Leading the News: Apple will tread carefully when Jobs returns

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What's News

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EDITORIAL & OPINION

Doha isn't dead
Let's give an idea of what a final deal might look like. Page 16

Breaking news at europe.WSJ.com

A weekend of postelection tension in Tehran

Associated Press

STREET SCENE: A day after riot police clashed with demonstrators, relative calm was restored to parts of Tehran. But the government escalated its crackdown on journalists and prominent reformers, and state media reported a blast at Khomeini's mausoleum. **Pages 18-19.**

Taliban leader re-emerges

Mullah Omar takes more control over Afghan war as U.S. readies troop surge

By Matthew Rosenberg in Peshawar, Pakistan, and Yochi J. Dreazen and Siobhan Gorman in Washington

Mullah Omar, supreme leader of the Taliban, is reasserting direct control over the militant group's loose-knit insurgency in Afghanistan, ordering attacks and shuffling field commanders in preparation for the arrival of thousands of additional U.S. troops, according to U.S. officials and insurgents in Afghanistan.

Until recently, the ground-level conduct of the Taliban's war against the U.S.-led coalition has been left to local commanders acting on their own. Mr. Omar, who heads a Taliban leadership council called the Quetta "shura"—named after the city in southeast Pakistan where it is believed to be based—has typically focused on choosing Taliban leaders and funneling money, religious guidance and strategic advice to fighters.

But since the start of the year, Mr. Omar, through his direct lieutenants, has ordered a spate of suicide bombings and assassinations in southern and eastern Afghanistan that presage a bloody phase to come in the Afghan war, according to U.S. officials and Afghan insurgents.

One target was Ahmed Wali Karzai, the younger brother of Afghan President Hamid Karzai, who survived a gun and rocket attack on his motorcade in eastern Afghanistan on May 18. Qari Sayed Ahmad, a moderate cleric, was gunned down outside his home in Kandahar, Afghanistan, in April. The Taliban took credit for the attack, and a midlevel Taliban commander in southern Afghanistan said in a telephone interview that the assassination was carried out on orders from one of Mr. Omar's lieutenants.

In another unusual attack in mid-May, nearly a dozen suicide bombers struck targets in the provincial capital of Khost in eastern Afghanistan, leaving 12 people dead, not including the bombers. U.S. officials say the attack was ordered by the Quetta shura.

On Sunday, a rocket attack

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Fed weighs an exit from fiscal stimulus

By Jon Hilsenrath

When U.S. Federal Reserve officials meet this week, they will spend a lot of time discussing exit strategies. When should they start unwinding their efforts to stimulate the economy? How should they go about doing it?

It's easy to answer the first question: not soon.

The economy and financial markets have stabilized in recent weeks, but Fed officials want more evidence a recovery is for real. The economy is on track to contract at about a 1% annual rate in the second quarter, according to forecasters Macroeconomic Advisers. That would be the fourth straight quarterly contraction, a stretch of decline that hasn't occurred since the Great Depression.

Most Fed officials believe the economy has a lot of ground to make up before worrisome inflationary pressures build. The underlying inflation rate, a measure that excludes volatile food and energy prices, is still slowing and tends to continue to slow after a recession ends. "The slack in resource utilization remains sizable," Fed Chairman Ben Bernanke told the House Budget Committee recently. "Inflation is likely to move down some over the next year relative to its pace in 2008."

Answering the second question is more complicated. In bygone days, when recessions were milder and the Fed wasn't using unconventional policies,

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High finance

Private-banking chief shoots for the stars at Credit Suisse Wealth Bulletin

Markets

	CLOSE	PCT CHG
DJIA	8539.73	-0.19
Nasdaq	1827.47	+1.09
DJ Stoxx 600	208.28	+1.28
FTSE 100	4345.93	+1.52
DAX	4839.46	+0.04
CAC 40	3221.27	+0.85
Euro	$1.3929	-0.23
Nymex crude	$69.55	-2.55

Xstrata invites Anglo to merge

By Dana Cimilluca and Jeffrey Sparshott

LONDON—Anglo-Swiss miner **Xstrata** PLC has made a bold merger approach to rival **Anglo American** PLC, an effort that underscores the competitive pressure facing miners. But the move also faces steep odds of success.

Xstrata said in a statement Sunday that it had sent a proposal to Anglo's board seeking consideration of a merger of equals—a combination that would currently have a market value of more than $65 billion. Such a combination would displace **Rio Tinto** as the world's third-largest miner by market value, after **BHP Billiton** and Brazil's **Cia. Vale do Rio Doce.**

U.K.-based Anglo, in a separate statement, said "this situation is at a very preliminary stage" and didn't provide other details.

Xstrata is expected to propose a deal that would put its management, led by Chief Executive Mick Davis, more in control of the combined company, which would be equally owned by both companies' shareholders, people familiar with the matter said.

Any deal, though, faces high hurdles. Xstrata isn't offering a premium for Anglo shares, and would be hard pressed to raise the money to do so. Also, any desire on Xstra-

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LEADING THE NEWS

Bomb kills 70 in Kirkuk

Ethnic tensions in Iraq's oil region turn increasingly violent

BY GINA CHON

Associated Press

A victim of the worst bombing in Iraq this year is carried by relatives. Disputes among Kirkuk's Arab, Turkmen and Kurdish populations have yet to be resolved.

BAGHDAD—A truck bomb killed at least 70 people near the oil-rich city of Kirkuk over the weekend, heightening anxiety in one of Iraq's most volatile regions.

Unresolved disputes among Kirkuk's Arab, Turkmen and Kurdish populations have intensified fears of unrest in that northern region, even as national elections and the drawdown of U.S. troops raise worries over violence in the rest of the country.

The Saturday bombing, the deadliest attack in Iraq this year, targeted a Shia mosque in an area largely inhabited by Turkmen. More than 160 people were injured in the blast, which occurred after noon prayers in Taza, about 24 kilometers south of Kirkuk.

Political tensions have long been high in the contested city. Parliamentary elections are scheduled across the country early next year. But local polls, which the rest of the country held last January, have been indefinitely postponed while politicians bicker over how to conduct them.

The bombing also comes just days before the June 30 deadline for U.S. combat troops to withdraw from Iraqi cities.

Hours before the attack, Iraqi Prime Minister Nouri al-Maliki met with Turkmen leaders in Baghdad to discuss disputed areas in Kirkuk, about 240 kilometers north of Baghdad. Mr. al-Maliki called for unity among ethnic groups and urged Iraqis to prepare for an expected increase in attacks in the lead-up to the national elections in January.

Iraqi President Jalal Talabani, a Kurd, called the attack a "heinous crime" aimed at stopping dialogue with Turkmen. Iraqi authorities said they suspected al Qaeda in Iraq was behind the blast. The Iraqi Islamic Party, which represents Sunni Arabs, blamed groups working to stir up the situation in Kirkuk.

"The attack happened because our politicians can't solve our problems and now people are even more suspicious of each other," said Ateela Unis, a Turkmen living outside Kirkuk.

Last year, more than 1,000 Arabs and Turkmen protested a request by Kurdish politicians in Kirkuk to bring the city into the Kurdish regional government. The protest followed a female suicide bombing in Kirkuk that killed at least 25 people.

The United Nations has been mediating between the groups. So far, little progress has been made. A group of parliament members made up of the different ethnicities was supposed to have come up with a compromise solution for the local elections in mid-April, but haven't so far.

Arabs and Turkmen want to divide the provincial council to give each group 32% of the seats, but the Kurds have been resisting because they say they make up the largest population.

Russian bailiffs demand that Telenor sell assets

BY GREGORY L. WHITE

MOSCOW—Russian bailiffs ordered the sale of part of **Telenor** ASA's stake in a local mobile-phone company to settle a $1.7 billion court ruling. But they set no date in a case that has become a bellwether of the Kremlin's treatment of foreign investors.

The Norwegian company dismissed Friday's statement by the Russian authorities as another pressure tactic in its long-running conflict with its Russian partners, the **Alfa Group**. Talks between the two on a settlement have stalled in recent weeks.

Mikhail Fridman

Telenor shares dropped 6% before trading was suspended Friday. Bailiffs declined to elaborate on the statement, which was the latest in a string of news releases over the past few weeks threatening to sell the shares without setting a specific date. The State Property Agency, which would handle any sale, said it hadn't received any official notice on the case. A spokeswoman wouldn't comment on how long a sale might take, but the Interfax news agency quoted an agency official as saying it could take as much as two months.

Bailiffs in March seized the bulk of Telenor's 29.9% stake in OAO **Vimpel Communications**, Russia's No. 2 mobile-phone company, to enforce the $1.7 billion court ruling. The damages were awarded by a Siberian court, which ordered Telenor to pay compensation for delaying Vimpelcom's entry into neighboring Ukraine five years ago.

Telenor is appealing the judgment, but the next hearing isn't until September. The stake held by bailiffs is valued at about $3.8 billion at current market prices.

The case was brought in a court in Siberia by **Farimex Products** Inc., a little-known company with a 0.002% stake in Vimpelcom. Telenor alleges that Farimex is acting on behalf of Alfa, a charge both Alfa and Farimex deny. Alfa is bringing an almost identical claim against Telenor in arbitration in Geneva.

Alfa, a banking-to-oil giant controlled by billionaire Mikhail Fridman, owns a 44% stake in Vimpelcom, as well as part of a Ukrainian operator where Telenor is the controlling shareholder. Alfa has pushed to merge its telecoms holdings with Telenor's and had hoped for a deal as pressure mounted on Telenor this spring, according to people close to the group.

But the Norwegian company says it won't negotiate as long as its Vimpelcom stake is under threat from the Farimex suit, which Telenor says is illegal. The Norwegian government, which owns 54% of Telenor, also has called on Russian officials not to sell the Vimpelcom shares until the appeals process is complete. Russian officials have said the issue is a matter for the courts and the companies to resolve.

—Daria Solovieva and Will Bland contributed to this article.

CORRECTIONS & AMPLIFICATIONS

Ken Leet gave advice to **Ford Motor** Co. as an independent consultant from 2006 to 2007. A Financial News article said that he worked at Ford.

Intesa Sanpaolo SpA said that Moody's Investor Services affirmed its single-B-minus rating of the bank's financial strength. A Money & Investing article Friday incorrectly stated that Intesa said Moody's had revised the rating to negative.

INDEX TO BUSINESSES

This index of businesses mentioned in today's issue of The Wall Street Journal Europe is intended to include all significant references to companies. First reference to these companies appear in boldface type in all articles except those on page one and the editorial pages.

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INDEX TO PEOPLE

This index lists the names of businesspeople and government regulators who receive significant mention in today's Journal.

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LEADING THE NEWS

Jobs had liver transplant

Apple CEO on track to come back to work at the end of June

BY YUKARI IWATANI KANE AND JOANN S. LUBLIN

Steve Jobs, who has been on medical leave from **Apple** Inc. since January to treat an undisclosed medical condition, received a liver transplant in Tennessee about two months ago. The chief executive has been recovering well and is expected to return to work on schedule later this month, though he may work part-time initially.

Mr. Jobs didn't respond to an email requesting comment. "Steve continues to look forward to returning at the end of June, and there's nothing further to say," said Apple spokeswoman Katie Cotton.

When he does return, Mr. Jobs may be encouraged by his physicians to initially "work part-time for a month or two," a person familiar with the thinking at Apple said. That may lead Tim Cook, Apple's chief operating officer, to take "a more encompassing role," this person said. The person added that Mr. Cook may be appointed to Apple's board in the not-too-distant future.

Apple has previously drawn criticism from some shareholders over what they have called limited disclosure of Mr. Jobs's health problems, which began in 2004. In this case, it is unclear whether the surgery is material because Mr. Jobs was already on leave. Material information like that must be disclosed only "if you are asking shareholders to make a decision based on [that] information," said John Olson, a senior partner at Gibson, Dunn & Crutcher in Washington. "You can't expect the company to give a blow-by-blow account of Steve Jobs's health."

But once Mr. Jobs resumes work, the company will have to be "very careful" about what it says "about his health and his prognosis," Mr. Olson said. The attorney, who counsels corporate boards on governance issues, has never advised Apple's board.

At least some Apple directors were aware of the CEO's surgery. As part of an agreement with Mr. Jobs in place before he went on leave, some board members have been briefed weekly on the CEO's condition by his physician.

Mr. Jobs, 54 years old, disclosed on Aug. 1, 2004, that he had just been treated for a rare form of pancreatic cancer, called islet cell neuroendocrine tumor, which can be cured by surgery if removed promptly. In a memo to Apple employees, he said he had undergone surgery and that he wouldn't require any chemotherapy or radiation.

But over the past year concerns about Mr. Jobs's health grew among investors as he exhibited noticeable weight loss, and the company's stock price see-sawed as health speculation intensified.

In early January, Mr. Jobs said he had a hormone imbalance that was "relatively simple and straightforward" to treat. But about a week later, he announced that the issue was more complex than he had thought, and in a letter to employees he said he would be taking a leave and Mr. Cook would take over temporarily.

William Hawkins, a doctor specializing in pancreatic and gastrointestinal surgery at Washington University in St. Louis, Mo., said that the type of slow-growing pancreatic tumor Mr. Jobs had will commonly metastasize in another organ during a patient's lifetime, and that the organ is usually the liver. "All total, 75% of patients are going to have the disease spread over the course of their life," said Dr. Hawkins, who hasn't treated Mr. Jobs.

Getting a liver transplant to treat a metastasized neuroendocrine tumor is controversial because livers are scarce and the surgery's efficacy as a cure hasn't been proved, Dr. Hawkins added. He said that patients whose tumors have metastasized can live for as many as 10 years without any treatment so it is hard to determine how successful a transplant has been in curing the disease.

The specifics of Mr. Jobs's surgery couldn't be established, but according to the United Network for Organ Sharing, which manages the transplant network in the U.S., there are no residency requirements for transplants. Having the procedure done in Tennessee makes sense because its list of patients waiting for transplants is shorter than in many other states. According to data provided by UNOS, in 2006, the median number of days from joining the liver waiting list to transplant was 306 nationally. In Tennessee, it was 48 days.

Three hospitals in Tennessee—Le Bonheur Children's Medical Center in Memphis, Vanderbilt University Medical Center in Nashville and Methodist University Hospital in Memphis—are designated as liver-transplant centers, according to UNOS. A spokeswoman for Le Bonheur said the hospital doesn't perform liver transplants in adults. A Vanderbilt spokesman said it didn't treat Mr. Jobs. A spokeswoman for Methodist University said Mr. Jobs isn't listed as a patient there.

The latest data tracked by UNOS indicate that the five-year survival rate for liver-transplants patients is generally 73.6% if the liver was donated by a deceased person and 76.1% if the liver was donated by a living person. Living donors provide a piece of their livers.

Recovery from a liver transplant is relatively fast, said William Chapman, a specialist at Washington University who has no direct knowledge of Mr. Jobs's case.

During his leave, Mr. Jobs has remained involved in key aspects of the company and reviewed products and product plans from home. He has also been seen at Apple's headquarters, according to people who have seen him there.

WireImage/Getty Images

Apple Chief Executive Steve Jobs arrives at a dinner in Santa Monica, Calif., in October. He received a liver transplant in Tennessee about two months ago.

Jack Welch lends name to new online university

BY PAUL GLADER

Former **General Electric** Co. Chief Executive Jack Welch is putting his name and money behind a little-known educational entrepreneur, in an effort to lend some much-needed cachet to the budding industry of online education.

Mr. Welch, 73 years old, is paying more than $2 million for a 12% stake in **Chancellor University System** LLC, which is converting formerly bankrupt Myers University in Cleveland into Chancellor University and plans to offer most courses online. Chancellor will name its Master of Business Administration program The Jack Welch Institute.

Jack Welch

Chancellor's leading investor is Michael Clifford, an entrepreneur who has launched two publicly traded companies in the past year: **Grand Canyon Education** Inc., which operates Grand Canyon University, and **Bridgepoint Education** Inc., which operates Ashford University and University of the Rockies.

Mr. Welch's name may help add allure to for-profit, online education, which is growing rapidly despite nagging questions about quality. Boston research firm EduVentures Inc. estimates that 11% of the roughly 18.5 million U.S. college students took most of their classes online in the fall of 2008, up from 1% a decade ago.

Online higher education will generate revenue of $11.5 billion this year, EduVentures says. But "there is a concern about quality," says EduVentures Chief Executive Tom Dretler because there's "much, much less selectivity" of students in the admissions process.

Mr. Clifford and Mr. Welch say they want Chancellor's MBA program to be high quality and have met with several Ivy League professors, but declined to disclose names.

Mr. Welch says Noel Tichy, a professor at the University of Michigan's Ross School of Business and former head of the Crotonville program, will be the dean of the Welch Institute. Mr. Tichy wasn't immediately available for comment but has said he was helping Mr. Welch with the school.

Mr. Welch says the MBA program will integrate his philosophy of leadership and human resources into a 12-course curriculum designed for mid-career workers. Mr. Welch doesn't initially plan to teach any courses, but will record a weekly video for students. In addition to the MBA, Chancellor also plans to offer bachelor's degrees and a master of management program.

Applicants will need an undergraduate grade-point average of at least 2.8, and won't be required to submit GMAT scores. An undergraduate degree will cost about $40,000 and an MBA will cost about $21,600, not including fees, says Mr. Clifford.

CORPORATE NEWS

Top F1 teams to form rival series

Ferrari and other groups plan to leave over disagreements on budgets, other rule changes

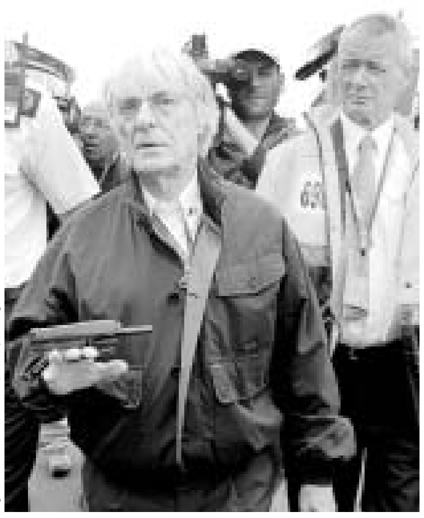
By Aaron O. Patrick

Formula One's elite car-racing teams were on a collision course over a matter of principle: the right to spend huge sums on their logo-encased race cars.

Eight top teams said they are leaving Formula One to form a rival competition. BMW-Sauber, Brawn GP, Ferrari, McLaren, Red Bull Racing, Renault, Toro Rosso and Toyota missed the deadline to submit entries for the 2010 series on Friday, effectively withdrawing.

The teams have been negotiating with Formula One officials all year to stop voluntary budget limits that would cap spending on cars and other costs to $65 million a year—a severe cutback for some teams. Formula One teams don't disclose their finances, but experts estimate budgets range from $150 million to $300 million.

The Formula One circuit, which includes storied locales such as Monaco, features cars fielded mainly by auto companies, which pour millions of dollars into entries as a promotional tool for their road cars. The teams' withdrawal leaves Formula One with only two entries for next season: AT&T Williams F1 and Force India F1 Team. Three new teams are also due to join next year: Campos Racing, Team US F1 and Manor F1 Team.



Agence France-Presse/Getty Images (2)

Formula One's Bernie Ecclestone, left, faces turmoil as teams including Ferrari—at the British Grand Prix Friday—threaten to leave.

Negotiations broke down last week with both sides unable to agree on the budgets and other rule changes, according to correspondence posted on the federation's Web site.

Underlying the dispute is a long struggle for power over the lucrative Formula One franchise, which attracts millions of television viewers in Europe, the Middle East and Asia. Organizers estimate an audience of 600 million TV viewers a year.

Car makers have long been unhappy with the power exercised by Bernie Ecclestone, the 78-year-old British billionaire who developed Formula One as a global brand in the 1970s and remains its dominant figure.

Speaking to reporters Friday, Mr. Ecclestone said he was unsure whether the dispute could be resolved, according to the Associated Press. "I think it's back to the future," he said.

On Sunday, Max Mosley, president of the sport's governing body, the Federation Internationale de l'Automobile, said the dispute could be resolved soon. "We are very, very close as far as the facts are concerned," he told the AP at the British Grand Prix. "It's just if the teams want to sit down and iron out the last few difficulties."

A representative for the rebel teams couldn't be reached for comment.

If the split isn't resolved quickly, it could cause headaches for television broadcasters around the world. Formula One television rights are typically sold in three-year blocks. "We are monitoring the situation," said a spokesman for the **British Broadcasting** Corp., which televises Formula One in the U.K.

The rebel teams lashed out at the FIA and **Formula One Administration** Ltd., which owns the commercial rights to Formula One and is owned by Mr. Ecclestone and a European private-equity fund, **CVC Capital Partners.** The federation ignored "the wishes of the majority," and "tens of millions of dollars" had been withheld from some teams since 2006 by Formula One Administration, they said in a statement.

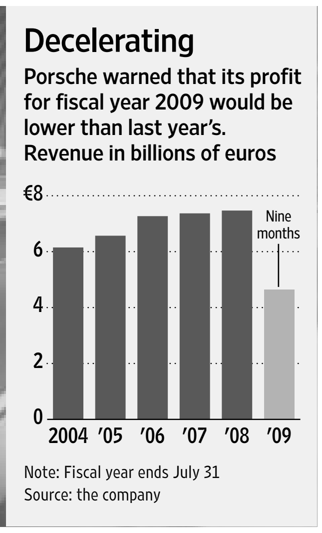
The dispute coincided with the British Grand Prix, held over the weekend at the Silverstone circuit in England. On Sunday, Sebastian Vettel won the race, leading Red Bull to a 1-2 finish and claiming his second Formula One victory of the season, the AP reported.

Porsche sales fall on luxury slump

By Christoph Rauwald

FRANKFURT—**Porsche Automobil Holding** SE said vehicle sales fell nearly 30% in the first nine months of its fiscal year, illustrating the problem luxury-car makers face as consumers shy away from big-ticket purchases because of the economic slump.

Porsche AG via Bloomberg News



For the nine months from August to April, Porsche sold 53,635 vehicles, down 28% from the year-earlier period.

The Stuttgart-based car maker said revenue fell 15% during the period to €4.64 billion ($6.47 billion).

The drop was less severe than the decline in vehicle sales because the high-margin 911 model accounted for a larger portion of sales, leading to a better model mix. However, unit sales for the 911 model were also down, falling 18%.

"A look at global unit sales makes clear that no region is being spared the sharp decline in automobile markets," Porsche said in a statement.

Operating profit at Porsche, excluding its holding in **Volkswagen** AG, was lower in the first nine months of the fiscal year compared with a year earlier. Porsche holds a stake of almost 51% in VW, Europe's largest auto maker by sales.

Porsche reiterated it is difficult to provide a reliable outlook for the financial year but said revenue and unit sales were likely to be lower.

Porsche noted that expenses related to the launch of the new Panamera model and the development of hybrid technology ate into earnings, along with rising refinancing costs.

The sports-car maker's net debt tripled to €9 billion after it built its majority shareholding in VW. That effectively forced it to abandon its initial plan to take full control of VW.

Porsche is seeking to shore up its balance sheet by securing funds from Qatar investment funds. The Porsche and Piëch families currently control all of the company's voting stock.

Additionally, Porsche has asked for a €1.75 billion loan from state-controlled bank KfW for the remainder of a €12.5 billion credit facility, which Porsche struggled to secure as credit markets turned sour because of financial-market woes.

The outcome of the talks with Qatar and KfW are set to have a significant impact on Porsche's position in planned talks with VW over forging an integrated company. Both Porsche and VW have been silent about the status of the merger talks since news broke that Porsche might clinch a deal with Qatar.

GM liability plan spurs opposition from eight states

By Mike Spector

Eight state attorneys general are opposing a provision in **General Motors** Corp.'s bankruptcy plan that would free the auto maker from liability for vehicle defects.

Attorneys general from Connecticut, Kentucky, Maryland, Minnesota, Missouri, Nebraska, North Dakota and Vermont filed an objection in U.S. Bankruptcy Court in the Southern District of New York Friday, arguing that GM's plan to shed these liabilities would bar accident victims from "key legal rights."

The states could face an uphill battle. **Chrysler Group** LLC emerged from bankruptcy earlier this month free of such liabilities. And legal precedent shows that most companies have wide latitude to leave claims behind in bankruptcy court.

GM's case is on a much larger scale than other bankruptcies because it has tens of millions of vehicles on U.S. roads. That has drawn attention from consumer advocates and lawyers.

GM plans to sell its "good" assets—including automotive brands Chevrolet, Cadillac, Buick and GMC—to a new company owned by the U.S. government. Under GM's proposed terms, consumers suffering injuries or death from vehicles currently on the road wouldn't be able to bring claims against the "New GM." Instead, they would be left as unsecured creditors seeking claims against GM's old estate in bankruptcy court, where they would likely receive little recompense.

A GM spokeswoman said "product-liability claims are going to be part of the ongoing court process."

U.S. car dealers look to capitalize on 'clunkers'

By Andrew Grossman

Car dealers and auto makers are laying plans to try to capitalize on the "cash for clunkers" provision in the war-funding bill passed by the U.S. Congress last week. But analysts are skeptical that the program will provide as large a boost to new-vehicle sales as some expect.

Owners of vehicles that get fewer than 18 miles per gallon, or about 7.5 kilometers per liter, will receive a voucher of as much as $4,500 if they scrap their car and buy a new, higher-mileage one. The program is modeled on similar efforts that have boosted sales in Europe and is aimed at raising the overall efficiency of the nation's vehicles.

"This is a great excuse to contact somebody that was in a week ago, six weeks ago, six months ago," and try to sell that person a new car under the program, said John McEleney, who owns three dealerships in eastern Iowa and heads the National Automobile Dealers Association.

The $1 billion appropriated in the bill is enough to fund about 250,000 vouchers for new-car purchases. It isn't certain, though, that customers will rush to trade in their clunkers.

Because the program requires dealers to scrap the vehicles that are traded in, the most a trade-in will be worth to a customer is $4,500. So only people who own cars worth less than $4,500—or $3,500 if they don't trade up to a car with substantially greater efficiency—are likely to participate in the program.

Moreover, people driving older cars worth that little may be unable to afford a new car, even with the voucher, said John Wolkonowicz, an analyst at forecasting firm IHS Global Insight.

And because gas prices are far lower in the U.S. than in Europe, customers don't have as great an economic incentive to trade up to a more-efficient vehicle.

The bill gives the National Highway Traffic Safety Administration 30 days from the date it is enacted to come up with rules for the program. NHTSA needs to devise ways to register participating dealers and make sure they scrap the cars traded in under the program, so they don't turn around and resell them.

The government and auto makers are looking for ways to clear up customer uncertainty about how the plan will work. NHTSA planned to launch a Web site called cars.gov to explain eligibility requirements. **Ford Motor** Co. expects to launch a site this week to explain the program and pitch Ford vehicles that would qualify for a voucher, a spokesman said.

Dealers were optimistic Friday that the bill would help them sell more vehicles, especially small, low-priced ones that get good mileage. "Almost every manufacturer has that entry-level, good-gas vehicle that would qualify," said John Garff, chief executive of Ken Garff Automotive Group of Salt Lake City.

Even if customers end up not qualifying for the program, dealers say the publicity surrounding cash for clunkers might be enough to get them into a dealership and to think about buying a car—something that has been lacking in recent months.

Novartis gains U.S. approval for novel drug

Research targets the genetic causes behind illnesses

BY JEANNE WHALEN

The U.S. Food and Drug Administration Thursday approved the sale of **Novartis** AG's Ilaris, the first drug the company has developed as part of its new push to focus on the genetic triggers that cause disease.

Ten years ago, drug companies such as Novartis aimed to develop pills that could be marketed to millions of patients. But Ilaris, the company's next big product, treats a rare genetic disorder affecting only a few thousand people world-wide.

But while Ilaris may target a small market, it is a big symbol of the way drug development is changing at the Swiss company and throughout the industry.

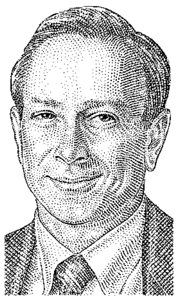
It is also the first concrete result of Novartis's seven-year effort to target the genetic causes of disease.

If it can find and fix the genetic switches that make people sick, Novartis believes, it will find truly effective drugs that patients need—and that insurers are willing to pay for.

Often, niche diseases with one or two genetic causes are the easiest to understand, so Novartis is focusing on many of those initially.

But it is hoping to gradually broaden its drugs to more common disorders that appear to be caused at least in part by similar genetics.

The idea is to "take rare diseases and use them as an entrance to more common ones—that wherever science is strong and [disease] mechanisms are understood, we'll be able to make progress quite quickly," Mark Fishman, Novartis's research chief, said in a telephone interview.



Mark Fishman

Novartis has invested heavily in its genetics-focused research.

Starting in 2002 it spent $4 billion to build a new research center in Cambridge, Mass., and it has hired hundreds of new scientists to staff the center.

Novartis's approach marks a departure from the way drugs used to be developed.

Traditionally, companies would bombard an illness with a variety of chemicals until they hit on a combination that worked, usually focusing on common diseases that promised lucrative returns. Often, they didn't know what really caused the disease or why a particular drug worked.

But big advances in genetics and biology in recent years have made it possible to decipher the causes of many illnesses.

Novartis officials won't yet comment on how much Ilaris will cost, but it is likely to be among the world's most expensive drugs.

A rival treatment that **Regeneron Pharmaceuticals** Inc. introduced last year costs $250,000 a year, a price Regeneron says it is charging because it needs to recover some of its investment and because so few people have the disorder.

Last year, Arcalyst had sales of about $11 million.

Ilaris treats cryopyrin-associated periodic syndrome, or CAPS, a rare, inherited disorder caused by a mutation in a single gene. There are about 300 known cases in the U.S., and perhaps as many as 7,000 world-wide, according to Hal Hoffman, an associate professor of medicine and an expert on the disease at the University of California, San Diego.

That genetic mutation causes the body to overproduce interleukin-1, a protein tied to the immune system.

This leads to inflammation and tissue damage, causing chronic rash, fever and joint pain. Severe cases can result in deafness, kidney failure and death.

Ilaris and Regeneron's drug, Arcalyst, work by blocking the production of the protein.

Todd Gragg, a 38-year-old in Douglasville, Ga., started taking Ilaris during a clinical trial and saw his symptoms disappear within hours of his first shot.

Several members of his family have had the same disorder for years, but they never knew what it was called until recently, he said. "We called it the breaking out."

Both Novartis and Regeneron are testing their drugs on a more common condition with similar causes—gout, whose sufferers also experience pain and inflammation in the joints.

Ilaris is a big symbol of the way drug development is changing.

A Regeneron spokesman said that if the company wins approval to sell Arcalyst for gout, it will lower the price, though he declined to say by how much.

Novartis, meanwhile, is also testing Ilaris in juvenile rheumatoid arthritis, diabetes and respiratory disease, all of which it believes are caused in part by interleukin-1.

Dr. Hoffman of UCSD said interleukin-1 is probably tied to a host of inflammatory diseases, but unlike the situation with CAPS, it won't be the sole cause in other disorders.

"There are going to be other uses" of these drugs, he said, but patients' responses might not be as "stark" as in CAPS.

If Novartis can show that Ilaris works in some of these other diseases, the drug could become a big seller, **Trevor Mundel**, head of drug development at Novartis, said in a telephone interview.

"The risk of the overall method is you may get a very targeted indication, and you may never get an expansion," he said. "That may be the downside, and that may occur."

Other genetically targeted drugs being developed by Novartis include AIN457 for psoriasis and an inflammatory disorder of the eye, which the company hopes to launch after 2010, and AFQ056, a drug for Parkinson's disease that it aims to start selling after 2012.

FOCUS ON ENERGY

Shell discovers gas field

Big find in Norway; Nigeria operations come under attack

By Elizabeth Adams And Benoît Faucon

Shell

Royal Dutch Shell made a gas discovery in the Norwegian Sea that is likely the biggest since the 1997 discovery of Ormen Lange, the project pictured here.

LONDON—**Royal Dutch Shell** PLC said Friday that it made a natural-gas discovery in the Norwegian Sea that Norway's Petroleum Directorate noted could be the country's biggest find since the giant field Ormen Lange was found in 1997.

Meanwhile, Shell confirmed an attack against an offshore oil platform in Nigeria, the third militant operation against the company's Nigeria subsidiary in 24 hours.

The gas discovery, called Gro, is estimated to hold 10 billion to 100 billion cubic meters of recoverable gas, the country's Petroleum Directorate said, adding that the find is located in the deepest water of any Norwegian discovery to date.

In comparison, Ormen Lange holds nearly 400 billion cubic meters of gas reserves. The Gro discovery, if found to contain volumes toward the upper end of the wide estimate, would be about the same size as the Kvitebjoern field, with 74.9 billion cubic meters, or Oseberg, which holds 109.2 billion cubic meters, according to the NPD.

Gro is located 150 kilometers northwest of the Victoria gas discovery in the northern Norwegian Sea, and 360 kilometers offshore.

The Norwegian Sea has proved to be an excellent location to search for gas reserves, with a raft of discoveries, including Victoria; Onyx Southwest; the Luva, Haklang and Sneffrid South trio; and Asterix.

"We're pleased with the discovery. We consider it positive for this area of the Norwegian continental shelf. It could have significant potential," said Shell spokesman David Williams, adding it is too early to say what the export options might be.

The size of the recoverable gas volumes at Ormen Lange, as well as the field's location, justified a new 1,200-kilometer export pipeline.

NPD exploration manager Sissel Eriksen said the gas find is "very interesting, and could be the largest since Ormen Lange if the upside figure is taken."

The discovery proves that Norway has a model that is working, Ms. Eriksen said. She added the area around Gro remains largely unexplored. "We're pushing the limit westward," Ms. Eriksen said.

The Anglo-Dutch company owns 50% of Gro, while **StatoilHydro** ASA owns 40% and **GDF Suez** SA owns 10%.

In Nigeria, Shell Petroleum Development Co. is investigating the attacks' "impact on facilities, environment and production," a Shell spokesman said in an email. The main Nigeria militant group said the structure was engulfed in fire.

The militant group, the Movement for the Emancipation of the Niger Delta, said the oil-platform attack had occurred in the western part of the Niger Delta. Shell said earlier Sunday that all three attacks claimed by militants had occurred in the eastern Delta.

U.S. nuclear companies must detail cash shortfall

By Rebecca Smith

The U.S. Nuclear Regulatory Commission told six utility companies that they have until year-end to explain how they will remedy shortfalls in nuclear decommissioning funds. The underfunding reflects reduced returns on investments.

The NRC didn't divulge the collective shortfall but said amounts ranged from $12 million to $204 million for each of 26 reactors at 18 sites on the list—one-quarter of the nation's reactors in service. That suggests the total shortfall is at least $500 million and, possibly, several billion dollars.

Companies owning the nation's 104 power reactors had set aside $41 billion in decommissioning funds, which they controlled, at the end of 2008.

Scott Burnell, a spokesman for the NRC, said the number in arrears is "more than normal" and that the situation "needs to be resolved in the near future."

The license holders receiving notice—**Exelon** Corp., **Entergy** Corp., **Constellation Energy Group** Inc., **FPL Group**, **First Energy** and **Tennessee Valley** Authority—include some of the industry's biggest names, and most have announced they are considering building additional reactors in coming years.

A spokesman for FPL said his company is "fully committed to meeting our obligations" and blamed "market conditions" for the underfunding for its Point Beach and Duane Arnold units in Two Creeks, Wis., and near Cedar Rapids, Iowa.

The NRC requires companies to sock money away to cover the anticipated cost of taking plants out of service and, eventually, razing them. Roughly half the nation's reactors have gotten 20-year extensions on original 40-year licenses, meaning that decommissioning periods have been pushed off.

The NRC requires operators to update it on decommissioning funds at least every two years and the latest batch of public reports was filed in March and April.

"We do have some time to recover that shortfall," said Adrian Heymer, senior director of strategic programs for the Nuclear Energy Institute, a trade association. Companies have up to 60 years to tear down plants, once they are taken out of service.

An Exelon spokesman said his firm cured shortfalls at three reactors recently but still must satisfy the NRC on two plants.

Agence France-Presse/Getty Images

Reserves to decommission 26 nuclear plants, such as Exelon's Byron, Ill., reactor, are inadequate, the NRC said.

Lukoil gains more heft in Europe

Russia's OAO **Lukoil** said it will pay $725 million for a stake in a Dutch refinery owned by France's **Total** SA, blocking a bid for the holding from **Valero Energy** Corp.

By Jacob Gronholt-Pedersen, Geraldine Amiel and *Guy Chazan*

The move is the latest in a series of deals signaling Russian energy companies' push to strengthen their positions in the European market.

Lukoil, which is 20%-owned by U.S. oil major **ConocoPhillips**, said it plans to close the deal for a 45% stake in Total Raffinaderij Nederland by year end.

The announcement coincides with a state visit by Russian President Dimitry Medvedev to the Netherlands and reflects Russia's open advocacy for foreign expansion by its big energy players, which can boost the country's international influence.

Total has been seeking to build relations with Russian energy companies. It holds a stake in OAO **Gazprom**'s Shtokman gas project in the Barents Sea and also has a stake in Russia's northern Kharyaga field.

