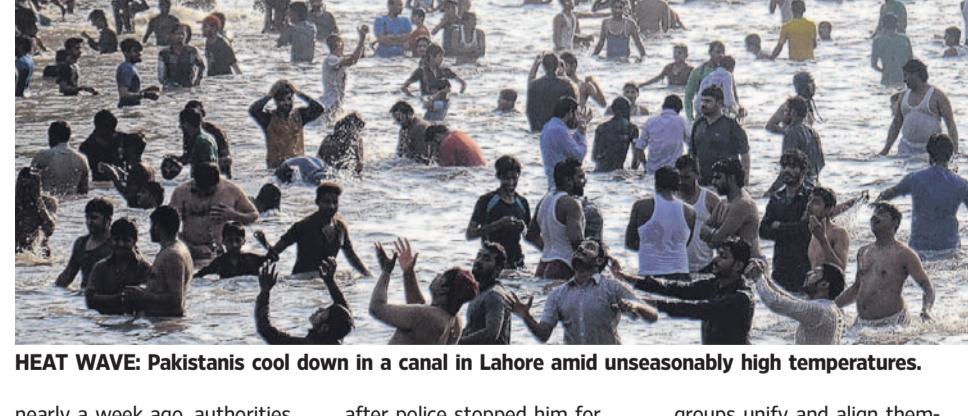
Officials said they were ready to evacuate people if conditions worsened. Some residents weren't taking any chances. Many of the 22,000 people in Cox's Bazar's Mosheshkali Island, where 10,000 people died in a cyclone in 1991, were moving to cyclone shelters.

—Associated Press

### PHILIPPINES

#### Government Claims Gains Against Rebels

Philippine forces control most of a southern city where militants linked to the Islamic State group launched a bloody siege



### UNITED KINGDOM

#### Mi5 to Carry Out Internal Review

Britain's Mi5 has begun an internal review of how it handled intelligence on Manchester suicide bomber Salman Abedi, who was known to the authorities but not under active investigation, Reuters reported.

Interior minister Amber Rudd said the review was the "right first step" for the intelligence agency to take in the wake of the May 22 bombing that killed 22 people at a pop concert by U.S. singer Ariana Grande.

Mi5 is subject to scrutiny by a committee of parliament, and it is unusual for authorities to make public that the security service is conducting an internal investigation into possible lapses.

Reuters reported that Mr. Abedi was not among the 3,000 people currently under active investigation by Mi5, although he was one of around 20,000 people known to the agency, whose focus is on countering terrorism and espionage. The BBC said Mi5 was alerted at least three times to the 'extremist views' of Mr. Abedi.

—Reuters

HEAT WAVE: Pakistanis cool down in a canal in Lahore amid unseasonably high temperatures.

nearly a week ago, authorities said Monday, as the army launched airstrikes and went house-to-house to crush areas of resistance.

More than 100 people, including 24 civilians, have been killed in six days of fighting, the government said. Many more were believed to be trapped inside the city.

"I have to rescue my grandfather even at the risk of my life," Khana-Anuar Marabur Jr. said.

after police stopped him for speeding through a checkpoint. He said his grandfather had been sending him text messages asking to be saved.

"Get me out of here alive, not dead," one message said. "This war is taking too long."

The crisis in Marawi, which is home to some 200,000 people, has raised fears that extremism in the southern Philippines is increasing as smaller militant

groups unify and align themselves with the Islamic State group.

Only small areas of Marawi remain under militants' control after six days of fighting, said Brig. Gen. Restituto Padilla, the military spokesman. In recent days, gunmen have managed to fend off attack helicopters, armored vehicles and scores of soldiers.

—Associated Press

—Associated Press

## U.S. NEWS

# GOP Faces Divisions Over Spending Bills

To avoid shutdown, Republicans need support from within and across party lines

By KRISTINA PETERSON

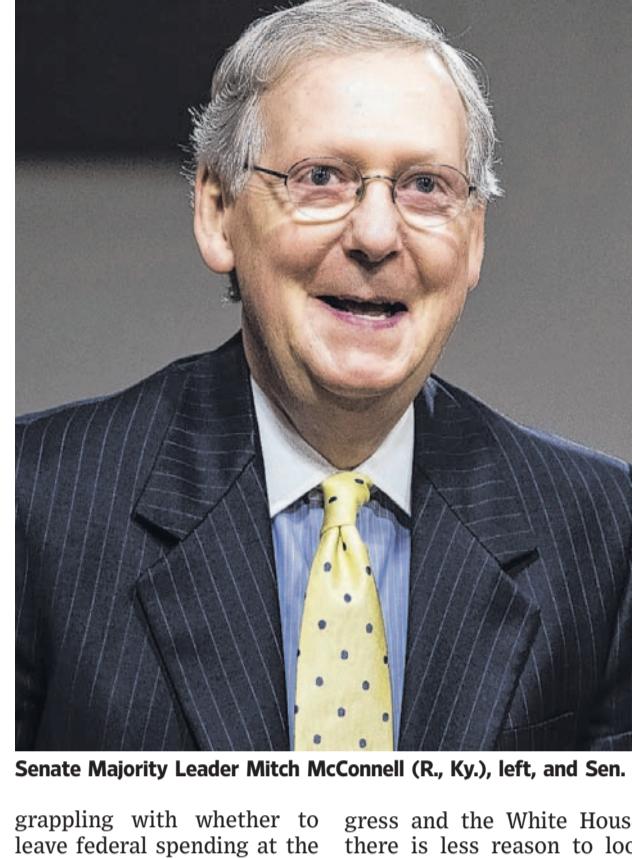
WASHINGTON—When President Donald Trump's proposed budget was released with fanfare last week, lawmakers were already engaged in a debate over actual spending levels for the next fiscal year.

Republicans agree that the president's budget—while indicative of the White House's priorities—can't realistically be translated into the spending bills that keep the government running until current funding expires at the end of September.

But they disagree internally over how to craft those spending bills, which will need support from Democrats to avoid a partial government shutdown on Oct. 1. The looming fiscal uncertainty adds to the challenges Republican leaders already face trying to steer sweeping health-care and tax legislation through Congress.

The spending debate is a recurring dilemma for lawmakers, but they haven't had to fully wrestle with where to set overall government spending since the fall of 2015, when former House Speaker John Boehner (R., Ohio), Senate Majority Leader Mitch McConnell (R., Ky.) and former President Barack Obama reached a two-year budget deal to boost federal spending above limits established in a 2011 deal.

That 2015 deal ends this September, leaving lawmakers



Senate Majority Leader Mitch McConnell (R, Ky.), left, and Sen. Dick Durbin (D, Ill.) are at odds over congressional spending limits.



MICHAEL REYNOLDS/EPA (LEFT); TOM WILLIAMS/CONGRESSIONAL QUARTERLY/NEWSCOM/ZUMA PRESS

grappling with whether to leave federal spending at the limits established in 2011 or raise them, potentially adding to the federal deficit. There is no consensus over what to do now, even among Republicans.

"We've got defense hawks, we've got deficit hawks, we've got moderates concerned about draconian cuts," said Rep. Steve Womack (R., Ark.). "We've got all comers weighing in on the budget process and—kind of like health care—there's no real simple solution."

Some lawmakers say that with Republicans now in control of both chambers of Con-

gress and the White House, there is less reason to look at easing the spending limits, as lawmakers did under previous deals because of a more divided political environment.

"My concern with the past years is that, in a bipartisan fashion, we're kicking the can down the road and adding to the debt," said Rep. Dave Brat (R., Va.). "When you win the House and the Senate and the White House and you're the small-government party...if we do more status quo, the same old thing after winning, we're going to lose our brand in rapid order."

Still, Democrats do retain some leverage in the complex

process. A budget resolution can pass both chambers with just a simple majority, as well as certain legislation tied to it.

That is the process Republicans hope to use to pass partisan overhauls of the health-care system and tax code. But the spending bills that actually fund the government require 60 votes in the Senate and the Republicans hold only 52 of the chamber's 100 seats.

And then there is Mr. Trump, who ultimately needs to sign any spending bill for it to become law and who has proven to be an unpredictable force in legislative affairs in the first few months of his administration.

Mr. McConnell, the Senate leader, acknowledged that Democrats will play a part in determining where overall spending levels will be set for the next fiscal year.

"We'll have to negotiate the top-line with Senate Democrats, we know that," Mr. McConnell told reporters last week. "They will not be irrelevant in the process and, at some point here in the near future, those discussions will begin."

Democrats used their leverage this month to block Mr. Trump from getting funding to build a wall along the southern border with Mexico in an interim spending bill and will

try this summer to prevent deep spending cuts to government programs, including student-loan programs and food stamps.

Republicans "ought to take an honest look at where we are in some areas," said Sen. Dick Durbin (D., Ill.). Under the current limits, some government programs "are likely to be cut to unacceptable levels," he said.

At a closed-door meeting of House Republicans on Thursday, House Speaker Paul Ryan (R., Wis.) gave his rank and file an assessment of the fiscal issues looming over the next few months, according to GOP lawmakers and aides. In addition to funding the government for the 2018 fiscal year by October, Congress will also have to raise the federal government's borrowing limit, known as the debt ceiling, sooner than many had expected, because tax revenue has come in slower than anticipated.

The government officially hit its borrowing limit in mid-March, but the Treasury Department has been employing cash-conservation measures to keep funding itself. Analysts had expected the measures would allow the Treasury to keep paying its bills until the fall, but Treasury Secretary Steven Mnuchin suggested last week that lawmakers should act before the end of July.

Negotiations over spending bills and the debt limit have frequently been intertwined before, since taking steps to rein in spending can make it easier for Republicans to vote for raising the debt ceiling. But Republicans haven't yet coalesced around what changes they want to make.

## TAXES

*Continued from Page One*  
the Tax Foundation, which favors a simpler code with lower rates. "There aren't any free obvious sources of money where you can just do the thing and nobody gets mad."

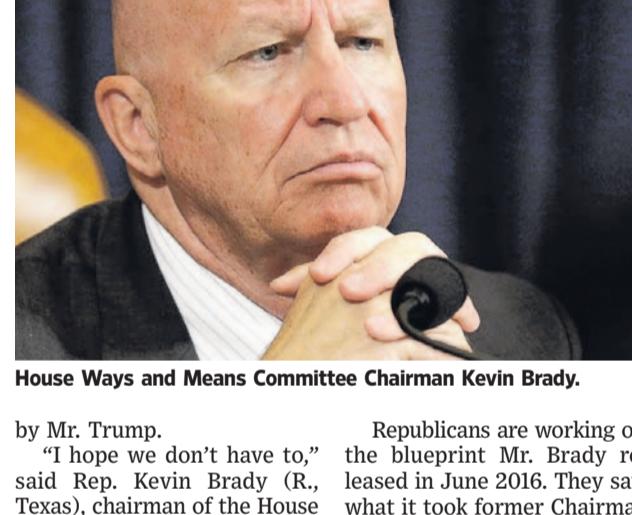
Republicans are still hunting for ideas to soften the revenue loss from their proposed tax-rate cuts, and party leaders say they will finish a historic tax-code revamp by year's end. President Donald Trump said on Twitter Sunday that the process was ahead of schedule and "moving along...very well."

But a fruitless revenue quest may lead the GOP to second-tier options. And congressional scorekeepers aren't likely to give them as much credit for spurring faster economic growth as they desire.

One possibility is a temporary tax cut that would expire to comply with rules preventing long-run deficits.

"Permanent is better than temporary and temporary is better than nothing," Treasury Secretary Steven Mnuchin told the House Ways and Means Committee last week.

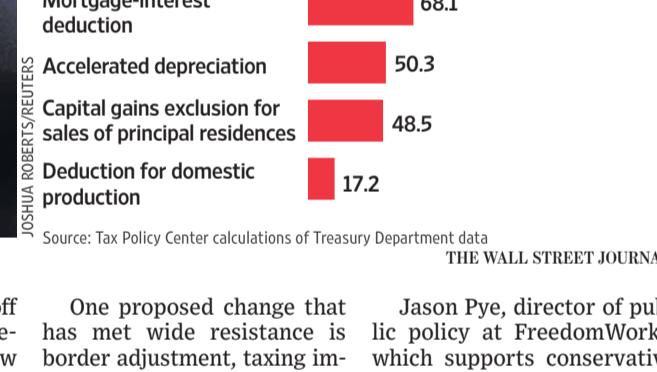
Another path is settling for a 25% corporate rate instead of the 20% backed by House Republicans or the 15% proposed



House Ways and Means Committee Chairman Kevin Brady.

### Tough Breaks

Selected large tax breaks and how much revenue they would represent in fiscal year 2018, according to the Tax Policy Center



Source: Tax Policy Center calculations of Treasury Department data

THE WALL STREET JOURNAL.

duction for businesses. Republicans would deny the deduction while letting companies write off capital costs immediately.

Mr. Mnuchin told lawmakers he prefers to leave the interest deduction alone. He cited concerns of small businesses and the real-estate industry that rely on debt financing. That would also leave a \$1 trillion hole. A cap instead of repeal is possible, which would soften the impact but yield less money.

The Trump administration has taken more items off the table. The president promised to protect the tax breaks for mortgage interest and charity, though his proposed expansion of the standard deduction would limit such benefits for many middle-income households.

The administration also ruled out a carbon tax and a value-added tax and said it wouldn't touch 401(k) retirement plans.

Under questioning from Sens. Sherrod Brown (D., Ohio) and Bob Casey (D., Pa.) last week, Mr. Mnuchin seemingly took more tax breaks off the table.

He said the administration wasn't considering changing last-in, first-out accounting, the New Markets Tax Credit that provides assistance in struggling areas and the low-income housing tax credit. He said he would prefer to retain the exemption for municipal bonds.

# Georgia House Race on Track to Be Priciest in History

BY CAMERON MCWHIRTER

JOHNS CREEK, Ga.—The special election in Georgia's Sixth Congressional District is on its way to being the most expensive U.S. representative's race in history, already exceeding \$37 million with several weeks still to go before the runoff vote on June 20.

Two candidates, Democrat Jon Ossoff, who has never held elected office, and Republican Karen Handel, a former Georgia secretary of state, are spending millions in this suburban Atlanta district of about 700,000, flooding airwaves, boxing out commercial advertisers and, in some cases, saturating voters.

"Normally the budget sets the priorities," said Jeff DeSantis, a prominent Georgia Democratic political consultant not affiliated with the Ossoff campaign. "Here it's 'Oh my God, we have all this money, how do we spend it?'"

Chip Lake, a Republican Georgia consultant unaffiliated with the Handel campaign, said the contest "doesn't even come

close to resembling any race I have ever seen."

While exact expenditures so far in the race are difficult to determine, a review by The Wall Street Journal of records compiled by the Center for Responsive Politics, a nonpartisan Washington group that tracks election spending, found that from April to last week, additional invoices, contracts and orders for ad spending filed with the Federal Communications Commission totaled more than \$27 million.

That comes on top of \$10.5 million that federal records show was spent by candidates and outside groups on the race from the first of year to the end of March, making a total of more than \$37 million with about three weeks before the election. The most expensive congressional race on record, \$29.5 million, occurred in Florida when Democrat Patrick Murphy defeated incumbent Republican Allen West in 2012, according to the Center for Responsive Politics.

The Georgia race—viewed as

### Top Dollars

The special election this year in Georgia's 6th District now ranks as the most expensive Congressional races going back to 1990.

Georgia 6th (2017)	Candidate	Outside spending	Total
<b>Total: \$37 million*</b>			
Florida 18th (2012)	\$23.0	\$6.4	\$29.5M
Florida 18th (2016)	\$18.7	\$7.9	\$26.6M
California 7th (2014)	\$10.4	\$13.6	\$24.0M
Virginia 10th (2016)	\$8.1	\$14.5	\$22.6M
Nevada 3rd (2016)	\$5.4	\$16.6	\$22.0M
California 50th (2016)	\$14.8	\$7.1	\$21.9M
Minnesota 8th (2016)	\$6.5	\$15.3	\$21.7M
Pennsylvania 8th (2016)	\$6.4	\$14.9	\$21.3M
Ohio 8th (2012)	\$21.2		\$21.2M
	\$0.003		

\*As of May 25

Source: Center for Responsive Politics and WSJ analysis of documents provided by the Center

party nationally ahead of the 2018 midterm elections.

In another special election for a Montana House seat, Republican Greg Gianforte handily defeated his Democratic opponent Thursday.

The district opened up when former Rep. Tom Price resigned in February to become President Trump's Health and Human Services secretary. Eighteen candidates competed in an initial "jungle primary" vote April 18, with Mr. Ossoff receiving about 48% of the vote and Ms. Handel receiving about 20%.

A recent poll of 549 likely voters by polling firm SurveyUSA for Atlanta television WXIA found 51% of those surveyed supported Mr. Ossoff and 44% backed Ms. Handel. Six percent were undecided. The survey had a credibility interval, which is a statistical assessment of accuracy, of 4.3%.

Mr. Ossoff, 30 years old, has raised large amounts of money outside of Georgia, including from Democratic strongholds like Los Angeles, San Francisco

and New York, according to Federal Election Commission records. Ms. Handel, 55, is personally calling Republican donors in Washington and elsewhere to raise cash. She also sent out an email this week to potential donors around the country saying this House race will be the most expensive in history and that her opponents were seeking to "embarrass President Trump."

Kate Constantini, a spokeswoman for Ms. Handel, said the Republican is trying to focus on issues important to local voters, but national attention is helping Ms. Handel raise money. The race "is bigger than just us," Ms. Constantini said.

Sacha Haworth, an Ossoff spokeswoman, said the Ossoff campaign has "benefited from an enormous amount of attention," and it is using campaign dollars strategically to win the race. Most people they have contacted "have been extremely supportive and enthusiastic about our message," she said.

## U.S. NEWS

# Mueller Off to Fast Start in Russia Probe

By ARUNA VISWANATHA

Robert Mueller III quickly got to work as special counsel overseeing the investigation into Russian meddling in the 2016 election: building a team, designing a budget and forcing the Federal Bureau of Investigation to withhold from Congress documents he may be interested in—all in his first full week on the job.

Mr. Mueller's team has been assigned office space in a nondescript building in downtown Washington that is home to the Justice Department's civil-rights and environment and natural-resources divisions. Mr. Mueller and his colleagues have been spotted using their badges to enter the office, conspicuous for their formal attire amid the other department employees, who adhere to a more casual dress code.

Mr. Mueller is known for wearing a suit with a white shirt and red or dark blue tie throughout his career, from his time as a homicide prosecutor to his 12-year stint as director of the FBI.

Deputy Attorney General Rod Rosenstein named Mr. Mueller special counsel on May 17, citing the need for Americans "to have full confi-

dence in the outcome" of the investigation, which is also probing any potential coordination between Russia's efforts and the Trump campaign.

President Donald Trump has rejected suggestions that he or his associates have any ties to Russia, and the Kremlin has denied interfering in the U.S. election.

The appointment of Mr. Mueller suggests the investigation is in the early stages, and it could take years to conclude. Clashes between the special prosecutor investigation and parallel inquiries by Congress are likely just beginning.

The FBI told Congress on Thursday that it would withhold for now memos written by former FBI Director James Comey about his interactions with Mr. Trump, as it evaluates whether it can turn them over in light of Mr. Mueller's appointment.

The chairman of the House Oversight Committee, which had requested the memos, responded by renewing his request for all of Mr. Comey's notes on meetings with the White House and senior Justice Department leaders, though he extended his deadline until June 8.

"I am seeking to better un-

derstand Comey's communications with the White House and Attorney General in such a way that does not implicate the Special Counsel's work," Rep. Jason Chaffetz (R., Utah) wrote in his request.

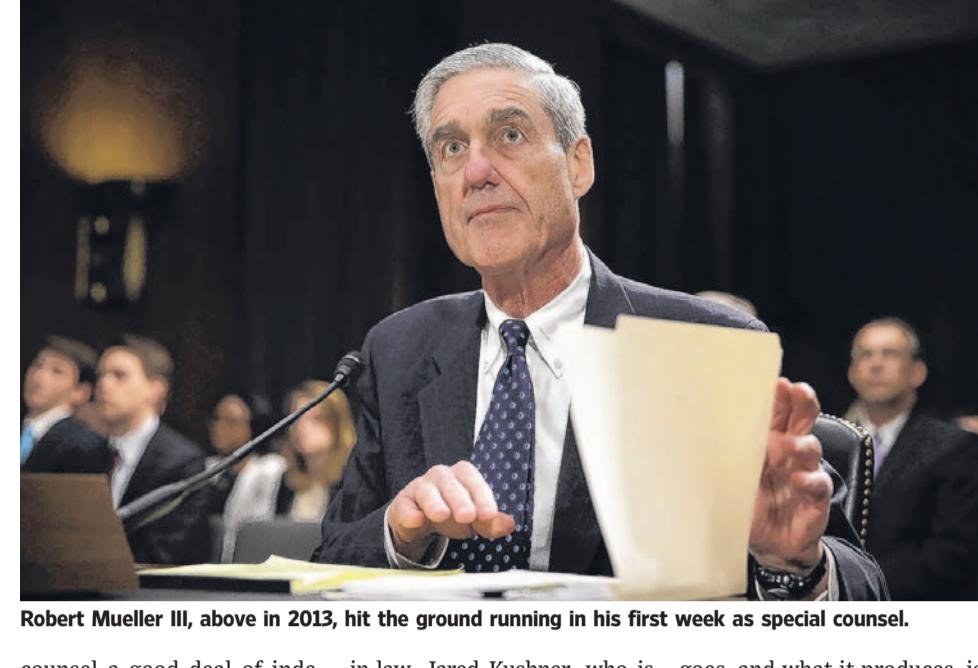
Under regulations that govern a special counsel appointment, Mr. Mueller has 60 days from his appointment to develop a proposed budget, to be approved by Mr. Rosenstein. His office is working on that task, according to Justice Department officials.

"We work with them on their expected estimates...and that's all under way," the Justice Department's top official responsible for its budget, Lee Lofthus, said at a budget briefing with reporters May 23.

Special counsels like Mr. Mueller aren't funded from the regular Justice Department budget but through a separate Treasury account known as permanent indefinite appropriations, which don't require a specific budget request to Congress.

