

THE WALL STREET JOURNAL.

DOW JONES | News Corp

WEDNESDAY, OCTOBER 4, 2017 ~ VOL. XLII NO. 24

WSJ.com

ASIA EDITION

As of 12 p.m. ET DJIA 22634.76 ▲ 0.34% NIKKEI 20614.07 ▲ 1.05% STOXX 600 390.72 ▲ 0.15% BRENT 56.05 ▼ 0.12% GOLD 1272.70 unch. EURO 1.1759 ▲ 0.21% DLR \$112.80 ▲ 0.03%

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GM and Ford ramped up their plans for electric vehicles in coming years. B3

The amount of money flowing into emerging markets is set to top \$1 trillion in 2017, the biggest flow of funds in three years. B1

Berkshire made a bet on American truckers with a deal to acquire nearly 40% of the operator of Pilot and Flying J travel centers. B6

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Hundreds of thousands of Catalans confronted Spanish police as they mobilized to protest a crackdown during their independence referendum. A5

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China: RMB28.00; Hong Kong: HK\$23.00;
Indonesia: Rp25,000 (incl PPN);
Japan: Yen620 (incl JCT); Korea: Won4,000;
Malaysia: RM7.50; Singapore: \$5.00 (incl GST)

KDN PP 9315/10/2012 (03275); MCI (P)
NO. 066/01/2017; SK MENPEN RI NO. 01/
SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

ISSN 03779920 4.20.24
9 770377 992000

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Medical Report Details Impact of Nerve-Agent Assault



POISONING: Doan Thi Huong of Vietnam, one of two women accused of murdering Kim Jong Nam, the half brother of North Korean leader Kim Jong Un, leaving a Malaysian courthouse Tuesday. A postmortem report was submitted as evidence. A3

An Exile Battles Beijing

Businessman Guo Wengui prepares war chest for campaign vs. Communist Party

Guo Wengui, an exiled Chinese businessman living in New York who has accused some of China's leaders of corruption and other misdeeds, said he has prepared a war chest to advance his vocal campaign against the Communist Party and fight Beijing's

By Cezary Podkul in New York and Chun Han Wong in Beijing

attempts to discredit him.

Mr. Guo, who last month applied for political asylum in the U.S., told The Wall Street Journal he has set aside more than \$150 million for legal fees and other expenses that he expects to incur over the next few years as he battles defamation and other lawsuits and steps up his anti-government rhetoric.

"Nothing can stop me," Mr. Guo said in an interview in his luxury apartment overlooking Manhattan's Central Park recently. He said he is confident the U.S. will grant him asylum and will confront what he called Chinese government efforts to "silence" him.

"The U.S. is the last land of

justice," Mr. Guo said. "I would not be alive were it not for the U.S."

Mr. Guo—who also calls himself Miles Kwok—is a self-made Chinese property tycoon who has lived in the U.S. since 2015. He has said he fled China after learning that a state-security official he had ties to was going to be detained as part of a government anticorruption campaign.

Over the past nine months, Mr. Guo has captivated some politically minded Chinese citizens and vexed the Chinese government with a barrage of tweets, online videos and social-media posts alleging corrupt links between China's political and corporate elites. He

has pledged to release documents detailing Chinese politicians' wealth and ownership of luxury real estate overseas—information he claims to have obtained through past work with Chinese state security and private investigators he hired to explore leads.

Mr. Guo has stepped up his attacks in recent weeks. He recently wrote an opinion piece in the Washington Times criticizing the "leviathan Chinese Mafia state" and made plans to give a speech Wednesday at the Hudson Institute, a Washington-based think tank. He said he will talk about China's political ambitions and the impact of Chinese investments

Please see GUO page A2

Hospitals were inundated with hundreds of those injured

Officials Scrutinize Las Vegas Shooter's Motive

LAS VEGAS—Investigators continued to hunt for answers into why a gambler opened fire on a crowd of concertgoers Sunday night in the deadliest mass shooting in modern U.S. history.

By Dan Frosch,
Jon Kamp
and Ian Lovett

Authorities have found 42 guns linked to Stephen Paddock, including those they say he brought to the Mandalay Bay Resort and Casino and weapons recovered from his home in Mesquite, Nev. Inside the 64-year-old's home, located about 80 miles from the hotel, was a large stockpile of ammunition and an explosive that detonates when shot by bullets, authorities said.

Still, authorities have yet to say why Paddock, described by his brother as a wealthy man and an avid gambler, would have gone on such a deadly rampage. He killed himself as SWAT units descended on his room, police said.

The Sunday-night attack and the chaos that followed left at least 59 people dead and more than 500 injured, shocking a city known for gambling and glittery entertainment.

Nevada Gov. Brian Sandoval declared on Monday an emergency and public-health and medical disaster, which "suspects all necessary statutes and rules" to allow medical personnel licensed in other states to practice in Nevada, according to his office.

Hospitals were inundated with hundreds of those injured

Please see VEGAS page A6

Chinese Theaters Fudge Take, U.S. Audit Finds

By WAYNE MA

HONG KONG—Hollywood is being shortchanged by millions of dollars at China's box office, according to a recent audit for the Motion Picture Association of America, according to people familiar with the matter.

Auditors at PricewaterhouseCoopers LLP working on behalf of the MPAA concluded that ticket sales in China were underreported by about 9% last year, one of the people said.

That translates into at least \$40 million in lost revenue for the six Hollywood studios that make up the MPAA, according to a Wall Street Journal analysis of last year's box-office analysis. Box-office data show their films grossed at least

Please see AUDIT page A2

Hollywood's Star Performance

Disney was the only major Hollywood studio to have a film in China's top five by gross income in 2016. It was also the leader by gross among U.S. studios in China.

Top five grossing films in China, 2016

Film	Distributor	Box office
The Mermaid (2016)	Other	\$527 million
Zootopia	Disney	236
Warcraft	Other	214
The Monkey King 2	Other	185
Captain America: Civil War	Disney	181

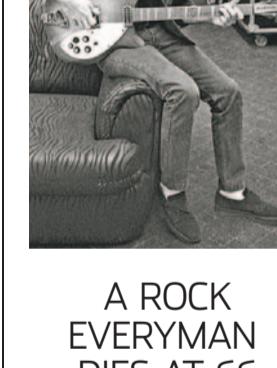
Top five grossing films in China from major U.S. studios, 2016

Film	Distributor	Box office
Zootopia	Disney	\$236 million
Captain America: Civil War	Disney	181
The Jungle Book (2016)	Disney	150
Star Wars: The Force Awakens	Disney	124
X-Men: Apocalypse	Fox	121

Source: Box Office Mojo

THE WALL STREET JOURNAL

INSIDE



A ROCK EVERYMAN DIES AT 66

LIFE & ARTS, A9



BUFFETT BETS ON AMERICA'S TRUCKERS

FINANCE & MARKETS, B6

Big Tobacco to Pay To Criticize Itself

By JENNIFER MALONEY

Broadcast television networks and metro newspapers are about to get a boost from an unexpected but familiar source: Big Tobacco.

It's an old media buy to resolve an old fight. Starting as soon as next month, Altria Group Inc. and British American Tobacco PLC will begin running court-mandated ads to put to rest a lawsuit brought nearly two decades ago by the U.S. Department of Justice over misleading statements the industry had made about cigarettes and their health effects.

The television spots, between 30 and 45 seconds long, will run in prime time five days a week for 52 weeks, and will appear mostly on ABC, CBS or NBC, Altria said. They won't have the graphic images of a typical antismoking public-service announcement. In-

stead, these ads will be reminiscent of the disclosure at the end of a pharmaceutical ad, displaying court-mandated text in black on a white screen with a voice narration.

"Altria, R.J. Reynolds Tobacco, Lorillard, and Philip Morris USA intentionally designed cigarettes to make them more addictive," one ad will say. Another reads: "More people die every year from smoking than from murder, AIDS, suicide, drugs, car crashes, and alcohol, combined."

Although the starkness of the black-and-white text ads could be persuasive because they are out of the ordinary, ad executives said, it is unclear how effective they will be when fewer young people are watching broadcast TV or reading newspapers.

"The good news for the tobacco companies is they'll avoid a lot of their younger

Please see ADS page A7

Mexico's New Hero Loves Having Her Ears Scratched

* * *

Dogged quake rescues give hope to nation wary of public servants

By ROBBIE WHELAN

shoved in front of her snout.

Frida T-shirts and Frida piñatas have popped up for sale, two merchandise-related trademarks were filed in her name, and Facebook users are nudging Mexico's central bank to replace muralist Diego Rivera with a portrait of Frida in her rescue gear on the 500-peso note. She would be the second Frida on the bill. Painter Frida Kahlo, Mr. Rivera's wife, is on the back.

"The country is in a moment of fear and uncertainty right now. And Frida represents joy and hope," says Verónica Granados, a publicist in Mexico City who bought Frida stuffed animals online for her 5-year-old niece



Frida

Please see DOG page A8

China: RMB28.00; Hong Kong: HK\$23.00;

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Malaysia: RM7.50; Singapore: \$5.00 (incl GST)

KDN PP 9315/10/2012 (03275); MCI (P)

NO. 066/01/2017; SK MENPEN RI NO. 01/

SK/MENPEN/SCJ/1998 TGL 4 SEPT 1998

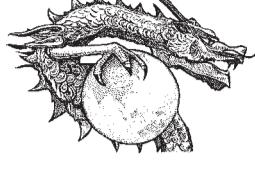
ISSN 03779920 4.20.24

9 770377 992000

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WORLD NEWS

Beijing Gets a Face-lift Fit for a New Emperor



CHINA'S WORLD

By Andrew Browne

BEIJING—One question above all dominates the outlook for China as Xi Jinping prepares to crown his ascendancy at a Communist Party congress this month: What will he do with his new power?

Some argue that Mr. Xi will emerge in his second term as an economic reformist, finally delivering the pro-market overhauls he

promised at the outset of his administration five years ago. A few even imagine a more benign political environment after a relentless crackdown on human-rights lawyers, the media and civil-society groups.

None of this is likely. The clues to China's economic and political direction are to be found in a radical makeover now under way in urban Beijing.

Not since Mao has a Chinese leader's personality so completely dominated the life of his nation. Today, Beijing is being transformed in his image—a new capital for the new emperor whose reign seems destined to extend long beyond 2023, when informal succession rules dictate he should step down as head of state.

The work began with the roar of jackhammers some months ago as demolition crews ripped apart illegal structures in downtown alleyways erected by an army



A paramilitary police officer at the front gate of the Forbidden City last month. Xi Jinping is transforming Beijing.

NICOLAS ASFOURI/AGENCE FRANCE PRESSE/GTY IMAGES

of migrants. Authorities call it "beautification." In reality, it is population control on an almost unimaginable scale: An overcrowded city is being thinned out and re-imagined as the cultural hub of a megalopolis, a series of cities linked by rail, subway and highways that will eventually embrace 130 million people.

In the face of bulldozers, tens of thousands of migrants—second-class citizens in the capital, many of them denied access to schools and medical services—are fleeing outward. Central Beijing will be for the elites, with gleaming convenience stores where migrants had peddled steamed dumplings and bicy-

cle-repair services.

This is Mr. Xi's signature domestic project. It is an exercise in gigantism that requires centralized, top-down control.

Only a party-state with unchallenged economic and social powers can deliver on its ambition.

The crown experiment of this state planner's dream will be a new supercity—the Xiongan New District—personally decreed by Mr. Xi on Beijing's southern outskirts. The State Council called it "crucial for the millennium to come." Xiongan will be the coordinating hub for the development of the wider megalopolis, which will double as the economic engine for north China as well as a portal for Mr. Xi's even more

gargantuan "One Belt, One Road" project to revive ancient trade routes to Europe.

Where do markets fit in here? Mr. Xi hasn't altogether neglected them. For example, he's taken steps to liberalize interest rates and attempted to free energy prices.

But like Mao, he clings to the dogma that the party's role is to guide economic forces, direct every aspect of political life and mold human behavior. The vanguard of his economic policies are state-owned enterprises, entrusted with almost limitless state wealth and endlessly obedient.

Lest private-sector billionaires—tech entrepreneurs, insurance tycoons and real-estate moguls—have yet to

get that message, Mr. Xi's apparatchiks are now dismantling the empires of several of the most powerful ones. Wang Jianlin, one of China's richest men, has been a prominent target.

Others have come to heel.

Many argue that the plan to unclutter Beijing was sorely needed. The city's boulevards, wide enough for a tank parade, are choked with traffic. A tailback from the city once extended 60 miles, with reports of truck drivers stranded for as many as 10 days. Wells are running dry. The smog kills.

Others, however, lament an emerging dystopia. In an essay that went viral on the internet titled "Beijing Has 20 Million People Pretending to Live Here," the blogger

Zhang Guochen wrote: "For Beijing's new immigrants, the city is a distant place where they can't stay; for Beijing's old residents, the city is an old home they can't return to."

An inevitable apology followed; the renovation blitz under way around Mr. Xi's new capital leaves little space for public consultation, criticism—or regret. "This is an article with many problems," Mr. Zhang told the Economic Observer. "In fact, I didn't intend to express anything."

The Beijing cleanup, meanwhile, has left the capital's street life subdued. Many owners of traditional courtyard residences had bashed out street-facing walls to create cozy restaurants and rowdy bars, like the Hot Cat Club on Fangjia Hutong. Construction teams have bricked up these openings—24,000 of them, according to the China Daily. Some establishments, including the Hot Cat Club, remain open via back entrances, but many just vanished overnight.

Mr. Xi's vision of urban modernity is austere. Early on, he made clear his aversion to architectural bling by banning "weird" buildings.

And it reaches vertically, with height limits on new construction. Completion of the observation deck atop Beijing's tallest building, the 106-story Zun Tower, has stalled due to concerns visitors might be able to peer into the leadership compound next door to Tiananmen Square.

The political lesson here is that an all-seeing emperor—under Mr. Xi's regime the surveillance state now includes facial-recognition technology to catch jay walkers—cannot be open to scrutiny himself.

AUDIT

Continued from Page One

\$1.87 billion last year in China. Under an existing arrangement, the studios' share was 25%—or about \$470 million—of those receipts, the analysis shows.

China remains a bright spot for Hollywood, which is relying on its audiences to offset shrinking ticket sales in the U.S. The number of screens in China grew almost 25% last year to more than 40,000, as theater construction spread to second- and third-tier cities. Meanwhile, China's box office is up 10% at \$6.11 billion so far this year, according to the analytics firm comScore. That compares with a decline of about 5% to \$8.21 billion in the U.S. over the period, comScore said.

The auditors discovered irregularities such as revenue categorized as concession rather than ticket sales, screenings that went unreported and audience sizes that were underreported, the people said.

The MPAA and its auditors presented the results last month to state-backed China Film Group, which distributes most movies in the country, the people said. China Film representatives were receptive, but said only a higher govern-

ment authority could enforce stricter controls on theaters, according to the people. China Film is analyzing the results and will meet the parties again for another discussion this month, they added.

China Film couldn't be reached to comment. Offices in China are shut for a week-long public holiday.

The results come as the Office of the U.S. Trade Representative prepares for a new round of negotiations with Chinese counterparts to revise

Hollywood has long suspected that its receipts in China are underreported.

a 2012 deal that allowed theatrical distribution of at least 34 Hollywood films annually under a revenue-sharing agreement. Those talks could extend well into 2018, with the current deal remaining in place, one of the people said.

The person said the U.S. is seeking to increase its share of China's box-office grosses from the existing 25% to 40%, in line with some other markets.

The MPAA hired PricewaterhouseCoopers last year to conduct its first audit in China

after a provision for the audit was included in the landmark 2012 deal. It took about five years to hammer out a legal agreement for the audit. The MPAA and PricewaterhouseCoopers declined to comment.

Hollywood studios have long suspected their box-office receipts in China are underreported. The auditors reviewed 29 of the biggest Hollywood films released in China last year and checked 125 screens across 27 cinema chains in small and large Chinese cities, according to people briefed on the audit's results. The results were then extrapolated to account for China's more-than 40,000 screens, they said.

The MPAA plans to conduct future audits, including one for select films released in 2017, the people said.

Chinese regulators have been cracking down on box-office fraud and passed a law last year that included penalties for the behavior. Earlier this year, regulators named and fined 326 theaters for underreporting ticket sales. Since then, regulators have cited dozens more for the practice. Most of the theaters are either stand-alone operations or part of small chains in second- and third-tier cities.

—Erich Schwartz
in Los Angeles
and Xiao Xiao in Wuhan
contributed to this article.

GUO

Continued from Page One
on U.S. national security. "China is at a very dangerous crossroads now," Mr. Guo said.

Beijing has dismissed Mr. Guo's allegations as falsehoods and seeks his arrest. Chinese courts have jailed and fined some of Mr. Guo's former subordinates for crimes including fraud and embezzlement. Chinese media have published articles portraying him as unscrupulous.

Many of Mr. Guo's allegations are hard to independently verify. Even his age—he told the Journal that he was likely born in 1967 or 1968—has been a matter of some debate, as he previously said he was born in 1970. Yet his allegations have the potential to intrude upon the ruling Communist Party's plans for a carefully choreographed leadership transition this month.

At the twice-a-decade congress, Beijing's ruling elite will name President Xi Jinping's new leadership bench for the next five years. Mr. Guo's attacks on certain high-ranking officials could affect behind-the-scenes jostling among senior officials vying for promotions and key positions.

In August, Chinese officials told the Associated Press that Mr. Guo was being investigated in at least 19 major criminal cases that involve bribery, kidnapping, fraud, money laundering and rape. Several Chinese companies and individuals have recently sued Mr. Guo in U.S. courts. Among the pending cases against Mr. Guo is a defamation suit from acquisitive conglomerate HNA Group Co., which he has accused of having ties to a high-ranking Chinese official in the Communist Party. Another civil case was filed in New York by a Chinese woman who has accused Mr. Guo of raping her when she worked as his personal assistant.

Mr. Guo denied the allegations, saying they were part of a misinformation campaign being waged by Chinese officials.

"It has nothing to do with who I am and what I have done. They haven't publicly disputed anything that I have disclosed so far," Mr. Guo said, referring to the Chinese government. Sipping tea in a long

black Chinese gown next to a fireplace in his apartment adorned with a Lego brick model of London's Tower Bridge, he challenged his detractors to produce evidence that he is wrong.

Mr. Guo's supporters say Beijing is trying to frustrate his efforts to reach audiences in China. Several recent disruptions to the WhatsApp messaging service in China coincided with Mr. Guo's live video broadcasts and interviews with U.S.-based Chinese media.

The Cyberspace Administration of China has said "all companies are responsible for blocking illegal information, and so is WhatsApp."

Over the weekend, a Facebook account used by Mr. Guo was taken down. A person familiar with the matter said Facebook disabled the account because it was used to share personal-identification information, in violation of terms

of service barring unauthorized disclosure of such data.

Asked about the disabling, Mr. Guo said he believed it was the work of his opponents, and called the move "despicable" in a Twitter post.

—Alyssa Abkowitz in Beijing contributed to this article.

THE WALL STREET JOURNAL.
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25/F, Central Plaza, 18 Harbour Road,
Hong Kong
Tel: 852 2573 7121 Fax 852 2834 5291

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Advertising through Dow Jones Advertising
Sales: Hong Kong: 852-2504-2504; Singapore:
65-6415 4300; Tokyo: 81-3-269-2701;
Frankfurt: 49 270 25390; London: 44 207
842 9600; Paris: 33 1 40 17 17 01; New York:
1-212 659 2176.
Or email: MarkRogers@wsj.com

Printers: Hong Kong: Euron Limited, 2/F, Block 1, Tai
Ping Industrial Centre, 57 Ting Kok Road, Tai Po, Hong
Kong; Indonesia: PT Gramedia Printing Group, Jalan
Palmerah Selatan 22-28, Jakarta 10270; Japan: The
Mainichi Newspapers Co., Ltd, 1-1 Hitotsubashi,
Chiyoda-ku, Tokyo, 100-8051; Korea: JoongAng Ilbo,
100 Seosomun-ro, Jung-gu, Seoul, 100-814; Publisher/
Printer: Song Pi-Ho; Malaysia: Dasa Cetak (M) Sdn
Bhd, Lot 2, Jalan Sepana 15/3, Off Persiaran Selangor,
Seksyen 15, 40200 Shah Alam, Selangor, Malaysia; ROC No:
0488856; Singapore: Singapore Press Holdings
Limited, 2 Jurong Port Road, Singapore 619088
Singapore 619088

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USPS 337-350; ISSN 0377-9920

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People print tickets at a Tianjin cinema. Auditors found ticket sales were underreported last year.



Exiled Chinese businessman Guo Wengui in New York.

CORRECTIONS & AMPLIFICATIONS

About 19% of the messages

viewed by Twitter users during

the last month of the U.S. presiden-

tial campaign were generated by bots, according

to a research paper by Emilio

Ferrara of the University of

Southern California. A Busi-

ness & Finance article Tuesday

about Twitter bots incorrectly

said it was 20%.

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WORLD NEWS

Kim Jong Nam's Last Minutes Revealed

Medical report at two suspects' trial details chemistry of North Korean's poisoning

BY BEN OTTO
AND YANTOULTRA NGUI

KUALA LUMPUR—A medical report and testimony delivered at trial in Malaysia revealed new details about the brutal death of the half brother of North Korea's leader, after he was assaulted with the lethal nerve agent that quickly took effect and killed him.

The 11-page postmortem report, prepared by a government pathologist two days after the assault, was submitted as evidence on Tuesday in the trial of two women accused of murdering Kim Jong Nam. The report concluded the victim died due to VX poisoning "following the acute onset of exposure," citing lab reports that showed traces of the man-made substance and its precursor on his skin, eyes and clothing.

Mr. Kim, the self-exiled older brother of North Korean dictator Kim Jong Un, died on Feb. 13 shortly after Siti Aisyah of Indonesia and Doan Thi Huong of Vietnam assaulted him at Kuala Lumpur International Airport.

Malaysian officials have said that the women were acting under the direction of North Koreans and exposed Mr. Kim to VX, which is classified by the United Nations as a weapon of mass destruction. North Korea has denied involvement in the killing.

The women pleaded not guilty in the first day of proceedings Monday. Their law-



Half brothers Kim Jong Un, right, the North Korean leader, and deceased expatriate Kim Jong Nam, who was attacked on Feb. 13.



TOSHIFUMI KITAMURA/ED JONES/AGENCE FRANCE PRESSE/GTY IMAGES

yers have said the women believed they were taking part in a prank for a television show. They would face execution if convicted of murder, which carries a mandatory death penalty in Malaysia.

The postmortem report, parts of which were seen by The Wall Street Journal, concluded the victim died due to VX poisoning, "following the acute onset of exposure."

The report showed laboratory tests detected VX nerve agent and its degradation product on mucous samples taken from Mr. Kim's eyes and face, as well as VX degrada-

tion product in his blood and urine.

The precursor of VX was also detected on Mr. Kim's short-sleeve shirt, the report said, and all three chemicals were found on his blazer.

The precursor is a less toxic chemical substance that when mixed with another substance forms lethal VX, which can be delivered as a binary weapon to enable safer handling.

The report said Mr. Kim had "no significant marks of trauma" on his body apart from marks of medical intervention. It referred to Mr. Kim by the name on his passport,

Kim Chol.

Immediately after the assault in a crowded departures hall, Mr. Kim sought the help of airport officials near an information desk, as described at trial in one of a series of accounts that chronicled his death.

The first person to communicate with him was an airport worker, who testified Monday that Mr. Kim told her in English that two women had just wiped his face. She said his hands were shaking.

Mohd. Zulkarnain Sainudin, a police officer who walked Mr. Kim down one floor to a

medical clinic, testified that Mr. Kim told him, "Sir, walk slow, my eyes blur, I can't see." He said Mr. Kim had liquid on his face but appeared normal as they walked, then leaned on a chair after entering the clinic.

Mr. Mohd. Zulkarnain said he reported that Mr. Kim was South Korean, not realizing initially that the Democratic Republic of Korea listed in Mr. Kim's passport meant North Korea. He later corrected his report, he said.

A medical assistant at the clinic testified that Mr. Kim stayed at the clinic for an hour

and experienced seizures and drooling with his eyes rolling upward. He wasn't responsive to questions and appeared to be in pain, thumping his left hand on a counter while she examined him, she said.

Staff tried to get him onto a stretcher to take him into the treatment area, but couldn't lift him and laid him on the floor instead, she said. She said she wiped Mr. Kim's face with tissue, as it appeared to her that he was sweating.

On Tuesday, Nik Mohd. Adzrul Ariff Raja Azlan, a doctor at the clinic who treated Mr. Kim, said Mr. Kim's face was red and he was sweating profusely, and that he had vomit and blood in his mouth when they tried to intubate him. Mr. Mohd. Adzrul said Mr. Kim didn't respond to any of his questions.

Mr. Kim lost consciousness, and his blood pressure fell, Mr. Mohd. Adzrul said. Atropine was given to Mr. Kim to raise his blood pressure, without effect, he added.

The medical assistant said Mr. Kim's blood pressure fluctuated while he was in an ambulance on the way to a hospital. At the hospital, medics couldn't get a blood pressure reading, which could indicate Mr. Kim had died or the instrument was faulty, she said.

VX is the most potent of nerve agents, according to the Centers for Disease Control and Prevention, and even a tiny amount absorbed into the skin or eyes or inhaled can be lethal. Exposure causes symptoms including nausea, headache, blurred vision, convulsions and loss of consciousness as it prevents the body from producing an enzyme to "turn off" stimulated glands and muscles.

Trump Backs Envoy, White House Says

BY FELICIA SCHWARTZ
AND LOUISE RADNOFSKY

WASHINGTON—The White House said President Donald Trump has confidence in Secretary of State Rex Tillerson, a day after Mr. Trump said the chief diplomat was "wasting his time" by trying to negotiate with North Korea.

Mr. Tillerson disclosed over the weekend that the U.S. has had direct contact with Pyongyang and was trying to ascertain whether North Korean officials want to hold talks on their nuclear program. His statements, during a trip to Beijing to meet Chinese leaders, prompted Mr. Trump to tell Mr. Tillerson in a Twitter message that he should save his energy, and "we'll do what has to be done."

The apparent disagreement prompted suggestions that the White House and State Department were at odds over a critical foreign-policy issue, and that Mr. Trump had undercut his chief diplomat.

Both the White House and the State Department have tried to close any gaps that followed Mr. Trump's tweets.

Mr. Tillerson joined Mr.

Trump on Monday for a lunch meeting with Thailand's Prime Minister Prayuth Chan-ocha.

Mr. Tillerson on Saturday said the U.S. has "a couple, three," channels to communicate with North Korea. State Department officials said that he wasn't suggesting that the U.S. is conducting active negotiations with North Korea, but

to state that the U.S. has a way to communicate with Pyongyang.

White House press secretary Sarah Huckabee Sanders, asked whether Mr. Trump still has confidence in Mr. Tillerson despite his tweets, said, "He does. Yes."

However, she said the White House maintains that negotiations should not be held with North Korea. "We've been clear that now is not the time to talk," she said.

She said the U.S. wants to use existing channels only to discuss three Americans who are detained in North Korea.

Despite efforts to align the messages of Mr. Trump and Mr. Tillerson, experts and former officials said Mr. Trump's comments on Twitter undercut Mr. Tillerson and risked confusing North Korea about Washington's intentions.

"I don't think you can operate in an environment in which the president has convinced himself that he also can be the nation's top diplomat," said Aaron David Miller, a former adviser to Republican and Democratic secretaries of state now at the Wilson Center.

Messrs. Trump and Tillerson have disagreed on other issues in recent months, including State Department staffing; Mr. Trump's decision to blame "both sides" for violence during white-supremacist demonstrations in Charlottesville, Va., in August; and whether to certify Iran's compliance with the nuclear deal.

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The move also underscores concern in Canberra that North Korea could soon reliably hit Australia and the U.S. with long-range missiles equipped with warheads.

Pyongyang said in August that by aligning itself so closely with the U.S. in criticizing the country's nuclear and missile programs, Australia had committed "a suicidal

Canberra to Boost Naval Defenses

BY ROB TAYLOR

CANBERRA, Australia—Australia will equip a new fleet of naval warships with advanced air-defense technology, allowing them to work more closely with U.S. and Japanese counterparts to offset threats in the Asia-Pacific region, such as missiles fired by North Korea.

Nine anti-submarine frigates are set to be fitted with combat systems to aid their integration into a possible future missile shield, Prime Minister Malcolm Turnbull said Tuesday.

The technology will enable these ships "to engage threat missiles at long range, which is vital given rogue states are developing missiles with advanced range and speed," Mr. Turnbull told a naval conference in Sydney. "We must have the capability to meet and defeat them," he said.

Australia has embarked on a 200 billion Australian dollar (US\$156.52 billion) refit and expansion of its naval, land and air capabilities to hedge against a more-assertive China and uncertainty about American security policy in the region under President Donald Trump.

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Pyongyang said in August that by aligning itself so closely with the U.S. in criticizing the country's nuclear and missile programs, Australia had committed "a suicidal



Adelaide-class frigates of the Australian Navy sail in formation near Darwin.

act of inviting disaster."

A A\$35 billion fleet of frigates to be selected next year from three contenders—including designs offered by BAE Systems PLC, Italy's Financantieri SpA and Spanish shipbuilder Navantia—will be equipped with Lockheed Martin Corp.'s Aegis combat system, already used by U.S. and Japanese naval vessels, Mr. Turnbull said.

The Aegis system allows warships to track and intercept multiple targets at a distance. Common combat system could help all three nations share data and protect one another in the event of a conflict.

"Enhancements that may be

offered in the future are numerous. One of those may be ballistic missile defense," said Australia's navy chief, Vice Adm. Timothy Barrett.

Australia will finalize its frigate choice next year. Spain's Navantia is the frontrunner to win the contest, people in the defense industry and people close to the selection process say, having offered a vessel design based on Australia's new destroyer fleet.

More than half of the world's submarines will be in Asia by 2030, arms experts estimate, as Japan, Indonesia, Malaysia, Pakistan, India, Taiwan, Vietnam and Singapore, seek to ensure their access to

strategic sea lanes that are home to a third of all maritime traffic worldwide.