U.S.-based Valero said last month that it agreed to buy the 45% stake in the Dutch refinery from **Dow Chemical** Co., which co-owned the refinery with Total. However, the French oil company exercised its pre-emptive rights to purchase the stake and simultaneously agreed to sell the holding to Lukoil. Total will keep a 55% stake in the refinery.

The 153,000 barrels-a-day refinery located in Vlissingen is mainly run on Russian crude oil.

Lukoil Chief Executive Vagit Alekperov said the acquisition "organically fits in our company's strategy aimed at increasing oil refining capacities located in the immediate proximity to the markets where products with higher added value are sold."

The acquisition is the latest in a string of deals by Russian oil firms.

In November, Lukoil, which focuses on investments outside Russia more than any other of the country's oil majors, took a 49% stake in ERG SpA's Isab refinery in Priolo, Sicily.

In April, Russia's Surgutneftegaz purchased a 20% stake in Hungarian national energy company MOL Nyrt. And last year, state-controlled gas giant Gazprom bought Serbian national oil company NIS and formed alliances with European energy companies to build two new pipelines that will pump Russian gas to Northern and Central Europe.

Lukoil is striving to boost its refining capacity by more than 70% by 2016. However, some of its recent attempts to buy assets abroad have failed, either because the deals were too expensive or because of what the company called the European Union's wariness about Russian investment. Lukoil owns refineries in Bulgaria and Romania and runs gas stations in various European countries and in the U.S.

Separately, **PetroChina** Co. is in talks with British chemicals firm **Ineos** to invest in a giant oil refinery in Scotland, a move that could mark the Chinese oil company's first venture in European refining.

State-owned PetroChina, the largest Chinese oil producer by output, is one of a number of Chinese companies trying to secure global energy assets to power the country's hungry economy.

Ineos, one of Britain's largest private companies, is heavily in debt. The company said in May that lenders had approved its request for a covenant waiver extension, giving it breathing room to restructure its €7.5 billion ($10.47 billion) debt load.

Ineos said Friday that it was in discussions "with a number of potential partners about growth opportunities" at its Grangemouth refinery.

But it said the talks were "exploratory" and "may or may not lead to investment" in Grangemouth. It said it was committed to the refinery, which remained "a core part" of the Ineos group.

Recently, PetroChina's president, Zhou Jiping, said the company wanted to take advantage of relatively low oil prices to actively seek out opportunities overseas.

It is in talks with a number of oil majors, such as **Royal Dutch Shell** PLC and **Chevron** Corp., as well as state-owned energy companies in Qatar and Venezuela, according to company executives. PetroChina couldn't be reached to comment.

The Grangemouth operation, which Ineos acquired from **BP** PLC in 2005, is strategically important because it is connected to the North Sea Forties pipeline, which carries about a third of the U.K.'s oil to shore.

—Lorraine Luk contributed to this article.

In U.K., impromptu strikes grow

By Angela Henshall

LONDON—More than 2,000 contract workers at energy facilities across the U.K. halted work Friday to join a strike over sweeping job cuts at an oil refinery owned by French oil major **Total** SA.

Total said it plans to lay off 647 contract employees Friday at its Lindsey refinery in Lincolnshire, angering unions and workers. The Unite union put the total job losses closer to 900.

This is the third episode of rapid industrial action to hit the U.K.'s energy industry in five months, but the strikes have so far failed to affect output from plants, companies say. The speed of the action has been attributed to the increased use of mobile technology and social-networking sites to mobilize workers.

The strikes reflect growing stress in the U.K. labor market. The government reported Wednesday that unemployment had jumped to 7.2% in the three months ended April 30 from 6.5% in the previous quarter. The number of people out of work is now at a 12-year high.

The U.K. government waded into the argument Friday, urging Lindsey workers to reapply for their jobs and start talks with bosses. "The government's view is that unofficial strike action and demonstrations are never the right response to industrial-relations problems," a government spokesman said at the U.K. prime minister's daily briefing.

Total said in a statement that it was "extremely disappointed and frustrated" by the walkout, but negotiations couldn't begin until the employees had returned to work. **Jacobs Engineering Group** Inc., the contractor at Lindsey, informed workers by post of the cuts, telling them to reapply for their jobs in the next four days. JEG was unavailable for comment.

Thousands of contractors have joined the protest in support of Lindsey's workers. Hundreds of workers building a bioethanol plant in Teeside, in the northeast of England, for biofuels company **Ensus** left the site Friday morning, an Ensus representative said. About 450 contractors walked out at **Royal Dutch Shell** PLC's Stanlow oil refinery, in Ellesmere Port, in northwestern England, while more than 400 put down tools at three **RWE** AG power plants. At **E.ON** AG's Ratcliffe power plant, 150 left the site.

CORPORATE NEWS

Norsk Hydro interested in Asia Aluminum

Rival bid may avert bankruptcy filing, please bondholders

By Jonathan Cheng

HONG KONG—Norwegian aluminum supplier **Norsk Hydro** ASA has expressed interest in buying **Asia Aluminum Holdings** Ltd. in a deal that could avert a bankruptcy filing by the Chinese company and provide a happier exit for scores of Western debtholders who could otherwise see much of their investment wiped out.

Norsk Hydro didn't state an offer price, but declared its "strong commitment" to look into a possible acquisition.

Norsk Hydro's interest comes as a management-backed entity has sought to buy out Asia Aluminum. Some foreign investors oppose that, saying it wouldn't provide an adequate return on debt once valued at $1.2 billion. Several hedge funds had successfully held up the management buyout, being done through a provisional-liquidation process, until competing bids could be entered.

The hedge funds' adviser, **KPMG**, helped persuade Norsk Hydro to enter the fray, according to a Norsk Hydro letter reviewed by The Wall Street Journal. In the letter, Norsk Hydro's senior vice president for mergers and acquisitions, Arnstein Sletmoe, said the company considers itself "uniquely placed to offer the business the strongest chance of survival."

Bloomberg News

Asia Aluminum Holdings' facility in Zhaoqing, China. Several hedge funds had held up a management buyout until competing bids could be entered.

In the letter, Mr. Sletmoe also noted that Norsk Hydro's offer would "deliver an attractive offer for creditor groups," and that a formal bid would be submitted by June 29, subject to due diligence and necessary approvals.

Mr. Sletmoe on Friday confirmed writing the letter but declined to say whether Norsk Hydro has received any response.

The letter was addressed to the municipal bureau of foreign trade and economic cooperation in the southern Chinese city of Zhaoqing, where Asia Aluminum is headquartered, as well as turnaround specialists at **Ferrier Hodgson** who are helping arrange the management buyout.

Representatives of Asia Aluminum, the Zhaoqing government and Ferrier Hodgson couldn't be reached for comment.

Norsk Hydro, founded in 1905, is the world`s third-largest integrated aluminum supplier, generating $14 billion in revenue in 2008, according to the company. Norsk Hydro says it sees value in Asia Aluminum`s flat-rolled products, in which the Chinese company has made big investments over the past five years. Norsk Hydro says an acquisition of Asia Aluminum would give it a foothold in a region in which it sees growth potential.

Foreign institutions hold $450 million in high-yield bonds issued by Asia Aluminum in 2004. According to Ferrier Hodgson estimates, these bondholders stand to receive about 20 cents on the dollar once the restructuring is completed.

A group of U.S. hedge funds, including **Och-Ziff Capital Management Group** LLC and **Stark Investments**, as well as the proprietary-investment desk of Bank of America Merrill Lynch, part of **Bank of America** Corp., have invested in so-called payment-in-kind, or PIK, notes. These notes are riskier in that they allow the company to skip interest payments and instead enlarge the amount of existing debt. Ferrier Hodgson has estimated a recovery of about one cent on the dollar for PIK holders.

In 2006, Asia Aluminum issued about $535 million in PIK notes to finance a management buyout led by Chairman Kwong Wui-chun. The outstanding debt now totals around $800 million, according to people familiar with the notes.

In a letter late Friday to senior bondholders, Asia Aluminum PIK holders argued that a Norsk Hydro deal would be better for all parties than the management-led deal. The letter also said that they had contacted an official in Zhaoqing to promote a Norsk Hydro deal through the PIK holders' advisers at Bank of China (International). The official "did not make any statements, positive or negative, about the potential Norsk Hydro transaction," the PIK holders wrote.

"We have long believed that there were other possible buyers for this business that could realise more value," a spokesperson for the PIK holders said.

China tells Google to bar some foreign sites' links

By Aaron Back And Jessica E. Vascellaro

In Beijing's latest move to exercise greater control over Internet use, Chinese officials ordered **Google** Inc. to stop showing some results from foreign Web sites through its Chinese Web site, the state-run Xinhua news agency reported Friday.

The report came a day after the U.S. company was warned over pornographic content available through its search engine.

The scope of the order remains unclear. As of Sunday evening in China, foreign Web sites were still searchable and accessible from Google's Chinese home page. However, a function that suggests search phrases appeared to be disabled as a result of the order.

A Google spokesman said in a statement Friday that company officials met with government representatives in recent days to "discuss problems with the Google.cn service and its serving of pornographic images and content based on foreign language searches."

"We are undertaking a thorough review of our service and taking all necessary steps to fix any problems with our results," read the statement. "This has been a substantial engineering effort, and we believe we have addressed the large majority of the problem results."

China is a key market for Google because it has more Internet users than any other country.

The order is the latest sign that Chinese regulators are setting their sights on Google, as they make further moves to exercise tighter control over the Internet.

In recent weeks, the micro-blogging service Twitter was widely inaccessible in China, although the service has been restored, according to local reports. The government has also recently told personal computer makers that they must ship all new PCs with Web-filtering software designed to block "harmful" content.

The order marks a new approach to filtering content beyond firewall technology the government has long operated.

Google appears to be getting particular attention. YouTube, its video-sharing site, has been blocked since March, according to the company. While the site has been intermittently unavailable to users in China, the length of the service interruption is unusual.

Last week, the China Internet Illegal Information Reporting Center, a government-backed Internet watchdog, said in a statement that pornographic images could be found through the Google China Web site, despite warnings from the center that such content was viewable in January and April.

David Wolf, chief executive of Wolf Group Asia, a Beijing-based technology marketing firm, said Google has had technical problems with its filtering of English-language searches for pornography. "They've been very careful with Chinese searches," he said.

Mr. Wolf added that Google likely hasn't invested as much in self-censorhip as Chinese Internet companies, which often employ large numbers of people to manually sweep their sites and remove objectionable material.

Google launched its China-based search engine in 2006, agreeing at the time to censor information the government deemed objectionable.

Its Chinese site filters out search results for sensitive topics such as the 1989 crackdown on protesters in Tiananmen Square. But since then the government has continued to admonish it and at times, blocked certain services.

Google's search engine has roughly a 20% market share in China, still far behind domestic leader Baidu.

CORPORATE NEWS

Dreamliner to fly soon

But Boeing is pressed to complete schedule of testing for approval

By Peter Sanders

Boeing Co., attempting to maneuver its 787 Dreamliner through the turbulence it has encountered so far, is expected to conduct the plane's maiden flight in coming days.

But even after the plane is airborne, the aerospace company will still be under pressure to complete an ambitious schedule of test flights and government certifications. Any additional glitches could force it to again delay delivery to its launch customer, **All Nippon Airways** Co., set for March 2010.

"We've got to get it up and flying, [and] we'll all take a deep sigh," said Marlin Dailey, vice president of sales for Boeing Commercial Airplanes. "We're looking forward to that milestone, but it's just another step in the journey."

The test flight, which Boeing has said will occur by June 30, will open a new chapter for the Chicago-based company. The Dreamliner, which was supposed to enter service in May 2008, is considered the most technologically sophisticated commercial aircraft ever built, but its complexity has led to production problems and postponed launch and delivery dates.

Boeing has had to provide concessions to its airline customers because it has missed promised deadlines. The company has seen a spate of cancellations, while its credibility with investors also has suffered.

Boeing's shares have risen about 43% since mid-March. According to a research note last month from Morgan Stanley aerospace analyst Heidi Wood, customers' financing concerns have eased and investors are confident in the company's order backlog. The shares could get a further boost once the Dreamliner makes its first flight but could suffer if the program hits new snags.

Boeing

Even after Boeing's 787 is airborne, the company will be under pressure to complete an ambitious schedule of test flights and government certifications.

After the plane's inaugural flight, Boeing will embark on a compressed test-flight schedule expected to last roughly eight to nine months. Previous Boeing test-flight programs usually have taken about a year to receive the necessary certifications from the Federal Aviation Administration.

Scott Carson, president and chief executive of Boeing Commercial Airplanes, in an interview last week said "one concern is the sheer volume of reports we'll be giving the FAA and their ability to process them [for certification]."

Boeing plans to use six planes during the testing phase. As of now, only two of the aircraft have moved from production to the flight line. The other four are in various stages of final production.

The accelerated testing program will put the planes through hundreds of scenarios, including extreme climates and simulations of various emergencies, according to company officials. Test pilots will fly the planes during the day, while hundreds of engineers and mechanics will review the results by night.

In manufacturing the 787, Boeing essentially invented a new way to assemble a commercial airplane. Unlike the company's previous wide-body aircraft, which are largely assembled at the Boeing factory in Everett, Wash., major portions of the 787 are fabricated by contractors as far away as Italy and Japan, and then shipped to the factory for final assembly.

The 787's problems, and the global recession, have rippled through other commercial-airplane programs at Boeing. The new 747-8, an update to the venerable two-deck jumbo jet that competes with the Airbus double-decker A380 aircraft, also has been delayed.

Beyond the test flight, questions remain about how quickly Boeing can accelerate production of the Dreamliner to its goal of 10 airplanes a month by 2012. The company and its suppliers have cautioned that there remain potentially significant kinks in the manufacturing system.

—Daniel Michaels contributed to this article.

Nortel Networks sets liquidation

By Sara Silver

Nortel Networks Corp. said it will liquidate, ending efforts to restructure in bankruptcy court, and sell its businesses piecemeal. It agreed to accept a $650 million bid by Nokia Siemens Networks for the most lucrative part of its carrier-networks division and a wireless-research unit, the company said Friday.

Toronto-based Nortel has struggled to sell its assets since entering bankruptcy-court protection in January, as customers looked elsewhere for equipment upgrades and the value of the telecom-gear maker's assets fell.

"This is not what we were planning to accomplish," Chief Executive Mike Zafirovski said in an interview. Nortel is in advanced sales talks involving its other businesses, he said. "It's a good outcome for our employees, our customers and our technologies," Mr. Zafirovski said.

Nokia Siemens, a joint venture of **Nokia** Corp. of Finland and **Siemens** AG of Germany, agreed to buy a unit that makes a voice technology called CDMA, which is deployed by major U.S. carriers including Verizon Wireless and **Sprint Nextel** Corp. The deal could give Nokia Siemens the foothold it has long sought in the U.S., as well as one of the largest bases of CDMA customers in the world.

Under the proposed deal, Nokia Siemens would also buy a 400-person research unit developing radio technologies for an ultrahigh-speed broadband technology known as LTE. Verizon Wireless, **Vodafone** PLC and other major global carriers are planning to use the technology in coming years.

The Nokia Siemens offer and any bids for other operations are subject to a court auction that may draw higher bids.

The bankruptcy-law process requires Nortel to seek the most value for creditors, which include the holders of about $4.5 billion in debt, and more than $2 billion owed in severance to former employees and pensions to retired managers, and other obligations.

The telecommunications-equipment industry has been swept by a wave of consolidation as its customers, the telecom carriers, consolidated. Nortel is much smaller than its main Western rivals and has higher costs than its Chinese competitors.

"We always thought it was very important for us to be driving consolidation in the industry" through acquisitions, Mr. Zafirovski said. "This time, we will be on the other side of the transaction."

The difficulties facing the company's restructuring were evident in Nortel's first-quarter net loss, which came to $507 million, or $1.02 a share, compared with a year-earlier loss of $138 million, or 28 cents a share. Revenue fell 37% to $1.73 billion.

Once a technology star valued by investors at $250 billion during the dot-com boom, Nortel saw its value collapse after being racked by accounting restatements, price cutting, and a merger wave that made its chief rivals more formidable. Nortel failed to find a merger partner, despite talks with rivals including **Alcatel** SA of France, and Nokia, which each chose other partners, and **Avaya** Inc., according to people familiar with the matter.

GLOBAL BUSINESS BRIEFS

Candover Investments PLC

Charterhouse Capital buys energy-research division

Candover Investments PLC said Friday that its Candover Partners division has agreed to sell energy-research unit Wood Mackenzie to U.K. private-equity firm Charterhouse Capital for £553 million ($912 million) including debt, as part of a survival plan aimed at bolstering its finances. Candover Investments said it will gain £36.2 million from the deal, which is this year's biggest European purchase by a private-equity firm. Wood Mackenzie was put up for sale after Candover Investments failed to meet a €1 billion ($1.39 billion) commitment to a new €3 billion Candover Partners fund. Once one of Europe's biggest private-equity houses, Candover has seen a string of its investments plunge in value, and it suspended new investments by its 2008 fund.

Taylor Wimpey PLC

U.K. house builder **Taylor Wimpey** PLC said Friday that its order book has risen 73% to £971 million ($1.6 billion) since the end of last year and that it expects to further cut its £1.01 billion debt. Taylor Wimpey, which recently strengthened its financial position with a £510 million capital raising, said it had been "encouraged by the ongoing stability in the U.K. housing market, but [remains] cautious with regard to the prospects of the wider economy." Taylor Wimpey's cautious optimism is the first sign that encouraging data on the U.K. housing market is having an effect on house builders. House prices in May climbed 2.6% from April, according to mortgage lender Halifax, an indication the slump in the residential-property market may be bottoming out.

Banco Santander SA

Banco Santander SA Chairman Emilio Botín said the worst of the global banking crisis may be over but warned that hitting the bank's earnings target this year could be tougher than it was in 2008. The bank still believes that 2009 profit should match the €8.88 billion ($12.33 billion) it made in 2008, Mr. Botín told shareholders at the bank's annual general meeting Friday, adding that the bank had performed well in the second quarter. Santander now expects nonperforming loans will stand at 3.5% of its Spanish loan portfolio, down from a previously forecast 4.5%, said Chief Executive Alfredo Sáenz. Mr. Botín reiterated plans to pay out 50% of profit this year as a cash dividend and said Santander will outperform the sector in its home market.

PetroChina Co.

PetroChina Co. said it agreed to buy western pipeline assets from its parent for 9.71 billion yuan ($1.42 billion). The Chinese oil company said the assets purchased include one crude-oil pipeline and one refined-oil pipeline, each with a length of 1,858 kilometers stretching west-to-east from Urumqi in Xinjiang province to Lanzhou in Gansu province. The crude-oil pipeline and the refined-oil pipeline have designed capacities of 20 million metric tons and 10 million tons a year, respectively. PetroChina said the deal will strengthen its capabilities in pipeline transmission, enabling optimal distribution and operational efficiency of the pipeline resources.

PepsiAmericas Inc.

PepsiAmericas Inc., facing a potential purchase, said Friday it has adopted a change-of-control plan for seven top executives. **PepsiCo** Inc. is trying to consolidate its two anchor bottlers, PepsiAmericas and **Pepsi Bottling Group** Inc., for about $6 billion—an offer both bottlers have rejected. The plan, designed to encourage participants to remain with the company, provides incremental payments and benefits, according to a Securities and Exchange Commission filing. The company also adopted a severance plan for all other U.S. salaried employees, which entitles them to payments and benefits if, during the two-year period after a change in control, they are terminated without cause or resign for good reason. Participants would qualify for sums equal to an individual's monthly target bonus and base salary for two years.

Toyota Motor Corp.

Toyota Motor Corp. got 180,000 orders for the new Prius hybrid in Japan in the past month, far surpassing its target of 10,000 vehicles in monthly sales, the auto maker said. The third-generation Prius, which rolled out a month ago, has been a big hit in Japan, partly because of tax breaks and other new government incentives meant to boost growth. The Prius was the No. 1 selling vehicle in Japan for May, clinching the top spot in the domestic market for the first time and overtaking **Honda Motor** Co.'s new hybrid, the Insight, which fell to third place after taking the top spot in April. Competition in the hybrid vehicle market intensified after the Insight debuted in February in Japan. Dealers are still selling mostly second-generation models, bringing total Prius sales to 10,091 for May, Toyota spokesman Paul Nolasco said.

TSMC

Taiwan Semiconductor Manufacturing Co. said Friday it plans to raise its capital expenditure this year to the same level as 2008's US$1.9 billion, a signal that conditions in the chip industry are improving. TSMC, the world's largest contract chip maker by revenue, said in April it expected its capital expenditure this year to total $1.5 billion. Company spokesman J.H. Tzeng, who was reiterating comments from TSMC Chairman Morris Chang at a forum Thursday, didn't elaborate on the planned increase in spending. Mr. Chang said last month the chip maker's revenue rose sharply in the second quarter compared with the first quarter. He said the company planned to rehire several hundred workers it laid off in January and doesn't expect further layoffs.

—Compiled from staff and wire service reports.

ECONOMY & POLITICS

U.S. Navy's Mideast home faces strife

Sectarian and ethnic hostility between long-term Bahrain residents and new recruits is rocking Gulf kingdom

By Yaroslav Trofimov

MADINAT HAMAD, Bahrain—On a recent evening, Issa al Jibb climbed the roof of his home and started hurling Molotov cocktails into the adjoining property of the Rawi clan. By the time Bahraini police shot him down with a rubber bullet, Mr. Jibb had managed to burn three cars and part of the building, and inflicted serious burns on two Rawi teenagers.

This was no ordinary feud among neighbors. Mr. Jibb, 46 years old, is a native of this small Persian Gulf kingdom. The Rawis are originally from Syria, were recruited along with thousands of other Arabs and Pakistanis to serve in Bahrain's security forces and eventually rewarded with Bahraini citizenship for their loyalty to the crown.

Hostility between these two communities is on the rise, with several other clashes, car torchings and beatings reported in recent months. "Bahrainis think that we just don't belong, that we're aliens to this area and to this state," says a Syrian-born army officer who lives nearby.

Once hailed for its democratic reforms, Bahrain—a strategic island-state that serves as headquarters of the U.S. Navy Fifth Fleet—is increasingly rocked by sectarian and ethnic strife. Though the majority of Bahrain's 530,000 citizens are Shiites, power remains in the hands of a Sunni royal family, the only such minority regime in the Arab world since the downfall of Saddam Hussein in Iraq. Suspecting its Shiite citizens of loyalty to nearby Iran, the island's former master, Bahrain's royal family has long relied on Sunni mercenaries from countries such as Syria, Jordan, Yemen and Pakistan to staff Bahrain's army, police and security service.

Yaroslav Trofimov/The Wall Street Journal

Freih al Rawi, originally from Syria, is one of the thousands recruited to Bahrain to serve in its security forces.

Earlier this decade, as Washington pushed for democratization in the region, Bahrain's King Hamad freed political prisoners and established an elected parliament with limited powers. However, opposition leaders and some independent analysts charge, a parallel program began at the same time, largely ignored by Western nations that depend on Bahrain's valuable naval facilities. The regime, they say, has sharply accelerated its policy of naturalizing Sunni mercenaries, aiming to inflate the size of the Sunni electorate—and to defuse Iran's growing influence.

"There seems to be a clear political strategy to alter the country's demographic balance in order to counter the Shiite voting power," says Toby C. Jones, professor of Middle East studies at Rutgers University and a former Bahrain-based analyst at the International Crisis Group think tank. "This naturalization stuff is a time bomb."

Bahraini officials deny any such policy exists, and insist there is no discrimination against the country's Shiites. According to Bahrain's interior minister, Sheik Rashid bin Abdullah al Khalifa, only about 7,000 people were naturalized in the past five years. Opposition politicians, however, calculate the naturalization's true pace at some 10,000 people a year, based on voter registration statistics—a big number in such a small country.

People picked for this naturalization "aren't just Sunnis," but religious fundamentalists "who share the hatred of the Shiites," asserts Hassan Mushaima, leader of Bahrain's Haq Shiite movement who was imprisoned for three months this year for his role in violent street protests.

Not just Bahraini Shiites oppose the naturalization. Initially, the island's Sunnis welcomed fellow Sunni newcomers, says Ebrahim Sharif Alsayed, secretary-general of the Waad secularist movement and a Sunni himself. "But today, most Sunnis are strongly against the naturalization," he says. "It's not about balancing the Shiites anymore—it's about protecting the indigenous Sunni population from being invaded by foreigners."

Mr. Jibb, the Bahraini who threw Molotov cocktails into his neighbors' home in Madinat Hamad last month, is a Sunni, too. The conflict began in December, when Mr. Jibb witnessed the beating of a Bahraini neighbor by the Rawis and other naturalized Syrians, according to his sister Leila. "The Syrians, they're like a gang trying to control the whole area, bullying the whole street just to show who's the boss," she says.

A few days later, the Rawis attacked Mr. Jibb with a hammer blow on the head, prompting a hospitalization, she says. Members of the Rawi household, headed by retired Bahraini army sergeant Freih al Rawi, and comprising some 40 people, deny they instigated the clash. "We know; there's bad feeling for foreign people here," says one of Mr. Rawi's sons, an army officer.

The night of May 29, Ms. Jibb says, her brother—who suffered psychiatric problems after the December hammer blow to the head—found himself the target of taunts by the Rawis again, and simply "lost his mind," unleashing the volley of Molotov cocktails. Ms. Jibb has since fled her house, fearing revenge from the Syrian-born neighbors.

"How can it be?" she wondered indignantly. "I, a pure Bahraini lady, am now homeless in my own country!"

U.S. fortifies Hawaii to meet threat from North Korea

By Yochi J. Dreazen

WASHINGTON—The U.S. is moving ground-to-air missile defenses to Hawaii as tensions escalate between Washington and Pyongyang over North Korea's recent moves to restart its nuclear-weapon program and resume test-firing long-range missiles.

Defense Secretary Robert Gates said Thursday that the U.S. is concerned that Pyongyang might soon fire a missile toward Hawaii. Some senior U.S. officials expect a North Korean test by midsummer, even though most don't believe the missile would be capable of crossing the Pacific and reaching Hawaii.

Robert Gates

Mr. Gates told reporters the U.S. is positioning a sophisticated floating-radar array in the ocean around Hawaii to track an incoming missile. The U.S. is also deploying missile-defense weapons to Hawaii that would theoretically be capable of shooting down a North Korean missile, should such an order be given, he said.

"We do have some concerns if they were to launch a missile…in the direction of Hawaii," Mr. Gates said. "We are in a good position, should it become necessary, to protect American territory."

In another sign of America's mounting concern about North Korea, a senior defense official said the U.S. is tracking a North Korean vessel, the Kang Nam, suspected of carrying weapons banned by a recent United Nations resolution.

The U.S. moves come as strains intensify between the U.S. and North Korea. Earlier this year, Pyongyang test-fired a missile that flew over Japan before crashing into the Pacific Ocean. On May 25, Pyongyang detonated a nuclear device at a test site near its border with China, drawing rare rebukes from Moscow and Beijing.

U.S. President Barack Obama and South Korean President Lee Myung-bak met last week at the White House and agreed to launch a new effort to persuade North Korea to give up its nuclear arsenal. In a joint statement, the Obama administration also agreed to maintain the long-standing U.S. vow to defend South Korea from a North Korean attack.

Japan's Yomiuri newspaper reported Thursday that North Korea would launch a long-range Taepodong-2 missile at Hawaii from the Dongchang-ni site on the country's northwestern coast on or close to July 4. In his comments to reporters, Mr. Gates didn't directly address the Japanese report or say whether the U.S. had evidence that North Korea was preparing for a launch.

Associated Press

In anticipation of a North Korean missile test, the U.S. is positioning off Hawaii a floating radar, like this one shown in a 2005 Boeing photo.

Some U.S. officials have said satellite imagery shows activity at a North Korea testing facility that has been used in the past to launch long-range missiles. On a trip to Manila earlier this month, Mr. Gates said the U.S. had "seen some signs" that North Korea was preparing to launch a long-range missile. But he cautioned, that "at this point, its not clear what they're going to do."

The stakes would be high for both North Korea and the U.S. in the event of a missile launch.

North Korea would be attempting to demonstrate that it was capable of striking the U.S., but many American defense officials are highly skeptical that North Korea has a missile capable of reaching Hawaii, which is more than 7,200 kilometers away from North Korea.

North Korean long-range missiles have failed three previous tests in the past 11 years. In the most notable North Korean misfire, a Taepodong-2 missile that Pyongyang launched on July 4, 2006, imploded less than 35 seconds after taking off.

The Obama administration, meanwhile, would have to choose whether to attempt to shoot down the missile, a technically complicated procedure with no guarantee of success. An American failure would embarrass Washington, embolden Pyongyang and potentially encourage Asian allies like Japan to take stronger measures of their own against North Korea.

Maj. Gen. Robert G.F. Lee, who as Hawaii's adjutant general directs the state's Army and Air National Guard and office of homeland security, said federal and state officials were taking precautions against a potential missile test. The military "certainly has enough assets to protect the state of Hawaii," he said. "It's a threat, but it's not a high priority for me here because I know we're covered."

Bomb inquiry takes turn

French probe whether killing in Pakistan is tied to payouts

By David Gauthier-Villars

PARIS—Prosecutors investigating a 2002 bombing in Pakistan that killed 11 French citizens are taking their probe in a new direction, looking into whether the attack was retaliation for a failure to pay alleged bribes, according to a lawyer and people close to the probe.

Prosecutors are also looking into whether the arrangement involved planned kickbacks to the campaign of a French prime minister who was running for president.

For the past seven years, French investigators have suspected that Islamic terrorists were behind the bombing of a bus carrying employees of French state-controlled warship maker Direction des Constructions Navales, or DCN, in Karachi.

The blast killed 14 people, including 11 French DCN employees, who were working on the construction of submarines for the Pakistan Navy. France had won a contract to build three submarines in 1994 for 5.5 billion French francs, or about $1 billion at the exchange rate of the time.

This week, Paris-based antiterrorist investigative magistrates informed families of the 11 French victims that they were looking into whether the attack happened because France allegedly reneged on a pledge to pay alleged commissions related to the lucrative submarine-building contract, according to Olivier Morice, a lawyer for the families. The new line of inquiry was also confirmed by people close to the probe.

"There was a terrorist act in which French citizens were killed," Mr. Morice said Friday after a meeting with investigators. "But the motive may be that France did not pay commissions it had pledged to pay."

After examining documents from the time, prosecutors are looking into whether—as part of the overall submarine contract—French officials allegedly agreed to pay $33 million to intermediaries who had helped France secure the contract, say Mr. Morice and the people close to the probe.


Agence France-Presse/Getty Images

Prosecutors are investigating whether a 2002 Pakistan bus wreck that killed 14 people, including 11 French citizens, was linked to a failure to pay alleged bribes.

At the time, such commissions would have been legal: Before France joined an international anticorruption initiative in 2000, it wasn't illegal for French companies to pay commissions to foreign officials to secure contracts overseas. The alleged commissions were supposedly to be paid before 2000.

Investigators are looking into whether part of the money from the commissions was destined to flow back into France to help finance the 1995 presidential bid of then-Prime Minister Edouard Balladur. At the time, Nicolas Sarkozy—now France's president—was budget minister and Mr. Balladur's campaign manager.

It would have been illegal for part of the alleged commissions to flow back into France—a mechanism sometimes known as reverse kickbacks. Prosecutors say they have documents that indicate part of the alleged commission may have been aimed at helping Mr. Balladur's campaign coffers. The prosecutors and investigators say they have no evidence implicating Messrs. Balladur or Sarkozy.

Investigators say they began looking into the new angle after they seized a number of financial documents describing how a web of offshore companies had been created to channel the alleged commission payments, as well as a confidential report written by a former French intelligence officer about the case.

Mr. Balladur ended up losing the presidential election, and investigators are probing whether this prompted French officials not to pay the alleged commissions associated with the submarine deal, according to Mr. Morice and the people familiar with the matter. The bombing may have been the result of these alleged missed payments, these people add.

Investigators are looking into a theory that Islamic terrorists carried out the bombing but on behalf of people who were supposed to receive the alleged commissions, but no evidence has been presented to support this theory.

Officials at DCNS, the new firm formed out of the former DCN, couldn't be reached for comment.

Mr. Sarkozy said Friday that the new angle being pursued by investigators was a "myth." "It is ridiculous," he told reporters on the sidelines of a summit in Brussels.

Mr. Balladur said in a TV interview he had heard "about this story for years" but that according to his information, the submarine export contract was conducted in a "perfectly normal" way.

Germany is expecting major budget shortfall

By Andrea Thomas And Geoffrey Smith

BERLIN—Weaker tax revenue, soaring welfare bills and new spending for bank bailouts and fiscal-stimulus measures could increase Germany's debt by more than €100 billion ($139 billion) next year, as the global recession continues to take its toll on the nation's economy.

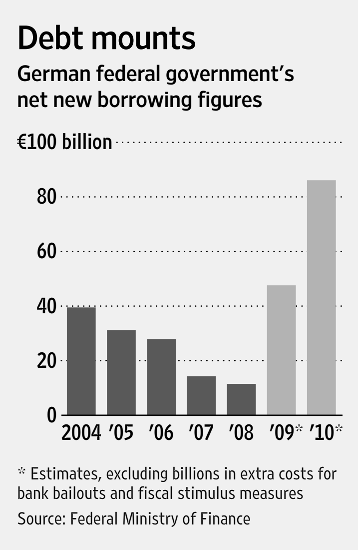
The German government expects the economy to contract 6% this year and to grow 0.5% in 2010, creating a major budget shortfall. Germany has been among the hardest hit in the 16-country euro zone because of the vulnerability of its export economy to slumping global demand.

With September elections just around the corner, some politicians have called for tax cuts to win support from a population wrestling with the downturn. Finance Minister Peer Steinbrück said in parliament Friday that the government can't afford such pledges. "In the situation we are currently in, no government, regardless of its colors, after Sept. 27 will be able to realize tax cuts by taking up debt," he said.

Germany said in may it expects a €316 billion tax shortfall in the next four years because of the recession.

So far, Mr. Steinbrück's draft 2010 budget foresees €86.1 billion in new borrowing. But it excludes extra spending for measures to fight the economic crisis. Deputy Finance Minister Werner Gatzer said total new debt could exceed €100 billion next year when such spending is included. That would surpass this year's record of €80 billion in new German borrowing.

New data gave little reason to think the budget can be repaired by a quick turnaround in the economy.



The Federal Statistics Office, Destatis, reported that producer prices were unchanged in May and fell 3.6% from a year earlier.

Producer prices are traditionally a leading indicator of trends in consumer inflation, suggesting that the core trend in European prices will continue to be downward for some time. The data provide a sobering reminder that news from the real economy is still considerably more negative than recent sentiment indicators suggest.

Annual inflation in the 16 nations that use the euro currency fell to zero in May. German industry, the engine of the euro-zone economy, could pull the average for June to a negative number.

Jennifer McKeown, European economist with Capital Economics in London, said there "must be a period of deflation ahead." Deflation is a decline in the general level of prices for goods and services.

U.K. police investigate expenses

By Alistair MacDonald

London police started a criminal investigation into the possible misuse of Parliament's program to reimburse members for living expenses, adding a potential criminal element to a scandal that has already cut short several political careers.

London's Metropolitan Police said late Friday it is looking at alleged abuses by "a small number" of politicians from both the House of Commons and House of Lords. It didn't name any members of Parliament who are under investigation.

For over a month, the U.K. has been gripped by revelations of how British members of Parliament filed expense claims both large and trivial, many of which appeared to break parliamentary rules.

Some of these expenses included claims made by Labour MPs David Chaytor and Elliot Morley, who werefor reimbursement for interest payments on mortgages that had already been paid off. In both cases, the men said the claims were accidental mistakes. The Daily Telegraph newspaper also reported that oneLabour peer Baroness Uddinclaimed as much as £100,000 ($163,000) for a property she didn't live in. The woman Baroness Uddin said she has lived in the property, which she owns.

Some MPs have also been accused of using the expense system to avoid paying taxes.

The politicians involved have typically denied any wrongdoing, though around 20 have now said they won't stand for re-election as MPs. Almost 200 MPs from all the main parties have now returned around £500,000 in money they had claimed.

But the resignations haven't quelled the outcry among the British, some of whom have demanded that offenders be prosecuted for fraud.

The investigation will be conducted by the Metropolitan Police service's Economic and Specialist Crime Command.

The expense abuses came to light in a long series of articles by the London-based Daily Telegraph newspaper, which obtained the information weeks before it was scheduled to be formally released by Parliament following a long court battle.

The formal release of the expense data Wednesday provoked further anger because the claims were heavily redacted, thanks to a procedure that allowed members to black out certain personal information, such as addresses. The omissions made the public data much less revelatory than the leaked version that had already appeared in the press.

On Friday, political parties tried to make amends, saying they wanted to put out more unredacted material.

U.S., Swiss agree to share information on tax evaders

By Stephen Fidler And Michael Phillips

The U.S. and Switzerland said they agreed to share information on potential tax evaders for the first time, the latest step toward eroding Switzerland's renowned banking secrecy.

U.S. Treasury Secretary Timothy Geithner said the deal, which the governments began negotiating in April, "will help bring an end to an era of offshore accounts and investments being used for tax evasion." The U.S. declined to release details until the deal, which could face a referendum in Switzerland, has been completed and signed.

Switzerland and other tax havens in Europe and the Caribbean came under intense international pressure to agree to share tax information with other governments ahead of a summit meeting of the Group of 20 governments in London in April.

