

# THE WALL STREET JOURNAL.

## A TRAINER'S INFLUENCE BEYOND THE GYM

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## Hollande's Dangerous Gambit

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#### Business & Finance

**Uber is selling** its Chinese unit to Didi and taking a 20% stake in the ride-hailing rival, making it the latest U.S. firm to fail to conquer China. **A1, B3**

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◆ **Syria and Russia** are bombing Aleppo's infrastructure in a bid to force rebels and residents in besieged areas to surrender. **A3**

◆ **Syrian rebels downed** a Russian helicopter, killing all five crew members and officers on board. **A3**

◆ **The U.S. conducted** airstrikes against Islamic State's stronghold in Libya for the first time. **A3**

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# Uber Drops Goal to Conquer China

### Ride-hailing behemoth sells local unit to Didi, highlighting U.S. firms' challenges in China

By Eva Dou

BEIJING—Uber Technologies Co. tried harder than perhaps any other American internet firm to build a truly Chinese company that could win in China. In the end, it

wasn't enough.

After almost three years, Uber agreed to sell its China business to its rival, Didi Chuxing Technology Co., the Chinese company announced Monday. As part of the deal, Uber and investors in UberChina will take a 20% stake in Didi, turning Uber into Didi's largest shareholder.

Despite launching private ride-sharing services in China a full year before Didi, Uber has been outmaneuvered by

the homegrown player, which added localized features, landed powerful investors and wooed local regulators and press.

Uber isn't the first American internet company to fail to conquer China. In fact, no U.S. internet company has. Google Inc., Facebook Inc. and Twitter Inc. have come up against the deal breaker barrier of Chinese censorship. U.S. tech giants from Apple Inc. to Microsoft Corp. have

felt a sales chill in China amid Beijing's growing focus on using "secure" domestic equipment.

Even the least politically sensitive tech companies—like Yahoo Inc., eBay Inc., Amazon.com Inc., and now Uber—have stumbled as Chinese rivals adapt more quickly to the preferences of the Chinese consumer.

"So far we haven't seen a foreign internet company that has made it big in China," said

Andrew Teoh, managing partner of Ameba Capital, an early investor in Didi.

It was likely no coincidence that Uber Chief Executive Travis Kalanick's decision came on the heels of China's new ride-hailing regulations, which were announced last week but

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## Syrian Rebels Bring Down Russian Helicopter



**WRECKAGE:** Five crew members and officers were killed when a helicopter was shot down in Idlib, near Aleppo province's southern border. **A3**

## Turkish Tensions With EU Grow

By Ruth Bender

BERLIN—A diplomatic rift sparked by Germany's handling of a Turkish demonstration deepened on Monday, the latest sign of worsening relations between Turkey and the European Union since the failed Turkish coup in July.

The government in Ankara summoned a senior German diplomat Monday afternoon to explain why the country's top court had barred Turkish President Recep Tayyip Erdogan from addressing by video

a crowd of around 40,000 of his supporters in the German city of Cologne the day before.

Citing the risk of unrest at the rally, German police had decided not to let Mr. Erdogan appear via a live link. German courts upheld the decision over the weekend after protest organizers challenged it, prompting Turkey's EU Affairs Minister Omer Celik to describe the ruling as "utter backsliding in freedom of speech and democracy."

The growing tensions between two major players in

Europe's migrant crisis reflect the high stakes for the EU as it struggles to strike a balance between condemning

Mr. Erdogan's postcoup crackdown and maintaining good relations with a critical partner in grappling with terrorism and migration.

Turkish and German politicians have since traded accusations of bias and blackmail via television and social media, displaying the heightened mistrust between the countries over what Mr. Erdogan's European critics see as autocratic repression in

Turkey—and his Turkish supporters see as unfair criticism of their country.

"This is the lowest point I've ever seen in German-Turkish relations," said Burak Copur, a political scientist and scholar of German-Turkish relations at the University of Duisburg-Essen. "And therefore we are also heading towards a clash between the

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◆ **Turkey catches 11 it says tried to kidnap president**.... A4

## Rio Sours IOC on Developing World as Games Site

By Matthew Futterman and Will Connors

Several prominent members of the International Olympic Committee said the difficulty getting Rio de Janeiro ready for the Summer Games likely means the organization will shy away from again holding the world's biggest sporting event in cities that exhibit any signs of instability.

The comments, among the strongest yet by IOC officials about their frustration with Rio's preparations, show the organization backing away from a previous goal of opening up the Games to a broader selection of cities.

Rio, the first South American city to host the event, was supposed to mark the dawn of a new, more adventurous era for the IOC. It is instead shaping up as a cautionary tale about how volatile conditions can be in developing countries. Ambitions to hold the Olympics in Africa or India appear shelved indefinitely, according to IOC members and people who work closely with the organization.

"Rio has been the biggest challenge we have ever faced," said Gerhard Heiberg, a longtime IOC member from Norway, who headed the 1994 Winter Games in Lillehammer. "Maybe we will spend some

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## African Marathon Has A Tendency to Get Hairy

### Safari park course offers bragging rights, wildebeest detours

By Alexandra Wexler

ENTABENI SAFARI CONSERVANCY, South Africa—In the pink post-dawn light, nearly 300 runners stretched and limbered up, some nervously chattering, some focusing silently on the task ahead—running 26.2 miles in a game reserve filled with the five most-difficult African species to hunt: rhinoceros, leopard, buffalo, elephant and lion.

"Guys, when you see a ranger with a rifle, that means that something could be quite close by," J.P. Meyer, the jovial and khaki-clad general manager at Honeyguide Ranger Camp, said during a briefing the day before the 12th running of the Big Five Marathon

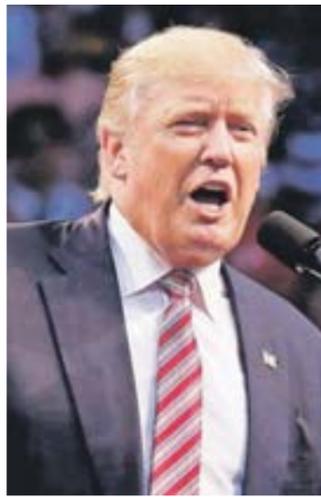
in June. "If our rangers do tell you, 'Please, get on the vehicle,' there's a reason for it. Something brown and furry is joining the marathon."

It wasn't an idle threat. Later that night, a lioness killed a wildebeest on a section of the runners' route, forcing organizers to scramble and reroute 1.5 miles of the course.

South Africa's Big Five Marathon is part of a fast-expanding pantheon of ultra-endurance races that include marathons along the Great Wall of China, in Antarctica and along Peru's Inca Trail.

As long-distance running has exploded in popularity, runners and companies that organize races have been

Please see *RUN* page A6



## Trump Draws Fresh Rebuke

**WAR OF WORDS:** Sen. John McCain, a former prisoner of war, sharply criticized Donald Trump, left, Monday over the Republican presidential nominee's public tangle with Khizr Khan, right, the father of a Muslim U.S. Army captain killed in Iraq. **A2, A7**

## Tesla to Buy SolarCity for \$2.6 Billion

By Mike Ramsey and Cassandra Sweet

Tesla Motors Inc. on Monday said it had reached a deal to buy SolarCity Corp. for less than the price it originally proposed, as Elon Musk takes the next step forward with his plan to combine his electric-car and solar-energy companies.

The all-stock deal values SolarCity at about \$2.6 billion, with SolarCity stockholders receiving 0.11 share of Tesla for each share of SolarCity, valuing them at \$25.83 apiece, according to Friday's closing prices.

That is below the original range of \$26.50 to \$28.50

per SolarCity share that Tesla had proposed in June.

Mr. Musk said Monday he wasn't involved in the decision making about the valuation of the purchase.

If it is approved by shareholders, please see *TESLA* page A2

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WORLD NEWS

# Trump's Challenge: Passing Plausibility Test



GERALD F. SEIB

With both parties spinning out of their conventions, and the general-election campaign now essentially in full swing, one megaquestion hovers over the whole affair: Will enough Americans get comfortable with the idea of Donald Trump as president? If they do, the presidential race likely will be a close one—and one he could well win. Mr. Trump does, after all, have two enormous assets: He is seen as the agent of change in a year in which change is desired, and he is thought to be better able to handle the economy. If you want to score well on two fronts this year, those are the ones you want.

On the other hand, if Americans can't see a man so brash, unpredictable and, to some, downright scary as their president, Mr. Trump would hit a ceiling at some point and won't be able to rise further. Hillary Clinton would win.

Both campaigns essentially acknowledge that this is the question of the fall. Paul Manafort, the Trump campaign manager, spoke about it openly during the Republican convention in Cleveland.

Mr. Manafort is a veteran who has seen just about all



Republican presidential nominee Donald Trump after his speech in Colorado Springs, Colo., on Friday.

there is to see in politics. He compares this election to the 1980 race when Ronald Reagan, for whom he worked, won as an outsider. In that race, many Americans had a hard time embracing the former actor, derided by some as intellectually unfit and too dangerous on national security, as a potential president.

But Americans were fed up with a status quo that had produced rampant inflation, gas lines and humiliation at the hands of Iranian students holding American diplomats hostage in Tehran. They wanted change; the question was whether they could find Mr. Reagan a

safe choice as change agent. It took many voters until the last presidential debate, just a week before the election, to decide Mr. Reagan was a plausible president. When they did, the election swung his way decisively.

"So just like with Reagan, I believe that once Donald Trump is accepted by the American people as somebody who can be president, I think the race is over," Mr. Manafort said at a Bloomberg breakfast last week. "When that will be, I don't know. We've got to do our job."

But it's far from clear that the Reagan parallel holds up. For starters, Mr.

Reagan was by 1980 a seasoned politician with significant government experience. He had been governor of California, the nation's largest state, for eight years, and had run a full-bore presidential campaign once before, in 1976.

In other words, he wasn't quite the risky outside option that Mr. Trump presents this year. He was a maverick, but one with more experience and with whom voters had more time to get comfortable.

There's also this difference: Mr. Reagan was well-liked personally. Negative feelings toward Mr. Trump

personally have been well chronicled by this point, of course. In the latest Wall Street Journal/NBC News poll, for example, 60% of those surveyed held negative feelings about Mr. Trump personally, while just 27% had positive ones.

By contrast, the Gallup organization earlier this year researched feelings toward Mr. Reagan during the 1980 campaign and found the opposite: "In general, these data show that Reagan enjoyed mostly positive net favorable reviews throughout 1980," Gallup found.

In a Gallup poll in January 1980, for example, Mr. Reagan had a 60% favorable

rating. And on Gallup's 10-point scale of measuring personal favorability, 70% of Americans viewed him positively that May and that August.

Mrs. Clinton's campaign knows she confronts her own formidable challenges on the likability and trustworthiness front, of course.

But while the Clinton camp wants to make people comfortable with the idea of her as president—which explains the many convention testimonials to her reliability as well as the highly personal presentations by her husband and daughter—the Democrats are at least as intent on making sure the idea of a Trump presidency doesn't settle in comfortably with swing voters. In fact, they want the vision to be seen as a frightening one.

"He loses his cool at the slightest provocation," Mrs. Clinton argued in her acceptance speech last week in Philadelphia. "When he's gotten a tough question from a reporter. When he's challenged in a debate. When he sees a protester at a rally. Imagine him in the Oval Office facing a real crisis."

She even reached back to the Reagan precedent, but in a quite different way. Referring to Mr. Reagan's trademark upbeat motto, she said Mr. Trump has "taken the Republican Party a long way, from 'morning in America' to midnight in America."

There is a lot of ground to cover in the next three months. Yet the first and maybe final issue is the most basic one: Will Mr. Trump pass the plausibility test?

## UBER

Continued from Page One had been in the works for two years and were known to companies in the industry in advance. The guidelines officially legalized the industry, but gave an edge to the player with the largest user base. That was Didi, which is backed by Apple as well as Chinese internet giants Alibaba Group Holding Ltd. and Tencent Holdings Ltd.

The rules forbid companies to operate ride-hailing services below cost, putting an end to ruinous subsidy wars but making it difficult for UberChina, with its smaller scale, to match Didi on price. The guidelines also require companies to implement stricter driver oversight and incur other overhead expenses, measures likely to be less costly per ride the larger the user base.

Didi and Uber disagree on their China market share, but most third-party researchers put Didi significantly ahead.

According to one research firm, Analysys International, Didi had 42.1 million active users in May while UberChina had 10.1 million.

Didi said it would maintain the Uber service and brand separately in China. A similar promise was made after the merger of Didi Dache and Kuaidi Dache in 2015 to form Didi Chuxing, with the smaller Kuaidi product subsequently marginalized.

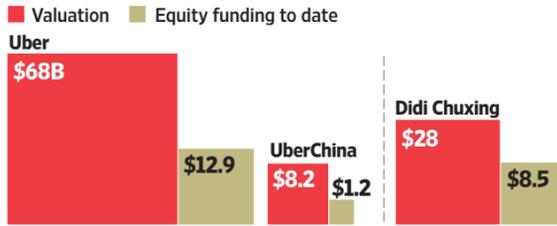
Uber's efforts in China are reminiscent of companies like eBay Inc. and Groupon Inc., which also struggled against faster-moving local rivals more attuned to the Chinese consumer.

"We were a young American business entering a country where most U.S. internet companies had failed to crack the code," Mr. Kalanick said in a statement.

For American companies, growing challenges loom. A survey released in January by the American Chamber of Commerce in China found that only 64%—the lowest level in five years—were profitable in 2015. Nearly a third of the U.S.

### Ride Funding

Didi Chuxing and rival Uber have together raised over \$20 billion in equity funding



### Key investors

Baidu, Google Ventures, Microsoft, Times of India's Times Internet

Alibaba, Apple, Tencent, several Chinese banks and insurance firms

Source: Dow Jones VentureSource

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companies surveyed weren't planning to expand their investment in China, a higher percentage than during the global financial crisis of 2008-09.

In July 2014, Mr. Kalanick offered to acquire Didi, saying that he would conquer China one way or the other, recalled Didi Chief Executive Cheng Wei in a 2015 interview. Mr. Cheng said he had

refused, saying, "There will be a day when we will surpass you."

An Uber spokeswoman confirmed the meeting at the time but said Uber executives remembered it differently.

Didi began in 2012 as an app to help Chinese taxi drivers find passengers. Although the service didn't make money for Didi, it helped the company amass loyal users. By the

## Fare Fight | The Uber-Didi battle

- ◆ 2013 Uber enters China.
- ◆ February 2014 Uber launches in Shanghai before rolling out services elsewhere in China to compete with Tencent-backed Didi Dache—Chinese for 'Honk Honk, Catch a Cab'—and Alibaba-backed Kuaidi Dache.
- ◆ July 2014 Uber's CEO offers to invest in Didi, saying Uber will conquer China. Didi refuses to sell.
- ◆ December 2014 Internet giant Baidu agrees to invest in Uber.
- ◆ 2015 Didi and Kuaidi merge.

Subsidies to Chinese drivers and riders reach a peak.

- ◆ May 2016 Apple announces it will bet \$1 billion on Didi.
- ◆ June 2016 Didi says it has raised \$7.3 billion in its latest fundraising effort.
- ◆ July 2016 China issues ride-hailing regulations that rule out the fierce subsidy battles fought between Uber and Didi.
- ◆ August 2016 Didi reaches deal to acquire Uber's China operations.

its attempts to promote its services to regular consumers. WeChat is owned by Tencent, a Didi investor. Tencent has declined to comment.

Uber's nearly 20% stake in Didi will also likely prove a good investment. Didi is China's No. 2 most valuable startup and is increasingly called a fourth Chinese internet giant alongside Alibaba, Tencent and Baidu Inc.

## TESLA

Continued from Page One holders, the deal would double Tesla's workforce to nearly 30,000 employees and create a unique combination of solar, power storage and transportation, which Tesla says would be the world's only integrated sustainable energy company.

The new company also would tie together two money-losing entities, dependent on borrowing from the market, adding potential risk along with opportunity.

Mr. Musk, who owns more than 20% of both companies and is the largest shareholder in both, plans to vote his shares in proportion to the voting by the companies' publicly held shares.

He said earlier in July that he expects two-thirds of shareholders to approve the deal, which the companies expect will close in the fourth quarter.

"It's really all part of solving the sustainable energy problem," Mr. Musk said during a conference call with analysts to discuss the deal. "That's why we are all doing this, to accelerate the advent of a sustainable energy world."

Some analysts were skeptical of the deal's value for Tesla, saying that buying an unprofitable solar company may not be the best financial move for Tesla, which up to now has primarily been an auto maker.

"It's a bailout," said Jesse Pichel, an investment banker at Roth Capital Partners, adding, "SolarCity has had a hard time raising money. Tesla solves that problem."

Some in the solar industry, meanwhile, view the deal as a bargain for Mr. Musk, noting that SolarCity's stock is down nearly 60% from the

start of the year. "It's how big fortunes are made," said Lynn Jurich, chief executive of rival Sunrun Inc. "People who are willing to bet big and have a vision will be rewarded."

SolarCity is the largest player in the U.S. residential solar market, with a nearly 32% share of the market as of the first quarter of this year, according to GTM Research.

Vivint Solar Inc. was second with a 9% share and Sunrun was third with nearly 7%.

SolarCity Chief Executive Lyndon Rive, a cousin of Mr.

Musk, said Monday that the deal would accelerate the development of clean energy.

The company aims to offer Tesla batteries with rooftop solar panels as a standard package for many of its customers in the next three to five years, Mr. Rive said.

Mr. Musk in June proposed pairing the companies that he backs as a means to vertically integrate his battery-storage business at Tesla with the solar-panel company.

A joint company would recognize \$150 million or more in cost savings in the first full year after closing the transaction, he said.

The biggest area of cost savings may come from lowering SolarCity's cost to obtain customers by leveraging Tesla's strong brand recognition and retail store locations.

The solar company's cost to acquire new customers rose 80% in the first quarter from the previous quarter, and is more than 30% of the overall cost of installing a home solar panel system.

"I think \$150 million is conservative," Mr. Musk said. "I think we will significantly exceed that in the first year."

For Tesla, SolarCity brings teams of installers across, more than a dozen states,

which will be able to install electric-car chargers, separately or together with panels and batteries, the companies said.

Under the proposed terms, SolarCity now has a 45-day period to seek better offers, and Tesla had one more opportunity to sweeten its offer if SolarCity obtains a higher bid.

If SolarCity does accept a better deal during the 45 days, the company would pay Tesla a \$26.1 million breakup fee.

A special committee of SolarCity board members analyzed the offer, compared it to various alternatives and decided the deal "is the best

outcome for SolarCity shareholders, compared with other outcomes," a person who helped advise the committee said Monday.

—Anne Steele contributed to this article.



Tesla Chairman Elon Musk, who holds the same post at SolarCity.

## CORRECTIONS & AMPLIFICATIONS

The Chinese consortium buying some subsidiaries of Caesars Interactive Entertainment, an Israeli games business, consists of more than a dozen investors. A Business News article Monday about the deal incorrectly said the consortium consists of 11 investors.

Readers can alert The Wall Street Journal to any errors in news articles by emailing [wsjcontact@wsj.com](mailto:wsjcontact@wsj.com).

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The News Building, 1 London Bridge Street, London, SE1 9GF

Thorold Barker, Editor, Europe  
Bruce Orwall, Senior Editor, Europe  
Cicely K. Dyson, News Editor, Europe  
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## WORLD NEWS

# Aleppo Conditions Worsen Amid Siege

Opposition officials and aid workers said Syria and Russia aim to force quick surrender

By RAJA ABDULRAHIM

The Syrian regime and its Russian allies are heavily bombarding hospitals, markets, utilities and aid warehouses in the besieged, rebel-controlled half of Aleppo, according to opposition officials and aid workers who said it was a concerted effort to force the rebels to surrender quickly.

The regime succeeded last month in encircling and cutting off the rebel-held eastern side of Aleppo after more than two years of attempts. The bombardment of infrastructure since has led to deteriorating humanitarian conditions for an estimated 300,000 people under siege, the officials and aid workers said.

Food supplies in the city are expected to last for only a few more weeks, according to the United Nations and aid agencies.

“What is happening is to break the will of the opposition,” said Muhammad al-Zein, an administrator with the medical council overseeing hospitals in the rebel-held part of Aleppo. “The warplanes are not striking the headquarters of [rebel] factions. They are targeting the infrastructure in



A man riding a bicycle past burning tires on Monday in Aleppo, which has been encircled by the Syrian regime since last month.

order to create a feeling of defeat and surrender.”

Russian warplanes don't strike civilian targets, said Lt. Gen. Sergei Rutskoj, a top general overseeing Russian operations in Syria. He said seven channels had been opened up around Aleppo to allow people to flee, and added that Russian soldiers have delivered food products and medical supplies.

Opposition officials and local aid workers said no human-

itarian corridors have been opened to allow civilians to leave the rebel-held portion of Aleppo.

Syrian President Bashar al-Assad said in a July interview with Cuban state media, “Our army has been advancing in Aleppo and the suburbs of Aleppo in order to encircle the terrorists,” a term the regime uses for the opposition broadly.

The Syrian regime believes

that whichever side controls Aleppo has won the war, according to a source within the Shiite alliance fighting in Syria, which includes Iran, Hezbollah and the Syrian government.

With Aleppo now besieged, morale among rebel fighters will fall and ultimately lead to opposition fighters agreeing to a deal allowing the Syrian regime to regain control of the city, the source said.

Before the war, Aleppo was

Syria's commercial capital and largest city, but since 2012 it has been divided between rebel and regime control.

On Sunday, in an attempt to break the siege, numerous rebel factions launched an ongoing offensive against regime forces stationed along the southern edge of the city.

In support of the offensive, some people burned tires filling the sky with thick black smoke in an attempt to pre-

vent regime and Russian aircraft from bombing the rebels.

Aleppo's eastern opposition-controlled half has been under siege since July 17, when regime forces backed by foreign Shiite militias and Russian aircraft took control of the Castello Road and cut off the sole supply line to the rebel parts. Since then, five hospitals, one clinic and a medical training institute have been hit by airstrikes, Mr. Zein said.

Since the only morgue in Aleppo was bombed out of service more than a week ago, bodies are laid out at the entrances of the few functioning hospitals, said Mr. Zein. Families looking for missing loved ones go from hospital to hospital, inspecting each shrouded body. At the end of night, those left unclaimed are buried.

Numerous ambulances have been struck and put out of service, forcing people to transport the injured in the back of pickup trucks, in taxis and even motorcycles.

On July 24, an airstrike hit a humanitarian warehouse, injuring three aid workers and destroying 10,000 food parcels, according to the U.N.'s World Food Program and other local and international aid agencies. Before the closure of Castello Road, WFP had stockpiled food aid for 117,000 people to last a month.

—Thomas Grove in Moscow contributed to this article

# Rebels Down a Russian Helicopter in Syria

By THOMAS GROVE AND RAJA ABDULRAHIM

MOSCOW—Syrian rebels downed a Russian helicopter, killing all five crew members and officers on board, the Kremlin and a Syrian opposition news agency said on Monday.

The downed helicopter crashed in Idlib, near the southern border of Aleppo province, Russia's Defense Ministry said, where rebels on Sunday launched a battle to break Syrian troops' siege on the city of Aleppo.

“Those who were on the helicopter, according to information coming from the Defense Ministry, have died,” state-run RIA news agency reported Kremlin spokesman Dmitry Peskov as saying.

The Russian Defense Ministry said three crew members and two officers were on board.

Photos posted online showed a badly burned body—said to be that of one of the crew members—being dragged and loaded into the back of a truck. Russia's Defense Ministry said the helicopter was delivering humanitarian aid to the city of Aleppo and was returning to the Russian base of Khmeimim when it was shot down by troops on the ground. However, residents of the region said no Russian humani-



People identified as Syrian rebels viewed the wreckage of a Russian military helicopter on Monday.

tarian-aid deliveries were made on Monday.

Russian Lt. Gen. Sergei Rudscoj said Russian aircraft were used on Sunday in bombing raids to help the Syrian army defend against the rebel offensive and to deliver strikes against rebel positions. He said the Syrian army, together with Russian airstrikes, had killed more than 800 militants

and destroyed 14 tanks and 10 armored personnel carriers.

“The Russian Air Forces aviation is providing active support to government troops to repel enemy attacks by carrying out selective strikes on militant positions,” Lt. Gen. Rudscoj told a press briefing.

He said the helicopter was downed over territory controlled by Nusra Front and

other opposition groups. The Nusra Front changed its name to the Syria Conquest Front after it said it severed its ties to al Qaeda last week.

The downing of the helicopter is the latest in a handful of casualties reported by the Russian Defense Ministry since the start of the intervention in Syria. Last year, Turkish F-16 jet fighters downed a

Russian Su-24 war plane, killing both pilots on board. This year, state news agency TASS reported another two helicopter pilots were killed by militant gunfire from the ground. Interfax reported that as of the end of July, 14 Russian servicemen had been killed in Syria since the launch of Russia's military intervention.

Russia intervened last year in the Syria conflict at the request of President Bashar al-Assad with regular bombing strikes against the forces arrayed against him. This year, Russian President Vladimir Putin pulled out a large part of Russia's forces, though a substantial presence remained behind to continue bombing raids. Russia's Defense Ministry has said 24 military aircraft and at least 10 helicopters are still in Syria to carry out strikes.

Russian Deputy Defense Minister Anatoly Antonov said last Friday that Russia's presence in the city of Aleppo was purely humanitarian to distribute aid.

A Russian promise of humanitarian corridors out of the city, however, have been met with skepticism from rebels fighting there as well as concern from the United Nations over Moscow's intentions. Residents in rebel-held regions say they don't consume food delivered by the Russian military for fear it may be poisoned.

# U.S. Targets Islamic State Stronghold in Libya

By PAUL SONNE

WASHINGTON—The U.S. conducted airstrikes against Islamic State's stronghold in Libya for the first time Monday, coming to the aid of the U.N.-backed Libyan government in its burgeoning battle against the extremist group.

Pentagon spokesman Peter Cook said the U.S. carried out airstrikes against Islamic State vehicles and a tank in the coastal city of Sirte, which has emerged as one of the extremist group's critical bases outside its self-declared caliphate in Iraq and Syria.

The U.S. military has carried out strikes on individual Islamic State leaders on two occasions in Libya; Monday's actions mark the first time American airstrikes have come to the aid of local forces undertaking a traditional ground offensive.

The strikes, approved by President Barack Obama, came in response to a request for assistance from the U.N.-backed Libyan government, known as the Government of National Accord.

Mr. Cook said the U.S. would continue to conduct air-

strikes as requested to keep up the momentum that local forces have gained against Islamic State in Sirte.

“They have made significant progress in Sirte already on their own,” Mr. Cook said. “And we believe this can make a difference, hopefully in a

short amount of time.”

Faiez Sarraj, prime minister of Libya's unity government, said it requested the U.S. coordinate its strikes in Sirte with Libya's presidential council and operations command.

He said the first strike Monday cost the terror group “ma-

nor losses” in equipment and allowed Libyan ground forces to “take control of key locations.” He didn't specify further.

“In commitment to the Libyan political agreement...and in cooperation with the international community, we have

decided to join the international alliance to fight the Islamic State,” Mr. Sarraj said. “This step comes as it's time the international community keeps its promises and commitments to the Libyan people and the government of national accord.”



Fighters of Libyan forces allied with the U.N.-backed government fired at Islamic State militants during a battle Sunday in Sirte.

## World Watch

### AFGHANISTAN

#### Militants Attack Housing Complex

An overnight attack on a compound used by U.S. military contractors near Kabul underscored Afghanistan's shaky security situation as the Taliban intensify their summer offensive following a lull during the Muslim holy month of Ramadan.

A truck bomb near the compound's outer perimeter early Monday shook buildings several miles away and flattened structures inside. Three gunmen then unsuccessfully tried to push into the compound and instead took up position in a house, a ministry spokesman said, using it as a base to fire at government forces.

One policeman died; two others were wounded in the fire-fight. The gunmen were killed, the Afghan interior ministry said. The Taliban claimed responsibility, saying the operation was carried out by a suicide truck bomber and three gunmen with rocket-propelled grenades.

The compound, called the Northgate Hotel, is a housing complex for contractors that provide logistical support to the military and other organizations. An official at Northgate said none of its residents had died.

—Jessica Donati

### CHINA

#### Two Reports Cloud Picture on Growth

Two gauges of factory output in July showed conflicting results, with one that focuses on larger state-owned companies flagging and the other, on private firms, soaring.

The National Bureau of Statistics said Monday the official manufacturing purchasing managers index slipped into negative territory for the first time in five months, to 49.9 last month from 50.0 in June.

The Caixin manufacturing PMI rose strongly to 50.6 in July—its first reading above the break-even level of 50 in 17 months—from 48.6 in June.

The official index tends to better track conditions at larger state-owned firms while the index by Caixin and research group IHS Markit Economics tends to focus more on smaller, private companies.