China now has more attack submarines than the U.S. Navy, while Japan has plans to replace its submarine fleet and recently budgeted a record US\$48.1 billion for defense next year in response to recent North Korean ballistic-missile launches and disputes with Beijing in the East and South China Seas.

Australia plans to spend A\$50 billion on new French-designed submarines as part of a plan that will see military spending soar to almost A\$59 billion by the middle of the next decade from A\$32.5 billion this year.

Experts Criticize Technical Responses to Lost Malaysia Air Jet

BY ANDY PASZTOR
AND ROB TAYLOR

International air-safety authorities and the aviation industry haven't done enough to prevent another disappearance like that of Malaysia Airlines Flight 370, Australian crash investigators said.

In their final report on the March 2014 tragedy—which killed all 239 people on board and after a fruitless yearslong search stands as one of aviation's greatest mysteries—investigators Tuesday pointed to missed opportunities to better track jetliners over oceans or

remote regions of the globe.

The report, by the Australian Transport Safety Bureau, also highlights failures to install advanced systems to warn when aircraft are in distress, or mandate more-durable locator devices to aid searches if planes go down. Australia took primary responsibility to oversee the search, which took place off its western coast.

Segments of the industry have objected to such changes, particularly those requiring continuous streaming of flight data and retrofits of equipment on older planes, largely

for cost reasons. The aviation arm of the United Nations has established new tracking standards, but they won't take ef-

fect until 2018, and the most rigorous requirements apply only to future aircraft models.

Malaysia Airlines said it

hadn't been informed of the report's release and so couldn't comment on its conclusions.

Without the wreckage, the report said, the cause of the loss of Flight 370 can't be established with certainty. A global team of investigators failed to determine what led the jet to veer off course, with possibilities including system failures and intentional acts by someone at the controls.

Flight 370 was roughly 40 minutes into a flight to Beijing from Kuala Lumpur when it abruptly stopped transmitting its position to air-traffic con-

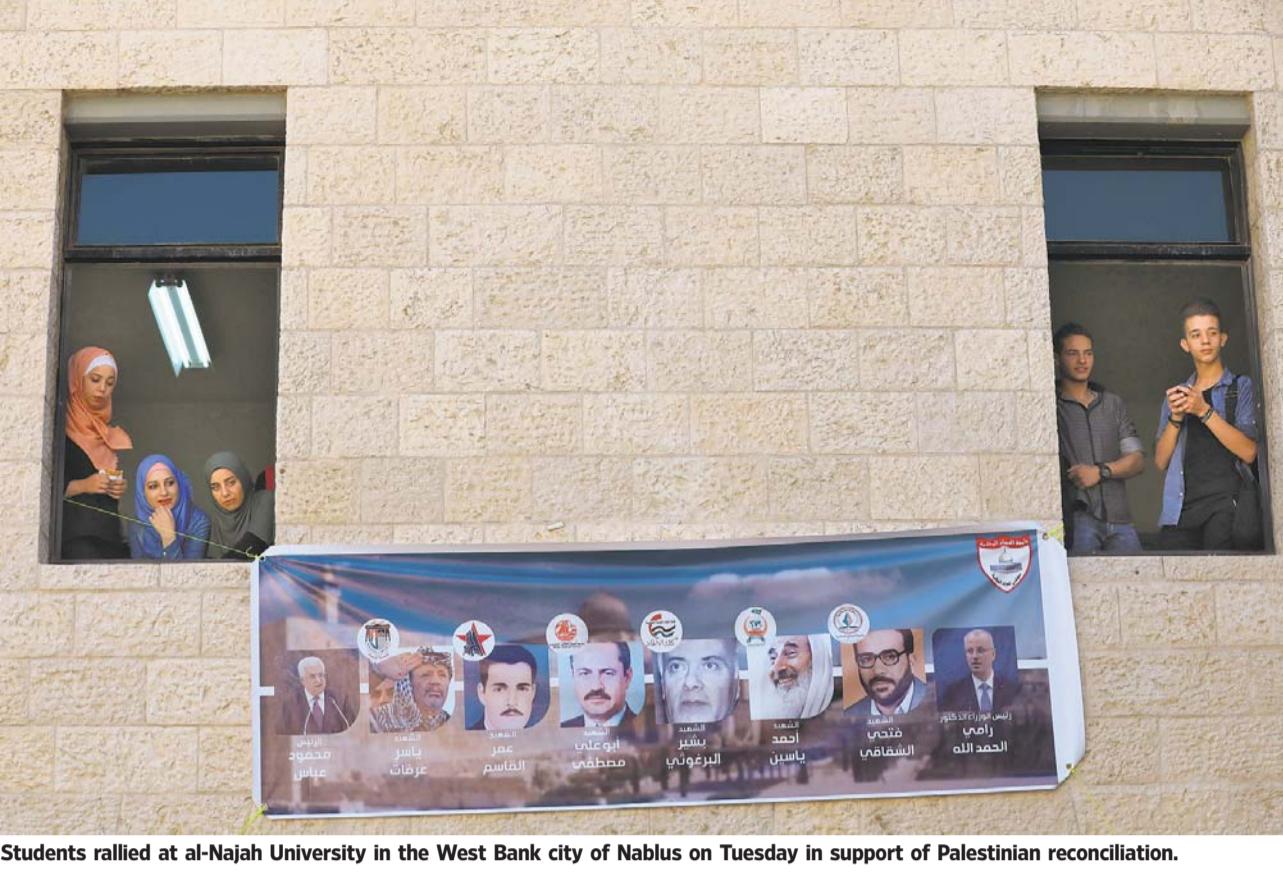
trollers without any distress call from the cockpit. The jet flew for more than six hours beyond the last time its location was established by ground-based surveillance, eventually running out of fuel in a remote corner of the Indian Ocean, according to investigators.

An expensive, frustrating and ultimately unsuccessful underwater hunt for the remains followed, the search area shifting as fresh clues emerged. Neither the main wreckage of the Boeing Co. 777 nor its flight-data recorder was found, and the

search was halted in January.

"It is almost inconceivable and certainly societally unacceptable in the modern aviation era, with 10 million passengers boarding commercial aircraft every day," for such a plane to go missing without definitive answers, the 440-page report concluded. It urged global adoption of technologies to help future search teams, including real-time data streaming from aircraft in distress, and alternate flight-data recorder designs that eject from aircraft immediately before impact and then float.

WORLD NEWS



Students rallied at al-Najah University in the West Bank city of Nablus on Tuesday in support of Palestinian reconciliation.

Hamas's Refusal to Disarm Hampers Palestinian Talks

By RORY JONES

GAZA CITY—The Palestinian Authority convened its first cabinet meeting in the Gaza Strip in three years, but talks between the internationally recognized Palestinian governing body and Hamas hit a stumbling block over the latter's refusal to disarm.

Landmark talks to end a decadelong rift between the two Palestinian factions and return control of the Hamas-ruled enclave to the authority hinge partly on the political and militant group agreeing to completely disarm. The authority's president, Mahmoud Abbas, has warned he won't allow Hamas to maintain its armed wing as part of a unity government.

"For sure, Hamas will never accept this...dismantling al-Qassam," said Hazem Qassem, spokesman for Hamas, referencing the armed wing known

as the Izz al-Din al-Qassam brigades.

Tuesday's cabinet meeting was convened by the authority's prime minister, Rami Hamdallah, before authority ministers then visited the Gaza outposts of their respective departments. The cabinet last convened in Gaza in 2014, during the latest round of reconciliation talks between Hamas and the authority.

The question of al-Qassam's fate overshadowed the two-day visit to Gaza, which began on Monday, by a delegation of high-ranking authority officials, including Mr. Hamdallah. Negotiations over the issue are likely to continue next week in Cairo. Egyptian intelligence officials also helped broker the talks in Gaza.

Mr. Abbas said late Monday that he wouldn't allow a situation in the Palestinian territories such as that in Lebanon,

where the militant and political group Hezbollah maintains a de facto army alongside Lebanese national forces.

"I will not accept or copy or reproduce the Hezbollah example in Lebanon," he said, according to comments carried by official Palestinian Authority media. "Everything must be in the hands of the Palestinian Authority."

Hamas and the authority, which is dominated by Mr. Abbas's Fatah party, are working to dispel years of mutual distrust and create a united national movement that can negotiate peace with Israel.

The U.S. and United Nations support the talks between the two parties, while Israel is watching them warily for a gauge on the future policy of the Palestinian national movement.

"End the militant activities in Gaza and ensure that peace

with Israel is achieved on the basis of negotiations," said the U.N.'s special coordinator for the Middle East peace process, Nickolay Mladenov, on Tuesday after meeting with Mr. Hamdallah in Gaza.

Israel has fought three wars with Hamas and the al-Qassam brigades since the militants seized power of the impoverished strip in a bloody 2007 conflict.

Naftali Bennett, a far-right politician and member of Israel's security cabinet, said on Monday that Israel should stop sending money to the authority unless the negotiations with Hamas yield the return of the bodies of two soldiers held by the militant group.

Hamas should recognize the legitimacy of Israel as a country, he said, and the authority should cease payments to the families of prisoners and Palestinians killed attacking Israel.

Putin Welcomes U.S. Envoy, Urges Noninterference

By THOMAS GROVE

MOSCOW—Russian President Vladimir Putin told the new U.S. ambassador to Moscow he hoped Washington would follow a policy of non-interference in the country's domestic affairs, amid the controversy over alleged Russian interference in the 2016 U.S. election.

Mr. Putin on Tuesday accepted credentials from U.S. Ambassador Jon Huntsman, a former Utah governor and envoy to China and Singapore, in a ceremony at the Kremlin. In remarks to newly arriving diplomats, Mr. Putin said the basis for cooperation between Moscow and Washington should be "strict adherence to the principles of equality, respect of national interests and noninterference in domestic affairs."

Allegations of Russian interference in the 2016 presidential race have roiled Washington for months. During Amb. Huntsman's Senate confirmation hearings last month, he said there was "no question—underline no question—that the Russian government interfered in the U.S. election last year."

Mr. Trump has cast doubt on intelligence assessments of the interference, and called investigations into links between members of his campaign team and Russia a "witch hunt."

The departing administration of then-President Barack Obama expelled 35 Russian diplomats from the U.S. over allegations that Moscow interfered in the election. Congress then approved new sanctions to punish Russia for its alleged interference, and Russia subsequently directed the U.S. to reduce its diplomatic staff substantially in retaliation.

Russia denies interfering in the domestic politics of other countries.

Facebook recently alleged Russian-backed entities pur-

chased some 5,200 ads with divisive political messages during the U.S. presidential campaign. Mr. Putin himself blamed the U.S. for encouraging protests that began in 2011 when Russians took to the streets of Moscow and other cities to protest alleged fraud in parliamentary elections.

The Kremlin's allegations of U.S. interference could resurface as Russia readies for its own presidential elections slated for next March.

Mr. Huntsman has promised to meet with members of Russia's largely fractured opposition movement, something Mr. Putin may find an irritant: Former U.S. Ambassador Michael McFaul was reviled on pro-Kremlin television stations for similar outreach to opposition leaders.

Along with footage of the Kremlin ceremony, Russian state television aired a 10-minute long segment on Mr. Huntsman's biography, cast in unusually flattering tones for



U.S. Ambassador Jon Huntsman

a U.S. official. The segment showed off the U.S. diplomat's Chinese-language skills, piano-playing abilities and excerpts from campaign ads for his brief presidential bid in 2012. The state television segment also showed a photograph of Mr. Huntsman in an area of Beijing where a pro-democracy protest was set to take place.

Three Win Nobel In Physics for Work on Gravity

By ROBERT LEE HOTZ
AND DAVID GAUTHIER-VILLARS

Three U.S. scientists won the Nobel Prize for physics for their instrumental role in detecting gravitational waves, an effort that blossomed from a student's question into one of the most elaborate experiments in the history of science.

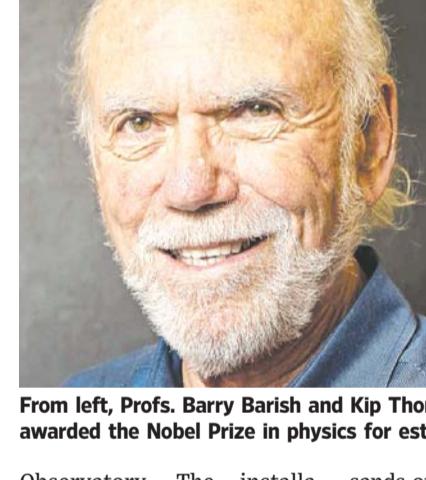
Rainer Weiss, a physicist at the Massachusetts Institute of Technology, shared the award with physicists Kip Thorne and Barry Barish at the California Institute of Technology.

Through their work, the trio vindicated a century-old prediction by Albert Einstein and established a new way to probe the hidden recesses of space, time and the universe. Göran K. Hansson, secretary-general of the Royal Swedish Academy of Sciences that awards the Nobel Prizes, called it "a discovery that shook the world."

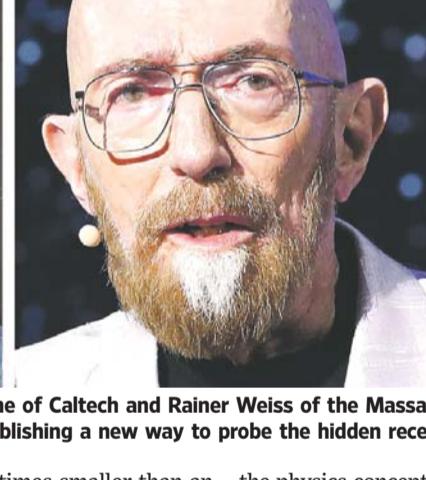
"That's really wonderful," said Dr. Weiss, a native of Germany who is now a U.S. citizen, after learning of the award at home on Tuesday. "The thing that is recognized is the work of about a thousand people."

By Einstein's reasoning in 1916, any accelerating mass ought to stir the exotic soup of space and time, generating ripples that radiate at the speed of light. No one, though, could detect these gravitational waves and even Einstein had second thoughts about their existence.

To find the first evidence of these evasive waves, the three physicists organized and managed a project that took 40 years of sustained federal funding by the U.S. National Science Foundation, the work of researchers in 15 countries, and the construction of two identical detectors 1,800 miles apart, called the Laser Interferometer Gravitational-wave



From left, Profs. Barry Barish and Kip Thorne of Caltech and Rainer Weiss of the Massachusetts Institute of Technology. They were awarded the Nobel Prize in physics for establishing a new way to probe the hidden recesses of space, time and the universe.



Observatory. The installations—one in Hanford, Wash., and the other in Livingston, La.—operate in tandem.

In 2015, the \$1.1 billion observatory picked up a fleeting cosmic distortion caused by gravitational waves from the clash of two black holes on the far side of the universe.

In an instant, the colliding black holes released many times more energy than all the stars in the universe put together, but by the time the wrinkle in the fabric of spacetime reached Earth a billion light years away, it was thou-

sands of times smaller than an atomic nucleus, the Nobel Prize committee said. Even so, the detectors caught the feeble quiver.

"It is equivalent to seeing light for the first time," said physicist Robert Dijkgraaf, director of the Institute for Advanced Study in Princeton, N.J., where Einstein once worked.

Dr. Weiss pioneered the design of the detector, inspired by a student's question during an introductory physics class that he taught as a young professor at MIT. Dr. Thorne developed and refined many of

the physics concepts. Dr. Barish managed the large team of scientists and engineers required to build the devices and analyze the data they collected. Scottish physicist Ronald Drever, who was a co-founder of the project, died in March.

Traveling at the speed of light, the gravitational waves they detected took 1.3 billion years to reach Earth, but already they are revolutionizing astrophysics, said Catherine O'Riordan, chief executive of the American Institute of Physics in College Park, Md.

"New detectors are being

built," she said. Last week, researchers said the U.S. gravitational-wave observatories and a new observatory in Italy had jointly detected waves emitted during the merger of two massive black holes about 1.8 billion light years away.

The award, announced Tuesday by the Nobel Committee in Stockholm, comes with a check for 9 million Swedish krona (\$1.1 million). Dr. Weiss, now an emeritus professor at MIT, will receive half of the prize money; Dr. Barish and Dr. Thorne, both emeritus professors at Caltech, will share the other half.

WORLD WATCH

CUBA

U.S. Tells Havana to Cut Washington Staff

The State Department told Cuba on Tuesday to withdraw more than half of its diplomats from Washington, another sign of deteriorating ties as the Trump administration tries to determine what happened to more than 20 U.S. diplomats who suffered dizziness, hearing loss and other symptoms while serving in Havana.

The State Department provided Cuba's ambassador to Washington, Jose Cabanas, with a list of 15 officials the U.S. wants to leave the U.S. and gave those officials seven days to depart, a department official said.

The order came after the U.S. last week began withdrawing about half of its contingent in Havana, leaving only emergency personnel. The State Depart-

ment official said the expulsion of Cuban officials was meant to ensure the Cuban embassy in Washington is similarly affected.

—Felicia Schwartz



Cuba raised its flag at its new embassy in Washington in 2015 as relations improved with the U.S. under the Obama administration.

MADAGASCAR

Plague Hits Urban Areas, Kills 2 Dozen

Authorities in Madagascar are struggling to contain an outbreak of plague that has killed two dozen people in recent weeks and has prompted a ban on large public gatherings in the capital to curb the disease's spread.

The dead include a basketball coach from the Seychelles who was participating in a tournament in Madagascar's capital, Antananarivo. Five people have died of plague in the capital, reported L'Express de Madagascar, a daily newspaper.

The government has begun a campaign to disinfect school classrooms in the city, compel-

ling students to stay at home in the coming days. Many people have bought surgical masks and other medical supplies in large quantities, raising concerns about a shortage of medicine.

—Associated Press

INDIA

Key Rate Expected To Remain Unchanged

India's central bank will likely leave its key lending rate unchanged this week as it keeps an eye on inflation, economists said.

The Reserve Bank of India's monetary-policy committee, headed by Governor Urjit Patel, is scheduled to announce its rate decisions on Wednesday. All 10 economists polled by

The Wall Street Journal predicted it would hold the rate at 6%. The central bank cut the rate by a quarter percentage point in August.

While inflation is still below the RBI's medium-term target of 4%, it has been rising in recent months with consumer inflation touching a five-month high of 3.4% in August, boosted by higher food prices.

Food prices could continue to rise as uneven monsoon rains have hurt crops in some pockets of the South Asian nation.

The central bank could also drop its growth forecast for this fiscal year to less than 7% from 7.3% after gross domestic product expansion slowed to a three-year low of 5.7% during the quarter ended June.

—Debiprasad Nayak

WORLD NEWS



A man shouting slogans at Barcelona's Plaza Catalunya station as people gather for a partial regional strike called by pro-independence parties and unions on Tuesday.

Catalans Take to Streets to Protest Police

By JEANNETTE NEUMANN
AND MARINA FORCE

BARCELONA—Tensions between Catalans and Spanish police ran high as hundreds of thousands of people mobilized Tuesday to protest the crackdown during Sunday's independence vote, keeping pressure on Madrid as Catalonia's leaders prepare to announce a potential split with Spain.

Police unions said an estimated 500 Spanish officers have been forced out of hotels in several Catalan towns since Monday after protesters gathered near their lodgings, jeering and demanding that they leave the region. Their appeal was echoed by Catalan President Carles Puigdemont, leader of the separatist push. Some protesters held posters calling on the "occupying forces" to clear out of Catalonia.

"Let's hope for sanity," said Alfonso Merino, spokesman for a police union in Catalonia. The officers retreated to other nearby hotels and to police barracks.

The tensions rose after Spain's central government ordered the officers to extend their stay in Catalonia through at least Oct. 11 as Prime Minister Mariano Rajoy weighs how to respond to a potential declaration of independence from the restive and wealthy region. The central government sent thousands of additional police officers to Catalonia last week to fulfill court orders to seal polling stations and seize voting material such as ballot boxes during Sunday's outlawed referendum on a split with Spain.

Even before the referendum, many Catalans felt uneasy about the heightened presence of police, many of them billeted in two ferries in Barcelona's port and another

in the city of Tarragona. That unease exploded into anger after police clashed with voters during Sunday's vote. Nearly 900 people were injured in clashes, according to regional authorities. An estimated 300,000 protesters gathered in Barcelona midmorning. Other towns in Catalonia saw protests by tens of thousands supporters of independence. More protests were planned for Tuesday evening.

"The Catalan people are united in protesting peacefully against the repression seen during the vote," said Laura de la Torre, a 22-year-old student demonstrating in Vilassar de Mar, a town of 21,000 inhabitants outside Barcelona.

Mr. Rajoy's government says the additional police are necessary to uphold the rule of law. Madrid says the referendum breached the constitution, and courts have ruled that no region can hold a unilateral vote on a split with Spain.

Separatist groups and some unions were also leading a general strike in Catalonia. Traffic was snarled on nearly 50 roads blocked by demonstrators in Barcelona, the regional capital, and public transportation was severely limited.

Separatist Tensions Percolate Across Europe

BY VALENTINA POP

BRUSSELS—Catalonia's bid to secede from Spain is the most dramatic example in years of the tensions between regions and national governments that have long plagued the continent—and which the European Union has sought to address.

In many cases, the EU has helped bring peaceful resolutions to would-be independence bids, but it also has stoked regional identities that contributed to breakaway movements.

EU leaders this week came down firmly on the side of Spain's national government, while also decrying violent police efforts to suppress a Catalan independence referendum held Sunday. Madrid calls the vote illegal, and the EU endorses that stance.

For many years, EU policies—and the very existence of the EU—gave regional governments a greater voice and sense of identity. The EU has promoted cross-national projects, funded preservation of waning local languages and dialects, and provides a forum for local leaders through a Brussels-based institution, the Committee of the Regions.

The EU's creation of a common currency, the euro, and its removal of national borders within much of the bloc further blurred the definition of a country inside the union.

The European Union has even sided with regions: Following the Brexit referendum in June 2016, European Commission President Jean-Claude Juncker showed sympathy toward Scotland, which had voted overwhelmingly to remain in the EU. But backlash from Spain and other countries wary of their own secessionist movements prompted Mr. Juncker, the EU's top executive, to fall back in line and say Scotland couldn't hope for any special membership deals.

In parts of Eastern Europe, Brussels, where most EU institutions are based, supported regions with ethnic minorities that faced potential persecution. Under pressure from the EU, Romania—home to 1.2 million Hungarians—and Slovakia, where nearly 10% of the population speaks Hungarian, reached agreements to protect their Hungarian populations.

In the Balkans, the EU coaxed former foes Serbia and Kosovo to talk to each other if they wanted to eventually join the bloc. The EU says it doesn't accept any new members before they solve their regional or ethnic conflicts.

Catalonia's separatists are staunchly pro-EU and its leaders have appealed for the EU to mediate between them and the central government in Madrid.

EU officials reject any move seen as endorsing Catalonian separatism.

Rich Region Embraces Opportunity to Go It Alone

By JON SINDREU
AND MIKE BIRD

BARCELONA—The economic strength of Catalonia—one of Spain's richest regions—is a central concern of secessionists, who argued the region would be even more prosperous as an independent republic.

But though an independent Catalonia would retain economic might, it would have to grapple with some daunting issues, economists and policy analysts say. European officials say secession would likely leave Catalonia outside the European Union's single market, and its banks outside the eurozone. The new nation could inherit a large chunk of Spain's sizable public debt. And it may face problems at first securing tax revenues, the vast bulk of which are now collected by Spanish rather than regional authorities.

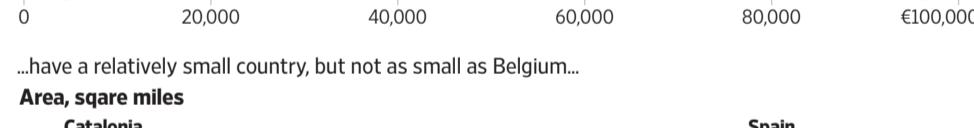
Catalonia's economy is bigger than that of Portugal's and roughly the size of Finland's. Its per capita income is above the EU average, according to Eurostat, whereas Spain's is significantly below. The region's unemployment rate stands at 13.2%—high compared with European peers but still lower than Spain's 17.2%.

An independent Catalonia, however, could be saddled with a large public-debt burden. After the financial crisis in 2008, Catalonia's debt rose faster than that of most other Spanish regions, even though its economic performance was

Catalonia On Its Own

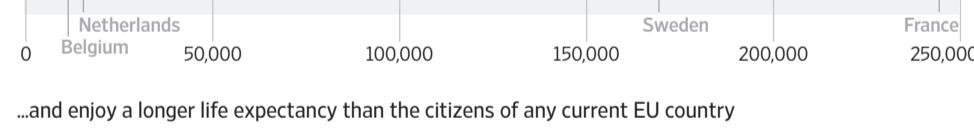
As citizens of an independent country, in comparison to existing European Union countries, Catalans would fall between the Italians and the French in terms of economic output per person...

GDP per capita, 2015



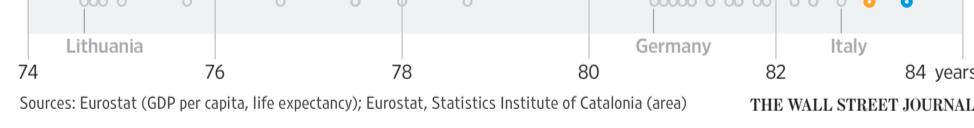
...have a relatively small country, but not as small as Belgium...

Area, square miles



...and enjoy a longer life expectancy than the citizens of any current EU country

Life expectancy, 2015



Sources: Eurostat (GDP per capita, life expectancy); Eurostat, Statistics Institute of Catalonia (area)

better, and now stands at 35% of gross domestic product.

On top of that, if Catalonia negotiated a separation, it would likely assume a share of Spain's public debt, analysts say, which stands at 100% of GDP.

A large debt pile would be a problem if Catalonia decided to keep the euro as a currency. A Catalan central bank with its own currency could address the issue but create a bigger one,

economists say, since few would trust it at first.

Brussels has said Catalonia would be out of the EU until and unless it reappealed, leaving the new country in a monetary gray zone. Other countries, among them Kosovo and Montenegro, currently use the euro without being members of the eurozone. But adopting the currency without access to the bloc's institutions offers severe drawbacks.

Catalan banks could be deprived of access to liquidity from the European Central Bank, having to rely on other banks or subsidiaries in the eurozone to get it. In the event of a crisis, lines of support such as emergency liquidity could be abruptly unavailable.

An independent Catalonia "would lack a lender of last resort," said Stephen Brown, economist at Capital Economics, in a note to clients, which

"might lead to higher interest rates and stifle lending."

London-based investment bankers and asset managers said Catalonia, given its current size and economic strength, would be able to tap bond markets easily—whether in euros or its own currency—if international organizations and nations were to recognize its independence.

Catalan Economy Secretary Pere Aragonès said investors have expressed interest in Catalonia issuing more debt, but not as long as the region's fate remains uncertain.

There also doubts on how quickly Catalonia could move to collect all tax revenues. At the moment, it directly controls less than 10% of all the tax generated in the region.

The Catalan government has spent millions over the past year to build up the regional tax-collection agency in anticipation of independence, opening 15 new regional offices this year and increasing its head count to 700 from 300 in January. Officials say about 4,000 more people need to be brought over from the Spanish tax agency's offices in Catalonia in case of independence, but since September a new software system already allows for all the region's taxes to be collected.

"We had a tractor and now we have a Lamborghini, but we are still driving it at 60 kilometers per hour, waiting for the moment to accelerate," said Albert Puig, a spokesman for the Catalan treasury.

Drid. But EU officials, who take orders from national leaders, reject any move that might be seen as endorsing Catalonia's separatism.

In the past, the EU has tried to defuse conflicts by channeling regional movements into national governments. In Romania, the Democratic Alliance of Hungarians has been a constant fixture in coalition governments since 1996. In Belgium, the current coalition government for the first time includes a Dutch-speaking nationalist party, the New Flemish Alliance. The inclusion has reduced breakaway activism in the linguistically divided country.

While the European Commission, the EU's executive arm, supported Madrid, in other, less-powerful EU institutions there remained more sympathy for the region. On Wednesday, the European Parliament will debate the events in Catalonia.

EU, U.K. Paint Different Pictures of Brexit Progress

British government ministers presented an upbeat picture of the U.K.'s prospects outside the European Union as European lawmakers said too little head-

and-file by saying those "naysayers" who said last year's Brexit vote would be followed by economic turmoil "got it wrong."

Boris Johnson, Foreign Secretary and a favorite among party members, in the closing speech of the day, described Brexit as "a democratic revolution" that will usher in "a cultural and technological and commercial renaissance" in Britain.

David Davis, Brexit Secretary, pledged to fight demands for money from Brussels to settle unpaid commitments to the bloc "line by line," though he acknowledged that Brexit talks are complex and that

and-file by saying those "naysayers" who said last year's Brexit vote would be followed by economic turmoil "got it wrong."

Their remarks came hours after lawmakers at the European Parliament in Strasbourg voted overwhelmingly for a resolution saying too little progress had been made in Brexit talks to allow discussions to begin on a future trade deal with the U.K., highlighting frustration within the

"one error could cost the taxpayer billions of pounds."

He, too, played up the U.K.'s post-Brexit prospects, saying he is optimistic about reaching a deal with the EU, but reiterated the government's position that Britain is willing to walk away from talks without agreement if one can't be reached.

Their remarks came hours after lawmakers at the European Parliament in Strasbourg voted overwhelmingly for a resolution saying too little progress had been made in Brexit talks to allow discussions to begin on a future trade deal with the U.K., highlighting frustration within the

EU at the pace of negotiations.

The vote isn't binding on the EU's negotiating team, which will take its cue on advancing talks from EU leaders. Leaders are due to meet to decide on this issue Oct. 20 and 21.

Some lawmakers criticized recent disagreements among British ministers about how to manage Brexit and what sort of future relationship the U.K. should have with the EU. The parliament's Brexit pointman Guy Verhofstadt said, "I want to express a big worry of mine and that is the lack of clarity or I can even say disunity—at the other side of the negotiation table."