"The reason they call it permanent indefinite is that they make sure that it's funded with what is needed," Mr. Lofthus said.

Such arrangements reflect an attempt to allow the special



Robert Mueller III, above in 2013, hit the ground running in his first week as special counsel.

ALEX WONG/GT/GETTY IMAGES

counsel a good deal of independence to investigate politically sensitive matters, while assuring he doesn't operate without reasonable restraints.

Mr. Mueller brought two attorneys with him from his former law firm, WilmerHale, and he is expected to recruit additional lawyers from within the Justice Department as he staffs his operation.

Earlier in the week, the Justice Department said its ethics experts had determined Mr. Mueller didn't need to recuse himself from any matters within his purview. WilmerHale represents several people who are expected to be examined by investigators, including Mr. Trump's former campaign manager, Paul Manafort, and Mr. Trump's son

in-law, Jared Kushner, who is also a senior White House aide.

FBI agents would eventually like to speak to Mr. Kushner about meetings he held in December with the Russian ambassador and a Russian banker and any other interactions he may have had with Russians linked to intelligence services, The Wall Street Journal reported on Thursday.

Investigators have also sought Mr. Manafort's bank records, the Journal reported this month.

Under local rules, Mr. Mueller can work on matters that involve WilmerHale clients as long as he didn't represent them himself and wasn't privy to any confidential client information. But where his investigation

goes, and what it produces, is still an open question. Mr. Mueller is required to provide a confidential report to Mr. Rosenstein at the end of his work explaining any decisions he reached on whether or not to charge anyone with a crime.

Under the rules, Mr. Rosenstein may be able to make it public if he determines that "public release of these reports would be in the public interest." Mr. Rosenstein is ultimately in charge of the special counsel investigation because Attorney General Jeff Sessions recused himself from the investigation into Russian interference after reports emerged that he may have misled Congress about his contacts with a Russian official during the campaign.

## Ban on Laptops in Airplanes May Grow

By BETH REINHARD

Homeland Security Secretary John Kelly said Sunday he may ban laptops from cabins on all international flights in and out of the U.S. to prevent terrorist attacks in the air.

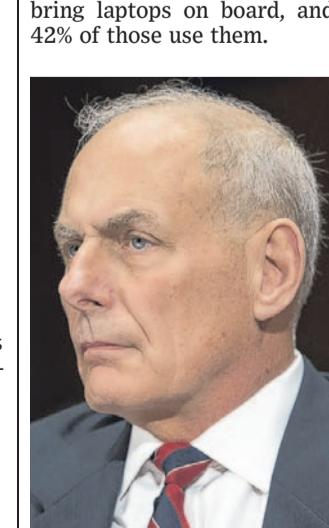
In March, the U.S. banned passengers from carrying most electronics larger than a cell phone into the cabin on flights from 10 airports in the Middle East and North Africa. The U.K. followed with a ban for flights from six countries, not all matching the U.S. restrictions.

Asked in an interview with Fox News if he would expand the ban to include all international flights, Mr. Kelly said, "I might... there's a real threat." He added, "That's really the thing that they are obsessed with, the terrorists, the idea of knocking down an airplane in flight."

The Department of Homeland Security said this month that an expanded ban "is under consideration." U.S. authorities are concerned that an explosive device hidden in an electronic device could be manually triggered in the cabin, or detonated using power sockets onboard, according to people familiar with airline security plans.

The International Air Transport Association, a global trade group, in March called on governments to work with the aviation industry to keep flights safe "without separating passengers from their personal electronics." The Airline Passenger Experience Association, a trade group, called in early May for governments to hold off on a ban expansion.

The group conducted a survey last year that showed 43% of world-wide airline passengers bring a tablet aboard, and 70% of those fliers use them in-flight. The study also found that 38% of global passengers bring laptops on board, and 42% of those use them.



MICHAEL REYNOLDS/EUROPEAN PRESSPHOTO AGENCY

## Creating Cooks at Chicago's Cook County Jail

By SHIBANI MAHTANI

CHICAGO—Marcus Clay had never learned to cook until he was incarcerated two years ago on an armed robbery charge.

At a basement culinary school adorned with hand-painted murals beneath Cook County Jail's Division 11, the 21-year-old tosses pizza dough until it is perfectly round, sprinkles on cheese and toppings, and carefully slides it into a donated wood-fired pizza oven.

Mr. Clay is part of an enrichment program at the jail that is turning inmates into budding chefs. Under the mentorship of Chef Bruno Abate, who runs an upscale Italian restaurant in Chicago's Wicker Park, those selected for the program learn how to make fresh pasta, gelato, omelets and a range of other dishes.

For the 200 or so who have been through the program in the past five years, it is about more than the food.

"My mind-set is completely changed," Mr. Clay said. "I've learned how to make plans—and you need an eye to a plan when you get out of here, so you don't go back to what you did before."

Last month, the jail started selling the wood-fired pizza to other inmates at prices between \$5 and \$7. The entire program—including the \$16,000 oven—is funded by donations rather than taxpayer dollars, and the inmates pay for the pizzas through money in their personal jail accounts. Orders come in daily and are delivered to inmates in their cells the next day.



Chef Bruno Abate, center, offers pizza instructions at Cook County Jail, as part of a program called Recipe for Change in Chicago.

Cook County Sheriff Tom Dart said the program is one of several at the jail designed to give inmates a greater sense of purpose and marketable skills, reducing the risk of recidivism.

"There's a sense of accomplishment here that is very real," Mr. Dart said. "This is not just about a GED test, this is advanced cooking."

Other programs for the nearly 8,000 people awaiting trial in the jail include guitar lessons, a community garden project, and chess lessons, which culminate with a tourna-

ment with inmates in other jails across the world. A recently launched program helps inmates write their memoirs, teaching writing skills while encouraging them to reflect on their childhoods, their families and what got them into jail.

The pizza program is among the most popular, with a waiting list of more than 1,700 inmates. For now, only those from Division 11 are eligible to join, a ward that houses mostly medium to maximum security inmates.

Participants must have a

history of good behavior in the jail and good personal hygiene and write a letter to Chef Bruno explaining why they would like to join.

The jail plans to start selling the pizzas in food trucks near the facility and at the neighboring county criminal court, where restaurant options are scarce.

"We are trying to get out to the general public that the majority of people in jail are people who made mistakes, people who have had limited opportunities and poor judgment, and

we owe them a second chance," Mr. Dart said.

For 28-year-old Kareem Joiner, who was booked a year ago on aggravated battery charges, the biggest takeaway from the program was that people were invested in him and wanted him to turn his life around.

"I've learned to see my time here as a blessing in disguise," Mr. Joiner said while creaming butter and sugar to make chocolate-chip cookies. "God puts us through things to make us better."

—Shibani Mahtani

MINNESOTA

## Castile Shooting Trial To Start This Week

The graphic video showing Philando Castile's final moments after he was shot by a Minnesota police officer made headlines nearly a year ago and led to calls for changes in policing. It will serve as key evidence in the case against St. Anthony Police Officer Jeronimo Yanez, who is set to go

on trial for manslaughter this week.

Jury selection begins Tuesday and is expected to last at least a couple of days.

Castile, who was black, was killed July 6 during a traffic stop in the St. Paul suburb of Falcon Heights. His death got instant attention as the shooting's gruesome aftermath was streamed live on Facebook by Castile's girlfriend, who was in the car along with her young daughter.

Prosecutors say Officer Yanez shot Castile, a 32-year-old elementary school cafeteria worker, after Castile told him he was armed. The encounter lasted barely more than a minute. Authorities later found Castile had a permit to carry.

Officer Yanez, who is Latino, is charged with second-degree manslaughter, punishable by up to 10 years in prison. He is also charged with two lesser counts of endangering safety by firing his gun near Castile's girlfriend, Diamond Reynolds, and her daughter.

—Associated Press

NEW YORK

## Navy Probes Death In Parachute Jump

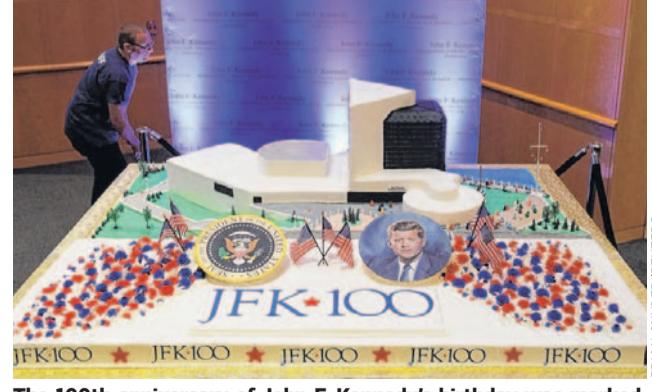
The U.S. Navy is investigating the death of a Navy SEAL whose parachute malfunctioned during a Fleet Week demonstration over the Hudson River on Sunday.

The man was conducting a parachute jump with three other SEALs near Jersey City, N.J., when his parachute failed to open, military officials said. He was pulled from the water by members of the U.S. Coast Guard, officials there said Monday.

The SEAL was taken to Jersey City Medical Center, where he was pronounced dead, officials said.

"Our hearts and prayers go out to his family, and I ask for all of your prayers for the Navy SEAL community who lost a true patriot," Navy Commander Rear Admiral Jack Scobey said in a statement.

The name of the SEAL hadn't yet been released Monday. Navy



The 100th anniversary of John F. Kennedy's birthday was marked.

—Mara Gay

FLORIDA

## Tiger Woods Faces Drunk-Driving Charge

Golfer Tiger Woods was arrested Monday morning for driving under the influence of alcohol, according to the Palm Beach County, Fla., sheriff's office.

Jail records show he was booked for driving under the influence early Monday and released at 10:50 a.m. under his own recognizance.

A lawyer for Mr. Woods couldn't immediately be reached for comment.

The former world champion golfer lives in Jupiter Island, Fla., close to where the arrest was made. Mr. Woods, 41 years old, has won 14 major championships and returned to professional golf late last year after a series of back injuries.

—Shibani Mahtani

MINNESOTA

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The graphic video showing Philando Castile's final moments after he was shot by a Minnesota police officer made headlines nearly a year ago and led to calls for changes in policing. It will serve as key evidence in the case against St. Anthony Police Officer Jeronimo Yanez, who is set to go

on trial for manslaughter this week.

—Associated Press

## IN DEPTH

# Aramco's Royal Entanglement

The Saudi oil giant's ties with government complicate its pending IPO; the camel beauty pageant

RUMAH, Saudi Arabia—To understand the deep bonds between Saudi Arabian Oil Co. and the country's royal family, consider a \$55-plus million project the state oil giant recently completed on an empty expanse of desert north of Riyadh.

By Justin Scheck,  
Bradley Hope  
and Summer Said

It includes a mosque, a children's camp and a museum. Broad boulevards with solar-powered streetlamps lead to gleaming white grandstands at the complex's centerpiece—a stage for Saudi Arabia's most prestigious camel beauty contest.

In a country with limited industrial capability, Saudi Aramco, as the oil company is known, was one of the few firms that could build the project in time for the springtime pageant, an event cherished by King Salman bin Abdulaziz Al Saud. "Within 50 days, they made this city," said Badah Alsubaie, a camel-complex official.

The kingdom wants to list a minority of Aramco's shares in what could be the world's largest-ever initial public offering, planned for the second half of 2018. First, however, the company needs to be separated from the kingdom.

The kingdom's oil company and its gargantuan cash flow drove the development of modern Saudi Arabia. In addition to being the engine of the national economy, Aramco is a core part of the government apparatus, so much so that some Aramco employees call their employer the "Ministry of Aramco."

Yet many potential investors say that, to be valued on a footing with publicly traded peers such as Exxon Mobil Corp. and Royal Dutch Shell PLC, Aramco will need to present financial statements showing the company is independent and that its profits aren't subsidizing pavilions for camel beauty pageants or other Saudi budget items.

"I'd much rather have a simple, straightforward company that specializes in that area of the market than one that might go off in other directions," says Paul Mumford, a fund manager who invests in energy stocks for Cavendish Asset Management.

The company and the kingdom are so deeply enmeshed that, a year into IPO preparations, company and government officials are still wrestling with how to untangle them, according to interviews with more than two dozen current and former Aramco executives, government officials and outside advisers, as well as corporate and government documents reviewed by The Wall Street Journal.

The IPO is crucial to the ambitions of Deputy Crown Prince Mohammed bin Salman, who wants to invest the proceeds in other industries to make Saudi Arabia's economy less reliant on oil.

Saudi Aramco said in a statement it has "initiated a multi-phased program to define our relationship with our stakeholders for the future."

The company said it couldn't answer certain specific questions about IPO preparation due to concerns about complying with stock-exchange regulations ahead of the offering.

Saudi Aramco's chairman, Saudi Energy Minister Khalid al-Falih, said in a March interview that Aramco is "ring-fenced financially" from the state, with governance comparable to multinationals.

Yet people familiar with the behemoth's finances say that it is often unclear even to some officials high up in the company whether Aramco has been reimbursed in full for projects, and how the reimbursement process works.

Discussing the desert construction complex, a Saudi Aramco spokesman said in an email the company "was fully reimbursed for its costs relating to this event."

Aramco, which contributes

over 70% of government revenues, has a range of roles beyond infrastructure building, including economic planning. It also provides heavily discounted fuel to support companies and consumers with inexpensive power.

Half of Saudi Arabia's 10 largest nonbank companies by market capitalization rely heavily on business with Aramco, including receiving products at below-market-rate prices, according to an analysis of Saudi corporate disclosures.

A spokesman for Aramco said that "its sales within the Kingdom are regulated by the government."

Saudi Electricity Co., the third-largest nonfinancial company in the kingdom, said in 2015 it owed some 73.7 billion riyals (\$19.7 billion) to the government and Aramco for fuel it received from Aramco since 2000. Aramco owns 6.9% of the company. That fuel allows Saudi citizens and businesses to buy electricity at a discount.

Two people with knowledge of Aramco's finances say Saudi Electricity still hasn't paid Aramco for the fuel.

Saudi Arabian Mining Company, the sixth-largest nonfinancial company, disclosed in 2016 that one of its biggest competitive advantages was access to "quality phosphate rock and molten sulfur from Saudi Aramco." An Aramco spokesman said the sulfur "is a byproduct of operations and is sold on a commercial basis."

The company that became Aramco started in 1933 as a joint venture between the Saudi government and Standard Oil Company of California, and for years was largely U.S.-run. Control shifted to Saudis through the 1960s and 1970s; in 1980, the government became Aramco's outright owner through a deal it struck with its U.S. partner.

As the world's thirst for oil grew, Aramco kept pace, and has accounted for more than 10% of global oil production in recent years. The company broadened its expertise from tapping and managing the world's biggest oil reservoirs to shipping and processing crude into more valuable products.

Aramco now has joint ventures with multinationals including Exxon Mobil and Dow Chemical Co.

Its profits built the modern Saudi state almost from scratch.

In 1968, Saudi Arabia's gross domestic product was less than \$4.2 billion, according to World Bank data, and a Saudi born that year could expect to live fewer than 51 years. In 2015, Saudi GDP was \$646 billion and life expectancy reached nearly 75 years.

Aramco took on infrastructure projects including roads, hospitals and schools, and provided a host of social and economic programs: interest-free housing loans, funding for U.S.-bound students and malaria eradication.

The company said its construction projects are part of a "program of corporate citizenship" that has included "national capacity building, training, schools and education." In addition, the company said it has "also undertaken infrastructure projects at the request of the Government of the Kingdom of Saudi Arabia" for which it said it received "due compensation."

Other people with direct knowledge of Aramco's finances dispute that, saying the company hasn't been reimbursed for some projects built at the government's request.

Untangling the paybacks is difficult, says a person involved in the process, because the government and Aramco sometimes deal with compensation as part of the negotiation of Aramco's annual payments to the government.

In 2006, then-King Abdullah ordered up Saudi Arabia's first coed university for an estimated \$2 billion to \$3 billion. An Aramco spokesman says "the government bore the substan-



Saudi Aramco constructed the multimillion-dollar facilities for the King Abdulaziz Camels Festival.

ment ministries.

The very process of realizing the prince's economic overhaul only served to highlight the blurred lines around Aramco's role.

The government began asking Aramco's oil-price-forecasting group for about 10 reports a week on countries and companies the prince viewed as alternative investment opportunities. Those included Russia, Japan's SoftBank, the Comoros Islands and an amusement-park company.

"We're going, 'What's Six Flags got to do with the price of oil?'" says a person involved in the assignment.

The internal team preparing the company's IPO began to realize they might not meet the lofty price of \$2 trillion publicly predicted by Prince Mohammed.

According to internal documents, the team reached a valuation of less than \$1.5 trillion under current tax rates and royalty rates.

Within Aramco, worries about potential disruption caused by the IPO effort have led some employees to work on what one calls a "constructive sabotage" effort—an attempt to persuade superiors Aramco should remain an arm of government.

Their quiet rebellion seems unlikely to succeed. Prince Mohammed is committed to the IPO, according to people in his circle. An Aramco spokesman declined to comment on the potential valuation or on the prince's plans.

Saudi business leaders also were becoming unsettled by aspects of the economic overhaul plan. Already hit by reduced government support, companies were facing new taxes and other measures aimed at weaning the country off oil revenue. To some, it felt like the government was focused on one thing: maximizing an Aramco IPO. On March 4, several Saudi business leaders sat with Prince Mohammed to air their grievances, according to minutes of the meeting reviewed by The Journal.

Changes the prince planned to introduce as part of Vision 2030—the name of the government's economic transformation plan—would add to their costs, they complained, including by hampering their ability to bring in foreign workers.

The only sector exempted, they pointed out, was oil, according to the meeting minutes. The prince offered little comfort.

The take-away for one executive whose company was represented: "What 2030 stands for is we take 30 and give you 20."

While the meeting was being held, Aramco was close to finishing the camel stage.

On a recent afternoon, hundreds of camels chewed their cuds in dusty paddocks. One white female—made particularly desirable by the downturned snout towering two feet over her caregiver's head—was the subject of a \$10 million auction bid. Her owner turned it down.

Aramco engineers were on site through the contest, said Mr. Alsubaie, the camel-complex official.

Saudi officials frame Aramco's involvement as a marriage of Bedouin tradition and modern wealth that epitomizes today's Saudi Arabia. The government called the contest, which gave out some \$30 million in prizes, "part of the transformation of the country's oil-dependent economy." Top prizes went to two Saudi princes.

In the weeks since the camel facility was finished, government thinking on untangling Aramco has shifted, say people familiar with the matter. For months, company officials and their bankers signaled they would break Aramco's non-oil functions from the company ahead of the IPO.

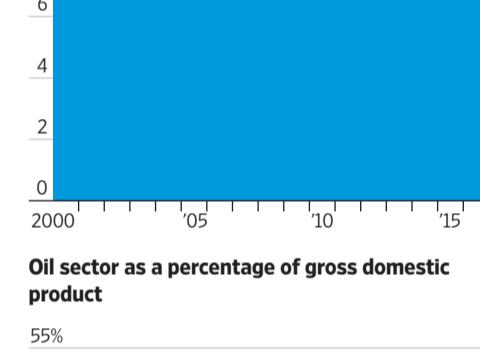
On the eve of the camel pageant finale in April, senior officials said they now intend to keep the construction function in the company, hoping it can make a profit. The work is so good, say officials involved in the process, investors will want a piece.

## Crude Impact

Saudi Aramco has remained the predominant player in the kingdom's economy, in part because it has managed to increase oil production in the face of falling prices.

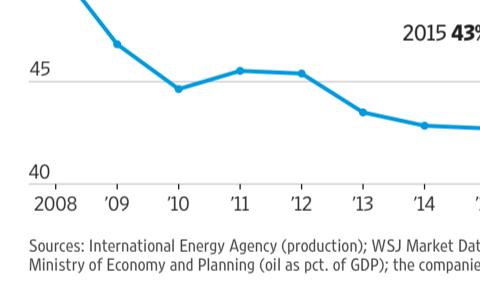
### Oil production

10 million barrels a day



Oil sector as a percentage of gross domestic product

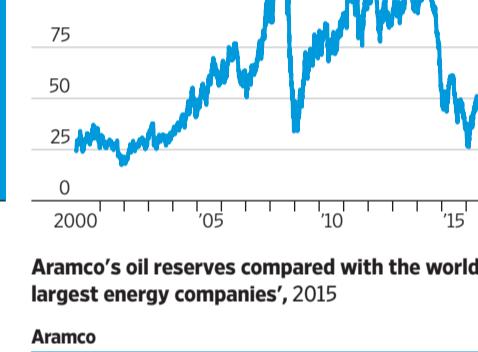
55%



Sources: International Energy Agency (production); WSJ Market Data Group (oil prices); Ministry of Economy and Planning (oil as pct. of GDP); the companies' reserves

### Oil price

\$150 a barrel



Aramco's oil reserves compared with the world's largest energy companies', 2015

Aramco

261.6 billion barrels

Exxon

13.2

Chevron

6.3

Shell

5.3

CNOOC

3.0

THE WALL STREET JOURNAL.

and Cantor are affiliated with boutique firms advising Aramco.

In his meetings with Prince Mohammed, Mr. Blair discussed "general Middle East politics," but nothing to do with "business" or his role at J.P. Morgan, according to a person close to Mr. Blair.

As a first step, Mr. Falih and Aramco Chief Executive Amin Nasser appointed Motsim al-Maashouq to lead a group that would figure out how to untangle the oil, fuels and chemicals businesses from Aramco's government obligations.

In a speech to the corporate-planning department, Mr. Maashouq, the goateed and gregarious onetime head of an Aramco division that builds non-oil projects, told employees the IPO would be "a landmark" for Aramco and that "transparency and efficiency will make things better," one attendee recalls.

Mr. Maashouq enlisted more than 20 Aramco employees. They were assigned to teams called "Project X," "Project Y" and "Project Z," say people familiar with the matter, and began meeting in offices with combination locks on the doors. Project X worked up a plan to take the entire company public; Projects Y and Z examined more modest offerings of Aramco's processing businesses, say people familiar with the matter.

Executives decided to move ahead with Project X, they say, and put together another team, "Project R," to focus on getting the company ready to go public.