The Swiss government succumbed to the pressure in March, saying it agreed to follow guidelines on the sharing of tax information laid down by the Organization for Economic Cooperation and Development, the Paris-based club of rich-country governments. In April, the U.S. and Switzerland said they would start negotiations, which Friday's announcement indicates are now complete.

The deal, however, could still be derailed in Switzerland, where it must gain the backing of parliament and could become the subject of a referendum. The agreement with Washington is one of six that Switzerland has initialed with various countries. Because those agreements contain significant new obligations, one of them could be put to a national referendum if 50,000 signatures are collected.

The agreements generally follow templates laid down in the OECD's model tax convention. Twelve such agreements would be enough to remove Switzerland from the OECD's "gray list" of countries that have said they will cooperate on sharing tax information but haven't yet taken the necessary steps to put information-sharing arrangements in place.

The arrangements allow the sharing of information only on specific names in specific banks and don't allow trawling for information on unspecified individuals.

The U.S. Treasury made it clear, however, that the new accord won't affect a civil suit filed by U.S. authorities aimed at forcing Swiss bank **UBS** AG to provide information about 52,000 clients. Swiss officials have said that at an April meeting, Swiss President Hans-Rudolf Merz asked Mr. Geithner to kill the case against UBS in exchange for the new treaty terms.

ECONOMY & POLITICS

ECB official faults rules

Compromise plan creates regulator with advisory role

By John W. Miller
And Christopher Emsden

The European Union approved a compromise plan Friday to create new financial regulators for the bloc, but a senior official at the European Central Bank that would head the new effort said the plan allowed too little power for the regulators to act.

The EU would set up a European Systemic Risk Council for the bloc, headed up by the president of the ECB. But, largely due to pressure from the United Kingdom, the body would only be advisory. Final decisions on financial-sector rescues would rest with the national governments called on to fund them.

The ECB should have "the possibility to act," Lorenzo Bini Smaghi, a member of the ECB's Executive Council, said Friday, addressing a conference in Milan.

Under the plan approved Friday by the bloc's 27 leaders at a summit in Brussels, the Risk Council would have "the powers to make recommendations but not to implement policies directly," he said.

On Sunday, ECB President Jean-Claude Trichet said the decision was "an important step forward," according to Reuters news service.

French President Nicolas Sarkozy, who has pushed hard for greater regulation in response to the financial crisis, told reporters at the summit that he expected the proposed council to acquire greater powers over time.

"We've created a new EU institution from scratch. ... We could have gone further, but I believe that it will widen [its powers] through experience and practice, the way it has always happened," said Mr. Sarkozy. EU institutions and policies have often begun small and gathered powers over time.

Friday's summit also granted Ireland guarantees to protect its tax and abortion laws in exchange for running a repeat referendum to approve a key institutional treaty that Ireland blocked last year. Ireland's Prime Minister Brian Cowen said he expected a fresh vote on the so-called Lisbon Treaty to take place in October.

If approved by all EU countries, the Lisbon Treaty would expand the EU's centralized powers by extending the number of areas in which decisions can be made by a majority vote, rather than by unanimity. It would also give the EU its first full-time president and would consolidate its foreign-policy machinery.

Approval of the guarantees was delayed Friday morning by the U.K.'s insistence that Ireland's guarantees should be written in small print and not attached to the Lisbon Treaty as a formal protocol, worrying that this could force the U.K. into a further and potentially lengthy ratification process. U.K. Prime Minister Gordon Brown has to call national elections by next spring. The opposition Conservative Party, favored in opinion polls to win the vote, has pledged to block the Lisbon Treaty if it can.

Even so, Vaclav Klaus, the Czech Republic's president, said he wouldn't sign the treaty until his country's parliament has also ratified the Irish guarantees—meaning further potential delays.


Agence France-Presse/Getty Images

French President Nicolas Sarkozy talks with German Chancellor Angela Merkel before a working session of an EU summit at the European Council headquarters.

China activists say dam will kill off rare fish

By Jeremy Chan

BEIJING—Environmental advocates are warning that a planned dam on China's Yangtze River could lead to the extinction of a number of rare fish species, casting a fresh spotlight on the potential environmental costs of the country's huge hydroelectric building program.

The proposed Xiaonanhai Dam would be located 30 kilometers upstream from the center of Chongqing, a rapidly expanding metropolis in southwestern China that hopes to use electricity from the dam to meet its growing energy needs. Chinese officials are currently reviewing the project, and critics believe that preliminary approval could come as soon as the end of this month, although the timing couldn't be confirmed.

Chinese and foreign scientists are concerned that the dam would encroach on the only rare-fish reserve on the Yangtze, China's longest river. The reserve is home to 180 different fish species, including the already endangered Chinese sturgeon and the finless porpoise. It covers roughly 400 kilometers on the upper reaches of the Yangtze, which has a greater concentration of biodiversity than the river's middle and lower regions.

A group of eight prominent Chinese scientists and environmental activists published an open letter last month urging the government to cancel the plans for Xiaonanhai. "The negative impacts of overdevelopment of hydropower would destroy the river's diverse aquatic life," the letter said.

International environmental groups also are urging reconsideration of the plan. "The iconic fish of the Yangtze are slipping away," said Brian Richter, director of the Global Freshwater Program at the Nature Conservancy, an advocacy group, based in Arlington, Va. He said the Xiaonanhai Dam could spell the end of "this treasure chest of aquatic diversity."

Central government offices and officials in the Chongqing municipal government, which is promoting the dam, didn't respond to requests for comment. In February, the Ministry of Agriculture held a meeting of experts to discuss the Xiaonanhai project, according to a report on a ministry Web site. The experts concluded that the project could have a significant impact on the habitat of the fish in the reserve area and recommended steps to safeguard the habitats but stopped short of calling for an end to the project, according to the report.

China is one of the world's biggest dam builders. The government maintains that hydroelectric power can reduce China's dependence on costly fuels like coal—the main source of China's energy—and cut down on emissions of global-warming gases and other pollutants.

The Yangtze is already home to the world's biggest dam, at Three Gorges, and researchers have said scores of other dams are planned for the river and its tributaries.

The Chinese authors of the open letter worry that the construction of the Xiaonanhai Dam would block migration routes, turn rapidly flowing water into stagnant ponds and endanger spawning grounds.

Of the 338 freshwater fish species found in the river, 162 are unique to the Yangtze. But the population of rare and unique fish species has been declining since the 1980s because of dam building, water pollution, overfishing and land reclamation.

"Too many dams have been planned on the upper regions of the Yangtze," said Ma Jun, director of the Institute of Public and Environmental Affairs in Beijing and one of the letter's signers.

Some critics also question the usefulness of Xiaonanhai's construction, with four other more massive dams having already been approved for construction in the Jinsha River upstream of the fish reserve.

Construction of the Xiaonanhai dam is projected to cost nearly 24 billion yuan ($3.51 billion) and take more than seven years to complete.

—Sue Feng in Beijing and Bai Lin in Shanghai contributed to this article.

Somalia seeks outside help in fighting foreign militants

By Sarah Childress

NAIROBI, Kenya—Somalia's government requested immediate military assistance from regional powers over the weekend to help combat foreign fighters it says have ties to al Qaeda.

The government said it can't on its own dispel the insurgents, who have more sophisticated training and weaponry than its own troops.

On Thursday, a bomb killed Somalia's minister for national security and four other government officials. A day earlier, Mogadishu's police chief was killed as government forces battled insurgents in the capital. More than 200 people have been killed in the past month due to fighting, the U.N. has said.

No nations have come forward with an offer of troops. But Farahan Ali Mohamoud, Somalia's information minister, said the government had received "positive responses" from some countries, which he declined to name.

The decision to ask for military aid, made by parliament, is a significant one for a nation that had until recently endured a humiliating occupation. Ethiopia invaded in 2006 to overturn Somalia's Islamic government. The occupation, which ended earlier this year, was deeply unpopular in many corners of the country, and insurgents used it as a rallying cry against the government.

It's still unclear just how close jihadist insurgents are to overrunning the few vestiges of government that Somalia still has. But the call for foreign troops underscores the threat that Somalia's troubles pose for the rest of the region.

Mr. Mohamoud said Somalia would welcome any country, including Ethiopia, to contribute troops, but would require them to do so through an international organization, such as the African Union, United Nations, or the Arab League. Those groups, he said, could send battalions with a clear mandate to target foreign fighters."

THE JOURNAL REPORT: BUSINESS INSIGHT
In collaboration with MIT Sloan Management Review

Looking for innovation

Companies stretch beyond comfort zone for eureka moments

If you want to understand why some companies lack innovative ideas, think about the man who can't find his car keys.

By ***John Bessant, Kathrin Möslein*** *And* ***Bettina von Stamm***

His friend asks him why he's looking for the keys under the lamppost when he dropped them over on the lawn. "Because there's more light over here," the man explains.

For too many companies, that describes their search for new ideas, and it pretty much guarantees they won't go anywhere fast. While such a company can marginally improve what it's already good at, it misses out on the breakthroughs—those eureka moments when a new concept pops up, as if from nowhere, and changes a company's fortunes forever.

Those ideas, however, don't really come from nowhere. Instead, they are typically at the edge of a company's radar screen, and sometimes a bit beyond: trends in peripheral industries, unserved needs in foreign markets, activities that aren't part of the company's core business. To be truly innovative, companies sometimes have to change their frames of reference, extend their search space. New ways of thinking and organization can be required as well.

In other words, they have to look away from the lamppost.

For the past several years, we and other researchers have participated in workshops with more than 100 companies discussing and experimenting with new ways of looking for and developing innovations. Here are nine examples of practices with the potential to produce a company's eureka moment.

■ Build scenarios.

Many companies use teams of writers with diverse perspectives to create complex scenarios of what future markets may look like. The writers try to imagine detailed opportunities and threats for their companies, partners and collaborators. An oil company that wants to explore energy opportunities in cities of the future, for example, might want to work on scenarios with writers from construction, water and utility-management companies.

Bord Bia, an Irish food agency, works on scenarios with global food companies based in Ireland like **Kerry Group** PLC and **Glanbia** PLC. Danish pharmaceutical giant **Novo Nordisk** AS has shared scenarios with the Oxford Health Alliance, a British nonprofit. Novo Nordisk thus helps the cause and broadens its own views by gaining the input of alliance members.

■ Spin the Web.

A few companies have created Web sites that act as literal marketplaces of ideas. InnoCentive.com is a site where people and companies look for help in solving scientific and business challenges. Posters of challenges sometimes offer cash rewards for solutions: Amounts have ranged from $5,000 to $1 million. The site began as an in-house tool for research scientists at **Eli Lilly** & Co.

By opening the site up, Lilly gets wider access to individuals and companies with ideas that may be of value. InnoCentive says the site gives solutions to about 40% of the problems posed.

BMW AG, through what it calls its Virtual Innovation Agency, invites ideas from "small and medium-sized innovative companies" on the Web site bmwgroup.com/via.

■ Enlist lead users.

Ideas and insights from so-called lead users can be the starting point for new markets, products and services. Lead users tend to be people working in or using products in a specific market who are frustrated by the tools, goods or services currently available and yearn for something better. Many medical devices, for example, originate from sketches drawn by surgeons, surgical nurses and other medical staff who feel driven to experiment with new ideas because current products aren't meeting their needs.

British Broadcasting Corp. sponsors a Web site for lead users at Backstage.bbc.co.uk. Several times a year the BBC uses the site to host what it calls "hack days," when it lets subscribers play around with source codes the BBC uses for such online applications as live news feeds and TV listings. BBC staff look at what the Backstage subscribers come up with to see what can be useful. One idea from a hack day led the BBC to link its iPlayer, a tool for watching BBC video on the Web, with Facebook.com, the social-networking site.

■ Deep dive.

Interest has surged in market research that uses detailed, firsthand observation to learn more about consumers' needs or wants. Deep diving is one of many terms used to describe the approach, which resembles an anthropological study in the way researchers immerse themselves in the lives of the target consumers.

Novo Nordisk mobilized teams in several developing countries to research how health systems with limited resources were handling diabetes care. Researchers compiled detailed interviews and observations—documenting cases by interviewing patients and recording them on video, and spending time in hospitals, rural clinics and the health ministry.

■ Probe and learn.

Some companies design probe-and-learn strategies that study opportunities in segments of markets the company isn't active or strong in. This strategy goes further than deep diving by actively experimenting with new ideas in a new context.

British telecommunications company **BT Group** PLC is conducting a test service in which it places sensors in the homes of elderly customers to monitor their movement; if the sensors detect unusual activity, or none, they trigger an alarm. BT says that the service already is generating revenue, but that its greater significance is as a stepping-stone to help the company learn more about what will be a huge and very different market in the future.

■ Mobilize the staff.

By engaging more of its own workers in the search for innovation, a company can broaden its vision. For example, the duties of procurement, sales or finance groups can be expanded to include learning about trends they encounter that ordinarily might be considered not of primary interest to the company.

Reckitt Benckiser PLC, a U.K.-based maker of household-cleaning and personal-hygiene products, has mobilized a large number of its agents in purchasing, marketing and customer relations to be on the lookout for relevant new market trends.

■ Cater to entrepreneurs.

Clear policies that reserve blocks of time for scientists or engineers to explore their own ideas have worked well at some companies. At **3M Co.**, based in St. Paul, Minn., scientists can spend 15% of their time on projects they dream up themselves, and the company has set procedures to take bright ideas forward, including grants and venture funding. **Google** Inc. takes a similar approach, allowing researchers to devote 20% of their schedules to play time, pursuing their own ideas and projects. The company credits this policy with fostering many of its important product innovations, including Gmail, its popular Web-based email service.

■ Start a conversation.

Sometimes innovations arise when different departments talk to each other. But what's the best way to start the conversation?

Many companies set up so-called communities of practice, which are typically internal Web sites where employees are encouraged to share knowledge and skills important to the company.

Min Jae Hong

■ Breed diversity.

Close, long-term relationships—depending too much on the same customers, partners or suppliers for innovation ideas—can reinforce old ways of doing things and make changing a frame of reference difficult.

Some companies seek innovation partners with whom they wouldn't normally work. Doctors at the Great Ormond Street Hospital for Children in London, for example, consulted with members of a pit-stop crew from Italy's Ferrari Formula One motor-racing team to explore ways of improving how children were being moved out of heart surgery and into intensive care.

Dr. Bessant is a professor at the Imperial College Business School in London. Dr. Möslein is a professor at the School of Business and Economics at the University of Erlangen-Nuremberg in Nuremberg, Germany. Dr. von Stamm is director and catalyst at the Innovation Leadership Forum in North Wootton, England. They can be reached at reports@wsj.com.

ECONOMY & POLITICS

Europe works to avert more Ukraine gas crises

Loans are requested so country can build a gas-supply buffer

By Marc Champion
And John W. Miller

BRUSSELS—The European Union said it asked the International Monetary Fund and other international financial institutions to provide money for Ukraine to buy natural gas from Russia, to avoid a further natural-gas crisis that could arise within weeks.

European Commission President José Manuel Barroso made the request at the end of a two-day summit of EU leaders Friday. "There is the risk of another major gas crisis in weeks," Mr. Barroso told reporters, referring to a two-week disruption of Russian gas exports to the EU in January that left some countries without natural gas for heating homes or running factories.

Russia has been pressing the EU to offer funds to Ukraine so it can purchase the natural gas it needs to refill the vast natural-gas storage reserves for the winter. During those months, Ukraine must meet domestic demand and transit natural gas to customers in the EU. On Thursday, Ukraine's state energy company **Naftogaz Ukrainy** said it needed $4.2 billion. But while Italy's prime minister, Silvio Berlusconi, has said the EU should loan Ukraine the money, diplomats familiar with Friday's talks at the EU summit said the idea didn't get serious discussion. EU governments are already straining to control budget deficits.

An IMF spokeswoman said a mission to Ukraine this week will discuss possible support for Naftogaz under the IMF's existing $16 billion loan program. Ukraine's government would first have to agree to certain "fiscal corrective measures" and "a workable monitoring mechanism of Naftogaz finances before this can happen."

The European Bank for Reconstruction and Development has also been approached, according to people familiar with the matter. A spokesman for the bank declined to comment.

The EU gets 80% of its Russian natural-gas imports via Ukraine. While Russian gas makes up only about a quarter of total consumption in the bloc overall, it accounts for up to 100% of supplies in some of the EU's former communist nations. Ukraine's next gas payment to Russia's OAO **Gazprom** is due by July 7.

"If Ukraine doesn't pay then there could be another cutoff of gas to parts of the EU. That wouldn't be too serious in summer, but it would get everybody riled up again. If that slips into the winter it will be a big problem," said Jonathan Stern, director of gas research at the Oxford Institute of Energy Studies.

Agence France-Presse/Getty Images

An employee checks a gas-compressor station at the Ukraine-Romania border. The EU seeks funds to help Ukraine buy natural gas from Russia to avoid another crisis.

New York Times reporter escapes Taliban captors

By Matthew Rosenberg
And Shira Ovide

A Pulitzer Prize-winning journalist from the New York Times who was abducted by Taliban fighters has escaped after more than seven months of captivity, according to a Times spokeswoman.

David Rohde, 41 years old, was abducted Nov. 10 in a lawless province of eastern Afghanistan where he had traveled to interview Islamic militants.

Mr. Rohde told his wife Friday that he and Tahir Ludin, a local reporter who was with him at the time of his capture, climbed over a wall in a compound where they were being held in Pakistan, the Times reported on its Web site.

They made their way to an army base, and on Saturday they were flown to Bagram Air Base in Afghanistan, the paper said.

The New York Times Co. said in a statement that Mr. Ludin suffered a foot injury but that otherwise Mr. Rohde and Mr. Ludin appeared to be healthy.

To protect Mr. Rohde, his kidnapping wasn't previously reported, at the request of his family and the Times, but information about his capture has circulated online.

Mr. Rohde was in Logar province south of Kabul when he was apparently seized by fighters loyal to a Taliban faction run by Jalaluddin Haqqani, a longtime associate of Osama bin Laden and one of the main insurgent warlords fighting U.S., NATO and Afghan forces, said a senior Afghan security official.

Mr. Rohde was working on a book about U.S. involvement in Afghanistan, the Times said Saturday.

REVIEW & OUTLOOK

The Left's Collapse

America's self-declared progressives see the U.S. future in Europe's welfare model. Across the Atlantic, meanwhile, voters en masse are dumping the political movement that gave them the nanny state. Hmmm.

Of late, the winning political formula in Europe is simple: Promise to ease heavy tax and regulatory burdens and shake up stagnant economies. The welfare system is seen as broken. France's Nicolas Sarkozy and Italy's Silvio Berlusconi took this path to power. In the largest economy, Germany, Chancellor Angela Merkel looks poised to defeat a divided left in September's elections.

Across the Continent, the left is in disarray. France's Socialist Party, which last won a Presidential election in the 1980s, refuses to move to the center—and further sinks in the polls. Italy's leftist parties compromised themselves in a brief two-year stint in office, before Mr. Berlusconi swept them out in April of last year. The center-left ruling parties in Britain and Spain, which inherited economies revitalized by courageous politicians who implemented free-market ideas, are also in trouble.

Even in a recession so widely attributed to unfettered capitalism, socialists are unable to take advantage. Consider the results earlier this month of elections for the European Parliament. Center-right parties gained in Germany, France, Italy, Belgium, Britain, the Netherlands, Portugal, Spain and across most of eastern Europe. Sweden, Denmark and Greece were exceptions.

In Europe, that is.

It's dangerous to generalize about 27 very different countries. Gordon Brown's Labour Party, in power since 1997, built on Thatcherism and now finds itself blamed for Britain's economic troubles. The new "kinder and gentler" Tories, who have sidelined Lady Thatcher, hold a comfortable lead with elections due within 12 months. Mr. Sarkozy and Ms. Merkel, though incumbents, could blame "Anglo-American capitalism" to make gains in the Parliament elections. The far right, with its bogeymen of globalization and immigration, attracts protest voters who once favored the nostrums of the left.

This political shift hardly portends the second coming of Lady Thatcher, alas. In his three tours at the Palazzo Chigi, Mr. Berlusconi has never found the mettle to push real change. Ms. Merkel, who was forced into a "grand coalition" with the Social Democrats, dropped her plans for a flat tax and other market measures. In this climate, she's not about to revive them. Two years ago, Mr. Sarkozy promised "rupture" with France's statist past and won decisively. A lot of his program has passed, but he is also a chameleon who can sound more the dirigiste than Colbert (Jean-Baptiste, not Stephen).

Except for Britain and certain quarters of Vienna, conservatism in Europe shares little with the Hayekian brand of liberalism. A paternalistic right, along with the socialists, passed restrictive labor codes and created state-run pension and health systems. The welfare state empowered narrow interests to defend the status quo. Before the Obama Administration Eurofits the U.S. economy, Americans need to know that this model saps economic dynamism and is nearly impossible to fix.

For decades, Europeans have been frustrated with low growth, chronic unemployment and fading competitiveness. The answers tend to come from the right, and successful center-left politicians have embraced market reforms (think Tony Blair). On the Huffington Post earlier this week, columnist Robert Kuttner bemoaned the left's collapse in Europe: "American progressives used to look longingly to Europe, with its stronger trade unions and its more comprehensive social protections. Those are still there, but unraveling under assault." Failure will do that.

A Flat Tax for California?

'California is so broken that we must look at every bold proposal out there, no matter how daring or radical—including the idea of a flat tax."

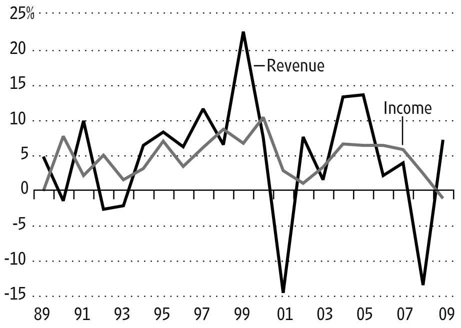
—Arnold Schwarzenegger, June 11, 2009

Now we're getting somewhere. Having had his grand budget deal repudiated by the voters, and facing a $24.3 billion deficit only six months after raising taxes to close a $40 billion deficit, California's Governor is going back to his roots as a reformer.

Mr. Schwarzenegger has shocked nearly everyone in Sacramento by embracing some seismic policy changes to fix the California budget for the long term. These reforms include a flat-rate income tax, a spending limitation measure with teeth, and deep cuts in wasteful spending. Yesterday he declared that he won't sign another tax increase and he will no longer allow the state to issue new short-term debt to punt its budget problems down the road. He even told the liberal Democrats who run the legislature that if they're not ready to make cuts, get ready for a long hot summer that may end in "a shutdown of all the funding—a grind to the halt" in government.

Progressive Logic

Annual percentage change in California tax revenues compared with annual change in state personal income



Source: California Department of Finance

Mr. Schwarzenegger has called for cutbacks even in education, Medicaid, prisons and pensions, heretofore the sacred cows of state politics. And why not? That's where three-quarters of the money goes and the dollars are buying far too little in results. The state has the highest teacher salaries in the nation, but the second lowest math and reading test scores, according to U.S. Department of Education data. The state spends $49,000 per prison inmate, or 50% more per criminal than the average state.

"Other states have privately run correctional facilities," notes Mr. Schwarzenegger. "Why not California?" Good question. The Governor also wants to eliminate and consolidate scores of mostly useless boards and panels—such as the $1.2 million blueberry commission—that exist mostly for political patronage.

The best idea is his semi-endorsement of a flat tax for California. The state's budget problem has two main causes: The first is runaway spending and the second is a tax structure that smothers businesses and entrepreneurs. California's income tax is the most progressive of all 50 states, with the second highest top rate (10.55%) after New York City's 12.62%. The Governor's revenue office calculates that between 50% and 55% of the income tax in the state comes from Kobe Bryant and the rest of the richest 1% of taxpayers.

This sounds like a liberal's tax paradise, but the "soak the rich" system has imploded on itself. As tax rates keep rising, more Californians move to places like Nevada and Texas where they can pay zero income tax, leaving Sacramento with fewer revenue sources. Moreover, the progressive rate structure means that California experiences more extreme gyrations in its revenues than any other state.

The nearby chart shows how state tax revenues rise and fall more excessively than does state personal income. From 2003 to 2008, state revenues boomed by 40% as the economy expanded. But in the last year, revenues have fallen by more than 20%. Politicians in Sacramento pile on new spending in the boom years, building in new pension and other commitments that are unsustainable in the downturns. The interest groups furiously oppose any spending decline, so the politicians dutifully raise taxes, and the cycle repeats.

Mr. Schwarzenegger has appointed a bipartisan tax reform commission and it is exploring a "uniform tax" with a rate of 6% on individuals and corporations with few deductions. This would raise enough revenue to run the government while reducing the sharp revenue shifts from boom to bust and back. More important, it is the kind of tax overhaul that could start to attract business back to the state.

None of this will be easy to pass, but Mr. Schwarzenegger has everything to gain for his state and his reputation. His term ends in 2010 and he's not running for re-election. The state's economy can't prosper under its current burdens, and voters have resoundingly rejected tax-and-spend-as-usual. Arnold became Governor on the promise of reform, and in his final months he once again has a chance to make good on that promise.

ObamaCare Sticker Shock

This was supposed to be a red-letter week for national health care, as Democrats started the process of hustling a quarter-baked bill through Congress to reorganize one-sixth of the economy on a partisan vote. Instead it was a fiasco.

Most of the devastation was wreaked by the Congressional Budget Office, which on Tuesday reported that draft legislation from the Senate Finance Committee would increase the federal deficit by more than $1.6 trillion over the next decade while only partly denting the population of the uninsured. The details haven't been made public, but the short version seems to be that President Obama's health boondoggle prescribes vast new spending without a coherent plan to pay for it even while failing to meet its own standards for social equity.

Finance Chairman Max Baucus postponed the health timeline, probably until after Congress's July 4 vacation. His team will try to scale down the middle-class insurance subsidies and make other cuts to hold the sticker shock under $1 trillion. (Oh, is that all?) Mr. Baucus also claims he's committed to a bipartisan consensus, yet most Republicans have been closed out of the negotiations, and industry lobbyists have been preemptively warned that even meeting with the GOP will invite retribution.

Useful to emphasize amid the mayhem is that CBO's number-crunching is almost always off—predicting too much spending for market-based policies and far too little for new public programs, especially on health care. The CBO score for a new entitlement is only the teaser rate, given that the costs will inevitably balloon as the years pass and more people mob "free" or subsidized insurance.

Mitt Romney pitched his 2006 health reform—which Democrats view as a model for universal coverage—as modest and affordable, yet already its public option is annihilating the Massachusetts fisc. The original cost estimate for last year was $472 million; final spending came in at $628 million. Spending this year is at least $75 million over initial budget, while projections for next year range as high as $880 million—and even those are probably too low.

Capitol Hill's entitlement Democrats are determined too press ahead, despite this cost detour. Still, this week's lesson is that ObamaCare might not be inevitable once Americans figure out the astonishing price tag.

The Journal Interview with Ron Wyden / *By Collin Levy*

Wyden's Third Way

"People don't want the government in the driver's seat . . . They don't want the decisions (about their treatment) made in Capitol hearing rooms with a bunch of legislators in dark suits." So says Oregon Sen. Ron Wyden of the Healthy Americans Act, his plan for compromise in the polarized politics of healthcare reform.

Mr. Wyden, slouched amiably on his office sofa with his long legs on the coffee table, looks awfully relaxed for a man in the middle of the battle over health-care reform. On the day before our meeting, the political calculus shifted: The Congressional Budget Office predicted that the bill from the Senate Finance Committee would increase the federal budget deficit by $1.6 trillion over the next 10 years. Worse for Democrats, the astronomical price tag would still leave millions of people uninsured.

> The Oregon senator questions the wisdom of a government health insurance plan.

The news changed the views of some who had begun to see a bigger government role in medicine as inevitable. It also shifted attention to less-radical approaches, like the one Mr. Wyden is co-sponsoring with Utah Republican Bob Bennett.

"The country has bailout fatigue," Mr. Wyden explains. "The Congressional Budget Office said our proposal was budget neutral in the short term and that it would essentially start bending the cost curve downward in the third year."

The plans favored by Massachusetts Sen. Ted Kennedy or President Barack Obama rely on a "public option" in which government insurance would supposedly "compete" with private insurers, a move many see as leading to a single-payer system. By contrast, the Wyden-Bennett Healthy Americans Act relies on the private insurance market while imposing a series of regulations to squeeze savings from the private sector. It also requires individuals to buy coverage for themselves, the controversial "individual mandate."

The idea, Mr. Wyden says, is to harness the Democratic desire to get everyone covered to the Republican interest in markets and consumer choice. "People can't be tricked into fixing health care." If you want to bring the country together, he continues, you have to aim for 70 votes and the kind of bipartisan strength that the Healthy Americans Act has with 14 senators sponsoring the bill.

Mr. Wyden knows he is walking a wobbly tightrope between the factions. When he first approached Bob Bennett in early 2007 about a compromise plan based on the kind of coverage members of Congress get, he got an unenthused response. Mr. Wyden puts on a deep, croaky Bob Bennett voice and repeats words that Mr. Bennett would later use to characterize his reaction: "I told Ron Wyden I'd look at his proposal." Smiling, Mr. Wyden says, "As Senator Bennett describes it, that's the closest thing you get in the United States Senate to a 'no.'"

Mr. Bennett ultimately came around to the idea, but a lot of Republicans remained dubious. "People kind of looked at him like it was all a kind of big socialist plot. And he basically said, get over it, they've got a point."

"Both parties have come a long way," says Mr. Wyden. "The most conservative Republicans accept the idea that they didn't accept in '93, that you've got to cover everybody to organize the market," he says. "If you don't . . . there's too much cost-shifting, not enough prevention." And some Democrats are seeing the wisdom of a market system where people will benefit if they make wise selections about their care.

Mr. Wyden takes a long view: "Ever since the 1940s, we essentially disconnected individuals from being involved in health care. It's all about third parties, and they pay all the bills and individuals don't have the opportunities for the choices. In fact, millions of people who are lucky enough to have employer coverage don't get any choice."

Which brings us back to dealing with the price tag of reform. Mr. Wyden is in the hot seat because his plan would convert the current tax exclusion for health benefits into a tax deduction for individuals to make insurance more portable. But taxing health benefits was pilloried on the campaign trail by Barack Obama, and the opponents have kept after it. "I think the way to go," Mr. Wyden says, "is with a generous deduction that sends a market-oriented message." He says that means that, if you shop carefully for your health care, you're going to get your taxes cut.

The typical family of four spends about $13,000 a year for their health care for the year, he says. In the Healthy Americans plan, they set the deduction at $19,000. "If you get a deduction of between $17,000 and $19,000 for a middle-class family of four . . . [that] now spends $13,000 on health care, we've got a chance to give millions of people . . . more money in their wallet because they got a chance to shop in a new system driven by informed choice and financial incentives to make those choices."

Zina Saunders

The tax aspects of the Wyden plan have nonetheless earned him the wrath of some Democrats as well as labor unions that carry fully loaded benefits plans and benefit from the current tax exemption. Some unions have even taken out ads against him in his home state of Oregon. As a powerful Democratic interest group, their objections have caused other would-be health-care reformers to capitulate. Montana Democrat and Finance Committee Chairman Max Baucus has said his own health reform plan will create a union carve-out.

Is Mr. Wyden surprised by the opposition his proposal has generated from the left? "Let's take it one at a time," he tells me. "First, there's a pretty good cross section of Democrats on this bill. Arlen Specter of course is now a Democrat." Other supporters include Debbie Stabenow, Mary Landrieu, Bill Nelson.

And Labor? Unions have every right to bargain for the best possible package, he says. "But nobody, be it a CEO or a labor [union] member ought to be getting what amounts to gold-plated coverage with the tax subsidies paid for by somebody who is a modestly compensated woman at a small business who doesn't have a health plan."

Breaking with the Democratic orthodoxy has earned him a few cold stares in other areas as well, including the plan's treatment of Medicaid and malpractice reform. The Healthy Americans Act transitions poor people out of Medicaid and will give them choices of private plans like members of Congress, he says. "We've taken a lot of flak for it . . . but Medicaid is a caste system. It is unfair to poor people and it is unfair to taxpayers." The system, he says, makes it hard for physicians to take care of the most vulnerable in society.

In a speech to the American Medical Association this week, Mr. Obama also opened the door to the possibility of malpractice reform, something Messrs. Wyden and Bennett support to help keep costs down. Democrats always blame the insurance companies, says Mr. Wyden, and Republicans always blame the trial lawyers. Insurance companies "are going to compete on the basis of price, benefit and quality," he insists. But a new system also requires "tough malpractice reforms."

The problem of spiraling costs is on display in Massachusetts, where a universal coverage plan started under former Gov. Mitt Romney, a Republican, is proving more of a cautionary tale than the inspiration Democrats would like to call it. "I've gone and met with the Massachusetts folks," Mr. Wyden says, and "cost containment is the Achilles heel."

Using government health programs to try to find savings in the short term is problematic, he says, as it leads to inevitable concerns about rationing of care. "If you try to go the government route, the danger is you will find savings that are not realized with massive new commitments, and that's a prescription for trouble."

* * *

Mr. Obama has endorsed a public option, though the commitment has lately come under renewed doubt from Democrats. Former Majority Leader Tom Daschle, who was once Mr. Obama's nominee to lead the Department of Health and Human Services, this week endorsed a compromise plan. Partnering with fellow former majority leaders Bob Dole and Howard Baker, Mr. Daschle's idea would seek a compromise on the public option, letting states establish programs with help from the federal government. North Dakota Sen. Kent Conrad has likewise questioned whether Democrats could muster enough votes for a public option.

Mr. Wyden has been meeting with the president on the issue, so is Mr. Obama committed to the public option, I wonder? Mr. Wyden won't tell, but directs me instead to review Mr. Obama's book, "The Audacity of Hope." In it, he says, "he talked about a system like what we're talking about in the Healthy Americans Act."

A single-payer solution is just not the Oregon senator's cup of tea. "I've never even understood how you would get there from here," he says. "A lot of the people who are for a public option want a single-payer system, and they haven't minced any words about it. Bless their hearts, extra points for honesty. But that's not where I am."

Mr. Wyden isn't necessarily opposed to a public option, he says, provided the caveats that it "can hold costs down and deal with the misguided incentives." So would he vote for the public option if it came to that?

"I'll look at it," he smiles. "I think I have an obligation as a legislator." Just like Bob Bennett used to say.

Ms. Levy is a senior editorial writer at the Journal, based in Washington.

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A Recipe for Reviving Doha

By Catherine Ashton And Simon Crean

With this week's meeting of the trade ministers of the Organization for Economic Cooperation and Development, and next month's G-8 summit, skeptics are already saying we are jumping back on the World Trade Organization "merry-go-round" for another futile run at a world trade deal. Some point to what they see as irreconcilable differences on the substance of the negotiations, saying that if a deal were in the offing it would have been achieved by now. The elements of the package already agreed offer everyone substantial gains. To re-ignite the Doha round, we need to give an idea of what a final deal might look like, and create a shared, solid perception by all WTO members that this is not an open-ended process.

To do so, we need to begin discussions on a wider range of key areas that will be part of the final deal we are looking for, called the "Single Undertaking." So far we have concentrated on two important elements: agriculture and industrial goods. The negotiations for these two elements are far ahead of other areas, and we should not re-open what has been achieved here. We need to build on that progress and tackle other issues such as trade rules or services, the fastest growing sector of world trade. Without progress in these areas it is difficult for each country to see the final package they would be signing up to.

Where special arrangements have been made to shield certain sectors from full tariff liberalization, we now need clarity from all—including developing countries—on what sectors they will protect. Not to go back on what has been agreed, but so that each WTO member can objectively weigh up what is on offer.

We also need to test what industrial sectors might be ripe for greater liberalization in so-called "sectoral" agreements, which would lead to deeper cuts in some areas as part of the broader talks. It is true that it was agreed a few years ago that these deals would only be for those who want to participate. We also cannot deny that negotiations in this area will be difficult, but sectorals will greatly improve the quality of the final Doha package. Exploratory talks of this kind should be in good faith with all of the largest economies—developed and developing—participating. If we are not able to explore now what a package acceptable for all needs to look like, including on sectorals, we will certainly fail.

Completing a Doha deal would immediately give a serious confidence boost to the world economy. A successful deal will also show that the WTO is not the creation of the big powers that have influenced the system over the past 50 years. Instead there will be a new rule book, the joint vision of the 153 members who run the WTO today. If we fail however, the multilateral system would take a serious hit beyond trade policy, bringing into question our ability to solve other global problems like climate change.

We have a new administration in place in Washington, and a strong returning government in New Delhi. Critically, these two key players have shown that they are ready to return to the negotiating table. Negotiators can take us part of the way, but real political will is needed. We should aim to make sufficient progress this year to reach final agreement on a full Doha package in 2010.

Ms. Ashton is European commissioner for trade and Mr. Crean is Australian minister for trade.

Comments? The Journal welcomes readers' responses to all articles and editorials. It is important to include your full name, address and telephone number. Please send letters to the editor to: **Letters@WSJ.com**

A Chance for Turkish-Kurdish Peace

By Henri Barkey

President Obama's trip to the Middle East has created goodwill for him and the United States in the Islamic world. Much of what he promised in his historic speech in Cairo will take a long time to fulfill. But there is one place where his influence could be used for immediate and important results: resolving the Kurdish question in Turkey and northern Iraq.