MASSACRE IN LAS VEGAS

Suspect Was a Gambler, Investor

Stephen Paddock, the 64-year-old man accused of carrying out the deadliest mass shooting in modern U.S. history, lived in a quiet retirement community surrounded

By Valerie Bauerlein,
Taw nell D. Hobbs
and Kate King

by desert and golf courses about 80 miles northeast of the Las Vegas Strip where he went to indulge in gambling.

According to relatives, a lawyer, authorities and court documents, Paddock recently made a living as an investor in

residential real estate and was also a regular video-poker player. He had been gambling in recent days, with transactions over \$10,000 that triggered federal reporting requirements, though it wasn't clear how much he might have been gambling or where, said people familiar with the matter.

Paddock had no U.S. military background, according to officials from the armed services.

He was a regular at the hotels on the Las Vegas Strip, said Martin Kravitz, a lawyer who represents several hotels

there. In 2012, Paddock sued the Cosmopolitan Hotel, saying that he incurred more than \$30,000 in medical bills after being injured in a slip-and-fall accident.

A judge dismissed the case and ordered Paddock to pay the hotel's attorney fees, Mr. Kravitz said. The ruling was based on hotel surveillance footage that showed Paddock fell in a busy area traveled by dozens of people around the time he fell, he said.

Mr. Kravitz said he recognized Paddock immediately when police named him in the shooting, and was puzzled.

"He was not argumentative, he was not violent, he was not nasty," Mr. Kravitz said. "He was more nondescript than most people."

His father, Benjamin Hoskins Paddock, was convicted of bank robbery and automobile theft, according to an FBI wanted poster issued in 1969 after he escaped from a Texas prison.

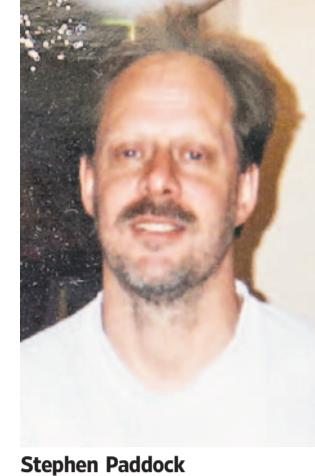
Benjamin Paddock was diagnosed as a psychopathic with suicidal tendencies, and carried firearms, the FBI said at the time. The agency removed him from its most wanted list in 1977, according

to its website.

A 1998 obituary published by an Oregon newspaper, said Benjamin Paddock operated a bingo parlor there until the state Attorney General's Office filed racketeering charges against him in 1987.

In his past, Stephen Paddock worked for the Internal Revenue Service in the 1970s and for a predecessor firm of defense contractor Lockheed Martin Corp. in the 1980s but it wasn't clear in what role. He was also a private pilot who appears to have owned at least one plane over the years.

He was a lead investor in an apartment complex in a Dallas suburb that was sold in 2012 for \$8.3 million, according to real-estate records.



Stephen Paddock

ERIC PADDOCK/ASSOCIATED PRESS

VEGAS

Continued from Page One
either from gunshot wounds or from the rush to flee the rampage.

President Donald Trump, before heading to hurricane-battered Puerto Rico on Tuesday, said the response by police as the carnage unfolded Sunday "was really very much of a miracle." The GOP president also said, "we'll be talking about gun laws as time goes by."

A day earlier, in a televised address at the White House, Mr. Trump called the massacre an "act of pure evil" and said he would visit Las Vegas on Wednesday.

Nevada Lt. Gov. Mark Hutchison said Paddock didn't appear on any law-enforcement databases and wasn't on authorities' radar. Though the Islamic State terror group claimed responsibility without providing evidence, intelligence and law-enforcement officials cast doubt on the claim.

"This seems like the act of a deranged, crazy man," Mr. Hutchison said, speaking outside University Medical Center of Southern Nevada, where many of the victims were sent.

The shooting shut down the Las Vegas Strip for hours, turning the nation's party town into a mass-casualty scene. Local hospitals struggled to care for hundreds of badly wounded patients who flooded into emergency rooms.

The massacre unfolded on a Sunday night, just after 10 p.m. on the south end of the glittery strip, where country-music singer Jason Aldean was



A makeshift memorial for the people killed in Sunday's massacre at a Las Vegas country-music event. More than 500 people were injured.

wrapping up his show below the Mandalay Bay. Video taken at the concert and posted on social media shows Mr. Aldean singing, then the sound of rapid-fire shooting before Mr. Aldean flees the stage.

"Everyone starting running for our lives," said Nicole

Khoury, 39, from Simi Valley, Calif.

"People were breaking legs, getting trampled," said her friend, Wendy Theroux, 47. "They were trapped under those barriers that concerts have. There were bodies everywhere. We didn't know who

was dead or trampled or what."

Around 22,000 fans scrambled to take cover and flee; doctors said some were hit by cars as they ran. Dazed bystanders tried to plug bullet holes with their fingers and bloodied victims were carted off in wheelbarrows and stretchers fashioned from barricades.

"People would run one way and then you'd hit a dead end. It was just a kill box," said Russell Bleck, a 28-year-old who was filming the concert from a VIP tent when the shooting started.

"No one could run and scatter," Mr. Bleck said. "The guy was just spraying the crowd."

Paddock's motive remained unclear. He had no criminal record in Nevada, according to his brother.

Police said Monday night that they recovered an arsenal of 23 firearms in Paddock's hotel room. At least one of the guns was outfitted with a

"bump stock," which is a device that allows the weapon to fire at a rapid rate, according to a law-enforcement official. He had 19 more guns in his home along with thousands of rounds of ammunition and Tannerite, which detonates when shot and is used in target practice, Clark County Sheriff Joseph Lombardo said.

"We are shocked, horrified, completely dumbfounded," said Eric Paddock, the suspect's younger brother, speaking to reporters outside his home in Orlando, Fla. "Where the hell did he get automatic weapons?"

He described his brother as a "wealthy guy" who liked to play video poker and had no known affiliations with religious or political groups. He had texted recently to ask how his elderly mother was after Hurricane Irma swept through Florida, Eric Paddock said.

The mass killing is among the bloodiest in at least 50 years, according to a review of

federal records and news accounts. The death toll topped the 49 killed by a lone gunman at an Orlando nightclub in June 2016.

Details on the deceased in Las Vegas were emerging slowly as authorities notified next of kin. The dozens killed included an off-duty Las Vegas Metropolitan Police Department officer and Sonny Melton, a 29-year-old nurse from Big Sandy, Tenn.

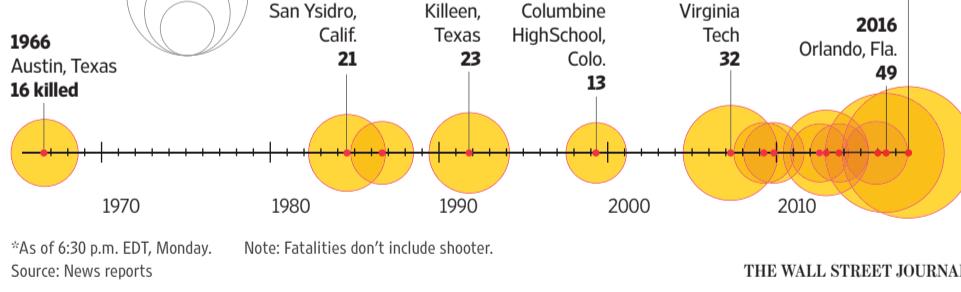
Mr. Melton was attending the concert with his wife, orthopedic surgeon Heather Gulish Melton, and was shielding her when he was shot, friend Jeremy Butler said. He said he had spoken with Mr. Melton's family on Monday.

"He was literally one of the best people you could ever meet," Mr. Butler said.

—Del Quentin Wilber, Scott Calvert, Jennifer Levitz, Cameron McWhirter, Alicia A. Caldwell and Zusha Elinson contributed to this article.

The Deadliest Shootings in U.S. History

The number of fatalities surpassed the 49 victims from the Orlando shooting in 2016, previously the largest number of people killed in an American mass shooting. Here are some of the deadliest mass shootings in modern U.S. history:



*As of 6:30 p.m. EDT, Monday.

Note: Fatalities don't include shooter.

Source: News reports

Gun-Silencer Bill Is Likely Stalled

By KRISTINA PETERSON

WASHINGTON—House Republicans said Tuesday that they don't expect legislation that would make it easier to buy gun silencers to come to the House floor in the aftermath of this week's shooting in Las Vegas.

Although no vote had been officially scheduled, GOP lawmakers had expected a bill including a provision expediting the sale of silencers, also known as suppressors, to come to the House floor this month. But after Sunday night's deadly mass shooting in Las Vegas, Republicans said they no longer expected the legislation, which was approved by the House Natural Resources Committee last month, to come up for a full House vote.

"I don't think there's any support to bring it up," Rep. Chris Collins (R., N.Y.) told reporters Tuesday morning.

The measure under discussion, sponsored by Rep. Jeff Duncan (R., S.C.) would make it easier to buy gun silencers, which reduce the average firearm noise from 165 decibels to below the level of 140 deci-

bels. Mr. Duncan's provision is currently part of a broader hunting and fishing bill.

Supporters say that the measure would protect users' hearing and that silencers diminish but don't eliminate the noise from firearms. Critics say the noise from gunfire is essential to warn potential victims and help law enforcement track down criminals.

A hearing on the bill had originally been scheduled for June 14, but was delayed when a gunman that morning opened fire on a group of Re-

publican lawmakers practicing for a charity baseball game, severely wounding House Majority Whip Steve Scalise (R., La.).

"When two mass shootings force you to delay a bill that would make those mass shootings harder to detect and stop, maybe it's a sign to let go of the bill once and for all," Senate Minority Leader Chuck Schumer (D., N.Y.) said on the Senate floor Tuesday.

The National Firearms Act currently requires suppressor buyers to submit fingerprints

and photographs, pay a \$200 fee and pass a background check that can take up to a year.

Mr. Duncan's legislation would eliminate the \$200 fee and provide rebates for those who applied to buy silencers going back to October 2015, as well as make the red tape the same as what is required to buy a firearm. That means a buyer could walk out of a store with a suppressor after an instant background check in some states on the same day.

Some centrist House Republicans said they opposed the silencers provision, saying there was no need to alter the current system.

"The mechanics in place are appropriate," Rep. Ryan Costello (R., Pa.) said. "I don't see why there's any reason to change that."

House Speaker Paul Ryan (R., Wis.) sidestepped a question on whether the provision would ever come to the House floor, but indicated it wasn't a priority for GOP leaders. Mr. Ryan, an avid hunter, didn't answer a question on whether he supported the silencers provision of the bill.



House Speaker Paul Ryan said the silencer bill wasn't a priority.

Casino Security Revamp Unlikely, Experts Say

By SARA RANDAZZO AND ALEXANDRA BERZON

Las Vegas casino hotels maintain vast security networks meant to root out robbery, cheating and other crimes. They are not designed for the scenario that occurred Sunday night when a shooter, with stockpiled weapons in a 32nd-floor hotel room, opened fire on a large crowd below, security experts said.

Virtually anyone can enter a casino without being stopped or having to pass through a metal detector or bag check.

Casinos have long been reluctant to increase the visible show of security, beyond security guards in suits around the casino floor, for fear that it might scare away tourists who flock to Las Vegas to have a good time. Increased physical security could fundamentally alter the free flow of foot traffic in and out of the properties through multiple entrances and exits.

Stiffer entrance requirements are unlikely to be implemented even after Sunday's shooting, according to those in

the security business.

"I don't know anybody in the U.S. or Europe who screens hotel-guest bags, and I just don't see that starting," said Tommy Burns, a police and security consultant who has worked as the security director at Caesars Entertainment Corp. properties and other Las Vegas casino hotels.

Casino executives said that while they will study whether there is anything they can do to address security concerns, they think it is unlikely there will be any easy fix.

"The worst [part of this] is, you expected it some time," said Jan Jones Blackhurst, who heads up government relations for Caesars Entertainment. "Or rather, you feared for it."

Rather than screening guests on the front end, Las Vegas hotels and casinos surveil crowds with thousands of cameras pointed at gambling floors and other areas of Vegas hotels. Staff may watch some of the footage for suspicious behavior or possible cheating, but can't have eyes on every part of the property at once.

U.S. NEWS

High Court Takes On Partisan Redistricting

BY BRENT KENDALL

WASHINGTON—Supreme Court justices voiced concerns about the practice of drawing electoral districts for partisan political gain, but it wasn't clear on Tuesday whether a majority of them were eager to intervene.

The deciding vote in the case could come down to Justice Anthony Kennedy, a Ronald Reagan appointee who is often positioned between the court's liberal and conservative camps. His comments and questions during an hourlong oral argument didn't provide strong signals about his position.

The court was reviewing a case that could reshape the U.S. political landscape. At issue is how Republican lawmakers drew district maps for Wisconsin's state assembly after they won control of the legislature and the governor's mansion in 2010. It was the GOP's first shot to draw state districts there in more than 50 years, one they sought to use to improve their electoral position considerably.

The Wisconsin GOP won 60 of 99 assembly seats in 2010,

as part of a wave of Republican gains across the country. In the 2012 election—the first with the new maps drawn by Republicans—the party lost the popular vote in the assembly races but maintained 60 seats. Republicans have picked up more seats in the years since, now holding 64.

The four liberal-leaning justices on the Supreme Court voiced clear sympathies with a group of 12 Democratic plaintiffs from around Wisconsin who filed a lawsuit challenging the maps. Drawing of political maps for partisan gain, known as gerrymandering, has long been done by both parties, but the plaintiffs allege that particular map unlawfully diminished their electoral influence and penalized them for their political beliefs.

Justice Ruth Bader Ginsburg said that if Wisconsin lawmakers "can stack a legislature this way" the results of elections are preordained in most districts. "What becomes of the precious right to vote?" she asked.

Justice Sonia Sotomayor said Wisconsin Republicans drew "the most extreme map they could make."



At issue is how GOP lawmakers drew district maps for Wisconsin's state assembly after they won control. The state Capitol in Madison, above.

Conservative justices, however, worried whether it was prudent for the courts to be intervening in such an inherently political area. Justice Samuel Alito called gerrymandering "distasteful" but suggested there wasn't a fair and consistent way for the court to decide which maps go too far. "Is this the time for us to jump into this?" he asked.

Chief Justice John Roberts, in lengthy remarks, said a ruling against the Wisconsin map could lead to a flood of litigation, putting the high court in the position of passing judgment on districts all over the country. Having to decide repeatedly whether Democrats or

Republicans have better legal claims could make the court seem like a political referee, which would do serious harm to its status and integrity in the eyes of the public, he said.

A special three-judge court in Madison, Wis., found in favor of the challengers in a divided ruling. The court's majority ruled Republicans entrenched their own power and impeded the ability of Democrats "to translate their votes into legislative seats."

A dissenting judge said the plaintiffs' case sought to require Republicans "to engage in heroic levels of nonpartisan statesmanship."

The case, which has called

renewed attention to how both parties draw maps, has the potential to prompt groundbreaking changes to electoral districts on the federal and state level, with a new round of redistricting approaching after the 2020 census. But it also presents a steep challenge for the justices, who have been hesitant to intervene in the political process so directly.

Throughout U.S. history, Republicans and Democrats have used the redistricting process to boost their political clout when they had the opportunity. Supreme Court justices have agreed in theory that extreme political gerrymanders are incompatible

with democratic principles. But they have never found a gerrymander unconstitutional on the grounds that a ruling party hobbled its opponent by diluting the voting power of its supporters.

For more than 30 years, the justices have been unable to agree on a method to determine when a legislative majority has gone too far in stacking the deck. That same issue was again at the forefront Tuesday.

Justice Stephen Breyer, one of the court's liberals, offered a multipart test for determining how much partisanship is too much. He said he believed his test was manageable, but then added, "I'm not positive."

Puerto Rico Governor to Push Trump for Aid Package

BY ARIAN CAMPO-FLORES

briefing Tuesday morning.

Mr. Rosselló said he planned to continue pushing for a federal aid package commensurate with what American citizens in Florida or Texas would receive.

"My focus right now in terms of getting Puerto Rico pushing forward is to have an aid package that is consistent with the needs that Puerto Rico has right now," he said.

That could include elements like lines of credit from the Treasury Department, he said.

Mr. Rosselló outlined progress the island is making in re-

covery efforts. Officials have bolstered the distribution system to deliver food and water to remote areas cut off by damaged roads and debris, he said. They dispatched additional trucks that can move provisions from regional staging sites to individual municipalities.

Alejandro De La Campa, who is overseeing the Federal Emergency Management Agency's work on the island, said officials had identified a group of municipalities—largely in the mountainous center of the island, such as Naranjito, Las Marias and

Maricao—that required special assistance because of their remoteness. He said a new task force was handling distribution of food and water to those areas, by land and air.

As the logistics effort gains more trucks and drivers, the movement of containers from the island's ports increased to 855 on Monday, compared with a normal daily flow of about 1,400, Mr. Rosselló said.

Progress in restoring power to Puerto Rican residents remained frustratingly slow. The island's electric utility is working to reconnect the grid and

get power flowing from its generators, many of which are in the southern part of the island, to customers in the north. But Tuesday, only about 7% of the electric utility's customers had power. Officials continued to focus on restoring electricity to critical facilities such as hospitals and water plants.

Meanwhile, the U.S. Army Corps of Engineers has been installing large generators to power such facilities—22 as of Tuesday, with 10 more installations in progress and 143 others awaiting deployment, Mr. De La Campa said.

The telecommunications system continues to struggle as well. According to the Federal Communications Commission, 88% of cell sites were out of service Monday. All of Puerto Rico's 78 municipalities except for San Juan, Bayamon and Guaynabo had more than 75% of their cell sites down. And 27 had 100% of their cell sites out of service.

Officials continued to set up mobile cellular stations across the island to provide temporary service, Mr. Rosselló said. As a result, 40% of the island now fell under such coverage areas.

ADS

Continued from Page One
audience" who would be more likely to see a video ad on Facebook than a prime-time TV ad, said John Boiler, co-founder of 72andSunny, an agency that does work for the antitobacco nonprofit Truth Campaign. "I think they're getting off kind of lightly."

Marlboro maker Altria, which owns Philip Morris USA, estimates that it will spend \$31 million to broadcast and publish the statements on TV, in newspapers, on company-owned websites and in pamphlets tucked inside the cellophane wrappers on cigarette packs. A spokesman for BAT's U.S. subsidiary Reynolds American, which makes Camellos and acquired Newport maker Lorillard in 2015, declined to say how much the company expects to spend.

All of the defendants named in the Justice Department's 1999 lawsuit are now owned by either Altria or BAT.

Full-page print ads will appear in at least 45 newspapers, including The Wall Street Journal, starting as soon as Nov. 26, according to a document filed in U.S. District



Tobacco firms will begin running ads to put to rest a lawsuit brought by the Justice Department over misleading statements the industry had made about cigarettes and their health effects.

Court for the District of Columbia on Monday evening by attorneys for Altria, BAT and the Justice Department. The print ads will run on five weekends spread over about four months, according to the filing. Ads will also appear on the newspapers' websites.

Tobacco companies used to be a staple of Madison Avenue ad agencies with figures like the Marlboro Man and Joe Camel, but they have sharply

curbed their advertising spending in the U.S. They are no longer allowed to advertise their products on television or billboards, and their legal settlements have funded more than \$1 billion dollars in anti-smoking campaigns.

"This industry has changed dramatically over the last 20 years," Altria's General Counsel Murray Garnick said in a statement, noting that the company supported the 2009

law that gave the Food and Drug Administration authority to regulate tobacco. "We're focused on the future and... working to develop less risky tobacco products."

The FDA recently unveiled plans to overhaul how it regulates tobacco, aiming to reduce nicotine in cigarettes so they are no longer addictive and encourage cigarette smokers to switch to less harmful alternatives.

Facebook Inc. said it estimates 10 million people saw ads it has discovered on its platform paid for by Russian entities, but warned that it may not have uncovered all malicious activity that attempted to interfere in the American political process.

The revelation from Facebook quantifies for the first

time the spread of the known Russian activity since the social network said last month it had identified 470 "inauthentic" Russian-backed accounts responsible for \$100,000 in advertising spending.

Facebook on Monday presented congressional investigators with data on 3,000 ads bought by the Russian actors before and after the U.S. presidential election.

About half of the ads were

seen after the election, Facebook said, and one-quarter were never shown to anyone. Half the ads cost less than \$3. "We hope that by cooperating with Congress, the special counsel and our industry partners, we will help keep bad actors off our platform," Facebook said Monday.

"What should alarm the American people is the brazen exploitation and distortion of popular opinion by a hostile

foreign power, amounting to really an attack on our democracy, to disrupt our election by surreptitiously targeting voters in certain places with certain backgrounds and views," said Sen. Richard Blumenthal (D., Conn.), a member of the Senate Judiciary Committee.

The accounts behind the 5,200 Russian-backed ads represented both ends of the political spectrum. Russia has denied interfering in the election.

FEDERAL RESERVE

Kashkari Says Rate Increase Can Wait

Federal Reserve Bank of Minneapolis President Neel Kashkari said the U.S. central bank should hold off on rate increases until there is more convincing evidence inflation is rising.

Mr. Kashkari, who was writing in an essay, also said there is a strong case to make that the persistent weakness in inflation that has complicated the case for raising short-term interest rates is in fact very likely the product of an overly hawkish policy stance over recent years. "My preference would be not to raise rates again until we actually hit" a 2% rise in inflation on a 12-month basis, Mr. Kashkari said. He would change that path only if there was "a large drop in the headline unemployment rate, signaling that we have used up remaining labor market slack, or a surprise increase in inflation expectations."

Mr. Kashkari has over the course of the year become the Fed's most prominent skeptic of the push to raise rates. He has been the sole opposing vote at the central bank's two rate increases this year.

Later Monday, Federal Reserve Bank of Dallas President Robert Kaplan said the door remains open to raising short-term rates this year. "We need to look at future action in December," Mr. Kaplan said in reference to the central bank's final policy meeting of the year.

—Michael S. Derby

KANSAS

Top Court Says Aid To Schools Too Low

The Kansas Supreme Court ruled that legislators didn't increase spending on the state's public schools enough this year, hinting in its opinion Monday that lawmakers fell hundreds of mil-

lions of dollars short a year of providing a suitable education for every child.

The court rejected the state's arguments that a new law phasing in a \$293 million increase in funding over two years was enough to provide a suitable education for each of the state's 458,000 students.

Four school districts that sued the state over education funding in 2010 had argued that the increase was at least \$600 million short of what was necessary over two years. In its unsigned opinion, the seven-member court told legislators to enact a new, constitutional school funding law before July 2018, without setting a specific target for how much they must spend.

—Associated Press

TRUMP ADMINISTRATION

Watchdog Examines Interior Chief's Travel

The Interior Department's internal watchdog said it is investigating Secretary Ryan Zinke's use of charter flights, even as Mr. Zinke dismissed the controversy over his taxpayer-financed flights as "a little BS over travel."

Mr. Zinke disclosed Friday that he had taken three charter flights since taking office in March, including a \$12,375 late-night trip from Las Vegas to his home state of Montana in June.

No commercial flight was available from Las Vegas at the time he planned to fly to give a speech to Western governors the next day in Whitefish, Mont., he said.

A spokeswoman for Deputy Inspector General Mary Kendall said the inspector general's office was investigating Mr. Zinke's travel. Two Democratic members of Congress requested the investigation.

—Associated Press

About 10 Million Saw Russia-Backed Ads

BY GEORGIA WELLS
AND NATALIE ANDREWS

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KANSAS

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IN DEPTH

The Informant Behind Basketball Bust

Marty Blazer cooperated for almost three years, trying to save himself

Marty Blazer couldn't believe what he had gotten himself into. By this summer, the Pittsburgh investment adviser had spent months crisscrossing the U.S., passing cash to

By **Rebecca Davis O'Brien, Andrew Beaton and Brian Costa**

coaches at some of the country's top college basketball programs. None of them seemed to know he was secretly helping federal authorities build one of the biggest alleged bribery and corruption cases in college sports history.

"This is surreal stuff," Mr. Blazer told a person familiar with the probe. "They just keep sticking their hand out."

Three years ago, Mr. Blazer had no contacts to speak of in college basketball. Last week, he was Cooperating Witness-1 in criminal charges unsealed against coaches at major college sports programs, a top executive at **Adidas** AG and others. Ten people were arrested, and University of Louisville coach Rick Pitino was essentially fired.

Mr. Blazer's role is remarkable given that he didn't have a relationship with any of the four assistant coaches charged in the investigation, which is continuing, and he has never spoken to Mr. Pitino, according to the person familiar with the investigation.

Steve Pence, a lawyer for Mr. Pitino, said he didn't know if the coach ever met Mr. Blazer. "Coach Pitino is not the target of any criminal investigation," said Mr. Pence.

The investment adviser cooperated for almost three years, including a partnership with undercover agents from the Federal Bureau of Investigation, according to court documents and a person familiar with the matter. They said Mr. Blazer, 47 years old, helped dole out hundreds of thousands of dollars in bribes in dozens of recorded meetings in Las Vegas, Miami, New York and elsewhere.

An FBI spokeswoman and a spokesman for the Manhattan U.S. Attorney's office declined to comment.

Bigger fish

The arrangement began after the Manhattan U.S. Attorney's office told Mr. Blazer in the fall of 2014 that he could face charges. That trouble stemmed partly from a Securities and Exchange Commission investigation of Mr. Blazer's investment firm.

He hoped to reduce any penalties he might face by somehow leading prosecutors to more prominent crimes, though he considered the strategy a long shot, said a person familiar with Mr. Blazer's thinking.

Mr. Blazer told investigators he had bribed college coaches to steer players to him—and knew other people who would do so, prosecutors said last week.

In the spring of 2015, Mr. Blazer started making connections with agents and middlemen who he thought might lead to bribe-seeking coaches, according to prosecutors. Few coaches or players Mr. Blazer encountered undercover



Acting Manhattan U.S. Attorney Joon H. Kim explains the criminal charges announced last week, including against former referee Rashan Michel, right.

seemed aware of or bothered by his previous problems.

Mr. Blazer graduated in 1992 from Pittsburgh's Carnegie Mellon University and worked at a string of securities firms, regulatory records show.

By 2008, he managed about \$50 million in assets and had several athletes as clients. One was former **National Football League** running back Kevan Barlow, whom Mr. Blazer recruited by ingratiating himself with family members during

Mr. Barlow's senior year at the University of Pittsburgh, according to Mr. Barlow's uncle, retired NFL running back Chuck Sanders.

Once Mr. Barlow turned professional in 2001, Mr. Blazer began taking out loans in the player's name, according to Mr. Sanders. Mr. Barlow didn't realize he was facing a shortfall of nearly \$4 million until after he retired from football in 2007, said Mr. Sanders. Mr. Barlow declined to comment.

Mr. Barlow filed a complaint with the Financial Industry Regulatory Authority. Mr. Blazer responded that the player had depleted his accounts "despite numerous warnings about his spending habits." They settled for \$850,000 in 2011, according to regulatory records.

In 2012, a Florida car dealership sued Mr. Blazer and a former college football player who had gone pro, alleging the two men owed \$100,000 in payments on a Mercedes-Benz S550 that Mr. Blazer helped the player lease in 2009. According to court records, Mr. Blazer never responded to the lawsuit.

In North Carolina, at least two former **University of North Carolina** football players told state investigators Mr. Blazer funneled thousands of dollars to them to pay for parking tickets, flights and other expenses, according to state-court records. Mr. Blazer hoped the players would make him their financial adviser, the records show. He hasn't been charged in the investigation, which is continuing and is separate from the federal bribery and corruption cases.

The SEC investigation of Mr. Blazer that led him to cooperate with federal agents began in 2013. Securities regulators were scrutinizing a

firm he co-founded with another adviser named Munish Sood. According to a complaint filed by the SEC in May 2016, one of Mr. Blazer's clients, a pro athlete, claimed he had forged documents authorizing transfers of \$450,000 and \$100,000 from the client's account to limited-liability companies related to two planned movies, tentatively titled "Mafia" and "Sibling."

A lawyer for Mr. Sood didn't respond to requests for comment.

The agency accused Mr. Blazer of moving money from another client's account to make the first client whole. The SEC said Mr. Blazer lied to investigators about the transfers, saying they had been authorized by both clients.

In the spring of 2015, Mr. Blazer worked through old contacts to meet people who might lead him to possible criminal activity. He began recording phone calls and meetings, the criminal complaints said.

According to the criminal complaints unsealed last week, he told a friend who was a sports agent he wanted to pay coaches who would use their influence to send athletes to him as clients.

The complaints allege that the agent introduced Mr. Blazer to Rashan Michel, a former **National Basketball Association** referee who ran a high-end men's clothing company in Atlanta that outfitted professional athletes. A lawyer for Mr. Michel, who was charged last week, didn't respond to requests for comment.

Mr. Michel allegedly connected Mr. Blazer to Christian Dawkins, an agent with **ASM Sports** who the former referee said had paid bribes to coaches, according to the complaint. Mr. Dawkins recommended speaking with Lamont Evans, then a coach at the University of South Carolina. Messrs. Dawkins and Evans also were charged last week. Their lawyers couldn't be reached for comment.

In December 2015, Mr. Blazer asked Mr. Sood, his former business partner, if he would work with him and Mr. Dawkins to recruit college athletes as clients, the complaints allege. In March 2016, Messrs. Sood and Blazer met

with Messrs. Dawkins and Evans at a restaurant in South Carolina, the complaints said.

Over the next few months, Mr. Blazer regularly spoke with Mr. Evans, who moved to a new coaching job at Oklahoma State University, and allegedly discussed recruits and gave the coach cash. Mr. Evans promised to send players to Mr. Blazer, according to the complaints.

By last October, Mr. Evans hadn't produced any clients for Mr. Blazer, and the investigation seemed stagnant, according to a complaint and people familiar with the matter. Still working without a signed cooperation agreement, Mr. Blazer grew concerned that he might still face criminal charges and prison time, one of those people said. "Marty was desperate," the person added.

In early May, Mr. Dawkins, the sports agent, was fired from **ASM Sports** after an investigation by the NBA players' union found he had misused a client's credit card. Mr. Sood told Mr. Dawkins he would help him start his own management company, according to the complaints.