The teams, along with outside advisers, developed plans to move subsidies off Aramco's books and put non-energy functions—such as building stadiums and camel complexes—under govern-

Taking Aramco public would be like 'floating a country,' some bankers have said.

Former British Prime Minister Tony Blair sat with Prince Mohammed in a desert camp; Lawrence Summers, a veteran of Clinton and Obama White Houses, met Saudi leaders, as did former Republican House Majority Leader Eric Cantor, say people familiar with the meetings.

The former politicians, experts in politics and economics, are also affiliated with banks vying for Aramco IPO business. Mr. Blair is the chairman of J.P. Morgan Chase & Co.'s international council, which advises the bank (Aramco's chairman, Mr. Falih, was also on that council). Messrs. Summers

# LIFE & ARTS



PARAMOUNT PICTURES (2)

FILM REVIEW | By Joe Morgenstern

## This One Can't Be Rescued

Despite the presence of Dwayne Johnson, the big-screen version of 'Baywatch' flounders on the shore

**IN "BAYWATCH,"** a cellulite-free saga of hard bodies and soft heads, the way of all flesh is a progression from sand to surf. At its best, this big-screen version of the *fin de siècle* TV series evokes the rapture of the shallows. At its worst, where to begin? A repurposing of the Heimlich maneuver for inclusion in a new edition of the Kama Sutra? A portrait of the antihero as serial vomiter? I'd vote for the graphic frontal nudity of a male corpse during an autopsy performed by lifeguards and trainees investigating a crime. The movie is a minor crime, a meandering misde-meanor that's neither soft-core nor hardcore but no core, with no consistent style and minimal content. (So minimal that the official website wisely omits a synopsis, or any other information, and offers only two options: Watch

Trailer or Get Tickets.)

The first scene promises more. From his perch in Station One, Lt. Mitch Buchannon, an eagle-eyed, quick-witted lifeguard played by Dwayne Johnson, spots a parasail canopy all aflutter and threatening to dump its Icarus into the bay. Intuiting the kite's trajectory—after foreseeing trouble clairvoyantly—Mitch vaults over a railing onto the beach, races into the water and makes the first of the movie's many epic saves. It's a charming piece of parody, a sign that the film will take itself with more than a few grains of sea salt.

And this singular star has the requisite comedy chops. In the role originated by David Hasselhoff (who turns up on screen as more or less himself), Mr. Johnson makes Mitch a figure of mountainous probity, a tough



taskmaster but also a good-hearted role model for young trainees hoping to join Mitch's elite lifeguard team. He's the adult of the group, which includes Zac Efron's Matt Brody, an

arrogant Olympic swimmer who has tarnished his gold medals by vomiting in a pool. (The main figures of the gorgeousness contingent—"Charlie's Angels" as mermaids—are played by Alexandra

Once more onto the beach. Top, left to right: Kelly Rohrbach, Alexandra Daddario, Ilfenesh Hadera, Dwayne Johnson, Zac Efron and Jon Bass. Left, Priyanka Chopra.

Daddario, Kelly Rohrbach and Ilfenesh Hadera. Jon Bass is Ronnie Greenbaum, clownishly addled by testosterone.)

But the director, Seth Gordon, and the writers, Damian Shannon and Mark Swift, don't sustain the parody, or settle on any other tone for longer than a scene or two. "Baywatch" soon devolves into an amateurish murder mystery, and lifeguards and trainees turn into junior detectives on the trail of vile connivers who want to besmirch the bay with a real-estate development. That's a puzzlement, since the area already seems as overdeveloped as everyone's abs.

### THEME PARKS

## A FIRST LOOK AT DISNEY'S 'WORLD OF AVATAR'

BY BEN FRITZ

*Orlando, Fla.*  
**"SUBTLE"** ISN'T a word normally associated with Disney theme parks or James Cameron movies.

But if anything is likely to surprise visitors to Pandora—The World of Avatar, the theme-park area that opened here Saturday at Disney's Animal Kingdom park, it is the absence of loud music, bright lights and attention-grabbing signs.

It is "Avatar" turned down to 1. Perhaps it's because children won't enter Pandora desperate to see their favorite "Avatar" character the way they search for Elsa at Frozen Ever After or Chewbacca in the Star Wars Launch Bay. Most people would probably be hard-pressed to name a character from the 2009 blockbuster, even though it grossed a record-breaking \$2.7 billion world-wide.

The landscape in Pandora isn't a setting, it's a character, said Joe Rohde, designer for Disney's Imagineering unit. While the new area has a thrill ride that blows everything else in its category away, it stands out mostly by not announcing itself.

Visitors enter Pandora by crossing a bridge from Animal Kingdom into 13 acres of natural plants mixed with "alien" (a.k.a. man-made) ones. Two rides are hidden inside a rock wall framed by giant mountains that almost seem to float, thanks to engineering feats



DISNEY

In the Na'vi River Journey ride, above, at Pandora—The World of Avatar, visitors float through a glowing rainforest.

that Imagineers needed a year to pull off, during the project's five-plus year design and construction.

The effect is striking at night, when the man-made plants and trees and even leaf-shaped indentations in the ground glow. The lighting slowly increases as darkness falls, referencing the bioluminescent plants in "Avatar" and stepping up the appeal of Animal King-

dom—which people tend to visit during the day—after the sun sets.

Disney aimed for "complete immersion" with Pandora, said the company's parks and resorts chief Robert Chapek. Every element of the land makes sense for the story of people visiting the planet a generation after the movie and its coming sequels. An old spaceship is encrusted in plants that appear

to have been growing for decades; Pandoran biology books can be spotted in the display along the ride queue lines. The sole souvenir shop and restaurant are in a plant-free zone said to have been colonized and pillaged by humans. There's also a tiki-style bar allegedly founded by a human expat who stayed behind on a military mission long ago.

Among the area's handful of rides is the Na'vi River Journey, a slow meander through a Pandoran rainforest surrounded on all sides and above by glowing plants and, via projection screens, "native" wildlife. It culminates in one of Disney's most advanced audio-anomatronic characters: a 10-foot tall Na'vi "shaman" from the film.

The Flight of Passage ride offers a contrasting, bracing experience, using the most advanced flight simulator to date in any theme park to replicate the experience of riding one of the movie's dragon-like banshees. Riders don 3-D glasses and lean forward on a motorcycle-like seat as they are hoisted in the air on mechanisms that tilt and blow air in time with images on a giant movie screen.

Mr. Cameron, on hand to promote the opening, suggested that the ride could be updated with content from a quartet of movie sequels scheduled for release between 2020 and 2025.

As Disney focuses on movie-inspired lands in its theme parks—ones featuring Toy Story, Star Wars and Marvel characters are in the works—"Pandora" signals the company's priorities, Mr. Chapek said. Instead of rides that replicate a big-screen story and characters doing meet-and-greets on generic sidewalks, Disney wants visitors to feel they are spending a few hours inside their favorite cinematic universe, from the largest landmark to the smallest detail.

## OPINION

### REVIEW & OUTLOOK

## Martial Law in the Philippines

Rodrigo Duterte last week imposed martial law for 60 days over the entire island of Mindanao in response to terrorist groups taking control of parts of Marawi City. The Philippine President's decree may help the armed forces retake the town and drive out militants who flew the black flag of Islamic State. But his use of special powers deserves close scrutiny in light of his past disrespect for the constitution.

Abu Sayyaf and the Maute Group, the two Islamist gangs responsible for the violence, are known for their brutality. In the past week they murdered at least 16 Marawi residents, including a child. Success on the battlefield could help them recruit more local fighters and embolden other groups to strike in Mindanao, which has a sizeable Muslim population in the otherwise Christian nation.

More worrying is the possibility that Islamic State could expand its foothold in Mindanao and declare a new caliphate. The fighting started when the armed forces tried to capture Abu Sayyaf's leader, Isnilon Hapilon, who swore allegiance to Islamic State in 2014 and was named its emir in the region. Islamic State has called on followers in Southeast Asia to converge on Mindanao.

A decade ago Mindanao was an important base for the al Qaeda-linked group Jemaah Islamiyah that was active in Indonesia. Islamic State claimed responsibility for a suicide attack in Jakarta last Wednesday that killed three police officers. The Philippine government says foreigners are fighting alongside Abu Sayyaf in Marawi City. At least 61 militants have been killed so far, as well as 20 soldiers and police.

Mr. Duterte entered office last year promising to defeat the rebel groups that have turned parts of Mindanao into private fiefdoms. He is

### Duterte could use U.S. help to defeat Islamic State in Mindanao.

the country's first President from the island and his maternal grandmother was Bangsamoro, a member of the local Muslim population.

His rapport with local leaders should rally support against terrorist groups.

Yet the President's attempts to downgrade the Philippines' alliance with the U.S. cancels out that advantage. After Sept. 11, the U.S. provided the Philippine military with training, logistical and intelligence support, and funding for development projects in Mindanao. That helped past administrations contain Abu Sayyaf and other groups. Some 100 U.S. soldiers are stationed in Zamboanga, about 250 miles from Marawi City, but they don't seem to have played a role in the current fight.

Instead the Philippines is looking primarily to China and Russia for help. While those governments may provide weapons, they can't offer the same intelligence and counterinsurgency expertise the U.S. brings. And their repression of Muslim populations in Xinjiang and Chechnya will exacerbate local suspicions.

Mr. Duterte's use of emergency powers is also stoking fears in the rest of the Philippines that he intends to overturn democracy and seize absolute power as Ferdinand Marcos did after imposing martial law in 1972. More than 8,000 people have been killed after he encouraged police and vigilantes to kill drug suspects. He has responded to criticism by threatening to extend martial law across the country.

Opposition politicians have muted their criticism of martial law because of the fighting in Marawi City. That's understandable given the danger of Islamic State establishing a base in Mindanao. But Filipinos will have to be on alert and prepared for protests if Mr. Duterte fails to suppress rebel groups as he promises and tries to use emergency powers to make himself a dictator.

## Britain's Missed Chance To Reform the Easy Way



POLITICAL ECONOMICS  
By Joseph C. Sternberg

It's bad enough that Theresa May failed to sell voters on a major reform to an expensive entitlement when she released her election platform earlier this month. Worse is the sinking realization that the major reform was neither major nor, necessarily, a reform.

This isn't entirely to play down the significance of Mrs. May's attempt to re-jigger spending on old-age care. Her Conservative Party manifesto pledged a new means test for spending on care delivered in-home. Currently those who require residential care in a nursing home can be required to sell their homes to recoup some of the cost. But those who opt for care in their own homes are free to pass their houses to their heirs while taxpayers foot the bill for nurses' visits and the like.

It sounds technocratic, but this is a much meatier measure than at first appears. At heart it's a question of why people ought to save. Most modern entitlement systems—for old-age care and most other things—are premised on the notion that people ought to save for the benefit of their families, while the state ought to provide for more of their needs.

The current requirement that those entering nursing homes support their own costs is the exception, not the rule. The same person can receive most of his or her health care with no direct contribution via the National Health Service, preserving accumulated assets rather than spending them down. The last high-profile proposal to reform old-age care funding, in 2011, would have capped total lifetime personal contributions with no means testing, preserving estates for the wealthy.

Mrs. May, to her credit, chose to swim against this philosophical tide with a proposal that argued that assets accumulated earlier in life should be used to fund needs later in life. It's such a sensible idea that of course it was doomed.

The less interesting reason for this failure is the fact that old people vote in disproportionately large numbers in the West. No one wants to pay more for something he's been getting for "free." In this sense, entitlement reform probably must await a fiscal catastrophe of unprecedented proportions—some shortfall so severe that the government can no longer afford even the electricity that powers the machine that prints the monthly benefit checks.

The more interesting reason for Mrs. May's reform failure is bound up in the uncomfortable question of how much of a reform it was. If the goal of a politically painful entitlement overhaul (or tweak) is to make a creaking system more fiscally sustainable, it's striking that no one can say whether Mrs. May's plan would have worked.

Blame politics. Mrs. May needed to sweeten the deal by reducing the burden on those already required to contribute to their nursing-home care. She would have done this by increasing to £100,000 (about \$128,000) from £23,500 the amount of assets exempt from the means-testing for benefits.

Good luck trying to estimate whether the savings from increased contributions to in-home care would outweigh the cost of additional government subsidies for nursing-home care over time. Meanwhile, this plan left untouched all the far more expensive entitlements in Britain—not least the National Health Service.

And looming overhead like a cloud is a problem that bedevils all entitlement-reform efforts: the unpredictable interaction between a reformed entitlement and the many entitlements that go unreformed.

**Theresa May tried and failed to fix a small entitlement. That means much bigger shocks are coming.**

In Mrs. May's case, critics noted that the coexistence of a user-financed "social care" system and a taxpayer-financed health-care system would create politically crippling inequities if Mrs. May's reforms went ahead. Those elderly whose conditions, such as cancer, were covered by the National Health Service would escape with houses intact. Those whose conditions, such as dementia, are relegated to the social-care system would shaft their heirs.

No one expects a market to be fair, but everyone expects the government to be fair. This disparity in the government funding of services ultimately helped tank Mrs. May's proposal.

Is there then any hope for entitlement reform?

The Office of National Statistics announced Thursday that net immigration to Britain declined to 248,000 in 2016 from 332,000 a year earlier, as a growing number of working-age taxpayers leave Britain. Mrs. May promises to bring net immigration to below 100,000. A falling pound, tax hikes, slowing growth and a bungled Brexit should about do the trick.

At that level of immigration, combined with the low birth rates typical of the modern West, Britain will quickly run out of worker bees to support its entitlement state. Precise numbers are unknowable, but most guesses assume that coming anywhere close to the 100,000 goal would wreck public finances, with debt spiralling to multiples of GDP unknown even in Japan.

Last week's victory over Mrs. May notwithstanding, Britain's older voters might want to check the light switches at that check-printing plant.

## China's Tortured Lawyers

By Bob Fu

**I**t is truly 'nine deaths, one life,' my friend Li Heping said, quoting a Chinese idiom to mean he narrowly escaped death. "There were times that I wanted to commit suicide. I survived because of my Christian faith, the courageous advocacy of my wife and the attention of the international community."

Mr. Li was describing to me the sadistic torture he endured at the hands of Chinese authorities. He was arrested, along with more than 250 other human-rights lawyers, on the second day of a nationwide sweep that began on July 9, 2015 and has come to be known as the 709 Crackdown. More than a campaign of intimidation, it's part of a concerted, coordinated effort to break and humiliate China's most prominent defenders of human rights.

Despite promises to develop a rule of law, President Xi Jinping's regime has sought to eviscerate China's network of human-rights lawyers and rights advocates, viewing their peaceful efforts at legal reform as a national-security threat. Mr. Xi has reinstated the Maoist practice of televised public confession and embraced a system of torture so horrific it demands an international response.

In addition to solitary confinement in frigid cells, beatings, electric shocks, sleep deprivation and being chained in stress positions, many of those detained during the 709 Crackdown are testifying that they were also drugged with large amounts of unknown substances. Mr. Li, for instance, said he was "diagnosed" with high blood pressure and forced to take six pills a day for nearly two years. Mr. Li's wife, Wang Qiaoling, provided testimony about this earlier this month to U.S. Representative Chris Smith, the chairman of the House Foreign Affairs Subcommittee on Global Human Rights.

Another lawyer, Xie Yang, released through his lawyers details of the torture he endured, including beatings and being shackled in stress positions. He said his jailers would repeatedly threaten to torture him until he "became insane." That's the state that has be-

fallen Li Chinfu, a lawyer now diagnosed with schizophrenia after he, too, was forcibly medicated.

These aren't isolated stories. Other lawyers detained during the 709 Crackdown are coming forward with similar reports. The list includes lawyer Li Shuyun, lawyer Ren Quanniu, lawyer Wang Quanzhang, legal assistant Gou Hongguo and legal activists Zhai Yanmin, Wu Gan and Jiang Tianyong. China's pattern of torture-through-medication needs condemnation by governments, medical associations and the United Nations.

At the Mar-a-Lago summit in April, President Trump reportedly confronted Mr. Xi with some blunt questions, among them, why China's government brutally jails so many political dissidents. Asking blunt questions about the torture and abuse of human-rights lawyers makes a big difference, as Mr. Li says his treatment improved during periods when the U.S. focused international attention on China. It improved after the U.S. election, and following the call by Mr. Trump to Taiwan's new president, Tsai Ing-wen. And it accelerated after the Mar-a-Lago summit.

All of this is in stark contrast to the Obama administration. Mr. Trump, for instance, authorized the rescue of Mr. Xie's wife and two young daughters, whose daring escape to Thailand in February was almost derailed by Chinese agents seeking their repatriation. The Obama administration did little when Beijing spirited other Chinese asylum-seekers out of Thailand in recent years.

The international community should be calling for an investigation into the torture that resulted from the 709 Crackdown. Possible responses could include sanctions through the Magnitsky Act, which targets officials complicit in the torture of human-rights advocates.

Wang Quanzhang, Jiang Tianyong and Wu Gan—and so many others—remain in jail and are in danger of horrific torture. We cannot forget them. Silence may equal their death.

*Mr. Fu is the founder and president of China Aid, a Texas-based international Christian human-rights organization.*

would require federal waivers. The rest would require higher taxes.

A \$200 billion tax hike would be equivalent to a 15% payroll tax, which would come on top of the current 15.3% federal payroll tax. The Senate staff analysis estimates that "between 25% and 50% of the payroll tax revenues would represent a new tax on employees,

not likely to be offset by higher wages." The report dryly concludes that "the state-wide economic impacts of such an overall tax increase on employment is beyond the scope of this analysis."

Democrats could as usual try to soak the rich with higher income taxes, but the wealthy in California already pay a 13.3% top marginal rate. The state would have to confiscate nearly all the income of all of its millionaires to pay for it.

The daunting costs and higher taxes caused former Vermont Governor Peter Shumlin to abandon his dreams of single-payer in 2014 after he had campaigned for it in 2010. The estimated bill would have doubled state revenues, which is roughly what California's \$400 billion price tag would require. Last November nearly 80% of voters in Colorado rejected a single-payer trial balloon that would have raised taxes by \$25 billion.

But California Democrats are thinking less about reality than they are trying to satisfy the leftward march of their political base. Bernie Sanders campaigned on government-run health care. Unions are using single-payer as a litmus test for progressivism or, alternatively, cynicism. Democrats like Mr. Newsom can campaign on single-payer realizing that voters will get the final say because the California constitution would require an amendment to waive the state's spending limit (yes, there is one) and education-funding formula.

One danger for taxpayers in the other 49 states is that California liberals will drag ambitious Democrats elsewhere to endorse single-payer if they want to compete for the 2020 Democratic presidential nomination. New York Governor Andrew Cuomo, for example.

All of which raises the stakes for Senate Republicans in Washington as they consider the House bill to repeal and replace ObamaCare. If they blow this opportunity, Democrats will respond to the breakdown of the health exchanges with the California play. And voters might even consider socialism as a solution.

**A**s California liberals go, the Democratic Party often follows. So it's instructive, if not surprising, that Golden State Democrats are responding to the failure of ObamaCare by embracing single-payer health care. This proves the truism that the liberal solution to every government failure is always more government.

Many on the left championed single-payer in lieu of ObamaCare's regulations and subsidies, but in 2010 it lacked enough support among Democrats in Congress. But with premiums soaring and insurers fleeing the Affordable Care Act exchanges, progressives are now trying to pivot to achieve their longtime dream.

California Lieutenant Governor Gavin Newsom, the frontrunner to succeed Jerry Brown as Governor next year, is running on single-payer, which shows the idea is going mainstream. At the state Democratic convention earlier this month, protesters shouted down speakers who dared to ask about paying for it. The state Senate Appropriations Committee passed a single-payer bill last week, and it has a fair chance of getting to Mr. Brown's desk.

The bill reflects the left's Platonic ideal, with the promise of free care for everyone for everything. Patients would be entitled to an essentially unlimited list of benefits, including acupuncture and chiropractic care as well as "all medical care determined to be medically appropriate by the member's health care provider." They could see any specialist without a referral. Copays and deductibles and charging premiums would be prohibited.

There would thus be no restraint on health-care utilization and costs. Patients could get treated for virtually any malady by any physician at no cost. This is probably what kids educated at California's pre-eminent universities envision when politicians and professors promote single-payer: an efficient, free, munificent socialist paradise.

But even paradise has a price. The Senate committee pegged its bill's cost at \$400 billion a year, which is likely conservative since analysts assume utilization rates close to those for Medicaid, in which patients lack access to many specialists. About \$200 billion could be reallocated from other government health-care programs, including Medicaid and Medicare, though this

## OPINION

# How China Tamed the Green Watchdogs

By Greg Rushford

**S**cores of Chinese dredgers ground up the coral of semisubmerged reefs in the South China Sea over the past three years to build artificial islands that are now becoming military bases. The enormity of the destruction to marine biodiversity is unprecedented. The Chinese government has destroyed more than 5 square miles of coral reef in fishing grounds that help feed hundreds of millions of people, including Chinese.

**Too many environmental organizations are betraying their ideals for the love of the yuan.**

"China is committing a grand theft of the global commons," says Philippine Supreme Court Justice Antonio Carpio in an e-book published earlier this month. It's a theft that has inflicted "permanent and irreparable harm to the coral reef ecosystem," an arbitral tribunal in The Hague determined last year in litigation brought by the Philippines.

Yet Greenpeace, the World Wide Fund for Nature and Conservation International have all averted their eyes. "None of them have really stepped up to the plate," says Edgardo Gomez, an award-winning pro-

fessor emeritus of marine biology at the University of the Philippines.

China's environmental crimes have been well-documented by Mr. Gomez and a small band of dedicated marine scientists. Biologist John McManus at the University of Miami's Rosenstiel School warns of a major fisheries collapse if China continues to thwart remedial action. Kent Carpenter, a professor at Virginia's Old Dominion University, has demonstrated China's extensive damage to threatened marine species.

The best-funded environmental groups don't have much to say when asked about the issue. A spokesman for Conservation International in Manila declines to comment. "As we're sure you can appreciate, we cannot undertake conservation efforts everywhere," says WWF spokesman Christopher Conner in Washington. "WWF is not a political organization," adds Joel Palma, president of WWF-Philippines.