The current insurgency in Turkey is one in a long series of battles Turkish Kurds have waged against Ankara. At times violent and at times political, this struggle has always been about preserving a cultural, if not national, Kurdish identity in the face of a determined effort at eradicating it. In its current manifestation, the Kurdistan Workers' Party (PKK), has based half of its forces in the Iraqi Kurdish controlled northern Iraq, causing significant rifts between the U.S. and Turkey.

The Turks have become embroiled in Iraq by launching counter-attacks against the PKK. Ankara initially even resisted the creation of the Iraqi Kurdish Regional Government (KRG), which they saw as another step toward Kurdish independence and irredentist demands on Turkish territory. But after 25 years of fighting, 30,000 mostly Kurdish deaths, and the capture of PKK leader Abdullah Ocalan in 1999 with U.S. help, the Turkish government and military establishment realize that they have little to show for the counterinsurgency campaign and see no clear end to the bloodletting. The PKK attracts as many recruits today as it did 20 years ago.

Any effort to remove the PKK from its inaccessible strongholds in northern Iraq and ending the enmity of Turks and Kurds would bring about a modicum of stability to that area of Iraq. The more stable and secure northern Iraq is, the easier it is for the U.S. to withdraw.

Now there are signs of a possible resolution. For the first time in its 80-plus years of existence, the Turkish state is addressing the fate of its sizable Kurdish minority. Turkish President Abdullah Gul recently declared the Kurdish question to be the "country's most pressing problem" and said Turkey has "a historical opportunity to resolve it through discussions." Mr. Gul's comments have followed a renewed debate in the Turkish press, academia and politics on how to end the 20-year PKK-led Kurdish insurgency. Turkish diplomats, in a reversal, have extended a hand to Iraqi Kurds by directly engaging the KRG leadership of Masoud Barzani, someone who was often reviled in Turkish media and government. Turkish Kurds were quick to reciprocate by showing a new willingness to pressure the PKK and moderate their opposition to Turkish cross-border raids.

Obama could score a key foreign policy success in the Muslim world.

Turkish Kurds and the PKK too are signaling that they are ready for a compromise. The current PKK leader, for instance, in a long set of interviews with a renowned Turkish journalist said that the PKK was ready to abandon the armed struggle in exchange for a process that begins with a cessation of hostilities and discussions between Ankara and Turkish Kurdish political representatives. However, the situation is so complex that Turks and Kurds will need outside help to complete a deal. There are too many extremists on both sides who would love to scuttle this new opening. A U.S. role could be decisive.

Washington is in a strong position to help because of its positive relationships with both Turkey and the Kurds. The U.S. has demonstrated its bona fides with Ankara by extending much-needed logistical support to Turkish counterinsurgency operations, and consistently backing Turkey in international forums on the PKK issue. At the same time, the U.S. is held in high regard by Kurds everywhere for its role in their liberation from Saddam Hussein's rule in Iraq.

Thus, the U.S. can help demobilize the PKK by acting as a trusted go-between. The PKK is unlikely to give up its arms to the Turkish military, but it might to American forces which, in turn, could offer iron-clad verification that both the Turkish government and public would trust. U.S. diplomats can ensure that a few PKK leaders find refuge far from the region, and reassure Ankara that the pro-American KRG will prevent anti-Turkish insurgents who stay in Iraq from engaging in any future mischief. This way many PKK insurgents can also return home to their families and Turks can begin to discuss domestic political reforms to expand the Kurds' cultural rights without the specter of violence hanging over. Finally, the U.S. can propose the establishment of a Qualified Industrial Zone (like that of Israel and its neighbors) that would include Kurdish-inhabited southeastern Turkey and northern Iraq, to promote economic activity and strengthen the ties between Turkey and the KRG. Landlocked KRG relies on Turkey for its economic linkages with the rest of the world and oil from Kurdish-controlled fields has recently begun flowing into Turkey.

For decades, the Kurdish quagmire has impeded Turkish democratization, and weakened Ankara's relations with the U.S. and EU. Mr. Obama probably never thought much about this issue during the campaign, or even as he was crafting his Cairo speech. But it's an issue where he can score a relatively quick—and important—foreign policy success in the Muslim world.

Mr. Barkey is a nonresident senior associate at the Carnegie Endowment for International Peace, and professor of international relations at Lehigh University.

Declarations / *By Peggy Noonan*

Whose Side Are We On? You Have to Ask?

America so often gets Iran wrong. We didn't know when the shah was going to fall, didn't foresee the massive wave that would topple him, didn't know the 1979 revolution would move violently against American citizens, didn't know how to handle the hostage-taking. Last week we didn't know a mass rebellion was coming, and this week we don't know who will emerge the full or partial victor. So modesty and humility seem appropriate stances from which to observe and comment.

That having been said, it's pretty wonderful to see what we're seeing. It is moving, stirring—they are risking their lives over there in a spontaneous, self-generated movement for greater liberty and justice. Good for them. In a selfish and solipsistic way—more on that in a moment—the uprising, as it moves us, reminds us of who we are: lovers of political freedom who are always and irresistibly on the side of the student standing in front of the tank or the demonstrator chanting "Where is my vote?" in the face of the billy club. Good for us.

If the rebels on the street win, however winning is defined, they, being more modern and moderate than the ruling government, will likely have a moderating influence on their government. If the rebels on the street lose, however that is defined, this fact remains: Something has been unleashed, and it won't be going away. A thugocracy has been revealed as lacking the support and respect of a considerable portion of its people, and that portion is not solely the most sophisticated and educated but, far more significantly, the young. Half the people in Iran are under 27. When the young rise against the old, the future rises against the past. In that contest, the future always wins. The question is timing: soon or some years from now? (A heartening Twitter feed Thursday, from Andrew Sullivan's site: "Fact is, we've seen variety of protesters grow: young+old, students+professionals, women in chador+westernized students.")

With Twitter's help, the youth of Iran take on the ayatollahs.

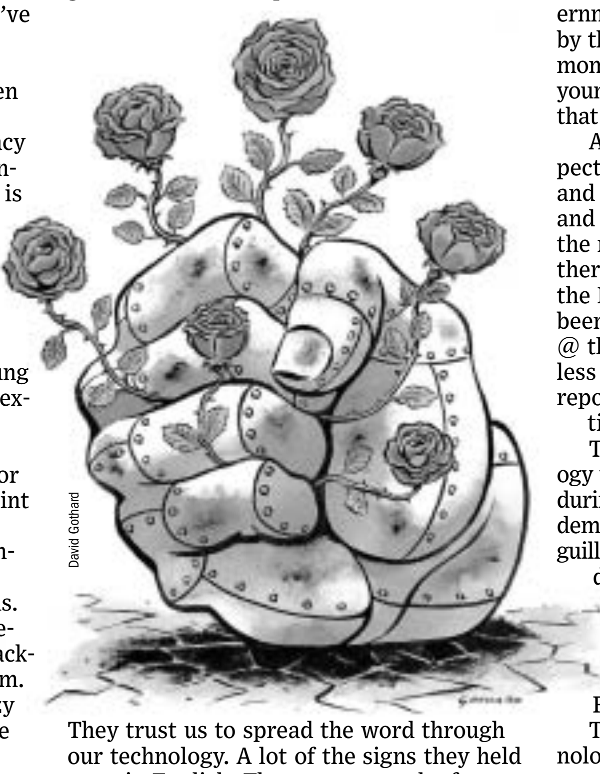
Stifling and corrupt religious autocracy has seen its international standing diminished, and Mahmoud Ahmadinejad, who is among other things a Holocaust denier, has in effect been rebuked by half his country, and through free speech, that most painful way to lose your reputation, which has broken out on the streets. He can no longer claim to speak for his people. The rising tide of the young and educated seems uninterested in reflexively hating the West and deriving their meaning from that hatred.

To refuse to see all this as progress, or potential progress, is perverse to the point of wicked. To insist the American president, in the first days of the rebellion, insert the American government into the drama was shortsighted and mischievous. The ayatollahs were only too eager to demonize the demonstrators as mindless lackeys of the Great Satan Cowboy Uncle Sam. John McCain and others went quite crazy insisting President Obama declare whose side America was on, as if the world doesn't know whose side America is on. "In the cause of freedom, America cannot be neutral," said Rep. Mike Pence. Who says it's neutral?

This was Aggressive Political Solipsism at work: Always exploit events to show you love freedom more than the other guy, always make someone else's delicate drama your excuse for a thumping curtain speech.

Mr. Obama was restrained, balanced and helpful in the crucial first days, keeping the government out of it but having his State Department ask a primary conduit of information, Twitter, to delay planned maintenance and keep reports from the streets coming. Then he made a mistake, telling the New York Times in terms of our national security there is little difference between Mr. Ahmadinejad and his foe, Mir Hossein Mousavi, which may or may not in the long run be true but was undercutting of the opposition.

What now? Americans, and the West, should be who they are, friends of freedom. Iranians on the street made sure they got their Twitter reports and videos here.



They trust us to spread the word through our technology. A lot of the signs they held were in English. They trust us to be for change and to advance their cause, and they're right to trust us.

Should there at this point be a formal declaration of support from the U.S. government? Certainly it's time for an indignant statement on the abuses, including killings and beatings, perpetrated by the government and against the opposition. It's never wrong to be on the side of civilization. Beyond that, what would be efficacious? It must be asked if a formal statement of support for the rebels would help them.

If the American president, for reasons of prudence, does not make a public statement of the government's stand, he could certainly refer, as if it is an obvious fact because it is an obvious fact, to whom the American people are for. And that is the protesters on the street. If he were particularly striking in his comments about how Americans cannot help but love their brothers and sisters who stand for greater freedom and democracy in the world, all the better. The American people, after all, are not their government. Our sentiments are not controlled by the government, and this may be a timely moment to point that out, and remind the young of Iran, who are the future of Iran, that Americans are a future-siding people.

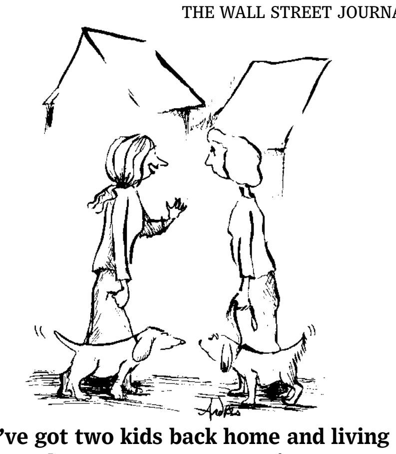
A small point on the technological aspects of the Iranian situation. Twittering and YouTubing made the story take hold and take off. But did the technology create the rebellion? No, it encouraged what was there. If they Twittered and liveblogged the French Revolution, it still would have been the French Revolution: "this aft 3pm @ the bastille." Revolutions don't work unless the people are for it. In Iran, Twitter reported and encouraged. But the conviction must be there to be encouraged.

The interesting question is what technology would have done after the Revolution, during the Terror. What would word of the demonic violence, the tumbrels and nonstop guillotines unleashed circa 1790-95 have done to French support for the Revolution, and world support? Would Thomas Jefferson have been able to continue his blithe indifference if reports of France grimly murdering France had been Twittered out each day?

The great question is what modern technology can do not in the short term so much as the long. It is not the friend of entrenched tyranny. Connected to which, it would be nice if the technologies of the future were not given babyish names. Twitter, Google, Facebook, etc., have come to be crucial and historically consequential tools, and yet to refer to them is to talk baby talk. In the future could inventors please keep the weight and dignity of history in mind?

Pepper . . . and Salt

THE WALL STREET JOURNAL



"I've got two kids back home and living in my basement. How many in yours?"

NEWS IN DEPTH

Relative calm returns to Tehran after a day of violent protests

Newsweek reporter held, Rafsanjani relatives released as arrests mount

By Farnaz Fassihi in Tehran

Associated Press

Iranian protesters clash with riot police at an antigovernment protest in Tehran on Saturday. Calm returned to the city on Sunday.

RELATIVE CALM was restored to Iran's capital on Sunday amid a heavy security presence, a day after one of the bloodiest clashes in a week of turmoil over President Mahmoud Ahmadinejad's re-election.

The government also escalated its crackdown on journalists and prominent reformers over the weekend. Iran's state media reported the arrest of five members from one of the most prominent political families here. The daughter and granddaughter of former President Ali Akbar Hashemi Rafsanjani were detained as they participated in Saturday's street demonstrations. The arrests signal an even wider divide among Iran's power holders. Later, family members said all had been released.

Uniformed security agents also arrested Maziar Bahari, 42 years old, an Iranian-Canadian journalist and documentary filmmaker, at his home early Sunday morning. Mr. Bahari is Newsweek magazine's Tehran correspondent and has made a number of award-winning documentaries on Iran and Iraq. Twenty-four journalists and bloggers have been arrested since the start of the dispute last week, according to local media.

After a week of violent unrest across the country, casualty numbers weren't certain. The government put the official death toll at 13 deaths, with hundreds more injured.

The capital resembled a fractured city. In central and southern Tehran, where protests were larger and more violent, security forces armed with batons and guns lined up at every few meters. Plainclothes security officials typical of the Basij militia, a paramilitary force, circled side streets in motorcycles and stood guard at intersections hurrying pedestrians and cars. Helicopters hovered above the city and in some locations smoke billowed.

In northern, more-residential areas, normal life had picked up with shops and restaurants open for business and residents saying the nightly clashes between opposition and pro-government supporters had quieted down after the wave of arrests and clampdowns.

On Sunday, many families spent the morning frantically searching for their loved ones in police stations, prisons, hospitals and the city's morgue. Around 4 p.m., hundreds of family members of victims of Saturday's violent clashes held a sit-in on Enghelab Street at the same location as some of the demonstrations, but security forces dispersed them.

Separately, state media reported a bomb blast Saturday at the mausoleum of the founder of Iran's revolution, Ayatollah Khomeini, that killed the bomber and injured another three.

On Sunday, U.S. President Barack Obama expressed concern about violence and "unjust actions" against Iranian demonstrators in a meeting with advisers who updated him on events there. The statement echoed remarks the president made Saturday, when he challenged Iran's government to halt "all violent and unjust actions against its own people." He said the universal rights to assembly and to free speech must be respected. He said the U.S. "stands with all who seek to exercise those rights."

But lawmakers from the opposition Republican Party urged Mr. Obama to do more.

Iranian state television blamed the violence on terrorists and vigilantes taking advantage of the post-presidential election dis-

Mir Hossein Mousavi, the reform candidate now turned opposition leader, condemned the government's violent crackdowns on protesters and said he would stand by them until martyrdom.

NEWS IN DEPTH

pute over the results. Mir Hossein Mousavi, the reform candidate now turned opposition leader, condemned the government's violent crackdowns on protesters and said he would stand by them until martyrdom.

In a statement on his Web site, Mr. Mousavi said his position on the election results, which he alleges were rigged to cheat him out of winning the race, hasn't changed. Mr. Mousavi and his supporters have openly defied the orders of Iran's Supreme Leader, Ayatollah Ali Khamenei, who called during Friday prayer sermons for the protests to end and election dispute be settled by legal channels. Mr. Mousavi condemned the "mass arrest" of his supporters, his site reported, according to Reuters. "Such mass arrests of people will create a rift between the society and the country's armed forces," Mr. Mousavi said.

Mr. Mousavi and two other challengers have alleged more than 600 specific instances of violations, according to the Guardian Council, a top clerical oversight board that also oversees elections.

Outside analysis of the polls is fraught with difficulties, but in a report released Sunday, Chatham House, a London think tank, raised questions about some of the results. Using publicly available census data and results published by the ministry of interior for elections in 2005 and 2009, researchers determined that in two conservative-leaning provinces, voter turnout exceeded 100%.

The report also showed that in a third of all provinces, Mr. Ahmadinejad would have had to capture not only all of his traditional voter base, but also a surprisingly high percentage of voters who didn't support him in the latest election.

One of the biggest mysteries surrounding the election dispute has been the role Mr. Rafsanjani is playing in the political battle between reformers and hard-liners. He is considered one of the most powerful men in Iran and is the head of the Expediency Council and the Assembly of Experts, the clerical body with the power to name and remove the country's Supreme Leader. Although a conservative pragmatist, he clashed with Mr. Ahmadinejad on several occasions over the past four years and endorsed Mr. Mousavi's candidacy. His son, Mehdi, and his detained daughter, Faezeh, campaigned for Mr. Mousavi and were labeled as "corrupt rich brats" by Mr. Ahmadinejad.

Some analysts suggest that Mr. Rafsanjani's absence indicates a widening rift between him and Mr. Khamenei and differences of opinion over naming a future successor for the Supreme Leader. During the Friday speech, Mr. Khamenei praised Mr. Rafsanjani's revolutionary credentials but clearly took Mr. Ahmadinejad's side by saying his policies closely reflect his own.

"The battle has gone all the way to the top. It's no longer just about elections," said Essa Saharkheez, a political analyst based in Tehran.

All three presidential candidates were invited to meet with the Guardian Council, an appointed clerical review board, to discuss their allegations of vote rigging. On Saturday, a council spokesman told state TV that Mr. Mousavi and the reformist candidate cleric Mahdi Karroubi didn't attend. But the spokesman also said the council had agreed to recount 10% of the vote, in its investigation of the election.

Companies look for fast resolution, weigh investor risks

While young Iranians take to the streets calling for change, many European companies active in Iran are quietly hoping the country resolves the crisis soon.

*By **Marcus Walker** in Berlin and **Stacy Meichtry** in Rome*

Investors say their greatest fear is that neither the Iranian authorities nor the opposition back down over the contested June 12 election, potentially leading to a violent suppression of protests—and more pressure on foreign businesses to stop trading with Iran.

Most of these companies, aware that their investments in Iran are politically contentious, decline to talk openly about Iranian politics.

A number of business officials in Germany and Iran's other main trading partners in the European Union said they believe Mahmoud Ahmadinejad will remain president—peacefully or after a bloody crackdown on protesters.

"Destabilization and shooting would lead to much more political pressure" on companies to stop trading with Iran, said a German business official.

A new, reformist government might usher in a thaw in relations with the West and open up more of the economy to foreign capital in the long term.

But in the shorter term, changes of administration can mean uncertainty for existing investments as new officials might cancel or change business contracts. "Ironically an Ahmadinejad victory means more short-term to medium-term stability," says Amir Cyrus Razzaghi, head of Ara Enterprise, a Tehran-based business consultancy that advises foreign companies.

European businesses have long done business in Iran, even though some governments have tried to curb activity there.

Agence France-Presse/Getty Images

Iranian technicians work on parts for Peugeot vehicles at the Iran Khodro auto plant, west of Tehran, in September. Some investors fear there will be more pressure on foreign firms to stop trading with Iran.

The German government has been trying to discourage firms from trading with Iran through verbal appeals and by scaling down export-credit guarantees by more than 90% since 2004. It hasn't had much effect: German exports to Iran have declined only 10% since their peak of €4.4 billion ($6.11 billion) in 2005. Last year, Germany's companies' €3.9 billion of exports to Iran were second only to China's.

"Present political complications have no effect on our business dealings," says Helene Rang, a consultant and chief executive of the Near and Middle East Association, a club for German companies that trade with the region.

Italy, whose government hasn't stood in the way of investment in Iran, had €2.2 billion in exports to Iran and €3.9 billion in imports last year. In the run-up to the Iranian election, Foreign Minister Franco Frattini called on the West to engage Tehran and invited Iran to attend a meeting of Group of Eight nations' foreign ministers that will be held in Italy at the end of June. Tehran hasn't replied to the invitation, Italy's foreign ministry said.

A wide range of Italian companies operate in Iran. A spokesman for **Eni** SpA, which operates one of Iran's biggest oil fields, declined to comment on how the election outcome could affect their business. **Fiat** SpA, which produces passenger cars in Iran, also declined to comment.

France has taken a stronger line with Iran. In 2007, the country enforced United Nations and European Union sanctions against Tehran, banning the export to Iran of certain products—essentially military equipment or equipment with dual use. Late last year, the French government further restricted trade with Tehran, ordering French banks to "exercise vigilance" when providing export credit services to companies willing to export goods to Iran.

Iran remains one of France's largest crude-oil suppliers but its share of the French market dropped to 5.6% last year from 7.4% in 2007. Among the main French companies doing business in Iran are PSA **Peugeot Citroën** SA and **Renault** SA, which produce cars there through joint ventures. Neither company would comment.

—David Gauthier-Villars contributed to this article.

U.S. and Europe try good-cop, bad-cop approach to leaders

European states are taking a considerably more aggressive line toward Tehran's clerical leaders than the Obama administration, fueling the ire of U.S. Republicans and some democracy activists.

*By **Jay Solomon, John W. Miller** and **Stephen Fidler***

The approach suggests an unusual reversal among the Americans and Europeans from recent history, with Washington emerging as a relatively passive voice and the European Union assuming the role of Tehran's chief scold. But the dynamic also is being welcomed by many European officials involved in Iran diplomacy as an effective approach against Tehran.

The pressure being applied by European states with substantial diplomatic and economic ties to Iran will be more difficult for Supreme Leader Ayatollah Ali Khamenei to shrug off in coming months, said these officials.

Meanwhile, a measured position by President Barack Obama could rob Tehran's leaders of a foil to use against the growing reformist movement, though the government last week nevertheless accused the U.S. of helping to foment unrest.

"The Europeans have been out very vociferously defending the rights of Iranians and protesting the irregularities. To me, that makes better sense," said Suzanne Maloney, a Brookings Institution Iran analyst and former State Department official. "They have the presence on the ground, they have the relationships with the Iranians, they can potentially make a difference."

Since charges of electoral fraud emerged, some EU states have openly challenged the results, while Mr. Obama has chosen his words carefully.

French President Nicolas Sarkozy last week called the election a "fraud." German Chancellor Angela Merkel condemned a "wave of arrests" by the government and cited "signs of irregularities." After a meeting on Monday, EU foreign ministers called on Tehran to "address and investigate" allegations of vote fraud.

Iran shot back Thursday with ire usually reserved for the U.S. "Foreign support for these trouble-makers and anarchists under the cover of supporting democracy and the voice of the Iranian people raises questions and cannot be justified," said a statement from Iran's Embassy in Brussels.

At a Brussels summit Thursday, EU diplomats said they saw it as their turn to take a stand while the U.S. handles the delicate negotiations with Tehran that they expect in coming months over the nuclear issue. "This time around, we know that it's Obama's problem to deal with," said a French diplomat. "That frees us up to be a bit more critical than usual."

U.S. and European officials said that there wasn't any concerted decision between them to develop a good-cop, bad-cop scenario. But they stressed that they discuss Iran every day. "There are regular contacts, we talk all the time," said French spokeswoman Marine de Carne. For the moment, she says, "we are respecting the outcome of the elections."

The real fault line in international diplomacy, said U.S. and European officials, pits on one side Washington and the EU, which have complained about freedom-of-speech restrictions in Iran, and on the other Russia and China, which have refrained from criticizing Iranian authorities in recent days.

To be sure, France has been outspoken on Iran for some time. As far back as 2007, then-President Jacques Chirac caused a stir by warning Iran that if it were ever to use a nuclear weapon against Israel, Tehran would be wiped out within seconds.

When the U.K., France and Germany began talks with Tehran over its nuclear program, the U.S. administration opposed the effort, which offered Tehran civilian nuclear technology and trade privileges if it would abandon its efforts to produce nuclear fuel. With no alternatives available, Washington became supportive.

Though years of negotiations produced no result, U.S. officials said the cooperation with Europe contributed to a unified stance on the electoral crisis. "We are pretty close together on substance and tone," said a senior U.S. official working on Iran.

EUROPEAN MARKETS LINEUP

Moving the markets

At right, Europe's benchmark stock indexes and stocks Friday. Below each index are its most actively traded stocks. The charts show the percentage change in each index's or stock's value, rather than the point change, for purposes of comparison. The index level or stock price is indicated on each axis. All indexes and stocks are shown in local currency terms.

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European indexes...

FTSE 100

U.K. 4345.93

▲ 1.52% or 65.07

The index posted its third gain in four sessions but lost 2.2% for the week. That was its worst showing in a month.

Stock	Volume in millions	Close In pence	Change Net	Change %
Lloyds Banking	**327.04**	70.00	0.70	1.01
VodafoneGp	**292.73**	119.95	–1.85	–1.52
RoyalBnkofScot	**87.58**	37.20	–0.80	–2.11
HSBC Hldng	**79.54**	522.00	–1.50	–0.29
BP	**75.34**	497.00	12.00	2.47

DAX

Germany 4839.46

▲ 0.04% or 1.98

The benchmark declined 4.5% in the week, its biggest weekly decline since March 6. TUI was a big winner Friday on analyst upgrades.

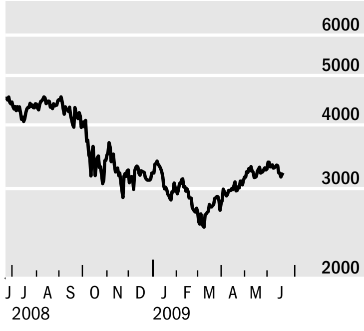
Stock	Volume in millions	Close In euro	Change Net	Change %
DeutscheTel	**50.18**	8.39	0.03	0.30
E.ON	**29.10**	25.80	0.96	3.86
Daimler	**16.08**	24.43	–0.67	–2.65
DeutscheBk	**14.65**	43.66	–0.74	–1.67
Commerzbank	**13.38**	4.66	–0.04	–0.75

CAC-40

France 3221.27

▲ 0.85% or 27.21

EADS rose 2.4% amid further Airbus orders at Le Bourget Air Show. ArcelorMittal climbed 5% on higher raw-material prices.



Stock	Volume in millions	Close In euro	Change Net	Change %
Alcatel Lucent	**28.02**	1.936	0.065	3.47
Arcelormittal	**19.85**	24.190	1.145	4.97
FrTelecom	**17.53**	16.250	0.060	0.37
Vivendi	**13.86**	17.850	–0.220	–1.22
Total	**13.32**	39.180	0.230	0.59

IBEX 35

Spain 9580.90

▲ 2.10% or 196.90

Santander jumped 5% as it reiterated its 2009 guidance. Gas Natural added 5.9% after rival Galp said it may buy its retail sales points.

Stock	Volume in millions	Close In euro	Change Net	Change %
BancoSantndr	**122.14**	8.41	0.40	4.99
Iberdrola	**65.52**	5.63	0.03	0.54
Telefonica	**50.81**	15.57	0.04	0.26
BancoBilbao	**42.17**	8.64	0.31	3.66
BancoPoplr	**9.42**	6.19	0.12	1.89

European stocks in the news

Banco Santander

Spain €8.41

▲ 5.0% or €0.40

The bank's chairman told shareholders that the worst of the global banking crisis may be over.

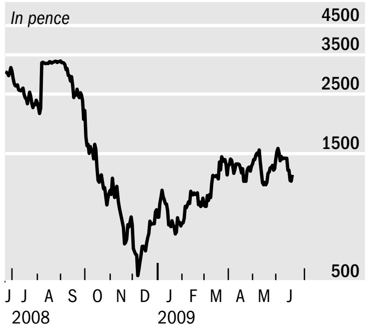
Price-to-earnings ratio			**7**
Earnings per share, past four quarters			**1.16**
Dividend yield			**7.49%**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Banks	**1.0%**	-4.8%	-39.3%
Banco Santander	**5.0%**	4.3%	-24.6%

Lonmin

United Kingdom 1,250.00 pence

▲ 5.6% or 66.00 pence

Miners benefited on a belief that the global economic recovery remains on track.



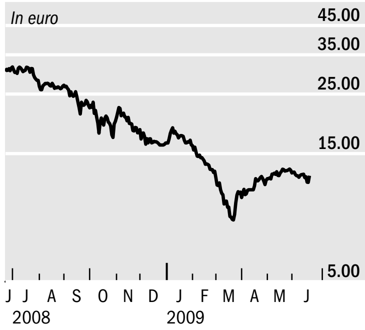
Price-to-earnings ratio			**12**
Earnings per share, past four quarters			**108.04**
Dividend yield			**None**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Basic Resources	**3.1%**	-9.4%	-54.3%
Lonmin	**5.6%**	-13.3%	-58.6%

Gas Natural SDG

Spain €12.41

▲ 5.9% or €0.69

Galp says it could buy the company's retail sales points.



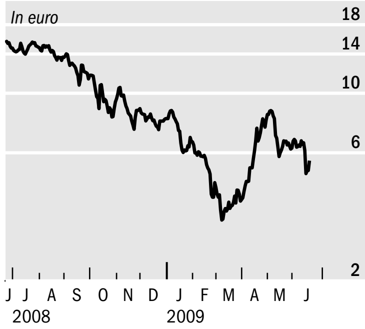
Price-to-earnings ratio			**6**
Earnings per share, past four quarters			**2.04**
Dividend yield			**6.53%**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Utilities	**2.5%**	-0.6%	-33.6%
Gas Natural SDG	**5.9%**	-1.3%	-59.1%

TUI

Germany €5.61

▲ 8.8% or €0.46

Equinet said the recent stock-price decline wasn't justified and called the stock a 'buy.'



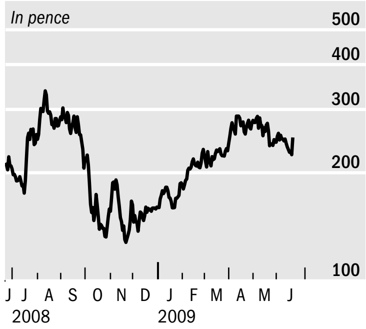
Price-to-earnings ratio			**2**
Earnings per share, past four quarters			**2.36**
Dividend yield			**None**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Travel & Leisure	**2.0%**	-2.9%	-27.9%
TUI	**8.8%**	-14.2%	-63.7%

Mitchells & Butlers

United Kingdom 250.75 pence

▲ 11.7% or 26.25 pence

The jump pushed the stock to its highest close since June 4.



Price-to-earnings ratio			**None**
Earnings per share, past four quarters			**-23.61**
Dividend yield			**None**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Travel & Leisure	**2.0%**	-2.9%	-27.9%
Mitchells & Butlers	**11.7%**	6.3%	17.7%

Fiat Ord

Italy €6.94

▼ 1.8% or €0.13

Banca Imi analysts weren't impressed with the car maker's plans to convert one plant away from autos.

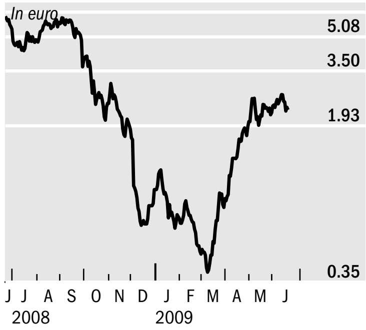
Price-to-earnings ratio			**5**
Earnings per share, past four quarters			**1.30**
Dividend yield			**None**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Automobiles & Parts	**-1.6%**	-10.2%	-22.4%
Fiat Ord	**-1.8%**	-11.7%	-41.0%

Infineon Tech

Germany €2.29

▼ 2.8% or €0.06

Shares slid 15% over the week.



Price-to-earnings ratio			**None**
Earnings per share, past four quarters			**-2.63**
Dividend yield			**None**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Technology	**0.4%**	-2.1%	-24.2%
Infineon Tech	**-2.8%**	-15.2%	-63.9%

DnB NOR ASA

Norway NOK48.00

▼ 3.5% or NOK1.75

Shares gave up almost all of Thursday's gain.

Price-to-earnings ratio			**6**
Earnings per share, past four quarters			**8.67**
Dividend yield			**None**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Banks	**1.0%**	-4.8%	-39.3%
DnB NOR ASA	**-3.5%**	-10.8%	-32.3%

Telenor ASA

Norway NOK46.35

▼ 4.0% or NOK1.95

Russian bailiffs ordered the sale of its multi-billion dollar stake in Russia's Vimpel.

Price-to-earnings ratio			**7**
Earnings per share, past four quarters			**6.22**
Dividend yield			**None**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Telecommunications	**-0.01%**	2.4%	-19.6%
Telenor ASA	**-4.0%**	-8.6%	-54.2%

Gerresheimer

Germany €16.40

▼ 5.9% or €1.03

The stock hasn't been this low since May 29.

Price-to-earnings ratio			**None**
Earnings per share, past four quarters			**-0.08**
Dividend yield			**2.44%**
	PERCENTAGE CHANGE Daily	1 wk.	52 wks
Health Care	**0.9%**	0.5%	-6.3%
Gerresheimer	**-5.9%**	-7.1%	-53.4%

Turmoil in Dubai: Deyaar's chairman resigns a month after being dismissed from a key government job. **Page 23**

Heard on the Street: Sovereign funds won't limit deals. **Page 32**

Ajay Banga picks MasterCard over Citigroup. **Page 22**

U.S. stocks flash warnings after big run-up

Weak volumes, other indicators suggest bull market is on its last legs; a slide to new lows in the autumn?

By E.S. Browning

ABREAST OF THE MARKET

THE U.S. stock market is stumbling.

After a powerful rally that pushed the Dow Jones Industrial Average ahead by more than 30% in three months through last week, stocks are clearly having trouble extending their gains.

Many analysts see a pullback ahead, and they are debating whether it will be just a temporary annoyance or something bigger and more painful.

Indicators of market health, including trading volume, buying demand and trading by companies and corporate insiders, are beginning to flash yellow or red. People also are beginning to question whether the economic fundamentals are strong enough to justify continued gains.

The Dow finished Friday at 8539.73, down 3% for the week. It is at the same levels now as in early May. The Standard & Poor's 500-stock index, which a week ago was up as much as 40% from its March low, ended Friday at 921.23, still 36% above the low.

Chris Serra

"This 40% rally isn't based on a 40% increase in fundamentals," says Michael Farr, president of Washington, D.C., money-management firm Farr, Miller & Washington. "The economy is still declining. Credit isn't coming back. Unemployment is rising, and we are seeing a much less robust consumer. I think the market at some point is going to give back a large portion of these gains."

Mr. Farr and others say it is impossible to know whether the market already has topped out, or will edge higher before giving up the ghost. But even many bullish investors see a downturn ahead.

Stocks have surged since early March in part because government stimulus spending has found its way into financial markets and because some investors have moved money out of cash and into stocks.

Other investors may emerge from the sidelines. **China Investment** Corp., the giant sovereign-wealth fund, is considering potential U.S. investments. Its chairman, Lou Jiwei, has expressed concern that the fund is in danger of missing opportunities as the market rallies, according to people who work with the fund.

While those forces could keep pushing stocks higher for a while, some investors and analysts see signs that the rally's underpinnings already are weakening. Stocks seem a lot less cheap than before their big gains, and investors are no longer impressed when the economic news is simply less bad than before, says Linda Duessel, market strategist at Federated Investors in Pittsburgh.

She thinks improving corporate-profit reports will help push stocks significantly higher in the summer and fall, but first, "history would suggest we would get a 5% to 10% correction somewhere," she says.

That's the optimistic view. Pessimists think the damage could be greater, and the real pessimists worry that stocks could fall to new lows by autumn. They say stocks just aren't behaving as they have at the start of past bull markets.

Average daily trading volume for all New York Stock Exchange stocks hit a record of 7.21 billion shares in March, as the rally began and heavy buying sent stocks sharply higher. That slipped to 6.42 billion in April, and so far this month, it is running at 5.14 billion, well below the 2009 average of 6.15 billion a day.

"A new bull market is one when investors are prepared to commit larger and larger amounts of new money to equities," says Paul Desmond, president of Lowry Research in North Palm Beach, Fla. "What we have seen here is a very consistent drop in total volume going back to early April."

Mr. Desmond says his data, going back to the 1930s, don't show any new bull market with such a weak volume trend, which leads him to believe that this rally won't become a lasting bull market.

Other data reinforce that con-

Please turn to next page

Manager finds new faith in banks

By Larry Light

David Ellison is paid to invest in banks, but a year ago with his fears growing about falling home prices, rising unemployment and bank failures, he sold most of his investments.

Today, Mr. Ellison's funds, **FBR Small Cap Financial** and **FBR Large Cap Financial**, are once again full of banks and his cash levels, which had hit 60%, are down to 10%. He believes most banks are cheap, even after recent rallies, and sees a better attitude among the now-humbled management of the major banks, which are working to rebuild their business, not jack up their own bonuses.

Mr. Ellison decided to plunge back into financials in February, as stocks were tumbling to lows. "I came into work one day and saw that the prices were ridiculous, as if these banks were headed for insolvency," which Washington wouldn't permit, says the Boston-based manager. "I mean, **Citigroup** at 99 cents, **Fifth Third** at a dollar, **State Street** at $14"—when the year before Citi and Fifth Third had traded at $25 a share, and State Street at $84.

"This is the time to take a little more risk," says Mr. Ellison, 52 years old, who launched the two funds in 1996 after a long career at Fidelity Investments. "The machinery is in place to fix the problems, and the companies all want to get better now."

There was no road-to-Damascus moment last summer when Mr. Ellison turned against bank stocks. The fund manager says he simply grew more and more wary about financials against a drumbeat of bank failures and other bad news. "Everything kept getting worse and worse," he recalls. "The stocks were being sucked into a negative vortex."


Jodi Hilton for The Wall Street Journal

Fund manager David Ellison, in his Boston office Thursday, says it's time to buy bank shares again. 'This is the time to take on a little more risk.'