The mixed numbers present a muddled view. Many economists tend to trust data from the private sector more than from the government, which they believe may enhance the data to try to portray a healthier economy. Monday's results, however, reflected more upbeat numbers from the private side.

—Mark Magnier

WORLD NEWS

# Ankara's Pressure on Imam Crosses Border

## Delegation to Pakistan calls for closing schools linked to cleric Turkey blames for failed coup

By SAEED SHAH

ISLAMABAD, Pakistan—A high-ranking Turkish delegation arriving in Pakistan on Monday night is hoping to score another victory in Ankara's expanding campaign against a U.S.-based imam that the Turkish government accuses of masterminding the failed coup two weeks ago.

Pakistani officials say they will accede to the delegation's demand to move against a well-regarded chain of schools run by people Ankara characterize as supporters of Fethullah Gulen—despite the insistence by directors of the schools that they had no ties to the Turkish imam—because Ankara has framed the issue as a test of bilateral relations.

Since the failed July 15 coup that left 271 people dead, Turkish President Recep Tayyip Erdogan has accused Mr. Gulen of orchestrating the violence, which the imam denies.

He and his supporters say the charges are part of a campaign of repression that started when Mr. Gulen broke off his political alliance with Mr. Erdogan in 2013.

Schools linked to Mr. Gulen operate in dozens of countries, including the U.S.

Recently, Turkey has stepped up diplomatic pressure to get those schools closed, although it has had mixed success.

Pakistan and Turkey have enjoyed close relations since Mr. Erdogan's Justice and De-



People in Karachi, Pakistan, attended a rally in support of Turkish President Recep Tayyip Erdogan and his government on July 17.

velopment Party came to power in the early 2000s. Prime Minister Nawaz Sharif has spoken of his friendship and admiration for Mr. Erdogan.

Like Turkey, Pakistan has struggled to entrench democracy against a domineering, coup-prone, military.

PakTurk International Schools and Colleges, set up in 1995 by Turkish businessmen, is a Pakistani not-for-profit organization.

Its 26 fee-based schools educate some 10,000 children and have a reputation for quality education and moderate religious views.

Mr. Sharif praised the schools in a speech in late 2013, in the presence of the visiting Mr. Erdogan—a diplomatic faux pas, as Mr. Gulen had already fallen out of favor with the Turkish leader.

The atmosphere will be markedly different on Tuesday, when Turkish Foreign

Minister Mevlut Cavusoglu is scheduled to meet his Pakistani counterpart, Sartaj Aziz.

Pakistani officials say they are examining laws for regulating nonprofit groups that could be used by interior and finance ministries as one way to enforce changes at the schools.

Provincial governments, which have responsibility for schooling, could also take action, they said.

The goal will be removing

the current management of the schools, while keeping the institutions open, they said.

"Turkey is a very close and very good friend of Pakistan, and we have brotherly relations. So we understand their concerns," said Nafees Zakaria, the spokesman of the Pakistani Ministry of Foreign Affairs.

Mr. Zakaria says one option being considered would be to transfer administration of the schools to a new entity pro-

posed by the Turkish government.

Directors at the schools say they will fight any attempt to take over the schools.

Alamgir Khan, a Pakistani businessman who is one of the five directors of the PakTurk schools, said the schools weren't political and haven't broken any laws.

"The schools have come out of a system inspired by Gulen's teachings but they have no link to Gulen," said Mr. Khan. "The schools operate under the rules and regulations of Pakistan. The resources are our own. It should be the laws of Pakistan, not the laws of Turkey, that prevail here."

Unlike the country's elite private schools, the schools run by his group were aimed at helping middle class families, he said.

The Turkish government also is demanding that Pakistan close a think tank called the Rumi Forum, a Gulen-inspired group that organizes talks in Pakistan.

The Rumi Forum, established a decade ago for what it calls intercultural dialogue, is headed by a Turkish translator and editor based in Islamabad, Suat Erguvan. It says it isn't related to organization of the same name in Washington where Mr. Gulen is the honorary chairman.

"We don't want to become a political snack," said Mr. Erguvan, adding that his offices had been visited by Pakistani intelligence agents in recent days. "Mr. Gulen is an inspiration, but we do not report to him, he gets no royalties from us, he has no place on our board of directors."

—Qasim Nauman contributed to this article.

# Turkey Catches 11 It Says Tried to Kidnap President

By MARGARET COKER

Turkish authorities said they captured 11 commandos who had been on the run since trying to kidnap President Recep Tayyip Erdogan during the coup attempt last month.

The suspects had been hiding in a forested area around 30 miles from the Marmaris seaside resort where Mr. Erdogan had been on vacation when the coup erupted July 15, the officials said Monday. Drones and helicopters were used in tracking and arresting them.

The commando attack on Mr. Erdogan's holiday villa was part of coordinated assaults targeting key installations and top officials in Marmaris, Istanbul and the capital, Ankara. Mr. Erdogan had left the resort before the attack, thus avoiding capture and enabling him to create momentum against the coup.

The coup attempt left 271 people dead, including 170 civilians and 34 coup plotters, according to updated statistics released by the government. The others killed include 62 policemen and five soldiers loyal to the government.

President Erdogan has ac-

cused the Turkish imam Fethullah Gulen of masterminding the coup. Mr. Gulen, who is based in the U.S. but has millions of followers in Turkey and elsewhere, strenuously denies the accusations and says he is opposed to all forms of violence.

In response to the coup, the government declared a three-month state of emergency and has detained more than 18,000 people, most of them from the military. It also has suspended more than 50,000 civil servants from their jobs, mostly on suspicion of being followers of Mr. Gulen.

The arrests in the southwestern Mugla province late Sunday and early Monday came hours ahead of a meeting between Prime Minister Binali Yildirim and Gen. Joseph Dunford, the chairman of the U.S. Joint Chiefs of Staff.

The two discussed Turkey's desire for Washington to extradite Mr. Gulen, as well as security and intelligence cooperation in relation to the international coalition against Islamic State in neighboring Syria and Iraq.

Turkey is a strategic partner for the U.S. and it boasts the second-largest military



Turkish authorities escorting one of the suspects Monday at the police headquarters in Mugla.

among North Atlantic Treaty Organization members. Its Incirlik Air Base hosts approximately 2,000 U.S. personnel deployed in the fight against Islamic State.

Gen. Dunford's visit comes amid concern in Washington about Turkey's military integrity. Since the coup, the government has strengthened ci-

vilian leadership over the armed forces, transferring ultimate authority from senior generals to the defense minister. It has also closed military academies and announced plans for sweeping changes to command structures.

Approximately one-third of Turkey's roughly 360 generals and admirals have been de-

tained since July 15, and more than 100 have already been charged pending trial.

U.S. military officials said that some of their counterparts in Turkey have been among those who have lost their jobs.

Turkish authorities said they were aware that some commandos involved in the

Marmaris attack had evaded arrest. There was a breakthrough in the search last week when three men were tracked and arrested in a drainage culvert in Mugla, according to the Anadolu state-run news agency.

Special forces, working on tips from villagers, located the other fugitives near a forested area over the weekend, officials said. The locals, who were out hunting boar, saw the strangers and reported them to the authorities, according to a Turkish official.

Gunfire was exchanged during the arrests but there were no known casualties, according to Anadolu.

Turkish television showed pictures of the captured men, most of whom were bearded and wearing T-shirts, being taken in handcuffs to a local police station. One was identified as a major, but neither the identities nor the ranks of those detained could be independently confirmed.

A Turkish official said there appeared to be one more member of the Mugla coup cell still at large. Around 20 other men have already been charged with taking part in the failed mission against the president.

## TENSION

Continued from Page One EU and Turkey."

The stakes are particularly high for German Chancellor Angela Merkel, who has sought to avoid riling Mr. Erdogan, her ally in Berlin's efforts to curb the recent inflow of migrants.

After two terror attacks committed by asylum seekers in the past two weeks, Ms. Merkel faces new pressure at home to contain the flow of migrants to Germany. Her open-door migrant policy allowed over one million migrants to come to here last year and a March deal reached with Turkey to take back migrants who cross into Europe illegally from Turkish shores has contributed to a significant drop in the number of migrants crossing into Europe.

Politicians in Turkey have threatened to cancel the pact unless Europe delivers promised concessions soon, especially visa-free travel in Europe for Turkish citizens. But EU officials say Turkey must first meet criteria that in-

clude addressing the treatment of political opponents, which the crackdown is placing in question.

"Under no circumstance should Europe let itself be blackmailed," Germany's Deputy Chancellor Sigmar Gabriel told reporters on Monday, after Turkey's Foreign Minister Mevlut Cavusoglu told a German newspaper over the weekend that visa-free travel must be granted by October if cooperation on migration is to continue.

Turkey's Mr. Celik criticized the German judicial ban on Mr. Erdogan's video address in a series of Twitter posts, turning around accusations of censorship and curbs on other civil liberties that German politicians have leveled at Mr. Erdogan. It is "such a shame to see that [the] EU fails in upholding democracy and showing solidarity with a candidate country in the face of a coup threat," he wrote.

A senior Turkish official said Turkey was still committed to working with Europe on migration and other issues but expected its European partners to hold up their end of the deal.

In Brussels, EU officials are concerned that the events in Turkey could harm relations so much that last year's migration crisis could reignite. More than a million refugees and other migrants arrived in Europe in 2015, mostly via the Middle East, sparking a political crisis in the EU that has been contained recently mostly with Turkey's help.

The average number of mi-

grants crossing the Aegean Sea from Turkey to Greece has dropped to 89 a day since the EU-Turkey migration deal was signed in March, compared with daily average arrivals of about 1,740 in the months before the agreement, according to the European Commission.

Commission President Jean-Claude Juncker warned over the weekend that the migration deal could fall

apart. He expressed concern about "torture and arbitrary detention" of alleged coup plotters and political dissidents, which he said were just as big a problem for EU-Turkey relations as some Turkish politicians' talk of reintroducing the death penalty for coup participants.

In France, the latest political turmoil has only reinforced doubts about whether Turkey should get visa-free travel, a French official said.

In Germany, home to the largest Turkish diaspora, thousands of Turks and Germans of Turkish descent have marched in support of Mr. Erdogan since the coup attempt.

Demonstrations have been mostly peaceful, but a series of violent incidents in Germany against critics of Mr. Erdogan have raised German officials' fears that Turkey's political troubles could spill over into their country.

The two countries have had a series of diplomatic rows in recent months. In April, the German chancellor had to weigh relations with Ankara and press freedoms in Germany when Turkey pursued the prosecution of a



People attending a rally Sunday in Cologne, Germany, in support of Turkish President Recep Tayyip Erdogan after a recent failed coup.

## Politicians in Turkey have threatened to cancel the EU migration pact.

"Turkey has been an important and good partner for Germany and Europe for centuries," Martin Schäfer, a spokesman for the German Foreign Ministry, said Monday. "We have had bumpy phases now and again but also phases that were extraordinarily good. Currently, we are in a somewhat bumpy phase."

—Valentina Pop in Brussels and Emre Peker in Istanbul contributed to this article.

WORLD NEWS

# South Africa Election to Test ANC

Polls show ruling party trails rival Democratic Alliance in three prominent cities

By GABRIELE STEINHAUSER AND PATRICK MCGROARTY

MAMELODI, South Africa—A stagnant economy and widespread corruption allegations have put the African National Congress on the defensive ahead of local elections this week, which could push the party that has ruled since apartheid's end out of power in South Africa's most important cities.

Polls ahead of Wednesday's municipal votes show the pro-business Democratic Alliance, or DA, ahead of the ANC in the capital Pretoria, the economic hub Johannesburg and the manufacturing town of Port Elizabeth. Pressure is also building from the left, where the Economic Freedom Fighters led by former ANC youth leader Julius Malema are drawing in voters with the promises to take back white-owned mines and farmland.

"People just need change now," said James Dube, who drives an Uber in Johannesburg. Like many younger black voters pushing into the middle class, he said he would cast his ballot for the DA, which appointed its first-ever black leader last year in Mmusi Maimani, a preacher and former consultant from the township of Soweto.

The possibility of the ANC losing control of the country's economic engines means many South Africans are branding this vote as the most important since the 1994 one that elected Nelson Mandela president.

Three years after Mr. Mandela's death, a weakened ANC in some of the nation's key constituencies would be laden



President Jacob Zuma, center, attended a rally of his ruling African National Congress at Johannesburg's Ellis Par Stadium on Sunday.

with symbolism.

If the ANC loses two of the three big cities in question or its nationwide share of Wednesday's vote drops below 50%, pressure would build on President Jacob Zuma to step aside. If the party holds its ground, it would cement the perception of South Africa as essentially a one-party state, leaving many citizens on the sidelines.

"This will signal a new game for the next 10 to 15 years," said Susan Booysen, a professor at the Wits School of Governance in Johannesburg.

The outcome of the poll remains far from certain. Some analysts caution that opinion surveys underestimate support for the ANC from poorer and older voters, who still feel close allegiance to the party of liberation.

But there is consensus that the party of Mandela is grappling with a daunting list of political and economic challenges.

The official unemployment rate stands near 27%, with more than half of workers under the age of 35 looking for a job. The South African central bank expects the economy to stagnate this year and expand just 1.1% in 2017—trailing an annual population increase of 1.7%.

By the end of next year, the International Monetary Fund warns, per capita income will slip below 2010 levels.

"Anyone who admires South Africa's many accomplishments has to worry about what it will mean if these economic problems are not tackled soon," the IMF's deputy managing director, David Lipton, warned in a recent

speech in Johannesburg.

The ANC's successes and failures over the past 22 years are most visible along the dusty streets of townships like Mamelodi, on the outskirts of Pretoria. In June, anger over an ANC decision to swap out the current mayor for a candidate viewed as an outsider turned violent. Three days of rioting—punctuated by arson, barricaded streets and looting—left two people dead.

Rows of neat brick houses, built by the government, line the streets here. Many residents also rely on monthly social grants the government extends to 16 million South Africans to keep them out of abject poverty.

But the men and women who live in the informal settlements that persist next to the government houses say they have little hope that their

children and grandchildren will lead better lives.

"We've been voting for a very long time, but nothing is getting done," said William Sitola, a 67-year-old former forklift driver who moved here in 1973. He shares his house with his son, who scrapes by as a painter, and four grandchildren. They tap the electrical grid with a makeshift illegal connection. Behind their pink concrete home, a dozen or so government houses stand empty. They were never connected to power and sanitation networks, local residents said.

But Mr. Sitola said despite his discontent he will vote for the ANC, which has run Mamelodi and the wider municipality of Pretoria since the end of apartheid. "I'm an old man. I'm just with Mandela," he said.

# Brexit Vote Puts Brake On British Factories

By JASON DOUGLAS

LONDON—British manufacturing activity fell last month to its lowest since 2013, though a weaker pound helped lift export orders, according to final figures from a closely watched survey Monday.

The statistics offer the latest indication that the U.K. economy is displaying some signs of slowing following the country's decision to leave the European Union.

On Monday, financial information firm IHS Markit Ltd. said its purchasing managers' index—based on monthly questioning of 600 manufacturing companies—was 48.2 in July, slightly worse than a previously published preliminary estimate for the month and down from 52.4 in June. A reading above 50 indicates an expansion and below signals a contraction.

The survey recorded slides in output as well as new orders across all sectors of the manufacturing industry, but export orders received a boost from sterling's recent slump.

With Britain's economic outlook cloudy and firm data on gross domestic product not due until later this year, corporate chiefs, policy makers and investors will be watching data points over the coming weeks and months for clues to gauge the effects of Britain's vote to exit the EU.

**The statistics offer the latest indication that the U.K. economy is slowing.**

Those include this week's fuller survey data on how the U.K.'s construction and services sectors performed in July, due Tuesday and Wednesday, respectively. On Thursday, the Bank of England is due to provide its first post-Brexit forecasts for growth and inflation, which will represent the most comprehensive assessment to date of how the economy is coping.

The BOE has signaled it will act swiftly to cushion the economy from any Brexit shock. The central bank is expected to announce on Thursday a package of measures aimed at shoring up the economy, including lowering its benchmark interest rate to a new low and possibly a fresh round of bond purchases.

Driving the BOE's cautious stance has been a succession of gloomy reports that suggest households have reacted badly to the EU referendum result and business confidence has been shaken. On Thursday, a long-running gauge of consumer confidence compiled by market-research firm GfK Ltd. fell 11 points from June to July, the steepest monthly drop since 1990. A day earlier, the Confederation of British Industry, an employers' lobby group, reported a sharp decline in retail sales in July compared with June.

But it hasn't all been bad news. A CBI survey of London-based firms, published Monday, found most expected to keep hiring. The BOE's network of regional agents in July also found businesses weren't planning to rewrite their hiring and investment plans just yet.

# Abe's Stimulus Expected to Come Up Short

By MITSURU OBE

TOKYO—With his pledge to unveil a "bold" government stimulus package Tuesday, Japanese Prime Minister Shinzo Abe risks leaving investors underwhelmed for the second time in less than a week.

The Bank of Japan on Friday disappointed those hoping for a major effort to jump-start the economy, offering only a tweaking of its monetary-easing program.

The broad outlines of Mr. Abe's fiscal-stimulus package are clear. Its total value of ¥28 trillion (\$274 billion) will rank it as the largest supplemental spending package since the global financial crisis. But actual new, direct spending will total only about ¥7.5 trillion, most of it over the next two years, according to government sources—less than the ¥10 trillion in the package Mr. Abe introduced during his first year in office.

The government will draw up a supplementary budget this month to provide for extra stimulus spending of some ¥4 trillion in the year ending in March.

Marcel Thieliant, chief Japan economist at London-based Capital Economics, said such spending would be "a major disappointment" that at best might boost next year's rate of economic growth by 0.1 percentage point.



Prime Minister Shinzo Abe is escorted by a parliamentary guard in Tokyo on Monday.

With Japan's economy sputtering three years after Mr. Abe vowed to revive it, recent comments by the prime minister had fueled expectations that he and the central bank would resume the aggressiveness of the early days of his Abenomics growth program, with coordinated expansions of monetary and fiscal stimulus.

A visit to Tokyo by former U.S. Federal Reserve Chairman Ben Bernanke last month had even stoked speculation of "helicopter money," or direct central-bank underwriting of government spending.

Instead the Bank of Japan

offered tweaking, along with plans for a comprehensive assessment of its policies next month—leading many investors and economists to conclude it has nearly run out of firepower.

The Japanese public has been forgiving of Mr. Abe's failure to fulfill his promises on the economy, handing his ruling coalition a strong upper-house majority in an election last month—adding to its existing lower-house supermajority. Mr. Abe now has a chance to embark on his long-coveted goal of revising the nation's U.S.-written constitution for

the first time in its 70-year history. But he is under pressure to prevent the economy from falling into a recession.

The spending package includes a handout of ¥15,000 (\$147) to 22 million low-income people, as well as reconstruction projects in a southern region hit by earthquakes in April.

Koya Miyamae, economist with SMBC Nikko Securities, said he expects the package to provide a modest boost to the economy for the year ending March, boosting growth by 0.4 point. "The stimulus will eliminate any risk of the economy

falling into a recession," he said.

Japan's economy has swung between growth and contraction in recent quarters. In the April-June period, annualized expansion is believed to have slowed to 0.1% from the previous quarter's 1.9%, according to a survey of 43 economists by the Japan Center for Economic Research. The figure is due for release Aug. 15.

Mr. Abe responded to growing headwinds, including global uncertainty, by reversing a fiscal consolidation program. In addition to saying he would be offering a spending package, Mr. Abe in June postponed to 2019 a sales-tax increase planned for April 2017.

Many are worried about Japan's debt. As a percentage of GDP, government debt ranks highest in the world among developed economies, though more than a third of outstanding Japanese government bonds are now held by the BOJ as a result of its asset-buying program.

Three-quarters of the ¥28 trillion stimulus package is made up of targeted low-interest loans from the government and from state companies.

Mr. Miyamae said he doesn't believe more cheap money will help much, given that interest rates have been near zero for years. "Cheap credit is already available. That's not the main constraint on the economy."

# Detained Chinese Activist Expresses 'Remorse' in Video

By JOSH CHIN

BEIJING—A celebrated Chinese human-rights lawyer, detained for more than a year, in a video disseminated online Monday disavowed her work and accused her boss of trying to foment revolution.

The confession, which some people who know her said was possibly coerced, was the latest development in Beijing's crackdown on China's human-rights community.

Wang Yu of Beijing's Fengrui law firm was among roughly two dozen lawyers and activists who were formally arrested following a broad government crackdown

begun in July 2015 during which at least 200 other lawyers and activists were detained or interrogated.

In the video, versions of which were released by both Hong Kong and mainland Chinese media, Ms. Wang is shown answering questions from an off-camera interlocutor. In one version, she announces that she has been out on bail for several days.

"I felt the civility and humanity of justice in China," she says. She goes on to express regret for "going to extremes" in her work for Fengrui, a law firm known for taking on politically sensitive cases. "I also wrote inappropriate things online and accepted interviews with foreign media. For this, I feel ashamed and express remorse."

Reports said the interview was conducted on Sunday, but Wen Donghai, one of Ms. Wang's lawyers, said he had been unable to contact her and couldn't confirm her release. Police and prosecutors in Tianjin, where Ms. Wang was being held, didn't answer phone calls Monday evening.

Family members of some of the arrested activists and lawyers swept up in that same crackdown released a statement on Monday saying, "We strongly suspect Wang Yu made these statements to the



Human-rights lawyer Wang Yu.

media under pressure and threat."

The video appeared on the same day that activists and

diplomats convened outside a court in Tianjin in response to rumors that another lawyer detained in the crackdown, Fengrui director Zhou Shifeng, and three activists were scheduled to face a closed-door trial there on charges of subverting state power.

The wives of two of those arrested were detained in Tianjin over the weekend after they pressed authorities to confirm the trial date, according to activists. The wife of a third arrested lawyer was taken away after she attended protests outside the Tianjin court on Monday, the activists said.

The lawyers and activists

are accused of a wide range of offenses, including politicizing legal cases to attract attention for themselves, deliberately disrupting trial proceedings and staging "fake" protests outside court houses, according to state media.

In its report on Ms. Wang's release, the Hong Kong newspaper Oriental Daily said the trial for the four men would be held on Tuesday. Calls to the court outside of business hours rang unanswered.

The U.S. Embassy in Beijing called for Beijing to release Mr. Zhou and his colleagues, calling the charges against them "vague and apparently politically motivated."

## FROM PAGE ONE

# IOC

*Continued from Page One*  
more time thinking about going to the last continent. We need some assurance it will be a success.”

Though they say they remain optimistic about the Rio Games, IOC officials say getting the city ready has been consistently tumultuous and at times nearly calamitous.

Construction of the Olympic Park lagged. The village for the athletes has barely been completed, with some athletes showing up to find exposed wiring, nonworking plumbing and darkened stairwells.

On Saturday, strong winds damaged part of the main ramp of Marina da Gloria, the chief access point for boats in the competition.

Rio abandoned its promise to clean up Guanabara Bay, site of Olympic sailing. “The bay is the biggest shortcoming,” said Michael Payne, a former IOC marketing director and onetime adviser to the Rio bid.

Also significant, a promised new transportation network has been scaled back and remains largely untested on the cusp of the Games, which start Friday. Mr. Payne said if the IOC had known there wouldn’t be a guarantee of major gains against the city’s traffic problems, the organization never would have put the Games there.

In 2009 when the IOC picked Rio, Brazil’s economy was projected to become one of the five biggest economies in the world by now. It has instead fallen into its worst recession in decades, and the government is embroiled in a pervasive and distracting political scandal.

“The lesson is lots of things can change in seven years,” said Dick Pound, a Canadian who is among the longest-serving IOC members.

Mr. Payne predicted IOC members would steer clear of avoidable risks in the near future. “They will say, ‘Let’s



Above, Olympic Park in Rio de Janeiro; right, the polluted shore of Guanabara Bay in Rio.

make sure the next couple are easier,” he said.

The Rio experience has already informed decisions on which cities and countries get to host future Games or whose bids even make it into a final two-year campaign. With Rio struggling to find its footing in 2013, Tokyo won the 2020 Summer Games over Istanbul and Madrid.

And last year, the IOC chose the reliability of the Chinese government in selecting Beijing for the 2022 Winter Games over Almaty, Kazakhstan, even though the Chinese must build a ski resort in an area that gets little snow.

For 2024, Paris and Los Angeles now are cited as favorites over Rome and Budapest. South Africa, once a leading contender for those Summer Games, pulled out in 2015 as it battled some of the same problems facing Rio, such as an inability to provide much of its population with adequate

education and health care.

The notion of the Games’ universality, which Rio officials touted and the IOC embraced as part of Rio’s bid, is no longer widely discussed.

IOC spokesman Mark Adams said President Thomas Bach would defer to the organization’s roughly 100 mem-



bers on decisions about future locations rather than push his own opinions. He noted that “universality” isn’t a component of the Olympic charter.

The selection process is a huge global competition, and the catchphrase the Switzerland-based IOC often uses when evaluating bids is “leg-

acy.” It wants to understand what the lasting impact of the Games will be, both on the host city and on the Olympic movement itself.

The IOC grew frustrated with the Rio preparations as progress stalled when polls showed the Brazilian public turning increasingly negative

quick 15 minutes.

“It’s excellent, fantastic. [Locals] have never seen anything like this,” said Glória Oliveira, a retired nutritionist who is volunteering at the Olympics. She said what used to be a three-hour trip from her home in Recreio, west of Barra, to downtown Rio took just 50 minutes on Monday, thanks to the Metro and newly dedicated bus lanes.

The biggest problem for some of Line 4’s inaugural riders was just getting to the subway stop. Paulo Afonso de Menezes, an employee at the Olympic organizing committee, said it took him an hour to cover the last 4 miles of his journey to Line 4’s terminal in Barra on Monday morning because of the Olympic lanes.

# Gridlock Grips Rio’s Streets as Olympics Approach

By Benjamin Parkin

RIO DE JANEIRO—Severe congestion seized Rio de Janeiro’s streets on Monday as authorities closed off lanes for Olympics-related traffic, raising questions about the city’s transit plans four days before the opening ceremony.

Commuters around the city complained of routine journeys taking double or triple their usual time, underscoring local fears that the estimated 500,000 visitors expected to descend on this congested metropolis will strain its infrastructure. Monday was the first time Rio’s so-called Olympic lanes, reserved for accredited vehicles only, were enforced on a weekday.

Alongside the gridlock, a

sleek new subway line ran nearly empty. Known as Line 4, the \$3 billion extension of Rio’s Metro was the single largest investment made for the Games and began operating on Monday. It won’t become available to the general public until late September due to repeated delays that have left officials wary of filling it to capacity just yet.

Mayor Eduardo Paes said the city was well-prepared for the Games but might have to make adjustments to its transportation system if traffic gets too bad. “Something may come up here or there, we’ll have to correct it, tweak it,” Mr. Paes said. “It’s an event of great complexity.”

Transportation experts say the Olympic lanes, which will be reserved for buses and

other vehicles carrying spectators, athletes and staff, will be key to ensuring that visitors get to events on time in a city where commutes can be measured in hours.

Even if the lanes help Olympic visitors, they will compromise transit for everyone else, said Marcus Quintella, a transport engineer at think tank Fundação Getúlio Vargas.

The new Metro line seemed to be working smoothly on Monday—a likely source of relief for organizers. Riders gushed at the ease with which the notoriously slow, 10-mile journey between Barra da Tijuca—the neighborhood in western Rio where most Olympic facilities are located—and the tourist hub of Ipanema was reduced to a

quick 15 minutes.

“It’s excellent, fantastic. [Locals] have never seen anything like this,” said Glória Oliveira, a retired nutritionist who is volunteering at the Olympics. She said what used to be a three-hour trip from her home in Recreio, west of Barra, to downtown Rio took just 50 minutes on Monday, thanks to the Metro and newly dedicated bus lanes.

The biggest problem for some of Line 4’s inaugural riders was just getting to the subway stop. Paulo Afonso de Menezes, an employee at the Olympic organizing committee, said it took him an hour to cover the last 4 miles of his journey to Line 4’s terminal in Barra on Monday morning because of the Olympic lanes.



Traffic in front of the Olympic Park in Rio de Janeiro on Sunday.

# RUN

*Continued from Page One*  
thinking up increasingly challenging contests, from 100-plus-mile ultramarathons through the desert to the World Marathon Challenge—seven marathons on seven continents in seven days, a feat accomplished by 26 runners to date.

“The bragging rights of saying you’ve done a marathon ain’t cutting the mustard anymore,” said ultramarathoner Tobias Mews, author of “50 Races to Run Before You Die.” “People look for something that sounds a bit more impressive, that would make a better story.”

For runners from Japan to Brazil to Poland who come to compete alongside Africa’s Big Five—the race provides the inimitable thrill of trying to avoid becoming lunch.