It's the same story with Greenpeace. "The reason we don't work on the South China Sea is because the nations around the area are embroiled in a territorial dispute," says J.P. Agcaoili, the communications manager for Greenpeace Southeast Asia. Mr. Agcaoili asserts that it would be "counterproductive" to tackle the South China Sea issue.

But the environmental NGOs don't usually hesitate to confront governments. For example, Greenpeace activists scaled an oil rig in 2012 to protest Russian drilling in the Arctic Ocean. The WWF and Greenpeace even spoke



REUTERS

**Chinese dredging vessels in the waters around Mischief Reef of the Spratly Islands.**

out against Chinese-government subsidies that have resulted in destructive overfishing, especially off the coast of West Africa.

So why didn't they utter a peep about China's degradation of the South China Sea?

Knowing when to keep their mouths shut seems to be the price these organizations must pay to enjoy the good will of Beijing. It's one thing to offer respectful criticism over Chinese fishing subsidies within the bounds that the Communist Party tolerates as a social safety valve. But it's another matter entirely to condemn the crimes that China is committing in the South China Sea, a position that would infuriate the Politburo.

Greenpeace, Conservation International and the WWF all have offices and major fundraising operations in China. The WWF's programs to pro-

tect the giant panda drive donations globally, and well-heeled do-gooders pay \$10,000 per person for panda safaris in Sichuan. Mr. Gomez of the University of the Philippines laments, "Sad but true, money talks."

As the WWF notes on its website, it operates in China "at the invitation of the Chinese government." But invitations can be withdrawn. With dozens of Chinese nationals employed on the mainland by the WWF, Greenpeace and Conservation International, the NGOs' operations in the Middle Kingdom are hostage to the whims of the Party.

The WWF's international board of directors includes Wang Shi, founder of China's biggest residential real-estate developer. An avid sportsman, Mr. Wang is no stranger to danger, having climbed Mt. Everest. Yet he declined to comment on China's actions in the South China Sea.

Likewise the WWF-Philippines board, which includes some of that country's wealthiest executives, has stayed silent. Christopher Po, the CEO of Century Pacific Tuna, is looking to China as a major growth market for his seafood exports. Jaime Augusto Zobel de Ayala, who chairs one of the Philippines's largest conglomerates, is currently in talks with Chinese enterprises about infrastructure projects.

Hotel developer Elizabeth Sy has even closer ties to the mainland. Ms. Sy is an advisor to the board of SM Prime, which has shopping malls across the Philippines and also in five Chinese cities. She is the daughter of the Philippines's richest man, Henry Sy Sr., who was born in Fujian and has large ventures on the mainland.

WWF-Philippines president Joel Palma, on behalf of the board, declined requests for comment on conflicts between members' businesses and protecting the marine environment. The WWF has revenue of more than \$300 million annually.

Environmental organizations appeal for donations by pointing to their record of speaking truth to power. But the flagship groups are betraying their ideals in the pursuit of money and access in China. That's the real reason we don't see Greenpeace's Rainbow Warrior protesting Beijing's environmental crimes in the South China Sea.

*Mr. Rushford is editor of the Rushford Report, which tracks international economic and security issues.*

## Let the Private Sector Help Tackle the Migration Crisis

By George Clooney

**A**s the most powerful leaders in the world gathered in Sicily last week for the annual Group of Seven Summit, they sought to address today's most pressing challenges. The list is daunting—terrorism, famine, geopolitical instability and uncontrolled immigration, to name a few. A bolder, broader approach is essential if lives are to be saved.

The statistics drive home the severity of the problem. Conflict or persecution has displaced 65 million citizens—more than at any time in history. Nearly 100,000 of the asylum seekers are unaccompanied children. If it were a state, this vulnerable population would constitute the 21st-largest country in the world. Another 20 million people, including 1.4 million children, are at risk of death from imminent famines in places such as Nigeria, Somalia, South Sudan and Yemen.

The debilitating impact of these issues is contagious and can weaken the will of us all. In fact, the Aurora

Humanitarian Index, an international survey released last week, reveals just 9% of respondents believe they can make a difference in solving the global refugee crisis.

The world needs new recruits to succeed in addressing today's challenges. For decades, the G-7, G-20 and United Nations have declared commitments to save the most vulnerable from war, famine, disease and other calamities. At last fall's U.N. General Assembly, global leaders pledged more assistance to countries where populations are at risk, better access to education for children, more humanitarian aid, and increased help for resettling refugees. The challenge for the leaders gathered at the G-7 summit in Italy last weekend is how they can mobilize global support for a comprehensive action plan that implements the U.N.'s declarations.

Any such plan should consider several additional tools to overcome inaction and galvanize progress.

First, we need to empower and highlight the "Power of One," the role individuals can play in imple-

menting change from the bottom up. You can trace it from a brave Yazidi girl in Iraq to a doctor in the Nuba Mountains in Sudan all the way to a refugee in my home town of Augusta in the state of Kentucky.

### Businesses and charities can boost transparency and aid in resettling international refugees.

We all understand that it's not acceptable to take care only of yourself. That spirit is exemplified by a group meeting last week in Yerevan, Armenia, as part of the Aurora Prize Initiative. Humanitarians from civil society, academia and business discussed how to overcome indifference and take action on many of the same humanitarian challenges being addressed in Italy. The Aurora gathering honored individuals who put themselves at risk to help the most vulnerable populations in such

places as Afghanistan, the Democratic Republic of Congo, Somalia, Sudan and Syria.

We have seen the difference these real-world saviors make, without fanfare. They are the doctors, nurses, aid workers, journalists and human-rights activists who put their lives on the line every day. The G-7 must highlight their impact and stress the need to protect them.

We have to be more creative in addressing the root causes of the crises, especially corruption. I'm one of the founders of the Sentry—a nongovernmental team of financial forensic investigators and country experts who are identifying the stolen assets of African war criminals. There are of course many similar initiatives that are working to collect information that would help identify and stop widespread corruption. The G-7 should use this information to freeze and seize these illicit funds and create a consequence for those laundering through international banks the billions of dollars that have been stolen from some of the poorest countries on earth.

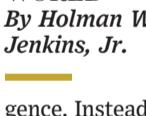
Finally, we need to harness the power of business to advance humanitarian solutions. With ample resources and less bureaucracy, the private sector can play a much more important role in addressing famine, providing health care and education, and delivering clean water.

Business leaders increasingly want to incorporate humanitarian efforts into the work of their companies. The international yogurt manufacturer Chobani, for example, not only helps resettle refugees but also employs and educates them so they can enjoy a better life. This needs to become the norm, not the exception, for 21st-century businesses.

To succeed in addressing these global issues, world leaders should make a real effort to incorporate missing elements in pursuit of a more comprehensive strategy. We have so much work to do. We need all hands on deck.

*Mr. Clooney is a co-founder of The Sentry and serves as the co-chair of the Selection Committee for the Aurora Prize for Awakening Humanity.*

## The Trump-Russia Story Starts Making Sense



BUSINESS WORLD

By Holman W. Jenkins, Jr.

The Trump-Russia business is finally coming into clearer, more rational focus. Former Obama CIA chief John Brennan, in testimony last week, offered no evidence of Trump campaign cooperation with

Russian intelligence. Instead he spoke of CIA fears that Russia would try to recruit/blackmail/trick Trump colleagues into being unwitting or unwitting agents of influence.

This is a realistic fear of any incoming administration. It's especially realistic in the case of an "outsider" campaign full of naive, inexperienced and unvetted individuals. But it's quite different from "collusion."

The other shoe was dropped by the Washington Post. Finally we have details of an alleged email exchange showing influential liberals trusting in then-Attorney General Loretta Lynch to corral an inquiry into Hillary Clinton's email practices.

According to the Post, this email appears not to exist. It was cited in a secret Russian intelligence document that inspired FBI chief James Comey to usurp the attorney general's role and publicly clear Mrs. Clinton of intelligence mishandling. Allegedly, he feared the real email (which didn't exist) would surface and discredit any Justice Department announcement clearing Mrs. Clinton.

Are you now thinking of the Trump dossier circulated by former British agent Christopher Steele, which also felt like a Russian plant? While the political circus in Washington has focused on purloined Democratic emails and fake news spread during the election by Russian bots, the more effective part of Moscow's effort may have been planting fake leads to prod U.S. enforcement and intelligence agencies to intervene disruptively in the campaign.

This also should shed new light on today's anti-Trump leakers in the intelligence agencies: They may be the real unwitting agents of Russian influence.

There are plenty of lessons to go around. Mr. Trump, if he ever really

thought Vladimir Putin was his friend, probably has wised up by now. He should have wised up the moment the Steele document came into view, supposedly based on plumbing Mr. Steele's peerless Russian intelligence contacts. It always appeared possible, even likely, that Mr. Steele was the semi-witting vehicle for Russian rumors designed expressly to undermine Mr. Trump just as Russia was also trying to undermine Mrs. Clinton.

Plenty of people in Washington could also afford to rethink how their partisan idiocy makes them soft touches for such Russian disruption efforts. That includes Rep. Adam Schiff, top Democrat on the House Intelligence Committee. It includes Mr. Trump too.

Overdue is an inquiry into a possible Russian role in flogging the birther conspiracy and the 9/11 truther miasma. Mr. Trump, who loves a conspiracy theory, might consider how he and his ilk showed Russia a vulnerability in American political discourse that it could exploit.

Let's remember that ex-FBI chief Robert Mueller's mission is to investigate Russian influence in the election, not the narrow matter of Trump collusion. Whether Russia suborned or tried to suborn people

like Michael Caputo, Paul Manafort and Carter Page is a necessary question. Whether Russia exploited Facebook to proliferate fake anti-Hillary news is a necessary question. But so is the provenance of the Steele document and the fake email purporting a Democratic coverup of Hillary Clinton's server activity.

### The Kremlin seems to have bet big on the willingness of U.S. intelligence agencies to leak.

If the FBI's Mr. Comey allowed himself to be manipulated by Russian intelligence into intervening in the race, that's something Americans need to know about. And we need to know about the leaks.

Mr. Brennan, the former CIA chief, has pointed out that these leaks are palpable, unambiguous crimes. Recall that Russia twice sent us detailed warnings about Tamerlan Tsarnaev, the Boston Marathon bomber. President Trump is entitled to share terrorism intelligence with Russia's ambassador. The only criminal leak

occurred when anonymous officials relayed the classified content of these briefings to the press.

Certain press hyenas then cackled that Mr. Trump further "leaked" when he said, during his visit to Israel, that he never mentioned an Israeli source for any intelligence he shared with Russia's representative. Mr. Trump is entitled to make this statement, and in any case the information had already been made public through another criminal leak. Mr. Trump's obvious point was that criminal leakers leaked information beyond what he had legally and confidentially shared with the Russians.

It's times like this we are reminded how personally stupid are many people who make up the media. These leaks need to be investigated—and by Mr. Mueller specifically to the extent that the leaks, as seems more and more likely, indirectly or partly have their origins in Russian manipulation of U.S. intelligence and law enforcement agencies.

Democrats wanted an independent counsel investigation of Russia's election meddling. They believed it would lead to evidence of, or at least keep alive the story of, Trump collusion. They may be unpleasantly surprised where it really leads.

the American South." According to the university: "She is described as a fierce truth-teller who illuminates the challenges affecting her communities, rooting them in history and context in order to promote a deeper understanding of them...."

Yale also honored Abdul-Razak Zachariah, claiming he "has worked to improve Yale's racial and ethnic relations through his academic work, both within his Sociology major and in the Education Studies program."

The school seems to view the events of 2015 as some kind of triumph, instead of the offense they represented against the basic idea of a university.

## Notable & Quotable: Will Yale Ever Learn?

*From James Freeman's Best of the Web, May 25:*

You might expect Yale University President Peter Salovey to be hanging his head in shame after allowing radical students to run former administrator Erika Christakis off campus because she dared to defend free expression. Specifically, in 2015 Ms. Christakis suggested that instead of having the university ban Halloween costumes that some students didn't like, perhaps offended students should simply try to ignore them. You would be wrong.

Mr. Salovey's Yale not only chose not to support Ms. Christakis and

her husband Nicholas in the face of screaming, threatening campus bullies.... Now the university has decided to underline its commitment to unwritten limits on free speech by handing out awards to two of Yale's most prominent Christakis critics.

At its annual Class Day ceremony, Yale awarded its Nakanishi Prize, "to two graduating seniors who, while maintaining high academic achievement, have provided exemplary leadership in enhancing race and/or ethnic relations at Yale College."

Yale stated that Alexandra Zina Barlowe "has focused her scholarship on issues of land usage, cooperative economies, and reparations in

## LIFE & ARTS

YOUR HEALTH | By Sumathi Reddy

# Just One Drink Can Harm

Researchers find a link between 10 grams of alcohol and an increased risk of breast cancer

**BOTTOM'S DOWN:** A new report finds that drinking even one glass of alcohol a day increases the risk of developing breast cancer.

The type of alcohol doesn't matter—wine, beer and hard liquor all pose the same risk.

The report, a joint effort of the American Institute for Cancer Research and the World Cancer Research Fund, was a review of 119 studies looking at how diet and physical activity impacts the risk of developing breast cancer in pre- and postmenopausal women.

The studies included data on 12 million women and 260,000 breast cancer cases. The studies don't show that alcohol causes breast cancer, but they show an association or link.

A small glass of wine or beer a day—with about 10 grams of alcohol content—increases the risk of

premenopausal women developing breast cancer by 5% and postmenopausal women by 9%, the authors concluded. A standard drink has 14 grams of alcohol.

"One thing that surprised me was that even at such a low level, drinking alcohol was statistically significant," said Anne McTiernan, a cancer prevention researcher at Fred Hutchinson Cancer Research Center in Seattle, and lead author on the report.

Experts aren't clear on why alcohol increases the risk of breast cancer. One theory is that alcohol increases the levels of estrogen in the blood, which is a risk factor. Also, alcohol can damage DNA, which is a precursor to cancer.

Susan K. Bevers, chief of breast surgery at Mount Sinai Beth Israel in Manhattan, noted that pooling many studies can lead to an im-

perfect analysis. The studies are retrospective so they involve asking women how much they drank, which isn't always reliable data.

She said the important message is that all types of alcohol are equally harmful. "I have this dis-

Vigorous and moderate exercise lowers women's risk of developing breast cancer.

cussion with patients all the time," she said. "They say, 'I only drink wine, or I only drink beer, and that doesn't count.' This was very, very specific that it does."

Still, she said it is unrealistic to

recommend to patients that they completely abstain from alcohol. "Once we start saying 'don't do this, don't do that,' we lose patients," she said. "They stop listening. It's about moderation."

Other takeaways from the report: Vigorous exercise lowered the risk of developing breast cancer by 17% in premenopausal women and 10% in postmenopausal women compared with women who were the least active.

Even general physical activity, such as gardening, helps. Postmenopausal women who were active were linked to a 13% lower risk of developing breast cancer, whereas there was no statistically significant benefit for premenopausal women.

The differences in the benefits of exercise for pre and postmenopausal women surprised Therese Bevers, medical director of the can-

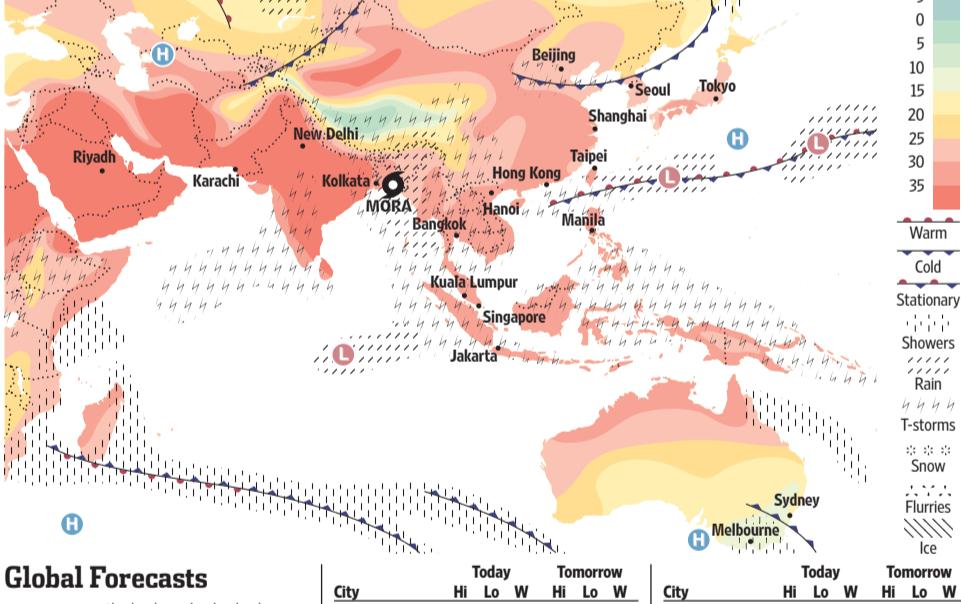
cer prevention center at MD Anderson Cancer Center in Houston. "I even found myself giving a different recommendation yesterday to one of my patients who is premenopausal," said Dr. Bevers. She told the patient that really vigorous exercise is linked to reducing the risk of breast cancer whereas moderate exercise may not confer the same benefit.

Being overweight or obese was associated with a greater risk of breast cancer in postmenopausal women, according to the study.

In premenopausal women, overweight and obese women had a decreased risk of developing breast cancer.

But experts say that doesn't translate into recommending weight gain for such women, which comes with increased risks for many other health conditions.

## Weather



## Global Forecasts

s...sunny; pc...partly cloudy; c...cloudy; sh...showers;

t...storms; r...rain; sf...snow flurries; sn...snow; i...ice

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Amsterdam	20	13	t	19	8	s
Anchorage	15	7	pc	17	8	c
Athens	25	17	pc	27	18	s
Atlanta	24	18	t	28	19	pc
Baghdad	43	25	s	39	21	s
Baltimore	22	15	t	26	13	pc
Bangkok	30	26	t	32	26	t
Beijing	28	15	sh	35	15	s
Berlin	30	15	t	22	9	pc
Bogota	20	10	c	18	10	c
Boise	34	18	s	28	15	pc
Boston	18	13	c	22	14	pc
Brussels	22	11	t	22	9	s
Buenos Aires	15	4	s	14	4	s
Cairo	35	22	s	35	20	s
Calgary	24	10	pc	27	12	c
Caracas	31	26	pc	31	26	pc
Charlotte	28	17	t	29	18	pc
Chicago	22	10	pc	20	11	s
Dallas	32	21	pc	30	21	t
Denver	24	10	pc	28	12	t
Detroit	23	12	pc	20	10	pc
Dubai	40	29	s	41	29	s
Dublin	17	6	pc	17	11	pc
Edinburgh	16	7	sh	17	9	pc
Frankfurt	29	15	t	25	12	pc

City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W
Geneva	27	14	t	24	14	t
Hanoi	33	26	c	36	28	c
Havana	34	22	pc	33	23	pc
Hong Kong	30	26	p	30	27	sh
Honolulu	30	23	sh	30	23	pc
Houston	29	22	t	30	22	t
Istanbul	22	17	r	24	18	s
Jakarta	32	24	t	31	25	t
Johannesburg	16	3	s	18	4	s
Kansas City	27	13	p	27	17	s
Las Vegas	38	24	s	36	22	s
Lima	23	18	pc	22	17	pc
London	20	11	p	21	11	s
Los Angeles	24	15	p	22	15	pc
Madrid	26	15	t	29	16	pc
Manila	34	27	t	34	27	t
Melbourne	13	7	pc	13	7	pc
Mexico City	24	16	t	22	15	t
Miami	33	27	pc	33	26	pc
Milan	31	15	s	30	15	s
Minneapolis	16	9	c	22	12	s
Monterrey	28	21	t	28	20	t
Montreal	21	13	t	22	12	sh
Moscow	16	6	pc	20	11	sh
Mumbai	32	29	t	33	29	sh
Nashville	29	17	t	29	17	t
New Delhi	38	28	p	38	27	t
New Orleans	28	22	t	29	22	t
New York City	18	15	sh	26	14	pc
Omaha	26	9	s	27	16	s
Orlando	34	21	t	33	21	t
Zurich	27	15	t	25	14	t

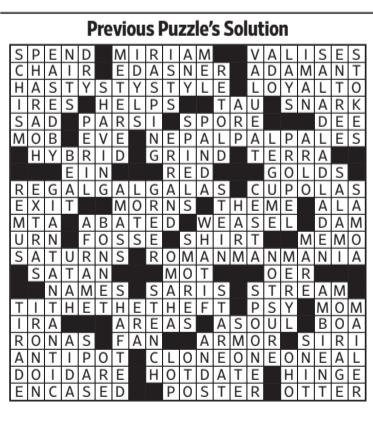
## The WSJ Daily Crossword | Edited by Mike Shenk



AYE AYE, SIR! | By Zhouqin Burnikel

- Across  
1 Easy targets  
6 Gulf States VIP  
10 Hydrochloric, e.g.  
14 Seize by force  
15 Titled lady  
16 Capitol capper  
17 \*Kachina doll maker  
19 Lena of "Havana"  
20 \*Like many 2016 election votes  
22 Power poker pair  
23 Weight room unit  
45 Beltway environs  
47 GI's mail drop  
48 "Not guilty," often  
28 Cocktails served with an onion garnish  
32 Coal or gas, e.g.  
33 Riyadh resident  
35 Youngster in Winnie-the-Pooh stories  
36 \*Figure on a major case  
40 Without exception  
41 Vertical graph line  
42 Fast period  
43 Not contrary to law  
44 \*Knowledgeable mogul navigator  
45 \*American Gods" author  
46 Tabby's treat  
47 Ragù rival  
48 "Sounds like a plan!"  
49 "Star Wars" creator  
50 Zen garden grains  
51 "Twittering Machine" artist  
52 Hawk  
53 Question for a blood donor  
54 Fitting name for a mechanic  
27 Foreman foe  
28 Prerequisite to glory  
29 Despot played by Forest  
30 To whom a despot answers
- Down  
1 "How stupid of me!"  
2 GI support group  
3 Butterfly-to-be  
4 Fox sidelines reporter Andrews  
57 Public speaker's asset, and a phonetic hint to a feature of the starred answers  
60 Within earshot  
61 Org. for Lexi Thompson  
62 Bug exterminator?  
63 Refuse  
64 Some summer babies  
65 Toddler's training site  
66 How  
67 \*Obsolete PC monitor  
68 Item from Santa's sack

## Previous Puzzle's Solution

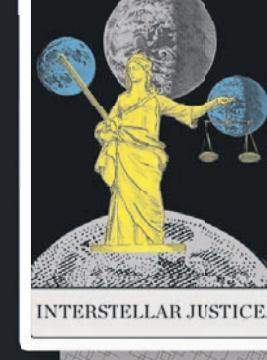


► Solve this puzzle online and discuss it at [WSJ.com/Puzzles](http://WSJ.com/Puzzles).