So during the summer, he jettisoned **American Express** Co., **Capital One Financial** Corp. and Downey Savings & Loan, a California thrift that later failed. Mr. Ellison pumped up the cash holdings in his two bank funds from negligible levels to more than 60%.

His prescient call, months before the sector collapsed, allowed him to sidestep much of the carnage that dragged down other fund managers. In a year when the average financial fund tumbled 44%, Mr. Ellison's FBR Small Cap Financial fell 8.7%, while his FBR Large Cap Financial lost 29.1%.

Nowadays, Mr. Ellison is back under 10% cash in the two funds, and has seen decent 2009 performances: up 7.9% for the large-capitalization fund and down 0.65% for the small-cap offering.

It is highly unusual for a sector fund manager to exit from his own sector. But some of the most prominent funds specializing in financials got keel-hauled last year by staying the course.

Davis Financial fund, for instance, posted a negative 45.6% return in 2008, in part thanks to a big

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Let down by active managers, big investors shift to indexing

By Craig Karmin

A growing number of big investors are concluding that stock and bond pickers failed to add any value during the market turmoil and are shifting to index funds, a move that threatens to cut profits for asset managers.

"Active managers have not given us the added performance in a down market that we hoped for," says Bill Atwood, executive director of the $9 billion Illinois State Board of Investment. Disappointing returns by some large- and small-stock managers led his fund to move about $400 million to index funds.

"Now that we think we're close to the bottom, we feel we can access the upside just as well with index managers," Mr. Atwood says.

The move toward more passive investments is part of a broader reconsideration by many investors about what went wrong in 2008 and how they can reposition their portfolios to avoid a rerun of that dismal performance. Active managers promise to beat, rather than match, the market's overall returns and charge fees that can be at least 10 times higher than those of index funds.

In a recent survey by Greenwich Associates, the Greenwich, Conn., consulting firm, about one in five institutional investors said they have recently shifted money away from active managers and into passive index strategies. That is up from just 4% who expected to make that shift when asked between July and October 2008.

The active-versus-passive debate is shaping up as a driving force behind industry consolidation. When BlackRock Inc. agreed this month to acquire Barclays PLC's Barclays Global Investors, the giant index and exchange-traded-fund business, BlackRock CEO Laurence Fink cited investor efforts to cut costs through passive strategies as an impetus for the deal.

"For big money-management houses that underperformed, this trend is bad news," says Mark Keleher, chief executive of Mellon Transition Management, which helps investors switch managers.

Thanks in large part to a growing preference for index funds, the Bank of New York Mellon Corp. unit is forecasting a record number of asset managers will be replaced in the second half of this year.

Mr. Keleher says the moves primarily involve switching from traditional "long-only" active asset managers who invest in stocks and bonds but generally don't hedge or use derivatives, rather than from hedge funds or private-equity firms.

A change of heart in the $2.3 trillion public pension industry could quickly slice profits for the large asset managers that serve them. Stock index funds may charge annual fees

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U.S. stocks flash warning signs

Continued from previous page
cern. The number of stocks joining in the gains has begun to shrink, which doesn't typically happen this soon in a real bull market. And Mr. Desmond's measure of stock demand, based on the amount of trading volume and price change occurring on stock gains, indicates demand has been fading, another negative signal.

"Investors are risking smaller and smaller amounts of capital, and that is a bad sign," Mr. Desmond says.

Phil Roth of New York brokerage firm Miller Tabak shares many of these concerns, and has other worries as well. New stock issuance hit a record in May, he notes, which has created a lake of supply just as demand is softening. Senior corporate officers, who had been buying for their accounts earlier this year, have become net sellers. Neither trend supports the market. Mr. Roth says indexes still might gain some ground before topping out, and he wouldn't be surprised to see the Dow at 9000. But once it starts to fall, he fears, it could sink below the March closing low of 6547.05.

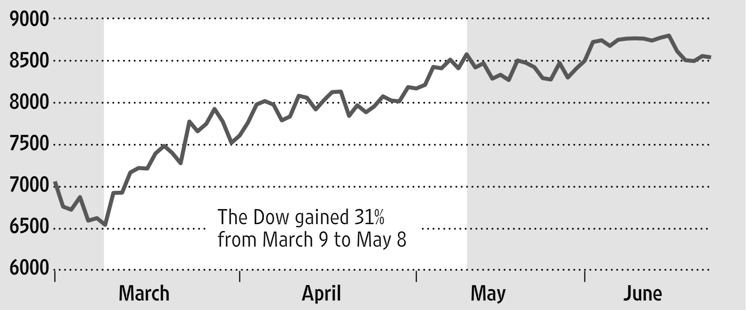
People who recently took money from cash and bought stocks won't want to reverse course unless they get a shock, he says. If they do get a shock, perhaps an indication that the economy's troubles are more lasting than people had hoped, that could produce new selling and new lows. "At some point, investors will be saying, where is the good news?" he says.

The difference, or "spread," between yields of double-A corporate bonds and Treasury bonds averaged 1.45 percentage points over the past 30 years, Mr. Roth says. At its worst during the credit crunch last year, it was 3.81 points. Recently, it fell to 2.78 points, better but still not half way back to average. That means corporate bonds remain more attractive than normal and are competing with stocks for investors' money.

Investors seem to be waiting for either a fall in stock prices or a considerable brightening in the economic outlook before they put a lot more money into the market.

Flattening out

After roaring ahead in March and April, the Dow Jones Industrial Average has made little progress.



Source: WSJ Market Data Group

Asset manager finds faith in banks

Continued from previous page
position in American International Group, by the reckoning of fund tracker Morningstar Inc. The fund didn't reply to requests for comment.

Only a handful of other financial-sector funds were able to hold their losses last year to single digits. At the **Burnham Financial Industries** fund, manager Anton Schutz was down just 7% last year. He didn't go as strongly into cash as Mr. Ellison did, but instead shorted "heavy construction lenders in Nevada, Arizona and California," and also "in Puerto Rico, where there's trouble."

Mr. Ellison's larger fund, the small-cap portfolio, hasn't encountered the big investor exoduses that others did, according to AMG Data Services. It gained throughout the fall and only was hit with withdrawals in February, when the market was in free-fall. The large-cap fund, whose performance was hurt more, had steadier investor redemptions that turned around in April, when new investments rose.

Fresh investments and a better market have improved both funds' assets under management: The small-cap fund stands at $183 million, up 56% from last July when Mr. Ellison pushed into cash, and the large-cap is at $20 million, almost double.

To Mr. Ellison, the reason to move back to optimism is that he detects a sea-change in financial managements' attitudes, from reckless risk-taking back to sober-minded rebuilding of their damaged franchises.

"At Bank of America, they used to be working to take on risk because that increased their bonuses," he says. "Now, they are working on their troubles, which means they are working for me, as an investor, not for themselves."

Mr. Ellison focuses on banks that draw heavily on depositors for much of their capital, like Bank of America. For him, the simpler their capital structures, the better.

He likes conservative operations like **Hudson City Bancorp** that have stayed away from exotica like credit-default swaps. And he is expanding his holdings into promising small-fry like **Brookline Bancorp** and **Webster Financial** Corp.

It is heartening, he believes, that the banks that did go onto the wild side have learned their lesson.

Further, banks are relatively cheap, even with the run-up in the sector's stocks. Bank of America now trades for a little more than one times tangible book value—essentially, assets (not including goodwill) minus liabilities and preferred stock. At the end of 2007, before disaster hit, the BofA share price was at almost three times book, according to SNL Financial.

With the cost of funds low and risk a dirty word, Mr. Ellison figures now is a good time for banks to make loans. "Borrowers and lenders are both being cautious."

Corporate lenders fear Obama plan

By David Enrich, Robin Sidel and Ann Zimmerman

Target Corp., **Harley-Davidson** Inc. and dozens of other companies that aren't banks but pitch loans and other financial products are being squeezed by the Obama administration's financial-overhaul plan.

Some U.S. industrial-loan company executives are lobbying Congress to defeat a proposal that would force them to convert to bank-holding companies.

"At all costs, we have to fight any kind of legislation that would cause us not to be able to own this bank," said Michael Lizárraga, who runs Telacu, a Los Angeles nonprofit agency that owns a so-called ILC called **Community Commerce Bank**.

The ILC offers federally insured savings accounts and funnels the deposits into loans to Hispanic and African-American customers. Community Commerce Bank has grown to $400 million in assets, but might be forced to close if the White House plan clears Congress.

The Obama measure would eliminate ILCs that provide a wide range of financial services, such as collecting federally insured deposits, offering credit cards, making loans and processing financial transactions but aren't technically structured as banks. Converting to a bank-holding company would subject ILCs to more-stringent regulatory oversight and capital requirements.

The measure would affect companies from retailer Target, which uses its ILC to issue some of its credit cards, to a vehicle-financing unit of **BMW** AG.

As of last month, there were 45 ILCs with combined assets of $232.3 billion, according to the Federal Deposit Insurance Corp. That is equivalent in size to the 11th-largest U.S. bank, or slightly smaller than regional bank U.S. Bancorp. Eliminating or sharply curtailing those operations could make it harder or costlier for customers to get credit.

Federal Reserve officials, including ex-Chairman Alan Greenspan, have warned about the perils of allowing traditional commercial businesses to have banking operations. One concern is the banking portion of the business could be at risk if, say, the retailing side went under.

"I don't like the notion that we could do harm to a couple of businesses that are a part of the Nevada economy," said Bill Uffelman, president of the Nevada Bankers Association. Mr. Uffelman plans to discuss his concerns with members of Nevada's congressional delegation, including Sen. Reid, whom he described as a longtime ILC supporter.

Mr. Reid's office didn't respond to a request for comment.

Citi's Asian chief leaving to be MasterCard's No. 2

By David Enrich

Reuters

Ajay Banga may give a fresh marketing jolt to MasterCard.

Ajay Banga, who runs **Citigroup** Inc.'s Asian-Pacific business, is leaving the New York company to become the No. 2 executive at **MasterCard** Inc.

DEALS & DEAL MAKERS

The 49-year-old Mr. Banga will become president and chief operating officer at MasterCard in August, making him the heir apparent to Chief Executive Robert Selander. As part of the move, Mr. Selander will give up duties as president of the Purchase, N.Y., company, which processes electronic payments.

Mr. Banga is the latest seasoned executive to depart Citi, following the losses last year of investment banker Michael Klein and wealth-management chief Sallie Krawcheck, among others. He is leaving just as Citi faces pressure to beef up its ranks of executives with retail-banking experience. Federal officials have expressed concern about the lack of commercial-banking experience at Citi under CEO Vikram Pandit, who spent most of his career in investment banking before taking Citi's helm in December 2007.

From Hong Kong, Mr. Banga presided over a set of businesses that have been faster-growing and more lucrative than many parts of Citigroup's global empire. But the luster of Citigroup's operations in Asia has dimmed because of the economic slump and rising defaults in countries such as Japan.

Citi didn't name a successor to Mr. Banga, an Indian native who joined Citigroup in 1996. He moved from New York to Hong Kong last year to run all of Citigroup's businesses—retail banking, wealth management, investment banking and credit cards—in the Asia-Pacific region.

Mr. Banga, whose brother Vindi is an executive at **Unilever** NV, was a rising star at Citi and was considered an ally of Mr. Pandit. He previously ran the overseas consumer operations. In late 2007, Citigroup's board briefly considered him as a candidate to succeed Charles Prince as CEO, but opted instead for Mr. Pandit. Mr. Banga has a particular specialty in marketing, which he honed in senior positions at **Nestlé** SA and **PepsiCo** Inc.

His marketing savvy is likely to give a fresh jolt to MasterCard, which has fallen well behind rival **Visa** Inc. in the fast-growing business of debit cards.

Some big investors shift stance toward index funds

Continued from previous page
of less than 0.1% of the money they manage, rarely topping 0.5%, while stock pickers charge fees that can range from roughly 0.3% up to 2% of assets. Fees for bond managers are generally lower.

Greenwich Associates says that not all of the switches to index funds will be permanent and that some investors will stash their money in index funds until they find new managers.

That's partly true for the Fire & Police Pension Association of Colorado, a $2.5 billion pension fund. Chief Investment Officer Scott Simon says he is winding down a derivative-related program, known as portable alpha, and holding those assets for the time being in stock-index funds. The Colorado fund has about 60% of its stock holdings in index funds, up from 40% in 2008.

While that figure may come down, he says he intends to maintain a greater index bias going forward. "I see passive being a bigger piece of the portfolio than it has been in past," he says. "More managers seem unable to beat their index."

Mellon has found that some pension investors are doing the same thing with their debt holdings. Historically, the difference in performance between the top quartile and bottom quartile of bond funds was about half a percentage point, Mr. Keleher says.

Last year, that gap widened to about six percentage points. Rather than try to pick winners, many institutional investors are more worried about being stuck with losers, so they now are choosing index funds.

Outside the U.S., Norway's government pension fund, one of the largest in the world with about €232 billion ($324 billion), has dropped 16 of the 22 firms that manage its fixed-income assets since 2008, according to the fund's Web site. Most of them were active managers.

Still, some pension chiefs have no plans to join the trend. David Villa, chief investment officer of the State of Wisconsin Investment Board, says his $66 billion fund is largely in indexes for large U.S. stocks. His small-stock active managers have outperformed their benchmark by 3.4 percentage points over the first four months of this year, while his international stock managers have beaten their index by twice that.

"I'm not going to bail on those strategies," Mr. Villa says.

Big changes for brokers in Obama's overhaul

Proposal would set 'fiduciary' standard; 'a victory for clients'

By Jane J. Kim
And Aaron Lucchetti

Buried in President Obama's proposed regulatory overhaul is a change that could upend Wall Street: U.S. brokers would be held to a higher "fiduciary" standard that would compel them to place their client's interests ahead of their own.

Currently, brokers are only required to offer investments that are "suitable," which means they can't put clients in inappropriate investments, such as a highly risky stock for an 80-year-old grandmother. The move could change the way products are sold and marketed and even how brokers are compensated.

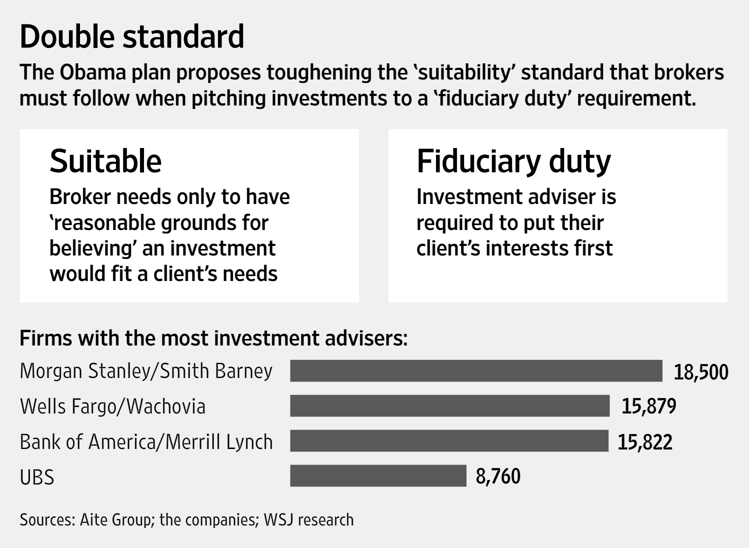
"This is a smart and overdue move" for the large brokerage firms owned by investment banks, says Sallie Krawcheck, who formerly ran the wealth-management business at Citigroup Inc. "It's certainly a victory for clients."

Many investors don't even know the difference between the two standards, believing their brokers already are acting in their best interests.

But requiring brokers to operate under a fiduciary standard could force them to offer products that are less costly and more tax-efficient. They will have to disclose any potential conflicts of interest, such as any fees they may get for favoring one product over another. That could mean clients will be offered fewer proprietary products if the broker can find a lower-cost option elsewhere.

For example, a broker couldn't put an investor in a mutual fund with higher fees—or one he gets a bigger commission for selling—if he could get a comparable fund with lower fees elsewhere, says Tamar Frankel, an expert on fiduciary law at Boston University School of Law.

The proposal addresses a long-simmering debate over how brokers and investment advisers, who have traditionally offered more financial-planning advice, are regulated.



For years, investment advisers—regulated by the U.S. Securities and Exchange Commission as part of the Investment Advisers Act of 1940—have been held to a fiduciary standard, meaning that in serving the clients, they have to put their clients' interests first. Brokers were excluded from that definition of investment advisers as long as they didn't get paid special compensation for that advice, and gave it as "solely incidental" to their brokerage services.

But over the years, that distinction became more blurred as brokers held themselves out as financial planners, even as they continued to operate under the more lenient standards. Making matters more confusing is the fact that some brokers became dually registered, operating under a suitability standard when they are selling products, but under a fiduciary standard when doling out investment advice.

Richard Ketchum, chairman of the Financial Industry Regulatory Authority, says "a fiduciary standard should be established for broker-dealers when they are offering investment advice." He said the SEC should lead a discussion of how to define those situations and adds that features of both broker and adviser regulation should be kept.

The change also will give investors more power if they take their broker to court. "If a fiduciary violates his duty—that is, gives advice which is contaminated by self-interest—he could be sued not only for damages that have been caused for this advice but could also be sued for punitive damages," says Boston University's Ms. Frankel.

Chairman of Dubai's Deyaar quits

By Mirna Sleiman

DUBAI—Nasser Al Shaikh resigned as chairman of Dubai real-estate company **Deyaar Development** PJSC over the weekend, sending its shares sharply lower Sunday.

The company gave no reason for his departure, and Mr. Al Shaikh was unavailable to comment.

Mr. Al Shaikh, as both chairman of Deyaar and director general of finance in Dubai, was instrumental in an investigation of alleged corporate corruption in the emirate that resulted in the arrest of several prominent government officials and executives, including Deyaar's then-chief executive.

Last month, Mr. Al Shaikh was dismissed from the finance department, where he was overseeing its effort to restructure the emirate's $80 billion debt amid a downturn in the economy. At the time, the government gave no reason for his removal.

Shares in Deyaar, the emirate's second-largest listed company by market value behind Emaar Properties PJSC, fell 6.9% Sunday on the Dubai Financial Market. The fall helped push the bourse's main index down 3.5%.

Reuters

Nasser Al Shaikh, who until last month also was Dubai's director general of finance, played a key role in a probe of alleged corporate corruption.

"Deyaar's shares had soared in the recent past," Mohammad Ali Yasin, managing director at Shuaa Securities, told Zawya Dow Jones. "The news of the chairman resigning tipped it over the edge." The stock is up 62% year-to-date after slumping around 83% in 2008.

His resignation could be a further blow for Deyaar as it struggles to re-gear its business to the sharp downturn in Dubai's real-estate industry. The company said earlier this year that first-quarter profit fell to 54.5 million dirhams ($14.8 million), a 73% drop from a year earlier.

The company is a victim of the global financial crisis that is taking its toll on Dubai's once-booming property sector. The slump, which started in the fourth quarter of 2008, has so far wiped an estimated 40% off the average price of real estate in the emirate.

—Nikhil Lohade contributed to this article.

NYSE Euronext invests in Qatar exchange

By Vladimir Guevarra
And Kerry E. Grace

NYSE Euronext said it has invested $200 million in a rebranded stock exchange in Qatar, in a move that gives the company a foothold in an energy-rich Persian Gulf nation that is trying to bill itself as a regional economic center for the Middle Eastern market.

NYSE Euronext and Qatar Holding, the investment arm of the **Qatar Investment Authority**, said their partnership will give rise to **Qatar Exchange**, the successor of the Doha Securities Market.

Under the deal, NYSE Euronext is taking a 20% stake in the exchange, with the rest owned by the QIA, the state investment fund, through Qatar Holding. All workers at DSM will be transferred to Qatar Exchange. NYSE Euronext, the parent of the New York Stock Exchange, will provide the technology for the new exchange.

Stock exchanges in the Gulf region have outperformed many of their peers elsewhere in recent years, thanks in part to their fast-growing economies. But the financial crisis has in the past few quarters also hit exchanges in the region, sapping a lot of trading volume and putting public listings on hold.

Still, the move would give NYSE exposure to one of the world's growth areas. The investment and technology joint venture is part of the country's plans to compete with the financial-services sector in Dubai and Abu Dhabi.

"The start of this relationship between NYSE Euronext and the state of Qatar and Qatar Exchange will add a lot of value to us in terms of technology, in terms of developing the project and in going international," said Hussain Al-Abdulla, board member executive of the QIA.

NYSE Euronext Chief Executive Duncan Niederauer said: "Our strategic partnership with the state of Qatar will benefit the Gulf region and customers on a global scale. Our world-class technology, leadership and expertise in the marketplace will complement the strong foundation and vision of our partners."

Mr. Niederauer said his company is on the lookout for potential acquisitions or new investments even after its move into Europe and into countries such as Brazil, Malaysia and Japan.

"We're always looking for opportunities to get involved in regions or products that are strategic or present meaningful opportunities for the company," Mr. Niederauer said.

Stanford, 5 others charged

Caribbean regulator aided Ponzi scheme, U.S. investigators say

By Evan Perez
And Jared A. Favole

Texas financier R. Allen Stanford had a key helper as he built a flashy offshore financial empire and an alleged $7 billion Ponzi scheme: an allegedly corrupt Caribbean regulator who helped keep U.S. scrutiny at bay, according to U.S. investigators.

The Justice Department on Friday unveiled criminal charges against Mr. Stanford and four other officials at his **Stanford Financial Group**, as well as against Leroy King, administrator of the Financial Services Regulatory Commission, or FSRC, in the island nation of Antigua and Barbuda, where the company had its headquarters.

The federal indictment and related Securities and Exchange Commission civil complaint released Friday describe how over a decade Mr. Stanford and his lieutenants allegedly primed a high-volume sales operation using experienced financial advisers to attract money from 30,000 investors around the world.

Several thousand of the investors are believed to be Americans. But the majority come from countries where investors believed their money would be safer offshore at a bank that appeared to be a formidable global player, investigators say.

When the operation aroused suspicion in the U.S., Mr. King allegedly shared with Mr. Stanford documents provided by U.S. investigators and allowed Mr. Stanford to craft the regulator's assurance that all was well, according to the SEC.

Mr. King became "the enemy of investors, instead of their protector," in exchange for $100,000 in bribes from Mr. Stanford, said Robert Khuzami, SEC enforcement director, at a news conference.

R. Allen Stanford

At a hearing Friday in Richmond, Va., Justice Department attorney Steven A. Tyrrell said $1.1 billion of Mr. Stanford's firm's funds are "completely unaccounted for." He said an additional $5 billion has been "lost," without elaborating. A federal judge ordered Mr. Stanford transferred to Houston to face criminal indictments.

In a statement, Mr. Stanford's attorney, Dick DeGuerin, said his client "will continue to fight these allegations" and that he was confident of being found not guilty. Mr. DeGuerin blamed the collapse of Mr. Stanford's financial empire on the "heavy-handed actions" of the SEC.

Mr. King's assistant at the FSRC said he was away and unavailable for comment.

U.S. and other authorities can be constrained when they seek information from foreign regulators, many of whom rely on traditions of client secrecy, banking experts say.

Also charged in the criminal complaint were Laura Pendergest-Holt, Stanford's chief investment officer, as well as accountants Gilberto Lopez and Mark Kuhrt. James Davis, chief financial officer, was named as a co-conspirator, but not charged as he cooperates with the probe. The charges include multiple counts of wire and mail fraud, and conspiracy to launder money.

A separate federal indictment charged Bruce Perraud, a Stanford security official, in Fort Lauderdale, Fla., with destroying documents related to the federal investigation. Messrs. Perraud, Lopez and Kuhrt were arrested Friday, federal officials said.

Dan Cogdell, attorney for Ms. Pendergest-Holt, said that she is innocent and that she is expected to turn herself in soon. She was previously charged with obstructing the investigation.

David Finn, the Dallas-based attorney for Mr. Davis, the chief financial officer, said his client has "been answering questions posed by the Department of Justice and FBI as recently as [Friday]. Mr. Davis has, and will continue to, accept full responsibility for his actions." Representatives of others named couldn't be immediately reached for comment.

Treasurys eye juggle of inflation, debt, rates

By Min Zeng

The direction of U.S. Treasurys this week may hinge on whether the Federal Reserve can convince traders that inflation can be kept in check amid the onslaught of government debt issuance.

The Treasury plans to auction $104 billion of notes this week.

U.S. CREDIT MARKETS

Meantime, the Federal Open Market Committee will hold a two-day policy meeting, ending Wednesday with a statement that is expected to walk the fine line between the need to continue goosing the economy and the need to keep inflation at bay.

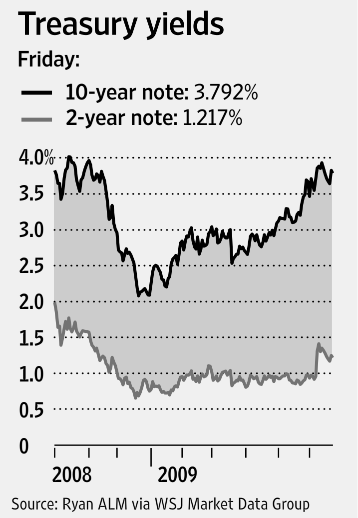
"The Fed faces a difficult balancing act," said Dominic Konstam, head of interest-rate strategy at Credit Suisse Securities USA in New York.

While Fed officials have said the recent rise in Treasury yields reflects a welcome increase in optimism about an economic recovery, bond traders have cautioned the move also reflects alarm at the prospects for inflation.

The 10-year Treasury yield reached 4% earlier this month, sending prices lower. While yields have retreated, trading late Friday at 3.79%, they remain well above the 2.5% level seen in March, potentially threatening the recovery and the government's efforts to keep mortgage rates low.

"The one certainty is volatility," said George Goncalves, head of fixed-income rates strategy at Cantor Fitzgerald in New York. "I don't think the Fed will signal tightening. Inflation isn't there yet."

Bets that the Fed could start raising rates at the end of the year jumped earlier this month following the better-than-expected jobs report for May. That briefly lifted the two-year yield, among the most sensitive to changes in the official rate outlook, to above 1.4% from around 1%. Friday, it stood at 1.22%. Investors will scrutinize the central bank's statement Wednesday for



Source: Ryan ALM via WSJ Market Data Group

any change to its stance that rates will remain close to zero for an extended time.

James Caron, head of U.S. interest-rate strategy at Morgan Stanley in New York, said there is a risk that the Fed could slightly change the sentence regarding the fed-funds target rate.

"They could say 'we will continue to keep the rate low,' but add that any changes depend on market conditions," said Mr. Caron. Any "subtle tweaks" would be seen as the Fed talking tough on inflation, and could spur selling in Treasurys, sending yields higher, he said.

Also underlying the move higher in yields were concerns that the central bank's aggressive policies to support the economy and thaw frozen markets could further fuel price pressures. An ill-designed exit strategy would undermine the dollar and hurt demand from abroad for U.S. government debt. Foreigners own more than half of outstanding Treasurys.

Mr. Goncalves said the Fed now has a sense of what the range will be for the 10-year yield: 3% to 4%. In recent weeks, when the yield got to 4%, investors stepped in to buy. When it slides to 3%, profit-taking emerges.

"If the 3%-4% yield range is held, the Fed has no reason to increase the program unless there's a massive breakout," he said.

Dollar looks set to slip as focus turns to Fed

By Riva Froymovich

Currency markets are waiting for the word from the Federal Open Market Committee, but the net effect of this week's meeting could be slight.

General market fatigue after optimistic calls for a global turnaround have been trumped by reality, the end of the quarter and persistent uncertainty that will keep major currencies range-bound but volatile. This trend could persevere until clearer forward-looking and third-quarter economic indicators are released.

CURRENCY MARKETS

The key questions heading into the monetary-policy meeting on Tuesday and Wednesday are if the Fed will commit to low interest rates through 2009 and whether it signals the potential for increasing a planned purchase of $300 billion of Treasurys.

If it is yes on either, the dollar is likely to decline versus the higher-yielding euro. However, the extent of the dollar's selloff will be limited by concerns over the euro-zone economy and the subsequent need for lower interest rates in Europe for several months to come as well.

"My central assumption would be that they're not going to do anything dramatic," said Tom Levinson, a currency strategist at ING Wholesale Banking in London.

As a result, the euro could break the $1.40 mark next week but isn't expected to advance beyond the recent high of $1.4339. The dollar is seen staying inside its recent range between 95 Japanese yen and 98 yen and is highly dependent on the performance of stocks.

Late Friday in New York, the euro moved to $1.3945 from $1.3890 late Thursday, while the dollar was at 96.19 yen from 96.62. The euro was at 134.14 yen from 134.20 yen.

THE INTERNATIONAL INVESTOR

Pain in emerging nations

Capital inflows fell 41% last year, seen being halved in '09

BY JUDITH BURNS

WASHINGTON—Developing countries' net private capital inflows fell 41% last year and will be cut nearly in half this year, the World Bank said in a report that offers little hope that the countries will provide the spark for the global economic engine.

In its annual development-finance review, the bank estimates that gross domestic product in developing countries will grow just 1.2% this year, well off the 8.1% pace in 2007 and the 5.9% gain in 2008.

The report, issued at a conference in Seoul, projects a 2.9% contraction in global GDP this year, as rich countries contract by 4.5%.

"The crisis of the past two years is having dramatic effects on capital flows to developing countries, and the world appears to be entering an era of lower growth," World Bank Chief Economist Justin Lin cautioned.

The report said net flows of private capital to developing countries fell to $707 billion in 2008 from $1.2 trillion in 2007, and it projects they will fall an additional 48% this year to $363 billion.

"Net private capital flows will be insufficient to meet the external financing needs of many of these [developing] countries, and in view of the intense fiscal pressures triggered by the crisis, the prospects for large increases in aid flows are dim," the report said.

"The bulk of new commitments by international financial institutions will go to middle-income countries in 2009, and workers' remittances to low-income countries are projected to decline by 5%," it said

On a regional basis, the report offered the following outlook for developing countries:

East Asia and the Pacific: China's fiscal-stimulus efforts should spur a recovery in the region, starting later this year, with regional GDP rising 6.6% in 2010 and 7.8% in 2011.

Europe and Central Asia: GDP is projected to fall 4.7% in 2009, and grow by just 1.6% in 2010.

Latin America and the Caribbean: Regional GDP is seen falling by 2.3% this year, then growing about 2% in 2010.

Middle East and North Africa: While less directly affected by the global credit crunch, growth in the region is expected to be cut roughly in half this year, to 2.1%, before rising 3.8% in 2010 and 4.6% in 2011.

South Asia: GDP is expected to grow by 4.6% this year, followed by 7% next year and 7.8% in 2011.

Sub-Saharan Africa: Sharp declines in remittances and export prices will take a heavy toll a region that had been growing at a 5.7% annual rate in the past three years, with growth slowing to 1% in 2009 and 3.7% in 2010.

European Central Bank Gov. Jean-Claude Trichet said Sunday that political instability and social unrest in Iran pose a risk to global economic growth, but the ECB expects the global economy to moderate its slide over the remainder of the year and resume climbing in 2010.

"There is clearly an additional risk for the international economy," Mr. Trichet said in an interview with French radio station Europe 1. But the Iran crisis has arisen only recently, and there isn't yet an appreciable impact on the global economy, he said.

—A.H. Mooradian in Paris contributed to this article.

FUND SCORECARD

Eurozone Small-Cap Equity

Funds that invest primarily in the equities of small-cap companies from the 12 Eurozone countries. At least 75% of total assets are invested in equities. Ranked on % total return (dividends reinvested) in U.S. dollars for one year ending June 19, 2009

Leading 10 Performers

FUND RATING	FUND NAME	FUND MGM'T CO.	CURR.	LEGAL BASE	% Return in $US ** YTD	1-YR	2-YR	5-YR
NS	**Kairos Small Cap I Acc**	Kairos Partners SGR S.p.A.	EUR	Luxembrg	**4.57**	-24.87	-14.00	NS
2	**Actys 3 A/I**	La Banque Postale	EUR	France	**18.96**	-25.74	-18.90	0.01
2	**CM-CIC Micro Cap Acc**	Crédit Mutuel-CIC	EUR	France	**17.54**	-26.60	-26.13	2.23
5	**RR Analysis TopSelect Universal Acc**	Universal-Investment GmbH	EUR	Germany	**–3.42**	-27.46	-12.84	NS
4	**Prevoir Perspectives Acc**	Société de Gestion Prévoir	EUR	France	**22.20**	-30.72	-18.39	6.41
3	**Barclays Small Cap Euro PEA Acc**	Barclays	EUR	France	**13.51**	-30.85	-24.66	3.71
NS	**LBBW Dividenden Strat S&M Caps BWI Acc**	Baden-Württembergische Investment GmbH	EUR	Germany	**19.92**	-33.39	NS	NS
4	**IDE Euro Dynamisme A/I**	Investisseurs dans l'Entreprise	EUR	France	**15.29**	-34.57	-23.66	3.77
2	**Natixis Actions Euro DSK Acc**	Natixis	EUR	France	**18.53**	-35.27	-28.97	-0.08
3	**Synergy Smaller Cies A Acc**	Sycomore Asset Management	EUR	France	**15.99**	-35.68	-26.30	4.89

NOTE: Changes in currency rates will affect performance and rankings.
KEY: ** 2YR and 5YR performance is annualized
NA-not available due to incomplete data;
NS-fund not in existence for entire period

Source: Morningstar, Ltd
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Malaysia looks to Chinese assets

BY DENIS MCMAHON

SHANGHAI—Malaysia's central bank could be poised to include yuan-denominated assets in its foreign-exchange reserves in what would be a symbolic step forward in Beijing's ambitions to promote the yuan as an alternative reserve currency.

The possibility arises as hand-wringing by governments around the world over the declining value of the U.S. dollar, which dominates reserve holdings, has sparked debate over other options for states to safely store their savings.

China's economy and currency—having fared better than most during the global financial crisis—are now stirring interest as such a safe haven. But strict Chinese capital controls have limited the scope for foreign governments to invest in China's financial products.

The China Securities Regulatory Commission said June 12 it had approved Bank Negara Malaysia as a qualified foreign institutional investor, or QFII. That status allows the Malaysian central bank to invest in China's exchange-traded equities and debt, including Ministry of Finance bonds. The CSRC, in line with its usual practice, didn't say how large an investment quota was allocated.

Bank Negara Malaysia's quota likely isn't big enough to mark a significant departure in the way it invests its reserves.

At the end of 2007, the last time the CSRC published quotas, the average size was between $100 million and $200 million. UBS AG had the biggest quota with $800 million. That is a tiny percentage of the $88.3 billion in international reserves Malaysia held at the end of May.

Bank Negara Malaysia declined to comment on how it intends to use its QFII quota, or how it allocates its reserves.

Technically, Malaysia's isn't the first central bank to receive a QFII quota; Norges Bank gained approval in October 2006. However, the Norwegian central bank's operations in China are run by Norge Bank Investment Management, its sovereign-wealth-fund unit, which invests much as any fund-management company does.

In contrast, economists say, Bank Negara Malaysia conforms to the archetype of a central bank, limiting its reserve investments to highly liquid, low-risk assets such as U.S. Treasurys and European Union government bonds.

The QFII investment approval came as the two countries' central banks were stepping up cooperation, and discussing how to conduct trade and investment in their own currencies rather than the U.S. dollar. In February, China and Malaysia signed a currency-swap agreement, which when fully set up will increase the availability of yuan in Malaysia and ringgit in China.

Zeti Akhtar Aziz, Malaysia's central-bank governor, said the swap agreement would facilitate trade and investment between the two countries.

There are limits to the appeal of investing reserve assets under a QFII quota.

"The yuan bond market is certainly not a liquid instrument, so you can't start maxing out your reserve holdings in yuan because it simply doesn't meet your primary concern as a central bank," said Stephen Green, an economist for Standard Chartered in Shanghai.

China sets '09 high, India has first losing week in 15

BY CHRIS OLIVER AND ROSALIND MATHIESON

ASIAN-PACIFIC STOCKS

Financial stocks advanced in China Friday after the country opened the door for new share listings after a freeze of nearly a year, while Asian chip makers gained on an improved outlook.

Benchmark indexes in Hong Kong, Singapore, Australia and Korea rose for the first time in the week. India's stock market also rose on the day but fell for the week, snapping a string of 14 weekly gains.

The Shanghai Composite Index rose 0.9% to 2880.49, a new closing high for 2009. The index gained 5% for the week, its best showing since May 8, and is up 58% so far this year.

The day's gains were led by brokerage firms on hopes the market's strong performance this year will boost earnings. The strong market also could help the performance of initial public offerings. Friday, **Guilin Sanjin Pharmaceutical** said it would sell 46 million shares on the Shenzhen Stock Exchange. The company didn't say how much it intends to raise but said orders will be taken June 29.

The resumption of IPOs will provide brokerages with another income stream, said Central China Securities analyst Zhang Gang. **Sinolink Securities** ended limit-up 10% and **Citic Securities** rose 2.7%.

Hong Kong's Hang Seng Index added 0.8% to 17920.93. But it lost 5.1% for the week, its sharpest weekly decline since March 6. Property stocks rebounded from declines in recent sessions. **Sino Land** added 4.6%. **Hang Lung Properties** rose 2.6%. Both had slid 10% in the previous four sessions.