“I hope I don’t get eaten,” said Rosetta Steeneveldt, 46, of Trondheim, Norway, the night before the race as she loaded her dinner plate with pasta. After the race, the South African native was covered in dust, exhausted. “I did it,” she said, brandishing her finisher’s medal.

So far, no marathoner has ever been injured by an animal, but brushes with the big five’s smaller cousins happen regularly. Emile Hunter

ramped up training before her college graduation trip to South Africa, where she would run the race with her parents, who are attempting to run a marathon on each continent over a few years. A couple of days before, monkeys got into her room through an open window and ate all of her energy chews.

“My Crest white strips, my toothpaste...the powder from my drink mix was everywhere,” said the 25-year-old

who lives in San Antonio. “My mom was shouting at them, and I was kicking the curtains to make sure there weren’t any more hiding in them.”

This year, dozens of runners were cut off by herds of galloping wildebeest and blesbok antelope, which kicked up huge clouds of dust in their wake. Runners on either side oohed and aahed, excitedly snapping pictures and selfies with their smartphones.

The race, run by Danish

travel-running company Albatros Adventure, isn’t the only game-park marathon. Kenya’s Safaricom Marathon, a charity event now in its 17th year, attracts about 1,400 runners. Two helicopters clear the course of big game before the start.

The race here is capped at 300 runners, who brave a steep mountainside climb. Big Five Marathon times are typically far off personal bests, and this year, 12 of 140 start-

ers in the full marathon failed to complete the course within the seven-hour time limit.

“This was the hardest physical challenge of my life to date,” said Ms. Hunter’s monkey-scooping mother, Barbara. “It’s a bit like childbirth. At first I told [my husband] there was no way I would do that again,” she said. “But this morning I was thinking maybe I’d do the half” marathon option.

A lot of planning goes in to making sure the biggest physical challenge of the race remains simply completing it.

“The rhinos and elephants have a tendency to pull off a lot of the signs [marking the course], and it can actually be a matter of life or death if you make a wrong turn,” said Lars Fyhr, head of Albatros Adventure Marathons. “You just know if you run into a lion...yeah. The race is closed.”

To avoid that scenario, rangers head out the night before the race to track down the park’s resident lions and stay with them until the last runner is picked up or across the finish line. Some 30 rangers, in addition to the park’s game-management team, are deployed on race day, to make sure runners and the big five stay separated.

“We are in their space, so we must respect them,” said Trevor Mthunzi, head ranger on race day this year.

Mr. Mthunzi spent race day

after few promised infrastructure improvements came to fruition. Nearly all are over budget, behind schedule and unpopular because they favor wealthy neighborhoods. Within the IOC, few statistics are more important than local sentiment about the Games.

Rio has been an IOC headache for years. John Coates, a member of the coordination commission for the 2012 London Games, Rio and the future Tokyo Games, said in April 2014 that the planning and lead-up to the Rio Games were the worst he had seen, surpassing problems in Athens in 2004.

As cost overruns mounted, local organizers scrambled to cut expenses on everything from venue seating to the types of food served in VIP areas. Ticket sales have lagged, raising the specter of video of half-empty stadiums being beamed around the world.

Rio officials said that hosting the Olympics is helping to address the city’s problems and that the billions spent on infrastructure will pay dividends in a way they wouldn’t in a more developed city.

Sidney Levy, chief executive of the Rio organizing committee, said every city hosting the Games has shortcomings, but Brazil will rise to the occasion. “We have great people, fun people,” he said. This will “compensate for everything.”

Indeed, many of Rio’s problems may not affect visitors. A massive security force rollout will put soldiers on every corner in Olympics neighborhoods. The beachside, mountain-enveloped competition sites will look spectacular on TV.

José Antonio do Nascimento Brito, a Rio 2016 board member, said critics are focusing on problem areas rather than vast improvements in the city as a whole. “The Olympics should be transformational in the sense that it can be used as a catalyst for change,” he said.

“Not that we’ve fixed all the problems around here,” he said, but “the consequences, say 20 years down the road, will be simply fantastic.”



Blesbok antelope greeted runners at the Big Five Marathon at the Entabeni Safari Conservancy in June.

with some of Entabeni’s hippos, which kill about five times more people world-wide a year than lions, according to the Gates Foundation.

“From the first runner coming through, they were like, ‘What’s happening here?’” Mr. Mthunzi said of his hippo charges, who wiggled their ears and grunted in the dam behind him. “Of course, they’re excited to see human beings running on the ground.”

Near the hippo ponds, the park’s game-management team carefully monitored a cheetah—the world’s fastest land animal, who can clock speeds of 60 miles an hour—who unbeknown to the runners, was lazing about just 300 meters from the course.

This year’s race wasn’t completely without incident.

Rashaad Forehand, 38, of San Diego, was running down the course’s steep mountainside when he heard something rustling in the bushes to his right.

“I turned back, tripped on a rock and I hit my head on another rock,” he said afterward. “It didn’t hurt when it hit, but I saw all of this blood.”

Luckily, the noise Mr. Forehand heard was a ranger, not one of the big five.

“You think, ‘It could be something,’” he said, especially after hearing “distinct growling” during a training jog the morning of the race. “You never know.”

# U.S. NEWS

## Trump Draws More Critics

### McCain is the latest Republican to swipe at the nominee in fight with soldier's family

By Kristina Peterson and Janet Hook

WASHINGTON—Sen. John McCain of Arizona, a former prisoner of war, delivered the sharpest criticism by any Republican senator of Donald Trump over his public tangle with the parents of a Muslim U.S. Army captain killed in Iraq. Mr. McCain, the 2008 Republican presidential nominee, didn't rescind his support for this year's GOP nominee. But he issued a blistering statement Monday morning saying he "cannot emphasize enough how deeply I disagree with Mr. Trump's statement."

"While our party has bestowed upon him the nomination, it is not accompanied by unfettered license to defame those who are the best among us," Mr. McCain said in his statement.

The controversy began at the Democratic National Convention last week when Khizr Khan, the father of Capt. Humayun Khan, criticized Mr. Trump in an attention-grabbing speech for his proposed plan to temporarily bar Muslims from entering the U.S. and suggested

that the nominee had "sacrificed nothing and no one."

In response, Mr. Trump over the weekend cited the "thousands and thousands of jobs" he created as examples of his sacrifice. He then ignited another furor by saying Mr. Khan's wife, Ghazala, who had accompanied her husband onstage at the convention perhaps "wasn't allowed to have anything to say." The Khans say she was too distraught to speak about her son's 2004 death.

Mr. Trump sent out two new tweets Monday morning, continuing his personal focus on Mr. Khan, but insisting he is moved by a broader concern about radical Islam.

### The 2008 Republican nominee didn't rescind his support for this year's nominee.

"Mr. Khan, who does not know me, viciously attacked me from the stage of the DNC and is now all over T.V. doing the same—Nice," Mr. Trump said in an early-morning tweet.

He said in another tweet, "This story is not about Mr. Khan, who is all over the place doing interviews, but rather RADICAL ISLAMIC TERRORISM and the U.S. Get smart!"

Mr. McCain's comments highlighted the repeated tension that has flared up this year between GOP senators

who endorsed Mr. Trump, but have repeatedly criticized many of his remarks. Only Sen. Mark Kirk of Illinois, considered the most vulnerable Republican senator up for re-election this year, has rescinded his backing for Mr. Trump.

Both House Speaker Paul Ryan (R., Wis.) and Senate Majority Leader Mitch McConnell (R., Ky.) praised Capt. Khan's service and said they rejected a ban on Muslim immigrants in statements Sunday, but didn't directly criticize Mr. Trump, who went unnamed in the statements.

Mr. McCain on Monday lauded Capt. Khan as "an example of true American great-

cism. Last July Mr. Trump drew widespread criticism when he said Mr. McCain's five years as a prisoner of war in Vietnam didn't make him a war hero. Mr. McCain, meanwhile, has criticized Mr. Trump's positions on immigration, national security and the nominee's vows to revive waterboarding as an interrogation technique.

But Mr. McCain hasn't broken formally with Mr. Trump, who won the GOP presidential primary in Arizona with 47% of the vote. Mr. McCain has faced resistance at home from conservatives, who eye him with some suspicion for working with Democrats on immigration and other issues.

Also Monday, veterans activists and Muslim Americans stepped up their criticism of Mr. Trump. VoteVets, a liberal veterans group, released a letter from 11 Gold Star families—those who had a child killed in a combat zone—denouncing the nominee.

"We feel we must speak out and demand you apologize to the Khans, to all Gold Star families and to all Americans for your offensive, and frankly anti-American, comments," the letter said.

Veterans of Foreign Wars also issued a statement denouncing Mr. Trump.

"Election year or not, the VFW will not tolerate anyone berating a Gold Star family



Khizr Khan and his wife, Ghazala, parents of a slain U.S. Army captain, at the Philadelphia Democratic convention last week.

member for exercising his or her right of speech or expression," said Brian Duffy, national commander-in-chief of the VFW. "There are certain sacrosanct subjects that no amount of wordsmithing can repair once crossed."

A network of Muslim-American women Monday launched a social media campaign using the hashtag #CanYouHearUsNow to respond to Mr. Trump's suggestion that Mrs. Khan didn't speak at the Democratic convention because she wasn't allowed to by Islam.

Former Florida Gov. Jeb Bush, a former GOP presidential primary rival who lost to Mr. Trump, weighed in with a

tweet of his own Sunday, "This is so incredibly disrespectful of a family that endured the ultimate sacrifice for our country."

Also stepping out with blunt criticism was Sen. Kelly Ayotte of New Hampshire, a Republican up for re-election in one of the nation's most competitive elections.

"The Khan family deserves nothing less than our deepest support, respect, and gratitude, and they have every right to express themselves in any way they choose," she said in a statement. "I am appalled that Donald Trump would disparage them and that he had the gall to compare his own sacrifices to those of a Gold Star family."

## FBI Employee Admits He Fed Information to China

By Nicole Hong

A longtime Federal Bureau of Investigation employee pleaded guilty Monday to acting as an agent for the Chinese government and sending sensitive information about the U.S. government to a Chinese official.

Kun Shan Chun, 46 years old, worked at the FBI's New York field office as an electronics technician and had been granted top-secret security clearance for almost two decades. Mr. Chun, who was arrested in March, was born in Guangdong, China, and became a naturalized U.S. citizen in 1986.

On Monday, Mr. Chun admitted in Manhattan federal court to feeding sensitive information to a Chinese government official. Prosecutors allege he took photos of FBI surveillance technology documents in restricted areas and sent them from his personal cellphone to the official, and he passed along the identity and potential travel patterns of an FBI special agent.

"Between 2011 and 2016, on various occasions, I acted in the U.S. at the direction of a Chinese official," Mr. Chun told the judge on Monday. "At the time, I knew that was wrong, and I am sorry for my actions."

The Chinese official was also interested in the internal structure of the FBI, so Mr. Chun al-

legedly sent him an FBI organizational chart with the names removed, prosecutors said.

Mr. Chun pleaded guilty to one charge of illegally acting as an agent for the Chinese government. He will be sentenced in December and faces approximately two years in prison under his plea agreement. The charge carries a maximum sentence of 10 years in prison.

His lawyer, federal defender Jonathan Marvinny, said his client "deeply regrets" the mistakes he has made.

"The truth is that Mr. Chun loves the U.S. and never intended to cause it any harm," Mr. Marvinny said. "He hopes to put this matter behind him and move forward with his life."

Mr. Chun was introduced to the Chinese government official during a trip to Europe, prosecutors said. The official knew Mr. Chun worked for the FBI and asked him to disclose sensitive information. Mr. Chun agreed to the arrangement, motivated by financial benefit, according to prosecutors.

To conceal his relationship with the Chinese official and other Chinese nationals, Mr. Chun repeatedly lied to the FBI on forms related to his security clearance, prosecutors allege.

The case is likely to raise fears in the U.S. government about suspected espionage by China, which has become a heightened focus for the Jus-



Kun Shan Chun admitted he sent photos of FBI documents to a Chinese official.

Justice Department in recent years. In 2014, U.S. prosecutors charged five Chinese military employees who allegedly hacked into U.S. companies and won the convictions of two engineers accused of selling trade secrets to Chinese companies.

But the crackdown on Chinese spies has also sparked criticism by Chinese-American leaders, who say the U.S. government is racially profiling their community. Over the past two years, the Justice Depart-

ment has dropped three high-profile cases related to Chinese espionage.

To build the case against Mr. Chun, the FBI used evidence taken from recorded meetings near New York City between Mr. Chun and an undercover agent over the past year, prosecutors said. The agent pretended to be a Chinese-born U.S. citizen working as a consultant for various entities, including the Department of Defense.

Through these conversations, the undercover agent learned that Mr. Chun had a network of associates in China. The associates introduced him to the owner of a company in China called Zhuhai Kolion Technology Company Ltd., which sells computer printer parts and had ties to the Chinese government. They asked Mr. Chun to help the company with ideas related to technology, prosecutors said.

A representative in China for

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

The relationship came with perks. The associates helped Mr. Chun pay for prostitutes and trips overseas, and on at least one occasion, they paid him "a couple thousand" dollars, he told the undercover agent, according to prosecutors. Relatives of Mr. Chun, who also received payments from the associates and invested in Kolion, allegedly urged him to go along with the arrangement.

Mr. Chun said he communicated with his Chinese associates through the messaging service WeChat and tried to avoid using the phone, prosecutors said.

When he traveled to China to meet with the associates, they would act "pissed off" if he didn't have any information for them, he told the undercover agent. He said the Chinese government was actively recruiting individuals who could help them and was willing to provide immigration benefits and other compensation in exchange.

Last summer, the undercover agent told Mr. Chun that he had access to sensitive U.S. information. Mr. Chun said his associates would be interested, and he asked for something in return. "If you make any money, just give me a little bit," he allegedly said.

## Gun Law Complicates Anniversary of Massacre

By Dan Frosch

DALLAS—The University of Texas at Austin on Monday held a solemn commemoration of a dark history: the 50th anniversary of a massacre, when a sniper shot more than 40 people, drawing back the curtain on an era of modern-day mass shootings.

As the school recalled its bloodiest day, a new state law went into effect Monday that allows concealed handguns on public university campuses.

"It is unfortunate timing," said J.B. Bird, a university spokesman. "These two events are completely unrelated, and we're keeping them completely separate."

While the law took hold, the school unveiled a memorial to the victims and survivors of the 1966 shooting. Charles Whitman, a troubled ex-Marine, climbed to the observation deck of a 307-foot clock tower and sprayed the campus with gunfire before being killed by police. Survivors of the rampage, which killed 17 people,



A memorial for the Aug. 1, 1966, shooting at University of Texas.

spoke Monday of what happened on that sweltering summer day.

That the anniversary of the attack unfolded on the same day as the new Texas campus gun law has been described as an unlucky coincidence by those on both sides of the gun debate.

In July, three professors

sued the University of Texas in federal court, seeking to block the new law, saying it violated their rights to hold an open discussion in their classrooms without the threat of violence.

Gun rights advocates praised the new law, saying it was intended to allow students to protect themselves on campus.

## U.S. Watch

### TEXAS Safety Board Called Out Balloon Risk

Saturday's fiery hot-air balloon crash that killed 16 has focused attention on regulation of such lighter-than-air craft.

More than two years ago, the National Transportation Safety Board urged tighter regulation of balloons. Without such changes, the safety board said in an April 7, 2014, letter, "the potential for a high number of fatalities in a single air tour balloon accident is of particular concern."

Federal Aviation Administration chief Michael Huerta declined to follow the recommendations. He said in a 2015 letter that since the number of balloon flights "is so low," the agency "believes the risk posed to all pilots and participants is also low."

—Andy Pasztor

### FLORIDA Additional Zika Cases Identified

Florida investigators identified 10 more Zika cases in the Miami

area, bringing the total to 14 in the first known outbreak of the virus to be caused by mosquitoes in the continental U.S., Gov. Rick Scott said Monday.

The U.S. Centers for Disease Control and Prevention advised pregnant women and women considering pregnancy to avoid a one-square-mile area north of downtown Miami, he said.

—Betsy McKay

### PRESIDENTIAL DEBATES Organizer Rejects Trump's Complaints

The group that organizes the presidential debates is rejecting complaints from the Trump campaign that the events were scheduled at times likely to draw a smaller audience.



DEADLY FLOOD: Raging water killed two people and left the center of Ellicott City, Md., in tatters over the weekend.

Donald Trump, the Republican nominee, expressed unhappiness in a tweet that two of the three fall presidential debates overlap with National Football League games.

The Commission on Presidential Debates, an independent organization, said in a statement Sunday that it believes the dates, which it selected a year in advance, "will serve the American public well." The commission is headed by former officials of the Democratic and Republican National Committees.

"It is impossible to avoid all sporting events, and there have been nights on which debates and games occurred in most election cycles," the commission said in its statement.

—Kate O'Keefe

PERSONAL JOURNAL.

# Life's Lessons: A Trainer's Influence Beyond the Gym

By ELIZABETH BERNSTEIN

There is a special man who's changed my life recently, and he says these things to me:

"You rock!"  
"Great job in difficult circumstances."

"You should be really proud of yourself."

He's my scuba instructor.  
A great sports instructor or coach builds us up, but also

**BONDS: ON RELATIONSHIPS**

teaches us important lessons of emotional management, such as confidence, perseverance, resilience and how to conquer fear and anxiety. Many times, these lessons have a permanent impact on our mind-set and attitude well beyond the playing field.

These teachings are often long-lasting, sports psychologists say, because sports present goals, competition, a game plan, results and feedback, much like the rest of life. Most people participate in a sport voluntarily, so they are open to learning. There is emotional intimacy and trust in a good coach-student relationship. And, perhaps most important, the lessons are simple and immediately reinforced.

"If you have a golf club in your hand, your coach tells you to twist a little to your left to adjust your swing, you do that and it works, that is a very powerful lesson," says Jack J. Lesyk, director of the Ohio Center for Sport Psychology, in Cleveland, and a performance psychologist for the Cleveland Cavaliers.

My high school horseback riding coach, a former U.S. Army cavalry veteran we called "Sarge," who served in both WWII and Korean War, repeatedly told me: "Look down and you are going to land on the ground. Look where you want to go." That lesson, central to a number of sports, including golf, skiing and surfing, became a life motto for me, reminding me to always look forward to my goals.

What major lessons are learned from sports?

**Remember your seat.**

Amy Starin, a 53-year-old social worker from Oak Park, Ill., took up rowing after she finished treat-



Brandt Johnson playing for the Boston Shamrocks in a 1991 game against the Harlem Globetrotters. Jenny Dorsey, top right, as a teenage competitive fencer. Amy Starin in the stroke seat at the Chicago Sprints Regatta this summer.

ment for breast cancer several years ago. She rows competitively in her age group with the Chicago Rowing Foundation. Her coach stresses teamwork and individual contribution, she says, and repeatedly tells the rowers: "Every seat has a job that no one else in the boat can fill. Remember your seat."

Ms. Starin says this advice has helped her understand that her role on any team, whether in a rowing shell, a work meeting or her family, is to do her part as well as possible and focus on her performance and development, not the strengths and weaknesses of others. "The assumption is that if the boat is not doing well there has to be something I can do better in my seat to contribute to the outcome," she says.

**Fence to fence, not to win.**

Jenny Dorsey fenced as a teenager, competing in the national circuit, the North American Cups and

the Junior Olympics. After she lost an important match 15-14, angrily tore off her gear and was crying on the sideline, her coach, whom she considered "a father figure," asked: "Were you fencing to fence or were you fencing to win? Because if you're fencing to win you never will."

Ms. Dorsey, a 25-year-old chef and culinary consultant in New York, says she learned that day that passion, growth and accomplishment are the real spoils of victory—and it's impossible to get anywhere without them. "In fencing and in life, if you only drive toward an end result without loving and acknowledging the journey you will never win," she says.

**Fatigue will not be a factor.**

Brandt Johnson played basketball at Williams College in Williamstown, Mass., and later as a member of the Harlem Globetrotters opposition team and professionally in Europe. At Williams, he



says, his coach made the players practice sprints over and over, sometimes nonstop for hours, calling out: "Fatigue will not be a factor in our performance."

"He wanted us to have our bodies and minds conditioned so we were less likely to get tired," says Mr. Johnson, 50, who co-owns a communication-skills training firm in New York with his wife. "While we may have limitations as an athlete or a person doing what we do, if we're prepared, these things won't stop us."

Mr. Johnson says he used this advice as a young investment banker preparing analysis for his bosses, when he decided to return to basketball after working in finance, and now when preparing to meet with clients of his business. Recently, while traveling to Florida to meet with 20 corporate executives for a three-hour training seminar he memorized all their names and bios on the plane. "The

commitment to doing what has to be done for the task at hand has stayed with me," he says.

**Be proud.**

When Mike Seyfer opened the Cedar Rapids Gazette recently, he was saddened to see the obit of his former high school basketball coach. That got him thinking about a frigid night in February 1964, when he was a sophomore and his team lost an away game in Moline, Ill., after being 15-1 for the year. After the players dejectedly piled onto the bus for the 75-mile ride home, the coach climbed on, closed the door and shouted: "Get your heads up fellas! You all played a great game and competed to the final buzzer and I could not be more proud of you."

Mr. Seyfer, 68, who splits his time between Cedar Rapids, Iowa, and Wesley Chapel, Fla., is a retired broker and investment adviser who now plays shuffleboard on the competitive circuit. His coach's advice to compete 100% has always stayed with him. "If you always look in the rearview mirror, it will be detrimental for your performance in the future."

I've been scuba diving for three years, taking a number of advanced certification classes. When I was first learning to dive, I had a panic attack on the surface. I jumped off the boat into a big wave and, once underwater, thought the boat was going to slam down on me. Within seconds, I had only two thoughts in my head: "I'm going to drown" and "I'm an idiot."

Luckily, my instructor, James—always unruffled and positive—was with me. He calmed me down by looking directly in my eyes and repeatedly telling me that I was OK. We finished the dive, and discussed what happened and how to prevent a repeat. In midair, I had heard someone on the boat comment that the waves were "really really big." At that moment, I started to tell myself very bad things.

Here's the lesson I learned from James that day, which I've since used in many other areas in my life: You need to arrest a negative thought immediately, in midair. Remind yourself that you are competent and know what you're doing. Slow your breath.

THE WALL STREET JOURNAL.

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ARTS & ENTERTAINMENT

# He'll Still Take Manhattan

BY BRENDA CRONIN

**THE DRUGS OF CHOICE** have changed for Jay McInerney. Bolivian marching powder has been replaced in his books by rare French wines and erectile-dysfunction treatments. But the setting remains Manhattan, where his restless characters are uneasily yielding to middle age amid the run-up to the 2008 economic meltdown.

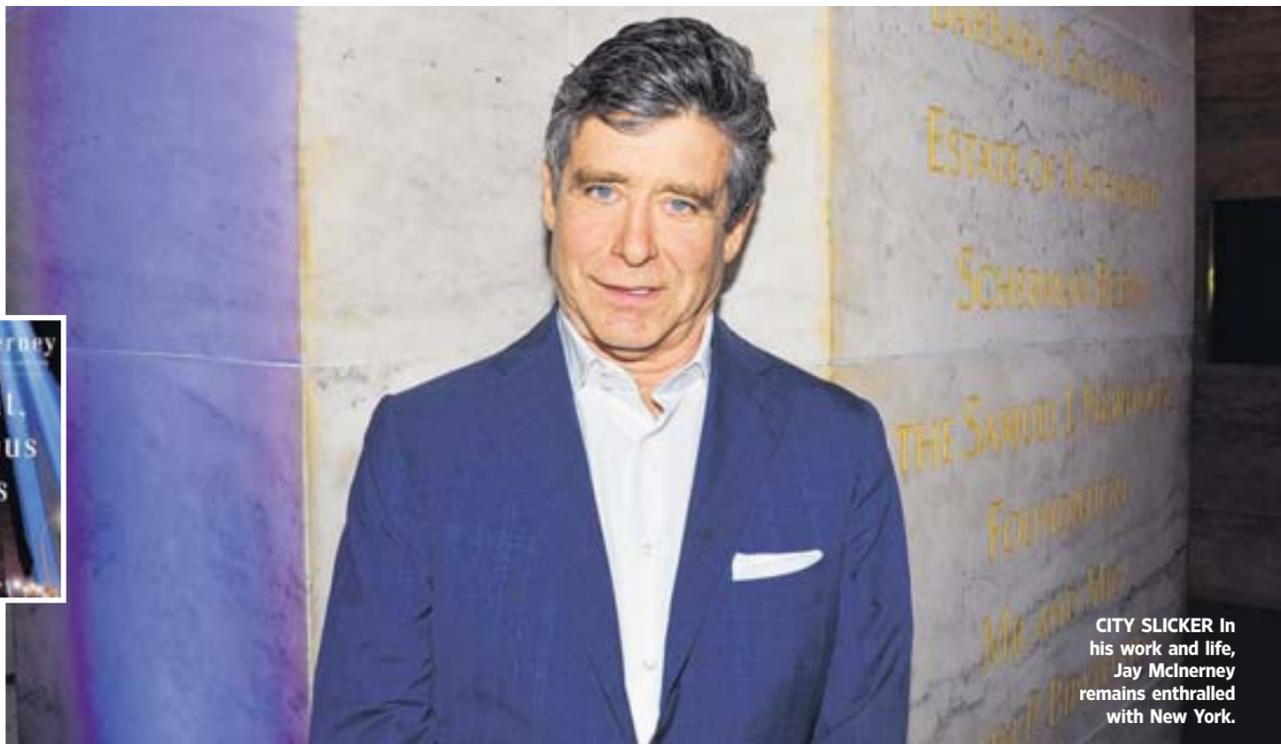
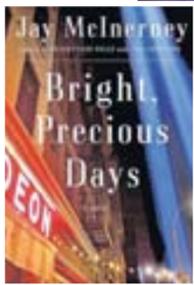
"Bright, Precious Days," out Sept. 8, is his third novel in a trilogy chronicling the marriage of Russell and Corrine Calloway and the changing city where they live. In the new novel, which begins in 2006, they have 11-year-old twins and find themselves priced out of New York real estate, racked by infidelity and out of step with their extremely prosperous friends. Mr. McInerney says that Russell, who runs a small publishing house, is his alter ego, pursuing a career he likely would have if he hadn't become a writer.

Mr. McInerney shot to fame with his 1984 debut "Bright Lights, Big City." Composed in a six-week sprint, the novel captures a fledgling writer's star-crossed stint as a magazine fact-checker by day and foot soldier in a drug-spangled club scene by night. More than 30 years later, the 61-year-old author is the father of 21-year-old twins and an avid cook. November marks the 10th anniversary of his fourth marriage. He remains in Gotham's thrall and says he is "still a hedonist"—though he now works out, in part to allow for great meals and wine.

A scene in "Bright, Precious Days"—where financiers vying to show off their palates order up ever-more-costly vintages—is taken from real life, Mr. McInerney says. He recalls evenings at two erstwhile restaurants in Manhattan that catered to connoisseurs: Cru, not far from where he lives, and Veritas. He has sampled the most expensive wine in "Bright, Precious Days"—a 1982 Pétrus, which retails for about \$5,000 a bottle.

Mr. McInerney has published eight novels, a collection of short stories and three books on wine. He caught the bug while a grad student apprenticing with Raymond Carver, when he worked at the Westcott Cordial Shop in Syracuse, N.Y. For four years, he wrote a column about wine for The Wall Street Journal; since 2014, he has been Town & Country magazine's wine critic. Edited from an interview.

**You've described your job as "making fun of New Yorkers behaving badly." Do your friends worry they will end up in a book?**



**CITY SLICKER** In his work and life, Jay McInerney remains enthralled with New York.

PATRICK NICHOLLAN

I think people joke about it and talk about it more than it actually happens. There is a tendency for people to think they're more interesting than they are. But sometimes when I really have based a character on someone they don't notice it. And I find people claiming characters! There are several women who think they're the model for Corrine.... People probably should worry more about what they say in front of me.

**Any burned bridges?**

There are certain courtesies that you try to observe, but at the same time, as a writer, you have to be willing to tell unpleasant truths. I wrote a nonfiction piece years ago about my mother in the New Yorker after she and my father had died. And it was about an affair that she had that she told me about on her deathbed.... My brothers basically didn't speak to me for quite a while. But I felt like I had to write it.

**Any books or short stories that you wish you could take back, either because you're dissatisfied with the writing or because they hurt someone?**

There are two novels that I finished but I didn't publish. One would have been my third novel. And another one that I wrote in 2010-2011, before I wrote this book. I showed an early draft to my agent and my

editor. My editor basically said he didn't think I'd gotten the ending right.