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# BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Tuesday, May 30, 2017 | B1

**Yen vs. Dollar** 111.2930 ▼ 0.04%

**Hang Seng** 25701.63 ▲ 0.24%

**Gold** (1267.60) Closed

**WTI crude** (49.80) Closed

**10-Year JGB yield** 0.039%

**10-Year Treasury** Closed (2.248%)

## Upheaval Wrenches Chinese Dairy

By WAYNE MA  
AND JOANNE CHIU

One of China's largest dairy companies is facing a corporate-governance meltdown: All of its board members except its chairman have left since a fateful day in March, when the company's shares plunged 85% in a single trading session.

The departures come as China Huishan Dairy Holdings Co. battles allegations of financial irregularities, including claims made last year by short-selling firm Muddy Waters Research that the company inflated profits—claims that Huishan denied. Shares of Huishan, listed in Hong Kong, have been suspended since their price collapsed on March 24, erasing \$4.1 billion in market value.



Huishan milk on sale at a supermarket in Shenyang, China.

Huishan said late Friday in a regulatory filing to the Hong Kong stock exchange that its second-to-last remaining board member, Ge Kun, was

removed after she became unreachable for more than two months. Together with Chairman Yang Kai, Ms. Ge owns more than 70% of Huishan's

shares through a private company, according to filings. Mr. Yang, who founded Huishan and owns 90% of the private company, has pledged virtually all of these shares to creditors, according to filings.

Efforts to contact Huishan's investor-relations offices in Shenyang and Hong Kong on Monday were unsuccessful.

Huishan's recent troubles have echoes of events at another Chinese company listed in Hong Kong, solar-equipment maker Hanergy Thin Film Power Group Ltd. Both companies rode a wave of government support for their industries, landed in the crosshairs of short sellers, had their founders pledge shares to creditors, and endured a collapse in share price followed by a trading suspension

and the departure of board members. Hanergy's shares have remained suspended for more than two years; its chairman has stepped down.

The company has denied corporate wrongdoing. Efforts to reach Hanergy were unsuccessful.

Huishan, based in the northeastern Chinese city of Shenyang, says it is involved in all aspects of the dairy-supply chain, from growing feed and raising cows on its own farms to producing dairy products. It is one of the biggest dairy-farm operators in China, according to filings, and said in its initial-public-offering prospectus that unlike its competitors, it grows its own alfalfa for cattle feed.

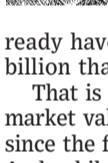
In addition to questioning

Please see DAIRY page B2

## HEARD ON THE STREET

By Dan Gallagher

### Big Hopes For Apple Prompt Huge Bets

 Can Apple's coming "supercycle" actually deliver?

Investors already have bet nearly \$200 billion that it can.

That is how much Apple's market value has risen just since the first of the year. And, while the company has other appealing qualities—such as a growing high-margin services business and a swelling cash hoard—the iPhone remains its primary profit driver. Hopes are high for the next one coming out later this year after the last two versions failed to do much to move the needle.

The next iPhone is still likely months away, but Apple's annual developers' conference next week will give some hints of what the new device will bring, as it typically previews the next version of the iOS mobile operating system. Investors are already giddy; Apple's stock is up 33% so far this year, pushing the company's market value past \$800 billion. Since 2010, Apple's stock has averaged an 11% gain between the start of the year and its annual summer conference.

That sets high expectations for the next iPhone to deliver, and Apple investors aren't the only ones on the hook. Shares of key chip suppliers such as Broadcom, Qorvo and Skyworks are up more than 36% since the start of the year—well ahead of the PHLX Semiconductor Index. Taiwanese companies such as iPhone assembler Hon Hai Precision Industry, also known as Foxconn, and Largan Precision also have tallied strong gains this year in part on hopes for the next iPhone.

Please see HEARD page B2



MIKE CHERNEY/THE WALL STREET JOURNAL

Domino's says more than 60% of its Australian stores generally deliver in under 23 minutes. Above, a Domino's store in Sydney.

### Chasing 10-Minute Pizza Delivery

By MIKE CHERNEY

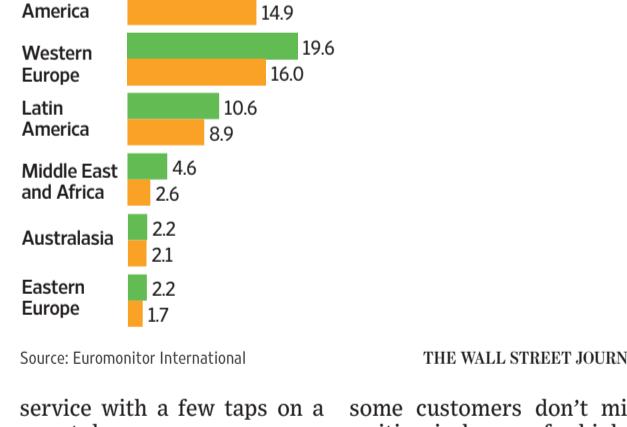
BRISBANE, Australia—In a secret kitchen protected by tight security, Domino's Pizza development chef Stefaan Codron is cooking up a plan to make fast food even faster.

His goal: a pizza with guaranteed delivery of less than 10 minutes, including the time to bake the dough, crisp the cheese and transport it door to door. At present, Domino's says more than 60% of its Australian stores generally deliver in under 23 minutes, with some metropolitan stores much closer to the 10-minute goal.

But every second counts as food delivery, boosted by mobile tech, is growing rapidly across the globe. At **Domino's Pizza Enterprises** Ltd., which operates Domino's stores in Australia, Mr. Codron is heading the effort to maintain the brand's competitive edge, especially against startups and third-party apps offering dozens of menu options and fast

#### Eat Up

Demand for food delivery is rising as online ordering becomes easier.



service with a few taps on a smartphone.

The push for faster food

livery services have joined with British-Estonian firm **Starship Technologies** to test deliveries using autonomous robots that travel on sidewalks. Zume Pizza, a Mountain View, Calif., startup, uses robots to assemble pizzas in a warehouse, then bakes them in trucks roving around neighborhoods, waiting for orders.

Zume says its pizzas are likely to arrive in 15 minutes or less and says it hasn't targeted 10-minute delivery. It began selling pizzas last year, completed a \$24 million round of fundraising in December and now has six pizza-baking trucks and more than 100 employees. "We've eliminated the dwell time—the time of a pizza's life when it's sitting in the back" of someone's car, said Julia Collins, Zume co-founder and co-chief executive.

**Domino's Pizza** Inc., which owns the brand and franchises it from its headquarters outside Ann Arbor, Mich., has shied away from committing

Please see PIZZA page B2

## U.S. Companies Quit Splits, Letting Share Prices Soar

By ERIK HOLM  
AND BEN EISEN

Big firms are giving up on the stock split.

So far this year, just two companies in the S&P 500 have split their shares. Twenty years ago, the figure was nearly two firms a week, according to Birinyi Associates.

A stock split boosts the number of shares in order to lower the per-share price, so the recent dearth is allowing share prices to soar. After decades of mostly remaining in a range between \$25 and \$50, the average stock in the large-company index is now trading above \$98, the highest ever, Birinyi says.

Some are much higher, flirting with \$1,000. On Friday, shares of **Amazon.com** Inc. closed at \$995.78. Google parent **Alphabet** Inc.'s Class A shares were just shy of that.

A big stock price is "a new way of calling attention to yourself," said William C. Weld, a finance professor at the University of North Carolina's Kenan-Flagler Business School. It used to be that splitting shares signaled reliability and stability, he said. "Companies now are saying 'look at us, we're tough and strong.'

In the 1990s, when stock picking for one's own account was in vogue, companies considered splits a way to keep shares affordable for small

investors. Even though nothing changes fundamentally about the company with a stock split—it's like trading a dime for two nickels—they once generated excitement and, often, a short-term pop for the shares.

In recent years, though, individuals have gravitated toward index funds. And institutional investors don't like stock splits, because increasing the number of shares boosts trading costs.

"If you split the stock, you are effectively providing a source of income to the brokerage community," said Weston Hicks, chief executive of insurer Alleghany Corp., which trades at \$588.44. "We're trying to appeal to the long-term investor,

and keeping a consistent scorecard is the way to do that."

The godfather of the no-split camp is **Berkshire Hathaway** Inc. Chairman Warren Buffett. Berkshire's Class A shares are the priciest U.S.-listed equities. At \$24,540 a share, Berkshire is up more than three million percent since Mr. Buffett bought his first slug of the stock in December 1962—at \$7.50 a share.

For years, Mr. Buffett said he didn't want to split the shares because he didn't want to attract investors who found such a move to be a good reason for buying a stock. "People who buy for non-value reasons are likely to sell for non-value

Please see SPLIT page B2

## Investors Dismiss Missile Launches

By ESE ERHIERIENE

Who's afraid of North Korea? Not investors, apparently.

The politically isolated Asian country conducted its ninth missile launch of 2017 on Monday, with the projectile landing within 200 miles of Japan's coastline.

But as has been the case of late, investors all but ignored the development.

South Korea's benchmark stock index marched to fresh records Monday morning. It climbed as much as 0.7% before investors began to sell to lock in profits, and the index closed down 0.1%.

North Korea's prior two Sunday missile tests were followed by gains on the Kospi of 0.7% and 0.2%, respectively, on the following Mondays. For its part, Japan's Nikkei Stock Average closed flat following a 0.5% gain last Monday.

"The market is really just

Investors have shown they are more focused on domestic developments in Asia.

seeing this as empty threats from North Korea," said Jingyi Pan, a market strategist at IG Group.

The threat of war between North Korea and the U.S. hasn't shaken investors, either. After President Donald Trump left open the possibility of military action against North Korea in an interview aired on April 30, the Kospi rose a combined 4% in the following three trading sessions.

Overall, it has gained 13% since Feb. 12, when North Korea launched its first ballistic missile of 2017. Even after that firing, the Kospi rose 0.2% the next trading day.

Meanwhile, the Japanese yen—which has historically sold off following instances of North Korean aggression, belying the currency's status as a haven—has been holding up. It is up 1.7% versus the dollar since the first test. Investors in the South Korean won have also kept their cool.

Instead of watching North Korea, investors have shown they are more focused on domestic developments in Asia, brief bouts of worry about developments in Europe and the U.S. notwithstanding.

Fueling gains in South Korea's equities and currency have been strong expectations of a resurgent, export-driven Korean economy and the likelihood that despite such

Please see STOCKS page B2

## INSIDE



### PUTTING YOUR QUANT SKILLS TO USE

FINANCE & MARKETS, B5

HOTELS TAKE ON TRAVEL SITES

BUSINESS NEWS, B3

The average price of stocks in the S&P 500 has risen as stock splits have become less common.



By ERIK HOLM

AND BEN EISEN

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## INDEX TO BUSINESSES

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## DAIRY

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Huishan's bookkeeping, Muddy Waters's report in December said the alfalfa claim didn't bear out, based on visits to 35 farms and five production facilities as well as drone flyovers of select Huishan sites. Huishan disputed the report at the time, saying its financial statements are accurate, and it produces about 90% of its own alfalfa.

Ms. Ge oversaw sales, government affairs and human resources at Huishan, according

**Shares of Huishan tumbled March 24, losing \$4.1 billion in market value.**

to filings. Huishan said in filings Ms. Ge notified the chairman March 21 that she would take a leave of absence because of work-related stress and didn't want to be contacted. Huishan said in filings it later filed a missing-person's report in Hong Kong, where she was last known to be, "out of concern for her whereabouts." Efforts to reach her through the company have been unsuccessful.

Ms. Ge's removal came after eight other board members re-

signed over a two-month period. Since mid-April, Huishan's board of directors has lacked the minimum number of three members required by the company's articles of association to make decisions, filings show.

While most of the departed board members still retain executive roles at Huishan, the company's chief financial officer, who was also on the board, decided to leave the company for health reasons, it said in filings.

Huishan said none of the executives who resigned from their board posts had disagreements with the board.

In March, after Huishan's shares plunged, the company also denied what it described in filings as rumors that Bank of China had conducted an audit after finding that its chairman had used company funds to invest in real estate using fake invoices. However, Huishan said it had missed some bank-loan payments and that it was working with creditors and the government of its home province of Liaoning to help service the loans.

Huishan's outstanding bank loans reached 10.8 billion yuan (\$1.6 billion) at the end of September, more than 11 times its 909 million yuan in loans at the end of March 2013. Huishan's net profit shrank to 593 million yuan for the six months ended Sept. 30, down 24% from the year-earlier period, according to filings.

## BUSINESS & FINANCE

### SPLIT

Continued from the prior page  
reasons," he said in a 1984 letter to shareholders.

There are other reasons behind the trend. Before the rise of discount brokerages and a decline in trading commissions in the '90s, even small-time investors often had to buy shares in round lots of 100, which meant that a high price could make such a purchase prohibitively expensive. These days, though, retail investors can buy as little as one share, and often pay commissions of \$10 or less.

Academics who have studied share splits have also posited that executives who split their company's stock may be motivated by a desire to keep their share prices from looking expensive. Now, some companies and their investors seem to treat higher stock prices as an accomplishment, a phenomenon that economist Richard Thaler from the University of Chicago Booth School of Business calls "equally nonsensical."

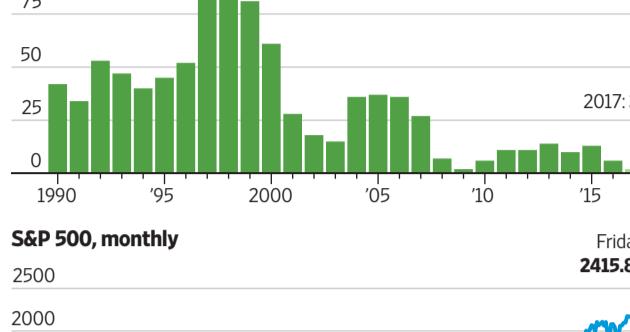
"But at least Amazon can say 'well, the market sent us all the way up here,'" said Mr. Thaler, who co-wrote an academic paper on stock splits with UNC's Mr. Weld in 2009.

For his part, Mr. Weld theorizes that companies may have

### Out of Fashion

The number of stock splits by S&P 500 companies has remained low in spite of the market rally since 2009.

#### Number of stock splits by S&P 500 companies\*



#### S&P 500, monthly



\*2017 figure as of May 26. Other years are calculated using S&P 500 constituents at yearend.

Sources: Birinyi Associates; SIX Financial (S&P 500)

THE WALL STREET JOURNAL.

same year, a move that lowered the price of the shares to a level where the company could be comfortably added to the price-weighted Dow Jones Industrial Average in 2015. And even Berkshire Hathaway in 2010 split its Class B shares to help execute an acquisition.

Amazon founder and CEO Jeff Bezos hasn't ruled out the idea of a split, which the firm did three times as a young public company.

A shareholder at Amazon's annual meeting in Seattle on Tuesday asked Mr. Bezos if he would consider splitting the company's shares to give members of the middle class and younger people the chance to afford the shares. "We don't have any plans to do this at this point," Mr. Bezos said. "But we'll continue to look at that."

Ball Corp., a supplier of metal packaging and one of the two S&P 500 companies that split its stock this year, did so in tandem with a boost to its dividend.

The dual move was designed to send a signal to investors that it has strong cash flow, though the firm believes the dividend increase is more important, said Chief Financial Officer Scott Morrison. "The split in and of itself isn't really that exciting."

—Laura Stevens contributed to this article.

held off on splitting shares in recent years in response to the financial crisis, when stock prices dropped sharply and some big companies were humbled into performing reverse splits to raise their share price to avoid being delisted.

Even the biggest critics of

the share split say there are times when it is appropriate, so long as it's about more than a cosmetic lowering of the share price. Alphabet, then called Google, effectively split its shares by creating a new class of stock in 2014. Apple Inc. did an unusual 7-for-1 split that

held off on splitting shares in recent years in response to the financial crisis, when stock prices dropped sharply and some big companies were humbled into performing reverse splits to raise their share price to avoid being delisted.

Even the biggest critics of

### PIZZA

Continued from the prior page  
to 10-minute delivery. Regarding the efforts in Australia, Kelly Garcia, senior vice president of e-commerce and technology innovation, said the U.S. company will "watch and learn from their testing."

Customers worldwide ordered some \$114 billion in food-service deliveries in 2016, an increase of about 45% from 2011, according to Euromonitor International. Online ordering is expected to play an ever-more important role, with mobile tech fueling the rise. A projected 33% of sales at home-delivery and takeout establishments will be made on-

line in 2021, up from 23% in 2016, Euromonitor said.

"Delivery has just become more accessible than ever," said Stephen Dutton, consumer food-service analyst at Euromonitor. A 10-minute pizza-delivery window, however, is "pretty crazy to me," he added.

The Domino's Australian licensee, which also runs the brand in parts of Europe, New Zealand and Japan, has invested in fleets of electric bicycles to help it get to the 10-minute goal. It has tested delivery via drones in New Zealand, and in recent months worked with Starship Technologies to try out robots at some German and Dutch locations.

Mr. Codron's efforts in the

kitchen are likely to have a more-immediate impact on delivery times. In his test kitchen, dubbed the "luv lab," in a small office building in Brisbane, he experiments with meat and vegetables cut in different sizes to ensure that they cook through on top of the pizza but don't come out of the oven burned.

Recent successes include bacon that has been "vacuum tumbled" in a maple-syrup marinade, which speeds cooking times and makes it taste better.

"We looked at the thinness," said Mr. Codron, referring to the bacon. "We now have a caramelization that actually browns it quicker and caramelizes the edges, gives



Domino's plans to add stores in Australia and New Zealand. Above, pizzas at a Domino's in Sydney.

you more flavor and a very good cook." Mr. Codron said he would explore how to make dough cook faster and how to accelerate cheese melting without introducing anything unnatural.

Aside from its culinary experiments, Domino's also is outfitting stores with faster-cooking ovens. And it wants more stores, putting more customers within reach of fast delivery. In Australia and New Zealand, the plan is to go from about 750 stores currently to 1,200 in 2025.

Speed has been a focus at all levels of the pizza supply chain. Fonterra Co-operative Group Ltd., the New Zealand dairy giant, recently developed a super-stretchy mozzarella that matures in six hours versus three months. Domino's declined to discuss specific suppliers.

Pizza Hut is the No. 2 pizza in Australia with a 10% market share, lagging behind Domino's at 25%, according to IBIS-World. Yum Brands Inc., parent of Pizza Hut, recently signed a deal in which private-equity firm Allegro Funds and some former McDonald's Corp. executives will operate Pizza Hut in Australia, signaling a renewed focus on the market.

Some analysts say Domino's in Australia has benefited from weak competition. That could change as the market focuses on speed. "Ten-minute pizzas—I suspect competitors will also offer that over time," said Daniel Mueller, senior analyst at Forager Funds Management, which doesn't own Domino's shares. There is "definitely a threat of a catch-up."

### STOCKS

Continued from the prior page  
strength, the Bank of Korea will keep monetary policy accommodative.

The won, which also saw some profit-taking Monday, falling 0.3% against the dollar, has risen 2.2% against the greenback since Feb. 12 and is up 7% for the year.

Some in the market have likened the U.S.-North Korea standoff to a game of chicken.

"I don't think North Korea will actually hit something unless the U.S. pressures the

state too much. I think this game will continue," said Tian Yong Woon, an investment analyst at Phillip Futures.

Observers say that for markets to take the North Korea issue seriously, a missile needs to hit land. If that happens, many investors would be poorly positioned. In South Korea alone, foreign investors have bought a net \$1.9 billion of equities this month and \$2.4 billion of bonds, according to data from Saxo Capital Markets.

For bonds, the pace has been similar to recent months, while the buying has been above average for stocks.

A successful strike "could really trigger a big sell-off," said Tarek Horchani, deputy head of sales trading in the Asia-Pacific region at Saxo.

Although North Korea has claimed new technological capabilities, its military prowess is broadly considered to be some way away from constituting an immediate threat.

Meanwhile, the U.S. and its regional allies have talked tough following the tests, but with few visible results. Japanese Prime Minister Shinzo Abe said the latest firing "cannot be tolerated."

China's support of North

### HEARD

Continued from the prior page

Wall Street is projecting 241 million iPhone units to sell in Apple's 2018 fiscal year, which would be anchored by the new device. That is 11% higher than unit sales projected for the current fiscal year that ends in September. It is a plausible goal, particularly since more iPhone users have held on to older versions, leaving a large user base ready for an upgrade this year.

And Apple commands

strengthening loyalty rates among its users. A recent Morgan Stanley survey found that 92% of current iPhone owners planning an upgrade in the next 12 months intend to stick with Apple, up from 86% at this time last year.

So investors in Apple and some of its key suppliers will need to steel themselves from here. The next few months will likely be filled with rumors of design leaks and component shortages that will make trading more volatile. Apple's shares are still likely to make gains over that time. Beyond that, investors had better hope the next iPhone makes a strong connection.



## BUSINESS NEWS

# Hotels Pull Back From Travel Sites

Major chains launch marketing campaigns to woo customers from Expedia, Priceline

By CHRIS KIRKHAM

Major hotel chains are engaging in an online turf war with the very travel sites that have helped drive their businesses.