At a bar in Miami, Mr. Blazer offered Mr. Sood a potential partner and financial backer for Mr. Dawkins, prosecutors said. The potential partner was actually an undercover FBI agent. Another agent joined the group later.

Mr. Blazer worked closely with the undercover FBI agents, arranging meetings at fancy hotels and expensive steakhouses, according to a person familiar with the case.

Still, Mr. Blazer sometimes found himself on the outside as the investigation grew, according to people familiar with the matter. He knew Messrs. Sood and Dawkins were cutting him out of business meetings, and investigators were scrutinizing possible schemes that had little or no connection to Mr. Blazer.

For example, a July conversation caught on a wiretap of Mr. Dawkins's phone was the first indication of \$100,000 that Adidas had pledged to the family of a top high-school recruit, Brian Bowen. Prosecutors alleged the aim was to lure Mr. Bowen to Louisville and secure his allegiance to Adidas through an endorsement contract.

By December, the government had secured a court-
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thorized wiretap on Mr. Person's phone, according to the complaints. Investigators heard Mr. Person falsely tell a player's mother that Mr.

Blazer had advised NBA Hall of Famer Charles Barkley, who played basketball at Auburn.

In March, FBI agents watched as Mr. Sood met with several people at a restaurant in Las Vegas, the complaints said. Prosecutors alleged it was a meeting to arrange paying basketball coaches at the University of Arizona. Mr. Sood was charged last week.

By late April, the FBI had a wiretap on the phone of Mr. Blazer's former business partner, and Arizona assistant coach Emanuel Richardson was drawn into the alleged scheme, according to prosecutors. He was charged last week. His lawyer couldn't be reached.

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Auburn associate head coach Chuck Person, who was charged last week.

Adidas has said it was unaware of any misconduct and would cooperate with authorities. Mr. Bowen's father declined to comment.

On July 27, while in Las Vegas for meetings, Mr. Blazer met with Mr. Dawkins, an undercover FBI agent, a Louisville assistant coach and the director of an Adidas-sponsored youth basketball program in a hotel room, according to one of the complaints.

The men allegedly discussed paying the family of another high-school player to bring him to Louisville—and what Adidas would likely contribute to the cause. The Louisville coach wasn't identified in the complaint. A Louisville spokesman declined to comment.

Investigators later learned through phone records that James Gatto, an Adidas executive charged as part of the investigation, and Mr. Pitino, the Louisville head coach, spoke several times by phone in May and early June, just before Mr. Bowen decided to attend Louisville, according to a complaint. A lawyer for Mr. Gatto didn't respond to requests for comment.

When the charges were unsealed Sept. 26, acting Manhattan U.S. Attorney Joon H. Kim said they revealed "the dark underbelly of college basketball."

About 10 days earlier, Mr. Blazer had pleaded guilty to five counts in a federal court-room, but the filings were sealed until last week.

Four of the counts were related to the SEC civil case, which resulted in penalties and interest totaling more than \$1.5 million. The fifth count related to wire fraud in a scheme "from in or around 2000 through 2013" to make loans and payments to college athletes, according to the court records.

It won't be clear for months what Mr. Blazer gained for helping the government. According to his signed cooperation agreement, he faces from two years to 67 years in prison. Prosecutors said they would consider supporting a shorter sentence. A lawyer for Mr. Blazer said his client "fully accepts responsibility for his actions."

—Valerie Bauerlein and Liz Hoffman contributed to this article.

DOG

Continued from Page One
quake. The highest approval ratings were for citizen-led earthquake rescue efforts and the Navy's response.

Last week, Mr. Peña Nieto and the governor of Morelos, a hard-hit state, were booed and hissed at an event to highlight government relief efforts, according to YouTube videos of their appearance.

"Frida's not a politician," says Jorge Chabat, a political scientist at Mexico City's non-partisan CIDE research center. "She's a dog, and look, the truth is she's cute. Just look at those glasses! She doesn't steal money, she's not corrupt. What else do you need?"

Frida was born in 2009 at the navy's canine-unit facility in the southern part of Mexico City. She lives there with about 60 other dogs, most of them Belgian Shepherds or Labradors.

When the last major earthquake hit Mexico in 1985, the Mexican Navy had only one or two dogs, used for narcotics and explosives detection. Since then, the unit has expanded its canine search-and-rescue training.

Other celebrity rescue dogs include Eco and Evil, brothers from the same Belgian Shepherd litter, and Titán, a brown Labrador from the fire department in the central city of Silao. Titán happened to be in town for emergency training exercises commemorating the 1985 earthquake, which also occurred on Sept. 19, when last month's quake struck.

Frida has located 12 survivors of earthquakes and other disasters in Mexico, Haiti and Ecuador. She has identified 53 bodies buried under debris. Frida has a "sixth sense" for finding humans that is unlike any other dog the navy has trained, says Frigate Capt. Israel Monterde, chief of the canine division.

The navy says it hasn't tal-

lied how many people Frida has found in Mexico City since last month's earthquake, partly because she has been working with other dogs who find the trace of a scent that Frida is called in to confirm.

When Frida shows up to look for survivors, she is met with cheering and applause from volunteers and onlookers. The Twitter hashtags #fridaparapresidente ("Frida For President") and #fridaparacaniche ("Frida the Rescuer")

have been tweeted tens of thousands of times.

Frida's talent for sniffing out survivors, goofy goggles and relaxed demeanor have made her the new public face of the Mexican Navy, an institution widely admired in Mexico for capturing drug lords in daring, dangerous missions.

"We walk down the street, and people thank us for our work, because they have seen Frida," Capt. Monterde says.

"It's a connection between the

citizenry and the navy, a coming together, where one feels proud to be a member of the armed forces."

At a media event for the canine unit's rescue dogs and trainers, Mexican marines in combat fatigues tickled dog bellies and endured licking attacks by 11 Belgian Shepherd puppies now in training for future missions.

Reporters swarmed Frida when she was brought out from her resting area at the naval complex. After donning her goggles and booties, a trainer threw a rubber toy to demonstrate Frida's boundless energy. She chased after the toy, tripped over her paw protectors and rolled over onto her back.

"She's a very noble dog, a very, very calm dog, very sociable," Emanuel González, one of Frida's trainers, says to explain her appeal. "She's almost like a daughter to me. I love her."

Ernesto Cortés, a translator and musician in Cali, Colom-

bia, decided in the middle of the night to launch a Twitter account called @PerrosRescate (or "Rescue Doggies") to share photos of Frida and other search-and-rescue dogs and link to fan art and products celebrating them.

Mr. Cortés says the search-and-rescue dogs are a welcome distraction from the earthquake's horrors, but he worries government officials "will hijack" Frida to improve their own image. "I hope this symbolism is not perverted," he says.

Based on her age and navy rules, Frida is due to be evaluated at the end of this year to see if her olfactory abilities are still up to snuff and if she can still carry out her rescue duties. If not, she could be forced into retirement.

Arturo Rodriguez, a call-center worker from Mexico City, says Frida deserves a full pension. "At the very least, she ought to be taken care of in comfort for the rest of her life," says Mr. Rodriguez.



EL UNIVERSAL/ZUMA PRESS

Mexican Navy sniffer dog Frida, in full rescue regalia.

LIFE & ARTS

OBITUARY | Tom Petty 1950-2017

A Rock Everyman True to His Roots

BY JOHN JURGENSEN
AND ANNE STEELE

TOM PETTY, who elevated plain-spoken lyrics about relationships and life choices with powerful musical hooks to create sing-along hits like "American Girl," "Refugee" and "I Won't Back Down," has died at age 66.

Mr. Petty suffered cardiac arrest at his home in Malibu early Monday and was taken to UCLA Medical Center but couldn't be revived, according to longtime manager Tony Dimitriades. He died Monday night surrounded by family, his bandmates and friends.

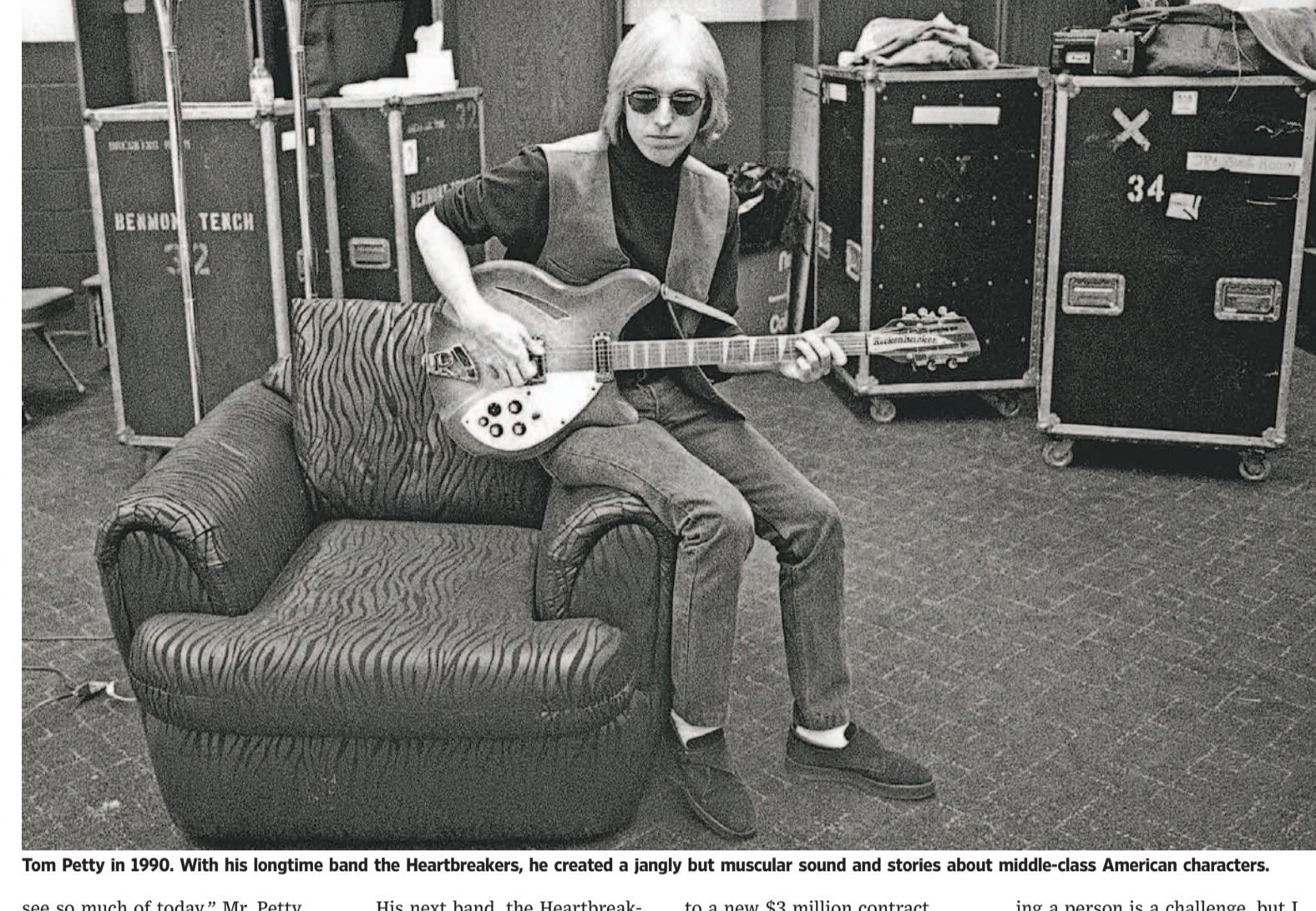
Like many rockers of his generation, Mr. Petty set out on his career path after seeing the Beatles perform on television. With his longtime band The Heartbreakers, he remained true to the roots of rock 'n' roll with a jangly but muscular sound and stories about middle-class American characters. That set his music apart from the disco and high-concept rock of the 1970s. His embrace of music videos in the 1980s helped cement his stardom in the MTV era.

Mr. Petty had his last hit song in 1994 with "You Don't Know How It Feels," but his popularity never flagged. The Heartbreakers' final studio album, "Hypnotic Eye," hit No. 1 on the Billboard 200 chart in 2014, and the band's periodic tours were consistent sellers. In an interview with Rolling Stone last December, Mr. Petty speculated that the Heartbreakers' most recent tour would be the group's last.

A member of the Rock and Roll Hall of Fame, Mr. Petty sold tens of millions of albums, earned three Grammy Awards and his songs such as "Runnin' Down a Dream" and "Free Fallin'" were staples of classic rock radio. He also won three MTV Video Music Awards. He refused to allow his music in advertisements and political campaigns, and in 1981 clashed with his record label over its decision to hike the price of his latest album.

Fans embraced him as a sort of rock everyman who shunned the spotlight offstage. For years, he practiced with the Heartbreakers in the band's garage-like headquarters in an industrial neighborhood of Los Angeles.

"My vision of a rock and roll band wasn't one that cuddled up to politicians, or went down the red carpet. That kind of thing you



Tom Petty in 1990. With his longtime band the Heartbreakers, he created a jangly but muscular sound and stories about middle-class American characters.

see so much of today," Mr. Petty said in a 2009 interview with The Wall Street Journal. "I felt like once that stuff starts happening your audience doesn't know whether to trust you or not."

Late last month the singer-songwriter wrapped up a five-month concert tour with a three-night run at the Hollywood Bowl. The tour celebrated the 40th anniversary of The Heartbreakers, who released their self-titled debut album in 1976 after Mr. Petty's first band foundered.

Thomas Earl Petty was born on Oct. 20, 1950, in Gainesville, Fla. He dropped out of high school at age 17 and formed a band called Mudcrutch that featured future members of the Heartbreakers, including guitarist Mike Campbell and keyboardist Benmont Tench. The group moved to Los Angeles in 1974 and signed a recording contract, but broke up after its debut single flopped.

His next band, the Heartbreakers, initially met with indifference, but the band's debut album found popularity in the U.K. That opened the door to U.S. airplay and Mr. Petty's first song in the Top 40, "Breakdown." The Heartbreakers' 1979 album "Damn the Torpedoes" was a commercial breakthrough, spawning rock staples such as "Don't Do Me Like That," "Here Comes My Girl" and "Even the Losers." That album also won over some critics who previously dismissed Mr. Petty in favor of another earthy rock troubadour, Bruce Springsteen.

Despite his success, there was trouble behind the scenes. After shouldering the costs of recording "Damn the Torpedoes," he declared bankruptcy in 1979 to escape his recording contract, which had been transferred to a new label, MCA. The strategy worked, and MCA released Mr. Petty from the contract—then re-signed him

to a new \$3 million contract.

His next album, "Hard Promises," sparked another fight with MCA. The label had begun putting a \$1 premium on releases by star artists, lifting the list price for the album to \$9.98. Mr. Petty threatened to withhold the album, and MCA backed down, selling "Hard Promises" for the customary \$8.98.

When MTV launched in 1981, Mr. Petty was one of the first established rockers to seize on the medium, which introduced him to a new generation of fans. Even though "we were so old, it was silly," he recalled to the Journal, the Heartbreakers videos stood out with off-kilter imagery, such as Mr. Petty playing the Mad Hatter in a video for "Don't Come Around Here No More."

In another interview with The Wall Street Journal last year, Mr. Petty said that while the musical side of his life has gone well, "be-

ing a person is a challenge, but I think I'm a better one than I used to be."

He struggled with depression in the mid-1990s after divorcing his first wife and again in 2001, following the death of Beatles member and close friend George Harrison. Messrs. Petty and Harrison were two parts of the folk and country-rock supergroup Traveling Wilburys, along with Bob Dylan, Jeff Lynne and Roy Orbison. The group recorded two albums, released in 1988 and 1990.

Mr. Petty is survived by his wife, Dana York Epperson, and two daughters from his first marriage to Jane Benyo, Adria and AnnaKim Violette.

In the interview last year Mr. Petty said fans often came up to him to thank him for being the soundtrack to their lives. His response: "Well, hope it was good—it's kind of been the soundtrack to my life."

MY RIDE | By A.J. Baime

A GOLD PORSCHE WITH A PLATINUM PEDIGREE

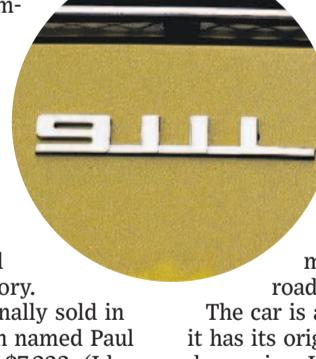
Pascal Maeter, 55, a retired investment banker from Philadelphia, on his 1968 Porsche 911L, as told to A.J. Baime.

Porsche first unveiled the 911 model at the 1963 Frankfurt auto show. (It was called 901, originally.) This past May, the German company rolled out its one millionth. My father drove 911s. I have driven them since the 1990s. You could argue that the 911 is the most iconic sports car of all time. The one you see pictured here has a unique story.

The car was originally sold in New Jersey to a man named Paul Rothchild, who paid \$7,222. (I have the invoice, dated Aug. 8, 1968.) The car was metallic dark green at the time. Rothchild was a record producer, and in the 1960s, he became the producer for a new Los Angeles-based band called the Doors. Rothchild worked with the band for years, and has often been called the fifth Door. (There were four band members.)

Around 1970, Rothchild gave this car to another L.A. music impresario named David Anderle, known for working with the Beach Boys and Frank Zappa. From there, it went to Jeff Suhy, yet another L.A. music executive, known for his work with Soundgarden and Sheryl Crow. For years, Mr. Suhy says, he kept a photograph on his desk of Jim Morrison with this Porsche.

I found the car listed for sale on the website Petrolicious. As you can see, it's painted gold now. I was so



fascinated that I called Mr. Suhy and bought the car over the phone this past February for a bit under the asking price of \$110,000. I also like the fact that this is the original 911, as it was first designed.

(Porsche lengthened the wheelbase by 2.24 inches starting in 1969.)

Along with the car came a file of documentation, from decades-old restaurant valet stubs to the original 1968 window sticker.

Two weeks ago, I drove the car to Vermont and back on small roads through fall foliage.

The car is about to turn 50, and it has its original 2.0-liter, six-cylinder engine. It drives well. You have to be focused in a car like this, and that's exactly how I like it.

When I think of all the musicians who spent time with this car, it amazes me. At some point, somebody put a sport exhaust system on, so this 911 makes quite a song all on its own.

Contact A.J. Baime at Facebook.com/ajbaime.



1968 Porsche 911L

Owner: Pascal Maeter

Color: Yellow

Condition: Excellent

Transmission: Manual

Engine: 2.0-liter, six-cylinder

Wheels: 15-inch steelies

Interior: Black leather

Exterior: Metallic dark green

OPINION

REVIEW & OUTLOOK

'An Act of Pure Evil'

As of now, little is known about what caused Stephen Paddock to murder some 58 innocent people in Las Vegas Sunday evening. It sits before us as what President Trump described in a statement as "an act of pure evil."

More information may emerge in coming days, such as how Paddock could have smuggled so much weaponry into the Mandalay Bay Resort and Casino. But currently there is nothing to link this killer to the kinds of causes or illnesses associated with other recent mass murderers. There is no evident connection to Islamic terrorists or any extremist group, no suggestion of disturbed behavior, no criminal record, no fights with neighbors or co-workers. The only oddly noteworthy fact is that his father was once on the FBI's most-wanted list.

We always search for reasons when this happens, but no pretext or explanation is sufficient to explain why a person commits mass murders such as this one. Not Omar Mateen's slaughter of 49 people at an Orlando nightclub last year or Anders Breivik's slaughter of 77 people in Norway in 2011.

We all live daily lives that involve some degree of disputes, conflicts and animosities. Most remain inside civilizing constraints.

Fruit Flies and Your Insomnia

Amid the horrible evidence in Las Vegas that mankind hasn't transcended original sin, it's worth noting that human beings are still capable of great achievements. One example is the Nobel Prize in Physiology or Medicine awarded Monday to three Americans for their discoveries about the circadian rhythm, also known as the body's biological clock.

The Royal Swedish Academy of Sciences honored Jeffrey Hall of the University of Maine, Michael Rosbash of Brandeis University in Massachusetts, and Michael Young of Rockefeller University in New York City for "paradigm-shifting discoveries" that "established key mechanistic principles for the biological clock."

All of us know instinctively that we seem to have an internal clock that guides how we manage the rhythms of the day. This includes our mood, metabolism, energy level and other physiological conditions. The three Americans figured out how this works at the molecular level. They

used fruit flies to isolate the gene that controls normal biological rhythms and discover how proteins encoded in that gene ebb and flow in a cyclical pattern.

"The work of these Nobel laureates to help us understand how our biological clocks work has shone a light on the significance of circadian rhythms on our health, and is informing treatments for sleep disorders, obesity, mental health disorders, and other health problems," said Francis Collins, director of the National Institutes of Health, which has supported the research for many years.

We live in a golden age of biological discovery, especially in genetic research, that is yielding insights that have the potential to improve the human condition in ways we are only beginning to understand. Anyone who has ever had insomnia knows the potential benefit of what the three new Nobelists have discovered. Humanity can transcend our worst instincts when we strive to.

Three Americans win a Nobel for research on the biological clock.

ture's only consideration. Before analyzing partisan leanings, the legislature ensured that districts were contiguous and as compact as possible. They also strove to respect city and county boundaries.

The big problem for Democrats in Wisconsin and other states is they are increasingly clustered in urban areas while Republicans are more spread out. This is a major reason that elections have become less competitive and Democrats have lost representation in Congress and statehouses. In 2016 only 303 of the country's 3,113 counties were decided by a single-digit percentage-point margin compared to 1,096 in 1992. During those 24 years, the number of counties decided by more than a 50-point margin rose to 1,196 from 92.

Plaintiffs are trying to entice Justice Kennedy with an ostensibly precise standard to determine unconstitutional partisan gerrymanders. They have proposed an "efficiency gap" formula to count what they call "wasted" votes—that is, those that don't contribute to a candidate victory. But this standard is merely a proxy for proportionality.

How big a gap is too big and unconstitutional? Plaintiffs suggest 7%, but this is arbitrary. Under Wisconsin's court-drawn maps in effect from 2002 to 2010, the efficiency gap favoring Republicans ranged from 4% to 12%. Even with this gap, Democrats won a majority of seats in the state Assembly in 2008.

The efficiency gap reflects partisan geographic concentration far more than political bias. Since 1972, at least 36 states have had efficiency gaps greater than 7% during an election. In 2012 and 2014, the maps in Kansas (drawn by a federal court) and Missouri (by a bipartisan commission) resulted in gaps greater than 10% favoring Republicans. Partisanship isn't stable on an individual or district level, so efficiency gaps will vary by election.

* * *

The larger issue is whether the Justices want to inject the judiciary into partisan disputes even more than it already is. The Supreme Court has had enough trouble judging gerrymanders that are challenged under the Voting Rights Act, which requires states to consider race when drawing districts. If judges make themselves arbiters of every political consideration in redistricting, they will usurp the powers of other branches and make themselves bigger political targets.

This is dangerous for judicial credibility and political consent, and in any case there are non-judicial remedies. The Constitution lets Congress "make or alter" districts, and voters in a dozen or so states have ceded redistricting authority to independent commissions. Political controversies are best resolved by the political process.

The Supreme Court risks making the judiciary an even larger political target.

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LETTERS TO THE EDITOR

I'm Champion of the Real ObamaCare Repeal

The Journal accuses me of saving ObamaCare—how absurd ("The ObamaCare Saviors," Review & Outlook, Sept. 27). As a physician, and one of Congress's most vocal critics of ObamaCare, I have voted for every real repeal of ObamaCare. When the GOP leadership put forward a fake repeal with nearly \$300 billion in insurance company bailouts, I led the opposition and forced a side-by-side vote on real repeal. My real repeal actually got more votes than their fake repeal.

I pledged to repeal ObamaCare, not to keep it. In 2015, 52 of 54 GOP senators voted to repeal ObamaCare. I was one of them. When leadership put forward fake repeal, I insisted we vote again on the 2015 repeal bill that virtually everyone had supported. All it would have taken to repeal ObamaCare was for everyone to vote exactly as they did in 2015. Inexplicably, six of them changed their votes when it mattered. The swamp regathered and tried for another version of fake repeal which came with the fake conservative dog whistle of block grants. The Graham-Cassidy bill would keep almost all of the ObamaCare taxes and spending and redistribute ObamaCare to the states. While money may be spent more wisely at the state level, it is certainly not conservative, or honest, to block-grant virtually all of the ObamaCare money

to the states and call it repeal.

Some fake conservatives have argued just pass it, we don't care if it isn't really repeal, we just want something done. I disagree. I would rather live to fight another day for real repeal. ObamaCare continues its death spiral. Perhaps as ObamaCare continues to swirl downward, Republicans who promised to repeal it will find their mettle.

Meanwhile, I have put forward an alternative to Graham-Cassidy. My alternative requires zero federal money. Instead, it simply legalizes the ability of individuals to form associations and buy their insurance across state lines. My proposal could potentially allow millions of individuals to flee the individual market and buy their insurance across state lines at a great discount. My proposal does not require Congress to act. The president has the legal ability to do this on his own. For nine months, I have worked with President Trump and his Labor Department on this idea, and we are excited that the president promises to act in the near future.

So instead of railing against the most vocal opponent of ObamaCare, maybe the Journal could help champion the only real market reform being offered.

SEN. RAND PAUL, M.D. (R., Ky.)
Washington

Hospital Accreditation Isn't Like Regulation

Regarding "Senator Presses for Disclosure of Hospital Inspections" (U.S. News, Sept. 20): There is a fundamental difference between a private accreditor and a government regulator. Our goal as an accreditor is to identify deficiencies in healthcare delivery and help providers correct those deficiencies; it isn't to find as many deficiencies as possible to justify removing accreditation from those organizations. A regulator, on the other hand, is a public agency with the authority to impose penalties and enforce laws. We wholeheartedly support and implement the rigorous enforcement of the highest standards for health and safety. Our goal and mission is quality improvement. Government agencies decide whether providers may serve the public or receive public funds.

MARK R. CHASSIN, M.D.
President and CEO
The Joint Commission
Oakbrook Terrace, Ill.

Anyone who has observed a health-care organization prepping for an accreditation survey has wit-

nessed the massive effort by the accreditation department, executives, caregivers and staff to come up to standards to pass the accreditation survey. This cycle repeats before every survey because processes have slipped, along with the capability to meet the minimal standards the Centers for Medicare & Medicaid Services requires and the Joint Commission and other accreditors must use to measure health-care organizations.

The hospital accreditation results that Sen. Chuck Grassley wants to make public may not reflect the care patients receive between accreditation cycles. Accreditation, with its incentive to maintain minimal capability, isn't the answer to achieving clinical outcomes safely. Organizations that compete on quality and reliability and lead their markets, focus on designing products, services and delivery processes, and they use process control in real time. These leaders shift resources from accreditation to competing on clinical outcomes by improving process control every day. That's the way to improve quality.

RICHARD MORROW
Bulverde, Texas

The Methodology of Minimum-Wage Studies

Prof. David Neumark ("The \$15 Crowd Tries a Bait and Switch," op-ed, Sept. 26) responds incorrectly to my critique of a University of Washington study of Seattle's minimum wage. The UW study did not properly account for the tech boom occurring in the city but not in the rest of the state. It therefore misattributed a decline in low-wage employment to the minimum-wage policy, rather than to the substantial pay upgrades caused by the boom.

My study, which was careful to control for the boom by using a broader, national set of comparisons, found no effect of the minimum wage on Seattle's restaurant employment. Other economists—including Jared Bernstein, Arindrajit Dube, Kevin Lang and Ben Zipperer have identified the same problem with the UW study. The list includes economists with no stake in current minimum-wage debates.

Mr. Neumark curiously implies that my call for better comparisons reveals an ideological bias. That is not a helpful charge. Making close comparisons is central to the scientific method, including in Mr. Neumark's own work and in the other studies that he cites. The scientific

debate is really about which close comparisons are the right ones.

Equally important, we should not base strong conclusions on the evidence from any single city. The bulk of the credible evidence supports the view that minimum wages have much smaller employment effects than Mr. Neumark claims. As shown by surveys conducted by the University of Chicago's Booth School of Business, a majority of the economics profession agrees.

PROF. MICHAEL REICH
Chair
Center on Wage and Employment Dynamics
University of California at Berkeley

My haphazard observations yield insights into the disappearance of entry-level jobs. Focusing only on McDonald's, I experienced a three-stage sequence. First, only real, live entry-level employees taking orders; second, a mixture of people and machines (ordering kiosks). By chance I found the ultimate in automation and technology on the outskirts of Santa Fe, N.M., in a brand new bright, highly plastic McDonald's with flashing menus on the walls and many kiosks. I had to call out to find an employee.

Hard to miss the drift.

GORDON E. FINLEY
Miami

Pepper ... And Salt

THE WALL STREET JOURNAL



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OPINION

A Line the High Court Shouldn't Cross

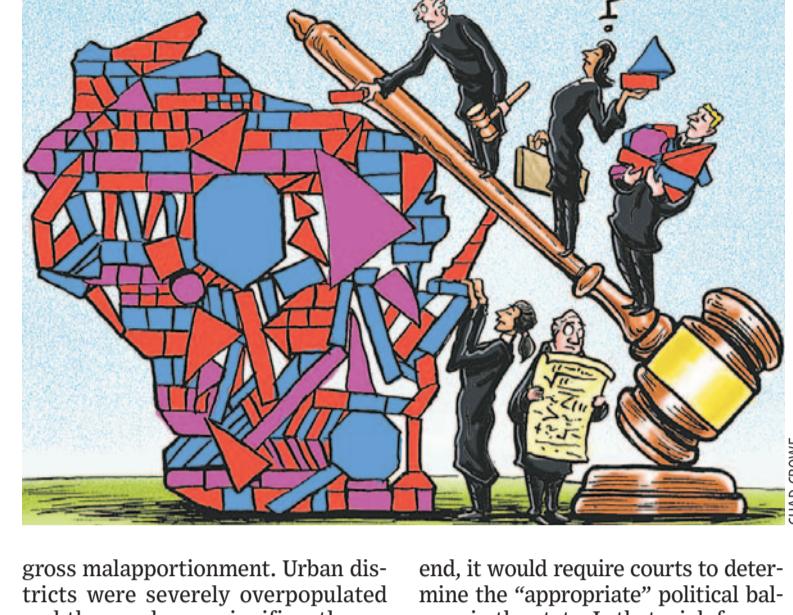
By John Ryder

Lawyers are notoriously bad at math, so when a case involves mathematical formulas, it tends to baffle and confuse advocates and judges alike. Such a case goes before the U.S. Supreme Court Tuesday—*Gill v. Whitford*, a political redistricting case from Wisconsin.