**How did you know that novel wasn't working?**

As I was finishing it, I just didn't feel that usual sense of excitement and sleeplessness. I realize now the main character was kind of flawed because he was based half on me and half on this other guy—and I didn't really integrate them that well.

**In "Bright, Precious Days," affairs are passionate but marriage isn't. Is that your view?**

There isn't a story until there's yearning and betrayal and passion. These characters have reached middle age and then some, and I think it's very hard to sustain passion for 25 years. I wouldn't know because I haven't been married that long. But, obviously, this is the perspective of a guy who's been married four times. One of the reasons I'm so fascinated by Russell and Corrine and people like them is I believe that there are many, many compensations and rewards and a special place in heaven for people who manage to make monogamy work. I think it's human nature that the unpossessed object always has a special glow that the familiar does not.

**When's the last time you did cocaine?**

I don't know—three or four years ago. Not

recently, but not that long ago. It's still everywhere. Every new generation keeps discovering it, as if it was their own invention. I'm a parent, so I have some access to what young people are doing. I have some sense of what's going on, even if I don't go out at night as much as I used to.

**Some of your characters take Cialis, not illegal drugs. Do you hear more talk about erectile-dysfunction treatments?**

I do! Yeah, it is something that comes up among older guys. Viagra just became something of a cliché so that's probably why I mentioned the less-common one. I think it's probably changed behavior—the availability of these drugs over the past 15 years or so. I suspect that it's emboldened older men who maybe previously would have been less bold.

**It's almost the 15th anniversary of 9/11. Do you see any lasting effects on the city?**

I think for people who were here, it's sort of part of our psyche. Loud noises and low-flying planes still kind of bring out a shudder of fear.... Some people really did change their lives...but, collectively, there's a kind of amnesia, I think. New York has never been oriented toward the past.... The past is if you can remember what you ate yesterday or who you slept with. And the future is, "Where are we going tonight?"

## PLAYLIST



**PARADISE FOUND** Joni Mitchell at the 1970 Isle of Wight Festival.

## Running With Joni Mitchell



*Frank Shorter, 68, won the gold medal in the men's marathon at the 1972 Summer Olympics. He is the author of "My Marathon" (Rodale). He spoke with Marc Myers.*

Ken's perfectly. We didn't get caught up in the campus-revolution thing. Mitchell reinforced our belief that you didn't have to protest overtly, that you could work hard so that in the future, when certain windows opened for change, you'd be prepared to take advantage of them and make a difference.

During my senior year at Yale, I began to show serious running talent. But when I asked if I could postpone med school to compete, the dean said no. So I dropped out in late '69 and moved to Gainesville, Fla., to train and attend law school.

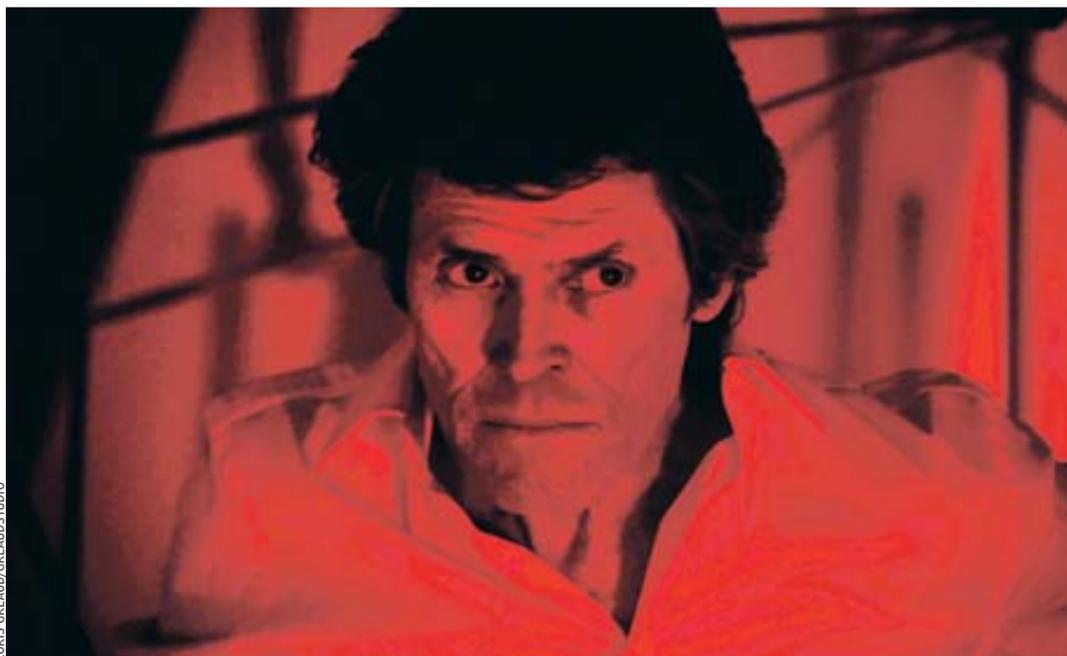
Sometime in the spring of '70, I heard "Big Yellow Taxi" on the radio: "They took all the trees, / put 'em in a tree museum / and they charged the people / a dollar and a half just to see 'em / Don't it always seem to go / that you don't know what you've got / 'til it's gone." Those last two lines resonated, and I sang the song's first two verses whenever I ran.

Today, I still sing "Big Yellow Taxi" to myself. I never told Kenny how I felt about it. Ken—or Dr. Kenneth L. Davis, who pioneered breakthroughs in Alzheimer's treatments—is now president and CEO of New York's Mount Sinai Health System. I've always wondered if the song meant as much to him as it did to me.

I thought of Joni Mitchell while running the marathon at the 1972 Olympics in Munich—actually, I thought of her song, "**BIG YELLOW TAXI**," which came out in 1970. The song helped me stay focused while training and avoid what I call the "if onlys"—regrets over not going after something you really want.

My friend Ken Davis turned me on to Joni. Ken and I first met when I moved into Vanderbilt Hall at Yale in 1965. We both were pre-med, and we both shared the same drive and ambition. Ken was brilliant, but he also loved rock. We often listened to his stereo system in the suite, which had a receiver that could pick up WNEW-FM in New York. In 1968, you could hear all the best new rock music on that station. In the fall, Mitchell played close to Yale, and Ken insisted we go.

Her music was a soft protest, which matched my view and



**SOLO SHOW** Willem Dafoe stars in 'Sculpt,' a film by Loris Gréaud.

## ART

# A Film for an Audience of One

BY ELLEN GAMERMAN

**WHAT DOES** an artist provocateur do when offered a 600-seat theater to present his work?

He makes 599 seats unavailable. French conceptual artist Loris Gréaud will debut a film at the Los Angeles County Museum of Art on Aug. 16 that is only allowed to play to one audience member at a time, with the institution's Bing Theater reconfigured for a single seat. If a viewer leaves early, the 54-minute movie will play to an empty room.

Such exclusive (or nearly so) experiences can be found across LaCma this summer. Along with "Loris Gréaud: Sculpt," the museum also features one of James Turrell's perpetual cells. It allows a single visitor inside a sphere to be bombarded by light. "Rain Room," a chamber of falling water that was created by artist duo Random International, has been running at the museum since the fall and accommodates roughly 15 people at once. "Sculpt," Mr. Gréaud's first fea-

ture-length film, stars Willem Dafoe as a "moment collector" who gets lost in his own obsessive quest for experiences. Tickets are free of charge, released online at 9 a.m. to the first takers for that day's four to six screenings.

The artist is sending in video bootleggers to record the work and is planning free screenings in other places after the LaCma debut.

"If you look at the project itself, it's a money-losing machine—it's an object that can't exist today," Mr. Gréaud said.

The artist added that the movie, which is tinted red from start to finish, is scripted and features a coherent narrative. "It's not abstract and crazy," he said.

The film's trailer, which flickers from freakish characters to naked women in bondage to gusts of steam to Mr. Dafoe in torment, has drawn nearly 680,000 views on YouTube since May.

The 37-year-old artist said that he courted Mr. Dafoe for the movie, filmed over 30 months in Italy, Vietnam, Iceland and elsewhere.

One day, while Mr. Dafoe was considering whether to do the project, he suggested that the two rehearse in New York the following morning.

Mr. Gréaud, who lives in a Paris suburb, raced to the airport and landed on Mr. Dafoe's doorstep in time. Even then, Mr. Gréaud said, the actor didn't offer an outright yes. "I think he was sort of testing me," the artist said.

Mr. Gréaud's exhibition follows a controversial one at the Dallas Contemporary in 2015, when he hired people to smash his works in a pretend riot. What got more attention, though, was the viral moment that followed: After a female art critic disparaged the show, Mr. Gréaud sent her a series of angry Facebook messages telling her that she needed a boyfriend. The exchange caught fire online. Afterward the artist suggested that his outburst was an intentional part of the project.

LaCma has been instructed not to announce the exhibit's end date, but other events are planned for the theater in the fall.

LOUIS GRÉAUD/GRÉAUDSTUDIO

BRIAN MOODY/REX/ASSOCIATED PRESS

OPINION

REVIEW & OUTLOOK

## Uncle Sam Needs a Refi

American voters seem to have forgotten about the national debt, but the \$14 trillion of debt held by the public is only getting larger. President Obama and the next President ought to make that burden a little more bearable by taking advantage of today's cheap financing by borrowing for the long term.

### Treasury should lock in more federal debt at today's low rates.

Like a smart mortgage customer who refinances his home when rates tumble, Mr. Obama should take advantage that the 10-year Treasury note is close to historic lows after falling to 1.45% last week. Treasury's longest-term instrument, the 30-year bond, closed Friday at 2.18%, also low by historical standards. Foreign governments have lately been borrowing for 50 and even 100 years, and Japan said last week it may issue a 50-year-bond for the first time. Why shouldn't the U.S. also lock in today's rock-bottom rates far into the future?

To be fair, Treasury has been making progress, raising the weighted average maturity of the Treasury's marketable debt outstanding from around 49 months when Mr. Obama took office to almost 70 months by the end of June. But that isn't nearly enough progress to make the Obama debt pile manageable.

The U.S. Congressional Budget Office reported in July that federal debt held by the public has surged to 75% of GDP from 39.3% in 2008. In its new long-term forecast, CBO projects debt rising to 86% of GDP in 2026 and to a whopping 110% in 2036, exceeding the historical peak of 106% after World War II.

Politicians like to ignore the costs of the promises they've made, and this era of rock-bottom interest rates, courtesy of the U.S. Federal Reserve and central banks world-wide, has made denial easier. Low yields are hell on savers, but they've allowed Mr. Obama and the Washington crowd to party like it's 1995.

That year the government paid \$232 billion in net interest payments, more than the \$223 billion it paid last year, even though publicly held debt has more than tripled in 20 years. As a share of GDP, the U.S. is paying less in interest than the average of the past 50 years, even as debt has skyrocketed.

What happens when Uncle Sam has to pay for its borrowing at normal interest rates? CBO figures the yield on the 10-year note will rise to 4.1% by 2026 from its current 1.5%. In its March release of baseline budget projections, CBO estimated net annual interest payments would balloon to \$839 billion from last year's \$223 billion. All federal corporate-income-tax collections are expected to cover only a little more than half of that tab in 2026.

Rates could go higher, as they often have in the past. CBO figures about another \$160 billion per year in deficit spending will be required if rates are one percentage point higher than in their current projections for the next decade. CBO is expecting federal net interest payments to more than quadruple as a share of the economy by 2046.

The government should do everything it can to insulate taxpayers from this inevitable rate rise. Treasury has surveyed institutional investors and found at least some interest in a potential 50-year debt offering. But officials worry that if they roll out longer bonds and rates rise, investors may sour on such instruments. The U.S. issues the world's benchmark bonds, prized for their liquidity, and might be embarrassed if it floats and then discontinues a longer bond.

But any issuer that sees its borrowing rates spike amid a surge in debt is going to lose some prestige. Treasury should think about how the government can possibly afford to fulfill all its promises—and at what cost to taxpayers.

Too many in Washington are clinging to the fantasy enabled by cheap financing. Opportunistic Democrats want to use the current moment of low interest rates to finance even more reckless entitlement expansions or new roads and bridges that somehow weren't built after taxpayers shelled out \$800 billion for the 2009 stimulus program.

Mr. Obama won't repeal the policies that have produced slow economic growth and an exploding federal debt. But he can seize this market moment to make it easier for Americans to afford the historic Beltway spending party he's been throwing since he took office.

## Uber's China Exit

Try saying it aloud: China, a nation of 1.4 billion people, isn't big enough for two ride-sharing companies. Does that even make sense?

It does to Beijing and investors who take its cues. On Monday Uber traded its China operations for a 20% stake in local competitor Didi Chuxing Technology, itself the product of a merger last year between China's largest Uber clones. The government's fingerprints are all over this deal.

The two companies were stuck in a competitive brawl, losing money in a way not seen since the early days of the internet. Uber entered the China market in its usual aggressive fashion three years ago and burned through \$2 billion with no profits in sight. CEO Travis Kalanick claimed a 30% to 35% market share for UberChina earlier this year, and investors valued the operation at \$8 billion in January.

But Didi was still far ahead with operations in about 400 cities compared to Uber's 40. The Chinese firm says it has an 80% market share, and its backers Alibaba and Tencent provided access to popular payment and social media apps.

Both firms had about \$10 billion in cash to fight for drivers and customers through the use of promotions. When driver bonuses were particularly generous, some even set up fake rider accounts on spare phones to inflate their ride numbers. But the main source of growth remained cheap fares subsidized by investors.

The fight for dominance might have benefited Chinese consumers for years to come, but the Chinese government is uncomfortable with market disruption. Last week Beijing issued regulations that made ride-sharing legal but outlawed offering rides below cost.

The government wanted to contain competition that took business away from taxi drivers. Favoritism toward Didi was likely a factor too. Banning promotions would hurt Uber in the long run, since Didi's other advantages would come to bear. Uber and Didi were already exploring a deal, and the government's action was an obvious impetus to seal it.

Uber's decision to exit China is a strategic retreat, but the firm deserves credit for executing well in a market that has tripped up many Western firms and for recognizing the obstacles to future Chinese success. While Mr. Kalanick gave up the dream of dominating the China market, he got a healthy return on his investment and future monopoly profits from Didi. Uber is now free to pursue an IPO without the impediment of continuing losses in China.

As usual, Chinese consumers will pay higher prices for the stability that the country's leaders prefer. Beijing has adopted the West's antitrust laws to go after multinational firms in the name of protecting consumer interests. But Didi's emergence as the dominant ride-share player shows the real priority is a stable ecosystem of companies that are allowed to earn higher profits in return for playing the political game.

## The Glass-Steagall-Trump-Clinton Act

The Republican and Democratic Party platforms don't agree on much, so what does it mean that this year they both call for reinstating the Glass-Steagall Act of 1933? It means that as both Donald Trump and Hillary Clinton pursue Bernie Sanders voters, they can be equally irrelevant to our current financial era.

### The GOP joins Sanders and Warren in pointless re-regulation.

Glass-Steagall separated commercial banking—i.e., taking deposits and making loans—from investment-banking businesses like trading stocks and bonds. Mr. Sanders and Senator Elizabeth Warren have flogged the belief that when Bill Clinton repealed what was left of Glass-Steagall in 1999, he opened the door for banks to gamble on Wall Street and thus caused the 2008 financial panic.

Too bad there's no evidence that this had anything to do with the crisis. The panic started in investment firms like Bear Stearns that were not commercial banks. Ditto for Lehman Brothers and Merrill Lynch. They failed because they ran into liquidity crises due to overleverage and a portfolio of bad mortgage securities. AIG also wasn't a bank.

The commercial banks that contributed most to the panic—including Wachovia and Washington Mutual—made too many bad mortgage loans. Bank of America got into trouble buying Countrywide Financial, which had issued too many bad mortgages. Citigroup made a mess with off-balance-sheet assets that also included too much real estate.

The real source of the crisis was the U.S. Fed-

eral Reserve's monetary policy that subsidized excess credit and federal affordable-housing goals that, with the help of Fannie Mae and Freddie Mac, encouraged subprime and "liar" mortgage loans. Plenty of small banks with little exposure to the capital markets but too much to real estate also failed. Glass-Steagall was irrelevant.

With taxpayer backing and thin capital levels, bankers and financiers can find all kinds of trouble, whether on Wall Street or any other street, and regardless of the size of their firms. Having a regulator decide which risks to avoid creates its own risks, as when capital rules and credit-ratings requirements herded much of the financial world into supposedly safe mortgage-backed securities before the panic.

The Volcker Rule that is part of Dodd-Frank is supposed to prevent commercial banks from risky securities trading, though it is so complicated it's hard to tell. Banks today are highly integrated and breaking them up would be difficult and highly disruptive. The better solution is to shrink the taxpayer safety net, raising capital standards high enough so that banks that take insured deposits can better withstand trading or lending mistakes. Outside the safety net, let companies take greater risks but also let them fail.

This is the solution that House Financial Services Chairman Jeb Hensarling is promoting, and it doesn't include reinstating Glass-Steagall. If a new President insists on reinstating it anyway, then we trust Mr. Hensarling will exact a heavy negotiating price such as privatizing Fannie and Freddie, among other reforms.

## François Hollande's Dangerous Gambit



EYE ON EUROPE  
By John Vinocur

Two years ago, after Moscow's annexation of Crimea and armed interference in Ukraine, François Hollande showed real strength in refusing to deliver to Russia the helicopter-carrying warships it had ordered from France.

The French president also demonstrated uncommon forthrightness in having his government argue that Islamic State would never have achieved its power and proportions had President Obama kept his pledge to stage air strikes with the French against Syria in August 2013.

Now, after the recent terrorist attacks in France, Mr. Hollande's words are being examined for resolve and wisdom by his hopeful friends. And for a loosening of his grip by those, notably in Moscow, who don't wish the West well.

Back on July 8, just days before the latest spate of attacks began, Mr. Hollande made a statement on the margins of the NATO summit in Warsaw, where the Allies later agreed to rotate forces (including a couple of hundred French troops) into NATO countries bordering Russia.

"For France, Russia isn't an adversary, isn't a threat," Mr. Hollande said. "Russia is a partner that can sometimes, as we saw in Ukraine, use force."

The president's statement left some of France's friends flabbergasted, but could only have pleased Vladimir Putin.

"It's absolutely not NATO's job to weigh in on the relationship that Europe has with Russia," Mr. Hollande insisted.

Donald Trump couldn't have phrased things more divisively.

Mr. Hollande's characterization of Russia is alarming. He doesn't consider that Mr. Putin's contempt for international law constitutes a threat. This undermines Mr. Hollande's self-portrayal as a guardian of the rule of law in fighting jihadism without resorting to what he points to as the French right wing's authoritarian, outside-the-law response to the attacks.

In fact, Mr. Hollande's depiction of the Kremlin as being innocuous only validates the more assertive pro-Putin positions of his Socialist party's central rivals. These include Marine Le Pen, the leader of the far-right National Front, who has admitted to taking Russian loan money.

Mr. Hollande's remarks also contradict the recent NATO summit's final declaration—approved by France—that Russia's aggressive activities "damaged transatlantic security and threatens our goal of a Europe whole, free, and at peace." The document goes on to state that Russia's

"aspirations for partnership" depend on its compliance with international law. Until its restoration, the statement adds, "we cannot return to 'business as usual.'"

What made Mr. Hollande become so seemingly malleable, so improbably trustful?

In January the president became the first major European Union leader to propose that the Ukraine- and Crimea-related sanctions against Russia be abandoned. This initiative was further refined by Germany's foreign minister, Frank-Walter Steinmeier. The Social Democrat has proposed that Russia be given partial relief for the partial-but-dubious steps it has taken toward fulfilling the Minsk agreement for the withdrawal of Russian forces from Ukraine.

### The French president goes soft on Putin to improve his chances of election victory.

Mr. Hollande's view of Russia as a nonthreatening partner is best understood in the context of his bid for re-election in 2017. The president believes that by being nicer to Moscow, he can eventually assume the role of notional leader of the European left. The Germans and the Italians might go for it.

But considering the venom of the Trump-Clinton clashes over Russia and NATO, Mr. Hollande will soon be pressed to explicitly take sides. If he doesn't want to appear closer to Mr. Trump's views than to those of the U.S. Democratic Party—thus damaging a traditional French Socialist friendship with the party and with Hillary Clinton—the president has two occasions to recast his affinities.

One comes at a meeting in Paris this month of Europe's Social Democratic leaders. The other involves Mr. Putin's announced visit to Paris in October to inaugurate a Russian cultural center and Russian cathedral.

I was told emphatically last week the Russian's visit hasn't been finalized. Should it never materialize, Mr. Hollande will have spared France the ignominy of offering an authorized podium to Mr. Putin's routine as demagogic defender of the faith. This at a time of religious, warlike tensions between Christians and Muslims.

For its friends who cherish France's prouder instincts, now is the moment to remind Mr. Hollande that honorably fighting a terrorist beast with the strength and restraints of the rule of law, while simultaneously disregarding Mr. Putin's aggressive contempt for it, is dangerous and incoherent.

## Putin's Infowar on America



INFORMATION AGE  
By L. Gordon Crovitz

This column recently predicted that Russia would disclose hacked emails just before the presidential election as an "October surprise." The first surprise came early, with last week's release of emails hacked from

the Democratic National Committee, whose chairman resigned for rigging the primaries in Hillary Clinton's favor.

Expect more surprises before November. Moscow has an ambitious strategy for information war that goes beyond affecting a presidential election. Israeli analyst Dima Adamsky wrote that the Russian "information struggle" entails "technological and psychological components designed to manipulate the adversary's picture of reality, misinform it, and eventually interfere with the decision-making process of individuals, organizations, governments, and societies."

Security experts believe Russia hacked all 63,000 of Mrs. Clinton's emails as secretary of state, including the 33,000 emails she destroyed, and that Russia supplemented this information by later hacking the Clinton Foundation and the State Department. That would mean Mr. Putin has a trifecta of sources to identify suspicious links between Mrs. Clinton and multimillion-dollar donors to her foundation, including authoritarian governments and crony capitalists, and favors granted by the Clinton State Department.

According to Mr. Adamsky, Russia's goal is to cause "disillusionment and discontent with the government and disorganization of the state and military command and control and management functions." It's hard to imagine anything more disillusioning to Americans than the release by Russia of incriminating emails Mrs. Clinton had refused to disclose even under U.S. court order.

Polish analyst Jolanta Darczewska has traced Russian information-warfare theory to Stalin's *spetspropaganda* (special propaganda) program in the 1940s. In recent years Mr. Putin, a KGB veteran, extended infowar to include "information manipulation," which includes "using authentic information in a way that gives rise to false implications," disinformation, fabricating information and blackmail.

Russia attacked Estonian government websites and hacked Ukraine's election

commission days before a vote. A German investigator last year concluded there was no evidence behind the WikiLeaks claim that the National Security Agency eavesdropped on Chancellor Angela Merkel's mobile phone. It was likely disinformation to drive a wedge between the U.S. and Germany. Russia's information manipulation is intended both to embarrass people and to inhibit honest communications by demonstrating that governments can't protect confidential communications.

Liberals who long treated Edward Snowden and Julian Assange as heroes are now offended that WikiLeaks distributed the Russian hacks of the DNC Journalist Franklin Foer complained in Slate last week that the "breathtaking transgression of privacy" of Democratic Party officials will have a "chilling effect" undermining the ability "to communicate honestly." That was the exact purpose of the hacks of hundreds of thousands of U.S. diplomatic cables distributed by WikiLeaks in 2011 through the New York Times and London's Guardian.

What can be done about infowar? Donald Trump was criticized last week for encouraging Russia to disclose Mrs. Clinton's emails, but making them public would be the best way to deprive Mr. Putin of the advantage he gains by holding them. A U.S. ally that spies on Washington as much as Washington spies on it, such as Israel or France, would do Americans a favor by making public its copy of Mrs. Clinton's emails. Otherwise, Moscow can drip the emails out on its schedule with its spin—or hold them back as blackmail against Mrs. Clinton should she reach the White House. American voters should know what Mr. Putin knows.

The Obama administration has been passive in response to Russia's infowar—even reluctant to officially admit its existence. Washington's best deterrence would be to reply in kind. The U.S. could hack and release Mr. Putin's bank accounts detailing how rich he has become in office. U.S. prosecutors could use hacked information to indict Putin business cronies and deny visas to their associates and relatives.

Despite Russia's audacious hacking, Director of National Intelligence James Clapper last week would only go as far as to concede: "It's fair to say Vladimir Putin feels like he is fighting a low-level, asymmetric war with the U.S." Because of the Obama administration's failure to fight back, Mr. Putin is enjoying many victories.

OPINION

# The Clintons and Their Kremlin Connections

By Peter Schweizer

Hillary Clinton touts her tenure as U.S. secretary of state as a time of hard-headed realism and “commercial diplomacy” that advanced American national and commercial interests. But her handling of a major technology-transfer initiative at the heart of Washington’s effort to “reset” relations with Russia raises serious questions about her record. Far from enhancing American national interests, Mrs. Clinton’s efforts in this area may have substantially undermined U.S. national security.

Consider Skolkovo, an “innovation city” of 30,000 people on the outskirts of Moscow, billed as Russia’s version of Silicon Valley—and a core piece of Mrs. Clinton’s quarterbacking of the Russian reset.

## Why did Hillary’s State Department urge U.S. investors to fund Russian research for military uses?

Following his 2009 visit to Moscow, President Obama announced the creation of the U.S.-Russia Bilateral Presidential Commission. Mrs. Clinton as secretary of state directed the American side, and Foreign Minister Sergei Lavrov represented the Russians. The stated goal at the time: “identifying areas of cooperation and pursuing joint projects and actions that strengthen strategic stability, international security, economic well-being, and the development of ties between the Russian and American people.”

The Kremlin committed \$5 billion over three years to fund Skolkovo. Mrs. Clinton’s State Department

worked aggressively to attract U.S. investment partners and helped the Russian State Investment Fund, Rusnano, identify American tech companies worthy of Russian investment. Rusnano, which a scientific adviser to President Vladimir Putin called “Putin’s child,” was created in 2007 and relies entirely on Russian state funding.

What could possibly go wrong? Soon, dozens of U.S. tech firms, including top Clinton Foundation donors like Google, Intel and Cisco, made major financial contributions to Skolkovo, with Cisco committing \$1 billion. In May 2010, the State Department facilitated a Moscow visit by 22 of the biggest names in U.S. venture capital—and weeks later the first memorandums of understanding were signed by Skolkovo and American companies.

By 2012 the vice president of the Skolkovo Foundation, Conor Lenihan—who had previously partnered with the Clinton Foundation—recorded that Skolkovo had assembled 28 Russian, American and European “Key Partners.” Of those, 17, or 60%, have made financial commitments to the Clinton Foundation, totaling tens of millions of dollars, or sponsored speeches by Bill Clinton.

Russians tied to Skolkovo also flowed funds to the Clinton Foundation. Andrey Vavilov, the chairman of SuperOx, which is part of Skolkovo’s nuclear-research cluster, donated between \$10,000 and \$25,000 (donations are reported in ranges, not exact amounts) to the Clinton’s family charity. Skolkovo Foundation chief and billionaire Putin confidant Viktor Vekselberg also gave to the Clinton Foundation through his company, Renova Group.

Amid all the sloshing of Russia rubles and American dollars, however, the state-of-the-art technological research coming out of Skolkovo raised alarms among U.S.



Russia’s foreign minister, Sergei Lavrov, left, and Hillary Clinton, who was the U.S. secretary of state at the time, during a press conference in Geneva in 2009.

military experts and federal law-enforcement officials. Research conducted in 2012 on Skolkovo by the U.S. Army Foreign Military Studies Program at Fort Leavenworth declared that the purpose of Skolkovo was to serve as a “vehicle for world-wide technology transfer to Russia in the areas of information technology, biomedicine, energy, satellite and space technology, and nuclear technology.”

Moreover, the report said: “the Skolkovo Foundation has, in fact, been involved in defense-related activities since December 2011, when it approved the first weapons-related project—the development of a hypersonic cruise missile engine. . . . Not all of the center’s efforts are civilian in nature.”

Technology can have multiple uses—civilian and military. But in

2014 the Boston Business Journal ran an op-ed placed by the FBI, and noted that the agency had sent warnings to technology and other companies approached by Russian venture-capital firms. The op-ed—under the byline of Lucia Ziobro, an assistant special agent at the FBI’s Boston office—said that “The FBI believes the true motives of the Russian partners, who are often funded by their government, is to gain access to classified, sensitive, and emerging technology from the companies.”

Ms. Ziobro also wrote that “The [Skolkovo] foundation may be a means for the Russian government to access our nation’s sensitive or classified research development facilities and dual-use technologies with military and commercial application.”