**Marriott International Inc., Hilton Worldwide Holdings Inc.** and InterContinental Hotels Group are using extensive marketing campaigns to claw back business from **Expedia Inc., Priceline Group Inc.**

and other travel-booking sites, which steer customers to hotel properties but also take commissions of up to 30% for each reservation. The chains are starting to treat these sites less as valuable business partners and more as gatekeepers standing between them and their customers.

Many large hotel brands are offering lower nightly rates and other perks to loyalty members who book directly through their sites instead of online travel agencies.

The industry effort faces an uphill climb, however, as travel portals have become ubiquitous tools for planning a trip. Online travel agencies were responsible for \$99 billion worth of world-wide hotel bookings last year, according to travel industry-research group Phocuswright.

A survey conducted by travel-data firm Adara Inc. showed that 52% of U.S. travelers between the ages of 18 and 34 prefer booking hotels through online search engines as opposed to brand websites, compared with 37% age 35 and

older. Younger travelers are also less likely to participate in hotel-rewards programs, the survey found, raising questions about how much brand loyalty matters to price-sensitive customers. Many prefer third-party sites because they show an array of options and allow customers to package airfare or car rentals.

"I always want to find the good deal, and see what all my options are first," said Nicole Leffew, 28 years old, a bartender and fashion blogger from Ohio. She said she rarely consults the hotels' websites because she feels "they don't have that much."

The new battle is the latest episode in a two-decade "frenemy"-style relationship between online travel agencies and the hotel industry. Sites such as Expedia and Priceline were crucial for hotels during down periods such as after 9/11, but they have gradually eaten into the share of overall bookings ever since.

For major airlines, the battle with booking portals isn't as pronounced since there are far fewer airlines than hotel chains. But hotels are facing a conundrum that frustrates many industries in the internet age, from Hollywood to the music industry: Online middlemen deliver a vital stream of customers, but end up taking a cut of profit. The 10% to 30% commissions that online travel agencies charge for each night represent an expensive customer pipeline for hotel owners who already pay fees to major brands such as Hilton and Marriott.

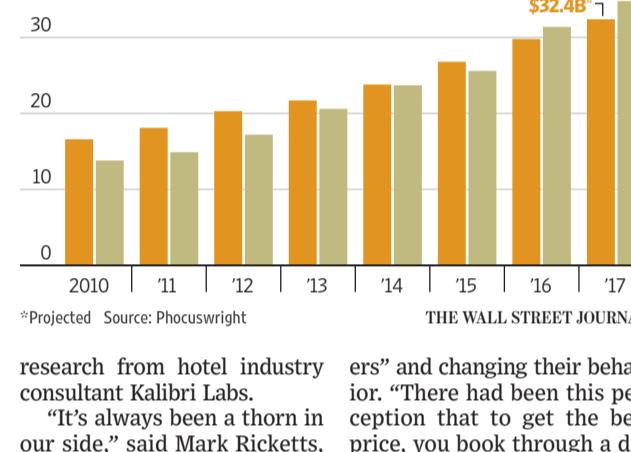
Commissions associated with online travel agencies cost the U.S. hotel industry an estimated \$4.5 billion for the 12 months ending last June, according to Chris Silcock, Hilton's executive vice president and chief commercial officer, said a goal has been "educating custom-



Many large hotel brands are offering lower nightly rates and other perks to loyalty members. Above, a Marriott hotel in Los Angeles.

### Extended Stay

U.S. hotel gross bookings by online travel agencies compared with hotel websites/apps



research from hotel industry consultant Kalibri Labs.

"It's always been a thorn in our side," said Mark Ricketts, president and chief operating officer of McNeill Hotel Co., which owns and operates more than a dozen Hilton- and Marriott-affiliated hotels in seven states.

Chris Silcock, Hilton's executive vice president and chief commercial officer, said a goal has been "educating custom-

ers" and changing their behavior. "There had been this perception that to get the best price, you book through a different channel than going direct," he said. "That's never actually been the case."

Hotel bookings are the biggest source of growth for online travel agencies. Last year, the value of hotel bookings through third-party travel agencies in the U.S. grew to \$31.4 billion, surpassing direct

hotel online bookings for the first time since the data was tracked beginning in 1998, according to Phocuswright. The sites spend heavily on marketing: The more than \$8.5 billion spent globally on sales and marketing by Expedia and Priceline Group alone last year is likely on par with the entire world-wide hotel industry, the group estimated.

Hotels have responded with advertising campaigns such as "Stop Clicking Around," Hilton's largest-ever marketing effort, and Choice Hotels International Inc.'s "Badda Book, Badda Boom" effort.

Brands have been tweaking their loyalty programs to extend immediate benefits to casual travelers, not just frequent business travelers.

Hilton earlier this year began allowing its points to be used toward Amazon.com Inc. purchases, and Choice Hotels, which operates the Comfort Inn and Quality Inn chains, allows customers to redeem points for Starbucks gift cards and gas discounts. Brands are also offering certain services, such as free Wi-Fi or the ability to choose a room, only to

customers who book direct.

Brian King, global sales officer at Marriott International, said the goal is to convert casual customers into loyal guests who "stay the most, and they pay the most."

Online travel agency executives said their platforms draw customers who might not otherwise think to book with a particular chain.

"Free is best. Everyone would like people to come direct to their business," said Glenn Fogel, chief executive of Priceline Group. "That's not the way the world works, though."

Expedia CEO Dara Khosrowshahi added: "We just want to get you to the right hotel, whereas the chain wants to get you to their hotel."

Kerry Ranson, chief development officer of HP Hotels, which manages more than 40 hotels for Hilton and others, said the biggest unknown is whether new loyalty members actually return. "Do those become truly active members, or are they one and done? They did it just to get the cheap rate," he said. "That's what's still left to be played out."

# Third Day of Delays for British Air

By ROBERT WALL

**LONDON—British Airways** on Monday said a far-reaching computer outage disrupted flights for a third day and pledged to avoid a repetition of the events that led to hundreds of canceled flights over the weekend.

British Airways Chief Executive Alex Cruz said the carrier still doesn't fully know why a power surge caused its information-technology system to fail and take flight, baggage, and customer-communication systems offline. Systems at 170 airports in 70 countries were affected, he said.

British Airways said about 75,000 passengers had flights canceled Saturday and Sunday though most eventually made it to their destinations.

The disruption hit British Airways during one of the U.K.'s busiest travel weekends, with a public holiday on Monday and the long Memorial Day break in the U.S. A power surge early Saturday knocked out computer systems, affecting the carrier's operations, call centers and website.

The system outage again puts a globally known airline in the spotlight for IT problems with far-reaching impli-



Passengers waited for their flights from London on Monday.

cations affecting hundreds of flights and thousands of passengers. Delta Air Lines Inc. in January grounded flights for hours because of a technology outage affecting multiple systems. It followed an August breakdown that led to flight cancellations spurred by an electrical problem that appears similar to what BA experienced.

Last July, Southwest Airlines Co., the No. 4 U.S. carrier, canceled 2,300 flights over four days after a computer problem. United Continental Holdings Inc. in January also was forced to suspend

flights because of technical issues.

Airlines in the U.S. are under scrutiny after a serious of missteps in how they treat customers, causing lawmakers to threaten to impose new regulations on passenger rights. The IT issue is more far reaching, though. Airlines often struggle with operating a mix of new computer equipment, introduced to ease travel and improve operations, and legacy systems that have been in place for years. The series of malfunctions spurred some airlines to review the resilience of their systems.

"A power-supply issue should not bring an airline to its knees," said Gil Hecht, CEO of consultancy Continuity Software. Still, he said, recovery can be time consuming because it isn't always clear where the failure occurred or data has been corrupted.

British Airways on Monday said operations were returning to normal. All long-haul flights should operate from the airline's busy London Heathrow Airport hub, the carrier said, "as our IT systems move closer to full operational capacity."

The airline said it expected to operate 95% of its planned schedule, though some short-haul flights would be canceled. British Airways said all flights should operate at Gatwick Airport, south of the capital, where services also were affected when computer systems were knocked offline.

The airline said it would meet its obligations under passenger-rights rules.

British Airways hasn't given a cost for the disruption. Goodbody analysts estimate the cost of the IT outage may be around €82 million (or about \$92 million), or 2.7% of estimated 2017 operating profit, from passenger claims and lost sales.

# Safety Goals Shift For New NASA Craft

By ANDY PASZTOR

NASA's next-generation manned spacecraft, initially envisioned to be roughly 10 times safer than the retired space-shuttle fleet, will fall significantly short of that goal, according to industry and former agency officials.

Two fleets of commercially developed crew taxis being built separately by **Boeing Co.** and Elon Musk's SpaceX, as well as the Orion deep-space capsule under development by a **Lockheed Martin Corp.**-led team, still are expected to meet minimum government risk standards, according to a National Aeronautics and Space Administration spokeswoman. But questions about relative safety, costs and engineering trade-offs—which have roiled the space community for more than a decade—are coming to the fore as the agency moves toward certifying the new vehicles and locking in launch schedules.

After the space shuttle Columbia exploded during re-entry in 2003, killing all seven crew members, the head of NASA's astronaut office urged management to adopt a safety standard for future human spacecraft of no more than one projected fatal accident per 1,000 flights. But that quickly proved technically unachievable. So when the space shuttles were retired in 2011 after a total of 135 flights, including two catastrophes, the hope was that future space-

craft would meet a standard of one fatal accident per roughly 700 flights—roughly 10 times safer than the shuttles.

That benchmark was loosened over the years, as detailed rocket and capsule designs were altered and entire programs were scrapped or overhauled. "There is no way they can achieve those numbers in the real world," according to Don Nelson, a retired NASA engineer who raised safety concerns before the Columbia tragedy.

Now, NASA says Boeing and Mr. Musk's **Space Exploration Technologies Corp.** will be mandated to meet a standard of no more than one potential catastrophic event in 270 flights, more than twice as risky as the proposed post-launch benchmark.

NASA said it hasn't yet calculated even general safety standards covering the entire first Orion flight intended to carry astronauts to the vicinity of the moon, anticipated to last about three weeks. Industry officials, however, said NASA has issued "design guidance" covering capsule safety on that mission, for which a trajectory already has been decided. The number is no more than one fatal accident in 240 flights.

The commercial capsules are expected to conduct routine flights by mid-2019, which means they probably have to be well on the way to being certified before the end of next year.



The barrel of the Orion deep-space capsule's crew module is shown in a NASA photo released earlier this month.

# BMW Faces Slowdown From Parts Shortage

By WILLIAM BOSTON

**BERLIN—BMW AG**, the German luxury-car maker, is slowing or halting production of certain models in response to a shortage of parts caused by delivery problems from supplier **Bosch GmbH**.

The hiccups in the normally smooth operation show how dependent manufacturers are on a global, smoothly running supply chain. Even small disruptions anywhere along the line can cascade into delays in getting the company's big moneymaking products off the assembly line and into showrooms.

In BMW's case, the culprit is a "Lenkergetriebe," or steer-

ing gears manufactured by Stuttgart-based auto-parts giant Bosch and used in BMW's 1-Series, 2-Series, 3-Series and 4-Series compact cars.

"Our supplier Bosch is not currently able to provide us with a sufficient number of steering gears," said Markus Duesmann, BMW board member in charge of purchasing and supplier network.

Bosch, in turn, said the trouble arose when a supplier in Italy experienced difficulties in delivering the casing for the steering gears. Bosch declined to identify the supplier.

Analysts at Equinet, a brokerage, said the costs to the company were likely manageable unless the interruption of

production continued for several days.

"Bosch is working urgently in a task force together with BMW and the supplier to relieve the supply squeeze as soon as possible and keep the impact as limited as possible," Bosch said in a statement.

BMW said it doesn't know the extent of the financial damage or impact on production and sales caused by the break in production.

A spokesman said the company hoped to restart assembly at the plants next week, but wasn't certain that would be possible.

BMW's plant in Leipzig in eastern Germany has been shut down since Friday.

## TECHNOLOGY

WSJ.com/Tech

# Startup's Rocket Falls Short of Orbit

By ANDY PASZTOR

Rocket Lab, a startup widely seen as a trailblazer for frequent, ultralow-cost access to space, failed to reach orbit on its first flight.

But last week's mission, which blasted off from New Zealand, still was a partial success because the Electron rocket's nine main engines and the single engine powering the upper stage lifted a test payload high enough to reach space.

Peter Beck, founder and chief executive of the closely held U.S.-New Zealand company, said in an interview Thursday that the rocket performed extremely well until the upper-stage engine shut off prematurely after attaining an altitude of at least 120 miles.

Anything above 62 miles is generally considered outside the atmosphere.

The company aims to carry what are anticipated to be swarms of small commercial and scientific satellites in the next few years.

"We went through all the critical events and gathered all the data we needed to gather," Mr. Beck said, adding that the company will analyze the data to determine what went wrong in the last portion of the flight.



Rocket Lab's Electron rocket as it lifted off its launch site in New Zealand this past Thursday. The mission was a partial success.

With this novel approach, the company pulled off the first flight of an orbital-class rocket from a privately run launch complex.

Blue Origin LLC, the space startup run by Amazon.com Inc. chief Jeff Bezos, and Virgin Galactic LLC, run by Richard Branson, also have conducted test flights from private ranges, but those vehicles are designed for suborbital missions. Virgin Galactic, however, is a rival for launching small satellites.

Mr. Beck's company was able to design, build and launch its rocket in roughly four years and with a relatively small staff that now numbers about 160 employees. It aims to launch satellites weighing hundreds of pounds for several million dollars, versus existing larger rockets that charge 10 or 20 times more and are designed to carry satellites weighing thousands of pounds apiece.

The flight comes amid escalating interest from venture capitalists, legacy aerospace companies and even the Pentagon in finding new ways to launch smaller satellites. By 2019, Mr. Beck said he hopes Electron rockets will be blasting off once a week from the remote New Zealand launch facility.

Historically, newly designed rockets on average experience one failure during the first three flights. Other statistics indicate that from 1990 to 2010, roughly two-thirds of maiden rocket launches were unsuccessful.

Entrepreneur Elon Musk's Space Exploration Technologies Corp., known as SpaceX,

suffered three consecutive launch failures nearly a decade ago that almost sank the company shortly after its inception.

With many space entrepreneurs and investors closely watching Rocket Lab's initial performance, Mr. Beck said he was pleased with the result and added that it left the com-

pany "in an extremely strong position to pursue" commercial operations after a pair of additional test flights.

Rocket Lab, based in Huntington Beach, Calif., exemplifies the fledgling industry known as "New Space": a more nimble, Silicon Valley-like approach to designing, producing and testing rockets and small

satellites that relies heavily on automated manufacturing and frequent modifications to hardware.

The company has built a rocket largely from carbon-composite materials and featuring engine parts produced by 3-D printing in the U.S. Fuel tanks and other structures are manufactured in New Zealand.

## BUSINESS WATCH

### BOX OFFICE

#### Latest 'Pirates' Film Sails to No. 1 Spot

It was smooth sailing to the top spot at the box office for "Pirates of the Caribbean: Dead Men Tell No Tales," but the waters were choppy for "Baywatch."

Studio estimates on Sunday say the fifth installment of the "Pirates of the Caribbean" franchise commanded \$62.2 million in its first three days in theaters. The movie is projected to take in \$76.6 million over the

four-day holiday weekend.

"Baywatch," an update of the 1990s television show, earned only \$18.1 million over the weekend against a nearly \$70 million price tag.

—Associated Press

JBS

#### Firm Moves Closer To a Settlement

The holding company of JBS SA and federal prosecutors in Brazil moved closer toward a settlement amount for corruption charges against the coun-

try's largest meatpacker.

Prosecutors said Sunday they rejected an offer from holding company J&F in the past few days doubling the amount it was willing to pay under a leniency agreement to eight billion reais (\$2.45 billion) from four billion reais. They have proposed a reduced fine of 10.99 billion reais to J&F from the 11.2 billion reais they were seeking last week.

J&F declined to comment.

The company is negotiating a settlement with Brazilian authorities after its owners agreed to cooperate with local authorities, admitting they paid millions of

dollars in bribes to government officials over several years.

—Luciana Magalhaes

EDF

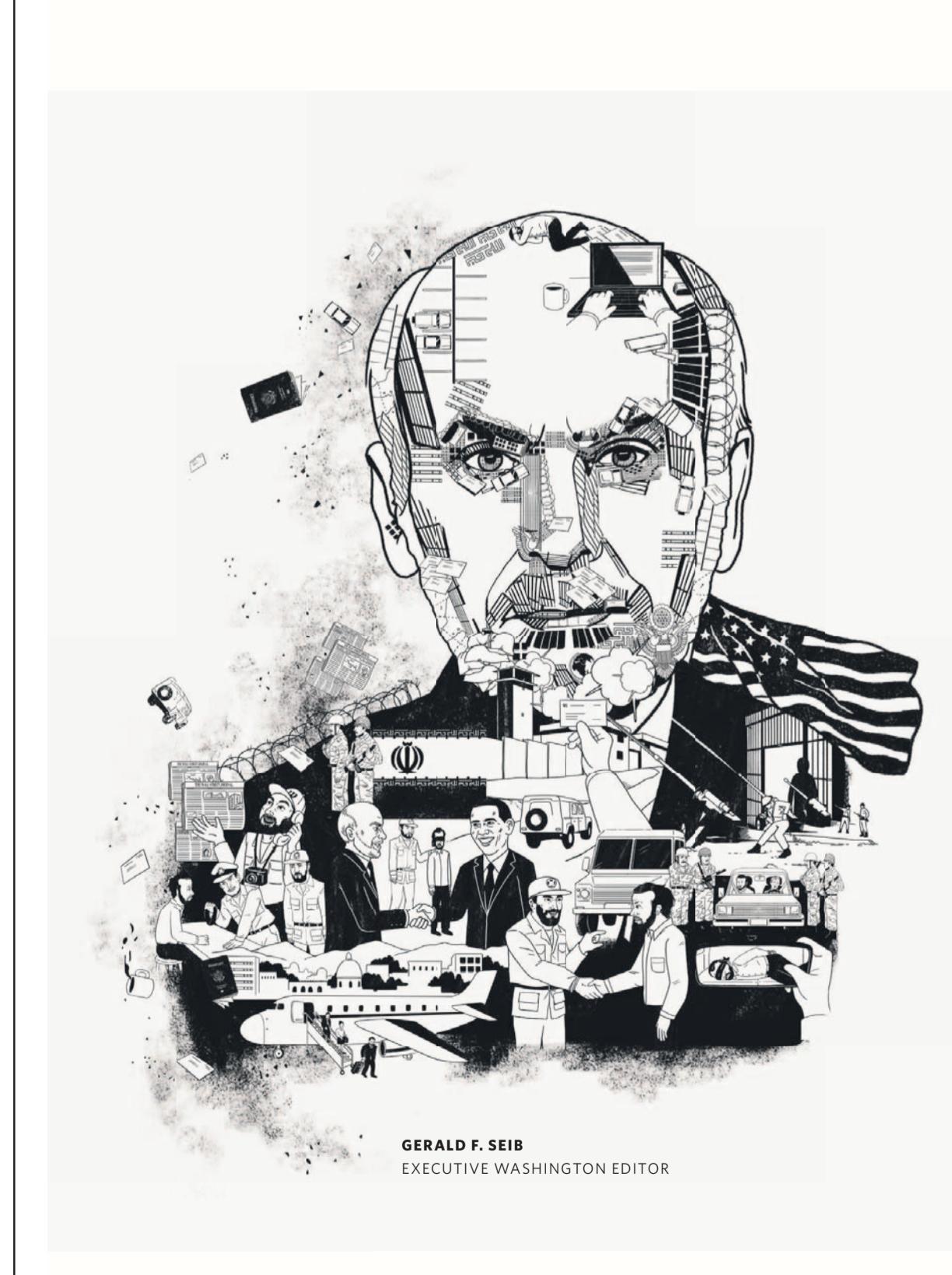
#### EU Regulator Clears Areva Nuclear Deal

Electricité de France SA's purchase of Areva SA's nuclear reactor business was cleared by the European Union's antitrust regulator Monday, a step that will help Areva gain access to funding by the French government.

—Natalia Drozdiak



'Pirates' brought in \$62.2 million over the weekend.



GERALD F. SEIB  
EXECUTIVE WASHINGTON EDITOR

## The Face of Real News

Gerald Seib's illustrious career covering politics has taken him around the world and put him face-to-face with some of the biggest players on the global stage—but it has also put him in situations of real danger. In 1987, he was kidnapped and imprisoned for four days on suspicion of espionage by Iranian officials while covering the Iran-Iraq War.

Real journalists and real news from America's most trusted newspaper.

**WATCH HIS STORY AT WSJ.COM/GERALD**

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THE WALL STREET JOURNAL.

Read ambitiously

## FINANCE & MARKETS

INTELLIGENT INVESTOR | By Jason Zweig

# How to Put Your Own Quant Skills to Use



You may already trust algorithms, or mathematical formulas that reduce the need for human judgment, more than you realize. Commercial airliners fly largely, and safely, on autopilot; Netflix Inc. and Amazon.com Inc. recommend purchases that can seem uncannily attuned to your tastes. Why not let computers pick all your investments, too?

Here are a few things to bear in mind.