In Tokyo, the Nikkei Stock Average of 225 companies rose 0.9% to 9786.26. But it was the index's worst weekly showing in more than three months as it declined 3.4%. Among chip plays, **Advantest** rose 3.1% and **Tokyo Electron** added 2.9%.

In Mumbai, the Bombay Stock Exchange's Sensitive Index rose 1.8% to 14521.89, led by infrastructure, real estate and metal companies. But the 30-stock index fell 4.7% for the week, its first weekly loss after 14 consecutive weeks of gains, as investors booked profits on the strong rally since the index's 2009 closing low of 8160.40 on March 9. **Reliance Infrastructure** jumped 5.1%.

Please turn to next page

Chinese firms plan offerings

Chemical company leads busiest week in U.S. since May '08

By Lynn Cowan

A Chinese IPO is likely to take center stage in the U.S. this week, while an American software firm could test the appetite for new stocks with poor profit histories.

The pair are part of a trio of companies expected to launch initial public offerings this week: **Chemspec International** Ltd., **Medidata Solutions** Inc., and **Duoyuan Global Water** Inc. If all three are completed, it would be the most active week for IPO issuance in the U.S. since May 2008.

IPO FOCUS

Chemspec appears to the front-runner; IPO research site IPOfinancial.com selected it as pick of the week, and several analysts say demand from investors appears strong.

The Shanghai-based company bills itself as the largest maker of fluorinated specialty chemicals in China, which are used in everything from pharmaceuticals to components for consumer electronics. The company, which is seeking to raise as much as $73 million through a listing on the New York Stock Exchange, is expected to begin trading by midweek under the symbol CPC.

Enthusiasm for the offering isn't universal. Morningstar panned the deal as a "toxic" one that investors should steer clear of, given growing competition, soft end-markets, and related-party transactions between the firm and its founder, among other criticisms.

Sales and net income at Chemspec have been growing steadily, although income-tax expenses dragged the company's first-quarter profit below that seen in the same period of 2008, when it booked income-tax benefits.

Although demand for chemicals used in consumer electronics have softened and the average selling price of its commercialized products was halved from 2007 to 2008 due to a lower-margin mix from a newly acquired facility, the company's prospectus projects a strong outlook. The company expects demand to grow later in 2009, particularly as the holiday season approaches, which is traditionally a strong sales period for consumer electronics, and as it moves toward producing more highly engineered, higher-margin pharmaceutical and agricultural chemicals.

Software company Medidata, based in New York, will be the first IPO of the year without a full year of profit under its belt. So acceptance of the deal would be a sign that investors are willing to take on more risk, and could open the window for more companies to test the market.

The company, which specializes in clinical-trial software aimed at pharmaceutical and medical-device makers, has been selling its products since 2001, and counts 22 of the top 25 pharmaceutical firms among its customers, including **Johnson & Johnson** and **Amgen** Inc.

While its customer base has quadrupled since 2006 and revenue has been rising rapidly, it hasn't yet had an annual profit; it was profitable in the first quarter, however. It plans to raise as much as $82 million through a listing on Nasdaq under the symbol MDSO.

The lack of profitability "may end up being a bit of a sticking point for investors," says David Menlow, president of IPOfinancial.com. "But it will be a good litmus test for whether losses will be tolerated for a company that is known and has so much awareness within its field."

The third deal of the week comes from Chinese water-treatment equipment supplier Duoyuan, which plans to raise as much as $75 million through a NYSE listing under the symbol DGW.

Although it isn't drawing as much attention as Chemspec, the Beijing-based company still occupies an interesting niche, thanks to rapid urbanization and industrialization in China. Revenue and profit have been increasing at a fast clip.

New Bramdean board is installed after battle

By Cassell Bryan-Low

LONDON—Property tycoon Vincent Tchenguiz has prevailed in an effort to oust the board of asset-management firm Bramdean Alternatives Ltd., in a move that could unseat prominent British fund manager Nicola Horlick.

Bramdean Alternatives, a small firm with about $200 million in assets under management, has been the focus of a high-profile battle for control between Mr. Tchenguiz and Ms. Horlick since last month, after the firm suffered about £10 million ($16.3 million) in losses on investments with Ponzi-scheme operator Bernard Madoff.

Bramdean held the first meeting of its new board Friday, after Mr. Tchenguiz secured roughly 56% support from shareholders to install three of his chosen candidates in a vote the previous day. Mr. Tchenguiz, who had expressed dissatisfaction with the fund's performance, prevailed despite a bid by Ms. Horlick to purchase Bramdean Alternatives.

The new board chairman, Jonathan Carr, issued a statement saying the board would "consider all possible options to maximise value for shareholders." A spokesman for Ms. Horlick said she didn't plan to make any public statements on the matter until she had met formally with the new board, which she is expected to do this week.

Ms. Horlick, 48 years old, rose to prominence in London's financial center in the late 1990s, when she clashed with senior executives at Deutsche Bank over their treatment of asset-management subsidiary Morgan Grenfell, where she was a managing director.

Ms. Horlick formed **Bramdean Asset Management** LLP in 2005. Before news of the Madoff scandal broke in December, Ms. Horlick had publicly endorsed the money manager, calling him "very, very good at calling the U.S. equity market" in an interview with the Financial Times. Bramdean Alternatives, whose investments she manages, had about 10% of its assets invested with Mr. Madoff.

On Monday, the board rejected an approach Ms. Horlick had made in mid-March to buy Bramdean Alternatives, which is registered in Guernsey. Under pressure from Mr. Tchenguiz, 52 years old and a shareholder in Bramdean Alternatives, the board called the extraordinary general meeting for shareholders that was held Thursday.

China restarts its IPO market

By Joy C. Shaw And Michelle Ng

SHANGHAI—China cautiously opened the doors for new share listings, as **Guilin Sanjin Pharmaceutical** Co. on Friday became the first company moving to raise funds through China's stock market after a nearly yearlong moratorium on IPOs.

China had been expected to end its unofficial moratorium on new share sales after the country's two stock exchanges Thursday issued a set of revised rules for subscriptions to initial public offerings, though authorities are likely to initially test investor appetite in its notoriously volatile market with a stack of small stocks.

Guilin Sanjin said Friday that it plans to sell 46 million Class A shares on the Shenzhen Stock Exchange. The drug company said subscription of new shares will take place on June 29, after a roadshow starting Monday. The company didn't say how much it aims to raise through the IPO, but said proceeds will be used to fund investment projects totaling 634.1 million yuan (about $92.8 million).

Such caution reflects Beijing's dilemma between further stimulating domestic growth by unleashing pent-up private demand and hurting a hard-won but still-nascent economic recovery through massive public spending.

Stock investors have been trading cautiously lately, concerned that a resumption of IPOs could lead to a supply glut and squeeze liquidity. But they appeared to shrug off those concerns Friday in view of Beijing's careful handling of the return of new listings. The benchmark Shanghai Composite Index ended up 0.9% at 2880.49 Friday.

"Stocks are holding up pretty well....This isn't surprising given how much care Beijing took in staging the first IPO after the hiatus," said Yan Li, an analyst at Southwest Securities.

Ms. Yan said Beijing chose a small firm because it didn't want to arouse concerns about liquidity being tightened. She said the announcement's timing also is indicative of Beijing's caution.

"Even if investors had reacted badly to the IPO news, they would have had the weekend to cool down and become more rational," Ms. Yan said.

Before the IPO moratorium, 32 companies had gained the regulator's preliminary approval, including 28 small firms destined for a listing in Shenzhen and the other four much larger companies waiting for their presence on the Shanghai market. Among the biggest potential offerings on the waiting list are **China State Construction Engineering** Corp., **Sichuan Expressway** Co., **Everbright Securities** Co. and **China Merchants Securities** Co.

Ms. Yan said she believes the China Securities Regulatory Commission will approve IPOs by other small Chinese firms this week if the markets continue to hold up well.

Santander's Sovereign Bank sues U.S. over tax decision

By John Hechinger And Jesse Drucker

Banco Santander SA's Sovereign Bancorp unit sued the federal government over $235 million in U.S. taxes, penalties and interest it was assessed in connection with a complex tax deal that the Internal Revenue Service said lacked "economic substance and business purpose."

The lawsuit, filed in U.S. District Court in Boston, is the latest skirmish between the IRS and companies over what the government considers improper offshore tax shelters. The lawsuit centers on a transaction between Sovereign and Britain's **Barclays** PLC in which both claimed foreign tax credits.

Cross-border tax transactions are drawing increased scrutiny from tax authorities in the U.S. and Europe. In March, U.K. tax authorities said they were reviewing other tax-cutting deals structured by Barclays. The IRS, as part of a broad crack-down on foreign-tax credit deals, is already in court with **American International Group** Inc. and **Hewlett-Packard** Co.

The IRS has said that some deals were structured merely to avoid paying U.S. taxes. Such transactions effectively stopped in 2007 after proposed IRS regulations sought to shut them down.

In its lawsuit, Sovereign said it entered into a financing arrangement with Barclays in 2003 and 2004, getting funding of $1.15 billion at a rate below Sovereign's usual cost. Sovereign says the U.S. "erroneously" denied foreign tax credits, deductions for interest expenses and transaction costs that the bank claimed on its returns.

Because the IRS denied the credits, Sovereign says it paid taxes at a rate of 57% because it was subject to "double taxation."

Spokesmen for the IRS, Sovereign and Barclays each declined to comment.

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Continued from previous page

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
Sel European Equity	EU	EQ	GGY	06/18	USD	147.16	7.0	−41.6	−28.8
Sel Glob Equity	GL	EQ	GGY	06/18	USD	154.25	7.4	−37.0	−27.2
Sel Glob Fxd Inc	GL	BD	GGY	06/18	USD	129.36	0.3	−11.6	−3.1
Sel Pacific Equity	AS	EQ	GGY	06/18	USD	110.58	22.3	−31.9	−17.4
Sel US Equity	US	EQ	GGY	06/18	USD	104.68	3.9	−32.9	−23.0
Sel US Sm Cap Eq	US	EQ	GGY	06/18	USD	140.72	7.6	−35.1	−27.4

■ LLOYD GEORGE MANAGEMENT (HK) LTD

Suite 3808, One Exchange Square, HK: Tel. 852 2845 4433 Fax. 852 2845 3911

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
LG Antenna	GL	EQ	BMU	06/12	USD	48.61	42.4	−28.5	−11.9
LG Asian Plus	AS	EQ	CYM	06/05	USD	47.82	26.5	−31.7	−14.8
LG Asian SmallerCo's	AS	EQ	BMU	06/18	USD	74.38	34.9	−36.7	−32.7
LG India	EA	EQ	MUS	06/11	USD	52.40	64.2	−12.1	−9.5
Siberian Investment Co	OT	OT	IRL	02/27	USD	22.58	39.1	−70.6	−45.3

■ MP ASSET MANAGEMENT INC.

Tel: + 386 1 587 47 77

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
MP-BALKAN.SI	OT	OT	SVN	06/18	EUR	23.69	−9.7	−55.9	−46.9
MP-TURKEY.SI	OT	OT	SVN	06/18	EUR	24.88	27.4	−29.3	−28.5

■ PAREX ASSET MANAGEMENT IPAS

Basteja Blvd. 14, Riga, LV-1050, Latvia
www.parexgroup.com Tel: +371 67010810

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Eastern European Bond Fund	OT	OT	LVA	06/18	USD	12.17	39.6	−14.2	−4.7
Parex Caspian Sea Eq	EU	EQ	LVA	06/18	EUR	3.00	42.9	−65.9	−45.0
Parex Eastern Europ Bd	EU	BD	LVA	06/18	USD	12.17	39.6	−14.2	−4.7
Parex Russian Eq	EE	EQ	LVA	06/18	USD	14.88	71.8	−54.3	−23.0

■ PICTET & CIE, ROUTE DES ACACIAS 60, CH-1211 GENEVA 73

Tel: + 41 (58) 323 3000 Web: www.pictetfunds.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
PF (LUX)-Asian Eq-Ica	AS	EQ	LUX	06/19	USD	134.35	21.2	−32.3	−18.9
PF (LUX)-Asian Eq-Pca	AS	EQ	LUX	06/19	USD	128.44	20.7	−32.9	−19.6
PF (LUX)-Biotech-Pca	OT	EQ	LUX	06/18	USD	267.44	−6.2	−18.0	−7.0
PF (LUX)-CHF Liq-Pca	CH	MM	LUX	06/18	CHF	124.16	0.2	0.7	1.4
PF (LUX)-CHF Liq-Pdi	CH	MM	LUX	06/18	CHF	93.72	0.2	0.8	1.4
PF (LUX)-Digital Comm-Pca	OT	EQ	LUX	06/18	USD	93.67	15.2	−19.4	−13.0
PF (LUX)-East Eu-Pca	EU	EQ	LUX	06/18	EUR	214.94	61.0	−50.8	−31.3
PF (LUX)-Emg Mkts LC-Pca	GL	EQ	LUX	06/19	USD	121.30	30.2	−39.7	−20.7
PF (LUX)-Emg Mkts-Pca	GL	EQ	LUX	06/19	USD	394.18	29.6	−40.4	−20.6
PF (LUX)-Eu Indx-Pca	EU	EQ	LUX	06/18	EUR	81.68	6.8	−29.3	−25.6
PF (LUX)-EUR Bds-Pca	EU	BD	LUX	06/18	EUR	368.67	−1.3	4.5	1.9
PF (LUX)-EUR Bds-Pdi	EU	BD	LUX	06/18	EUR	280.55	−1.3	4.5	1.9
PF (LUX)-EUR Cp Bd-Pca	EU	BD	LUX	06/18	EUR	134.52	7.7	4.8	1.4
PF (LUX)-EUR Cp Bd-Pdi	EU	BD	LUX	06/18	EUR	94.57	7.7	4.8	1.4
PF (LUX)-EUR HiYld-Pca	EU	BD	LUX	06/18	EUR	115.94	28.6	−16.1	−12.8
PF (LUX)-EUR HiYld-Pdi	EU	BD	LUX	06/18	EUR	67.21	28.6	−16.1	−12.8
PF (LUX)-EUR Liq-Pca	EU	MM	LUX	06/18	EUR	135.63	0.7	2.6	3.0
PF (LUX)-EUR Liq-Pdi	EU	MM	LUX	06/18	EUR	97.75	0.7	2.6	3.0
PF (LUX)-EUR Sov Liq-Pca	OT	OT	LUX	06/18	EUR	102.31	0.4	2.3	NS
PF (LUX)-EUR Sov Liq-Pdi	OT	OT	LUX	06/18	EUR	100.95	0.4	2.3	NS
PF (LUX)-Europ Eq-Pca	EU	EQ	LUX	06/18	EUR	332.37	8.6	−32.9	−29.9
PF (LUX)-EuSust Eq-Pca	EU	EQ	LUX	06/18	EUR	107.33	6.1	−29.9	−28.4
PF (LUX)-Gl Em Dbt-Pca	GL	BD	LUX	06/18	USD	215.12	13.6	6.6	5.5
PF (LUX)-Gl Em Dbt-Pdi	GL	BD	LUX	06/18	USD	146.34	13.6	6.6	5.5
PF (LUX)-Gr China-Pca	AS	EQ	LUX	06/19	USD	278.41	30.9	−21.4	−8.9
PF (LUX)-Indian Eq-Pca	EA	EQ	LUX	06/19	USD	283.52	48.0	−18.3	−10.5
PF (LUX)-Jap Index-Pca	JP	EQ	LUX	06/19	JPY	8825.52	8.3	−33.6	−27.9
PF (LUX)-Jp Eq Sel-Ica	JP	EQ	LUX	06/19	JPY	7588.61	3.9	−39.1	−33.1
PF (LUX)-Jp Eq Sel-Pca	JP	EQ	LUX	06/19	JPY	7385.45	3.6	−39.5	−33.5
PF (LUX)-JpEq130/30-Pca	JP	EQ	LUX	06/19	JPY	4238.81	8.0	−34.5	−28.8
PF (LUX)-Pacif Idx-Pca	AS	EQ	LUX	06/19	USD	200.26	26.5	−30.1	−16.5
PF (LUX)-Piclife-Pca	CH	BA	LUX	06/18	CHF	717.19	4.0	−8.9	−10.0
PF (LUX)-PremBrnds-Pca	OT	EQ	LUX	06/18	EUR	49.74	12.7	−23.2	−24.4
PF (LUX)-Rus Eq-Pca	OT	OT	LUX	06/18	USD	41.54	81.9	−59.8	NS
PF (LUX)-Security-Pca	GL	EQ	LUX	06/18	USD	81.68	14.3	−16.9	−15.6
PF (LUX)-Sm Cap Eu-Pca	EU	EQ	LUX	06/18	EUR	366.04	12.2	−33.8	−28.8
PF (LUX)-US Eq-Ica	US	EQ	LUX	06/18	USD	84.61	3.6	−31.7	−19.6
PF (LUX)-USA Index-Pca	US	EQ	LUX	06/18	USD	74.24	2.4	−30.1	−21.4
PF (LUX)-USD Gov Bds-Pca	US	BD	LUX	06/18	USD	496.71	−6.4	5.1	6.3
PF (LUX)-USD Gov Bds-Pdi	US	BD	LUX	06/18	USD	364.48	−6.3	5.1	6.3
PF (LUX)-USD Liq-Pca	US	MM	LUX	06/18	USD	130.82	0.5	1.5	2.5
PF (LUX)-USD Liq-Pdi	US	MM	LUX	06/18	USD	85.42	0.5	1.5	2.6
PF (LUX)-USD Sov Liq-Pca	OT	OT	LUX	06/18	USD	101.53	0.2	1.5	NS
PF (LUX)-USD Sov Liq-Pdi	OT	OT	LUX	06/18	USD	100.82	0.2	1.5	NS
PF (LUX)-Water-Pca	GL	EQ	LUX	06/18	EUR	107.80	4.7	−22.8	−19.0
PF (LUX)-WldGovBds-Pca	GL	BD	LUX	06/19	USD	157.47	−4.5	4.7	8.9
PF (LUX)-WldGovBds-Pdi	GL	BD	LUX	06/19	USD	130.34	−4.5	4.7	8.9
PTF (LUX)-MidEast&NorAfr-Pca	OT	OT	LUX	06/18	USD	46.71	12.5	−52.5	NS

■ POLAR CAPITAL PARTNERS LIMITED

International Fund Managers (Ireland) Limited PH - 353 1 670 660 Fax - 353 1 670 1185

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Global Technology	OT	EQ	IRL	06/18	USD	10.50	33.9	−20.5	−16.1
Japan Fund USD	JP	EQ	IRL	06/19	USD	15.31	4.2	−6.4	−9.0
Polar Healthcare Class I USD	OT	OT	IRL	06/18	USD	10.69	NS	NS	NS
Polar Healthcare Class R USD	OT	OT	IRL	06/18	USD	10.70	NS	NS	NS

■ Hemisphere Management (Ireland) Limited

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Discovery USD A	OT	OT	CYM	05/29	USD	127.43	10.8	12.5	12.2
Elbrus USD A	GL	EQ	CYM	05/29	USD	8.36	23.9	−48.7	−17.6
Europn Conviction USD B	EU	EQ	CYM	05/29	USD	134.28	6.3	12.7	11.8
Europn Forager USD B	OT	OT	CYM	05/29	USD	195.65	9.3	−5.5	−2.9
Latin America USD A	GL	EQ	CYM	05/29	USD	14.30	2.2	−4.7	14.7
Paragon Limited USD A	OT	OT	CYM	12/31	USD	309.60	12.7	12.7	14.2
UK Fund USD A	OT	OT	CYM	05/29	USD	179.87	8.5	7.9	4.4

■ PT CIPTADANA ASSET MANAGEMENT

Tel: 521-3479 Fax: 521-3478 Website: www.ciptadana-asset.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Indonesian Grth Fund	EA	EQ	CYM	06/17	USD	90.74	72.7	−17.1	NS

■ RUSSELL INVESTMENT GROUP

Multi-Style, Multi-Manager Funds www.russell.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Actions France A	EU	EQ	IRL	06/18	EUR	573.39	1.8	−30.9	NS
Core Eurozone Eq B	EU	EQ	IRL	06/18	EUR	669.65	1.8	−30.0	NS
Euro Fixed Income A	EU	BD	IRL	06/18	EUR	1146.34	1.3	−4.9	−4.3
Euro Fixed Income B	EU	BD	IRL	06/18	EUR	1219.88	1.5	−4.3	−3.7
Euro Small Cap A	EU	EQ	IRL	06/18	EUR	949.28	12.0	−37.2	−34.3
Euro Small Cap B	EU	EQ	IRL	06/18	EUR	1013.60	12.3	−36.8	−33.9
Eurozone Agg Eq A	EU	EQ	IRL	06/18	EUR	524.59	5.6	−32.5	−29.8
Eurozone Agg Eq B	EU	EQ	IRL	06/18	EUR	751.49	5.9	−32.1	−29.3
Glbl Bd (EuroHdg) A	GL	BD	IRL	06/18	EUR	1259.40	5.2	−0.6	−0.4
Glbl Bd (EuroHdg) B	GL	BD	IRL	06/18	EUR	1332.47	5.5	0.1	0.3
Glbl Bd A	EU	BD	IRL	06/18	EUR	1019.32	4.0	6.7	−0.5
Glbl Bd B	EU	BD	IRL	06/18	EUR	1081.64	4.2	7.3	0.1
Glbl Real Estate A	OT	EQ	IRL	06/18	USD	671.21	0.7	−43.6	−31.0
Glbl Real Estate B	OT	EQ	IRL	06/18	USD	689.76	1.0	−43.2	−30.6
Glbl Real Estate EH-A	OT	EQ	IRL	06/18	EUR	618.56	−1.4	−42.6	−32.3
Glbl Real Estate SH-B	OT	EQ	IRL	06/18	GBP	57.89	−2.4	−43.2	−31.9
Glbl Strategic Yield A	EU	BD	IRL	06/18	EUR	1331.59	17.8	−10.6	−6.1
Glbl Strategic Yield B	EU	BD	IRL	06/18	EUR	1420.41	18.1	−10.1	−5.5
Japan Equity A	JP	EQ	IRL	06/18	JPY	11639.00	12.6	−33.5	−28.2
Japan Equity B	JP	EQ	IRL	06/18	JPY	12365.00	12.9	−33.1	−27.8
PacBasn (Ex-Jap) Eq A	AS	EQ	IRL	06/18	USD	1674.25	30.2	−27.3	−16.9
PacBasn (Ex-Jap) Eq B	AS	EQ	IRL	06/18	USD	1781.03	30.5	−26.9	−16.4
Pan European Eq A	EU	EQ	IRL	06/18	EUR	768.99	7.0	−32.0	−28.4
Pan European Eq B	EU	EQ	IRL	06/18	EUR	817.12	7.3	−31.7	−28.0
US Equity A	US	EQ	IRL	06/18	USD	711.12	6.3	−33.1	−21.5
US Equity B	US	EQ	IRL	06/18	USD	758.97	6.6	−32.7	−21.0
US Small Cap A	US	EQ	IRL	06/18	USD	1053.07	4.7	−34.6	−24.0
US Small Cap B	US	EQ	IRL	06/18	USD	1124.58	5.0	−34.2	−23.5

■ SEB ASSET MANAGEMENT S.A.

www.seb.se

■ SEB Fund 1

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Global Value -C-	GL	EQ	LUX	06/18	SEK	65.07	8.1	−34.0	−31.6
Choice Japan Fd	JP	EQ	LUX	06/18	JPY	48.05	6.9	−35.0	−30.3
Choice Jpn Chance/Risk	JP	EQ	LUX	06/18	JPY	49.05	9.5	−42.0	−31.3
Choice NthAmChance/Risk	US	EQ	LUX	06/18	USD	3.23	15.4	−37.7	−21.2
Europe 2 Fd	EU	EQ	LUX	06/12	EUR	0.79	14.1	−33.2	−28.9
Europe 3 Fd	EU	EQ	LUX	06/18	EUR	3.27	7.2	−37.4	−32.1
Global Chance/Risk Fd	GL	EQ	LUX	06/18	EUR	0.50	6.6	−29.3	−26.1
Global Fd	GL	EQ	LUX	06/18	USD	1.74	4.6	−36.7	−24.7
Intl Mixed Fd -C-	NO	BA	LUX	06/12	USD	23.70	3.2	−25.2	−14.3
Intl Mixed Fd -D-	NO	BA	LUX	06/12	USD	16.49	3.2	−25.3	−14.3
Wireless Fd	OT	EQ	LUX	06/12	EUR	0.12	28.0	−21.0	−19.4

■ SEB Fund 2

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Asia ex. Japan Fd	AS	EQ	LUX	06/18	USD	5.74	26.8	−25.4	−16.7
Currency Alpha EUR -IC-	OT	OT	LUX	06/18	EUR	10.60	−2.8	0.3	1.9
Currency Alpha EUR -RC-	OT	OT	LUX	06/18	EUR	10.53	−3.1	−0.2	1.4
Currency Alpha SEK -ID-	OT	OT	LUX	06/18	SEK	98.70	−6.6	−3.7	NS
Currency Alpha SEK -RC-	OT	OT	LUX	06/18	SEK	115.49	−3.1	−0.2	1.4
Generation Fd 80	OT	OT	LUX	06/18	SEK	7.03	10.2	−18.1	NS
Nordic Focus EUR	NO	EQ	LUX	06/18	EUR	61.34	23.0	−32.4	NS
Nordic Focus NOK	NO	EQ	LUX	06/18	NOK	67.88	23.0	−32.4	NS
Nordic Focus SEK	NO	EQ	LUX	06/18	SEK	71.67	23.0	−32.4	NS

■ SEB Fund 3

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice North America Eq. Fd	US	EQ	LUX	06/18	USD	1.47	6.1	−32.3	−23.3
Ethical Global Fd	GL	EQ	LUX	06/18	USD	0.65	8.2	−33.5	−24.4
Ethical Sweden Fd	NO	EQ	LUX	06/18	SEK	33.44	21.3	−14.4	−17.7
Europe Fd	EU	EQ	LUX	06/12	USD	1.78	8.8	−25.8	−24.9
Index Linked Bd Fd SEK	OT	BD	LUX	06/18	SEK	12.63	−0.8	1.9	4.4
Medical Fd	OT	EQ	LUX	06/18	USD	2.74	−4.3	−18.2	−14.3
Short Medium Bd Fd SEK	NO	MM	LUX	06/18	SEK	8.78	0.9	2.2	2.8
Technology Fd	OT	EQ	LUX	06/18	USD	1.98	27.0	−24.5	−13.7
World Fd	NO	BA	LUX	06/18	USD	1.74	8.5	−30.4	−18.2

■ SEB Fund 4

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Short Bond Fd EUR	EU	MM	LUX	06/18	EUR	1.27	0.1	0.6	1.5
Short Bond Fd SEK	NO	MM	LUX	06/18	SEK	21.87	1.4	2.4	2.9
Short Bond Fd USD	US	MM	LUX	06/18	USD	2.49	−0.2	0.9	2.0

■ SEB Fund 5

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Alpha Bond Fd SEK -A-	NO	BD	LUX	06/18	SEK	9.96	−1.0	−1.7	−0.4
Alpha Bond Fd SEK -B-	NO	BD	LUX	06/18	SEK	8.62	−1.0	−1.7	−0.4
Alpha Bond Fd SEK -C-	NO	BD	LUX	06/18	SEK	24.94	−1.1	−2.1	−0.5
Alpha Bond Fd SEK -D-	NO	BD	LUX	06/18	SEK	7.76	−1.1	−2.1	−0.5
Alpha Short Bd SEK -A-	NO	MM	LUX	06/18	SEK	11.03	2.1	3.1	3.3
Alpha Short Bd SEK -B-	NO	MM	LUX	06/18	SEK	10.09	2.1	3.1	3.3
Alpha Short Bd SEK -C-	NO	MM	LUX	06/18	SEK	21.58	2.0	3.0	3.2
Alpha Short Bd SEK -D-	NO	MM	LUX	06/18	SEK	8.17	2.0	3.0	3.2
Bond Fd SEK -C-	NO	BD	LUX	06/18	SEK	41.66	0.3	10.7	6.0
Bond Fd SEK -D-	NO	BD	LUX	06/18	SEK	12.10	0.3	10.8	5.4
Corp. Bond Fd EUR -C-	EU	BD	LUX	06/18	EUR	1.15	5.4	−1.0	−0.9
Corp. Bond Fd EUR -D-	EU	BD	LUX	06/18	EUR	0.88	5.4	−1.0	−1.1
Corp. Bond Fd SEK -C-	NO	BD	LUX	06/18	SEK	11.31	5.3	−5.6	−2.5
Corp. Bond Fd SEK -D-	NO	BD	LUX	06/18	SEK	8.55	5.3	−5.6	−2.4
Danish Mortgage Bond Fd EUR -ID-	NO	BD	LUX	06/18	EUR	100.52	−3.2	5.2	NS
Danish Mortgage Bond Fd EUR -RC-	NO	BD	LUX	06/18	EUR	104.92	1.3	9.9	NS
Danish Mortgage Bond Fd SEK -ID-	OT	OT	LUX	12/17	SEK	121.91	NS	NS	NS
Danish Mortgage Bond Fd SEK -RC-	NO	BD	LUX	06/18	SEK	1150.90	1.3	9.9	NS
Flexible Bond Fd -C-	NO	BD	LUX	06/18	SEK	21.21	1.6	6.3	4.3
Flexible Bond Fd -D-	NO	BD	LUX	06/18	SEK	11.60	1.6	6.3	4.3

■ SEB Global Hedge

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
SEB Asset Sele Defensive Acc	OT	OT	LUX	06/18	SEK	77.59	−3.1	−25.9	−15.8
SEB Asset Sele Defensive Inc	OT	OT	LUX	06/18	SEK	70.88	−3.1	−26.0	−17.0

■ SEB Sicav 1

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Emerging Mkts Fd	GL	EQ	LUX	06/18	USD	2.01	30.9	−33.8	−14.6

■ SEB Sicav 2

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Choice Asia SmCap exJpn	AS	EQ	LUX	06/18	SEK	25.13	49.7	−7.6	−17.7
Europe Chance/Risk Fd	EU	EQ	LUX	06/18	EUR	833.25	9.3	−40.2	−33.6

■ THE NATIONAL INVESTOR

PO Box 47435, Abu Dhabi, UAE Web:www.tni.ae

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
MENA Real Estate Fund	OT	OT	BMU	06/11	USD	1047.56	11.4	NS	NS
MENA Special Sits Fund	OT	OT	BMU	05/31	USD	1031.41	6.2	NS	NS
UAE Blue Chip Fund	OT	OT	ARE	06/11	AED	6.07	32.4	−51.9	−17.7

■ WWW.SGAM.COM

SGAM FUND

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Bonds ConvEurope A	OT	OT	LUX	06/18	EUR	27.32	−3.6	−7.4	−1.1
Bonds Eur Corp A	OT	OT	LUX	06/17	EUR	21.72	4.7	1.5	−0.6
Bonds Eur Hi Yld A	OT	OT	LUX	06/17	EUR	16.96	27.6	−14.9	−13.0
Bonds EURO A	OT	OT	LUX	06/18	EUR	39.48	0.0	8.3	4.8
Bonds Europe A	OT	OT	LUX	06/17	EUR	38.04	0.4	8.8	4.1
Bonds US MtgBkSec A	OT	OT	LUX	04/29	USD	24.41	−4.7	11.9	0.0
Bonds US OppsCoreplus A	OT	OT	LUX	06/17	USD	33.94	7.6	8.4	7.2
Bonds World A	OT	OT	LUX	06/17	USD	39.43	−1.0	3.4	8.5
Eq. China A	OT	OT	LUX	06/18	USD	19.26	28.9	−19.1	−12.3
Eq. ConcentratedEuropeA	OT	OT	LUX	06/18	EUR	22.41	8.8	−31.7	−29.3
Eq. Eastern Europe A	OT	OT	LUX	06/18	EUR	16.98	28.5	−55.9	−35.3
Eq. Equities Global Energy	OT	OT	LUX	06/18	USD	15.55	9.1	−47.0	−17.8
Eq. Euroland A	OT	OT	LUX	06/18	EUR	9.01	−1.7	−34.4	−30.6
Eq. Euroland MidCapA	OT	OT	LUX	04/30	EUR	14.61	1.4	−45.7	−33.8
Eq. EurolandCyclclsA	OT	OT	LUX	06/18	EUR	14.90	8.5	−31.6	−23.8
Eq. EurolandFinancialA	OT	OT	LUX	06/18	EUR	9.18	8.9	−37.2	−34.7
Eq. Glbl Emg Cty A	OT	OT	LUX	06/18	USD	7.83	31.0	−36.1	−17.3
Eq. Global A	OT	OT	LUX	06/18	USD	22.55	7.2	−33.3	−24.8
Eq. Global Technol A	OT	OT	LUX	04/24	USD	4.46	22.1	−29.7	−21.6
Eq. Gold Mines A	OT	OT	LUX	06/18	USD	23.95	14.5	−16.4	−2.7
Eq. Japan Sm Cap A	OT	OT	LUX	06/18	JPY	1024.50	13.1	−27.8	−31.3
Eq. Japan Target A	OT	OT	LUX	06/19	JPY	1731.82	10.7	−12.3	−16.3
Eq. Pacific A	OT	OT	LUX	06/18	USD	7.77	21.8	−30.4	−17.4
Eq. US ConcenCore A	OT	OT	LUX	06/18	USD	18.65	14.9	−24.5	−15.6
Eq. US Lg Cap Gr A	OT	OT	LUX	06/18	USD	12.66	17.4	−38.5	−20.2
Eq. US Mid Cap A	OT	OT	LUX	06/18	USD	23.62	17.9	−37.1	−17.4
Eq. US Multi Strg A	OT	OT	LUX	06/18	USD	17.45	9.2	−37.7	−24.2
Eq. US Rel Val A	OT	OT	LUX	06/18	USD	16.55	6.6	−36.3	−29.1
Eq. US Sm Cap Val A	OT	OT	LUX	06/18	USD	13.06	1.0	−43.0	−32.8
Eq. US Value Opp A	OT	OT	LUX	06/18	USD	13.44	3.7	−41.7	−32.6
Money Market EURO A	OT	OT	LUX	06/18	EUR	27.33	0.7	3.1	3.6
Money Market USD A	OT	OT	LUX	06/18	USD	15.82	0.5	1.8	3.0

■ YUKI INTERNATIONAL LIMITED

Tel +44-207-269-0203 www.yukifunds.com

■ YMR-N Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
YMR-N Growth Fund	OT	OT	IRL	06/19	JPY	8867.00	3.1	−37.7	−35.5
YMR-N Japan Fund	OT	OT	IRL	06/19	JPY	10119.00	7.2	−35.2	−31.4
YMR-N Low Price Fund	OT	OT	IRL	06/19	JPY	13909.00	7.1	−32.2	−29.9
YMR-N Small Cap Fund	OT	OT	IRL	06/19	JPY	6608.00	3.0	−35.1	−35.7

■ Yuki 77 Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki 77 General	JP	EQ	IRL	06/19	JPY	6320.00	7.1	−37.3	−32.4
Yuki 77 Growth	JP	EQ	IRL	06/19	JPY	5973.00	1.0	−41.3	−37.0

■ Yuki Chugoku Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Chugoku Jpn Gen	JP	EQ	IRL	06/19	JPY	6621.00	6.1	−35.9	−33.2
Yuki Chugoku JpnLowP	JP	EQ	IRL	06/19	JPY	8608.00	5.1	−26.6	−27.5

■ Yuki Daishi Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Daishi General	JP	EQ	IRL	06/19	JPY	7021.00	3.7	−38.9	−34.2

■ Yuki Hokuyo Japan Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Hokuyo Jpn Gen	JP	EQ	IRL	06/19	JPY	4619.00	1.5	−42.5	−34.1
Yuki Hokuyo Jpn Inc	JP	EQ	IRL	06/19	JPY	5362.00	1.6	−34.7	−29.2
Yuki Hokuyo Jpn Sm Cap	JP	EQ	IRL	06/19	JPY	4864.00	3.4	−33.5	NS

■ Yuki Mizuho Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Mizuho Gen Jpn III	OT	OT	IRL	06/19	JPY	4356.00	2.5	−45.1	−37.2
Yuki Mizuho Jpn Dyn Gro	OT	OT	IRL	06/19	JPY	4565.00	1.6	−45.7	−38.6
Yuki Mizuho Jpn Exc 100	OT	OT	IRL	06/19	JPY	6496.00	6.5	−40.9	−34.2
Yuki Mizuho Jpn Gen	OT	OT	IRL	06/19	JPY	8590.00	7.1	−35.6	−33.0
Yuki Mizuho Jpn Gro	OT	OT	IRL	06/19	JPY	6426.00	2.8	−35.9	−34.9
Yuki Mizuho Jpn Inc	OT	OT	IRL	06/19	JPY	7758.00	−2.5	−35.8	−31.5
Yuki Mizuho Jpn Lg Cap	OT	OT	IRL	06/19	JPY	5134.00	3.0	−37.5	−32.3
Yuki Mizuho Jpn LowP	OT	OT	IRL	06/19	JPY	12285.00	8.4	−23.8	−26.7
Yuki Mizuho Jpn PGth	OT	OT	IRL	06/19	JPY	7886.00	3.2	−40.0	−35.5
Yuki Mizuho Jpn SmCp	OT	OT	IRL	06/19	JPY	6620.00	7.9	−35.0	−35.2
Yuki Mizuho Jpn Val Sel	OT	OT	IRL	06/19	JPY	5745.00	10.6	−31.7	−28.9
Yuki Mizuho Jpn YoungCo	OT	OT	IRL	06/19	JPY	2653.00	11.1	−40.2	−43.2

■ Yuki Nishi Nippon City Japan Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Nishi-Nippon Cty General	JP	EQ	IRL	06/19	JPY	4933.00	9.6	−41.8	−35.3

■ Yuki Shizuoka Japan Series

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Yuki Shizuoka General Japan	JP	EQ	IRL	06/19	JPY	5421.00	6.3	−37.1	−33.6

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12-month and 2-year returns may be calculated over 11- and 23-month periods pending receipt and publication of the last month end price.