The plaintiffs will present a series of equations giving the illusion of precision and, they hope, masking their underlying political motivation. If the justices accept the plaintiffs' argument, or any of its variations, it would put the courts deep into what Justice Felix Frankfurter called the "political thicket" of drawing political maps. More important, it would undermine a bedrock principle of American politics—that we elect representatives based on electoral districts, not proportionally as in many European countries.

Plaintiffs ask the justices to impose proportional representation, European-style, across the U.S.

The idea that judges have any say in the mapping of political districts is relatively novel. Until *Baker v. Carr* in 1962, the Supreme Court had routinely held that redistricting was a "political question," beyond judicial review. *Baker* presented the court with an egregious case of abuse. The Tennessee Constitution required the General Assembly to redraw district lines every decade, after the census. State lawmakers had ignored that mandate since the turn of the century. Between 1900 and 1950, large numbers of people moved from the country to the cities, producing



gross malapportionment. Urban districts were severely overpopulated and the rural ones significantly underpopulated. By simple inaction, rural lawmakers in the General Assembly were able to preserve their own domination. *Baker* held that the courts could order a redistricting to correct this imbalance.

Fast forward 55 years, and we have plaintiffs who argue that because redistricting hasn't yielded the results they want, they are entitled to judicial intervention. Their theory comes down to this: A political party's representation in a state legislature should be close to its statewide vote total in legislative elections.

The consequences of this proposition would be immense. First, it would require the court to settle on the correct formula. The plaintiffs in *Gill v. Whitford* argued for the "efficiency gap" before shifting to something called "political asymmetry." It raises the possibility of endless litigation over the correct standard, with judges struggling to make sense of testimony from dueling mathematicians. In the

end, it would require courts to determine the "appropriate" political balance in the state. Is that a job for unelected judges?

Second, such a standard would likely require bizarrely configured gerrymanders in order to achieve the judicially determined political balance. Americans have been sorting themselves into political enclaves for decades, as Bill Bishop documented in his 2008 book, "The Big Sort." Mr. Bishop noted the increasing trend of counties to be carried by one party or the other by larger and larger margins. From 1976 to 2004, the proportion of Americans living in counties that were carried by landslide margins (20% or more) in presidential elections increased from 26% to 48%—even though 1976 and 2004 were close elections with similar popular-vote margins (2.1% and 2.4%, respectively).

Others have carried this analysis forward, giving the phenomenon the academic moniker "spatial polarization." David Wasserman of the Cook Political Report observed last March:

"More than 61 percent of voters cast ballots in counties that gave either Clinton or Trump at least 60 percent of the major-party vote last November. That's up from 50 percent of voters who lived in such counties in 2012 and 39 percent in 1992."

What this means for redistricting is Democrats tend to live in one part of a state, or a county, and Republicans in another. In Florida in 2000, Al Gore won 80% or more of the vote in some 800 precincts, while George W. Bush won 80% or more in about 80 precincts. When compact districts are drawn in the Democrat-leaning areas of Florida, they result in districts that vote 70% or 80% for the Democrat. If you draw natural, compact, contiguous districts, you will tend to have concentrated districts of one persuasion or the other. The only way to avoid that is to draw elongated districts that splinter communities and are gerrymandered to achieve a judicially determined political result.

This leads to the most pernicious effect of the argument. It changes the basis of representation from district-based to proportional. Instead of representing a community that is mostly compact and cohesive, the lawmaker would be selected according to a statewide partisan balance determined by the court. Such an approach can only heighten the already intense partisanship of contemporary politics.

In *Gill v. Whitford*, the Supreme Court has an opportunity to put an end to this nonsense by finding that the lower court ignored precedent and misapplied the law. It should do so in order to preserve our democracy.

Mr. Ryder is co-chairman of the Republican National Lawyers Association and a former general counsel of the Republican National Committee. He practices law in Memphis, Tenn., and is an adjunct professor at Vanderbilt University.

First, They Came for the Biologists

By Heather Heying

Who would have guessed that when America cleaved, the left would get the National Football League and the right would get uncontested custody of science?

The revolution on college campuses, which seeks to eradicate individuals and ideas that are considered unsavory, constitutes a hostile takeover by fringe elements on the extreme left. Last spring at the Evergreen State College, where I was a professor for 15 years, the revolution was televised—proudly and intentionally—by the radicals. Opinions not fitting with the currently accepted dogma—that all white people are racist, that questioning policy changes aimed at achieving "equity" is itself an act of white supremacy—would not be tolerated, and those who disagreed were shouted down, hunted, assaulted, even battered. Similar eruptions have happened all over the country.

The postmodernist left on campus is intolerant not only of opposing views, but of science itself.

What may not be obvious from outside academia is that this revolution is an attack on Enlightenment values: reason, inquiry and dissent. Extremists on the left are going after science. Why? Because science seeks truth, and truth isn't always convenient.

The left has long pointed to deniers of climate change and evolution to demonstrate that over here, science is a core value. But increasingly, that's patently not true.

The battle on our campuses—and ever more, in K-12 schools, in cubicles and in meetings, and on the streets—is being framed as a battle for equity, but that's a false front. True, there are real grievances. Gaps between populations exist, for historical and modern reasons that are neither honorable nor acceptable, and they must be addressed. But what is going on at institutions across the country is—yes—a culture war between science and postmodernism. The extreme left has embraced a facile fiction.

Postmodernism, and specifically its offspring, critical race theory, have abandoned rigor and replaced it with "lived experience" as the primary source of knowledge. Little credence is given to the idea of objective reality. Science has long understood that observation can never be perfectly objective, but it also provides the ultimate tool kit with which to distinguish signal from noise—and from bias. Scientists generate complete lists of alternative hypotheses, with testable predictions, and we try to falsify our own cherished ideas.

Science is imperfect: It is slow and methodical, and it makes errors. But it does work. We have microchips, airplanes and streetlights to show for it.

In a meeting with administrators at Evergreen last May, protesters called, on camera, for college president George Bridges to target STEM faculty in particular for "antibias" training, on the theory that scientists are particularly prone to racism. That's obvious to them because scientists persist in using terms like "genetic" and "phenotype" when discussing humans. Mr. Bridges offers: "[What] we are working towards is, bring 'em in, train 'em, and if they don't get it, sanction them."

Despite the benevolent-sounding label, the equity movement is a highly virulent social pathogen, an autoimmune disease of the academy. Diversity offices, the very places that were supposed to address bigotry and harassment, have been weaponized and repurposed to catch and cull all who disagree. And the attack on STEM is no accident. Once scientists are silenced, narratives can be fully unhooked from any expectation that they be put to the test of evidence. Last month, Evergreen made it clear that they wanted two of its scientists gone—my husband, Bret Weinstein, and me, despite our stellar reputations with the students they claimed to be protecting. First, they came for the biologists ...

Science has sometimes been used to rationalize both atrocity and inaction in its face. But conflating science with its abuse has become a favorite trope of extremists on the left. It's a cheap rhetorical trick, and not, dare I say, very logical.

Science creates space for the free exchange of ideas, for discovery, for progress. What has postmodernism done for you lately?

Ms. Heying is a former biology professor at Evergreen State College in Olympia, Wash.

In Hurricane Relief, 2 out of 3 Ain't Good

By Tevi Troy

The federal government deserved the rave reviews it earned for its responses to back-to-back hurricanes in Texas and Florida. The Federal Emergency Management Agency worked well with state and local officials and pre-deployed key resources and personnel. It seemed as though Washington had learned from its failed response to Hurricane Katrina in 2005. Yet as President Trump visits a Puerto Rico devastated by Hurricane Maria, cheers for FEMA have turned to boos. What went wrong?

First, Puerto Rico is an island. Getting resources in place before landfall was much more difficult than using the Interstate Highway System to move people and supplies. A FEMA official told me that "to say it's logically challenging is an understatement."

The logistical challenge was compounded by the devastation on the island. The first responders in Puerto Rico were also victims, which meant many were unavailable to help with

the response effort. The result is that FEMA must transport supplies as well as distribute them, which is typically a local responsibility and not FEMA's real expertise.

In addition, it was harder for the residents themselves to evacuate when planes and boats were the only means of escape. We saw the lines of cars on Interstate 95 headed north from Florida before Hurricane Irma.

When it comes to natural disasters, a president is remembered for faltering, not for succeeding.

Such an escape route was not available to Puerto Ricans or Virgin Islanders. At the same time, being cut off from the mainland made it that much harder for Good Samaritans to assist. A Dallas kosher caterer brought badly needed food to observant Jews in Houston who had been subsisting on Chex Mix after Hurricane Harvey.

Dallas is 239 miles from Houston. Puerto Rico is only 110 miles wide, and the Virgin Islands even smaller, limiting the geographic range from which those willing to help could come.

FEMA must learn how to cope with serial disasters. As we saw with Harvey and Irma, post-Katrina reforms in 2006 improved FEMA's "surge capacity"—its ability to handle more than one disaster at a time or in quick succession. But Texas and Florida are two of the best-prepared emergency-response states, which made FEMA's job easier. Puerto Rico is less well-equipped.

Like any government agency, FEMA has limited resources. Its appropriations run out quickly in one disaster, let alone three, requiring a less-than-nimble Congress to vote for disaster funding. And FEMA personnel, who have been doing heroic work, are only human. They are subject to exhaustion when faced with a month of constant deployments and redeployments.

Finally, there is the issue of presidential focus. While Puerto Rico and

the Virgin Islands reel, the president has also engaged in a feud with the National Football League over recent protests—perhaps not the best fight to take on during a series of natural disasters. This was made worse by failing health-care legislation, a new tax-reform effort and the Alabama special election, not to mention continued saber rattling from North Korea. The White House seemed ready for Harvey, but less prepared to cope with a spate of hurricanes for an entire month.

The lesson here is that presidential leadership is about continued effort in the face of ongoing challenges. As George W. Bush learned with Katrina, you can do a great job in dealing with weather disasters for four years, but the one you falter on is the one for which you'll be remembered.

Mr. Troy, a former deputy secretary of health and human services, is author of "Shall We Wake the President? Two Centuries of Disaster Management from the Oval Office" (Lyons Press, 2016).

The SEC Plans to Collect Too Much Information

By Hal Scott
And John Gulliver

Is your personal information safe from the Securities and Exchange Commission? The SEC has mandated that U.S. stock exchanges and the Financial Industry Regulatory Authority establish a database by November 2018 that will store the names, birth dates, Social Security numbers and brokerage accounts of tens of millions of U.S. investors as part of the Consolidated Audit Trail.

Like Equifax and the SEC's database of corporate filings, the CAT will be a prime target for cyberthieves. And a breach of the CAT could be even more consequential. Cybersecurity experts have said hackers could use the personal information it will store to

make direct withdrawals from investors' retirement accounts.

Over the past two weeks, SEC Chairman Walter J. Clayton and representatives of the stock exchanges and Finra have acknowledged that changes to the CAT may be necessary to further protect against cyber-criminals. But they did not provide any specific recommendations.

The way forward is clear: The SEC should eliminate the collection of sensitive personal information for the CAT, as it is unnecessary to achieve the SEC's policy goals.

The CAT was intended as a response to the 2010 flash crash, when U.S. stocks plunged almost 10% in minutes, then rebounded just as quickly. It took regulators almost six months to identify the cause of the crash, so the

SEC determined that a single resource with comprehensive market data was necessary to respond to future crashes. The SEC has also stated that the CAT would help identify market manipulators and insider traders.

It doesn't need every investor's Social Security number simply to probe stock-market crashes.

The SEC therefore requires that broker-dealers and exchanges report their 58 billion daily orders and trades to the CAT, and that broker-dealers report the personal information of all of their customers. But requiring the collection of personal information, including Social Security numbers and brokerage accounts, was a clear mistake.

Regulators can identify the investor responsible for a market event without a centralized resource of personal information. It can identify the broker behind an order or trade, and then request personal information from the broker. That's how it found the investor behind the 2010 "flash crash."

Bad actors don't typically provide accurate Social Security numbers or names anyhow, so collecting the personal information of all investors is a highly ineffective method of identifying market manipulators. Insider traders also try to obscure their identities by using friends, family, or an alias to place trades.

And why require the collection of personal information from tens of millions of U.S. retail investors who trade only a few times a year? The

SEC already collects the identities of large traders, who are behind major market events and manipulation.

Even if the SEC does not require the collection of highly sensitive personal information, the CAT would still be a target for hackers. It would store all of the orders and trades of each broker-dealer. That's information hackers could use to misappropriate broker-dealer trading strategies worth hundreds of millions of dollars. The CAT would still be a lucrative target.

And a breach could still be catastrophic. Broker-dealers would surely pull back from trading in response to the news that their proprietary trading strategies were no longer secure. The resulting volatility could require an indefinite marketwide shut down. That would deal an irreparable reputational blow to our markets.

Another concern is that the SEC cost-benefit analysis for the CAT did not meaningfully weigh the risk and potential cost of a cybersecurity breach against the benefit from the improved ability to discover the cause of a flash crash or identify a market manipulator. Mr. Clayton should promptly remedy this.

While improvements can surely be made to enhance the accuracy of stock-market data and eliminate duplicative requirements, the SEC already has the tools necessary to police the markets under its jurisdiction. Gathering and storing highly sensitive personal information from tens of millions of Americans is not only dangerous but unnecessary.

Mr. Scott is a professor at Harvard Law School and director of the Committee on Capital Markets Regulation, where Mr. Gulliver is the research director.

THE WALL STREET JOURNAL.

PUBLISHED SINCE 1889 BY DOW JONES & COMPANY

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Executive Chairman, News Corp

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LIFE & ARTS

MUSIC REVIEW | By Jim Fusilli

Beck Gives Bright '60s Rock an Update

WITH "COLORS" (Capitol), Beck Hansen steps away from the sumptuous orchestral-folk of his 2014 disc, "Morning Phase," which won three Grammys—including album of the year—and settles into an environment shaped in large part by the tight, bright rock and pop of the mid-'60s. He does so without abandoning his anything-goes attitude and sense of adventure. Thus "Colors" is a well-made blast of serious music-making that doesn't take itself all that seriously.

Out next Friday, "Colors" was slow to arrive. Recording began in 2013. One track, "Dreams," was issued in June 2015; another, "Wow," came out a year later. The album was scheduled to be released last October. The delay, Beck told me by phone late last week, was caused by the unexpected success of "Morning Phase." "A wave came and we rode it," he said from Los Angeles, where he was visiting the Capitol Records Building. He added that he might have spoken too soon in announcing "Colors" before it was complete, but it was a pre-emptive maneuver. Even as "Morning Phase" was expanding his audience, he said he didn't want to be defined by it or any particular form of music.

Given that two hit singles preceded the album's release by at least a year, a cynic might think "Colors" is akin to those early-1960s LPs that comprised a few hits and a lot of filler. But there isn't any filler here. The tracks are played with focus and fire mostly by Beck and Greg Kurstin, who co-produced and co-wrote most of the record's smart, luminescent songs. A former member of Beck's band, Mr. Kurstin is now best known as a songwriter and award-winning producer of Adele, Kelly Clarkson and Sia, among others. He also produced the new "Concrete and Gold" by Foo Fighters, illustrating that his capabilities extend beyond radio-friendly pop.

On "Colors," Beck and Mr. Kurstin's highly effective marriage of yesterday and today places the guitars in the center and adds pleasing luster with long-ago keyboards like the Clavinet, electric piano and Mellotron. Via kits and synths, drums boom with bigger-than-big beats. The final tracks are the result

of years of experimenting: not so much fine-tuning but reworking songs in their entirety to get a superior result. Beck and Mr. Kurstin would write and record, and then Beck would go off for a while to tour. When he returned, they would resume the "Colors" sessions with what he called an approach that was "reckless and free-wheeling."

"You know the theory that first thought is best thought? What if you had a lot of first thoughts?" he asked rhetorically. "Some ideas stay, some ideas go away. We're not very precious about each song."

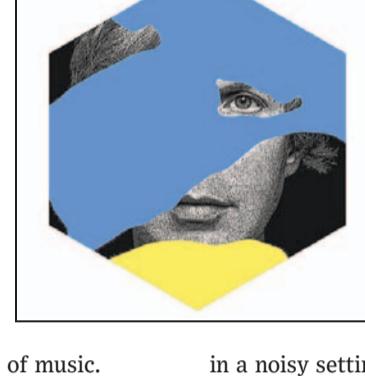
Updating the rock side of mid-'60s pop, the album's "Dear Life" and "Square One" are built around a piano that sounds quite like the upright Paul McCartney played on "Lady Madonna." Silvery raindrops on keyboards give way to resounding drums and bass on "Seventh Heaven," which is sweetened by high vocal harmonies.

But Beck hasn't discarded his hip-hop and rock hybrid he introduced to a mass audience in 1993 with "Loser." Riding in on a rounded bass, "I'm So Free" finds Beck singing to a rock backbeat, but his rap chorus ushers

in a noisy setting before the track circles back to its origins. As guitars chug in "Up All Night," Beck shifts between rapping and melodic singing. Written and recorded with Cole M.G.N., a member of Beck's in-studio team, "Wow" rises slowly from something like a pan flute until Beck begins to rap over glitchy percussion; later in the tune, piano chords are the platform for a rock chorus.

As is often the case with Beck, much is going on in recordings made with great care and maximum invention. Few artists delight in their own work as does the boyish 47-year-old Beck—rightfully so, and his joy is ours too. Hooky and instantly memorable, late in arriving and yet so alive now that it's here, "Colors" is yet another milestone in his fascinating and unpredictable career.

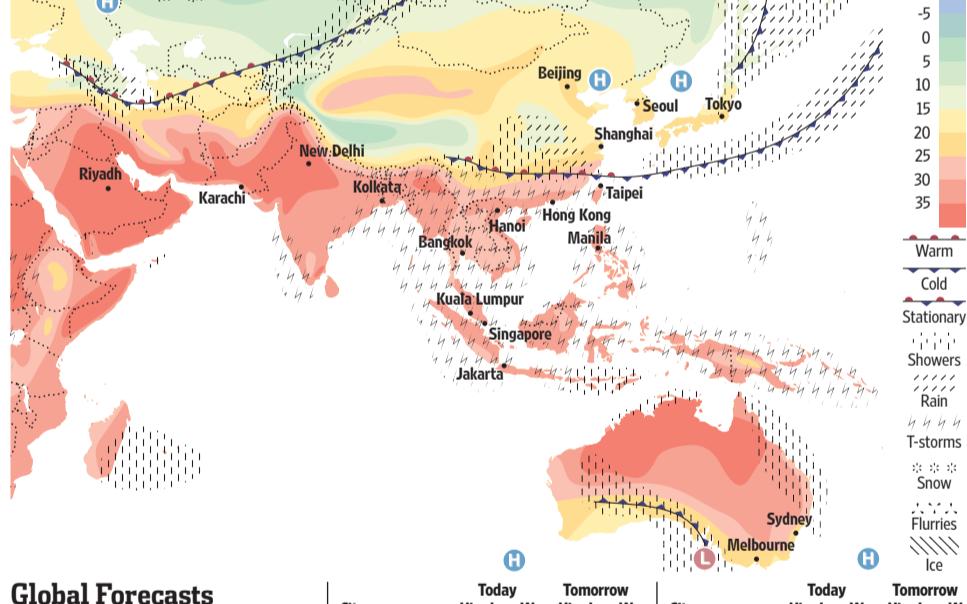
Mr. Fusilli is the Journal's rock and pop music critic. Email him at jfusilli@wsj.com and follow him on Twitter @wsjrock.



PETER HAPAK

Grammy-winning musician Beck, whose new album, 'Colors,' is out next Friday

Weather



Global Forecasts

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

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

Today Hi Lo W Tomorrow Hi Lo W

City Hi Lo W Today Hi Lo W

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Anchorage 12 9 r 12 8 r

Athens 25 16 s 26 18 s

Atlanta 27 15 s 28 17 s

Bahrain 36 17 s 32 17 s

Baltimore 25 13 s 28 15 s

Bangkok 28 24 t 30 25 t

Beijing 22 8 pc 21 11 s

Berlin 13 9 c 12 8 r

Bogota 18 9 t 19 7 r

Boise 14 6 pc 18 5 pc

Boston 24 16 pc 25 15 pc

Brussels 15 10 pc 15 8 r

Buenos Aires 26 16 pc 22 9 pc

Cairo 30 20 s 30 20 s

Calgary 12 0 c 14 2 s

Caracas 31 25 t 33 25 t

Charlotte 26 11 s 29 14 s

Chicago 23 13 r 22 15 r

Dallas 30 21 c 31 20 pc

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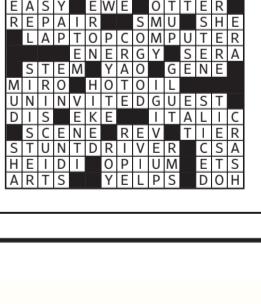
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MULTIDIMENSIONAL | By Alex Eaton-Salners

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11	Itty-bitty	54	Midas motivation
14	American Eagle's lingerie chain	32	"Find Your Grail" musical
15	"And there you have it!"	34	Father and brother of Billy Ripken
16	Scholarship, for example	35	Casino moneymaker
17	One in charge	36	"That's what ___ said!"
19	Barrister's deg.	38	"Young Frankenstein" role
20	Like some January balls	41	Shot in the arm, e.g.
21	One in a class by himself	42	Aloe vera yield
23	He lost twice to Riddick	43	He lost twice to Riddick
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BUSINESS & FINANCE

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THE WALL STREET JOURNAL.

Wednesday, October 4, 2017 | B1

Yen vs. Dollar 112.7960 ▲ 0.03%

Hang Seng 28173.21 ▲ 2.25%

Gold 1272.70 unch.

WTI crude 50.44 ▼ 0.28%

10-Year JGB yield 0.076%

10-Year Treasury yield 2.328%

Emerging Markets Regain Their Allure

Capital inflows lifted by economic growth, and by low returns in developed nations

By GEORGI KANTCHEV

The amount of money flowing into emerging markets is set to top \$1 trillion in 2017, the biggest flow of funds in three years, as economic growth in these countries and low returns in the developed world bump up demand for assets in many developing nations.

Nonresident capital flows to emerging markets are likely to rise to \$1.1 trillion in 2017 and edge up to \$1.2 trillion in 2018, according to the Institute of International Finance, a trade group that represents more

than 500 of the world's biggest banks, hedge funds and other financial firms.

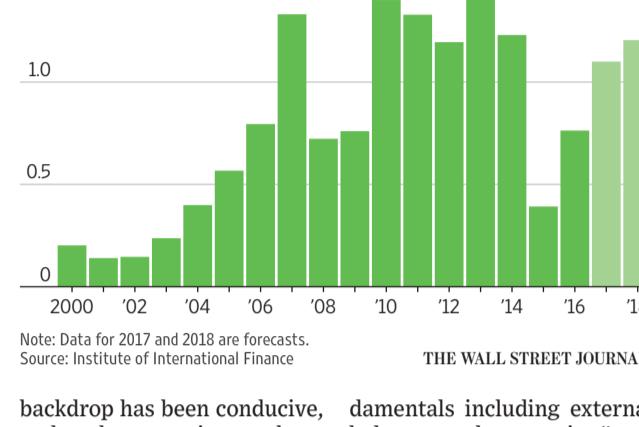
Risks remain. Geopolitical tensions could escalate, while central banks in the developed world might move faster than expected when tightening the monetary policies that have damped returns in home markets. Investors could also be put off emerging markets if the dollar continues its recent upswing or if President Donald Trump follows through on plans to implement protectionist policies.

For now, though, money is continuing to move into emerging markets.

"This year has been sort of a sweet spot for emerging markets," said Kevin Daly, fund manager at Aberdeen Standard Investments. "The global

On the Rebound

Nonresident capital flows to emerging markets are expected to exceed \$1 trillion for the first time since 2014.



Note: Data for 2017 and 2018 are forecasts.

Source: Institute of International Finance

backdrop has been conducive, and at the same time we have seen improvement in EM fund-

ments including external balances and currencies."

The MSCI Emerging Mar-

kets Index of stocks has risen around 26% this year, double the gains of the S&P 500, and is on pace for its best year since 2009.

Currencies like the Mexican peso and Brazil's real have risen this year and so have some developing-country government bonds. Investors in emerging-market hard-currency bonds have made a return of 7.5% so far this year, according to Bloomberg Barclays bond indexes. Investors in local-currency government bonds have fared even better, reaping returns of 11.6%.

Emerging-market assets had underperformed against their developed-world peers for more than two years.

The IIF said Tuesday that on top of stronger inflows from abroad, there was less

outflow from people in emerging markets. The group estimates that resident capital outflows will drop to \$770 billion this year from more than \$1 trillion last year, driven by a large decline in money leaving China.

As a result, emerging markets have swung from large net outflows in recent years to a small net inflow.

Strong economic growth has been a major factor behind the rally this year. The International Monetary Fund expects emerging economies as a whole to grow 4.5% in 2017, up from 4.1% last year and more than double the growth rate in advanced economies.

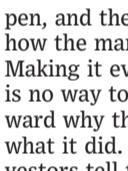
China is set to post solid growth of 6.7%, according to the IMF, on par with last year.

Please see FLOWS page B2

STREETWISE

By James Mackintosh

These Are Taxing Times for Markets



Investors always face two big unknowns: They don't know what will happen, and they don't know how the market will respond. Making it even harder, there is no way to be sure afterward why the market did what it did. And the tales investors tell themselves as a way of explanation are often too simplistic.

The White House tax plan is the big opportunity for investors right now, and many see the risks only about whether it will happen and how big it will be, not in how it will affect the market. It just seems obvious that tax cuts will produce effects similar to the "Trump trade" that gripped the markets after Donald Trump's election last year. Stocks will advance, led by banks, smaller companies, high-tax companies and economically sensitive cyclical stocks. Bond yields and the dollar will go up, and emerging markets will underperform.

The trouble for investors is that exactly this has already been happening in recent weeks.

If it was all about taxes, these market trends would suggest there has been a huge reassessment of the prospects of the plan passing Congress.

In turn, if tax cuts are already priced in, the market will react less if and when they get passed. We need to know why markets moved to assess just how much is priced in so far, and how much further they are likely to move in the future.

Unfortunately, explaining the past month's price moves is hard, because there is a lot more going on than just taxes.

The markets appear to have shifted after the first week of September, when Mr. Trump did a deal with Democrats to extend the debt-ceiling deadline for three months.

After that, investors began to price in a greater chance of a Federal Reserve interest-rate increase in December, bond yields and the dollar started their ascent and the Russell 2000 index of smaller companies—already up from its summer low—stormed ahead along with companies with a higher-than-average tax rate.

The moves look in many ways like a classic reflation trade. When investors bet on a stronger economy, they expect interest rates and bond yields to rise, which helps

Please see STREET page B6



EU Sets Review of Privacy Ruling

By SAM SCHECHNER

Europe's top court will decide whether to ban a widespread legal tool that companies employ when they store data about Europeans on U.S. soil—the latest legal skirmish over what firms can do with the trove of information they are collecting on users.

Two years ago, the European Union's Court of Justice struck down a popular data-transfer mechanism that allowed information on individuals to be shifted relatively easily between the U.S. and Europe. That decision sent companies scrambling to rewrite legal contracts that would keep them in compliance with the ruling, without jeopardizing revenue that relied on that data flow.

Now, the same court will hear whether the standardized language in those contracts goes far enough to protect Europeans' privacy. An Irish court Tuesday asked the high court to make the call. The referral sets up the broadest challenge yet to the practice—common especially among big U.S. companies like Facebook Inc., Alphabet Inc. and Apple Inc.—of storing data collected on Europeans back in the U.S. Such data includes things like web-browsing habits and geolocation records.

Privacy activists argue the U.S. government's ability to obtain legal access to personal information held by some companies in the U.S. amounts to mass surveillance that is prohibited under EU treaties.

The U.S. argues its laws are proportionate and targeted.

The high court may not

Please see EU page B2

U.S. Hog Farmers Bank on Exports

By BENJAMIN PARKIN
AND JACOB BUNGE

More hogs than ever are heading to U.S. slaughterhouses, producing so much extra pork that futures prices have fallen nearly 40% since mid-July.

New meatpacking plants in the Midwest have put the industry on track to kill a record number of hogs this year. To supply them, farmers have expanded their herds to the largest ever for this time of year—73.5 million hogs and pigs, the U.S. Department of Agriculture said.

Americans aren't eating enough pork chops and ham to

keep up. Slaughterhouse owners and hog farmers are banking on selling the surplus in countries like Mexico and South Korea, where demand for U.S. pork is climbing. For now, though, the glut is weighing on lean-hog futures, wholesale pork prices and the price of some consumer staples. Wholesale prices for pork bellies, used to make bacon, fell more than 50% from an all-time high in July that came as consumers ate through tight stocks of the meat cut.

Pork chops were 7% cheaper at retail in August than a year earlier, according to the Bureau of Labor Statistics.

"We're really betting that

we're going to be able to sell this pork outside of our country," said Jan Archer, a hog farmer in Goldsboro, N.C., and former president of the National Pork Board. "That's a big bet."

A fifth of the pork produced in the U.S. this year will be exported, the USDA projects. Pork exports were up 11% in the first seven months of 2017 compared with a year earlier.

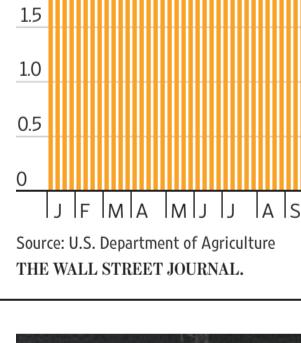
But hog-processing capacity is growing too. Plants that opened in Iowa and Michigan in September will kill an estimated 22,000 hogs a day. Pre-stage Farms Inc. plans to open another Iowa plant next year

Please see HOGS page B2

To Market

Hogs slaughtered, weekly

3.0 million



Source: U.S. Department of Agriculture

THE WALL STREET JOURNAL.