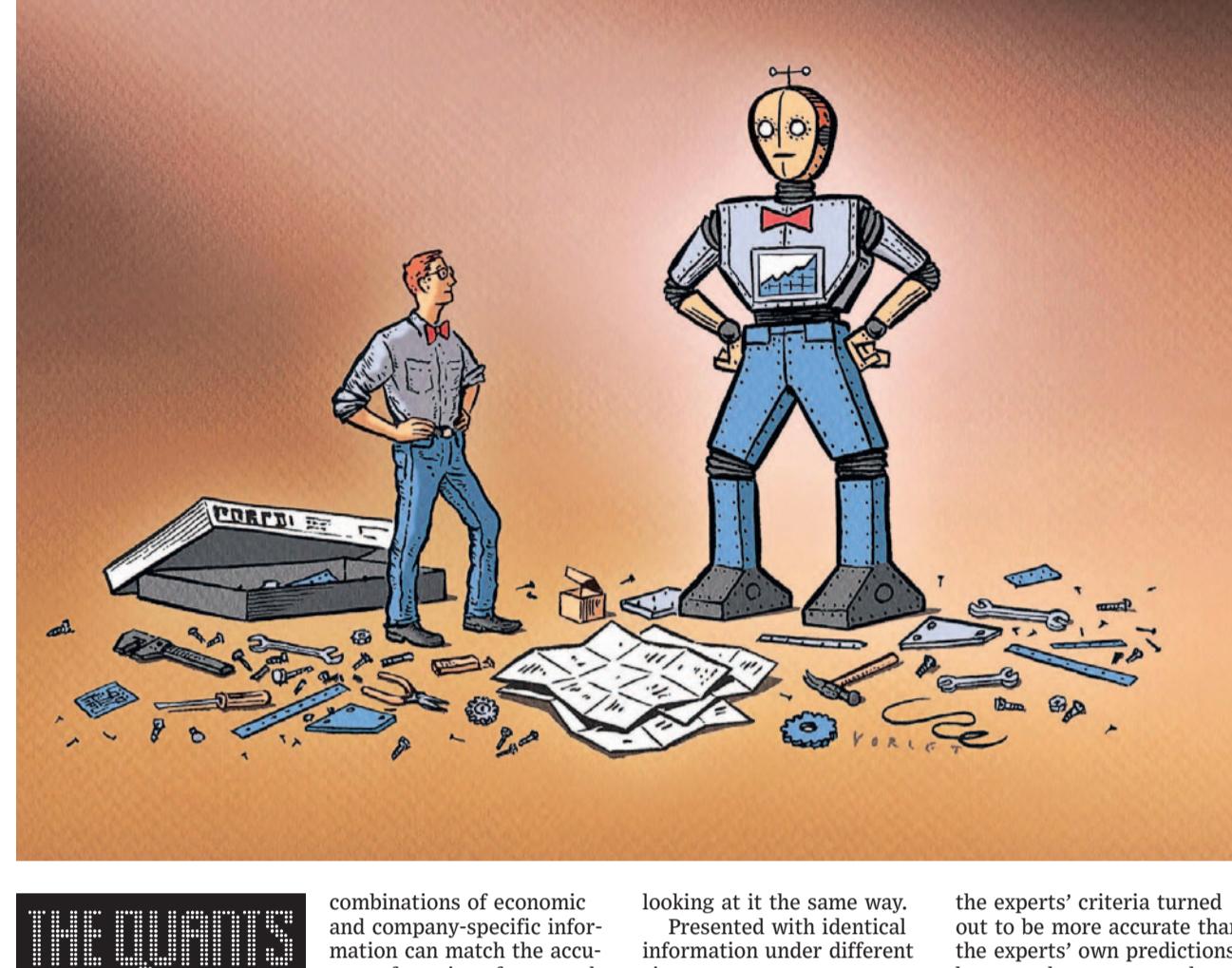
First, the early quant gets the worm.

Robert Jones, who founded Goldman Sachs Asset Management's quantitative equity group in 1989, now runs System Two Advisors LP, an investment firm in Summit, N.J. "Fewer people were doing quant in the 1980s and 1990s," he says, "so it was fairly easy to add value."

In those days, Mr. Jones recalls, a computer model that picked stocks on which analysts were revising estimates of earnings upward could beat the market by 3 percentage points or more a year. "But as quant got bigger and bigger," he says, "the returns to quant have gotten smaller and smaller."

A group of researchers led by Campbell Harvey, a finance professor at Duke University, recently studied hedge-fund performance, after fees and adjusted for risk. From 1996 to 2014, systematic funds (which describe themselves with such words as "algorithmic," "computer-driven" or "statistical") performed about the same as traditional "discretionary" funds that claim to use human judgment to pick holdings.

Furthermore, says Prof. Harvey, funds that aren't primarily quantitative are pre-



CHRISTOPHE VORLET

## THE QUANTS

tending they are as a way of attracting investors.

Perhaps it is cheaper to learn from the quants than to hire them.

Take a hint from hedge-fund manager Magnetar Capital LLC, which is seeking to "take what was in our head and our database and make rules out of it"—measuring intuitions, testing them for reliability and then basing decisions on them.

Likewise, since January, UBS Group AG has been exploring whether a computer model relying on various

combinations of economic and company-specific information can match the accuracy of earnings forecasts by the investment bank's analysts.

Those analysts "are quite good, and we haven't beaten them yet," says David Jessop, global head of quantitative research at UBS. "If we talk to the analyst and ask, 'Which variables do you think are best?' and try to capture that in the model, that could improve the performance of our forecasts."

Such an approach could benefit any investor.

Human judgment is inconsistent. People are good at knowing what matters, but not very good at always

looking at it the same way.

Presented with identical information under different circumstances, we come to different conclusions about it. The judgments of everyone from accountants to physicians and weather forecasters will vary depending on such factors as mood, time of day and how many other demands they have on their attention.

Decades ago, the psychologist Lewis Goldberg showed that if you determine which factors experts consider most important in coming to a conclusion, you can program a computer to size up a decision based on those—and only those—factors. The computer's predictions using

the experts' criteria turned out to be more accurate than the experts' own predictions, because the computer always interprets the same evidence the same way.

Another study gave a computer the economic, industry and company variables that analysts said they used to estimate the future returns on a set of stocks. Using the same information, the computer predicted those future returns more accurately than the analysts.

Although Wall Street's quants tend to rely on complicated algorithms, simple models may suffice. Research has shown that as few as a handful of variables can be enough to base pre-

dictions on.

If, for instance, you seem to have a knack for picking small stocks, first measure your returns against those of an index fund that holds most of the same companies. Then, if your results still look good, take the time to figure out what your winners—and losers—have had in common. Zero in on the handful of criteria that shaped your success: debt as a minimal percentage of total capital, low ratios of stock price to earnings or book value, or whichever standards have worked for you. Then score each prospective company on those criteria (on a scale of, say, 0 to 5) and pick those with the highest total score. That approach will couple your human judgment about what works with a computer-like discipline of applying it.

If, instead, you are considering investing in a fund, apply the simplest possible quantitative tests.

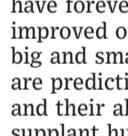
First, ask whether the approach can be replicated with one or more market-tracking index funds at much lower cost.

Then look at the long-term return that the quant fund claims its strategy would have earned in excess of the index it compares itself with. (Such returns are often reported over periods before the fund even existed.) From those return claims, subtract the average expenses and another 1% a year to cover trading costs, which aren't always included in hypothetical past returns. Is the remaining extra return likely to be large enough in the future to be worth pursuing?

Finally, ask a representative of the fund how many strategies the firm tested before it settled on this one. If the person doesn't know or won't say, put your money elsewhere.

# The Machines Still Can't Match the Insights of Humans

BY JOHN W. ROGERS JR.



Man vs. machine. It is an old, well-trodden debate. There is little question that technological advances have forever changed and improved our lives in ways big and small. But now, some are predicting that machines and their algorithms will supplant humans in the investment firm of the future.

I will be the first to admit

that technology helps me do my job better. I still remember my days of skimming through S&P tear sheets to find new ideas. Now a phone in my pocket can provide everything from tick-by-tick stock quotes

to pages upon pages of corporate filings.

But here is the thing: Data alone isn't enough. As Albert Einstein once supposedly said, "Information is not knowledge." Those promoting artificial intelligence would

lead one to believe it is all about replicating human judgment in a superior manner. The data part may be easy for machines but the human part isn't. This is where computers meet their limits and our brains can triumph. Much of the investment world is captivated by using quantitative models to solve math problems when so much of investment success involves untangling behavioral problems through slow, hard, qualitative analysis.

In the world of entertain-

ment, computers can reproduce a realistic image of a person but only actors can capture all of our complex paranoias, eccentricities and distinct imperfections. Computers simply cannot mimic these idiosyncrasies. The same could be said of investing. Successful long-term investors exploit inefficiencies caused by human error and frailty.

Herein lies the difference between information and insight. The "art" part of investing is the insight. Great

investors don't require great quantities of information. Purely quantitative models can also be guilty of instilling a false illusion of precision.

The bottom line is that algorithms have their limits.

During the crash of 1987, computers couldn't handle the emotional irrationality exhibited by the market activity and ultimately exacerbated it. Meanwhile, some human investors saw the absurdity of the selloff and reacted intuitively and quickly without revising models and

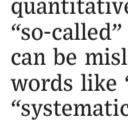
adjusting algorithms. Our strong results in 1988 were driven by the fact that we actually called our clients on Black Monday and asked for more money.

Sure, machines can be cheaper and maybe even easier to deal with than people. Computers are often right, but they also can fail spectacularly when things reach extremes or new patterns arise.

—John W. Rogers Jr. is chairman and chief investment officer of Ariel Investments LLC

## The Scientific Push Is Overdue

BY DAVID SIEGEL



Among the biggest stories in asset management over the past decade or two has been the rise of so-called quantitative investing. I say "so-called" because the label can be misleading. Catchwords like "quantitative" and "systematic" are becoming

more common—but these terms are nebulous.

People use them to mean all kinds of things.

What matters more is firms' philosophical approach to the discipline of investment management. The most effective way to address problems like forecasting asset prices or optimizing portfolios is, in my view, the same as for any other complex challenge: Use the scientific method.

Handling all that data is a herculean task. Finding, ingesting, storing, parsing, normalizing and delivering it would be utterly impossible to do manually. Automating these processes clearly requires significant investment and innovation in engineering.

Making efficient use of the output likewise requires research and expertise in data science, modeling and related analytical techniques.

It may be tempting to take for granted our ability to do each of these well, but don't be fooled. Using the power of algorithms and data sets to uncover valuable economic or market insights takes a classically scientific mind-set.

That means basing the entire endeavor on the formulation of carefully crafted hypotheses, followed by a recurring process of measurement, learning, and adjustment.

Culture matters and doesn't change overnight. Instilling a scientific mind-set at an organizational level is

more complex than it might seem, especially when an asset manager seeks to hire trained scientists to work alongside traditional industry professionals (as opposed to the reverse). The cultural challenges become evident even when the goal is machine-assisted human trading, but they become glaring when the goal is machine-driven trading with human assistance.

It is worth bearing in mind that not all quantitative strategies are scientific. For example, a manager might use algorithms to compute moving averages as part of a trading strategy. Without continually iterating through the steps of hypothesis formulation and testing, however, the exercise becomes something less than empirical—and the results may be disappointing.

Ultimately, the greatest beneficiaries of a more scientific approach to investing are asset owners, be they individual retirees or large institutions. While the scientific method has been central to the advancement of human inquiry since the 17th century, investment managers have been a little slow on the uptake. The shifts we are seeing in the industry today represent a welcome, if overdue, move in that direction.

—David Siegel is the co-founder and co-chairman of Two Sigma Investments LP

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FUND NAME GF AT LB DATE CR NAV YTD 12-MO 2-YR

Chartered Asset Management Pte Ltd - Tel No: 65-6835-8866 Fax No: 65-6835-8865, Website: [www.cam.com.sg](http://www.cam.com.sg), Email: [cam@cam.com.sg](mailto:cam@cam.com.sg) CAM-GF Limited OT MUS 05/26 USD 307567.82 1.8 5.4 -4.5

Value Partners Value Partners Investing through discipline

Website: [www.valuepartners-group.com](http://www.valuepartners-group.com) Tel: (852) 2143 0688

China A-Share Fund Cls A AUD H OT HKG 05/26 AUD 13.03 10.5 22.6 -8.3

China A-Share Fund Cls A AUD I OT HKG 05/26 AUD 12.21 11.7 17.1 -8.3

China A-Share Fund Cls A CAD H OT HKG 05/26 CAD 12.04 10.3 21.2 -9.3

China A-Share Fund Cls A EUR H OT HKG 05/26 EUR 12.61 9.7 19.9 -9.3

China A-Share Fund Cls A EUR I OT HKG 05/26 EUR 12.33 6.9 19.5 NS

China A-Share Fund Cls A GBP H OT HKG 05/26 GBP 12.61 9.5 23.3 -8.3

China A-Share Fund Cls A GBP I OT HKG 05/26 GBP 12.79 10.1 21.6 -9.0

China Greenchip-A Units AS EQ CYM 05/26 HKD 16.40 20.7 32.3 -2.2

China Greenchip-A Units H OT HKG 05/26 HKD 12.00 10.8 21.5 -2.2

China Greenchip-A Units I OT HKG 05/26 HKD 12.25 15.2 19.8 -9.5

China A-Share Fund Cls A NZD H OT HKG 05/26 NZD 12.33 10.6 23.0 -8.8

China A-Share Fund Cls A NZD I OT HKG 05/26 NZD 11.34 13.9 15.6 -8.3

China A-Share Fund Cls A RMB (CNY) OT HKG 05/26 CNY 14.04 12.0 25.1 -6.2

China A-Share Fund Cls A USD OT HKG 05/26 USD 12.77 14.7 20.7 -9.6

China A-Share Fund Cls A USD H OT HKG 05/26 USD 12.79 10.1 21.6 -9.0

China Greenchip-A Units AS EQ CYM 05/26 HKD 16.40 20.7 32.3 -2.2

China Greenchip-A Units H OT HKG 05/26 HKD 10.41 21.2 32.3 -9.1

China Greenchip-A Units I OT HKG 05/26 HKD 10.20 20.8 30.8 -9.9

China Greenchip-A Units NZD H OT HKG 05/26 NZD 10.60 20.9 32.6 -8.5

China Greenchip-A Units NZD I OT HKG 05/26 NZD 10.13 20.3 31.0 -9.7

China Greenchip-A QDII Units AS EQ CYM 05/26 HKD 11.12 20.5 31.0 -8.8

China Greenchip-A QDII Units I OT HKG 05/26 HKD 15.00 17.1 27.1 0.0

GC HI Yield Inc-Cls A MDLS SGD H OT CYM 05/26 SGD 9.34 6.5 17.1 10.0

GC HI Yield Inc-Cls A MDLS CAD H OT CYM 05/26 CAD 10.22 5.8 16.4 10.0

GC HI Yield Inc-Cls A MDLS CAD I OT CYM 05/26 CAD 15.07 6.1 16.7 9.8

GC HI Yield Inc-Cls A MDLS EUR H OT CYM 05/26 EUR 9.36 6.1 16.8 9.7

GC HI Yield Inc-Cls A MDLS EUR I OT CYM 05/26 EUR 10.33 15.2 27.3 -0.2

Hi-Div Stk Cls A RMDS I OT HKG 05/26 USD 13.86 13.1 28.5 2.0

Hi-Div Stk Cls A RMDS I OT HKG 05/26 USD 82.96 15.7 24.6 -2.3

Hi-Div Stk Cls A2 AUD H Mds OT HKG 05/26 AUD 9.89 15.7 24.7 -2.1

Hi-Div Stk Cls A2 CAD H Mds OT HKG 05/26 CAD 10.00 15.5 23.6 -3.3

Hi-Div Stk Cls A2 GBP H Mds OT HKG 05/26 GBP 9.48 16.8 24.0 -3.5

Hi-Div Stk Cls A2 HKD Mds OT HKG 05/26 HKD 10.33 16.2 25.1 -2.2

Hi-Div Stk Cls A2 Mds OT HKG 05/26 USD 11.25 15.4 24.2 -2.5

Hi-Div Stk Cls A2 NZD H Mds OT HKG 05/26 NZD 15.8 25.2 -1.3

Hi-Div Stk Cls A2 RMB H Acc OT HKG 05/26 CNY 9.87 18.1 28.0 -0.1

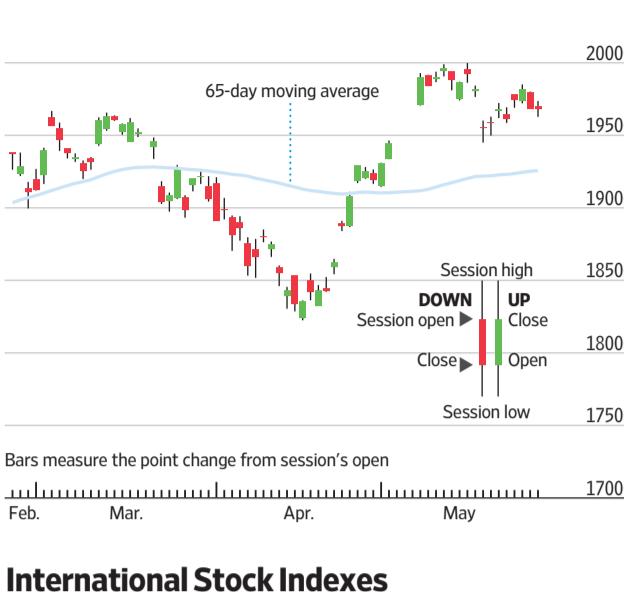
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## MARKETS DIGEST

### Nikkei 225 Index

**19682.57** ▼ 4.27, or 0.02%

High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

Feb. Mar. Apr. May

### STOXX 600 Index

**391.25** ▼ 0.10, or 0.03%

High, low, open and close for each trading day of the past three months.



Feb. Mar. Apr. May

### S&P 500 Index

Data as of 12 p.m. New York time

Last 23.94 24.04

P/E estimate \* 19.15 17.75

Dividend yield 1.95 2.19

All-time high: 2415.82, 05/26/17

**2415.82** Market Closed

High, low, open and close for each trading day of the past three months.



Feb. Mar. Apr. May

### International Stock Indexes

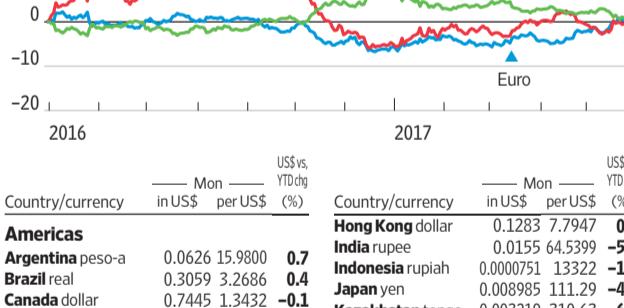
Data as of 12 p.m. New York time

Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	<b>2766.95</b>	-2.56	<b>-0.09</b>	2193.75	2193.75	2773.08	2773.08	9.4
	<b>MSCI EAFE</b>	<b>1884.21</b>	-1.16	<b>-0.06</b>	1471.88	1471.88	1956.39	1956.39	9.8
	<b>MSCI EM USD</b>	<b>1014.99</b>	-2.01	<b>-0.20</b>	691.21	691.21	1044.05	1044.05	27.8
<b>Americas</b>	<b>DJ Americas</b>	<b>579.93</b>	-0.02	<b>-0.003</b>	480.90	480.90	580.46	580.46	7.3
Brazil	<b>Sao Paulo Bovespa</b>	<b>63616.10</b>	-469.32	<b>-0.73</b>	48066.67	48066.67	69487.58	69487.58	5.6
Canada	<b>S&amp;P/TSX Comp</b>	<b>15432.07</b>	15.14	<b>+0.10</b>	13609.58	13609.58	15943.09	15943.09	0.9
Mexico	<b>IPC All-Share</b>	<b>49624.42</b>	-50.50	<b>-0.10</b>	43902.25	43902.25	50154.33	50154.33	8.7
Chile	<b>Santiago IPSA</b>	<b>3711.45</b>	-2.90	<b>-0.08</b>	2998.64	2998.64	3786.05	3786.05	15.1
<b>U.S.</b>	<b>DJIA</b>	<b>21080.28</b>	...	<b>Closed</b>	17063.08	17063.08	21169.11	21169.11	6.7
	<b>Nasdaq Composite</b>	<b>6210.19</b>	...	<b>Closed</b>	4574.25	4574.25	6217.34	6217.34	15.4
	<b>S&amp;P 500</b>	<b>2415.82</b>	...	<b>Closed</b>	1991.68	1991.68	2418.71	2418.71	7.9
	<b>CBOE Volatility</b>	<b>9.81</b>	...	<b>Closed</b>	9.56	9.56	26.72	26.72	-30.1
<b>EMEA</b>	<b>Stoxx Europe 600</b>	<b>391.25</b>	-0.10	<b>-0.03</b>	307.81	307.81	396.55	396.55	8.3
	<b>Stoxx Europe 50</b>	<b>3231.19</b>	2.93	<b>+0.09</b>	2626.52	2626.52	3279.71	3279.71	7.3
France	<b>CAC 40</b>	<b>5332.47</b>	-4.17	<b>-0.08</b>	3955.98	3955.98	5442.10	5442.10	9.7
Germany	<b>DAX</b>	<b>12628.95</b>	26.77	<b>+0.21</b>	9214.10	9214.10	12841.66	12841.66	10.0
Israel	<b>Tel Aviv</b>	<b>1419.36</b>	0.77	<b>+0.05</b>	1372.23	1372.23	1490.23	1490.23	-3.5
Italy	<b>FTSE MIB</b>	<b>20783.82</b>	-426.75	<b>-2.01</b>	15017.42	15017.42	21828.77	21828.77	8.1
Netherlands	<b>AEX</b>	<b>527.73</b>	-0.30	<b>-0.06</b>	409.23	409.23	537.84	537.84	9.2
Russia	<b>RTS Index</b>	<b>1085.75</b>	12.71	<b>+1.18</b>	874.88	874.88	1196.99	1196.99	-5.8
Spain	<b>IBEX 35</b>	<b>10884.00</b>	-20.20	<b>-0.19</b>	7579.80	7579.80	11184.40	11184.40	16.4
Switzerland	<b>Swiss Market</b>	<b>9031.96</b>	-10.07	<b>-0.11</b>	7475.54	7475.54	9136.95	9136.95	9.9
South Africa	<b>Johannesburg All Share</b>	<b>53944.22</b>	-51.92	<b>-0.10</b>	48935.90	48935.90	54716.53	54716.53	6.5
Turkey	<b>BIST 100</b>	<b>97725.95</b>	192.67	<b>+0.20</b>	70426.16	70426.16	98794.90	98794.90	25.1
U.K.	<b>FTSE 100</b>	<b>7547.63</b>	...	<b>Closed</b>	5788.74	5788.74	7554.21	7554.21	5.7
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	<b>1603.73</b>	-2.12	<b>-0.13</b>	1308.52	1308.52	1608.94	1608.94	12.7
Australia	<b>S&amp;P/ASX 200</b>	<b>5707.10</b>	-44.60	<b>-0.78</b>	5103.30	5103.30	5956.50	5956.50	0.7
China	<b>Shanghai Composite</b>	<b>3110.06</b>	...	<b>Closed</b>	2821.05	2821.05	3288.97	3288.97	0.2
Hong Kong	<b>Hang Seng</b>	<b>25701.63</b>	62.36	<b>+0.24</b>	20038.42	20038.42	25701.63	25701.63	16.8
India	<b>S&amp;P BSE Sensex</b>	<b>31109.28</b>	81.07	<b>+0.26</b>	25765.14	25765.14	31109.28	31109.28	16.8
Indonesia	<b>Jakarta Composite</b>	<b>5712.33</b>	-4.48	<b>-0.08</b>	4796.87	4796.87	5719.88	5719.88	7.8
Japan	<b>Nikkei Stock Avg</b>	<b>19682.57</b>	-4.27	<b>-0.02</b>	14952.02	14952.02	19961.55	19961.55	3.0
Malaysia	<b>Kuala Lumpur Composite</b>	<b>1764.89</b>	-7.41	<b>-0.42</b>	1614.90	1614.90	1778.65	1778.65	7.5
New Zealand	<b>S&amp;P/NZX 50</b>	<b>7412.74</b>	-28.83	<b>-0.39</b>	6664.21	6664.21	7571.11	7571.11	7.7
Pakistan	<b>KSE 100</b>	<b>52138.90</b>	-497.97	<b>-0.95</b>	36061.56	36061.56	52876.46	52876.46	9.1
Philippines	<b>PSEI</b>	<b>7886.03</b>	18.54	<b>+0.24</b>	6563.67	6563.67	8102.30	8102.30	15.3
Singapore	<b>Straits Times</b>	<b>3214.55</b>	-4.87	<b>-0.15</b>	2729.85	2729.85	3271.11	3271.11	11.6
South Korea	<b>Kospi</b>	<b>2352.97</b>	-2.33	<b>-0.10</b>	1925.24	1925.24	2355.30	2355.30	16.1
Taiwan	<b>Weighted</b>	<b>10101.95</b>	...	<b>Closed</b>	8458.87	8458.87	10108.49	10108.49	9.2
Thailand	<b>SET</b>	<b>1568.17</b>	-10.14	<b>-0.07</b>	1406.18	1406.18	1591.00	1591.00	1.6