■ ALEXANDRA INVESTMENT MANAGEMENT

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
Alexandra Convertible Bond Fund I, Ltd. (Class A)	OT	OT	VGB	05/29	USD	1218.09	25.7	NS	NS

■ CAPITAL MANAGEMENT ADVISORS

Phone Number: +1 441 295 59 29

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
CMA Dynamic	OT	OT	BHS	05/29	USD	1354.30	0.5	4.1	5.9
CMA MultHdge Arbtrge	OT	OT	CYM	05/29	USD	1763.67	1.3	−8.2	−4.1
CMA MultHdge Balncd	OT	OT	CYM	05/29	USD	1246.22	0.4	4.8	5.8
CMA MultHdge Growth	OT	OT	CYM	05/29	USD	1694.39	2.7	7.0	6.4
CMA MultiHdge Lvrgd	OT	OT	CYM	05/29	USD	955.15	−0.3	1.6	6.7

■ D'AURIOL FUNDS WWW.DAURIOL.BIZ

2 FUNDS OF FUNDS OF HEDGE FUNDS

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
D'Auriol Alt Non-Lev A	EU	OT	CYM	04/30	EUR	97.08	−1.4	−22.4	−11.3
D'Auriol Opp F3 EUR	EU	MM	CYM	05/29	EUR	969.94	−2.6	−26.5	−15.8

■ HARMONY CAPITAL

email: info@harmonycapitalfund.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Harmony Cap Ltd A USD	OT	OT	BMU	04/30	USD	2086.32	3.2	−2.0	−6.2
Harmony Cap Ltd B EUR	OT	OT	BMU	04/30	EUR	2039.80	4.0	−0.6	−5.7
Harmony Cap Ltd D USD	OT	OT	BMU	04/30	USD	1193.21	3.1	−2.5	−6.6
Harmony Cap Ltd E EUR	OT	OT	BMU	04/30	USD	1171.94	3.9	−0.9	−6.1
Harmony Cap Ltd F GBP	OT	OT	BMU	04/30	GBP	1014.46	3.3	−1.5	−5.6

■ HERMITAGE CAPITAL MANAGEMENT LTD.

Tel: +7501 258 3160 www.hermitagefund.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
The Hermitage Fund	GL	EQ	JEY	06/12	USD	784.53	73.9	−55.8	−25.3

■ HORSEMAN CAPITAL MANAGEMENT LTD.

T: +44(0)20 7838 7580, F: +44(0) 20 7838 7590, www.horsemancapital.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Horseman EmMkt Opp EUR	GL	EQ	GBR	05/29	EUR	183.00	−14.8	1.8	12.3
Horseman EmMkt Opp USD	GL	EQ	USA	05/29	USD	184.68	−15.9	−0.5	11.7
Horseman EurSelLtd EUR	EU	EQ	GBR	05/29	EUR	181.16	−13.4	−8.9	4.5
Horseman EurSelLtd USD	EU	EQ	GBR	05/29	USD	188.16	−13.5	−9.4	4.3
Horseman Glbl Ltd EUR	GL	EQ	CYM	05/29	USD	408.89	−17.0	1.7	10.2
Horseman Glbl Ltd USD	GL	EQ	CYM	05/29	USD	408.89	−17.0	1.7	10.2

■ HSBC ALTERNATIVE INVESTMENTS LIMITED

T +44 20 7860 3074 F + 44 20 7860 3174 www.hail.hsbc.com

HSBC Absolute Companies

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Global Absolute	OT	OT	GGY	05/29	GBP	0.98	4.5	−13.8	−4.6
Global Absolute EUR	OT	OT	NA	05/29	EUR	1.45	5.0	NS	NS
Global Absolute USD	OT	OT	GGY	05/29	USD	1.84	4.7	−12.6	−4.4

■ HSBC ALTERNATIVE STRATEGY FUND

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Special Opp EUR	OT	OT	CYM	05/29	EUR	78.86	3.3	−32.7	−12.8
Special Opp Inst EUR	OT	OT	CYM	05/29	EUR	74.25	3.4	−32.4	NS
Special Opp Inst USD	OT	OT	CYM	05/29	USD	84.07	4.2	−29.7	−10.2
Special Opp USD	OT	OT	CYM	05/29	USD	82.67	3.9	−30.2	−10.9

■ HSBC Portfolio Selection Fund

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
GH Fund AP	OT	OT	JEY	05/22	EUR	123.47	3.5	−13.4	−3.8
GH Fund CHF Hdg	OT	OT	JEY	05/29	CHF	103.33	3.5	−16.4	−7.1
GH Fund EUR Hdg (Non-V)	OT	OT	JEY	05/22	EUR	111.63	2.9	−15.9	−5.9
GH Fund GBP Hdg	OT	OT	JEY	05/29	GBP	122.68	4.1	−16.1	−5.2
GH Fund Inst EUR	OT	OT	JEY	05/29	EUR	91.86	10.0	−10.4	NS
GH Fund Inst USD	OT	OT	JEY	05/29	USD	103.40	4.8	−13.3	−3.9
GH FUND S EUR	OT	OT	CYM	05/29	EUR	118.19	4.5	−15.3	−5.0
GH FUND S GBP	OT	OT	JEY	05/29	GBP	122.66	4.3	−15.1	−4.2
GH Fund S USD	OT	OT	CYM	05/29	USD	138.48	4.9	−12.9	−3.4
GH Fund USD	OT	OT	GGY	05/22	USD	251.28	3.1	NS	NS
Hedge Investments	OT	OT	JEY	05/22	USD	128.00	3.3	NS	NS
Leverage GH USD	OT	OT	GGY	05/22	USD	102.90	5.5	NS	NS
MultiAdv Arb CHF Hdg	OT	OT	JEY	05/29	CHF	87.80	4.5	−21.5	−13.2
MultiAdv Arb EUR Hdg	OT	OT	JEY	05/29	EUR	94.97	5.1	−20.9	−12.1
MultiAdv Arb GBP Hdg	OT	OT	JEY	05/29	GBP	102.54	5.8	−21.3	−11.9
MultiAdv Arb S EUR	OT	OT	CYM	05/29	EUR	100.84	5.3	−20.2	−11.2
MultiAdv Arb S GBP	OT	OT	CYM	05/29	GBP	105.53	5.8	−20.4	−10.6
MultiAdv Arb S USD	OT	OT	CYM	05/29	USD	115.11	6.3	−17.6	−9.6
MultiAdv Arb USD	OT	OT	GGY	04/17	USD	172.81	2.4	NS	NS

■ HSBC Uni-folio

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Alpha AdvantEdge	OT	OT	JEY	05/29	USD	110.88	3.6	−15.8	−7.0
Asian AdbantEdge EUR	OT	OT	JEY	05/29	EUR	95.49	7.7	−15.0	−5.8
Asian AdvantEdge	OT	OT	JEY	05/29	USD	174.63	7.8	−13.3	−4.4
Emerg AdvantEdge	OT	OT	JEY	05/29	USD	156.78	11.7	−19.8	−7.9
Emerg AdvantEdge EUR	OT	OT	JEY	05/29	EUR	87.36	11.2	−22.6	−10.1
Europ AdvantEdge EUR	OT	OT	JEY	05/29	EUR	128.90	11.8	−8.9	−5.6
Europ AdvantEdge USD	OT	OT	JEY	05/29	USD	121.66	−0.3	−17.6	−10.1
Japan AdvantEdge JPY	OT	OT	JEY	05/29	JPY	7804.69	−3.4	−13.8	−9.0
Japan AdvantEdge USD	OT	OT	JEY	05/29	USD	91.17	−3.1	−12.6	−6.7
Lvgd Alpha AdvantEdge	OT	OT	JEY	05/29	USD	91.43	6.5	−34.3	−19.0
Real AdvantEdge EUR	OT	OT	NA	05/29	EUR	104.42	5.6	NS	NS
Real AdvantEdge USD	OT	OT	NA	05/29	USD	104.41	5.8	NS	NS
Trading Adv JPY	OT	OT	NA	05/29	JPY	9713.05	NS	NS	NS
Trading AdvantEdge	OT	OT	GGY	05/29	USD	147.49	−2.8	1.2	11.5
Trading AdvantEdge EUR	OT	OT	GGY	05/29	EUR	134.13	−2.5	1.6	10.9
Trading AdvantEdge GBP	OT	OT	GGY	05/29	GBP	141.45	−2.8	2.7	12.7
US AdvantEdge	OT	OT	JEY	05/29	USD	104.55	2.2	−18.9	−7.5

■ INTEGRATED ALTERNATIVE INVESTMENTS, TEL: +44 (0)20 75149200

Email: contact@integratedai.com - Website: www.integratedai.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Altipro	OT	OT	FRA	05/29	EUR	189.44	−23.0	NS	NS
Integrated Dir Trading EUR	OT	OT	CYM	03/31	EUR	104.98	3.0	−1.6	6.9
Integrated Emg Markets EUR	OT	OT	CYM	03/31	EUR	70.81	−0.5	−28.0	−14.5
Integrated European EUR	OT	OT	CYM	03/31	EUR	150.57	1.0	1.5	−0.1
Integrated Event Driven EUR	OT	OT	CYM	03/31	EUR	81.30	−0.7	−21.2	−10.3
Integrated Lg/Sh Sel F EUR	OT	OT	CYM	03/31	EUR	85.76	0.2	−10.8	−4.9
Integrated MultSt B EUR	OT	OT	VGB	03/31	EUR	115.78	2.6	−15.0	−6.4
Integrated Relative Value EUR	OT	OT	CYM	03/31	EUR	91.94	2.6	−6.4	−3.3

■ INVENTUM ASSET MANAGEMENT S.A.

info@inventumcapital.com
Tel. +7 495 792 5595 www.inventumcapital.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Inv Absolute Return Fund	OT	OT	BMU	05/29	USD	118.99	17.6	NS	NS

■ MERIDEN GROUP

Tel: + 376 741 175 Fax: + 376 741 183 Email: meriden@meriden-ipm.com

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Antanta Combined Fund	EE	EQ	AND	06/12	USD	286.19	49.0	−61.8	−40.0

INDICES

■ ARIX ABSOLUTE RETURN INVESTABLE INDEX

Feri Institutional Advisors, www.feri.de

FUND NAME	GF	NAV DATE	CR	NAV	% RETURN 1-WK	1-MO	1-Q	1-YR	2-YR
ARIX Composite Gross USD	OT	05/29	USD	1306.06	3.2	3.2	2.6	−18.0	−7.1

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	%RETURN YTD	12-MO	2-YR
Antanta MidCap Fund	EE	EQ	AND	06/12	USD	437.00	50.8	−76.0	−45.1
Meriden Opps Fund	GL	OT	AND	06/17	EUR	80.19	−7.1	−24.6	NS
Meriden Protective Div	OT	OT	AND	11/24	EUR	78.88	−2.8	NS	NS

■ OTHER FUNDS

For information about these funds, please contact us on Tel: +44 (0) 207 842 9694/9633

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Medinvest Plc Dublin	OT	OT	IRL	03/31	USD	1217.26	NS	−14.6	−5.6

■ SUPERFUND ASSET MANAGEMENT GMBH

For information about open funds, please contact us on Tel: +43 1 24700
*www.superfund.com *Closed for New Investments*

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Superfund Cayman*	OT	OT	CYM	06/16	USD	48.75	−41.5	−26.5	−1.4
Superfund GCT USD*	OT	OT	LUX	06/16	USD	2393.00	−34.5	−24.9	−5.0
Superfund Gold A (SPC)	OT	OT	CYM	06/16	USD	913.02	−21.5	−16.7	10.9
Superfund Gold B (SPC)	OT	OT	CYM	06/16	USD	898.91	−33.3	−27.8	5.6
Superfund Q-AG*	OT	OT	AUT	06/16	EUR	6717.00	−23.4	−14.7	0.8

■ WEAVERING CAPITAL

www.weaveringcapital.com chas.dabhia@weaveringcapital.com T:+44(0)2073554720

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Weavering Macro F.I. Fd	GL	OT	CYM	02/27	USD	183.52	−0.1	9.3	10.8

■ WINTON CAPITAL MANAGEMENT LTD

Tel: +44 (0)20 7610 5350 Fax: +44 (0)20 7610 5301

FUND NAME	GF	AT	LB	NAV DATE	CR	NAV	YTD	12-MO	2-YR
Winton Evolution EUR	GL	OT	VGB	05/29	EUR	1226.18	−5.2	−8.8	3.9
Winton Evolution GBP	GL	OT	VGB	05/29	GBP	1206.76	−5.4	−8.4	5.0
Winton Evolution JPY	OT	OT	VGB	02/27	JPY	115254.95	0.7	−3.8	7.1
Winton Evolution USD	GL	OT	CYM	05/29	USD	1194.75	−5.5	−9.2	4.0
Winton Futures EUR	GL	OT	VGB	05/29	EUR	194.85	−5.4	2.2	13.1
Winton Futures GBP	GL	OT	VGB	05/29	GBP	209.97	−5.4	2.9	14.5
Winton Futures JPY Lead Series 2	GL	OT	VGB	05/29	JPY	13800.31	−6.5	−1.1	9.7
Winton Futures USD	GL	OT	VGB	05/29	USD	690.75	−5.9	1.4	13.2

BLUE CHIPS & BONDS

Major players & benchmarks

Below, a look at the Dow Jones Stoxx 50, the biggest and best known companies in Europe, including the U.K.

Dow Jones Stoxx 50: Friday's best and worst...

Company	Country	Industry	Market value, in billions of US$	Previous close, in local currency	STOCK PERFORMANCE Previous session	52-week	Three-year
Banco Santander	Spain	Banks	$95.5	8.41	4.99%	-24.6%	-18.7%
ArcelorMittal	Luxembourg	Iron & Steel	48.8	24.19	4.97	-63.0	...
Diageo	U.K.	Distillers & Vintners	40.3	8.89	3.92	-2.8	-2.1
E.ON	Germany	Multiutilities	71.9	25.80	3.86	-38.7	-8.5
BG Grp	U.K.	Integrated Oil & Gas	62.7	10.66	3.80	-13.4	53.4
Daimler	Germany	Automobiles	$32.8	24.43	-2.65%	-45.0	-35.4
Intesa Sanpaolo	Italy	Banks	37.6	2.28	-2.46	-37.2	-49.2
BNP Paribas S.A.	France	Banks	67.4	46.27	-1.68	-22.0	-36.3
Deutsche Bk	Germany	Banks	34.7	43.66	-1.67	-25.5	-48.6
Vodafone Grp	U.K.	Mobile Telecoms	114.8	1.20	-1.52	-16.8	4.6

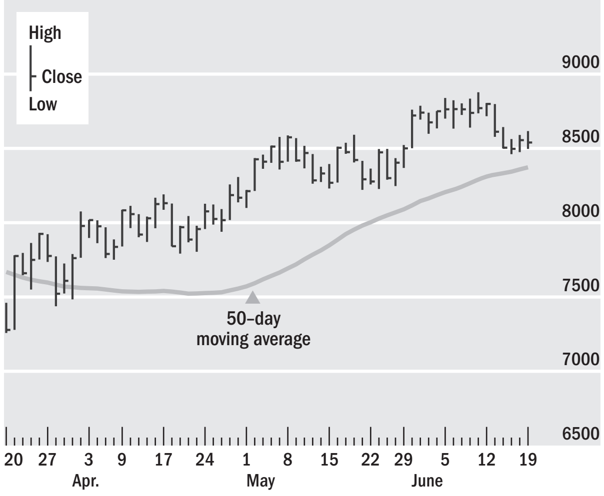
...And the rest of Europe's blue chips

Company/Country (Industry)	Market value, in billions (U.S)	Latest, in local currency	STOCK PERFORMANCE Latest	52-week	Three-year
Banco Bilbao Viz Spain (Banks)	45.1	8.64	3.66%	-32.4%	-43.5%
Anglo Amer U.K. (General Mining)	35.8	16.23	2.66	-52.8	-24.0
BP U.K. (Integrated Oil & Gas)	168.8	4.97	2.47	-12.0	-19.5
Royal Dutch Shell A U.K. (Integrated Oil & Gas)	92.5	18.74	2.43	-24.3	-26.4
Nestle S.A. Switzerland (Food Products)	141.8	40.14	2.29	-17.0	7.0
Rio Tinto U.K. (General Mining)	52.7	20.95	2.24	-57.6	-9.5
BHP Billiton U.K. (General Mining)	51.6	14.06	2.03	-25.5	41.5
Barclays U.K. (Banks)	43.6	2.74	1.95	-8.7	-52.9
Astrazeneca U.K. (Pharmaceuticals)	65.2	27.28	1.64	30.4	-12.6
GDF Suez France (Multiutilities)	81.6	26.75	1.38	-33.5	6.3
UniCredit Italy (Banks)	40.7	1.85	1.37	-45.5	-64.0
ING Groep Netherlands (Life Insurance)	21.2	7.31	1.35	-65.9	-75.5
British Amer Tob U.K. (Tobacco)	56.9	17.10	1.24	-0.9	25.9
Soc. Generale France (Banks)	32.7	40.40	1.22	-28.4	-60.7
Unilever Netherlands (Food Products)	42.0	17.60	1.21	-6.2	2.2
Tesco U.K. (Food Retailers & Wholesalers)	46.4	3.60	1.18	-4.0	9.8
AXA S.A. France (Full Line Insurance)	39.9	13.72	1.07	-33.5	-42.5
Sanofi-Aventis S.A. France (Pharmaceuticals)	88.6	48.40	1.04	16.7	-35.3
Roche Hldg Part. Cert. Switzerland (Pharmaceuticals)	94.4	145.70	0.76	-15.0	-26.3
Koninklijke Phlps Netherlands (Consumer Electronics)	17.8	13.14	0.65	-42.1	-44.8
ENI Italy (Integrated Oil & Gas)	97.5	17.48	0.63%	-25.7%	-21.9%
Total S.A. France (Integrated Oil & Gas)	129.4	39.18	0.59	-24.2	-21.6
Iberdrola S.A. Spain (Conventional Electricity)	39.2	5.63	0.54	-34.2	-14.7
ABB Switzerland (Industrial Machinery)	36.5	17.02	0.41	-45.8	13.2
France Telecom France (Fixed Line Telecoms)	59.2	16.25	0.37	-7.6	-2.3
Deutsche Telekom Germany (Mobile Telecoms)	51.0	8.39	0.30	-16.2	-33.0
Telefonica S.A. Spain (Fixed Line Telecoms)	102.0	15.57	0.26	-8.2	20.6
Novartis Switzerland (Pharmaceuticals)	110.8	45.46	0.26	-15.4	-30.7
BASF Germany (Commodity Chemicals)	37.2	29.03	0.17	-35.4	-4.7
GlaxoSmithKline U.K. (Pharmaceuticals)	104.9	11.17	0.13	1.6	-24.9
SAP Germany (Software)	49.3	28.87	0.12	-13.1	-29.5
Bayer Germany (Specialty Chemicals)	42.6	39.99	0.03	-21.0	20.6
Siemens Germany (Diversified Industrials)	64.5	50.65	0.02	-30.3	-25.4
Nokia Finland (Telecoms Equipment)	56.9	10.75	...	-32.2	-31.7
L.M. Ericsson Tel B Sweden (Telecoms Equipment)	28.5	75.30	...	5.3	-35.9
Allianz SE Germany (Full Line Insurance)	41.1	65.30	-0.15	-43.9	-45.6
HSBC Hldgs U.K. (Banks)	147.6	5.22	-0.29	-24.9	-36.7
Credit Suisse Grp Switzerland (Banks)	52.4	48.00	-0.99	1.1	-27.7
Assicurazioni Gen Italy (Full Line Insurance)	28.6	14.56	-1.36	-39.5	-40.6
UBS Switzerland (Banks)	38.6	14.28	-1.52	-38.1	-75.5

Sources: Dow Jones Indexes; WSJ Market Data Group

Dow Jones Industrial Average P/E: 12

LAST: 8539.73	▼ 15.87, or 0.19%
YEAR TO DATE:	▼ 236.66, or 2.7%
OVER 52 WEEKS	▼ 3,302.96, or 27.9%



Note: Price-to-earnings ratios are for trailing 12 months

DJIA component stocks

Stock	Symbol	Volume, in millions	Latest	CHANGE Points	Percentage
AT&T	T	39.00	$24.04	-0.09	-0.37%
Alcoa	AA	30.40	11.00	0.22	2.04
AmExpress	AXP	15.00	24.64	0.54	2.24
BankAm	BAC	366.20	13.22	0.32	2.48
Boeing	BA	6.10	48.44	-0.52	-1.06
Caterpillar	CAT	14.00	33.65	-0.43	-1.26
Chevron	CVX	13.90	68.06	-0.37	-0.54
CiscoSys	CSCO	55.40	18.92	-0.07	-0.37
CocaCola	KO	14.10	48.81	-0.74	-1.49
Disney	DIS	13.00	23.53	-0.19	-0.80
DuPont	DD	9.50	24.97	-0.20	-0.79
ExxonMobil	XOM	31.70	71.05	-0.39	-0.55
GenElec	GE	116.80	12.10	0.13	1.09
HewlettPk	HPQ	24.10	38.35	0.80	2.13
HomeDpt	HD	14.00	23.52	0.17	0.73
Intel	INTC	64.60	16.01	0.14	0.88
IBM	IBM	11.00	105.89	-0.44	-0.41
JPMorgChas	JPM	59.10	35.00	0.83	2.43
JohnsJohns	JNJ	17.20	56.09	0.30	0.54
KftFoods	KFT	11.90	25.41	-0.44	-1.70
McDonalds	MCD	7.80	58.17	0.01	0.02
Merck	MRK	25.60	25.91	0.26	1.01
Microsoft	MSFT	106.60	24.07	0.57	2.43
Pfizer	PFE	79.90	15.00	0.08	0.54
ProctGamb	PG	16.90	50.64	-0.53	-1.04
3M	MMM	5.50	59.37	0.06	0.10
TravelersCos	TRV	5.80	42.08	-0.45	-1.06
UnitedTech	UTX	8.00	54.20	-0.73	-1.33
Verizon	VZ	19.00	29.66	-0.43	-1.43
WalMart	WMT	20.90	48.17	-0.51	-1.05

Source: WSJ Market Data Group

Tracking credit markets & dealmakers

Hedge funds

Dow Jones Hedge Benchmark	TOTAL RETURN for rolling periods, net of fees* One week	One month	One quarter	Year to date	One year
Merger Arbitrage	-0.06%	1.46%	1.4%	4.1%	-4.5%
Event Driven	1.04	2.41	4.0	5.9	-25.1
Equity Market Neutral	-0.41	-0.32	-2.8	-3.9	-12.4
Equity Long/Short	0.11	1.68	0.7	0.6	-20.2

*Estimates as of 06/18/09, after fees; Source: www.djhedgefundindexes.com

Credit derivatives

Spreads on credit derivatives are one way the market rates creditworthiness. Regions that are treading in rough waters can see spreads swing toward the maximum—and vice versa. Indexes below are for five-year swaps.

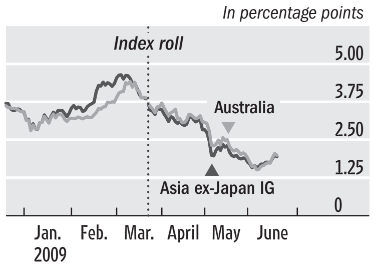
Markit iTraxx Indexes

Index: series/version	Mid-spread, in pct. pts.	Mid-price	Coupon	SPREAD RANGE, in pct. pts. since most recent roll Maximum	Minimum	Average
Europe: 11/1	1.23	102.83%	0.02%	1.87	1.02	1.39
Eur. High Volatility: 11/1	2.49	105.49	0.04	3.89	2.03	2.78
Europe Crossover: 11/1	7.49	108.08	0.10	9.71	6.60	8.07
Asia ex-Japan IG: 11/1	1.94	106.95	0.04	3.84	1.58	2.56
Japan: 11/1	1.70	115.52	0.05	4.33	1.41	2.58

Note: Data as of June 18

Spreads

Spreads on five-year swaps for corporate debt; based on Markit iTraxx indexes.



Source: Markit Group

Credit-default swaps: European companies

At its most basic, the pricing of credit-default swaps measures how much a buyer has to pay to purchase-and how much a seller demands to sell-protection from default on an issuer's debt. The snapshot below gives a sense which way the market was moving yesterday.

Showing the biggest improvement...

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
GKN Hldgs	342	-64	-8	25
ISS Glob	750	-13	21	-20
Gecina	685	-7	8	-51
Alcatel Lucent	830	-6	56	62
ArcelorMittal Fin	459	-4	-50	-116
Koninklijke Ahold	101	-3	1	-14
SABMiller	141	-3	1	-30
Un Fenosa	205	-3	14	15
SES	115	-2	9	-11
LVMH Moet Hennessy Louis Vuitton	67	-2	1	-9

And the most deterioration

	Yesterday	CHANGE, in basis points Yesterday	Five-day	28-day
Peugeot	352	9	70	74
TUI	1589	9	118	-13
Stena Aktiebolag	813	11	-3	-123
Stora Enso	526	13	56	49
Pernod Ricard	364	13	35	11
ThyssenKrupp	465	16	32	20
Norske Skogindustrier	1173	21	122	157
Brit Awys	726	28	101	68
Corus Group	981	50	135	166
Rhodia	990	68	122	124

Source: Markit Group

Behind Asia's deals: Bank revenue rankings, Asia

Behind every IPO, bond offering, merger deal or syndicated loan is one or more investment banks. Here are investment banks ranked by year-to-date revenues from recent deals.

	Revenue, in millions	Market share	PERCENTAGE OF TOTAL REVENUE Equity capital markets	Debt capital markets	Mergers & acquisitions	Loans
Nomura	$416	15.3%	64%	21%	15%	...
Daiwa Securities SMBC Co Ltd	289	10.6	66	25	9	...
Mizuho	185	6.8	15	56	15	14%
Goldman Sachs	152	5.6	78	9	13	...
Mitsubishi UFJ Securities	140	5.1	14	64	11	11
Citi	117	4.3	44	34	20	2
JPMorgan	103	3.8	82	6	12	1
UBS	92	3.4	58	14	29	...
Morgan Stanley	73	2.7	46	24	30	...

Source: Dealogic

GLOBAL MARKETS LINEUP

Commodities
Prices of futures contracts with the most open interest

EXCHANGE LEGEND: CBOT: Chicago Board of Trade; **CME:** Chicago Mercantile Exchange; **ICE-US:** ICE Futures U.S.**MDEX:** Bursa Malaysia Derivatives Berhad; **LIFFE:** London International Financial Futures Exchange; **COMEX:** Commodity Exchange; **LME:** London Metals Exchange; **NYMEX:** New York Mercantile Exchange;**ICE-EU:** ICE Futures Europe

Commodity	Exchange	Last price	ONE-DAY CHANGE Net	Percentage	Contract high	Contract low
Corn (cents/bu.)	CBOT	**419.50**	–4.25	**–1.00%**	707.00	302.00
Soybeans (cents/bu.)	CBOT	**1006.00**	–37.50	**–3.59**	1,557.50	670.00
Wheat (cents/bu.)	CBOT	**584.50**	–4.75	**–0.81**	1,072.00	522.75
Live cattle (cents/lb.)	CME	**82.125**	0.425	**0.52%**	117.500	78.075
Cocoa ($/ton)	ICE-US	**2,520**	–36	**–1.41**	3,237	1,950
Coffee (cents/lb.)	ICE-US	**119.70**	–3.15	**–2.56**	183.30	109.00
Sugar (cents/lb.)	ICE-US	**16.07**	0.23	**1.45**	16.91	11.05
Cotton (cents/lb.)	ICE-US	**56.38**	–2.76	**–4.67**	101.50	45.25
Crude palm oil (ringgit/ton)	MDEX	**2,285.00**	–14	**–0.61**	3,637	1,425
Cocoa (pounds/ton)	LIFFE	**1,570**	–49	**–3.03**	2,004	1,040
Robusta coffee ($/ton)	LIFFE	**1,344**	–93	**–6.47**	2,314	1,300
Copper (cents/lb.)	COMEX	**226.15**	–2.05	**–0.90**	375.35	129.55
Gold ($/troy oz.)	COMEX	**936.20**	1.60	**0.17**	1,020.70	724.60
Silver (cents/troy oz.)	COMEX	**1420.00**	–4.00	**–0.28**	2,170.00	690.00
Aluminum ($/ton)	LME	**1,667.50**	46.50	**2.87**	3,340.00	1,288.00
Tin ($/ton)	LME	**14,800.00**	–100.00	**–0.67**	23,700.00	9,750.00
Copper ($/ton)	LME	**5,039.00**	118.00	**2.40**	8,811.00	2,815.00
Lead ($/ton)	LME	**1,713.00**	53.50	**3.22**	2,225.00	870.00
Zinc ($/ton)	LME	**1,580.00**	31.00	**2.00**	2,034.50	1,065.00
Nickel ($/ton)	LME	**15,225**	355	**2.39**	22,600	9,000
Crude oil ($/bbl.)	NYMEX	**70.02**	–1.89	**–2.63**	139.50	43.42
Heating oil ($/gal.)	NYMEX	**1.8263**	–0.0482	**–2.57**	4.0277	1.2230
RBOB gasoline ($/gal.)	NYMEX	**1.9172**	–0.0906	**–4.51**	3.6250	1.1425
Natural gas ($/mmBtu)	NYMEX	**4.193**	–0.085	**–1.99**	12.038	3.520
Brent crude ($/bbl.)	ICE-EU	**69.19**	–1.87	**–2.63**	129.00	43.41
Gas oil ($/ton)	ICE-EU	**583.25**	–1.75	**–0.30**	1,258.25	392.00

Source: Thomson Reuters; WSJ Market Data Group

Currencies
London close on June 19

AMERICAS	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Argentina peso-a	5.2493	0.1905	3.7688	0.2653
Brazil real	2.7228	0.3673	1.9549	0.5115
Canada dollar	1.5790	0.6333	1.1337	0.8821
1-mo. forward	1.5787	0.6334	1.1335	0.8823
3-mos. forward	1.5781	0.6337	1.1330	0.8826
6-mos. forward	1.5770	0.6341	1.1322	0.8832
Chile peso	746.92	0.001339	536.25	0.001865
Colombia peso	2934.73	0.0003407	2107.00	0.0004746
Ecuador US dollar-f	1.3928	0.7180	1	1
Mexico peso-a	18.5618	0.0539	13.3265	0.0750
Peru sol	4.1542	0.2407	2.9825	0.3353
Uruguay peso-e	32.272	0.0310	23.170	0.0432
U.S. dollar	1.3928	0.7180	1	1
Venezuela bolivar	2.99	0.334351	2.15	0.465701
ASIA-PACIFIC				
Australia dollar	1.7272	0.5790	1.2401	0.8064
China yuan	9.5219	0.1050	6.8363	0.1463
Hong Kong dollar	10.7949	0.0926	7.7502	0.1290
India rupee	66.9125	0.0149	48.0400	0.0208
Indonesia rupiah	14360	0.0000696	10310	0.0000970
Japan yen	134.74	0.007422	96.74	0.010338
1-mo. forward	134.69	0.007425	96.70	0.010341
3-mos. forward	134.59	0.007430	96.63	0.010349
6-mos. forward	134.37	0.007442	96.47	0.010366
Malaysia ringgit-c	4.9251	0.2030	3.5360	0.2828
New Zealand dollar	2.1650	0.4619	1.5544	0.6434
Pakistan rupee	113.169	0.0088	81.250	0.0123
Philippines peso	67.344	0.0148	48.350	0.0207
Singapore dollar	2.0248	0.4939	1.4537	0.6879
South Korea won	1761.96	0.0005675	1265.00	0.0007905
Taiwan dollar	45.832	0.02182	32.905	0.03039
Thailand baht	47.517	0.02105	34.115	0.02931

EUROPE	Per euro	In euros	Per U.S. dollar	In U.S. dollars
Euro zone euro	1	1	0.7180	1.3929
1-mo. forward	1.0002	0.9998	0.7181	1.3926
3-mos. forward	1.0006	0.9994	0.7184	1.3920
6-mos. forward	1.0007	0.9993	0.7185	1.3919
Czech Rep. koruna-b	26.201	0.0382	18.811	0.0532
Denmark krone	7.4441	0.1343	5.3445	0.1871
Hungary forint	278.78	0.003587	200.15	0.004996
Norway krone	8.9152	0.1122	6.4007	0.1562
Poland zloty	4.4920	0.2226	3.2251	0.3101
Russia ruble-d	43.361	0.02306	31.131	0.03212
Sweden krona	10.9954	0.0909	7.8942	0.1267
Switzerland franc	1.5103	0.6621	1.0844	0.9222
1-mo. forward	1.5098	0.6623	1.0840	0.9226
3-mos. forward	1.5085	0.6629	1.0830	0.9234
6-mos. forward	1.5057	0.6641	1.0811	0.9250
Turkey lira	2.1532	0.4644	1.5459	0.6469
U.K. pound	0.8476	1.1798	0.6086	1.6433
1-mo. forward	0.8477	1.1797	0.6086	1.6432
3-mos. forward	0.8478	1.1796	0.6087	1.6430
6-mos. forward	0.8479	1.1794	0.6088	1.6427
MIDDLE EAST/AFRICA				
Bahrain dinar	0.5251	1.9045	0.3770	2.6527
Egypt pound-a	7.8014	0.1282	5.6010	0.1785
Israel shekel	5.5045	0.1817	3.9520	0.2530
Jordan dinar	0.9868	1.0133	0.7085	1.4114
Kuwait dinar	0.4023	2.4860	0.2888	3.4626
Lebanon pound	2099.72	0.0004763	1507.50	0.0006634
Saudi Arabia riyal	5.2236	0.1914	3.7503	0.2666
South Africa rand	11.2849	0.0886	8.1020	0.1234
United Arab dirham	5.1127	0.1956	3.6707	0.2724
SDR -f	0.9035	1.1068	0.6487	1.5416

a-floating rate b-commercial rate c-government rate c-commercial rate d-Russian Central Bank rate f-Special Drawing Rights from the International Monetary Fund ; based on exchange rates for U.S., British and Japanese currencies.
Note: Based on trading among banks in amounts of $1 million and more, as quoted by Thomson Reuters.

Major stock market indexes
Stock indexes from around the world, grouped by region. Shown in local-currency terms.

Price-to-earnings ratio*	Region/Country	Index	PREVIOUS SESSION Close	Net change	Percentage change	PERFORMANCE Yr.-to-date	52-wk.
26	**EUROPE**	**DJ Stoxx 600**	208.28	2.64	**1.28%**	5.8%	–29.4%
14		**DJ Stoxx 50**	2138.25	26.56	**1.26**	3.5	–26.9
19	**Euro Zone**	**DJ Euro Stoxx**	224.48	1.97	**0.89**	0.7	–32.0
16		**DJ Euro Stoxx 50**	2434.77	20.33	**0.84**	–0.7	–28.9
8	Austria	**ATX**	2066.58	38.73	**1.91**	18.0	–49.1
12	Belgium	**Bel-20**	1997.71	16.88	**0.85**	4.7	–40.7
9	Czech Republic	**PX**	931.9	9.7	**1.05**	8.6	–40.2
15	Denmark	**OMX Copenhagen**	273.24	1.79	**0.66**	20.8	–33.2
11	Finland	**OMX Helsinki**	5614.24		**Closed**	3.9	–36.3
11	France	**CAC-40**	3221.27	27.21	**0.85**	0.1	–28.6
19	Germany	**DAX**	4839.46	1.98	**0.04**	0.6	–26.4
...	Hungary	**BUX**	15167.65	–202.31	**–1.32%**	23.9	–25.4
8	Ireland	**ISEQ**	2814.55	42.19	**1.52**	20.1	–48.5
9	Italy	**FTSE MIB**	19347.98	114.19	**0.59**	–0.6	–35.2
9	Netherlands	**AEX**	257.16	3.64	**1.44**	4.6	–41.2
9	Norway	**All-Shares**	341.71	1.12	**0.33**	26.5	–38.3
17	Poland	**WIG**	31556.23	475.03	**1.53**	15.9	–26.6
14	Portugal	**PSI 20**	7062.18	120.20	**1.73**	11.4	–26.9
...	Russia	**RTSI**	1011.38	13.70	**1.37%**	60.1	–57.6
8	Spain	**IBEX 35**	9580.9	196.9	**2.10**	4.2	–22.8
15	Sweden	**OMX Stockholm**	241.51		**Closed**	18.3	–19.9
11	Switzerland	**SMI**	5421.59	44.75	**0.83**	–2.0	–23.3
...	Turkey	**ISE National 100**	35819.93	104.37	**0.29**	33.3	–5.5
10	U.K.	**FTSE 100**	4345.93	65.07	**1.52**	–2.0	–22.7
19	**ASIA-PACIFIC**	**DJ Asia-Pacific**	104.17	0.71	**0.69**	11.3	–28.0
...	Australia	**SPX/ASX 200**	3899.6	7.5	**0.19**	4.8	–26.3
27	China	**CBN 600**	24690.21	156.61	**0.64**	67.2	9.4
15	Hong Kong	**Hang Seng**	17920.93	144.27	**0.81**	24.6	–21.2
17	India	**Sensex**	14521.89	256.36	**1.80**	50.5	–0.3
...	Japan	**Nikkei Stock Average**	9786.26	82.54	**0.85**	10.5	–29.8
...	Singapore	**Straits Times**	2273.18	35.98	**1.61**	29.0	–24.3
11	South Korea	**Kospi**	1383.34	7.58	**0.55**	23.0	–20.1
14	**AMERICAS**	**DJ Americas**	240.93	1.06	**0.44**	6.5	–31.1
...	Brazil	**Bovespa**	51373.77	470.75	**0.92**	36.8	–20.5
16	Mexico	**IPC**	24274.72	–65.93	**–0.27%**		8.5	–17.8

*P/E ratios use trailing 12-months, as-reported earnings
Note: Americas index data are as of 5:00 p.m. ET.