To anyone who was paying atten-

## Melania, Bill and Kids Belonged Off-Stage

By Joseph Epstein

My best guess is that watching the Republican and Democratic Party conventions changed no one’s mind. At the conclusion of the performances people who were dubious about either candidate remained dubious, and people who had signed on in support of one or the other candidate were reinforced in their decision. A lot of huff, a lot of puff, but no doors were blown down.

What I found new, and more than a touch appalling, was the dragging in of family members in support of each candidate. Both Hillary Clinton and Donald Trump were introduced for their final speeches by daughters. Mr. Trump’s wife and Mrs. Clinton’s husband each spoke on behalf of his or her spouse. The idea behind this rallying of family, of course, was to make the candidate seem warmer, more intimate, more

human—not, given who they really are, an easy assignment.

Nor, if I may say so, one successfully carried out during either convention. When Bill Clinton spoke of his courtship of Hillary, of what a remarkably bright young woman and splendid wife and mother she was, I was waiting for him to end by adding: “And she gave me plenty of latitude to philander pretty much to my heart’s content.”

When Chelsea Clinton talked about her lovely full-court-press mother leaving her notes, all I could think of was a note that read: “Your dumb father has apparently exposed himself in front of a woman named Paula Jones. I don’t know what we’re going to do about that s.o.b.”

When Donald Trump’s sons spoke about what a splendid role-model their father was, I wondered which son was of which of Mr. Trump’s three trophy marriages. When his daughter introduced him on the final

night, I wondered if her mother was at home laughing, an ample alimony check on the coffee table before her. When his current wife spoke about his many virtues and the promise of America, I wondered about the size of her eventual divorce settlement.

## When Clinton and Trump call on family to make them seem human, it backfires—at least on me.

In brief, the attempt to make these two rather inhuman political candidates seem human entirely backfired, at least on me. I like to think that my countrymen and countrywomen are not so naive that they bought a word of any of this balderdash. Yet the television cameras—I watched as much as I could bear of either con-

vention—played on faces of the true believers in the audience.

When Mr. Trump’s children spoke, admiration beamed from the crowd; in the case of Chelsea Clinton’s talk, much tearing up was in evidence. When the camera returned to the panel of pundits high above the convention halls, I expected at least one among to exclaim, “A joke, right?” But of course, going along with the game, none did.

What point can there possibly be in attempting to humanize politicians? Deciding to run for office, at least under current arrangements, means retiring from some of the principal requirements of most human beings: a need for privacy, a desire to be honest, regard for one’s personal integrity. Contemporary politics, let us agree, doesn’t allow much leeway for any of these. It requires instead the ability to be at ease during personal exhibitionism, to evade the most obvious truths and spin ev-

ery story to benefit one’s own career, to profess continuously one’s own extraordinary virtue.

I prefer politicians who do not relentlessly insist that they are caring, sharing persons. I much prefer politicians whose only claim is that they have a vision for the country and believe they have some talent at helping to bring this vision to life in legislation. I prefer candidates who, always indirectly, make plain that they love this game—the game of politics—and believe they are good at it.

Whether they are also great wives, devoted husbands, the most sensitive mothers and fathers does not really interest me. If I want good mothers and fathers, husbands and wives, I’ll start attending PTA meetings.

*Mr. Epstein’s books include “Frozen in Time: Twenty Stories” and “Wind Sprints: Shorter Essays.”*

## China’s Surveillance Ambitions

By Mirjam Meissner

If you ask Americans and Europeans to name the biggest threats to their personal privacy, many might say Google or the U.S. National Security Agency. But as Western societies debate the legal limits for collecting and sharing data post-Edward Snowden, and as international companies work on encryption technologies to keep the state at bay and users at ease, a whole new surveillance game is under way in China.

These plans aren’t widely understood in the West, but their contours are already clear. The government will try to link a large amount of public and private data, with the goal of building the world’s first all-encompassing system of cybersurveillance. The consequences of this big-data-enabled, information-technology-

backed authoritarianism will be far-reaching, not only for Chinese citizens and businesses but for anyone connected to a person or entity in China.

Already, we can see this in the creation of a so-called Social Credit System, the goal of which is to monitor individuals and companies based on a mix of information from financial institutions and law-enforcement agencies. Citizens now can expect that information from a diverse range of sources, such as employer evaluations, online shopping preferences or opinions expressed on social media, will be part of their social-credit score. The ratings will be made public and accessible online.

This isn’t entirely unlike Western financial-credit scoring systems, where a low score makes it more difficult to rent a house or to obtain a loan. But surveillance

systems in democratic countries usually focus on one set of data, and ownership of data is highly fragmented. China’s system would link data used to evaluate financial activities with others that inform assessments of rule compliance and “socially responsible” behavior as defined by the Chinese leadership.

The system rewards “good behavior” and punishes “bad behavior.” Rule breakers can be black-listed and excluded from economic activities or denied access to public services. Reckless driving might lower their chances for a good job. And they might be unfriended on social media for fear of guilt by association.

Already Chinese authorities have started test runs to evaluate the driving habits of professional drivers. And some online portals are reportedly awarding good social-credit scores with premium access, while denying services to those with inadequate scores.

This all-encompassing surveillance system will exist in a digital environment that feels familiar to many users, since it is operated by the same companies who run China’s most famous internet platforms for shopping, social media, dating and gaming. The first apps for checking one’s social-credit score are already on the market, and they fit seamlessly into China’s common digital world.

But the social-credit system extends beyond Chinese citizens and companies. The leadership’s intention is to strengthen political control over all economic and social activities in China. Our analysis of more than 40 government documents released since 2014 revealed that the system is meant to include every individual and institution doing business in and with China.

If you have an office or a factory in China, for example, the Chinese government will collect and evaluate vast amounts of data on your company and your employees. Since the social-credit system for companies is already fairly advanced in sectors such as

## Beijing’s system includes a ‘social-credit score’ to monitor behavior, not just of individuals but of businesses too.

electricity and transportation, corporate social responsibility as defined by Beijing might soon no longer be voluntary. And if your future business with China depends on your Chinese social-credit score, you may have no choice but to accept state scrutiny of all your business activities.

The challenges to implementing this system are significant, but not insurmountable. At least for now, China’s leaders can count on popular support. Many Chinese worry about a loss of moral accountability due to their country’s hasty economic and societal transformation. They see this system as part of a paternalistic effort to create a “civilized society.” The inclusion of businesses adds to its acceptance among ordinary Chinese, who see it as an opportunity to expose corporate corruption and violations of labor and environmental standards.

Our research also shows that China’s government-friendly technology companies, such as Alibaba, Baidu and Tencent, are willing to help solve the technological problems. It may seem ironic that these

private companies, which once unleashed an information revolution in China, are now willing to share their cutting-edge technology and data analytics systems for political purposes. But in today’s repressive political climate, they would otherwise risk losing business opportunities or becoming targets for political retribution.

China’s tech companies, however, have yet another political task: they are expected to expand their activities to other countries. These companies are privately run, but their close connections to Beijing and its broader political goals should raise warning flags whenever they approach foreign markets.

Western entrepreneurs should be aware of the risks before they agree to strategic investments by Chinese entities and technology transfers to China in sensitive fields such as big data and credit scoring, and should at least limit them with the help of contractual safeguards. Western governments should make every effort possible to integrate China into international data-security agreements and standardization efforts.

Yet no amount of Western scrutiny will prevent Chinese tech companies from accessing many other markets around the world. They will be more than welcome by many authoritarian regimes, especially in Asia and in the Arab world. For leaders of such regimes, China’s surveillance system isn’t only acceptable, but highly attractive for strengthening social and economic control. Soon big-data authoritarianism won’t be limited to just China.

*Ms. Meissner is the head of the economy & technology program at the Mercator Institute for China Studies.*

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# Buying Shares in an Olympic Dream

Syndicate of investors put up the money to acquire Blackfoot Mystery for U.S. Olympian Boyd Martin

By REBECCA DAVIS O'BRIEN

Blackfoot Mystery was a miserable racehorse, finishing dead last in each of the three events he entered before landing in a California rehab facility in 2007.

But when U.S. Olympian Boyd Martin learned the horse was up for sale in 2015, he jumped at the chance to buy a horse he had long coveted. "It was love at first sight," Martin said. The statuesque Kentucky thoroughbred had developed into a gifted galloper and jumper, making him a sought-after mount for competitive eventing, a three-part event that includes jumping, dressage and a cross-country race.

The only problem was the asking price: \$300,000. Enter Blackfoot Mystery Syndicate LLC.

This 12-member partnership, which includes Kentucky horse-racing families, New York finance executives and the cousin of Australian tennis legend Rod Laver, split the costs and bought Martin his horse.

Equestrianism is the only Olympic sport in which private individuals can own a piece of a competitor, and the syndicate is one of the more prominent examples of a growing trend toward group ownership.

"Unless you have a top horse, you are nothing," Martin said. "Unfortunately, the really, really top horses are just really expensive, and I personally didn't know a single individual who was going to bankroll a single horse of that caliber."

While most top Olympians today have corporate sponsors, horse competition is considered too expensive, too risky and too obscure to secure brand backing.

So despite its image as a fancy pastime for the ultrarich—the daughters of Bruce Springsteen and the billionaire former New York mayor Michael Bloomberg were both considered for the U.S. Olym-



U.S. Olympic rider Boyd Martin and his horse Blackfoot Mystery, which he purchased for \$300,000 with the help of a team of backers.

number of members will watch a live stream of the Rio eventing competition, starting Aug. 6, together at the Millbrook Horse Trials in upstate New York.

Gloria Callen, a member of the syndicate whose father John Gaines was a Kentucky racing legend, said she doesn't see herself as simply investing in a horse, but supporting Martin, "a rider I believe in."

Mike Laver—Rod Laver's second cousin, who runs an aviation company in South Carolina—is the only syndicate member who plans to go to Rio. His wife, Anne Laver, also an amateur rider, was paralyzed by Guillain-Barré disease last year and in February, when Martin and Blackfoot Mystery won an event in Florida, Martin and the syndicate donated the \$10,000 prize to research for the autoimmune disease.

"One of the factors for success isn't just their great horsemanship," Callen said. "It's also their ability to gather a group of people around them and promote what they are doing, to keep people engaged and willing to support them."

Martin has an Olympic pedigree: His mother, American speed skater Toy Dorgan, met his father, Australian cross-country skier Ross Martin, at the 1968 Olympics in Grenoble, France.

Although Europeans tend to dominate the equestrian competitions, Hart said the Rio eventing team was among the best the U.S. had fielded in recent Olympics. Blackfoot Mystery has performed well in recent competitions with Martin, who also represented the U.S. in London, though he didn't medal.

If Blackfoot Mystery and Martin earn medals in individual or group competitions, the rewards to the syndicate are intangible: no medals, no money. Nor are there breeding rights to squabble over—like most eventing horses, Blackfoot Mystery is a gelding.

Above all, owners, riders and officials said, group ownership creates a sense of camaraderie and excitement. "You've got people who are all of a sudden part of the Olympic journey," Martin said. "When you experience something fun, it's so much more fun if you are with a group of people."

pic show-jumping team this year—money in horse sports is hard to come by.

"The audience is a very affluent audience, but a very small audience," said Steve Blauner, the managing director of a New York hedge fund and an amateur rider, who is a member of the syndicate. "It's not Nascar. It doesn't have mass appeal."

Syndicate ownership of sport horses began to take hold in the U.S. about a decade ago. The U.S. eventing team in Rio includes two syndicate-owned horses, one syndicate-owned reserve horse and one horse owned by a three-member partnership. (Eventing is an equestrian triathlon combining dressage, cross-country and show jumping.)

At London in 2012, just one of the U.S.'s five horses was syndicate-owned. In 2008, there were none.

Blauner helped Martin cobble together the Blackfoot Mystery syndicate, in which each participant put up roughly \$25,000 per share. The members also chip in about \$5,000 annually for anticipated costs of travel and care. Those payments are tax-deductible because of a federal tax provision to benefit contributions to U.S. international competition.

The syndicate members know each other through Martin and the competitive riding world, and they describe themselves as tightknit: Throughout the year, Martin sends out training videos and photos and updates on Blackfoot Mystery. A

## Heard On The Field



### Filthy Water Awaits Olympic Athletes, Fans

Just days ahead of the Olympic Games the waterways of Rio de Janeiro are as filthy as ever, contaminated with raw human sewage teeming with dangerous viruses and bacteria, according to a 16-month-long study commissioned by the Associated Press.

Not only are some 1,400 athletes at risk of getting violently ill in water competitions, but the tests indicate that tourists also face potentially serious health risks on the golden beaches of Ipanema and Copacabana.

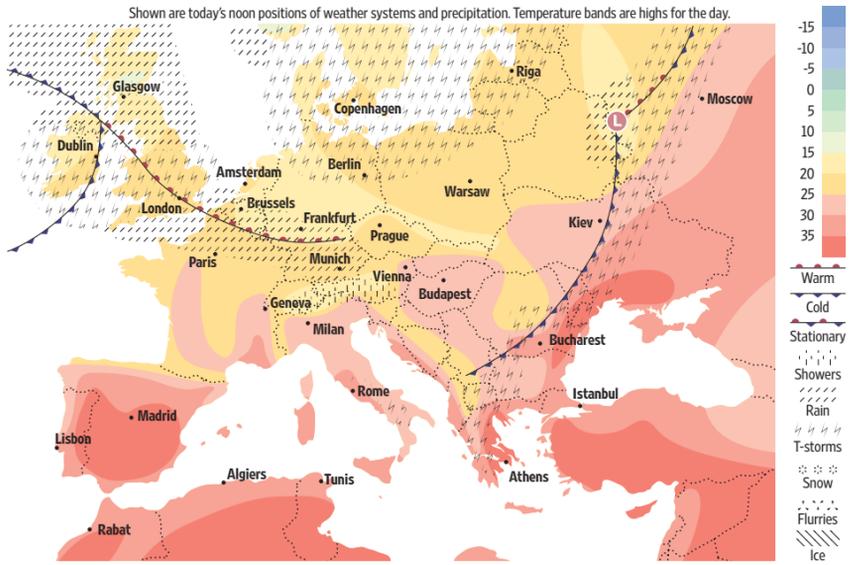
The survey of the aquatic Olympic and Paralympic venues has revealed consistent and dangerously high levels of viruses from the pollution, a major black eye on Rio's Olympic project that has set off alarm bells among sailors, rowers and open-water swimmers.

The first results of the study published over a year ago showed viral levels at up to 1.7 million times what would be considered worrisome in the U.S. or Europe.

While local authorities including Rio Mayor Eduardo Paes have acknowledged the failure of the city's water cleanup efforts, calling it a "lost chance" and a "shame," Olympic officials say Rio's waterways will be safe for athletes and visitors. The local organizing committee didn't respond to requests to comment, though it has previously said bacterial testing conducted by Rio state authorities has shown the aquatic venues to be within state guidelines. —Associated Press

FELIPE DANA/ASSOCIATED PRESS

## Weather



### Global Forecasts

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

City	Today			Tomorrow			City	Today			Tomorrow		
	Hi	Lo	W	Hi	Lo	W		Hi	Lo	W	Hi	Lo	W
Amsterdam	20	18	r	22	16	r	Ottawa	29	15	s	30	17	pc
Anchorage	18	13	r	20	13	pc	Paris	23	17	r	27	17	pc
Athens	35	25	s	35	26	s	Philadelphia	29	20	sh	29	20	pc
Atlanta	32	22	t	33	22	pc	Phoenix	37	28	t	37	27	t
Baghdad	49	30	s	49	30	pc	Pittsburgh	30	19	pc	30	21	pc
Baltimore	30	19	pc	29	20	pc	Port-au-Prince	36	22	pc	36	23	pc
Bangkok	34	26	t	32	26	t	Portland, Ore.	24	14	sh	27	15	pc
Beijing	35	23	s	33	24	s	Rio de Janeiro	28	20	s	24	20	pc
Berlin	19	13	t	21	18	r	Riyadh	46	32	pc	46	31	s
Bogota	18	10	c	18	9	c	Rome	30	21	s	31	21	s
Boise	35	13	s	29	14	s	Salt Lake City	39	24	pc	35	21	t
Boston	22	18	c	27	19	pc	San Diego	25	20	pc	25	18	pc
Brussels	19	17	r	21	15	r	San Francisco	21	12	pc	21	13	pc
Buenos Aires	14	6	pc	15	8	pc	San Juan	32	26	s	32	26	pc
Cairo	37	25	s	37	24	s	Santo Domingo	33	23	pc	32	23	pc
Calgary	24	11	t	19	11	r	Sao Paulo	20	13	pc	19	14	c
Caracas	32	23	pc	31	24	pc	Seattle	22	14	sh	25	14	pc
Charlotte	33	21	pc	32	21	pc	Seoul	31	24	c	33	24	t
Chicago	30	22	t	29	20	t	Shanghai	35	28	sh	32	27	t
Dallas	38	26	s	38	27	s	Singapore	30	26	pc	31	26	pc
Denver	32	17	pc	35	17	s	Stockholm	21	11	t	22	14	pc
Detroit	30	20	pc	31	21	t	Sydney	16	12	sh	17	12	r
Dubai	41	34	s	43	35	s	Taipei	35	27	t	34	26	t
Dublin	22	14	sh	19	13	c	Tehran	36	23	s	35	23	s
Edinburgh	19	14	r	19	12	sh	Tel Aviv	33	25	s	32	25	s
Frankfurt	20	17	r	25	17	r	Tokyo	30	25	t	30	25	t
							Toronto	28	19	pc	30	19	s
							Vancouver	20	14	sh	21	14	pc
							Washington, D.C.	31	22	pc	30	22	pc
							Zurich	24	14	pc	27	14	s

## The WSJ Daily Crossword | Edited by Mike Shenk

1	2	3	4	5	6	7	8	9	10	11	12	13
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64				65					66			

### I'M WITH THE BAND | By Doug Peterson & Samuel A. Donaldson

<b>Across</b>	23 Color of debt	47 Catalog
1 Lets go	24 Qty.	50 "That blow to my stomach was painful!"
5 Heirloom storage site, often	25 Bachelor's last words	51 Blasting stuff
10 Holds up	26 Source of wisdom	52 "The Cask of Amontillado" writer
14 Kazakhstan river	28 Reasonable	53 Serve as a roadie for "The House of the Rising Sun" group?
15 "Real Housewives" channel	30 Dress edge	58 Sector
16 Continental coin	33 Sing lead on "L.A. Woman"?	59 Pound part
17 Company that should give Wile E. Coyote a loyalty discount	36 Regarding	60 "___ cost ya!"
18 Boxer Roberto	38 Work smoothly	61 Smidge
19 They're for kids, silly rabbit	39 Sultanate in the United Nations	62 Completely stun
20 "We'll open tonight's show with 'Magic Bus'?"	40 Headline announcing recording of "Roxanne"?	63 Plant that grows on pets
	45 Cousteau's sea	
	46 Hitch in the plans	

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

64 Amused look	30 Nontraditional branch of medicine
65 Particularly particular	31 Important age
66 Checks out	32 Web portal with a Bing search field
<b>Down</b>	34 Flimsy
1 Dos, doubled	35 Bumbler's utterance
2 Cupid or Sagittarius	36 It might help you get your balance
3 Called in honor of	37 That miss
4 Murdered	41 "All right already, you win!"
5 Navel setting	42 Countdown follower
6 It may be created under a will	43 Leather outfit?
7 Luau staple	44 Sparkling wine of Italy
8 Tennis star Lendl	48 Fingers with a Cy Young Award
9 Keep in custody	49 Some electric cars
10 Fashionably anachronistic	50 Salty expanse
11 Not just mine	51 Cantina comestibles
12 Birmingham bloke	53 Far from flush
13 Fenway team	54 Opposed
21 Mark of divinity	55 Alternative to Netflix
22 Picked from a lineup	56 Grandson of Eve
27 Field yield	57 Maze runners
28 No longer making progress	58 Change direction sharply
29 "Such is my luck!"	

**Previous Puzzle's Solution**

JOLTS	RIOT	SAGS
EMERY	UHUH	ORAL
SANER	NOTRE	DAME
THIN	BODIEP	BED
SANDMAN	READ	
SIR	PEP	ORBS
ADVERB	TAO	WALT
LOOT	ATARI	NCAA
EDIT	RAT	NLWEST
CODE	AKA	TEA
RUBE	WEIRD	ODS
IPO	NOFAIR	DANE
ZINC	OXIDE	ADMIT
OSLO	EVES	HOCH
DIAYO	REINT	AGNES

# THE FUTURE OF EVERYTHING

## A LOOK AHEAD FROM THE WALL STREET JOURNAL.

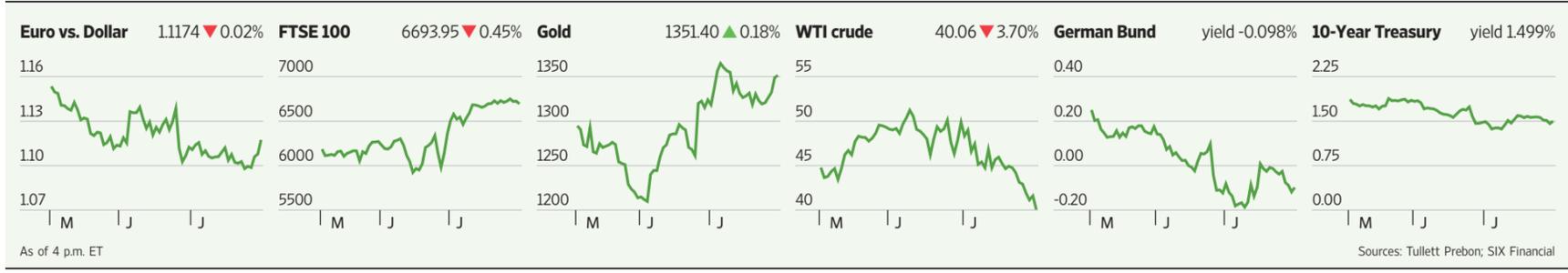
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THE WALL STREET JOURNAL.

Tuesday, August 2, 2016 | B1

## U.S. IPOs Dwindle as Private Deals Rise

BY MAUREEN FARRELL AND MATT JARZEMSKY

Investor Bill Costello perked up when Centennial Resource Development Inc. filed for an initial public offering in late June. The company drills in the oil-rich Permian Basin, and Mr. Costello was on the hunt for promising new listings.

Weeks later, Centennial scrapped its IPO plan and agreed to sell itself to a company owned by investors including private-equity firm Riverstone Holdings LLC.

"We were really interested in Centennial," said Mr. Costello, a portfolio manager at investment firm Westwood Holdings Group Inc., which has

\$21 billion under management. "I was bummed when Riverstone walked in and took it."

So it goes in 2016, the slowest year for U.S. IPOs since 2009. Lately, bankers and investors say, the downtrodden IPO market just can't compete with buyers who are willing to pay big to take potential listings off the board.

In addition to Centennial, the 2016 IPO market lost out on cybersecurity company Blue Coat Systems Inc., Canadian auto marketplace Trader Corp. and Performance Health Holdings Corp., a manufacturer of consumer health products.

Buyers also have snapped up several startups that were viewed as 2017 IPO candidates.

Dollar Shave Club in July reached a deal to sell itself to Unilever PLC for \$1 billion. In June, Vista Equity Partners announced a deal to buy software firm Ping Identity Corp. for an undisclosed amount.

Though it isn't unusual for companies to weigh a public listing and a sale at the same time, a process known as a dual track, this recent spate of sales is the latest bit of unfavorable news for investors struggling to fill holes in their portfolios. While they are typically considered among the riskiest equity investments because of their shorter track record, IPOs offer investors a chance to beat market benchmarks by investing in growth stocks in the early days.

This year's IPOs are up 16.7% on average through Friday, far higher than the 6.3% gain the S&P 500 had achieved in that period, indicating that investors are piling into the few new listings that have come to market.

While it is difficult to quantify how many companies have chosen a sale over an IPO, bankers and lawyers say the proportion that have chosen to sell is well above typical levels.

"We see a lot of amazing franchises that we would want to own and add to the portfolio if they were public," said Brad Slingerland, a portfolio manager of the global technology strategy funds at Janus Capital Group Inc.

Year to date, 55 companies

have debuted on U.S. exchanges, down from 121 in the same period last year and 180 in 2014, according to Dealogic. This year's U.S. IPOs have raised \$11.6 billion, down 51% from last year and 70% from 2014.

U.S. mergers, though down 25% year to date from 2015's record levels, haven't fallen off as sharply. Corporate balance sheets remain stuffed with cash, and low rates have kept deal funding costs low.

One reason sales are winning out over IPOs is that many private-equity firms, a key source of new listings, are looking for a quick exit from older investments.

It can take several years for *Please see DEALS page B2*

### Downward Data

First Data Corp. stock price since IPO



THE WALL STREET JOURNAL.

## A Big Risk For Tesla: SolarCity Eats Cash

BY SPENCER JAKAB

Far more incredible than Elon Musk's various plans to power our homes, cars and, perhaps one day, spaceships and hyperloops, are his powers of persuasion.

The announcement back in June that electric-car maker Tesla Motors would buy solar-energy company SolarCity went down like a lead balloon at the time. But Mr. Musk's insistence that it was the "obvious thing to do," even as he recused himself from the negotiations because he owns more than a fifth of each company, seemed to carry the day.

The two companies said Monday that they had agreed to a \$2.6 billion deal though at a lower price than originally proposed.

A casual observer might conclude that, while the industrial logic is far from obvious, any damage should be limited. After all, Tesla's market value is some 13 times that of SolarCity. And the companies say that they anticipate savings of \$150 million in the first year—a substantial 5% return on the deal's value even before Mr. Musk's assertion that it is a step toward "solving the sustainable energy problem."

The immediate problem, though, is far more prosaic: cash flow.

*Please see HEARD page B2*



The 2013 crash of Asiana Flight 214 at San Francisco's airport was blamed in part on undue reliance on the jet's automated systems.

## Aviation's Lessons for Automation

### Safety experts warn of rushing self-driving technology to the car market too soon

BY DANIEL MICHAELS AND ANDY PASZTOR

Aviation-safety experts have advice for the car industry as it moves to autonomous-driving vehicles: Proceed slowly and make sure drivers realize the limits of the technology.

As airline pilots became increasingly reliant on automation over the years, the focus shifted to simplified cockpit displays and enhanced crew training.

Many high-end cars now offer

sophisticated cruise-control and collision-avoidance systems that can maneuver in traffic and on highways without driver commands. From automatic braking to steering assist, manufacturers rely on them as marketing tools.

But several accidents involving Tesla Motors Inc. cars with such technology, including a fatal accident in Florida, have federal highway-safety regulators investigating the company's onboard automation. Some aviation-safety experts warn that existing automotive controls shouldn't be considered mature autopilot systems.

"It's quite ridiculous we would give somebody such a complex vehicle without train-

ing," said former commercial pilot Shawn Pruchnicki, who teaches air safety at Ohio State University. It is a mistake, he added, "to assume that the general public is going to be able to jump in and understand what [the] limitations are."

Early autopilots originated in airplanes around World War I, but it wasn't until 1947 that a U.S. Air Force plane made the first trans-Atlantic flight using hands-off flying controls. Such features evolved and only became widespread gradually, allowing individual elements to be rigorously tested and verified before plane makers integrated them into complex flight-management systems.

Today, jumbo jets and su-

personic fighters rely on a web of computerized equipment and software to get airborne, cruise and even land with little or no human input.

A key lesson from aviation is that reducing risks takes time.

"We have to create perfection in the collision-avoidance systems before we have the car drive itself," said Mark Rosenker, a former chairman of the National Transportation Safety Board who dealt with safety issues affecting roads, rails and aircraft. So far, "there are nuances to these technologies that we have not yet perfected," he noted, such as the difference between avoiding a car in front and de-

*Please see DRIVE page B2*

## Corporate Germany Cools Off On Poland

BY DANIEL MICHAELS

WARSAW—Corporate investors are starting to cool on Poland, a long-favored destination for foreign money, a recent survey shows.

New taxes and political uncertainty in the country are prompting companies across the Continent to rethink Poland's appeal.

The new nationalist government of Beata Szydlo, which took power in October, has proposed a tax on banks and insurance companies, regulations on renewable energy, a mandated conversion of Swiss franc-denominated mortgages in zlotys, and a tax on large retail chains.

Together, the moves have stirred caution among German companies—traditionally the largest foreign investors in Poland—after eight years of rule by a centrist, pro-European coalition. In a recent survey of German companies across Central Europe, Poland's investment attractiveness fell to second place behind the Czech Republic for the first time in four years. Driving the decline was a plunge in the rating of Poland's political stability and predictability of economic policies.

Companies are hesitating to commit to new projects following controversial policy moves by Poland's nationalist government.

"This situation brings a lot of uncertainty to the economy, which has an impact on private businesses and foreign direct investment into Poland," said Krzysztof Kalicki, chief executive of Deutsche Bank AG's Polish unit. He said projects already agreed upon for this year are continuing. "But new investments are in prolonged discussions," he said.