Tesla Misses Goal for Model 3

By TIM HIGGINS

Tesla Inc. badly missed its goal of building 1,500 Model 3 cars in the third quarter, the first sign that production of the new sedan isn't going as smoothly as planned.

The Silicon Valley electric-car maker built 260 of the Model 3s between July and September, the company said Monday. In August, the auto maker predicted it would build more than 1,500 Model 3s before cranking up production to 5,000 a week by the end of the fourth quarter.

The Model 3, which starts at roughly \$35,000, represents Chief Executive Elon Musk's bet that he can transform the luxury auto maker into a more mainstream player around the world. Tesla blamed "production bottlenecks" for the weaker production.

The moves look in many ways like a classic reflation trade. When investors bet on a stronger economy, they expect interest rates and bond yields to rise, which helps

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last year and made more than \$9 billion in profit.

GM said Monday that it plans to introduce two more electric vehicles within 18 months in the U.S. and 20 globally within six years.

Tesla said Monday that its total global deliveries—including Model S sedans and Model X sport-utility vehicles—rose 4.5% to 26,150 compared with a year earlier.

That beat the average estimate of 25,900 deliveries by five analysts surveyed by FactSet.

Tesla's third-quarter results were helped by a 36% rise in Model X sales to 11,865 compared with a year earlier, while Model S sales fell about 11% to 14,065.

Tesla delivered only 220 Model 3s during the quarter, well below the 1,300 that analysts surveyed by FactSet ex-

pected on average. Tesla sold these first Model 3 vehicles in the quarter to employees and investors and expects to begin delivering them to nonemployees in the final three months of the year.

Tesla in August said it expects combined sales of the Model S and Model X to rise during the second half of the

year, up from the 47,100 units reported in the first six months. On Monday, Tesla said it expects sales to exceed that first-half total "by several thousand," reaching about 100,000 vehicles delivered for the year.

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The company built just 260 of its Model 3s in the third quarter.

YONHAP NEWS/NEWSCOM/ZUMA PRESS

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FLOWS

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The pace of Chinese growth has a knock-on effect across emerging markets, not least given China's voracious appetite for commodities.

Emerging-market corporate earnings have had a strong year. The IIF expects them to rise nearly 20% over the next 12 months.

The biggest danger for emerging markets remains monetary policy in the developed world, chiefly the Federal Reserve, the IIF said.

Ultralow interest rates and bond-buying programs in some countries have pushed down yields on bonds in Europe, Japan and the U.S., sending investors to emerging markets in search of higher returns. When developed-world central banks begin unwinding this unprecedented stimulus, yields will likely move higher.

Higher U.S. interest rates also tend to strengthen the greenback, which is typically

bad news for emerging markets, whose debt and commodity exports are often denominated in dollars.

The Fed indicated last month that it remained on track to raise short-term rates later this year and said it would begin shrinking its portfolio of bonds next month. Investors now see a 77% chance of one or more additional rate increases by the end of the year, according to federal-funds futures tracked by CME Group, up from about 50% before the September Fed meeting.

The European Central Bank has signaled it will announce a reduction in its bond purchases when its policy makers meet later this month.

For now, though, many investors appear unfazed.

"I would have been much more worried if we had a combination of Fed tightening and bad fundamentals," said Claudia Calich, fund manager at M&G Investments. "Having just the Fed is not fantastic but it's not the end of the world for emerging markets."

—Christopher Whittall contributed to this article.

GE Chairman Steps Down

Jeff Immelt departs early, giving successor John Flannery control as tough changes loom

By THOMAS GRYTA

Jeff Immelt, the longtime leader of **General Electric** Co., is stepping aside as chairman and leaving the board of the industrial giant several months ahead of schedule.

Mr. Immelt, who resigned from the CEO role on Aug. 1 after 16 years at the helm, is handing over the chairman's seat to his successor John Flannery, effective immediately.

The company said Mr. Immelt had determined the CEO transition was proceeding smoothly and that Mr. Flannery was ready to take over as chairman, according to a regulatory filing made Monday. The filing says the board concurred.

The move shrinks the size of GE's board from 19 to 18 directors.

Mr. Immelt decided to step down sooner than expected to give Mr. Flannery full control as he prepares to make some difficult changes at the company, said people familiar with the matter.

GE has been under pressure from activist investor



Jeff Immelt is stepping down immediately as CEO, as John Flannery takes full control of GE.

The move also frees Mr. Immelt to pursue other opportunities, they added.

Mr. Immelt has been exploring a future after GE. During the summer, he held discussions with **Uber Technologies** Inc. about joining the company as its CEO, but withdrew his candidacy the same day Uber selected the head of **Expedia** Inc. instead.

Mr. Flannery is conducting a strategic review and has promised to share his plans with investors in November. Meanwhile, he has been cutting costs, including grounding the company's corporate jets and delaying part of its new headquarters project in Boston.

Trian Fund Management to slash costs and boost its profits.

Trian didn't immediately respond to a request for comment.

On Monday, Mr. Immelt also stepped down as chairman of **Baker Hughes**, a position he took earlier this year after he combined GE's oil business with the oil-field services company.

Baker Hughes said its board had elected its CEO, Lorenzo Simonelli, another of Mr. Immelt's lieutenants, to take over as chairman effective Monday.

—Joann S. Lublin contributed to this article.

Sterling Reserves Its Global Favor

By MIKE BIRD

Sterling's status as a global reserve currency is little-changed a year after Brexit, a vote that prompted predictions of the pound losing favor among central banks.

The share of global foreign reserves held in sterling has edged up for the first time since the end of 2015, according to data from the **International Monetary Fund** published Friday.

Of the world's \$9.264 trillion in allocated foreign-exchange reserves, 4.4% of the total, or \$408.1 billion, was held in sterling-denominated assets during the second quarter of 2017, from 4.3% in the first quarter of the year.

Central banks and governments buy assets denominated in reserve currencies—mainly the dollar, yen, euro and pound—to give them a pool of liquid securities that, in an emergency, can be sold to prop up the value of their own currency

Following last June's vote to leave the **European Union**, the pound plummeted and some analysts predicted the currency's remaining place in the reserves of central banks would fade, mainly as the country's giant financial services sector declined and increased volatility made it less attractive to hold.

But asset managers that work closely with central banks say they don't believe that these massive buyers have already begun to pare back sterling holdings, or will soon do so. Most central banks with large reserves don't independently publish their currency breakdown.

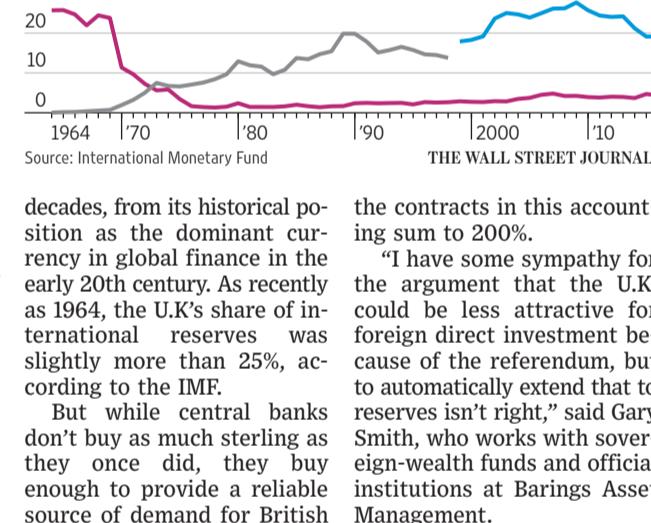
"To the extent we've talked to reserve managers about this, they haven't noted any fundamental change in the way they view sterling relative to anything else," said Gavin Ralston, head of official institutions at Schroders.

The pound has lost around 11% of its value against the dollar and 13% against the euro following last June's referendum.

The U.K.'s role as a reserve currency has diminished for

Bumping Along

As late as the 1960s, the British pound made up more than a quarter of global foreign-currency reserves, before falling sharply.



decades, from its historical position as the dominant currency in global finance in the early 20th century. As recently as 1964, the U.K.'s share of international reserves was slightly more than 25%, according to the IMF.

But while central banks don't buy as much sterling as they once did, they buy enough to provide a reliable source of demand for British government bonds, which can reduce borrowing costs in the country. It can also act as a buffer against volatile currency movements, buying when the pound weakens and selling when it strengthens.

The very designation of being a reserve currency is also a stamp of stability, making assets denominated in them more attractive across the investment world.

Holders of foreign exchange reserves tend to have different priorities than other investors. The mantra of reserve managers is that investments should offer liquidity, safety and returns, prioritized in that order, according to fund managers that help manage them.

In the second half of 2016, the pound was still by some distance the fourth most liquid currency in the world. During that period, 19.9% of the \$68.598 trillion market in foreign exchange contracts had a sterling leg. Since each contract has two currency legs, all

the contracts in this accounting sum to 200%.

"I have some sympathy for the argument that the U.K. could be less attractive for foreign direct investment because of the referendum, but to automatically extend that to reserves isn't right," said Gary Smith, who works with sovereign-wealth funds and official institutions at Barings Asset Management.

Another factor that could currently support the pound's

\$9.2T

Amount in the world's allocated foreign-exchange reserves.

continued position as a reserve currency is its relatively high yield against other currencies.

The yen and euro offer deep markets but meager returns. Japan and the eurozone have ongoing bond-buying programs and negative interest rates, which have pushed down returns for investors, especially on government bonds and the highest-rated corporate credit.

"Sterling still works if you're trying to get diversification."

To be sure, central banks aren't known for rapidly changing their investment decisions, and a decline in sterling's share of currency reserves could yet come.

The latest raft of IMF data on reserves is also complicated by the fact that the People's Bank of China's holdings have been incrementally added since 2015, meaning that the most recent figures aren't like-for-like.

Some analysts maintain that sterling's days as a reserve currency are numbered.

"Historically over the long term you tend to see the correlation between the reserve status of a currency and its importance in global trade," said Frank Gill, director of European sovereign ratings at S&P Global Ratings. Following Brexit, analysts at the credit ratings firm were among those who predicted that sterling could lose its reserve status.

"Brexit is over time going to weigh on the City of London. It's the biggest center of currency trading in the world and at some point this will absolutely put at risk the reserve status," Mr. Gill added.



A glut is weighing on lean-hog futures and wholesale pork prices.

HOGS

Continued from the prior page
that can slaughter 10,000 more. By 2019, the National Pork Producers Council expects capacity to have grown 9.5% from fall 2016.

Livestock industry analysts say rising foreign demand justifies the build-out. But U.S. pork exports rely on politically vulnerable trade agreements. If the Trump administration's efforts to renegotiate the terms of trade disrupt those pacts, the U.S. pork industry could suffer, farmers say.

"We can get them dead, but they've got to go somewhere," said Curtis Meier, who raises hogs near Clarinda, Iowa. Mr. Meier traveled to Washington in September to stress Iowan hog farmers' reliance on trade to the state's congressional delegation.

Already, some farmers who ramped up production to feed the new plants are losing money as pork piles up in the U.S.

After earning an average

\$47.62 per hog in July, Iowa hog farmers on average got a little over half that in August and in September stood to lose \$3.89 per hog, according to Iowa State University. Farmers are projected to lose \$11.21 a hog in October, and first make a profit again in March. Those estimates don't account for farmers hedging prices with futures or other financial strategies.

"We thought when these new plants got built there would be a short period of time when the independent producer would benefit," said Chuck Wirtz, who raises 30,000 hogs a year near Whittemore, Iowa. "But that's not been the case."

Ken Norton, who produces piglets in Bronson, Mich., expanded his herd to 6,000 sows from 1,500 in anticipation of the plant that **Clemens Food Group** opened in September, 13 miles away in Coldwater. But only half of his production is initially destined for the plant.

"Our expansion would not have happened were it not for this plant coming in," Mr. Norton said. "For us to succeed,

they have to succeed."

Continued from the prior page hear the case for more than a year, and the European Union could meanwhile beef up requirements for the contractual language, or the court could give it time to do so after a ruling. That language is now baked into data-collection contracts across a swath of businesses, including those related to online advertising and cloud storage.

Businesses and corporate lawyers argue that invalidating the standardized contractual clauses would create huge costs for companies. BSA, a Washington, D.C.-based trade

group representing the software industry, says this type of contractual language provides legal backing for millions of daily data transfers out of Europe. Lawyers say invalidating the current language would force companies to spend heavily to rewrite contracts. It could also stop some from transferring data altogether.

"Losing that mechanism would leave an impossible huge black hole in the legality of international data flows," said Eduardo Ustaran, a privacy lawyer at Hogan Lovells.

Such uncertainty could also force companies to build new infrastructure in Europe, or to totally separate their businesses on either side of the

Atlantic. Companies that process personal information to sell online advertising based on online behavior could be particularly hard hit. Behavioral advertising is a €10.6 billion (\$12.4 billion) business in Europe, according to research sponsored by IAB Europe, an advertiser trade group.

Facebook, whose use of the standard clauses was the basis of the case referred to the Court of Justice on Tuesday, said the clauses "are essential to companies of all sizes, and upholding them is critical to ensuring the economy can continue to grow without disruption."

Concerns over U.S. surveillance were what led the high

court in 2015 to strike down a former EU-U.S. agreement dubbed "Safe Harbor," that allowed companies to send European data to the U.S., provided the companies adhered to a set of privacy principles. After that decision, the EU and U.S. negotiated the "Privacy Shield" agreement. So far some 2,500 companies have signed up to the new pact, compared with about 4,500 for Safe Harbor. The EU is currently reviewing that agreement as part of a yearly process that allows it to be suspended, making the contractual clauses at issue in the current court case an important fallback for companies, corporate lawyers

BUSINESS NEWS

Electric Vehicles Are Rolling Ahead

By MIKE COLIAS

Detroit's largest auto makers ramped up plans for electric vehicles in coming years, the latest push from traditional car companies to respond to tougher emissions regulations and the prospect that some markets across the globe eventually could ban internal-combustion engines powered with fossil fuels.

General Motors Co. plans to introduce two more electric vehicles in the U.S. during the next 18 months and 20 globally within six years, said the nation's largest auto maker by sales. At the same time, cross-town rival **Ford Motor** Co. said it had formed a new team

charging stations needed to keep vehicles powered. Investors have bid up shares of Tesla Inc., pressuring traditional car companies, but the Silicon Valley electric-car maker consistently loses money.

Still, countries including China, the U.K., France and India have signaled plans to ban sales of vehicles powered with gasoline or diesel fuels in the coming decades. The head of California's Air Resources Board recently suggested the state could follow suit. That is in addition to burgeoning negotiations among California, Trump administration officials and car executives about potentially relaxing tough future emissions standards that require companies to sell vehicles getting better mileage.

The upshot is car executives, even while highlighting challenges with market demand and lobbying for regulatory changes, are increasingly sounding bullish on electric cars and, in some instances, echoing statements from government officials.

"General Motors believes the future is all-electric," said Mark Reuss, GM's product-development chief, at the auto maker's suburban Detroit design center. He said GM's future electric vehicles would be profitable, without further explanation.

GM's lineup will continue to offer hybrids and traditional vehicles reliant on gasoline and diesel fuels during what the company expects to be a prolonged transition to those predominantly running on batteries, Mr. Reuss said.

GM said it would use the underpinnings of the Chevrolet Bolt electric car currently on sale for coming vehicles in the U.S., but declined to discuss further details of their makeup. The auto maker also said it has developed a next-generation battery system that will allow for greater flexibility in electric-vehicle sizes and body styles.

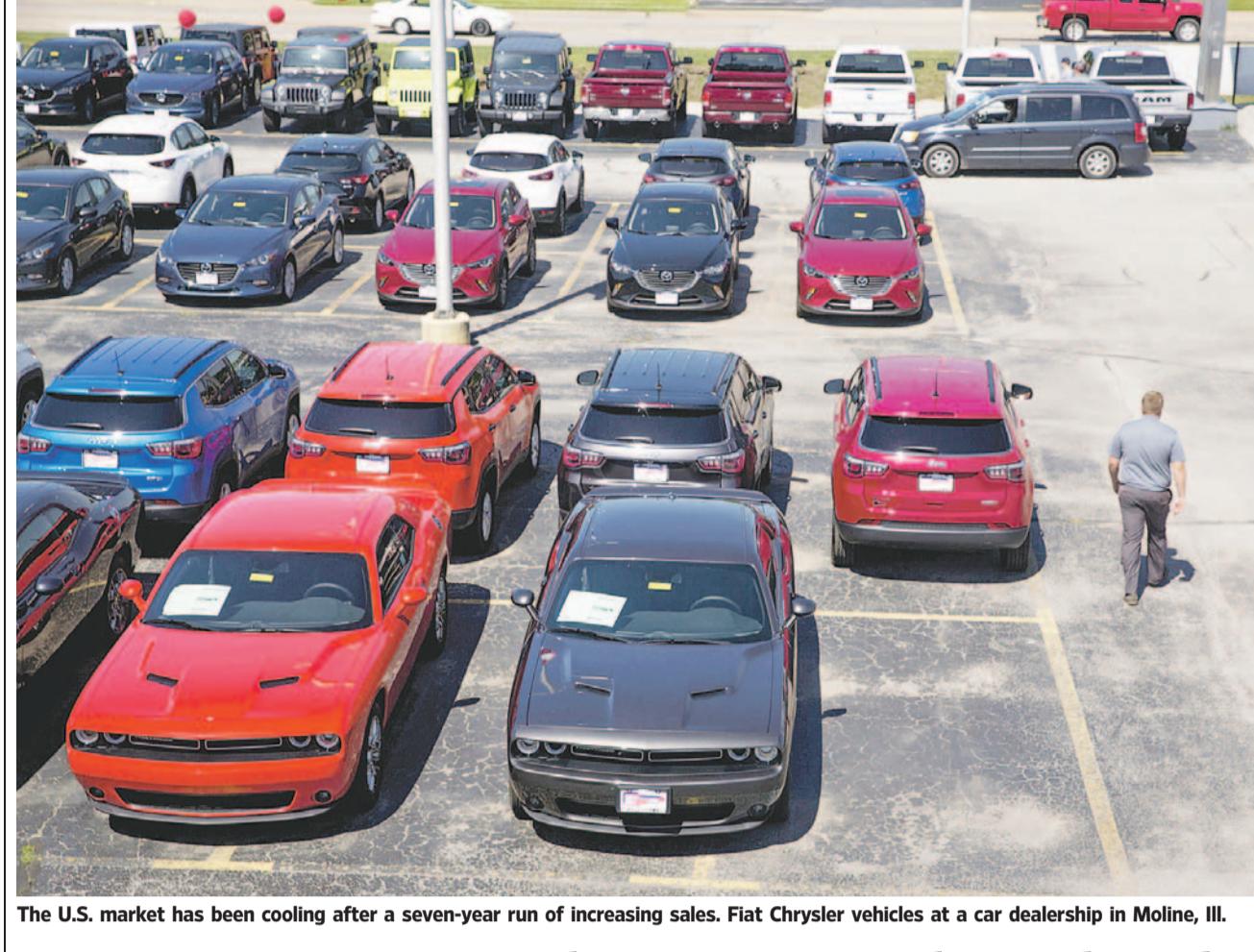
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EVs that GM plans to introduce globally within six years.

to help direct investments toward new electrified vehicles expected in the next several years. The Detroit-based group, called "Team Edison," will explore partnerships with suppliers and other companies, the auto maker said.

The companies are investing billions of dollars in electric vehicles despite challenges in turning a profit on them due to expensive technology costs that increase vehicle prices, and tepid consumer demand. GM and Ford are minting profits in the U.S. with fuel-thirsty pickup trucks and sport-utility vehicles that consumers find enticing amid low gasoline prices.

Electric vehicles account for less than 1% of U.S. sales, and a sliver of the nearly 90 million total vehicles sold worldwide last year. Infrastructure challenges remain, with additional



The U.S. market has been cooling after a seven-year run of increasing sales. Fiat Chrysler vehicles at a car dealership in Moline, Ill.

DANIEL ACKER/BLOOMBERG NEWS

U.S. Car Sales Break Skid

Discounting demand related to hurricane damage fuel monthly rise in lackluster year

By MIKE COLIAS
AND ADRIENNE ROBERTS

Major auto makers posted mostly solid U.S. sales gains in September amid heavier consumer discounts and surging demand to replace hurricane-damaged vehicles, giving the industry relief from months of declines and some momentum heading into the key fourth-quarter selling season.

General Motors Co. said Tuesday its U.S. sales rose 12% last month compared with a

year earlier to 279,397 vehicles. **Ford Motor** Co.'s sales rose 9% last month to 221,643 vehicles. Both GM and Ford reported sharply higher sales of pickup trucks and SUVs, their most profitable products.

The results were lifted by an additional selling day versus September 2016, and both companies reported an increase in deliveries to fleet customers, a less-profitable business line than retail sales.

Toyota Motor Corp.'s sales surged 15% to 226,632 vehicles, bolstered by strong demand for its revamped Camry sedan. **Nissan Motor** Co. sales rose nearly 10% to 139,932, a record for the month. **Fiat Chrysler Automobiles** NV

said sales dropped 10% to 174,266, hurt by a planned reduction in sales to rental-car companies.

Honda Motor Co. posted a 7% increase, to 142,722 units, led by sales of the Civic compact car.

Full industry results for September, due out later in the day, were expected to show sales hit their briskest pace of 2017. Auto sales have been lower every month this year as demand cooled following a seven-year run of increasing sales, including a record 17.55 million vehicles sold in 2016.

Industry sales are all but certain to fall short of last year's record.

But auto makers hope a

strong fourth quarter will signal the market is stabilizing after slipping this year. Research firm IHS Markit expects a 3% decline this year followed by relatively flat sales in 2018.

While auto makers cited replacement demand for the hundreds of thousands of vehicles lost to flooding in metro Houston, heftier discounts also lifted September results. Incentives averaged \$4,048 per vehicle last month, a record for any month, according to research firm J.D. Power.

Auto makers have been forced to sweeten deals for consumers to move a backlog of vehicles that have been clogging dealer lots since spring.

BUSINESS WATCH

CELADON GROUP

Trucking Firm Says It Faces SEC Probe

Celadon Group Inc., the debt-laden trucking company in the middle of a turnaround plan, confirmed Monday it is under investigation by the U.S. Securities and Exchange Commission.

The company said it is working to gather requested documents after receiving a subpoena from the SEC. The SEC declined to comment on its investigation.

Celadon's auditor earlier this year withdrew its reports for fiscal year 2016 and two subsequent quarters after a joint venture involving its leasing division came under scrutiny.

Shareholders have also filed several lawsuits alleging false or misleading financial reports.

—Cara Lombardo

GAWKER.COM

Bankrupt Website Is Being Shopped

Gawker.com is being shopped more than a year after losing a legal fight brought by retired professional wrestler Hulk Hogan that forced the site into bankruptcy. A new owner would be able to remove old articles from the website, giving individuals an opening to have unwanted articles about themselves or others taken down.

The potential sale creates a situation where financial considerations and the specter of new litigation over old Gawker articles could determine whether the archive of one of the most prominent blogs of the past decade will be preserved or altered. The website ceased publishing new articles last summer and is currently inactive.

"The 'Gawker' brand is known for being a pioneer of internet journalism and playing a major role in influencing news organizations across the world to push the boundaries of traditional media," according to a flier sent Friday to prospective buyers, prepared by **Dacarba** LLC, the firm overseeing the sale process.

Univision Communications Inc. last year bought Gawker's sister sites, among them Jezebel, Deadspin and Gizmodo, out of bankruptcy for \$135 million.

—Jonathan Randles

EU Is Poised to Hit Amazon for Back Taxes

By NATALIA DROZDIAK AND SAM SCHECHNER

BRUSSELS—The European Union's antitrust regulator is set to order Luxembourg to retrieve roughly several hundred millions of euros in allegedly unpaid taxes from **Amazon.com** Inc. as soon as Wednesday, according to people familiar with the matter.

The decision would come amid a renewed crackdown by the EU, which has promised to scrutinize tax arrangements between its various member states and big multinationals operating in Europe.

Regulators in Brussels have homed in on sweetheart tax

deals governments have issued to large multinationals in allegedly illegal state aid. Last August, the European Commission ordered **Apple** Inc. to repay Ireland €13 billion (\$15 billion) in what it said was uncollected taxes, a ruling both Apple and Ireland are contesting.

Luxembourg's tax practices in particular came under the spotlight after leaked documents revealed details of hundreds of highly favorable deals it has granted to companies including **PepsiCo** Inc. and **FedEx** Corp.

Since the Apple decision,

Amazon has stood out as one of the largest targets that

have been under investigation by the EU.

The commission is also continuing to investigate Luxembourg's tax treatment of **McDonald's** Corp. and **Engie SA**.

The commission first opened its formal probe into Amazon's tax arrangements with Luxembourg in October 2014, arguing that a 2003 tax deal granted to Amazon in Luxembourg effectively caps the U.S. company's tax payments in the Grand Duchy.

Central to the case is a royalty fee, estimated at about €500 million annually, which Amazon's European head office, Amazon EU Sarl, pays to

another Luxembourg subsidiary. The royalty, for use of the group's intellectual property rights, reduces Amazon's tax bill in Luxembourg because the second subsidiary isn't subject to local corporate tax.

The commission at the time said it questioned the methodology used to calculate that royalty, which it described as "cosmetic," and said Luxembourg's tax calculations didn't appear to comply with international guidelines. Luxembourg's authorities may not have properly assessed the 2003 deal given they approved it within "a very short period" of 11 working days, the regulator said at the time.

Luxembourg has previously said the allegations of state aid in this case are unsubstantiated, while Amazon has said it received no special tax treatment from Luxembourg.

The regulator's move comes as France, Germany, Italy and Spain are seeking to convince the bloc's executive body to establish an "equalization tax" on revenue generated in Europe by digital companies. It is aimed at reflecting what they believe companies should be paying in corporate tax.

The Financial Times earlier reported that the EU is expected to lodge its decision against Amazon on Wednesday.

Payday Lending Trial Puts Spotlight on the Industry

By REBECCA DAVIS O'BRIEN

A federal racketeering trial under way in New York is shedding light on the controversial business of payday lending, a multibillion-dollar industry that some describe as predatory and others defend as a vital service.

Prosecutors allege that Scott Tucker, a Kansas City businessman and race car driver, ran a \$2 billion payday-lending enterprise that illegally charged as much as 700% interest on short-term loans to more than 4.5 million people. Government lawyers say Mr. Tucker's company hid the terms of the loans in deceptive paperwork and used partnerships with Native American tribes to evade state laws.

Lawyers for Mr. Tucker have argued at trial that he formed legal business partnerships with tribes, relying on lawyers to help him navigate an unevenly regulated and unfairly maligned industry. They say the terms of the loans were spelled out in documents and emails to customers. Mr. Tucker's co-defendant, Timothy Muir, is a lawyer who worked for Mr. Tucker's company.

The case could go to the jury by the end of this week, according to a spokesman for the Manhattan U.S. attorney's office. The defense is presenting its case this week.

Much of the evidence presented at trial by the government focused on the particularities of Mr. Tucker's business practice. But hanging above the trial looms a larger question about the value of payday lending—whether it largely offers critical financial help to the uncreditworthy, or preys on those who can least afford its lofty fees.

Payday loans, which carry annual interest rates often approaching 400%, have effectively been made illegal in many states.

In the coming weeks, the Consumer Financial Protec-

tion Bureau is set to roll out the federal government's first effort to regulate payday lending.

Lenders have pushed back against the proposed federal regulations, saying that an estimated 10 million to 12 million Americans who take out payday loans every year could lose access to credit.

This argument has been echoed in Mr. Tucker's trial.

"Payday lending is a lifeline for some people who don't have access to other ordinary lines of credit," for "millions of people who survive on paycheck to paycheck," said

James M. Roth, a lawyer for Mr. Tucker.

Prosecutors from the Manhattan U.S. Attorney's Office have painted Mr. Tucker as a symbol of the industry's worst excesses.

"It's a case about how together both these men built an illegal payday lending empire that took billions of dollars from millions of people who were struggling to get by and how they hid that crime from the law for over a decade," Assistant U.S. Attorney Hagan Scotten said in opening remarks on Sept. 12.

Mr. Tucker then used the

proceeds to support an extravagant lifestyle, including a successful side career in racing, prosecutors have argued.

Mr. Tucker and Mr. Muir have each pleaded not guilty to 14 criminal counts, including violations of racketeering and lending laws.

Prosecutors allege that Mr. Tucker's company, **AMG Services** Inc., and its affiliates tried to skirt state caps on interest rates by using business arrangements with Native American tribes, whose sovereign status means they aren't subject to the same state laws.

Customers ended up on the hook for huge interest payments in part because the loans automatically renewed unless the customer opted out, prosecutors argue.

The government says those terms were deliberately hidden in confusing language on loan documents.

The defense pointed to the language as proof that customers were, in fact, informed of the loans' terms.

"You'll see that the customer was told, 'This loan is going to be renewed,' and if you didn't want to renew the loan, you merely just sent an email," Thomas J. Bath, said in opening arguments.

"Many people didn't do that, but it's not like they didn't have a choice."

—Yuka Hayashi contributed to this article.



Prosecutors say Scott Tucker illegally charged as much as 700% interest on short-term loans.

BRENDAN MCDERMID/REUTERS

TECHNOLOGY

WSJ.com/Tech

Key Document Emerges in Waymo Case

Filing in Alphabet-Uber trade-secrets legal battle relates to ex-Google engineer

BY JACK NICAS

Google parent **Alphabet Inc.** has produced a long-anticipated document in the high-stakes legal battle with **Uber Technologies Inc.** that showed the ride-hailing company knew a former Google engineer had confidential Google files before buying his self-driving-car startup.