Sources: Thomson Reuters; WSJ Market Data Group

Reuters Group PLC is the primary data provider for several statistical tables in The Wall Street Journal, including foreign stock quotations, futures and futures options prices, and foreign exchange tables. Reuters real-time data feeds are used to calculate various Dow Jones Indexes.

Dow Jones and Dow Jones Stoxx Indexes

Dividend yield*	Price-to-earnings ratio*	Dows Jones Index	PERFORMANCE (euros) Last	Daily	52-wk.	PERFORMANCE (U.S. dollars) Last	Daily	52-wk.
2.72%	12	**World** -a				184.74	**0.66%**	–32.2%
2.17	14	**Global Dow**	1104.60	**0.91%**	–27.9%	1633.70	**0.66**	–35.8
3.37	26	**Stoxx 600**	208.30	**1.28**	–29.4	216.63	**1.03**	–37.1
3.53	17	**Stoxx Large 200**	224.00	**1.26**	–29.2	231.69	**1.01**	–36.9
2.54	-17	**Stoxx Mid 200**	189.60	**1.53**	–30.5	196.13	**1.28**	–38.1
2.74	-28	**Stoxx Small 200**	117.90	**1.11**	–29.7	121.95	**0.86**	–37.3
3.35	19	**Euro Stoxx**	224.50	**0.88**	–32.0	233.48	**0.63**	–39.4
3.51	14	**Euro Stoxx Large 200**	239.30	**0.83**	–31.8	247.38	**0.58**	–39.3
2.58	-12	**Euro Stoxx Mid 200**	210.50	**1.34**	–33.2	217.48	**1.09**	–40.5
2.82	16	**Euro Stoxx Small 200**	127.40	**0.60**	–31.7	131.60	**0.34**	–39.1
5.96	8	**Stoxx Select Dividend 30**	1164.30	**1.18**	–37.7	1387.63	**0.92**	–44.5
5.19	9	**Euro Stoxx Select Div 30**	1337.40	**1.51**	–44.1	1600.12	**1.26**	–50.2
4.85%	11	**U.S. Select Dividend** -b				511.97	**–0.31%**	–27.1%
4.72	15	**Infrastructure**	1224.60	**0.76%**	–22.5%	1625.93	**0.51**	–31.0
1.91	6	**Luxury**	680.70	**1.50**	–23.3	803.69	**1.24**	–31.7
5.81	4	**BRIC 50**	349.80	**1.51**	–23.1	464.45	**1.25**	–31.5
4.19	13	**Africa 50**	727.40	**0.64**	–26.8	642.99	**0.38**	–34.7
3.74	7	**GCC**				1428.47	**–0.16**	–51.7
3.37	11	**Sustainability**	693.00	**1.11**	–25.1	814.87	**0.85**	–33.3
2.65	12	**Islamic Market** -a				1615.20	**0.60**	–29.9
3.02	11	**Islamic Market 100**	1489.30	**0.79**	–16.9	1775.01	**0.54**	–25.9
3.02	11	**Islamic Turkey** -c						
2.24	12	**DJ U.S. TSM**				9428.50	**0.38**	–30.2
		DJ-UBS Commodity	123.30	**–0.96**	–39.2	124.73	**–1.21**	–45.8

*Fundamentals are based on data in U.S. dollar. Footnotes: a-in US dollar. b-dividends reinvested. c-in local currency. Note: All data as of 5 p.m. ET.

Source: Dow Jones Indexes

Cross rates
U.S.-dollar and euro foreign-exchange rates in global trading

	USD	GBP	CHF	SEK	RUB	NOK	JPY	ILS	EUR	DKK	CDN	AUD
Australia	1.2401	2.0378	1.1436	0.1571	0.0398	0.1937	0.0128	0.3138	1.7272	0.2320	1.0939	...
Canada	1.1337	1.8629	1.0455	0.1436	0.0364	0.1771	0.0117	0.2869	1.5790	0.2121	...	0.9142
Denmark	5.3445	8.7823	4.9288	0.6770	0.1717	0.8350	0.0552	1.3524	7.4441	...	4.7144	4.3098
Euro	0.7180	1.1798	0.6621	0.0909	0.0231	0.1122	0.0074	0.1817	...	0.1343	0.6333	0.5790
Israel	3.9520	6.4940	3.6445	0.5006	0.1269	0.6174	0.0409	...	5.5045	0.7394	3.4860	3.1869
Japan	96.7350	158.9598	89.2101	12.2539	3.1073	15.1132	...	24.4778	134.7373	18.0999	85.3306	78.0071
Norway	6.4007	10.5180	5.9028	0.8108	0.2056	...	0.0662	1.6196	8.9152	1.1976	5.6461	5.1615
Russia	31.1314	51.1567	28.7097	3.9436	...	4.8637	0.3218	7.8775	43.3614	5.8249	27.4612	25.1044
Sweden	7.8942	12.9721	7.2801	...	0.2536	1.2333	0.0816	1.9975	10.9954	1.4771	6.9635	6.3659
Switzerland	1.0844	1.7819	...	0.1374	0.0348	0.1694	0.0112	0.2744	1.5103	0.2029	0.9565	0.8744
U.K.	0.6086	...	0.5612	0.0771	0.0195	0.0951	0.0063	0.1540	0.8476	0.1139	0.5368	0.4907
U.S.	...	1.6432	0.9222	0.1267	0.0321	0.1562	0.0103	0.2530	1.3928	0.1871	0.8821	0.8064

Source: Thomson Reuters via WSJ Market Data Group

MSCI indexes

Developed and emerging-market regional and country indexes from MSCI Barra as of Jun. 19, 2009

Dividend yield	Price-to-earnings ratio	Morgan Stanley Index	Last	LOCAL-CURRENCY PERFORMANCE Daily	YTD	52-wk.
3.10%	15	**ALL COUNTRY (AC) WORLD***	242.98	0.47%	**6.7%**	–37.3%
3.10	15	**World (Developed Markets)**	958.48	0.63	**4.2**	–37.2
2.80	16	**World ex-EMU**	112.86	0.46	**4.9**	–35.5
2.90	16	**World ex-UK**	956.60	0.66	**3.5**	–36.7
3.80	13	**EAFE**	1,293.36	0.34	**4.5**	–39.7
3.00	13	**Emerging Markets (EM)**	743.72	–0.71	**31.2**	–38.5
4.30	11	**EUROPE**	71.76	0.51	**3.4**	–36.3
4.50	11	**EMU**	142.46	1.60	**0.3**	–45.3
4.10	12	**Europe ex-UK**	78.07	0.90	**0.6**	–37.0
5.10	10	**Europe Value**	80.26	0.59	**3.5**	–38.2
3.60	12	**Europe Growth**	62.36	0.42	**3.2**	–34.3
3.50	12	**Europe Small Cap**	123.66	–0.39	**22.5**	–36.5
2.70	7	**EM Europe**	208.40	–0.61	**31.2**	–53.6
4.90	8	**UK**	1,272.97	0.05	**–3.2**	–29.1
3.10	11	**Nordic Countries**	111.46	0.65	**13.6**	–40.9
1.80	6	**Russia**	569.15	–1.31	**38.1**	–63.7
3.90	10	**South Africa**	600.97	0.47	**3.8**	–22.2
3.60	16	**AC ASIA PACIFIC EX-JAPAN**	313.77	–0.81	**26.9**	–34.7
1.80	28	**Japan**	561.64	–1.46	**6.0**	–37.1
2.50	14	**China**	52.92	–1.96	**29.7**	–25.5
1.20	18	**India**	560.75	–1.94	**51.9**	–16.2
1.40	15	**Korea**	374.50	–1.32	**22.0**	–27.1
5.10	35	**Taiwan**	223.59	–0.75	**29.0**	–32.7
2.30	22	**US BROAD MARKET**	1,010.65	0.76	**2.9**	–34.2
1.70	-51	**US Small Cap**	1,317.67	0.38	**5.7**	–33.7
3.40	13	**EM LATIN AMERICA**	2,952.57	1.44	**42.1**	–42.7

*Twenty-three developed and 26 emerging markets

Source: MSCI Barra

Experience is a valuable commodity

European executives build careers, markets amid ups and downs

Very few people in finance today have ever witnessed, let alone worked through, a serious bear market. The shortness of many City of London careers means that experience is a precious commodity.

Financial News compiled a Veterans of Finance list of senior executives in Europe who have stayed the course. Below are profiles of executives who have been in the industry for at least 30 years. The list is by no means exhaustive, but it reflects the people who have shaped financial services over the past few decades.

They have lived through the ups and downs of the financial markets, wars, the passing of investment trends and fads, oil crises, stock-market crashes, the rise of regulations and many more events.

Andrew Cole

Director, asset-allocation team at Baring Asset Management and manager of the Baring Multi Asset fund

Year of birth: 1963

First job in finance: Junior with general office duties at stockbrokers Montagu Loebl Stanley, 1979.

At Montagu Loebl Stanley, Mr. Cole moved to the floor of the London Stock Exchange, before joining BAM's fixed-income department in 1986. He became a director in 1994 and joined the multi-asset portfolio team a year later. He is lead manager on the recently launched Baring Multi Asset.

Highlight of career: "Raising £1 billion ($1.65 billion) of new assets over the last two years during one of the biggest market downturns."

Low point: "The Mexican peso crisis of 1994."

Nicola Ralston

Director and co-founder, PiRho Investment Consulting

Year of birth: 1955

First job in finance: Retail analyst at stockbrokers Kitcat & Aitken, 1977

After graduating from Oxford, Ms. Ralston worked for two years in stock broking and then moved to Schroders in 1979 where she spent 22 years as analyst, portfolio manager and investment consultant. She worked for two years at investment consultancy Hewitt as head of global investment consulting before joining Liability Solutions in 2007. Last year she co-founded PiRho Investment Consulting, which specializes in absolute return and hedge fund investing. Ms. Ralston is a governor of the CFA Institute and a non-executive director of Edinburgh Investment Trust.

Highlight of career: "In my first interview in the City in 1977 I was asked why I wanted to join a dying industry. Financial services were in real despair in the wake of the 1974 crash and nobody wanted to work in it. I was tremendously fortunate to learn my trade at that time—it gave me the experience and knowledge to take advantage when markets started recovering in the 1980s."

Low point: "The tech bubble of the end of the '90s, which exposed the fallacy of measuring risk purely versus an index benchmark, was not a happy time."

Josef Ackermann

Chairman of the management board and the group executive committee, Deutsche Bank

Year of birth: 1948

First job in finance: Executive assistant to the director-general at Schweizerische Kreditanstalt, the forerunner of Credit Suisse, 1977

With a doctorate in economics and social sciences, Swiss-born Ackermann became president of Credit Suisse in 1993 before joining the management board of Deutsche Bank responsible for investment banking in 1996. Six years later he became spokesman of the management board as well as chairman of the group executive committee before taking on his current role in 2006. Under his auspices, Deutsche Bank has grown from a German commercial bank to a global investment banking powerhouse. Although it chalked up billions of euros of losses last year, the bank hasn't applied for state help and generated substantial returns in the first quarter of this year.

(left to right) Bloomberg News; Financial News(2)

Josef Ackermann, far left, Andrew Cole, center, and Nicola Ralston are among the longtime players in the financial industry.

Highlight of career: "Seeing Deutsche make it into the top tier of global investment banks; and leading the bank through the financial crisis without any state bailouts."

Low point: "Time spent in a Düsseldorf courtroom following charges of defrauding Mannesmann shareholders during the takeover battle for U.K. telecoms giant Vodafone in 2005—was acquitted."

Ian K. (Kenneth) Ling

Director, Ashburton

Year of birth: 1947

First job in finance: Stockbroker Laurie Milbank in London, 1968.

Mr. Ling became a partner at Laurie Milbank in 1976 and in 1979 set up an office for the firm in Jersey. In 1986, Chase Manhattan bought Laurie Milbank, and Mr. Ling became managing director of Chase Manhattan Securities. Three years later he left Chase to be one of the founding directors of Channel Islands Portfolio Managers, a stockbroking and investment management company that was acquired by Quilter Goodison in 1992. Mr. Ling left to join the Board of the Jersey General Group and Ashburton Jersey.

Highlight of career: "Moving to Jersey in 1979. I was asked by Laurie Milbank to set up an office in Jersey in 1976, but declined as I thought industry in Jersey too small."

Low point: "1974 seemed like the end of the world. The miners strike in 1973 to 1974—there was nothing to do at work during this time. I would have to save the Telegraph crossword to do at work, which I normally did on the train."

Richard Timberlake

Chairman of FundQuest, owned by BNP Paribas

Year of birth: 1943

First job: Analyst at brokerage Spenser Veitch, 1963

Mr. Timberlake completed his training at U.S. firm Dominick & Dominick and within a year joined fund manager SureInvest. In 1979 U.S. fund manager Fidelity came knocking and against advice, Mr. Timberlake took the job setting up Fidelity's European operations. Mr. Timberlake's star manager, Anthony Bolton, joined him soon after and the skeptics were silenced. Mr. Timberlake built operations for Fidelity across the world.

In 1989, he left Fidelity and set up his own consulting operation, Timberlake & Co., where he remains principal. In 1990 he also teamed up with a lieutenant at Fidelity, Peter Jeffreys, to start Fund Research, a qualitative data firm. In 1997, Fund Research was bought by rating agency Standard & Poor's. Mr. Timberlake's career in multi-management kicked off in 1989 with Portfolio Fund Management, which later sold its distribution to Liberty International. He spent 10 years as its investment director before co-founding Investment Management Selection in 1999. IMS was taken over by FundQuest, the multi-manager and fund selection arm of BNP Paribas Investment Partners, last year.

Hans-Jörg Rudloff

Chairman, Barclays Capital

Year of birth: 1940

First job in finance: Trainee at Credit Suisse in Geneva, 1965

After studying economics at the University of Bern, Switzerland, Mr. Rudloff joined Credit Suisse in Geneva for three years before moving to investment bank Kidder Peabody in New York in 1968. He later headed Swiss operations and became chairman of Kidder Peabody International.

In 1980, he joined Credit Suisse First Boston in London, was elected vice chairman in 1983, and chairman and chief executive six years later. In the 1990s, he was touted as a possible head of investment bank Warburg Dillon Read, but he instead abandoned semi-retirement to join Barclays Capital as chairman in London.

Highlight of career: "The workings of the international markets, which developed from modest beginnings in the 1960s to what they are today, have always given me satisfaction, and every year has its own quota of deal and transaction-oriented highlights."

Low point: "The past six months have been particularly disappointing. We have witnessed the biggest market failure since the 1930s. They have failed in ways that could have been avoided. In the end, the markets will be resilient and bounce back, but at an incredible price, not only in money terms but in reputations too. Our profession has lost its reputation and the respect of people. It will improve, but only if we learn from our lessons, work hard and show a lot of self-discipline."

Favorite job: "I've enjoyed everything I've done. Jobs go with the life cycle. In your 20s, you're at the bottom of the pyramid, and in your 40s you're at the top. Then the executive side diminishes, and your experience is applied to relationships, networks and deal-generation."

Biggest change in capital markets: "[Former U.K. Prime Minister Margaret] Thatcher and [former U.S. President Ronald] Reagan changed everything in the 1980s with deregulation and liberalization. It set the platform for all later developments."

Emilio Botín

Chairman, Banco Santander

Year of birth: 1934

First job in finance: Banco Santander, 1958

Mr. Botín followed his grandfather and father, who preceded him as chairman of Santander, into the banking world. He helped turn Santander into the largest bank in Spain and Latin America, notably through the acquisition in 1994 of Banesto, several banks in Latin America and the merger with Central Hispano in 1999.

In 2004, Mr. Botín spearheaded the acquisition of the U.K.'s Abbey, followed three years later by parts of ABN Amro, which it bought alongside Royal Bank of Scotland and Fortis, a deal widely regarded as causing the near downfall of RBS. Last year, Santander grew its foothold in the U.K. further by buying building societies Alliance & Leicester and Bradford & Bingley.

The Botín banking dynasty is likely to extend into a fourth generation with his daughter Ana Patricia Botín, president of Banesto, who is widely expected to replace her father as head of Santander when he retires.

Claude Bébéar

Honorary chairman, supervisory board of AXA

Year of birth: 1935

First job in finance: Joined Anciennes Mutuelles group in 1958

Mr. Bébéar was recruited in 1958 by a classmate's father, André Sahut d'Izarn, chairman of Ancienne Mutuelle. After the death of his mentor in 1975, Mr. Bébéar became chief executive and the firm grew through acquisition and mergers to become AXA in 1985—the same year that Mr. Bébéar stepped away from the operational side of the business to become chief executive of Axa Group. Over the next decade, Axa expanded beyond its origins in the French market, taking over the fifth-largest U.S. insurer, Equitable Life, and widening its capabilities through Equitable's investment-bank arm Donaldson, Lufkin & Jenrette and asset-management subsidiary Alliance Capital.

In 2000, Mr. Bébéar stood down as chairman of the management board of AXA heading the group's supervisory board until last year, when he became honorary chairman.

In 1997, Mr. Bébéar received the Point of Light award from former President George Bush in recognition of AXA's philanthropic efforts—the first non-U.S. company to receive the accolade.

Highlights and low points of career: "My whole career has been made up of highs and lows—both are necessary and useful in a long career."

Brian Winterflood

Founder and non-executive chairman, Winterflood Securities

Year of birth: 1937

First job in finance: Messenger at City of London broking firm Greener Dreyfus, 1953

After a period at Greener Dreyfus, Mr. Winterflood joined jobbing firm Bisgood Bishop, where he rose to partner in 1967, enduring the stock-market crash of 1974 by supplementing his income running an antiques stall on London's King's Road. Mr. Winterflood rose to chief executive, became known as "king of the small-cap" and presided over the sale of the firm to County NatWest in 1986. Eighteen months later he had resigned and established Winterflood Securities.

In 1993, Close Brothers bought Winterflood Securities. Mr. Winterflood was instrumental in torpedoing the London Stock Exchange's attempt to merge with Deutsche Börse in 2000. That year, when asked by the Duke of Edinburgh what he did, Mr. Winterflood responded: "I'm the City's last jobber." On his birthday in January 2002, Mr. Winterflood stepped aside as chief executive to become non-executive chairman. He still goes to the office most days.

Highlight of career: "Apart from marrying my wife, becoming a blue button [runner on a trading floor] at Bisgood in the 1950s. Becoming a member of the London Stock Exchange in 1968. And in 1980, with the recognition that the Unlisted Securities Market (forerunner to the Alternative Investment Market) was going to be dynamic. Setting up Winterflood Securities."

Low point: "Joining a large concern such as NatWest didn't suit me. The people there were big but didn't understand the business."

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Xstrata invites Anglo to merge

Continued from first page
ta's part to take the lead in managing the new company will likely reduce Anglo's enthusiasm. Beyond that, a deal could face political headwinds in South Africa, where Anglo has significant operations.

Regardless of the outcome, Xstrata's move highlights the pressures facing miners, which are seeking to cut costs to keep pace with the dramatic downdraft in prices as a result of the economic downturn. Prices for many metals and minerals are 30% to 50% lower now than they were 12 to 18 months ago.

The merger approach also shows how smaller operators such as Xstrata are scrambling to get bigger to keep pace with larger rivals. Rio and BHP are seeking to merge their vast iron-ore operations in Australia.

A merged Xstrata-Anglo would be the world's largest provider of diamonds, platinum, chrome and zinc, and the second-largest copper producer, just behind Chile's **Codelco**. The two companies already have some joint operations in Latin America as well as platinum and palladium assets that are near one another in southern Africa.

Xstrata's Mr. Davis is betting that further diversifying the company both geographically and by product would help it to better withstand volatile swings in commodity demand.

A merger would also give Xstrata increased exposure to the attractive iron ore, platinum and diamond markets. And by combining contiguous operations and eliminating overlapping assets such as transportation systems, Xstrata is aiming to cut costs, much like BHP and Rio are in western Australia.

Estimates of the cost-saving opportunities from putting the companies together vary, with some in the Xstrata camp putting them at more than $1 billion per year.

"The combination would create a premier portfolio of operations diversified across multiple commodities and geographies, with enhanced scale and financial flexibility to fund future growth," Xstrata said in its statement.

People close to Anglo say the cost savings would be smaller, particularly in the companies' coal and copper operations. A merger would be more beneficial for Xstrata than for Anglo, one of the people said.

Though Anglo's lagging share price has led to grumbling by some shareholders over the company's management, led by CEO Cynthia Carroll, its board may decide that the company's prospects as a standalone company are better, one of the people said.

A further complicating factor is **Glencore International** AG, the trading company that owns a big stake in Xstrata. Glencore would likely want the right to market key commodities from a combined Xstrata-Anglo, a demand that helped derail a recent takeover bid for Xstrata from Vale.

—Robert Guy Matthews contributed to this article.

Taliban leader Omar re-emerges

Continued from first page
on the U.S.'s Bagram Air Base in Afghanistan killed two U.S. troops and wounded six other Americans, including two civilians, the military said. No one claimed credit for the attack.

"This is Quetta's answer to Obama's surge," said a senior member of a militant network led by Gulbuddin Hekmatyar, an independent Afghan warlord who fights alongside the Taliban. He was referring to plans launched by the administration of U.S. President Barack Obama to send an additional 21,000 troops to Afghanistan over the next few months. "They [Quetta] are not ready to lay down their weapons," he said in an interview in the Pakistani city of Peshawar.

Before 2001, the Taliban in Afghanistan was highly centralized, but it quickly fragmented when coalition forces invaded and has run as a series of affiliated but largely independent factions since then, fighting piecemeal against U.S.-led forces in Afghanistan and Pakistani troops in northwestern Pakistan. Estimates of the number of Taliban vary, but there are believed to be tens of thousands.

The new effort by Mr. Omar and his leadership council to re-establish direct control over these forces marks a significant new stage in the eight-year war in Afghanistan, at a time when the Taliban has had the upper hand but faces a major push on both sides of the Afghanistan-Pakistan border in coming months. In addition to the new U.S. troops, Pakistan's army says it is planning a major offensive against the Taliban's stronghold in South Waziristan near the Afghan border; on Sunday, fighter jets and artillery pounded suspected militant positions there, killing at least 27 insurgents, according to the Associated Press.

Mr. Omar's push to centralize command has irked some rank-and-file Taliban, insurgents say, potentially leaving them more amenable to U.S. and Afghan outreach efforts. Drawing on a tactic first used in Iraq, the U.S. has been reaching out to moderate Taliban fighters in the hopes of reconciling them into Afghanistan's political process.

However, Mr. Omar's re-emergence could also lead to a more centralized and coordinated—and violent—insurgency that would pose an even greater threat, U.S. officials and insurgents say.

"The Taliban have always been very adaptable; we haven't given them enough credit for that," said Henry A. Crumpton, a former State Department counterterrorism chief who led the Central Intelligence Agency's Afghanistan campaign in 2001 and 2002 and is now president of Crumpton Group, which advises companies investing in emerging markets.

The reclusive Mr. Omar, believed to be about 60 years old, lost an eye fighting the Soviet Union's occupation of Afghanistan in 1980s. In 1994, he led a small band of armed students from Islamic seminaries—"Taliban" means "students" in Afghanistan's Pashto language—to fight the violence and corruption that had overwhelmed the country. Within two years, Mr. Omar's group had taken control of Kabul, the capital, and most of the country.

The Taliban sheltered Osama bin Laden, and Mr. Omar fled to Pakistan after the 2001 U.S. invasion of Afghanistan; he carries a $10 million U.S. bounty on his head.

Pakistani officials refuse to acknowledge the existence of the Quetta shura. They continue to balk at U.S. demands for action against it, American officials say, despite Washington's sharing of communications intercepts and other sensitive intelligence information with their Pakistani counterparts. Pakistani intelligence and military officials say the U.S. intelligence isn't conclusive.

Large elements of the Taliban insurgency remain independent of the Quetta shura. Most of the Pakistan Taliban, an offshoot of the Afghan Taliban, have no operational links to Mr. Omar; the powerful Afghan insurgent network of Jalaluddin Haqqani and his son Sirajuddin pledges loyalty to Mr. Omar but operates on its own; Mr. Hekmatyar is only a loose ally.

But the Quetta shura is issuing direct combat orders to those it can directly control, according to Afghan insurgents and U.S. military officials with direct access to intelligence garnered from communication intercepts and the interrogations of captured Taliban members.

The shura also is depositing caches of weapons across eastern and southern Afghanistan, hiring additional fighters and appointing local commanders responsible for the militants in individual Afghan towns, valleys and districts, a U.S. defense official said.

Fed weighs exit from its stimulus

Continued from first page
tightening monetary policy was straightforward. First the Fed signaled that it would raise its target for the federal-funds interest rate, the rate at which banks make overnight loans to one another. Then it did.

This time will be different. Mr. Bernanke insists the Fed has the tools needed to tighten monetary policy when the time comes. But how he would do that is only beginning to come into focus.

The Fed currently is using three levers. One is the federal-funds rate, which hovers between zero and 0.25%. The second is the emergency liquidity programs, such as short-term commercial-paper loans to corporate borrowers, dollars shipped overseas through foreign central banks, and short-term loans to banks. The third is the Fed's purchases of mortgage-backed debt and Treasury bonds, which are designed to bring down longer-term interest rates by soaking up supply of the securities in the market.

The Fed is still sorting out the sequence at which it will pull the levers when the time comes.

The emergency lending is already tapering off on its own as market demand wanes. For instance, use of the commercial-paper program has contracted from more than $300 billion in January to $132 billion as of Wednesday.

The Fed could further tighten this spigot by toughening terms on these liquidity programs to make them less appealing to market participants and shrink their usage. However, some analysts doubt the central bank will get rid of the programs for some time. "They don't want to shut down programs and then have to reopen them," Peter Hooper, economist with Deutsche Bank, said in a note to clients last week.

Then there are the asset purchases. Officials are wary of stopping purchases cold turkey, particularly of mortgage-backed securities. The Fed has become such a big player in the market that the mere act of abruptly stopping its purchases could push rates much higher.The timing is being sorted out. Late this year or early next year seems most likely, though that could change as the economic outlook changes.

The final tool is the traditional one, the Fed's target for the fed-funds rate, which influences the short-term rates that consumer and business borrowers pay.

For a time, markets thought the Fed could raise short-term interest rates by year end. That isn't looking likely. Fed officials this week are likely to reaffirm their commitment to keep the fed-funds rate low for "an extended period of time."

Some economists worry the central bank will have a hard time pushing the fed-funds rate up when it needs to. It has flooded the financial system with so much money that it is possible the rate won't be responsive to central-bank efforts to raise it until the Fed pulls most of that money out of the financial system.

Officials don't think that will be a problem. Last year, the Fed got a new tool to help it manage the fed-funds rate. It pays interest on the extra cash that banks leave on reserve with the central bank. As the Fed raises this rate, it should put upward pressure on the fed-funds rate.

That means interest-rate increases could come even as it is pulling the two other levers to shrink its balance sheet to a more normal level. But given the outlook for a prolonged period of economic weakness, it probably won't be for a while. And long before it comes, the market will have gotten some clear signals from the central bank that it is on the way.

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Are sovereign funds ready to spread wealth?

The sovereign-wealth funds are stirring. After going quiet as markets crashed and some high-profile investments in U.S. financial companies went awry, the huge pools of capital are back doing deals.

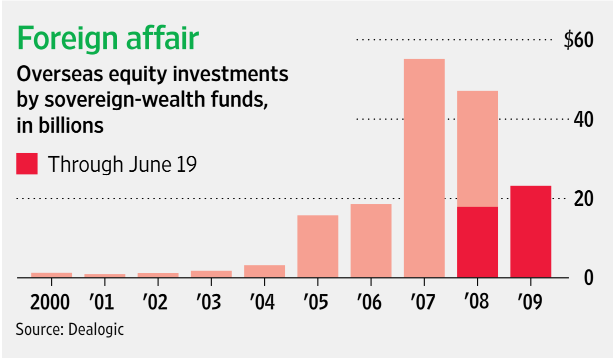
China Investment Corp. is planning a $500 million investment in Blackstone hedge funds and took part in Morgan Stanley's recent rights issue. The **Qatar Investment Authority** is considering an investment in Porsche. And with the oil price back above $70, cash is flowing back into Middle East funds.

The moves come at a time when significant new investments by SWFs—with between $2 trillion and $3 trillion under management, according to the IMF—have been thin on the ground. Figures from Dealogic put the value of cross-border equity investments by SWFs so far this year at $21.1 billion. But that is flattered by the $12.5 billion conversion of Citigroup preferred shares held by Singapore's GIC and the **Kuwait Investment Authority** into common stock. Last year, total investments were $46.9 billion, and they reached $55 billion in 2007.

Investments in western firms are likely to remain vital.

But as SWFs regain their risk appetites—no doubt helped by successful deals such as the profit Abu Dhabi's **International Petroleum Corp.** recently made selling most of its $5.6 billion stake in Barclays Bank—they could be somewhat different investors. Some face criticism at home for losses made, especially on Western financial institutions during the crash. In China, for example, many wonder why CIC doesn't spend its cash supporting the country's own companies more.

Those who have had dealings with CIC say it is likely to focus more on investing in resource-sector and alternative-energy companies. Abu Dhabi's IPIC, after selling out of Barclays, says it is pursuing "hydrocarbon-related" opportunities. Singapore's **Temasek**, meanwhile, already has been reorienting its portfolio more toward investments in Asia and Singapore itself.



It seems probable funds will try to invest both closer to home, and in industries that fit more neatly with their own countries' policy objectives. When they venture overseas, they are also likely to have learned from their mistakes and to be savvier in structuring deals.

But as SWFs get more confident, foreign investments are likely to remain vital. First, capital-constrained Western companies need deep-pocketed investors, so political opposition to SWF deals could be more muted than before. That is particularly true if funds are smarter in positioning their investments as strategic partnerships.

In addition, despite protestations that some SWFs want to focus on Asian opportunities, or investments closer to home, there aren't enough big opportunities to soak up all the cash. Large, liquid Western markets are likely to regain their allure.

—Andrew Peaple

Hanging up on pricey RIM shares appears smart

It may be time to put down the BlackBerry.

Even after a selloff Friday, shares of the ubiquitous device's maker, **Research In Motion**, are trading at around 18 times projected fiscal 2010 earnings, a little rich for a company whose prospects for red-hot growth may be wearing out.

Fiscal first-quarter results, released Thursday, showed the number of net new BlackBerry accounts fell a little from the fourth quarter. And 80% of the additions came at the consumer side, up from 70% in the fourth quarter.

BlackBerry can't afford to be solely a business device. But whereas corporate users appreciate BlackBerry for its email, consumers are more responsive to the latest fashion.

An array of new smartphones hitting the market suggests likely erosion of RIM's U.S. smartphone share, which IDC estimates was 55% in the first quarter.

Also at issue is how much RIM needs to spend to maintain that share. Last fiscal year, RIM's capital spending more than doubled to $834 million. When increased spending on intellectual property of $688 million is added, RIM generated no free cash flow.

RIM co-CEO Jim Balsillie doesn't "fret" about competition. But investors may want to. *—Martin Peers*

Water-dog breeders gain even more power

Want Obama's dog? First, write an essay. Then, wait in line

BY NANCY KEATES

After two interviews, three applications and months of anxiety, Nicole Grayson, a stay-at-home mother of three in Portland, Ore., finally got the nod. In April, Ms. Grayson learned she had been chosen to purchase a $2,000 Portuguese water dog.

Breeders "made it clear I had to prove myself worthy," she exults. "We were really nervous." Now she relishes the attention her puppy, named Capri, attracts at her son's baseball games. She has also set up puppy play dates with another Portuguese water dog in town.

Bo

Ever since the Obama family anointed Bo the country's First Dog, requests for Portuguese water dogs have been soaring, jumping by about 100% in the U.S. and 122% in the U.K. from a year earlier, according to officials at the Portuguese Water Dog Club of America. The breed's new vogue has made it harder than ever to get a "Portie," a cute and intelligent dog jealously guarded by its breeders.

Since the early 1970s, when the first few dogs arrived on U.S. shores, the nation's estimated 200-odd water dog breeders have kept a tight leash on the adoption process in the name of protecting the dogs. Even before Bo, many prospective owners had to submit to an interview with the breeder and fill out an application that can run 11 pages.

Sample essay questions: "How would you describe the ideal dog for you and your family?" and "What other breeds have you considered?" and "Of the dogs you have owned, what do you enjoy most about dog ownership?"

According to Art Stern, the Texan who bred Bo, the President and Mrs. Obama weren't subjected to the usual scrutiny when they accepted the puppy as a gift from Sen. Edward Kennedy and his family. But Mr. Stern, who usually insists on a face-to-face meeting with children, says he carefully considered the behavior of 7-year-old Sasha and 10-year-old Malia on television and concluded they were water-dog-worthy.

"We weren't about to throw a wrench in the process," Mr. Stern says. The first lady, through her press secretary, says Bo is "a perfect fit."

Just 1,400 puppies are born a year, which means the Bo boom has created acceptance rates worthy of an Ivy League college. Amanda Ford, a breeder in Carnation, Wash., says she has seen casual inquiries for puppies increase from once a week to once a day. Her rejection rate — before Bo — was 10 to one.

"We try to discourage people," says Mary Eadie, a breeder in Annandale, Va., who says she has had 300 calls since Bo Obama came on the scene. She says she narrowed the field by eliminating anyone who wanted a dog immediately or wanted a female to breed. Then she weeded through applications, finally inviting the final 30 for interviews to vie for the 10 puppies her two females gave birth to in March. "We try to educate the public about the commitment involved in taking on this dog," she says.

Ms. Eadie has a Web site and is on the water dog club's list of breeders. She says that with demand raging, she has created a few other parameters as well. She will sell only to people who can stay home with the dog or take it to work, who have a fenced-in yard and don't have children under the age of 6. And winners don't get to pick their prize: Ms. Eadie says she tests the puppies' temperament herself to make the perfect match.

As for the losers, "I don't tell people they'd be a bad owner," she says. "I just tell people we don't have a puppy for them."

Andrew Weitzer, a 57-year-old owner of an outdoor advertising company in New York, says he tried repeatedly to persuade a breeder to sell him a puppy, which he imagined frolicking happily at his country house. But Mr. Weitzer says he was rejected several times because his kids were too young.

Sol Neelman

Only after two interviews and three applications was Nicole Grayson permitted to buy this Portuguese water dog. She named it Capri.

Once rejected, some would-be buyers find themselves forever scorned. Julie Pincus, a 48-year-old graphic designer, barely escaped breeder banishment. Unable to have children and having battled breast cancer, Ms. Pincus decided a few years ago that she wanted a little company and underwent the lengthy review process, only to conclude her $1,500 dog had an underbite, a genetic flaw that compromises its value. She returned the dog to the upset breeder.

A few months later, Ms. Pincus found a breeder in a different state, reapplied and drove three hours to the interview. Suddenly the breeder changed her mind. Only after many calls did the breeder confess she'd heard about Ms. Pincus's prior experience from the first breeder and had decided to reject her application. "They're all nuts," says Ms. Pincus, who was eventually able to persuade the second breeder to allow her to adopt her current dog, Milo.

Breeders say they're tough because they care about the puppies' welfare and contend the caution is needed because the breed demands a lot of attention. Historically, the dogs lived on fishing boats, where they fetched tackle underwater and acted as couriers, strengthening their hind legs and sharpening their retrieval skills. According to the water-dog club, the dogs, considered sacred in pre-Christian times, require regular and extensive grooming, need a lot of exercise, think independently and, as puppies, can bite.

Ms. Pincus wouldn't dispute that. Even after expensive dog training, she still muzzles Milo when they go out so he won't nip people in their building or go after strangers in unusual clothing. Still, she says, she loves his funny, canny ways, like the way he spins his favorite stool with his nose or presses a button on the oven to hear its sound. Milo's "wormed his way into our hearts," says Ms. Pincus, adding that she'd add another water dog to her menagerie, if she didn't have to reapply.