Government officials say the new wariness is just a matter of getting comfortable with the new leaders of the country and their programs.

"There were a lot of questions about what does it mean to have a conservative government," said Bartlomiej Pawlak, acting president of the Polish Information and Foreign Investment Agency, a government office. "It's a question of both sides getting to know each other." Foreign investors still consider Poland "a stable market with good prospects," he said.

Some big companies are plowing ahead with investment in Poland, which has a growing economy with competitive wages. Daimler AG in May announced an investment *Please see POLAND page B2*

## Stress-Test Results Weigh on European Lenders

BY AARON KURILOFF AND RIVA GOLD

Losses in bank shares dragged European markets lower Monday, while energy stocks pushed U.S. equities into the red.

**MONDAY'S MARKETS** The Stoxx Europe 600 fell 2.03 points, or 0.6%, to 339.86.

Bank stocks gained ground early in the day, as investors welcomed the results of stress tests released Friday that appeared to give most lenders a clean bill of health.

Yet the rally quickly faded, leaving the sector with a 1.8% loss. Shares of UniCredit, which fared the worst of banks deemed important to the financial system, fell 9.4%.

Unlike in previous European stress tests, regulators didn't

include a pass or fail result for each bank, leaving it up to investors and regulators to interpret the results.

Italy's oldest bank, Banca Monte dei Paschi di Siena, had the weakest performance of the 51 banks assessed by the European Banking Authority, but had pre-empted the results by announcing a third major recapitalization. The stock closed up 0.6%.

Royal Bank of Scotland and Barclays shares were down 1.7% and 2%, respectively, after the tests exposed ongoing weaknesses at the two lenders. RBS suffered from factoring in potential litigation costs, while Barclays had credit and market-risk risk, Bernstein's Chirantan Barua said.

In the U.S., the Dow Jones Industrial Average fell 27.73 points, or 0.15%, to 18404.51.

### Stressed

UniCredit's daily share price



THE WALL STREET JOURNAL.

The S&P 500 slipped 0.1%, while the Nasdaq Composite

index rose 0.4%.

U.S. crude oil fell 3.7% to \$40.06 a barrel, leaving it down 22% from its June high, marking the start of a bear market. The move in oil dragged energy stocks lower.

In late trading, energy companies were among the biggest decliners in the Dow industrials, with Exxon Mobil falling 3.5% and Chevron losing 3.3%. Diamond Offshore Drilling slid 7.7% and Transocean fell 6.7% in the S&P 500.

The losses in energy shares offset further gains in healthcare and technology stocks. Health-care stocks in the S&P 500 climbed 0.6% while technology shares increased 0.4%. The sectors have gained 4.9% and 8.1% in the past month, respectively.

Elsewhere, Tesla announced it would buy SolarCity for \$2.6

billion in an all-stock deal. SolarCity shares were off 7.4%, while Tesla's fell 2%.

Verizon announced it would acquire mobile workforce solutions company Fleetmatics Group for \$2.4 billion.

Verizon shares lost 1.6%, while Fleetmatics's stock surged by 39%.

Earlier, data painted a mixed picture of China's manufacturing sector, with one measure indicating that larger, state-owned companies were lagging and another indicating gains for smaller, private companies.

The Shanghai Composite Index fell 0.9%, but Hong Kong's Hang Seng gained 1.1%.

Japan's Nikkei Stock Average rose 0.4%.

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## BUSINESS NEWS

# Fighter Jet Close to Taking Flight

U.S. Air Force is about to declare F-35 finally ready for combat; critics assail program

By DOUG CAMERON

Five years behind schedule, the U.S. Air Force is this week expected to declare that the F-35 Joint Strike Fighter jet is finally ready for combat even as critics continue to rail against the most expensive military program in history.

The plane's builders and military officials will likely describe it as a milestone for a weapons program that was once hailed as the cheapest way to replace the aging U.S. fighter fleet.

But some critics question the plane's capabilities and argue the Pentagon is using the combat-ready status of a handful of planes as leverage to secure funding to build hundreds more jets.

The plane is designed to evade enemy radar and destroy missile defenses and provide a flying hub to control other forces. The Air Force is the largest customer of the jet and hopes to buy almost 1,800 costing around \$100 million apiece. Hundreds more are destined for the Navy, the Marine Corps, and international customers ranging from the U.K. to Turkey and Australia.

Builder Lockheed Martin Corp. said it expected to generate a fifth of its \$50 billion in sales this year from the



The Joint Strike Fighter program was once hailed as the cheapest way to replace an aging fleet.

F-35. That is expected to double by 2020 as output from the mile-long assembly plant in Fort Worth, Texas, rises to around 150 planes a year, if U.S. lawmakers and overseas buyers agree to fund the purchases.

But it arrives late following a troubled gestation as design problems doubled the total cost of the planned U.S. fleet to almost \$400 billion, plus an additional \$100 billion for overseas buyers.

"The plane can fly, but there's very little it can actually do," said Dan Grazier at the Project on Government

Oversight, a watchdog that has been a longtime critic of the program.

The Pentagon rejects the criticism, and said combat drills have proved the F-35 to be the most capable plane in its fleet even if all capabilities—including a full range of weapons—won't be available ahead of upgrades over the next several years.

The declaration of what the military calls initial operating capability means the first squadron of F-35A model jets based at Hill Air Force Base in Utah can now be called up to

fight. The Air Force said last week it may start using the plane in the Middle East next year, though its full capabilities won't be available until 2022. The U.S. Marine Corps declared its version of the plane ready last year, though the first jets aren't expected to be deployed in Asia until 2017.

Now-resolved design problems left suppliers such as Northrop Grumman Corp., BAE Systems PLC and engine maker Pratt & Whitney, a unit of United Technologies Corp., waiting to realize their investment in higher production.

## POLAND

Continued from the prior page of €500 million (\$559 million) for its first Mercedes-Benz plant in Poland, an engine factory. Pawel Stefanski, chief executive of the Polish unit of German industrial-equipment firm Balluff GmbH, said he and manufacturing firms he works with are "still positive" about business in Poland.

But others appear more wary. The German-Polish Chamber of Industry and Commerce's annual survey of German investors in the region, released in June, highlighted executives' unease. Respondents were much more bullish this year than last about Polish suppliers, infrastructure and workforce skills. But their ratings of Poland's political stability and the predictability of its economic policies plunged.

The European Central Bank in January criticized the bank tax, and Moody's Investors Service in May cut the outlook on Polish government bonds to negative from stable due to "fiscal risks" from increased spending and "impairments to the investment climate from a shift towards more unpredictable policies and legislation."

Renata Juskiewicz, chair-



An employee at a Hempel A/S coatings facility in Buk, Poland.

woman of the Polish Association of Commerce and Distribution, a group of big foreign and Polish retailers, said the industry faces "a huge problem" from the proposed retail tax, now in parliament, which increases depending on how much revenue the chain makes.

The government's aim, stated in campaigning last year, is to give smaller Polish stores a leg up against giant foreign chains such as Germany's Metro AG and Aldi and Britain's Tesco PLC. Ms. Juskiewicz said the tax violates European Union rules on equal treatment and will be challenged in court.

"This is absolutely discrimination and not a positive sign for us," she said.

The taxes on financial institutions and retail chains worry companies across the economy, said Michael Kern, managing director of the German-Polish chamber.

"Companies are waiting to see what will come next. We expect it will take some time before it becomes clearer," he

## HEARD

Continued from the prior page

Without enough money coming in the door, no business can survive. And, on that front at least, Tesla latching on to SolarCity is the equivalent of a shipwrecked man clinging to a piece of driftwood grabbing on to another man without one. Tesla burned through

50 cents of cash for each dollar of revenue in the past four quarters, while SolarCity consumed a whopping \$6.00.

In terms of actual cost-benefit for Tesla, bolting on SolarCity presents a double dose of danger. While it is being bought for stock, pending shareholder approval of the deal, it adds another cash drain when Tesla is spending heavily on starting production of its mass-market Model 3 se-

dan and finishing its battery "gigafactory." A more immediate danger is that skepticism about the deal casts more doubt on Tesla itself, dragging on its valuation. It can ill afford that as it makes raising fresh capital more dilutive.

Tesla's ability to raise cash has depended on credulous investors who have bought equity and convertible-debt issues at multiples of expected 2018 profit that are many

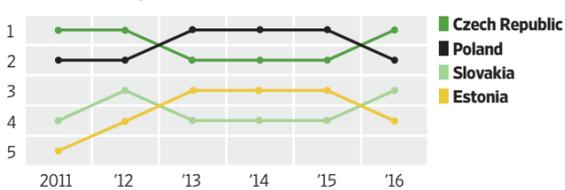
## Second Look

German investors in Poland like the market but are nervous about government policies, according to a recent poll.

Factors affecting business	Satisfaction level*	2015	2016
EU membership		73%	86%
Employee qualifications		65%	74%
Quality of local suppliers		59%	67%
Infrastructure		35%	55%
Political stability		51%	18%
Predictability of economic policies		16%	8%

Poland fell to second place behind the Czech Republic this year for investment attractiveness in the region, according to German investors.

### Selected ranking by country



\*Percentage of respondents selecting 'Satisfied' or 'Very Satisfied' in a survey of 351 German investors in Poland. Source: German-Polish Chamber of Industry and Commerce

THE WALL STREET JOURNAL.

said. Mr. Pawlak, the official at Poland's information and foreign investment office, said

the retail and financial taxes were the only ones in the party's platform. "We do not expect any new taxes," he said.

## DRIVE

Continued from the prior page tecting when a driver is veering off the road.

Tesla Chief Executive Elon Musk has rejected calls to disable his company's autopilot function, which steers cars more actively than those installed in other brands. But he has embraced one of the lessons from aviation: the importance of training users how to interact with complicated automation. Tesla has vowed to step up efforts to educate customers about the way its autopilots work.

The push toward self-driving vehicles has a long way to go to match advances in commercial planes. In theory, many jetliners can fly autonomously, except for taxiing to the gate and shutting off the engines.

Some computerized safeguards are designed to kick in automatically during particu-



Tesla advises drivers using the autopilot function to stay alert and keep their hands on the wheel.

larly dangerous types of emergencies, including engine failure during takeoff.

Airplane automation can also be calibrated to different

levels, based on crews' preference. That is supposed to keep pilots more aware and engaged. Airlines also require at least two pilots in cockpits,

and the one not manipulating the controls is trained to monitor the automated systems.

But psychologists and automotive experts say people

tend to be poor monitors, whether they are behind the steering wheel or flying in an aluminum tube miles above the Earth. So airlines have extensive visual and aural warnings in case something goes wrong.

For cars, it is essential to develop auto-drive systems sophisticated enough to recognize when a vehicle is swerving between lanes or performing other dangerous maneuvers, according to Martin Chalk, an Airbus A380 pilot and president of the International Federation of Air Line Pilots' Associations.

More important, according to Mr. Chalk, full-blown automation must be able to intercede to enforce highway rules and keep track of speed limits.

Automotive systems, however, need to avoid inundating operators with nonessential data, according to Yannick Malinge, product safety chief for Airbus Group SE. "A key point is to give information to the driver that he or she needs to

have, not what simply would be nice to have."

Mr. Malinge emphasized that Airbus has devised its flight-management computers so that during each phase of flight, they prominently display just the most relevant information. The system knows "what information you will need under various circumstances, and what isn't essential" to show pilots, he said.

To be sure, aviation has suffered from pilots relying unduly on cockpit automation. High-profile accidents include an Air France Airbus A330 that crashed into the Atlantic in 2009 after pilots were confused by automated warnings. A perfectly functioning Asiana Airlines Boeing 777 slammed down short of a San Francisco runway in clear weather four years later because the crew failed to monitor airspeed.

Drivers, of course, can't depend on simulators or a co-pilot for help. But Tesla advises drivers to stay alert and keep their hands on the wheel.

TECHNOLOGY

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# Financial Pressures Shaped Didi-Uber Deal

When Jenny Zeng invested in **Uber Technologies Inc.** last summer, and, as part of the deal, took a small stake in its China operation, she thought it likely that UberChina would end up merging with **Didi Chuxing Technology Co.**

"The two companies should have known it, too," said Ms. Zeng, managing partner of Magic Stone Alternative Investments, a Beijing-based firm that she founded in 2011. "It's inevitable as part of the consolidation trend in the Chinese internet industry."

This isn't hindsight. Ms. Zeng told me this not after learning the news on Monday that Didi is buying UberChina in exchange for about 20% of the enlarged company, but in mid-June. She was one of several investors with skin in the game who told me then that a merger, which seemed improbable to some, might be in the cards.

Their thinking sheds light on some of the forces that shaped Monday's deal. For one, China's internet is increasingly a game of giants. There are the big three that dominate the industry—Alibaba Group Holding Ltd., Tencent Holdings Ltd., and Baidu Inc.—but there also have been a string of mergers recently forming new big players. For instance, Meituan.com, China's version of Groupon.com, and restaurant-review app Dianping

Holdings Ltd., merged in October to provide offline services for online users. And Didi itself was born out of a merger early last year between former rivals Didi and Kuaidi.

Ms. Zeng said that when she invested, she thought UberChina had good momentum, but also that the huge amount of cash needed to battle Didi would lead the rivals into each other's arms. She figured that would provide a good exit path delivering good returns. She declined to say what her investment is valued at now.

Also driving a tie-up: cash isn't flowing as freely into China's tech sector as it was last year. Early-stage angels in China made 818 investments in the first half of 2016, 30% lower than the same period of last year, according to Beijing-based Zero2IPO Group. The number of venture investments also was down 30%, while the total value of disclosed deals was down 10% from the same period of last year, according to Zero2IPO.

UberChina gained significant market share after launching its ride-hailing service in Shanghai in early 2014, but at sizable cost. It has had a tough time raising new funding from Chinese investors recently and had to rely on its parent company to fund its loss-making operation, according to people familiar with the matter. Didi also has spent heavily, dating from the days when Didi and Kuaidi battled for market share before their merger in February 2015.

Though Didi and



Uber and Didi have been fierce competitors, but China's internet is increasingly a game of giants.

UberChina claimed that they were getting closer to profitability, it was hard to see how that was possible, especially for the much smaller UberChina. According to Beijing-based research firm Analysys International, Didi had 43.1 million active users in May while UberChina had 10.1 million. New regulations governing the sector, issued just last week, would make it even harder to try to gain market share by barring companies from operating below cost.

For example, an Uber ride I took last Wednesday from the Beijing airport to a hotel in the city cost 52 yuan

(\$7.82), or 20 yuan cheaper than my return trip on Sunday on a taxi, even though the Uber ride experienced worse traffic. As I was writing this column, I got a message from UberChina, offering a carpooling ride within the distance of five kilometers (3.1 miles) for five yuan (75 cents) only.

While I was in Beijing, I used Didi to call a taxi but didn't use its ride-hailing service because it was more expensive than Uber. I used Didi more when they gave me coupons. Most Chinese consumers are like me—there is no brand loyalty to

speak of.

Investors know this means endless, costly battles, and were increasingly reluctant to throw in additional cash for the companies to burn, said an investor whose fund invested in Didi. In addition, the need to fund those battles meant that earlier Didi investors were seeing their stakes diluted. Didi raised \$7.3 billion in its latest funding round that valued the company at \$28 billion. After Monday's deal, Didi will have a valuation of around \$36 billion when combined with UberChina's business that was valued at

around \$8 billion. "We didn't make money in this merger or last funding round," said the Didi investor.

Since few Chinese funds are big enough to feel comfortable investing in startups as big as Didi, some early Didi investors also worried that the company would have a tough time finding future investors if it kept losing money.

For Uber, the Didi deal is a sort of retreat, but certainly doesn't mean its foray into China is a failure.

UberChina's 20% stake in Didi already is being compared with Yahoo's early investment in Alibaba, which turned out to be the most valuable asset for Yahoo.

Deteriorating exit options for Chinese startups also could be another factor for UberChina's sale to Didi. An initial public offering for UberChina in China is increasingly unlikely as the securities regulator tightened rules in initial public offerings. The wait time for an IPO, if approved, could be two to three years.

Chinese regulators require companies to win government approval before they can list, and also require that companies be profitable before listing.

So some investors are very happy about the sale. "The essence of business is making money," said Ms. Zeng, the Uber investor. "It's about creating value for shareholders, employees and customers."

Follow Li Yuan on Twitter @LiYuan6 or write to [li.yuan@wsj.com](mailto:li.yuan@wsj.com).

## Gawker's Denton Files for Bankruptcy

By Tom Corrigan

Nick Denton, who founded **Gawker Media LLC** out of his apartment in 2002, filed for personal bankruptcy Monday, following a bruising legal battle with former professional wrestler Hulk Hogan.

Mr. Denton filed for chapter 11 protection at the U.S. Bankruptcy Court in New York, which will automatically freeze any legal action against him and prevent Terry Bollea, the wrestler's actual name, from collecting a \$140 million invasion-of-privacy judgment a jury awarded earlier this year.

The judgment, which is being appealed, led Gawker to file for chapter 11 protection in June.

Mr. Denton's personal bankruptcy follows a final blow from a Florida judge in a string of legal defeats, which left the media executive with little choice but to seek court protection. Last Friday, a Florida judge refused an emergence plea by Mr. Denton to protect him from the judgment. The Gawker founder is personally liable for \$10 million of the judgment and jointly liable, along with former Gawker editor A.J. Daulerio, for another \$115 million.

Mr. Denton, who listed as-



Nick Denton, founder of Gawker Media, in March. He was found liable in an invasion-of-privacy case.

sets of less than \$50 million in his chapter 11 petition, has said he can't afford to pay the judgment. Mr. Bollea's litigation is being funded by Silicon Valley billionaire Peter Thiel, who was outed as gay in 2007 by Gawker's now-defunct Valleyway blog.

Mr. Thiel has acknowledged backing a number of lawsuits against Gawker, Mr. Denton and other former writers.

Mr. Bollea sued Gawker, Mr.

Denton and other current and former Gawker employees after the blog published a video of Mr. Bollea having sex with the wife of a Florida radio shock jock.

"On this bitter day for me, I am consoled by the fact that my colleagues will soon be freed from this tech billionaire's vendetta," Mr. Denton said in a tweet on Monday.

Mr. Denton asked courts in both Florida and New York to

step in and block the jury award while it works its way through appeals courts, but judges in both states refused.

Lawyers for Messrs. Denton and Daulerio said the duo should be able to pursue an appeal without facing financial ruin.

David Houston, a lawyer for Mr. Bollea, said Monday "the time has come for Nick Denton to accept responsibility for the decisions he made..."

## Business News

**AMC ENTERTAINMENT**  
**Slow Summer Hurts Theater Chain's Net**  
AMC Entertainment Holdings Inc. reported that revenue and profit fell amid a weak quarter industrywide as the movie-theater owner works to buy two other chains and become the world's largest.

AMC has been trying to complete a deal with U.S. theater chain **Carmike Cinemas Inc.** since March. Last week, AMC sweetened its offer to more than \$800 million. In July, AMC said it would acquire Europe's largest cinema chain, **Odeon & UCI Cinemas Group**, for £500 million (then about \$650 million).

In the quarter, AMC said total attendance dropped 7.1% as family-oriented films such as "The Jungle Book" and "Finding Dory" couldn't overcome last year's action-packed thrillers such as the Jurassic Park and Avengers movies.

AMC posted a profit of \$24 million, or 24 cents a share, compared with a profit of \$43.9 million, or 45 cents a share, a year prior. Revenue fell 7% to \$764 million.

—Austen Hufford

**TRANSOCEAN**  
**Drilling Firm Buys Back Limited Partnership**

Swiss offshore drilling company **Transocean Ltd.** agreed to buy back the master limited partnership that it formed two years ago, under pressure from Carl

Icahn, in a deal that values **Transocean Partners LLC** at about \$514 million. Transocean, which owned nearly 52% of Transocean Partners common stock, agreed to swap 11427 of its shares for each unit of the master limited partnership. Based on the closing prices Friday, the offer values Transocean Partners at \$12.56 a share, a 15% premium to stock's closing price of \$10.92.

Transocean Partners' initial public offering was priced at \$22 in the summer of 2014. When Transocean first announced plans

for the IPO, it made other moves to placate activist investor Mr. Icahn, including a dividend and a smaller board of directors.

However, the subsequent slump in oil prices caused energy producers to dial back investment and exploration plans, prompting two years of spending cuts, canceled projects and tens of thousands of layoffs.

—Brittney Laryea

**VERIZON COMMUNICATIONS**  
**Telecom Continues To Diversify Holdings**

Verizon Communications Inc. said Monday that it agreed to acquire mobile workforce-solutions company **Fleetmatics Group PLC** for \$2.4 billion, widening Verizon's fleet operations as it looks to diversify. The deal, at \$60 a share in cash, represents a nearly 40% premium to Fleetmatics closing price Friday of \$42.96. Shares of Fleetmatics rose 38.7% to \$59.59 in midafternoon trading in New York.

The Dublin-based company's web-based GPS tracking systems allow fleet operators to monitor vehicle location, fuel usage, speed and mileage, and other insights into their mobile workforce.

—Joshua Jamerson



'The Jungle Book' couldn't overcome last year's action thrillers.

### ADVERTISEMENT

## The Mart

### ANNOUNCEMENTS

#### INVITATION TO SUBMIT BINDING OFFERS

The Hellenic Republic Asset Development S.A. ("HRADF") invites interested parties to submit binding offers for the acquisition of 100% of the share capital of the "HELLENIC COMPANY FOR ROLLING STOCK MAINTENANCE S.A." ("ROSCO" or "Company")

#### 1. Introduction

By virtue of the decision No 239/12.08.2013 (Government Gazette B' 2014/16.08.2013) of the Inter-ministerial Committee for Asset Restructuring and Privatisations, the Hellenic Republic ("HR" or "State") decided to proceed with the privatisation of ROSCO through the sale of shares representing 100% of the Company's share capital. Moreover, by means of same decision, shares representing 100% of the Company's share capital were transferred to HRADF. By virtue of a decision of its Board of Directors adopted on 24.07.2013, HRADF has decided, to sell shares corresponding to 100% of the share capital of ROSCO and approved the process for the privatisation of the Company through a competitive tender process which has been fruitless. By virtue of a decision of its Board of Directors adopted on 21 July 2016, HRADF has decided to re-launch the privatisation process through a competitive tender process for the sale of shares corresponding to 100% of the share capital of ROSCO through a single-phase competitive tender process ("Tender Process").

By virtue of the present document ("Process Letter"), HRADF invites interested parties to submit, either as single legal entities or as consortia (each an "Interested Party"), binding offers for the acquisition of shares corresponding to 100% of ROSCO's share capital ("Transaction"). Capitalised terms used in this announcement and not otherwise defined shall have the meaning given in the Process Letter.

#### 2. ROSCO overview

ROSCO operates as a company providing maintenance, repair and reconstruction services in respect of rolling stock for railways and other track-based systems. ROSCO is currently the sole provider of rolling stock maintenance services in Greece.

ROSCO was established as an independent corporate entity in 2013, via a spin-off of the rolling stock maintenance business unit of OSE S.A. ("OSE"), the manager of the Greek National Railway Infrastructure. In particular, by virtue of article 24 (1) and (2) of Law 4111/2013 (Official Gazette A' 18/25.01.2013) and the Joint Ministerial Decision of the Ministers of Finance, Development and Competitiveness, Employment, Social Security and Welfare, Infrastructure, Transport and Networks and Environment, Energy and Climate Change No. 1661/09.08.2013 (Government Gazette B' 1993/14.08.2013), the rolling stock maintenance business unit of OSE was transferred via a spin off to a new company (ROSCO) and 100% of the shares in ROSCO were issued to the HR.

The Company has entered into the following main contracts: (i) a long-term maintenance contract with TRAINOSE - TRANSPORT - PASSENGERS AND FREIGHT TRANSPORT SERVICES S.A. ("TRAINOSE"), which is currently the sole provider of traction services for the rail transportation of passengers and freight in Greece, for the maintenance of the rolling stock used by TRAINOSE; and (ii) a long-term agreement for the lease of selected real estate assets (currently owned by HR and managed by GAIAOSE) which are required for the provision of maintenance services.

#### 3. Tender Process - Qualification

Each Interested Party wishing to participate in the Tender Process should express its interest ("Expression of Interest") by submitting the documentation specified in the Process Letter ("Qualification Documents") from 22 July 2016 and by no later than 17:00 Athens time (GMT +2) on 12 September 2016. ("Qualification Deadline").

Interested Parties should meet the financial capacity criteria set out in the Process Letter and in particular Interested Parties will need to demonstrate that the average annual consolidated equity position (calculated as total consolidated net assets less total consolidated liabilities) for the most recent three (3) audited financial years exceeds Euro fifty million (€ 50,000,000). In case the Interested Party is a private equity firm or a fund, it will need to demonstrate that the sum of active and un-invested/uncommitted funds for the latest financial year exceeds Euro one hundred million (€ 100,000,000). In the case of a consortium, the Financial Capacity Criteria must be fulfilled by each consortium member pro rata to its stake in the consortium.

Interested Parties should also meet the technical capacity criteria set out in the Process Letter and, in particular, they need to demonstrate that during the most recent three (3) audited financial years: (i) its average annual turnover realized from the provision of maintenance services of traction equipment (electric and diesel locomotives), train sets (EMU, DMU) and freight cars (the fleet maintained must comprise all of the above RS types), such maintenance services provided by Interested Parties must include: (a) maintenance of locomotives and train sets produced by at least two manufacturers; and (b) integrated maintenance of rolling stock (entire train sets and/or individual vehicles and not just vehicle components). In the case of a consortium, the Technical Capacity Criteria must be fulfilled by the Leader.

HRADF will immediately determine whether or not an Interested Party who submits an Expression of Interest qualifies to participate in the Tender Process ("Qualified Investor") on the basis of the Financial and Technical Capacity Criteria and the other terms and conditions set out in the Process Letter. Each Interested Party will be notified in writing by HRADF of whether or not it is qualified to participate in the Tender Process.

#### 4. Tender Process - Post Qualification

Upon its qualification each Qualified Investor will be required to sign a confidentiality agreement to be provided by the HRADF. Following the execution of the confidentiality agreement, each Qualified Investor shall be granted immediate access to the VDR, the opportunity to participate to site visits and/or attend management presentations and the opportunity to provide comments on the draft Share Purchase Agreement for the acquisition of ROSCO and participate in meetings or calls to discuss matters related to such agreement.

The submission of the Binding Offers must take place as per the terms and conditions of the Process Letter, by 17:00 (Greek time) on 31 October 2016 ("Submission Deadline"). The sole criterion for the evaluation of the Financial Offers will be the Euro amount of the Financial Consideration. The Financial Consideration must be binding and unconditional.

#### 5. Clarifications to the Process Letter

Interested Parties and Qualified Investors may at any time submit by e-mail or by fax requests for clarification of the Process Letter to the Financial Advisor (Mr. Aimilios Stasinakis at Investment Bank of Greece S.A., 6 Amerikis Street, 106 71 Athens, Greece, tel: +30 210 8173279, email: [astasinakis@ibg.gr](mailto:astasinakis@ibg.gr)).

#### 6. Other terms and conditions

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BUSINESS NEWS

# Heineken Warns of Slack in Africa

Brewer posts earnings that reflect strength in Asia; other emerging markets weaken

By MAARTEN VAN TARTWIJK

AMSTERDAM—After years of brisk growth, Heineken NV is experiencing a slowdown in Africa that could bite into its global earnings for some time.

The world's third-largest brewer by sales said on Monday that a strong performance in Asia helped it to post earnings in the first half that beat market expectations. But weaker developing markets, particularly in Africa, are expected to weigh on profit the remainder of the year, it said. Heineken's shares were down more than 3% on Monday.

The Africa, Middle East and Eastern Europe division, which accounts for roughly 20% of group beer sale volumes, was the weak spot in Heineken's latest earnings report.

The unit posted a 19% drop in operating profit before exceptional items to €267 million (\$298 million), while organic volumes fell by 1% in the period. Amsterdam-based Heineken blamed the slowdown in Africa on a raft of challenges, ranging from negative currency developments and falling commodity prices to high inflation and weaker tourism.

Like other large global brewers, Heineken has expanded into Africa as it seeks to benefit from the region's growing middle class and youth. But the weakening of some African economies, largely because of a collapse in commodity prices, has made the region a drag on growth in recent quarters.

In Nigeria, Africa's largest economy and Heineken's biggest market in the region,



Inside a Heineken brewery in Hungary. The company expects its annual operating profit to increase, despite some signs of adversity.

sales and margins are under pressure as the oil-producing country struggles with lower crude prices, resulting in a shrinking economy and depreciating currency.