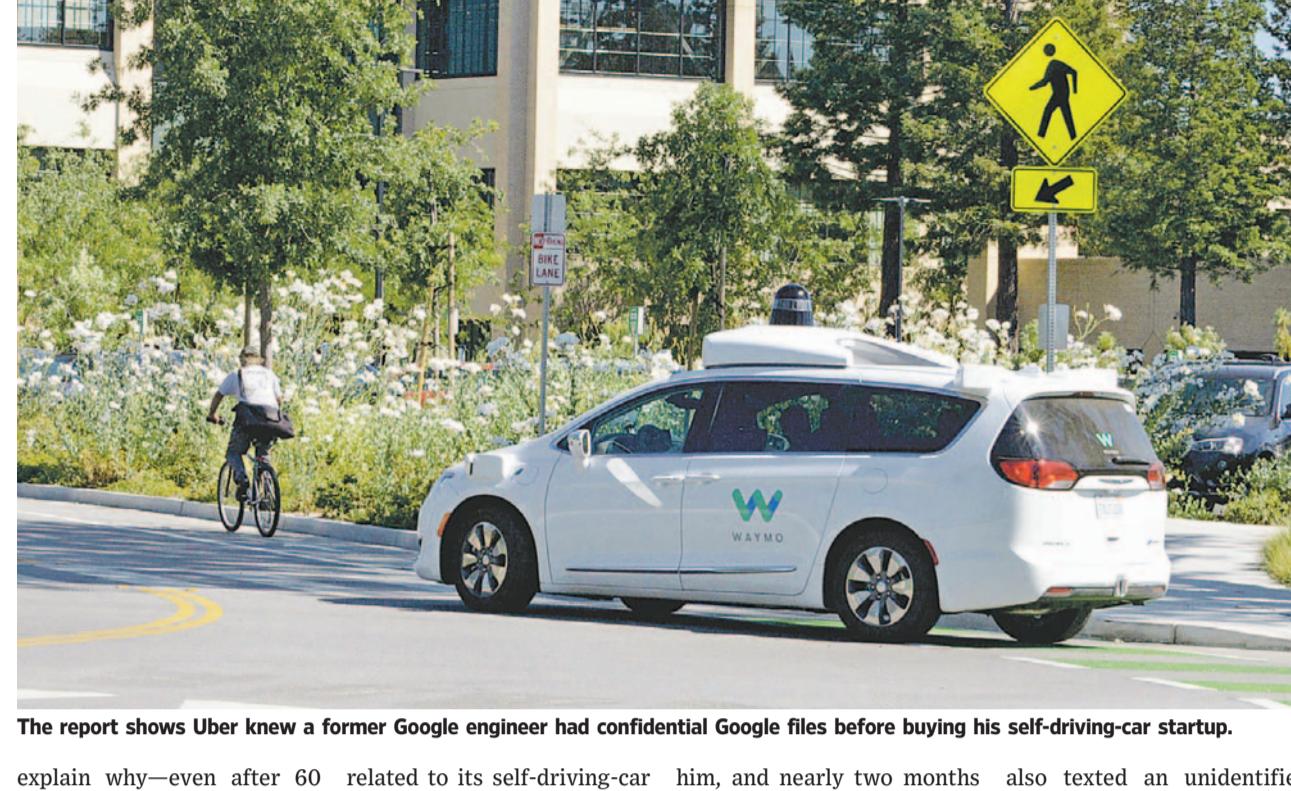
The report, however, stopped short of establishing that Uber possessed or used those files to jump-start its own driverless-car program—the allegation at the center of Alphabet's lawsuit.

The revelations came from a due-diligence report about Anthony Levandowski and other former Google engineers that Uber commissioned in March 2016 before buying their startup, **Ottomotto LLC**, known as Otto, months later. Alphabet's self-driving-car unit, **Waymo**, attached the report to a filing late Monday, having successfully forced Uber to hand over a copy after months of fighting to access it.

Waymo sued Uber in February for allegedly stealing its trade secrets, claiming the ride-hailing firm conspired with Mr. Levandowski to bring thousands of files to Uber. A jury trial is set to begin later this month, though the federal judge overseeing the case was expected to rule Tuesday on Waymo's request to postpone the trial so it can better prepare.

Waymo said the report shows Mr. Levandowski stole Google files, accessed them after leaving the company and tried to destroy the evidence. "Knowing all of this, Uber paid \$680 million for Mr. Levandowski's company, protected him from legal action, and installed him as the head of their self-driving-vehicle program," Waymo said in a statement. "This report raises significant questions."

Uber said it commissioned the report to prevent Google intellectual property from coming to Uber, and it "helps



ANDREW SOLODOV/DPA/ZUMA PRESS

The report shows Uber knew a former Google engineer had confidential Google files before buying his self-driving-car startup.

explain why—even after 60 hours of inspection of our facilities, source code, documents and computers—no Google material has been found at Uber."

Attorneys for Mr. Levandowski didn't respond to a request for comment.

The report showed that Mr. Levandowski had Google files

related to its self-driving-car project on his phone, laptop, cloud-storage drive and external disk drives, including computer code, design files, engineering documents, presentations, and 50,000 emails. Some of the files were accessed as recently as March 22, 2016, the day investigators hired by Uber interviewed

him, and nearly two months after he left Google.

The report, prepared by risk-management firm Stroz Friedberg, also states that Mr. Levandowski and other early Otto employees appeared to conceal their activity ahead of interviews with Stroz investigators. Mr. Levandowski deleted his text messages and

also texted an unidentified person instructing him or her to delete text messages every night, the report said. Investigators said in the report that, during one interview, they caught Mr. Levandowski trying to empty the trash bin on his computer. And another former Google employee searched the internet for instructions to se-

cretly delete files from his computer before interviews with investigators, according to the report.

Still, the report doesn't show that Uber possessed or used the Google files. Waymo has suggested Mr. Levandowski's access to such files means he easily could have incorporated Google trade secrets into Uber technology. Waymo said in a filing Monday that many of the files found in Mr. Levandowski's devices relate directly to Waymo's trade secrets.

Despite the report's findings, Uber said neither its board nor its then chief executive, Travis Kalanick, received the report before acquiring Mr. Levandowski's startup. Uber attorneys did receive the report before the acquisition. Former Uber director Bill Gurley told Waymo attorneys in a deposition that he wouldn't have approved the purchase if he had seen the report—and that Mr. Kalanick told directors the report "came back clean," a Waymo attorney said in court recently.

Mr. Gurley is a partner at Benchmark, which has sued Mr. Kalanick for allegedly defrauding directors by hiding unethical behavior.

Mr. Kalanick didn't respond to a request for comment.

Uber Board Girds for Voting-Rights Fight

BY GREG BENSINGER

Uber Technologies Inc.'s board braced for a contentious battle over voting control after two investors threatened legal action ahead of a planned vote Tuesday that could upend the board and diminish the power of some of the company's earliest shareholders.

On Monday, two investors sent a letter to several board members—co-founder and former CEO Travis Kalanick, co-founder and Chairman Garrett Camp, and early employee Ryan Graves—urging them to vote against a proposal that would strip certain investors of their so-called supervoting rights, which give them multiple votes per share. The pro-

posal is intended to restrict Mr. Kalanick's grip on the company and create equal voting power among shareholders, among other changes.

"If you vote in favor of Tuesday's proposal, our clients have authorized us to pursue any and all legal recourse including but not limited to actions against you personally," the investors said in the letter, which was reviewed by The Wall Street Journal.

The letter was sent by celebrity attorney Mark Geragos on behalf of investors Shervin Pishevar and Steve Russell, early backers of the company and vocal critics of some of Uber's recent moves. The investors targeted those three board members because they all own a substantial amount

of supervoting rights.

Mr. Kalanick, Mr. Camp and Mr. Graves couldn't be reached for comment.

Uber's board was planning a vote on a series of proposals Tuesday that include giving later-stage investors the ability to vote based on the size of their stake—known as one share, one vote—rather than the current system, which gives early investors an outsize voting power, according to people familiar with the matter.

The proposal also would enforce a two-thirds majority vote for any previous officer to return as CEO, viewed by some as a direct challenge to Mr. Kalanick, and give new CEO Dara Khosrowshahi more power to appoint directors in

the future, these people said.

The board is also considering a proposal to allow an investment of as much as \$10 billion by a consortium led by Japan's SoftBank Group Corp. Under that plan, the investor group would invest \$1 billion directly in Uber at the earlier \$68 billion valuation and the rest would come through an auction offered to current stakeholders at a discount of around 30%. The letter adds to the drama surrounding Uber, the world's most highly-valued startup, as it seeks to reverse a year of scandals with an eye toward an eventual IPO. The board is divided over the fate of the ride-hailing startup as Mr. Kalanick tries to retain some control after his ouster

as CEO, while other directors seek a new direction under Mr. Khosrowshahi.

Meanwhile, one of Uber's largest investors, Benchmark, sued Mr. Kalanick in August over three board seats in his possession, alleging he defrauded directors into giving him more control last year by hiding "inappropriate and unethical directives." Mr. Kalanick has disputed the allegations, and the case is now pending in arbitration.

In what is viewed as a power play in response to Benchmark's suit, Mr. Kalanick on Friday shocked the board by appointing former Xerox CEO Ursula Burns and former CIT Group CEO John Thain as board members without first consulting the other directors.

By DREW FITZGERALD

Telecom Deal Clears U.S. Hurdle

BY TAKASHI MOCHIZUKI

TOKYO—**Sony Corp.** said the head of its videogame unit, who steered PlayStation 4 sales to the top spot globally, will leave the Japanese conglomerate by the end of this year.

Andrew House, who has served as the global chief executive officer of Sony Interactive Entertainment since 2011, has passed the baton to Tsuyoshi "John" Kodera, deputy president of the unit, the company said.

Mr. House will remain as chairman of the unit until the end of year.

"I'm tremendously proud of what we've built with PlayStation and Sony Interactive Entertainment," Mr. House said in a statement.

"PlayStation has been a huge part of my life for more than 20 years but with the business having achieved record-breaking success, now seemed to be the right time for me to pursue new challenges."

A Sony spokeswoman said

Mr. House plans to spend more time with his family before embarking on a new career in the entertainment industry.

Mr. House, who joined Sony in 1990 as a spokesman, took over as global CEO of Sony's

videogame unit from Sony group chief Kazuo Hirai six years ago and grew the unit into the Japanese entertainment and electronics conglomerate's most successful business.

Under Mr. House's leader-

ship, Sony's videogame unit launched the PlayStation 4 console and related network services such as PlayStation Now and PlayStation Vue. Revenue from these network services is an important source of cash for the company.

"I'm extremely grateful to Andy for the great contribution he has made to evolving the PlayStation business, and firmly positioning it as one of the drivers of our future growth," Mr. Hirai said in the statement.

RW Baird analyst Colin Sebastian said: "With Kaz Hirai still in charge at Sony, and a staunch supporter of the PlayStation business, I would not expect much change in the near term, especially given the success of the PS4 to-date."

Mr. Kodera, the new chief of Sony's PlayStation business, joined the company in 1992. In his previous role, he helped strengthen the company's network-based services, which are important drivers of Sony's recurring revenue business model.

"I intend to build on the amazing progress Andy has made enhancing the PlayStation brand and expanding the game and network services businesses," Mr. Kodera said in the statement.

—Sarah E. Needleman contributed to this article.



AKIO KON/BLOOMBERG NEWS

concerns.

The companies said Tuesday documents have been refiled with CFIUS to review the deal, adding that the transaction could close by Nov. 30 with committee approval.

Broadcom, which is domiciled in Singapore and has headquarters in San Jose, Calif., operated as Avago Technologies Ltd. until February 2016, when that company completed a \$37 billion purchase of Broadcom Corp. Avago, the former semiconductor unit of Hewlett-Packard Co., retained the Broadcom name.

Broadcom and Brocade have been and will continue to be actively engaged with

CFIUS, remain fully committed to the merger and will continue to work diligently and cooperatively to close the merger," the companies said Tuesday.

Broadcom spokesman said the long review isn't atypical and is due partly to the complexity of the transaction and the sensitivity of the technology it produces. A Broadcom spokesman declined to comment further.

The U.S. has toughened its scrutiny of certain foreign deals, with Washington growing increasingly more concerned with transactions involving Chinese companies beginning in the Obama administration.

Several deals involving Chinese companies earlier this year were forced to refile their petitions after failing to get approval within the roughly two-and-a-half month review period.

Last year, Broadcom agreed to buy Brocade for \$5.5 billion, aiming to expand beyond its main business in chips to add boxes that help connect storage systems to computers in data centers.

Broadcom, one of Silicon Valley's most aggressive acquirers, said it planned to sell Brocade's other communications technology businesses to avoid competing with companies that now buy Broadcom chips.

The sale of Brocade's networking unit to **Arris International PLC** for about \$1 billion is one such divestiture. In a separate statement Tuesday, Arris said it remains committed to its pending acquisition.

On Tuesday, **Extreme Networks Inc.** announced a revised deal with Brocade, planning to acquire Brocade's data-center switching, routing and analytics business before the Broadcom purchase closes.

The deal between Broadcom and Brocade stands to help Broadcom reduce its reliance on sales of wireless chips for smartphones, a market that has slowed.

Apple Inc. is Broadcom's largest customer.

Broadcom, Brocade Push Back Deadline for Deal Closing

BY EZEQUIEL MINAYA

Broadcom Ltd. and **Brocade Communication Systems Inc.**, technology companies that have been trying to complete a \$5.5 billion tie-up since last year, have agreed to push back the deal-closing deadline to allow for additional regulatory review.

Under the original merger agreement, the companies could walk away from the deal on Nov. 1 if it hadn't closed. But the transaction has been delayed due to a review by the Committee on Foreign Investment in the U.S., or CFIUS, a government agency tasked with screening foreign investments for national-security

concerns.

The companies said Tuesday documents have been refiled with CFIUS to review the deal, adding that the transaction could close by Nov. 30 with committee approval.

MANAGEMENT

In Boardroom, Worries About Toxic Culture

Whirlpool, Citigroup and CACI International are among those taking steps to increase oversight of their business environments

BY JOANN S. LUBLIN

Corporate culture counts. But bad culture can damage a company's reputation, results and recruitment.

That's why boards are starting to scrutinize the cultures of companies they serve. Directors at **Whirlpool Corp.**, for example, make sure its workers feel comfortable divulging bad news by tracking internal surveys. Companies such as **Citigroup Inc.** and **CACI International Inc.** have formed board culture committees.

Culture describes the way values and actions create a unique business environment. One recent study found that a positive corporate culture improves company profits.

One study found that a positive corporate culture improves company profits.

Yet "few boards currently have an explicit focus or formalized approach to cultural oversight," said Helene Gayle, a director of **Coca-Cola Co.** and **Colgate-Palmolive Co.**

A blue-ribbon panel co-led by Ms. Gayle wants boards to monitor corporate culture as vigilantly as they do risks. The 34-member commission, organized by the National Association of Corporate Directors, intends to release an extensive report Wednesday that suggests how boards could bolster their oversight of company culture.

The panel's 10 recommended steps include regular measurements of corporate culture, using a combination of factors such as chief executives' performance reviews and the

scope of power held by risk-management officers. The panel also suggests crackdowns on incentive pay plans that might weaken culture.

"Oversight of corporate culture should be among the top governance imperatives for every board," the panel of independent directors, recruiters and consultants concluded. A strong culture offers "a powerful source of competitive advantage," while companies with weak cultures see far higher levels of misconduct, the report said.

Recent crises at **Uber Technologies Inc.** and **Wells Fargo & Co.** were partly blamed on culture flaws.

Uber is grappling with scandals, government probes and shareholder litigation. CEO Travis Kalanick quit under investor pressure in June. The ride-hailing company declined to comment on a shareholder suit filed in late September that called its corporate culture "a toxic hotbed," threatening its business.

Wells Fargo admitted culture problems following a sales-practices scandal that erupted a year ago. The bank said employees opened customer accounts using fictitious or unauthorized information to meet lofty sales goals. The revelation led then-Chief Executive John Stumpf to abruptly retire.

His successor, Timothy Sloan, this past spring said the bank would conduct a companywide survey so leaders can "foster an ethical, inclusive, and customer-focused culture."

Whirlpool directors make sure management at the appliance giant maintains a strong culture through annual employee polls, executive performance evaluations, analysis of whistleblower-hotline calls and risk assessments



Revelations of aggressive sales practices at Wells Fargo led to the abrupt resignation of John Stumpf as chief executive.

of pay practices, according to Mike White, the board audit committee's chairman.

Board members intensified their cultural oversight after Whirlpool became a target of a U.S. government antitrust investigation into the global compressor industry. As a result of the probe, the company's compressor business based in Brazil agreed in 2010 to plead guilty to price fixing of refrigerant compressors and pay a \$91.8 million fine.

"A couple of individuals made bad decisions," said Jeff Fettig, Whirlpool's long-

time CEO who stepped down on Sunday. He remains chairman.

In response, Mr. Fettig said he revamped compliance training, replaced a division head and renewed Whirlpool's commitment to encouraging employees to speak up about misdeeds.

The board also gave Mr. Fettig tougher marching orders, with a 2010 performance goal to "make sure it doesn't happen again," Mr. White said. The board would later trim Mr. Fettig's 2011 bonus.

Mr. Fettig said in hindsight, the episode was "very positive for our culture." For

instance, he noted, worker survey scores about their willingness to speak up rose 10 percentage points between 2010 and 2015.

Citigroup takes a different approach. In 2014, it became the first large U.S. bank to create a board ethics and culture committee, recalled panel chairman Franz Humer.

A management "culture audit" commissioned by the committee uncovered varying views about valued behaviors, including how Citigroup defines performance, Mr. Humer said.

Panel members encouraged senior executives to

create a common approach from the top, he added.

Among other things, Mr. Humer said, these directors reviewed CEO Michael Corbat's culture presentation before his next gathering of the bank's top 250 executives.

And during a strategy session this summer, the full board agreed that management should sharpen Citigroup's cultural focus by supporting tougher performance evaluations, Mr. Humer said.

Directors want bosses to judge their subordinates on "how we achieve results, not just the results achieved."

Hiring Market Hasn't Changed Much for Blacks in 25 Years

BY JOHN SIMONS

Despite widespread corporate diversity efforts, black job candidates have made little headway battling discrimination over the last quarter-century, according to a new analysis.

A study of résumé responses and hiring behaviors finds that white applicants received 36% more invitations for first-round interviews than African-Americans in 2015, a figure that hasn't changed in 25 years. Experts say this points to deep-rooted bias in the U.S. labor market.

Researchers from Northwestern University, Harvard University and two European research institutes analyzed data from some 30 separate studies of hiring outcomes conducted between 1989 and 2015.

Some of the studies involved responses to résumés of fictionalized matched candi-

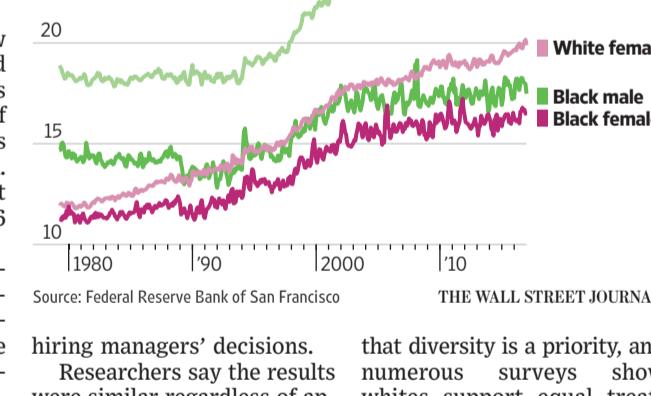
dates of different races and ethnicities sent by mail or submitted online. The résumés conveyed equivalent education and work experience, and differed only in that some contained ethnically identifiable names or other clues that signaled the applicant's race.

Other studies tracked how frequently companies followed up with people who posed as equally qualified candidates of different races and ethnicities and applied for jobs in person. In total, the data represent 55,842 applications for 26,326 positions.

Using fictionalized candidates is the standard way discrimination is studied—sending in two candidates whose only difference is race or ethnicity. Studies using real candidates would be flawed, says lead researcher Lincoln Quillian, because variables such as differences in schooling or work experience could affect

A Growing Divide

The gap between average hourly wages earned by blacks and whites in the U.S. has expanded since 1979.



Source: Federal Reserve Bank of San Francisco

THE WALL STREET JOURNAL.

hiring managers' decisions.

Researchers say the results were similar regardless of applicants' gender, education, experience, or across industries and job types.

At a time when large companies have publicly stated

that diversity is a priority, and numerous surveys show whites support equal treatment of minorities, the results are surprising, says Mr. Quillian, a faculty fellow at Northwestern University's Institute for Policy Research.

Mr. Quillian believes hiring managers may be ignoring company protocols and making snap judgments about candidates based on their personal prejudices. "Even for well-intentioned employers who think about treating all applicants the same, bias is entering into their decisions," he says.

The analysis was published last month in the Proceedings of the National Academy of Sciences journal.

One bright spot researchers found: Hispanics appear to have made gains in the hiring market over the period. In 2015, Hispanics were called in for interviews 10% fewer times than whites with similar experience and credentials, compared with 23% in 1990. But researchers cautioned in their paper that too few studies had included Hispanics to make a definitive conclusion.

A recent paper from the Federal Reserve Bank of San

Francisco expressed concern over the increasing pay gap between whites and African-Americans. In 1979, black men earned 80 cents for every dollar of hourly wages earned by a white male. By 2016, that number had fallen to 70 cents. Black women in 1979 earned 95 cents for every dollar in hourly wages earned by a white woman. In 2016, it was 82 cents.

The Fed speculated that factors such as discrimination, differences in school quality, or differences in career opportunities are behind the gap.

That gap has big implications, said Mary C. Daly, director of the San Francisco Fed's economic research department. "Disparities in labor income pass through to lower consumption, savings and wealth, which ultimately makes individuals and families more vulnerable to economic shocks," she wrote.

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FINANCE & MARKETS

Berkshire Buys a Stake in Pilot Flying J

Warren Buffett's conglomerate takes initial 38.6% interest in truck-stop operator

BY NICOLE FRIEDMAN

Warren Buffett's **Berkshire Hathaway Inc.** on Tuesday made a bet on American truckers with a deal to acquire nearly 40% of the operator of Pilot and Flying J travel centers.

The Knoxville, Tenn.-based family-owned **Pilot Travel Centers LLC**, better known as Pilot Flying J, has 750 locations in the U.S. and Canada where truckers and drivers refuel, eat and shop. The company said it generates more than \$20 billion in annual revenue.

Berkshire didn't disclose how much it paid for its initial 38.6% equity stake in Pilot, one of the largest private companies in the U.S. The Haslam family will hold a 50.1% stake in the company after the deal closes, and **FJ Management Inc.**, owned by the Maggelet family, will hold an 11.3% stake, according to a news release.

In 2023, Berkshire plans to buy an additional 41.4% stake, and the Haslam family will retain 20%.

The investment is Berk-

shire's latest bet on traditional forms of transportation and U.S. economic growth. Mr. Buffett already owns BNSF Railway, auto-dealership group Berkshire Hathaway Automotive, car insurer Geico and private-jet company NetJets.

"There will be more goods moving to more people as the years go by in the United States—that I would bet a lot of money on," Mr. Buffett, Berkshire's chairman and chief executive, said in an interview.

The deal runs counter to the huge projected growth in electric vehicles and self-driving cars and trucks expected by some analysts. Belief in those businesses has helped Elon Musk's Tesla Inc., for example, post a more than 60% stock-price jump in the past year.

Jimmy Haslam, Pilot's chief executive, said in an interview that both trends still have a long way to go before becoming mainstream and disrupting the truck business.

"I think diesel fuel will power trucks for a long time to come, and there will be a person in that truck for a long time to come," Mr. Haslam said.

Even so, a fall in crude-oil prices has hit Pilot in recent years. Revenue at the company is down from about \$30.8 bil-



Pilot Flying J has 750 locations in the U.S. and Canada, generating over \$20 billion in annual revenue.

lion in 2012, as lower crude-oil prices have led to lower prices for diesel and other fuels that Pilot sells, according to the company.

The acquisition fits into Berkshire's typical strategy of buying family-owned businesses and leaving the management teams and headquarters in place. Mr. Buffett has done multistep acquisitions like this before, including with Marmon Group in 2007.

Mr. Buffett was introduced to Mr. Haslam in May by Byron Trott, whose firm **BDT Capital Partners LLC** owned a

stake in Pilot, Mr. Haslam said. Berkshire is an investor in BDT, Mr. Buffett said. BDT exited from the Pilot stake as part of Tuesday's deal.

"We weren't actively looking for a partner," said Mr. Haslam, 63 years old. But "the more we talked, the more we felt it made sense." Pilot has made several acquisitions in recent years and plans to continue expanding, he said.

Mr. Haslam's father founded

the company and remains chairman. Three third-generation family members work at the company, Mr. Haslam said.

Mr. Haslam's brother, Bill, was elected governor of Tennessee in 2010. Jimmy Haslam and his wife own the Cleveland Browns football team.

Pilot Flying J was shaken by a scandal beginning in 2013, when Pilot staff members were accused of defrauding trucking-company customers that bought diesel at its truck stops by shorting rebate money Pilot owed them. Pilot later accepted responsibility and settled with the federal government for \$92 million.

Mr. Haslam said the company had resolved the issue.

Berkshire held nearly \$100 billion in cash as of June 30, a record, and Mr. Buffett has been looking for ways to spend it. Two recent deal efforts fell through. Kraft Heinz earlier this year dropped a \$143 billion offer, which would have been partly backed by Berkshire, for Unilever PLC. And Berkshire's utility arm struck a deal in July to buy Texas power-transmission company Oncor, but the deal was terminated in favor of a higher offer from Sempra Energy.

—Cara Lombardo contributed to this article.

U.K. Pensions Seek Infrastructure

BY BEN DUMMETT

U.K. pension funds under pressure to improve returns without taking excessive risk are joining the global rush to buy airports, wind farms and other infrastructure.

In the latest example, an infrastructure fund backed by the Greater Manchester Pension Fund and the **London Pensions Fund Authority** is eyeing stakes in two U.K. airports. The British fund is pitted against a group of institutional investors advised by U.S.-based StepStone to acquire part of the stakes in the Bristol and Birmingham airports held by **Ontario Teachers' Pension Plan**, the big Canadian global infrastructure investor, according to people familiar with the matter.

California-based StepStone advises pension funds, insurance companies and other clients on how to invest more than \$120 billion in infrastructure, private equity, real estate and private debt. It actively manages about \$32 billion of that total.

Ontario Teachers', which oversees about a 180.5 billion Canadian dollars (\$144 billion) in assets, is selling partial positions from its almost 50% holding in the Birming-



Canadian pension plan aims to sell a stake in Bristol Airport.

ham Airport, and its 100% ownership in the Bristol facility, The Wall Street Journal reported in February.

Details about the potential sale price couldn't be learned.

The competition between the U.K. pension funds' GMFP & LPFA Infrastructure LLP, or GLIL, and StepStone shines the spotlight on efforts by the British pension funds to create a potential rival to multi-billion-dollar sovereign-wealth funds, Canadian pension funds and domestic institutional investors in the bidding for U.K. airport, water and other infrastructure

projects.

Pension and sovereign-wealth funds are drawn to infrastructure investments by their potentially steady flows of cash, which often rise with inflation and match up well with the pension funds' long term-liabilities. Meanwhile, cash-strapped national and municipal governments increasingly lean on these types of infrastructure investors to help cover the hefty cost of rebuilding and replacing aging roads, bridges and other projects that underpin economic growth.

In 2016, the five largest

European-focused unlisted infrastructure funds raised a total of about €11.7 billion (\$13.7 billion), according to Prequin, a data provider.

As more institutional investors target infrastructure investments as an alternative to low-yielding bonds and volatile equity markets in a low-interest-rate environment, funds need scale to compete. Started in 2015 with £500 million (\$664.1 million), GLIL's assets have more than doubled to £1.275 billion since then with the addition of funds last year from the pension funds of West Yorkshire, Merseyside and Lancashire County. The fund's investments include renewable-energy and rail assets in the U.K.

Still, GLIL remains a relatively small player. For example, Ontario Teachers' had about C\$18.9 billion worth of infrastructure investments at the end of June.

The Canadian pension fund's effort to bring on a partner in the Bristol and Birmingham airport operations would help it guard against overexposure to European airports. Ontario Teachers' is part of a consortium that owns London's City Airport. It also owns stakes in the Brussels and Copenhagen airports.

Abu Dhabi Begins Large Bond Sale

BY NIKHIL LOHADE

to support its finances.

Abu Dhabi, with about 6% of proven world oil reserves, derives a major chunk of its revenues from the hydrocarbon sector.

That income has shrunk because of weaker oil prices, forcing the government to cut back on spending plans and review some major ongoing and proposed development projects after running a budget deficit since 2015.

The emirate expects its fiscal deficit to narrow to about 13.73 billion dirhams (\$3.74 billion) in 2017, from 25.91 billion dirhams last year, according to Abu Dhabi's bond prospectus. Cash from the bond sale will help cover the budget shortfall.

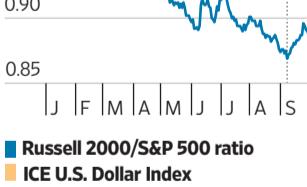
Abu Dhabi is one of the wealthiest states in the region, which over the years has deposited its surplus oil income in sovereign-wealth funds. These funds in turn have invested tens of billions of dollars in assets across the world, some of which yield strong returns.

Bank of America Merrill Lynch, Citi, First Abu Dhabi Bank, HSBC and J.P. Morgan jointly managed the issue for Abu Dhabi.

A Trump Tax Trade?

After the debt-ceiling deal last month, cheap 'value' stocks, the dollar and smaller companies did well.

Russell 1000 Value/Growth ratio



Debt-ceiling bill passed

STREET

Continued from page B1
banks. Economically sensitive cyclical sectors such as industrials and consumer discretionary do well.

Defensive sectors such as health care and consumer staples underperform, while those offering profit growth whatever happens to the economy—notably the "FANGs" of Facebook Inc., Amazon.com Inc., Netflix Inc. and Google, now Alphabet Inc.—become less appealing.

Bond proxies in the stock market are shunned when Treasury yields increase, and, sure enough, utilities have been the worst-performing sector since early September.

Even high-tax companies should be expected to do better in a reflation trade (although like smaller companies, high-tax stocks began outperforming in August with little obvious news). The winners from a stronger dollar are companies with little in the way of international sales, precisely the ones with the highest tax rates.