Source: SIX Financial Information/WSJ Market Data Group

### Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



US\$ vs. Yen Euro WSJ Dollar index

2016 2017

London close on May 29

Country/currency	Mon	US\$ vs. per US\$ (%)	YTD chg
Country/currency	Mon	US\$ vs. per US\$ (%)	YTD chg
Hong Kong dollar	0.1283	7.7947	0.5
India rupee	0.0155	64.5399	-1.5
Indonesia rupiah	0.0000751	13322	-5.0
Japan yen	0.008985	111.29	-4.9
Kazakhstan tenge	0.003219	310.63	-6.9
Macau pataca	0.1241	8.0598	1.8
Malaysia ringgit-c	0.2339	4.2760	-4.7
New Zealand dollar	0.7063	1.4158	-2.0
Pakistan rupee	0.0095	104.835	0.4
Philippines peso	0.0201	49.722	-0.2
Singapore			

## FINANCE & MARKETS

# 'Clean Shares' Cut Some Costs

New class of stock in mutual funds doesn't include payments to distributors

BY DAISY MAXEY

With the so-called fiduciary rule set to take effect in the U.S. on June 9, a new type of mutual-fund share stands to gain traction.

These "clean shares" charge only the fee to manage and operate a mutual fund, and don't include payments to distributors, such as the broker-dealers and retirement-plan platforms that sell the funds. Stripped from clean shares are fees to compensate brokers for providing advice and 12b-1 fees, which pay for marketing, printing and prospectuses, and other shareholder services.

As it is today, investors who buy class A shares of a mutual fund through a broker, for example, typically pay a sales charge that may range from 2.25% to 5.75%, according to fund researcher Morningstar Inc. It is easy for investors to overlook that payment to the broker because it is bundled in with the cost of the fund's management, and the fund company passes it on to the distributor.

With clean shares, investors will likely pay 60% to 70% less to buy a fund, says Paul Ellenbogen, head of global regulatory solutions at Morningstar. If they want a broker's advice, however, they would have to



Janus Capital filed in January to offer Z shares, which are free of any fees to distributors.

Fee pressures from exchange-traded funds are also encouraging the adoption of clean shares. Adoption of the shares will put mutual-fund pricing "on a much closer footing" with ETF pricing, says Russ Kinnel, director of manager research at Morningstar. Investors in open-end mutual funds, money-market accounts and variable annuity subaccounts pay more than \$15 billion a year in 12b-1 fees alone, Morningstar estimates.

Because the shares enable clarity—and therefore greater competition on price, they likely represent a win for active management, Mr. Kinnel says.

Mr. Rosenbluth agrees that clean shares could help keep active mutual funds relevant in an environment in which advisers are increasingly shifting away from selling active products on commission and moving toward charging an asset-based fee and offering lower-cost products.

American Funds, a subsidiary of Los Angeles-based Capital Group, and Jersey City, N.J.-based Lord Abbett & Co. both began this year offering F3 shares, which charge management fees, but no fees to pay distributors. **Janus Capital Group** Inc. of Denver filed in January to offer Z shares, which are also free of any fees to distributors. The company, which is in the process of merging with U.K. asset manager Henderson Group PLC, had no update on the progress of its shares.

## Stocks in India Rise As Italy Falls 2%

BY DEBIPRASAD NAYAK AND SARA SJOLIN

Indian shares gained for a third consecutive session, ending at a record high, but shares in Italy fell in response to reports over the weekend that an election there could be held as soon as September.

Trading elsewhere was quiet due to holidays in the U.S., U.K. and parts of Asia.

Investors in India remained upbeat about a recovery in corporate earnings, while sustained flows of foreign money into the market helped to improve sentiment.

The S&P BSE Sensex closed 0.3% higher at 31109.28.

Italy's FTSE MIB Index slid 2%. Shares of Intesa Sanpaolo lost 2.1% after the Financial Times reported the bank is set to close branches and cut costs in a strategy shift. Other Italian banks were also lower.

Activity elsewhere was muted as investors shrugged off political concerns emerging after a meeting of world leaders over the weekend and another missile launch in North Korea.

After the annual summit of the Group of Seven industrialized countries, German Chancellor Angela Merkel said Europe can no longer completely rely on other countries, underlining her frustration with U.S. President Donald Trump.

At the G-7 summit in Italy over the weekend, world leaders sought to convince Mr. Trump to keep the U.S. in the Paris climate agreement. Mr. Trump didn't commit one way or the other.

The Nikkei Stock Average lost 4.27 points to 19682.57, and the Stoxx Europe 600 closed down 0.10 point at 391.25.

## FINANCE WATCH

IPOS

### Singapore Recruiter Plans an Offering

Singapore-based recruitment agency **HRnet Group** is seeking to raise up to 174.6 million Singapore dollars (US\$126 million) through an initial public offering in the country, people familiar

with the matter said Monday. HRnet Group, which filed an IPO prospectus with the central bank, said that it has already secured commitments from seven investors, including Japan's **Meiji Yasuda Asset Management** Co. and **Aberdeen Asset Management Asia** Ltd. who have agreed to take up to 54% of the shares being offered.

The prospectus didn't detail the number of shares the company intends to offer, but people familiar with the matter said that HRnet is selling 194 million shares at between 80 and 90 Singapore cents each.

The proceeds of the IPO will mainly be used to fund planned acquisitions, the people said.

—Saurabh Chaturvedi

### EUROZONE

### Lending to Firms Increases Slightly

Lending to companies in the euro area accelerated modestly in April, while loans to households grew at the same pace as in March, data from the European Central Bank showed.

Lending to companies grew by 2.4% from a year earlier in April, after expanding by 2.3% in March. The year-on-year increase in loans to households was 2.3%, unchanged from the March figure.

The ECB's broad monetary indicator, M3, grew by 4.9% from a year earlier in April, versus 5.3% in March. —Emese Bartha

WSJ TALK / EXPERIENCE / OFFER / GETAWAY

NATIONAL STADIUM at singapore sports hub

SCOTLAND

ITALY vs SCOTLAND OFFICIAL INTERNATIONAL TEST MATCH 10 JUNE 2017

KICK OFF TIME 8:00 PM

ITALY

A large advertisement for the Italy vs Scotland Official International Test Match. It features several rugby players in action on a field with a city skyline in the background. The text includes the venue (National Stadium at Singapore Sports Hub), the teams (Scotland and Italy), the date (10 June 2017), and the kick-off time (8:00 PM). Logos for both teams are included.

# Witness Italy and Scotland's First Official Test Match

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# MARKETS

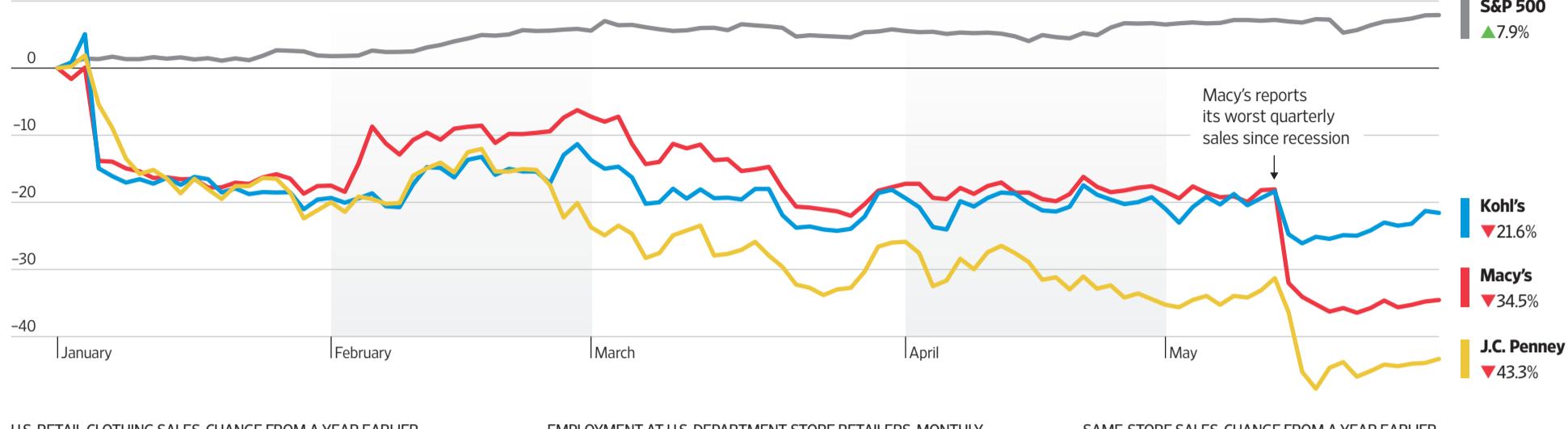
THE DAILY SHOT | By Lev Borodovsky, Akane Otani and Chris Dieterich

## Unraveling of the Retail Sector

Retail clothing sales are falling, forcing a deepening retrenchment at major retailers that is hammering their results and their shares.

WSJ subscribers can get **The Daily Shot**—a chart-by-chart briefing on markets and economics—sent to their email each morning. Subscribe at [wsj.com/newsletters](http://wsj.com/newsletters)

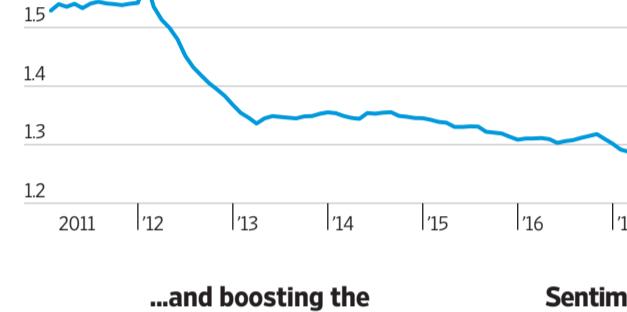
PERCENTAGE CHANGE SINCE 2016



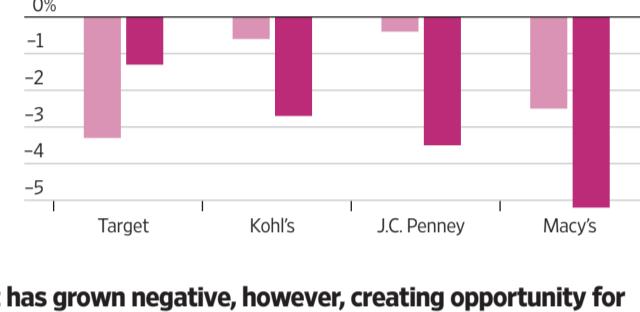
U.S. RETAIL CLOTHING SALES, CHANGE FROM A YEAR EARLIER



EMPLOYMENT AT U.S. DEPARTMENT-STORE RETAILERS, MONTHLY

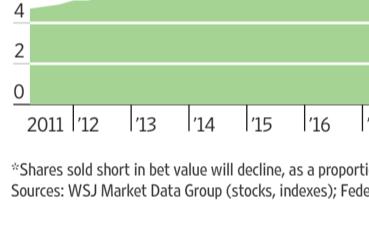


SAME-STORE SALES, CHANGE FROM A YEAR EARLIER



E-commerce firms are winning a larger share of the market, adding to the department stores' malaise...

U.S. E-COMMERCE SALES AS A SHARE OF TOTAL RETAIL SALES

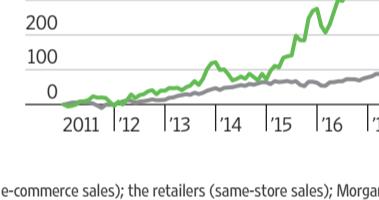


EMPLOYMENT AT U.S. NONSTORE RETAILERS, MONTHLY



...and boosting the fortunes of Amazon.

PERCENTAGE CHANGE SINCE 2010



Sentiment has grown negative, however, creating opportunity for quick reversals and amplifying volatility in shares that have fallen.

MOST-SHORTED U.S.-LISTED ETFs\*

SPDR Retail	215%
ProShares Short VIX	192%
VanEck Vectors Semiconductor	169%
SPDR Oil & Gas E&P	99%
CurrencyShares Euro Trust	98%

SEARS HOLDINGS SHARE PRICE



\*Shares sold short in bet value will decline, as a proportion of shares outstanding.

Sources: WSJ Market Data Group (stocks, indexes); Federal Reserve Bank of St. Louis (retail clothing sales, employment, e-commerce sales); the retailers (same-store sales); Morgan Stanley Wealth Management (most-shorted)

THE WALL STREET JOURNAL.

## HEARD ON THE STREET

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### No Room to Slow Down At Take-Two

Even big videogames run out of gas eventually. Investors are betting that "Grand Theft Auto V" still has plenty left in the tank.

That isn't such a crazy bet, even for a console game now in its fourth year. Last week, **Take-Two Interactive** credited "Grand Theft Auto V" as the main driver of its fiscal fourth quarter that ended March 31. Like other big games, "Grand Theft Auto V" now produces a sizable stream of digital revenue from full-game downloads and additional content. SuperData estimates the game has generated more than \$500 million in sales this way for each of the past two years.

But the stakes are rather high for Take-Two to keep its big engine running. The company's stock has surged more than 50% so far this year, sending its shares to a record Thursday. Surprisingly, though, a chunk of those gains came last week—after the company announced it was moving the release of "Red Dead Redemption 2" to spring of 2018 from this fall. That effectively shifts about \$750 million in revenue into Take-Two's next fiscal year, estimates Colin Sebastian of Robert W. Baird.

The fiscal year ending March 2019 will now feature both the new "Red Dead" and an unnamed title from another one of the company's "biggest franchises." Wall Street in turn has goosed its revenue and per-share earnings estimates for the year by 19% and 37%, respectively.

Those are reasonable assumptions. But at about 47 times the next 12 months' earnings, Take-Two's valuation still leaves no room for so much as a flat tire.

—Dan Gallagher

### Natural Gas Remains in Demand

Just a decade or so ago, energy traders believed that using natural gas to generate electricity instead of coal was akin to bringing Dom Pérignon to a party where Budweiser would do.

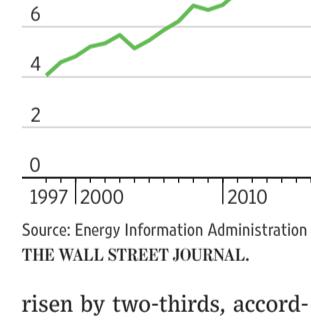
Natural gas had certain environmental and compliance benefits, of course, and it was the best option for "peaker plants" that could be switched on to meet surges in demand on hot summer afternoons. But gas's cost per unit of energy was significantly higher. Furthermore, while the U.S. was dubbed the Saudi Arabia of coal, it was gearing up to import natural gas to offset an expected decline in supply.

How times have changed. The country is several years into a natural-gas glut while several coal producers have gone bust.

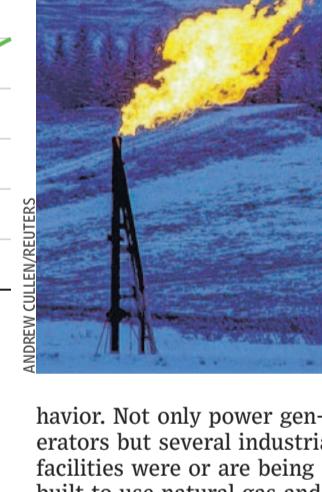
Over the past 10 years, the amount of coal used to generate electricity has fallen by one-third while the quantity of natural gas has

#### Pop the Cork

U.S. natural-gas deliveries to electric-power consumers



Source: Energy Information Administration  
THE WALL STREET JOURNAL.



risen by two-thirds, according to the Energy Information Administration. Natural gas in underground storage last fall hit the highest ever level before the winter heating season.

Like many economic trends, though, extrapolating an abundance of natural gas forever, along with very cheap prices in recent years, has changed economic be-

havior. Not only power generators but several industrial facilities were or are being built to use natural gas and related liquids. On top of that, growing pipeline gas exports to Mexico and the construction of more LNG export facilities will siphon off an increasing amount of the surplus gas. Additionally, Canadian exports to the U.S. have been falling as that

country's domestic demand rises.

While supplies are by no means tight, the amount of gas in underground storage in the 48 contiguous states was recently 2.344 trillion cubic feet, or 13% below year-ago levels, even though the winter just ended was 13% warmer than the 10-year average. On a weather-adjusted basis, analysts at Raymond James estimate that net contributions to storage were 1.3 billion cubic feet a day lower than a year earlier in the four weeks though mid-May.

The upshot is that natural-gas prices should be fairly firm through the summer and fall, though perhaps not yet high enough to spur a big increase in gas-directed drilling activity. Benchmark Henry Hub futures are up 62% year over year and nearly double their 21st century low hit last March.

Raise a glass to supply and demand.

—Spencer Jakab

### S.F. Express Needs UPS To Deliver

One of the biggest Chinese companies you have never heard of wants to expand its U.S. presence. **S.F. Express**, a Shenzhen-listed package-delivery company valued at \$34 billion, is forming a joint venture with **United Parcel Service**. The strategy looks right, but deals like these will have to go very well for S.F. Express to justify its eye-watering valuation.

S.F. Express's move overseas might look odd. The package-delivery market in China has been on fire, as ever more people shop online. More than 30 billion express parcels were sent in China last year, official data show, 51% more than in 2015.

But in April the growth rate was just half that, and rising labor costs and intense competition are squeezing margins.

Under Chairman Wang Wei, China's fifth-richest man, S.F. Express has taken a different approach by owning the whole delivery network, much as UPS does, and focusing on premium segments like delivering high-value items. That helps the company generate about \$3.20 per package sent, around 10 times what its New York-listed local rival **ZTO Express** earns. Teaming up with UPS will allow S.F. Express to expand in the still more lucrative international delivery market: UPS made \$28.10 per cross-border package delivered last quarter.

Still, at 53 times trailing earnings, S.F. Express's valuation is twice that of UPS. Its market value is only 20% less than that of DHL owner Deutsche Post, whose profit is five times as large. S.F. has found the right route, but it has much to do to deliver on its shareholders' expectations.

—Jacky Wong

### Riskier Lending Could Benefit Japan's Banks

#### Wind-Tossed

Price-to-book value of Japan's megabanks



Source: FactSet  
THE WALL STREET JOURNAL.

involved in subordinated debt, which is typically uncollateralized, banks can charge higher interest rates. If that means keeping some "zombie" companies on life support, at least the banks are getting better rewarded for their pains.

That isn't the only benefit: Big Japanese banks still often own large stakes in companies to which they lend.

In swapping old collateralized loans for subordinated loans to companies, the banks are taking the opportunity to talk companies into letting them sell down these piles of legacy cross-shareholdings, which have long been an obstacle to reform in Japan. Companies can use the proceeds of the subordi-

nated loans to buy back their shares from the banks, Moody's says.

If this trend continues at the current rate, banks could cull their holdings in companies by ¥3.7 trillion (\$33.2 billion) over the next five years, Moody's reckons. That would help Japan's banks unleash trapped regulatory capital, improving their Tier 1 capital ratios by an estimated net 0.8 percentage point.

Previous bank strategies haven't brought much bang for the buck: Japan's lenders currently trade at 0.6 times their book value. The banks' latest shift, though, could raise their income while simultaneously helping reform Japan Inc.

—Anjani Trivedi

Japan's megabanks are finally feeling the winds of change. The likes of **Mitsubishi UFJ Financial Group**, **Sumitomo Mitsui Financial Group** and **Mizuho Financial Group** have long struggled with anemic loan demand and deteriorating net interest margins. Now there are signs they are changing their strategies to offset those problems. Investors should hope the pressure keeps rising.

One little-noticed recent shift is the banks' greater issuance of subordinated loans—riskier debt that puts lenders lower down the ranks of those who get repaid when a company goes bust. Japanese banks doled out \$14 billion in such loans last year, according to

Moody's Investors Service, almost equivalent to the combined total over the preceding four years. The trend has continued, with the top three banks behind all Japanese subordinated-loan issuance this year.

Because of the higher risk