Heineken is also experiencing difficulties in Congo. The brewer took a €233 million impairment on its operations, reflecting a weaker economic outlook prompted by lower commodity prices and political uncertainty. It recorded a mid-single digit decline in vol-

umes. In an interview, Chief Executive Jean François van Boxmeer said the problems in Africa started to emerge last year after more than a decade of growth. The weakness is expected to continue in the medium term, he said. "We have to take a little dip here, it is very difficult to predict how long it will last."

However, Mr. van Boxmeer said he remains optimistic on Africa's long-term prospects.

Overall, Heineken reported a profit of €586 million, down from €1.14 billion a year earlier when the bottom line was lifted by an asset sale. Earnings for the first six months of this year before exceptional items were €977 million (\$1.1 billion), up 7% from a year earlier, while revenue rose 2% to €10.1 billion. The profit increase was driven by a robust performance in Asia, which has been an important pillar of growth in recent years.

Operating profit in the Asia Pacific region rose 39% in the quarter, while organic revenue rose 12%, lifted by strong growth in Vietnam, Indonesia and Cambodia.

Heineken's operating profit margin grew by 1.2 percentage points to 16.9%, but the brewer stuck to its full-year guidance of a 0.4 percentage-point expansion, pointing at "adverse economic conditions" in some emerging markets and negative currency effects.

# Armani Sets Path for Fashion House's Future

By DEBORAH BALL

MILAN—Giorgio Armani is planning to create a foundation, with the intent of laying the groundwork for the future of his fashion house.

In a communiqué issued Friday, the 82-year-old designer said the foundation would safeguard the group he founded 40 years ago and ensure that the house remains "consistent with some principles that are particularly important to me."

The future of the iconic Italian fashion house has long

been a question, given the tight control that Mr. Armani, who is its sole shareholder, maintains over his brand. He is still deeply involved in the day-to-day management of the group and hasn't designated an heir.

While he has long mulled the establishment of a foundation as a solution for when he steps down or passes away, he hadn't formally announced such a move until Friday.

Succession issues have long bedeviled Italian family-owned companies, particularly in the fashion sector.

The death of Gianni Versace in 1997 set that house on a path to near-destruction after his sister Donatella took the creative reins. The company fi-

**Succession issues have long bedeviled Italian family-owned companies.**

nally emerged from a brush with bankruptcy about a decade later but has remained a relative minnow among the

biggest fashion brands.

The Gucci brand also suffered a long decline because of squabbles within the founding family before being revived in the 1990s by outside investors.

Mr. Armani has long avoided the merger and acquisition fever that first swept the fashion sector in the 1990s and that has produced colossal multibrand businesses such as LVMH Moët Hennessy Louis Vuitton SE and Kering SA.

The owners of both fashion conglomerates have courted Mr. Armani over the years, trying to persuade him to sell and

setting forth rich offers. But he has consistently repudiated them, arguing that megagroups tend to erode the values of the labels they buy.

In his statement, Mr. Armani said the company must remain committed to "innovation and excellence" and enjoy "appropriate investments, prudent and balanced financial management, limited recourse to debt and a careful approach to acquisitions."

According to Forbes, Mr. Armani is worth more than \$6 billion, making him one of the richest people in Italy.

# Publicis Places a Senior Executive on Leave

By SUZANNE VRANICA

Advertising giant Publicis Groupe has placed Kevin Roberts, one of its top lieutenants, on leave following comments he made that were dismissive of the raging debate over gender diversity on Madison Avenue.

In an interview with Business Insider published Friday, Mr. Roberts said the debate about gender equality is "over" and he doesn't spend "any time" on the issue at his company. Mr. Roberts, who is currently executive chairman at Saatchi & Saatchi and head coach at the ad agency's parent company Publicis Groupe, said the gender issue is "way worse" in industries such as financial services.

"We have a bunch of tal-

ented, creative females, but they reach a certain point in their careers ... 10 years of experience, when we are ready to make them a creative director of a big piece of business, and I think we fail in two out of three of those choices because the executive involved said: 'I don't want to manage a piece of business and people, I want to keep doing the work,'" Mr. Roberts said during the interview.

Publicis Groupe Chief Executive Maurice Lévy condemned Mr. Roberts's remarks. "It is for the gravity of these statements that Kevin Roberts has been asked to take a leave of absence from Publicis Groupe effective immediately," he said in a statement Saturday. "Diversity & inclusion are business impera-

tives on which Publicis Groupe will not negotiate," the statement continued. "Promoting gender equality starts at the top and the Groupe will not tolerate anyone speaking for our organization who does not value the importance of inclusion."

The company said that its supervisory board will evaluate Mr. Roberts's standing. Mr. Roberts couldn't be reached for comment.

A long-time Publicis executive, Mr. Roberts is a well-known ad executive whose career has also included stints at Procter & Gamble Co. and PepsiCo Inc. While the lack of diversity in Hollywood and Silicon Valley has attracted national attention recently, the ad industry has been grappling with the issue for de-



Kevin Roberts of Publicis

cadecades. However, the issue boiled anew early this year after J. Walter Thompson's chief communications officer filed a harassment lawsuit against former CEO Gustavo Martinez

in March. The high-profile suit has sparked heated discussions in the advertising industry about the number of women and minorities in positions of power.

Mr. Roberts argued, in the Business Insider interview, that agencies are misunderstanding how women view success. "Their ambition is not a vertical ambition; it's this intrinsic, circular ambition to be happy," he is quoted as saying in the article. "So they say: 'We are not judging ourselves by those standards that you idiotic dinosaur-like men judge yourself by.' I don't think [the lack of women in leadership roles] is a problem. I'm just not worried about it because they are very happy, they're very successful, and doing great work."

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## Legal Notices

PUBLIC NOTICES

THE CAYMAN ISLANDS COMPANIES LAW (As Amended)  
NOTICE OF APPOINTMENT OF PROVISIONAL LIQUIDATOR  
Mongolian Mining Corporation (In Provisional Liquidation)  
Grand Court of the Cayman Islands Cause No FSD 99 of 2016

TAKE NOTICE that by order of the Grand Court of the Cayman Islands, made on 19 July 2016, Mongolian Mining Corporation, registration number 240791 whose registered office is situated at c/o PwC, PO Box 258 18 Forum Lane, Camana Bay, Grand Cayman KY1-1104, Cayman Islands, was placed in provisional liquidation and Mr. Simon Conway of PwC Corporate Finance & Recovery (Cayman) Limited, P.O. Box 258, 18 Forum Lane, Camana Bay, Grand Cayman, KY1-1104, Cayman Islands and Mr. Christopher So Man Chun of PricewaterhouseCoopers Ltd., 22/F Prince's Building, Central, Hong Kong, have been appointed as Joint Provisional Liquidators of the Company.  
Dated this 28 day of July 2016.

Simon Conway  
Joint Provisional Liquidator  
Contact for Enquiries:

Name: Ben Henshillwood  
Email: [mongolian.mining@kly.pwc.com](mailto:mongolian.mining@kly.pwc.com)  
Telephone: +1 (345) 914 8743  
Facsimile: +1 (345) 945 4237  
Address for Service: PO Box 258, Grand Cayman, KY1-1104, Cayman Islands

# McDonald's to Replace Bun Sweetener

By JULIE JARGON

OAK BROOK, Ill.—McDonald's Corp. said Monday it will replace high-fructose corn syrup in its sandwich buns with sugar as part of an effort to simplify its ingredients and satisfy increasingly conscientious consumers.

The fast-food giant also is rolling out Chicken McNuggets and some breakfast items free of artificial preservatives and said it has curbed a year earlier than planned the use of chicken raised with antibiotics that are also commonly used on humans.

Mike Andres, president of

McDonald's U.S. operations, said the "sweeping change" will affect 50% of the U.S. menu. McDonald's is in the midst of a turnaround attempt designed to satisfy diners who have asked it to do away with ingredients including high-fructose corn syrup, which some research suggests may cause weight gain and diabetes.

The burger chain also is racing to keep up with rivals who have been quicker to embrace the so-called clean-label movement. Food makers from General Mills Inc. to Yum Brands Inc.'s Taco Bell have begun stripping their products of ingredients that have made

many customers wary.

Since taking over as chief executive last year, Steve Easterbrook has pushed McDonald's to improve its familiar product offerings. McDonald's last year returned to its original Egg McMuffin recipe, which calls for butter instead of liquid margarine.

The chain has pledged to make other changes aimed at showing that its food is less processed and more humanely sourced than consumers may realize. McDonald's has run ads showing that its breakfast items are made with freshly cracked eggs and plans to stop using eggs from chickens

# Alphabet And Glaxo Team Up on Treatments

By DENISE ROLAND

LONDON—GlaxoSmithKline PLC and Google parent Alphabet Inc. have teamed up to develop what they call bio-electronic medicines, or treatments that use miniature implanted electronic devices to modify how electrical impulses are transmitted around the nervous system.

The U.K. pharmaceutical company said it had signed an agreement with Verily Life Sciences LLC, formerly Google Life Sciences, to create Galvani Bioelectronics. It said the pair would spend as much as £540 million (\$714 million) over seven years on the venture, provided they succeeded in hitting various milestones along the way. Glaxo will control 55% of the new company and Verily will hold the rest.

Many biological processes are controlled by electrical signals transmitted from the nervous system to the body's organs. Glaxo said early-stage research in its laboratories suggested that distortions of those signaling pathways were involved in several long-term diseases including diabetes, asthma and arthritis.

Galvani Bioelectronics would bring together Glaxo's knowledge of drug discovery and development with Verily's expertise in miniaturizing low-power electronics, data analytics and building software for clinical applications, Glaxo said.

Initial work would focus on developing miniature electronic devices to test out that concept in humans for the first time, Glaxo said.

The treatment would likely work by attaching miniature electronic devices to individual nerves, said Moncef Slaoui, Glaxo's head of vaccines and chairman of Galvani Bioelectronics.

"If successful, this approach offers the potential for a new therapeutic modality alongside traditional medicines and vaccines," Mr. Slaoui said.

Several pharmaceutical companies have teamed up with Google's parent to develop new digital approaches to medicine. Novartis AG is working with the tech company to develop a "smart contact lens" for diabetes patients that can monitor blood glucose levels in tears.

Sanofi SA is also working with Google on new ways to monitor and treat diabetes.

Kris Famm, who heads up Bioelectronics research at Glaxo, will be president of the new company. Andrew Conrad, chief executive of Verily, will sit on Galvani's board.

Galvani Bioelectronics will be based at Glaxo's research center in Stevenage in the U.K., with a second research hub at Verily's facilities in San Francisco, Glaxo said.

The U.K. government said that decision demonstrated the "global appeal" of Britain's scientific expertise.

It is the second time Glaxo has announced a large investment in the U.K. since Britons voted to leave the European Union in a referendum in June.

Last week, the company said it would spend £275 million to increase capacity at three of its U.K. factories, a decision Chief Executive Andrew Witty said was made despite Britain's Brexit vote.

—Tapan Panchal contributed to this article.

# FINANCE & MARKETS

## Optimism for U.K. Growth

Some economists see a refocusing of British trade after Brexit and a rebalancing of the economy

By Mike Bird

Britain's vote to leave the European Union will lead to an economic downturn and possibly even a recession, most economists say.

But not all. Some—many of them avowed Brexit supporters—argue that leaving the bloc will refocus British trade on higher growth regions while helping rebalance the economy toward manufacturing and away from its debt-laden consumer and risky banking sector.

That contrasts with the consensus, which predicts Brexit will damage the U.K. by taking it out of a tariff-free zone with its biggest trading partners while deterring foreign companies, particularly banks, from using Britain as their European base. The uncertainty over divorce negotiations between London and Brussels, meanwhile, will sap investment and spending.

On Monday, the latest business survey from IHS Markit

showed that economic activity in the manufacturing sector is contracting at its fastest pace in three years. But the U.K. still is waiting for a clear verdict from economic data.

The message from economists who supported Brexit is: Don't get too nervous.

"The men and women who populate industrial and commercial Britain were all told that end demand would collapse, and their buying behavior has reflected that," said Savvas Savouri, chief economist at hedge fund Toscafund. "When they realize they've done that unnecessarily, they'll be manically bidding for goods to restock their inventories."

Brexit presents economic opportunities, according to a small coterie of mainly British-based economists.

Britain can pivot itself away from the low-growth EU toward more dynamic economies, such as the emerging giants of Asia. The U.K. exports more goods to Ireland, with a population of 4.6 million, than to China.

Critics of the EU also argue the bloc has been particularly poor at negotiating trade deals. After six years of negotiation the EU still hasn't struck a trade deal with Canada.

"The EU record on trade deals was absolutely atrocious," said Gerard Lyons, the former chief economist at Standard Chartered.

"In part, the referendum was about a mindset change to very much focus on the fast-growing and large economies in the world," said Mr. Lyons, who is also co-chairman of the group, Economists for Brexit.

For years, British politicians have talked of rebalancing Britain's economy toward manufacturing, which currently accounts for only 10% of GDP. Now, here is the chance, pro-Brexit economists say.

Since the June 23 referendum, sterling has declined by more than 10% when compared with a basket of currencies that the U.K. trades most regularly. That makes British exports more competitive and

imports more expensive.

Capital Economics, whose executive chairman is Roger Bootle, the co-chairman of Economists for Brexit, has raised its export growth forecasts to 9% and 10.2% in 2017 and 2018, respectively. Before the vote, the forecasts were 7.9% and 9.2%.

But the evidence is mixed on the effects of a weaker pound on exports. The pound's plummet in 2008, during the financial crisis, didn't lead to a boost for exports. But that came amid a global downturn. In 1992, a steep fall in sterling did boost exports. But that was almost 25 years ago.

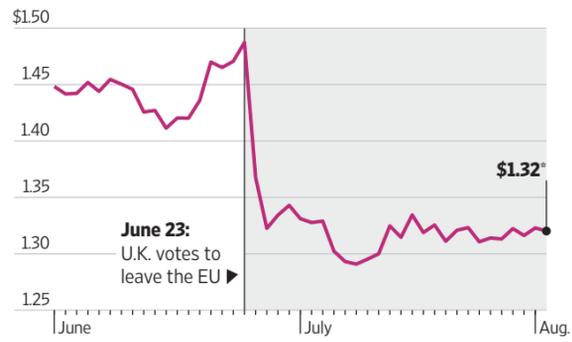
Phil Whyman, a professor of economics at the University of Central Lancashire, argues Brexit will benefit manufacturing in other ways. The U.K. will be able to encourage this sector in a manner that once contravened EU competition rules, he said.

Those rules mean the government can't, for instance, offer preference to U.K. compa-

### Scalded

The British pound has slumped, reflecting the consensus that the U.K.'s exit from the EU will damage its economy.

How many U.S. dollars £1 buys



\*Through 5:15 p.m. Monday in London  
Source: WSJ Market Data Group

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nies when tendering public contracts. Likewise, attempts to foster selected industries through subsidies often run afoul of state aid rules.

Some economists also believe that a smaller banking sector won't necessarily be a bad thing. "It's good that we have a comparative advantage, but we're also left overexposed to financial crises," Prof. Whyman said.

At the end of 2015, U.K. bank assets were equivalent to

269% of GDP, according to data from the Bank for International Settlements, and the World Bank. In Germany, the equivalent figure is 147% and in the U.S. it is 76%.

Other economists say the banking industry is key. For a start, it contributes as much as 8% of GDP.

Instead, its potential migration to other parts of the EU, from where banks can passport services across the region, will be a big loss.

## Pakistan Beckons as Investors Hunt Returns

By Mia Lamar and Carolyn Cui

Ross Teverson, head of emerging-market strategy at \$49 billion money manager Jupiter Asset Management, has a new star pick: Pakistan.

The country wasn't even considered an emerging market when he decided to invest. Until earlier this summer, it was a rung lower—a "frontier" market, where stocks are notoriously hard to trade and the political climate is tumultuous. And yet, the benchmark KSE-100 stock index is up 20% in dollar terms this year, Exhibit A in how far global investors are willing to go for returns these days.

Sluggish growth in developed economies has prompted central banks to push interest rates down to zero and beyond, wiping out yields on government debt and sending investors into all sorts of fringe or previously unloved markets such as Pakistan's.

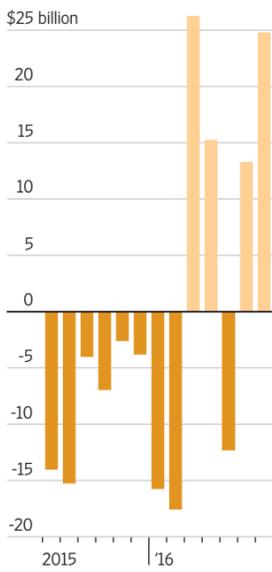
By estimates, since March more than \$67 billion has poured into a group of 30 emerging markets tracked by the Institute of International Finance. That number doesn't include money heading to markets such as China and Russia, where information on foreign buying is limited.

"Investors have had to go further down the risk spectrum," said Supriya Menon, senior multiasset strategist at \$153 billion money manager Pictet Asset Management.

Alex Muromcew, who manages the TIAA Emerging Markets Equity Fund, has been increasing his fund's exposure to Peru, a fringe investment even among emerging-market specialists. The country has attracted attention with a new president who is seen as market friendly. Stocks there are up

### Pouring In

Net monthly emerging-market flows since July 2015.



Sources: Institute of International Finance; Bloomberg News (photo)

56% this year in dollar terms.

Bond prices in Ecuador have rallied 27% this year, despite an energy-price slump that has cut revenue for the oil exporter. Hungary's stock market is up 16%, beating most European bourses, as investors bet that falling inflation will allow the central bank to ease monetary policy.

Interest is even high in junk-rated Sri Lanka, which reached a deal with the International Monetary Fund in April to stave off a financial crisis. Foreigners have boosted their holdings of Sri Lanka's local-currency government debt for six straight weeks, according to HSBC Holdings PLC.

Over a single week in July, foreign investors poured more than \$5.5 billion into Indonesia, India and five other major



emerging stock and bond markets tracked by the Institute of International Finance, the biggest one-week influx of cash in 15 months. Emerging-market debt funds drew a record \$14 billion in the four weeks ended July 27, according to fund tracker EPFR Global.

There are limits to how much money these markets can absorb, and analysts warn that investors have probably underestimated the risks. Many emerging economies still rely heavily on commodity exports, making them vulnerable to continued weakness in global growth.

"They might find liquidity to be an issue in emerging markets when there is a need to sell," said Sean Ryan, senior analyst at MPI, a global provider of quantitative research and

risk analytics.

Emerging-market stocks and local-currency bonds sustained losses from 2013 to 2015, as investors pulled out billions of dollars. The MSCI EM index fell 25% over that period, compared with a 52.6% gain for the S&P 500 index. The J.P. Morgan Global Bond Index Emerging Markets Diversified lost 27%, while U.S. Treasury bonds rose 3.4%.

Peru's \$109 billion stock market is among the most volatile of all emerging markets. During the past three years, the market lost nearly half of its value, according to MSCI Inc.

Bond investors also have to wrestle with deteriorating credit quality. There have been 19 defaults in emerging countries this year, up from 15 at the same time last year, accord-

ing to S&P Global Ratings. Nearly one-third of all emerging-market issuers are at the risk of being downgraded.

But an easing of concerns about China's economic slowdown, along with a rebound for commodity prices from their lows early this year, has helped encourage the return to riskier markets. Analysts and investors widely say they expect inflows to continue.

"Emerging markets have been broadly out of favor with global investors for the better part of four years," said Mr. Teverson, whose investment in Pakistan helped his fund gain 17% this year through June. "When you have seen an asset class out of favor for so long and you see valuations so low, that inflow can be sustained for a long period."

## U.S. Crude Falls 22% From High In June

By Timothy Puko

U.S. oil prices fell into a bear market Monday, settling at \$40.06 a barrel, down 22% from a June high.

Crude for September delivery fell \$1.54, or 3.7%, on the New York Mercantile Exchange. Its recent high was \$51.23 on June 8. Brent crude, the global benchmark, lost \$1.39, or 3.2%, to \$42.14 a barrel on ICE Futures Europe. It is down 19.75% since June 8.

A global gasoline glut, early signs of additional production in the U.S., and rising output from the Organization of the Petroleum Exporting Countries have dragged down oil prices. The number of working rigs in the U.S. has increased in eight of the past nine weeks, adding to a sense that the oversupply problem of the past two years isn't abating.

Over the weekend, Saudi Arabia Oil Co. cut its export price to Asia by the most in 10 months, analysts and a broker said. And new data show Iraqi and Iranian oil production increased in July. Russian output

**Gasoline demand in the U.S. grew about 2.5% from January to May.**

has also been on the rise for three straight months, while U.S. production appears to be coming in above weekly government estimates, analysts at Citigroup Inc. said in a note Monday. All of this means that oil could fall further before there is a chance of a recovery next year, they said.

"This crude overhang is materializing just as a gasoline glut is pressuring refinery margins," they said.

Many expert refineries to slow their oil purchases in coming weeks because they have produced even more gasoline and other fuels than even record demand could absorb. Refineries also usually slow down their operations in the fall for maintenance, and many expect the outages to be more prolonged this year because of the glut.

The recent selloff accelerated last week after U.S. gasoline stocks rose 452,000 barrels to hit nearly 242 million barrels in the week ended July 22, a time of the year when gasoline stockpiles usually diminish.

Government data in the U.S. show demand there from January to May grew by about 2.5%, but weekly data released in May had suggested that the increase would be almost twice that level, they said. Floods in China are also hitting major areas for consumption and could reduce demand there by about 100,000 barrels a day.

## Visa Partnership Puts PayPal on the Defensive

By Telis Demos and Robin Sidel

Two months ago, Visa Inc. Chief Executive Officer Charles Scharf told analysts that Visa and PayPal Holdings Inc. could go through one of two doors. One was a partnership. "The other door is where we go full steam and compete with them in ways that people have never seen."

The companies chose door No. 1.

PayPal, the internet payments pioneer spun off from eBay Inc. last year, announced July 21 that it would end its long-running fight to steer some customers away from using Visa and other cards. In exchange, the credit-card company agreed it wouldn't increase fees to PayPal and would provide it with a new way to accept payments in stores via smartphone taps.

The pact, though anticipated by many investors, sparked a selloff in PayPal shares that has put the fast-growing company and CEO Dan Schulman on the defensive. It also underscored

that in the battle between Silicon Valley and entrenched financial firms, the newer players may eventually ally with firms they once hoped to compete against.

"When it first started, I saw PayPal as a disruptor, but now [it's] more a part of the traditional ecosystem," said Ned Elton, chief growth officer of PEX, a business payments startup. "Visa is ubiquitous, and it's tough to overcome that."

Following the deal's announcement, PayPal shares had fallen 7% through Friday, and the consensus analyst forecast for 2017 earnings fell to its low. PayPal executives sought to quell concern on a previously scheduled private call with analysts after the release, telling analysts they were "disappointed" by the reaction, according to a person familiar with the call.

While the business of handling payments without cards has been lucrative for PayPal, company officials say it is already less of a focus, in part because of new rules that reduced debit-card fees. They argue that



PayPal, led by Dan Schulman, has seen a selloff in its shares.

a detente with Visa promotes consumer choice and puts PayPal's newer efforts, such as helping internet merchants accept all forms of payments, on more solid footing. It also opens new frontiers for PayPal in stores that accept Visa's smartphone tools.

PayPal's global head of product and engineering, William Ready, said in an interview that the bigger opportunity to dis-

rupt is to seek to remove "friction from all payments." He noted there is room for PayPal to grow in stores, which is still about 90% of the payments market. The Visa deal "resets the way we work with the ecosystem," he said. "It's great for the core business [and] a pathway to the other 90% of the market."

Still, the deal puts pressure on Mr. Schulman, a multiindustry veteran who came to PayPal after serving in senior roles at American Express Co., PriceLine Group Inc. and Virgin Mobile USA. Specifically, PayPal will have to make up for some higher transaction costs by increasing volume faster and signing up more new customers and merchants.

"They are trying to be something different than they were historically," said Elliot Turner of RGA Investment Advisors, which oversees about \$25 million in assets. He said PayPal, despite competing in a crowded field, remains a top-three holder for his firm, because he likes Mr. Schulman's vision and the Visa deal. He didn't sell any

stock after the announcement.

"The level of [customer] engagement will be far more deterministic to the company's future worth" than transaction costs, Mr. Turner said.

For much of its almost 18-year history, PayPal—which counts Silicon Valley royalty such as Elon Musk, Peter Thiel and Max Levchin among its founders—had sought to make it more appealing for their customers to connect directly to their bank accounts, bypassing firms like Visa. That allowed customers the option of moving money into a PayPal account or making transactions without generating a fee paid by PayPal to the debit- and credit-card networks.

The tension between PayPal and Visa had been in place for years, especially as PayPal started directly pitching more merchants on adding services that competed with Visa. The rivalry intensified in 2005 when Scott Thompson, then a Visa technology executive, jumped ship to PayPal, according to people familiar with the matter.