On one level, then, this doesn't involve taxes at all, just a positive interpretation of the Fed. If stronger growth pushes the Fed toward higher interest rates, shareholders are happy to focus on the growth.

On another level, if investors are marking up the chance of a tax deal, investors should also expect higher interest rates. Unfunded tax cuts put upward pressure on inflation. With lit-

tle slack in the economy, that should push the Fed toward tighter policy.

Perhaps the deal with the Democrats convinced investors to look past the rhetoric and conclude that Mr. Trump can take a pragmatic approach after all?

There is a more complex story, which is also better for those betting on tax cuts.

Both emerging markets and high-tax stocks did little in the first three weeks of September and a lot as the tax-plan announcement neared last week. Emerging-markets shares had their worst six days since the November election, while high-tax stocks sharply outperformed.

On this telling, markets have priced in a higher chance of a tax cut, but not nearly so high as if we time the switch from early September.

That suggests investors are right to think there is plenty further to go in the mini-Trump trade if the tax cuts come through.

Of course, we will only find out how much is priced in by watching how the market moves if the tax cuts actually happen—by which time it will be too late.

Investors who want to profit have to decide now why prices have moved in order to work out what probability the market places on a tax cut. Only then can they compare the market's odds with their own judgment of the \$2 trillion unknown, the chance Mr. Trump has of getting his tax plan through Congress.

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China A-Share Fund Cls A EUR H OT HKG 09/29 CAD 15.7 14.5 11.5

China A-Share Fund Cls A EUR H OT HKG 09/29 EUR 13.19 14.8 13.3 10.8

China A-Share Fund Cls A GBP H OT HKG 09/29 GBP 12.84 11.4 13.4 NS

China A-Share Fund Cls A USD H OT HKG 09/29 USD 13.22 14.8 13.4 12.7

China A-Share Fund Cls A NZD H OT HKG 09/29 NZD 15.35 16.6 17.4 20.7

China A-Share Fund Cls A USD H OT HKG 09/29 USD 13.81 14.2 13.3

China A-Share Fund Cls A NZD H OT HKG 09/29 NZD 13.99 25.5 19.8 13.3

China A-Share Fund Cls A NZD H OT HKG 09/29 NZD 13.54 16.7 16.0 12.2

China A-Share Fund Cls A NZD H OT HKG 09/29 NZD 12.02 20.7 20.6 6.6

China A-Share Fund Cls A NZD H OT HKG 09/29 NZD 14.89 18.7 18.3 14.9

China A-Share Fund Cls A USD H OT HKG 09/29 USD 13.88 24.7 19.0 12.7

China A-Share Fund Cls A USD H OT HKG 09/29 USD 13.47 15.9 14.9 11.8

China Greenchip-A Units AS EQ CYM 09/29 HKD 16.83 33.7 25.4 15.8

China Greenchip-A Units AUD H AS EQ CYM 09/29 AUD 11.55 34.5 26.4 16.6

China Greenchip-A Units CAD H AS EQ CYM 09/29 CAD 11.24 34.4 26.0 15.6

China Greenchip-A Units NZD H AS EQ CYM 09/29 NZD 11.79 33.7 25.8 16.7

China Greenchip-A Units USD AS EQ CYM 09/29 USD 11.23 33.4 25.1 15.6

China Greenchip-A QDII Units AS EQ CYM 09/29 HKD 12.21 32.9 24.7 15.4

FINANCE & MARKETS

Meet Derek Jeter's Marlins Money Man

Bruce Sherman is backing \$1.2 billion deal for ailing Miami baseball franchise

BY SARAH KROUSE

When Derek Jeter emerged this summer as the front-runner to take over the Miami Marlins, a who's who of South Florida billionaires came up in the chatter about his possible backers.

One name that didn't get mentioned much was the guy who finally made the deal: retired money manager Bruce Sherman.

Considered one of the star stock pickers of his generation, Mr. Sherman has been off the radar for almost a decade after a series of bad bets on newspaper companies and fallen Wall Street giant Bear Stearns.

He has occupied his time in part by running a family office while also alleging in a lawsuit that Bear lied ahead of its 2008 collapse to keep investors from selling. That effort ended with a whimper, when Mr. Sherman settled in July for less than \$5 million, according to people familiar with the matter.

So it was a surprise to many when Mr. Sherman was announced as Mr. Jeter's backer.

A coalition led by Mr. Sherman closed Monday on its purchase of the ailing franchise, valued at \$1.2 billion.

Mr. Sherman provided about \$300 million, and he is prepared to contribute an added \$100 million if needed, people familiar with the matter said.

His group, which includes former Chicago Bulls star Michael Jordan, Michael Dell's family office and some hedge-fund and private-equity managers, inherits a team that has been losing money while drawing lagging attendance. As recently as a few weeks ago, the Jeter-Sherman group



Many were surprised when retired money manager Bruce Sherman, left, emerged as the lead investor of a group that includes former Yankee Derek Jeter.

was still seeking investors to help meet Major League Baseball's requirements to limit debt, according to people involved with the sales process.

Mr. Sherman, a former accountant from Queens, N.Y., will act as chairman. He will seek to upgrade the team's financial health with Mr. Jeter, who will run day-to-day operations as chief executive. The new owners also plan to hire a chief operating officer, people familiar with the matter said.

The move fits with Mr. Sherman's career-long fascination with both baseball and turnaround stories. The Marlins lose at least \$30 million each year and collect more from the MLB's revenue-sharing system than any other team.

Mr. Sherman has told colleagues that he long wanted

to own a baseball team after growing up as a fan of Yankees star Mickey Mantle. As a kid he would take the subway an hour and a half to the Bronx to see the Yankees play.

Mr. Sherman got his start in the investment world when a recruiter convinced him to give up that job, move to Naples, Fla., and oversee the wealth of a family that controlled large tracts of land in southwest Florida. He started Private Capital Management in 1986 to manage that money.

He became part of a generation of investors focused heavily on companies' financials and accounting. In the 1990s and 2000s he was one of the top U.S. value investors because of successful bets on companies such as Apple, Qualcomm and International Game Technology. Value in-

vestors typically purchase stocks or companies they believe are cheap, anticipating long-term appreciation.

He sold PCM to Baltimore fund giant Legg Mason in 2001 for \$1.26 billion and continued to run it. At times he showed a willingness to take a hands-on approach at the companies in which he invested, writing letters to chief executives or boards of directors to press for changes.

After making bets on newspaper stocks like Knight Ridder and New York Times Co., he clashed with the heads of those companies as he sought changes.

Those investments declined in the late 2000s as print businesses suffered.

"He was investing in like every newspaper company in sight," said Tony Ridder, who was chief executive of Knight

Ridder from 1995 until he sold the company in 2006 to McClatchy, at the urging of Mr. Sherman.

The 2008 financial crisis dealt another blow. While Mr. Sherman sold positions in Countrywide Financial and Washington Mutual Inc. before markets sank, he kept his large stake in Bear Stearns, a brokerage that nearly collapsed before being sold at a fire-sale price to J.P. Morgan Chase & Co.

Vipin Sahijwani, chief executive and chief investment officer of Washington, D.C.-based Lynx Investment Advisory LLC, said his investment advisory firm invested money with PCM for years, but its "inability to clearly analyze" the newspaper and Bear Stearns wagers "shook our confidence." The firm had pulled most of its money by

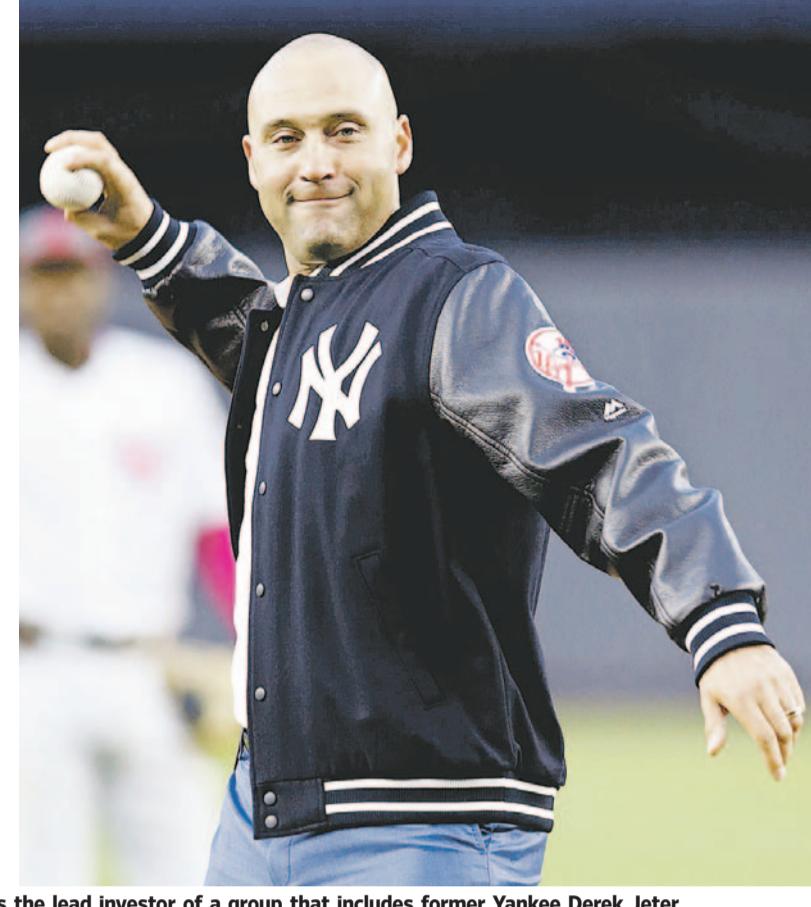
March 2008.

Others did too. At its peak in July 2005 PCM managed \$33.6 billion in assets, but by March 2009 assets under management at the firm were \$1.6 billion.

Mr. Sherman retired from PCM in March 2009. Months later he filed a lawsuit against Bear Stearns and executives including James Cayne, its former chief executive, alleging they misrepresented Bear's health and risk management to keep him from selling shares. He initially sought at least \$16 million, people familiar with the matter said.

As recently as April, attorneys were preparing to take the case to trial, according to court documents.

—Matt Futterman
and Jared Diamond
contributed to this article.



SHERMAN PRIZE; KATHY WILLENS/ASSOCIATED PRESS



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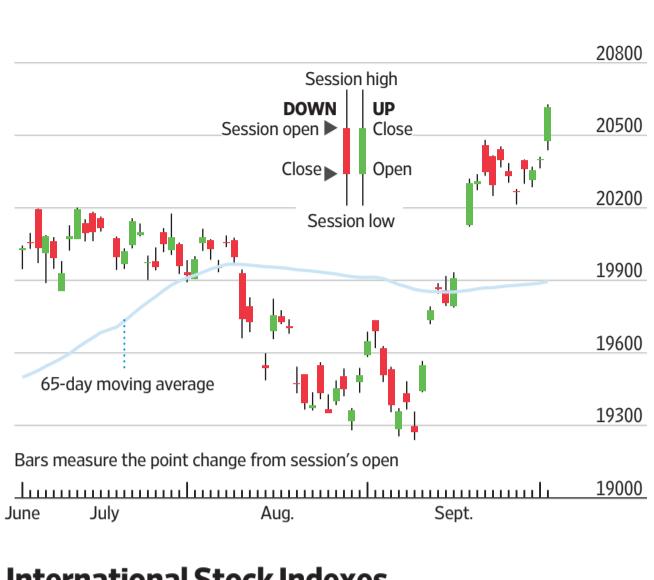
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MARKETS DIGEST

Nikkei 225 Index

20614.07 ▲ 213.29, or 1.05%
 High, low, open and close for each trading day of the past three months.



Bars measure the point change from session's open

STOXX 600 Index

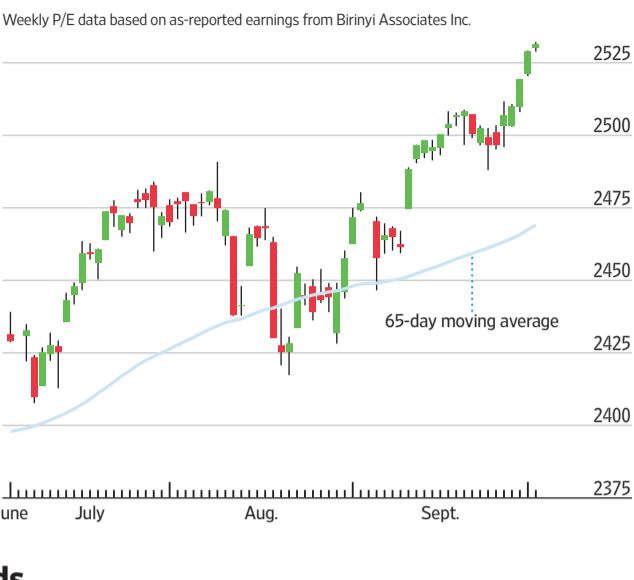
390.72 ▲ 0.59, or 0.15%
 High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

S&P 500 Index

2531.45 ▲ 2.33, or 0.09%
 High, low, open and close for each trading day of the past three months.



Data as of 12 p.m. New York time

Last: 24.22 Year ago: 24.45
 Trailing P/E ratio: 19.19 P/E estimate: 18.52
 Dividend yield: 1.98 2.13
 All-time high: 2529.12, 10/02/17

Weekly P/E data based on as-reported earnings from Birinyi Associates Inc.

International Stock Indexes

Data as of 12 p.m. New York time

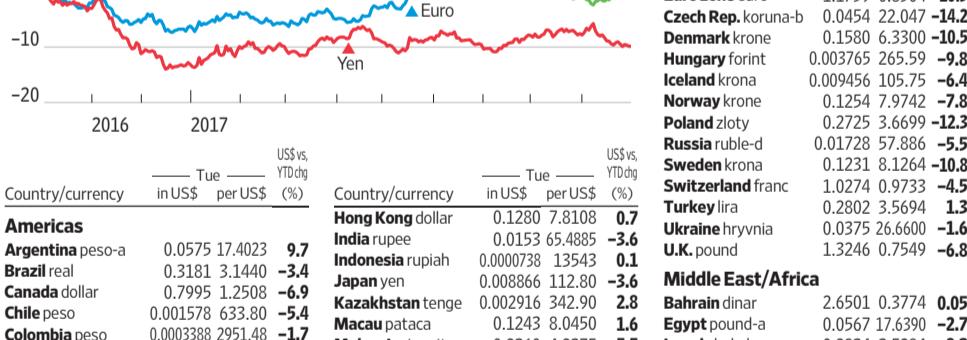
Region/Country	Index	Close	Net Chg	% chg	52-Week Range	Low	Close	High	YTD % chg
World	The Global Dow	2923.16	11.64	▲ 0.40	2386.93	2923.51	2923.51	15.6	
	MSCI EAFE	1978.42	7.01	▲ 0.36	1614.17	1981.49	1981.49	15.3	
	MSCI EM USD	1096.24	13.27	▲ 1.23	838.96	1112.92	1112.92	38.0	
Americas	DJ Americas	611.64	0.79	▲ 0.13	503.44	611.66	611.66	12.6	
Brazil	Sao Paulo Bovespa	75671.73	1311.91	▲ 1.76	56828.56	76419.58	76419.58	25.6	
Canada	S&P/TSX Comp	15738.66	33.66	▲ 0.21	14468.03	15943.09	15943.09	3.0	
Mexico	IPC All-Share	50672.65	171.49	▲ 0.34	43998.98	51772.37	51772.37	11.0	
Chile	Santiago IPSA	4109.15	31.57	▲ 0.77	3127.84	4112.17	4112.17	27.5	
U.S.	DJIA	22634.76	77.16	▲ 0.34	17883.56	22636.94	22636.94	14.5	
	Nasdaq Composite	6522.35	5.63	▲ 0.09	5034.41	6531.75	6531.75	21.2	
	S&P 500	2531.45	2.33	▲ 0.09	2083.79	2532.17	2532.17	13.1	
	CBOE Volatility	9.60	0.15	▲ 1.59	8.84	23.01	-31.6
EMEA	Stoxx Europe 600	390.72	0.59	▲ 0.15	328.80	396.45	396.45	8.1	
	Stoxx Europe 50	3195.08	3.79	▲ 0.12	2720.66	3279.71	3279.71	6.1	
France	CAC 40	5367.41	16.97	▲ 0.32	4344.88	5442.10	5442.10	10.4	
Germany	DAX	12902.65	...	Closed	10174.92	12951.54	12951.54	12.4	
Greece	ATG	752.44	5.96	▲ 0.80	570.67	859.78	859.78	16.9	
Israel	Tel Aviv	1432.90	3.02	▲ 0.21	1346.71	1490.23	1490.23	-2.6	
Italy	FTSE MIB	22784.82	-26.37	-0.12	16039.59	22860.14	22860.14	18.5	
Netherlands	AEX	542.25	1.21	▲ 0.22	436.28	542.25	542.25	12.2	
Russia	RTS Index	1129.90	1.21	▲ 0.11	956.36	1196.99	1196.99	-1.9	
Spain	IBEX 35	10257.50	1.80	▲ 0.02	8512.40	11184.40	11184.40	9.7	
Switzerland	Swiss Market	9283.74	41.59	▲ 0.45	7585.56	9284.09	9284.09	12.9	
South Africa	Johannesburg All Share	56358.26	778.34	▲ 1.40	48935.90	56896.89	56896.89	11.3	
Turkey	BIST 100	103907.57	-23.10	-0.02	71792.96	110530.75	110530.75	33.0	
U.K.	FTSE 100	7468.11	29.27	▲ 0.39	6676.56	7598.99	7598.99	4.6	

Asia-Pacific

Australia	S&P/ASX 200	5701.40	-27.90	-0.49	5156.60	5956.50	5956.50	0.6	
China	Shanghai Composite	3348.94	...	Closed	3004.70	3385.39	3385.39	7.9	
Hong Kong	Hang Seng	28173.21	618.91	▲ 2.25	21574.76	28173.21	28173.21	28.1	
India	S&P BSE Sensex	31497.38	213.66	▲ 0.68	25765.14	32557.17	32557.17	18.3	
Indonesia	Jakarta Composite	5939.45	25.42	▲ 0.43	5027.70	5939.45	5939.45	12.1	
Japan	Nikkei Stock Avg	20614.07	213.29	▲ 1.05	16251.54	20614.07	20614.07	7.8	
Malaysia	Kuala Lumpur Composite	1759.67	4.89	▲ 0.28	1616.64	1792.35	1792.35	7.2	
New Zealand	S&P/NZX 50	7933.42	4.53	▲ 0.06	6664.21	7933.42	7933.42	15.3	
Philippines	PSEI	8312.93	56.65	▲ 0.69	6563.67	8312.93	8312.93	21.5	
Singapore	Straits Times	3246.08	-16.02	-0.49	2787.27	3354.71	3354.71	12.7	
South Korea	Kospi	2394.47	...	Closed	1958.38	2451.53	2451.53	18.2	
Taiwan	Weighted	10469.35	4.19	▲ 0.04	8931.03	10631.57	10631.57	13.1	
Thailand	SET	1689.97	1.33	▲ 0.08	1406.18	1689.97	1689.97	9.5	

Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	US\$ vs. Yen	US\$ vs. Euro	US\$ vs. WSJ Dollar Index
Country/currency	Tue	Tue	Tue
Country/currency	in US\$	per US\$ (%)	in US\$
Americas			
Argentina peso-a	0.0575	17.4023	▲ 9.7
Brazil real	0.3181	3.1440	-3.4
Canada dollar	0.7995	1.2508	-6.9
Chile peso	0.001578	633.80	-5.4
Colombia peso	0.0003388	2951.48	-1.7
Ecuador US dollar-f	1	1 unch	
Mexico peso-a	0.0549	18.2156	-12.2
Peru so	0.3061	3.2671	-2.6

THE PROPERTY REPORT



Avenida Capital plans to make a shopping mall it is building in Bogotá, Colombia, a destination with a petting zoo, a go-cart course and rides.

Malls Power Ahead in Emerging Markets

Amid oversupply in U.S., investors bet on 'destination' shopping in places like Colombia

By THERESA AGOVINO

Retail development in the U.S. has slowed to a crawl as consumers switch to online shopping. But in emerging markets it is a different story.

Development pipelines are packed with shopping centers, outlet malls and other retail properties in such countries as India, China, Malaysia, Indonesia and Colombia.

Indeed, retail is one of the most attractive property types in emerging markets for international investors who are showing more interest in these markets now that growth rates are increasing and many governments are implementing structural reforms.

For example, private-equity giant KKR late last year joined Hong Kong-listed Sino-Ocean Group Holding Ltd. to make a \$190 million investment in **Beijing Capital Judo** Ltd., a leading Chinese retail outlet developer. Judo has four existing outlet centers and another seven in the pipeline, according to Ralph Rosenberg, head of KKR real estate.

In Indonesia's capital Jakarta, three malls have opened this year while another trio are set to do so by December's end, according to real estate services firm Cushman & Wakefield.

Meanwhile, with online retail also gathering steam in emerging markets, some shopping center developers are adopting strategies that are becoming more popular in the U.S. and Europe that combine bricks and clicks and focus shopping centers more on experiences, such as dining out, that consumers can't do on the internet.

"We're focusing on retail that has leapfrogged [traditional mall] development," said Alfonso Munk, managing director of PGIM Real Estate, which manages \$4 billion in emerging-market real estate.

Part of the reason retail development is hotter in emerging markets than the U.S. is simply because U.S. is overstored, as experts in the retail business put it. Experts say there is about 25 square feet of retail space per capita in the U.S.

Retail space is tiny in emerging markets by comparison. There is roughly 1 to 2 square feet of retail space per capita in Mexico and India, experts say.

Retail experts say that this existing supply isn't enough to serve the growing consumer classes in many of these countries. "As emerging middle classes continue to gain household wealth, the natural extension of that is they will be interested in consumption," Mr. Rosenberg said.

Until recently, Blackstone Group LP focused most of its investing in India in the office market. But lately the private-equity firm has put its sights on shopping centers, partly

delivered that were more than 700,000 square meters each, according to CBRE. About 22 malls are expected to be delivered this year while a similar amount are slated to be delivered over the next two years.

Avenida Capital LLC, a private-equity firm with offices in New York and Colombia, is building a mall in Bogotá complete with a petting zoo, go-cart course and rides along with traditional stores. It will cost about \$170 million and open by the end of next year,

tries where the only major population center is the capital.

CBRE Global Investors, one of the world's largest real-estate asset managers with \$98.9 billion under management, also has been looking for so-called "destination" retail in markets with high growth economies.

For example, earlier this year CBRE bought Letnany Shopping Centre in Prague. Retailers include H&M and Zara. A skydiving area and surf arena are among the entertainment attractions.

The two-year-old EmQuarter mall in Bangkok boasts a 40-meter-tall man-made waterfall and a 3,000-square-meter rooftop garden—treats in a city short on green space. And in Vietnam's Ho Chi Minh City, the SC VivoCity mall has a rooftop park and playground, bowling alley and movie theater.

"There aren't a lot of places in Colombia for families to go and spend time," he said. "We are making a bet that this will be a destination."

Avenida also is building a mixed-use project in Bogotá and scouting for other opportunities. Colombia is an especially attractive market because it has numerous cities with more than one million people, setting it apart from other South American coun-

tries where the only major population center is the capital.

But many emerging-market countries lack the necessary infrastructure necessary for e-commerce to thrive, such as efficient highways. Also, swaths of the populations don't even have credit cards.

"You might buy online if it is cheaper, but if it is not why do you want to wait 14 days to have it delivered?" asked Mr. Sim. "That is the push and pull for most of the consumers in emerging countries" in southeast Asia, he said.

To play it safe, some mall developers and their retailer tenants are making it easy for consumers to pick up purchases made online in the stores. Another option offered is using the store as a showroom so shoppers can see the items and then have them delivered.

Jean-Baptiste Wettling, director of JLL Colombia, thinks that it will take some time before Colombia is ensconced in an e-commerce culture. The country is mountainous, and roads are only beginning to be constructed. "The current administration is building highways but roads are expensive to build," he said. "It is a mid-to-long term project."

—Peter Grant contributed to this article.

Retail space is tiny in emerging markets compared with that in the U.S.

because demand has picked up from major international retailers like IKEA and Uniqlo, according to people familiar with the matter.

In Colombia, mall development is enveloping the capital of Bogotá and spreading to other parts of the country of about 49.3 million people—the second-largest population in South America after Brazil.

In 2014, there were only 4.9 million square meters (52.7 million square feet) of retail shopping centers in the country. Last year, two malls were

according to Michael Teich, an Avenida founder and managing director.

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tries, including office space in the Petronas Towers. KLCC's market capitalization is roughly \$3.3 billion, but its share price has slipped this year to about the price at which the REIT was listed in 2013. The REIT had a dividend yield of around 4.5% recently, versus a 4% yield for the 10-year Malaysian government bond.

"That is relatively unattractive," said Yip Kah Ming, an analyst at Malaysian broker Hong Leong Investment Bank Bhd.

Millions of square feet of new office and retail real estate is expected to come to market in Malaysia over the next two years, adding to a surplus. The upshot: Developers could end up with more vacant offices and malls, limiting their ability to raise rents, which is income for REITs.

The second-largest Malaysian REIT, **IGB Real Estate Investment Trust**, with a market cap of \$1.4 billion, yields about 5%. Its shares have gained roughly 6% this year, compared with a 7% gain of the benchmark Malaysian stock index. The next two largest REITs, **Pavilion Real Estate Investment Trust** and **Sunway Real Estate Investment Trust**, also yield about 5% each, and their shares have either slipped or been flat year to date.

Malaysia's REIT Dreams Fade as Funds Stay Away

BY SHEFALI ANAND

New listings for real-estate investment trusts in Malaysia have all but stopped over the past two years, and profits have fallen or been flat. The reversal illustrates how REITs aren't turning out to be a silver bullet for emerging markets trying to route capital into real estate.

In recent years, Malaysia seemed to be on track toward building a successful market for REITs. The sector increased to a capitalization of about \$10 billion and included Kuala Lumpur's Petronas Towers, the world's tallest twin structures, and the first Islamic REIT.

But the market hasn't attracted the hoped-for interest from international investors partly because the Malaysian REITs are much smaller, less liquid and more uncertain than REITs in developed neighbors like Singapore and Hong Kong.

"They haven't benefited from the wave of international capital, which has been driving Hong Kong and Singapore REIT markets," said Corrine Ng, portfolio manager of an Asian REIT fund at Australia's APN Property Group Ltd., which manages \$2 billion. Ms. Ng's fund has less than 2% of its portfolio in REITs issued by developing countries.

More than a dozen governments in emerging markets, including Mexico, Malaysia and Kenya, have approved regulations permitting REIT structures in the past two decades. But with a few exceptions, most of these markets remain small and mostly domestically owned.

About two-thirds of the world's \$1.7 trillion REIT market capitalization is in the U.S., followed by other developed countries including Australia and Japan, which joined the bandwagon early on. Less than 5% of market cap is by REITs listed in emerging markets, according to Ernst & Young.

There is a range of reasons why REITs have had a hard time gaining traction in emerging markets.

In many of these markets, rules require the use of external managers. "This prevailing model does represent a hurdle for many international investors, due to a conflict of interest," said Frankie Lee, executive director at Goldman Sachs Asset Management, which oversees \$1.2 trillion.

In many emerging-market REITs the balance of power is in favor of the founding family, and not in the favor of shareholders," said Tom Walker, co-head of global real-estate securities at Schroders PLC, an investment manager

with \$540 billion in assets. "What you find in emerging markets is that a lot of the good, valuable real estate is owned by family and conglomerates who aren't willing to give up control."

Global investors remain hopeful that with time, REITs in developing countries will evolve to be more stable and shareholder-friendly, giving them a chance to participate in the growth of the underlying markets.

"There are many investors like us who are desperate to invest in these cities," Mr. Walker said.

The concept of REITs was introduced in the U.S. in 1960, but it wasn't until the 1990s that the market really took off. REITs are entities that own income-producing real-estate assets, like offices and malls, and are typically required to distribute annually at least 90% of their taxable income to shareholders as dividends.

In the U.S., REITs aren't largely subject to corporate tax so they can pay a high percentage of their profits as dividends.

REITs in some emerging markets have become sizable. Mexico now has 13 REITs with a total market capitalization of \$15 billion.

But by and large, such countries have struggled to develop their REIT markets.

The Philippines in 2009 created a REIT law, which included several tax requirements that deterred developers, such as high taxes for transferring property to a REIT. No REIT has been listed there yet. The government is now trying to ease its tax requirements.

India created REIT rules in 2014, but has since been going back and forth with developers and other interested parties to fine-tune the rules so that they are favorable to both

developers and potential investors. Multiple regulators have had to issue follow-up rules, such as the insurance regulator allowing insurers to invest in REITs.

Malaysia's first REIT was listed in 2005, followed by more than a dozen in the ensuing decade. Today, Malaysia boasts 18 REITs, four of which have a market cap of more than \$1 billion.

The largest, **KLCC Property Holdings** Bhd., comprises a mix of office and other real es-

tate, including office space in the Petronas Towers. KLCC's market capitalization is roughly \$3.3 billion, but its share price has slipped this year to about the price at which the REIT was listed in 2013. The REIT had a dividend yield of around 4.5% recently, versus a 4% yield for the 10-year Malaysian government bond.

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The Petronas Towers in Kuala Lumpur. REITs are struggling to attract capital and expand in many emerging markets.

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"That is relatively unattractive," said Yip Kah Ming, an analyst at Malaysian broker Hong Leong Investment Bank Bhd.

Millions of square feet of new office and retail real estate is expected to come to market in Malaysia over the next two years, adding to a surplus. The upshot: Developers could end up with more vacant offices and malls, limiting their ability to raise rents, which is income for REITs.

The second-largest Malaysian REIT, **IGB Real Estate Investment Trust**, with a market cap of \$1.4 billion, yields about 5%. Its shares have gained roughly 6% this year, compared with a 7% gain of the benchmark Malaysian stock index. The next two largest REITs, **Pavilion Real Estate Investment Trust** and **Sunway Real Estate Investment Trust**, also yield about 5% each, and their shares have either slipped or been flat year to date.