# MARKETS DIGEST

## Nikkei 225 Index

**16635.77** ▲66.50, or 0.40%  
 High, low, open and close for each trading day of the past three months.



## STOXX 600 Index

**339.86** ▼2.03, or 0.59%  
 High, low, open and close for each trading day of the past three months.



## S&P 500 Index

**2170.84** ▼2.76, or 0.13%  
 High, low, open and close for each trading day of the past three months.



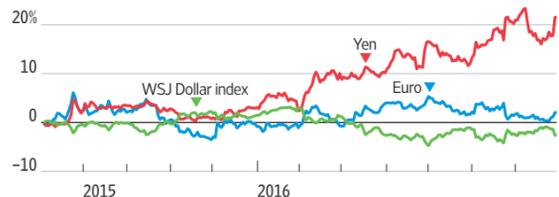
## International Stock Indexes

Region/Country	Index	Close	Latest NetChg	% chg	Low	52-Week Range Close	High	YTD % chg
<b>World</b>	<b>The Global Dow</b>	2404.08	-7.03	-0.29	2033.03	2033.03	2547.27	2.9
	<b>MSCI EAFE</b>	1680.72	-8.40	-0.50	1471.88	1471.88	1956.39	-2.1
	<b>MSCI EM USD</b>	882.23	8.76	1.00	691.21	691.21	1044.05	11.1
<b>Americas</b>	<b>DJ Americas</b>	523.04	-1.05	-0.20	433.38	433.38	524.98	7.3
Brazil	<b>Sao Paulo Bovespa</b>	56697.58	-610.63	-1.07	37046.07	37046.07	57729.31	30.8
Canada	<b>S&amp;P/TSX Comp</b>	14582.74	...	Closed	11531.22	11531.22	14622.35	12.1
Mexico	<b>IPC All-Share</b>	46783.20	122.53	0.26	39256.58	39256.58	47785.29	8.9
Chile	<b>Santiago IPSA</b>	3198.10	-10.89	-0.34	2730.24	2730.24	3243.62	8.6
<b>U.S.</b>	<b>DJIA</b>	18404.51	-27.73	-0.15	15370.33	15370.33	18622.01	5.6
	<b>Nasdaq Composite</b>	5184.20	22.06	0.43	4209.76	4209.76	5199.13	3.5
	<b>S&amp;P 500</b>	2170.84	-2.76	-0.13	1810.10	1810.10	2178.29	6.2
	<b>CBOE Volatility</b>	12.66	0.79	6.66	10.88	10.88	53.29	-30.5
<b>EMEA</b>	<b>Stoxx Europe 600</b>	339.86	-2.03	-0.59	303.58	303.58	403.93	-7.1
	<b>Stoxx Europe 50</b>	2859.13	-18.49	-0.64	2556.96	2556.96	3503.19	-7.8
Austria	<b>ATX</b>	2209.13	-24.31	-1.09	1929.73	1929.73	2515.09	-7.8
Belgium	<b>Bel-20</b>	3426.38	-38.46	-1.11	3117.61	3117.61	3853.21	-7.4
France	<b>CAC 40</b>	4409.17	-30.64	-0.69	3892.46	3892.46	5217.80	-4.9
Germany	<b>DAX</b>	10330.52	-6.98	-0.07	8699.29	8699.29	11669.86	-3.8
Greece	<b>ATG</b>	569.60	-1.73	-0.30	420.82	420.82	797.52	-9.8
Hungary	<b>BUX</b>	27468.88	-159.29	-0.58	20452.90	20452.90	28100.59	14.8
Israel	<b>Tel Aviv</b>	1461.52	3.52	0.24	1378.80	1378.80	1725.04	-4.4
Italy	<b>FTSE MIB</b>	16554.83	-292.03	-1.73	15017.42	15017.42	23992.48	-22.7
Netherlands	<b>AEX</b>	444.97	-4.86	-1.08	378.53	378.53	504.00	0.7
Poland	<b>WIG</b>	46221.38	49.66	0.11	41747.01	41747.01	53694.88	-0.5
Russia	<b>RTS Index</b>	922.53	-5.04	-0.54	607.14	607.14	975.21	21.9
Spain	<b>IBEX 35</b>	8513.40	-73.80	-0.86	7579.80	7579.80	11330.00	-10.8
Sweden	<b>SX All Share</b>	494.47	-2.00	-0.40	432.78	432.78	539.07	-2.1
Switzerland	<b>Swiss Market</b>	8127.20	...	Closed	7425.05	7425.05	9537.90	-7.8
South Africa	<b>Johannesburg All Share</b>	53126.80	329.22	0.62	45975.78	45975.78	54760.91	4.8
Turkey	<b>BIST 100</b>	76711.68	1306.15	1.73	68230.47	68230.47	86931.34	6.9
U.K.	<b>FTSE 100</b>	6693.95	-30.48	-0.45	5499.51	5499.51	6780.05	7.2
<b>Asia-Pacific</b>	<b>DJ Asia-Pacific TSM</b>	1450.08	8.19	0.57	1188.42	1188.42	1481.22	4.3
Australia	<b>S&amp;P/ASX 200</b>	5587.40	25.00	0.45	4765.30	4765.30	5697.90	5.5
China	<b>Shanghai Composite</b>	2953.39	-25.95	-0.87	2655.66	2655.66	3993.67	-16.6
Hong Kong	<b>Hang Seng</b>	22129.14	237.77	1.09	18319.58	18319.58	24552.47	1.0
India	<b>S&amp;P BSE Sensex</b>	28003.12	-48.74	-0.17	22951.83	22951.83	28298.13	7.2
Japan	<b>Nikkei Stock Avg</b>	16635.77	66.50	0.40	14952.02	14952.02	20808.69	-12.6
Singapore	<b>Straits Times</b>	2892.52	23.83	0.83	2352.70	2352.70	3196.66	0.3
South Korea	<b>Kospi</b>	2029.61	13.42	0.67	1829.81	1829.81	2052.77	3.5
Taiwan	<b>Weighted</b>	9080.71	96.30	1.07	7410.34	7410.34	9080.71	8.9

Source: SIX Financial Information; WSJ Market Data Group

## Currencies

Yen, euro vs. dollar; dollar vs. major U.S. trading partners



Country/currency	Mon	YTD	US\$ vs. YTD
	in US\$	per US\$	(%)
<b>Americas</b>			
Argentina peso-a	0.0667	15.0030	15.9
Brazil real	0.3061	3.2674	-17.5
Canada dollar	0.7632	1.3103	-5.3
Chile peso	0.001520	657.80	-7.2
Colombia peso	0.0003235	3091.17	-2.6
Ecuador US dollar-f	1	1	unch
Mexico peso-a	0.0531	18.8501	9.6
Peru sol	0.2983	3.3520	-1.8
Uruguay peso-e	0.0335	29.880	-0.1
Venezuela boliviar	0.100100	9.99	58.4
<b>Asia-Pacific</b>			
Australia dollar	0.7565	1.3219	-3.7
China yuan	0.1506	6.6400	2.3
<b>Hong Kong dollar</b>	0.1288	7.7611	0.1
<b>India rupee</b>	0.0150	66.7128	0.8
<b>Indonesia rupiah</b>	0.0000768	13020	-5.9
<b>Japan yen</b>	0.009788	102.16	-15.1
<b>Kazakhstan tenge</b>	0.002838	352.38	4.0
<b>Macau pataca</b>	0.1251	7.9936	-0.1
<b>Malaysia ringgit-c</b>	0.2477	4.0364	-6.0
<b>New Zealand dollar</b>	0.7192	1.3904	-5.2
<b>Pakistan rupee</b>	0.0095	104.875	-0.02
<b>Philippines peso</b>	0.0213	47.006	0.3
<b>Singapore dollar</b>	0.7462	1.3402	-5.5
<b>South Korea won</b>	0.0009035	1106.83	-5.9
<b>Sri Lanka rupee</b>	0.0068658	145.65	1.0
<b>Thailand dollar</b>	0.03169	31.557	-4.1
<b>Thailand baht</b>	0.02876	34.770	-3.5

## London close on Aug. 1

Country/currency	Mon	YTD	US\$ vs. YTD
	in US\$	per US\$	(%)
<b>Europe</b>			
Bulgaria lev	0.5713	1.7503	-2.8
Croatia kuna	0.1492	6.701	-4.4
Euro zone euro	1.1174	0.8950	-2.8
Czech Rep. koruna-b	0.0413	24.189	-2.8
Denmark krone	0.1502	6.6575	-3.1
Hungary forint	0.003595	278.18	-4.2
Iceland krona	0.008263	121.02	-7.0
Norway krone	0.1179	8.4853	-4.0
Poland zloty	0.2563	3.9010	-0.6
Russia ruble-d	0.01503	66.547	-7.4
Sweden krona	0.1167	8.5722	1.5
Switzerland franc	1.0339	0.9672	-3.5
Turkey lira	0.3341	2.9929	2.6
Ukraine hryvnia	0.0403	24.8100	3.4
U.K. pound	1.3201	0.7575	11.6
<b>Middle East/Africa</b>			
Bahrain dinar	2.6515	0.3772	0.01
Egypt pound-a	0.1130	8.8525	13.1
Israel shekel	0.2624	3.8116	-2.1
Kuwait dinar	3.3146	0.3017	-0.6
Oman rial	2.5976	0.3850	0.003
Qatar riyal	0.2747	3.641	-0.05
Saudi Arabia riyal	0.2667	3.7501	-0.1
South Africa rand	0.0718	13.9189	-10.1
<b>WSJ Dollar Index</b>	86.63	0.13	-3.93

Sources: Tullett Prebon; WSJ Market Data Group

## Global government bonds

Latest, month-ago and year-ago yields and spreads over or under U.S. Treasuries on benchmark two-year and 10-year government bonds around the world. Data as of 3 p.m. ET

Coupon	Country/	Maturity, in years	Yield	Latest	Spread Over Treasuries, in basis points	Previous	Month Ago	Year ago	Previous	Month ago	Year ago
3.250	<b>Australia</b>	2	1.465	79.8	86.7	97.9	122.4	1.526	1.576	1.889	
4.250	10	1.828	33.0	43.1	52.1	58.7	1.884	1.964	2.771		
1.250	<b>Belgium</b>	2	-0.575	-124.2	-124.9	-116.5	-84.2	-0.590	-0.568	-0.178	
1.000	10	0.150	-134.8	-133.3	-138.8	-123.5	0.119	0.055	0.949		
1.000	<b>France</b>	2	-0.535	-120.2	-121.3	-114.7	-84.1	-0.553	-0.550	-0.176	
0.500	10	0.130	-136.8	-134.7	-128.1	-124.1	0.106	0.162	0.943		
0.000	<b>Germany</b>	2	-0.614	-128.1	-128.5	-124.2	-89.3	-0.626	-0.645	-0.228	
0.000	10	-0.098	-159.6	-157.1	-156.4	-157.3	-0.118	-0.121	0.611		
0.250	<b>Italy</b>	2	-0.063	-73.0	-73.3	-71.7	-57.0	-0.073	-0.120	0.094	
1.600	10	1.177	-32.1	-28.6	-30.6	-40.9	1.166	1.137	1.775		
0.100	<b>Japan</b>	2	-0.233	-90.0	-90.8	-92.6	-65.5	-0.249	-0.328	0.009	
0.100	10	-0.136	-163.4	-162.6	-169.7	-177.4	-0.174	-0.254	0.410		
4.000	<b>Netherlands</b>	2	-0.584	-125.1	-125.8	-120.8	-87.1	-0.598	-0.611	-0.207	
0.500	10	0.001	-149.7	-146.7	-150.3	-135.9	-0.014	-0.060	0.825		
4.450	<b>Portugal</b>	2	0.382	-28.5	-22.8	-37.6	-29.8	0.431	0.222	0.366	
2.875	10	2.893	139.5	146.2	155.8	19.8	2.915	3.001	2.382		
0.250	<b>Spain</b>	2	-0.180	-84.7	-83.0	-80.2	-54.7	-0.171	-0.205	0.117	
1.950	10	1.024	-47.4	-43.6	-29.9	-33.5	1.016	1.144	1.849		
4.250	<b>Sweden</b>	2	-0.670	-133.7	-132.0	-127.0	-106.3	-0.661	-0.673	-0.399	
1.000	10	0.059	-143.9	-135.1	-119.8	-144.2	0.102	0.245	0.742		
1.250	<b>U.K.</b>	2	0.175	-49.2	-54.8	-40.1	8.0	0.112	0.196	0.744	
2.000	10	0.733	-76.5	-76.7	-57.8	-28.1	0.686	0.865	1.903		
0.750	<b>U.S.</b>	2	0.667	...	...	...	0.659	0.597	0.665		
1.625	10	1.498	...	...	...	...	1.452	1.443	2.184		

## Commodities

Prices of futures contracts with the most open interest 3:30 p.m. New York time

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; CME: Chicago Mercantile Exchange; ICE-US: ICE Futures U.S.; MDEX: Bursa Malaysia

Derivatives Berhad; TCE: Tokyo Commodity Exchange; COMEX: Commodity Exchange; LME: London Metal Exchange;

NYMEX: New York Mercantile Exchange; ICE-EU: ICE Futures Europe. Data as of 7/29/2016

Commodity
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FINANCE & MARKETS

# Latest Big Concern for U.S. Treasurys

Bank of New York will soon be the only bank left settling trades in the \$13 trillion market

By KATY BURNE

**J.P. Morgan Chase & Co.**'s retreat from a mundane but crucial settlement role in the \$13 trillion U.S. Treasury market poses a fresh challenge for regulators seeking to bolster the market's capacity to withstand shocks.

The New York bank's decision, announced July 21 and due to be complete next year, leaves rival **Bank of New York Mellon Corp.** as the lone firm handling the settlement of U.S. government debt for big bond brokers.

Having just one firm in the business of making sure traders deliver cash and securities as expected will pose a fresh test for a sprawling market whose functioning has come under scrutiny since the financial crisis. Many analysts already worry that liquidity, the capacity to trade quickly without moving prices, has been falling when markets come under stress.

Following J.P. Morgan's exit, Bank of New York will settle transactions including the majority of Treasury debt sold at U.S. government auctions, the majority of Treasurys traded in the secondary market and most U.S. government debt exchanged in the

overnight "repo" market, a key source of funding in which financial institutions use the bonds as collateral for cash loans.

Officials at both banks said they had been in touch with the Federal Reserve and Treasury Department to reassure them the moves wouldn't disrupt trading in U.S. Treasurys or the \$2.2 trillion daily market for repos.

But the move could inflame concerns that there already weren't enough options for traders, potentially exposing the market to a shutdown in the event of an outage at a large settlement firm.

"You have all your eggs in one basket here, and if you're the Fed, that has to be a little disconcerting, because you don't want any hiccups in this market," said Ray Stone, a former New York Fed researcher and head of Stone & McCarthy Research Associates.

The change, deep in Wall Street's financial plumbing, reflects pressure from new regulations as well as banks' efforts to cut back less-lucrative activities.

There were about half a dozen providers of settlement services in the Treasurys market before consolidation whittled the market down to two in the 1990s.

But for more than a decade, banks that operate as "primary dealers" in the Treasury market have only had two options for settling trades—Bank



GENE J. PUSKAS/ASSOCIATED PRESS

The Fed is holding Bank of New York to higher operating standards due to its share of the market.

of New York and J.P. Morgan.

Bank of New York is prepared to work with dealers that want to move to its platform and expects to be able to handle the extra volume, spokeswoman Cheryl Krauss said.

J.P. Morgan said it would continue to provide other related services, like managing government bonds as collateral for client trades.

The Treasury is "confident that Treasury securities will continue to settle and trade in the usual manner," a Treasury spokesman said.

The Fed and others have been concerned for more than a decade about Bank of New York's large market share—now 85%—for settlement in a \$1.6 trillion part of the repo market.

The central bank worried as far back as 2006 that concentration could present system-wide risks and considered forming a utility as a backup, people briefed on the matter said.

J.P. Morgan's announcement may restart those discussions, the people said.

The Fed also is holding

Bank of New York to higher operating standards due to its share of the market.

"A single provider of settlement services—or a new entrant, should there be one—will be expected to operate in a safe and sound manner that supports market functioning and that is resilient to stress," said Darren Gersh, a spokesman for the central bank in Washington.

One concern is damage to infrastructure.

The 2001 terror attacks, for example, hit Bank of New York's telecommunications

lines close to the World Trade Center, causing payment disruptions. Since 2001, the bank has strengthened and diversified its disaster-recovery procedures, said Ms. Krauss, the bank's spokeswoman.

"If they have a technical glitch, what happens if the collateral can't be sent back or the money can't be sent? That's wild business," said Bruce English, who ran the repo desk at Aubrey G. Lanston & Co., which previously was a primary dealer.

Bank of New York has \$29.5 trillion in assets under custody or administration. It already handles settlement for all but four of the 23 primary dealers that trade bonds directly with the Fed.

Primary dealers handle the majority of bonds sold in U.S. government auctions. Most subsequent trades in the market also involve primary dealers, and settle at either J.P. Morgan or Bank of New York, although smaller dealers and alternative providers do exist.

Citigroup clears trades of government securities for clients such as hedge funds. BMO Harris Bank, a Chicago based unit of BMO Financial Group with \$104 billion in assets under management, is considering expanding its government securities settlement and custody services to broker dealers.

"We think there's further opportunity," said Scott Ferris, head of the financial institutions group at BMO Harris.

## Finance Watch

Finance Markets Inc., known as AQS, in a deal it says could cut regulatory costs for clients.

New York-based Equilend, which matches up banks and other financial firms that want to borrow securities with those that want to lend them, bought New Jersey-based AQS from financial technology firm PDQ Enterprises. The firms didn't disclose the price paid.

Equilend, which is owned by financial firms such as Goldman Sachs Group Inc., Bank of Amer-

ica Merrill Lynch and BlackRock Inc., will gain access through the deal to OCC, the world's biggest equity-derivatives clearing organization.

—Laurence Fletcher

### WELLS FARGO ADVISERS A Team Departs

A team of financial advisers who manage \$4.5 billion for investors is leaving Wells Fargo & Co.'s independent brokerage business in a bid for more au-

tonomy.

Advisers Gerald Goldberg, Jonathan Yolles, Michael Lepore and Claire McDonald on Monday relaunched their practice, GYL Financial Synergies, under Focus Financial Partners LLC, which buys interests in registered investment advisers.

The four advisers have worked together at Wells Fargo and firms the bank acquired for more than 15 years. Since 2014, they had been affiliated with Wells Fargo Advisors Financial

Network, or FiNet, the bank's independent brokerage business, where they were one of its biggest teams.

—Michael Wursthorn

### CHINA PBOC July Injection Totaled \$94 Billion

China's central bank injected a combined 626.71 billion yuan (\$94.19 billion) of liquidity into the financial system in July as it steps up efforts to spur eco-

nomical growth through its lending facilities.

The People's Bank of China said it injected 486 billion yuan via its medium-term lending facility in July. The central bank also extended a total of 139.81 billion yuan through its so-called pledged supplemental lending facility to facilitate credit for public housing, large water projects and yuan internationalization. It provided 900 million yuan via its standing lending facility.

—Liyun Qi

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# HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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## Why All Italians Feel MPS's Pain

Like a good cappuccino, the plan to sort out Italy's weakest big bank is bitter-sweet for its peers.

Banca Monte dei Paschi di Siena's multibillion-euro bad-loan sale and recapitalization, announced late Friday, opens a door to finding a cure for Italian banks' ills, but also sparked a selloff led by UniCredit, which fell 9.4% Monday.

The reason: MPS's deal puts a public price on a very large pool of bad loans that will be hard for other lenders to ignore.

MPS has long been Italian banking's weakest point, but "stress tests" published last Friday showed it to be the weakest among all European banks tested: It was the only one to finish with negative capital. That led MPS to launch a plan to raise €5 billion (\$5.6 billion) of fresh equity after it has sold the bad loans.

Officially, the bad-loan sale price is 33% of face value—or €9.2 billion for a portfolio of €27.7 billion of bad loans. However, the

### Bad Marks

Charges needed to write down defaulted loans to the effective value at which Banca Monte dei Paschi di Siena plans to sell



€1=\$1.12  
Sources: the companies; Berenberg  
THE WALL STREET JOURNAL.

structure of the deal means that the price is really closer to 27%, as Berenberg notes, and that entails billions more in write-downs for others.

Part of the bad-loan sale is covered by giving existing MPS shareholders €1.6 billion of equity in the vehicle that will own the debts. MPS has to write down this equity, so it is actually getting just €7.6 billion for the loans. It would cost UniCredit



A UniCredit bank branch in Milan

more than €6 billion to write down its worst loans, known as *sofferenze*, to 27% of face value. Its other nonperforming loans, where borrowers could ultimately recover, would cost the bank another €1.8 billion to mark down to 40% of face value, as MPS will do.

Italy's six biggest banks would burn through €45 billion to do this, which is a lot of equity to replace. The size of MPS's loan

sale makes it important in crystallizing a market price, but that doesn't mean regulators will force other banks to match it on their books. The European Central Bank pushed MPS to get rid of more bad loans quickly, but it also told the bank it doesn't have to use these prices to set loss expectations on other bad debts. That shows banks still enjoy some forbearance.

However, any lender that wants to raise more equity will have to mark loans down to MPS-type levels to convince investors that the money they put in isn't going to be eaten up in foreseeable losses.

UniCredit will be near the head of this queue and has signaled it will take a more aggressive approach to bad loans.

There still are obstacles to MPS's deal, but whether or not it gets done, it has added pressure on other Italian lenders to put a hard price on their assets. That is the only way they will win back investors. —Paul J. Davies

### OVERHEARD

The Olympic Games don't start until this weekend. But Brazil already is putting in a medal-winning financial performance.

Brazil's Bovespa stock index ranks No. 1 for returns in U.S. dollar terms through the end of July out of 42 major global assets tracked by Deutsche Bank.

Brazilian stocks have gained 32% in local-currency terms, but the country's surging currency, the real, has turned that into a 61% gain in dollar terms.

Suitably for an Olympic year, silver is in second place. Gold is in third.

Currencies can turn winners into losers and vice versa. Stocks in the U.K., host to the last Summer Olympics, rank 11th in pounds but 32nd in dollars. The results for Russia, host to the latest Winter Games, fare well in rubles but even better in dollars, taking fourth place.

The U.S. sits in the middle of the pack. At the bottom, European banks.

## Heineken Survives a Forex Shock

Heineken's experience with the Nigerian naira brings a new dimension to currency risk. Yet the Dutch brewing giant is sufficiently global to cope.

Nigeria's central bank pulled its currency peg with the U.S. dollar in June. The naira plummeted.

But a devalued exchange rate is better than no rate, said Heineken Chief Financial Officer Laurence Debroux. The problem for global companies in the country was getting hard currency at the official price. Heineken kept selling beer, but payables to headquarters accumulated. When the peg was removed, the payables had to be written down.

It is now easier to convert naira into euros or dollars. But Nigerians are drinking less profitable brands. First-half profit fell 14% from the year-ago period across Heineken's Africa, Middle East and Eastern Europe region. That is without counting a €233 million write-down of investments in the Democratic Republic of Congo.

Still, Heineken is big enough to absorb shocks. Southeast Asians are boozing more, while Western Europeans are paying up for premium brands. Strip out acquisitions, and first-half group operating profit rose 13% from the year-earlier period, up from last year's 7%.

Heineken used to be too focused on its home continent, but the financial and euro crises encouraged it to buy assets in Latin America and Asia. Even after the emerging-market downturn, this kind of balanced portfolio is popular with investors.

Heineken has learned the lesson resource-rich Nigeria ignored: Diversify or face devaluation. —Stephen Wilmut

## It Has Been a Sterling Year for Corporate-Bond Markets

Corporate bonds are putting in another vintage performance. Perhaps surprising, the U.K. is a leading light—benefiting despite Brexit in part from a bet on Bank of England support.

Investment-grade sterling corporate bonds are up nearly 13% year to date in local-currency terms, according to Bank of America Merrill Lynch indexes, outpacing the U.S. market, up 9.1%, and euro-denominated debt, up 5.9%. The market had a Brexit blip, but the steep drop in underlying government-bond yields limited the pain—although for foreign investors, the plunge in the pound has hurt a lot. Still,

### Lower for Longer

Yield on investment-grade corporate bonds\*



\*Denominated in selected currencies  
Source: Bank of America Merrill Lynch  
THE WALL STREET JOURNAL.

since the vote, corporate-bond yields have fallen relative to gilt yields.

The U.K. market ticks a lot of boxes. First, investment-grade corporate bonds are winners given the search for

yield and uncertainty about growth. The sterling market offers an average yield of 2.4%. Second, the U.K. market is unusual in that it contains a lot of long-dated bonds. Indeed, 45% of Barclays's sterling corporate-bond index matures in 10 years or more, versus 29% for U.S. corporates and less than 10% for Europe. Duration is powering returns.

And third, investors may be betting on the BOE buying bonds. The European Central Bank started buying corporate bonds in June; the bonds it is targeting have rallied, and now the laggards are starting to catch up, Citigroup strategists note. The

gap between yields on euro-denominated nonfinancial corporate bonds and German government debt has narrowed 0.4 percentage point this year.

After July's inaction, expectations have built for this week's BOE meeting. That has been spurred by policy makers such as Andrew Haldane calling for a "muscular" easing package.

That said, the BOE and the ECB face different situations. The fragmented nature of eurozone government-bond markets constrains the ECB's bond-purchase program. The BOE doesn't face that worry. Indeed, back in 2009, the BOE briefly bought

corporate bonds but abandoned the plan as it ramped up purchases of gilts—where it could deliver a bigger program more quickly.

A big problem for both the BOE and investors is a dearth of bonds. The Barclays corporate index contains £285 billion (\$377 billion) of bonds, making the market a relative minnow. It has hardly grown in recent years, helping support prices.

But the small size of the market makes it vulnerable to prices getting out of whack if a big buyer steps in. Investors might get a boost to returns—but they will get new worries, too.

—Richard Barley

### FINANCE & MARKETS

## Negative Rates Hit MUFG's Net Profit

By ATSUKO FUKASE

Japan's largest bank, **Mitsubishi UFJ Financial Group Inc.**, said its first-quarter net profit tumbled as its margins on lending were eroded by negative interest rates.

Net profit declined 32% to ¥188.92 billion (\$1.85 billion) in the April-June period from a year earlier. The Tokyo lender said first-quarter net interest income from lending came to ¥502 billion, down 8%.

MUFG's results highlight the challenge commercial banks have faced since February, when they started paying a 0.1% interest charge on certain deposits they hold at the

by creating a sense of uncertainty about the future. "For the banking industry, the consequences, at least in the short term, are clearly negative," Mr. Hirano said in a speech in Tokyo.

Negative rates are squeezing banks' margins because the banks have to reduce rates charged to corporate borrowers but have a hard time lowering rates on depositors' accounts below zero.

For MUFG, the interest-rate spread between loans and deposits has been falling and stood at 0.92 percentage point as of June 30, compared with 1.02 percentage point a year earlier. Lending volume also shrank from the previous quarter. Domestic loan volume came to ¥43 trillion as of June 30, down 2% from three months earlier.

Banks got some good news last week, when the Bank of Japan said it wouldn't reduce its interest rate further into negative territory. Banking shares rose after the decision.

MUFG's shares rose 4.3% in Tokyo on Monday.

Japanese banks' troubles are shared by many banks in Europe as central banks in countries such as Switzerland and Sweden have adopted a negative-interest-rate policy.

Japanese lenders are also having difficulty finding a place to park their cash. In recent years, banks have been reducing exposure to Japanese government bonds.

Last month, MUFG became the first Japanese bank to stop acting as a primary dealer of those bonds.

One of MUFG's profitable areas, its overseas business, is also slowing down because of global economic concerns. MUFG, which owns California-based Union Bank and Bank of Ayudhya in Thailand, saw a drop in net profit in overseas operations.

It also booked a small loss from its 20% stake in Morgan Stanley.

## Startups Disrupt 401(k) Market

By ANNE TERGESEN

Disruption is coming to the 401(k) industry.

Led by technology entrepreneurs and backed by venture capitalists, a crop of startups in the U.S. have launched online 401(k) retirement plans in recent months with the aim of bringing robo-style automated investment services to small businesses, many of which offer their workers high-cost 401(k)s or no retirement savings plans at all.

The upstarts are pursuing a large market that has been relatively ignored until recently—a vacuum that has prompted some states to start requiring small businesses to offer retirement plans. Among companies with 100 or fewer employees—a group that employs about 42 million people, or one-third of the private-sector workforce—only 14% sponsor a retirement plan, according to an estimate by the Government Accountability Office.

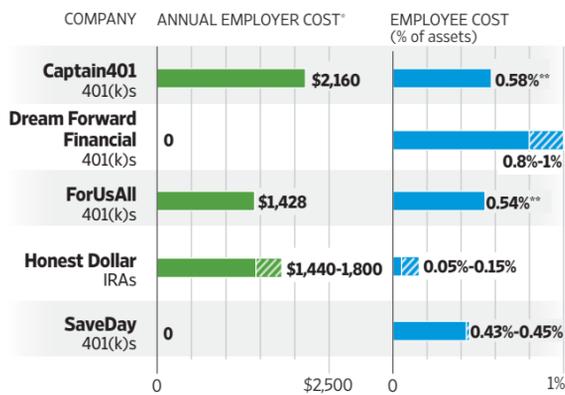
The robos, which feature online service and low-cost indexed investments, are also trying to win business from the insurers and payroll providers that have long dominated the small end of the 401(k) market. Among the smallest plans, fees can run as high as 1.5% of assets or more a year, according to data from 401(k) plan tracker BrightScope Inc. and fund-industry trade group Investment Company Institute. In contrast, fees for participants in plans with more than \$1 billion in assets average 0.26% of assets.

"The 401(k) market is ripe for disruption," said Cynthia Loh, general manager of robo-advisory pioneer Betterment LLC's 401(k) business. "Everybody is trying to leverage technology to make things more efficient."

But while the startups—whose ranks include **ForUsAll Inc.**, **Dream Forward Financial LLC**, **SaveDay Inc.** and **Captain401 Inc.**—see big possibilities in the small 401(k) market, there are hurdles. One is the difficulty of selling plans to mom-and-pop companies, a decentralized market in which

### Robos for Retirement

A number of startups have launched online retirement-savings plans with the aim of bringing low-cost offerings to the small-business market.



\*Employer costs assume a company with 15 employees and don't include the one-time setup fees some charge. Some allow the employer to pay some or all of the employee's costs, or to shift some or all of their own cost to employees.  
\*\*Includes average fund fees  
Source: the companies

THE WALL STREET JOURNAL.

many employers lack the time, expertise and money to put plans in place. Another is rising competition from more established low-cost players, including **Employee Fiduciary LLC**, a company that entered the small 401(k) market 12 years ago, and fund-industry giant Vanguard Group Inc., which launched a small-business 401(k) service in 2011.

"The smaller end of the 401(k) market presents the biggest pocket of opportunity," said Crystal Hardie Langston, head of Vanguard Retirement Plan Access, which targets plans with up to \$20 million in assets. While most big firms already offer plans, "there is a huge untapped population of small businesses that don't."

The startups say it is a promising time to enter this market. Amid concern about insufficient retirement savings, four states—Maryland, Connecticut, Oregon and Illinois—recently passed laws that require many small businesses to offer retirement savings plans. New Jersey and Washington have authorized state-run marketplaces to help small companies that want to set up plans. Some two dozen other states and a few cities have either commissioned studies or are considering similar legislation, according to AARP and Georgetown University's Center for Retirement Initiatives.

The robo trend is "a very pro-consumer development," said Mike Alfred, chief execu-

tive of BrightScope. The entry of low-cost providers, he added, is helping to drive down 401(k) fees paid by employees of small businesses, which fell from an average of 1.21% in 2009 to 1.06% in 2013 among plans with \$1 million to \$10 million in assets, according to BrightScope and the ICI.

Many of the startups focus on plans with 50 to a couple hundred employees. Their pitch: Technology can reduce the time and cost of managing a retirement plan, making it a benefit that small businesses can afford to offer their employees.

Like better-known robo advisers **Wealthfront Inc.** and **Betterment**—which mainly manage money outside of retirement accounts—the new 401(k) services generally recommend low-cost exchange-traded funds and index mutual funds from companies including Vanguard and **BlackRock Inc.**

Most let employers choose whether to match employee contributions.

ForUsAll charges employers a flat administrative fee of \$94 a month for up to 10 employees—plus \$5 for each additional employee. For a company with 15 employees, that works out to \$1,428 a year for record keeping, among other services. In addition, the company charges employees 0.54% of assets—a sum that includes both mutual-fund fees and some administrative charges.

At Vanguard, a 401(k) plan with 15 employees would pay \$3,475 for record-keeping services on top of the fund fees employees pay, which can be as low as 0.05% or 0.1%.

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